

NORWAY

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SOLID FOUNDATIONS

Faced with the Covid-19 pandemic, Norway managed to minimise the human toll as well as its economic losses. In 2021, the country largely benefited from the rebound in natural gas and oil prices. Activity has already exceeded pre-pandemic levels, the housing market is booming, and the public accounts have swung back into their usual surpluses. One of the very first central banks to raise its key rates, Norges Bank esteems that the current situation is in keeping with the normalisation of monetary policy. Yet the roadmap still depends on the health situation, which like elsewhere in the world, is deteriorating.

Although Norway is no more sheltered than other countries from the resurgence in Covid-19 contaminations, it has a high vaccination rate (78% of the total population) which protects it from the worst. The uptick in the number of severe cases and deaths was contained by early December 2021, at least when comparing the situation with the one seen in the European Union. Norway has one of the lowest mortality ratios with regard to the Covid-19 pandemic, with just over a thousand deaths for a total population of 5.5 million (this ratio is 7 times lower than for neighbouring Sweden).

Economically, the country has recovered quickly, thanks above all to government measures. According to estimates by the International Monetary Fund (IMF), direct fiscal transfers to companies and households during the pandemic (excluding loans and guarantees) amounted to 7.4 points of GDP, the biggest effort within the Scandinavian region. The rare deficits shown on the public accounts in 2020 were rapidly covered by the boom in offshore natural gas and oil revenues, which account for 18% of GDP and 40% of exports (see chart 2).

Mainland GDP growth¹ was strong, following a path of more than 4% in 2021. By Q3, it had already exceeded pre-pandemic levels. Adjusted for seasonal variations, the unemployment rate dropped below 4%², and most sectors have signalled labour shortages. Certain sectors are already beginning to show signs of overheating, like housing, which has affirmed its role as a safe haven: prices have risen sharply since the beginning of the pandemic. Over the past 20 months, house prices per square meter have appreciated by nearly 15% in Oslo, and the national average is also up by a similar amount. Prices are being driven up not only by demand, but also by a shortage of building materials, which is a global phenomenon.

Thanks in part to the krone's appreciation, goods and services have not come under the same pricing pressure. Excluding the energy component, inflation has even tended to ease over the course of 2021, dropping to 0.9% in October, the lowest level in four years. Based on budding wage pressures, however, Norges Bank expects core inflation to rise. The central bank esteems that the economic situation has recovered sufficiently to justify the normalisation of monetary policy. On 24 September, it was one of the first central banks to raise its key rates, with a 25-basis point increase in the key policy rate to 0.25%. The roadmap for 2022 calls for further increases in the policy rate, which could rise as high as 1% by the end of next year.

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¹ Excluding oil and natural gas activities.

² Only the gross series is available, on a quarterly basis. Adjusting for seasonal components (using X-12 ARIMA), the Q3 2021 unemployment rate is estimated at 3.9%.

GROWTH AND INFLATION

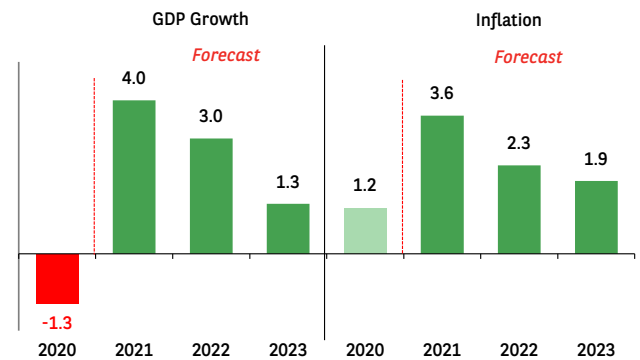


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS



BNP PARIBAS

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world