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Morningstar DBRS Confirms the Kingdom of Norway at AAA, Stable Trend

Industry: Governments -- Sovereigns

DBRS Ratings Limited (Morningstar DBRS) confirmed the Kingdom of Norway's (Norway) Long-Term Foreign and Local Currency – Issuer Ratings at AAA. At the same time, Morningstar DBRS confirmed Norway's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trend on all ratings is Stable.

KEY CREDIT RATING CONSIDERATIONS

The confirmation of the Stable trend reflects Morningstar DBRS' view that risks to the credit ratings are limited. Norway's strong public finances and solid macroeconomic fundamentals position the country well to withstand the current challenging macroeconomic environment, including high inflation and elevated interest rates. Norway's solid fiscal framework and the conservative management of its oil-related revenues continue to provide the government with ample room to support the economy against severe shocks. Economic growth is slowing and will gather pace only gradually, but this will not alter its strong fundamentals, including a resilient labour market. Mainland GDP growth, which excludes the petroleum-based offshore sector, came in at 0.7% in 2023. As household purchasing power recovers and external conditions improve, growth momentum is expected to pick up in the second half of this year. Inflationary pressures continue to ease with the Consumer Price Index (CPI) falling to 2.6% in August 2024. With inflation still running slightly above target, the Norges Bank has not started to ease monetary policy. During the last policy meeting, the central bank left the policy rate unchanged at 4.5%. Households and businesses remain under pressure as the interest burden is expected to remain high in 2024 before gradually decreasing. However, Norway's solid fiscal position and strong public sector balance sheet provide the government with ample room to respond to potential challenges.

Norway's AAA credit ratings are underpinned by its public sector wealth, prudent management of oil-related revenues, strong external position, and sound institutional framework. Norway's strengths offset the credit challenges related to its high household indebtedness, the dependance on the petroleum sector, and the ageing population. However, Norway is well-positioned to deal with these challenges and has substantial buffers to absorb shocks. The country's sovereign wealth fund (SWF), the Government Pension Fund Global (GPFG), had a market value of around NOK 17.7 trillion at the end of H12024, approximately 3x mainland GDP. The GPFG acts as both a current source of income by supplementing the annual budget and as a source of resilience for the Norwegian economy.

CREDIT RATING DRIVERS

Norway is firmly placed in the AAA credit rating category, but could be downgraded by one or a combination of the following factors: (1) a worsening of financial conditions and medium-term growth prospects that is severe enough to materially affect Norway's financial stability or (2) a significant weakening of the government's commitment to a prudent fiscal policy.

CREDIT RATING RATIONALE

Norway's Fundamentals Remain Strong, Economic Activity Will Pick up Gradually

Norway's economic performance moderated in 2023, with elevated inflation eroding real incomes and high interest rates weighing on household consumption and housing investment. Mainland GDP grew by 0.7% in 2023. Services industries and petroleum-related sectors were resilient, while other sectors such as construction and manufacturing experienced declining activity. Forecasts point to 0.8% growth in 2024 and 1.3% in 2025 on the back of improving real purchasing power and stronger external and public demand. Investment in petroleum services is expected to continue to support economic growth in 2024 and 2025, while housing investment will likely continue to decline. The labour market is softening but remains tight by historical standards, with the registered unemployment rate at 2.0% in August 2024. At the same time, Norwegian krone's depreciation should boost export activity and strengthen the international competitiveness of Norwegian businesses.

Norway's credit fundamentals are underpinned by its wealthy and stable economy, with low income inequality. On the other hand, Norway is a small and open economy exposed to potential downturns in external demand. Norway's conservative approach to managing oil revenues has helped to limit the economy's vulnerability to oil price shocks, but dependence on the petroleum sector and successful diversification towards other tradable sectors pose challenges in the medium to long term.

Norway's Strong External Position Provides a Significant Buffer to Absorb Shocks

Norway's external position benefits from structural current account surpluses and a positive net creditor position. The current account posted a record high surplus of around 30% of GDP in 2022. This was due to the high energy prices and increased energy exports to European markets. This moderated to 18% of GDP in 2023 as gas prices declined. The weaker krone also contributed to the strong performance of exports over the past two years and increased inbound tourism. The country's flexible exchange rate mechanism acts as a shock absorber. As measured by the import-weighted exchange rate index I-44, the Norwegian krone has weakened since the beginning of this year, partly reflecting heighted geopolitical risks. From a stock perspective, Norway's net international investment position remains strong. Its large positive net international investment position stood at 343.1% of GDP at the end of Q2 2024, reflecting the accumulation of foreign assets through the GPFG.

Norway's Robust Public Finances and Low Debt Ratio Underpin the AAA ratings

Norway's solid public sector balance sheet is one of its key credit strengths relative to other AAA-rated peers. The country's strong fiscal metrics and GPFG provide the government with ample fiscal space to help the economy withstand severe shocks. Norway's fiscal framework stipulates that the State's net cash inflow from the petroleum industry (receipts from the sale of oil and gas reserves and oil and gas taxes) be transferred to the GPFG, with the proceeds invested entirely overseas. The fiscal rule also requires that the transfers from the GPFG to the national budget over time should be limited to the expected real return of the fund, estimated at 3.0%. The structural non-oil deficit was 2.7% as a share of the value of the GPFG in 2022 and 3.0% in 2023. In 2024, due to the strong performance of the GPFG, the structural non-oil deficit is projected to be 418.7 billion NOK, which is equivalent to 2.7% of GPFG, below the 3% threshold. This is NOK 9 billion higher than originally budgeted, mainly due to greater financial support for Ukraine and refugees, as well as higher defense expenditures.

While there are no particular concerns in terms of public finance over the medium term, cash flows from petroleum activity are expected to gradually decline, likely leading to slower growth in the GPFG. This will likely happen when the ageing population costs lead to higher expenditures, thereby requiring a more prudent fiscal stance.

Norway's government gross debt ratio remains one of lowest among advanced economies at 41.8% of GDP in 2023. The government borrows in local currency primarily to fund government lending schemes, to ensure a well-functioning financial market in Norway, and to cover redemptions of outstanding debt. The non-oil budget deficit is financed by transfers from the GPFG and therefore does not trigger any borrowing requirement. The large net asset position, standing at 361.3% of GDP in 2023, reflects its large sovereign wealth fund. The Norwegian government's financial assets far exceed total debt. Norway's low public debt ratio, along with the government's asset position and its solid fiscal framework, place Norway in a strong position to mitigate adverse shocks. Norway's GPFG is the world's largest sovereign wealth fund, with a market value at around NOK 17.7 trillion at the end of H12024, equivalent to approximately 3x mainland GDP. The market value of the Fund has increased significantly over the last few years, mainly due to the increased equity values and the weaker Norwegian kroner.

Inflation Remains Above Target; Financial System Vulnerabilities Remain

Norges Bank kept its policy rate unchanged in its latest policy meeting, as inflation remains above its 2% target. Core inflation, which excludes volatile items such as energy, stood at 3.2% YoY in August 2024. This has prompted Norges Bank to retain highly restrictive policy settings. The central bank expects inflation to ease in the coming months, driven by lower energy prices and weakening prices of imported goods, and to start easing its policy next year.

The Norwegian banking system is liquid, profitable and well-capitalized, with the weighted average Common Equity Tier 1 (CET1) capital ratio at 18.4% at the end of 2023. Asset quality remains strong, with the non-performing loan (NPL) ratio amounting to just 0.4% in Q1 2024. The Norwegian banking system is resilient and well-equipped to absorb any deterioration in credit quality due to slow growth and high borrowing costs. However, there are still some vulnerabilities. Household debt, despite growing at a slower pace since 2022, remains elevated at 234% as a share of disposable income. Moreover, the mortgage market is dominated by variable rate loans, thereby making households vulnerable to rising interest rates and potentially declines in real estate values. Nevertheless, the housing market was resilient in 2023, with no material change in house prices on a whole. In the first half of 2024, house prices increased, mainly reflecting the expectation that interest rates have reached their peak. The CRE market also remains a source of vulnerability, with banks' exposure estimated at around 50% of banks' total corporate exposures. CRE companies in aggregate have a high debt-to-revenue ratio, and therefore are vulnerable to increases in interest rates and income losses. However, strong rental income and high employment will help most firms deal with high interest rates.

Norwegian authorities' ongoing vigilance and proactive measures have thus averted significant increases in credit risks and mitigated the vulnerability of the financial system. These measures include, among others, requirements for borrowers to be able to tolerate up to a 7% rise in interest rates or a 3 percentage-point increase, a debt-to-income ratio ceiling at five times borrowers' annual income, and a loan-to-value ratio at 85%.

Strong and Stable Political Institutions Underpin the Ratings

Norway benefits from a stable political environment and strong democratic institutions, as reflected in the high scores from the World's Bank Worldwide Governance Indicators. The country is characterized by strong rule of law, a robust regulatory environment, and low levels of corruption, with a stable and predictable macroeconomic policy framework. The coalition government, which is led by Jonas Gahr Stoere's Labor Party and the Centre Party, took office in 2021 and is expected to remain in power until the end of the legislative term in September 2025. The main focus of the government is the management of the energy sector and Norway's relations with the European Union (EU).

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Environmental (E) Factors

The following Environmental factors had a relevant effect on the credit analysis: Resource and Energy Management. Norway is one of the world's largest oil and gas exporters, with the petroleum sector accounting for 23.8% of GDP and 38.6% of state revenues in 2023. The government has been preparing for a post-carbon future through its SWF, the GPFG, where oil proceeds are reinvested abroad, and therefore has become less vulnerable to volatility in commodity prices. Morningstar DBRS has taken these considerations into account within the 'Economic Structure and Performance' building block.

There were no Social and Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) https://dbrs.morningstar.com/research/437781.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

Notes:
All figures are in NOK unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments (15 July 2024) https://dbrs.morningstar.com/research/436000. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings https://dbrs.morningstar.com/research/437781 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include Government of Norway, the Ministry of Finance of Norway (Revised National Budget 2024), Norges Bank (Monetary Policy Report - June 2024, Financial Stability Assessment 2024 H1, Statistics Norway, the Financial Supervisory Authority of Norway, Norges Bank Investment Management, International Energy Agency, International Monetary Fund (WEO – April 2024, Norway: 2023 Article IV Consultation-Press Release; and Staff Report, July 2023, BIS, Energy Information Administration, Real Estate Norway, the Social Progress Imperative (2024 Social Progress Index), Norwegian Petroleum, World Bank, Freedom House and Haver Analytics. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, these are unsolicited credit ratings. These credit ratings were not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: NO
With Access to Management: NO

Morningstar DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/439726.

These credit ratings are endorsed by DBRS Ratings GmbH for use in the European Union.

Lead Analyst: Spyridoula Tzima, Vice President, Global Sovereign Ratings
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Initial Rating Date: 21 March 2012
Last Rating Date: 22 March 2024

For more information on this credit or on this industry, visit dbrs.morningstar.com.

Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
Norway, Kingdom of	Long-Term Foreign Currency - Issuer Rating	Confirmed	AAA	Stable
Norway, Kingdom of	Long-Term Local Currency - Issuer Rating	Confirmed	AAA	Stable
Norway, Kingdom of	Short-Term Foreign Currency Debt - Issuer Rating	Confirmed	R-1 (high)	Stable
Norway, Kingdom of	Short-Term Local Currency Debt - Issuer Rating	Confirmed	R-1 (high)	Stable

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Norway

Scorecard Indicators

Fiscal Management and Policy	2018	2019	2020	2021	2022	2023	2024	2025	2026	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	7.8%	6.5%	-2.6%	10.3%	25.4%	14.2%	14.9%	13.3%	12.3%	IMF WEO	13 year average	9.7%
Government Effectiveness (Percentile Rank)	97.1	97.1	98.1	97.6	98.1	98.1	-	-	-	World Bank	5 year average	97.8
Debt and Liquidity	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
General Government Gross Debt (% of GDP)	39.4%	40.6%	46.1%	41.7%	36.3%	41.8%	38.0%	35.5%	34.3%	IMF WEO	5 year projection	31.5%
Interest Costs (% of GDP)	-2.1%	-2.1%	-2.0%	-1.2%	-1.3%	-4.5%	-3.6%	-3.0%	-2.6%	IMF WEO	5 year average	-2.7%
Economic Structure and Performance	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
GDP per Capita (USD thousands)	82.6	76.3	68.3	93.0	108.4	87.7	94.7	99.1	100.2	IMF WEO	10 year average	83.5
Output Volatility (%)	1.4%	1.5%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%	IMF WEO	Latest	1.4%
Economic Size (USD billions)	440	409	368	503	594	486	527	555	564	IMF WEO	5 year average	472
Monetary Policy and Financial Stability	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Rate of Inflation (%, EOP)	3.5%	1.4%	1.4%	5.3%	5.9%	4.8%	3.3%	2.6%	2.0%	IMF WEO	13 year average	3.1%
Total Domestic Savings (% of GDP)	140%	149%	170%	153%	119%	139%	-	-	-	/IMF	Latest[1]	139%
Change in Domestic Credit (% of GDP)	-10.8%	13.9%	30.2%	-39.2%	-36.1%	27.6%	-	-	-	/IMF	7 year average[1]	-3.7%
Net Non-Performing Loans (% of Capital)	0.1%	0.7%	0.3%	0.3%	-0.9%	-0.1%	-	-	-	IMF IFS	Latest[1]	-0.1%
Change in Property Price/GDP Index (%)	-5.7%	1.9%	8.3%	-11.6%	-20.3%	10.7%	-	-	-	/IMF	7 year average[1]	-2.6%
Balance of Payments	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Current Account Balance (% of GDP)	9.0%	3.8%	1.1%	14.9%	30.2%	17.7%	19.5%	20.7%	18.6%	IMF WEO	8 year average	15.8%
International Investment Position (% of GDP)	194.8%	243.4%	281.0%	269.6%	203.0%	298.1%	-	-	-	IMF	5 year average[1]	259.0%
Share of Global Foreign Exchange Turnover (Ratio)	336.5%	367.5%	384.0%	381.6%	325.2%	318.6%	-	-	-	BIS/IMF	Latest	318.6%
Exchange Rate Classification (see footnote)	1	1	1	1	1	1	-	-	-	IMF	Latest	1
Political Environment	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**			
Voice and Accountability (Percentile Rank)	100.0	100.0	100.0	100.0	100.0	100.0	-	-	-	World Bank	5 year average	100.0
Rule of Law (Percentile Rank)	99.5	99.5	99.5	99.5	98.1	98.1	-	-	-	World Bank	5 year average	99.0

See Morningstar DBRS' Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

[1] *Scores for 2023 have been computed using the most recent data when year-end data is not available.*

Rating Committee Date: 17-Sep-2024

Norway

Building Block Assessments and Rating Committee Summary

17-Sep-2024

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	20.00	Very Strong	N/A	Very Strong
Debt and Liquidity	19.11	Very Strong	N/A	Very Strong
Economic Structure and Performance	15.70	Strong/Good	N/A	Strong/Good
Monetary Policy and Financial Stability	18.45	Strong	N/A	Strong
Balance of Payments	20.00	Very Strong	N/A	Very Strong
Political Environment	20.00	Very Strong	N/A	Very Strong
Overall Assessment	**Composite Scorecard Result**	**Scorecard Rating Range**	**Composite Building Block Assessment**	**Indicative Rating Range**
	94.4	AAA - AA (high)	94.4	AAA - AA (high)

Norway's Long-Term Foreign Currency - Issuer Rating AAA

Main topics discussed in the Rating Committee include: Norway's fiscal and economic performance, GPGF, external position and export performance, Norway's institutions, and financial sector developments. For additional details on Morningstar DBRS analysis and opinions, please see the accompanying rating report.

Morningstar DBRS Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

Norway, Kingdom of

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	Y	R
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs	N	N
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	Y	R
		Resource and Energy Management	Y	R
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Under key IPCC climate scenarios will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	N	N
	Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible and productive?	N	N
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights	N	N
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	N	N
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency	N	N
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighbouring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Norway, Kingdom of: ESG Considerations

20 September 2024

Environmental

The following Environmental factors had a relevant effect on the credit analysis: Resource and Energy Management. Norway is one of the world's largest oil and gas exporters. The economy has a high reliance on the petroleum sector as it accounted for 23.8% of GDP, 38.6% of state revenues in 2023 and 50% of exports in 2023. Despite having one of the largest oil and gas reserves in Europe, Norway's domestic electricity generation has been mainly sourced from renewable energy such as hydropower since 1891, and wind power more recently. The government has been preparing for a post-carbon future through its sovereign wealth fund, the Government Pension Fund Global, where oil proceeds are reinvested abroad. Moreover, the government budget is isolated from the volatility of petroleum revenues because of the sovereign wealth fund. Climate policy in Norway is undertaken in conjunction with the EU and Iceland. Norway's offshore drilling activities have been subject to a carbon tax since 1991. The Norwegian government has been facilitating investments which include carbon capture and storage projects and using hydrogen as a fuel. In its 2021-2030 Climate Plan, Norway has committed to reduce GHG emissions by at least 40% by 2030 compared to 1990 levels.

Social

There were no Social factors that had a significant or relevant effect on the credit analysis. Norway's high levels of human capital and productivity are reflected in its very high income per capita estimated at USD 87,733 in 2023. Respect for human rights is high, and there is widespread access to quality healthcare and other basic services. Norway ranks 2nd among countries in the 2024 Social Progress Index. Norway also scores the maximum points under political rights and civil liberties in the Freedom in the World report.

Governance

There were no Governance factors that had a significant or relevant effect on the credit analysis. Norway has effective and transparent governing institutions, providing a strong environment for investment and limited scope for corruption. The Norwegian government consistently scores above the 95th percentile across the Worldwide Governance Indicators, reflecting also institutional strength and low levels of corruption, according to the World Bank. Additionally, the management of the Government Pension Fund Global is among the most transparent in the world.