S&P Global
Ratings

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Norway

Primary Credit Analyst:
Johanna Melinder, Stockholm + 46 84 40 5926; johanna.melinder@spglobal.com

Secondary Contact:
Gabriel Forss, Stockholm + 46 84 40 5933; gabriel.forss@spglobal.com

Research Contributor:
Meghna Ashtekar, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Research Assistant:
Freja L Dobreff, Stockholm

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Norway

This report does not constitute a rating action.

Key Rating Factors

Sovereign Credit Rating
AAA/Stable/A-1+

Institutional and economic profile

Prudent and flexible policymaking, as illustrated by timely decisions and sizable fiscal support during the pandemic, support the economy.

- We expect that real GDP will rebound by 3.4% in 2021, underpinned by domestic consumption and external demand.
- Comprehensive government support packages, totaling 12% of GDP, limited the pandemic's impact on the labor market and overall economy.
- We expect broad cross-party consensus on key economic issues, such as the fiscal spending rule, to remain even if a new government were to take office following the September general election.

Flexibility and performance profile

A substantial net external asset position and significant fiscal buffers remain, despite the temporary economic shock.

- We expect Norway's current account surplus will recover in 2021, because the trade balance is supported by an increase in oil prices and recovery in global trade.
- Nevertheless, overall lower oil revenue and pandemic-related temporarily higher fiscal spending will continue to result in net transfers from the Government Pension Fund Global (GPFG) to support the central government budget in 2021.
- With the GPFG's market value at close to $1.4 trillion, the country benefits from large buffers to navigate periods of stress.

Outlook

The stable outlook reflects S&P Global Ratings' view that Norway has ample financial buffer and headroom to withstand a temporary economic shock, without a significant impact on its credit metrics. Norway has extremely strong fiscal and external net asset positions, which together with high wealth levels, strong institutions, and an effective monetary policy regime support the rating.

Downside scenario

Our 'AAA' rating on Norway could come under pressure if the country's robust external and fiscal balance sheets eroded rapidly, combined with significantly weaker institutions and governance standards, or geopolitical risk rises pronouncedly. We consider this unlikely, however.

Rationale

Norway's policymaking environment is stable and largely predictable, underpinned by high wealth levels, as well as large external and fiscal net asset positions from over three decades of accumulated petroleum revenue. We estimate the country's GDP per capita at $80,650 in 2021, among the highest of all sovereigns we rate. Norway has a history of prudent policymaking, reflected in its fiscal rule and the creation and management of its very large sovereign wealth fund, the GPFG. It stands at $1.4 trillion, or about 300% of GDP.

Institutional and economic profile: Release of pent-up demand will support solid recovery and bring GDP back to prepandemic levels as early as 2021

We expect real GDP growth to rebound by 3.4% in 2021 and 3.5% in 2022, following a relatively mild contraction of 0.8% in 2020, thanks to the robust petroleum exports, support measures and domestic consumption. We believe household consumption will recover quickly as restriction ease, because Norwegian households are wealthy and have accumulated pent-up demand and government support packages have helped limit the long-term impact on the labor market. At the same time, we forecast Brent oil prices will average $65 per barrel (/bbl) in 2021 and $60/bbl in 2022, before decreasing to $55/bbl in 2023 onward (for more information, see "Short-Term Gas Price Assumptions Raised On Robust Demand And Producer Discipline," published Aug. 13, 2021, on RatingsDirect). This, together with a more-prominent resumption of global trade, will support Norwegian exports. For 2023-2024, we expect real GDP growth will average 1.9% annually, supported by still-solid private consumption and increased oil and gas exports and investments, as production for new fields comes onstream and development continues. Development will be supported by temporary changes to the Petroleum Tax Act lasting through 2022, which will encourage new petroleum investment toward the end of our forecast horizon.

Although declining, reasonably robust medium-term oil prices will support the oil sector. However, the ongoing reliance on hydrocarbons could hamper diversification beyond the sector. A stronger Norwegian krone from a strong oil sector would weigh on Norwegian competitiveness outside the sector, while a more profitable petroleum sector decreases incentives to expand into other sectors. The sector also runs the risk of being impaired by more stringent environmental legislation. Still, Norway is relatively strong in other sectors, such as the engineering, fishing, and maritime industries; and beyond the pandemic, we expect public policy to further focus on economic diversification. Concerning the fishing industry, Norway's second-largest export, ongoing discussion with the EU and the U.K. following Brexit on quotas creates some uncertainty, but we expect agreements will have no significant impact on the sector in the medium term.

Despite being in a minority position, the government has taken decisive action to handle and limit the pandemic. Compared with that of most peers, Norway has experienced a significantly lower rate of infections and deaths among its population. Vaccinations are progressing broadly in line with plans and European peers, and more than half of the adult population is fully vaccinated. Although still present, this will likely limit the risk to our economic forecast stemming from COVID-19 and extended lockdowns.

The government introduced large financial packages to support the economy, including reforms to support businesses and individuals hurt by the pandemic and falling oil prices. Fiscal spending included measures to help ease the lockdown's economic impact and help employment recover swiftly. We estimate that total support packages, including forgone revenue and off-budget spending, in 2020-2021 amount to about Norwegian krone (NOK) 360 billion, or 12% of 2020 GDP, of which about NOK230 billion constitutes fiscal spending. However, many of these programs have not been fully used, so the actual impact on government finances and liquidity will likely be much lower. Still, we do not exclude the possibility of additional extensions or support should restrictions remain longer than expected.

Election polls point to a potential change in government composition following the general elections on Sept. 13. The political landscape in Norway has become somewhat more fragmented in recent years, so we believe the government formation process could take longer. However, there is broad cross-party consensus on key economic issues, such as the fiscal spending; and very large fiscal buffers act as important cushions against possible fiscal slippages. Therefore, we believe the general stance regarding the country's economic position will continue.

Norwegian household debt to disposable income, at 236% as of December 2020, is among the highest of the Organisation for Economic Cooperation and Development countries, and we expect it will increase further over the next two years on increasing house prices. At end of June 2021, the 12-month growth in house prices for the whole country was 12.5%. Given the interdependence between developments in house prices and those in household debt, as well as that only a very small proportion of household debt in Norway carries fixed interest rates, we believe these accumulated imbalances could pose an economic risk. However, we expect that house price growth will slow in second-half 2021, because pandemic-related demand for more space will abate through 2021 and 2022 as the economy reopens and interest rate level gradually increases to prepandemic levels. Financing costs will likely increase following Norges Bank's planned policy rate hikes in second-half 2021. This, together with the upcoming reinstatement of macroprudential measures, will contain excessive lending demand, in our view. We consider financial supervision in Norway strong and expect authorities to implement further macroprudential policies if needed, while banks have reduced their related risk exposure in recent years.

Flexibility and performance profile: The country's net external asset position is among the highest of all rated sovereigns

Norway's very strong external and fiscal net asset position is underpinned by the large GPFG. Returns on the fund's large asset base are now the main source of growth; inflows of petroleum tax revenue and state-owned petroleum activities contribute to a lesser degree, and since the pandemic, there has been a net outflow to the budget to support spending and the economy. The GPFG's value stands at close to $1.4 trillion and represents about 300% of the country's GDP, generating sizable yearly cash flows from dividends and coupon payments. In our view, Norway is in a strong position to navigate periods of market distress given its large buffers. According to the fiscal framework, withdrawals from the GPFG transferred to the central government budget should not average more than the fund's expected return (currently 3% of the fund's value). However, higher transfers are permitted during economic downturns, as they were during the pandemic.

We estimate that high fiscal spending in 2021 will lead to a non-oil deficit (and excluding transfers from the GPFG) of close to 12% of GDP. This, together with lower hydrocarbon revenue, primarily reflecting lower tax revenue, will result in net withdrawal from the GPFG fund this year to support fiscal spending. This contrasts with 2018 and 2019, when inflows to the GPFG exceeded the fund's transfers to the central government budget. However, given the increase in market value (9.4% in the first six months of 2021), total asset value continue to grow and support fiscal resilience.

From 2022, we anticipate that the GPFG's growth will be higher than the non-oil fiscal deficit, with net assets increasing.

We expect total general government debt will average 44% of GDP over 2021-2024. The government's net asset position (general government assets minus debt), in which we include the GPFG, remains exceptionally strong, at more than 250% of GDP; and the interest burden on general government debt is low, averaging 1.3% of government revenue in 2021-2024. The central government's debt issuance is largely to finance capital transactions and investment projects.

Alongside fiscal resilience, with the GPFG's assets invested abroad, Norway is in an extremely strong net external asset position, at about 600% of current account payments on average for 2021-2024. However, we estimate that the country's gross external financing needs are high, at about 180% of current account receipts and usable reserves during the same period, largely because of banks' foreign currency borrowings.

We expect current account surpluses to pick up through 2021-2024 to above 4% of GDP on average, supported by the oil sector, a rebound in global trade, and solid income balance (thanks to Norway's significant net external asset position). This follows a historically low current account surplus of 2% of GDP in 2020, compared with above 6% on average over 2015-2018, due to the decline in oil prices. We assess the krone as an actively traded floating currency. According to the Bank for International Settlements' Triennial Central Bank Survey 2019, the krone is bought or sold in 1.8% of global foreign exchange turnover.

The central bank, Norges Bank, operates with an inflation-targeting regime, and has a track record of operational independence and clear policy objectives. It has a wide array of monetary instruments at its disposal and well-developed capital markets enable effective policy transmission. After hiking rates three times in 2019, Norges Bank lowered its policy rate to 0% from 1.5% in spring 2020 to dampen the pandemic's negative effects. However, the bank has announced that it will increase the policy rate to 0.25% on Sept. 23, and given the ongoing economic recovery, we expect the bank to continue hiking rates in 2021-2022.

Norway's banking sector has relied on international capital markets to fund a significant part of its credit growth. Including foreign deposits, the banking sector is in a net external debtor position. The country's high regulatory capital standards and banks being ahead of schedule with implementing Basel III liquidity requirements helps mitigate risks from the sector's external position. In addition, 35%-40% of banks' external funding comes from foreign parent banks, such as Nordea Bank and Danske Bank. Adjusted for this, we estimate the Norwegian banking sector's share of net external debt financing is closer to 15%-20% of systemwide loans. Although domestic deposits as a portion of the total funding base are lower in Norway than many other European markets, we believe Norwegian banks will continue to have reliable access to domestic and international capital markets, in addition to retail and corporate deposits.

Following the sharp decline in oil prices in 2020, we observed an increase in nonperforming loans related to the sector. With oil prices now broadly at prepandemic levels, it will contribute to reducing the banks' risk of losses on oil-related exposures. Nevertheless, given Norwegian banks' relatively small overall exposure to the petroleum sector, we do not see this as a significant risk even considering the high overcapacity and subdued profitability in some segments, and the sector's overall transition risks. At the same time, we believe the fiscal and regulatory support during the pandemic helped strengthen the banking sector's overall asset quality. Banks' credit losses fell to 0.1% of lending in first-quarter 2021 from 1.0% in first-quarter 2020. Furthermore, we expect banks' sound core earnings, advanced digital banking offerings, and high capital buffers will continue support their credit standing and resilience through 2024.

Key Statistics

Table 1

Norway--Selected Indicators										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Economic indicators (%)										
Nominal GDP (bil. LC)	3,111	3,098	3,295	3,554	3,568	3,413	3,710	3,870	3,967	4,107
Nominal GDP (bil. $)	386	369	398	437	406	363	436	461	481	501
GDP per capita (000s $)	74.7	70.8	75.8	82.5	76.1	67.5	80.8	84.9	88.0	91.0
Real GDP growth	2.0	1.1	2.3	1.1	0.9	(0.8)	3.4	3.5	2.1	1.7
Real GDP per capita growth	0.8	0.2	1.4	0.4	0.2	(1.5)	2.9	2.8	1.4	1.0
Real investment growth	(4.0)	3.9	2.6	2.2	4.8	(3.8)	1.8	(0.3)	3.5	2.4
Investment/GDP	27.5	28.1	27.8	28.1	29.7	30.1	28.4	27.8	28.2	28.6
Savings/GDP	35.5	32.6	33.3	36.0	32.5	32.1	33.5	32.5	32.2	32.5
Exports/GDP	37.8	35.5	36.3	38.0	36.3	32.5	35.8	35.0	34.4	34.3
Real exports growth	4.3	1.1	1.7	(1.2)	0.5	(0.5)	3.0	4.6	2.7	1.6
Unemployment rate	4.5	4.7	4.2	3.8	3.7	4.6	4.0	3.8	3.7	3.7
External indicators (%)										
Current account balance/GDP	8.0	4.5	5.5	8.0	2.8	2.0	5.1	4.7	3.9	3.9
Current account balance/CARs	16.1	9.4	11.3	15.7	5.9	4.4	10.3	9.9	8.4	8.3
CARs/GDP	49.8	47.4	48.3	50.5	48.6	44.6	49.0	47.8	47.1	46.9
Trade balance/GDP	6.5	3.2	5.1	7.0	3.1	(0.9)	1.2	1.0	0.4	0.3
Net FDI/GDP	(3.6)	(6.8)	0.7	(4.6)	2.3	0.3	(0.5)	(0.5)	(0.5)	(0.5)
Net portfolio equity inflow/GDP	(1.4)	(3.4)	(3.9)	(9.8)	(7.1)	(3.4)	(2.2)	(2)	(2)	(2)
Gross external financing needs/CARs plus usable reserves	183.1	186.2	180.0	173.2	188.2	203.5	183.5	180.2	179.2	177.3
Narrow net external debt/CARs	(290.5)	(329.9)	(368.5)	(282.4)	(406.2)	(571.1)	(436.7)	(436.5)	(438.3)	(438.6)
Narrow net external debt/CAPs	(346.4)	(364.1)	(415.6)	(335.1)	(431.5)	(597.4)	(486.9)	(484.5)	(478.4)	(478.2)
Net external liabilities/CARs	(363.3)	(420.8)	(458.9)	(363.1)	(505.4)	(707.4)	(547.9)	(548.6)	(552.7)	(554.7)
Net external liabilities/CAPs	(433.2)	(464.4)	(517.6)	(431.0)	(536.9)	(740.1)	(611.0)	(609.0)	(603.3)	(604.8)
Short-term external debt by remaining maturity/CARs	160.9	156.7	147.9	140.7	154.4	192.1	158.6	152.8	149.1	144.3
Usable reserves/CAPs (months)	4.8	4.4	4.3	4.3	4.1	5.2	4.7	4.6	4.5	4.3
Usable reserves (mil. $)	57,456	60,445	65,924	63,145	66,946	75,259	76,682	77,676	77,772	78,022

Table 1

Norway--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fiscal indicators (general government; %)										
Balance/GDP	6.0	4.1	5.0	7.9	6.6	(3.0)	(3.1)	0.5	3.6	5.9
Change in net debt/GDP	(27.1)	(1.1)	(26.6)	8.2	(49.6)	(25.3)	(4.7)	(0.5)	(3.8)	(7.4)
Primary balance/GDP	6.9	4.8	5.7	8.5	7.3	(2.3)	(2.4)	1.2	4.4	6.7
Revenue/GDP	54.5	54.8	54.6	55.9	57.2	54.1	56.0	56.0	56.0	56.0
Expenditure/GDP	48.5	50.7	49.6	48.0	50.6	57.2	59.1	55.5	52.4	50.1
Interest/revenue	1.5	1.4	1.2	1.2	1.2	1.3	1.2	1.2	1.4	1.4
Debt/GDP	34.5	38.1	38.6	39.7	40.9	46.8	44.2	43.5	43.7	43.2
Debt/revenue	63.4	69.6	70.7	71.0	71.4	86.5	78.9	77.8	78.0	77.1
Net debt/GDP	(204.5)	(206.5)	(220.8)	(196.5)	(245.3)	(281.7)	(263.9)	(253.4)	(251.0)	(249.8)
Liquid assets/GDP	239.0	244.6	259.4	236.2	286.2	328.5	308.0	297.0	294.7	293.0
Monetary indicators (%)										
CPI growth	2.1	3.6	1.8	2.7	2.2	1.3	2.9	1.7	1.6	1.8
GDP deflator growth	(2.9)	(1.5)	4.0	6.7	(0.4)	(3.6)	5.1	0.8	0.4	1.8
Exchange rate, year-end (LC/$)	8.81	8.62	8.21	8.69	8.78	8.53	8.50	8.30	8.20	8.20
Banks' claims on resident non-gov't sector growth	5.8	4.5	6.5	4.7	4.9	4.6	4.5	4.5	4.5	4.5
Banks' claims on resident non-gov't sector/GDP	143.8	150.9	151.1	146.7	153.3	167.6	161.2	161.5	164.6	166.2
Foreign currency share of claims by banks on residents	5.4	4.8	4.7	4.4	4.2	3.6	4.0	4.0	4.0	4.0
Foreign currency share of residents' bank deposits	27.4	28.4	26.1	26.4	24.1	21.8	24.0	24.0	24.0	24.0
Real effective exchange rate growth	(12.1)	(6.6)	(0.1)	(0.3)	(0.5)	(9.6)	N/A	N/A	N/A	N/A

Sources: Eurostat, Statistics Norway (economic indicators); Statistics Norway, International Financial Statistics (monetary indicators); and Statistics Norway (fiscal, debt and external indicators).
Adjustments: We consider the central government balance as non-oil balance.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Norway--Ratings Score Snapshot		
Key rating factors	**Score**	**Explanation**
Institutional assessment	1	Norway has a long track record of democratic governments with effective and flexible policymaking. The prudent policymaking is best reflected in its fiscal rule and the creation of a fund (the Government Pension Fund Global) to phase oil revenue into the economy gradually and to preserve wealth for future generations, as we expect oil revenue to decline and age-related spending to increase over the long term. There are extensive checks and balances between institutions, a free flow of information, and policy decisions are openly debated.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators in table 1.
External assessment	1	Based on narrow net external debt as per Selected Indicators in table 1, considering we view the Norwegian krone as an actively traded currency.
		Norway has an actively traded currency and we expect it to run consistent current account surpluses over 2021-2024 as per Selected Indicators in Table 1.
		Norway controls an actively traded currency and its short-term external debt by remaining maturity stands well above 100% of current account receipts (CAR) as shown in Selected Indicators in Table 1.
		Norway's net international investment position is more favorable than the narrow net external debt position by over 100% of CAR, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
		Based on liquid assetsto GDP as per Selected Indicators in Table 1. These include large assets from the sovereign wealth fund, The Government Pension Fund Global.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1
Monetary assessment	1	Norwegian krone is an actively traded currency.
		Norges Bank operates an inflation targeting regime and has a long history of full operational independence.
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	1	Based on liquid assets to GDP as per Selected Indicators in Table 1. These include large assets from their sovereign wealth fund, The Government Pension Fund Global.
Final rating		
Foreign currency	AAA	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt.
Local currency	AAA	

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Sept. 7, 2021
- Sovereign Ratings History, Sept. 7, 2021
- Sovereign Ratings Score Snapshot, Sept. 6, 2021
- Banking Industry Country Risk Assessment Update: August 2021, Aug. 24, 2021
- Short-Term Gas Price Assumptions Raised On Robust Demand And Producer Discipline, Aug. 13, 2021
- Sovereign Risk Indicators, July 12, 2021. An interactive version is also available at http://www.spratings.com/sri
- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021
- Global Sovereign Rating Trends 2021: Mounting Debt And Uncertainty Underpin A Negative Outlook Bias, Jan. 27, 2021
- Banking Industry Country Risk Assessment: Norway, Jan. 7, 2020

Ratings Detail (As Of September 13, 2021)*		
Norway		
Sovereign Credit Rating		AAA/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Senior Unsecured		AAA
Short-Term Debt		A-1+
Sovereign Credit Ratings History		
21-Nov-1990	*Foreign Currency*	AAA/Stable/A-1+
08-Nov-1990		AAA/Stable/--
26-Jun-1989		AAA/Negative/--
27-Jul-1992	*Local Currency*	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com