MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Norway's Aaa ratings; maintains stable outlook

12 Jun 2020

London, 12 June 2020 -- Moody's Investors Service, ("Moody's") has today affirmed the Government of Norway's Aaa long-term issuer ratings, its Aaa senior unsecured long-term local-currency bond ratings and its (P)Aaa long-term senior unsecured shelf rating. The outlook remains stable.

The affirmation of Norway's Aaa ratings reflects the following rating drivers:

(1) Norway's large shock absorption capacity underpinned by strong economic resilience based on high wealth levels and elevated competitiveness, exceptionally strong public finances supported by the government's sovereign wealth fund and high institutional strength. Moody's considers institutional strength a governance factor under its ESG framework;

(2) Norway's relatively low susceptibility to event risk based on Moody's assessment of the country's susceptibility to political risk, government liquidity risk, banking sector risk and external vulnerability risk.

The stable outlook on Norway's Aaa rating is supported by the relative resilience of Norway's credit metrics to the coronavirus and oil prices shocks, as large fiscal buffers and strong institutions allow for an effective fiscal response to cushion the impact. Moreover, Norway's challenges posed by vulnerabilities in the property market, by an ageing population and reduced contribution from the hydrocarbons sector to growth and government revenue are expected to be managed by the authorities in a way that will preserve Norway's very high creditworthiness.

Norway's country ceilings -- Aaa/P-1 foreign currency bond and deposit ceilings, Aaa local currency bond and deposit ceilings -- remain unchanged at their respective top-notch levels.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF NORWAY'S Aaa RATING

FIRST DRIVER: LARGE SHOCK ABSORPTION CAPACITY SUPPORTED BY ECONOMIC RESILIENCE, EXCEPTIONALLY STRONG GOVERNMENT BALANCE SHEET AND ROBUST INSTITUTIONS

The first driver of the affirmation of Norway's Aaa rating is underpinned by strong economic resilience that allows Norway's credit profile to withstand the challenges that arise from the coronavirus pandemic, a deteriorating global economic outlook and low oil prices. That said, Moody's projects a sharp slowdown in growth, with mainland real GDP (excluding the oil sector) contracting by 5.5% this year, compared with 2.3% growth in 2019. Moody's expects the economy to recover in 2021 and mainland GDP to expand by 4.5%, as consumer spending will increase and a recovery in global demand will support exports.

More generally, Norway's economic strength is characterized by a high degree of resilience supported by one of the highest per-capita income in Moody's rated universe (estimated at $76,685 (PPP) in 2019), a high degree of diversification, and strong competitiveness that is underpinned by the flexibility of the exchange rate and the wage-setting model. The depreciation of the krone and the policy rate's reduction to zero are expected to mitigate the effect of the pandemic-induced economic shock.

On the fiscal side, Norway's shock absorption capacity is supported by a prudent and effective framework. The government's fiscal rule limits the use of oil and gas revenues in the government budget, shielding the economy from the impact of oil price volatility.

The government transfers all of its oil and gas-related income to the Government Pension Fund Global (GPFG). The GPFG amounted to more than US$1 trillion (or about 285% of GDP) at the end of 2019. According to the fiscal rule, the structural non-oil budget deficit shall, over time, correspond to the GPFG's real return, estimated at 3%. However, the rule is not applied mechanically and emphasis is placed on stabilising economic fluctuations. Reductions in hydrocarbons revenues do not directly impact the budget and are rather reflected as reduced contributions to the GPFG.

The strong government balance sheet allows for a significant fiscal response to cushion the coronavirus and oil price shocks. The response has been rapid and comprehensive, involving three phases of financial measures. The first phase included measures to rapidly address the immediate financial challenges posed by the coronavirus shock by protecting workers' incomes and facilitating access to liquidity for companies. In the second phase the government presented measures and support schemes mainly targeting those companies and sectors that have been mostly affected by the crisis. For the third phase the government has announced measures to facilitate the return of unemployed persons into work and to broadly support economic recovery, including a temporary subsidy scheme for companies to take back temporarily laid off workers and increased funding targeting education.

After remaining around 3% in recent years, under the revised 2020 budget and taking into account the recently additional announced fiscal measures, the authorities expect the structural non-oil budget deficit at 4.2% of the estimated value of the GPFG at the beginning of the year. The fiscal impulse, as measured by the percentage point change in the structural non-oil budget deficit as a percentage of trend GDP for mainland Norway, is estimated at 5.3 percentage points, which is larger than the impulse of 3% in 2009 during the global financial crisis.

Given the track record of fiscal prudence and the temporary nature of the measures, Moody's expects that the structural non-oil public deficit will return to around 3% of the GPFG in the medium term. Moody's expects Norway's fiscal position to remain very strong, even compared with Aaa-rated sovereigns, despite a temporary weakening due to the large fiscal package, as well as automatic stabilizers kicking-in with lower tax revenue and higher expenditure due to the economic downturn.

SECOND DRIVER: LIMITED SUSCEPTIBILITY TO EVENT RISK

The second driver of the rating affirmation relates to Norway's contained susceptibility to event risk based on Moody's assessment of the country's political risk, government liquidity risk, banking sector risk and external vulnerability risk.

Amongst these risks, Moody's assessment of banking sector risk is driving susceptibility to event risk which remains limited. The key risks for the banking sector relate to the exposure to the oil sector, high commercial property prices and the heavy household debt burden. That said, Moody's sees banking-related risks being effectively mitigated by a number of macro-prudential measures introduced in recent years to particularly address the vulnerability arising from the housing market and protect the financial system from the risks posed by the large scale of mortgage financing. Moreover, while the housing market remains a source of vulnerability given the high level of household indebtedness -- particularly if a high level of unemployment were to persist for a prolonged period -- the government's fiscal measures and lower interest rates are expected to support households' repayment capacity. In addition, resilient capital buffers, very low (albeit increasing) levels of asset risk and measures introduced by Norges Bank to support liquidity -- including an extraordinary lending facility and temporary changes in the guidelines for pledging securities for loans from the central bank -- mitigate the banking sector related risks.

Norway's political risk is limited given strong institutions and a consensus-driven political framework, which has been conducive to prudent fiscal policy and to a proactive stance in addressing the country's long-term economic and fiscal challenges. Government liquidity risk is negligible given still very low gross borrowing requirements and the availability of large fiscal buffers. External vulnerability is very low as Norway is a large net external creditor given the track record of current account surplus. After averaging about 5.5% of GDP over the past 5 years, the current-account surplus is expected to narrow in 2020 mainly due to lower oil exports.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectations that the impact of the coronavirus pandemic and low oil prices -- while temporarily weighing on the country's macroeconomic and fiscal metrics -- will not materially diminish Norway's intrinsic credit strengths that support the Aaa rating, namely very strong institutions, prudent and effective macroeconomic and fiscal framework, and large fiscal and external buffers. Moody's expects Norway's longer term challenges posed by demographics and a lower contribution from the hydrocarbons sector to growth and the government's finances to be capably managed by its robust institutions. The stable outlook is also supported by Moody's view that the vulnerabilities posed by high household debt and commercial property price increases will remain contained.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sovereign issuers' economic, institutional and fiscal strength and their susceptibility to event risk. In the case of Norway, the materiality of ESG to the credit profile is as follows.

Environmental considerations currently exert limited influence on Norway's credit profile. However, over the longer term the country is exposed to the implications of carbon transition under a scenario of continued albeit slower growth in global hydrocarbon demand. We have identified Norway as a sovereign belonging to the category of countries least susceptible to physical climate change risk in our assessment of the susceptibility of sovereigns' credit quality to the physical effects of climate change.

Social risks also inform our assessment of Norway's credit profile, primarily through challenges posed to long term growth by its ageing population. Moody's regards the coronavirus pandemic as a social risk under its ESG framework, given the substantial implications for public health and safety. For Norway, it mainly manifests in a severe economic and fiscal shock that the country has sufficient buffer to absorb.

Norway's strong governance is reflected by its exceptional institutions and fiscal frameworks which are key factors underpinning the country's Aaa rating.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

While currently unlikely given the stable outlook, downward pressure on Norway's Aaa rating could arise if the prudent macroeconomic and fiscal framework that sustains the country's strong credit profile were to weaken significantly, leading to a material and lasting erosion of Norway's accumulated fiscal buffers with a lasting negative impact on the country's economic and fiscal strength.

GDP per capita (PPP basis, US$): 76,684 (2019 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.2% (2019 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.4% (2019 Actual)

Gen. Gov. Financial Balance/GDP: 6.4% (2019 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 4% (2019 Actual) (also known as External Balance)

External debt/GDP: [not available]

Economic resiliency: aa2

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 09 June 2020, a rating committee was called to discuss the rating of the Norway, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1158631 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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