

# Norway

The Norwegian economy has performed reasonably well in recent years, although the GDP growth for Mainland Norway declined somewhat in 2023. Unemployment has remained low, and the housing market has been quite stable despite the key policy rate being increased from 0% to 4.5% from September 2021 to December 2023. Housing investments has declined and contributed to dampening the growth in GDP.

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 2023, there were 124 banks operating in Norway. 106 were Norwegian and 18 branches of foreign banks. The market share of the subsidiaries and branches of foreign banks were 23% and 36% 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. Mergers between savings banks has been observed in different variations, including 2-3 smaller banks merging, large and small bank merging and between 2 larger entities. The number of Norwegian banks has gone down by 19 during the last 5 years.

At year-end 2023, the aggregate assets of the banking sector (including foreign entities) amounted to around €743 billion. The Norwegian banks' return on equity were 14.0%, an increase of close to 2 percentage points from 2022. The increase in ROE was particularly due to higher net interest income.

The capital adequacy in Norwegian banks (CET1 calculated as a weighted average) was 18.4% in 2023, more or less unchanged from the year before. The leverage ratio was on average 7.7%. In 2023 the Ministry of Finance increased the systemic risk buffer requirement from 3% to 4.5% for credit institutions using the standardised method or foundation IRB to calculate credit risk. The increase was imposed for credit institutions using advanced IRB already from 31.12.2020. The countercyclical capital buffer also increased in 2023. The requirement was tightened from 2% to 2.5% coming into effect from 31.03.2023.

As more and more people are using banking services online, the number of physical branches has decreased significantly over several years. More digital banking has given the banking sector large productivity gains and hence lower costs. In 2023, the cost/income ratio in Norwegian banks were on average 39.0%, a record low level according to the FSA.

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 proven to be a stable source of funding, also during financial turmoil. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (approx. €175,000) per depositor per bank. Deposits from customers increased by 3.8% in 2023.

Credit growth has been on a declining path throughout the year but ended at 4.6% growth compared to 2022. For retail customers the lending growth has been negative for branches of foreign banks (-2.5%) but remained positive (3.3%) for Norwegian 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 2023).

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.