

# Finland

The Finnish economy developed favourably in 2021. As the world economy recovered, industrial production increased and the export outlook improved. In addition to vaccination progress, trust in economic development was bolstered by the added growth boost from new stimulus measures and by the easy financing conditions.

The Finnish economy took a strong upturn in early 2021. Both companies and households were in a good financial position and optimistic about the future. Bankruptcies were on a par with the previous years. Unemployment decreased, and the improved employment situation boosted home sales. The housing market was busy, and loans were taken out for both homes and holiday homes at a rapid pace in the summer. In late 2021, however, the growth outlook became more subdued as the economy suffered increasingly from bottlenecks and the accelerating rise of prices. The year 2021 was a time for repairing the damage caused to the economy by the pandemic, and the prevailing mood was that of uncertainty mixed with optimism. Several forecasters improved their economic forecasts on Finland's economic growth throughout the year.

According to Statistics Finland, the volume of Finland's GDP rose by 3.5% in 2021, and Finland managed to reach the pre-pandemic level of production during the year. As the economy picked up, employment also moved up a gear: Finland's average employment rate was 72.3% in 2021, up from 70.7% in 2020. The average unemployment rate was 7.7% in 2021, which is the same as in 2020. In 2021, the number of unemployed persons averaged 212,000.

The Finnish housing market has boomed during the pandemic. Despite the active market situation, housing prices have developed moderately overall, with no sign of general overheating or a price bubble. Regional differences in housing prices remain large, and in parts, the market has continued to diverge even further. In many municipalities, housing prices have either remained level or continued to fall. In 2021, the number of building permits granted and building starts grew significantly from the previous year. During the year, construction of around 48,000 new dwellings was started, and the number of completed dwellings was just over 37,400.

The banking sector has continued to grant credits to households as usual during the pandemic, which has been extremely important in terms of labour mobility and the increasing popularity of remote work, for example. The pandemic has changed housing needs as people have increasingly worked from home. Thanks to the easy monetary policy, pandemic savings and the increased value of investments, many households have been able to purchase a new home.

At the end of December 2021, the stock of housing loans stood at €107.6 billion, and the annual growth rate of the stock was 4.1%. Buy-to-let mortgages accounted for 8.1% of the housing loan stock. Out of all loans of Finnish households at the end of December, consumer credit totalled €16.8 billion and other loans €17.9 billion. The interest expenses of housing loans continued to remain moderate.

At the end of December, the stock of loans to housing corporations stood at €39.5 billion. Finnish limited liability housing companies have certain unique characteristics that are also reflected in the credit statistics. In other countries, increased housing construction typically results in the corporate loan portfolio growing. In international statistics, Finland's housing corporation loans are included in the corporate loan portfolio, but in national statistics, corporate loans and housing company loans are separate categories, which means that increased construction does not have the same effect on the corporate loan portfolio.

In general, loans taken out to construct a residential building in Finland are recorded on the establishing housing company's balance sheet. The loan portfolio of housing companies therefore grows as a direct result of new construction. The term 'housing corporation' encompasses all corporation forms of housing units, not just limited-liability housing companies. Some of the housing corporation loan volume is held by households, some by housing investment funds and other housing investors, and some by companies. At the end of 2021, the average interest rate was 0.78% in housing loans and 0.91% in buy-to-let mortgages.

The Finnish banking sector's liquidity improved in 2021. The average liquidity coverage ratio (LCR) stood at 177% at the end of 2021 (171% in 2020). When the pandemic spread, LCR ratios and reserves grew rapidly throughout Europe as banks prepared for an increase in the demand of corporate loans and other potential liquidity needs. At the end of 2021, Finnish banks' liquid assets for meeting the LCR requirement totalled €154 billion, more than half of which consisted of central bank reserves. The liquid assets were almost entirely of the highest quality, i.e. level 1 assets.

The Finnish banking sector's net stable funding ratio (NSFR) stood at 117% at the end of 2021, which is well above the 100% requirement but below the EU average. Banks' available stable funding (€506 billion) surpassed the requirement by €74 billion.

The substantial increase in central bank funding has raised the asset encumbrance (AE) ratio of European banks. In Finland, the AE ratio has been at a fairly high level for a long time due to banks' reliance on covered bonds, but it has remained stable. At the end of 2021, the AE ratio stood at 29.3% (29.8% in 2020), which is roughly the same as the EU average.

In planning for their funding activities, Finnish banks have prepared for the potential release of the pandemic build-up of household and corporate deposits when household consumption returns to normal and the investment demand of companies is revived. Strong liquidity buffers, relatively diverse and decentralised funding channels as well as low market funding costs made possible by a solid capital position protect Finnish banks from risks related to a potential decline in deposit funding. A relatively small share of Finnish banks' funding consists of central bank funding, which also reduces the refinancing risk related to the maturity of central bank funding.

Thanks to its solid financial standing and sufficient liquidity reserves, the banking sector has been able to offer its customers flexibility in loan servicing during the pandemic, which in turn has helped promote Finland's recovery from the crisis. Banks have also continued to offer new loans to their customers. Regulation has not supported these measures in all respects, but the banking sector and the authorities have reached a good enough mutual understanding of the necessity of the measures. All in all, the mutual efforts of various different parties have allowed the Finnish economy to come out well from the coronavirus crisis.