MOODY'S RATINGS

CREDIT OPINION
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Update

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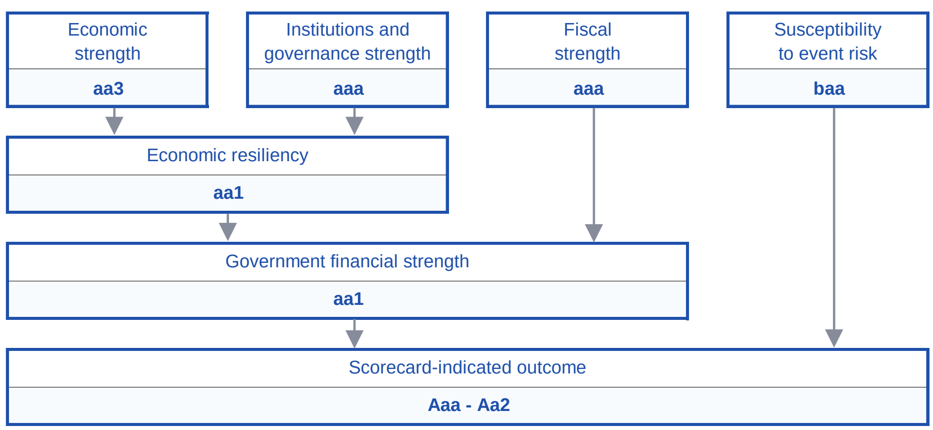
Government of Norway – Aaa stable

Regular update

Summary

Our credit view of Norway reflects its high and relatively evenly distributed wealth, well-educated labour force, very strong government and external balance sheets as well as the consensus-driven political framework. Norway's institutions are robust and proactively respond to both short-term and long-term risks. Furthermore, the country's strong social safety net is another stabilizing factor as it limits susceptibility to social risks. The government's balance sheet is supported by Norway's very large sovereign wealth fund, the Government Pension Fund Global (GPFG), that allows for fiscal flexibility to respond to shocks. Like other European countries, Norway faces increased geopolitical risk because of Russia's invasion of Ukraine (Ca stable).

Exhibit 1
Norway's credit profile is determined by four factors



Source: Moody's Ratings

Credit strengths

» The government's substantial fiscal buffer and track record of fiscal surpluses

» Very high and evenly distributed wealth that supports economic resilience

» A sound macro policy framework, a very strong social safety net and a stable, consensus-oriented political system

Credit challenges

» Dependence on oil and gas production and exports

» Adapting over the medium-to-long term to a steadily lower oil and gas output potential

» A heavily indebted household sector and elevated real estate prices

Rating outlook

The stable outlook reflects the absence of downward pressure on Norway's Aaa ratings. This is because Norway's exceptionally large fiscal buffers and very strong institutions allow for an effective fiscal and monetary policy response that significantly softens the economic impact of different shocks. Moreover, we expect that Norway's authorities will successfully address via effective, forward looking policymaking the country's key challenges related to vulnerabilities in the housing market, adverse demographic trends and a reduced contribution from the oil and gas sector to economic growth and government revenue over the medium-to-long-term.

Factors that could lead to a downgrade

The Aaa ratings would come under downward pressure in the unlikely scenario of a significant weakening of Norway's prudent macroeconomic, monetary and fiscal framework. This could come in combination with a large external shock which would lead to a material and multiyear erosion of Norway's accumulated, very sizeable fiscal buffers with a lasting negative impact on the country's economic and fiscal strength.

Although it is not our baseline assumption, an escalation of the war in Ukraine into a war that directly involves NATO members would also exert downward pressure on Norway's Aaa rating.

Key indicators

Exhibit 2

Norway [1]	2019	2020	2021	2022	2023	2024F	2025F	2026F
Real GDP (% change)	1.1	-1.3	3.9	3.2	0.0	1.8	1.7	1.6
Mainland (non-oil) real GDP (% change)	2.3	-2.8	4.5	4.3	0.6	1.3	1.4	1.4
Inflation rate (% change average)	2.2	1.3	3.5	5.8	5.5	3.1	2.9	2.6
Gen. gov. financial balance/GDP (%)	6.5	-2.6	10.3	25.5	16.6	15.0	10.0	9.5
Gen. gov. primary balance/GDP (%)	7.2	-1.9	10.7	26.0	17.7	16.2	11.3	10.8
Gen. gov. debt/GDP (%)[2]	39.9	45.2	41.3	36.3	44.6	43.3	43.2	43.0
Gen. gov. debt/revenues (%)[2]	70.3	83.4	73.0	57.7	71.2	70.9	74.4	74.1
Gen. gov. interest payment/revenues (%)	1.2	1.2	0.7	0.8	1.7	2.0	2.2	2.2
Current Account Balance/GDP (%)	3.8	1.1	14.9	30.0	18.0	16.2	15.8	15.4

[1] Economic forecasts based on an assumed average price for the benchmark Brent crude oil of $82/b in 2024, $75/b in 2025 and $70/b in 2026. Our broad expectations are that prices will remain volatile within a range of $55-$75/b in the medium term.

Source: Moody's Ratings

Detailed credit considerations

Norway's credit profile is determined by its economic strength score of “aa3”, score for institutions and governance strength of “aaa”, fiscal strength score of “aaa” and score for susceptibility to event risk of “baa”.

We assess Norway's **economic strength** as “aa3,” which is above the initial score of “a2”. This reflects the country's highly competitive position in the oil and gas market, substantial support from the sizeable assets of the GPFG, which provides an additional form of economic diversification not captured in nominal GDP, and a large fiscal buffer to soften economic shocks.

Our assessment of economic strength also takes into account Norway's large economy, moderate volatility in real GDP growth, and a GDP per capita of 100,154 PPP (Intl$) in 2023, surpassing the Aaa-rated median of 79,898 PPP (Intl$). However, trend growth averages 1.5% over 2019-28, lower than the Aaa-rated median of 1.9%. Norway's strong competitiveness reflects its flexible wage-setting model and exchange rate, as well as the success of past cost-cutting efforts in the oil and gas sector. An efficient social safety net, which includes the provision of basic services, education, and healthcare, low economic inequality, and high social mobility, significantly reduces Norway's susceptibility to social risks.

Long-term growth challenges for Norway include its rapidly aging population, which will slow labor force growth, and exposure to the implications of the carbon transition. However, we view that carbon transition risks are effectively mitigated by the country's highly competitive and flexible mainland economy, the accumulation of oil and gas revenue in its sizeable sovereign wealth fund, and comparatively “clean” and competitive oil and gas production.

Norway's stable, consensus-oriented political framework and a track record of successive governments following prudent macroeconomic policy underpin our assessment of **institutions and governance strength** at “aaa,” the highest possible level. The efficient and transparent institutional framework provides a high degree of confidence in the government's ability to implement effective policies. In terms of quantitative indicators, Norway’s institutional setup is among the strongest globally.

We assess **fiscal strength** as “aaa,” supported by substantial financial assets amounting to 315% of GDP in 2023, mainly related to the GPFG and also including government deposits at the central bank. Under Norway's fiscal rule, all oil and gas-related revenues are transferred to the GPFG, with the government withdrawing only a small portion to finance the non-oil fiscal deficit, ensuring withdrawals remain in the long run equal to the estimated real return of the GPFG.

The central government only borrows to cover lending to and capital injections into state lending institutions like state banks and government lending schemes, to refinance or repay maturing debt and to contribute to maintaining and developing a well-functioning Norwegian financial market. In addition, liabilities associated with repurchase agreements (repos) in the GPFG are counted as loan debt, according to the ESA95 government finances methodology.

The GPFG is the largest sovereign wealth fund globally, valued at NOK 15,765 billion (309% of 2023 GDP) at the end of 2023. Its market value rose to NOK 17,745 billion (330% of 2024 GDP) by mid-2024, reflecting an 8.6% return over the first half of 2024. From 1998 to mid-2024, the fund achieved an annual return of 6.3% in its currency basket, with a net real return of 4%.

To avoid economic distortions such as asset price inflation and currency appreciation, the GPFG invests solely abroad. The rule governing withdrawals to finance the non-oil deficit was tightened, and the estimated real rate of return on the fund was reduced from 4% to 3%, effective from 2018. This adjustment decreases the amount that can typically be drawn from the fund for the budget, allowing for some flexibility over economic cycles.

We assess **susceptibility to event risk** as “baa,” primarily driven by geopolitical risks related to the Russia-Ukraine war. Although Norway’s NATO membership is ultimately a guarantor of national security, the country also faces contagion risks from the Russia-Ukraine war as it is bound by NATO’s Article 5 collective defense clause, which treats an attack on any NATO member as an attack on all treaty signatories. While this is not our base case because of the deterrent effect of this clause, there is a heightened risk that this treaty obligations could ultimately result in Norway needing to use armed force to restore and maintain stability in Europe. The probability of such risks materialising have increased in light of the ongoing military conflict between Russia and Ukraine.

We view domestic political risk as very low given Norway’s consensus-driven political framework, which has shown proactive measures in addressing long-term economic and fiscal challenges. Norway has a long history of stable coalition governments and far-reaching parliamentary cooperation. This consensus approach limits the risk of abrupt policy changes, irrespective of the ruling parties.

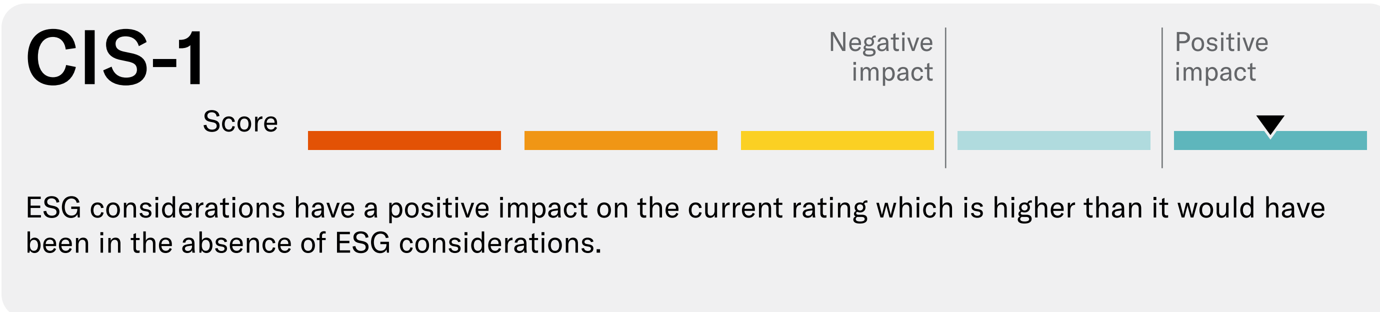
Our assessment of banking sector related risks is “a”. This reflects the intrinsic strength of Norway's banking sector, marked by a strong “a2” average asset-weighted Baseline Credit Assessment, as well as a total bank assets to GDP ratio of 161.1% as of year-end 2023.[1]

We assess government liquidity risk and external vulnerability risk both as “aaa”. Low government gross financing needs and strong market access minimize government liquidity risks. Norway's consistently high structural current-account surplus, averaging about 11% of GDP over the past decade, coupled with a substantial and growing net international investment position, shields the country from external liquidity pressures.

ESG considerations

Norway's ESG credit impact score is CIS-1

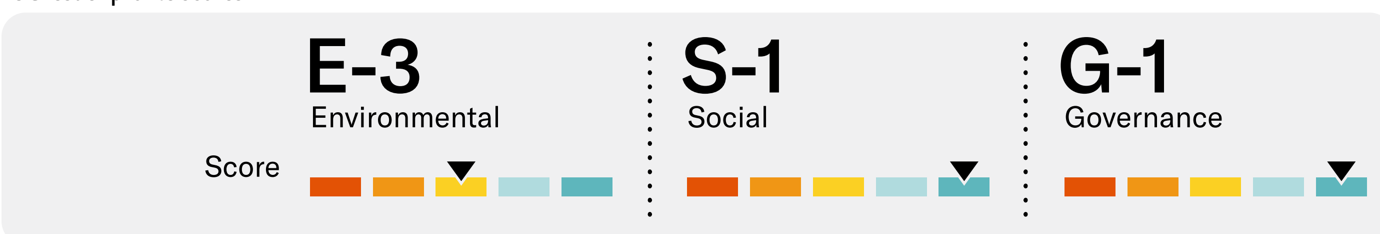
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Norway's **CIS-1** indicates that the credit rating is higher than it would have been in the absence of ESG considerations. This reflects the credit benefits stemming from its very stable social profile and very strong governance. In addition, Norway's capacity to respond to environmental hazards or social demands is very high. This reflects Norway's very high resilience based on the country's very high-income levels, its very large fiscal buffers in the form of its sovereign wealth fund asset and very high quality of governance.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Norway's overall **E-3** issuer profile score reflects the country's material dependence on its oil and gas sector and its exposure to the implications of carbon transition. The exposure to carbon transition is softened by the country's highly competitive and flexible mainland economy and by investment in comparatively clean oil and gas production. The country's exposure to physical climate risks, such as flooding, landslides and avalanches, stormwater, sea level rise and storm surges, is mitigated by significant investments in adaptation and resilience.

Social

Norway's **S-1** issuer profile score reflects a well-educated labor force, evenly distributed wealth and very good-quality healthcare and basic services. Public spending on education per pupil is one of the highest among European countries. Norway scores very strong on education outcome indicators (such as the Pisa test scores) and participation in lifelong learning is one of the highest among European countries. Health and safety is supported by a strong universal healthcare system. Demographic challenges posed by its aging population to long-term economic growth are mitigated by sustained net immigration and high labor market participation rates. According to European Commission estimates, total ageing costs will steadily increase over the next decade, reaching 32.0% of GDP in 2034, up from 30.4% of GDP in 2024. Norway's sovereign wealth fund strengthens the government's ability to cope with the costs of this trend.

Governance

Norway's **G-1** issuer profile score reflects the country's efficient and very transparent institutional framework that provides a high degree of confidence in the authorities' ability to implement timely and effective policies in response to shocks. Coupled with exceptionally high wealth levels and financial strength, this supports a high degree of resilience. The transparency and management of Norway's sovereign wealth fund adhere to international best practices. The prudent, long-standing fiscal rule ensures that government withdrawals, over time, equate to the estimated real return of the sovereign wealth fund.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Recent developments

Real GDP growth will pick up in 2024-25

We forecast real GDP growth to increase in 2024, with the mainland economy (excluding oil, gas, and ocean transport) to grow 1.3%, up from 0.6% in 2023. The overall economy is forecast to expand 1.8%, compared to stagnation in 2023. Private consumption will be supported by real wage and disposable income growth. Government spending will have a minor expansionary effect. Weak construction investment will be partly offset by increased oil and gas infrastructure investments. A weaker Norwegian krone will boost exports and reduce imports, as the trade-weighted krone exchange rate has depreciated 2.6% year-on-year so far this year, following a 5.6% depreciation in 2023.

For 2025, we forecast Norway's GDP to grow 1.4% for the mainland and 1.7% for the total economy. This growth will be driven by rising private consumption and investment. Government spending will slightly boost GDP growth, while the trade balance contribution will likely be smaller as the Norwegian krone stabilizes.

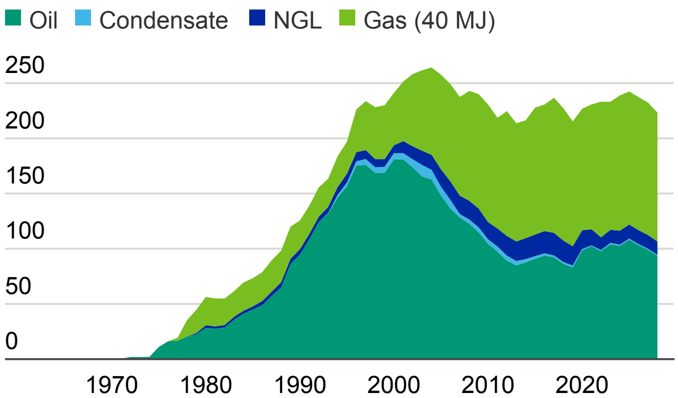
The economic and fiscal significance of the oil and gas sector is normalizing following jump in 2022

According to forecasts from the Norwegian Petroleum Directorate, Norway will likely maintain high levels of hydrocarbon production in the coming years. Production will probably slightly increase to 238.9 million Sm^3 o.e.[2] in 2024 and 242.5 million Sm^3 o.e. in 2025 from 233.2 million Sm^3 o.e. in 2023. Production levels will gradually decrease towards the end of the decade, with a more significant reduction after 2030. From 2023 to 2028, the production mix will likely remain stable, with oil making up about 43% of the total output, and natural gas liquids (NGL) and natural gas accounting for around 56% combined (see Exhibit 5).

While production levels will likely remain robust, revenues will probably normalize in 2024-25. This is primarily due to the normalization of energy prices in the European market compared to the peak levels in 2022. The hydrocarbon sector's significance will revert to more normal levels, contributing an average of 21% to GDP, 46% to exports, and 31% to state revenue in 2024-25 (see Exhibit 6). According to the projections of the authorities, the net government cash flow from oil and gas activities will likely reach NOK 642.8 billion or 11.8% of GDP in 2025, down from NOK 680.4 billion (12.7% of GDP) in 2024 and NOK 978.1 billion (19.2% of GDP) in 2023.

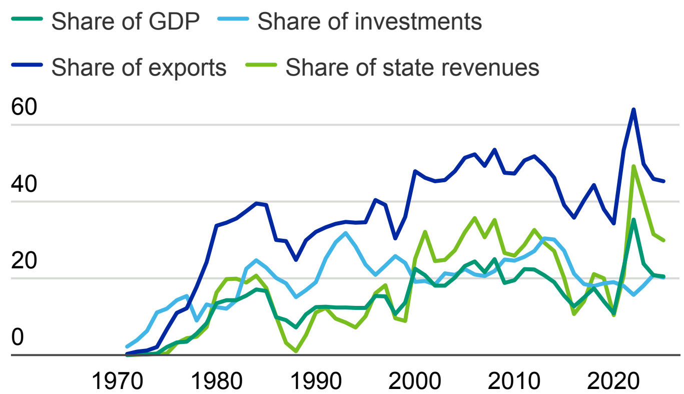
As almost all oil and gas produced on the Norwegian shelf is exported, Norway is the 12th largest oil exporter globally and the 4th largest net gas exporter globally after the United States (Aaa negative), Qatar (Aa2 stable) and Russia. The vast majority (95%) of gas flows via the Norwegian gas pipeline network to the European market. Norway is the most important supplier of gas for EU (Aaa stable) countries with gas deliveries accounting for roughly 32% of total EU gas imports in 2024 so far. Norwegian gas is considered highly competitive on the European market profiting from low transportation costs via pipeline and lower emissions in the production process that are to be priced under the EU's Carbon Boarder Adjustment Mechanism (CBAM).

Exhibit 5
Official forecasts see continued high production levels until 2028
Million Sm^3 o.e.



Sources: Norwegian Petroleum Directorate and Moody's Ratings

Exhibit 6
Importance of oil and gas sector back to normal after 2022 peak
%



Sources: Norwegian Petroleum Directorate and Moody's Ratings

Proposed budget for 2025 will be mildly expansionary

The government presented its proposal for the 2025 budget to the Norwegian Parliament in early October 2024. The current version of the budget foresees a continuation of a slightly expansionary policy stance. On the revenue side, the budget envisions NOK 17.5 billion (0.3% of GDP) in tax cuts, with the majority linked to the abolition of the additional employer's national insurance contributions, worth NOK 12 billion. On the expenditure side, the government plans to allocate an additional NOK 18.6 billion (0.3% of GDP) to security and law enforcement. Norway's defense spending will probably increase by NOK 19.2 billion, reaching 2.2% of GDP after meeting NATO's two percent target in 2024. Further, NOK 2.8 billion will be allocated towards preventing and combating crime. Funding for the Norwegian Customs Service will increase by NOK 0.3 billion. In addition to the security-related measures, the government also proposes to increase funding for hospitals by NOK 5.5 billion (0.1% of GDP) in 2025.Overall, the proposal envisions a non-oil budget deficit of NOK 413.6 billion (or 7.6% of GDP) in 2025, up from NOK 347.8 billion (6.5% of GDP) in 2024.

Since then, the budget was amended by an additional expenditure of NOK 32.2 billion, or 0.6% of GDP, after parliamentary discussions. The additional measures include additional aid to Ukraine worth NOK 20 billion (0.4% of GDP) and higher transfers to municipalities of NOK 5.3 billion (0.1% of GDP). In 2025, Norway's structural non-oil deficit will likely amount to 2.7% of the GPFG's asset value, roughly in line with 2024.

Norway's gross general government debt, which also includes municipal debt, was 44.6% of GDP in 2023. We expect government debt to decline to 43.3% of GDP in 2024 and 43.2% of GDP in 2025. Debt affordability will continue to be strong. General government interest payments to revenue were 1.7% in 2023. We expect a slight weakening of interest payments to revenue to 2.1% in 2024-25 because of higher funding costs for new issuances compared to maturing debt.

Inflation pressures caused Norges Bank to maintain its 4.5% policy rate since December 2023

In October 2024, both headline inflation and core inflation exceeded Norges Bank's two percent target, standing at 2.6% and 2.7%, respectively. Headline inflation had reached its peak of 7.5% in October 2022, while core inflation peaked at 7.0% in June 2023. The disinflation observed since early 2023 was primarily attributed to the normalization of energy prices, which contributed to the more rapid decline in headline inflation. In recent months, moderation of core inflation ultimately caught up with the declining headline numbers as domestic inflation pressures weakened.

We forecast that inflation, as measured by the average Harmonised Index of Consumer Prices (HICP), will decrease to 3.1% in 2024 and further decline to 2.9% in 2025, following 5.5% in 2023.

Norges Bank launched its hiking cycle in September 2021 in response to rising inflation driven by the normalising economy. The key policy rate was increased from zero to 0.5% by the end of 2021. Multiple hikes by Norges Bank over the course of 2022 and 2023 further increased the key policy rate to 2.75% at end-2022 and to 4.5% at end-2023. The interest rate level has not been adjusted since.

Moody's rating methodology and scorecard factors: Norway — Aaa stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				a2	aa3	50%
Growth dynamics	Average real GDP growth (%)	2019-2028F	1.5	b1		25%
	MAD Volatility in Real GDP Growth (%)	2014-2023	0.8	baa1		10%
Scale of the economy	Nominal GDP ($ billion)	2023	482.5	aa3		30%
National income	GDP per capita (PPP, Intl$)	2023	100,153.7	aaa		35%
Adjustment to factor 1	*# notches*				2	max ±9
Factor 2: Institutions and governance strength				aaa	aaa	50%
Quality of institutions	Quality of legislative and executive institutions			aaa		20%
	Strength of civil society and the judiciary			aaa		20%
Policy effectiveness	Fiscal policy effectiveness			aaa		30%
	Monetary and macroeconomic policy effectiveness			aaa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				aa2	aa1	
Factor 3: Fiscal strength				aaa	aaa	
Debt burden	General government debt/GDP (%)	2023	44.6	a2		25%
	General government debt/revenue (%)	2023	71.2	aa1		25%
Debt affordability	General government interest payments/revenue (%)	2023	1.7	aa1		25%
	General government interest payments/GDP (%)	2023	1.1	aa2		25%
Specified adjustments	*Total of specified adjustment (# notches)*			4	4	max ±6
	Debt Trend - Historical Change in Debt Burden	2015-2023	11.4	0	0	
	Debt Trend - Expected Change in Debt Burden	2023-2025F	-1.4	0	0	
	General Government Foreign Currency Debt/ GDP	2023	0.0	0	0	
	Other non-financial public sector debt/GDP	2023	17.3	0	0	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2023	314.8	4	4	
Other adjustment to factor 3	*# notches*				0	max ±3
F1 x F2 x F3: Government financial strength				aa1	aa1	
Factor 4: Susceptibility to event risk				baa	baa	Min
Political risk				baa		
	Domestic political risk and geopolitical risk			baa		
Government liquidity risk				aaa	aaa	
	Ease of access to funding			aaa		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				a	a	
	Risk of banking sector credit event (BSCE)	Latest available	a2	aaa-a3		
	Total domestic bank assets/GDP	2023	161.1	80-180		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				aaa	aaa	
	External vulnerability risk			aaa		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				Aaa - Aa2	Aaa - Aa2	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

Endnotes

1 Banking System Outlook — Norway: Outlook stable as loan repricing supports profitability, asset quality unchanged, 25 March 2024

2 1 cubic meter = 6.29 barrels

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