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## Financial stability

**Nordic interconnectedness and indebted households a risk to financial stability**





## Financial stability assessment

- Publication on the Bank of Finland Bulletin site, see <http://www.bofbulletin.fi/en/financial-stability/>
- Annual assessment of the stability of the Finnish financial system and the risks to financial stability
- Comprises an editorial, a main article and a number of thematic articles



## Outlook for the global economy has improved, but there are downside risks

- Global economy expected to grow at a stable rate in the next few years, but not particularly rapidly by historical standards.
- Increase in investor optimism and risk appetite is reflected in share prices and risk premia.
- Risks to the forecast for the global economy on the downside
  - Stronger-than-forecast slowdown in Chinese growth
  - A risk of stronger protectionism
  - A turn in investor risk sentiment
- Dilution of global financial regulation a long-term risk.



## Strengthening of euro area economy has not eliminated banking sector risks

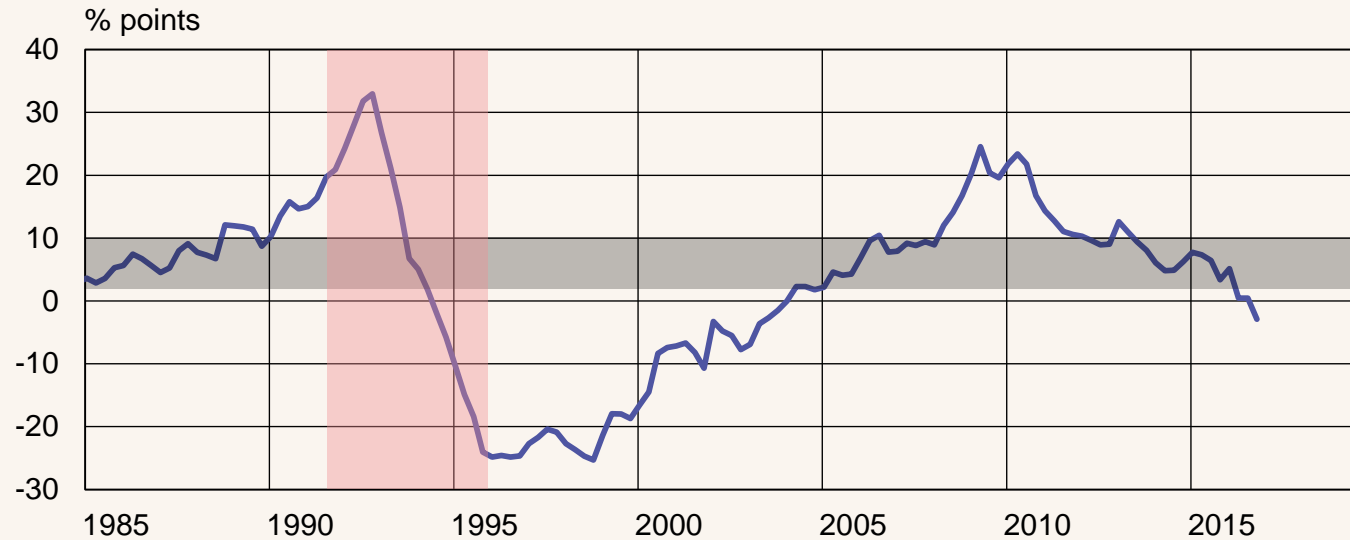
- Euro area growth has strengthened.
- Weak banking sector profitability and large volumes of non-performing assets are a problem for the euro area financial system.
- Strong growth in the Nordic economies, but increasing imbalances in the housing markets are a cause for concern.



# No immediate economic or cyclical risks to financial stability in Finland

The leading risk indicator of banking crises has lowered further

- Credit to private non-financial sector; trend deviation
- Threshold for countercyclical capital buffer requirement



Sources: Bank for International Settlements (BIS), Statistics Finland and calculations by the Bank of Finland.

3.5.2017

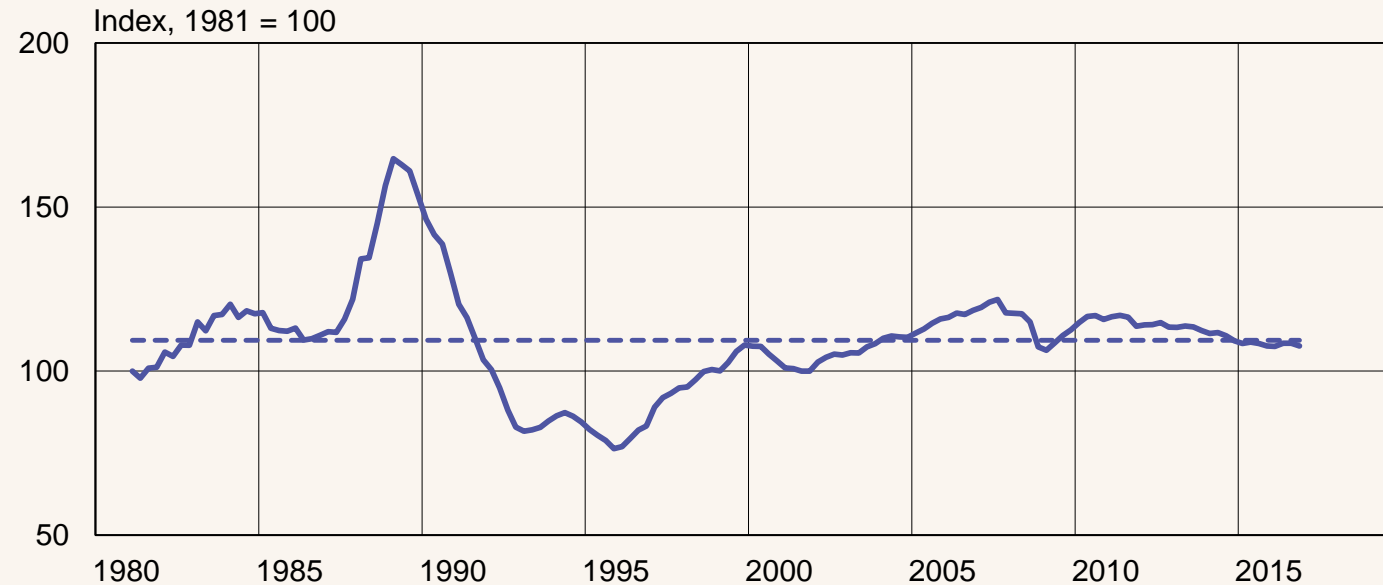
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# Housing prices close to their long-term average

## Relative housing prices close to their long-term average

— Housing prices relative to wage and salary earnings    - - - Long-term average



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

3.5.2017

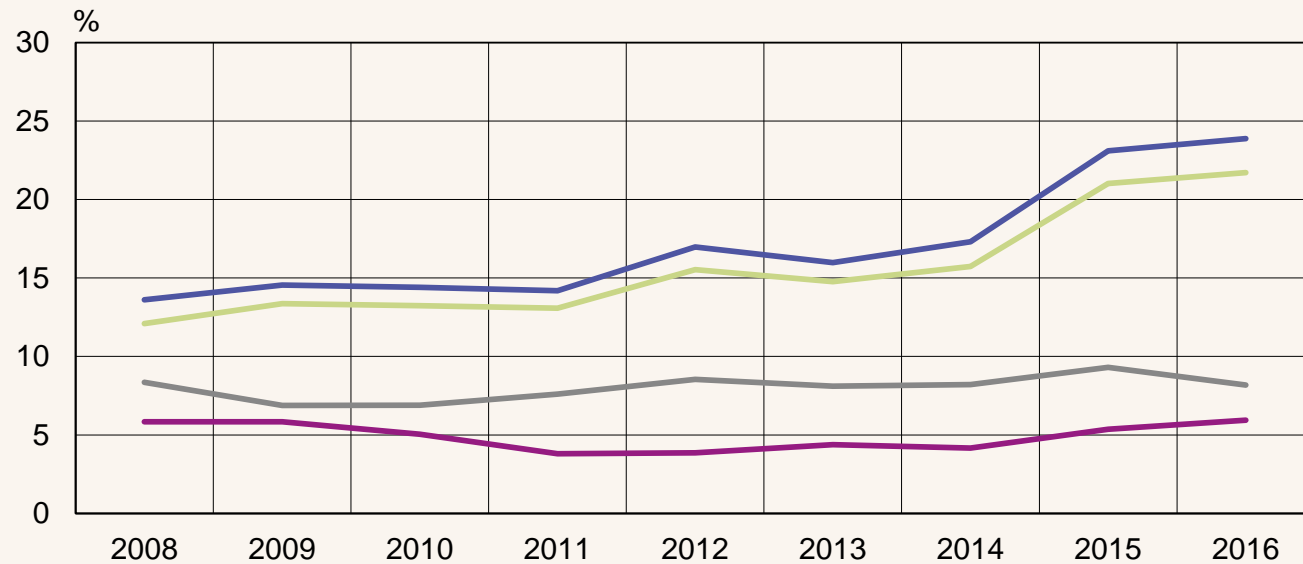
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# Finnish banking sector profitable and solid

The Finnish banking sector is profitable and solid

- Total capital adequacy ratio
- Core Tier 1 capital ratio
- Own funds relative to assets
- Return on equity



Sources: Financial Supervisory Authority and calculations by the Bank of Finland.  
3.5.2017  
eurojatalous.fi



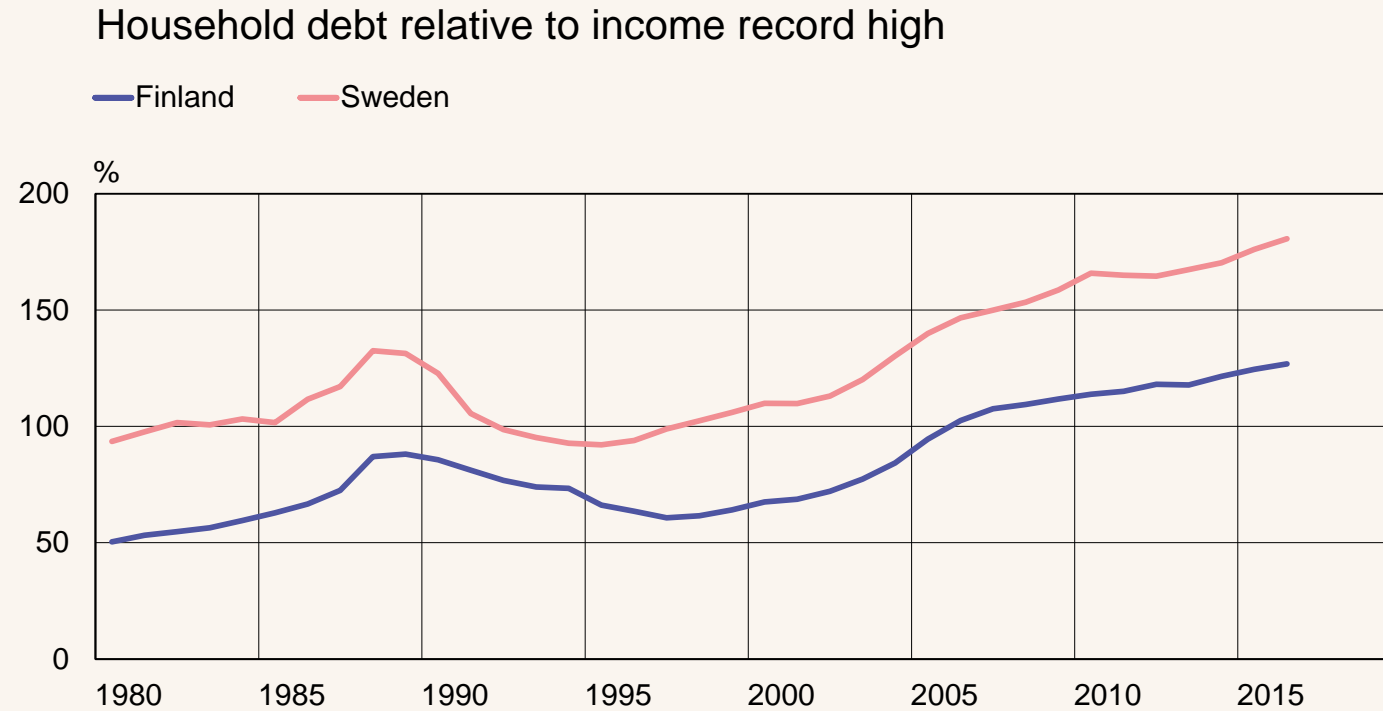
## Branchification of banks increases structural vulnerabilities...

- Large Nordic banks have changed or are in the process of changing their group structures.
- The changes will increase banking sector interconnectedness and contribute to the spreading of risks and crises across countries.
- National authorities have a limited role in the supervision and crisis management of branches.
- High-quality macroprudential policy, financial regulation and cooperation between authorities will be increasingly important.





## ...as does the record-high and continuously increasing level of household debt



Household debt relative to annual disposable income.

Sources: Statistics Finland and Statistics Sweden.

2.5.2017

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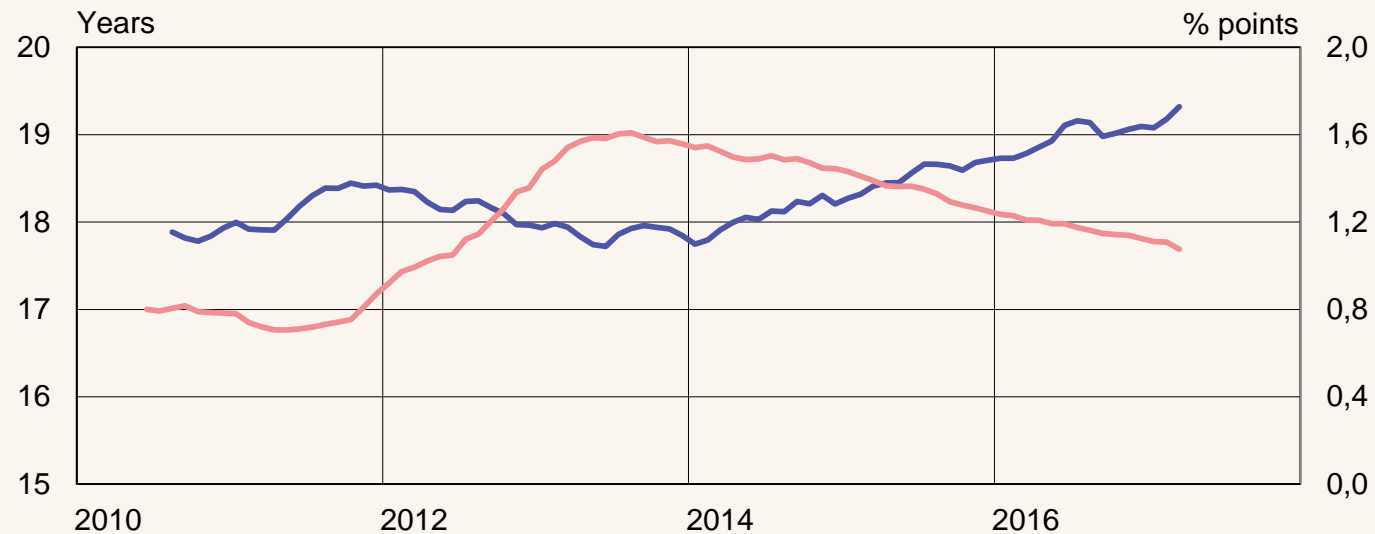


# Easing of credit standards for new housing loans

Credit standards for new housing loans drawn down in Finland have eased

— Average repayment period of new housing loans\* (left-hand scale)

— Imputed margin on new housing loans (right-hand scale)



\* 3-month moving average.

Source: Bank of Finland.

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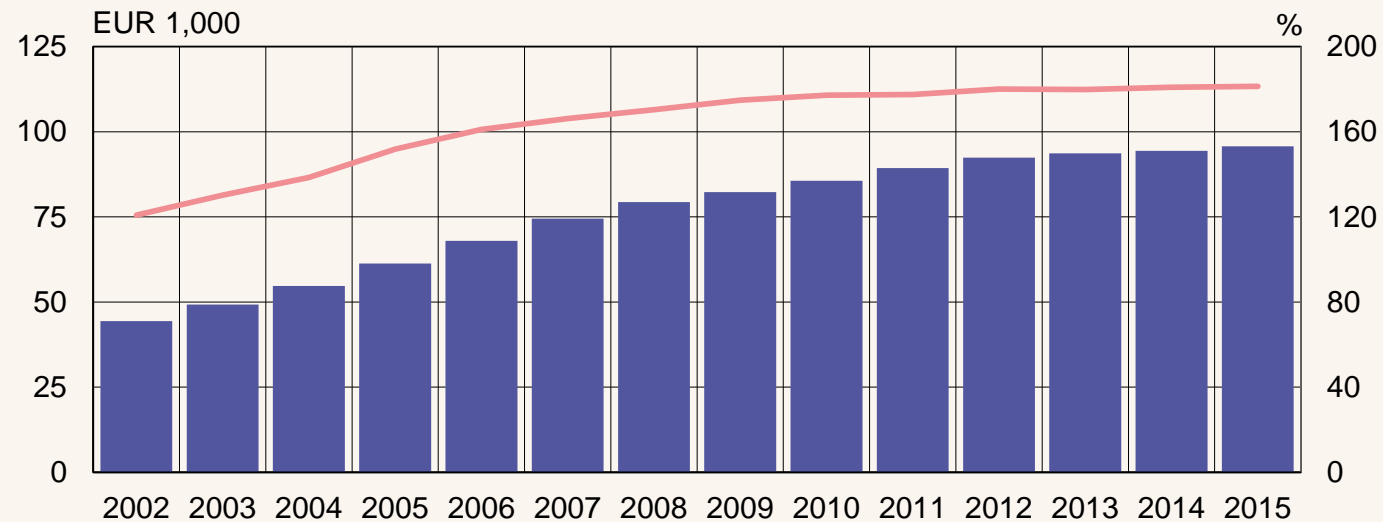


# Housing debt has doubled in Finland since turn of the millennium

## Housing debt has doubled in Finland since turn of the millennium

■ Housing debt per household with housing debt (left-hand scale)

— Housing debt relative to disposable monetary income of households with housing debt (right-hand scale)



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

2.5.2017

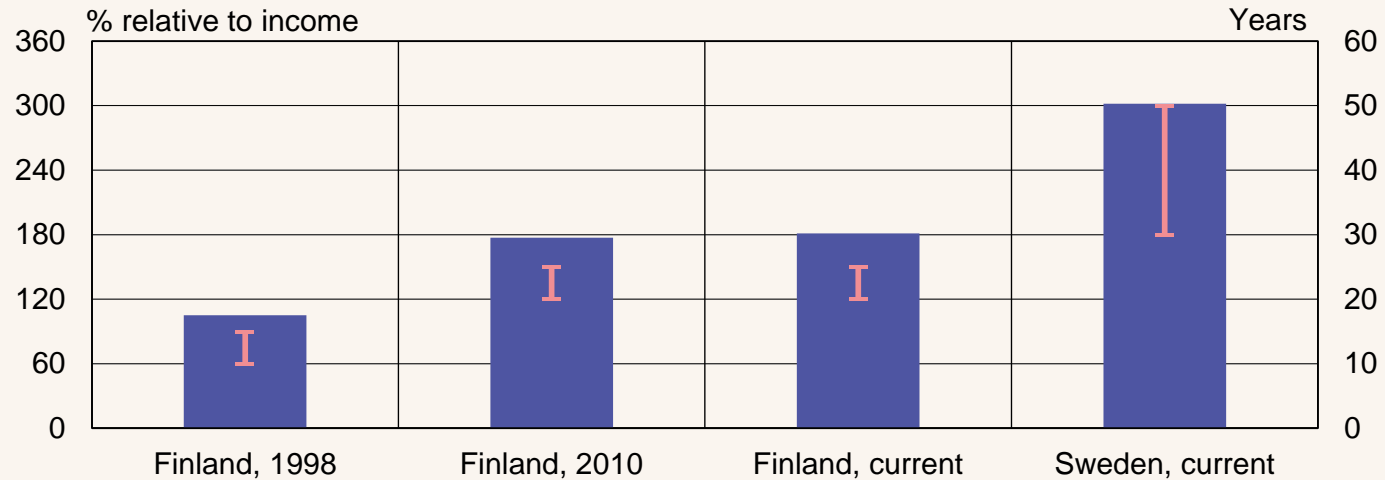
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# Long repayment periods increase housing debt levels

## Long repayment periods increase housing debt levels

- Average housing debt of households with housing debt\* (left-hand scale)
- Typical repayment period for housing loans\*\*, fluctuation range (right-hand scale)



\* Housing debt relative to annual disposable income of households with housing debt.

\*\* Original loan maturity specified in the loan contract.

Sources: Federation of Finnish Financial Services, Statistics Finland, Riksbank and calculations by the Bank of Finland.

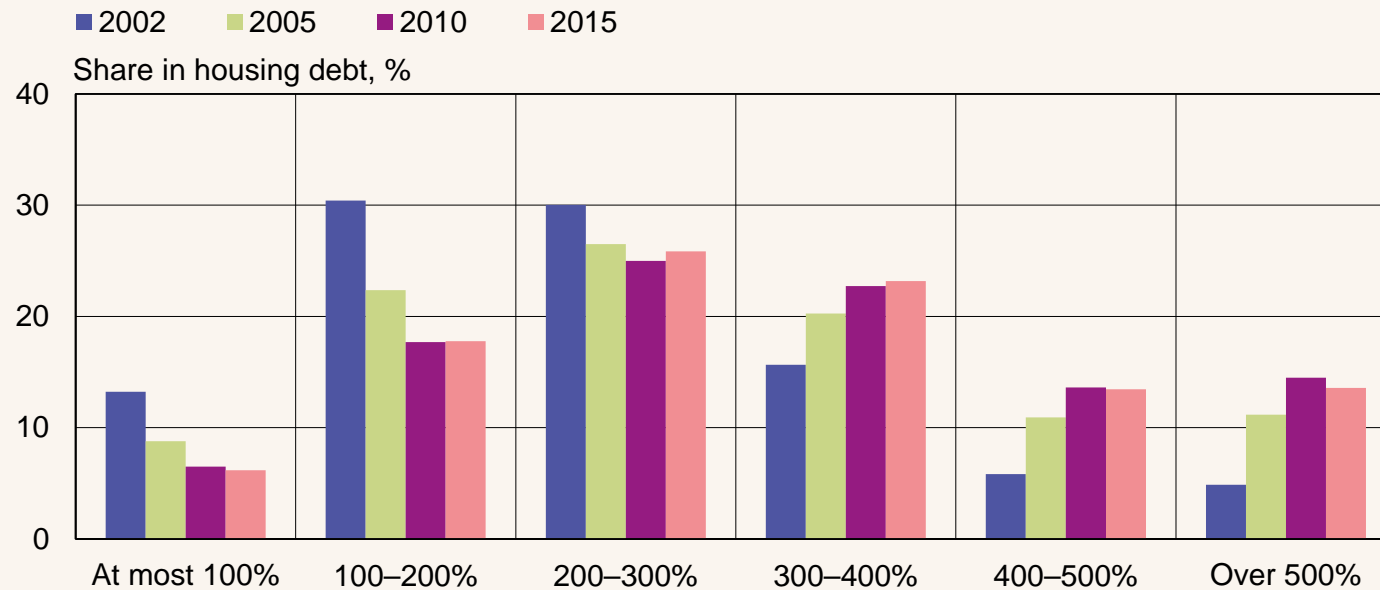
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# Significant share of housing debt held by households that are most indebted relative to income

In Finland, significant share of housing debt with heavily indebted households



Horizontal axis: household's housing and other debt relative to disposable monetary income.

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

2.5.2017

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## Preparedness for disruptions in payment and settlement systems must be improved

- Payment and settlement systems are international and operate mainly outside Finland.
- Systems have operated reliably.
- Finnish authorities have to prepare better for situations in which international systems and data connection networks are not available.



## Digitalisation and new players shape the landscape for financial services

- Digitalisation and new financial sector entities will create innovative financial services and increase competition.
- Payment is becoming increasingly real time and less visible.
- New players on the consumer credit market.

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## Conclusions







## Increasingly critical attitudes towards regulation must not lead to easing of financial regulation

- Deficiencies in financial regulation contributed to the global financial crisis.
- Easing back on unfinished global regulatory reforms would increase the probability of financial crises.
- Banking Union and Capital Markets Union must be pushed forward in an orderly manner.



## Macroprudential tools are needed to ensure households can service their debts

- The current maximum loan-to-value ratio protects households, banks and the economy particularly from a *decline* in housing prices.
  
- A more effective toolkit is needed to curb *growth* in household debt accumulation and lending for house purchase:
  - Income-linked loan caps
  - Maximum housing loan maturity
  - Amortisation requirement for housing loans
  
- The tools could help maintain current – mainly good – loan servicing practices.



## Consumers need financial literacy more than ever

- Financial literacy: the ability to understand and manage one's finances
- Easy access to and increasing variety of financial services increase the need for financial literacy.
- Authorities and the financial sector must participate in promoting consumers' financial literacy.



## Many new articles on financial stability on the Bank of Finland website

- Finland, the land of branches – the landscape of the Nordic banking sector
- Risks in long-term and large housing loans – Sweden’s worry is also ours
- How can we dampen the build-up of housing price bubbles?
- The overall picture of debt accumulation gets blurred as provision of consumer credit becomes diversified
- The largest international stability threats are to the securities markets
- EU macroprudential policy lays emphasis on residential mortgage loans and the banking sector’s structural risks
- Capital Markets Union supports economic growth and employment
- Payment must be smooth under all circumstances
- Payments becoming increasingly real time and less visible

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**Thank you!**

