

# Finland

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## IN A NUTSHELL

- The economy fell into a recession in 2023, as real GDP contracted by 1%.
- The construction industry had more bankruptcies than during the global financial crisis in 2009 and was a contributory to the recession.
- Outstanding mortgages decreased by 1.7% from an all-time high in 2022.
- House prices decreased by 6% y-o-y.

## MACROECONOMIC OVERVIEW

The economy contracted by 1% in real terms, as increases in prices and interest rates weighed on consumption and, particularly, on investment, amid weakening sentiment. Changes in inventories also reduced growth. The drop in investment was mainly driven by the construction sector, which has been affected for some time now by slowing housing demand and higher input costs. Government consumption supported domestic demand, given a significant rise in social and healthcare-related spending and wages. In addition, exports fell due to softening demand. As imports dropped even more sharply, net exports made a positive contribution to growth.

As the economy contracted, employment declined and the unemployment rate increased to 7.2% (compared to 6.8% in 2022), however, this was mitigated by a shrinking working-age population.

HICP inflation averaged 4.3% but declined considerably at the end of the year due to falling energy prices. It is expected to increase in the second half of 2024, due to the planned increase in the standard VAT rate in September 2024.

The general government deficit rose to 2.7% of GDP. Amid a contracting economy, tax revenues declined, while government expenditure increased by 8% driven by a rise in public wages, interest expenditure and social spending, notably in relation to the newly set-up wellbeing services counties<sup>1</sup>. Net costs of measures to mitigate high energy prices were approximately 0.2% of GDP and were fully phased out during the year.

The general government debt-to-GDP ratio increased to 75.8% and is expected to increase to 80.5% in 2024 and 82.4% in 2025 due to persistent deficits and substantial stock-flow adjustments. This increase is, however, expected to be softened by announced consolidation measures.

## HOUSING AND MORTGAGE MARKET

Considerably fewer building permits were issued (-43% y-o-y), as housing-related costs have escalated due to higher interest rates. The construction of new homes was substantially lower, and housing starts decreased by almost 40% y-o-y.

With fewer buyers able or willing to purchase homes, residential property prices fell by 10% (existing dwellings with the largest falls in Helsinki). This is the largest decline since the early 1990s, when the Finnish economy went through a severe recession.

The construction industry experienced more bankruptcies than during the global financial crisis in 2009. This downturn was a significant contributory factor to the economy entering into recession in the latter part of 2023.

Average house prices decreased by 6% y-o-y from a record high in 2022. The decrease was most in Helsinki (-8% y-o-y) and Tampere (-15% y-o-y).

At the end of December, the stock of housing loans was EUR 107.5 bn, an annual decline of 1.7%. But the value of non-residential mortgage loans increased by 32%. Nonperforming loans at year-end were 1.1% of the total (Q4 2022: 0.9%). Gross lending decreased by 6.5% y-o-y, while it already started to decrease in previous years from its high in 2020.

The average interest rate on housing loans was 4.42%, up from 3.30% in 2023 and 0.77% in 2022.

In Finland most mortgages are issued with a variable rate (defined as a fixed period of less than or equal to one year) but this percentage decreased in 2023 from 96% to 93%.

## MORTGAGE FUNDING

Mortgages are generally funded via deposits and covered bonds. All outstanding covered bonds in Finland are backed by mortgages and the ratio of outstanding covered bonds to residential loans was approximately 45%. Therefore, covered bonds are an essential source of funding for the mortgage sector.

<sup>1</sup> A wellbeing services county is a body governed by public law that is separate from municipalities and the state and has autonomy in its area. There are 21 wellbeing services counties.

	FINLAND 2022	FINLAND 2023	EU 27 2023
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	1.3	-1.0	0.4
Unemployment Rate (LSF), annual average (%) (1)	6.8	7.2	6.1
HICP inflation (%) (1)	7.2	4.3	6.4
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	69.5	69.2	69.2
Gross Fixed Investment in Housing (annual change) (1)	5.0	-12.5	-3.1
Building Permits (2015=100) (2)	115.8	66.1	94.0
House Price Index - country (2015=100) (2)	109.4	102.3	170.2*
House Price Index - capital (2015=100) (2)	139.9	128.8	165.1*
Nominal house price growth (%) (2)	0.3	-6.5	3*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	109,315	107,490	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	19,703	19,319	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	72.6	68.1	71.3
Gross residential lending, annual growth (%) (2)	-13.9	-6.5	-26.6
Typical mortgage rate, annual average (%) (2)	3.3	4.4	4.7

\* Please note that this value is a simple average of the available values in 2023.

**Sources:**

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

## FINLAND FACT TABLE

**Which entities can issue mortgage loans in your country?**

Credit institutions.

**What is the market share of new mortgage issuances between these entities?**

Credit institutions 100%.

**Which entities hold what proportion of outstanding mortgage loans in your country?**

Banking groups hold 100% of the housing loan stock (Banking groups include mortgage banks as subsidiaries).

**What is the typical LTV ratio on residential mortgage loans in your country?**

Loan-to-Collateral (LTC): First time buyers 80% (median, new loans) others 60% (median, new loans).

**How is the distinction made between loans for residential and non-residential purposes in your country?**

Not available.

**What is/are the most common mortgage product(s) in your country?**

Housing loan.

**What is the typical/average maturity for a mortgage in your country?**

Eesti Pank has set maximum mortgage maturity of 30 years.

**What is/are the most common ways to fund mortgage lending in your country?**

Deposits and covered bonds.

**What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?**

2% transaction tax for apartments, 4% transaction tax for real estates (first time buyers are exempted from both).

**What is the level (if any) of government subsidies for house purchases in your country?**

First time buyers are exempted from transaction tax. Interest expenses on housing loans are tax deductible up to 5% (in 2022).