



*2017 FINANCIAL STABILITY REPORT:*  
**HOUSEHOLD DEBT AND  
THE HOUSING MARKET**

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21 NOVEMBER 2017

# Key vulnerabilities in Norway

2017 *Financial Stability Report*

Change since the 2016  
*Financial Stability Report*

**High household debt**



**High property prices**



**Banks' short-term foreign currency funding**

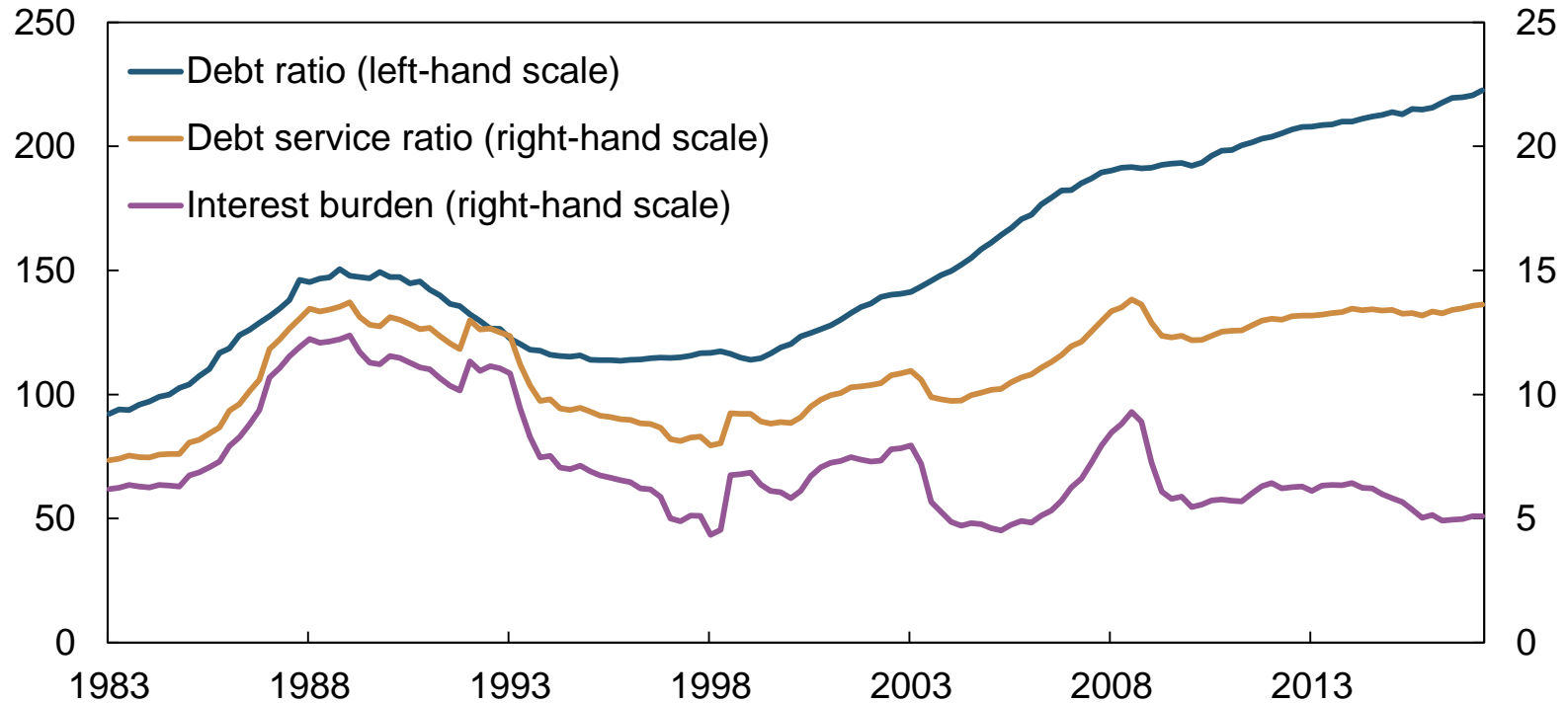


*There are three vulnerability levels, of which red is the highest:*



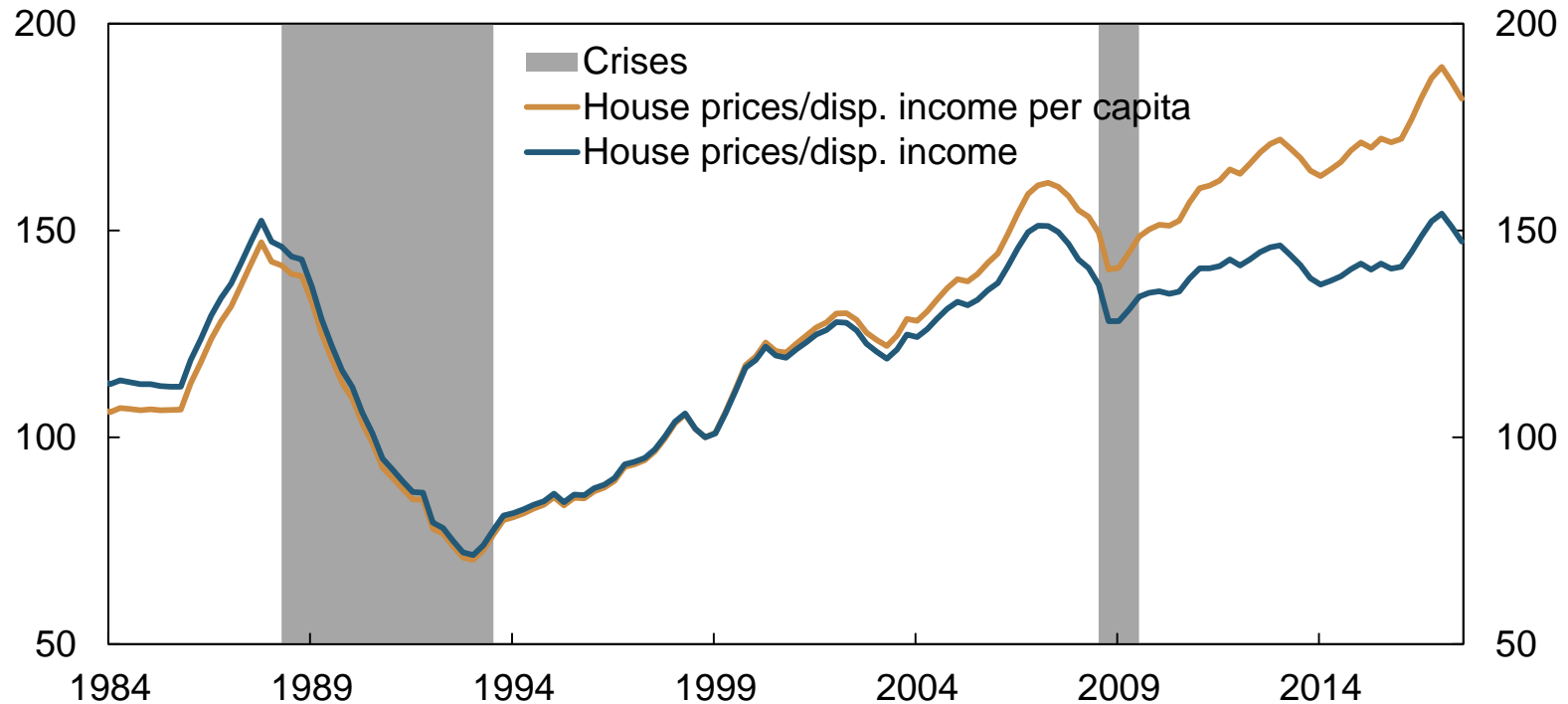
# High household debt

Percent. 1983 Q1 – 2017 Q2



# High house price inflation

House prices relative to disposable income. Index. 1998 = 100

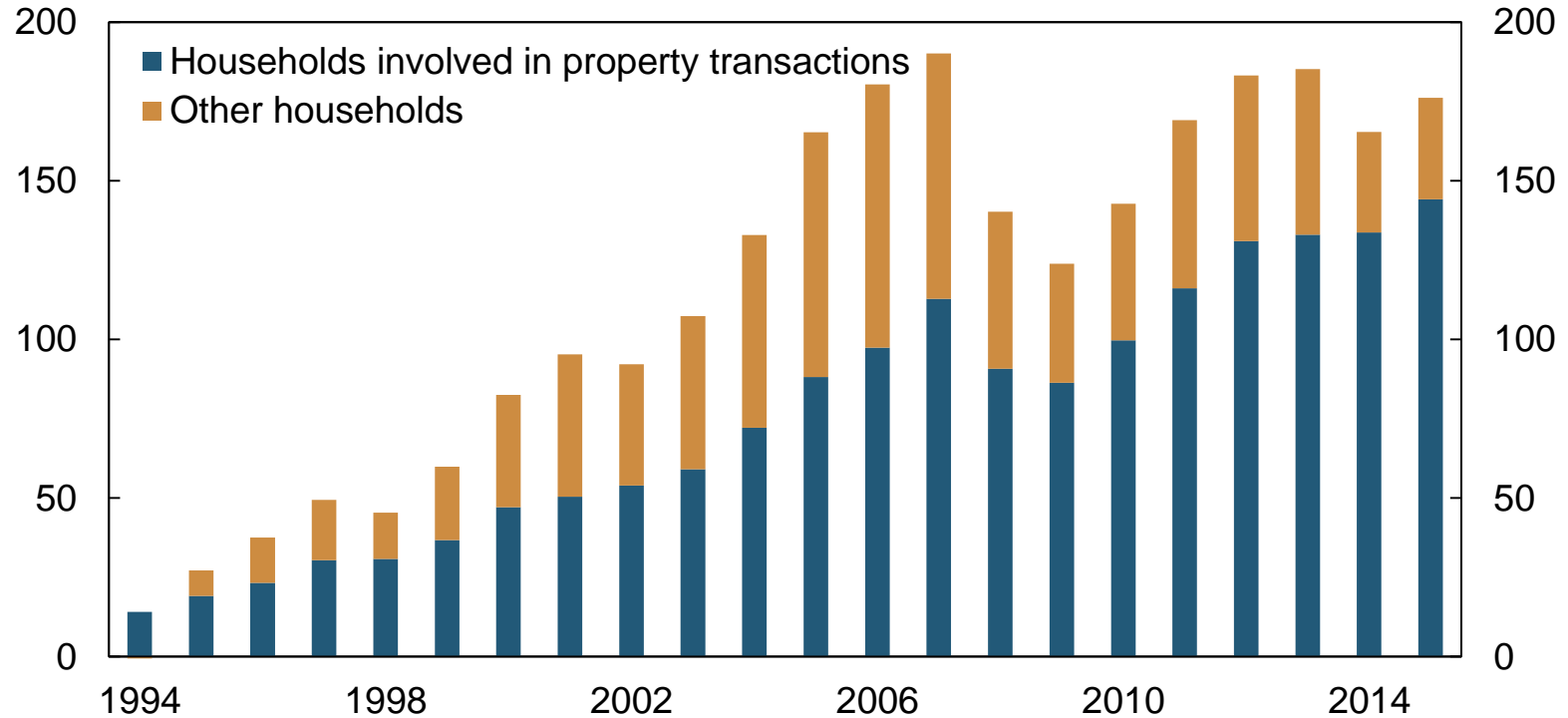


Sources: Eiendomsverdi, Finn.no, Norwegian Association of Real Estate Agents (NEF), Real Estate Norway, Statistics Norway and Norges Bank



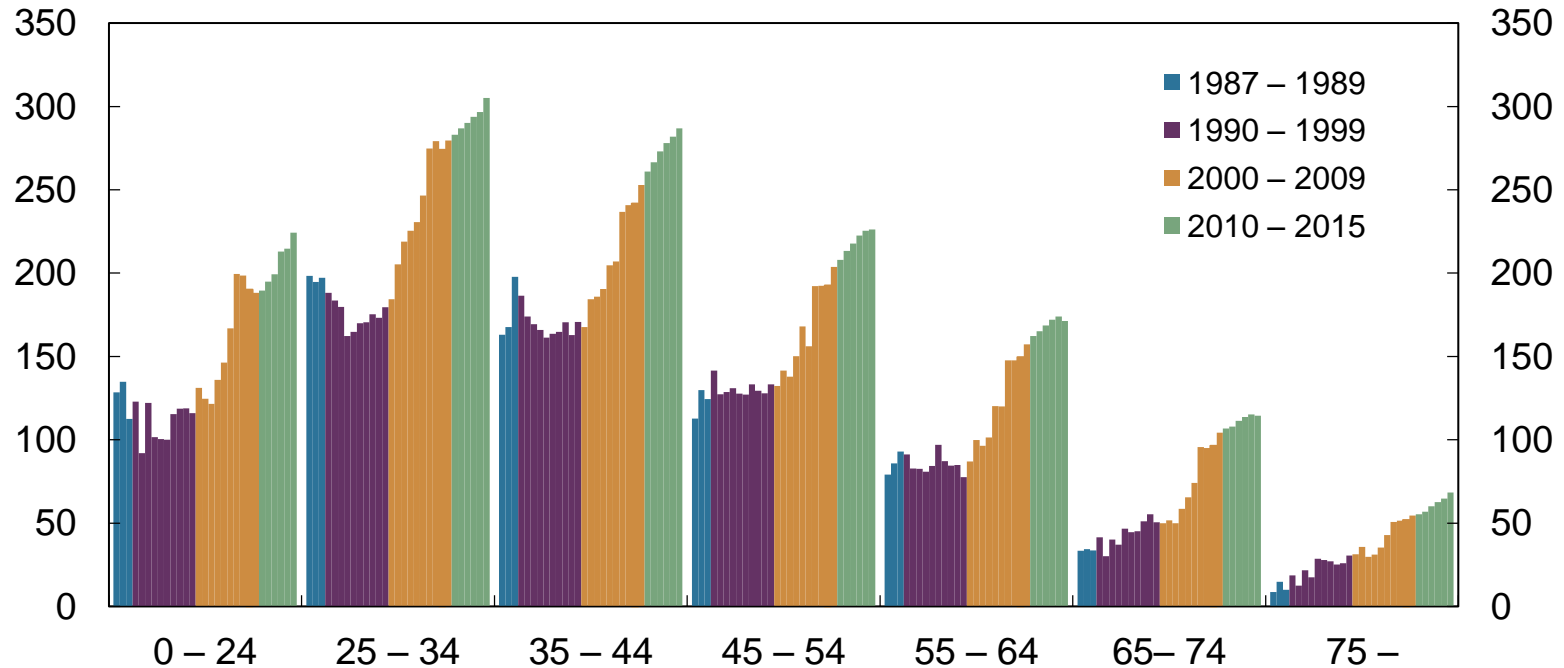
# House purchases drive household credit

Net change in debt for Norwegian households. In billions of NOK. 1994 – 2015



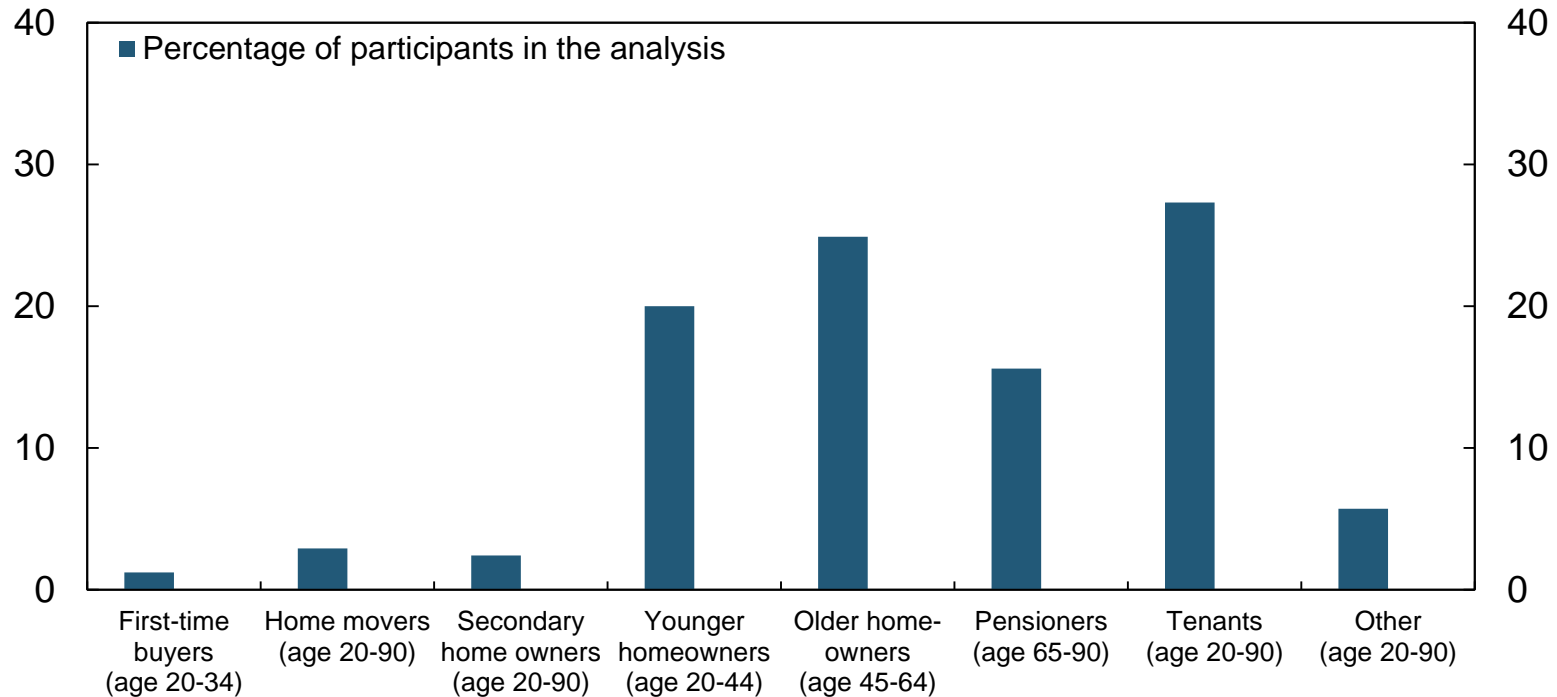
# High household debt

Debt to disposable income ratio for different groups. By age of main income earner. Percent. 1987 – 2015



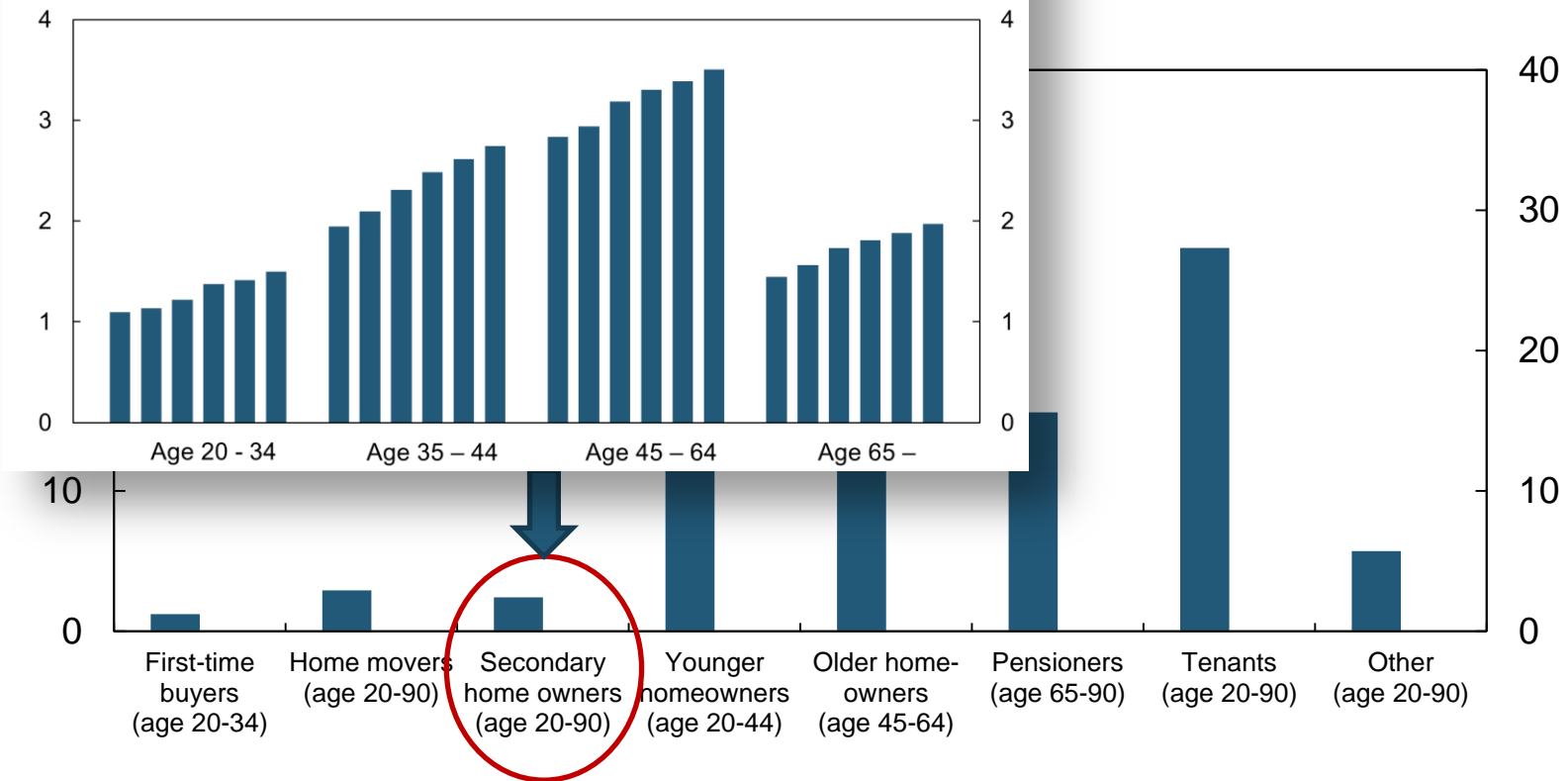
# Debt exposure varies with stages of life

Household categories in the analysis. 2015



# Share of households with secondary dwellings ages of life

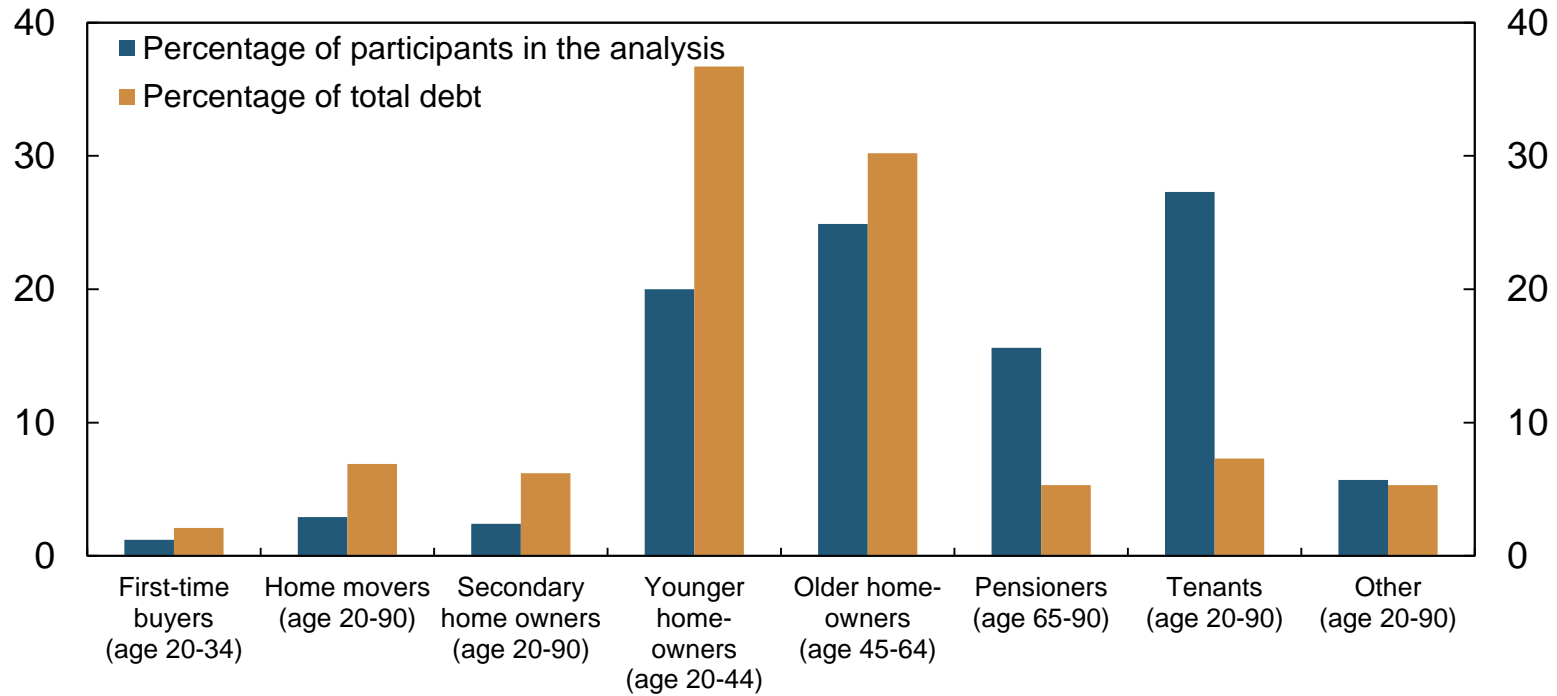
Secondary residences with rental income. 2010-2015





# Debt exposure varies with the life cycle

Household categories in the analysis. 2015



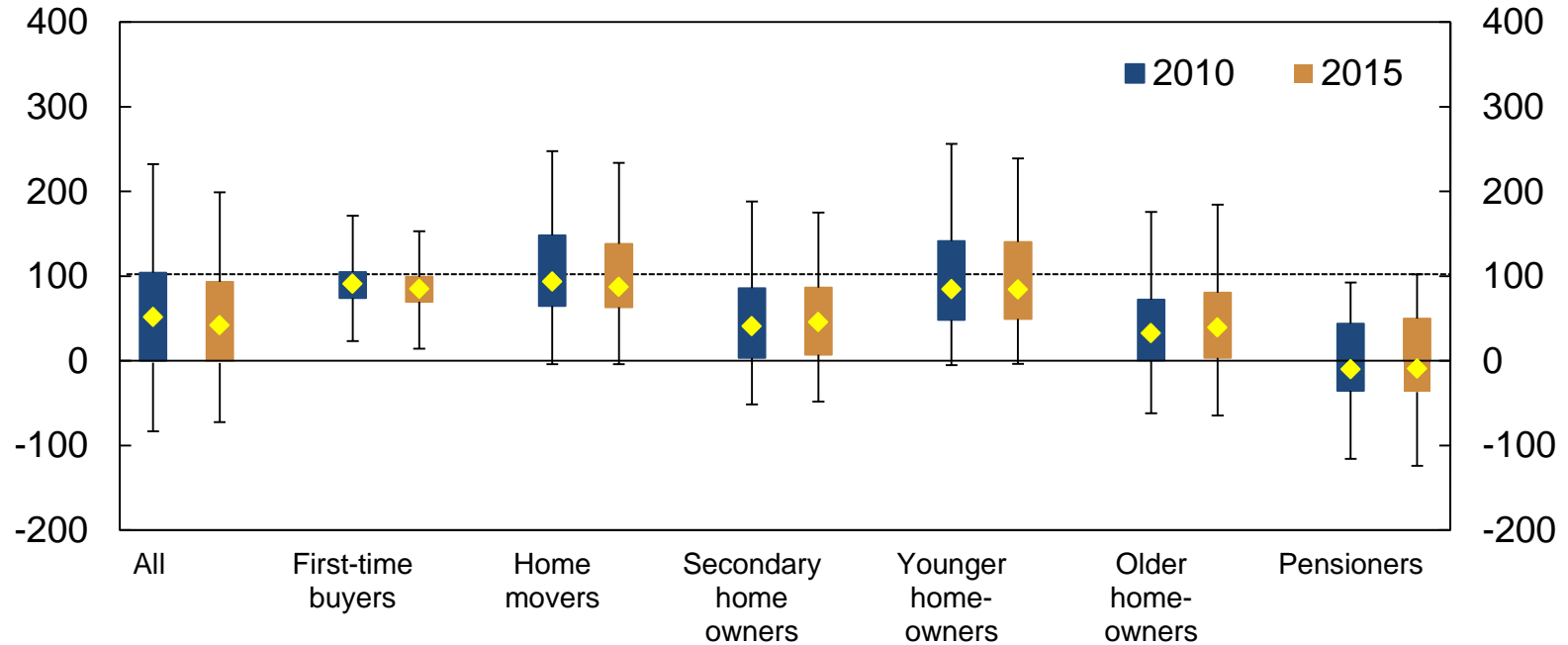
# Household risk indicators

- Loan-to-value ratio (LTV: Net debt / house value)
  - Critical level > 100 percent
- Debt-to-income (DTI: Total debt/gross income)
  - Critical level > 5
- Debt servicing capacity (Income – debt service – basic consumption)
  - Critical level < 1 month



# Loan-to-value ratio

Net debt/house value.<sup>1,2,3</sup> Percent



1) Diamonds indicate the median, bars indicate the 25th–75th percentile and lines indicate the 5th–95th percentile.

2) Net debt is total debt excluding student loans and less bank deposits.

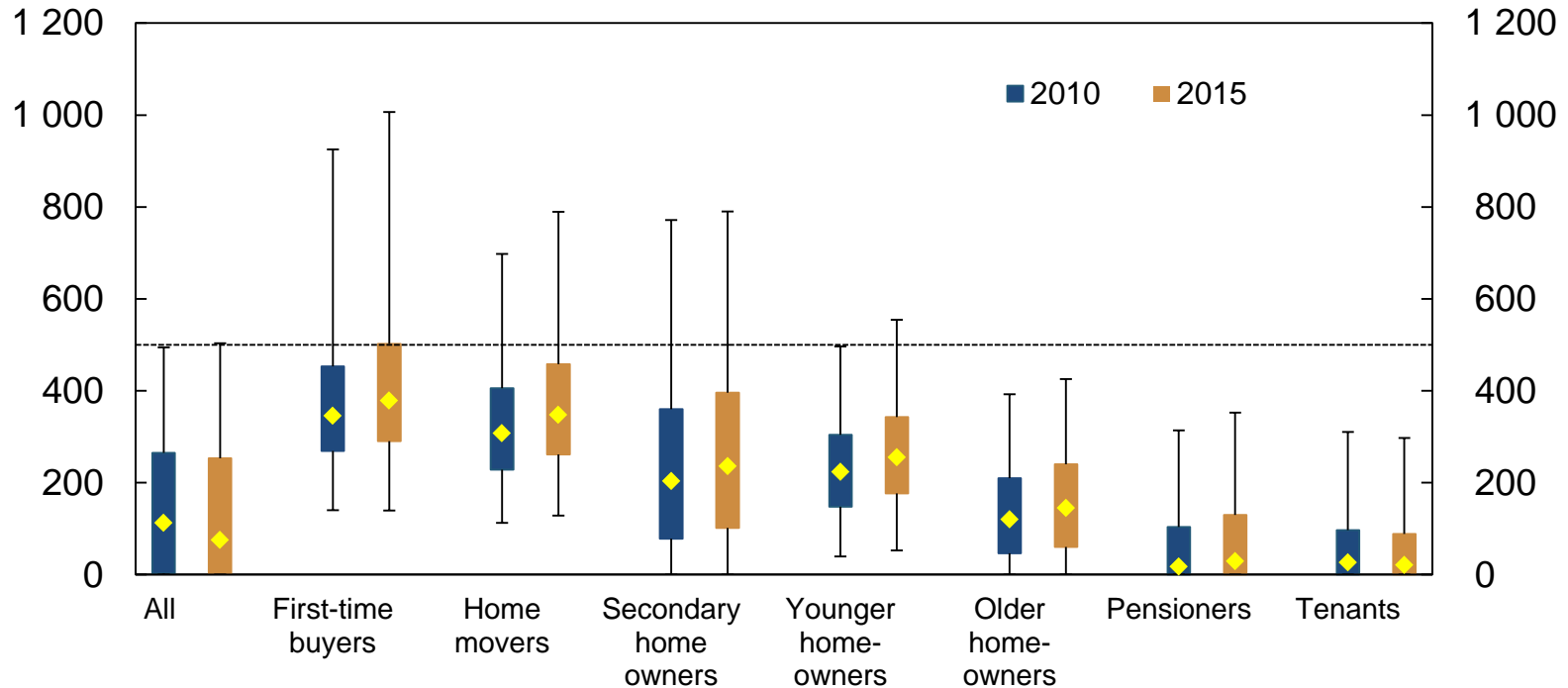
3) Tenants are excluded because they are not homeowners.

Sources: Statistics Norway, Norwegian Mapping Authority and Norges Bank



# Debt-to-income ratios

Total debt/gross income. <sup>1</sup> Percent

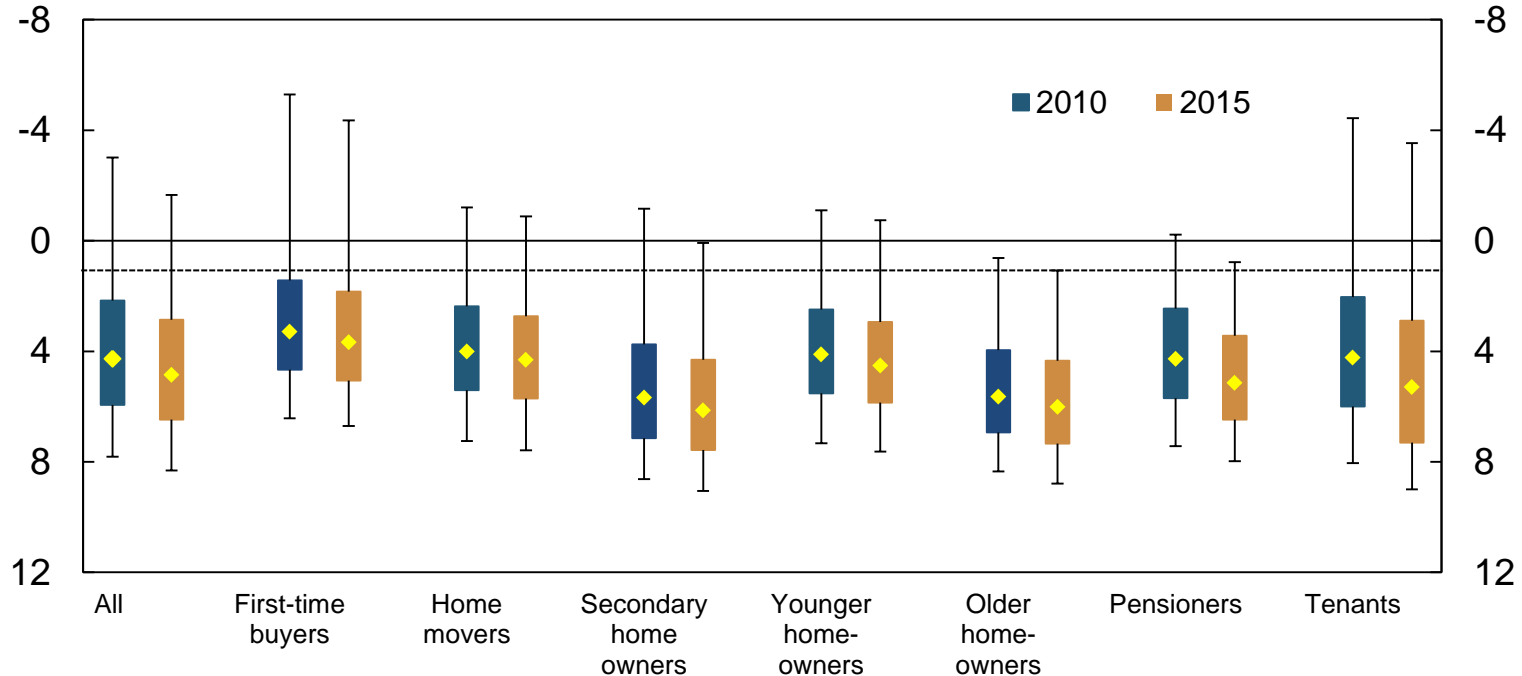


1) Diamonds indicate the median, bars indicate the 25th – 75th percentile and lines indicate the 5th – 95th percentile.  
Sources: Norwegian Mapping Authority, Statistics Norway and Norges Bank



# Debt-servicing capacity

Margin in number of monthly incomes after interest and principal repayments and standard consumption expenditure



1) Diamonds indicate the median, bars indicate the 25th – 75th percentile and lines indicate the 5th – 95th percentile.

2) Applies to LTV ratios above 60 percent. Principal payments set at 2.5 percent of debt less student loans.

Sources: Norwegian Mapping Authority, Statistics Norway, SIFO and Norges Bank



# Credit risk assessment

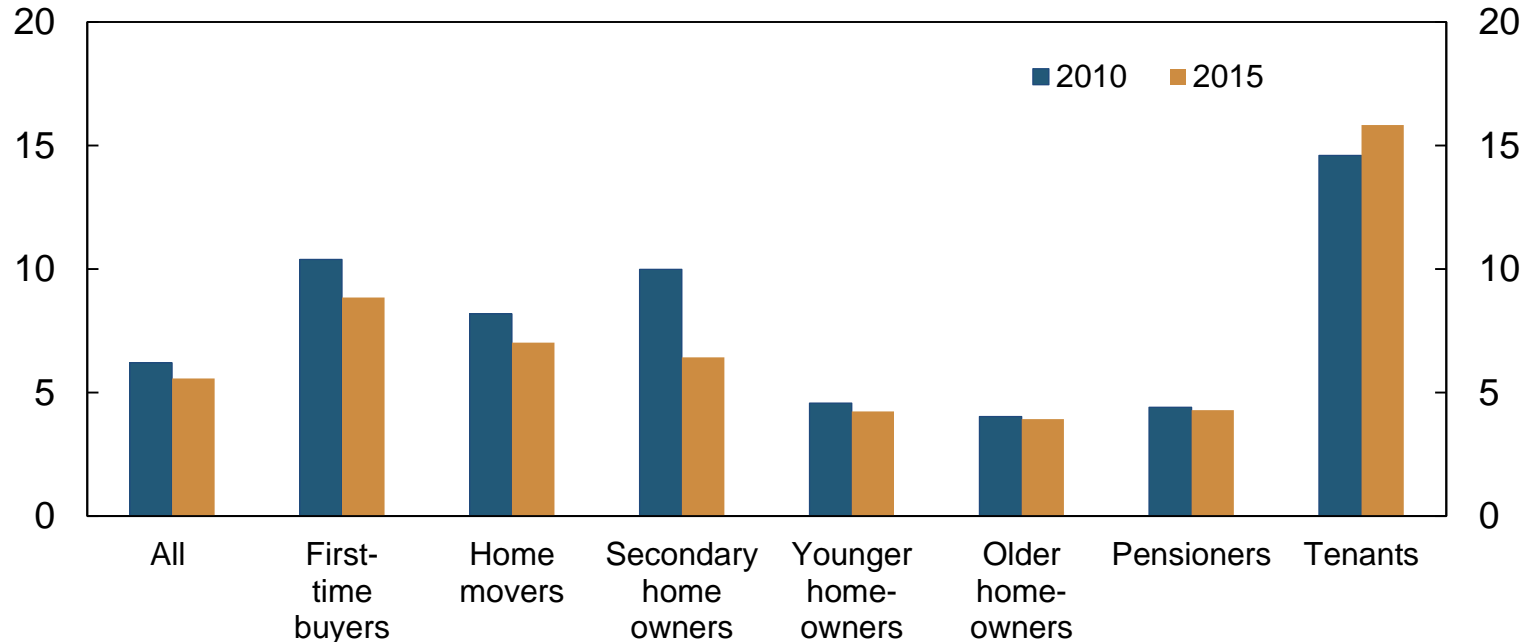
The risk that a household will not be able to service a loan

- **Mortgage risks:** when a household simultaneously exceeds the critical levels of the following three indicators:
  - LTV > 100%
  - DTI > 5 x gross income
  - Debt servicing capacity < 1 month's income remaining after fixed expenses (interest payments and ordinary consumption)
- **Consumer debt:** Household debt with implicit interest rate > 2 x average interest rate



# Overall credit risk is moderate

Share of debt among households with a high loan-to-value ratio<sup>1</sup>, high debt-to-income ratio<sup>2</sup>, low debt servicing capacity<sup>3</sup> and that have consumer debt. Percent



1) Net debt exceeding dwelling's market value.

2) Debt exceeding five times gross income.

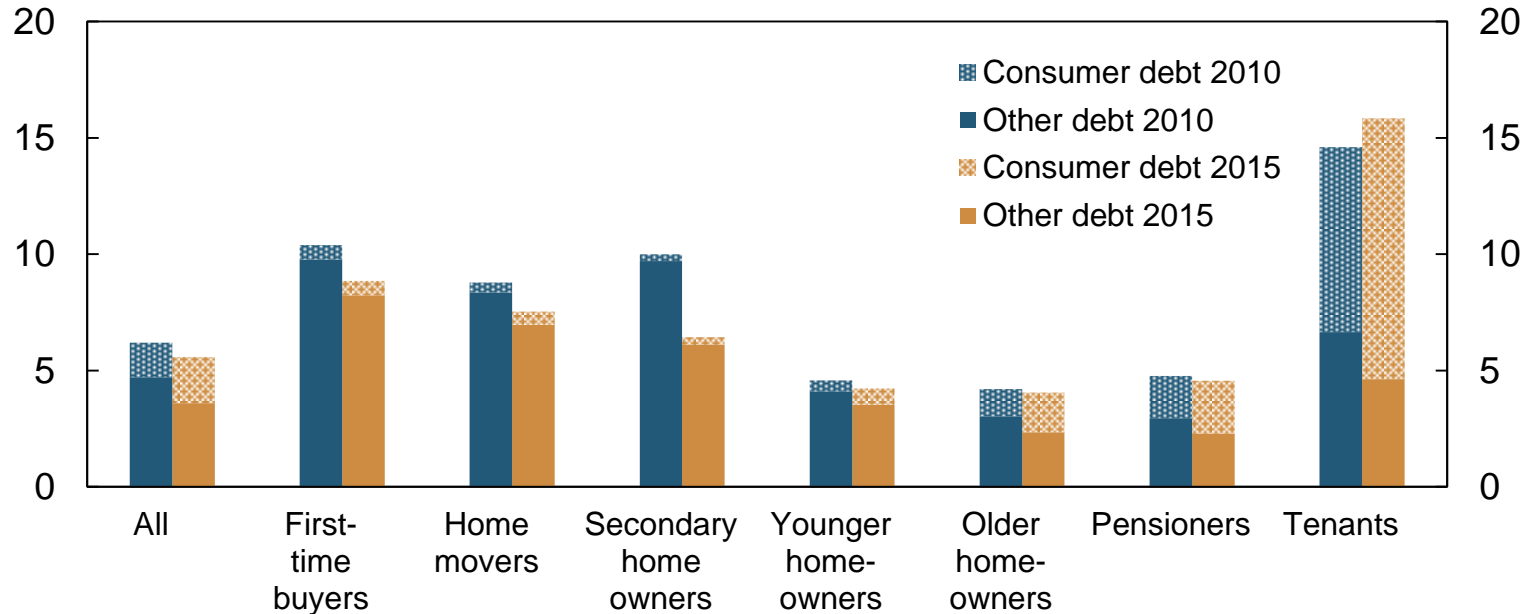
3) Margin below one month's after-tax income.

Sources: Norwegian Mapping Authority, Statistics Norway and Norges Bank



# Overall credit risk is moderate

Share of debt among households with high loan-to-value ratio<sup>1</sup>, high debt-to-income ratio<sup>2</sup>, low debt servicing capacity<sup>3</sup> and that have consumer debt. Percent



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Sources: Norwegian Mapping Authority, Statistics Norway and Norges Bank





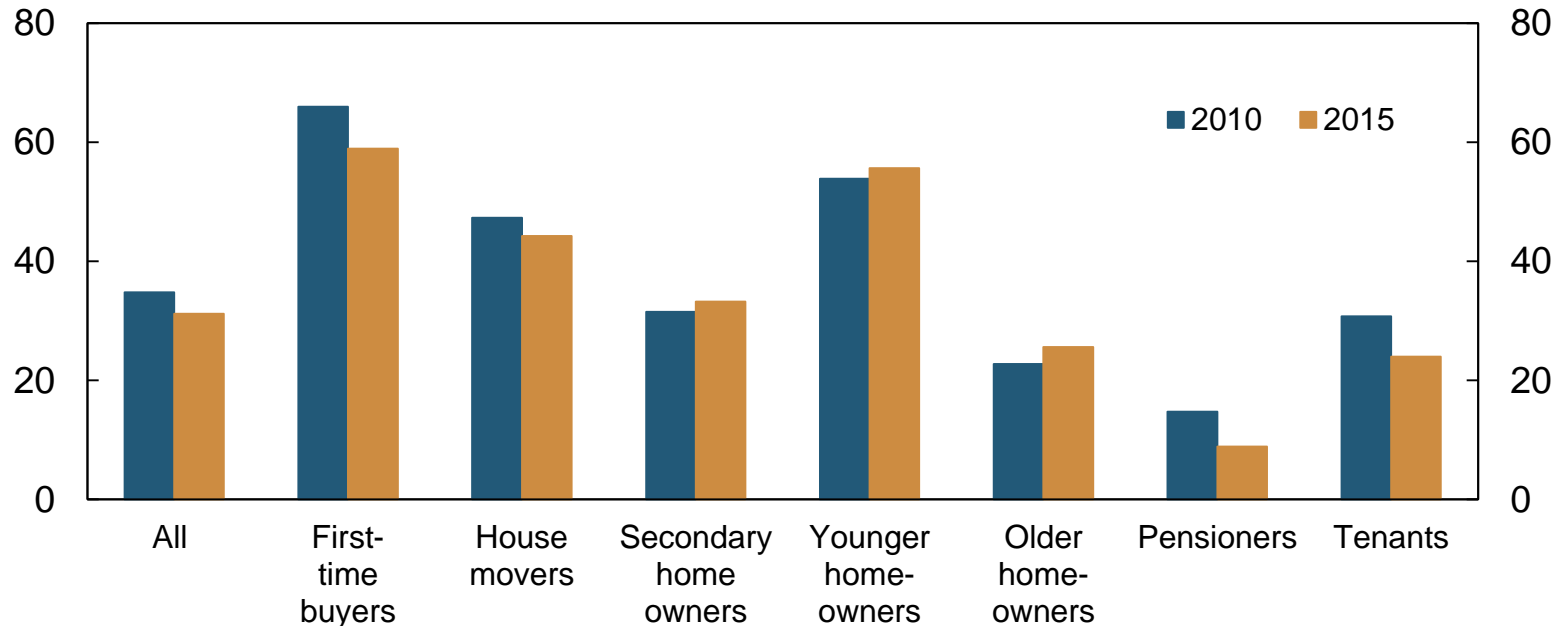
# Risk of shifts in consumption

- High debt levels increase the risk of a deeper and longer recession
  - Increased saving in the short term
  - Less flexibility to adapt in the longer term
  
- Requirements: Breaches at least one criterion



# Many households at risk of shifts in consumption

Share of households with a high LTV ratio<sup>1</sup>, high DTI ratio<sup>2</sup> or low servicing capacity<sup>3</sup>. Percent



1) Net debt exceeding dwelling's market value.

2) Debt exceeding five times gross income.

3) Margin below one month's after-tax income.

Sources: Norwegian Mapping Authority, Statistics Norway and Norges Bank



# Summary

- Two key vulnerabilities: High levels of household debt and high property prices - closely interlinked
- Levels of risks vary between household groups. Risk is more pronounced among younger households.
- Overall credit risk is moderate, but many indebted households are at risk of shifts in consumption.
- A consumption shift may amplify a negative correction and increase bank losses.
- Macroprudential measures increase resilience and are helping to restrain the build-up of household vulnerabilities.





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