Norway

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IN A NUTSHELL

→ Economic activity slowed, but unemployment remains low.
→ The Central Bank increased the key policy rate from 2.75% to 4.5%.
→ Inflation markedly above target.
→ Stable prices in the housing market.

MACROECONOMIC OVERVIEW

Economic activity slowed in 2023 and GDP-growth ended at 0.7%. The weakening was influenced by high inflation, increased interest rates and lower household demand. Unemployment, however, remained stable throughout the year at 3.5% (Eurostat).

Inflation decreased due to higher interest rates but continued to be well above the Central Bank's target at 2%. CPI was 5.9% in December and the underlying inflation CPI-ATE, adjusted for tax changes and excluding energy products, was 5.5%. Wages fell in real terms which, combined with higher mortgage costs, led to a reduction in household purchasing power. The export sector was supported by the weak Norwegian krone, whereas the construction activity dropped reflecting weak new home sales.

The Central Bank started to raise its key policy rate in September 2021 from a record low of 0% and after several hikes the key policy rate is at 4.5% (June 2024).

So far in 2024, the housing market has performed stronger than most have expected. Besides low unemployment, the decrease in newbuilding and expectations of lower mortgage rates not too far ahead in time has probably been important explanatory factors. For the mortgage and housing markets, the main drivers will be the key policy rate, economic activity and unemployment. The economy is expected to experience marginal growth while unemployment may increase from a very low level. Almost all mortgages have floating rates, which implies that policy rates have a strong, direct effect on disposable income.

HOUSING MARKETS

The housing market is characterised by a high ownership rate. According to Statistics Norway, 76.3% of all households own their dwelling. The housing market consists of 47.4% detached houses, 26.4% multi-dwelling buildings, 12.3% row house, 9% house with 2 dwellings and other buildings 4.9%.

Up to 2017, there was an extended period of house price growth due to low interest rates, high income growth and low construction activity. In 2017 the trend turned, particularly in Oslo, due to increased construction activity and amendments to the mortgage regulation by the Ministry of Finance. A new requirement of a maximum loan-to-income of 5 dampened house price growth. Afterwards, house price growth was stable until it started to increase as the key policy rate was reduced due to the pandemic.

During the pandemic, house prices increased particularly in urban areas. Interest rate cuts in early 2020 reduced the mortgage burden for households, with more than 90% of mortgages being variable-rate. According to the Central Bank, 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 outside the larger cities. Nevertheless, Oslo has experienced the largest increase in prices in recent years and the price level is well above that of other major cities.

As interest rates have increased since the pandemic, house price growth has slowed. However, the housing market has been robust with no material change in house prices in 2023 as a whole.

Uncertainty about the housing market has led to a decrease in demand for new buildings which in turn has reduced construction. According to the research company "Prognosesenteret"[1] the sales of new residential real estate was 21% lower y-o-y and housing starts have declined by 32%. Given the fairly slow reaction of new construction to increased demand, the reduction of housing starts may support prices in future.

MORTGAGE MARKETS

Household borrowing costs have risen substantially as the key policy rate has been raised on several occasions since its lowest level at 0% in 2021. The Central Bank forecast the average residential mortgage rate to peak at about 5.7% in 2024, from an average 2% in 2021-2022. A lending survey carried out by the Central Bank in the Q1 2024 shows that banks have experienced decreased credit demand from households in recent quarters. The demand for credit is however expected to increase slightly in Q2 2024.

The mortgage market is dominated by variable-rate loans. According to Statistics Norway, there was a reduction in total credit demand growth throughout 2023, whereas credit to households has been on a declining (but still positive) trend since 2021. Loans to households increased by 3.4% in December 2023.

An annual mortgage lending survey carried out by the Norwegian Financial Supervisory Authority (FSA) shows that the average loan-to-value ratio for new loans remained stable in 2023 at 64%.

New mortgages are typically written with a 25-year maturity, 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 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 Ministry of Finance consolidated the requirements in a new regulation covering both residential mortgages

[1] Source (Norwegian only): https://blogg.prognosesenteret.no/status-paa-salg-og-igangsetting-av-nye-boliger---mars-2024

and consumer loans. The regulation was reviewed in 2022 which resulted in a loosening of some of the requirements. The current regulation will be in force until the end of 2024 and entails the following requirements for mortgages:

- Loan-to-value (LTV) requirement of maximum 85%.
- Stress test: Households must be able to service their debt in the event of a 3 pps increase in mortgage rates. The minimum stress test level is a 7% interest rate.
- Maximum debt-to-income (DTI) ratio requirement of five times gross annual income
- Mandatory principal payments (i.e. interest-only loans are not allowed) when the LTV ratio exceeds 60%.
- Flexibility quota: Up to 10% of the value of new loans can deviate from one or more of the requirements in each quarter (the limit is 8% for Oslo).

According to the quarterly FSA survey on the use of flexibility quota (i.e. deviations from the mortgage requirements) it has been rather stable since the pandemic. In 2023, banks' use of flexibility quota increased slightly for new loans outside of Oslo, to 7.4% in Q4 (compared to 7% in Q4 2022). For Oslo it was 5.4% in the same period (compared to 4.2% in Q4 2022). The figures reflect that banks tend to operate with a significant buffer to the limits set in the regulation, although the use of flexibility quota may not be evenly distributed among banks.

Defaults on mortgages have been very low for a long time. According to the Central Bank, non-performing loans as a share of lending to the retail market increased slightly in 2023. The level was approximately 0.6% in Q4 2023.

MORTGAGE FUNDING

Norwegian banks and covered bond companies (separate legal entities whose main purpose is to fund typically mortgages with covered bonds) are on aggregate funded by approximately 8% equity, 41% deposits (only banks) and 51% wholesale funding. Covered bonds are approximately half of all wholesale funding. The remainder is senior, unsecured bonds and short term-funding. Covered bonds are hence a very important source of funding of residential mortgages. To date, there are 23 issuers of covered bonds. In 2023 more than EUR 27 bn. worth of covered bonds were issued. The total level of outstanding bonds was approximately EUR 132.5 bn, down by almost EUR 2.5 bn from 2022. 57% of the outstanding bonds are denominated in NOK, 40% in EUR, and the remaining 3% 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. The Norwegian financial industry fully supports the work on sustainable finance in the EU and is currently working on interpreting and adapting for instance taxonomy standards on residential real estate (top 15%, NZEB etc.), together with the authorities.

Several banks offer green mortgages to their customers, some with a discount in the interest rate. Green mortgages are most commonly linked to Energy Performance Certificate (EPC) or to specific energy efficiency initiatives on houses.

The first green covered bonds were issued in 2018. Today, 17 Norwegian issuers have issued green covered bonds based on residential mortgages. Outstanding volume was almost EUR 16 bn at year-end 2023, up from EUR 13 bn in 2022.

	NORWAY 2022	NORWAY 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	3.0	0.5	0.4
Unemployment Rate (LSF), annual average (%) (1)	3.2	3.6	6.1
HICP inflation (%) (1)	6.2	5.8	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	69.2
Gross Fixed Investment in Housing (annual change) (1)	-1.4	-15.6	-3.1
Building Permits (2015=100) (2)	96.6	73.7	94.0
House Price Index - country (2015=100) (2)	137.0	138.2	170.2*
House Price Index - capital (2015=100) (2)	145.0	149.3	165.1*
Nominal house price growth (%) (2)	1.8	0.9	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	324,846	312,510	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	59,876	56,934	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	178.1	201.9	71.3
Gross residential lending, annual growth (%) (2)	n/a	n/a	-26.6
Typical mortgage rate, annual average (%) (2)	2.8	4.9	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, 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 for new mortgage issuance.
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?	64% 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.