Kingdom of Norway
Rating Report

AAA STABLE OUTLOOK

Credit strengths	Credit challenges
• Wealthy and resilient economy • Large net public asset positon • Strong fiscal, monetary and financial governance institutions	• High household debt and imbalances in the real estate sector • Transition risk from high reliance on oil and gas

Rating rationale

Wealthy and resilient economy: Norway demonstrated significant economic resilience during the Covid-19 pandemic and the energy crisis following the escalation of the Russia-Ukraine war. The strong rebound following the pandemic resulted in record-high employment, capacity constraints and labour shortages.

Large net public asset position: Norway benefits from a significant net public asset position. This is driven by savings accumulated through the sovereign wealth fund, the Government Pension Fund Global (GPFG), which has total assets of USD 1.37tn (around four times mainland GDP in 2022).

Strong fiscal, monetary and financial governance: A strong fiscal, monetary and financial governance framework supports Norway's crisis resilience. The country also benefits from low central government debt issued solely to finance capital expenditure, and institutional strengths as a mature economy with one of the world's highest income per capita.

Rating challenges include: i) high household debt and imbalances in the residential and commercial real estate sectors; and ii) the long-term transition to a non-commodity-dependent economy, which exposes Norway to stranded asset risks.

Norway's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	aaa	NOK [+0]	+1/3	AAA
Public Finance Risk		20%	aaa		+3/3	
External Economic Risk		10%	aaa		+1/3	
Financial Stability Risk		10%	aaa		-1/3	
ESG Risk	Environmental Factors	5%	aa		0	
	Social Factors	7.5%	bbb+		+1/3	
	Governance Factors	12.5%	aaa		+1/3	
Indicative outcome		**aaa**			**+2**	
Additional considerations					**0**	

Note: *The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's Sovereign Rating Methodology. Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• N/A	• Weaker macroeconomic policy threatening long-term net public and external asset positions • Financial crisis damaging Norway's government and financial system balance sheets • Significant shortcomings in addressing climate transition risks

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: RESP SCOP

Domestic Economic Risks

- **Growth outlook:** Norway's economy rebounded rapidly from the Covid-19 pandemic. After a mild contraction of 0.7% in 2020, GDP grew by 3.9% in 2021 and 3.3% in 2022. The strong rebound resulted in record-high employment, capacity constraints and labour shortages. As a result of Norway's tight monetary policy, we expect inflation to gradually decline, capacity constraints to ease and unemployment to rise from its low base. Economic growth in 2023 is likely to be slower as higher interest rates dampen investments and private consumption as real disposable income and purchasing power are eroded by high inflation. We expect significant variation in growth outlook across sectors as the outlook for oil-related industries remains particularly strong, the service sector is likely to see some growth, the manufacturing sector is expected to stagnate, while the outlook for retail trade and the construction sector is weaker. We expect GDP to increase by 1.4% in 2023 (mainland GDP by 1.0%) and 1.8% in 2024 (mainland GDP by 1.7%).

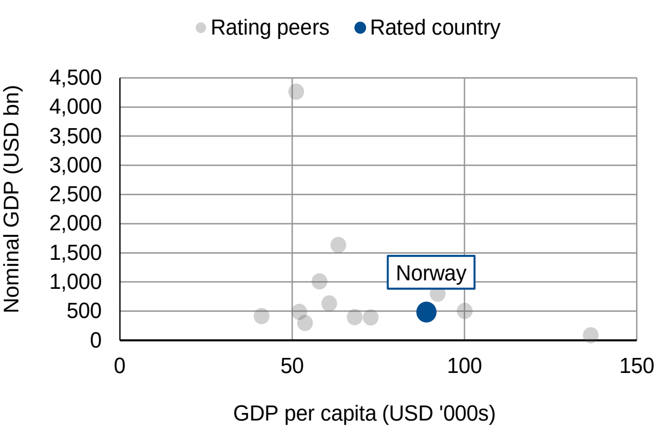
- **Inflation and monetary policy:** CPI inflation is now in line with levels seen in mid-2022, after reaching 6.5% in March 2023 on the back of lower energy costs and weakening demand. Core inflation remains high at 6.2%, as the rise in prices of intermediate goods has started to spill over to services, currently the main driver of inflation. We expect lower energy prices and freight costs, in combination with weak real wage growth, to gradually curb inflationary pressures this year. Norges Bank raised its policy rate by 25 bp to 3.0% in March and signalled a further rate hike in May. We expect the central bank to tighten monetary policy further, with the policy rate reaching 3.5% in H1 2023.

- **Labour market:** The Norwegian labour market remains tight, with the employment rate at 70% and unemployment still low at 3.6% in January 2023, up from 3.1% in July, but remaining below pre-pandemic levels. Job vacancies reached their highest level on record while the number of long-term unemployed is near historic lows. As the impact of higher interest rates takes effect and economic growth slows, we expect the unemployment rate to increase from 3.2% in 2022 to 3.6% this year and to 3.7% in 2024.

Overview of Scope's qualitative assessments for Norway's *Domestic Economic Risks*

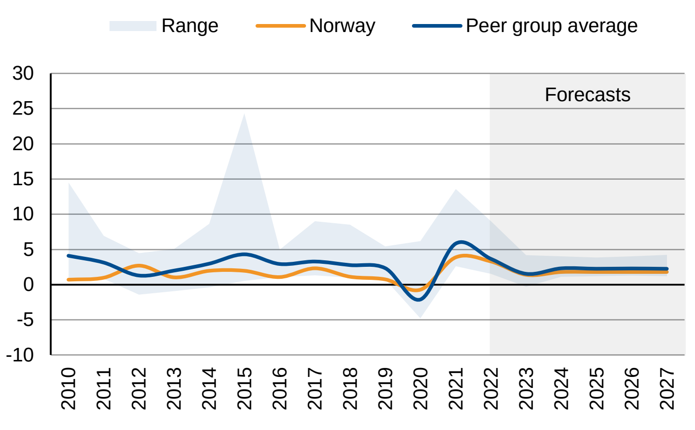
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Strong	+1/3	Credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Favourable business environment and highly skilled labour force; relatively weak economic diversification; exposure to economic volatility because of oil sector

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

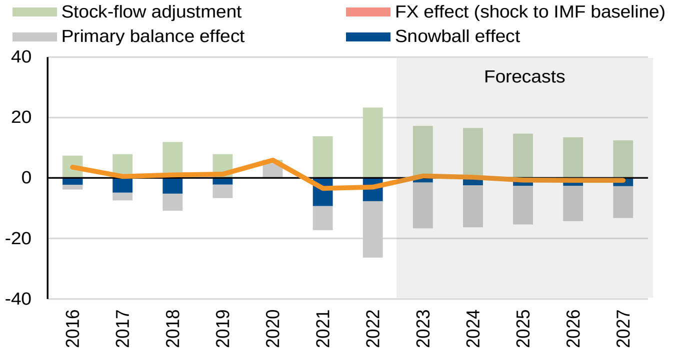
Public Finance Risks

- **Fiscal outlook:** Norway has been benefitting from the strong increase in oil and gas prices in Europe. Net cash flow from oil operations is estimated to have increased fourfold to NOK 1.3tn in 2022 (36.5% of 2022 mainland GDP) compared with 2021, and to NOK 1.4tn in 2023. Under Norway's fiscal framework, revenues from the petroleum sector are saved in the GPFG, and the structural non-oil budget deficit shall over time correspond to the long-term real return on the GPFG, which is estimated at 3%. The 2023 budget shows a structural non-oil fiscal deficit of NOK 350bn in 2021 (3.2% of GPFG assets), just above the 3% target due to Covid-19-related spending pressures. We expect it to fall gradually to NOK 324bn in 2022 (2.6% of GPFG assets) and NOK 317bn in 2023 (2.5% of GPFG assets). Spending from the fund as a share of mainland GDP is expected to fall by 0.6 pp from 2022 to 2023. However, additional spending of around NOK 100bn (2.8% of mainland GDP) is expected in 2023 to fund the integration of Ukrainian refugees, national insurance, ongoing construction projects and the continuation of the electricity subsidy scheme for households. We expect that the 2024 budget will focus on similar spending priorities, while remaining broadly neutral – with transfers from the GPFG well below the 3% fiscal target – to avoid fuelling inflationary pressures. To help fund spending priorities, around NOK 33bn of additional taxes are being introduced, including on power production, and some capital expenditure is being reprioritised.
- **Debt trajectory:** The central government's structural non-oil budget deficit is covered by transfers from Norway's sovereign wealth fund rather than through debt issuances. Central government debt therefore mainly exists to fund lending and capital injections for state lending institutions such as state banks, to fund government lending schemes, and to refinance or repay maturing debt. General government debt increased during the pandemic from 40.9% of GDP in 2019 to 46.8% in 2020. We expect the debt-to-GDP ratio to increase marginally to 41.0% this year and remain broadly stable at around 40% over the next five years.
- **Debt profile and market access:** Central government borrowing requirements are entirely met in local currency, mostly through long-term debt issuance at fixed interest rates or by drawing on cash reserves. The total issuance of government bonds in 2023 is expected to be higher than in 2022 and reach NOK 75bn-80bn, reflecting a NOK 20bn increase in borrowing requirements to NOK 96bn driven by bond redemptions. The average time to refix the debt portfolio was 4.3 years in December 2022.

Overview of Scope's qualitative assessments for Norway's *Public Finance Risks*

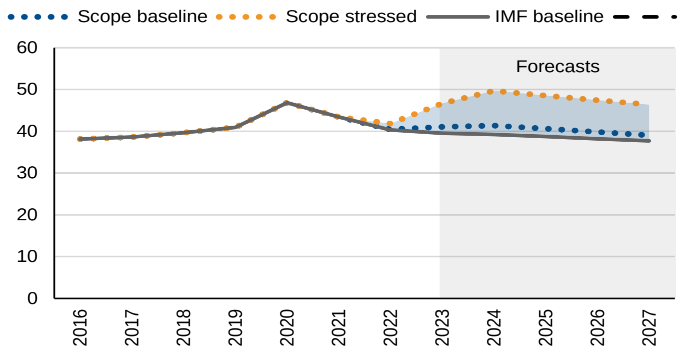
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Very strong fiscal framework supported by large sovereign wealth fund
	Debt sustainability	Strong	+1/3	Debt trajectory very resilient to severe scenarios
	Debt profile and market access	Strong	+1/3	Sizeable sovereign wealth fund, excellent market access, low government financing costs

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

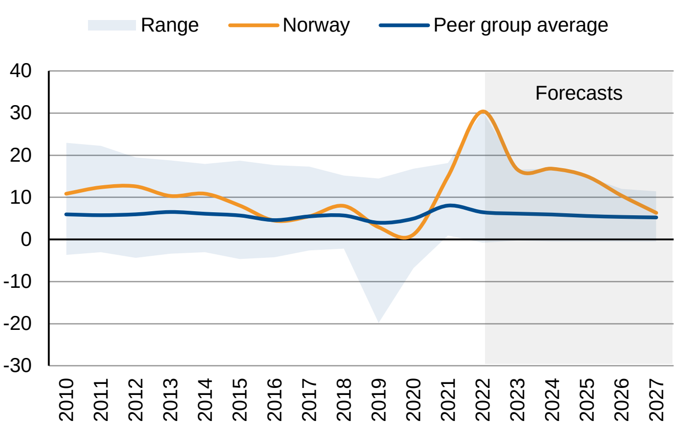
External Economic Risks

- **Current account:** Norway has traditionally run substantial current account surpluses, although these have been volatile given the country's reliance on oil export revenue. The current account balance contracted sharply to 1.1% of GDP in 2020 due to the pandemic but then increased rapidly to 15.0% of GDP in 2021, returning to the levels recorded between 2000 and 2014, at above 10%. The surplus rose further in 2022 to 30.4% on the back of the substantial increase in oil exports and the normalisation of travel activity. Crude oil and natural gas exports totalled NOK 1,973bn in 2022 and are expected to increase by around 3.5% both in 2023 and 2024. Persistently high oil prices in the short term will generate a significant increase in oil revenues from NOK 306bn in 2021 (9% of 2022 mainland GDP) to NOK 1,316bn in 2022 (37% of GDP) and NOK 1,384bn in 2023 (39% of GDP). Statistics Norway estimates that the current account surplus will remain above 15% until 2025, before declining to around 10% of GDP.
- **External position:** The country's gross external debt stood at 212.2% of mainland GDP in Q3 2022, the second-highest level among Nordic countries (after Finland) and has increased by 16.1 pp compared to end-2021. Financial institutions account for more than 51% of external debt, followed by other sectors (20%) and the general government (18%), while the central bank accounts for only 1%. Norway's net international investment position decreased from an all-time high of 295% of GDP in Q2 2021 to 209% of GDP at end-2022. However, it remains exceptionally high when compared with peers, mainly driven by the substantial overseas investments through Norway's sovereign wealth fund.
- **Resilience to shocks:** Norway's government holds substantial net financial assets amounting to 270% of nominal GDP at end-2022. These financial assets consist mainly of deposits with Norges Bank, financial investments through the GPFG, equity holdings in domestic enterprises, as well as lending to and direct investments in state banks and state enterprises. Official reserves stood at 15.6% of GDP in February 2023, of which around 84% relates to foreign currency assets.

Overview of Scope's qualitative assessments for Norway's *External Economic Risks*

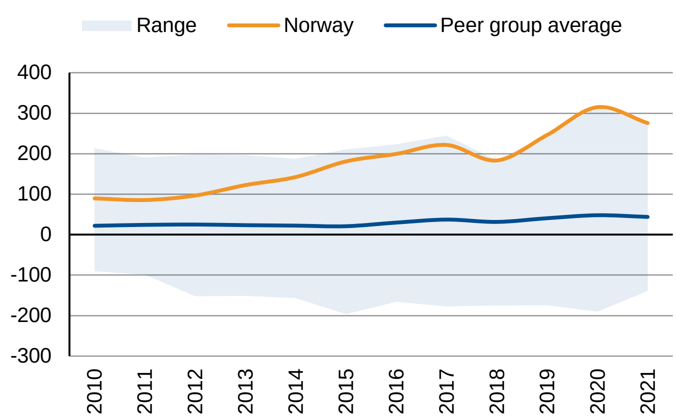
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Current account balance expected to remain high, but reliance on oil exports exposes current account to volatility
	External debt structure	Neutral	0	High external debt, in line with that of peers
	Resilience to short-term external shocks	Strong	+1/3	Very robust external creditor position, anchored by external assets of sovereign fund

Current account balance, % of GDP



Source: IMF WEO, Statistics Norway, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

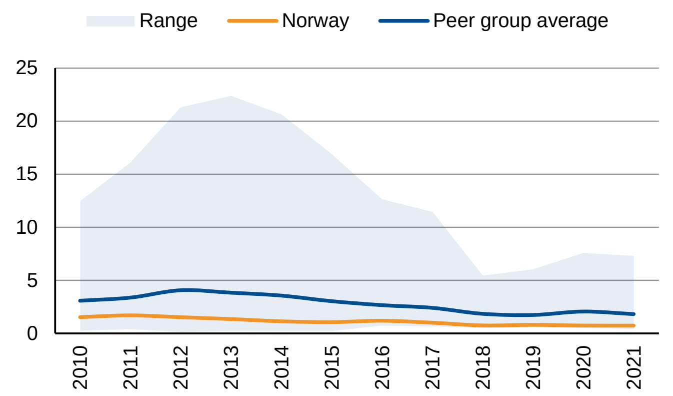
Financial Stability Risks

- **Banking sector:** The Norwegian banking sector has a significant capacity to absorb losses thanks to strong capitalisation, liquidity and profitability. The Tier 1 ratio stood at 19.6% at end-2022, well above the minimum requirements and in line with pre-pandemic levels. Meanwhile, the liquidity coverage ratio stood at 153.4% in Q4 2022, and the NPL ratio remained low at 1.2%. Norwegian banks' profitability is being supported by rising interest rates as the policy rate pass-through to deposit rates has been significantly lower than to mortgage rates. The return on equity increased in 2022, reaching 12.6% by the end of the year. Stricter regulation on capital and liquidity requirements than in the US reduces liquidity risk for banks, while lending and borrowing mostly occurs at floating rates, limiting interest rate risks. Losses related to household debt should remain moderate due to generous unemployment benefits and sufficient liquid asset buffers held by households. However, high commercial real estate exposures, which account for around half of total corporate lending, pose a key structural vulnerability for banks.
- **Private debt:** Household debt, mostly mortgage loans, reached a new peak of 233% of disposable income in Q4 2022. This is around 10 pp higher than pre-pandemic and significantly higher than the 190% recorded at the onset of the global financial crisis in Q4 2007. Households' debt service ratios have gradually increased over this period. With rising interest rates, the interest burden is expected to increase from 4% in Q4 2021 before the escalation of the Russia-Ukraine war to almost 9% in 2023. Banks' corporate credit standards have remained broadly unchanged and corporate debt levels have decreased in recent quarters from 185% of mainland GDP in Q4 2020 to around 173% in Q3 2022, remaining in line with other Nordics.
- **Financial imbalances:** Average house prices started to fall in Q4 2022, after peaking in August at around 20% above pre-pandemic levels. Despite rising interest rates, the correction in house prices has been small so far due to continued high demand and a softening of debt-servicing capacity requirements from January 2023. We expect house prices to fall by around 4% in 2023. To strengthen banks' solvency and mitigate the risk that banks amplify an economic downturn, the Monetary Policy and Financial Stability Committee decided to increase the countercyclical capital buffer to 2.5% last year, effective March 2023.

Overview of Scope's qualitative assessments for Norway's *Financial Stability Risks*

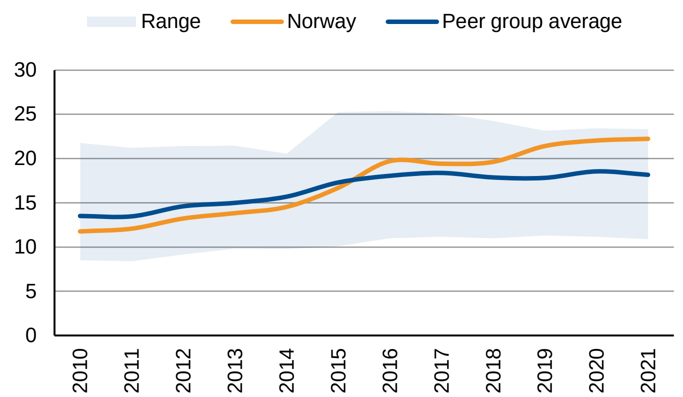
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	High capitalisation and profitability, low non-performing loans, but high exposure to commercial real estate
	Banking sector oversight	Neutral	0	Prudent oversight under Norges Bank and the FSA, with the finance ministry responsible for implementation of macroprudential policy
	Financial imbalances	Weak	-1/3	High household indebtedness, high real estate prices, high interconnectedness in the financial system

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

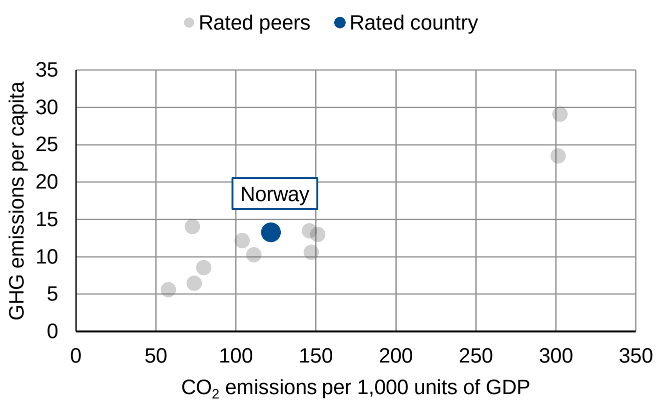
ESG Risks

- **Environment:** Norway's economy remains highly reliant on the oil and gas sector, exposing it to long-term transition challenges such as stranded asset risks as its main trading partners transition away from fossil fuels. However, the decision to continue oil exploration is strongly supported by EU member states, which have strengthened energy cooperation with Norway as it is seen as one of the main alternative gas suppliers to Russia. Norway accounted for around 25% of EU gas imports in 2022 and will continue to play a key role as an energy supplier to EU member states. Norway also benefits from low carbon emissions per unit of GDP, low exposure and vulnerability to natural disaster risks, and a low ecological footprint of consumption compared with available biocapacity. The government aims to reach carbon neutrality by 2050. The 2023 budget also proposed to allocate additional funds to the Green Platform Initiative over 2023-2025, supporting research and innovation projects that contribute to the green transition. In addition, Norway's Climate Action Plan 2021-2030 proposes raising the carbon tax from NOK 590 per tonne of CO_2 in 2021 to NOK 2,000 per tonne of CO_2 in 2030. Several other measures, including subsidies for electric cars and investments in renewable energy, should also support the transition.
- **Social:** Norway benefits from low income inequality and high labour force participation. Long-term demographic trends also remain a credit strength, with the old-age dependency ratio forecasted to reach 40% by 2050 according to Eurostat, similarly to Sweden and below most peers. The country ranked second (after Switzerland) in the United Nations' 2021 Human Development Index, an indicator based on life expectancy, educational achievement and income levels.
- **Governance:** Norway ranks highly in a composite index of six World Bank Worldwide Governance Indicators. Following parliamentary elections in September 2021, Labour Party candidate Jonas Gahr Støre became the head of a new centre-left coalition minority government, taking over from the previous conservative-led government, which had been in power since 2013. We expect broad policy continuity in Norway's main policy areas, in line with Norway's record of smooth political transitions.

Overview of Scope's qualitative assessments for Norway's *ESG Risks*

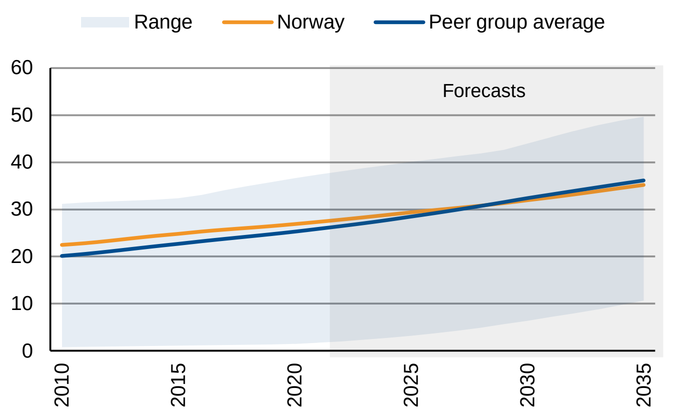
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Neutral	0	High but well-managed transition risks to a post-oil economy
	Social factors	Strong	+1/3	Favourable demographics relative to peers and strong social safety nets, inclusive labour market
	Institutional and political factors	Strong	+1/3	High-quality institutions and stable political environment

CO_2 emissions per GDP and GHG per capita, $mtCO_2e$



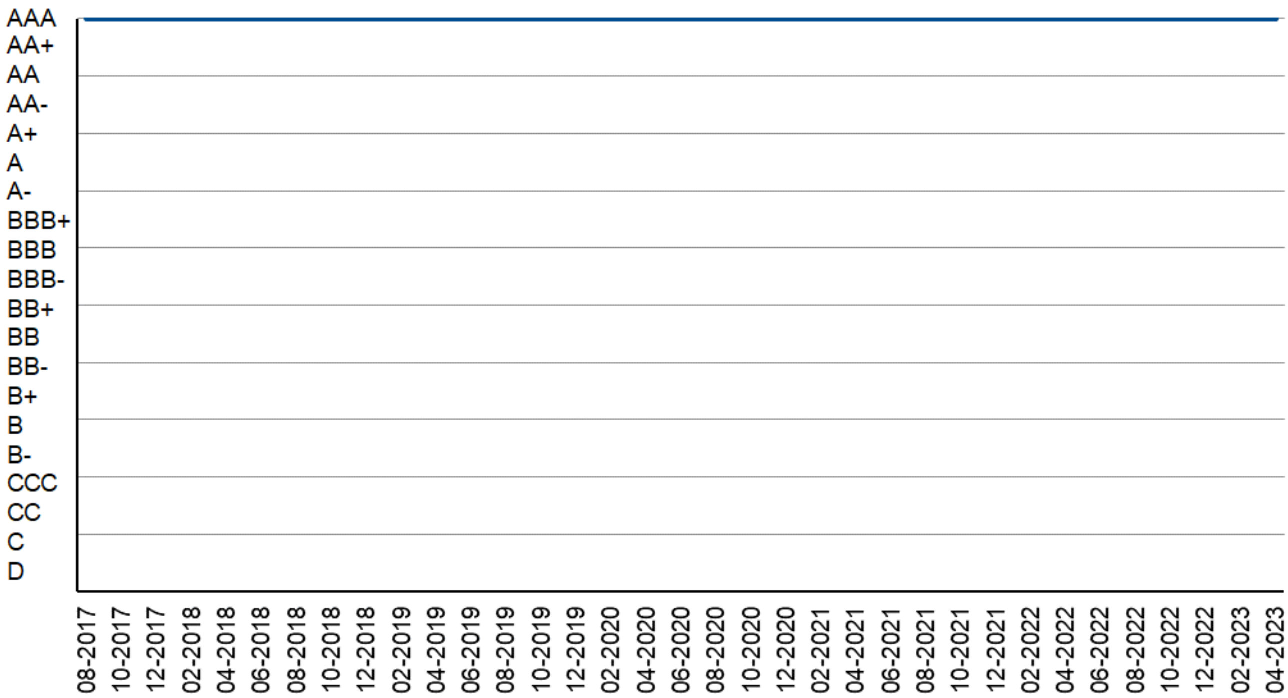
Source: European Commission, Scope Ratings

Old-age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Denmark
Finland
Germany
Ireland
Luxembourg
Netherlands
Sweden
Switzerland

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2017	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	75,307	82,082	75,594	67,266	89,042	92,646
	Nominal GDP, USD bn	IMF	398.4	437.0	404.9	362.2	482.2	504.7
	Real growth, %	IMF	2.3	1.1	0.7	-0.7	3.9	3.6
	CPI inflation, %	IMF	1.9	2.8	2.2	1.3	3.5	4.7
	Unemployment rate, %	WB	4.2	3.8	3.7	4.4	5.0	-
Public Finance	Public debt, % of GDP	IMF	38.6	39.7	40.9	46.8	43.4	40.3
	Interest payment, % of revenue	IMF	-4.4	-3.9	-3.6	-3.7	-2.0	-2.6
	Primary balance, % of GDP	IMF	2.6	5.7	4.5	-4.9	7.9	18.6
External Economic	Current account balance, % of GDP	IMF	5.5	8.0	2.9	1.1	15.0	19.4
	Total reserves, months of imports	IMF	5.0	4.4	4.7	6.6	6.4	-
	Net international investment position, % of GDP	IMF	221.7	183.4	246.2	314.8	275.7	-
Financial Stability	NPL ratio, % of total loans	IMF	1.0	0.7	0.8	0.7	0.5	-
	Tier 1 ratio, % of risk-weighted assets	IMF	19.5	19.3	19.5	20.2	22.2	21.3
	Credit to private sector, % of GDP	WB	146.5	143.4	150.8	166.0	-	-
ESG	CO_2 per EUR 1,000 of GDP, $mtCO_2e$	EC	135.3	133.4	125.9	121.9	119.1	-
	Income share of bottom 50%, %	WID	24.3	23.9	24.6	24.8	24.8	-
	Labour force participation rate, %	WB	77.2	77.8	78.2	-	-	-
	Old-age dependency ratio, %	UN	25.6	26.2	26.7	27.3	27.9	28.4
	Composite governance indicators*	WB	1.8	1.8	1.8	1.8	1.7	-

* Average of the six World Bank Worldwide Governance Indicators

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 13 April 2023	15.6

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