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

At its meeting on 24 March 2025, 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 strengthened in the course of 2024. However, growth remains driven by services, and the global slump of industrial production persists. Prospects for the euro area economy remain sluggish, and the cyclical outlook weakened further towards the end of the year. Uncertainties pertaining to geopolitics and international trade policy are overshadowing the growth prospects of the euro area. The Finnish economy resumed modest growth in the second half of 2024, but preliminary data point to a contraction of 0.1% in GDP for the whole year. However, domestic demand remained quite sluggish, and the labour market situation weakened significantly in the autumn. According to the Bank of Finland’s interim March 2025 forecast, the Finnish economy will grow 0.8% in 2025, but downside risks have increased. Thereafter, GDP is projected to grow 1.8% in 2026 and 1.3% in 2027.

The main threats to both the international and Finnish economy stem from the war in Ukraine and more broadly from geopolitical tensions and their impacts on the world economy. The trade and foreign policy of the new US government involves significant uncertainty. Potential hybrid influence activities targeting Europe and Finland may also pose threats to financial stability.

There are still no clear signs of an upward turn in the financial cycle. 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 – narrowed slightly in the first and second quarter of 2024, before edging down a little, to stand at -16.8 percentage points in the third quarter. Trend deviation calculated with a more narrow concept of credit also remained significantly negative (-11.3 percentage points) in the third quarter of 2024. Household credit relative to GDP, which grew slightly in the second quarter of last year, remained unchanged in the third quarter, whereas private sector credit stock grew marginally. However, the credit stocks have shown little growth in comparison to recent years, and no clear growth trend is yet to be seen.

The supplementary risk indicators do not point to a significant increase in the cyclical stability risks associated with total lending. Lending to the private sector has shown sluggish growth, current account has turned to a surplus and short-term interest rates have continued their decline. The easing of financing conditions is expected to support lending in the near future. For the time being, uncertainties associated with recent political developments have not reflected in the stress index for the Finnish financial markets, which has remained at a moderate level. 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 mortgage loans indicate that the housing markets have bottomed out. The latest data support the assessment that the cyclical situation has improved somewhat and a gradual and tentative recovery is beginning. In 2024, the number of sales of old dwellings grew slightly from the previous year, but the euro volume of new mortgage loans lagged slightly behind the previous year's level. In January–February 2025, for the first time in a long while, the number of sales of old dwellings was higher than in the two previous years but still below the average of 2015–2019, i.e. before the exceptional years during and after the pandemic. The decline in house prices levelled off during 2024, while new residential construction remained very low.

Housing markets are expected to recover moderately in the coming years if the operating environment evolves in line with expectations and forecasts. Housing sales and household borrowing are expected to pick up if loan interest rates continue to decline as anticipated, households' debt-servicing burden eases, economic growth accelerates and consumers' confidence in the economy strengthens from the present. The outlook for 2025 is still rather modest because the labour market situation has weakened, households' purchasing power remains largely unchanged and elevated consumer caution may persist. In 2026–2027, households' purchasing power is expected to start improving and employment to recover gradually, which would support credit demand both for consumption and housing purchases.

The near-term outlook for the housing markets continues to involve uncertainty and risks. Unemployment and the threat of it have increased while consumer confidence in the economy has remained weak, which may continue to hold back the growth in demand. The recovery of residential construction also involves uncertainty since the downturn of construction has been very steep and the supply of dwellings continues to be high relative to the demand shown by consumers and investors. Many domestic open-ended residential real estate and property funds have restricted or suspended redemptions and new subscriptions on a temporary basis. These liquidity management measures, which align with legislation, enable the funds to avoid forced sales of dwellings, helping to mitigate sharp price declines under challenging market conditions. Nevertheless, funds' need to sell dwellings may slow down the recovery of investor-driven new build construction if supply continues to outweigh demand for an extended period.

Risks to financial stability are expected to remain under control if the economy and housing markets recover in line with forecasts. The vulnerabilities are mitigated by the fact that households' total leverage has decreased relative to income, and indebtedness is expected to grow slightly at most and remain more contained than during its peak years. However, the risks could reach an unanticipated magnitude if the downturn of the housing markets is prolonged (negative risk), or the demand for dwellings recovers very rapidly in comparison with residential housing production, which is slower to gain start up (positive risk). More negative developments than anticipated would increase the realisation of risks in the short term, while significantly stronger-than-expected demand growth could amplify risks and vulnerabilities in the longer term.

For the time being, there are no signs of exceptional growth in financial stability risks associated with mortgage lending. The analysis did not identify any such factors that directly jeopardise financial stability and require the lowering of the maximum LTC ratio 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. At present, there are no grounds to reduce the maximum LTC ratio from its statutory standard level. Risks and long-term vulnerabilities associated with mortgage lending and indebtedness will be monitored closely during the cyclical upturn.