Norway

The Norwegian economy, similar to other countries, improved during 201 after having been negatively affected by the Covid-19 pandemic throughout 2020. However, the emergence of Omicron and increased infection rate at the end of the year caused concerns.

The introduction of several measures since the outbreak of Covid-19 dampened the negative impact on the economy. The economic measures to support the economy and financial system included a reduction of the key policy rate from 1.5% to 0%, reduced level of the countercyclical capital buffer for banks to 1%, introduction of a loan guarantee scheme and a compensation scheme for relevant businesses. During 2021 measures were reduced, and the key policy rate was increased two times to 0,5 % at the end of the year. It was also announced by the Central Bank of Norway that the countercyclical capital buffer was to increase to 2 %, entering into force on 31 December 2022.

The Norwegian banking sector is characterised by a few very large commercial banks, some regional based and several small savings banks. At the end of 2021, there were 136 banks operating in Norway. 118 were Norwegian and 18 branches of foreign banks. The market share of the subsidiaries and branches of foreign banks were 24% and 37% in the retail and domestic corporate market, respectively.

The banking market is experiencing consolidation, especially among the savings banks, whereas newly established banks in recent years has been dominated by a focus on consumer credit. During the last decade the number of savings banks has been reduced from 112 to 92 and the number of commercial banks has increased by seven to 22.

At year-end 2021, the aggregate assets of the banking sector (including foreign entities) amounted to around €745 billion. The Norwegian banks' return on equity were 10.7%, an increase of 1.5 percentage points from 2020. The increase in ROE was particularly due to lower losses on lending.

The capital adequacy in Norwegian banks was unchanged at 18.8% in 2021 which is at a peak in a historical perspective. According to the FSA there was a negative effect from an increase in RWA while the positive effect stemmed from an increase in retained earnings. The leverage ratio was on average 8%.

As more and more people are using banking services online, the number of physical branches has decreased significantly over several years. Mobile payment solutions have been well received by Norwegian households and are becoming increasingly popular. More digital banking has given the banking sector large productivity gains and hence lower costs. In 2021, the cost/income ratio in Norwegian banks were on average 44.8%.

The most important sources of funding are deposits and covered bonds. Large banks have a considerably larger share of market-based, international funding than smaller banks, which base their operations largely on depository funding. Bank deposits are guaranteed by the Norwegian deposit guarantee scheme and have thus proven to be a stable source of funding, also during the financial crisis. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (almost €200,000) per depositor per bank but may be changed in the future to the equivalent of €100,000 to be aligned with the EU. The deposit-to-loan ratio (deposits as a share of gross loans to customers) for Norwegian parent banks was 104% at year-end 2021 (non-consolidated figures from the FSA). The high level is mainly due to the transfer of mortgages to separate credit institutions (with the purpose of issuing covered bonds). By including these loans, the deposit-to-loan ratio was 62%. Deposits from customers increased by 9.9% in 2021 and was particularly evident among the largest banks.

Given the VAT exemption for financial services a financial tax was implemented in Norway in 2017. The tax comprises of two elements. The first is a payroll tax of 5% and the second a maintained tax rate at 25 %, i.e. an extra tax of 3 percentage points relative to other corporates (22% tax rate in 2021).

The Norwegian financial sector strongly supports the ESG-agenda and are involved in/has launched several initiatives in this area. The Roadmap for Green Competitiveness in the Norwegian Financial Sector, developed by Finance Norway, is an example of a key initiative setting the vision of a profitable and sustainable Norwegian financial sector in 2030. The roadmap includes seven general recommendations for the industry in addition to several specific recommendations for banks, insurers and investors. Furthermore, the Norwegian financial sector has already been issuing green bonds for several years, both covered and unsecured bonds.

Norwegian banks also strongly support the progress in the stability and governance of the European financial sector, as well as the increasing harmonisation of regulation and supervision throughout Europe, to ensure a level-playing field and improve the functioning of the market economy. Norway is not a direct member of the EU but participates in EU's internal market under the European Economic Area Agreement (EEA). According to this agreement Norway is obliged to implement all EU directives and regulations that relate to financial institutions and markets, such as the CRR/CRD, MiFID, Prospectus Directive, Solvency II etc. This ensures Norwegian financial institutions the same rights and obligations as institutions established within the EU.

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