

Norway

Higher Household Credit Demand

- The latest bank lending survey from Norges Bank shows that household credit demand increased further in the second quarter, exceeding expectations at the end of 1Q. Ahead, banks expect overall credit demand to remain unchanged in 3Q. The increase in demand was most notable for first-time buyers, residential mortgages and home equity lines. The gain in credit demand should not come as a big surprise given the recovery in the housing market. With house prices up 1.4% Y/Y on average in 2Q-14, a large downward correction on the housing market has become more remote, in our view. In this regard, it is also worth remembering that several banks lowered mortgage rates back in March (for existing loans), effective from June, as also evident in today's report; banks report a substantial reduction in lending margins to households (in line with expectations from the 1Q survey). Given that mortgage rates appear under ongoing pressure, banks expect lending margins to fall somewhat further in the coming quarter.
- From a monetary policy point of view, today's report offers no big surprises; household borrowing is expected to continue to run at an above-trend rate in coming quarters, outpacing disposable income growth. In turn, this suggests that households' debt levels should rise further from already elevated levels of some 200% of disposable income. Although the June conditional interest rate path indicates a 28% probability of near-term monetary policy easing, we reckon Norges Bank continues to look at risks related to financial stability. In other words, signs of an ongoing build-up of household debt (combined with lower mortgage rates) suggest to us that Norges Bank likely will keep the key policy rate unchanged at 1.50% throughout the year.
- Compared to developments in the monthly credit growth indicator for households (was 7.1% Y/Y in 4Q-12 and 6.8% Y/Y in 1Q and 2Q 2014), we note that the lending survey has shown a surprisingly marked increase in household credit demand during the first half of the year. Meanwhile, it is worth keeping in mind that the correlation between the two measures is not strong.
- The bank lending survey also showed that corporate credit demand edged marginally higher, in line with previous expectations. This contrasts developments in the monthly data, where corporate credit growth has been on a downward path since mid-2012, with the 2.9% Y/Y gain in May being the weakest since June 2011. Meanwhile, the lending survey shows that banks expect demand to decline slightly in the third quarter despite an expectation of stable lending standards (for both non-financial companies and households). Here, we note that business investments in the mainland economy show no growth in volume terms, and that none of the available leading indicators suggest that investment activity is on the verge of picking up. See charts on pages 2-4.

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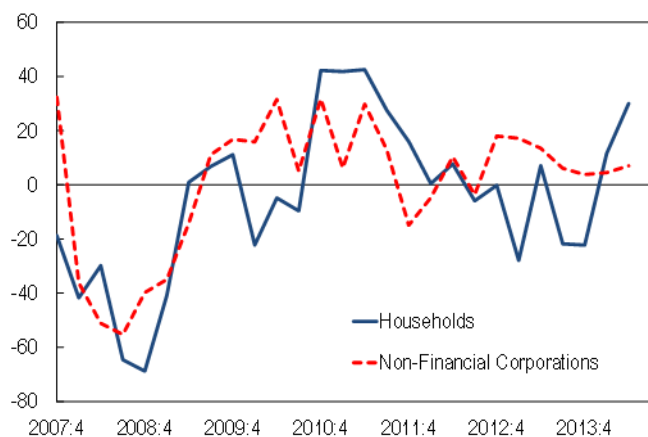
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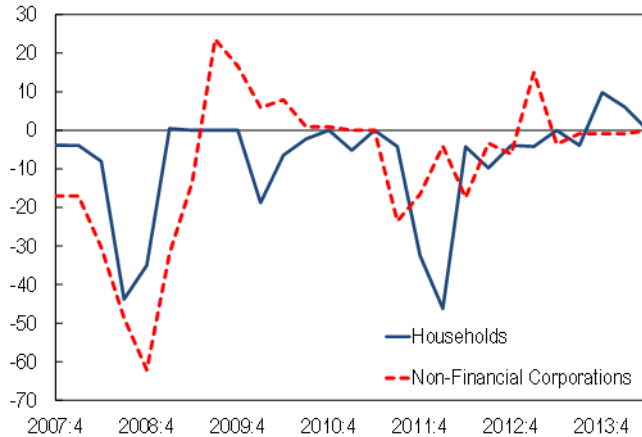
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Figure 1. Norway – Credit Demand (Net Percentage Balances), 4Q 2007-2Q 2014^{1), 2)}



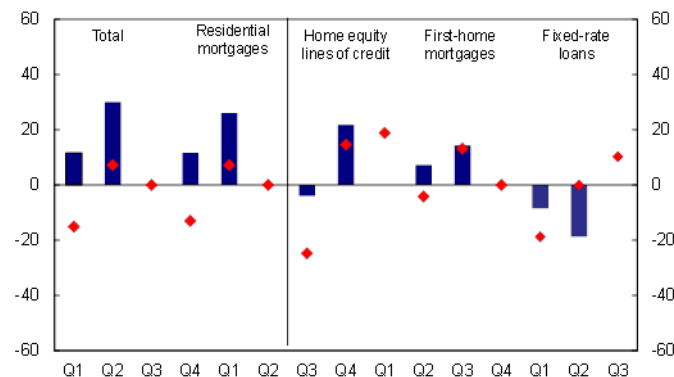
1) Net percentage balances are calculated by weighting together the responses in the survey. 2) Negative net percentage balances denote falling demand.
Sources: Norges Bank and Citi Research

Figure 2. Norway – Credit Standards (Net Percentage Balances), 4Q 2007-2Q 2014^{1), 2)}



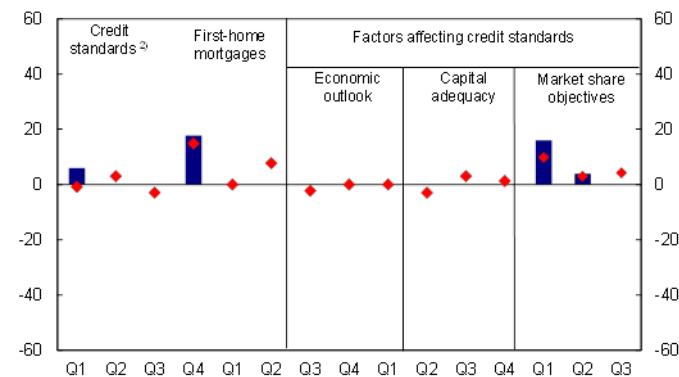
1) Net percentage balances are calculated by weighting together the responses in the survey. 2) Negative net percentage balances denote tighter credit standards.
Sources: Norges Bank and Citi Research

Figure 3. Norway – Household Credit Demand (Net Percentage Balances)^{1), 2)}



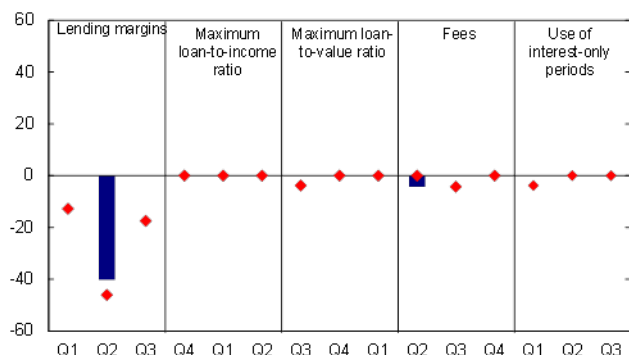
1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show reported developments for the relevant quarter. The red diamonds show expected developments for that quarter. 2) Negative net percentage balances denote falling demand.
Sources: Norges Bank and Citi Research

Figure 4. Norway – Change in Credit Standards for Households. Factors Affecting Credit Standards (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 2) Negative net percentage balances denote tighter credit standards.
Sources: Norges Bank and Citi Research

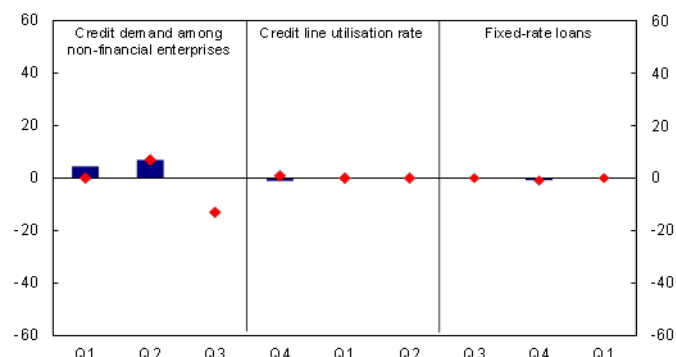
Figure 5. Norway – Change in Loan Conditions for Households (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 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

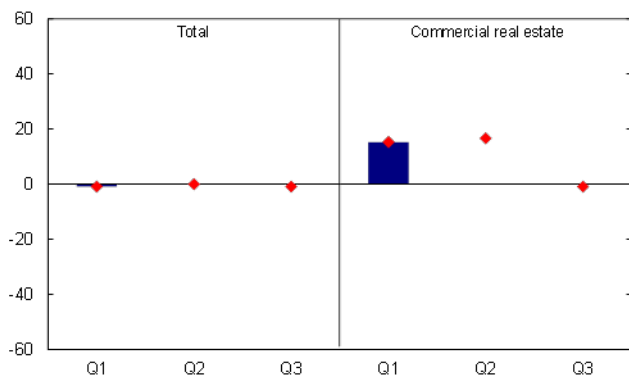
Figure 6. Norway – Credit Demand Among Non-Financial Enterprises and Credit Line Utilisation Rate (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 2) Positive net percentage balances denote increased demand or increased credit line utilisation rate.

Sources: Norges Bank and Citi Research

Figure 7. Norway – Change in Credit Standards for Non-Financial Enterprises (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 2) Negative net percentage balances denote tighter credit standards.

Sources: Norges Bank and Citi Research

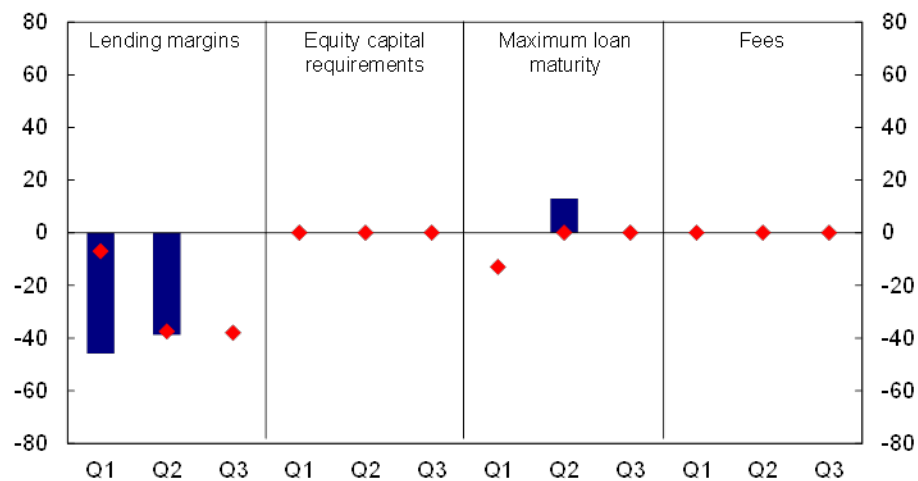
Figure 8. Norway – Factors Affecting Credit Standards for Non-Financial Enterprises (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 2) Negative net percentage balances denote tighter credit standards.

Sources: Norges Bank and Citi Research

Figure 9. Norway – Change in Loan Conditions for Non-Financial Enterprises (Net Percentage Balances)^{1), 2)}



1) See footnote 1 in Chart 3. 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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