MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 November 2022

Update

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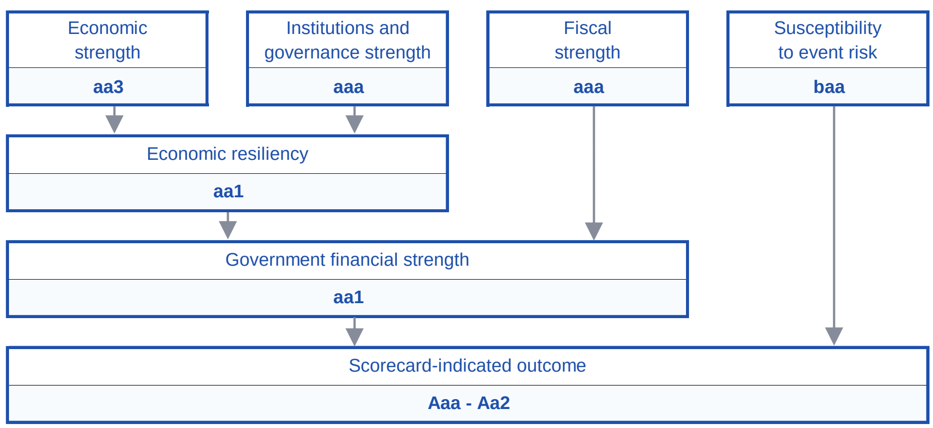
Government of Norway – Aaa stable

Update following methodology update

Summary

Our credit view of Norway reflects its high and relatively evenly distributed wealth, well educated labor force, strong government and external balance sheets as well as consensus-driven political framework. Norway's institutions are robust and proactively responsive to both short-term and long-term risks and the country's strong safety net drives its very low susceptibility to social risks. The government's balance sheet is supported by its very large sovereign wealth fund, the Government Pension Fund Global (GPFG), that allows fiscal flexibility to respond to shocks. Like other European countries, Norway faces increased geopolitical risk due to Russia's invasion of Ukraine (Caa3 negative).

Exhibit 1
Norway's credit profile is determined by four factors



Source: Moody's Investors Service

Credit strengths

» The government's substantial fiscal buffer and track record of fiscal surpluses

» Very high and evenly distributed wealth that supports economic resilience

» A sound macro policy framework, a very strong social safety net and a stable, consensus-oriented political system

Credit challenges

» Dependence on petroleum production and exports

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- Adapting over the medium-to-long term to a steadily lower petroleum output potential
- A heavily indebted household sector and elevated real estate prices

Rating outlook

The stable outlook on Norway is supported by the overall resilience of Norway's credit metrics to the Russia-Ukraine military conflict, the pandemic and commodity price shocks, as large fiscal buffers and very strong institutions allow for an effective fiscal response that significantly softens the economic impact of the different shocks. Moreover, we expect that Norway's authorities will successfully address via very effective policy-making the country's key challenges related to vulnerabilities in the housing market, adverse demographic trends and a reduced contribution from the petroleum sector to economic growth and government revenue over the medium-to-long-term.

Factors that could lead to a downgrade

Norway's Aaa rating would come under pressure if the prudent macroeconomic and fiscal framework that underpins the country's strong credit profile were to weaken significantly, leading to a material and multi-year erosion of Norway's accumulated, very sizeable fiscal buffers with a lasting negative impact on the country's economic and fiscal strength.

In addition, Norway's Aaa ratings would come under pressure were susceptibility to event risk to rise significantly due to further escalation in geopolitical risk.

Key indicators

Exhibit 2

	2017	2018	2019	2020	2021	2022F	2023F	2024F
Real GDP (% change)	2.3	1.1	1.1	-1.3	3.9	2.6	1.4	1.6
Mainland (non-oil) real GDP (% change)	2.0	2.2	2.3	-2.8	4.1	3.1	1.2	1.7
Inflation (CPI, % change, Dec/Dec)	1.6	3.5	1.4	1.4	5.3	7.0	4.2	3.2
Gen. gov. financial balance/GDP (%)	5.0	7.9	6.5	-2.6	9.7	25.0	20.0	18.0
Gen. gov. primary balance/GDP (%)	5.7	8.5	7.2	-1.9	10.2	25.4	20.5	18.6
Gen. gov. debt/GDP (%)	37.8	39.1	39.9	45.2	42.4	39.7	37.7	37.5
Gen. gov. debt/revenues (%)[2]	69.2	70.0	70.3	83.4	74.1	58.5	57.9	58.7
Gen. gov. interest payment/revenues (%)	1.2	1.2	1.2	1.2	0.8	0.6	0.8	0.9
Current Account Balance/GDP (%)	5.5	8.0	2.9	1.1	14.7	19.3	14.9	13.1

[1] Economic forecasts based on an assumed average price for the benchmark Brent crude oil of $102/b in 2022 and $95/b in 2023. Our broad expectations are that prices will remain volatile within a range of $50-$70/b in the medium term.
Source: Moody's Investors Service

Detailed credit considerations

Norway's credit profile is determined by its economic strength score of "aa3", score for institutions and governance strength of "aaa", fiscal strength score of "aaa" and score for susceptibility to event risk of "baa".

We assess Norway's **economic strength** as "aa3" which is one notch above the initial score of "a1" reflecting the country's highly competitive position in the oil and gas market, the material support by sizeable assets of the GPFG representing an additional form of economic diversification being not captured in nominal GDP and a large fiscal buffer than can be used to soften economic shocks.

Our economic strength assessment also reflects Norway's large economy, low volatility in real GDP growth and a GDP per-capita that is with 70,796 (PPP, Intl$) materially above the median of Aaa-rated peers (63,365) though trend growth is with an average 1.7% over 2017-26 in line with the Aaa-rated median. Norway's strong competitiveness reflects the flexibility of the wage-setting model and exchange rate as well as the success of past cost-cutting efforts in the oil and gas sector. An exceptional social safety net – which includes the provision of basic services, education and health and safety –, low economic inequality and relatively high social mobility materially reduces Norway's susceptibility to social risks.

That said, long-term growth challenges for Norway include its rapidly ageing population, which will slow the projected growth of the labor force and exposure to the implications of carbon transition. We view carbon transition risks to be effectively mitigated by the country's highly competitive and flexible mainland economy, accumulating petroleum revenues in its very sizeable sovereign wealth fund and building comparatively "clean" and very competitive oil and gas production.

Norway's stable, consensus-based political framework and a track record of successive governments that have followed prudent macro strategies underpin **institutions and governance strength** at "aaa", the highest possible level. The efficient and very transparent institutional framework provides a high degree of confidence in the government and its ability to implement effective policies. In terms of quantitative indicators, Norway's institutional set-up is one of the strongest globally.

The government's **fiscal strength** is assessed at "aaa" being supported by the sizeable financial assets of 301% of GDP mainly related to the GPFG and including government deposits at the central bank. The government's financial position is very healthy compared with most other sovereigns, many of which face similar pressures of ageing populations but have net liabilities instead of net assets. Fiscal rules require that the government transfers all of its oil and gas-related income to the GPFG. The government then withdraws just a small portion of the fund (equivalent to its estimated real rate of return) to finance the non-oil fiscal deficit. The GPFG is the world's largest sovereign wealth fund and its value was NOK10,914 billion (or 315% of GDP) at end-2020, increased to NOK12,340 billion (or 293% of GDP) at end-2021. The market value of the GPFG fell to NOK 11,657 billion (or 240% of GDP) at the end of the first half of 2022 mainly related to the impact of the Russia-Ukraine military conflict on financial markets. The annual return and the net annual return of the fund were 5.8% and 3.6%, respectively, between 1998 and the end of the first half of 2022.

The GPFG is invested solely abroad to prevent the economic distortions (in particular asset price inflation and currency appreciation) that would occur if invested domestically. The rule was formally tightened and the estimated real rate of return of the fund was lowered to 3% from 4%, with effect from 2018, which also reduces what can normally be drawn from it for the budget, although it allows for some flexibility.

Susceptibility to event risk is assessed at "baa" being driven by political risk. In light of the Russia-Ukraine conflict, we have changed Norway's susceptibility to political event risk score to "baa" from "aa". Although Norway's NATO membership is ultimately a guarantor of national security, the country also faces contagion risks from the Russia-Ukraine military conflict as it is bound by NATO's Article 5 collective defense clause, which treats an attack on any NATO member as an attack on all treaty signatories. While this is not our base case because of the deterrent effect of this clause, there is a heightened risk that this treaty obligations could ultimately result in Norway needing to use armed force to restore and maintain stability in Europe. The probability of such risks materializing have increased in light of the ongoing military conflict between Russia and Ukraine.

We assess domestic political risks of Norway as very low driven by Norway's consensus-driven political framework, which has shown itself to be proactive in addressing the country's long-term economic and fiscal challenges. Norway has a long track record of stable coalitions and cooperation in parliament. In addition, the consensus style of governance limits risks of an abrupt change in policy direction, regardless of the parties in government.

Our assessment of banking sector related risks is "a". This score reflects the intrinsic strength of Norway's banking sector marked by a strong "a3" average asset-weighted Baseline Credit Assessment, as well as a total bank assets to GDP ratio of 170% as of year end 2021. In general, we expect that Norwegian banks will maintain good asset quality, as well as strong capitalization and solid profitability. Moreover, the bank's dependence on market funding will remain high, although offset by ample liquidity. That said, potential vulnerability of the banking sector stems from high household indebtedness and high commercial property prices. Macroprudential measures imposed by banking regulators reduce some of the risks posed by the large scale of mortgage financing.

We assess government liquidity risk and external vulnerability risk both as "aaa". Relatively small government gross financing needs and strong market access are limiting government liquidity risks, while Norway's very high structural current-account surplus of an average of about 8% over the past decade, coupled with a sizable and growing net asset international investment position shield the country from external liquidity pressures.

ESG considerations

Norway's ESG Credit Impact Score is Positive CIS-1

Exhibit 3
ESG Credit Impact Score

CIS-1
Positive

For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

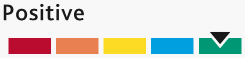
Source: Moody's Investors Service

Norway's positive (**CIS-1**) ESG Credit Impact Score reflects neutral to low exposure to environmental risk, the credit benefits deriving from its social profile and very strong governance. In addition, Norway's capacity to respond to costly environmental hazards or social demands is very high. This is based on Norway's very high resilience score related to the country's very high-income levels, an exceptionally robust government balance sheet and very high quality of governance.

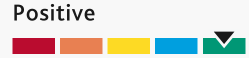
Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-1
Positive



GOVERNANCE
G-1
Positive



Source: Moody's Investors Service

Environmental

The E issuer profile score is neutral to low (**E-2**), reflecting neutral to low exposure to environmental risks across all categories. While Norway's economy has a material dependence on its petroleum sector, the country's exposure to the implications of carbon transition is effectively mitigated by the country's highly competitive and flexible mainland economy, accumulating petroleum revenues in its very sizeable sovereign wealth fund which successfully separates petroleum-sector related revenues from government expenditure and building comparatively "clean" and very competitive oil and gas production.

Social

Moody's assesses its S issuer profile score as positive (**S-1**). Norway is among the few sovereigns for which a number of social attributes supports the rating. The score reflects well-educated labor forces, evenly distributed wealth, and very good quality healthcare and basic services while the demographic challenges posed its ageing population are manageable.

Governance

Norway's very strong institutions and governance profile support its rating, as captured by a positive G issuer profile score (**G-1**) as the efficient and very transparent institutional framework provides a high degree of confidence in the authorities' ability to implement effective policies. Coupled with exceptionally high wealth levels and financial strength, this supports a high degree of resilience.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Moody's rating methodology and scorecard factors: Norway - Aaa stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				**a1**	**aa3**	**50%**
Growth dynamics	Average real GDP growth (%)	2017-2026F	1.7	ba3		25%
	MAD Volatility in Real GDP Growth (%)	2012-2021	0.5	a1		10%
Scale of the economy	Nominal GDP ($ billion)	2021	490.0	aa3		30%
National income	GDP per capita (PPP, Intl$)	2021	70,796.1	aaa		35%
Adjustment to factor 1	*# notches*				1	max ±9
Factor 2: Institutions and governance strength				**aaa**	**aaa**	**50%**
Quality of institutions	Quality of legislative and executive institutions			aaa		20%
	Strength of civil society and the judiciary			aaa		20%
Policy effectiveness	Fiscal policy effectiveness			aaa		30%
	Monetary and macroeconomic policy effectiveness			aaa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				**aa2**	**aa1**	
Factor 3: Fiscal strength				**aaa**	**aaa**	
Debt burden	General government debt/GDP (%)	2021	42.4	a2		25%
	General government debt/revenue (%)	2021	74.1	aa1		25%
Debt affordability	General government interest payments/revenue (%)	2021	0.8	aaa		25%
	General government interest payments/GDP (%)	2021	0.4	aa1		25%
Specified adjustments	*Total of specified adjustment (# notches)*			3	3	max ±6
	Debt Trend - Historical Change in Debt Burden	2013-2021	11.5	0	0	
	Debt Trend - Expected Change in Debt Burden	2021-2023F	-4.8	0	0	
	General Government Foreign Currency Debt/ GDP	2021	0.0	0	0	
	Other non-financial public sector debt/GDP	2021	23.1	-1	-1	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2021	301.3	4	4	
Other adjustment to factor 3	*# notches*				0	max ±3
F1 x F2 x F3: Government financial strength				**aa1**	**aa1**	
Factor 4: Susceptibility to event risk				**baa**	**baa**	Min
Political risk				baa		
	Domestic political risk and geopolitical risk			baa		
Government liquidity risk				aaa	aaa	
	Ease of access to funding			aaa		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				a	a	
	Risk of banking sector credit event (BSCE)	Latest available	a3	aaa-a3		
	Total domestic bank assets/GDP	2021	167.3	80-180		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				aaa	aaa	
	External vulnerability risk			aaa		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				**Aaa - Aa2**	**Aaa - Aa2**	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

Moody's related publications

» **Outlook**: Sovereigns – Global: 2023 credit outlook is negative as high prices, slow growth intensify social risks, 14 November 2022

» **Outlook**: Global Macro Outlook 2023-24: Global economy faces a reckoning over inflation, geopolitics and policy trade-offs, 10 November 2022

» **Sector in-Depth**: Geopolitical risks – Europe: Energy crisis could lead to economic scarring across Europe, 2 November 2022

» **Credit Analysis**: Government of Norway - Aaa stable: Annual credit analysis, 20 May 2022

» **Country Statistics**: Norway, Government of

» **Rating Methodology**: Rating Methodology: Sovereigns, 22 November 2022

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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