Analysis

Inflation and higher interest rates brought financial distress to a proportion of households

Finnish economy | 25 February 2026 | Petri Mäki-Fränti, Aino Silvo

AUTHORS



Petri Mäki-Fränti
Senior Economist



Aino Silvo
Senior Economist

A majority of Finnish households had some financial margin to allow them to adjust to the strong rise in consumer prices and interest rates between 2019 and 2023. Nevertheless, for a growing proportion of low-income households, what is generally considered a decent standard of living was no longer attainable. Due to the higher interest rates, the number of households that considered themselves over-indebted also increased among middle- and high-income households.



Rise in prices and interest rates dented households' purchasing power

Inflation, rising interest rates and slow economic growth put a strain on Finnish households in the early years of the 2020s. Although inflation has now been brought under control and interest rates have come down, a dent was left in the purchasing power of households, and the recovery from this is still in progress. Despite the notable slowdown in inflation in past couple of years, consumer prices have remained at a higher level than before. Market expectations also suggest that a return to the period of zero interest rates is not likely in the foreseeable future.

Increases in consumer prices and interest rates affect households differently, depending on their financial position and pattern of consumption. When interest payments go up, this has a direct impact only on indebted households. Some households, in turn, have savings and financial wealth, which provide a financial buffer. Consequently, households differ significantly in terms of their resilience. Particularly for low-income households, a reduction in income of a few dozen euros or a similar increase in essential expenses may push the household below the subsistence minimum.

Even some middle- and high-income households may live hand to mouth, especially if they are highly indebted. A high-income household may be accustomed to a high level of consumption that is difficult to adjust downwards in the short term. The resilience of a household also depends on its position in the housing market. Owner-occupiers, in particular, may find it difficult to switch to a smaller and less expensive home if the housing market is weak.

This article describes the changes in the financial situation of households in the period 2019–2023 compared with the pre-pandemic period. The comparison uses income distribution statistics collected by Statistics Finland on individual households. The financial position of households is first examined on the basis of their financial margin. The financial margin indicates how much a household can adjust its consumption in the short term in order that its income will still allow it to maintain a standard of living considered to be at a decent minimum level. The minimum standard of living is determined using the reference budgets published by the Centre for Consumer Society Research at the University of Helsinki ('reference budgets for a decent minimum standard of living').[1]

Monetary indicators are, however, not always sufficient for capturing all the differences in household situations. Financial margin calculations are therefore supplemented in this article by a set of subjective indicators that capture households' own assessments of their financial position. The subjective indicators are based on Statistics Finland's survey of income and living conditions, in which households are asked to assess their financial situation in regard to, for example, difficulty

making ends meet and possible over-indebtedness.

Changes in the financial situation of Finnish households during the surge in inflation in 2021–2022 have previously been examined by, for example, Mäki-Fränti and Silvo (2023). The authors found that the general rise in consumer prices affected low- and middle-income households slightly more than high-income households. They also found that the strongest impact of the rapid rise in interest payments was felt by middle- and high-income households.

Wage increases did not keep pace with inflation

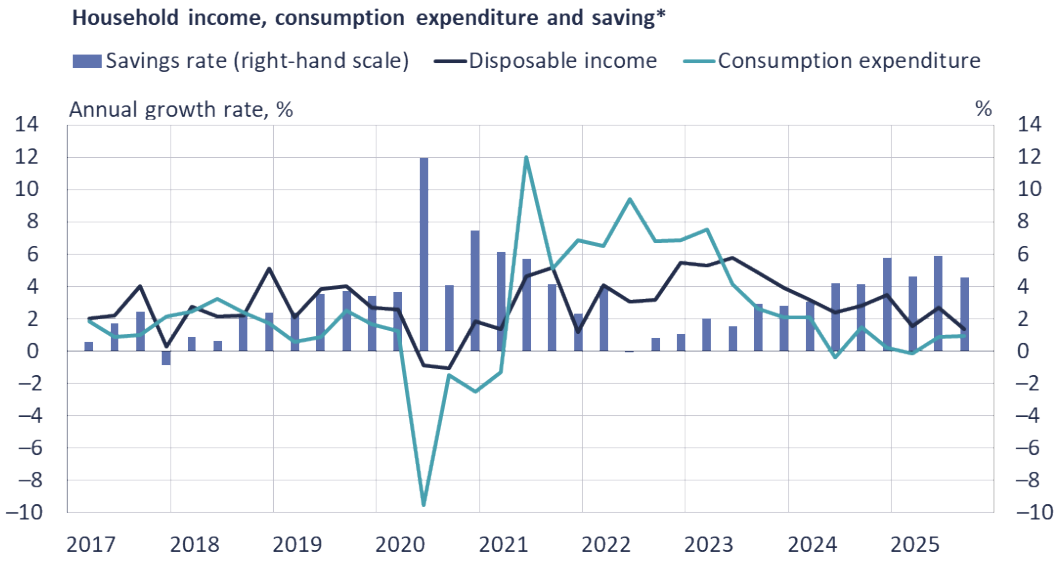
The consumption expenditure of households grew in nominal terms in 2021–2023 at a significantly higher rate than in previous years (Chart 1). Especially in 2021, the increase in consumption expenditure was explained by the recovery in consumer demand as the pandemic gradually eased and came to an end. In 2022–2023, it was mainly attributable to the rapid rise in inflation.

Consumer prices in Finland rose by almost 15% between 2019 and 2023, due to the pandemic's consequences, the Ukraine war and the subsequent energy crisis. Wage increases were insufficient to compensate for the rise in consumer prices, and employees' real earnings fell by about 4.5% during this period.[2] In the aggregate household sector, however, the decrease in real disposable income over the same period was 0.7%, due in part to the index-linked increases in social benefits in 2022 and 2023. With household disposable income increasing more slowly than consumption expenditure, especially in 2021 and 2022, the household savings rate declined (Chart 1). Since 2023, real earnings and household purchasing power have grown again. Despite this, the growth in households' consumption expenditure has remained subdued.

To bring inflation down, the European Central Bank tightened its monetary policy. Lending rates to households rose particularly rapidly in Finland, where housing loans are typically linked to variable Euribor rates. In January 2019, the average annual interest rate on the stock of housing loans in Finland was 1.0%, but by December 2023 it had risen to 4.1%.

Chart 1.

Households' consumption expenditure grew rapidly, especially in 2021–2023



Source: Statistics Finland.
*At current prices. Seasonally and working day adjusted series. Includes also non-profit institutions serving households (NPISHs).
© Bank of Finland, 29.1.2026, 48030@Kuvio1

Financial margin reflects adaptability of households

The household margin calculations help make a rough assessment of how much a household can withstand unexpected income losses if it wishes to maintain a level of consumption generally considered to represent a decent minimum standard of living in Finland. A decent standard of living is defined using the reference budgets published by the Centre for Consumer Society Research at the University of Helsinki ('reference budgets for a decent minimum standard of living'). The reference budgets are calculations based on assessments by households and experts, which indicate the amount of income per month needed by different types of households in order to be able to live as active members of Finnish society.[3] For example, in 2023 the reference budget (excl. housing costs) for a single male under the age of 45 was EUR 775 per month, and for a family of two adults and two small children, EUR 2,298 per month.

In the financial margin calculations, housing expenditure is included on the basis of actual spending, not as calculated in the reference budgets. For owner-occupiers, in particular, it may be difficult to make a quick downward adjustment in housing expenditure (incl. mortgage principal repayments), which means housing costs are fixed costs in the short term.[4] When the housing market is weak, for example, this may be due to cyclical conditions or to the structure of the housing market.

Hence, households' financial margins are calculated by deducting from household disposable monetary income the reference budget's consumption expenditure (excl. housing expenditure), and then deducting housing expenditure and mortgage principal repayments using Statistics Finland's income distribution data. Housing expenditure includes households' mortgage interest payments, housing rents, and maintenance and other charges for dwellings in housing companies. Loan interest rates also include the interest rates on households' loans other than housing loans.[5] The financial margin calculations are presented at 2023 constant prices, so they take into account the rise in consumer prices between 2019 and 2023.

Majority of households had some financial margin

Chart 2 shows households broken down into five groups according to their disposable income (from the lowest to the highest income) in the years under review and compares financial margins between the different income quintiles. In 2023, the average disposable monetary income was approximately EUR 18,000 per year in the lowest income quintile and about five times higher than this in the highest income quintile (Table 1).

In 2023 the average disposable income of the highest income quintile households was about five times as high as that of households in the lowest income quintile

Income quintile	***I***	***II***	***III***	***IV***	***V***
Household's disposable monetary income, average for income quintile, EUR per year (2023)	18,186	30,994	42,344	54,576	89,946

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

With the exception of the lowest income quintile, Finnish households still had a fairly considerable margin in their personal finances. Even in the second-lowest income quintile, the median household's[6] income (after housing expenditure and loan principal repayments) in 2023 exceeded the reference budget's consumption expenditure by just over EUR 500 per household

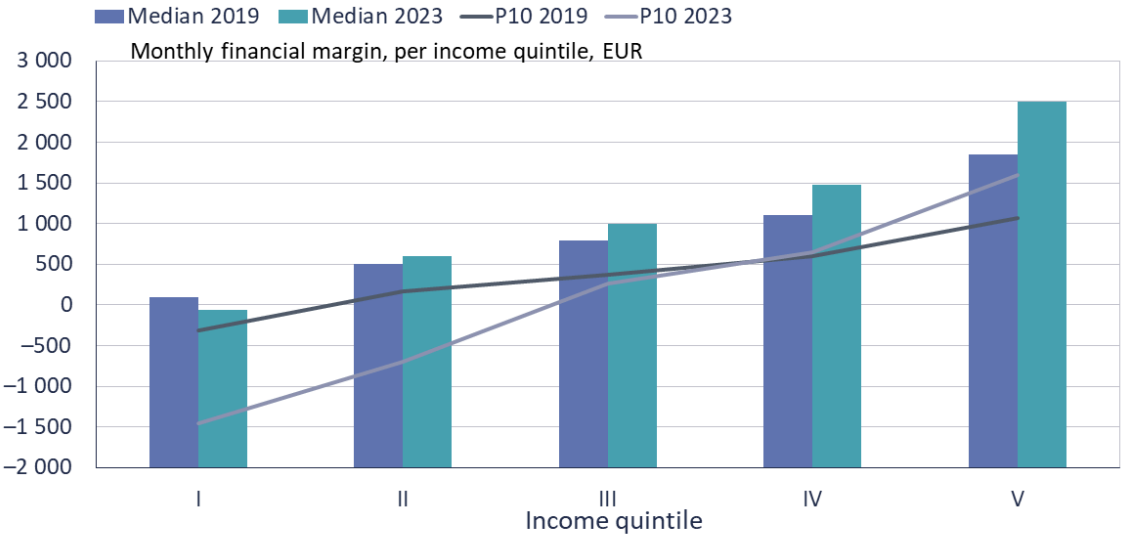
consumption unit.[7] In the highest income quintile, the median financial margin was about EUR 2,500.

However, there were also many households whose financial situation was weak, and even within the income quintiles there were significant differences in the financial margin. For some households, the financial margin was even negative: in 2019, approximately one in ten households did not have sufficient income (after housing expenditure and loan principal repayments) for the consumption outlined in the reference budget, and in 2023 the figure had already doubled. The majority of the households with a negative financial margin were in the lowest two income quintiles. In the lowest income quintile, even the median household no longer – in 2023 – quite reached the level of income sufficient for the reference budget consumption.

In the lowest income quintile, income transfers accounted for a large proportion of household income. In 2023, such transfers accounted for at least half of gross income in about 78% of households in the lowest income quintile.

Chart 2.

Financial margin increased between 2019 and 2023 except for the lowest income households



Sources: Statistics Finland and calculations by the Bank of Finland.
P10 is the household financial margin below which 10% (and above which 90%) of the households in the income quintile are located. The financial margins are calculated per consumption unit, at 2023 prices.

© Bank of Finland, 29.1.2026, 48030@Kuvio2

Despite inflation and the higher interest rates, the monthly financial margin of the median household increased in nearly all the income quintiles between 2019 and 2023. The largest volume increase in the financial margin occurred in the highest income households. Even though the largest housing loans were held by high-income households, and in volume terms they carried

the largest burden of the rise in lending rates, the growth in income between the 2019 and 2023 more than compensated for the increase in interest expenditure in this income bracket. The weakest increase in the financial margin was in the lowest income quintile, where the financial margin contracted further by a few dozen euros.

During the period of high inflation many households considered their financial situation had weakened

Even where there is a large margin between a household's income and the reference budget, the household may still have difficulty managing its actual everyday consumption expenditure. The balance between the income and expenditure of households cannot, however, be analysed directly by comparing household income to their actual consumption expenditure, because the income distribution data of Statistics Finland does not include data on consumption expenditure.

Income distribution data nevertheless includes variables that are based on households' own assessments of their financial position. With these variables, the sufficiency of income can be examined indirectly. We selected five variables from the income distribution data for 2019 and 2023. They show, from slightly different perspectives, how well households' income has been able to cover expenditure during the statistical year:

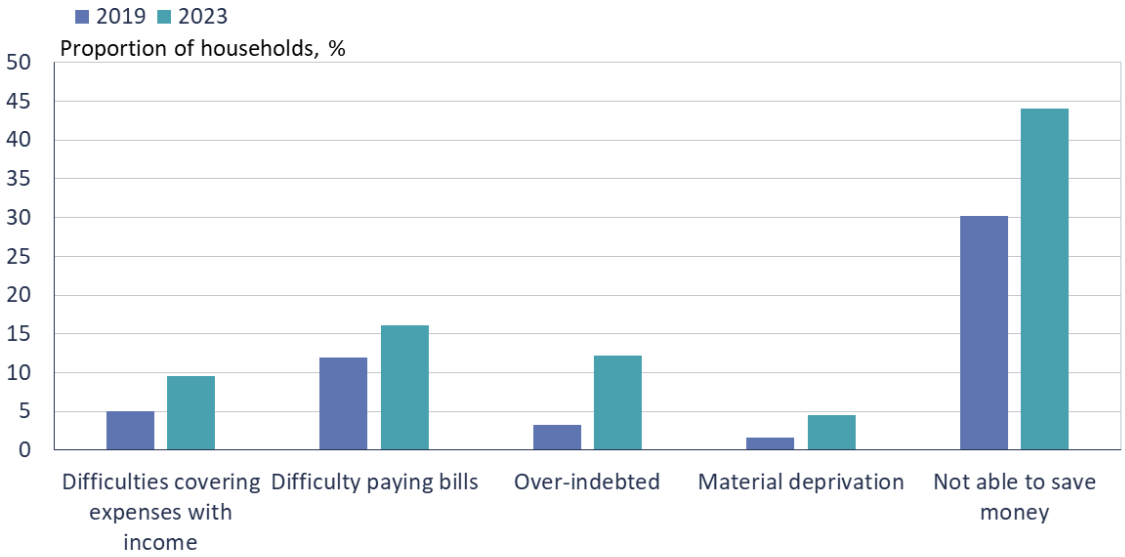
1. **Taking into account the household's total income, is the household able to cover its usual expenses with this?**
2. **During the statistical year, has the household at least once been in a situation where it has not had enough money to cover payments and bills by the due date?**[8]
3. **During the statistical year, has the household been in a situation where the amount of debt has risen above a level where the household can make ends meet?** This information was requested only from households that had debt at the time of the survey.
4. **Material deprivation** was measured using an indicator that consists of several parts describing the standard of living or way of life.[9]
5. **Does the household usually have money left over that could be saved, taking into account the household's total income and expenditure?**

Subjective indicators too, show that the financial situation of many households weakened significantly between 2019 and 2023. The proportion of households reporting financial distress increased for each of the five indicators (Chart 3).

Chart 3.

An increasingly large proportion of households experienced difficulty making ends meet

Indicators of financial distress based on households' own assessments



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

© Bank of Finland, 29.1.2026, 48030@Kuvio3

The **extent to which households considered they have difficulty in covering their daily expenses with their income** increased noticeably between the reference years. In 2019, about 5% of all households had 'difficulty' or 'serious difficulty' in covering their expenses, whereas in 2023, the corresponding figure had already risen to nearly 10%. Over 3% of households reported in 2023 that they had serious difficulty in covering their expenses.

Question 1 examines the general ability of households to make ends meet during the year, whereas Question 2, on difficulty in paying bills, is more an indication of temporary difficulty in being able to pay. The proportion of households which, within the preceding year, had at least once experienced **difficulty in paying their bills** rose from about 11% to over 15%.

It is difficult to set objective criteria for household over-indebtedness, but the steep rise that occurred in interest rates has at least increased subjective experiences of over-indebtedness. The proportion of households **which feel that the amount of debt has risen above the level where they are able to make ends meet** increased significantly. Following the rise in market interest rates, households' debt servicing costs increased and residential property prices and other asset values declined strongly. Both these factors made the financial situation of borrowers difficult. In 2019, still only about 3% of indebted households estimated that the amount of their debt had risen above the level where they could make ends meet. In 2023, this proportion had already risen to approximately 12%. The amount of households considering themselves to be over-indebted had

thus nearly quadrupled since 2019.

The significance of the rise in interest rates as a factor explaining this is supported by, for example, the findings of Salo (2025). According to these findings, the financial beliefs of Finnish mortgage borrowers weakened significantly more than in the control group when mortgage rates increased in 2022–2023.

The proportion of households suffering from **material deprivation** doubled during the reference period, but was still relatively small in 2023, at below 5% (Question 4). However, it was not possible from the available data to determine in which of the indicator components the largest changes had occurred. Similarly, the proportion of households that **are not able to save money** increased significantly during the years under review (Question 5). In 2023, some 44% of all households reported that they do not have any money left over for savings. In 2019, the corresponding figure had been approximately 30%.[10]

Next, we will examine in more detail the financial situation of households based on their income quintile and age group, as well as two subjective indicators: difficulty in covering everyday expenses (Question 1) and experience of over-indebtedness (Question 3).

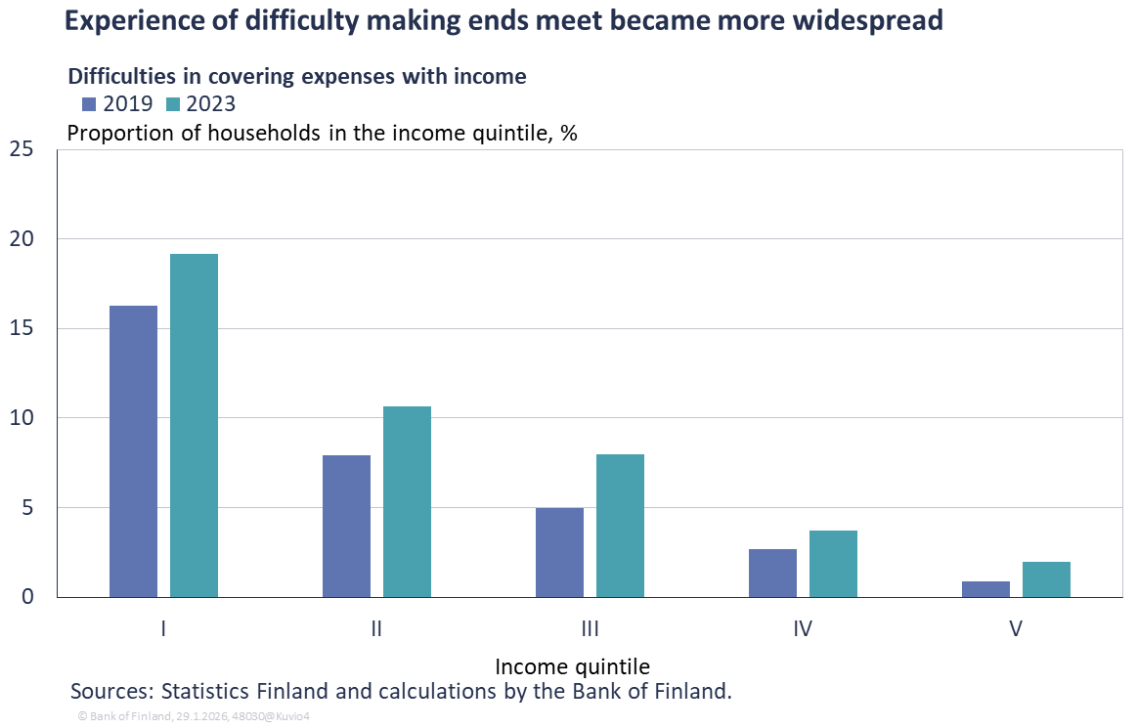
An increasingly large proportion of households have difficulty making ends meet

As expected, difficulty in paying everyday expenses becomes more common the lower the income of the household (Chart 4).[11] Even in 2019, before the steep rise in prices and interest rates, approximately 16% of households in the lowest income quintile had 'difficulty' or 'serious difficulty' covering everyday expenses. In the middle income quintile, the corresponding figure was 5%, and in the highest income quintile, only about 1%.

Difficulty covering expenses became more common in 2019–2023 in all income quintiles, but this was more evident in the low- and middle-income quintiles than in the highest quintile. In the three lowest income quintiles, the proportion of those reporting difficulties increased by 3 to 4 percentage points, but in the two highest income quintiles, the increase was only 1 percentage point. The largest relative increase was in the middle income quintile, in which difficulty covering expenses with income was approximately 1.5 times more common in 2023 than in 2019.

As expected, it has been easier for households in the two highest income quintiles to adjust consumption in line with income than for lower income households. In the highest income quintile, some 2% of the households had difficulty covering expenses with income in 2023, despite a large financial margin.

Chart 4.

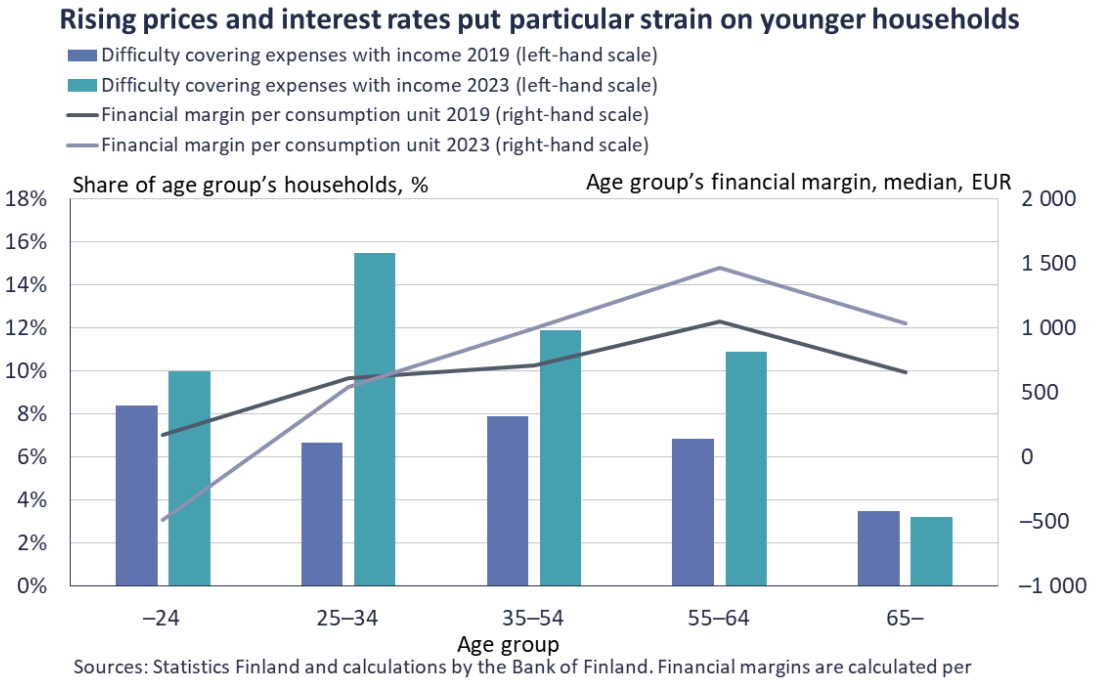


Rise in living costs has put strain on young people in particular

Based on a comparison by age group, 25–34-year-olds have experienced the most difficulty adjusting to the rise in living costs (Chart 5). Just over 15% of households in this age group reported experiencing difficulty covering their expenses in 2023, compared to around 7% four years earlier.

This sharp increase is difficult to attribute to a change in the income of this age group. Although for the two youngest age groups the financial margin developed less favourably than for the older age groups, the financial margin of 25–34-year-olds (median for the age group) nevertheless did not decrease between 2019 and 2023, unlike that of the youngest age group, the under-25s. Neither can the explanation be clearly attributed to a weakened position of young adults in the labour market, as unemployment did not show a clear rise during the review period. However, various economic crises occurred between 2019 and 2023, which greatly increased general economic uncertainty. This may have particularly affected the subjective assessments of personal finances made by the young age groups transitioning into working life.

Chart 5.



In both review years, difficulties in covering expenses were significantly less common among those aged 65 and above than in any younger age group (Chart 5). Also, the financial margin of those aged 65 and above and those aged 55–64 grew the most out of all the age groups, by around EUR 400 per month in both groups.

The financial resilience of people of retirement age, measured in terms of both financial margin and reported experience, is partly explained by the large index-linked increases made to pensions in 2022 and 2023. Furthermore, the ability of pensioners to make ends meet is not dependent on labour market cycles. People over the age of 65 also typically have savings rather than large debts, so many of these households benefited from the increase in deposit rates, at least to the extent that their savings were in deposit accounts. In the years of high inflation, however, rising prices eroded the real value of deposits.

Household over-indebtedness: consumption debt or housing loans?

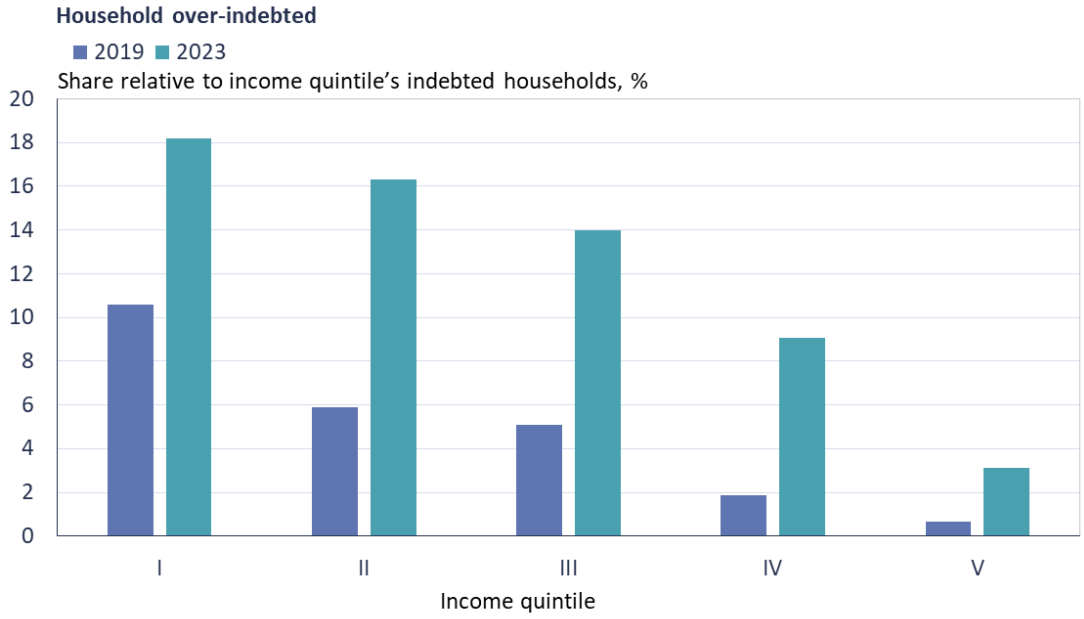
The rise in interest payments in 2022–2023 hit households with large mortgages particularly hard. In 2019, households spent a total of 1.6% of their disposable income on interest payments. In 2023, the share had gone up to 4.3%.

The rise in market rates rapidly increased the loan servicing costs of mortgage borrowers in particular, as the majority of housing loans in Finland are variable rate loans. The rise in loan servicing costs and household debt was associated not only with traditional housing loans for owner-occupied housing, but also with an increase in housing company loans and buy-to-let mortgages. The largest debts were typically in the highest income and wealthiest households, and such households also often have the best chances of coping with the increase in interest payments.

The proportion of households that considered themselves to be over-indebted increased clearly in all income quintiles between 2019 and 2023. Those who considered themselves over-indebted were most often in the lowest income quintile (Chart 6). In 2023, around 18% of indebted households in the lowest income quintile reported having difficulty coping with loan interest rates and principal repayments. That was nearly 7 percentage points more than in 2019.

Chart 6.

Experience of over-indebtedness became more common in all income quintiles



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

© Bank of Finland, 29.1.2026, 48030@Kuvio6

The higher the income quintile, the smaller the proportion of households estimating that their debts do not allow them to make ends meet. However, experience of over-indebtedness also clearly increased among middle- and high-income households between 2019 and 2023. In the middle income quintile, the share of over-indebted households nearly tripled from around 5% in 2019 to about 14% in 2023.

Experience of over-indebtedness was clearly lowest among the highest income quintile, where only around 3% of households considered themselves to be over-indebted in 2023. The largest household debts and, at the same time, the greatest strain from the rise in interest rates were concentrated among the highest income households (see e.g. Mäki-Fränti and Silvo, 2023). However, the financial buffers of these households appear to have generally been sufficient to cope with the increased loan servicing costs. Nevertheless, in relative terms, over-indebtedness increased significantly among high-income households as well. In 2019, still only less than 1% of households in the highest income quintile considered that their debts exceeded the point at which they could make ends meet.

Over-indebtedness is also caused by loans other than housing loans

In the lowest income quintile, just over 35% of households lived in owner-occupied housing in 2023, making large housing loans rare in these households. A relatively larger proportion of low-income households' loans are other than housing loans, for example consumer credit. Even small debts can put a great strain on low-income households. Some of the heavily indebted low-income households nevertheless also had fairly large loans.[12]

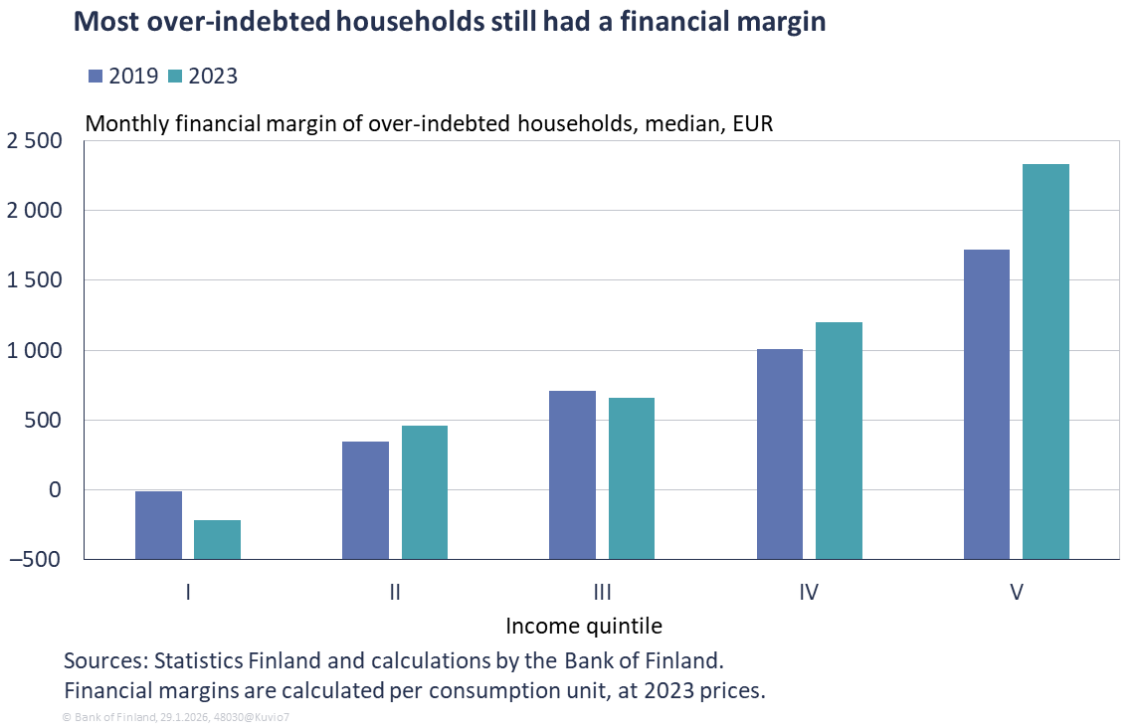
A direct comparison based on housing type also indicates that the main reason for experiences of over-indebtedness is not overly large housing loans. In both 2019 and 2023, significantly more rent-payers than owner-occupiers considered themselves to be over-indebted. In 2019, only 2% of owner-occupiers considered themselves over-indebted, compared to 8% of tenants. In 2023, the proportion of over-indebted households had risen to just under 8% for owner-occupiers and to around 18% for tenants.

Many over-indebted households still have good financial margins

Based on the financial margin calculations, most households that considered themselves to be over-indebted could still afford the level of consumption outlined in the reference budget (Chart 7). With the exception of the lowest income quintile, the financial margin of over-indebted households even increased. In 2023, the financial margin (median) for the over-indebted households in the highest-income quintile was around EUR 2,300 a month per consumption unit. The subjective experience of over-indebtedness among these households is likely to be partly attributable to their consumption habits being more expensive than those of lower income households, which could make it difficult for them to quickly adjust to cheaper alternatives.

In the middle income quintile, the median financial margin for over-indebted households was about EUR 600 per month. Clearly in a weaker position than others, however, were those in the lowest income quintile who considered themselves over-indebted, as their median financial margin shrank from zero to become slightly negative in the reference years.

Chart 7.



Sources: Statistics Finland and calculations by the Bank of Finland.
Financial margins are calculated per consumption unit, at 2023 prices.

© Bank of Finland, 29.1.2026, 48030@Kuvio7

Conclusions

Inflation and the rise in lending rates in the first half of the 2020s left a dent in the purchasing power of households, and the recovery from this is still in progress. Nevertheless, the majority of Finnish households still had a reasonable financial margin to meet the rapid rise in consumer prices and interest rates. This was the case at least when comparing households' disposable income with the minimum material prerequisites for a decent standard of living as assessed jointly by experts and households. There were, however, considerable differences in the resilience of households. The number of households that could no longer attain the level of the reference budget ('reference budget for a decent minimum standard of living') grew significantly, especially among low-income households.

Even reasonably high-income households could struggle with making ends meet. Purely subjective experiences of financial distress increased between 2019 and 2023 even among middle- and high-income households, despite the fact that, based on the financial margin calculations, this group

had a wide financial margin. Experience of over-indebtedness became particularly common among middle-income households. Due to the weak housing market, it has been more difficult than usual for owner-occupiers to reduce their higher loan servicing costs by switching to less expensive housing.

The rise in prices and interest rates also appears to have been a generational issue. The age group comparison shows that experience of difficulty making ends meet became more common among young people than among older age groups.

References

Lehtinen, A.-R. and Aalto, K. (2018), *MITÄ ELÄMINEN MAKSAA? Kohtuullisen minimin viitebudjettien päivitys vuodelle 2018*, Publications of the Faculty of Social Sciences 101/2018, University of Helsinki 2018.

Lehtinen, A.-R. (2023), *Viitebudjettien hintapäivitys 2023*, Publications of the Faculty of Social Sciences, University of Helsinki 2023.

Mäki-Fränti, P. (2021), Voimakkaasti velkaantuneiden taloudellinen tilanne vaihtelee Suomessa. *Euro & talous*, 25.11.2021.

Mäki-Fränti, P. and Silvo, A. (2023), 'Savings help households cope with rising interest rates', *Bank of Finland Bulletin*, 20 June 2023.

Salo, J. (2025), 'Learning About the Macroeconomy Through Mortgages: Evidence from a Natural Experiment', in *Essays on Beliefs, Incentives, and Financial Behavior*. Dissertationes Universitatis Helsingiensis 459/2025, Helsinki 2025.

Notes

1. The content and preparation of the reference budgets are described in detail in e.g. Lehtinen and Aalto (2018). ↑
2. Annual average real change in the index of wage and salary earnings, 2019–2023. ↑
3. For both 2019 and 2023, the composition of the reference budgets used in the financial margin calculations is based on baskets of goods and services determined in 2018 (Lehtinen and Aalto, 2018). ↑
4. According to Salo (2025), the impact of the 2022 interest rate increases on the financial distress of mortgage borrowers was similar regardless of whether they were able to anticipate the rate increases or not. This suggests that mortgage servicing costs for households are fixed costs in the short term. ↑
5. The interest rates on student loans were not included, however, as no statistical data on ↑

these were available for the years under review.

6. The median household of each income quintile is the household at the exact midpoint of the dataset after the quintile's households are placed in size order according to the amount of their financial margin. ↑
7. The financial margins are calculated per household consumption unit, which allows for a better comparison of households of different sizes and types. The first adult of a household represents 1 consumption unit, while the second represents 0.5 consumption units and each minor 0.3 units. The reference budgets published by the Centre for Consumer Society Research are only for a limited number of different family types. For those households in Statistics Finland's income distribution statistics whose family structures differ from those published in the reference budgets, the reference budgets are estimated on the basis of both the number of household members of different ages and individual reference budgets calculated for them. ↑
8. Refers to the household's total expenditure (housing expenditure, loans, other expenses). ↑
9. A household is suffering from material deprivation if at least four of the following criteria are met: cannot afford 1) a car; 2) a week's holiday outside the home every year; 3) a high-protein meal at least every other day; 4) to keep the home warm; 5) to pay for an unexpected expense (approx. EUR 1,100); or 6) has difficulty carrying out loan principal repayments, instalments or other payments and bills on time. ↑
10. Overall, the household sector's savings rate was positive in the review period, which was due to the pandemic's restrictions on consumption opportunities and the preparedness of households for an uncertain situation. After the years of the pandemic, households as a whole saved less as the rise in inflation increased their consumption expenditure. ↑
11. 'Difficulty covering expenses with income' in Chart 4 refers to households that responded with the answer 'difficulty' or 'serious difficulty' when asked the question on covering expenses with income. ↑
12. E.g. Mäki-Fränti (2019) notes that even among low-income households there are quite a lot of households that are heavily indebted in relation to their income. ↑

Keywords

households, indebtedness, interest rates, prices