Norway

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IN A NUTSHELL

- → In 2021, the Norwegian economy bounced back strongly from the pandemic, with low unemployment and high capacity utilisation.
- → The central bank started to raise rates from a record low of zero percent in September 2021 and expects (June 2022) its benchmark rate to reach 3% by mid-2023.
- → Interest rates levels spurred house price growth to 5.2% in 2021 and 8.7% in 2020, expected to slow as interest rates rise.
- → Household debt continued to rise in 2020 and 2021 but slowed toward the end of 2021 to a debt-to-income level of 231%. The central bank forecast it to continue to rise over the next years.

MACROECONOMIC OVERVIEW

Economic activity grew rapidly through 2021, with the removal of pandemic related restrictions. Unemployment has edged lower, several businesses are experiencing labour shortages, particularly in health services and construction. The unemployment rate was 4.4% (Eurostat).

Inflation surged through 2021, mainly driven by higher electricity prices. Overall price growth is at the highest since the 1980s, with underlying inflation at 3.9%, well above the central bank's policy target of 2%. Wage growth and wage growth expectations have also increased. The central bank started to raise rates in September 2021 from a record low of 0% and has signalled that the policy rate will reach around 3% by the end of 2023.

The central bank forecasts strong growth in the mainland (non-oil) economy in 2022. The conflict in Ukraine dampens the outlook, although Norway has a very limited exposure to the Russian economy. Since the outbreak of the pandemic, economic activity has fluctuated in line with infection rates and government restrictions. The mainland economy grew by 4.2% in 2021, after falling by 3.0% in 2020.

During the pandemic, residential and commercial property prices increased substantially, and household credit growth accelerated. House price growth has been more moderate since the middle of 2021, with another upturn in the first quarter of 2022 mainly driven by fewer dwellings on the market.

Norwegian banks have over several years shown a high degree of profitability, low losses, and strong capitalisation.

LOOKING AHEAD

The conflict in Ukraine has led to heightened economic uncertainty. Trade with Russia and Ukraine is very limited, but the economy is not immune to shocks caused by the conflict. The central bank sees the mainland economy growing by 3.5% in 2022, with the main growth drivers being consumption and exports. A tighter fiscal policy and higher interest rates are expected to slow economic growth in the years ahead.

Over the past two years, the pandemic and associated restrictions have limited household consumption, primarily n services. Household savings have been substantially higher than normal which allows spending rise more than income growth would imply. But high inflation and rising interest rates weigh on real disposable income.

House price growth is expected to flatten in the coming years, mainly because of higher interest rates. Housing investments fell after summer 2021 but picked up toward the end of the year which may indicate that high construction costs have had a smaller impact on investments than assumed. Housing investment is expected to grow in 2022, while slowing in the longer term as a result of lower price inflation and higher interest rates.

On the back of high capacity utilisation in the Norwegian economy, business investment is projected to expand in the years ahead. Investments in the service sector are expected to rise, as well as an increase in manufacturing investment owing to climate and energy transition abroad and in Norway. The Norwegian central bank sees higher electricity prices and limited energy supply to dampen manufacturing investment in southern Norway, while boosting investment in power generation and transmission capacity. Higher interest rates will in isolation reduce investment growth.

HOUSING MARKETS

The housing market is characterised by a high ownership rate. According to Statistics Norway 76.4% of all households own their dwelling. The housing market is composed by about 55% of detached houses and more than 20% multi-dwelling buildings. More than 90% of households live in a dwelling defined as spacious by Statistics Norway.

House prices grew during the pandemic, particularly in urban areas. Interest rate cuts in early 2020 reduced the mortgage burden for households, with more than 90% of mortgages variable-rate. A study published by the central bank shows that there has been a net migration from Oslo for the first time in 20 years, as the pandemic changed housing preferences increasing demand for larger dwellings in rural areas.

Prior to 2017, the housing market experienced an extended period of price growth. A combination of low interest rates, high income growth and low construction activity led to these higher prices. In 2017 the trend turned, particularly in Oslo. A pick-up in construction activity, lower population growth and a tightening of lending regulations - introducing a maximum loan-to-income requirement of 500% - dampened house price growth. In 2018 and 2019 the annual national house price growth was about 2%. The housing market picked up at the onset of the pandemic, primarily driven by record low interest rates.

MORTGAGE MARKETS

Household borrowing costs have risen since the policy rate was raised in 2021. The central bank forecast the average residential mortgage rate to rise to about 4.3% in 2024. A lending survey carried out by the central bank in the first quarter of 2022 shows that banks expect slightly lower credit demand from households and that funding costs and lending rates are expected to increase somewhat further in the following quarter.

The mortgage market is dominated by variable-rate mortgage loans. Residential mortgage demand rose at the onset of the pandemic, following the interest rate cuts. Overall credit demand has been stable since the end of 2020. An annual mortgage lending survey carried out by the Norwegian Financial Supervisory Authority shows that the average loan-to-value ratio for new loans remained stable at 65%.

New mortgages are typically written with a 25-year maturity. There is no prepayment penalty on floating interest rate loans, and it is convenient to move a mortgage to another institution. Almost all loans to households secured on dwellings are granted by banks and mortgage credit institutions.

To mitigate the build-up of debt in vulnerable households, the Norwegian government has set requirements for banks and other financial institutions. Residential mortgage loans have been subject to regulation since 2015, building on guidelines which had been in effect since 2011.

In December 2020, the Finance Ministry consolidated the requirements in a new regulation covering both residential mortgages and consumer loans. The current regulation will be in force until 2024, to be evaluated in 2022, imposing requirements on debt-to-income ratio, loan-to-value ratio, debt-servicing ability and required principal payment on loans with a high LTV-ratio. The flexibility quota for new loans secured on residential property is set at 10%, with the exception of loans secured on new loans in Oslo which is at 8%.

Defaults on mortgages have been very low for a long time. Even during the banking crisis in the early 1990s, the losses on mortgages were not severe for Norwegian banks.

MORTGAGE FUNDING

Norwegian banks and covered bond companies (separate legal entities which main purpose is to fund appropriate assets with covered bonds) are on aggregate funded by 9% equity, 45% deposits and 46% wholesale funding. The latter consists of approximately 54% covered bonds as well as senior, unsecured bonds and short term-funding. Covered bonds are hence a very important source of funding of residential mortgages. Today there are 24 issuers of covered bonds in Norway. In 2020 a total of approximately EUR 30.1 bn of covered bonds was issued. The total level of outstanding bonds was close to EUR 134.3 bn 48% of the outstanding bonds are denominated in NOK, 47% in EUR, and the remaining 5% in other foreign currencies.

According to figures from the FSA the development in banks' funding has been quite stable for some time. Since the introduction of covered bonds in 2007 senior, unsecured bonds have gradually been replaced by covered bonds. This has also contributed to longer maturities within wholesale funding.

GREEN FUNDING

Sustainable finance has been a key priority for several years. In 2015, the Oslo Stock Exchange became the first stock exchange in the world to introduce a separate list for green bonds. Since then, numerous initiatives in the financial industry have been taken and several green bonds issued.

Several banks offer green mortgages to their customers, some even with a discounted interest rate. Green mortgages are most commonly linked to Energy Performance Certificate (EPC) or to specific initiatives such as installing solar panels.

On the regulatory side, it is expected that the EU taxonomy will enter into force in Norway in autumn 2022. Reporting requirements as set out in the regulation will be in force from January 2023. The government has expressed sustainable finance a priority, so that Norwegian legislation adopts all relevant EU regulation related to sustainable finance.

This includes for instance the definition of NZEB (nearly-zero energy building) which is a criterion in the EU taxonomy classification of new buildings after 1 January 2021. A public consultation on the implementation of the NZEB-definition has not yet been issued.

	NORWAY 2020	NORWAY 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-0.7	3.9	5.4
Unemployment Rate (LSF), annual average (%) (1)	4.4	4.4	7.0
HICP inflation (%) (1)	1.2	3.9	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	80.8	80.8	70.0
Gross Fixed Investment in Housing (annual change)(1)	-4.0	0.6	6.6
Building Permits (2015=100) (2)	96.8	97.4	134.0
House Price Index – country (2015=100) (2)	127.6	134.2	145.2*
House Price Index – capital (2015=100) (2)	141.7	144.8	146.1*
Nominal house price growth (%) (2)	5.7	5.1	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	299,365	328,387	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	70,456	76,732	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	178.0	174.4	62.8*
Gross residential lending, annual growth (%) (2)	n/a	n/a	12.2
Typical mortgage rate, annual average (%) (2)	2.1	1.8	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

NORWAY FACT TABLE

Which entities can issue mortgage loans in your country?	Banks, credit institutions (such as covered bond companies) and state lending institutions.
What is the market share of new mortgage issuances between these entities?	Not available
Which entities hold what proportion of outstanding mortgage loans in your country?	Banks and (partly or fully owned) covered bond companies have granted almost all mortgage loans. State lending institutions have a marginal share.
What is the typical LTV ratio on residential mortgage loans in your country?	65 % for new mortgages according to a survey conducted by the FSA.
How is the distinction made between loans for residential and non-residential purposes in your country?	Not available
What is/are the most common mortgage product(s) in your country?	Floating rate mortgage
What is the typical/ average maturity for a mortgage in your country?	The standard maturity for mortgage loans is about 25 years.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds and deposits.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Roundtrip transaction cost (registration fee, real estate agent's fee, transfer stamp duty) are between 3.75%-5.6%..
What is the level (if any) of government subsidies for house purchases in your country?	Vulnerable households may receive loans with a favourable interest rate or direct support from the government bank "Husbanken". The amount under the latter option is calculated based on income and housing expenses.