FINANSTILSYNET
THE FINANCIAL SUPERVISORY
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Report

Risk Outlook - Summary

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Risk Outlook - Summary

International economic growth has remained strong so far in 2025, despite geopolitical changes and increased trade barriers. There has been relatively low volatility in the financial markets in recent months. Share indices have risen to new record highs, largely due to the share price performance of companies within technology, especially artificial intelligence. Risk premiums in the bond markets have declined, and property prices are at high levels in many economies. Heightened **international tensions** and uncertainty about the impact of shifts in trade policy contribute to elevated geopolitical and real economic risks. The International Monetary Fund (IMF) expects moderate growth in the world economy and points out that there is uncertainty about future growth prospects.

For the **financial markets**, high valuations of shares and other capital assets, combined with generally low risk premiums, entail a risk of sudden and significant price corrections. Investors have also turned to alternative investments such as gold and bitcoin. The strong growth in stablecoins and other crypto assets creates new vulnerabilities in the financial system.

High and rising **sovereign debt** in many countries, combined with increased debt servicing costs, reduces the ability of governments to counteract the consequences of future shocks. In several countries, there is pressure to increase government spending, among other things to strengthen defence, carry out repairs after natural disasters and cover rising costs resulting from an ageing population. At the same time, the IMF, among others, points out that there seems to be little willingness to reduce public deficits through increased taxes, and they therefore estimate that by 2029, global sovereign debt will rise to its highest level since 1948.

The IMF and the European Systemic Risk Board (ESRB) emphasise that increased concern about sovereign debt could trigger a sudden rise in long-term interest rates and have serious contagion effects in financial markets. This could lead to a sharp slowdown in economic activity and cause banks and other financial institutions with substantial holdings of government bonds to record significant losses. A sharp fall in international stock markets and increased risk premiums will have a negative impact on the Norwegian economy and markets.

High household debt and elevated residential and commercial property prices remain the key vulnerabilities in the Norwegian financial system.

Norwegian households' debt burden has decreased in recent years but is still at a high level, both historically and compared to other countries. Finanstilsynet's 2025 residential mortgage lending survey shows that the average loan-to-value (LTV) ratio for new residential mortgages has increased, and there is a clear shift of loans towards the new requirement in the Lending Regulations for a maximum LTV ratio of 90 per cent for instalment loans. High debt burdens and LTV ratios elevate the risk for both the borrower and the lender. Experience shows that households' debt problems can have significant ripple effects on the rest of the economy in the event of a severe economic downturn.

House prices in Norway have continued to rise in 2025, although there are significant regional differences. Measured as a proportion of households' disposable income, the house price level has declined. There has been a high level of activity in the market for existing homes so far this year. Housing investment is at a low level, and the new homes market remains relatively weak. Developments in house prices and household debt are closely interrelated. Debt levels and house prices may rise further if inflation and interest rates decline in the years ahead. Increased collateral values could bolster credit growth.

The high interest rate level has led to a fall in the value of **commercial properties** and reduced earnings in companies engaged in real estate activities. Many of the companies have a high debt-to-earnings ratio. The proportion of debt in commercial property groups with weak debt servicing capacity continued to rise in 2024. Developments in key factors such as interest rates and rental prices indicate that this proportion has not declined so far in 2025. Yields on commercial real estate investments remain low compared to returns on long-term risk-free investments. If interest rates remain high, risk premiums increase or rental prices show a weaker than expected development, commercial property values may fall further.

Property development companies are facing growing challenges. Finanstilsynet's analyses show that companies with high bankruptcy risk account for an increasing share of debt, and many of these have weak debt servicing capacity. This may indicate that the risk of losses on loans to property development companies has increased. Lending to this industry represents a substantial share of Norwegian banks' corporate portfolios and, after real estate activities, is the industry to which the banks are most heavily exposed. Some property development companies have already caused significant loan losses for individual banks.

The heightened level of international tension has raised awareness of **digital vulnerabilities and the risk of systemic cyber incidents**. Finanstilsynet assesses that Norway's financial infrastructure is robust, secure and efficient, and that appropriate measures are being implemented to strengthen its resilience. At the same time, the financial infrastructure is complex, international and constantly evolving. Cooperation has been established with relevant national and European authorities and with the industry to prevent and handle incidents in the financial system.

Norwegian banks have delivered strong profitability for several years, driven in particular by higher net interest income. The increase is mainly due to the fact that the banks raised interest rates on loans faster than on deposits. This resulted in a substantial increase in banks' deposit spread, which is significantly higher than in the period prior to the interest rate hike. Finanstilsynet has been commissioned by the Ministry of Finance to assess the market for bank deposits.

The profitability of Norwegian banks is slightly weaker so far in 2025 than in 2024, mainly due to lower net interest income and higher operating expenses. Losses on loans are still low. Compared to banks in the Nordic countries and Europe, Norwegian banks maintain strong profitability and solvency, and their return on equity has surpassed that of Swedish and Danish banks over the past two years.

The banks' proportion of loans with a significant increase in credit risk has decreased somewhat, which may reflect better macroeconomic prospects in Norway. Households and businesses have generally adapted to the higher interest rate level, and there have been relatively limited payment problems. There is, however, considerable uncertainty regarding developments in the Norwegian and international economies, and Finanstilsynet considers it important that the banks take this into account when calculating risk weights and assessing the need for loan loss provisioning.

The banks meet the regulatory capital requirements by a margin. Changes to the **capital adequacy framework** (CRR3) in 2025 have given a reduction in risk-weighted assets for banks using the standardised approach, resulting in an increase in their measured capital adequacy ratios. For banks using internal models for calculating risk weights (IRB approach), the combined effect of changes in CRR3 and the increased risk weight floor for residential mortgages is somewhat stricter capital requirements. The effect on the common equity Tier 1 capital ratio varies by ± one percentage point for the IRB banks.

Banks' ability to bear losses and provide new loans to creditworthy customers during downturns requires that they have sufficient equity. In order to maintain the solvency of the Norwegian banking sector, it is important that banks retain an adequate margin above the regulatory requirements.

Norwegian insurers and pension funds have a satisfactory solvency position and strong profitability, although reduced investment income contributed to weakening the results for the first three quarters of 2025 compared to the same period of the previous year. There was a rise in non-life insurers' operating profits.

Life insurers' proportion of equities in the unit linked portfolio is high and has more than doubled since 2019. Increased geopolitical unrest and concentration in the stock market could expose insurers to high risk in the short term, but a high proportion of equities could be a sensible option for insurers with a long investment horizon.

During the transition to defined-contribution occupational pension schemes, members have increasingly had to choose allocation and bear the return risk themselves, while individual investment products have shown significant growth during the period. Finanstilsynet would like to emphasise that the undertakings are responsible for helping customers make informed decisions, in addition to safeguarding their interests during the management process.

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