Research Update:

Norway 'AAA/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- We expect that the Norwegian economy will shrink by 2.2% in 2020, followed by a rebound in 2021 as the economy begins to recover from the coronavirus pandemic.
- The government is using its fiscal flexibility to limit COVID-19's economic impact, and fiscal headroom remains very strong with sizable buffers available.
- We are affirming our 'AAA/A-1+' long- and short-term ratings on Norway.
- The outlook is stable.

Rating Action

On Sept. 11, 2020, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term sovereign credit ratings on Norway. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, despite the impact of the pandemic, Norway's credit metrics will remain very strong over our 2020-2023 forecast period, enabling the country to withstand the associated negative effects of an oil price shock, an escalation of global trade tensions, or a severe housing market correction.

Our 'AAA' rating could come under pressure if the country's robust external and fiscal balance sheets eroded rapidly, combined with a significant weakening of institutions and governance standards or a significant rise in geopolitical risk. We consider this unlikely, however.

Rationale

Norway's policymaking environment is stable and largely predictable, underpinned by high wealth levels, and large external and fiscal net asset positions from accumulated petroleum revenue. We estimate the country's GDP per capita at $71,100 in 2020, 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 Government Pension Fund Global (GPFG), set up to save and channel oil revenue into the economy.

Institutional and economic profile: Relatively low oil prices and COVID-19 will lead the economy to shrink in 2020, but it will rebound to growth in 2021

- The pandemic will cause GDP to contract by 2.2.% in 2020, but it should rebound to average 2.6% in 2021-2023.
- The government has implemented comprehensive measures to limit the pandemic's economic impact, totaling 15% of GDP.
- Very high personal leverage, mainly at variable rates, remains a key economic risk.

COVID-19 will weigh on economic growth and domestic and external demand. In addition, oil prices fell sharply early this year and although OPEC and other large producers including Russia (the OPEC+ group of oil producers) agreed to production cuts in April that were extended in June 2020, oil demand and prices have remained under pressure. However, despite planned caps on production, we expect overall Norwegian production to increase in 2020 as the large Johan Sverdrup field's production comes on stream. Therefore, for 2020, we project overall GDP to shrink by 2.2%, which is a comparatively small contraction when compared with that of many European peers. We expect a rebound in 2021 as Brent oil prices increase to an average of $50 per barrel in 2021 and $55 in 2022 (see "S&P Global Ratings Cuts WTI And Brent Crude Oil Price Assumptions Amid Continued Near-Term Pressure," published March 19, 2020, on RatingsDirect). This should support a rebound in GDP growth of 3.0% in 2021 and an average of 2.6% in 2021-2023.

In early 2020, the Progress party left the ruling coalition, leaving the government in a minority position. Despite this, the government was able to take decisive action to handle the pandemic; there is broad cross-party consensus on key macroeconomic issues, such as the fiscal spending rule and regarding the country's economic position; and very large fiscal buffers act as important cushions against possible fiscal slippages.

Norway acted quickly to curb the spread of the virus, enforcing a lockdown from March to the end of June and reopened largely over the summer--at the end of August 2020, there were 10,643 confirmed cases and 264 deaths in the country, which has a population of 5.4 million. This compared with Sweden's 83,958 confirmed cases and 5,821 deaths, and a population of 10 million. The government also introduced large financial packages to support the economy, including reforms to support businesses and individuals hurt by the coronavirus outbreak and falling oil prices. Fiscal spending includes various measures to help ease the economic impact of the lockdown measures and help employment to recover swiftly. Support packages in Norway have been large and consists of:

- Guarantees to business of Norwegian krone (NOK) 130 billion
- Deferral of taxes, including the value-added tax, of NOK230 billion

Fiscal spending amounting to almost NOK200 billion

This support totals about 15% of GDP.

Norwegian household debt to disposable income stood at 227% at year-end 2019, one of the highest ratios among countries of the OECD, and we forecast it will rise by 3% annually through 2023. We believe that the accumulated imbalances could pose an economic risk. Housing leverage also remains high. In our view, the increased housing supply and the government's tightening of macroprudential measures in recent years form the foundation for the housing market's stabilization. Authorities have imposed a debt-to-income ceiling of 5x, and a stricter loan-to-value ratio requirement in the Oslo region for the purchase of a second home. However, some of the macroprudential measures have been eased temporarily due to COVID-19.

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

- The current account surplus narrowed sharply in 2020 as the trade balance fell due to lower oil prices.
- The drop in oil revenue and increased fiscal spending in 2020 will result in net transfers to the central government budget from the GPFG.
- With the market value of the GPFG close to $1.1 trillion, the country benefits from large buffers to navigate periods of market distress.

The central government initially budgeted a non-oil deficit of 6.9% of non-oil GDP in 2020, corresponding to 2.6% of the GPFG's capital at the beginning of the year. As the pandemic hit the economy and support measures were introduced, the revised budget estimated non-oil deficits of 13% of GDP or 4.2% of the GPFG's value at the start of the year. At the same time, as planned withdrawals from the fund increased (as a result of higher fiscal spending), the fall in oil prices lowered the amount of hydrocarbon revenue to be deposited in the fund, resulting in a net withdrawal estimated at close to NOK400 billion. This is in contrast to 2018 and 2019, where inflows to the GPFG exceeded the fund's transfers to the central government budget.

Norway's very strong external and fiscal net position is underpinned by the large GPFG. Returns on the fund's assets are now the main source of the fund's growth; inflows of petroleum tax revenue and state-owned petroleum activities now contribute to a lesser degree. The GPFG's value stands at close to $1.1 trillion, and represents more than 300% of the country's economy, 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 with its large buffers and fiscal position. According to the fiscal framework, withdrawals to the central government budget from the GPFG should be equal to the fund's expected return, at 3% of the fund's value, which allows for higher transfers during economic downturns--as in 2020.

We expect central government debt will average about 25% of GDP over 2020-2023, with the debt of local and regional governments adding an additional 15% of GDP; total general government debt will average 40% of GDP during the period. The central government's debt issuance is largely to finance capital transactions. The government's net asset position (general government assets minus debt), in which we include the GPFG, remains exceptionally strong, at more than 200% of GDP; and the interest burden on general government debt is low, averaging 1.3% of government revenue in 2020-2023.

Norway's current account surplus decreased notably in 2019, to 4.1% of GDP, compared with 7.1% in 2018. In 2020, we expect that the current account surplus will tighten even further to 1.4% due to low oil prices that will hit the trade balance heavily. We expect current account surpluses to pick up through 2021-2023 to above 5% of GDP on average, supported by an oil price recovery from 2021.

With the GPFG's assets invested abroad, Norway is in an extremely strong net external asset position, at almost 500% of current account payments for 2019. However, we estimate that the country's gross external financing needs are high, at slightly below 200% of current account receipts and usable reserves in 2020, largely because of banks' foreign currency borrowings. 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 established 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, in the spring of 2020, Norges Bank lowered its policy rate to 0% from 1.5%, in an effort to dampen the negative effects of the coronavirus outbreak. It seems unlikely that rates would go negative; we expect other tools to be used to ease conditions further.

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 (domestic core deposits cover about 34% of systemwide loans). The country's high regulatory capital standards and banks being ahead of schedule with implementing Basel III liquidity requirements help 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 contribution, we estimate Norway's banking sector's share of net external debt financing is closer to 15%-20% of systemwide loans.

Key Statistics

Table 1

Norway--Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. NOK)	3,141	3,111	3,098	3,295	3,531	3,549	3,397	3,642	3,858	4,030
Nominal GDP (bil. $)	498	386	369	398	434	403	382	405	431	455
GDP per capita (000s $)	97.6	74.7	70.8	75.8	82.0	75.7	71.1	74.8	79.1	83.0
Real GDP growth	2.0	2.0	1.1	2.3	1.3	1.2	(2.2)	3.0	2.5	2.4
Real GDP per capita growth	0.8	0.8	0.2	1.4	0.6	0.5	(3.0)	2.3	1.8	1.7
Real investment growth	(0.3)	(4.0)	3.9	2.6	2.8	6.1	(8.0)	0.0	3.0	3.0
Investment/GDP	27.8	27.5	28.1	27.8	27.3	29.0	28.8	27.3	27.2	27.2
Savings/GDP	38.6	35.5	32.6	32.4	34.5	33.1	30.2	32.4	32.6	32.5
Exports/GDP	39.0	37.8	35.5	36.3	38.4	36.9	32.9	34.2	34.6	34.4
Real exports growth	3.4	4.3	1.1	1.7	(0.2)	1.5	(3.5)	4.0	3.0	3.0
Unemployment rate	3.6	4.5	4.7	4.2	3.8	3.7	7.5	5.5	3.5	3.5
External indicators (%)										
Current account balance/GDP	10.8	8.0	4.5	4.6	7.1	4.1	1.4	5.1	5.4	5.3
Current account balance/CARs	21.9	16.1	9.4	9.5	14.2	8.2	3.0	10.6	11.3	11.3
CARs/GDP	49.4	49.8	47.4	48.3	50.3	49.8	45.6	48.1	47.4	47.2
Trade balance/GDP	10.1	6.5	3.2	5.1	7.0	3.0	0.7	2.1	2.7	2.5

Table 1

Norway--Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net FDI/GDP	(4.2)	(3.6)	(6.8)	0.6	(3.9)	0.7	(0.9)	(0.5)	1.2	1.6
Net portfolio equity inflow/GDP	(3.5)	(1.4)	(3.4)	(3.9)	(9.8)	(6.8)	(3.5)	(4.0)	(4.2)	(4.2)
Gross external financing needs/CARs plus usable reserves	175.0	183.1	186.2	181.4	175.1	185.2	198.8	185.3	181.2	178.2
Narrow net external debt/CARs	(233.2)	(290.5)	(329.9)	(368.3)	(285.1)	(401.3)	(451.9)	(421.5)	(413.6)	(406.6)
Narrow net external debt/CAPs	(298.8)	(346.4)	(364.1)	(407.2)	(332.3)	(437.3)	(466.0)	(471.4)	(466.5)	(458.3)
Net external liabilities/CARs	(288.0)	(363.3)	(420.8)	(458.7)	(365.7)	(492.4)	(574.0)	(528.9)	(519.2)	(509.1)
Net external liabilities/CAPs	(369.0)	(433.2)	(464.4)	(507.1)	(426.2)	(536.5)	(591.9)	(591.6)	(585.5)	(573.8)
Short-term external debt by remaining maturity/CARs	138.3	160.9	156.7	147.8	142.2	151.6	178.1	159.7	151.9	145.0
Usable reserves/CAPs (months)	3.6	4.8	4.4	4.2	4.2	4.1	4.8	4.6	4.4	4.2
Usable reserves (mil. $)	64,801	57,456	60,445	65,924	63,145	66,946	66,993	67,010	66,993	67,001
Fiscal indicators (general government; %)										
Balance/GDP	8.6	6.0	4.1	5.0	7.8	6.2	(1.0)	3.8	5.7	5.7
Change in net debt/GDP	(43.8)	(27.1)	(1.1)	(26.6)	8.2	(49.8)	(0.5)	(6.8)	(3.7)	(3.7)
Primary balance/GDP	9.5	6.9	4.8	5.7	8.5	7.0	(0.2)	4.6	6.4	6.4
Revenue/GDP	54.2	54.5	54.8	54.6	56.2	57.2	59.6	58.0	58.0	58.0
Expenditures/GDP	45.5	48.5	50.7	49.6	48.3	50.9	60.6	54.2	52.3	52.3
Interest/revenues	1.6	1.5	1.4	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Debt/GDP	29.9	34.5	38.1	38.6	39.9	41.1	44.0	42.8	41.9	41.5
Debt/revenues	55.1	63.4	69.6	70.7	71.1	71.9	73.8	73.7	72.2	71.5
Net debt/GDP	(175.7)	(204.5)	(206.5)	(220.8)	(197.8)	(246.6)	(258.2)	(247.6)	(237.4)	(231.0)
Liquid assets/GDP	205.6	239.0	244.6	259.4	237.7	287.7	302.1	290.3	279.3	272.5
Monetary indicators (%)										
CPI growth	2.1	2.1	3.6	1.8	2.7	2.2	1.5	1.9	1.9	1.9
GDP deflator growth	0.3	(2.9)	(1.5)	4.0	5.8	(0.6)	(2.2)	4.1	3.3	2.0
Exchange rate, year-end (NOK/$)	7.43	8.81	8.62	8.21	8.69	8.78	9.00	9.00	8.90	8.80
Banks' claims on resident non-gov't sector growth	5.8	5.8	4.5	6.5	4.7	4.9	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	134.6	143.8	150.9	151.1	147.7	154.1	169.1	165.6	164.2	165.0

Table 1

Norway--Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Foreign currency share of claims by banks on residents	5.1	5.4	4.8	4.7	4.4	4.2	4.0	4.0	4.0	4.0
Foreign currency share of residents' bank deposits	28.6	27.4	28.4	26.1	26.4	24.1	24.0	24.0	24.0	24.0
Real effective exchange rate growth	(4.2)	(12.5)	(6.7)	(0.2)	0.5	0.2	N/A	N/A	N/A	N/A

Sources: Eurostat, Statistics Norway (economic indicators); Statistics Norway, International Financial Statistics (monetary indicators); Statistics Norway (fiscal, debt and external indicators).
Adjustments: None.
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. NOK--Norwegian krone. 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 revenues 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, 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 2020-2023 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 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.

Table 2

Norway--Ratings Score Snapshot (cont.)

		Based on liquid assets/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/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	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

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 History, Sept. 3, 2020
- Sovereign Ratings List, Sept. 3, 2020
- Banking Industry Country Risk Assessment Update: August 2020, Aug. 21, 2020
- Sovereign Risk Indicators, July 14, 2020
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020
- S&P Global Ratings Cuts WTI And Brent Crude Oil Price Assumptions Amid Continued

Near-Term Pressure, March 19, 2020

Ratings List

Ratings Affirmed	
Norway	
Sovereign Credit Rating	AAA/Stable/A-1+
Transfer & Convertibility Assessment	AAA
Senior Unsecured	AAA
Short-Term Debt	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.