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Financial stability must be carefully fostered

Bank of Finland's Financial Stability Assessment
Bank of Finland Bulletin press briefing, 20 May 2026

Marja Nykänen
Bank of Finland

Bank of Finland's Financial Stability Assessment

- Financial Stability Assessment: High geopolitical volatility – financial stability safety nets must not be dismantled
- ‘Simply Short’ summary of main article: A strong banking sector is an important asset in a volatile world
- Experts’ articles on topical issues:
 - Rise in cost of living and higher interest rates have increased the pressure on many indebted households
 - Stability risks lie hidden behind the financing of state-subsidised housing production
 - Macroprudential policy must not be dismantled but reformed
- The Bank of Finland has also recently published articles on domestic corporate financing and the impacts of the AI revolution on international financial markets

Three key messages

- **Finland's financial system is stable**, but frequent geopolitical shocks have increased the economic and operational risks to financial stability
- A strong banking sector provides protection from crises and supports economic growth – **banking regulation must be simplified but not diluted**
- **Europe needs a single capital market, a deposit insurance scheme and its own technological solutions** to boost resilience and growth



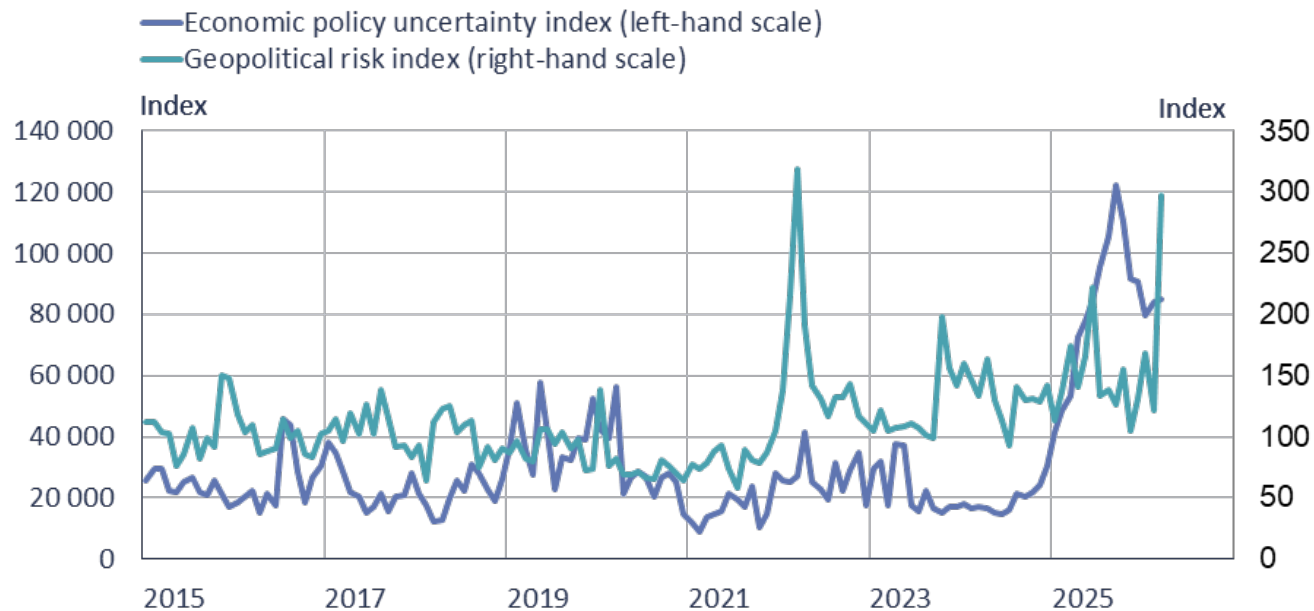
Geopolitics is undermining financial stability

Marja Nykänen
Bank of Finland



Geopolitics lashing the world economy and undermining stability of international financial markets

Geopolitical and economic uncertainties have risen substantially



The geopolitical risk index is calculated based on newspaper articles on geopolitical tensions. The economic policy uncertainty index is calculated based on newspaper articles on economic policy uncertainty.

Sources: Economic Policy Uncertainty and Macrobond.

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- Geopolitical volatility has weakened the outlook for the world economy and pushed up interest rates
- In the financial markets, share price turbulence has increased, and risk premia have risen – markets have thus far operated smoothly
- Investors are also concerned about the impacts of AI – risk premia have risen in the private credit market

Geopolitical risks are coming closer to Finland

Nordic countries' sovereign credit risks have remained low based on credit default swap (CDS) spreads

— Finland — Sweden — Norway — Denmark



5-year sovereign CDS spreads.
Source: S&P Capital IQ Pro.

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The Nordic financial markets are tightly interconnected, and investors assess the risks in the region as a whole

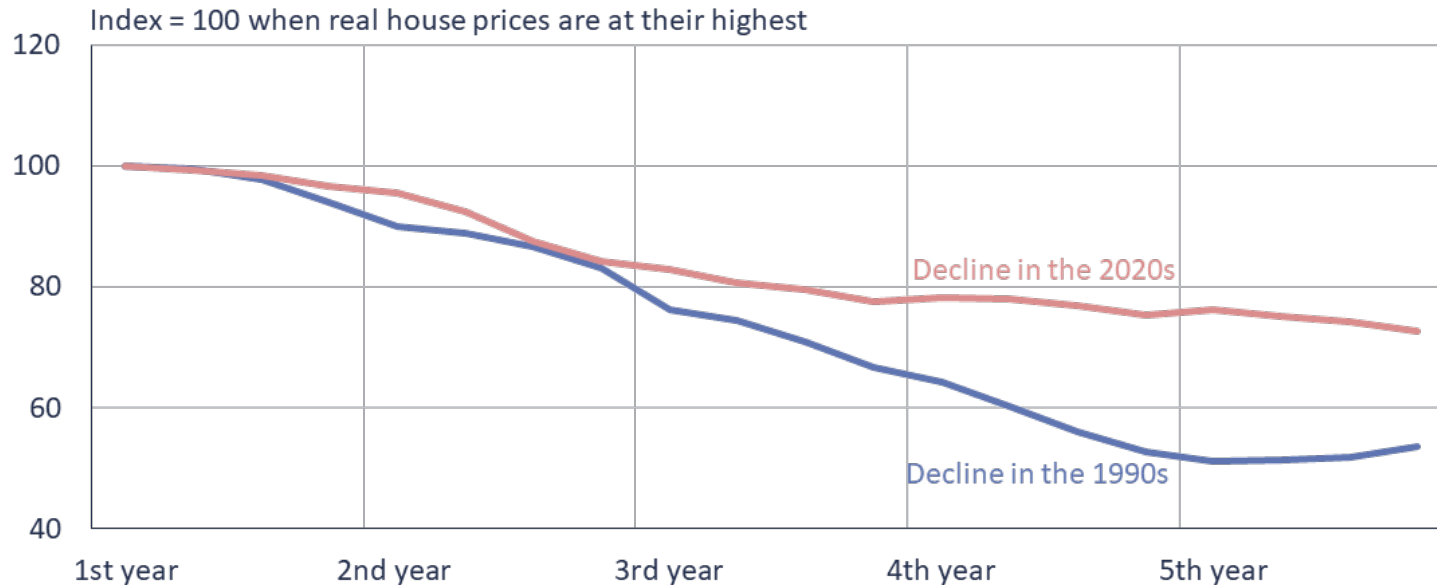
Tensions concerning Greenland and the Baltic Sea region have not thus far scared investors

A strong country brand is a key asset in a geopolitically volatile world

Weakening economy and higher market interest rates are keeping the real estate investment and housing markets subdued

House prices have declined for a prolonged period but at a slower rate than during the early 1990s recession

— Real house prices, 1989Q1 = 100 — Real house prices, 2021Q2 = 100



- Sales of existing homes and mortgage borrowing have slowed again
- Construction activity still subdued – prices of new and existing homes have diverged
- Real estate sales picked up in early 2026 – some of the funds that restricted redemptions have reopened

Sources: Statistics Finland and calculations by the Bank of Finland.

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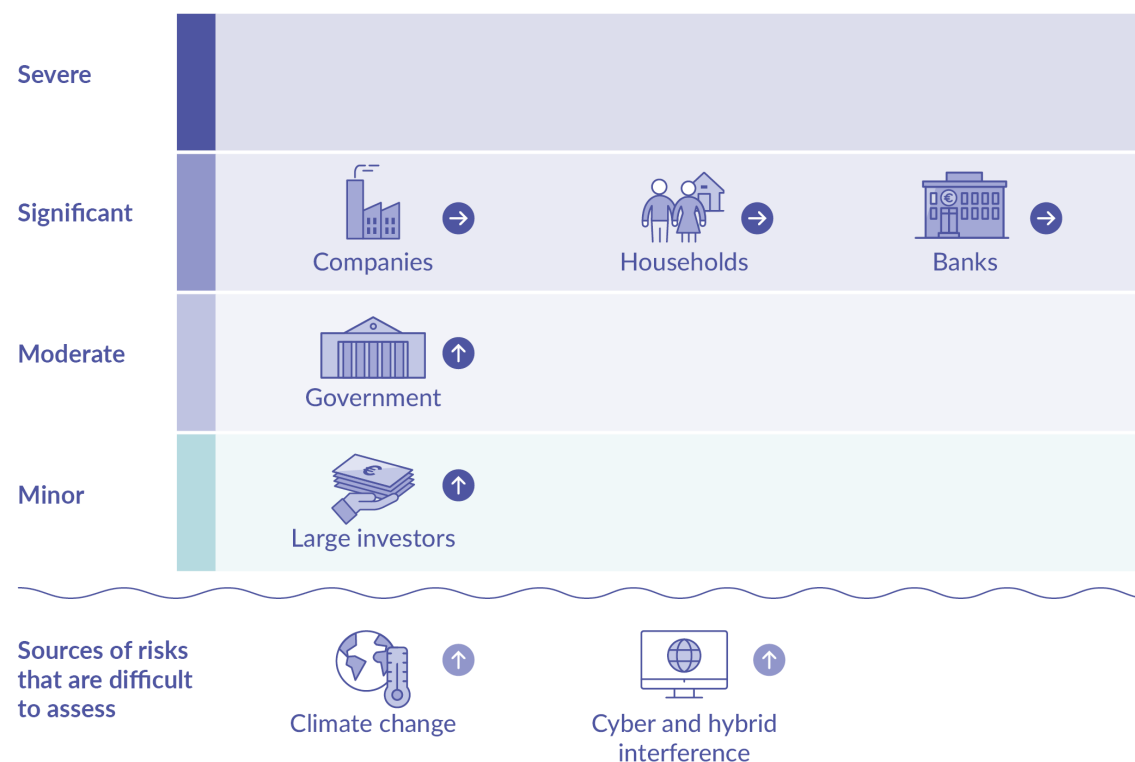
Strong resilience is an asset we cannot afford to lose

Marja Nykänen
Bank of Finland



The financial system is stable but vulnerabilities are increasing

Financial system's vulnerabilities: extent and expectation

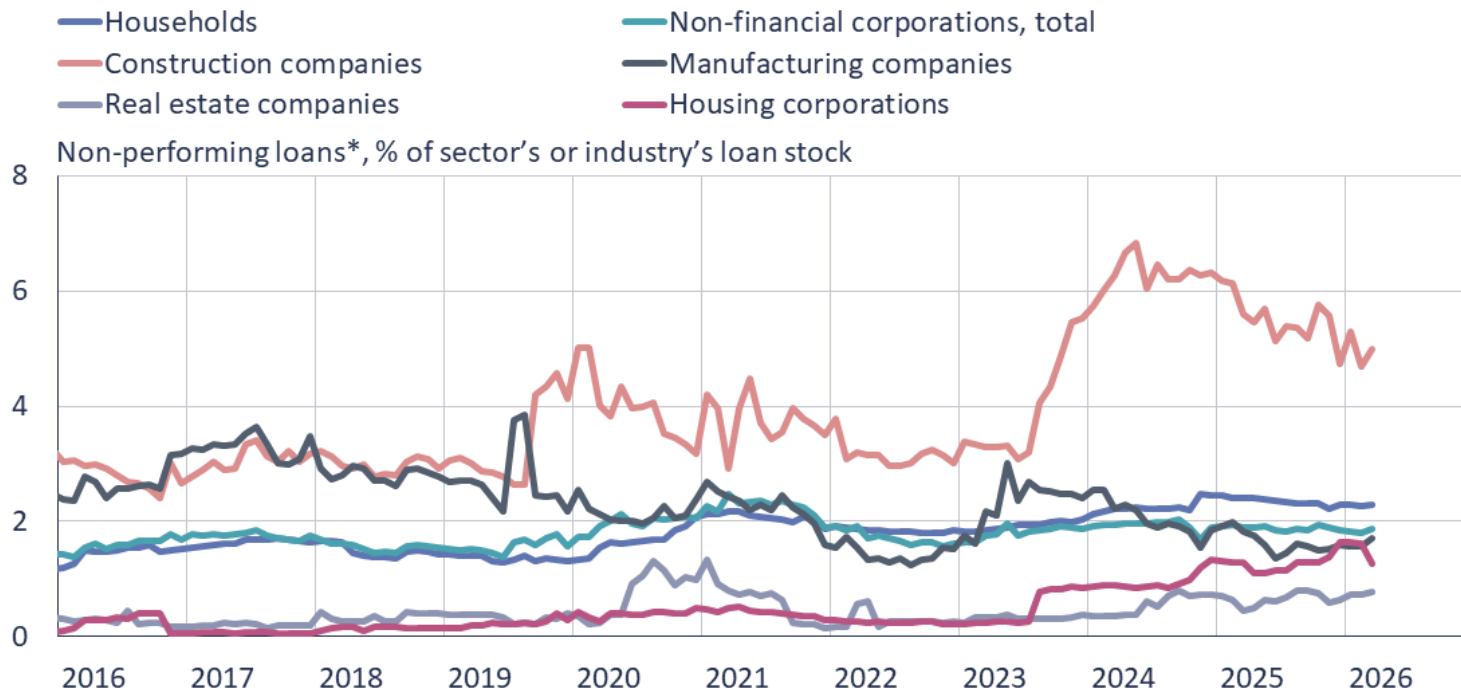


- Banking sector's structural vulnerabilities are exposing Finland to severe banking crises
- Finland's housing market is vulnerable to the wide fluctuations in construction, housing sales and housing prices
- The constant increase in government debt is a growing concern for financial stability as well

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Banking sector's strong capital position and profitability ensure the transmission of finance in a difficult operating environment

Proportion of non-performing loans: significant differences between sectors and industries



*Loans overdue by more than 90 days and loans where the borrower is unlikely to pay because of liquidity problems. Loans are net, excluding recognized impairment losses.

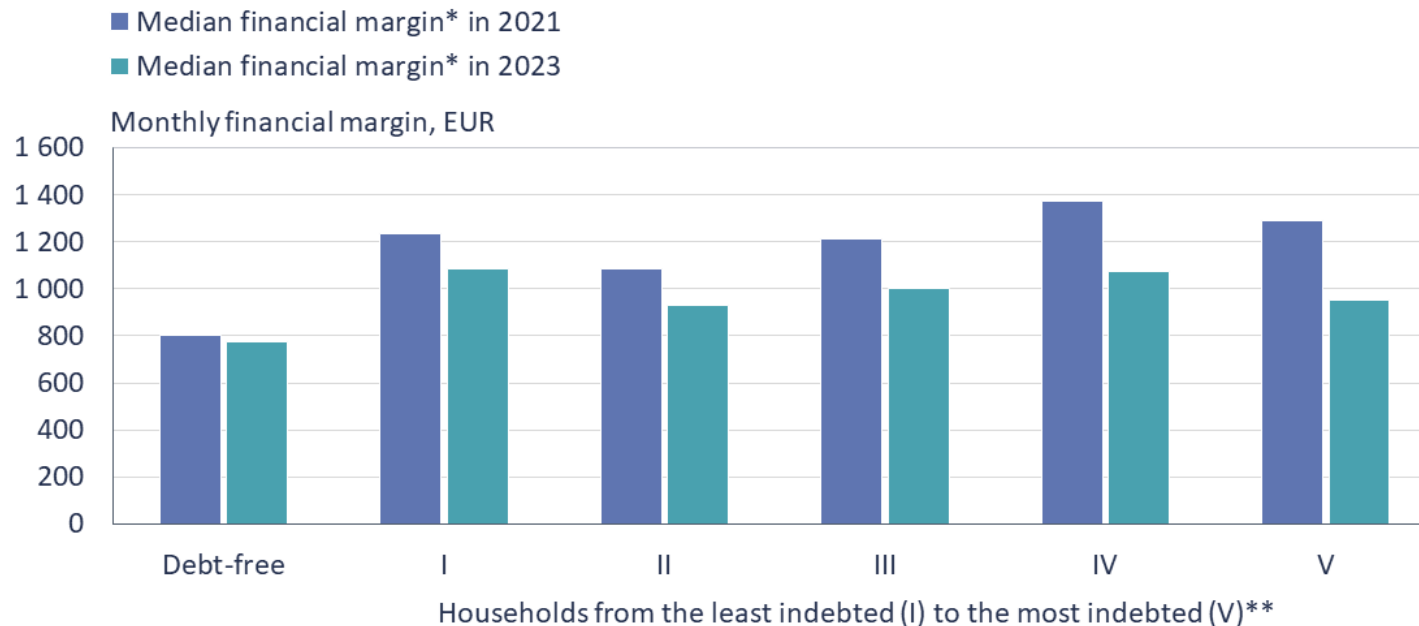
Source: Bank of Finland.

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- The financial position of domestic banks is good and the risk premia on funding are lower than average
- Credit risks have grown but remain contained
- Macroprudential requirements support the risk-bearing capacity of banks and protect against sudden external shocks

Household indebtedness has decreased but households are sensitive to changes in interest rates

Financial margin narrowed as essential expenditure increased



*The median is the mid-point figure above which, and below which, is the financial margin of half the households in the group. The financial margins are calculated per consumption unit, at 2023 prices.

**Each group I-V includes one fifth (20%) of the indebted households.

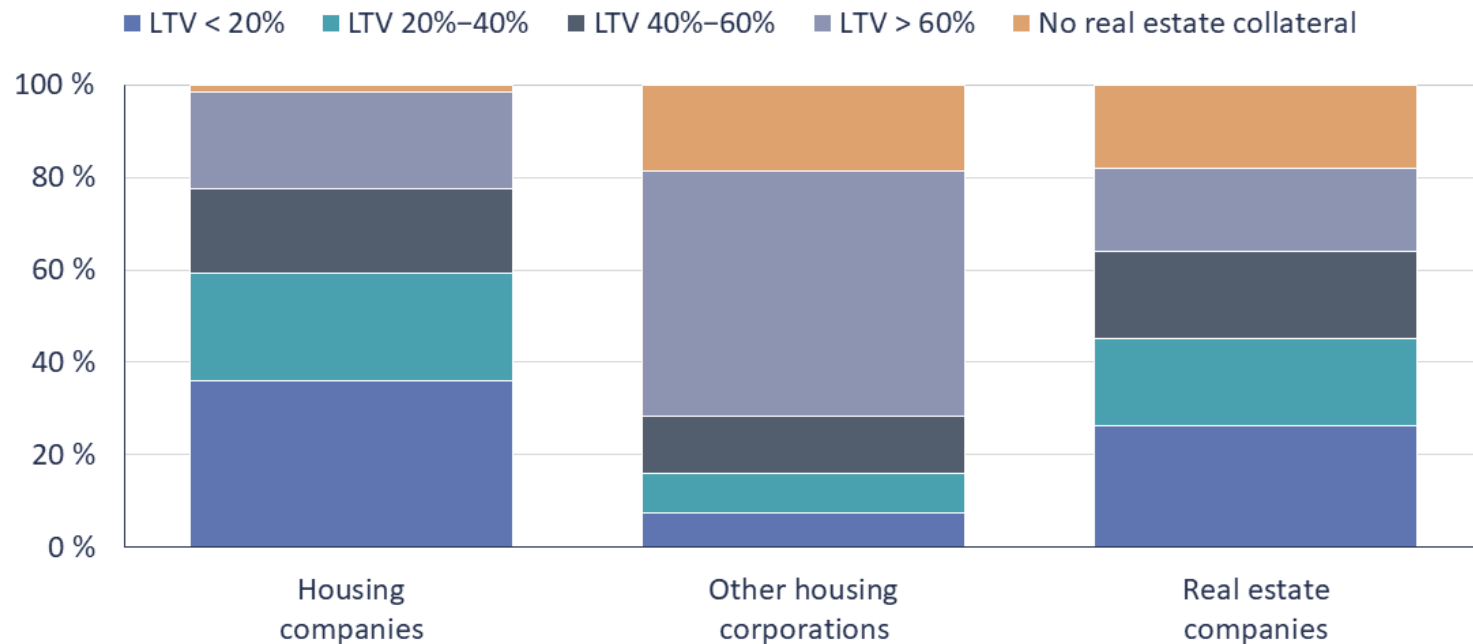
Sources: Statistics Finland and calculations by the Bank of Finland.

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- The rapid rise in interest rates and in the cost of living has narrowed the financial margin of the most indebted households
- Easing of the maximum maturities and the loan cap may start to increase indebtedness risks during an economic upswing
- Borrowers must ensure they have sufficient buffers for future financial risks too

State-subsidised housing production links real estate market risks to public finances

Housing corporations' loan-to-value ratios (LTVs) high in loans guaranteed by the public sector



- Housing corporations' debt levels and credit risks have increased
- The public sector is often involved in housing corporations, either as owner or guarantor
- State-subsidised construction projects often involve higher risks (LTV > 60%)

NB: situation in December 2025.

Source: Bank of Finland, credit data collection.

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Macroprudential policy plays a key role in maintaining banking sector's resilience

- Calls for easing financial regulation are becoming louder in Finland
- Regulation restricting lending has already been relaxed, and the systemic risk buffer requirement has also been criticised
- Regulation safeguarding financial stability should be assessed as a whole and simplified – without jeopardising the stability of the financial system



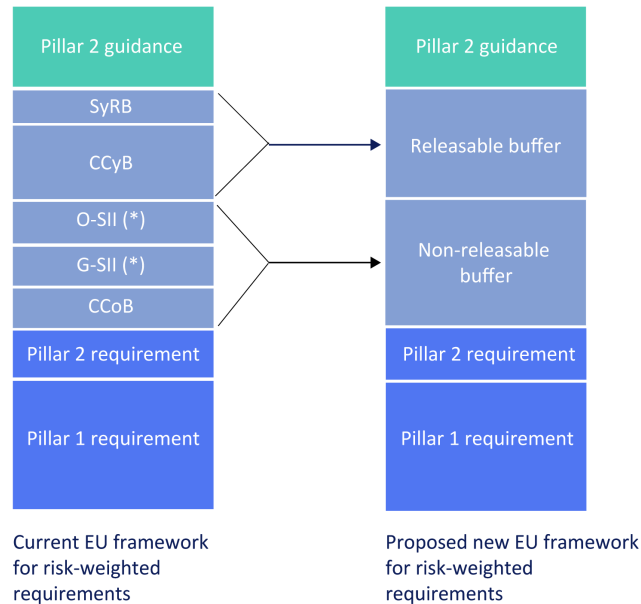
Europe is more stable and stronger together

Marja Nykänen
Bank of Finland



Harmonisation of financial regulation would support the competitiveness of EU banks

ECB's recommended changes to EU macroprudential buffer requirements



SyRB = systemic risk buffer
CCyB = countercyclical buffer
O-SII = requirement for other systemically important institutions (domestically important institutions)
G-SII = requirement for global systemically important institutions
CCoB = capital conservation buffer

(*) The higher of the O-SII and G-SII requirement applies.

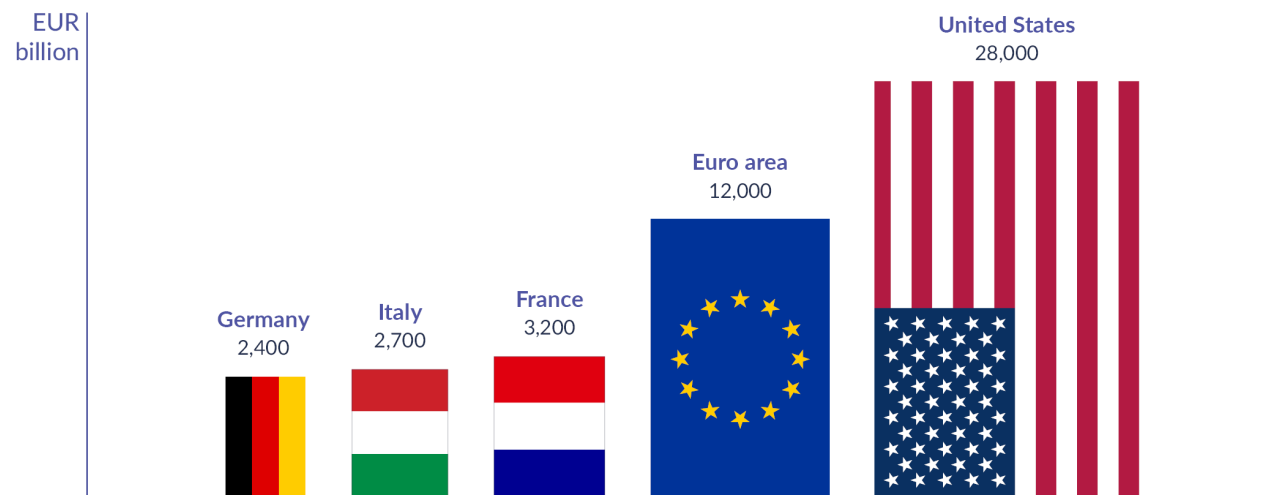
Source: European Central Bank.

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- Harmonisation of macroprudential policy, and of financial regulation more generally, in Europe is a key means of simplification
- The ECB also has many other concrete proposals for simplifying banking regulation, for example:
 - Capital and buffer requirements could be simplified and clarified by merging existing buffers
 - Supervision and regulation of small banks could be simpler than at present
 - There is considerable scope to improve efficiency in reporting by applying the 'report once' principle

Savings and Investments Union must be completed to promote competitiveness, growth and financial stability

The sovereign bond markets of even the largest euro area countries are small globally



Sources: BIS and calculations by the Bank of Finland.
Marketable outstanding general government debt securities in selected countries, 2025.
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- More diversified and deeper capital markets would improve the conditions for economic growth
- A common deposit insurance scheme would strengthen confidence and make the system more resilient
- European unity is also a security issue – common funding is needed for defence needs

Risks to cyber security have increased – underlines importance of operational preparedness

- Work on improving preparedness in the field of payments must be continued because electronic payments must function in all circumstances
- Rapid development of AI challenges previous risk assessments and may enable more sophisticated cyber attacks – information security recommendations must be strictly adhered to
- Europe must reduce its dependence on ICT service providers and other technologies that are located outside Europe

A strong banking sector is an important asset in a volatile world



Volatility in the global environment has increased economic and financial stability risks and cyber and hybrid threats



A strong banking sector provides protection from crises and supports economic growth – banking regulation must not be diluted



Deeper European capital markets and a common deposit insurance scheme would boost resilience and growth



Thank you!

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