

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Does current resilience have a limit?

Bank of Finland's Financial Stability Assessment
Bank of Finland Bulletin press briefing, 21 May 2025

Marja Nykänen
Bank of Finland

Bank of Finland's Financial Stability Assessment

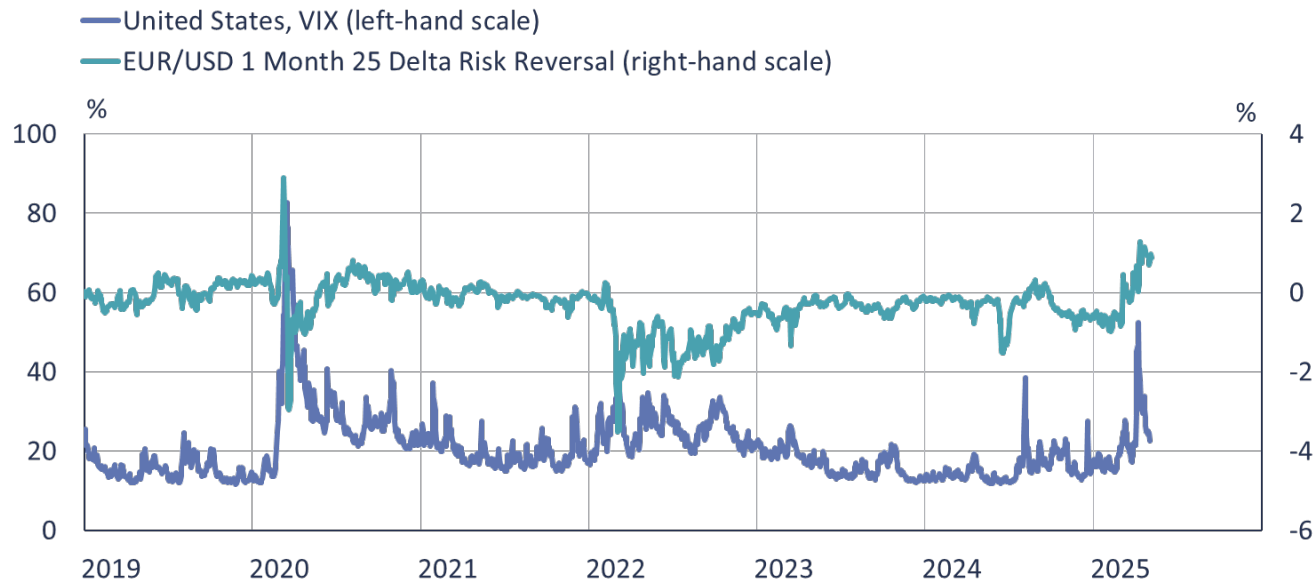
- Financial Stability Assessment: Global upheaval – Financial stability at risk from power politics
- 'Simply Short' summary of main article: Biggest threats to financial stability are from outside Finland
- Experts' articles on topical issues:
 - Is Finland still attractive to investors?
 - How resilient are companies in the face of frequent crises?
 - What does the Positive Credit Register tell us about mortgage borrowers?
 - How can bank lending capacity be protected from unforeseen crises?

Key messages

- **Risks to financial stability are growing due to global power politics** – the financial sector and financial stability authorities must be prepared to deal with complex crises
- Macroprudential policy must uphold the resilience of banks and borrowers – **releasable capital buffers needed for banks' resilience against unforeseeable crises**
- **Europe must focus on attracting investments and growth-oriented businesses** – Finland must actively promote the EU's Savings and Investments Union (SIU)

Power politics causing volatility in financial market prices and casting shadow over economic outlook

Stock and currency markets are preparing for continued price fluctuations



Delta Risk Reversal describes the price of hedging against developments in the EUR/USD exchange rate. A positive (negative) figure means that the price of hedging against appreciation (depreciation) is higher.

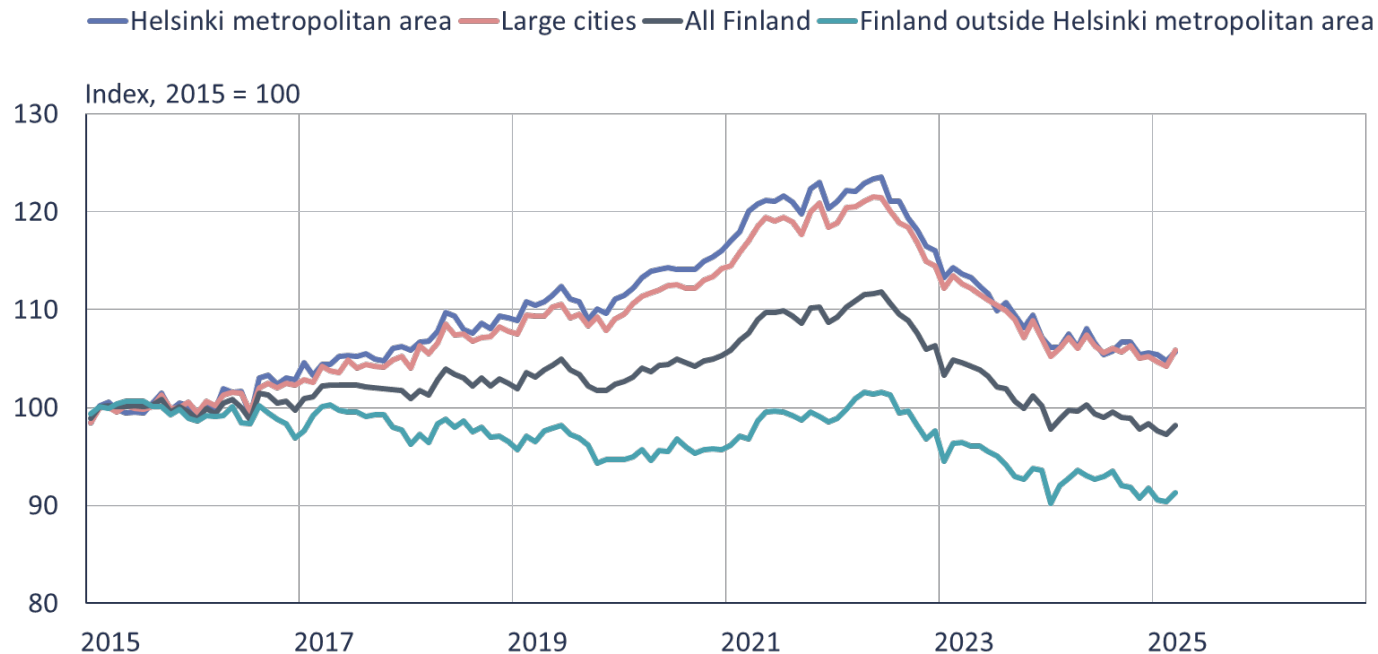
Source: Bloomberg.

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- Geopolitical tensions from many directions: security risks from the east and economic risks from the west
- The trade war is creating uncertainty in the economy and financial markets: stock market volatility, rising risk premia, increasing demand for safe havens
- Financial markets have operated smoothly, but financing conditions have tightened

Recovery in the housing and real estate investment markets is threatened if the economy weakens

Nominal prices of old dwellings in housing companies in Finland



Helsinki metropolitan area = Helsinki, Espoo, Vantaa and Kauniainen. Large cities = Helsinki metropolitan area, Turku, Tampere and Oulu.

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

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- Sales of existing dwellings have picked up, sales of new dwellings still subdued
- Number of property transactions by professional investors still very low
- Open-end real estate funds have postponed redemptions, but the pressure to sell may slow the recovery of the real estate market



Finnish financial system has shown strong resilience

Marja Nykänen
Bank of Finland

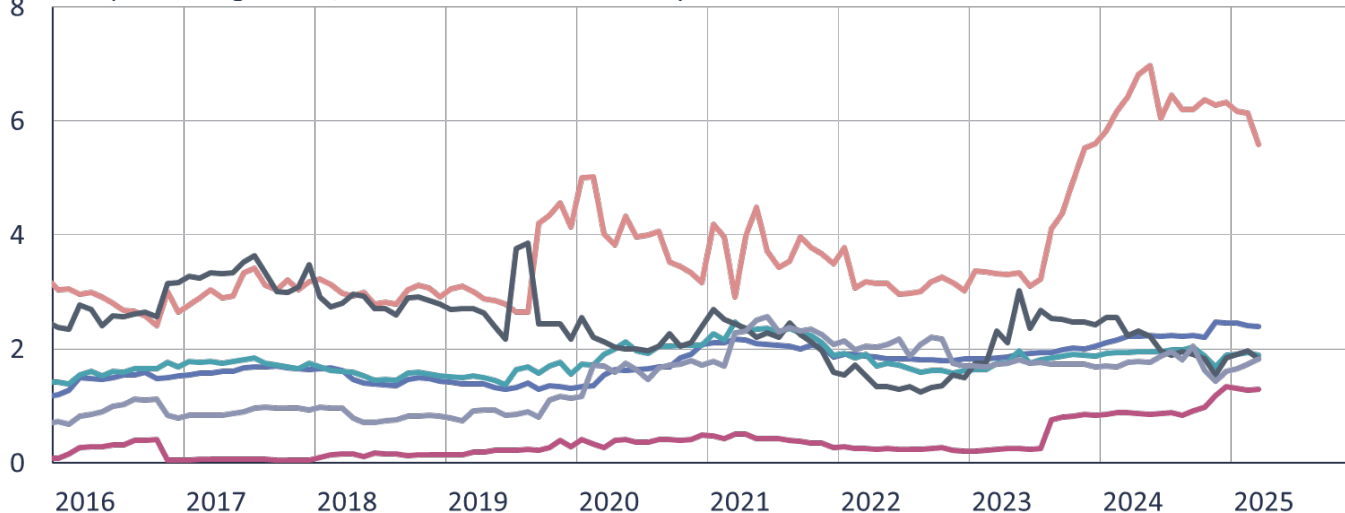


Finland's banking sector is profitable and sound – increased credit risks have been kept in check

Non-performing loans in selected sectors and industries in Finland

— Households — Non-financial corporations, total — Construction companies
— Manufacturing companies — Real estate companies — Housing corporations

Non-performing loans*, % of the sector's or industry's loan stock



Loans granted by Finnish credit institutions to households, non-financial corporations and housing corporations in Finland. * Loans overdue by more than 90 days and loans where the borrower is unlikely to pay due to repayment difficulties. Loans are net, excluding recognized impairment losses.

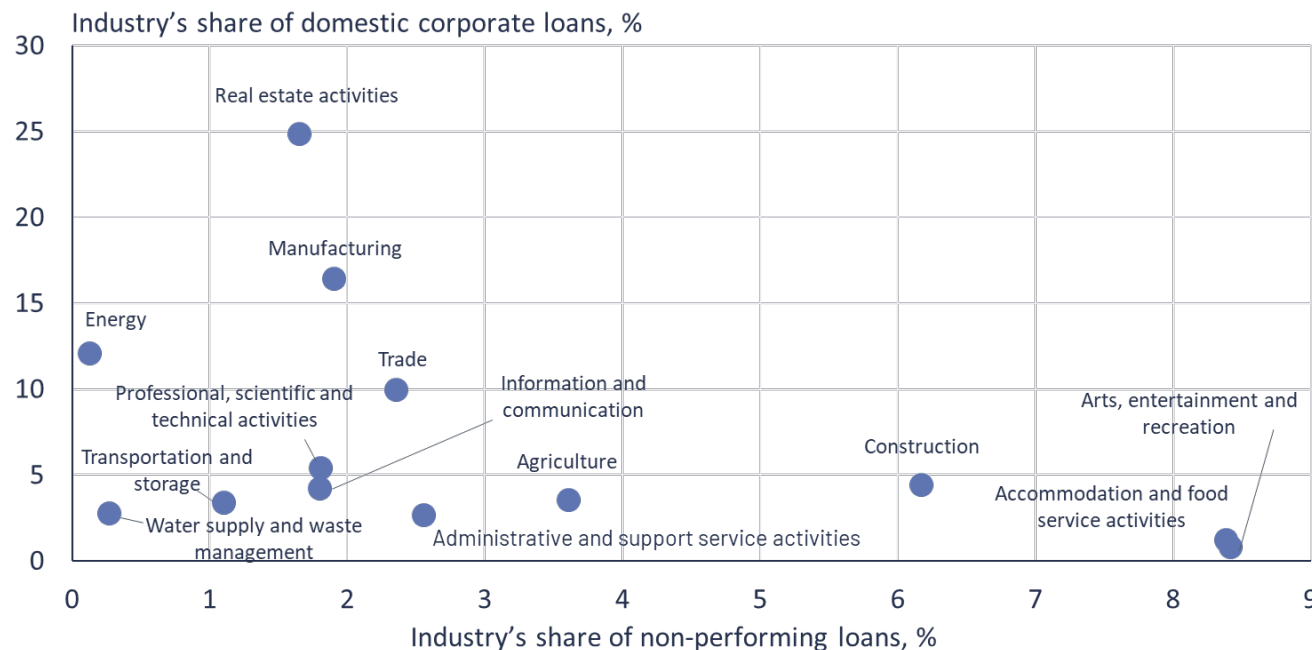
Source: Bank of Finland.

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- Profitability has improved but net interest income is no longer growing; capital adequacy has remained strong
- Rise in interest rates was a strain particularly on construction companies and indebted property investors
- Indebted households have found ways to adjust their finances

Stronger increase in loan-servicing difficulties of small and medium-sized companies than of large companies

Non-performing loans have increased in industries that represent a small proportion of the corporate loan stock



Source: Bank of Finland.

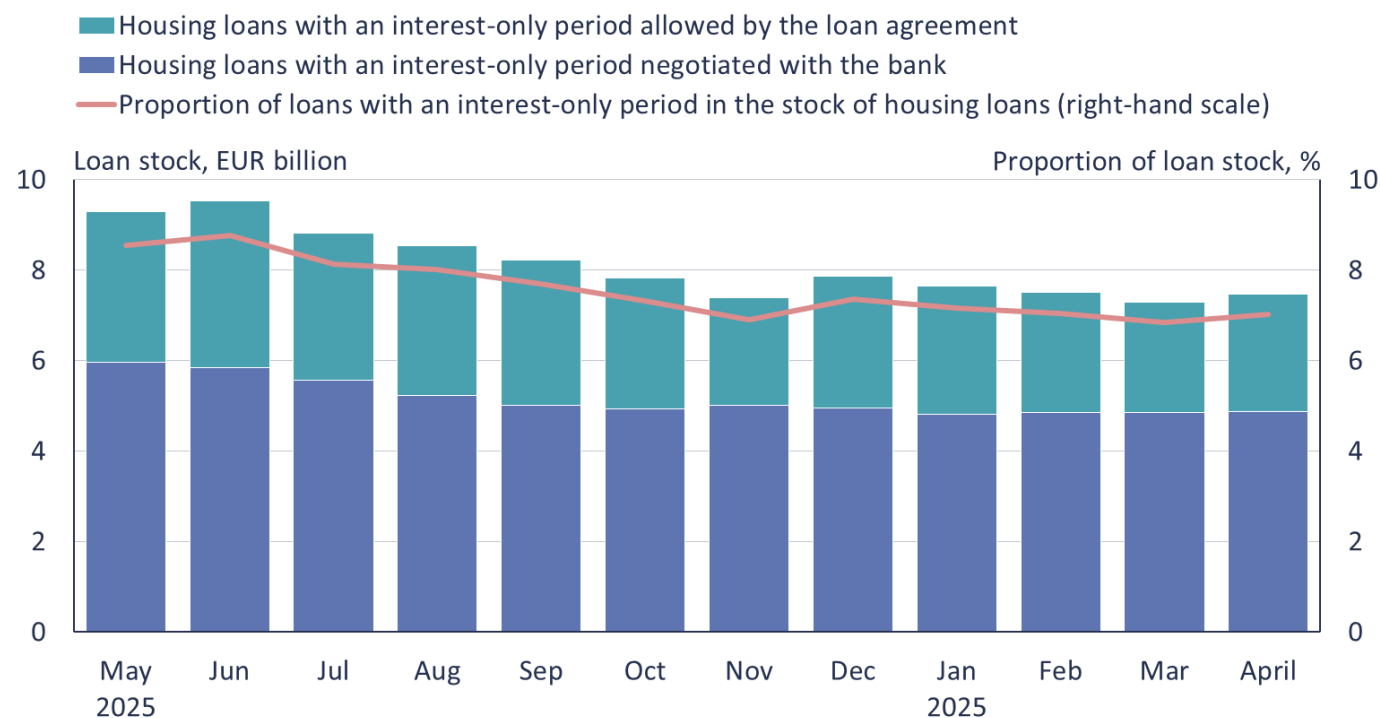
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- Mainly small and medium-sized companies have difficulties in loan servicing
- Industries with the weakest loan servicing represent only a small share of Finnish banks' stock of corporate loans
- Smaller banks have higher credit risks in loans to small and medium-sized companies than large banks

Households have proved resilient against interest rate risk

Proportion of housing loans with an interest-only period has decreased



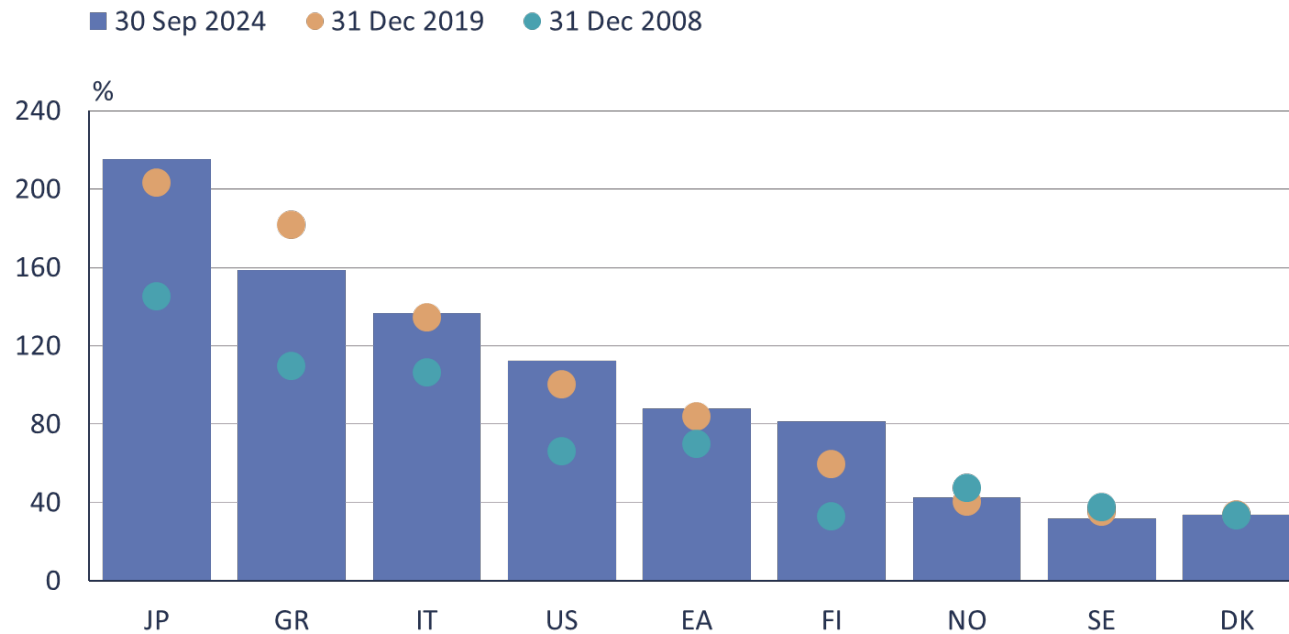
Sources: Bank of Finland and the Positive Credit Register.

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- Risks related to debt accumulation have partly materialised in recent years but have not threatened financial stability
- Household debt relative to disposable income has decreased since 2021
- Borrowers must have sufficient buffers to guard against financial risks in the future

Investor confidence in Finland as an investment location has remained strong

Finland's public sector debt-to-GDP ratio is already approaching the euro area average



Bank for International Settlements.

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- Growth in geopolitical, trade policy and economic policy risks and in indebtedness are increasing the vulnerabilities related to Finland's government debt
- Risk premia on Finnish government bonds and price of hedging against credit risk have remained low
- Finland's stable institutions provide protection against country risk associated with geopolitics



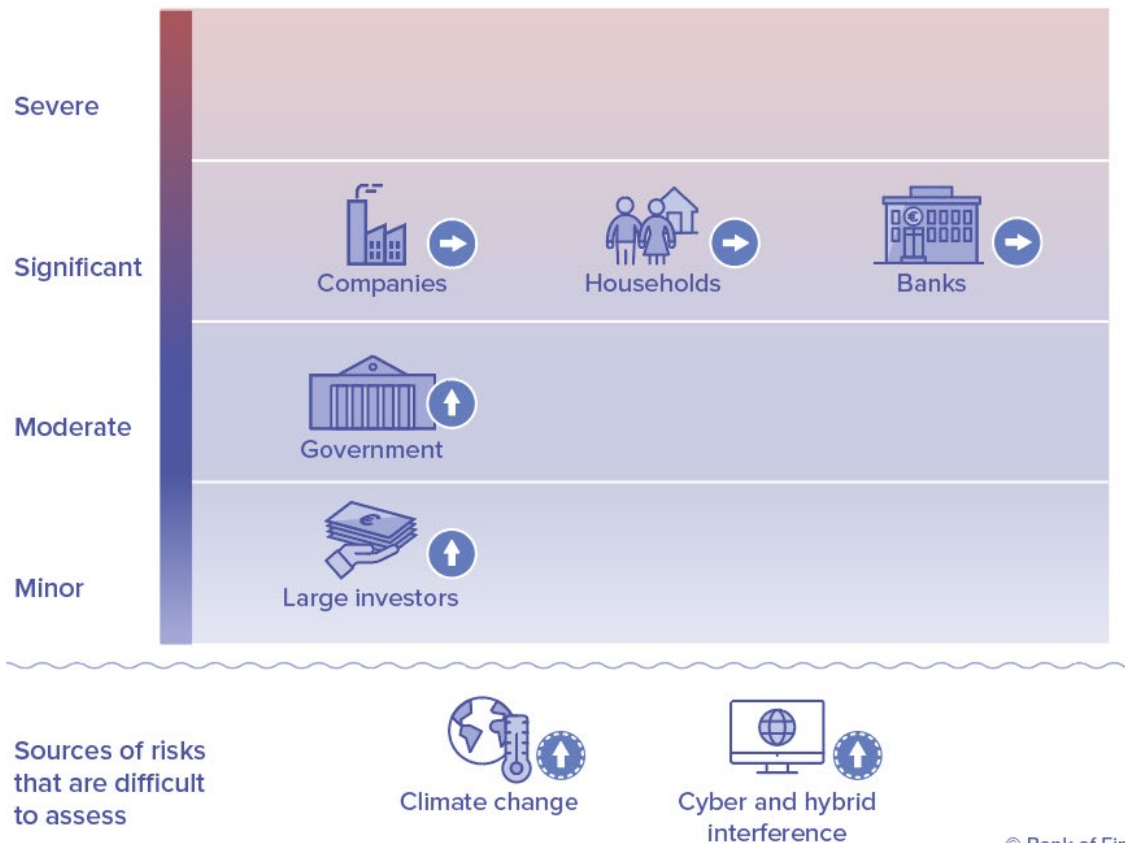
Resilience required in a volatile operating environment

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Bank of Finland



Financial system vulnerabilities are expected to remain unchanged or to increase

Financial system's vulnerabilities: extent and expectation



- Main vulnerabilities still related to banking sector's structural characteristics and lending risks
- Growth in government debt is also a vulnerability for financial stability
- Climate change and deterioration in security environment are causing stability threats that are difficult to assess

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Threats to financial stability have increased

Short-term risk

Aggressive global power politics would increase risk of crises and operational disruptions in international financial markets

Medium-term risk

Weakening economy would prolong downturn in housing and real estate markets and diminish debt-servicing capacity of households, businesses and investors

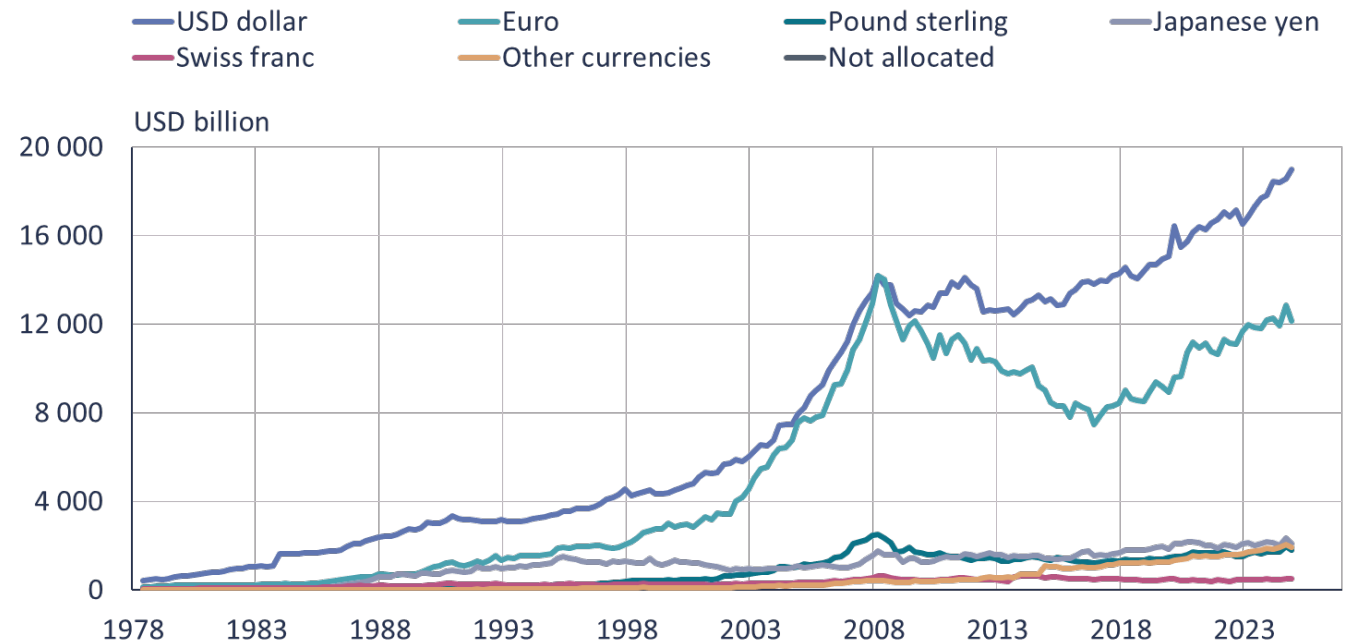
Long-term risk

Disintegration of rules-based international system and erosion of financial regulation would slow down economic growth and fuel financial crises

Financial sector entities and authorities must be prepared for crises that are complex and hard to predict

- Past experience provides only limited help in preparing for unprecedented risks and crises
- An unstable operating environment requires preparedness to respond rapidly to crises that can spread and intensify instantly in the modern digitalised world
- Financial sector and authorities must further strengthen their preparedness for crises

US dollar's share in banks' global cross-border claims has increased since the global financial crisis



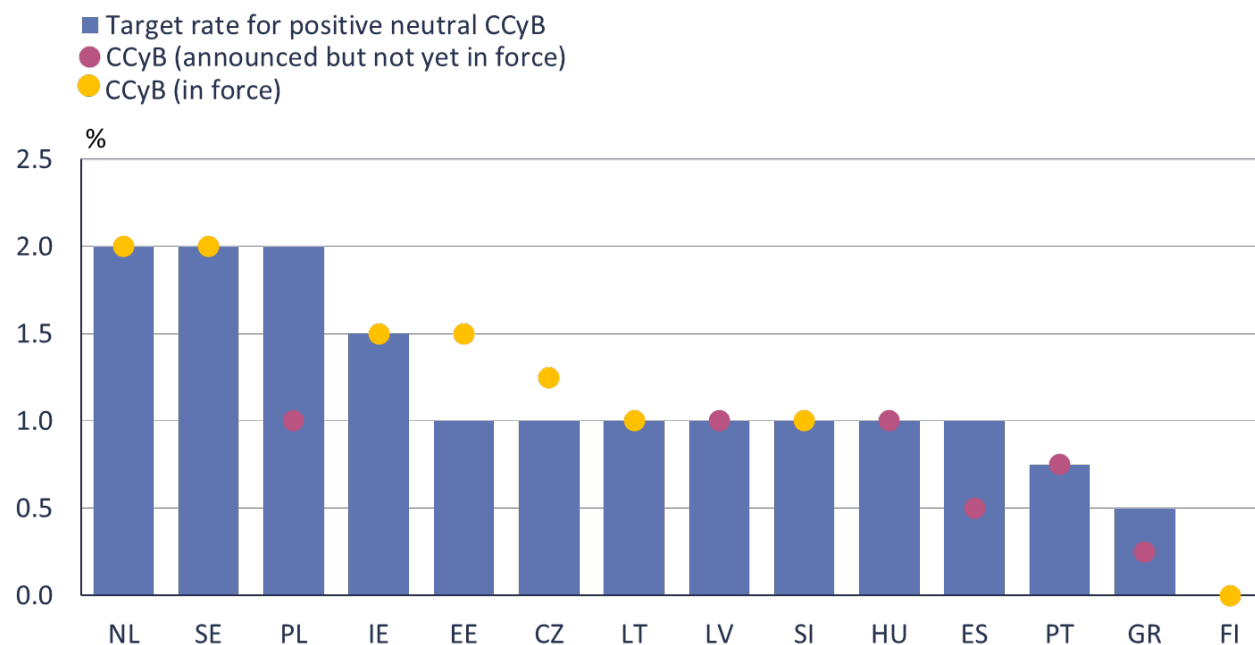
Source: Bank for International Settlements.

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Releasable capital buffers needed for Finnish banks' resilience in times of economic disruption

- Resilience of banks and borrowers must be maintained through macroprudential policy measures
- Capacity of macroprudential policy to respond should be improved by allowing more flexible use of countercyclical capital buffer requirement
- A more harmonised macroprudential toolkit would simplify and enhance macroprudential policy in Europe

Positive neutral approach to setting countercyclical capital buffer (CCyB) requirements becoming more common in Europe



Situation in April 2025.

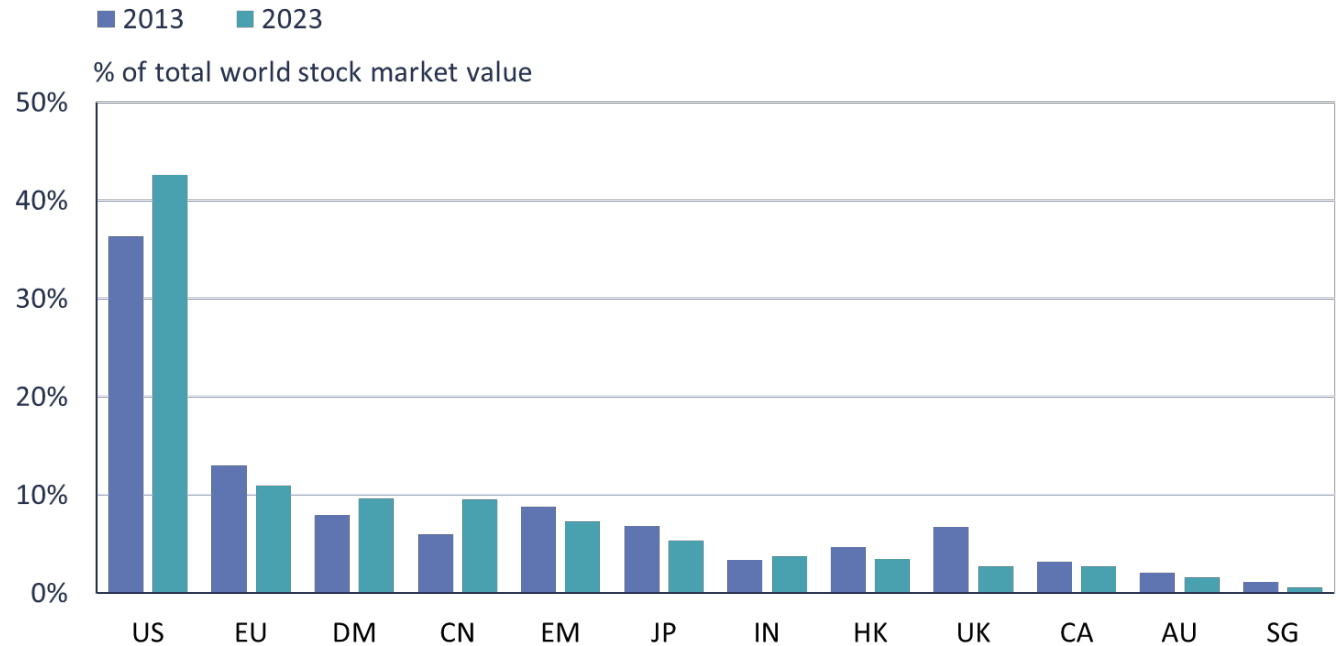
Sources: European Systemic Risk Board (2025) and Bank of Finland.

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Finland must actively promote the EU's Savings and Investments Union (SIU)

- Europe must improve competitiveness, boost growth and invest in the green and digital transition and defence
- Developing the capital markets and completing the banking union would support both economic growth and financial stability
- Development of the capital markets cannot be left solely to the EU but also requires national measures

Stock market significantly smaller in EU than US



DM = Other developed markets.

EM = Other emerging markets.

Source: Securities Industry and Financial Markets Association.

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Summary



International power politics is increasing risks to financial stability



Releasable capital buffers needed for banks against unforeseeable crises



Europe must focus on attracting investments and growth-oriented businesses



Thank you!

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