Kingdom of Norway
Rating Report

SCOPE AAA STABLE OUTLOOK

Credit strengths

- Wealthy and resilient economy
- Large net public asset position
- Strong fiscal, monetary and financial governance institutions

Credit challenges

- 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. It experienced only a moderate decline in economic output during the pandemic and is in a strong position to cope with rising inflationary pressures.

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 1.25trn.

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 per capita income levels.

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

Norway's sovereign rating drivers

Risk pillars		Quantitative scorecard		Reserve currency adjustment (notches)	Qualitative scorecard	Final rating
		Weight	Indicative rating		Notches	
Domestic Economic Risk		35%	aaa		+1/3	
Public Finance Risk		25%	aaa		+3/3	
External Economic Risk		10%	aaa		0	
Financial Stability Risk		10%	aaa		-1/3	AAA
ESG Risk	Environmental Risk	5%	aaa		0	
	Social Risk	5%	aa-		+1/3	
	Governance Risk	10%	aaa		+1/3	
Overall outcome		**aaa**		**0**	**+2**	

Note: The sum of the qualitative adjustments, capped at one notch per rating pillar, is weighted equally and 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 GmbH

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12 to 18 months.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Weaker macroeconomic policy, threatening long-term net public and external asset positions
- Financial crisis, damaging Norway's public sector and financial system balance sheets
- Shortcomings in addressing climate transition risks, resulting in increased stranded asset risk

Ratings and Outlook

Foreign and 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

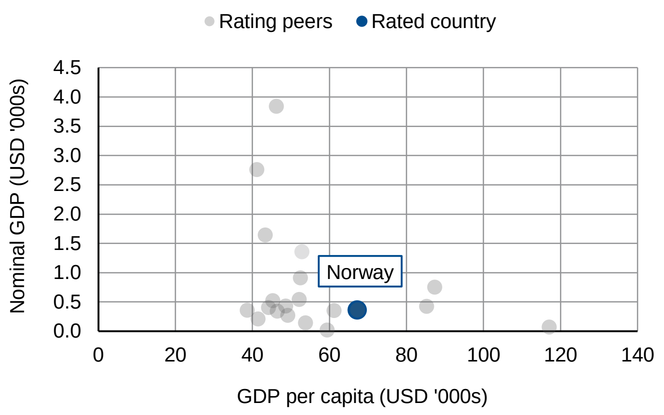
Domestic Economic Risks

- **Growth outlook:** After economic output contracted by 0.7% in 2020, significantly less than the peer average of 3.5%, Norway's economy rebounded rapidly in 2021 when GDP grew by 3.9%. Mainland GDP increased at an even faster rate of 4.2% last year, and it has now exceeded pre-pandemic levels after a temporary slowdown in December and January due to Covid-19 containment measures. Remaining pandemic restrictions were phased out in February. We expect continued growth in 2022, supported by higher consumption due to high levels of savings accumulated during the pandemic, exports, and oil investments. Direct economic impacts from the Russia-Ukraine conflict are expected to be small given low trade exposure to both countries. However, indirect effects, such as increased financial market volatility and higher electricity and commodity prices, create some uncertainty for the growth outlook. We expect economic growth to reach 3.9% this year and 2.1% in 2023 before stabilising near its medium-term potential of around 1.5%-2.0%.
- **Inflation and monetary policy:** CPI inflation stood at 4.5% in March 2022, driven by higher energy prices and rising core inflation from higher prices for food and other imported goods. The escalation of the Russia-Ukraine war will add to previous inflationary pressures. Wage growth of almost 4% is expected this year as firms continue to face tight labour markets. Norges Bank increased the policy rate from 0.5% to 0.75% in March. A further policy rate hike is expected in June, and we expect the central bank to tighten monetary policy further, with the policy rate reaching 2% by the end of 2023.
- **Labour market:** The unemployment rate stood at 3.1% in February 2022, down from its pandemic peak of 5.3% in August 2020. Employment levels also increased due to the economic rebound, reaching 69.4% in January 2022, the highest level since 2009. Given the strong demand for labour and the elevated number of job vacancies, we expect the unemployment rate to further decrease from an average 4.3% in 2021 to 3.3% this year.

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

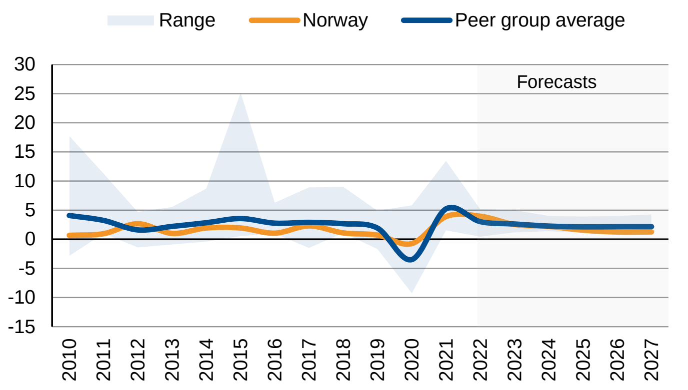
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Strong	+1/3	Credible and effective central bank
	Macroeconomic stability and sustainability	Neutral	0	Favourable business 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 '000s



Source: IMF, Scope Ratings GmbH

Real GDP growth, %



Source: IMF, Scope Ratings GmbH

Public Finance Risks

- **Fiscal outlook:** Norway benefited from continuous budget surpluses before the pandemic, supported by revenues from the oil and gas sector. Transfers from Norway's sovereign wealth fund to the central government budget exceeded net petroleum revenues in 2020 due to increased spending needs related to the pandemic. Withdrawals from the funds stood at 3.6% of the GPFG in 2021, above the 3% long-term guideline. But they are projected to fall to 2.6% in 2022, signaling a less expansive fiscal policy this year with the phase-out of Covid support measures. Higher energy and oil prices are likely to increase government revenues but they will also erode households' income. The government has thus decided to extend its support package for high electricity prices until March 2023. Additional spending related to the Russia-Ukraine war amounts to around 0.1% of GDP and includes increased military funding (NOK 3bn), support for critical services in Ukraine (NOK 200m) and humanitarian aid (NOK 2bn).

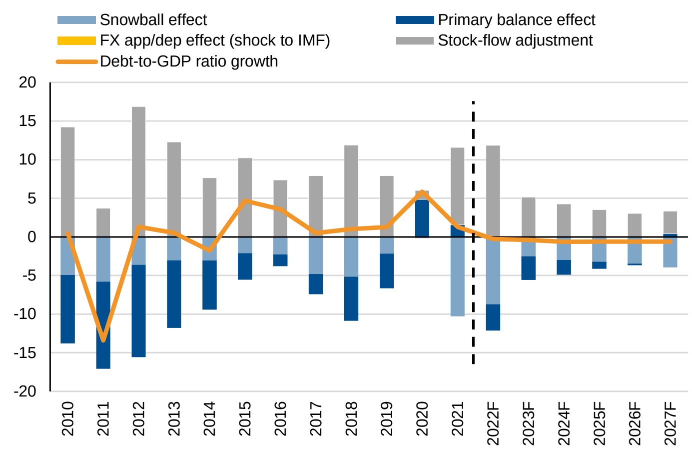
- **Debt trajectory:** The GPFG allows Norway to fund any non-oil budget deficits through transfers from its sovereign wealth fund rather than through debt issuances. Central government debt therefore mainly exists to fund lending and capital injections for state lending institutions such as state banks, to fund government lending schemes, and to refinance or repay maturing debt. General government debt levels increased during the pandemic from 40.9% of GDP in 2019 to 46.8% in 2020. After peaking at 48.1% in 2021, we expect debt levels to gradually decline towards 45% by 2027.

- **Market access:** Borrowing requirements are entirely met in local currency and mostly through long-term debt issuance at fixed interest rates. Government bonds worth NOK 65bn were issued in 2021 with an average maturity of 6.4 years, and a similar issuance value is expected for 2022. To lengthen debt maturity and reduce refinancing risk, the government aims to issue its first 20-year bond in the second half of 2022.

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

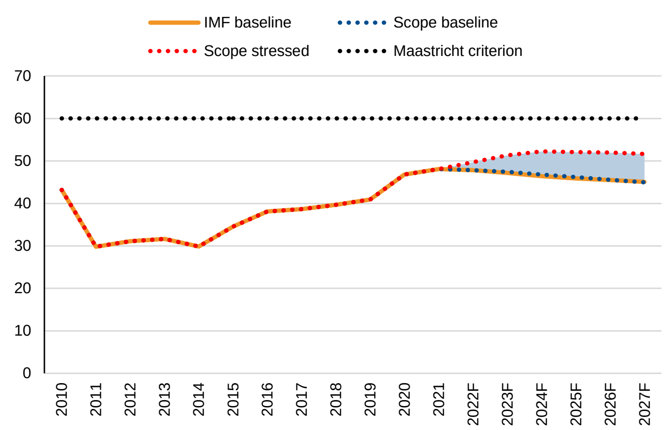
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Very strong fiscal framework supported by large sovereign wealth fund
	Debt sustainability	Strong	+1/3	Debt trajectory very resilient to severe scenarios
	Debt profile and market access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

Contributions to changes in debt levels, pps of GDP



Source: Scope Ratings GmbH

Debt-to-GDP forecasts, % of GDP



Source: Scope Ratings GmbH

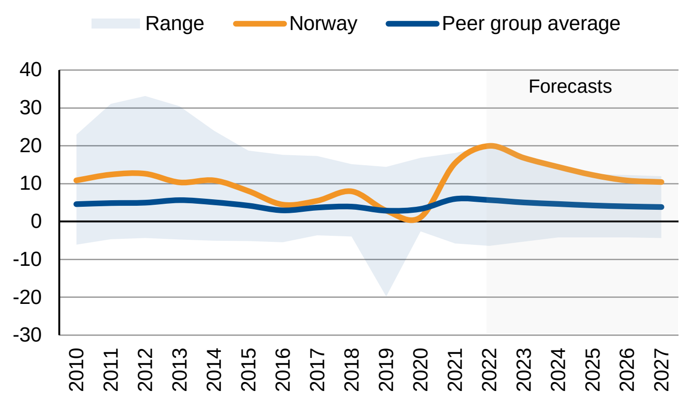
External Economic Risks

- **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% of GDP in 2020 due to the pandemic, but then it increased rapidly to 15.4% of GDP in 2021, returning to the above-10% levels recorded between 2000 and 2014. Given the increase in oil exports that is expected in the coming years and given significantly higher oil prices, the IMF projects the current account surplus will widen to almost 20% in 2022 and remain above 10% for the next five years.
- **External position:** Norway's external debt stood at 196.2% in 2021, the second-highest level among Nordic countries (after Finland) but 3.5 pp lower than the previous year. Financial institutions account for almost 53% of external debt, followed by the general government (16.3%), while the central bank accounts for only 1.4%. Around 60% of external debt has a short-term maturity, signalling some vulnerability to external shocks.
- **Resilience to shocks:** Norway holds substantial net financial assets amounting to 353% of nominal GDP as of end-2021. 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 14% of GDP in March 2022, of which 84% is represented by foreign currency assets.

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

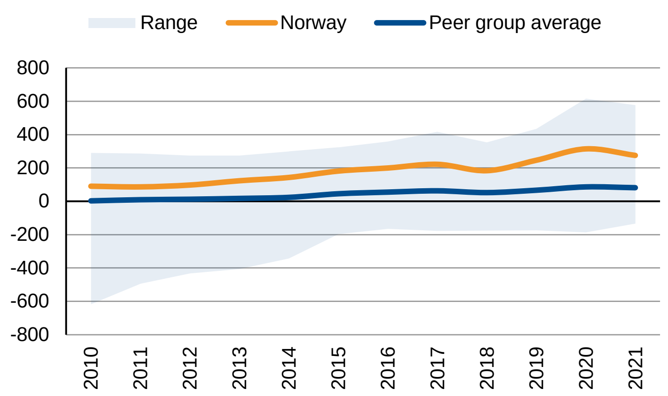
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Weak	-1/3	Reliance on oil exports exposes current account to volatility.
	External debt structure	Neutral	0	High external debt, in line with that of peers
	Resilience to short-term shocks	Strong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

Current account balance, % of GDP



Source: IMF, Scope Ratings GmbH

Net international investment position, % of GDP



Source: IMF, Scope Ratings GmbH

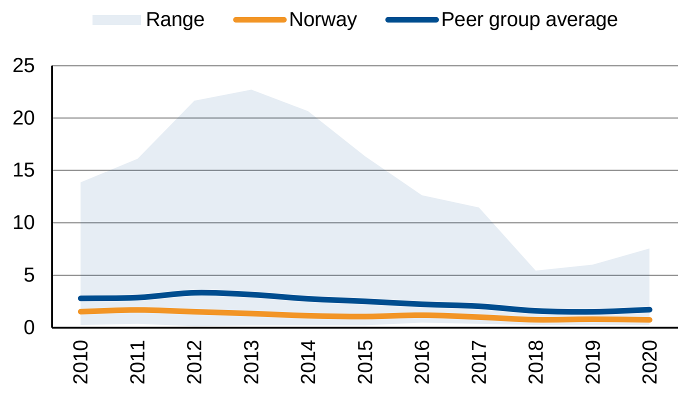
Financial Stability Risks

- **Banking sector:** The Norwegian banking sector proved resilient during the Covid-19 crisis with strong levels of capitalisation, liquidity and profitability. As of Q2 2021, the average regulatory tier 1 ratio stood at 21.8%, well above the minimum requirements and higher than pre-pandemic levels, the liquidity coverage ratio stood at 168.5%, and the NPL ratio remained stable at 0.8%. Credit losses accounted for only 0.1% of gross lending in 2021 and higher oil and gas prices are likely to reduce banks' risk of losses on oil-related exposures in the next few years. Risk of credit losses due to the Russia-Ukraine conflict is also limited for Norwegian banks given their low exposure to the two countries.
- **Private debt**: Household debt, mostly represented by mortgage loans, reached 231% of disposable income at the end of 2021. This is an increase of 22 pp compared to the same period in 2007, before the global financial crisis. While households' debt service ratios have also gradually increased over this period, low interest rates have helped reduce households' average interest burden from 6.7% to 4.5% of disposable income, although tighter monetary policy is likely to increase this ratio. A deeper market correction represents a significant economic vulnerability that could adversely impact both the economy and financial stability. Corporate debt levels also remain high compared with other advanced economies at around 106% of GDP in Q3 2021.
- **Financial imbalances:** Average house prices have increased to all-time highs, rising by around 19% since the onset of the pandemic and nearly doubling since the 2008 financial crisis. The continued price rises in early 2022 were mainly due to new regulations on the sale of real estate property that took effect in January and reduced supply. While the risk of a supply-driven decline in house prices remains moderate, house price growth in excess of households' income increases the likelihood of a gradual price correction. To help address the risk of financial imbalances, the Financial Stability Committee decided in March to increase the countercyclical capital buffer rate to 2.5% effective March 2023.

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

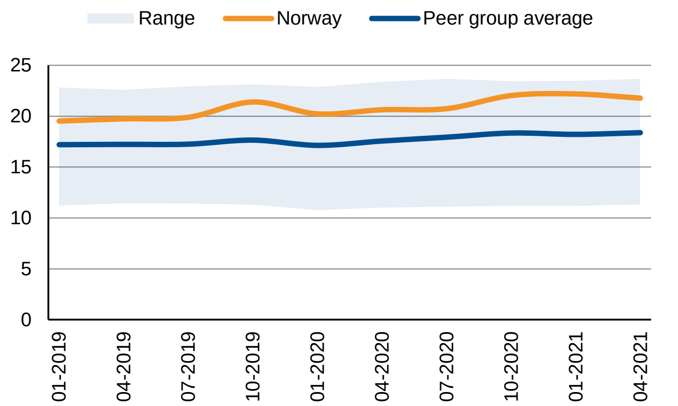
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	High capitalisation and profitability, low non-performing loans
	Banking sector oversight	Neutral	0	Prudent oversight under Norges Bank and the FSA, with the finance ministry responsible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

NPLs, % of total loans



Source: IMF, Scope Ratings GmbH

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

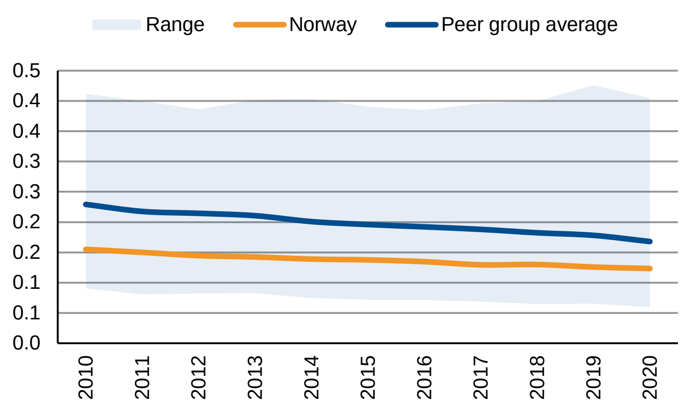
ESG Risks

- **Environment:** Norway remains highly reliant on the oil and gas sector, exposing it to long-term transition challenges such as stranded asset risks. There was broad political support for the decision to continue oil exploration on the Norwegian shelf, and the September 2021 licensing round saw continued demand from oil companies with 31 companies filing applications. Further licenses are expected to be issued in 2022 given continued anticipated demand as countries diversify away from Russian oil and gas. A faster-than-expected transition away from fossil fuels in Norway's key export markets increases vulnerability for the sector given the long planning horizons required for exploration activities. However, Norway 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. Policies to support this goal include a planned increase in carbon taxes from the current level of EUR 60 per tonne to EUR 200 per tonne by 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 Norway's old-age dependency ratio forecasted to reach 40% by 2050 according to Eurostat, a level similar to that of Sweden and below that of most peers. The country ranked first in the United Nations' 2019 Human Development Index, an indicator predicated on life expectancies, 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 track record of smooth political transitions.

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

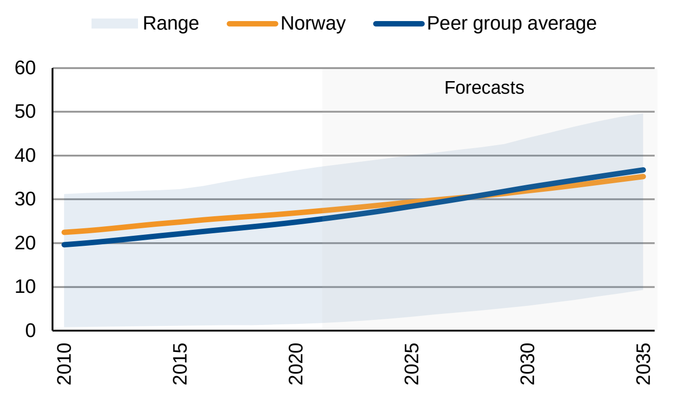
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental risks	Neutral	0	High but well-managed transition risks to a post-oil economy
	Social risks	Strong	+1/3	Favourable demographics and strong social safety nets, inclusive labour market
	Institutional and political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

CO_2 emissions per GDP, mtCO2e



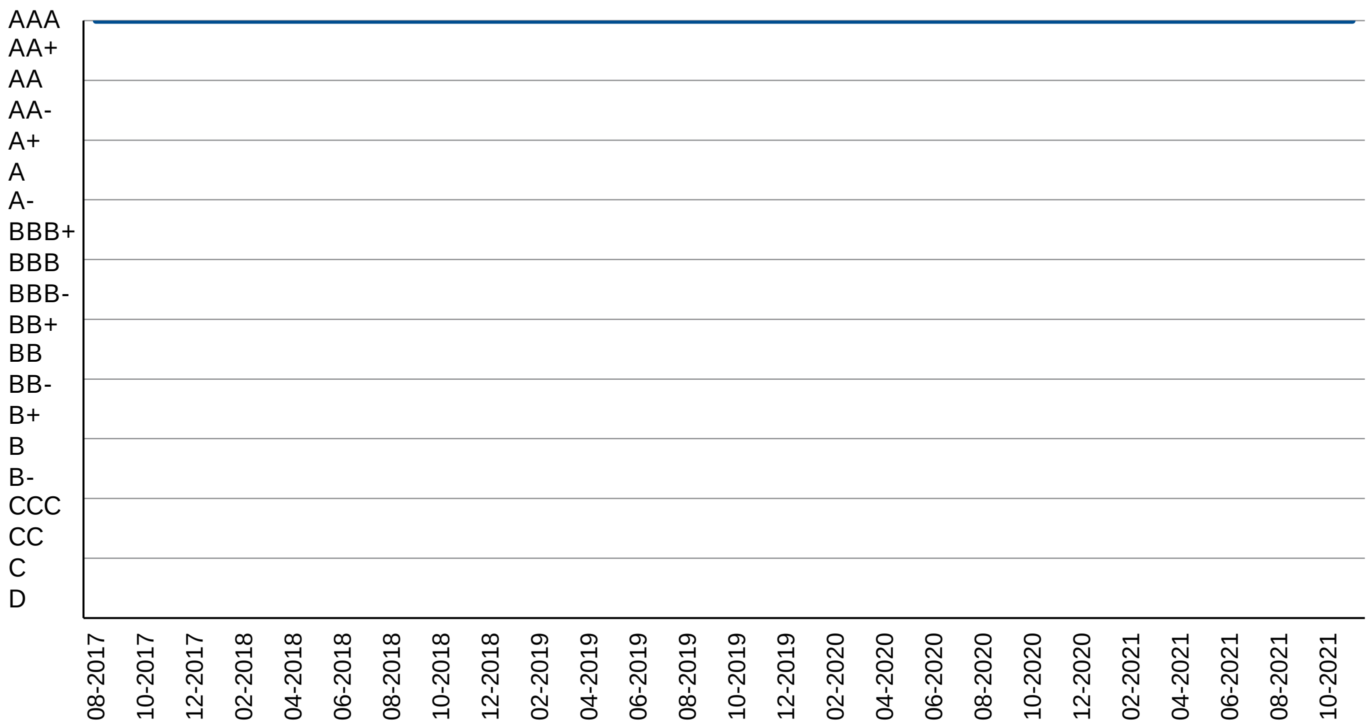
Source: European Commission, Scope Ratings GmbH

Old-age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Rating history



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.

Peer group
Austria
Belgium
Denmark
Finland
Germany
Ireland
Luxembourg
Netherlands
Norway
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 29) used in Scope's quantitative model, the Core Variable Scorecard.

	2016	2017	2018	2019	2020	2021	2022F	2023F
Domestic Economic Risk								
GDP per capita, USD '000s	70.2	75.3	82.1	75.6	67.3	89.1	99.5	100.3
Nominal GDP, USD bn	368.8	398.4	437.0	404.9	362.2	482.4	541.9	549.7
Real growth, %[1]	1.1	2.3	1.1	0.7	-0.7	3.9	3.9	2.1
CPI inflation, %	3.6	1.9	2.8	2.2	1.3	3.5	3.5	1.8
Unemployment rate, %[1]	4.7	4.2	3.9	3.7	4.6	4.4	3.3	3.2
Public Finance Risk								
Public debt, % of GDP[1]	38.1	38.6	39.7	40.9	46.8	48.1	47.8	47.4
Interest payment, % of government revenue	-4.6	-4.4	-3.9	-3.6	-3.7	-4.9	-5.0	-5.0
Primary balance, % of GDP[1]	1.5	2.6	5.7	4.5	-4.9	-1.6	3.4	3.1
External Economic Risk								
Current account balance, % of GDP	4.5	5.5	8.0	2.9	1.1	15.4	19.9	16.8
Total reserves, months of imports	4.9	5.0	4.4	4.7	6.5	-	-	-
NIIP, % of GDP	199.6	221.7	183.4	246.2	314.8	-	-	-
Financial Stability Risk								
NPL ratio, % of total loans	1.2	1.0	0.7	0.8	0.7	-	-	-
Tier 1 ratio, % of risk-weighted assets	19.7	19.4	19.6	21.4	22.0	21.8	-	-
Credit to private sector, % of GDP	145.8	146.5	143.4	150.8	166.0	-	-	-
ESG Risk								
CO_2 per EUR 1,000 of GDP, mtCO2e	134.6	129.4	129.9	125.7	123.3	-	-	-
Income quintile share ratio (S80/S20), x	4.3	4.0	4.1	-	-	-	-	-
Labour force participation rate, %	78.0	77.2	77.8	78.2	-	-	-	-
Old-age dependency ratio, %	25.3	25.7	26.1	26.4	26.9	27.3	27.8	28.3
Composite governance indicator[2]	1.8	1.8	1.8	1.8	1.1	-	-	-

[1] Forecasted values are produced by Scope and may differ from those presented in the charts of the previous sections.
[2] Average of the six World Bank Governance Indicators
Source: European Commission, IMF, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 6 May 2022	12.4

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