

# Market Impact Update – Norway

## A look at a rapidly changing economy

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November 2020





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## Executive Summary

As of 29<sup>th</sup> October 2020, Covid-19 cases have exceeded 44 million in the world and 20 thousand in Norway and are continuing to increase worldwide. The virus has resurged again, and the second wave has started across Europe as well as in the Nordics.

The pandemic's economic impact has started to be observed on both macro and micro level. We started to see trends which are indicative of emerging patterns in the credit industry and could be early indicators of what is to come over the next few months. Data shows that certain sectors have a recovery trend. On the other hand, some have a long way in front to recover until a vaccine is found and the pandemic is over. It is hard to be optimistic for 2020 and even 2021.

Since the reopening, economic activity has picked up in large parts of the Norwegian economy. However, the lockdown resulted in large economic losses, and Norwegian GDP is projected to decrease 3.6% overall this year<sup>1</sup>. The economy is now in a moderate recession. As of October, still some domestic industries such as restaurants, cafes, bars and entertainment are subject to restrictions for a period of time. Recovery will be more gradual for these industries in the future. The different relief packages are useful in the current situation. However, we should not forget that **payment difficulties and bankruptcies will likely occur for the most vulnerable businesses after the government support vanishes.**

All these unfavourable conditions will have an impact on the Norwegian financial sector and banking. The deterioration in the asset quality is visible now. **Non-Financial Corporates (NFC) portfolios in the Norwegian financial sector require special attention and close monitoring.** In order to prevent NFC customers from transferring into underperforming or non-performing exposure status, their needs must be identified in the early stages and customized solutions should be offered. **Management of the non-performing and forbore exposures as well as robust collection processes in the bank became vital to improve the operational efficiency and the customer experience in these distressed conditions.**

Another challenge for the financial sector is that the risk profiles of the customers continue to shift. The current credit risk assessment frameworks of the banks will struggle in estimating the future risks if it is not supported with additional tools and systems. **Alternative data sources, early warning systems and robust pre and early collection scorecards are crucial for the banks in order to better manage the financial difficulties of their customers. Reduction of the transitions from stage 1, performing loans, to stage 2 and 3, underperforming or non-performing loans will help banks to control the impairment levels which is already in an increasing trend<sup>2</sup>.**

Lastly, it would also be challenging for the banks to increase revenues especially for the corporate customers in an environment where the loan demand is decreasing, and the risk profiles of the existing customers are shifting. **Smart customer management practices, risk-based pricing, cross-sell and upsell strategies will be crucial to come over these obstacles.**

## Introduction

*In this report, we will explore the credit activity and consumption trends in Norway we see unfolding. We will give an overall macroeconomic outlook of the Nordic countries before and after the Covid-19 crisis and will look into the impacts of Covid-19 shock on bank's asset quality. We will investigate how banks can manage well the risk profile shifts in their portfolios.*

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<sup>1</sup> PPR

<sup>2</sup>[https://eba.europa.eu/sites/default/documents/files/document\\_library/Risk%20Analysis%20and%20Data/Risk%20Dashboard/Q2%202020/933053/EBA%20Dashboard%20-%20Q2%202020.pdf](https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Dashboard/Q2%202020/933053/EBA%20Dashboard%20-%20Q2%202020.pdf)

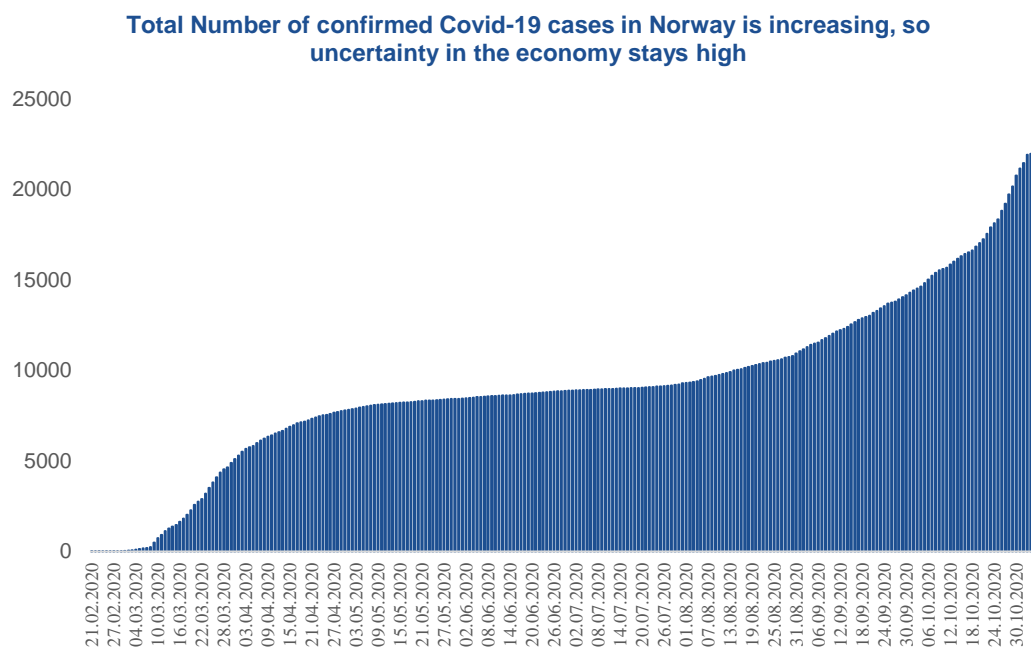
## Macroeconomic impact of COVID-19 outbreak in Nordics

Europe is experiencing a revival in Covid-19 cases especially after the summer holidays even though the expansion and the spread of the virus was successfully taken under control earlier in the year.

Many European countries are declaring more cases each day now than they were during the first wave earlier this year. Countries like Italy, Spain, France, Czech Republic, Ireland and Belgium announced new restrictions and lockdowns which will obviously have direct impact on the economic activities.

In Norway, as in the rest of Europe, daily confirmed cases increased significantly and reached to its highest levels (in the 1<sup>st</sup> wave, the maximum daily cases were 313 observed on March 24<sup>th</sup>, it was 615 on October 30<sup>th</sup>). However, while the daily confirmed infected is at its highest now, FHI<sup>3</sup> estimate the actual daily infected in March and April was higher with only 1 in 10 of infected being diagnosed at the beginning of the pandemic, compared to 4 in during September and October.

**Figure 1. Total number of confirmed Covid-19 cases in Norway**



The economic shock due to the Covid-19 situation had both impacts on macro and micro level. Regarding the macro level impacts of Covid-19 outbreak, Nordic countries published sharp declines in GDP growth rates in the 1<sup>st</sup> quarter of 2020, as many other countries, and even sharper declines in the 2<sup>nd</sup> quarter. It is mostly due to the fact that the Norwegian economy was hit by the lockdown restrictions. This has resulted in large economic losses and large drops in consumption and exports. On the other hand, there are slightly positive developments in the expectations on the annual GDP growth. Partly owing to the rapid rise in goods consumption, GDP growth in Q3 appears to be higher than projected in Q2<sup>4</sup>. However, Norway's Central Bank predicts that GDP will not reach pre-pandemic levels before the end of 2021, and that unemployment will still be significantly higher at this point.

<sup>3</sup> <https://www.fhi.no/contentassets/8a971e7b0a3c4a06bdf381ab52e6157/vedlegg/andre-halvar-2020/2020.10.28-ukerapport-uke-43-covid-19-med-korreksjon-smitted.pdf>

<sup>4</sup> [https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr\\_320.pdf?v=09/25/2020164058&ft=.pdf](https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr_320.pdf?v=09/25/2020164058&ft=.pdf)

**Table 1. Development of key macroeconomic indicators in Nordics after Covid-19 outbreak**

Economic Statistics	Denmark	Norway	Sweden	Finland
Level of confinement <sup>5</sup>	Medium	Medium	Low	Medium
Annual GDP <sup>6</sup> growth (%) in 2019	2.4	1.2	1.2	1.1
Q1 2020 GDP* growth (%) <sup>7</sup>	-2.0	-1.7	0.2	-1.4
Q2 2020 GDP* growth (%) <sup>8</sup>	-6.9	-5.1	-8.3	-4.4
Expected annual GDP growth (%) in 2020 pre-Covid-19	1.5 <sup>9</sup>	1.9 <sup>10</sup>	1.1 <sup>11</sup>	0.9 <sup>12</sup>
Expected annual GDP growth (%) in 2020 after-Covid 19 as of June 2020	-4.1 <sup>13</sup>	-3.5 <sup>14</sup>	-6.0 <sup>15</sup>	-6.9 <sup>16</sup>
Expected annual GDP growth (%) in 2020 after-Covid 19 as of September 2020	-3.6 <sup>17</sup>	-3.6 <sup>18</sup>	-4.6 <sup>19</sup>	-4.7 <sup>20</sup>
Unemployment rate (%) as of Dec 2019 <sup>21</sup>	3.7	3.9	6.0	6.0
Unemployment rate (%) as of April 2020 <sup>22</sup>	5.4	4.1	8.2	8.1
Unemployment rate (%) as of August 2020 <sup>23</sup>	4.9	5.3	8.8	7.7

Following the developments in Covid-19 situation, on 28<sup>th</sup> of October, Norwegian government also tightened the restrictions such as more restrictive rules on assembly and less social contact.

<sup>5</sup> High: full quarantine (schools closed, forced home office), Medium: partial quarantine (schools closed, recommended home office, possibility to go outside home), Low: soft quarantine (early stage of economic activities reduction)

<sup>6</sup> Source: National Statistical Offices

<sup>7</sup> Percentage change on previous quarter. Source: <https://countryeconomy.com/gdp>

<sup>8</sup> Percentage change on previous quarter. Source: <https://countryeconomy.com/gdp>

<sup>9</sup> [https://www.nationalbanken.dk/en/publications/Documents/2019/09/ANALYSIS\\_no%202020\\_Outlook%20for%20the%20Danish%20Economy%20E2%80%93%20september%202019.pdf](https://www.nationalbanken.dk/en/publications/Documents/2019/09/ANALYSIS_no%202020_Outlook%20for%20the%20Danish%20Economy%20E2%80%93%20september%202019.pdf)

<sup>10</sup> GDP, mainland Norway. [https://static.norges-bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr\\_4\\_19\\_web.pdf?v=12/19/2019151950&ft=.pdf](https://static.norges-bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr_4_19_web.pdf?v=12/19/2019151950&ft=.pdf)

<sup>11</sup> <https://www.government.se/48e7fb/globalassets/government/dokument/finansdepartementet/pdf/prognoser/2020/key-indicators-forecast-16-january-2020.pdf>

<sup>12</sup> <https://www.bofbulletin.fi/en/2019/5/forecast-tables-for-2019-2022-december/>

<sup>13</sup> [https://www.nationalbanken.dk/en/publications/Documents/2020/06/ANALYSIS\\_no.%2012\\_Prospects%20of%20gradual%20economic%20recovery.pdf](https://www.nationalbanken.dk/en/publications/Documents/2020/06/ANALYSIS_no.%2012_Prospects%20of%20gradual%20economic%20recovery.pdf)

<sup>14</sup> GDP, mainland Norway. [https://static.norges-bank.no/contentassets/ec46da8920184a74acc6cf8ee312f29d/mpr\\_220.pdf?v=06/19/2020125049&ft=.pdf](https://static.norges-bank.no/contentassets/ec46da8920184a74acc6cf8ee312f29d/mpr_220.pdf?v=06/19/2020125049&ft=.pdf)

<sup>15</sup> <https://www.government.se/government-of-sweden/ministry-of-finance/central-government-budget/ministry-of-finance-economic-forecasts/>

<sup>16</sup> <https://www.bofbulletin.fi/en/2020/3/forecast-tables-for-2020-2022-june-2020/>

<sup>17</sup> [https://www.nationalbanken.dk/en/publications/Documents/2020/09/ANALYSIS%20no.%2018\\_Prospects%20of%20moderate%20recession%20the%20coming%20year\\_UK.pdf](https://www.nationalbanken.dk/en/publications/Documents/2020/09/ANALYSIS%20no.%2018_Prospects%20of%20moderate%20recession%20the%20coming%20year_UK.pdf)

<sup>18</sup> GDP, mainland Norway. [https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr\\_320.pdf?v=09/25/2020164058&ft=.pdf](https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr_320.pdf?v=09/25/2020164058&ft=.pdf)

<sup>19</sup> <https://www.government.se/government-of-sweden/ministry-of-finance/central-government-budget/ministry-of-finance-economic-forecasts/>

<sup>20</sup> <https://www.bofbulletin.fi/en/2020/articles/interim-forecast-for-the-finnish-economy-september-2020-recession-followed-by-slow-recovery/>

<sup>21</sup> Registered unemployment rate. Source: <https://tradingeconomics.com/>

<sup>22</sup> Registered unemployment rate. Source: <https://tradingeconomics.com/>

<sup>23</sup> Registered unemployment rate. Source: <https://tradingeconomics.com/>

## 5 | Market update Norway

Local authorities in Oslo and other large cities have enacted their own restrictions on top of the national restrictions, such as required use of face mask in bars and restaurants unless you are seated at a table, guests can't arrive after 10 pm, and social contact with 10 or fewer people during a week. The cash support package for the companies that experienced forced closure or a sufficiently large decrease in turnover in connection with the stricter ban on assembly expired on Oct 31<sup>st</sup>. On the other hand, the government has extended the period for the wage compensation scheme from 6 to 12 months.

So far, the impact of the Covid-19 outbreak has not shown up in the bankruptcy figures of Norwegian companies. It can be explained by the postponement effect of government aid packages, flexible creditors and a new law to protect companies from going bankrupt.

Experian Bankruptcy Analysis Report proves that the outcomes of the financially distressed periods after the outbreak have not been observed yet. As of October 2020, there were 324 bankruptcies in Norway, which is 16.5% less compared to the same period of the previous year. Most regions, including Oslo and Viken, showed a decline in the number of bankruptcies. The trend does not change even if the year-to-date periods were considered, where all of the mainland regions have had a negative trend (see Table 2).

**Table 2. The number of AS bankruptcies in Norway based on counties**

County	Oct. 2019	Oct. 2020	Change (%)	2019 YTD	2020 YTD	Change (%)
Viken	94	59	-37.2%	748	628	-16.0%
Oslo	78	68	-12.8%	618	555	-10.2%
Innlandet	18	10	-44.4%	169	170	0.6%
Vestfold og Telemark	19	41	115.8%	205	261	27.3%
Agder	25	23	-8.0%	215	174	-19.1%
Rogaland	30	26	-13.3%	259	232	-10.4%
Vestland	41	34	-17.1%	387	334	-13.7%
Møre og Romsdal	12	11	-8.3%	127	125	-1.6%
Trøndelag	43	26	-39.5%	265	208	-21.5%
Nordland	12	18	50.0%	140	122	-12.9%
Troms og Finnmark	16	8	-50.0%	104	115	10.6%
Svalbard	0	0	0.0%	0	1	-100.0%
Jan Mayen	0	0	0.0%	0	0	0.0%
<b>Totalt</b>	<b>388</b>	<b>324</b>	<b>-16.5%</b>	<b>3237</b>	<b>2925</b>	<b>-9.6%</b>

Experian Bankruptcy Analysis October 2020 Report also shows that the service industries and accommodation and hotels sectors seem to be hit harder than the other sectors, as they are more directly affected by lockdown and travel restrictions. Wholesale and retail sector, and the construction sector are the sectors with most bankruptcies so far year-to-date, but both sectors have had a decline of 18.3% compared to 2019 year-to-date.

**Table 3. The number of AS bankruptcies based on sectors**

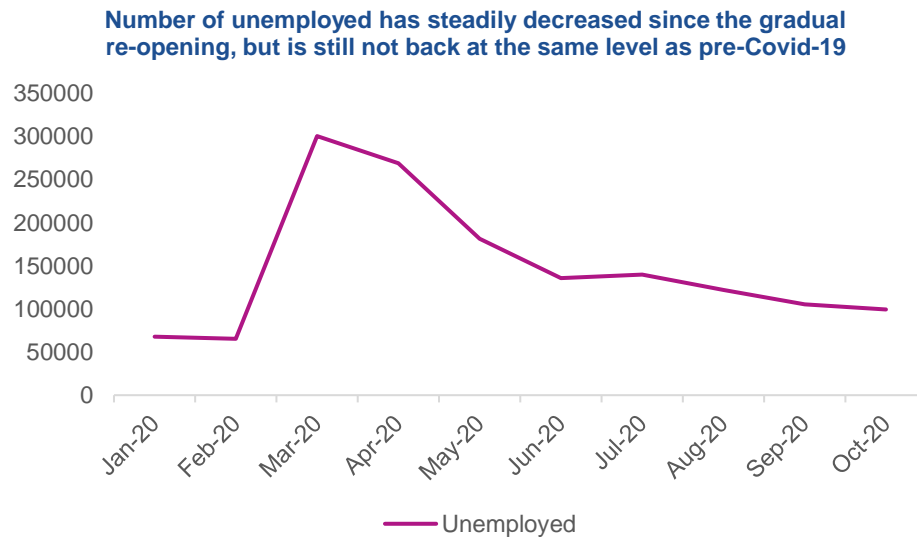
Industry	Oct. 2019	Oct. 2020	Change (%)	2019 YTD	2020 YTD	Change (%)
Agriculture	1	3	200.0%	8	15	87.5%
Mining and quarrying	0	1	100.0%	2	6	200.0%
Manufacturing	20	16	-20.0%	152	143	-5.9%
Electricity, Water Supply; Sewerage	1	0	-100.0%	3	5	66.7%
Construction	93	82	-11.8%	824	673	-18.3%
Wholesale and retail trade; repair of motor vehicles and motorcycles	98	71	-27.6%	821	671	-18.3%
Transportation and storage	13	18	38.5%	146	134	-8.2%
Accommodation and food service activities	51	39	-23.5%	365	403	10.4%
Information and communication	12	11	-8.3%	102	88	-13.7%
Financial and insurance activities	3	0	-100.0%	29	32	10.3%
Real estate activities	17	13	-23.5%	145	113	-22.1%
Professional	31	24	-22.6%	249	213	-14.5%
Administrative and support service activities	20	22	10.0%	181	198	9.4%
Education	5	3	-40.0%	29	41	41.4%
Human health and social work activities	6	3	-50.0%	38	27	-28.9%
Arts	4	2	-50.0%	37	39	5.4%
Other service activities	10	12	20.0%	69	87	26.1%
Missing	3	4	33.3%	37	37	0.0%
<b>Total</b>	<b>388</b>	<b>324</b>	<b>-16.5%</b>	<b>3237</b>	<b>2925</b>	<b>-9.6%</b>

Even if the number of bankruptcies doesn't show an increasing trend yet, the employment figures tell a different story. We saw an immediate increase in the unemployment rates following the lockdowns in Norway (see Table 1). According to NAV<sup>24</sup>, the number of unemployed in October 2020 was 67% higher than in October 2019.

Unemployment has been decreasing since the initial spike in March with the support of wage compensation scheme, however it is still not back at the same level as pre-Covid-19 (see Figure 2).

<sup>24</sup> <https://www.nav.no/no/nav-og-samfunn/statistikk/arbeidssokere-og-stillinger-statistikk/hovedtall-om-arbeidsmarkedet>

**Figure 2. Registered unemployed in Norway 2020**



Source: NAV.no<sup>25</sup>

The wage compensations were provided to the companies to prevent them from firing their employees under tough circumstances due to Covid-19. The latest update on compensation schemes<sup>26</sup> demonstrated that since 15<sup>th</sup> of March up to 15<sup>th</sup> of September, wages of 351 thousand employees have been compensated since the Covid-19 outbreak (see Figure 3).

Due to the restrictions on assembly, the services sectors, retail sector and transportation sector have been the most affected with furloughed jobs. Since the beginning of the pandemic, the accommodation and food service sector has been hit the hardest, and 64% of the employees in this sectors workforce have been furloughed at some point.

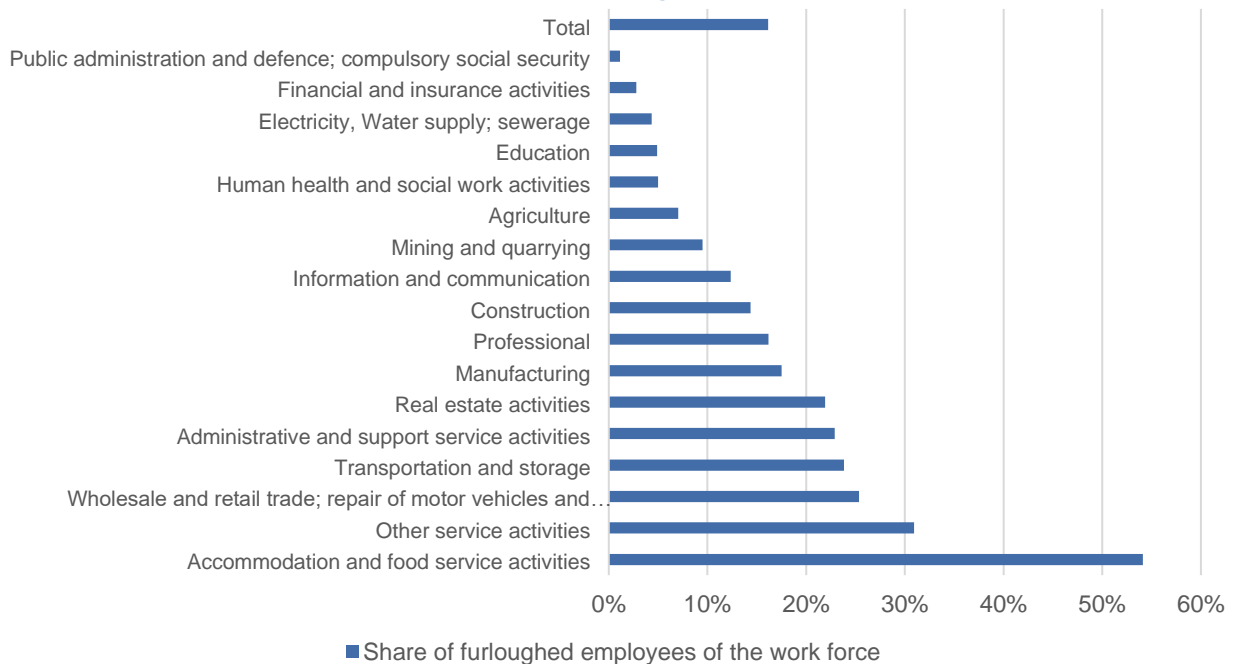
<sup>25</sup> [file:///C:/Users/c65890a/Downloads/Hovedtall\\_om\\_arbeidsmarkedet\\_Oktober\\_2020.pdf](file:///C:/Users/c65890a/Downloads/Hovedtall_om_arbeidsmarkedet_Oktober_2020.pdf)

<sup>26</sup> <https://www.nav.no/no/person/innhold-til-person-forside/nyheter/over-500-000-personer-har-mottatt-dagpenger-forskudd-pa-dagpenger-eller-lonnskompensasjon>



**Figure 3. Furloughed jobs distribution among sectors**

**Since March, accommodation and food services is the industry which is hit the hardest by the lockdown measures, followed by Other service activities. In total 16% of the work force have been furloughed at some point.**



Now, the wage compensation scheme has been extended another 6 months, and this is largely the reason for why we haven't seen a new increase in unemployment. However, the existing and new restrictions in some industries may imply that many will have to find work in industries other than those they came from.

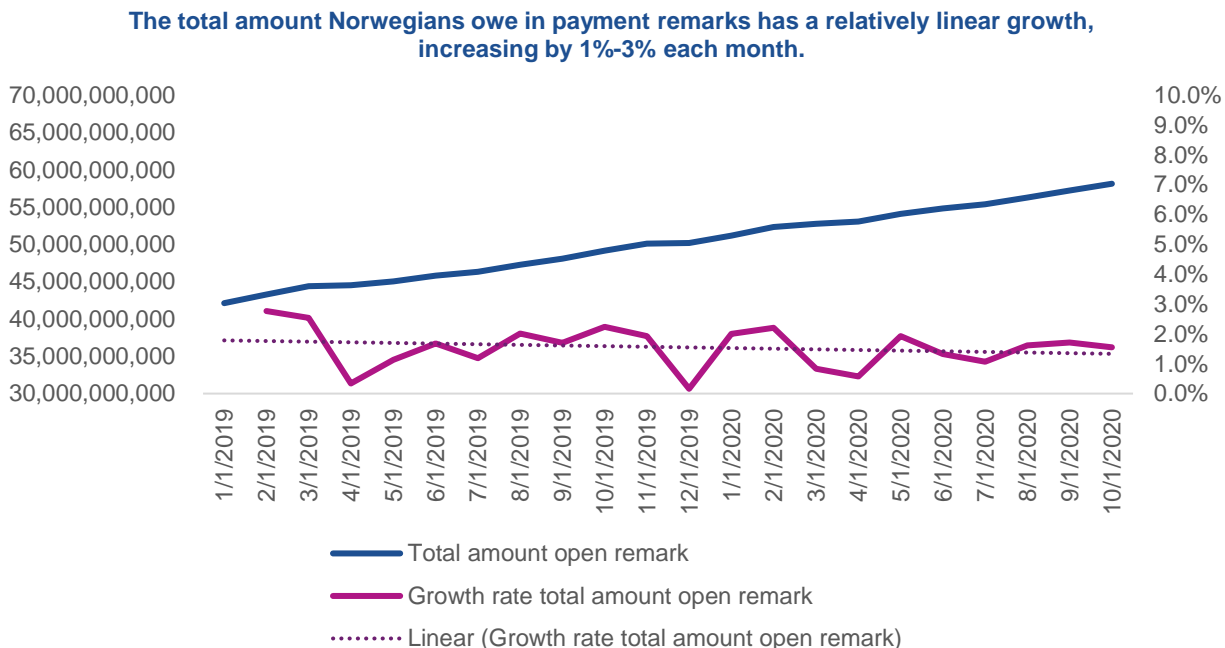
These signals in the furloughed distribution, and extra measures taken by the government, can be seen as early warnings of payment difficulties and bankruptcies in certain sectors. Therefore, banks should pay extra close attention to companies in the service industries, accommodations and food services, retail and transportation industries. When the help packages fade out, companies in these sectors will be under severe pressure and are more likely to go bankrupt.

It should not be forgotten that the defaults will be observed at least 3 months later than the expiration of the help packages, in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2021, expectedly.

Despite the increases in unemployed and furloughed since the lockdown measures were enacted, there is no clear change in the trend for number or amounts of payment remarks (see Figure 4). If we look at the development since January 2019, there is a linear growth, with no discernible break.

The total amount Norwegians have in payment remarks is still a linear increase of between 1%-3% each month, and there is little indicating any shift upward. As of October 31<sup>st</sup> Norwegians owe more than 58 billion NOK in payment remarks.

**Figure 4. Total amount open payment remarks**



For the micro level impacts, see section “What consumer and business trends due to Covid-19, are we observing in Norway?”.

## The credit activity in Norway has bypassed its pre-Covid-19 levels

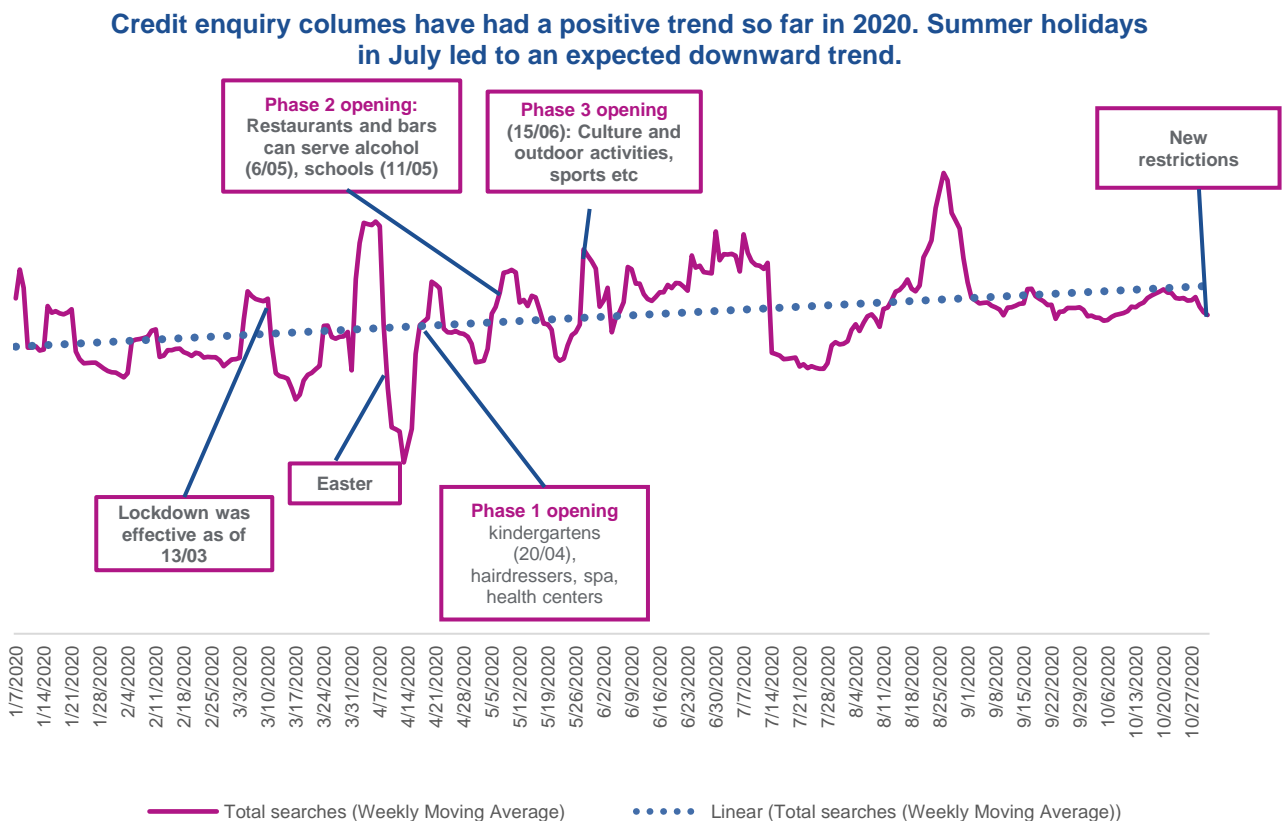
The extent of the initial drop in credit enquiry volumes across EMEA region directly correlates with the level of confinement in each country. The stricter the lockdown criteria, the more significant impact was on overall enquiry volumes across all industries.

In Norway, there was a clear drop in enquiry volumes directly after lockdown, similar to other countries with strict lockdown measures like Denmark. However, society has gradually re-opened since mid-April, and by the start of May, consumer credit enquiries was averaging higher daily volumes than before the pre-lockdown level. This trend continued until there was a sharp drop in July, especially in the weeks 29 and 30 which are summer holiday weeks for most Norwegians.

In Q2 there was an increase of 16.73% compared to Q1. This was in large part due to the drop because of the Covid-19 outbreak and winter holidays, resulting in below average volumes. There was a further increase of 4.47% in Q3, and this is primarily due to a strong August, as the volumes decreased in July and September (see Figure 7).

The main reason for the increased credit enquiries in 2020 so far is due to the e-commerce sector (see fig.5). Whereas all other sectors experienced a decrease in volumes due to the lockdown measures, these measures had a significant positive impact on the credit enquiries volumes for e-commerce. Despite the gradual re-opening, there are no indications that the volumes will regress to its pre-lockdown levels.

**Figure 5. Credit enquiry volumes in Norway**



With the new restrictions in place, either banning or restricting access to services and foreign travel, it is expected that there will be a large increase in retail for November and December. NHO27 predicts that there will be an increase of 7.6% compared to last year, as we will have more funds to spend on retail than previous years.

Due to the increasing number of Covid-19 cases, local authorities have added their own restrictions which will have had an impact on certain industries, especially the service industries. We expect this will result in a further increase in e-commerce in goods due to Christmas shopping, and a new decline in consumer loans as vacations abroad and other social activities are restricted.

With the new restrictions in place, either banning or restricting access to services and foreign travel, it is expected that there will be a large increase in retail for November and December. NHO28 predicts that there will be an increase of 7.6% compared to last year, as we will have more funds to spend on retail than previous years.

Due to the increasing number of Covid-19 cases, local authorities have added their own restrictions which will have had an impact on certain industries, especially the service industries. We expect this will result in a further increase in e-commerce in goods due to Christmas shopping, and a new decline in consumer loans as vacations abroad and other social activities are restricted.



### Key Insights

- When comparing January and February 2020 at an average credit enquiry level, we notice a drop in the volumes which may be due to the winter holidays.
- The most significant drop in credit enquiry volumes occurred from the date the lockdown was formally enforced on 13<sup>th</sup> of March.
- All industries except e-commerce struggled with lower application volumes due to the lockdown measures.
- The gradual openings had positive impacts on the industries and on the credit activities.
- During summer holidays, there was a slowdown in the credit enquiries as expected.
- The outbreak has created a permanent shift in consumers shopping habits, with more people now preferring to do their transactions online

<sup>27</sup> <https://e24.no/norsk-oekonomi/i/Lnn3jQ/naeringslivet-forventer-rekord-i-julehandelen-vi-har-rett-og-slett-mer-penger-aa-bruke>

<sup>28</sup> <https://e24.no/norsk-oekonomi/i/Lnn3jQ/naeringslivet-forventer-rekord-i-julehandelen-vi-har-rett-og-slett-mer-penger-aa-bruke>

Figure 6. Credit enquiry volumes in consumer loans and e-commerce

E-commerce experienced a sharp increase due to lockdown measures, and have stabilized on a much higher level. Consumer loans were initially negatively impacted, but are close to reaching pre-Covid-19 levels

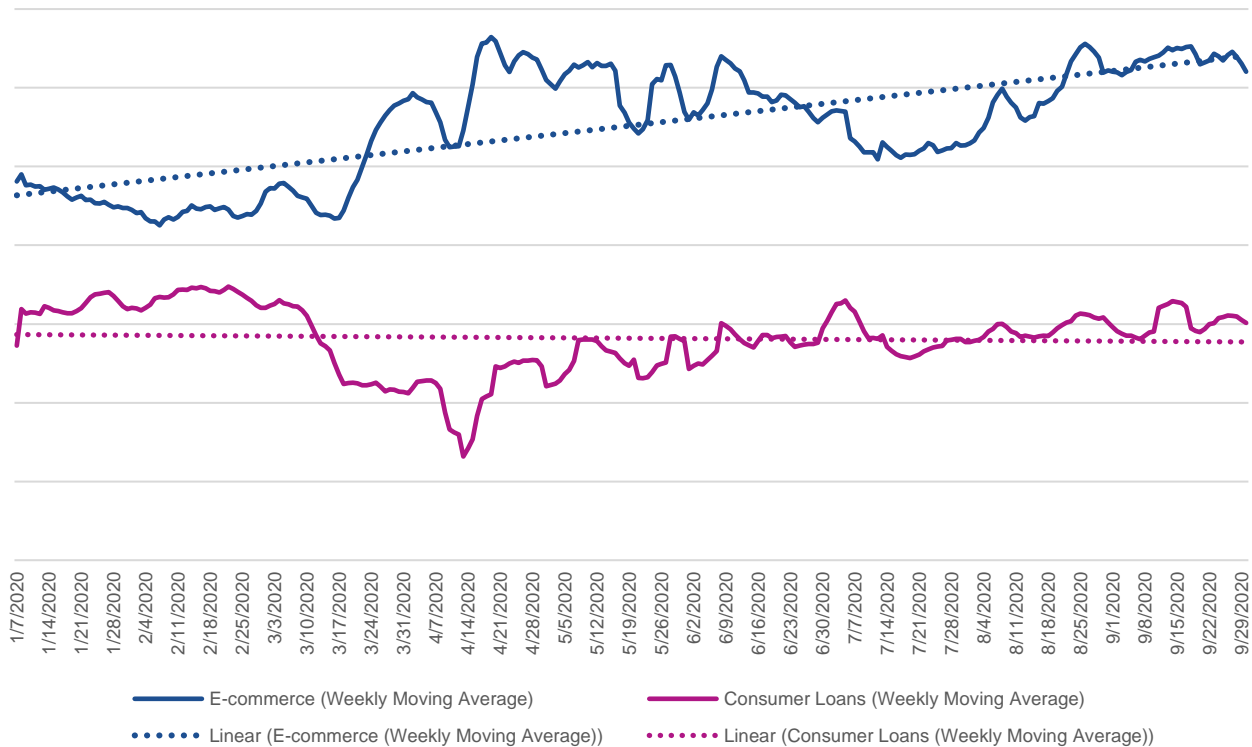
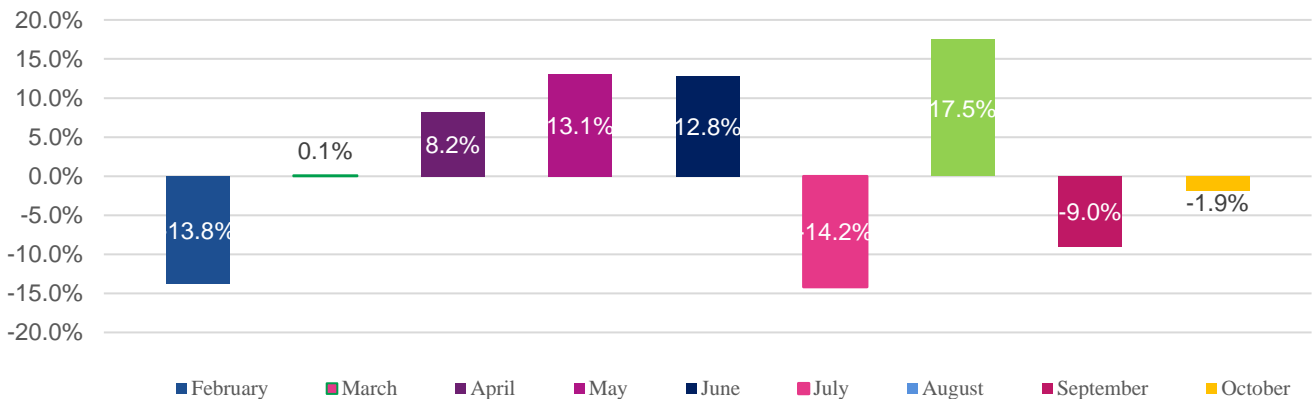


Figure 7. Monthly change in daily credit enquiries in Norway

The credit activities increased significantly in April, May and June after normalization with the re-openings. Summer holidays had a negative impact on the pattern, and the increased infected have had a negative impact in September and October



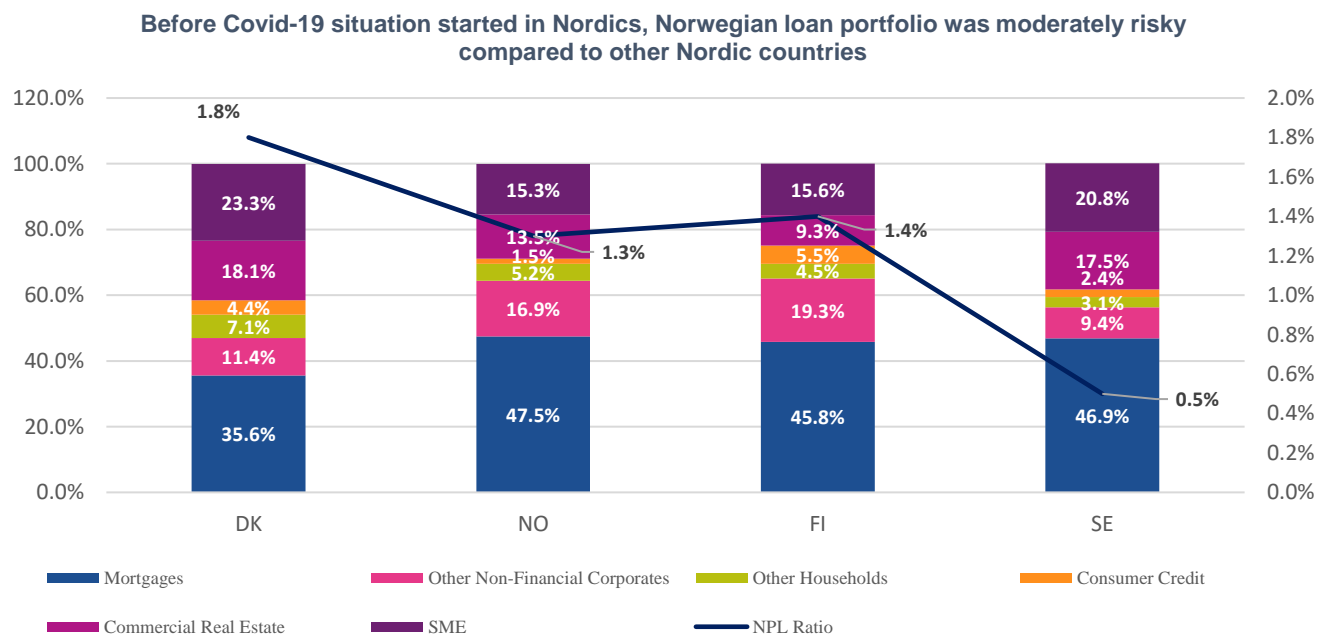
## What are the trends in the Norwegian financial sector observed after the Covid-19 outbreak and how is the asset quality impacted?

Fortunately, the expected and feared crush in many sectors, that were hit the hardest by corona, has not happened yet. Banks still have not experienced the massive impact of corona on the macro level. Liquidity provided by the government is still supporting the business market. Expanded and extended help packages are saving the companies from bankruptcies and keeping the NPL levels under control.

However, one cannot ignore the upcoming challenges for the banks under the increasing uncertainties on the period once cash and relief packages are out. Even though the number of bankruptcies has been consistently lower than compared to the previous year, unemployment is still rising indicating a shift the organizations not being able to survive in the mid-run. Certain sector such as accommodations have been particularly impacted. Moreover, the risk profiles of the retail portfolio continue to shift. The current credit risk assessment frameworks of the banks will struggle in estimating the future risk if it is not supported with additional tools and systems.

In figure 8 we perform a comparative analysis between the Nordic financial sectors before the outbreak by using the information provided by EBA<sup>29</sup>. The analysis shows that Norway had the highest share of mortgages and other household loans. It could be expected that Norway would be less vulnerable to the economic shocks under the stressed conditions of the epidemic than the other Nordic countries. EBA risk dashboard data of Q2 2020 suggests that this may not be the case.

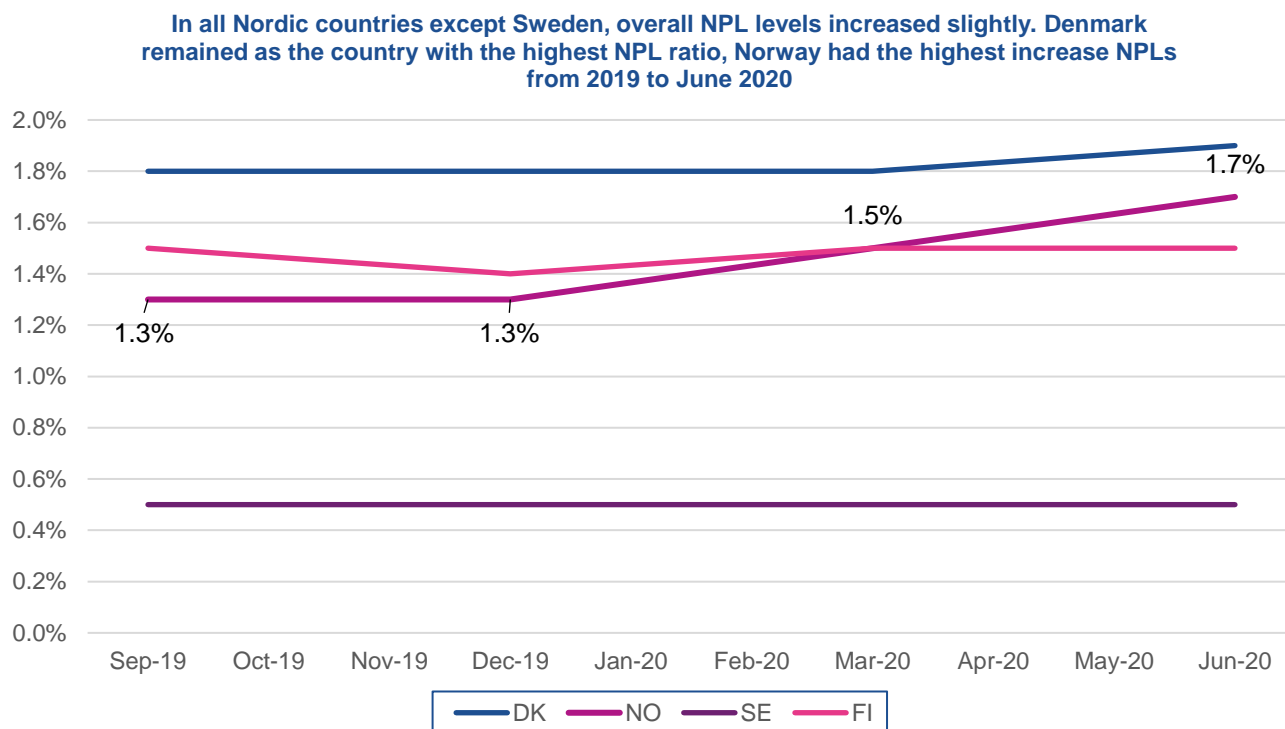
**Figure 8 Overview of loan portfolio of Nordic countries and NPL ratio before Covid-19**



<sup>29</sup>[https://eba.europa.eu/sites/default/documents/files/document\\_library/Risk%20Analysis%20and%20Data/Risk%20Dashboard/Q1%202020/897886/EBA%20Dashboard%20-%20Q1%202020.pdf](https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Dashboard/Q1%202020/897886/EBA%20Dashboard%20-%20Q1%202020.pdf)

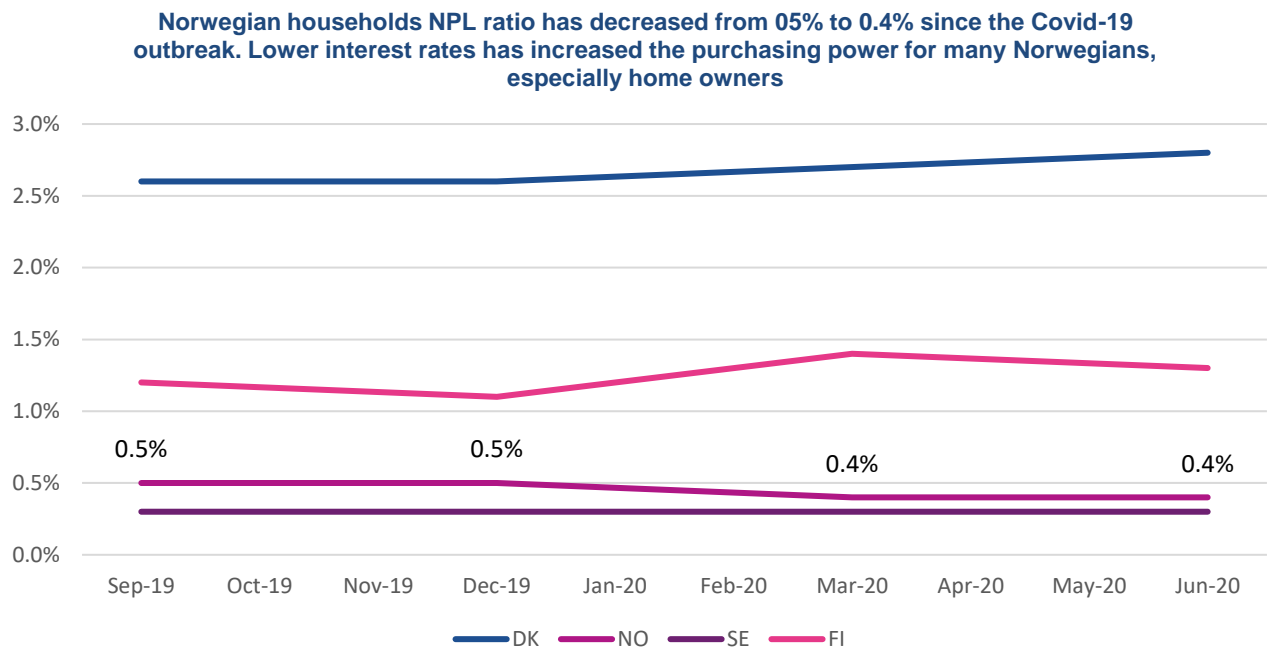
EBA Risk Dashboard of Q2 2020 showed that in all Nordic countries except Sweden, overall NPL levels increased slightly. Norway had the highest increase in NPLs from 2019 to June 2020 but Denmark remained as the country with the highest NPL ratio. **NPL and forbore exposures management as well as the robust collection processes in the bank became critical to improve the operational efficiency and customer experience in these distressed conditions.**

**Figure 9. Overall NPL trend in Nordics between Q3 2019 and Q2 2020**



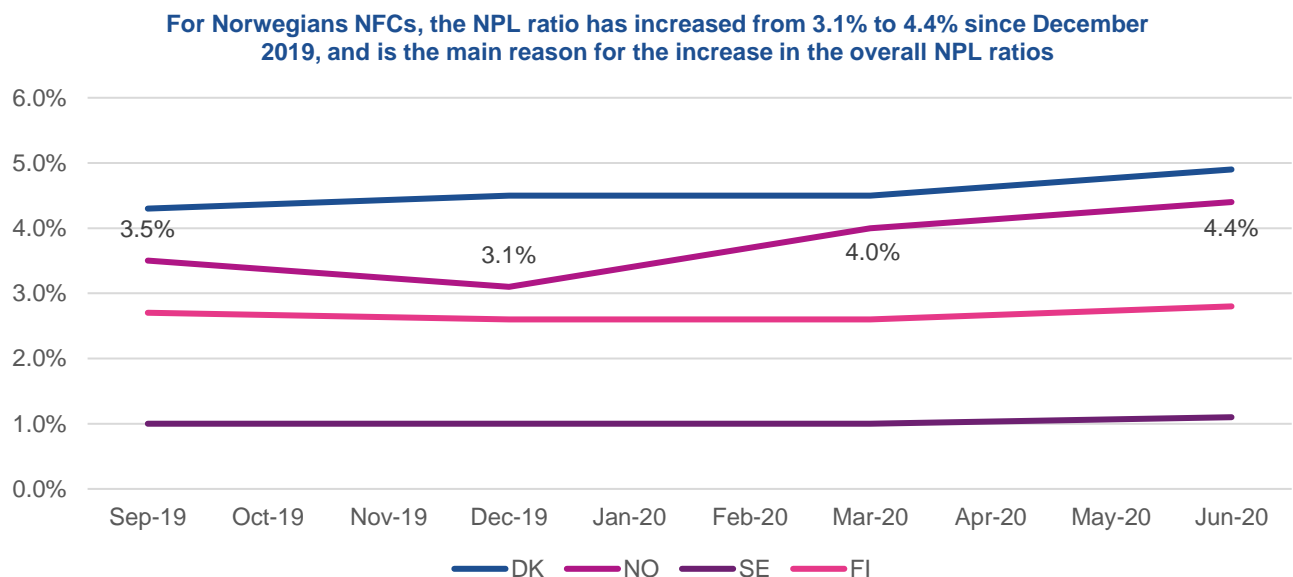
The Norwegian NPL ratio for household loans have decreased since the outbreak (see Figure 10), and this corresponds with feedback from banks with consumer portfolios. This can likely be explained by that Norway had a higher interest rate than most other European countries, and when the Norwegian Central Bank decreased the interest rate, many Norwegians increased their purchasing power.

Figure 10. Household NPL trend in Nordics between Q3 2019 and Q2 2020



Denmark and Norway differentiate from the other Nordics in terms of the increase in NFCs NPL levels (see Figure 11). For NFC portfolio, the NPL share in the total loans increased from 3,1% in December 2019 to 4,4% in June 2020, where in Sweden and Finland, NFC NPL curves stayed flatter. It means that **NFC portfolios in Norwegian financial sector require special attention and close monitoring. The needs of the NFC customers must be identified and analyzed proactively and adequately. Proper customer management and collection strategies must be applied among different sectors and different segments.**

Figure 11. NFC portfolio NPL trend in Nordics between Q3 2019 and Q2 2020



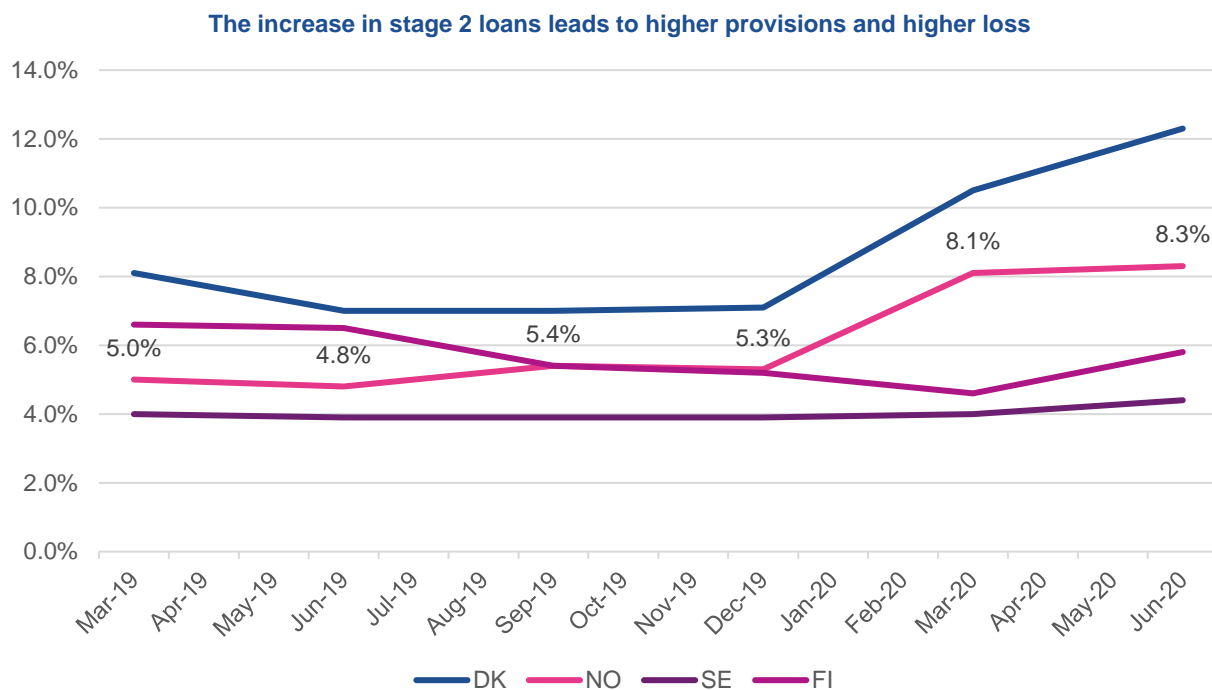


With our Norwegian Business Monitoring Service, we can support our clients monitoring their corporate customers and provide an update on the client portfolio if a company's risk class change, and why it has changed. With this information our clients can easily keep track of changes to their portfolio, and use their resources in the best way to ensure profitability

Even if the increase in overall NPLs remained limited, there was a significant increase in stage 2 loans volume (%) in Norway in Q1 2020 (see Figure 21). The share of stage 2 loans in total loans and advances increased from 5,3% to 8,3% from December 2019 to June 2020. According to IFRS 9 Impairment definition, a loan is a stage 2 loan if the loan's credit risk has increased significantly since initial recognition.

Figure 12 shows that the banks' portfolios have much more underperforming loans compared to pre-Covid-19 period and the credit risk increased obviously even if the loan is not considered yet as NPL. **Early warning systems and robust pre and early collection scorecards are crucial for the banks in order to better manage the financial difficulties of their customers and reduce the transitions from stage 1, performing loans, to stage 2 and 3, which require lifetime expected credit loss calculations instead of 12 months expected credit loss calculations.**

**Figure 12. The share of Stage 2 loans in total loans and advances in Nordics between Q3 2019 and Q2 2020**



There are two important messages that can be deduced from this analysis. Firstly, it would be challenging for the banks to increase revenues especially for the corporate customers in an environment where the loan demand is decreasing, and the risk profiles of the existing customers are shifting. **Smart customer management practices, risk-based pricing, cross sell and upsell strategies will be crucial to come over these obstacles.** Secondly, banks need to **re-consider their IFRS 9 Impairment frameworks** with all its aspects and support the framework with additional tools such as early warning systems and pre and early collection management.

## What consumer and business trends due to Covid-19, are we observing in Norway?

- **Consumer and business confidence indices had their historically low levels in April but continue to recover in October**

In Norway, consumer and business confidence indices sharply decreased after the lockdown in March and April. The business confidence index showed even lower levels than it was during the oil crisis of 2014-16.

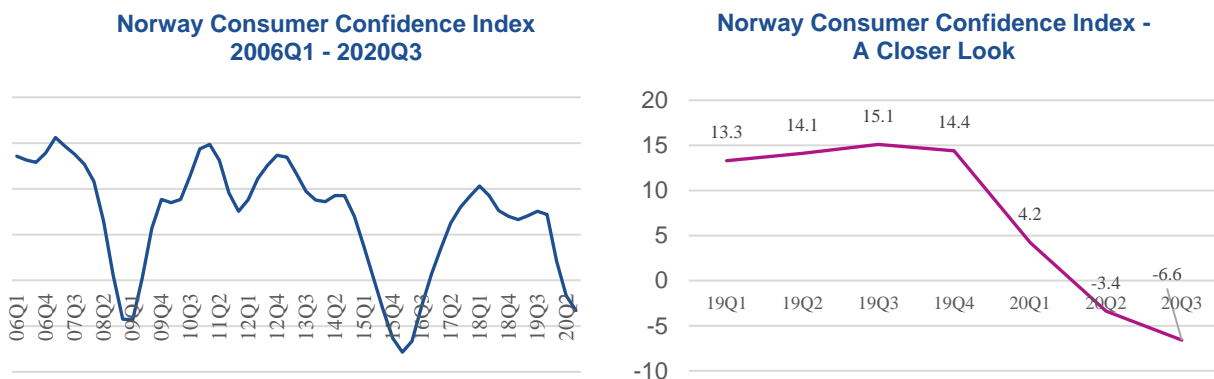
In both Q2 and Q3, there has been a recovery in the Business Confidence Index following the eased lockdown restrictions, and it was at its highest level since Q3 2019. The Consumer confidence Index has yet to make a recovery despite the eased lockdown restrictions since April.

- **Business confidence is increasing, while consumer confidence is still decreasing**

Business confidence index<sup>30</sup>, which weighs together industry, construction, service industries and retail, rises from -9.6 in Q2 to 1.7 in Q3. The industrial confidence was positive for both the majority of producers of intermediate goods and consumer goods, while it was still negative for producers of capital goods. So far this indicates that businesses believe in a V-shaped recovery, which was the best-case scenario. With the increase in infected all across Europe, and in Norway, it is possible that this will instead lead to a W-shaped recovery, as import-export demand will deteriorate further in Q4.

Consumer confidence reflects the population's views on its current and future economic situation, for Q3 2020 is at -6.6<sup>31</sup> and thus has continued its decrease since Q2, when it was at -3.4. The continued decrease in consumer confidence is primarily due to the severe damage caused by the Covid-19 pandemic. Consumers continue to expect that Norway's economic situation will be worse in a year's time than today. Also, the willingness to buy larger purchases has remained negative.

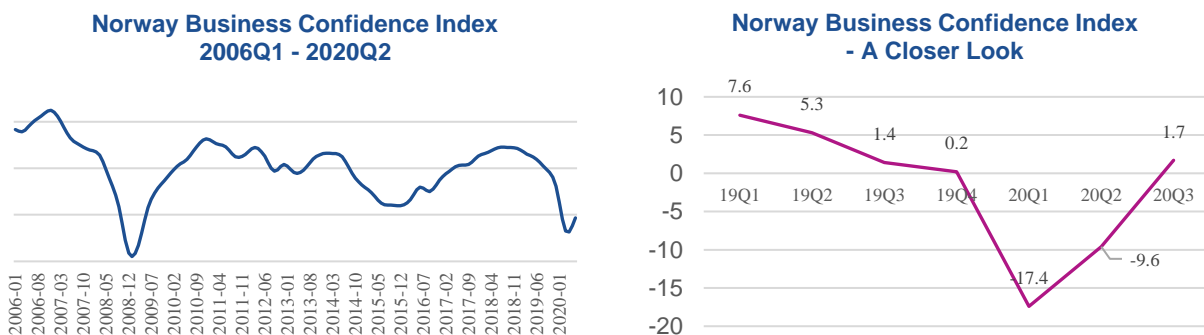
Figure 13. Norway Consumer Confidence Index



<sup>30</sup> <https://tradingeconomics.com/norway/business-confidence>

<sup>31</sup> <https://tradingeconomics.com/norway/consumer-confidence>

**Figure 14. Norway Business Confidence Index**



➤ **In the intervening months after Corona-outbreak, Norwegians increased spending in interior decorations, electronics and hobbies, games and toys**

According to DnB's<sup>32</sup> statistics on Norwegians' transaction activity in 2020, there were some sectors which have experienced a large increase so far. The transaction data shows that we spent 15% more at home compared to 2019 between April to August. This was offset by a decrease of 70% abroad, resulting in a total of 1% increase in total for 2020. The Covid-19 pandemic has led to a shift in consumption from services to goods, which contributed to a strong growth in sales of goods in May, June and July.

Due to bans or restricted availability, services were hit especially hard due to the lockdown measures introduced March 13<sup>th</sup>. Bars and night clubs, travel companies and hairdresser experienced a decline of at least 90% in the direct aftermath of the lockdown measures.

NHO<sup>33</sup> reports that e-commerce increased with 28.2% in July, 32.6% in August and 26.9% in September, compared to 2019. This is a further sign that Norwegians have changed their shopping habits to online and have gained experience which will probably lead to long-term growth for the sector. Other types stores which have experienced a positive growth during the summer and after were wide assortment range stores, grocery stores and sport equipment stores. The increase in grocery stores can in part be explained by the almost eradication of spending in border trade. Compared to Q2 2019, the border trade experienced a 99% decrease. While other countries, like Denmark, withheld holiday allowances, Norwegians received this as usual, and this could play a part in why the credit activity was as high as it was during the summer months.

➤ **Summer break during weeks 27-31 provided some mobility in the entertainment sector and increased the restaurant visits**

During the summer, spending on nightlife and restaurants picked up, and exceeded the spending in 2019 for these industries. Tourism, hotels and camping sites in Norway also experienced a large increase compared to 2019. At its height, tourism was up 140%, camping sites up 100% and hotels up 70%.

Despite this, the travel industry never reached the total levels from 2019. After the summer, these sectors sharply declined again, and this will be further deteriorated by the new restrictions from the Government

<sup>32</sup> [https://www.dnb.no/portalfront/nedlast/no/om-oss/dokumenter/DNB\\_Innsiktsrapport\\_2020.pdf](https://www.dnb.no/portalfront/nedlast/no/om-oss/dokumenter/DNB_Innsiktsrapport_2020.pdf)

<sup>33</sup> [https://www.nhosh.no/contentassets/9b5c2de1369a46cdb0cf96c435b3c951/200929\\_bransjetall-handel-oktober\\_2020.pdf](https://www.nhosh.no/contentassets/9b5c2de1369a46cdb0cf96c435b3c951/200929_bransjetall-handel-oktober_2020.pdf)

and local authorities. Despite an increase in the spending inside Norway, the recovery of the Norwegian economy does not only depend on the local expenditures. It also requires maintaining the pre-Covid-19 export levels and the recovery of our trading parties' economies which Norway export to. Norway's Central Bank<sup>34</sup> estimate that the BNP of our trading partners will decrease by 6% in 2020, and this will affect the demand for Norwegian exports.

## Conclusion

The coronavirus outbreak was an unexpected shock on the Norwegian economy as it was for the whole world. It had a significant impact on the credit activities, consumer behaviours and unemployment since March 2020. Even though we started to observe the indications of recovery in the sectors with the re-openings and with the support of the government relief packages, no one can assert that the uncertainties completely faded away.

The second wave of the outbreak has resurged in Europe and many countries which are in import-export relationship with Norway are seriously suffering from the outbreak. European governments started to lock down their countries again which will have a significant impact on the international trading activities. It should be noted that the Norwegian economic recovery is also dependent on the resilience of the other countries' economies and the maintenance of the export volumes at adequate levels besides the increasing domestic demand and higher consumption.

Experian will continue to monitor the state of economic affairs in the upcoming months after the full opening and diminishing effects of government help packages and holiday allowances.

### Key take away' s for the financial institutions



- Pay special attention to your NFC portfolios and monitor them much more closely
- Ensure that you have strong NPL and forborne exposures management processes and tools as well as robust collection processes to improve the operational efficiency and the customer experience in these distressed conditions
- Enrich your data sources, use specialized scorecards for pre- and early collections and set up an Early Warning System to have a proactive approach to your distressed customers collection early warning systems
- Reach out to your customers at the right time in a right way with a proper solution to reduce the transitions from stage 1, performing loans, to stage 2 and 3, underperforming or non-performing loans to control your impairment levels
- Increase your revenues with smart customer management practices

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<sup>34</sup> [https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/ppr\\_320.pdf?v=09/25/2020164053&ft=.pdf](https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/ppr_320.pdf?v=09/25/2020164053&ft=.pdf)

## What is Experian's footprint in the Nordics?

We operate across the Nordics with local offices in Copenhagen, Oslo and Stockholm along with partnership presence in Finland.

We have more than 125 employees in Nordics. We have two Credit Bureaus in Nordics, one in Norway and one in Denmark serving in both consumer and business area. We also have a partnership with UC and Asiakastiето in Sweden and Finland.

Our payment remarks data, RKI, is a registered trademark. In addition to our Bureau Services in Nordics, as Experian, we deliver solutions to our customers with a unique combination of data, technology and analytics.

We are a part of the world's largest network of international credit information.



## About Experian

Experian is the world's leading global information services company. During life's big moments – from buying a home or a car, to growing a business by connecting with new customers – we empower our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organisations to prevent identity fraud and crime.

We have 17,200 people operating across 44 countries and every day we're investing in new technologies, talented people and innovation to help all our clients maximise every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

**Experian is helping organisations understand the market, economy and future changes in household and business finances.**

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