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Expert Commentary

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While the investors speculate on the Eurozone currency's dependence on the sovereign debt crisis, Dukascopy decided to have a look at the Scandinavian currencies who maintain their "safe-haven" status for quite a long time now and, according to IMF, are still in a very good shape. Today we have put the Norwegian Krona under scrutiny with the help of an expert in macroeconomics and monetary policies, Professor Kjetil Storesletten.

The Scandinavian countries had an immense crisis and large deficits in the early 90ies. Due to the looming aging of the population they have run very tight fiscal policies. Particularly governments in Finland and Sweden showed in the 90ies that they were able to cut deep in social spending in order to reduce the deficit. Sweden had a deficit of 13% in 1992 and they managed to cut it very rapidly.

When it comes to Norway, it is in a sense, even simpler, because the government does not have any debt. Formally they do have debt, but they also hold a huge sovereign wealth fund.

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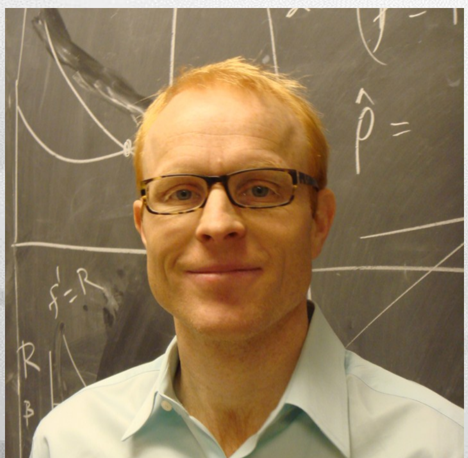

Kjetil Storesletten

Economist, Monetary Advisor to Federal Reserve Bank of Minneapolis, part-time Professor at Zurich University and former Professor at the University of Oslo

Therefore, the net position of the Norwegian government is approximately two times GDP. Obviously, you can never get any speculation on the potential default of Norway, so there is no reason to sell the Krona.

Scandinavian countries do not have a joint currency - Finland is a member of the Eurozone, Denmark is fixing its currency to adopt the euro, while Sweden and Norway have their own currencies. They are similar as they have sound fiscal policies; nevertheless, they have quite different industrial structures. Norway has oil, whereas Denmark, Sweden and Finland rely on exports and their industrial base significantly. Sweden, especially, was hit hard during the crisis of 2008.

Now in the case of Norway the currency is very much dependent on the oil price both in the short-run and long-term run. It works in such a way, that if the oil price is high, the economy is going to be booming, and there is plenty of oil to extract. The profits surge and Norway is keeping the demand for investments and consumption on a high level.

Now if we compare Norway and Switzerland, Switzerland has been considered as a "safe-haven" currency alongside with gold to some extent. The Swiss National Bank decided to fix the situation for the first time in history – they capped their currency relative to the euro at 1.20 in September.

The situation we are having now is that the west is in a recession, but the world is booming. China and India are rising so the demand for resources, in particular, oil is still very high.

There was a housing boom around 1990 and if we look at the house prices then and for instance, GDP per capita at the time, currently the house prices are much more higher than at the peak of housing in the 1990-ies, 30-40% higher. I guess they will leave the interest rate unchanged, but I would be worried about that as there a possibility of the housing bubble in Norway.

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Suppose the things go haywire: Italy goes down, the euro burns, the US enters a severe recession and the collapse in the West makes an end to boom in China. That would significantly lower the demand for oil, consequently, the prices for oil will go to the floor. Then Norway would be particularly hit. In this way the Norwegian Krona is very different from the Swiss Franc. And we saw it in 2009 when the oil price plunged to $40 and the Norwegian Krona tumbled relative to the US Dollar and to the euro. Consequently, if you believe that demand for oil will be strong, then yes, the Norwegian Krona is a safe currency.

Furthermore, Norway's policy makers are scheduled to meet on 14 December to agree on the interest rate. They are certainly worried about strengthening of the Krona which speaks for the lowering of the interest rate. On the other hand, the economy is booming: house prices are surging rapidly. If the interest rate is too low, that would feed a housing bubble.