

Norway

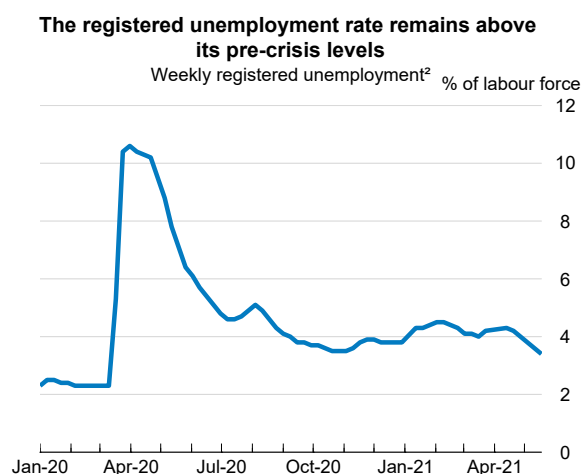
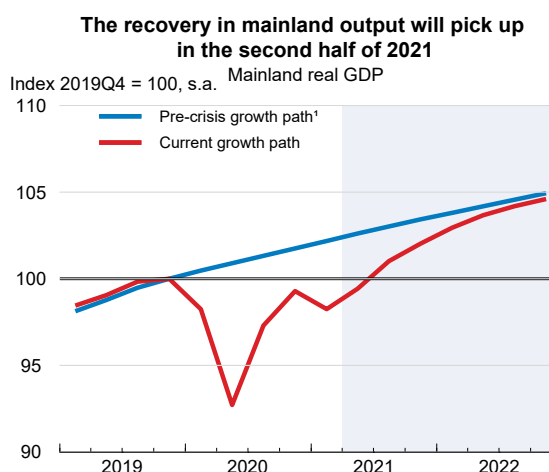
Mainland real GDP is projected to increase by 3.4% in 2021 and 3.7% in 2022, with the gradual lifting of restrictions as the vaccine rollout progresses unleashing demand. Mainland activity connected with the petroleum sector is expected to rise in light of the revival in oil prices. Labour market recovery will continue. Inflation will ease in the near term, as the effects of energy price increases taper off, and pick up only gradually thereafter.

The additional government support made available to households and businesses should remain in place until economic recovery is well established and risks of further disruption have dwindled. The central bank should push back the start of rate rises if economic recovery looks weaker than projected. Government policy should now turn to structural improvements that help business sector productivity and competitiveness and to making further advances in environmental policy, including cost-effective investment in the green transition.

The latest surge in COVID-19 cases has passed its peak

Despite a surge of infections that peaked in the second half of March, the number of COVID-19 cases and fatalities since the start of the pandemic has remained comparatively low. The latest surge prompted renewed containment measures, including the introduction of a three-tiered system of localised restrictions. Oslo introduced strict local measures including the closure of most shops and a combination of remote and classroom learning in schools. Containment measures are being unwound gradually as the health situation improves. Norway's vaccination rollout is advancing; as of end-May around a third of the population had received at least one dose of a COVID-19 vaccine.

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1. The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.

2. The registered unemployment data includes temporary layoffs.

Source: OECD Economic Outlook 106 and 109 databases; and Norwegian Labour and Welfare Administration (NAV).

Norway: Demand, output and prices

	2017	2018	2019	2020	2021	2022
Norway	Current prices NOK billion	Percentage changes, volume (2018 prices)				
Mainland GDP at market prices ¹	2 792.0	2.2	2.3	-2.5	3.4	3.7
Total GDP at market prices	3 295.4	1.1	0.9	-0.8	3.4	3.7
Private consumption	1 471.7	1.6	1.4	-6.9	1.0	5.6
Government consumption	791.1	0.5	1.9	1.7	1.9	1.8
Gross fixed capital formation	809.4	2.2	4.8	-3.8	1.7	4.9
Final domestic demand	3 072.1	1.5	2.4	-3.9	1.4	4.4
Stockbuilding ²	107.9	0.7	0.0	-1.0	1.0	0.0
Total domestic demand	3 180.0	2.1	2.3	-4.8	2.4	4.2
Exports of goods and services	1 197.3	-1.2	0.5	-0.5	2.3	4.2
Imports of goods and services	1 081.9	1.4	4.7	-11.9	-0.8	6.0
Net exports ²	115.4	-0.9	-1.3	4.0	1.0	-0.2
Memorandum items						
GDP deflator	—	6.7	-0.4	-3.6	8.7	1.9
Consumer price index	—	2.7	2.2	1.3	2.9	1.9
Core inflation index ³	—	1.2	2.6	3.1	1.6	2.0
Unemployment rate (% of labour force)	—	3.8	3.7	4.4	4.7	4.0
Household saving ratio, net (% of disposable income)	—	5.9	7.6	15.5	12.1	7.9
General government financial balance (% of GDP)	—	7.9	6.6	-3.4	-1.1	0.3
General government gross debt (% of GDP)	—	45.6	46.8	53.9
Current account balance (% of GDP)	—	8.0	2.8	1.9	8.1	7.6

1. GDP excluding oil and shipping.

2. Contributions to changes in real GDP, actual amount in the first column.

3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 109 database.

StatLink  <https://stat.link/kfv3yb>

Economic output has edged down

Renewed restrictions in response to the latest surges in COVID-19 cases brought a decline of 1% in mainland real GDP in the first quarter of 2021. In addition, the rate of registered unemployment has increased since the end of 2020. Recovery in the global oil price has led to an appreciation of the Norwegian krone and has brightened prospects for investment in the resource sector, which has also benefited from changes to the petroleum tax regime that were decided when oil prices plummeted in spring 2020. Meanwhile, the housing market has remained buoyant, bolstered by lower interest rates and higher savings. Price increases have been particularly large in Oslo; by February, prices had increased by 15% year-on-year. Headline consumer price inflation has been pushed up recently by increases in the cost of fuel and electricity; it increased by 2.9% in the first quarter of this year (year-on-year). The krone value of Norway's main sovereign wealth fund at the end of 2020 was 8% greater than at the end of 2019, driven mainly by an increase in investment returns.

Substantial macroeconomic support continues

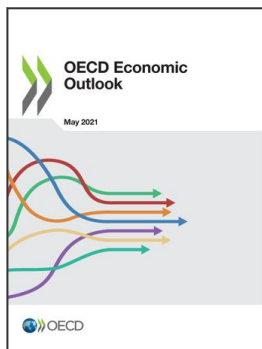
Norges Bank is signalling a start to increases in its policy rate, which has been held at zero per cent since spring 2020. The Bank's model-based interest rate paths indicate rate increases commencing in the second half of this year. Norway's fiscal support to businesses and households over the crisis continues to comprise supplements to existing transfer programmes plus a range of additional measures. The latter include guarantees for businesses' bank loans, compensation for fixed costs for companies experiencing large falls in revenue, grants for bringing temporarily dismissed workers back to work, as well as measures targeted towards supporting hard-hit sectors such as the travel and tourism industry. The structural non-oil deficit expanded by 3.9 percentage points of GDP between 2019 and 2020.

Economic activity will pick up in the second half of 2021

Containment measures are expected to continue easing as the latest wave of cases subsides and vaccination progresses. Economic activity is projected to pick up markedly in the second half of the year, with output growth of 3.4% for the year as a whole and an increase of 3.7% in 2022. The fiscal balance will have largely recovered by the end of 2022. Consumer price inflation will ease to below Norges Bank's 2% target and then increase gradually as economic recovery progresses further. Norway's success in keeping COVID-19 caseloads and fatalities to much smaller levels than many countries suggests that the risk of a new destabilising outbreak is limited. The path of the global oil price and the prospects for non-oil trading partners will remain key uncertainties. Concerns about macro-financial stability linked to high levels of household debt remain.

Policy can now begin to look beyond emergency measures

The extra financial support for businesses and households should remain available until the economy is on an even keel and the threat of renewed outbreaks and containment measures is small. Meanwhile, attention should also turn to structural reforms that help the business sector recover from the downturn and become more productive and competitive in the longer term, including through improvements to insolvency processes. Further efforts should be made to improve policies affecting employment, including pension reforms that reduce incentives to retire early. Norway should also continue to make advances in measures to achieve greenhouse-gas reduction, including through the proposed schedule of increases to the carbon dioxide tax and through supporting research into carbon capture and storage technologies. Policy should aim to strengthen the cost efficiency of the suite of greenhouse-gas reduction measures, alongside the goal of reaching emission-reduction targets.



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