Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments

At its meeting on 17 December 2024, the Board of the Financial Supervisory Authority (FIN-FSA) decided that the countercyclical capital buffer (CCyB) requirement referred to in chapter 10, section 4 of the Act on Credit Institutions (610/2014) will be kept at 0.0%. The Board also decided that the maximum loan-to-collateral (LTC) ratio referred to in chapter 15, section 11 of the Act on Credit Institutions and in section 14 of the Act on the Registration of Certain Credit Providers and Credit Intermediaries (186/2023) will remain at its standard level of 90%. The maximum LTC ratio for first-home loans will also be kept at its standard level of 95%.

Keeping the countercyclical capital buffer requirement at the level of 0.0%

The growth of the world economy has strengthened somewhat this year, but economic developments in the euro area have remained sluggish. Inflation in the euro area slowed down significantly in the autumn, and the European Central Bank has continued to reduce its policy rates. The performance of the Finnish economy has also been weak. According to the Bank of Finland's forecast, Finnish GDP will contract in 2024 and the economy will begin to recover slowly in 2025. Inflationary pressures in Finland are currently moderate due to the cyclical situation. The protracted weakness of the economy has reflected in a rise of the unemployment rate and decline of the employment rate.

The main threats to both international and Finnish economic developments stem from the ongoing conflicts in Ukraine and Middle East as well as geopolitical tensions and the geoeconomic fragmentation of the world economy. They constitute significant risks to global stability, international trade as well as energy and commodity prices, and if they were to escalate, they could weaken growth and in some cases also add to inflationary pressures on a global scale.

Based on indicators of private sector indebtedness and development of the credit stock, the financial cycle has remained very subdued. While the contraction of lending seems to have come to a halt, so far no signs of a strong upturn of the cyclical situation have emerged. The primary risk indicator – the deviation of the private sector credit-to-GDP ratio from its long-term trend, or the credit-to-GDP gap, remained clearly negative (-16.5 percentage points) at the end of June 2024. Trend deviation calculated with a more narrow concept of credit also remained significantly negative (-11.0 percentage points). The stock of household loans from monetary financial institutions has contracted further. The growth of the stock of credit to non-financial corporations excl. housing corporations practically stood still in the summer and autumn, but surveys suggest that the demand for corporate

credit is picking up. Housing corporations' credit stock has continued to grow slowly.

The supplementary risk indicators do not point to a significant increase in the cyclical stability risks associated with total lending, either. The stress index for domestic financial markets edged up in early autumn 2024 reflecting a sudden and short-lived international market tumult, but it has remained at a low level throughout the autumn. The current account deficit has continued to contract. An overall assessment based on the risk indicators used does not support the application of a countercyclical capital buffer requirement.

Keeping the maximum LTC at standard level

The volumes of housing sales and new housing loans point to the housing markets bottoming out. In January–October 2024, the number of sales of old dwellings grew from a year earlier, but the euro volume of new mortgage loans remained slightly below last year's level. In particular, housing sales picked up in July–October year-on-year. According to the Federation of Real Estate Agency, the number of transactions in November was slightly lower than in November 2023 when the sales of first homes picked up ahead of a change in the transfer tax at the beginning of 2024. The prices of old dwellings have levelled off throughout the year. The sales of new dwellings have been limited in 2024, and the number of applications for new building permits for residential building projects has been very low. The interest rates on new housing loans have already declined markedly, and the average interest on the housing loan stock has already turned to a slight decline.

The housing market is anticipated to recover moderately if the market and loan interest rates continue to decline as expected and the Finnish economy recovers as forecasted. Over the following years, debt-servicing by households is expected to become easier as purchasing power improves and employment increases, which would also support the recovery of the housing market. However, the short-term outlook for the housing market continues to involve uncertainty. Unemployment and the threat of it have increased, and consumer confidence in the economy remains weak, which still may hold back the recovery of the demand for dwellings and mortgage loans. The recovery of residential construction also continues to involve a great deal of uncertainty since the downswing of construction has been very steep and the supply of new dwellings continues to be high relative to the demand shown by consumers and investors.

Vulnerabilities related to mortgage lending have eased in recent years as households have drawn down fewer and smaller loans, overall household debt relative to income has diminished, and households' debt-servicing ability has remained sufficient for the most part. Risks to financial stability

are expected to decrease further or remain unchanged if the housing market recovers moderately. Risks to financial stability may also increase if the downturn of the housing markets is prolonged – or the demand for dwellings recovers very rapidly relative to residential housing production, which is slower to start up. More negative economic developments than anticipated would increase the realisation of risks in the short term, whereas a stronger-than-expected growth in demand would increase the vulnerabilities in the longer term.

For the time being, there are no signs of exceptional growth in financial stability risks associated with mortgage lending. In the analysis, no direct factors jeopardising financial stability and requiring the lowering of the maximum LTC ratio were identified in respect of (i) the growth in the stock of residential mortgages to households (ii) the threat of overheating in the housing market or (iii) other developments pertaining to the macro economy that may have an impact on residential mortgage or housing markets. Therefore, according to the FIN-FSA's assessment, no such significant changes have occurred in the macrostability environment that would result in exceptional growth in financial stability risks and thereby warrant a readjustment of the maximum LTC ratio from its current standard level.