

Finland

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IN A NUTSHELL

- GDP grew by 3%, reversing the previous year's decline.
- The banking sector's solid financial standing and sufficient liquidity reserves has allowed banks to offer customers flexible in loan servicing during the pandemic, which has helped the recovery from the crisis.
- Outstanding mortgages increased by 4.1%, as the sectors continues to grant mortgages in the post-pandemic period.
- Due to easy monetary policy, pandemic related increases in savings and the increased value of investments, many households have been able to purchase a new home.
- Housing activity has increased during the pandemic but house prices have increased moderately.

MACROECONOMIC OVERVIEW

The economy grew with industrial production increasing and export outlook improved. Economic confidence was bolstered by vaccinations new stimulus measures and easy financing conditions.

The private sector's financial condition and sentiment were good, with bankruptcies unchanged, unemployment decreasing and increased house sales. The housing market was busy, and loans were taken out for both homes and holiday homes at a rapid pace in the summer.

In late 2021, however, the outlook deteriorated due to supply chain bottlenecks and rising prices. Several forecasters improved their economic forecasts on Finland's economic growth throughout the year.

According to Eurostat, GDP rose by 3% to reach its pre-pandemic level. The average employment rate was 72.3%, up from 70.7% in 2020. The average unemployment rate was 7.7% (compared to 7.8% in 2020), an average of 212,000.

HOUSING MARKET

Housing activity has remained busy during the pandemic but house prices have increased only moderately. Regional differences in housing prices remain large, and in some areas has diverged further. In many municipalities, housing prices have either remained level or continued to fall. According to Bloomberg Economics there is little evidence of a house price bubble.

The number of building permits granted and building starts grew significantly from the previous year. Construction of around 48,000 new dwellings was started, and just over 37,400 completed.

MORTGAGE MARKET

The banking sector has continued to grant loans to households as usual during the pandemic, which has been supported by labour mobility and remote working, for example. The pandemic has changed housing needs as people have increasingly worked from home. Due to easy monetary policy, pandemic related increases in savings and the increased value of investments, many households have been able to purchase a new home.

At end year, there were EUR 107.6 bn of housing loans outstanding, an increased of 4.1%. Buy-to-let mortgages were 8.1% of the total. At the end of December, consumer credit was EUR 16.8 bn and other loans EUR 17.9 bn. The interest expenses of housing loans continued to remain moderate.

At year end loans to housing corporations were EUR 39.5 bn. Finnish limited liability housing companies have certain unique characteristics that are reflected in the statistics. In international statistics, Finland's housing corporation loans are included in corporate loans, but in national statistics, corporate loans and housing company loans are separate so increased construction does not have the same effect on the corporate loan portfolio as it does elsewhere.

In general, loans taken out to construct a residential building in Finland are recorded on the establishing housing company's balance sheet. The loan portfolio of housing companies therefore grows as a direct result of new construction. The term 'housing corporation' encompasses all corporation forms of housing units, not just limited-liability housing companies. Some of the housing corporation loan volume is held by households, some by housing investment funds and other housing investors, and some by companies.

At the end of 2021, the average interest rate was 0.78% in housing loans and 0.91% in buy-to-let mortgages.

MORTGAGE FUNDING

Banking sector's liquidity improved, average liquidity coverage ratio (LCR) was 177% at yearend (171% in 2020), due to total liquid assets of EUR 154 bn, more than half of which were central bank reserves, the highest quality, i.e. level 1 assets.

When the pandemic spread, LCR ratios and reserves grew rapidly throughout Europe as banks prepared for an increase in the demand of corporate loans and other potential liquidity needs.

The banking sector's net stable funding ratio (NSFR) was 117% at the end of the year above the 100% requirement but below the EU average. Banks' available stable funding (EUR 50.6 bn) surpassed the requirement by EUR 74 bn.

The substantial increase in central bank funding increased the asset encumbrance (AE) ratio of European banks. In Finland, the ratio has been at a fairly

high level for a long time due to banks' reliance on covered bonds, but it has remained stable. At the end of 2021, the AE ratio stood at 29.3% (29.8% in 2020), roughly the EU average.

Banks have prepared for a reversal of pandemic related increase in deposits when consumption normalises and corporate investment recovers. Strong liquidity buffers, relatively diverse and decentralised funding sources and low market funding costs made possible by a solid capital position protect banks from risks such as a decline in deposit funding. A relatively small share of Finnish banks' funding consists of central bank funding, which reduces the refinancing risk at the maturity of these funding schemes. The banking sector has offered customers flexibility of loan repayment and new loans during the pandemic which has helped the recovery.

	FINLAND 2020	FINLAND 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-2.2	3.0	5.4
Unemployment Rate (LSF), annual average (%) (1)	7.8	7.7	7.0
HICP inflation (%) (1)	0.4	2.1	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	70.7	70.3	70.0
Gross Fixed Investment in Housing (annual change)(1)	-3.2	5.8	6.6
Building Permits (2015=100) (2)	124.9	140.7	134.0
House Price Index – country (2015=100) (2)	105.1	109.1	145.2*
House Price Index – capital (2015=100) (2)	132.5	140.7	146.1*
Nominal house price growth (%) (2)	1.2	3.8	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	103,610	107,759	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	23,147	23,988	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	74.3	76.4	62.8*
Gross residential lending, annual growth (%) (2)	13.0	-14.8	12.2
Typical mortgage rate, annual average (%) (2)	0.7	0.8	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

FINLAND FACT TABLE

Which entities can issue mortgage loans in your country?	Credit institutions
What is the market share of new mortgage issuances between these entities?	Credit institutions 100 %
Which entities hold what proportion of outstanding mortgage loans in your country?	Banking groups hold 100% of the housing loan stock (Banking groups include mortgage banks as subsidiaries).
What is the typical LTV ratio on residential mortgage loans in your country?	Loan-to-Collateral (LTC): First time buyers 80% (median, new loans) others 60% (median, new loans).
How is the distinction made between loans for residential and non-residential purposes in your country?	Not available
What is/are the most common mortgage product(s) in your country?	Housing loan
What is the typical/average maturity for a mortgage in your country?	25 years
What is/are the most common ways to fund mortgage lending in your country?	Deposits and covered bonds
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	2% transaction tax for apartments, 4% transaction tax for real estates (first time buyers are exempted from both).
What is the level (if any) of government subsidies for house purchases in your country?	First time buyers are exempted from transaction tax. Interest expenses on housing loans are tax deductible up to 10 % (in 2021).