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Economic commentaries

Market Operations and Analysis

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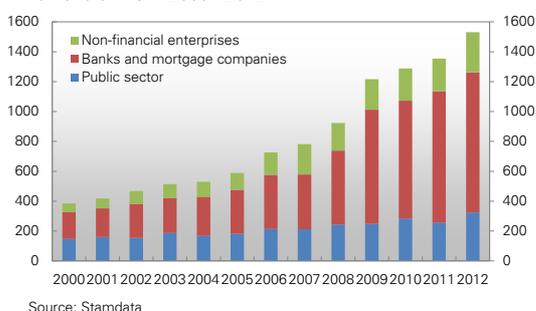
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ISSUANCE OF CORPORATE BONDS IN THE NORWEGIAN MARKET

At end-2012, the total amount of non-financial corporate bonds outstanding in the Norwegian market came to NOK 270 billion. This accounted for nearly a fifth of the total volume of bonds outstanding. In 2012, non-financial enterprises issued NOK 97 billion in bond debt, accounting for approximately 30 percent of the increase in outstanding debt in the Norwegian market. Since 2000, the Norwegian corporate bond market has been transformed from a small market dominated by utility enterprises¹ into a market characterised by large issue volumes of high yield corporate bonds. In the years following the financial crisis in 2008, there was little growth in the volume of bonds outstanding, though growth picked up again 2012. Enterprises in the shipping, commercial property, manufacturing and electricity and water supply sectors accounted for much of the growth.

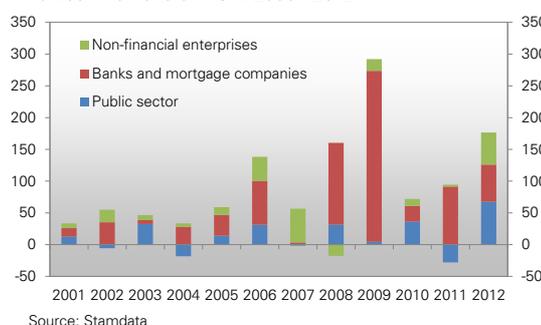
At end-2012, the total volume of bonds outstanding in the Norwegian bond market stood at NOK 1 530 billion². Of this amount, 61 percent was issued by banks and mortgage companies, 21 percent by the public sector and 18 percent by non-financial enterprises (see Chart 1).

Chart 1: Volumes outstanding in the Norwegian bond market. In billions of NOK. 2000 - 2012



Since 2000, banks and mortgage companies have been the largest issuers in the Norwegian bond market. While the amount outstanding issued by banks and mortgage companies has increased each year since 2000, annual net issuance has, on average, been higher in the second half of the 2000s (see Chart 2).

Chart 2: Net issuance of bonds in the Norwegian market. In billions of NOK. 2000 - 2012



¹ The utility sector include electricity production and distribution and water supply undertakings.

² In this commentary, the Norwegian bond market comprises all bonds issued under Norwegian law. These bonds all have a Norwegian International Securities Identification Number (ISIN) and are registered with Norsk Tillitsmann. Issuance data has been obtained from Stamdata, which was established 2001. The volume outstanding in 2000 is based on raw data from the Norwegian Central Securities Depository (VPS) and may be incomplete.

Norwegian banking groups have increased their share of wholesale funding since 2000. This share rose further from 2007, when Norwegian banking groups were allowed to issue covered bonds through wholly or partly owned mortgage companies. Covered bond issues related to the swap arrangement with the central government contributed to strong growth in issue volumes from banks and mortgage companies in 2009. In 2012, however, higher government borrowing and an

increase in net issuance by non-financial enterprises contributed as much to the growth in the volume outstanding in the Norwegian market.

Corporate bonds

Both Norwegian and foreign non-financial enterprises issue bonds in the Norwegian market. While issues are denominated in both NOK and other currencies, most are in NOK. Norwegian enterprises constitute the largest issuer category. The market is characterised by a large percentage of high yield companies, including enterprises in the Norwegian oil and gas sector.³

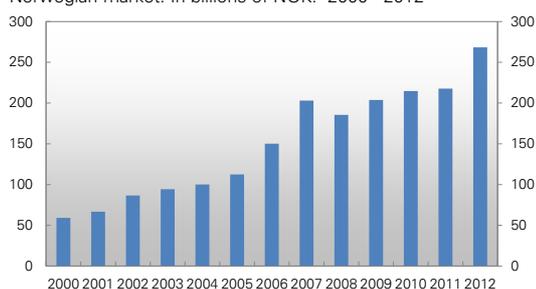
Volumes outstanding

At end-2012, the nominal value of bonds outstanding for non-financial enterprises in the Norwegian market was slightly below NOK 270 billion (see Chart 3).

Since 2000, the volume outstanding has almost quintupled. Average annual growth in bonds outstanding was 12 percent between 2001 and 2005, but increased to approximately 35 percent in 2006 and 2007. This corresponded to a net issuance volume of NOK 38 billion and NOK 53 billion, respectively. There were minor changes in maturities, and the high net issuance was primarily due to a marked increase in gross issuance. Between 2007 and 2011, volumes outstanding changed little. The reason is that much of the debt that fell due during the financial crisis year 2008 was not rolled over, and large maturities contributed to moderate growth in subsequent years.

³ High yield companies are enterprises with a credit rating lower than BBB-.

Chart 3: Volumes outstanding of corporate bonds in the Norwegian market. In billions of NOK. 2000 - 2012



Source: Stamdata

In 2012, corporate issuance activity picked up sharply. Gross volume doubled from 2011, to a record-high of NOK 97 billion. Non-financial enterprises issued a net amount of NOK 50 billion, which is over four times higher than the average of the three previous years. All together, the growth in issuance in 2006, 2007 and 2012 contributed to nearly 70 percent of the growth in outstanding volume in the period between 2000 and 2012.

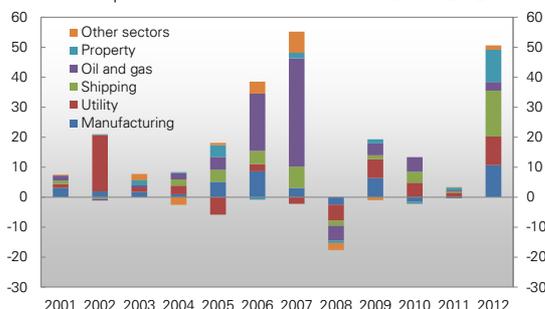
Number of issuers and issuer sectors

At the beginning of the 2000s, there were between 20 and 40 enterprises that issued bonds in the Norwegian market each year. The largest issuers were utility enterprises, and most of these were electricity production enterprises. The next largest category of issuer was manufacturing enterprises. Growth in outstanding volume in the mid-2000s coincided with a sharp rise in the number of issuers. In 2006 and 2007, a total of 130 new enterprises entered the Norwegian bond market. Many of the new entrants were in sectors that had issued little in the Norwegian market previously.

Much of the volume increase in 2006 and 2007 came from enterprises in the oil and gas sector (see Chart 4). Oil and gas enterprises went from accounting for 8 percent of volumes outstanding in 2005 to 32 percent in 2007 (see Chart 5). Since then, net issuance by this sector has been lower, though oil and gas still accounted

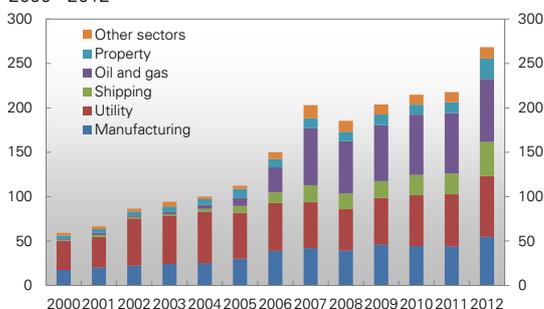
for 27 percent of the market at end-2012.⁴ In addition to oil and gas, issuance activity from shipping and manufacturing also contributed to growth.

Chart 4: Net issuance of corporate bonds in the Norwegian market. Corporate sector. In billions of NOK. 2000 - 2012



Source: Stamdata

Chart 5: Volumes outstanding of corporate bonds in the Norwegian market. Corporate sector. In billions of NOK. 2000 - 2012

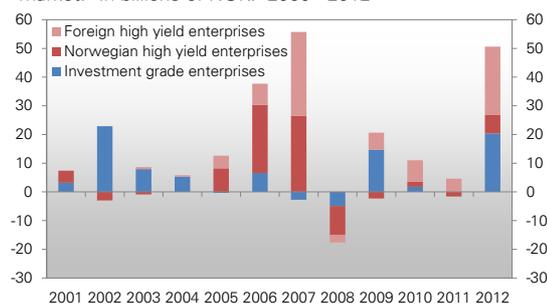


Source: Stamdata

Unlike electricity and water supply undertakings, which are characterised by stable cash flows and low credit risk, many of the enterprises entering the market in the mid-2000s were high yield companies. High yield companies accounted for most of the growth in 2006 and 2007 (see Chart 6). Between 2000 and 2005 high yield corporate bonds accounted for an average of 25 percent of outstanding volume in the market. Since 2007, this share has been above 50 percent (see Chart 7).

⁴ Much of the market financing for the Norwegian oil and gas sector is raised outside of the Norwegian market, since some large oil companies primarily depend on foreign bond markets for financing.

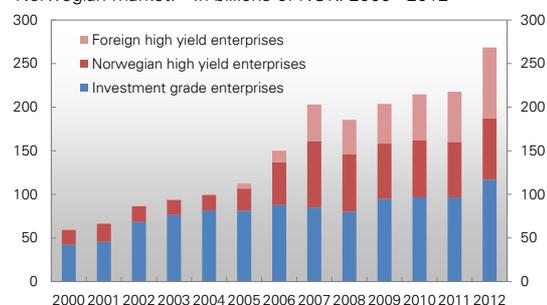
Chart 6: Net issuance of corporate bonds in the Norwegian market.¹ In billions of NOK. 2000 - 2012



Sources: Stamdata, ABG Sundal Collier, Nordea Markets and Norges Bank
¹ Unofficial credit rating

In 2012, issuance by enterprises with good credit ratings, so-called “investment-grade” companies, also rose. Of the net issuance volume of NOK 50 billion in 2012, 40 percent came from investment-grade companies and 60 percent from high yield companies (Chart 6). Net issuance by investment-grade companies in 2012 was at its highest level since 2002. These investment-grade companies are primarily Norwegian, while most of the growth from high yield companies in 2012 came from foreign enterprises.

Chart 7: Volumes outstanding of corporate bonds in the Norwegian market.¹ In billions of NOK. 2000 - 2012



Sources: Stamdata, ABG Sundal Collier, Nordea Markets and Norges Bank
¹ Unofficial credit ratings

Shipping accounted for 30 percent of volume growth between 2011 and 2012, and was the sector that contributed the most to total volume growth. Manufacturing, utilities and the property sector each contributed around 20 percent of the growth, while the remaining sectors contributed all together around 10 percent (Chart 4).

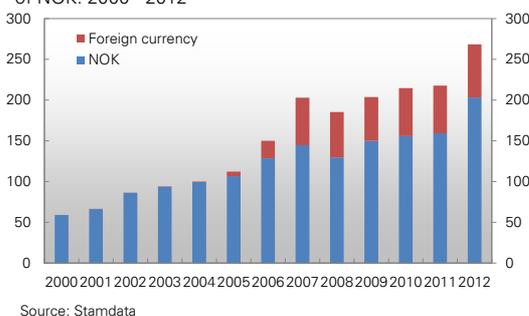
Property is one of the sectors not particularly active in the market

previously, but contributed substantially to growth in 2012. Gross issuance volume in the property sector was seven times as high as the previous year, a larger percentage change than in any other sector. Approximately half of the property companies entering the market in 2012 had not been there before. All total, around 110 enterprises were active in the Norwegian bond market in 2012, of which just over 40 had not been in the market previously.

Issues in foreign currency and foreign enterprises

Up until the mid-2000s, the Norwegian market was nearly exclusively a market in which Norwegian enterprises issued bonds in NOK. In 2006 and 2007, however, there was an increase in the outstanding volume of foreign currency bonds. Both Norwegian and foreign enterprises issued bonds in foreign currency in those years. Since then, Norwegian enterprises have had little bond issuance in foreign currency, and most outstanding foreign currency bonds are currently those issued by foreign enterprises.⁵ Since 2007, the share of outstanding bonds denominated in foreign currency has remained fairly stable at between 25 and 30 percent. It declined somewhat during 2012 owing to a considerable increase in net issuance in NOK and is now at 24 percent (see Chart 8).

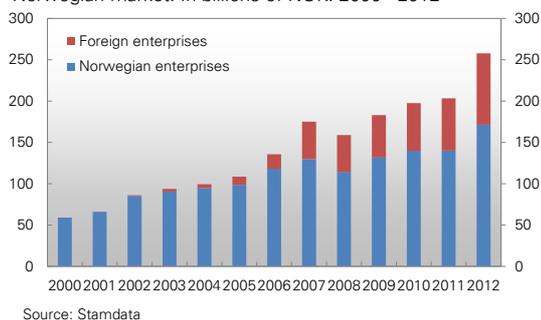
Chart 8: Volumes outstanding of corporate bonds in the Norwegian market. NOK and foreign currency. In billions of NOK. 2000 - 2012



⁵ Several large Norwegian enterprises issue bonds in international bond markets.

Foreign enterprises have been present in the Norwegian market since the early 2000s, but up until 2006, volumes were low. In 2007, foreign market participants accounted for 53 percent of net issuance volume. Since then, net issuance from foreign participants has been positive each year, except for 2008. At end-2012, foreign enterprises accounted for 32 percent of the outstanding volume in the Norwegian market (see Chart 9).

Chart 9: Volumes outstanding of corporate bonds in the Norwegian market. In billions of NOK. 2000 - 2012



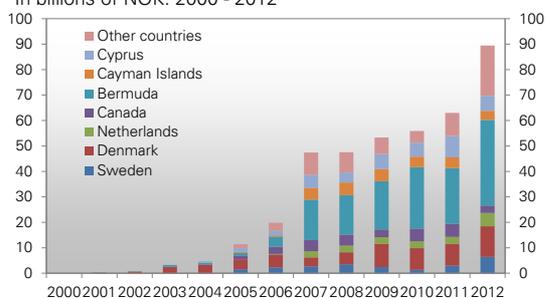
Bermuda is the individual country that has been best represented in the Norwegian market (see Chart 10). In 2012, 40 percent of outstanding bonds issued by foreign market participants were issued by companies registered in Bermuda. This represents 13 percent of the total outstanding volume in the market. Denmark is the next largest individual country. Otherwise, companies domiciled in Sweden, the Netherlands, Canada, Cyprus and the Cayman Islands have also been active in the Norwegian market.

Foreign enterprises that issue in the Norwegian market are primarily high yield companies. At end-2012, foreign enterprises associated with oil and gas accounted for 80 percent of the volume outstanding from this sector.⁶ In the shipping sector, slightly less than half of the volume outstanding comes from companies registered abroad. In recent

⁶ See footnote 4.

years, net issuance has been positive from countries that were previously represented to only a limited extent. These include the US, Colombia and Singapore.

Chart 10: Volumes outstanding of corporate bonds issued by foreign enterprises in the Norwegian market. Issuer nationality. In billions of NOK. 2000 - 2012



Source: Stamdata

Several factors explain why foreign enterprises choose the Norwegian market for financing. Foreign enterprises with operations in Norway may find it advantageous to use the Norwegian bond market to raise capital. Companies in the oil and gas sector are examples. Furthermore, several of the foreign enterprises were originally Norwegian companies that have since moved offshore. This is the case for companies registered in Bermuda, Cyprus and the Cayman Islands, for example. Another possible explanation is that the issuance process in Norway is more standardised and less time-consuming than in several other countries.

Conclusion

At end-2012, non-financial enterprises accounted for 18 percent of the total volume outstanding in the Norwegian bond market and for 30 percent of the growth between 2011 and 2012.

In 2012, non-financial enterprises issued bonds worth a record-high NOK 97 billion in the Norwegian bond market. Net issuance was also high at NOK 50 billion, which led to an increase in corporate bonds outstanding in the Norwegian market to around NOK 270 billion. Over the course of the 2000s, the Norwegian corporate bond market has been transformed from a small market dominated by electricity and water supply undertakings into a market characterised by a large percentage of high yield companies, such as oil and gas companies, with high volumes of bonds outstanding. Growth between 2011 and 2012 was driven by both high yield and investment-grade companies. Shipping, property, manufacturing and utility were the sectors that made the largest contributions to this growth.

So far in 2013, issuance activity has remained at the high levels recorded in 2012. By the end of the first quarter, enterprises had issued bonds worth around NOK 30 billion.