FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Report

Risk Outlook - Summary

June 2025

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Over the past year, global economic growth has been moderate. The rate of consumer price inflation has moderated, aligning more closely with the central bank's inflation target, and many central banks have gradually reduced their policy rates. At the same time, political uncertainty and geopolitical tensions create a high degree of uncertainty regarding future developments. The risk of financial instability has increased. Some market players and forecasters have expressed concern that many economies will go through a period of low growth and high inflation.

In Norway, economic growth has been moderate over the past two years. Unemployment has risen from a low level. Both Norges Bank and Statistics Norway expect rising private consumption and public demand to contribute to a slight increase in growth in the period ahead. Norges Bank has kept its policy rate stable at 4.5 per cent and indicated in May that the policy rate could be lowered twice in 2025 to 4 per cent at the end of the year.

As a small, open economy, Norway and the Norwegian financial industry are vulnerable to international setbacks and turmoil. As a result of changes in the threat landscape, it is important to reduce vulnerabilities and enhance resilience in areas such as cybersecurity, technological dependencies and other operational risks.

Experience from previous crises shows that it can be particularly challenging to deal with incidents that are compounded by or originate from imbalances in the domestic economy. High household debt and elevated residential and commercial property prices remain the key vulnerabilities in the Norwegian financial system. Norwegian household debt, measured in per cent of disposable income, has decreased over the past three years. Households' credit growth has risen slightly over the past year but remains moderate. Nevertheless, the debt burden is high, both in a historical perspective and compared with other OECD countries, and many borrowers take out large loans relative to income and the value of their property.

In spite of a sharp increase in the interest rate level, there are few signs of serious debt servicing problems for the Norwegian household sector overall. The share of non-performing loans in the personal customer market has risen in recent years but is still below pre-pandemic levels. This development must be viewed in light of the fact that the overall level of economic activity in Norway has held up and that unemployment is low.

On average, commercial real estate (CRE) companies have high debt levels. The companies' interest expenses have increased strongly since late 2021, and their debt servicing capacity has clearly weakened. The yield on the properties is also low compared to the risk-free interest rate. If interest rates remain high, commercial property prices could fall further, while many CRE companies' debt servicing capacity could remain weak for an extended period. Most Norwegian banks have a significant loan exposure to CRE companies.

Overall, Norwegian banks are profitable and competitive. The rising interest rate level has helped boost banks' net interest income, while losses have remained low. Banks' operating expenses are low as a share of total assets. Norwegian banks' return on equity over the past couple of decades has been higher than in our neighbouring countries, while their market shares have been maintained.

The banks satisfy current solvency and liquidity requirements. Their common equity Tier 1 capital ratio was around 19 per cent at the end of the first quarter of 2025 and has changed little in recent quarters. Measured by the leverage ratio, banks' equity has been virtually unchanged over the past ten years.

This year's stress test of Norwegian banks is based on a scenario of geopolitical fragmentation, a global trade war and the introduction of high tariff barriers between countries. This contributes to declining international trade, higher inflationary pressures and a global economic setback. The Norwegian economy is also severely affected, and banks' loan losses increase significantly. Losses are high, particularly on corporate loans, but clearly lower than the banks' losses during the banking crisis in the early 1990s. In the stress test, the capital adequacy ratios of most of the largest Norwegian banks fall below the overall CET1 capital requirements. The stress test and developments in the risk landscape underline the importance of maintaining strong solvency and liquidity levels in banks and other financial institutions.

Norwegian life insurers and pension funds generally have strong solvency levels. In the first quarter of 2025, their results were affected by geopolitical turbulence and announcements of increased tariffs, which led to a drop in the value of shares, a significant decline in returns and reduced buffer funds. Life insurers have diversified portfolios, with foreign assets representing approximately half of their investments. Pension institutions have achieved good returns in recent years, partly due to the depreciation of the Norwegian krone.

The profitability of non-life insurers has declined over the past two years due to several weather-related claims and strong cost growth. The tightening of terms contributed to better results in 2024 and improved profitability from insurance operations in the first quarter of 2025. Thus far this year, negative investment income has nevertheless had a severe impact on pre-tax profits.

Among policymakers, supervisory authorities and supranational organisations, there is a growing awareness of the need to simplify financial market regulation, which over time has become very extensive and detailed. Both nationally and internationally, efforts are being made to assess and implement simplifications in regulations, supervisory practice and reporting, and to provide better guidance. In several countries, powerful stakeholders are advocating for a reduction in capital and liquidity requirements for banks. In Finanstilsynet's opinion, it is important to retain regulatory requirements. Any regulatory streamlining should safeguard the key objectives of the regulation within the framework of international standards.

Finanstilsynet
Revierstredet 3
P.O. Box 1187 Sentrum
NO-0107 Oslo

Tel. +47 22 93 98 00
post@finanstilsynet.no
finanstilsynet.no