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# Guarantee and loan programmes improving liquidity for Norwegian companies

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The government has proposed to establish a loan programme where lenders receive a guarantee on 90 percent of the value of new loans issued to small and medium-sized enterprises hit by the coronavirus outbreak. The government has also proposed to reinstate the Government Bond Fund as a measure to support larger companies. The two programmes combined will cover up to NOK 100 billion in loans and will contribute to improved liquidity access for Norwegian companies, and thus help secure jobs.

The two programmes were [announced on Sunday March 15<sup>th</sup>](http://www.regjeringen.no/en/aktuelt/nok-100-billion-worth-of-guarantees-and-loans-in-crisis-support-for-businesses/id2693668/) (<http://www.regjeringen.no/en/aktuelt/nok-100-billion-worth-of-guarantees-and-loans-in-crisis-support-for-businesses/id2693668/>), and are presented for parliamentary approval today.

“The government will do what is needed and provide the necessary funding to safeguard the Norwegian economy and support Norwegian businesses through this crisis”, says Prime Minister Erna Solberg.

“We know that many companies are facing a challenging situation right now, and need access to financing to get through the crisis. These measures will ensure easier access to the liquidity companies need to secure jobs”, say Minister of Finance Jan Tore Sanner.

The Government Bond Fund will be managed by Folketrygdfondet (a State owned asset manager responsible for the management of the Government Pension Fund Norway), while the guarantee programme applies through ordinary bank loan applications.

“Thanks to constructive cooperation and dialogue with the bank sector and Folketrygdfondet, both measures have been established fast and efficiently. We intend for both programmes to start operating as soon as possible after parliamentary approval is obtained”, says Mr. Sanner.

The transitioning of the Norwegian economy towards new and green industries must continue. It is important that the new businesses taking us through this transition are captured by the measures the government now provides. Improved access to liquidity will benefit a wide array of companies, also in the start-up phase. However, companies without ability to provide collateral may not be covered.

Given the significant uncertainty now observed in the capital markets, high risk innovation-projects, start-ups and growth companies may experience difficulties in securing financing.

“We will continuously monitor the need for further measures, which could be made available through the existing programmes to ensure swift implementation”, says the Minister of Finance.

## **State guarantees for small and medium-sized enterprises**

**The government has proposed a guarantee programme, where lenders receive a guarantee on 90 percent of new loans issued to small or medium-sized enterprises (SME). The guarantee programme will in total cover up to NOK 50 billion in new loans.**

“When the state guarantees for 90 pct. of the value, the banks will be more able to provide the financing companies need to get through these challenging times. This will help secure jobs and limit loss of companies that are profitable under normal circumstances”, says the Minister of Finance.

- The programme allows companies to take up loans of up to NOK 50 million, with a term of up to three years. It applies to new loans issued between the programme start date and 1 June 2020 only.
- The State will guarantee for 90 pct. of the loan value. Write-offs will be distributed between the State and the issuing bank pro rata.
- Loans already issued will not be covered.
- The programme is intended to provide liquidity for companies suffering revenue losses as a result of the coronavirus outbreak. In

addition to a law regulating the programme, further framework and regulation will be adopted. The total amount of NOK 50 billion will be allocated between banks according to their SME loan market share. The allocations will be monitored to ensure banks are using their quotas.

“This programme will support the many small and medium-sized companies now facing a challenging situation. Our aim is to help ensure that as many as possible will still have a job to go back to, once the crisis has passed”, says Minister of Trade and Industry Iselin Nybø.

“The banks are part of the solution and this programme allows the sector a better foundation for supporting their clients through the crisis”, says the Minister of Finance.

A range of temporary policy measures are now provided to help businesses. Not every measure will apply to every company. The loan guarantee programme is directed at small and medium-sized companies that typically rely on bank financing.

“When the State offers support to businesses in a crisis scenario, it is important that companies benefitting from this support exercise sound judgement in bonuses and dividend payment considerations”, says the Minister of Finance.

The loan guarantee programme is subject to approval by the EFTA Surveillance Authority, ESA. ESA has signalled it will handle coronavirus enquiries as a matter of urgency.

## **The Government Bond Fund**

**The government has proposed to reinstate the Government Bond Fund, offering credit bond purchases of up to NOK 50 billion directed at larger companies across all industries. The fund will be managed by Folketrydfondet, a State owned asset manager responsible for the management of the Government Pension Fund Norway.**

The fund framework will be similar to its operations during the 2008 financial crisis, but adjustments are made to address specific needs in the current crisis.

Larger Norwegian companies typically obtain their financing in the credit bond market, and many of these companies will require additional funding. The bond market conditions have however deteriorated in the past weeks.

“During the last crisis, the Government Bond Fund contributed to the functioning of the corporate bond market. Reinstating this fund will make it easier for companies to secure the liquidity they need in this challenging situation”, says Minister of Finance Jan Tore Sanner.

The fund capital will be used to buy bonds at market terms. It is not a state bank measure, but a measure aiming to stimulate other investors to also participate in the market. Investments will be made together with other investors and at market prices.

Folketrygdfondet will make the decisions on which individual bonds to purchase, within a mandate laid down by the Ministry of Finance. The Ministry will finalise this mandate next week.

- A substantial share of the fund capital will be invested in bonds issued by non-financial companies.

- There will be limits to how much of the fund capital can be invested in bonds issued by one single issuer.
- High yield bonds may make up a significant part of the investments.

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