

Norway

By Odd Kristiansen, Norwegian State Housing Bank

Macroeconomic overview

In 2009, Norwegian annual GDP at constant prices fell for the first time in 20 years by 1.5%. Export-led industries and wholesale and retail trade contributed strongly to the drop in activity at the beginning of 2009, while business services was the main source of reduced growth in the second half of the year. Increased general government spending contributed positively throughout 2009 and helped offset the downturn in the Norwegian economy. In 2009 Norway experienced a moderate inflation (2.3%), which was below the Norwegian inflation target of 2.5%. The inflation is reflected mostly in rents and food prices. Rental prices rose on average by 3.3% from 2008 to 2009, and the annual growth rate in food prices was 3.9%. However, price developments of energy contributed to dampen the total annual growth in consumer prices.

From Q4 2008 to Q4 2009, employment fell by 28,000 units. The decline in the employment rate particularly affected the youngest segments of the labour force; during 2009, a total of 25,000 people under 30 quit the labour market. Due to the economic recession unemployment has increased, but still remains relatively low. An annual average of 3.1% of the labour force was recorded as unemployed in 2009. Unemployment is expected to increase only moderately in 2010.

Housing and mortgage markets

The marked fall in house prices through the second half of 2008 was more than reversed last year and Statistics Norway's house price index reached an all-time high in the second half of 2009. This higher level in house prices helped improve the profitability of new residential investment. Nevertheless, housing investment continued to record a considerable fall also in 2009, when it amounted to only 15.3% of gross capital formation, compared to 22.7% in 2006. Consequently, there was a further decline in housing activity. Despite the increasing housing prices the number of housing starts fell from 25,800 dwellings in 2008 to 19,700 in 2009. One of the main reasons for this development is probably the following: major housing developers, while experiencing a decrease in the sales of housing starts, have been more cautious and, therefore, more likely to postpone the start of new building projects. An even bigger decline was recorded in the numbers of housing completions – from more than 28,000 housing units in 2008 to 21,225 units in 2009, i.e. on average 4.4 units per 1,000 inhabitants. The fall in residential construction activity seemed to stop in the beginning of 2010. Excess construction capacity has led to a slower growth rate in building prices, so that the yearly growth rate in building prices is now more in line with the development in consumer price index. In order to provide stimulus to housing activity the Norwegian Central Bank (Norges Bank) has, in various ways, considerably reduced its key policy rate since Q4 2008, down to a bottom level of 1.25% in July, which is the historical low.

The decline in residential construction has led to slower growth in 2009 in the mortgage loans portfolio compared to the two previous years. However, the increase recorded by the popular lending scheme called "mortgage framework loans" was still significant (13.7%). According to this scheme, the borrower is, to a large extent, free to decide when the loan will be repaid. The share of mortgage loans out of total households' debt amounted to 82.4% in 2009, almost the same as in the previous year. Thus, the households' debt burden (defined as total debt to gross income ratio) has not further increased. For 13% of Norwegian households the debt burden was more than three times their income both in 2008 and 2007. This ratio is exactly the threshold the Financial Supervisory Authority of Norway recommends to Norwegian banks so that banks do not exceed in their lending practice. According to figures from Statistics Norway, the average debt for all Norwegian households amounted to around EUR 113,100 in 2009. As a result of the financial crisis Norwegian banks are now more cautious in granting mortgage loans. According to the "Residential loan survey 2009" issued by the Financial

Supervisory Authority of Norway, 9.3% of households took out loans where Loan-to-Value (LTV) ratio exceeded 100%, while in 2007 they were 28.0%. The LTV was below 80% for 61.5% of all existing loans in 2009. In 2009 the Supervisory Authority worked out new guidelines for banks' lending practice which, among other things, require that the LTV normally should not exceed 90%. Despite a very low interest rate level, defaults and losses increased in 2009. Statistics from The Norwegian Financial Services Association (FNO) report that net non-performing assets of commercial banks amounted to 1.5% of net loans to consumers in 2009 (0.8% in 2008). Total losses amounted in 2009 to around NOK 6,000 million (EUR 752.4 million), i.e. 0.26% of the average total assets.

As already mentioned in the EMF's Hypostat 2008, the most important change in housing policy in 2009 was the improvement in the Norwegian State-guaranteed housing allowances scheme, i.e. a government housing support scheme issued by the Norwegian State Housing Bank (NSHB) and the municipalities. This housing allowance scheme aims at helping low-income households dealing with high housing expenses to obtain and/or maintain a satisfactory housing standard. A total of 136,000 households, about 7% of all Norwegian households, benefited from such housing support in 2009.

Regarding institutions which provide mortgage loans to residents, the NSHB has now increased its relative importance in the funding of new homes. The NSHB funded loans for the construction of approximately 5,400 new homes in 2009, contributing to the funding of 27% of all new homes built during the year (14% in 2008). The increase in the share held by NSHB in the funding of the construction of new homes is probably connected with the financial crisis.

Funding

In 2009, the domestic bond debt increased by more than 30%, and amounted to NOK 1,220 billion (EUR 153.7 billion) at the end of the year. This increase is due to an increase in the issuance of covered bonds as well as an increase in debts from other issuing sectors. Compared to 2008, the value of covered bonds issuance increased by 72% in 2009. A considerable share of the covered bonds' issuance was formed by those covered bonds that were exchanged with government securities according to an authorisation from the Norwegian parliament to the Ministry of Finance in October 2008.

Banks can finance their operations through different funding sources. An important short-term source of funding is the use of inter-bank loans. The ratio of inter-bank loans to total balance sheets has risen during 2009 and now amounts to 22.5%. Norwegian banks mainly obtain this type of loan from foreign banks. However, customer deposits are usually considered as being the safest funding source, and also the cheapest and most stable one. The ratio of households' deposits to banks' total balance sheet is nearly 21%. Similarly, the ratio of bonds to banks' total balance sheet is nearly 19%, while the equity/capital ratio is around 5%.

Non-EU country reports

	EU27, 2009	Norway, 2009	Norway, 2008
GDP growth (%)	-4.2	-1.5	1.8
Unemployment rate (%)	8.9	3.1	2.5
Inflation (%)	1.0	2.3	3.4
% owner occupied	68.2	76,7	76.7
Residential Mortgage Loans as % GDP	51.9	70.8	55.5
Residential Mortgage Loans per capita, EUR thousand	12.37	40.70	36.24
Total value of residential loans, EUR million	6,125,727	195,342	171,689
Annual % house price growth	-6.8	1.9	-1.1
Typical mortgage rate (euro area), %	2.71	3.82	5.74
Outstanding Covered Bonds as % outstanding residential lending	23.2	29.9	12.4

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Norway= 2001

Source: EMF, Eurostat, ECB, Bank of Norway, Statistics Norway

