Norway

The other shock

With the coronavirus epidemic and its impact on oil prices, which are plummeting, the Norwegian economy is heading for a contraction in 2020. Exports, which account for 41% of GDP, are likely to be hit first. Norway's central bank cut its key rate to nearly zero and has considerably increased NOK and USD lending, injecting liquidity into the economy while supporting the currency. The government has introduced fiscal measures to buffer the shock for companies and households.

After slowing in 2019, Norwegian GDP growth should swing into negative territory in 2020 due to the spread of the coronavirus epidemic and its impact on the economy and on world demand for oil.

Moribund exports and the first confinement measures

Exports of goods and services in the energy sector account for nearly 20% of Norway's GDP. Consequently, the drop-off in world oil demand should have a major impact on the economy, which the government has admitted will enter recession in 2020.

In addition to the decline in exports, which will be accentuated by the restrictions on cross-border movements of goods and persons, public and private investment both will be hit hard by low crude oil prices. The price per barrel of Brent crude oil fell to USD 20 at the end of March, which erodes the profitability of investment projects. After the major infrastructure expenditures of 2019, spending plans for 2020 have been frozen (notably for roadway and motorway infrastructure).

Although Norway has been relatively sheltered from the coronavirus epidemic (16 deaths reported at 31 March), the number of new cases has increased rapidly. As a result, the government introduced travel restrictions and social distancing recommendations. Schools and universities were closed on 12 March, and then non-residents were banned from entering the country on 16 March. Discretionary travel that is not work related is highly discouraged. To offset the ensuing loss of revenues, notably in the tourism, retail and transport sectors, the government has rolled out major fiscal efforts via guaranteed loans and deferred payments (see box).

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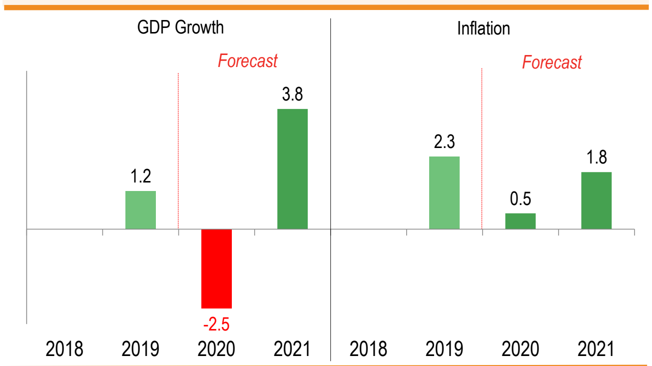
1- GDP Growth and inflation
(Y/Y, %)



Source: National statistics, BNP Paribas

2- Economic stimulus measures

- Monetary policy: *to mitigate the effects of the coronavirus epidemic, Norges Bank made a series of key rate cuts, bringing it to 0.25% (vs 1.5% on 12 March). It also extended the maturity and increased the amount of NOK and USD refinancing operations (for example, USD 690 m in 12-month loans at 19 March, thanks to swap arrangements with the Federal Reserve). It also lowered the limits on the amount of callable collateral.*

- Fiscal policy: *the government set up support measures to offset the future economic effects of the coronavirus crisis. Companies will be provided NOK 100 bn in financing through state guarantees on loans and bond issues.*

In 2019, the sovereign pension fund, also known as the "oil fund", amounted to NOK 10,000 bn (330% of GDP excluding oil-related activities and maritime transport), the highest valuation ever reported. This gives the government a comfortable financial mattress to fall back on if bigger stimulus measures are needed. Prime Minister Erna Solberg said she was prepared to take unprecedented measures to preserve the level of employment of Norwegians and to support businesses.

Source: Norwegian government, central bank