

# Finland

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## MACROECONOMIC OVERVIEW

The Finnish economy returned to growth path in 2016. Growth strengthened particularly on the back of private consumption and investment recovery. The private investment's growth was driven particularly by a recovery in housing construction. Also, the prolonged weak condition of Finnish manufacturing is taking a turn for the better. Industrial output in 2016 recorded y-o-y growth for the first time in four years.

The labour market situation improved during 2016 and the unemployment rate has dropped to 8.8%. The government has set a goal to reach 72% employment level by 2019 (currently 69%). The target seems unlikely to be reached on time. Inflation accelerated towards the end of the year and was 1.1% in December in annual terms. Short-term wage bill growth will be muted because of the so called Competitiveness Pact agreement. The Pact was agreed between the government and labor unions and the idea is to make Finland more competitive against other countries by limiting labor costs by various means.

General government debt will continue to grow towards 70% of GDP. Although halting the rise of the debt ratio over the medium term seems feasible, the long-term sustainability problem in the public finances remains a challenge.

## HOUSING AND MORTGAGE MARKETS

### HOUSING MARKET

Around 72% of Finnish households live in owner-occupied housing and approximately one third of Finnish households have a housing loan. The average size of a loan is EUR 97,215 (2016), for those families who have a housing loan. Typical maturity for a new housing loan is 20 years.

There is a strong upswing in construction market in Finland. New housing starts peaked to 37,250 units in 2016, which represents a 15.5% increase y-o-y. Housing completions saw an increase of 5.1% in the same period. Whereas, the number of buildings permits issued grew even strongly totalling 39,031 units, which represents a 23.5% increase from 2015.

During 2016, the prices of existing apartments increased by 1.0% across the country. The increase of prices between different regions diverged due to continued urbanisation in Finland. The prices of apartments increased by 2.0% in the Helsinki metropolitan area but decreased slightly elsewhere in Finland. The average price per square metre of an existing dwelling was EUR 3,662 in Greater Helsinki and EUR 1,677 elsewhere in the country.

### MORTGAGE MARKET

New housing loans were taken out for EUR 17.8 bn in 2016, which is 7.7% more than the previous year. For the sake of comparison, new housing loans peaked in 2007, when they totalled EUR 21.2 bn.

At the end of 2016, the total housing loan portfolio stood at EUR 94 bn (43.9% of GDP), after growing by 2.3% during the same year. In 2016 growth rate slightly cooled off with respect to the previous year. Decline in the growth of housing loan stock reflects a low interest rate environment.

Repayments on housing loans were made for a total of EUR 15.6 bn in 2016. Housing loans have been amortised at a faster rate than in years, because low interest rates have enabled a larger proportion of principal in the instalments of constant payment loans – which make up about 40% of Finnish households' housing loans, according to the Bank of Finland.

Housing loans in Finland are most often linked to Euribor rates. Due to the low level of Euribor indexes, interest rates on housing loans in Finland are lower than in the euro area on average and were 1.1% at the end of the year.

The Finnish Financial Supervisory Authority (FIN-FSA) implemented a national loan cap regulation in Finland at the start of July 2016. The LTV cap on mortgage loans limits a housing loan to a maximum of 90% (95% for first-time home buyers) of the current value of the collateral posted at the time of loan approval.

FIN-FSA also decided that credit institutions which use their own internal ratings-based (IRB) approaches would be set a minimum level for the average risk weight on their mortgage portfolios. The risk weight floor was initially set at 10%, but FIN-FSA raised the requirement to 15% in its March 2017 decision. The floor is to come into effect on 1 January 2018.

NPLs have remained on a low level and they constitute 1.5% of total loans stocks.

## MORTGAGE FUNDING

At the end of 2016, an average of 67% of banking groups' funding consisted of non-MFI (private customers, SMEs, the government etc) deposits. However, the numbers vary greatly between credit institutions: some fund their operations almost entirely with deposits while some do not take deposits at all. At the end of December 2016, credit institutions' non-MFI deposit stock amounted to EUR 154 bn. The share of long-term bonds as a funding source continued to increase in 2016. At the end of 2016, the stock of total debt securities issued by credit institutions stood at EUR 92 bn of which EUR 81 bn were long-term. Banks have been preparing for the upcoming NSFR regulation for several years now, and the average maturity of their funding has lengthened. The stock of bonds with a short maturity period of less than a year has shrunken by EUR 20 billion since year-end 2008. The proportion of covered bonds has concurrently grown: at the end of the year, their stock was EUR 32 bn. Covered bonds have increased their popularity both as a source of funding and as a target of investment, lately also because of their favourable treatment in the LCR framework.

In Finland, there is not an active RMBS markets.

	FINLAND 2015	FINLAND 2016	EU 28 2016
Real GDP growth (%) (1)	0.3	1.4	1.9
Unemployment Rate (LSF), annual average (%) (1)	9.4	8.8	8.5
HICP inflation (%) (1)	-0.2	0.4	0.3
Outstanding Residential Loans (mn EUR) (2)	91,955	94,056	6,981,540
Outstanding Residential Loans per capita over 18 (EUR) (2)	20,917	21,307	16,838
Outstanding Residential Loans to disposable income ratio (%) (2)	73.9	74.6	n/a
Gross residential lending, annual growth (%) (2)	89.9	-11.4	3.2
Typical mortgage rate, annual average (%) (2)	1.4	1.2	2.6
Owner occupation rate (%) (1)	73.2	72.7	n/a**
Nominal house price growth (%) (2)	-0.8	0.9	4.6

\* Please note that this value is the simple average of the typical interest rate of the EU 28 countries

\*\* Please note that for the EU this data has a one year lag. For the latest available data please refer to statistical table 10.

**Sources:**

(1) Eurostat

(2) European Mortgage Federation - Hyostat 2017, Statistical Tables.

## FINLAND FACT TABLE

<b>Entities which can issue mortgage loans:</b>	Credit institutions (banks and mortgage hypo banks).
<b>The market share of the mortgage issuances:</b>	Credit institutions (banks and mortgage hypo banks) 100%
<b>Proportion of outstanding mortgage loans of the mortgage issuances:</b>	Banking groups hold 100% of the housing loan stock (Banking groups include mortgage hypo banks as subsidiaries).
<b>Typical LTV ratio on residential mortgage loans:</b>	Not available
<b>Any distinction made between residential and non-residential loans:</b>	Not available
<b>Most common mortgage product(s):</b>	Housing loan
<b>Typical maturity of a mortgage:</b>	20 years
<b>Most common way to fund mortgage lending:</b>	Deposits and bonds (including covered bonds)
<b>Level of costs associated with a house purchase:</b>	2% transaction tax for apartments, 4% transaction tax for real estates (first time buyers are exempted from both).
<b>The level (if any) of government subsidies for house purchases:</b>	First time buyers are exempted from transaction taxes.