Kingdom of Norway
Rating Report

SCOPE AAA STABLE OUTLOOK

Credit strengths

- Wealthy and resilient economy
- Large net public asset positon
- 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 and the energy crisis following the escalation of the Russia-Ukraine war. 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 1.06trn.

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 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		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%	a-		+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

- N/A

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
- 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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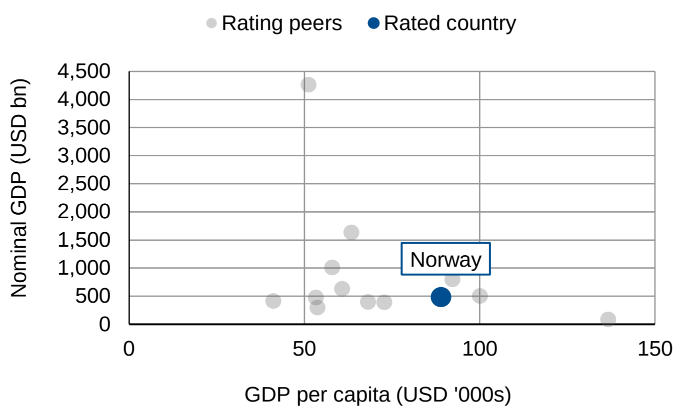
Domestic Economic Risks

- **Growth outlook:** After a moderate 0.7% contraction in economic output in 2020, significantly less than the peer average of 3.5%, Norway's economy rebounded rapidly in 2021 when GDP grew by 3.9%, driven by strong private consumption and exports. Robust growth momentum continued in 2022, resulting in record-high employment, capacity constraints and labour shortages, although economic growth began to slow in Q2. We expect the slowdown in economic growth to continue as private consumption and investments weaken. Direct economic impacts from the Russia-Ukraine conflict are relatively small given Norway's low trade exposure to both countries, but high inflation driven by soaring electricity prices is eroding households' real disposable income and purchasing power, leading to a negative effect on private consumption. We expect economic growth to be 2.8% this year and 1.6% in 2023 before stabilising near its medium-term potential of around 1.8%.
- **Inflation and monetary policy:** CPI inflation stood at 6.9% in September 2022, driven by higher electricity prices and rising core inflation from higher prices for food and other imported goods. While elevated cost pressures are likely to continue for some time, the impact on consumer prices should gradually start to ease in 2023. Nominal wage growth increased from 3.5% in 2021 to 4% this year and it is expected to reach 4.6% in 2023 as firms continue to face tight labour market conditions. Norges Bank was the first major Western central bank to raise rates following the pandemic (in September 2021). To prevent the risk of a wage-price spiral, the central bank further increased its policy rate from 1.75% to 2.25% in September. We expect the central bank to tighten monetary policy further, with the policy rate reaching 3% in 2023.
- **Labour market:** The Norwegian labour market remains very tight, with employment levels at all-time highs of 70.2% in August 2022, reflecting higher participation among foreign and temporary workers. Job vacancies also reached their highest level on record while the unemployment rate stood at 3.1% in July 2022, down from from 3.7% in March 2020 at the onset of the pandemic. Given strong demand for labour, we expect the unemployment rate to be 3.2% in 2022 before slightly increasing to 3.6% next year, reflecting the projected economic slowdown.

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

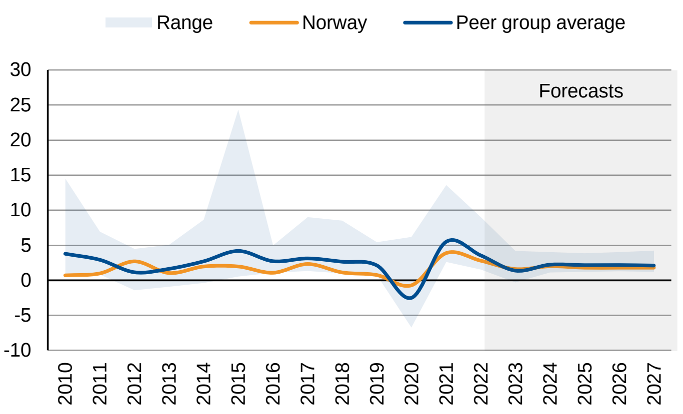
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential
	Monetary policy framework	Strong	+1/3	Credible and effective central bank
	Macroeconomic stability and sustainability	Neutral	0	Favourable business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



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

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

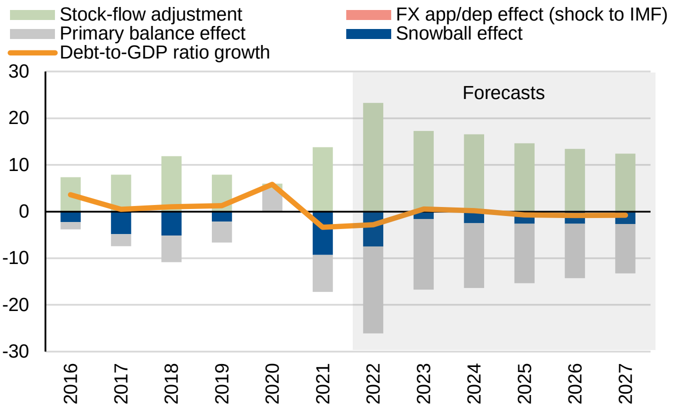
Public Finance Risks

- **Fiscal outlook:** Norway is benefitting from the strong increase in oil and gas prices in Europe. Net cash flow from oil operations is expected to increase fourfold to NOK 1.2trn in 2022 (34% of mainland GDP) compared with 2021. Under Norway's fiscal framework, revenues from the petroleum sector are saved in the GPFG, and the non-oil budget deficit shall over time correspond to the long-term real return on the GPFG, which is estimated at 3%. According to the 2023 budget, the structural non-oil fiscal deficit amounted to NOK 350bn in 2021 (2.9% of GPFG assets), just below the 3% target due to Covid-related spending pressures. It is expected 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 percentage points from 2022 to 2023. However, additional spending of around NOK 100bn (around 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. To avoid fuelling inflationary pressures, the government intends to keep transfers from the GPFG well below the 3% fiscal target. The funding gap will instead be covered by NOK 45bn additional taxes, including on power production and the reprioritisation of some capital expenditures.
- **Debt trajectory:** The GPFG usually 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. We expect the debt-to-GDP ratio to decline to 40.6% this year and remain broadly stable over the next five years.
- **Debt profile and market access:** Borrowing requirements are entirely met in local currency and mostly through long-term debt issuance at fixed interest rates. Total issuance of government bonds in 2022 is expected to be in line with last year and reach NOK 60bn-65bn. The government issued its first 20-year bond in October to reduce refinancing risk and lengthen its average debt maturity. The average time to refix the debt portfolio is 4.5 years at October 2022.

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

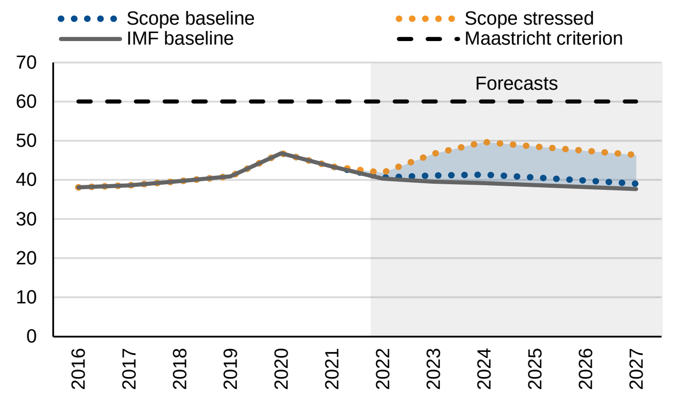
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Very strong fiscal framework supported by large sovereign wealth fund
	Debt sustainability	Strong	+1/3	Debt trajectory very resilient to severe scenarios
	Debt profile and market access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

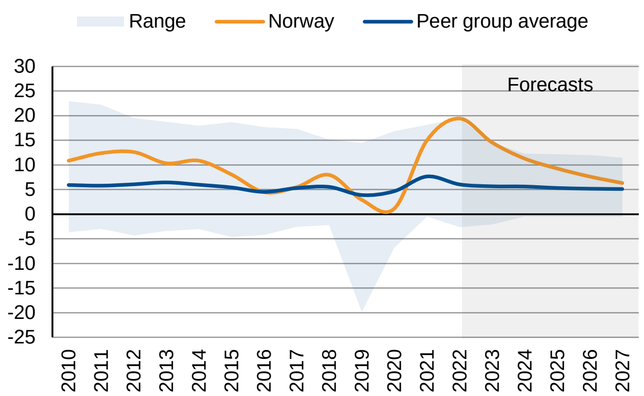
External Economic Risks

- **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 above-10% levels recorded between 2000 and 2014. The surplus increased further during the first half of 2022, reaching 21.4% in Q2. Oil exports are expected to increase and oil prices are expected to remain high in the short term, generating a significant increase in oil revenues from NOK 288bn in 2021 (8.6% of mainland GDP) to NOK 1,169bn in 2022 (33.7% of mainland GDP) and NOK 1,384bn in 2023 (38.3% of GDP). The IMF projects the current account surplus will widen to almost 20% in 2022 and stay at 14.5% of GDP in 2023, before declining towards 6% of GDP by 2027.
- **External position:** The country's gross external debt stood at 207.1% of mainland GDP in Q2 2022, the second-highest level among Nordic countries (after Finland) and has increased by 10.8pp compared to end-2021. Financial institutions account for more than 55% of external debt, followed by the general government (15.1%), while the central bank accounts for only 1.3%. Around 60% of external debt has a short-term maturity, signalling some vulnerability to external shocks.
- **Resilience to shocks:** Norway's government holds substantial net financial assets amounting to 354% of nominal GDP at the end of 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 12% of GDP in August 2022, of which around 85% relates to foreign currency assets.

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

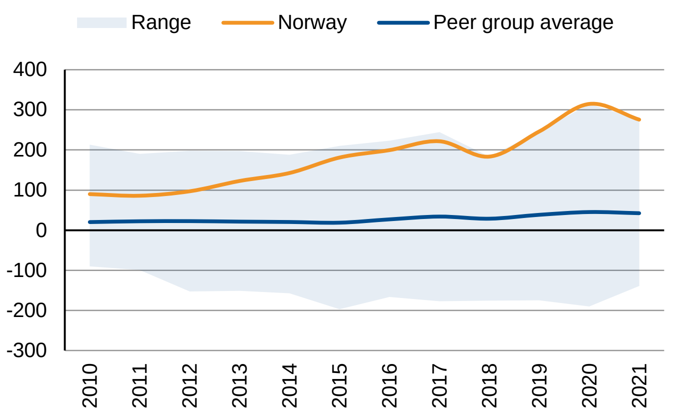
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Current account balance expected to remain high, but reliance on oil exports exposes current account to volatility.
	External debt structure	Neutral	0	High external debt, in line 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, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

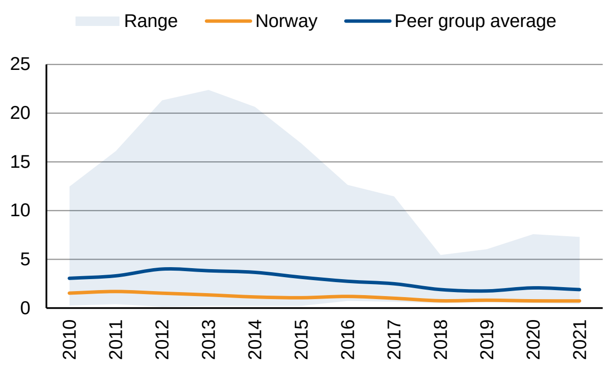
Financial Stability Risks

- **Banking sector:** The Norwegian banking sector proved resilient during the Covid-19 crisis and continues to show ample capacity to absorb losses thanks to strong levels of capitalisation, liquidity and profitability. As of Q4 2021, the average regulatory tier 1 ratio stood at 22.2%, well above the minimum requirements and higher than pre-pandemic levels. Meanwhile, the liquidity coverage ratio stood at 141.7% as of Q2 2022, and the NPL ratio remained stable at 0.7%. The risk of credit losses due to the Russia-Ukraine conflict is limited for Norwegian banks given their low exposure to both countries. Going forward, increasing interest rates could have a positive effect on net interest income. However, in combination with high inflation they can negatively impact borrowers' finances, leading to an increase in their credit riskiness. Still, we assess banks' losses related to household debt to be moderate because of generous unemployment benefits and sufficient liquid asset buffers held by households.
- **Private debt:** Household debt, mostly represented by mortgage loans, reached 223% of disposable income in Q2 2022. This is in line with pre-pandemic levels but significantly higher than the 185% recorded in Q2 2007, before the global financial crisis. Households' debt service ratios have gradually increased over this period. With rising interest rates, the interest burden is expected to increase from 4% at the end of 2021 to around 8% of disposable income in 2023. A deeper market correction represents a significant economic vulnerability that could adversely impact both the economy and financial stability. Corporate debt levels have decreased in recent quarters from 167% of GDP in Q4 2020 to around 129% in Q1 2022, although they remain in line with other Nordics, such as Denmark (126%) and Finland (113%).
- **Financial imbalances:** Average house prices have increased to all-time highs, rising by around 20% since the onset of the pandemic and more than doubling since the 2008 financial crisis. Despite rising interest rates, house price growth has been supported by high demand and new regulations on the sale of real estate property that took effect in January and reduced supply. Nevertheless, the housing market has started to cool in the second half of 2022, and prices are expected to decline further in 2023, driven by rising interest rates, high inflation, labour shortages and elevated building costs. To help address the risk of financial imbalances, the Monetary Policy and Financial Stability Committee confirmed the decision 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*

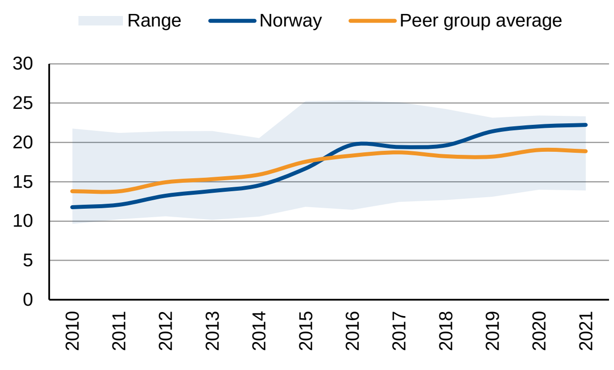
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	High capitalisation and profitability, low non-performing loans
	Banking sector oversight	Neutral	0	Prudent oversight under Norges Bank and the FSA, with the finance ministry responsible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

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

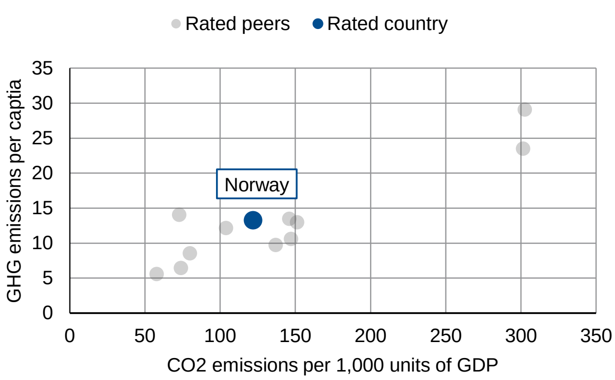
ESG Risks

- **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 recently strengthened energy cooperation with Norway as it is seen as one of the main alternative gas suppliers to Russia. Norway accounted for 25% of EU gas imports in 2021 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. Its new budget also presented a proposal to allocate additional funds to the Green Platform Initiative over 2023-25, supporting research and innovation projects that contribute to the green transition. In addition, Norway's Climate Action Plan 2021-30 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, a level similar to that of Sweden and below that of most peers. The country ranked second (after Switzerland) in the United Nations' 2021 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*

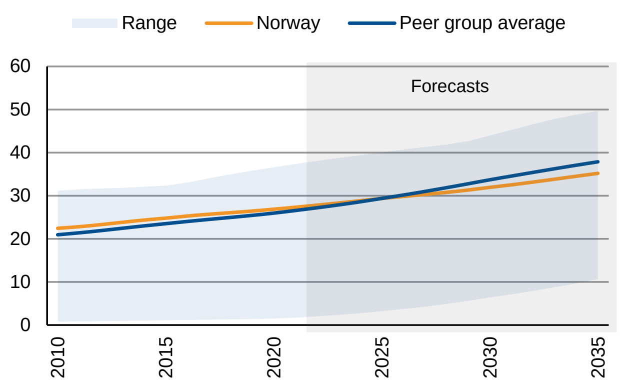
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Neutral	0	High but well-managed transition risks to a post-oil economy
	Social factors	Strong	+1/3	Favourable demographics and strong social safety nets, inclusive labour market
	Institutional and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

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



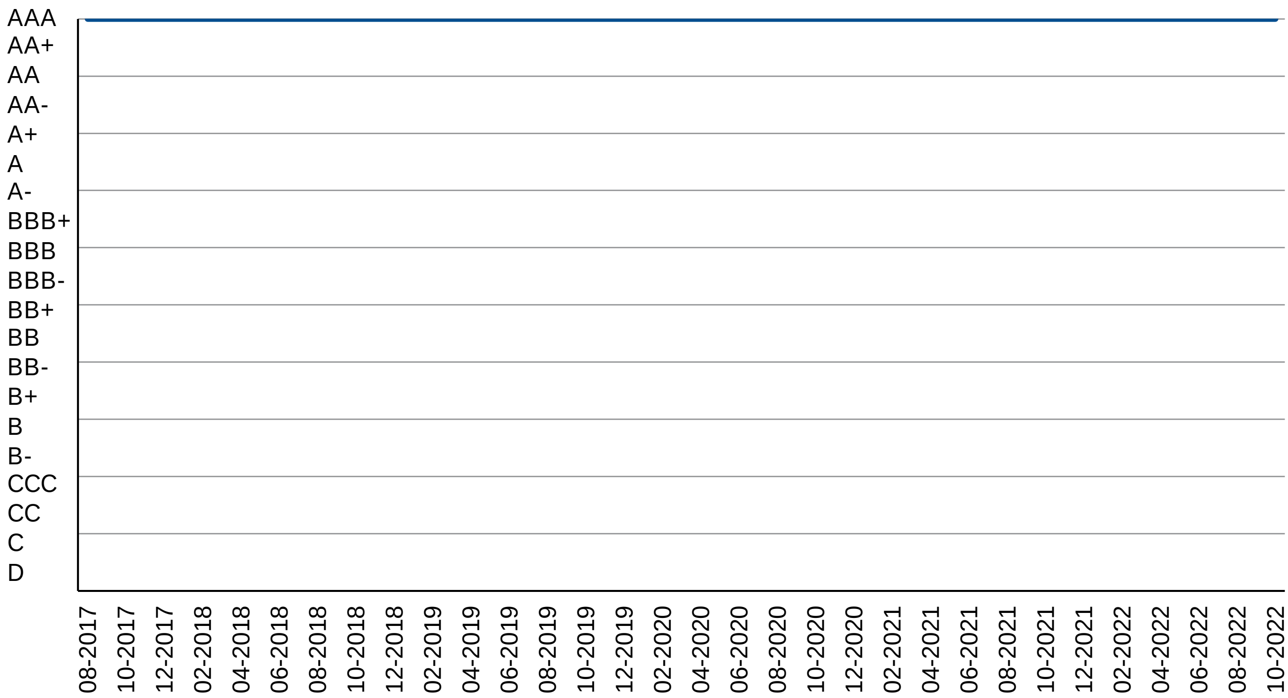
Source: European Commission, Scope Ratings

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*
Austria
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
Domestic Economic	**GDP per capita, USD '000s**	IMF	75,307	82,082	75,594	67,266	89,090
	Nominal GDP, USD bn	IMF	398.4	437.0	404.9	362.2	482.4
	Real growth, %	IMF	2.3	1.1	0.7	-0.7	3.9
	CPI inflation, %	IMF	1.9	2.8	2.2	1.3	3.5
	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	48.1
	Interest payment, % of revenue	IMF	-4.4	-3.9	-3.6	-3.7	-4.9
	Primary balance, % of GDP	IMF	2.6	5.7	4.5	-4.9	-1.6
External Economic	**Current account balance, % of GDP**	IMF	5.5	8.0	2.9	1.1	15.4
	Total reserves, months of imports	IMF	5.0	4.4	4.7	6.6	6.5
	NIIP, % of GDP	IMF	221.7	183.4	246.2	314.8	275.6
Financial Stability	**NPL ratio, % of total loans**	IMF	1.0	0.7	0.8	0.7	0.7
	Tier 1 ratio, % of RWA	IMF	19.5	19.3	19.5	20.2	22.2
	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	129.4	129.9	125.7	123.3	-
	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	25.7	26.1	26.4	26.9	27.3
	Composite governance indicators*	WB	1.8	1.8	1.8	1.8	-

* 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 21 October 2022	12.9

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