

Norway

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IN A NUTSHELL

- The economy continues to perform well, with low unemployment and high-capacity utilisation.
- The central bank started to raise rates from a record low of 0% in September 2021 and expects the key policy rate to reach its peak of 4.25% in 2023.
- Price growth has declined as the mortgage rates have gone up.
- The Ministry of Finance decided to loosen the mortgage regulation somewhat.

MACROECONOMIC OVERVIEW

Economic activity continued at a solid pace, although growth was lower than in 2021. Unemployment is slightly lower, with several businesses experiencing labour shortages, the unemployment rate fell from 4.4% to 3.2% over the year (Eurostat).

Inflation surged, with overall price growth at its highest since the 1980s, with underlying inflation at 5.8%, well above the central bank's 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 the key policy rate is as of June at 3.75%. Communication from the central bank indicates a peak level of the key policy rate at 4.25%.

According to the central bank the mainland (non-oil) economy performed better than expected, but going forward it is expected that it will grow at a slower pace. They forecast that mainland-GDP will increase by 1.1% in 2023, down from 3.7% in 2022.

During the pandemic, residential and commercial property prices increased substantially, and household credit growth accelerated. As the mortgage rates started to increase in 2021, house price growth has declined but remained positive.

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.

For the mortgage and housing markets, the main drivers will be the key policy rate and economic activity and unemployment. The economy is expected to grow at a slower pace while unemployment may increase somewhat from a very low level. Almost all households with a mortgage have chosen floating rates, which implies that an increased policy rate has a stronger and more direct effect on households' disposable income.

According to the central bank, many households have used their extra savings from the pandemic to support their consumption level. As this possibility will be exhausted at some point, it is expected that household consumption will decrease,

although expectations of higher growth in real disposable income may lead to an increase in consumption further down the road.

HOUSING MARKETS

The housing market is characterised by a high ownership rate. According to Statistics Norway, 81.8% of all households own their dwelling. The housing market consists of 48% detached houses, 25% multi-dwelling buildings, 12% row house etc, 9% houses with 2 dwellings and other buildings 6%.

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 being variable-rate. Low interest rates have supported the demand for housing in recent years. According to the central bank, there has been a net migration from the capital Oslo for the first time in 20 years, as the pandemic changed housing preferences, increasing demand for larger dwellings in rural areas. Nevertheless, Oslo has experienced the largest increase in prices in recent years and the price level is well above that of other major Norwegian cities.

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 as well as amendments of the mortgage regulation decided by the Ministry of Finance. The introduction of a new requirement of a maximum loan-to-income of 500% contributed to a dampening effect on house price growth. Afterwards, house price growth was stable before it started to increase as the key policy rate was reduced due to the pandemic. As interest rates have increased, house price growth has slowed.

Uncertainty about future developments in the housing market has led to a decrease in demand for new buildings which in turn has affected construction negatively. A survey conducted by the research company "Prognosecenteret" in April 2023 suggests that the sales of new residential real estate was 36% lower over the last 12 months. The number of housing starts in the last 12 months has declined by 21%. Given the fairly slow reaction of new construction to increased demand, the reduction of housing starts may support the price level in the housing market going forward.

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 peak at about 5.4% in 2024, from around 2% on average in 2021-2022. A lending survey carried out by the central bank in the first quarter of 2023 shows that banks expect slightly lower credit demand from households. It also reflects that there has been an increase in households applying for a period of interest-only payments.

The mortgage market is dominated by variable-rate loans. According to the FSA, overall credit demand has been fairly stable since the end of 2020. In 2022 the annual growth in loans to households increased by 5.4%.

An annual mortgage lending survey carried out by the Norwegian Financial Supervisory Authority shows that the average LTV ratio for new loans remains quite stable at 64%.

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 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 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:

- 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 DTI ratio requirement of five times gross annual income
- Mandatory principal payments (i.e., not allowed with interest-only loans) when the LTV ratio exceeds 60%
- Interest-only periods on mortgages and home equity lines of credit may only be granted when LTV is below 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)

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. In 2022 the share of defaulted household loans as a share of gross lending declined slightly.

MORTGAGE FUNDING

Norwegian banks and covered bond companies (separate legal entities whose main purpose is to fund appropriate assets with covered bonds) are on aggregate funded by 13% equity, 47% deposits and 40% wholesale funding. Covered bonds constitute approximately half of the latter, in addition to senior, unsecured bonds and short term-funding. Covered bonds are hence a very important source of funding of residential mortgages. To date, there are 24 issuers of covered bonds in Norway. In 2022 approximately EUR 34 bn worth of covered bonds was issued. The total level of outstanding bonds was close to EUR 134 bn, with 51% of the outstanding bonds denominated in NOK, 45% in EUR, and the remaining 4% 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. During the pandemic the level of deposits increased but anecdotal evidence suggests that this trend has shifted during the last months.

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 in a Norwegian context (top 15 %, NZEB etc.), together with the authorities.

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.

The first green covered bonds issuance took place in 2018. Today, 14 Norwegian issuers have issued green covered bonds based on residential mortgages. Outstanding volume was approximately EUR 10.5 bn at year-end 2022 and issuances have been done in NOK, SEK and EUR.

	NORWAY 2021	NORWAY 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	3.9	3.3	3.5
Unemployment Rate (LSF), annual average (%) (1)	4.4	3.2	6.2
HICP inflation (%) (1)	3.9	6.2	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	69.1
Gross Fixed Investment in Housing (annual change)(1)	0.6	-1.4	1.5
Building Permits (2015=100) (2)	97.4	96.6	125.8
House Price Index - country (2015=100) (2)	134.9	137.3	164.6*
House Price Index - capital (2015=100) (2)	144.8	147.3	163.8*
Nominal house price growth (%) (2)	5.1	1.8	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	328,387	324,846	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	76,732	75,252	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	174.4	178.1	71.5
Gross residential lending, annual growth (%) (2)	n/a	n/a	-6.5
Typical mortgage rate, annual average (%) (2)	1.8	2.8	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, 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.