

Finland

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IN A NUTSHELL

- Despite challenging macroeconomic circumstances, GDP rose by 2.1% according to Statistics Finland's revised preliminary data.
- Housing demand declined, as buyers became more cautious and selling times increased.
- Thanks to its solid financial standing and sufficient liquidity reserves, the banking sector has been able to offer its customers flexibility in loan servicing during the crisis, which in turn has helped promote Finland's recovery from the crisis.

MACROECONOMIC OVERVIEW

Due to the political crisis in the Ukraine energy prices rose and sentiment in the Finnish housing market deteriorated. Consumer inflation increased, as it did elsewhere.

Finnish companies largely pulled out of the Russian market, causing Finland's exports in service and goods to Russia to shrink dramatically. The rise in general uncertainty reduced investment demand, component shortages created bottlenecks in production, and China's lockdowns and other reasons caused disruptions in supply chains. In Europe, an energy crisis loomed and rising inflation and interest rate hikes eroded household purchasing power. The growth forecast of the Finnish economy was revised significantly downward.

Despite this, GDP rose by 2.1% according to Statistics Finland's revised preliminary data. The employment rate of those aged 15 to 64 was 73.8% in 2022, which was 1.6 pps higher than in 2021. The employment rate has been increasing since 2016. Although real earnings decreased in 2022 due to the rise in inflation, the positive employment development was important for households' financial situation.

On the other hand, the macroeconomic and political development boosted investments in renewable energy, in which Finland is among the leading EU countries. In 2022, Finland's wind power capacity increased by 75% and brought more than EUR 2.9 bn in investments to Finland.

HOUSING AND MORTGAGE MARKET

The housing market differed over the course of the year. In the first quarter, sales of older homes increased, but there was a shortage of new homes. The average lending margins on new housing loans were about 0.8% in January 2022 and the average repayment period of a new residential mortgage loan was 21 years.

The changes in the economic outlook were also reflected in the housing market. Buyers became more cautious and selling times grew. The post-pandemic boost

faded, and the soaring heating energy prices, rising loan rates and increasing general uncertainty slowed the housing market. The steep rise in reference rates eventually pushed housing prices down after a good start to the year.

According to Finance Finland's banking barometer in early 2022, the demand for household loans fell significantly in the first quarter compared to the previous year. Bank managers also reported a low level of willingness to take out loans in the summer of 2022: for the first time in the history of the quarterly survey, not a single respondent expected demand to increase. Instead, respondents expected households to have an increasing need for grace periods and other flexible loan arrangements. In the latter half of 2022, home sales decreased from the previous year.

At the end of December, the stock of housing loans stood at EUR 108.5 bn, and the annual growth rate was 0.5%. Investment property loans (e.g., buy-to-let) accounted for EUR 8.8 bn of this. Nonperforming loans were 1.0% of housing loans (Q4 2021: 1.1%).

Interest rates rose, at the end of 2022, the average interest rate was 1.97% on housing loans (0.78% in 2021) and 2.1% on investment property loans (0.91% in 2021).

At the end of December 2022, the stock of loans to housing corporations was EUR 42.3 bn. 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 corporate forms of housing owners, 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.

MORTGAGE FUNDING

Banking sector liquidity remained strong. The average liquidity coverage ratio (LCR) was 176% at year end (178% in 2021), well above the 100% limit set in regulation and slightly higher than the EU average (EBA Q3 2021: 162%). The average LCR of smaller - small and medium-sized banks directly supervised by the FIN-FSA - improved markedly in 2022, reaching 167% at the end of the year (152% in 2021). The quality of Finnish banks' LCR reserves was good overall: 97% of the reserves consisted of the most liquid assets, i.e. level 1 assets.

The banking sector's average NSFR stood at 119% at yearend, well above the 100% minimum requirement but slightly below the EU average (EBA Q3 2022: 127%). All Finnish banks exceeded the minimum requirement: the lowest NSFR was 107%. The substantial increase in central bank funding has raised the asset encumbrance (AE) ratio of European banks. In Finland, the AE 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 2022, the AE ratio stood at 29% (29.3% in 2021), which is roughly the same as the EU average (EBA Q2 2022: 28.6%).

In planning for their funding activities, Finnish banks have prepared for the release of the pandemic build-up of household and corporate deposits when household consumption returns to normal levels and the investment demand of companies is revived. Strong liquidity buffers, relatively diverse and decentralised funding channels as well as low market funding costs made possible by a solid capital position protect Finnish banks from risks related to a potential decline in deposit funding. A relatively small share of Finnish banks' funding consists of central bank funding, which also reduces the refinancing risk related to the maturity of central bank funding.

	FINLAND 2021	FINLAND 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	3.0	2.1	3.5
Unemployment Rate (LSF), annual average (%) (1)	7.7	6.8	6.2
HICP inflation (%) (1)	2.1	7.2	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	70.3	69.5	69.1
Gross Fixed Investment in Housing (annual change)(1)	5.8	7.0	1.5
Building Permits (2015=100) (2)	140.7	115.8	125.8
House Price Index – country (2015=100) (2)	109.1	109.4	164.6*
House Price Index – capital (2015=100) (2)	140.7	139.9	163.8*
Nominal house price growth (%) (2)	3.8	0.3	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	107,759	109,315	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	23,988	24,224	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	76.4	73.8	71.5
Gross residential lending, annual growth (%) (2)	-14.8	-13.9	-6.5
Typical mortgage rate, annual average (%) (2)	0.8	3.3	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hyostat 2023, 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 5 % (in 2022).