NORWAY

ONE OF THE LEAST AFFECTED DEVELOPED ECONOMIES

Norway was not hit as hard by the Covid-19 pandemic as most its European neighbours. Moreover, the economy has been able to count on considerable support from the fiscal and monetary authorities. In its draft budget for 2021, presented in October, the government has pledged to maintain an expansionist policy, even if spending will logically not be as high as in 2020. What's more, faced with an upturn in Covid-19 cases and tighter restriction measures, the central bank has adopted a more conciliatory tone.

After plunging by 6% in Q2 2020, the GDP of "mainland" Norway – excluding the offshore oil sector – rebounded by 5.2% between July and September. Unsurprisingly, it was the sectors hit hardest by the restriction measures put in place to tackle the sanitary crisis that reported the strongest rebounds in the third quarter. Household consumption also bounced back, rising by nearly 10%. As in other countries, the recovery was strongest immediately after lockdown measures were lifted. According to Statistics Norway's monthly indicator (SSB), GDP rose by only 0.6% in September.

Faced with a flare up in coronavirus cases, the Norwegian government decided in early November to impose new social distancing restrictions and recommended everyone to remain at home as much as possible.

THE ROLE OF FISCAL AND MONETARY POLICIES

Although its 2021 budget[1] was unveiled prior to this new tightening of restrictions, the government already recognised the need to maintain an expansionist fiscal policy. Since 2001, the government's deficit is financed by transfers from the Oil Fund, and these transfers are called the structural non-oil deficit. In 2021, this deficit should still amount to 3% of the fund's total value (or 9.4% of GDP), after 3.9% (12.3% of GDP) in 2020. Although the use of the fund by the government is regulated, there is enough flexibility to deal with shocks like the one that hit the Norwegian economy this year.

Meanwhile, the Norges Bank has softened its tone a bit. In the communiqué following its September meeting, the central bank discussed rate hikes in the next couple of years. Yet, after its last meeting in early November, the central bank returned to a more cautious stance, stressing that its policy rate would remain unchanged at 0% until there were clear signs that economic conditions were returning to normal[2]. In its report, the Norges Bank warned that higher infection rates and tighter restriction measures in Norway and abroad would *"likely put a brake on the upswing in the coming period"*.

THE ECONOMIC PROSPECTS FOR 2021

Since the outbreak of the pandemic, Norway is the European country that has recorded the lowest number of deaths due to Covid-19 as a share of the population. This has allowed the authorities to impose softer restriction measures than elsewhere. As a result, even though the country was also hit earlier this year by a big drop in the price of oil, its main export product, the economy has been particularly resilient.

In its most recent *Economic Outlook*[3], the OECD estimates that mainland Norway's GDP contracted by 3.2% in 2020. This is the fifth best anticipated performance among the 37 OECD members.

GROWTH AND INFLATION (%)

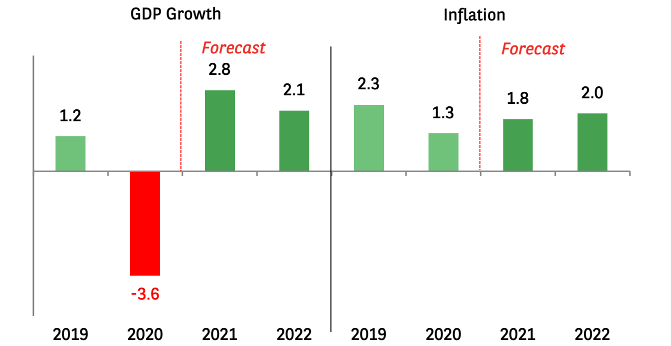

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

OECD FORECASTS FOR GDP GROWTH IN 2020 (%)

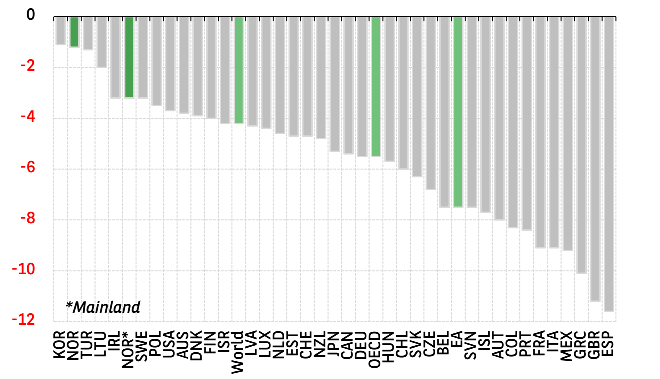

CHART 2 SOURCE: OECD

As to the Norwegian economy as a whole – including the oil sector – GDP is only expected to contract by 1.2%. The only member country for which the OECD anticipates a smaller drop is South Korea (see chart 2).

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1 The National Budget 2021, Norwegian government
2 Rate decision November 2020, Norges Bank
3 Economic Outlook, December 2020, OECD