Sovereign Equity for Economic Development
The Norwegian Case

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Petroleum sector is key for the Norwegian economy

- The petroleum sector’s share of GDP: 23%
- The petroleum sector’s share of state revenues: 30%
- The petroleum sector’s share of total investment: 26%
- The petroleum sector’s share of total exports: 49%

Source: Statistics Norway (Figures as of year-end 2011)
Norway’s Government Pension Fund Global (GPFG)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1990</td>
<td>Initial Capital Transfer</td>
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<tr>
<td>1996</td>
<td>Added equities to the portfolio (SAA:40 equities/60% bonds)</td>
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<td>1998</td>
<td>Ethical guidelines established – exclusion of certain investments</td>
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<td>2001</td>
<td>Including real estate investments (&lt; 5%)</td>
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<td>2004</td>
<td>Strategic equity allocation increased to 60%</td>
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<td>2007</td>
<td>Fiscal rules introduced to govern the transfers to the annual budget</td>
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<td>2010</td>
<td>New investment mandates: increased focus on emerging markets</td>
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<td>2012</td>
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The investment strategy has gradually changed in line with increased capacity and understanding of risks and ownership.
GPFG – market value

Market value 1996 – 2012, USD billion

$685 billion

Source: Norges Bank and Ministry of Finance
Key features – Norwegian model

- **All revenues deriving from petroleum** flow into the GPFG (receipts and return).
- The GPFG is **integrated with the state budget** and resources spent domestically are subject to decisions made by the Parliament.
- **A fiscal rule guides the transfers** from the GPFG to the national budget with the aim of protecting the economy from oil price volatility.
- The GPFG is a long term **financial savings mechanism** to ensure revenue from natural resources benefiting current and future generations (stabilisation and savings).
- The GPFG is **invested only in the international financial market** based on diversification and a long term investment horizon.
- The GPFG is managed with a **high level of transparency**.
GPFG governance structure

Norwegian Parliament (Stortinget)

Government Pension Fund Act

National Budget Annual Report

Ministry of Finance

Management mandate (risks mgmt, reporting and responsible inv.)

Quarterly & Annual Reports Investment Strategy Advice

Norges Bank (NBIM)
GPFG: Investment strategy

GPF-Global’s Benchmark Index (Strategic Asset Allocation)

- Global equities (60 per cent)
- Global fixed income (35-40 per cent)
- Global Real Estate (≤ 5 per cent)

China 35%
- 54%
- 11%
- 40%

of which EM 6%

of which EM 10%
Insights from Norway

- Natural resource revenues are uncertain and highly volatile – a SWF may act as a buffer
- The fiscal policy must be adjusted to the current economic situation - overheating of the economy and inflation severely damage the non-mineral sector
- Don’t move too fast – and don’t take more risk than you can carry - anchor the investment strategy in the parliament
- Investment returns are driven by the investment strategy, not by active management
- Establish a clear division of responsibility
- Transparency and accountability are key