Norway

Resilient growth

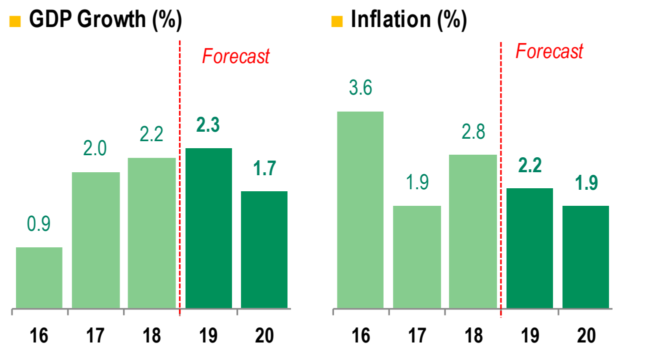
The Norwegian economy is expected to report robust GDP growth through the end of 2019, thanks to dynamic oil sector investments in Norway and abroad. Growth is expected to slow thereafter in a less favourable international environment. Moreover, investment in the Norwegian oil sector is expected to ease up in 2020. However household consumption should continue to grow at a relatively sustained pace, buoyed by wage acceleration. The central bank of Norway will not opt for any further rate increases in the quarters ahead. Inflation should hold near the central bank's target of 2%, while external risks are on the rise.

After a buoyant first half, the Norwegian economy is expected to report robust GDP growth excluding oil and maritime transport activities [1] through the end of 2019. The economy will grow somewhat more moderately thereafter, held back by a less favourable international environment and the slowdown in investment. Mainland GDP growth is expected to reach 2.3% this year and 1.7% in 2020 (compared to 2.2% in 2018). Total GDP growth is estimated at 1.4% and 1.8%, respectively, in 2019 and 2020 (vs 1.4% in 2018).

Dynamic household consumption

Norway's small, open economy should benefit from the recent depreciation of the Norwegian krone, as well as from strong global demand for oil services through the end of winter. Thereafter, demand is expected to drop off sharply. Exports are also expected to slump in 2020 due to trade tensions arising from protectionist policies as well as the deterioration in the cyclical environment of its main trading partners. Investment in the Norwegian oil sector has increased strongly since early 2018, lifted by the upturn in oil prices, and will continue to foster growth in the second half of 2019. Yet investment should ease up as of 2020. New development projects are likely to be smaller in scale than recently completed projects, mainly due to the lack of major oil discoveries. Residential investment and house prices are both expected to rise moderately in the quarters ahead. Corporate investment in the non-oil sector rose strongly between 2015 and 2018, but is expected to grow more moderately in the quarters ahead due to the completion of large-scale projects in the energy sector. Uncertainty over global growth prospects is also expected to erode investment incentives, especially in 2020. Consumer spending should continue to grow at a relatively sustained pace in the quarters ahead, despite higher interest rates and the slowdown in job creations. Unemployment is holding at a very low level (3.8% in July), which should boost household confidence. Moreover, it will be accompanied by stronger wage growth in 2019 and 2020. The real wages growth is also expected to accelerate. Consumer price inflation, which fell sharply in H1 2019 (to 1.6% y/y in August), is not expected to change much through year-end 2019, before accelerating slightly in 2020. The increase in unit labour costs and the recent depreciation of the Norwegian krone, undermined by all the uncertainty at the global level, should carry over to prices across the board. In September, the central bank of Norway announced its fourth key rate increase in a year, to 1.5%. Apparently, it will not opt for any further rate increases in the quarters ahead. The inflation rate is expected to hold close to the central bank's target of 2%, and external risks are on the rise. Moreover, foreign interest rates are particularly low. Faced with this environment, the central bank would apparently like to avoid an excessive appreciation of the krone, driven by an overly big distortion of key rates with those of the other central banks.

1- Growth and inflation



Source: National Accounts, BNP Paribas

Norway is expected to benefit from a fiscal impulse of close to 0.5% of GDP excluding oil and maritime transport activities in 2019. The government is then expected to adopt a generally neutral fiscal policy in 2020. The non-oil structural deficit will hold just below the government's new threshold of 3% of the assets of the Norwegian Pension Fund Global [2]. The weight of the deficit is expected to decline in 2020 thanks to a higher fund valuation (282.9% of mainland GDP in late 2018).

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[1] Mainland GDP or GDP excluding oil and maritime transport activities accounted for nearly 84% of total GDP in 2018.

[2] According to the fiscal rule, the amount deducted from the Norwegian Pension Fund Global to finance the deficit must not exceed the amount of revenues generated by the fund.