



Norwegian Ministry  
of Finance

Summary

Meld. St. 31 (2020–2021) Report to the Storting (white paper)

# Financial Markets Report 2021





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*Recommendation of the Ministry of Finance of 23 April 2021,  
approved by the Council of State on the same day.  
(Government Solberg)*

## Summary and key developments

### Introduction

The Government submits an annual financial markets report to the Storting. Chapter 2 of the report addresses the financial stability outlook. Chapter 3 provides an overview of how consumer protection is attended to in financial market regulations, and discusses the need for changes. Chapter 4 discusses capital access, digitalisation and regulatory developments pertaining to financial markets, and addresses both the financial sector as an industry in its own right and the financial sector as a capital source for other industries. Chapter 5 addresses sustainable finance and climate risk. Section 1-8, Sub-section 1, of the Central Bank Act stipulates that the Ministry shall at least once a year report to the Storting on the activities of Norges Bank. Chapter 6 provides, in line with this, an account of the activities of Norges Bank in 2020. Norges Bank's annual report for 2020 is attached as an unprinted appendix to the full report. An overview of the activities of Finanstilsynet, Folketrygdfondet and the International Monetary Fund (IMF) in 2020 can be found in chapters 7 to 9 of the report. Chapter 10 outlines amendments to regulatory frameworks and licences in 2020.

This summary provides an overview of the main contents of the report.

## **Financial stability outlook (chapter 2)**

The financial stability outlook in Norway is affected by developments in the Norwegian and international economy, as well as in international financial markets. The coronavirus pandemic has weighed heavily on economic developments in Norway and internationally in the last year. Most of the decline in activity registered last year has been recouped, but there are major differences between industries. Future developments are subject to considerable uncertainty. Unlike the international financial crisis in 2008, which had a limited impact on some countries, this crisis has been global in scope. Financial market developments have nonetheless been largely positive since mid-2020, despite several major infection surges and new lockdowns in many countries.

### *Households and the housing market*

High household debt and high housing prices remain the most important vulnerabilities in the Norwegian financial system. Housing prices have surged since last spring. Despite record-low interest rates, the proportion of household income spent on interest and ordinary loan instalments is at a very high level. The high indebtedness makes households vulnerable. A major housing price slump, interest rate increase or loss of income would probably make many households reduce their consumption in order to service debt. This will affect the earnings and debt servicing capacity of businesses, which may then result in increased losses on the part of banks. Major losses may impair the capacity of banks to make new loans to both households and businesses.

The Government has in the last few years launched a number of measures to promote more sustainable development in household debt. Fewer households are currently borrowing amounts that are very large relative to their income or the value of their home. How-

ever, the average loan-to-income ratio has increased, and more households are borrowing amounts that are close to the limits under the lending regulations.

### *Businesses*

The coronavirus pandemic has reduced the earnings of many Norwegian businesses. Lower lending rates and extensive government intervention have served to reduce the debt servicing burden and lowered the risk of loan default. The number of bankruptcies in 2020 was at a moderate level compared with previous years, despite the weak performance of the economy. It is likely that many enterprises are currently running down their reserves, and there is a risk that some businesses are being kept artificially afloat. The number of bankruptcies may increase as measures are being phased out, which may result in higher loan losses on the part of banks.

### *Banks*

Norwegian banks have for a number of years registered low loan losses and high earnings, and bank sector solvency has been strengthened considerably since the financial crisis in 2008-9. This has made a significant difference during the pandemic. Bank loan losses have been fairly moderate, partly because the industries hardest hit by the pandemic are not among the largest borrowers, and partly because a strong policy response has limited the impact on the Norwegian economy in general. If slumping revenues in vulnerable industries have an impact on commercial real estate prices and earnings, bank loan losses may increase significantly. Strong liquidity and a robust funding structure on the part of banks are important, both for individual banks themselves and for reducing systemic risk. Norwegian banks meet both the current liquidity coverage requirement and the upcoming net stable funding requirement by a good margin.

Last year, the Ministry of Finance reduced the countercyclical capital buffer requirement to prevent tighter bank lending practices, and expressed an expectation that banks hold off on the payment of

dividends. In January this year, the Ministry expressed an expectation that Norwegian banks which, after a careful assessment and based on the European Systemic Risk Board's recommendation, find grounds for making distributions, will keep total contributions within a maximum of 30 percent of cumulative annual profits for the years 2019 and 2020 until 30 September 2021. Since Norwegian banks are generally profitable and well capitalised, and since much of the distributions from Norwegian savings banks are donations to charitable causes that may be starved of funds during the economic setback, the Ministry stipulated a cap that is slightly higher than in other countries that have introduced such caps.

Capital requirements and other regulatory requirements for banks are continuously evolving, and need to be tailored to the risk outlook in the economy. The systemic risk buffer requirement is for example focused on structural vulnerabilities in the economy and other systemic risk of a long-term nature, and has been put at 4.5 percent with effect from yearend 2020. In addition, a minimum requirement for the sum of own funds and eligible liabilities (the MREL requirement) is now being introduced as part of the new Bank Recovery and Resolution Directive.

### *The insurance and pensions market*

Increasing life expectancy and a low interest rate level are of major significance for pension providers. It is imperative that pension providers ensure that reserves are sufficient to fund their pension benefit commitments, and that they have ample leeway for absorbing the risk assumed by them.

Norwegian insurance companies are subject to solvency requirements set out in the EU Solvency II framework, which is currently being revised by the European Commission, on the basis of advice from, inter alia, the European Insurance and Occupational Pensions Authority (EIOPA). Norwegian authorities are keeping abreast of this process and are seeking to ensure that new requirements are well suited for the Norwegian insurance market.



### *Digital vulnerability*

The financial infrastructure is comprised of payment systems and other systems that are necessary for the execution of financial transactions. The financial infrastructure in Norway is robust in all key respects. Operations have remained stable since the coronavirus outbreak, with services to customers having functioned as normal, although much of the operations have in the last year been run by people working from home. There has thus far been no security incident in the Norwegian financial market with any financial stability repercussions.

### *Anti-money laundering and anti-terrorist financing*

Adequate anti-money laundering and anti-terrorist financing measures are imperative for confidence in the Norwegian financial system and prospects for involvement in the international economy. It is therefore important to implement the existing international standards for preventing money laundering and terrorist financing, such as the recommendations of the Financial Action Task Force (FATF), which is the international standard setter in this regard. These recommendations are also reflected in EEA-relevant regulations.

### **Consumers in the financial markets (chapter 3)**

Consumers need special protection and strong rights in financial markets. The regulatory framework shall ensure that consumers can trade securely with professional financial undertakings, but does not exempt consumers from risk or responsibility. The Government is focused on consumers having the knowledge and information to enable them to make prudent decisions regarding their own finances.

### *Customer mobility and competition*

It has become easier to switch banks in recent years, partly because Norwegian banks have signed up to industry provisions that are now

largely being codified in the new Financial Contracts Act. In addition, new services may make it even easier to switch or use several banks at the same time. In particular, the new EU Payment Services Directive (PSD2) facilitates the provision of services that enable customers to combine and use services from multiple banks in one place. There is also considerable innovation outside the established banking system. The *Finansportalen* financial services portal has for many years made it easy to both compare and switch between providers.

There are different models for so-called account number portability, which imply that the customer retains the account number when switching banks. Studies have shown that it would be highly challenging to establish a national system for such portability, and no country in Europe has introduced this. Payment market developments may also indicate that the account number will be less relevant for customers in coming years. The European Commission has announced an assessment of account number portability, and Norway should await EU developments. Alternative measures may be considered, for example more comprehensive bank switching services.

### *Availability and use of cash*

Most payments in Norway currently involve electronic solutions, but cash remains important for several groups. Norges Bank and Finanstilsynet have for this year's report carried out a survey of the full range of cash services provided by banks. These services have been scaled back in the last couple of years, and in-store cashback when shopping for groceries, etc., is the only cash service available in some municipalities. Finanstilsynet notes that banks' own cash service offering is likely to be scaled back even further in the years to come, although the potential rollout of «In-store Cash Services» under the Vipps umbrella may serve to improve the overall service offering. Several banks maintain that they are not responsible for making cash available.

The Ministry of Finance is of the view that the obligation to provide cash depositing and withdrawal services should be clarified, and has therefore asked Finanstilsynet to prepare a proposal for regulatory provisions requiring each bank to ensure that customers are able

to deposit and withdraw cash, either under the auspices of the bank itself or through agreements with other cash service providers. Moreover, Finanstilsynet has proposed the appointment of a public commission to examine the role of cash in society in the years to come. The Government will assess the need for such a commission.

### *Consumer loans*

Consumer loan growth was very high for a long time, but has slowed down in the last few years. The Government has since 2017 launched a number of measures that have contributed to a more well-functioning consumer loan market, including bank lending practice requirements and requirements for reporting to, and use of, debt information service providers. An increase in consumer loan defaults is nonetheless cause for concern. Recent and upcoming regulatory amendments may contribute to improved handling of debt challenges, including debt collection and debt restructuring arrangements. The Debt Information Act currently encompasses unsecured debt, but the Government is aiming to expand this scheme to other forms of debt, starting with residential mortgages and loans secured on motor vehicles, provided that this can be implemented within the scope of applicable data protection regulations. The Government will also look into whether crowdfunding platforms should be included.

For this year's report, Finanstilsynet has surveyed the prevalence of so-called credit card rewards, which are typically offered upon the issuance and use of credit cards and tend to take the form of, for example, insurance cover, discounts and bonus points. While some types of credit card rewards may be a good match for the provision of credit and be of benefit to consumers, other credit card rewards may be problematic, for example if these induce irresponsible borrowing or make it difficult for consumers to gain a correct understanding of prices and terms. The Government will examine the need for further regulation of credit card rewards, for example with regard to marketing or the scope for offering various forms of credit card rewards, on the basis that consumers shall be enabled to make sound and well-founded borrowing decisions.

### *Pension*

Private occupational pension scheme regulations are still in the process of being amended, and comprehensive evaluation processes on key issues have now been finalised or reached their end phase. These include, inter alia, processes in relation to designated individual pension accounts, the inclusion of all wage income in the mandatory calculation basis for pension accrual, as well as guaranteed pension products. The overarching objectives for the regulatory effort are safeguarding accrued pensions, efficient and rational pension capital management, high-quality information and scope for influencing own pension, as well as effective competition in the pensions market.

### *Dispute referral to dispute resolution bodies*

The Norwegian Financial Services Complaints Board is a key financial sector dispute resolution body, which primarily resolves disputes between financial undertakings and consumers. Expanding the mandate of the Board to expand redress opportunities for businesses, etc., would raise issues that need to be examined. These issues should first be considered by relevant contract parties and trade associations.

Affiliation with the Norwegian Financial Services Complaints Board and other financial sector dispute resolution bodies is generally a voluntary arrangement, and a survey has established that many undertakings which provide financial services to consumers are not affiliated with any approved dispute resolution body. Non-affiliation means weaker consumer protection. The Ministry is of the view that all undertakings providing financial services to consumers should be affiliated with such a body, and is following up on a consultative round on mandatory affiliation. The Ministry will also perform a more general assessment of how extrajudicial dispute resolution scheme requirements under the EEA regulations can be implemented in a cost-effective manner.

### *Estate agency*

Secure and efficient execution of housing transactions is important for consumers. In 2019, the Government appointed a committee to review the Estate Agency Act and propose forward-looking regulation. The committee will submit its report by 1 June.

## **Capital access, digitalisation and regulatory development (chapter 4)**

Well-functioning financial markets are of decisive importance to the growth and restructuring capacity of the economy, while the financial sector is an important industry in its own right. Dialogue between the authorities and the financial industry facilitates cooperation on structural solutions, the safeguarding of financial services as a function of critical importance to society, as well as the handling of extraordinary situations such as the coronavirus outbreak. Norwegian authorities will continue to use the room for manoeuvre under EU/EEA regulations to impose requirements that contribute to ensuring that financial undertakings are sufficiently solvent to provide secure services and meet their obligations, also in times of turbulence. However, such requirements shall not place Norwegian undertakings at a disproportionate competitive disadvantage.

### *Access to capital for businesses*

A well-functioning capital market is characterised by capital being channelled to the projects that generate the highest return, and is a prerequisite for growth and innovation. The Norwegian supply side and integration with international markets provide businesses with a diversified range of attractive funding opportunities in normal times. Profitable projects will by and large find funding at the right price. The Government is promoting a well-functioning capital market and easier access to risk capital and competent investors.

Bank loans have over time been the dominant source of debt funding for Norwegian businesses. Whilst Norwegian banks and major

Norwegian businesses may raise capital in international capital markets, new and small businesses may be more dependent on Norwegian and local sources of capital. The Government will contribute to ensuring that the Norwegian securities market continues to be an efficient source of funding for businesses and attractive to investors. This requires market participants to be confident that the market is well-regulated and transparent, that relevant information is in the public domain, and that violations of applicable regulations are prevented, uncovered and dealt with.

In 2020, the Government launched two lending schemes to make it easier for Norwegian businesses hit by the crisis to raise liquidity to get through the challenging situation created by the coronavirus outbreak. These schemes comprise a government guarantee scheme for bank loans to businesses and the reinstatement of the Government Bond Fund.

### *Digitalisation and financial technology*

The Norwegian financial industry was an early adopter of digital solutions, which have made financial service production more efficient. Service production is now undergoing major structural changes. New business models and services link technology and finance, and banks are challenged by both large international technology companies and small fintech operations.

The market for some banking services has been opened up for new market participants through the EU's new Payment Services Directive, PSD2, and similar regulations may be introduced for other financial services. It is the responsibility of banks to ensure that their operations are PSD2 compliant, which includes ensuring that new entrants get access to necessary information and functionalities enabling them to provide their services to customers. Finanstilsynet is following up on this.

Crowdfunding involves investors granting loans to individuals or businesses, or acquiring ownership stakes in businesses, via online platforms. The Norwegian market remains small, but has grown over the last three years. The Government will facilitate crowdfunding

through both simplifications for the industry and increased safeguarding for consumers.

The market for virtual assets and currencies has grown rapidly in the last few years, thereby giving rise to regulatory issues. In the autumn of 2020, the European Commission published a proposal for joint regulation of virtual assets («Markets in Crypto-Assets», MiCA). The proposal forms part of a strategy to support digital finance innovation and competition. The Ministry will consider Norwegian implementation when the regulations have been enacted, and is monitoring decentralised finance developments in general.

New market participants and the use of new technology in financial service production may increase demand for regulatory guidance. Finanstilsynet has established a so-called regulatory sandbox, which enables selected businesses to test their solutions, upon application. Thus far, two providers have participated in the sandbox, and a third project has recently been admitted.

There are positive feedback effects between public sector and financial sector digitalisation. The financial industry is a valuable collaboration partner in the government digitalisation effort. In particular, the financial industry is contributing, through the Digital Public Private Collaboration (DSOP) project, to the development of digital solutions that may generate major savings for the economy.

### *Central bank digital currency*

Central bank digital currency (CBDC) is electronic money that are issued by the central bank in the official monetary unit and available to the public. Many central banks are currently studying the need for CBDC. Norges Bank is examining whether the introduction of such currency would be appropriate for attaining the purpose of the central banking activities as set out in the Central Bank Act, and whether central bank digital currency is necessary to ensure that Norwegian kroner payments can be made efficiently and securely in future as well. Norges Bank has recently decided to continue its examination of CBDC in a new project phase of up to two years, which will comprise experimental testing of technical solutions and further analysis of the

purpose and consequences of introducing CBDC. A special characteristic of Norway and the Nordic region is low and declining cash use. It is important for Norges Bank's study to shed light on what may be lost if cash disappear and CBDC is not introduced, as well as the extent to which central bank currency is of decisive importance to confidence in the monetary system. Norges Bank will be prepared for the potential introduction of CBDC, although it is not on the cards at this point in time. What consequences the introduction of CBDC may have for the financial system depends on its structuring. The study is based on the premise that the scope for the private sector for making credit available to businesses and households shall not be materially impaired. The introduction of CBDC would require political endorsement. The Ministry of Finance is keeping closely abreast of Norges Bank's study.

#### *Regulatory development and simplification*

It is important for Norwegian undertakings and markets to have well-functioning single market affiliation, and relevant EU provisions should therefore be swiftly incorporated into the EEA Agreement and implemented in Norwegian law. It is also a priority to have as equal regulation of Norwegian and non-Norwegian financial undertakings in Norway as possible. Norway's relations with the UK are no longer governed by the EEA Agreement, and it is important for Norwegian undertakings to have as good access to the UK market as EU undertakings have. Norway is negotiating with the aim of maintaining the best economic relations with the UK that are possible within the EEA framework.

EU financial market regulations have increased considerably in scale and complexity in the last decade. It is at the same time an objective for both the EU and Norway to structure regulations in a way that is not unduly burdensome for market participants, and especially for small participants. Proportionality is often incorporated in the structure and evaluation of EU/EEA regulations, in addition to which Norwegian authorities are generally on the lookout for regulatory simplification opportunities.



## **Sustainable finance and climate risk (chapter 5)**

The transition to a low-carbon economy will require large investments, and one of the objectives under the Paris Agreement is to make capital flows compatible with the climate goals. The market for green investment products is growing rapidly worldwide, but the lack of universal standards may make it challenging to navigate the market and increases the risk of so-called greenwashing.

The Government has endorsed the EU's objectives of reorienting capital flows towards sustainable investment, managing financial risks stemming from climate change and fostering transparency and long-termism in financial and economic activity. The Government is closely monitoring regulatory developments in the EU. An important EU measure is the establishment of a classification system (taxonomy) for sustainable economic activity. The objective is to establish a common understanding of which activities and investments can be considered sustainable in line with the EU's long-term climate and environmental goals. Pan-European criteria are intended to make it easier to compare investment opportunities across countries and sectors. The Ministry of Finance is aiming to submit a legislative proposition on implementation of the regulations in the spring of 2021.

In order to be defined as sustainable under the EU taxonomy, the economic activity must contribute substantially to the attainment of at least one of six defined environmental objectives. In addition, the activity must not do any significant harm to the other environmental objectives, and it must comply with minimum social and governance standards. The European Commission will be establishing criteria for defining various economic activities as sustainable.

In order to facilitate closer dialogue and information exchange between authorities, businesses, academia and other stakeholders, the Ministry of Finance has established a sustainable finance reference group. The reference group is intended to be a forum for exchanging information on relevant regulatory processes, identifying matters of particular importance to Norwegian interests and utilising the knowledge and insights of academia and others.

Both the physical effects of climate change and the transition to a low-carbon economy entail financial risk. While banks and other financial undertakings need to identify the climate- and environmentally-related risks to which they are exposed, monitoring and curtailing systemic effects is a key priority for the authorities. The authorities are, both in Norway and internationally, seeking to expand their understanding, as well as that of market participants, of how such risk may affect financial markets. Norges Bank and Finanstilsynet participate in a network of central banks and supervisory bodies (Network for Greening the Financial System”), which aims to contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy.

Improved disclosures from companies is necessary to enable financial undertakings and investors to assess and price climate- and environmentally-related risk. Furthermore, improved disclosures from corporates enables supervisory authorities to better assess the climate-related risk exposure of financial undertakings. In the EU, the non-financial reporting directive lays down the rules on disclosure of environmental matters and other non-financial information by large companies. The European Commission aims to amend the regulation in order to improve sustainability disclosures from corporates. A survey conducted by Finanstilsynet in 2020 shows that Norwegian companies’ sustainability and climate risk disclosures is inadequate, and the results will form the basis for Finanstilsynet's further supervisory activity. The Government expects large Norwegian companies to disclose how they are affected by and manage climate risk, as well as on the impact of their activities on the climate and the environment, as part of their corporate reporting.

### **The activities of Norges Bank in 2020 (chapter 6)**

Norges Bank monitors the stability of the financial system and shall contribute to robust and efficient payment systems, settles payments between banks, provides loans to banks and is responsible for supplying banks with cash. Norges Bank is charged with the operational

implementation of monetary policy pursuant to guidelines laid down by the Ministry of Finance. Norges Bank's management of the Government Pension Fund Global (GPFG) is addressed in the report to Parliament Meld. St. 24 (2020–2021). Norges Bank's activities in 2020 were significantly influenced by the coronavirus pandemic, and the Bank implemented, inter alia, extraordinary liquidity policy measures and advised the Ministry to reduce the countercyclical capital buffer requirement applicable to banks.

The key policy rate is the most important monetary policy tool. Norges Bank reduced the key policy rate three times over the course of 2020, from 1.5 percent to 0 percent. The Ministry of Finance performs an annual assessment of Norges Bank's monetary policy conduct. The Ministry is of the view that monetary policy conduct was sound in 2020. In the Ministry's view, there is broad confidence in monetary policy among markets participants, academia and the general public.

### **The activities of Finanstilsynet in 2020 (chapter 7)**

One of the key objectives of Finanstilsynet is to promote financial stability, and its activities are focused on both the risk faced by financial undertakings as the result of macroeconomic developments, and the risk to the financial system and the economy that may be generated by financial undertakings as a whole. Finanstilsynet's activities in 2020 were significantly influenced by the coronavirus crisis, and it has closely monitored the undertakings under its supervision, as well as coordinated and exchanged information with the Ministry and other government bodies on an ongoing basis. In 2020, Finanstilsynet continued, inter alia, its development and application of stress tests and models, as well as its participation in the European System of Financial Supervision and its collaboration with other national supervisory authorities. Finanstilsynet conducted document-based supervision and on-site inspection on an ongoing basis – to a large extent digitally, as a result of the pandemic. Follow-up of banks' credit risk took on a special prominence in 2020.

**The activities of Folketrygdfondet in 2020 (chapter 8)**

Folketrygdfondet manages the Government Pension Fund Norway (GPFN) with an objective of achieving the highest possible return over time, given an acceptable level of risk, while the management of the Government Bond Fund (GBF) shall provide the Norwegian bond market with additional liquidity and capital. The market value of the GPFN was NOK 292 billion as at yearend 2020, while the GBF had invested NOK 8.4 billion in the market at that point in time. The management of the GPFN is addressed in the report Meld. St. 24 (2020–2021).

**The activities of the IMF (chapter 9)**

The International Monetary Fund (IMF) promotes international monetary corporation and financial stability, and facilitates international trade. The activities of the IMF have since February/March last year been significantly influenced by the coronavirus pandemic and the economic crisis. The IMF provides analyses and advice on how to best respond to the crisis, and was also quick off the mark in offering financial support. The number of countries with IMF loans increased sharply throughout 2020, primarily due to a large number of short-term emergency loans.

In order to expand lending to vulnerable low-income countries, the IMF asked for new voluntary contributions in April 2020. Norway followed up by concluding a new bilateral agreement in the amount of SDR 400 million for loans to this group. The IMF's Catastrophe Containment and Relief Trust (CCRT) was also activated. The CCRT provides IMF debt service relief for poor countries. In 2020, Norway contributed NOK 180 million to the CCRT.

A proposal to improve members' foreign exchange liquidity through a new general allocation of IMF SDRs («Special Drawing Rights») was launched last spring. Following the US reversal of position, there is now majority support for this allocation, which may help vulnerable countries to access foreign exchange for the procurement of vaccines, etc. The IMF is, along with the World Bank, supporting

the current Paris Club and G20 efforts to alleviate the situation of low-income countries.

In order to ensure the continuation of the general lending capacity and reduce its dependency on bilateral borrowing agreements, the IMF last year decided to double the borrowing amounts under the voluntary multilateral borrowing arrangement (NAB), and to ask bilateral lenders to conclude new and more limited agreements to make up the shortfall. In December 2020, the Storting endorsed this setup as far as Norway is concerned. Norway is currently placing a total of SDR 10.3 billion (equivalent to above NOK 127 billion at the 28 February exchange rate) at the disposal of the general lending arrangements of the IMF.

### **Amendments to regulatory frameworks and licences in 2020 (chapter 10)**

The Ministry of Finance is charged with submitting legislative proposals to the Storting, and has statutory powers to adopt more detailed rules in the form of regulations. The Ministry also grants licences for the establishment or reorganisation of financial undertakings. An overview of the most important regulatory amendments and licences in 2020 is provided in chapter 10.

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Cover illustration:  
New issues of green corporate bonds in Norway, 2016–2020  
(stylized presentation), see also Chart 5.2 in the full report.

