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DBRS Morningstar Confirms Kingdom of Norway at AAA, Stable Trend

Industry Group: Public Finance – Sovereigns

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

KEY RATING CONSIDERATIONS

Since the last review, the spread of Coronavirus Disease (COVID-19) and the collapse in oil prices have dramatically altered Norway's growth outlook. Prior to these events, overall economic conditions in Norway were relatively strong with the economy operating over potential. Consumption had been supported by higher employment and higher wage growth while the recovery in oil prices and cost-cutting efforts helped petroleum investments. The stronger than expected upturn in the economy contributed to the Norges Bank decision to raise its policy rate from 0.75% in January 2019 to 1.50% in September 2019.

Measures to contain the coronavirus, which include travel restrictions and the shutdown of most non-essential businesses across much of the country, are resulting in both supply and demand side disruptions. Though restrictions are being gradually phased out, the measures will have a direct economic consequence on growth. At the same time, despite an agreement between OPEC+ and Russia to cut production, the demand destruction due to the virus has caused a sharp drop in oil prices. Norwegian oil producers are being adversely affected by the combination of lower global demand and increased production. At a minimum, DBRS Morningstar assumes the confluence of these shocks will have a severe negative impact on economic activity in the first half of the year. However, the magnitude and duration of these shocks is highly uncertain. The latest projections from the Ministry of Finance forecast a contraction of 2.0% in 2020 in mainland GDP, but the contraction could well be deeper. The IMF's World Economic Outlook (April 2020), estimates a 6.2% contraction in growth in 2020 before recovering to 2.9% in 2021.

Notwithstanding the recessionary outlook in the near term, Norway has substantial capacity to absorb shocks and cope with pending challenges without putting downward pressure on the ratings. Even accounting for a significant downturn and deterioration in the fiscal stance, our building block assessments for Norway remain unchanged. The credit profile is underpinned by Norway's ample public-sector wealth, prudent management of its oil-related windfalls, strong external position, and sound institutional framework. One significant backstop is the sovereign wealth fund, the Government Pension Fund Global (GPFG), that had a market value equivalent to 285.2% of GDP in December 2019. Despite a near 70% allocation in equities, recent financial market developments have had a relatively limited impacted on the domestic value of the fund due to depreciation of the Norwegian krone.

Moreover, the government is responding to the public health crisis and accompanying economic fallout with coordinated fiscal, monetary, and regulatory policy actions. While the public health crisis will need to subside for a recovery to firmly take hold, timely, targeted, and temporary stimulus should lessen the damage stemming from the sudden stop in commercial activity. The fiscal package announced thus far is NOK 139 billion, representing 4.6% of mainland GDP. In parallel with the fiscal measures, Norges Bank cut interest rates by 125bps to an all-time low of 0.25%, along with facilitating emergency funding loans to banks, to support the well-functioning of credit markets and support the economy.

RATING DRIVERS

Norway is firmly placed in the AAA 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 and fiscal position; and (2) a significant loosening of the government's commitment to prudent fiscal policy.

RATING RATIONALE

Norway's Strong Public Sector Balance Sheet Gives the Government Ample Space to Deliver Fiscal Support

With the outlook for the Norwegian economy deteriorating sharply due to the dual shock of the coronavirus pandemic and the decline in oil prices, the government has announced a series of stimulus measures to mitigate the impact. These measures are targeted at securing income for all citizens, as well as helping employers' liquidity situation to avoid bankruptcies. Norway's solid fiscal framework and the public sector's sizable net creditor position due to its sovereign wealth fund, the Government Pension Fund Global (GPFG), provide the government with significant fiscal space to implement counter-cyclical policies without jeopardizing its ratings (see Norway & Singapore: Ratings Supported by Sovereign Wealth Funds, November 13, 2019).

Stimulus measures announced thus far amount to NOK 139 billion (4.6% of mainland GDP) equivalent to 1.4% of the value of the GPFG at the beginning of the year. These include (1) income support from the state via cash payments to low-paid workers, freelancers, and workers that are laid off; (2) cash support from the state which compensates firms for lost revenues in proportion to their unavoidable costs such as rent and insurance payments; (3) temporary and targeted measures for small and medium-size enterprises, such as reductions in social contributions, state credit guarantees, tax deferrals and tax cuts; (4) additional support for the healthcare system; and (5) support for the culture and sports sector. The income and cashflow measures should help families and firms cover basic needs and meet financial obligations in the near term. However, should the shock intensify further support could be provided.

Norway's prudent management of oil-related proceeds is a key factor supporting the ratings. A fiscal rule introduced in 2001 requires that the government transfer the net cash inflow from the petroleum industry to the sovereign wealth fund (GPFG) to be invested abroad. The rule also stipulates that transfers back from the fund, to finance the non-oil deficit over time should be equal to the expected real return of the Fund, estimated at 3%. Prior to the dual shocks hitting the Norwegian economy, the government was budgeting for a tighter fiscal policy reflected in a 0.2% decline in the structural non-oil deficit to NOK 243.6bn (8.3% of mainland GDP), equivalent to 2.4% of the value of the GPFG as of December 2019. The stimulus measures would once again result in Norway running an expansionary fiscal policy where net transfers from the GPFG would exceed inflows from the petroleum sector. Including the announced stimulus of NOK 139bn, DBRS Morningstar expects the structural non-oil deficit to rise to NOK 382.6bn, equivalent to 3.8% of the value of GPFG.

Norway's public sector balance sheet constitutes one of its key credit strengths relative to other AAA-rated countries. General government gross debt amounted to an estimated 40.6% of GDP in 2019 and is one of the lowest debt ratios among advanced economies. In most countries, the main purpose of government borrowing is to finance a budget deficit. In Norway, the non-oil budget deficit is covered by transfers from the GPFG and therefore does not trigger any borrowing requirement. However, the government borrows in local currency to fund government lending schemes, cover redemptions of existing debt and to ensure a well-functioning financial market in Norway. DBRS Morningstar expects the gross general government debt ratio to hover around 40% of GDP in coming years.

With financial assets far exceeding total debt, the government's net asset position currently stands at 247.3% of GDP. This is largely explained by the sovereign wealth fund whose market value was equivalent to 285.2% of mainland GDP at the end of 2019. The current negative shock would impact net rather than gross government debt. This is because the fiscal stimulus, taking the form of a higher non-oil fiscal budget deficit, will likely be financed by higher transfers from the GPFG. Given the fiscal guidelines and the government's asset position, Norway's gross government debt is generally insulated from negative shocks. This accounts for the one category uplift in the "Debt and Liquidity" building block assessment.

Norges Bank Eases Aggressively to Ensure the Smooth Functioning of Markets, But Systemic Vulnerabilities Remain

With the outlook for the Norwegian economy deteriorating sharply, Norges Bank has announced a series of measures to support the economy and to avoid turning a liquidity crisis among firms into a solvency crisis. Over two extraordinary meetings, Norges Bank cut its key policy rate by 125bps to an all-time low of 0.25%. In order to maintain liquidity in the financial system and facilitate the transmission of the recent cuts, the central bank also unveiled emergency liquidity facilities providing extraordinary loans both in Norwegian krone and U.S. dollar with a duration up to 12 months. Simultaneously, following the recommendation of Norges Bank to counteract a sharp contraction in lending, the Ministry of Finance reduced banks' countercyclical capital buffers from 2.5% to 1.0%.

Increasing financial market stress, coupled with higher credit and money market premiums, is likely to put pressure on Norwegian banks. While banks remain liquid, profitable, and well-capitalized, the overall system has some structural vulnerabilities. Similar to its Nordic peers, Norwegian banks have a large exposure to the housing market and rely heavily on wholesale and short-term foreign funding. At the end of 2019, the wholesale funding ratio stood at 49.4%, with over half of wholesale funding denominated in foreign currency. While retaining market confidence remains important for Norwegian banks to ensure a stable source of funding, banks have built significant liquidity buffers in recent years which amply meet the liquidity coverage ratio requirement. Moreover, the banking sector's average Common Equity Tier 1 (CET1) capital ratio at 16.2% on Q3 2019, is almost double the rate during the financial crisis. DBRS Morningstar expects that the recent measures announced by Norges Bank including the reduction in the countercyclical capital buffer, coupled with the flight to quality, will help alleviate liquidity and funding stress in the financial markets and help financial system adjust smoothly to a new and less favorable economic outlook.

One of the key challenges facing Norway are the financial imbalances that have built up as housing prices and household debt have outpaced disposable income growth. Since the year 2000, house prices have more than doubled fueled by a prolonged accommodative monetary policy, high immigration, and supply constraints. Following a temporary correction between November 2017 and April 2018, house prices were once again on a rising trend, albeit a moderate one due to strong labor markets and population growth. According to Real Estate of Norway, home prices have increased on average by 2.4% between May 2018 and November 2019, lower than the 7.2% average pace recorded during 2015-2017. Nonetheless, household indebtedness in Norway is high on a comparative and historical basis, with the household debt-to-disposable income ratio rising from 127% in Q1 2001 before stabilizing at 230% in Q4 2018. The pandemic has likely brought the housing market to a standstill and a price correction is likely but the longer term impact is not clear. When conditions normalize, housing activity and price dynamics will depend on the health of the labor market.

Against this background, Norway benefits from a credible and independent monetary policy authority and proactive regulators. Banks' low loan losses and strong capital buffers mitigate the risks to financial stability. Asset quality remains very strong: the Norwegian banking sector has one of the lowest ratios of non-performing loans (NPLs) as a share of total gross loans at 1.0% in Q2 2019. Increased financial vigilance is reflected in the Ministry of Finance rules to reduce vulnerabilities in the housing market. Current regulations include limiting the debt-to-income ratio to 5 times borrower's annual income and loan to value ratio at 60% for secondary housing. As regards the flexibility ratio (the mortgage regulation which allows a certain amount of a lender's approved loans to deviate from the requirements in the regulation), which was at 10% for loans outside Oslo and 8% in Oslo, has been temporarily increased to 20% for both from 1 April to 30 June 2020.

Norway's Economy Suffers Twin Shocks

The outlook for the Norwegian economy has deteriorated sharply amid the outbreak of the coronavirus and the collapse in oil prices. Norway is negatively affected by the drop in oil prices and its impact on oil investments, the fall in global demand, and the domestic virus outbreak. At a minimum, the confluence of these shocks will have a severe negative impact on economic activity in the first half of the year. However, the magnitude and duration of these shocks is highly uncertain. Output losses could be substantially greater if the containment measures implemented to curb the virus's spread disrupt daily life longer than anticipated and global commodity prices remain low for longer. This could then have a more lasting impact on consumption, investment, and external demand, resulting in a more permanent loss of output.

Once the shocks dissipate, the Norwegian economy is expected to expand at a moderate pace over the medium term. Prior to the shocks, the IMF projected annual growth over the medium-term growth at 1.6%, in line with the structural slowdown experienced across most advanced economies. This is lower than Norway's historical growth performance, which saw growth averaging 2.6% during the last two decades. Growth was led by consumption, supported by higher employment and wages, oil related investments, and the flexible currency helping exports. Over the medium- to long-term, the main challenge for the Norwegian economy will be to successfully re-tool the oil-dependent economy towards other tradable sectors.

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

DBRS Morningstar considers that Norway's solid external position and a floating currency will act as shock absorbers in the face of the global economic consequences from coronavirus. On the back of the sizeable energy trade surplus, the current account surplus has averaged over 10% in the last two decades. The substantial accumulation of foreign assets through the GPFG makes the government the main contributor to the country's net international investment more than double GDP at 247% of GDP. Ownership of such a large stock of net financial assets reduces Norway's dependence on foreign capital flows and provides a sizable source of income. On the other hand, the private sector is a net debtor to the rest of the world. The banking sector's external debt reached 94.6% of GDP in 2019, stemming from its reliance on foreign funding. Although, the global slowdown and deteriorating global investment climate will most likely dampen Norway's export growth, the current account surplus is expected to continue in coming years. In addition to the backstop from the sovereign wealth fund, Norway's flexible exchange rate and reserves at 16% of GDP give the economy ample room to manoeuvre in the face of a temporary disruption in liquidity conditions.

A Predictable Policy Framework Supports Norway's Ratings

Norway benefits from strong political institutions with a well-established track record of a consensus-based approach to macroeconomic policy. This is conducive to a stable and predictable policy framework. The country is characterized by strong rule of law, a robust regulatory environment, and low levels of corruption. According to the World Bank's Worldwide Governance Indicators, Norway ranks highly compared to other advanced economies in all areas of measured governance.

The center-right coalition of Prime Minister Solberg comprising the Conservatives, the Progress Party, and the Liberals was reelected for a second term in September 2017. However, due to issues surrounding immigration and climate change, the coalition has seen several cabinet reshuffles. Earlier this year, Prime Minister Solberg lost her majority in parliament following the exit from government of the right-wing Progress Party over a decision to bring a woman suspected of ISIS affiliation home to Norway from Syria. With the pro-oil Progress party out of the government, this could have implications for the government's upcoming management plan for the Arctic waters, which in effect will set a boundary for how far up in the North Sea oil companies can drill for oil. Prime Minister Solberg said the government would seek to cut the country's carbon emissions, boost security, and modernize the economy.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: https://www.dbrsmorningstar.com/research/357792.

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

Notes:
All figures are in Norwegian Krone (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 (September 17, 2019): https://www.dbrsmorningstar.com/research/350410/global-methodology-for-rating-sovereign-governments

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883.

The primary sources of information used for this rating include the Government of Norway, the Ministry of Finance of Norway, Norges Bank, Statistics Norway, the Financial Supervisory Authority of Norway, Norges Bank Investment Management, Norsk Forbund for Innkjop og Logistikk/Danske Bank, TNS Gallup, UN, IMF, BIS, Energy Information Administration, Real Estate Norway, and Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating was of satisfactory quality.

This rating was not initiated at the request of the rated entity.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar did not have access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

This rating is endorsed by DBRS Ratings Limited (DBRS Morningstar) for use in the European Union. The following additional regulatory disclosures apply to endorsed ratings:

The last rating action on this issuer took place on October 25, 2019.

Solely with respect to ESMA regulations in the European Union, this is an unsolicited credit rating. This credit rating was 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

Generally, the conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are monitored.

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For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Lead Analyst: Rohini Malkani, Senior Vice President, Global Sovereign Ratings
Rating Committee Chair: Thomas R. Torgerson, Managing Director, Co-Head of Sovereign Ratings, Global Sovereign Ratings
Initial Rating Date: 21 March 2012

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

DBRS, Inc.
140 Broadway, 43rd Floor
New York, NY 10005 USA
Tel. +1 312 696-6293

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

Contacts

Rohini Malkani
Senior Vice President – Global Sovereign Ratings
+1 212 806 3230
Rohini.malkani@dbrsmorningstar.com

Thomas R. Torgerson
Managing Director, Co-Head of Sovereign Rating – Global Sovereign Ratings
+1 212 806 3218
Thomas.torgerson@dbrsmorningstar.com

Norway

Scorecard Indicators

Scorecard Indicators										Source	Current Scorecard Input	
Fiscal Management and Policy	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
Overall Fiscal Balance (% of GDP)	8.8%	6.1%	4.0%	4.9%	7.3%	7.6%	7.8%	7.8%	7.8%	IMF WEO	13 year average	8.5%
Government Effectiveness (Percentile Rank)	97.6	98.1	98.6	99.0	97.6	-	-	-	-	World Bank	5 year average	98.2
Debt and Liquidity	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
General Government Gross Debt (% of GDP)	28.4%	32.9%	36.4%	36.9%	40.0%	40.0%	40.0%	40.0%	40.0%	IMF WEO	5 year projection	40.0%
Interest Costs (% of GDP)	-2.3%	-2.6%	-2.6%	-2.4%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	IMF WEO	5 year average	-2.5%
Economic Structure and Performance	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
GDP per Capita (USD thousands)	96.7	74.1	70.2	75.3	81.5	78.0	78.3	79.9	81.4	IMF WEO	10 year average	86.7
Output Volatility (%)	1.6%	1.5%	1.4%	1.2%	1.2%	1.2%	-	-	-	IMF WEO	Latest	1.2%
Economic Size (USD billions)	498	386	369	398	434	418	422	433	444	IMF WEO	5 year average	401
Monetary Policy and Financial Stability	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
Rate of Inflation (%, EOP)	2.1%	2.3%	3.5%	1.6%	3.5%	1.9%	1.9%	2.0%	2.0%	IMF WEO	13 year average	2.1%
Total Domestic Savings (% of GDP)	127%	134%	144%	145%	140%	143%	-	-	-	SSb/IMF	Latest	143%
Change in Domestic Credit (% of GDP)	6.1%	20.1%	6.8%	-11.0%	-12.6%	-2.3%	-	-	-	BIS/IMF	7 year average	0.7%
Net Non-Performing Loans (% of Capital)	6.7%	5.4%	4.9%	2.5%	0.1%	1.0%	-	-	-	IMF IFS	Latest	1.0%
Change in Property Price/GDP Index (%)	0.4%	7.1%	7.5%	-1.3%	-5.3%	-1.0%	-	-	-	SSb/IMF	7 year average	1.1%
Balance of Payments	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
Current Account Balance (% of GDP)	10.5%	7.9%	4.0%	5.7%	8.1%	6.9%	7.2%	6.9%	6.4%	IMF WEO	8 year average	6.6%
International Investment Position (% of GDP)	168.0%	197.8%	204.8%	220.1%	196.6%	239.3%	-	-	-	IMF	5 year average	211.7%
Share of Global Foreign Exchange Turnover (Ratio)	216.8%	236.5%	306.9%	334.6%	335.6%	362.4%	-	-	-	BIS/IMF	Latest	362.4%
Exchange Rate Classification (see footnote)	1	1	1	1	1	1	-	-	-	IMF	Latest	1
Political Environment	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
Voice and Accountability (Percentile Rank)	100.0	100.0	100.0	100.0	100.0	-	-	-	-	World Bank	5 year average	100.0
Rule of Law (Percentile Rank)	99.0	98.6	100.0	99.5	99.5	-	-	-	-	World Bank	5 year average	99.3

See DBRS Sovereign Methodology 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. Scores for 2019 have been computed using the most recent 2019 data when full year data is not available. The DBRS Morningstar sovereign scorecard is typically compiled based on the most recent IMF World Economic Outlook data and forecasts. However, due to uncertainty surrounding the COVID-19 pandemic, there were several notable exclusions to the forecasts released by the IMF in April 2020. As such, the forecasts shown above are drawn from the October 2019 WEO forecasts.

** The April 2020 IMF WEO forecasts a 6.3% contraction for 2020 and a rebound of 3% in 2021.*

Rating Committee Date: 14-Apr-2020

Norway

Building Block Assessments and Rating Committee Summary

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	18.67	Strong	+ 1 Category	Very Strong
Economic Structure and Performance	15.99	Strong/Good	N/A	Strong/Good
Monetary Policy and Financial Stability	17.67	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	Net Impact of Qualitative Factors	Indicative Rating Range
	93.6	AAA - AA (high)	No change	AAA - AA (high)

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

Main topics discussed in the Rating Committee include: the economic outlook, financial performance and condition of the broader public sector, liquidity considerations, and public sector accounting practices. Due to data limitations described on the previous page, the scorecard results shown above are drawn from the October 2019 WEO forecasts. The rating committee considered the rapidly deteriorating outlook described in the accompanying rating report. Given Norway's strong fiscal position and capacity to weather adverse economic shocks, no additional qualitative factors were deemed to be applicable and the building block assessments remain unchanged. For additional details on DBRS analysis and opinions, please see the accompanying rating report.

Scoring Ranges and 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