Norway

CRT-1

August 22, 2019

Region: Europe

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Norway is a CRT-1 country, with a low level of economic risk and very low levels of political and financial system risk. Although it is not a member of the EU, it does have access to the European markets and relies heavily on trade with its European neighbors.

• Norway has one of the highest GDP per capita in the world, at almost USD82000. Growth is expected to increase in 2019 to 2.0% from 1.4%, while inflation is projected to decrease to 1.9% from 2.8%. To curb inflation, Norges Bank has taken steps to normalize its monetary policy.

• AM Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Ukraine.

Regional Summary: Western Europe

• Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.

• Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.

• Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.

• The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Low

- The economy of Norway is highly linked to the energy sector, as it has an abundance of natural resources in its stake in the North Sea. The country is the largest oil exporter in Europe and the third-largest gas exporter in the world.

- Oil prices plummeted at the end of 2018 and are recovering but remain volatile. Norway’s economic outlook is tied to the recovery in oil prices and a subsequent recovery in offshore investment.

- Household consumption has been a driver of the recent economic expansion, supported by strong wage growth and a low unemployment rate.

- As of October 2018, Norway’s Government Pension Fund Global contained about USD1 trillion and is used to mitigate the risk of dropping oil prices. The fund is the largest government-owned wealth fund in the world, but has no formal mandate as to how the fund should be used. Currently, the fund owns around 1.4% of all global stocks.

- Norway ranks 7th out of 190 countries on the World Bank’s Ease of Doing Business Survey, ranking especially high in contract enforcement and resolving insolvency.

Political Risk: Very Low

- Erna Solberg from the Conservative Party is the current prime minister of Norway. Her party and two others lead the government but do not make up a majority. The lack of a majority in the coalition makes passing legislation difficult.

- The current administration prioritizes the expansion of the private sector in the economy, particularly in energy, infrastructure, and healthcare.

- Although Norway is not a member of the EU, it continues to support EU sanctions against Russia.

Financial System Risk: Very Low

- As a member of the European Economic Area, Norway abides by its regulatory standards. The country’s Financial Supervisory Authority (FSA) regulates the insurance and financial services industries.

- Norway’s official currency is the Norwegian krone. Monetary policy in Norway is set by the Norges Bank, whose policy mandate is to keep inflation around 2.0%. Norway has tightened monetary policy; the Norges Bank has raised the key policy rate twice in 2019, from 0.75% to 1.0% and then from 1.0% to 1.25%. The rate increases, along with rebounding oil prices, have helped strengthen the krone’s exchange rate.

- Norway’s household debt is currently valued at over 100% of the country’s GDP and continues to rise. As a result, the IMF recommends against loosening mortgage regulations.

- Despite Norway’s small population and economy, the insurance market is highly developed, with an estimated USD 19.9 billion in insurance premiums.