Simply Short

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

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Finland's financial system has remained stable at a time when the operating environment has become more difficult. International conflicts have weakened economic conditions and caused turbulence in financial markets. Higher interest rates have led to housing markets freezing up, and this is especially so in Finland, where variable rate mortgages are common. It is important that Finnish banks and borrowers have good resilience to risks, as this is essential for sustainable economic growth. Europe should work together to ensure that companies can obtain finance in various ways from different sources. European cooperation would also strengthen the resilience of the banking sector to crises of different kinds.

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- 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.



Economy and financial markets shaken by global shocks

The economic outlook has been weakened by the Middle East crisis, the war in Ukraine and trade and foreign policy conflicts between major economies. The Iran war has raised the prices of oil and natural gas. If energy remains expensive, it could accelerate the general rise in prices, driving up inflation. Due to expectations of higher inflation, the spring also saw a significant rise in market interest rates, such as the Euribor rates used in the euro area.

A rise in prices and interest rates will slow down growth in the economy if higher costs lead to a reduction in the demand for products and services and a fall in the level of corporate investment to produce these. Uncertainty about the future also weakens the economy, as it leads to caution about spending decisions.

Investor uncertainty about the future leads to fluctuations in securities prices. Investors are especially concerned about high-debt companies that also need to invest heavily in the next few years. These include companies that are developing artificial intelligence (AI) and AI applications. If companies do not meet the high expectations of investors, the share prices of these companies could fall.

Volatility in the global environment has led to more cyber and hybrid threats, including cross-border digital attacks and malicious interference. Potentially more serious attacks on banks' IT systems and networks may become possible in the future, due to the rapid pace of AI development. The unpredictability of events requires that banks have ever stronger data security technology and operational resilience.

Chart 1.



Gloom in the Finnish housing market has already lasted several years

The housing market in Finland is going through its worst downturn since the recession of the early 1990s. The prices of existing dwellings have been declining for a number of years, and the volume of residential property sales is below normal, with sales also taking longer to complete.

Prices of newly built homes have stayed high in comparison to those of existing dwellings. This is partly due to the increase in construction costs. The prices of new-build homes are failing to attract buyers, and this is putting new construction projects on hold.

Higher interest rates and the rise in the cost of living have increased the financial distress of debt-laden households. Mortgage borrowers have nevertheless, for the most part, coped well with their repayments of the loan principal and with interest payments. Even so, many are cautious about taking on a larger mortgage, for the purpose of moving to a new location, for example.

The sharp increase in costs has also hit many professional real estate investors and non-profit housing corporations. The difficulties faced by these investors and housing corporations have increased especially among those with substantial variable rate loans from the construction of new rental dwellings.

Resilience of the Finnish banking sector and borrowers must be safeguarded

Finland's banks and its financial system as a whole are in good shape, and they have operated steadfastly in a volatile environment. Through regulation and supervision, the resilience of both banks and borrowers has been strengthened on a persistent basis. This is essential because reliable financial and payment services, along with savings and investment opportunities, are the cornerstone of sustainable economic growth.

The requirements placed on banks by the Financial Supervisory Authority (FIN-FSA) ensure that banks have sufficient assets to allow them to cope with even major losses. When banks are strong, customers with good financial standing are able to obtain a loan even when the economy is generally weak. While there is a need to simplify the current international regulation of banks, this regulation should not be diluted.

In June 2026, legislative amendments will bring further flexibility to loan requirements in Finland. The maximum maturity of mortgages will rise to 40 years. In addition, during downswings in the housing market, the FIN-FSA will be permitted to allow larger mortgages to be taken in relation to the collateral pledged to secure the mortgage. The Government may loosen restrictions concerning housing company loans for new-build construction. Nevertheless, careful assessment of borrowers' financial standing and of risks should not be compromised, and the impact of the legislative changes on debt burdens must be monitored.

Europe should increase its focus on capital markets and resilience

In Europe, common equity and bond markets should be further developed. Capital markets will not function efficiently if they remain small and fragmented across countries. Governments, banks and businesses can obtain long-term financing from investors on these markets, and investors can trade in equities and bonds. It is essential to have good access to financing, as military defence, technological development and climate change call for major investments.

Professional venture capitalists are important especially for young, high-risk businesses that need equity finance from investors, such as share capital, and also advice on growing their operations. Growth in capital markets would also improve opportunities both for private individuals and professionals to invest in different countries and in a range of investment products.

The European Union should also move forward with a common deposit insurance scheme that

could replace national schemes. Deposit insurance schemes provide protection for depositors' account balances in the event that a bank is unable to make pay-outs to customers. A common scheme would reinforce trust in the European banking sector and thus improve its resilience in a crisis. A common deposit insurance scheme would be important especially for countries like Finland, where the banking sector is large and deposits are a key source of funding for banks.