Banking - Norway

Changes to export financing regulations on the horizon

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Until recently, Norwegian credit institution Eksportfinans ASA administered the government-supported export credit scheme and provided fixed-rate loans to buyers of capital goods – so-called commercial interest reference rate (CIRR) loans. Eksportfinans is jointly owned by a consortium of banks (85%) and the government (15%).

Background

In September 2009 the EU Capital Requirements Directive (2006/48/EC) was amended by the E-Money Directive (2009/110/EC). The amended directive was later adopted by the European Economic Area (EEA) Committee in July 2010. In order to incorporate the amendments into Norwegian legislation (as Norway is a member of the EEA Treaty), on December 20 2010 the Ministry of Finance introduced changes to the regulations concerning capital requirements and large exposures. The new large exposure provision of the EU Capital Requirements Directive (now incorporated into Norwegian legislation) stipulates that no exposure can exceed 25% of a credit institutions regulatory capital. Under the previous regulations, the actual limit was as high as 125% for commitments with other credit institutions. Eksportfinans has been granted a temporary exemption so that it may apply the previous rules on large exposures until December 31 2012.

On November 18 2011, following a public debate regarding a possible permanent exemption from the new Capital Requirements Directive regulations for Eksportfinans, the government announced that it will establish a public entity to assume responsibility for the scheme offering subsidised interest (CIRR) loans. During and after this debate, Eksportfinans was downgraded several times by international credit rating agencies.

What lies ahead?

Eksportfinans will temporarily manage the export financing scheme until a permanent public sector solution is in place, which expected to occur by July 1 2012. Eksportfinans will not issue any new loans in its own name. On December 21 2011 an agreement was concluded under which Eksportfinans will provide services to the government in the interim period until a permanent state-owned entity is in place. During this period, the Norwegian state, represented by the Ministry of Trade and Industry, will act as lender and counterparty to loan agreements, while Eksportfinans will act as negotiator. In addition, several loans issued by Eksportfinans after November 18 2011 are to be transferred to the state.

It remains to be seen whether the new government scheme will result in any actual changes in available export financing in Norway. The Ministry of Trade and Industry has stated that "CIRR qualifying contract financing will be available", while "loan products termed corporate loans, project loans, bank cooperation loans and non CIRR qualifying contract financing will not be available under the new public sector export financing scheme".

Eksportfinans will also continue to manage its portfolio of existing loans (fully disbursed before November 18 2011) until they are repaid. The company has further stated that it expects to maintain its current funding programme, and that raising of new funding in the capital markets is anticipated to be "limited".

Controlled wind-down

According to Eksportfinans, preparations for a controlled run-off, which will most likely take several years, are being made. In a press release, its four largest shareholders also stated that their aim is to "wind down the company in an orderly manner with the aim of maintaining the equity in the company intact".

According to an Eksportfinans press release, a bondholder in its Japanese bond issue has declared default. Eksportfinans has denied the default and announced that it will resist it vigorously.

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