

## Norway

### Household Credit Demand Slows in 1Q 2013

- The latest bank lending survey from Norges Bank shows that household credit demand slipped in the first quarter, contrasting developments in the monthly credit growth indicator for households, which has remained stable at 7.2% y/y, so far, this year. The drop was most noteworthy for first-time buyers, and likely reflects the latest gain in mortgage rates combined with the ongoing debate on upcoming regulations aimed at addressing the upward trend in house price and household indebtedness (recall the FSA has proposed to raise risk weights on residential mortgages from around 12% to 35% and to restrict covered bond issuance). Meanwhile, banks report that slightly tighter credit standards in the first quarter have not affected first-home mortgage loans. Although credit standards for households tightened slightly in 1Q 2013, they are nowhere near as tight as at the outset of 2012. With household borrowing continuing to outpace disposable income growth (2.6 y/y in nominal terms / 1.3% y/y in real terms in 4Q 2012), households' debt levels should rise further from already elevated levels of some 200%.
- Today's survey is unlikely, in isolation, to affect the outlook for monetary policy as the findings were of little surprise. There is, so far, little to indicate that stricter banking regulation has had a marked impact on credit demand. In turn, we see no clear indications that household credit growth should slow in the near term. That said, we reckon that key drivers ahead of the May monetary policy meeting – and in turn determinants as to whether Norges Bank will deliver the 50/50 rate cut or not – are the inflation outlook, developments in the Norwegian krone and monetary policy abroad. Inflation prospects in themselves indicate an even lower policy rate, while resource utilization could indicate a higher policy rate. At the same time, rising house prices and households' high indebtedness risk becoming a problem in the future is a further aspect that needs to be taken into consideration. For more, see p. 2.

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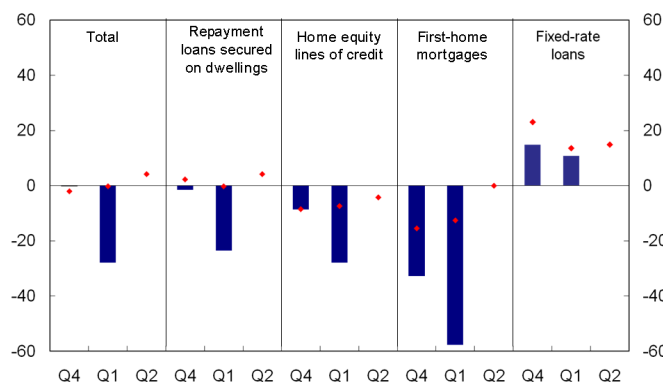
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## Household Credit Demand Slows in 1Q 2013

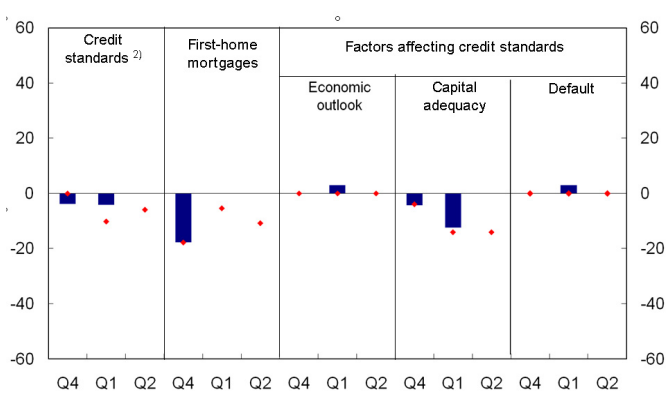
- Household loan demand declined in 1Q 2013 (net-balance of -27.9%, down from -0.2% in 4Q 2012), in contrast to the stable development in the monthly credit growth indicator for households since the start of the year (7.2% Y/Y in January and February). The survey showed that demand for first-home mortgages (-57.7%) and home equity lines of credit (-27.9%) slipped, while demand for fixed-rate loans remained firm – a trend that has been observed throughout 2012. This should come as less of a surprise given the recent rise in mortgage rates and the ongoing debate on upcoming regulations aimed at raising cost for mortgages (recall the FSA has proposed to raise risk weights on residential mortgages from around 12% to 35% and to restrict covered bond issuance). Looking ahead, banks expect demand to pick up marginally in 2Q (4.2% of banks expect higher credit demand), despite plans to tighten credit conditions slightly further. Meanwhile, the details of the survey points to a continued decline in demand for home equity lines of credit (-4.3%) and a continued gain in demand from fixed-rate loans (+14.9%) in 2Q 2013 (demand for first-home mortgages is seen unchanged).
- Lending standards for households were tightened marginally further in 1Q 2012, but the net-balance of minus 4.2% is below the 3Q 2012 reading (of -9.8, respectively) and continue to stand well below the 1Q 2012 peak, where 46.2% of banks reported a tightening in lending conditions to households. The tightening was due primarily to the need to increase the capital adequacy ratio. For the first time since 1Q 2011, banks report unchanged credit standards for first-home mortgages. Meanwhile, the further tightening of lending standards expected ahead should also be reflected in tighter credit standards for first-home mortgages, according to the survey.
- Credit standards for non-financial enterprises, meanwhile, eased somewhat in the first quarter, in line with expectations in the previous quarter (a net-balance of 15% of the banks reported an easing in lending conditions, up from -6.2% in 4Q 2012). Credit standards to the commercial real estate sector were approximately unchanged, but are expected to be tightened further in the second quarter of this year in line with tighter overall credit conditions. The easing reflects an improved funding situation, while the need for higher capital adequacy ratios worked in the opposite direction.
- The banks' ease in credit standards to the corporate sector resulted in increased demand (net balance of 17.1% vs. 18% in 4Q) and credit line utilization (net balance of 6.8% vs. 5.9% in 4Q) in early 2013 – with the actual outcome slightly beating expectations in the previous quarter. According to monthly data, credit growth to non-financial enterprises has been moderating since mid-2012, from 7.5% Y/Y in June 2012 to 4.2% Y/Y in February 2013, likely reflecting stricter lending conditions from banks and high activity on the bond market. Banks expect demand to continue to increase in the second quarter (net balance of 35.5%) despite lending standards being tightened (net balance of -77).
- See charts on page 3-4.

**Figure 1. Norway -- Household credit demand. Net percentage balances.<sup>1), 2)</sup>**



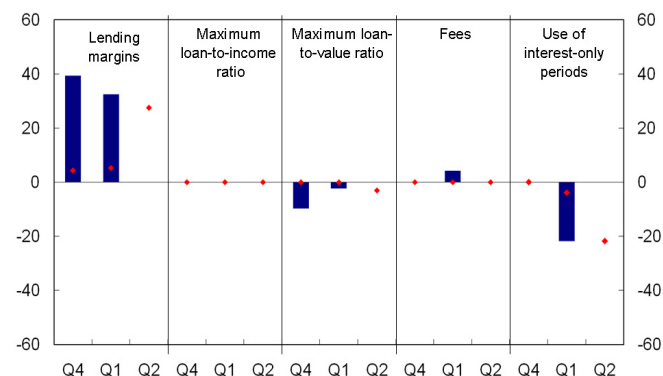
1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter 2) Negative net percentage balances denote falling demand. Sources: Norges Bank and Citi Research

**Figure 2. Norway -- Change in credit standards for households. Factors affecting credit standards. Net percentage balances<sup>1)</sup>**



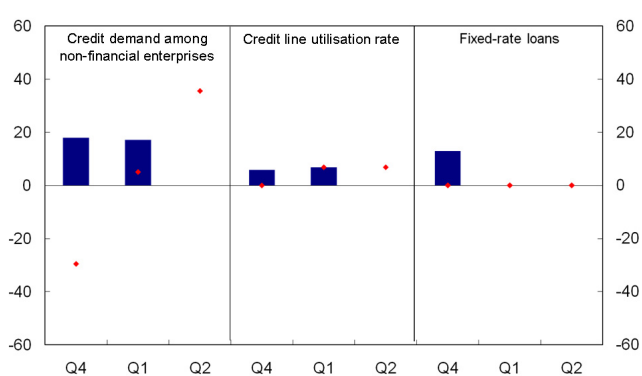
1) See footnote 1 in Chart 1. 2) Negative net percentage balances denote tighter credit standards. Sources: Norges Bank and Citi Research

**Figure 3. Norway -- Change in loan conditions for households. Net percentage balances<sup>1), 2)</sup>**



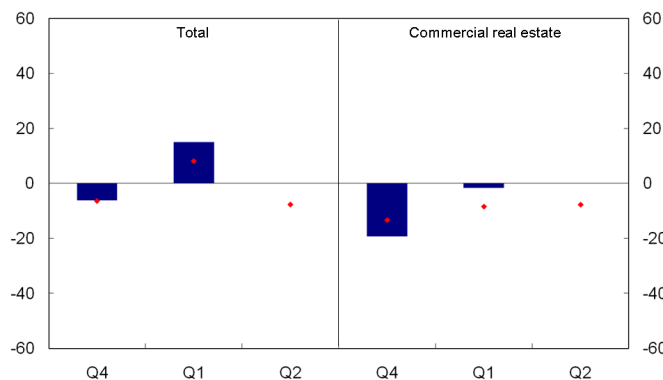
1) See footnote 1 in Chart 1. 2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins and fees denote tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only periods denote tighter credit standards. Sources: Norges Bank and Citi Research

**Figure 4. Norway -- Credit demand among non-financial enterprises and credit line utilisation rate. Net percentage balances<sup>1), 2)</sup>**



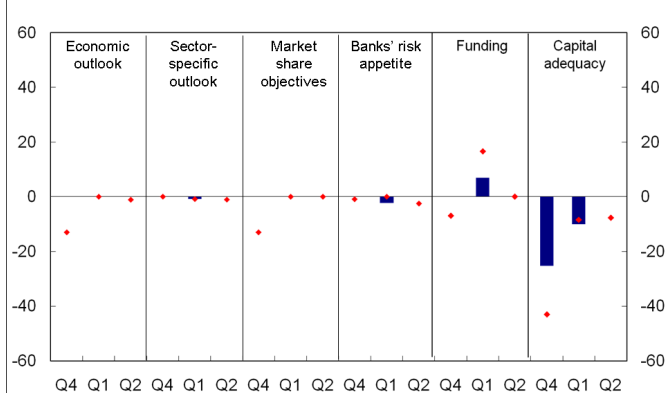
1) See footnote 1 in Chart 1. 2) Positive net percentage balances denote increased demand or increased credit line utilisation rate. Sources: Norges Bank and Citi Research

**Figure 5. Norway -- Change in credit standards for non-financial enterprises. Net percentage balances<sup>1), 2)</sup>**



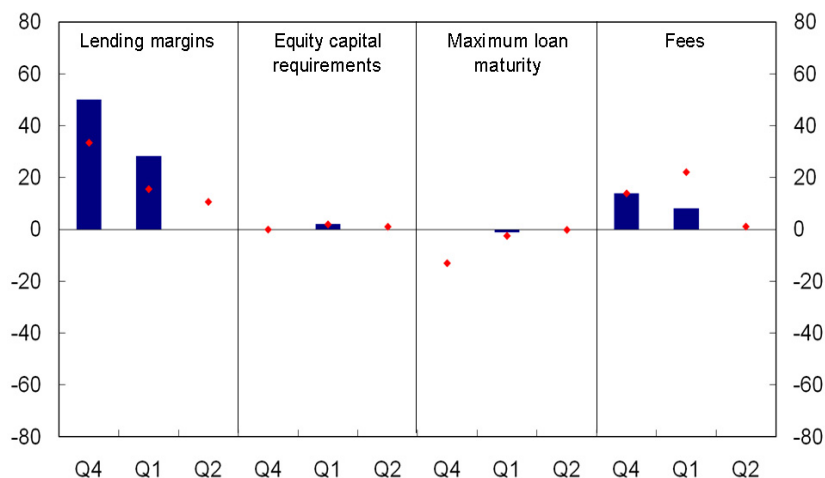
1) See footnote 1 in Chart 1. 2) Negative net percentage balances denote tighter credit standards. Sources: Norges Bank and Citi Research

**Figure 6. Norway -- Factors affecting credit standards for non-financial enterprises. Net percentage balances<sup>1), 2)</sup>**



1) See footnote 1 in Chart 1. 2) Negative net percentage balances denote tighter credit standards. Sources: Norges Bank and Citi Research

**Figure 7. Norway -- Change in loan conditions for non-financial enterprises. Net percentage balances<sup>1), 2)</sup>**



1) See footnote 1 in Chart 1. 2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins, equity capital requirements and fees denote tighter credit standards. Negative net percentage balances for maximum loan maturity denote tighter credit standards. Sources: Norges Bank and Citi Research

## Appendix A-1

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