

NORWAY

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AN ECONOMY READY FOR TAKE-OFF

Largely spared by the Covid-19 pandemic, Norway reported one of the mildest recessions in Europe in 2020 (-2.5%). The economy is poised for a vigorous recovery in the second half, driven by the acceleration of global trade and the rebound in household consumption. In the light of these favourable prospects, and concerned about the acceleration in house prices, Norges Bank intends to begin raising its key rate gradually as of September, even though core inflation is low.

ROBUST GROWTH IN THE MONTHS AHEAD

With fewer than 150 deaths per million inhabitants in mid-June¹, Norway is one of the advanced economies that was spared the most by the Covid-19 pandemic. Over the winter and spring months, however, the country was hit by a wave of new cases. Although it was very small compared to the situation elsewhere in Europe, the Norwegian government nonetheless reintroduced health restrictions that strained economic growth. After rebounding strongly last summer and early fall, the economy faltered again during the winter months: GDP for mainland Norway² contracted 1% q/q in Q1 2021. Once this new wave of Covid-19 was brought under control, the government began to gradually ease these health restrictions, even though Norway's vaccination campaign was lagging somewhat behind its Nordic and European neighbours. At mid-June only 36% of the population had received at least one dose of the vaccine, whereas the government's target is to propose vaccines to all adults by the middle of August.

On the whole, economic data and survey results reveal an economy that has begun to benefit from the upturn in global demand and suggest that the recovery will accelerate during the summer months. Consumer spending is expected to rebound strongly since households are eager to spend the forced and precautionary savings they accumulated during the pandemic. Despite the decline in Q1 GDP, the OECD and the IMF raised their growth forecasts recently, and are now expecting mainland GDP to range between 3.5% and 4% in both 2021 and 2022.

NORGES BANK IS PREPARING TO RAISE ITS KEY RATE

After rising sharply at the beginning of the pandemic due to the depreciation of the krone and a temporary VAT cut, the core inflation rate followed by the central bank (CPI-ATE)³ has fallen in recent months, notably under pressure from base effects and the appreciation of the exchange rate. According to the monetary policy committee's latest report, Norges Bank expects core inflation to hold below its 2% target for an extended period of time, after falling to 1.5% in May 2021. Yet the central bank also expressed concern about the acceleration in house prices, which rose by more than 11% y/y in May, driven up by the decline in housing starts and the increase in demand for housing during the pandemic. Aware of the role low interest rates play in these pricing dynamics, and in the light of favourable growth prospects, the Committee announced that it intended to begin raising its key rate gradually next September.

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Frédérique Cerisier

frédérique.cerisier@bnpparibas.com

¹ In comparison, at the same time, Germany had more than 1,000 deaths per million inhabitants and France had nearly 1,700 deaths per million.

² GDP excluding oil-related activities.

³ CPI adjusted for tax changes and excluding energy products.

GROWTH AND INFLATION (%)

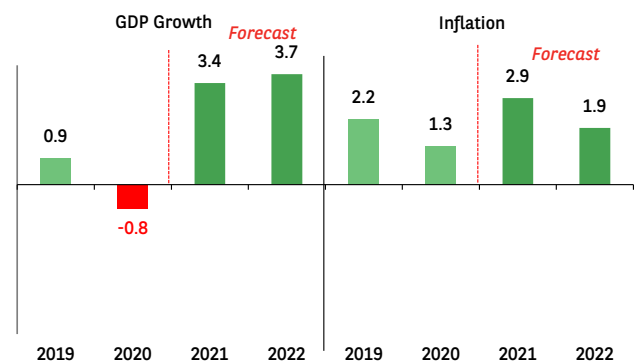


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

KEY POLICY INTEREST RATE AND HOUSE PRICES

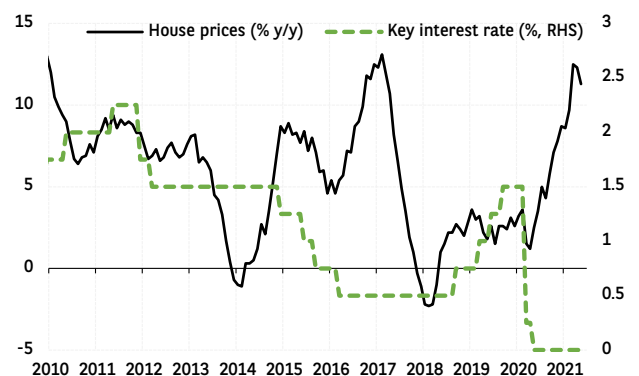


CHART 2

SOURCE: NORGES BANK, STATISTICS NORWAY



BNP PARIBAS

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