18 August 2017

Public Finance

Kingdom of Norway
Rating Report

AAA STABLE OUTLOOK

Credit strengths

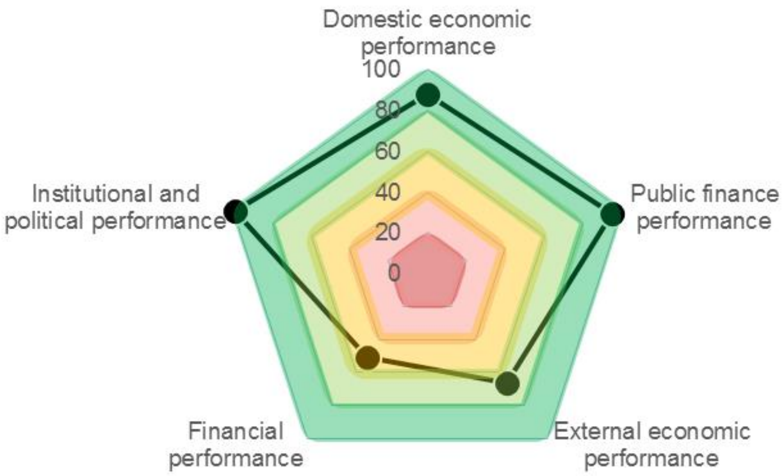
- Fiscal and current account surpluses
- Significant fiscal cushion through Government Pension Fund Global
- Strong fiscal, monetary and financial governance

Credit weaknesses

- Weakened economic growth due to weakness in petroleum sector
- Low growth in productivity
- Macroeconomic imbalances, notably in housing market

Rating rationale and Outlook: The AAA rating reflects Norway's dual surpluses, its' very significant net government asset position, and the nation's strong fiscal, monetary and financial governance institutions. Norway also benefits from low public debt and a stable policy environment. The negative oil price shock has reduced fiscal and current account surpluses and weakened growth conditions, but Scope believes Norway possesses significant resilience, underpinned by its sovereign wealth fund valued at about USD 1trn. Challenges include a long-term transition to a non-resource-dependent economy, low productivity growth, and domestic imbalances, particularly in housing. The Stable Outlook reflects Scope's assessment that the risks Norway faces remain manageable given its significant strengths.

Figure 1: Sovereign rating categories summary



Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Significant weakening in macroeconomic policy, threatening long-term net asset position
- A sustained period of lower oil prices than presently prevailing and/or a significant financial crisis, damaging Norway's public sector balance sheet

Ratings and outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: SCOP

Domestic economic risk

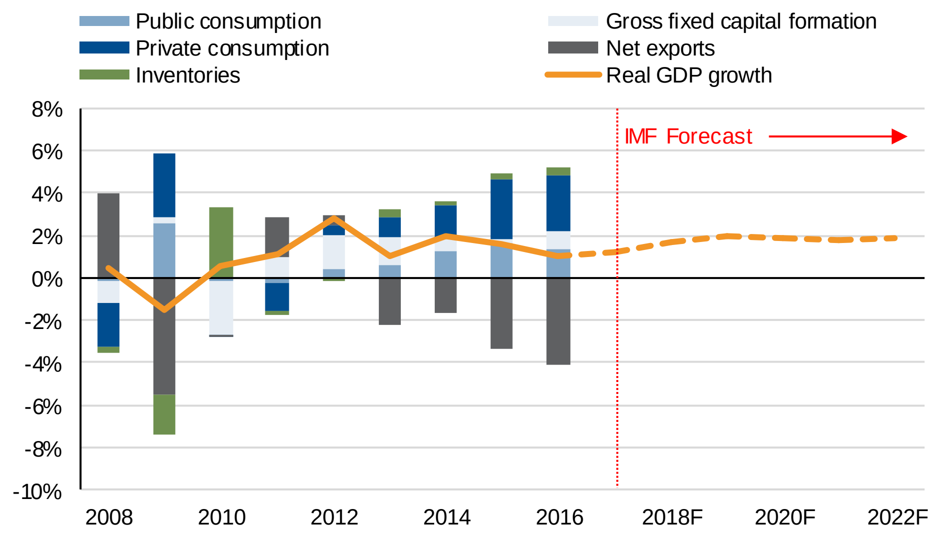
Strong institutional framework

Norway's AAA rating is underpinned by strengths as a mature economy with one of the world's highest per capita incomes (USD 70,813 in 2016), an educated and skilled workforce, a credible system of monetary, fiscal and financial supervision, and a stable system of democratic governance. Norway ranked first in the world in the United Nation's 2016 Human Development Index. In addition, very large external and fiscal net asset positions from accumulated petroleum revenues present a significant buffer in the event of shocks.

Slump driven by lower oil prices

The sharp oil price slump in 2014-15 has been a significant hit to Norway's economy. In 2016, Norway's headline gross domestic product (GDP) expanded by 1.1%, with mainland GDP (excluding the offshore oil and gas extraction and shipping sectors) growing by only 0.9% – versus a 2010-2014 average of 2.4%. In 2016, the secondary effects of lower oil prices continued to impact mainland industries, which account for 87% of the overall economy (however, many mainland firms are tied to the supply of goods and services to the petroleum sector). Manufacturing and mining contracted 4.6%. Last year's growth was supported by public and private consumption, a rise in inventories, and a rebound in mainland investment activities, especially in residential construction.

Figure 2: Percentage point contribution to real GDP growth, annual change



Source: IMF, Scope Ratings AG calculations

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Recovery expectations in the mainland economy

In the latest Article IV, the IMF noted expectations for 1.2% growth in 2017 and 1.7% in 2018, bolstered by a recovery in the mainland economy to 1.7% and 2.3% rates for these two years. The improvement is expected to be helped by recovering exports and stronger private demand that is anchored to a recovery in employment. Supported by a stabilisation and partial rebound in oil prices, unemployment peaked in the summer of 2016 at 138,000 (4.9% of the labour force) and stood at 4.3% in the three months to June 2017. Job vacancies have climbed to the highest levels since 2009, signalling potential further labour market strengthening. Consumer and industrial confidence indicators have improved since early 2016, and the Manufacturing PMI rose to 57.3 in July – its highest level since March 2012. Against positive signals in the mainland economy, the extractive sector has exhibited softness: According to the Q1 2017 investment survey, accrued investments in the petroleum sector fell to the lowest level since 2011, although there are signals of stabilisation going forward. Petroleum sector investments declined by 15% in 2015 and a further 16% in 2016.

Stronger private demand is anchored to recovering household consumption – a function of rising consumer confidence, housing market strength, and the continued availability of credit. However, modest real wage growth and high household debt are constraints. The decline in the krone (of more than 20% between 2013-2015 in import-weighted terms) drove inflation, which peaked at 4.4% in July 2016 – well above Norges Bank's 2.5% target rate – but has since receded to 1.5% as of July 2017. Wage growth last year was weaker than anticipated, increasing by 1.7%. If nominal wage growth rebounds to 2.4% – the rate struck in the wage deal between labour unions and employers for 2017 – assuming Norges Bank's inflation assessment of 1-2% for the coming years, this places real wage growth at around 1%, still restrictive towards a more robust pickup in demand.

Boost from monetary and fiscal policy

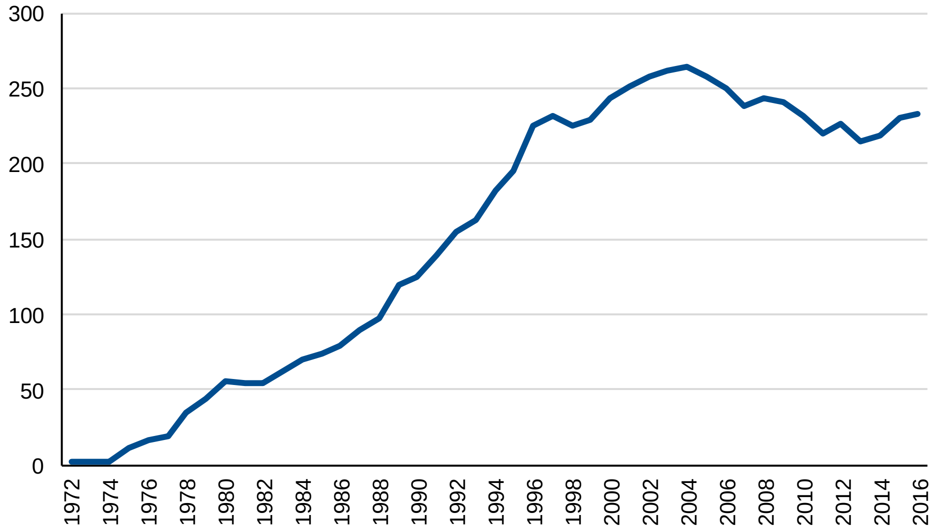
The Norwegian economy is bolstered by an accommodative fiscal and monetary policy environment. The fiscal impulse will amount to about 0.5% of mainland GDP in 2017, before reverting closer to a neutral stance over the medium term. Norges Bank's policy rate has remained at an all-time low of 0.5% since March 2016, and it is expected to remain at the current level until 2019. Credit growth has continued apace, with 6.5% annual growth in credit to the mainland economy (as of May).

The construction sector has reinforced demand – contributing 0.5% to 2016 growth, thanks to investments in housing. However, house price inflation has started to ease, with the annual rate of growth dipping to 7.0% in Q2 2017 from 10.0% in Q1. This could dampen growth contributions from the construction sector moving ahead.

Long-term transition to a post-oil economy

With oil prices potentially lower for a longer period, rebalancing the Norwegian economy away from an economic model that's dependent on the oil and gas sector has become even more critical. Strengthening growth in these non-oil sectors is a challenge, however, due to low productivity growth, high labour costs and thus, competitiveness deficiencies, and falling labour force participation rates owing to an ageing population. A successful economic transition will hinge on an integrated framework of policies ranging from restraint in wage negotiations to reforms aimed at increasing labour force participation to actions that raise productivity, including enhancements to education, investment in innovation, reforms to product markets and acts to facilitate movement of capital and labour to new industries. Such actions could reverse the erosion of manufacturing competitiveness and boost means to compete in existing and new export markets. The government recognises the gravity of this challenge and has considered the petroleum sector's declining contribution to economic growth in coming decades, with projections that oil and gas production will decrease to about 25% of 2015 production by 2060. This challenge is advanced by resistance domestically to expanding exploration to certain sensitive areas, like the Lofoten archipelago. The government is committed to engineering a Norwegian economy for the future.

Figure 3: Norwegian oil and gas output, millions Sm³



Source: Norwegian Petroleum Directorate

Medium-term growth of 1.75%

Over the medium term, GDP should follow a somewhat contained growth path, averaging around 1.75%. This is supported by working-age population growth of around 0.6% annually according to UN projections for 2017-2022, a negative contribution from falling labour force participation, a small positive contribution from falling unemployment, and labour productivity growth of around 1.0% (the latter compared with a 2006-2016 average of 0.8% in the mainland economy). The low productivity growth since the mid-2000s has owed partly to a slower pace of structural reform in the 2000s compared with the 1990s, although a rise in immigration since 2004 has also affected employment in low-productivity industries. The IMF, in its July Article IV assessment, set medium-term growth in Norway at 1.9%[1].

Economic risks prevail

The housing boom and high private debt growth have increased risks in the household sector. In addition, an adverse scenario of a 'hard Brexit' could negatively affect Norway's trade with the United Kingdom (2016 goods exports to the United Kingdom totalled NOK 156bn, or 5% of GDP). We anticipate a modest impact on Norway from a slowdown in the UK, but do not anticipate the hard Brexit scenario. Presently, we consider the current constellation of macroeconomic challenges to remain manageable, supported by Norway's significant credit strengths, notably its fiscal reserves.

Public finance risk

Positive fiscal impulse

In response to the sharp decline in oil prices in 2014, the government has used fiscal policy to support the economy. Key measures include cutting taxes, investing in public infrastructure, spending on research and development, and combating unemployment. In the 2016 and 2017 budget bills, this expansionary fiscal stance was enhanced. The fiscal impulse in 2017 will amount to around 0.5% of mainland GDP – including the first step of a reduction in corporate and personal ordinary income tax rates to 23% by 2018. Going forward, expectations are for convergence to a broadly neutral fiscal stance in the medium term.

A structural shift towards increased reliance on GPFG transfers

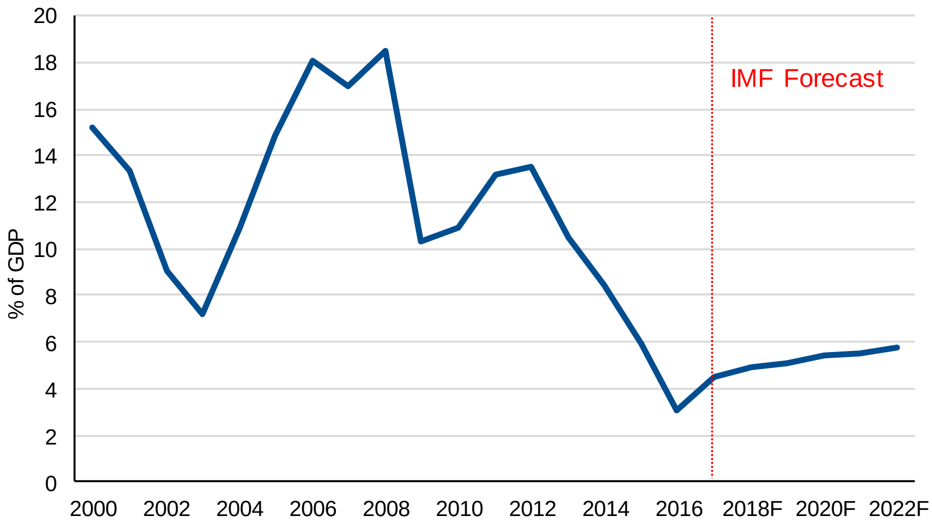
The general government surplus fell to 3.0% of GDP in 2016 from 6.0% in 2015. Petroleum revenues are declining: NOK 138bn (5% of mainland GDP) is budgeted for

[1] IMF Article IV Consultation (July 2017). Forecast for Norway's 2022 real growth.

2017 compared to NOK 312bn (12% of mainland GDP) in 2014. Given a higher Brent price to date in 2017 (averaging USD 52 per barrel as of the date of this writing), a higher general government surplus for 2017 of around 4.5% of GDP appears likely.

The annual cash flow from the sovereign wealth fund (Government Pension Fund Global (GPFG)) for 2017 is expected at NOK 226bn (7.9% of mainland GDP), equalling the annual structural non-oil deficit according to the spending rule. These flows from GPFG underpin the general government surplus. The 2016 fiscal year represented the first year since the fund's inception that GPFG transfers to the central government budget exceeded net petroleum revenues, a trend that should continue in the future – representing a structural shift. While this changes the dynamics of Norway's overall budget, it is in line with the sharp drop in oil prices alongside structural declines in petroleum production and represents an anticipated transition in Norway's fiscal execution.

Figure 4: General government balance dynamics, % of GDP

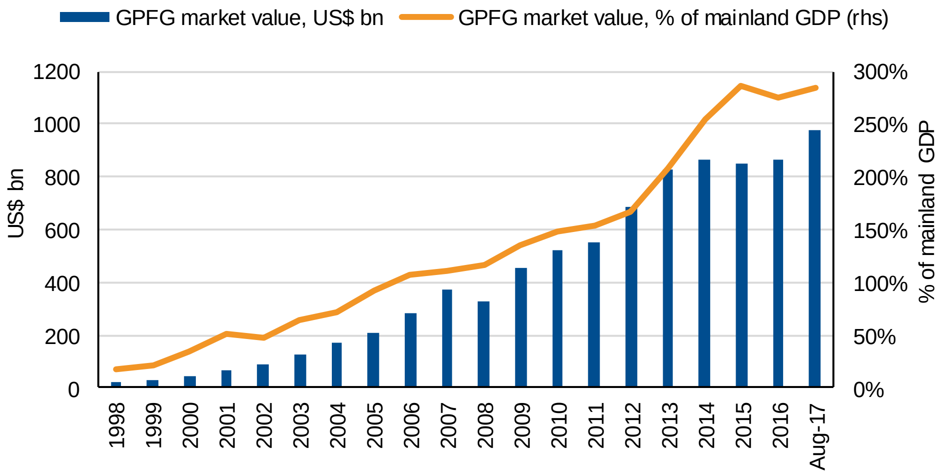


Source: IMF

GPFG underpins sizeable net public assets

Norway's AAA rating is backed by the nation's significant fiscal strength considering substantial net public assets (of 289% of nominal GDP as of YE 2016) instead of net liabilities. This net asset ratio is by far the highest in an 'aaa' peer analysis. Since its launch in 1990, the GPFG has grown rapidly to the current approximately $1 trillion, returning annually only slightly under the 4% assumed rate. The fund owns 1.3% of all globally listed companies, and this percentage is set to increase further after an announced hike in the GPFG's equity share from 62.5% to 70%. Following weakening of the krone, the fund's market value in local currency has increased (to more than 280% of mainland GDP from 166% at YE 2012).

Figure 5: Government Pension Fund Global, market value



Source: Norges Bank Investment Management, Statistics Norway, Scope Ratings AG calculations

The government recently announced a revision to the annual spending rule from 4% to 3% (of fund assets to be transferred annually to the central government budget). This revision reflects a downgraded estimate for the fund's annual real rate of return for the coming 10-15 years to 3% yearly, and takes into account lower returns on fixed income products in a low global rate environment, the rise in the value of GPFG and resulting larger transfers at a specific rate, and the need to save for long-run challenges. Norway's fiscal rule specifies that transfers from the fund for government spending shall, over time, reflect this expected real return of the fund, although annual short-term spending can be higher or lower than the average based on economic conditions. Prudent investment of Norway's oil wealth, buttressed by the fiscal rule, is a significant credit positive. Using the fund to delink the earning and use of petroleum revenues – to ease the effects of oil price volatility on the mainland economy, decrease the potential for short-term overspending, invest in the long term and in future generations, and provide a formidable tool for business cycle smoothing – exemplify fiscal strengths.

Long-term demographic challenges

Norway faces significant long-term demographic challenges driven by increasing life expectancy (of about 82 years at birth versus 73 years in the mid-1950s) and accentuated by large cohorts born in the post-war era. An ageing population creates intrinsic pressures on the welfare state unless the retirement age also increases (from 67), necessitating the mobilisation of higher labour market participation. Due to higher spending on pensions, health, and long-term care services, these pressures will increase in the near term and accelerate after 2030 as the percentage of persons aged 80 and over increases and the share of public expenditures financed by GPFG in the long run decreases. In a baseline scenario from the Ministry of Finance[2], the growth of public expenditures exceeds that of public revenues between 2030 and 2060, resulting in an average financing requirement per decade of 1.7% of mainland GDP, for a total financing gap of 6.0% by 2060.

Low debt stock, delinked from current expenditure

The central government's debt issuance is detached from current expenditure and is borrowed in the domestic market to finance capital expenditure only, including paying for debt amortisation, net lending to state entities and net equity investments. The Storting (Parliament) assigns annual borrowing limits for the finance ministry. To ensure the timely meeting of payment obligations, a cash reserve is held at Treasury aimed at above

[2] Royal Ministry of Finance. (2017) 'Long-term Perspectives on the Norwegian Economy 2017'. Report to the Storting (White Paper), Meld. St. 29 (2016-17).

NOK35 billion. Central government debt stands at 16% of GDP as of Q2 2017, with general government debt at 37% of GDP (in Q1). The IMF forecasts general government debt to GDP to remain roughly unchanged over the forecast horizon to 2022. The share of foreign ownership in central government bonds stands at roughly 60%, which represents a risk should investor sentiment sour on Norway. However, we consider this scenario unlikely in the short-to-medium term.

External economic risk

Smaller current account surpluses, but bolstered by GPFG returns

Norway held substantial current account surpluses (of over 10% of GDP) from 2000 to 2014. This surplus fell below 10% in 2015 due to lower oil prices. The decline in the current account surplus accelerated in 2016, although this has rebounded somewhat in 2017 on higher oil. The IMF expects surpluses of 5.9% and 6.0% in 2017 and 2018, up from 5.0% in 2016. In 2016, the net income balance, largely reflecting returns on external assets of GPFG, contributed more to the current account surplus than the goods and services balance. This was the first time since 1987 that the income balance has been greater than that of goods and services, reinforcing a structural shift underlying both the fiscal and current account balances towards greater dependence on GPFG returns rather than on new petroleum flows. In 2016, this net income balance stood at NOK 170bn or 5.5% of GDP. The growing net income surplus will help compensate for the long-term decline in the goods surplus and help offset deficits in the services and transfers balances.

Strong net external asset position

Norway has an extremely strong net external asset position of 216% of GDP (or around 500% of current account receipts) as of Q1 2017, which is underpinned by GPFG's investments abroad. This is a marked increase from net external assets of 93% of GDP (185% of current account receipts) as of YE 2012, with this increase bolstered by the revaluation of foreign-currency assets after krone depreciation. However, external short-term debt is high at more than 130% of current-account receipts (as of 2016), mainly owing to banks' foreign borrowings. This represents a risk area.

The krone is an actively traded currency. According to the Bank for International Settlements' Triennial Central Bank Survey 2016[3], the krone is traded in 1.7% of global FX turnover, relatively unchanged from the 1.4% figure in the 2013 survey.

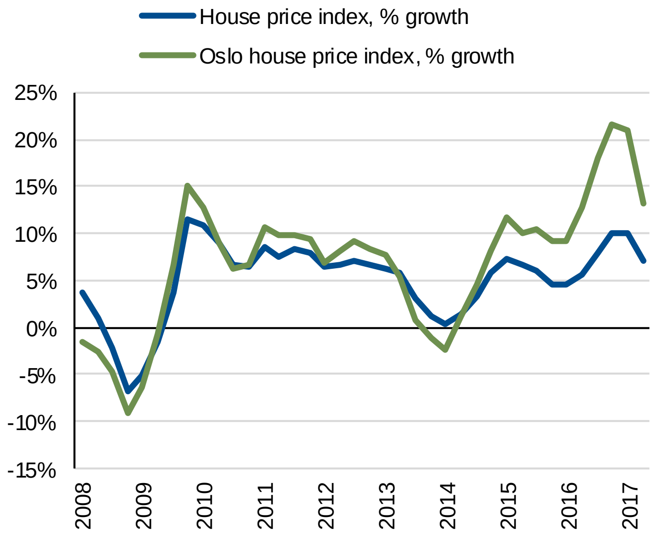
Financial stability risk

House price inflation an area to watch

House price inflation accelerated in 2016 to 10.1% year on year in Q4, although the market has since cooled to 7.0% YoY in Q2 2017. Developments have been led by the Oslo capital region – where annual growth reached 21.6% in Q4 2016 before falling to 13.1% by Q2 2017. The average cost of a home as a ratio of median household income has nearly doubled since the mid-1990s, with the ratio in Oslo amongst the highest of major cities in the world. Persistently low interest rates, while bolstering the recovery from the recent oil-price shock, could advance latent financial system imbalances, such as in the housing market. Average nominal house prices have increased substantially (by 70%) since 2008 lows, and a rapid correction represents an important economic vulnerability that could adversely impact the economy and financial stability. An IMF staff analysis stated that a 10% decline in real house prices could reduce private consumption by 0.9%[4]. Moreover, commercial real estate (CRE) prices have been rising for an extended period, especially in Oslo. The CRE sector represents a concern, accounting for 15% of banks' lending portfolios as of Q1 2017.

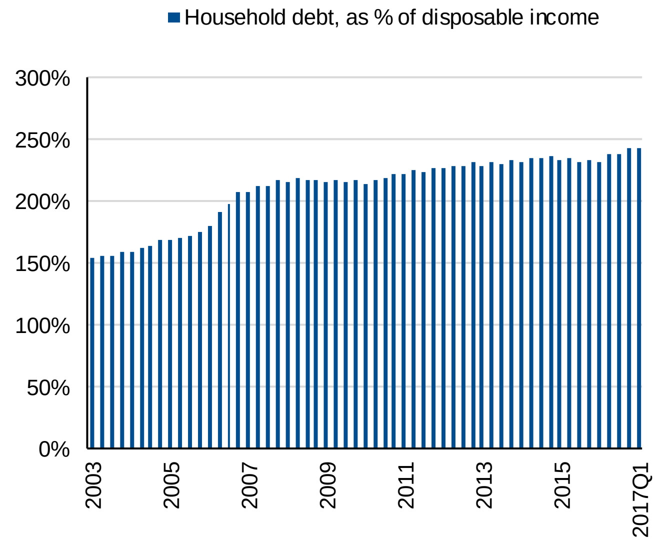
[3] Bank for International Settlements. (2016) 'Triennial Central Bank Survey: Foreign exchange turnover in April 2016'. Monetary and Economic Department.
[4] International Monetary Fund. (2017) '2017 Article IV Consultation – Press Release; and Staff Report'. IMF Country Report No. 17/182, July 2017.

Figure 6: House prices, annual growth, Norway and Oslo



Source: Statistics Norway, Scope Ratings AG calculations

Figure 7: Household debt, as % of disposable income



Source: Statistics Norway, Scope Ratings AG calculations

Household debt is high and rising

High levels of household debt remain a risk. The household debt stock has increased by an average of 6.5% annually since 2008, with growth at 6.6% in Q1 2017. Presently, household debt stands at 237% of disposable income (in Q1), up from 179% in 2005 – propelled by mortgage credit growth. Household interest burdens are low due to low lending rates, but household debt-service ratios – including principal repayments – are elevated, near levels prevailing during the banking crisis of the late 1980s and early 1990s. Of specific concern is that most Norwegian mortgage loans include variable interest rates, subjecting borrowers to higher debt-servicing costs in a scenario of a sharp rise in short-term rates. Norwegian households' financial assets represent about 316% of disposable income, offsetting liabilities in nominal terms. However, more than one-third of these assets comprise pension entitlements, insurance assets and long-term loans, which cannot be easily monetised in a stress scenario.

Proactive macroprudential response

Following the Norwegian Financial Services Authority's recommendations, the Ministry of Finance has adopted a series of macroprudential measures since 2015. These include a new limit to a borrower's total debt of five times gross annual income, tightened LTV ceilings, interest affordability tests, stricter repayment requirements, and the stipulation that buyers of second homes in Oslo must have a deposit of more than 40% versus 15% in the rest of Norway. A criterion for construction permits has also been eased to increase housing supply. Norges Bank's Survey of Bank Lending showed that banks tightened credit standards for households in Q1 2017 due to regulatory changes. Over time, an easing in house price growth and tighter lending standards should begin to slow down household debt formation.

An assessment by Norges Bank of prevailing financial imbalances forms the basis for the setting of the countercyclical capital buffer – per Basel III, of between 0% and 2.5%. The buffer rate is currently 1.5% and will increase to 2.0% from 31 December 2017, which would put Norway alongside Sweden as the country with the world's highest such rate. Scope views positively the macroprudential governance steps being taken to address financial imbalances in consideration of the risks within a low interest-rate environment.

Well-capitalised banking sector

The largest banks have continued to increase capital ratios (DNB Bank, at 16.1% Common Equity Tier 1 as of Q2 2017) and are near their individual capital targets, which are themselves somewhat higher than regulatory requirements. The leverage ratio for Norway's banks stood at 7.3% in Q1, meeting the new leverage ratio requirement (of 5%, except for DNB at 6%). Banks have shown solid profitability, although there is some uncertainty regarding future loan losses in the event of further restructuring in the oil-related sector. A bank stress test by Norges Bank in 2016[5] showed banks would still meet minimum capital requirements in a scenario of a severe downturn in the Norwegian economy.

One concern is a rising concentration of mortgage loans on banks' balance sheets – exposing financial institutions to higher losses in the event of a correction in housing markets. In addition, the Norwegian banking sector relies on international capital markets, including foreign deposits, to fund domestic credit growth and holds a net external debtor position. This reliance on external funding remains an area to watch.

Institutional and political risk

Strong institutional backdrop

Norway is a parliamentary constitutional monarchy with a stable and predictable policymaking record. Executive power is exercised by the Cabinet, led by the Prime Minister. Legislative power is vested in both government and the Storting, Norway's unicameral legislature. The Supreme Court is the highest body within an independent judiciary. Norway has no modern record of sovereign default.

Parliamentary elections in September

Norway's current minority government was formed after the 2013 elections, composed of the Conservatives and the Progress Party, with a support arrangement from the Liberal Party and the Christian Democrats. The next elections will take place on 11 September 2017. At present, opinion polls suggest a close contest, with the Labour Party – which has dominated Norwegian politics during the post-war era – expected to take the most seats like in the 2013 results. The Centre Party has seen considerable gains in support in 2017 riding a populist, anti-establishment wave. If the centre-left bloc led by the Labour Party achieves the stronger result, this would return politics to the Red-Green coalition existing prior to the 2013 election result, and imply a potential reversal of some Conservative Party policies over the past four years – including tax cuts passed during the oil price shock. Scope does not expect any material changes in Norway's creditworthiness after the elections next month.

[5] Norges Bank. (2016) '2016 Financial Stability Report: Vulnerabilities and Risks'.

Methodology

The methodology applicable for this rating and/or rating outlook "Public Finance Sovereign Ratings" is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "AAA" ("aaa") rating range for the Kingdom of Norway. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Kingdom of Norway, the following relative credit strengths are identified: 1) market access and funding sources, 2) excellent resilience to short-term external shocks, and 3) financial sector oversight and governance. Relative credit weaknesses are signalled for: 1) current account vulnerabilities and 2) macro-financial vulnerabilities and fragility. Combined relative credit strengths and weaknesses generate no adjustment and signal a sovereign rating of AAA for Norway. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	aaa
QS adjustment	AAA
Final rating	AAA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, the analyst conducts a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of fifteen. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analyst recommendation to the rating committee.

Foreign versus local currency ratings

Norway's debt is issued in krone. Because of its history of debt repayment, stable local currency and strong resilience to any balance of payment shock, Scope sees no evidence that Norway would differentiate among any contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**aaa**
QS adjustment	**AAA**
Final rating	**AAA**

QS

Maximum adjustment = 3 notches

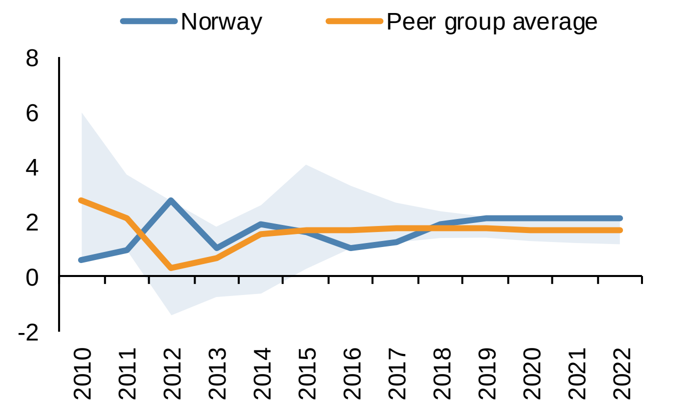
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	● Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	○ Strong performance	● Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	● Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	● Excellent access	○ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	● Excellent resilience	○ Good resilience	○ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	● Good	○ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate

* Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10

Source: Scope Ratings AG

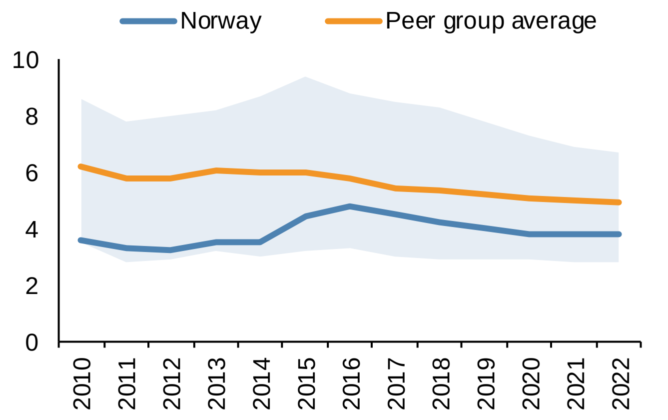
III. Appendix: Peer comparison

Figure 8: Real GDP growth



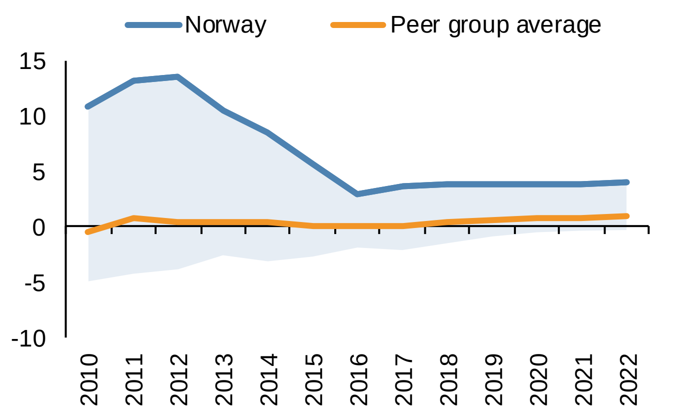
Source: IMF, Calculations Scope Ratings AG

Figure 9: Unemployment rate, % of total labour force



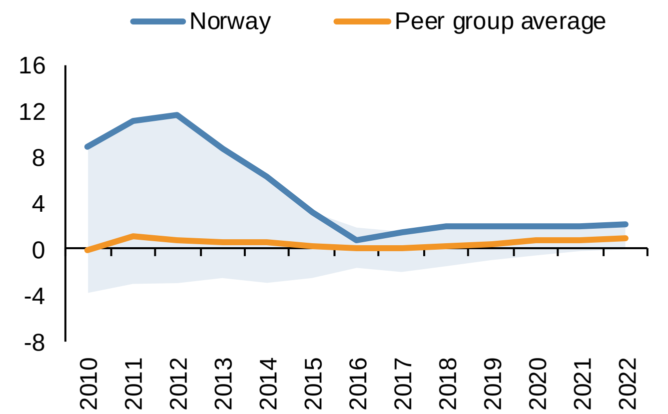
Source: IMF, Calculations Scope Ratings AG

Figure 10: General government balance, % of GDP



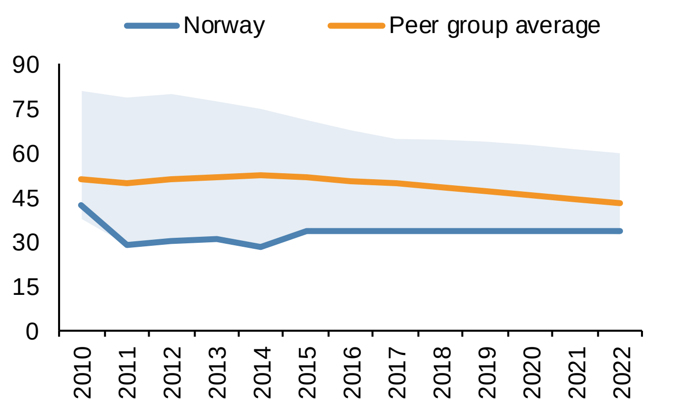
Source: IMF, Calculations Scope Ratings AG

Figure 11: General government primary balance, % of GDP



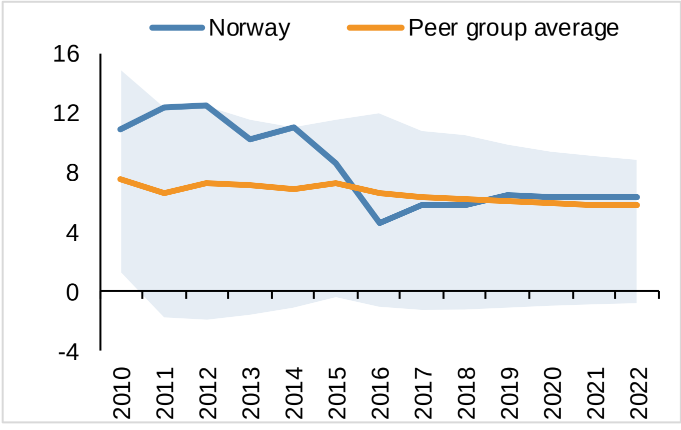
Source: IMF, Calculations Scope Ratings AG

Figure 12: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 13: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (NOK bn)	2,965.2	3,071.1	3,140.4	3,117.4	3,111.8	3,289.6	3,456.2
Population (thous)	5,012.0	5,077.1	5,140.3	5,199.8	5,254.7	5,305.4	5,353.4
GDP-per-capita PPP (USD)	65,380.3	66,959.3	65,655.5	62,053.2	59,301.7	-	-
GDP per capita (NOK thous)	588.6	602.6	609.0	598.9	591.3	616.4	639.4
Real GDP growth, % change	2.7	1.0	1.9	1.6	1.0	1.2	1.9
GDP growth volatility (10-year rolling SD)	1.6	1.6	1.4	1.4	1.3	1.1	1.2
CPI, % change	0.7	2.1	2.0	2.2	3.6	2.6	2.5
Unemployment rate (%)	3.2	3.5	3.5	4.4	4.8	4.5	4.2
Investment (% of GDP)	26.5	27.9	28.1	28.2	29.1	28.7	28.9
Gross national savings (% of GDP)	39.0	38.2	39.2	36.9	33.7	34.4	34.6
Public finances							
Net lending/borrowing (% of GDP)	13.5	10.5	8.5	5.7	2.9	3.6	3.8
Primary net lending/borrowing (% of GDP)	11.7	8.7	6.3	3.2	0.8	1.5	1.9
Revenue (% of GDP)	55.8	53.8	53.6	53.7	53.1	52.8	53.3
Expenditure (% of GDP)	42.2	43.3	45.1	48.0	50.2	49.2	49.4
Net interest payments (% of GDP)	-1.8	-1.9	-2.2	-2.5	-2.1	-2.1	-1.9
Net interest payments (% of revenue)	-3.3	-3.4	-4.0	-4.6	-3.9	-3.9	-3.6
Gross debt (% of GDP)	30.1	30.6	28.2	33.2	33.2	33.2	33.2
Net debt (% of GDP)	-174.0	-207.7	-247.5	-282.8	-284.5	-277.7	-272.8
Gross debt (% of revenue)	53.9	56.8	52.6	61.9	62.6	62.9	62.3
External vulnerability							
Gross external debt (% of GDP)	138.2	144.2	157.9	169.7	168.9	-	-
Net external debt (% of GDP)	-	-	-	-	-	-	-
Current account balance (% of GDP)	12.4	10.2	11.0	8.7	4.6	5.7	5.7
Trade balance [FOB] (% of GDP)	13.6	11.7	10.0	6.6	3.5	-	-
Net direct investment (% of GDP)	0.0	1.8	4.5	3.7	6.2	-	-
Official forex reserves (EOP, Bil. USD)	46.0	51.1	54.9	51.9	54.8	-	-
REER, % change	-1.3%	-1.7%	-5.9%	-8.9%	2.4%	-	-
Nominal exchange rate (EOP, NOK/USD)	5.6	6.1	7.4	8.8	8.6	-	-
Financial stability							
Non-performing loans (% of total loans)	1.5	1.3	1.1	1.1	1.2	-	-
Tier 1 ratio (%)	13.2	13.8	14.5	16.7	19.7	-	-
Consolidated private debt (% of GDP)	-	-	-	-	-	-	-
Domestic credit-to-GDP gap (%)	0.2	-2.9	0.6	5.2	4.4	-	-

Sources: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by Dennis Shen, Lead Analyst

Person responsible for approval of the rating: Dr Stefan Bund, Chief Analytical Officer

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on the Kingdom of Norway are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Sovereign Ratings Calendar of 2017" published on 21.07.2017 on www.scoperatings.com). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the deviation was due to the recent revision of Scope's Sovereign Rating Methodology and the subsequent placement of ratings under review, in order to conclude the review and disclose ratings in a timely manner, as required by Article 10(1) of the CRA Regulation.

Rating committee: The main points discussed were: (1) economic growth potential and outlook, (2) public finance performance, (3) external economic position, (4) banking sector performance and outlook, (5) reliance on petroleum industry, (6) sovereign wealth fund performance and outlook, (7) housing market and private debt developments, (8) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: Statistisk Sentralbyrå (Statistics Norway), Norges Bank, European Commission, Statistical Office of the European Communities, IMF, OECD, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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