Analysis

Trade war weakens export outlook for Finnish companies

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The Finnish corporate sector has been squeezed by various crises in recent years. Companies have nevertheless been able to service their loans well, for the most part. However, the weak economy and high interest rates have hindered debt servicing especially for smaller companies and in certain industries, such as construction. The United States is a key export destination for Finnish companies, and the threat of a trade war escalation creates new risks especially for export-driven industries, such as manufacturing companies.

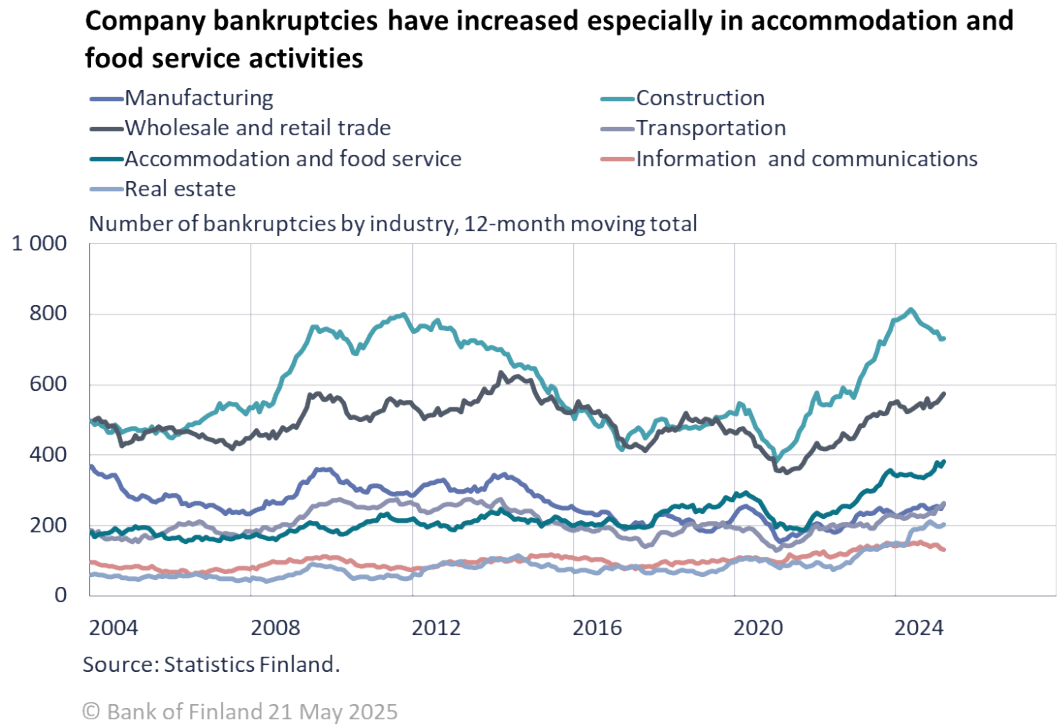


Constant shocks in the operating environment are testing companies' resilience

Numerous shocks and uncertainties in the operating environment have challenged the adaptability and resilience of companies in recent years. Business activity[1] has been adversely affected by the weak post-pandemic economic growth and consequent stalling of demand, the surge in inflation, high interest rates, the energy crisis and the cessation of trade with Russia as a result of its war in Ukraine. Most recently, the tariff announcements by the United States in the spring and the other unpredictable foreign policy manoeuvres of the US have added uncertainty to the export outlook for Finnish companies.

The challenging economic conditions have been reflected in, for instance, the steep rise in bankruptcies in the construction, real estate, accommodation and food service sectors, among others (Chart 1), and in the subdued demand for business loans especially in 2022–2023[2]. The number of bankruptcies was also higher in 2024 than at any time in the 2000s, and even when measured in terms of full-time equivalents the number is approaching the 2013 level.

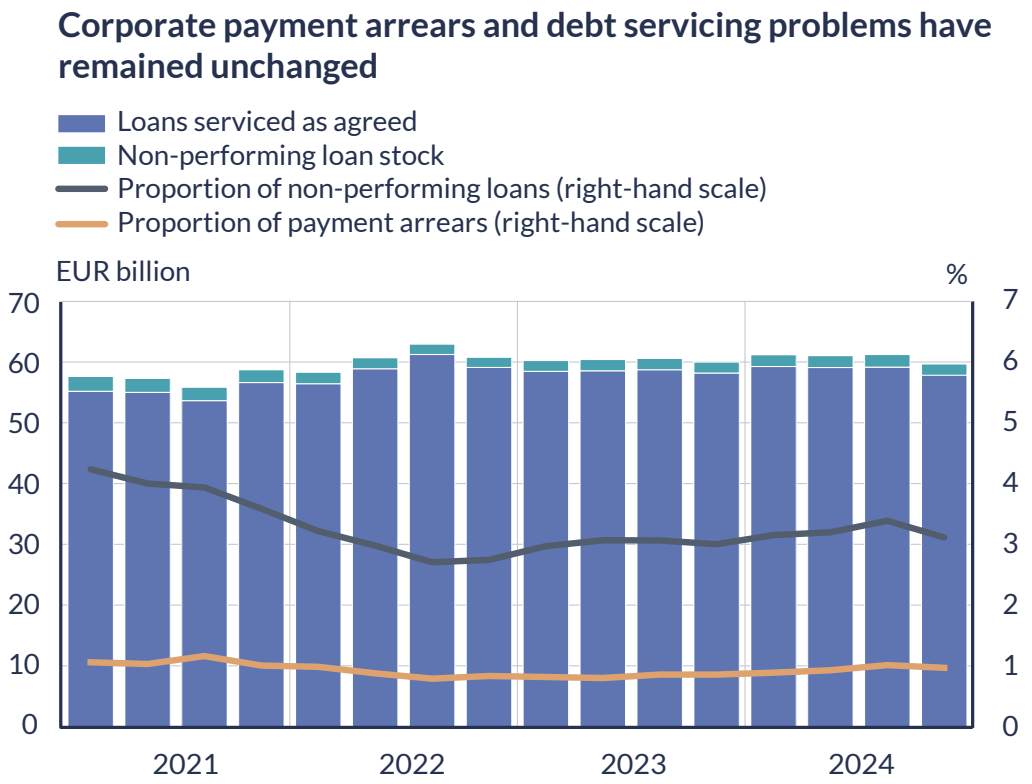
Chart 1.



Despite the difficult operating environment, corporate debt servicing capacity has remained mostly stable. This observation is supported by the volumes of non-performing loans[3] and

payment arrears reported by banks operating in Finland. The proportion of non-performing corporate loans was declining up to the start of the Ukraine war in early 2022 and has not grown significantly since then at the aggregate level (Chart 2).

Chart 2.



Non-performing corporate loans in Finland before and after increase in interest rates

Source: Bank of Finland, credit data collection.

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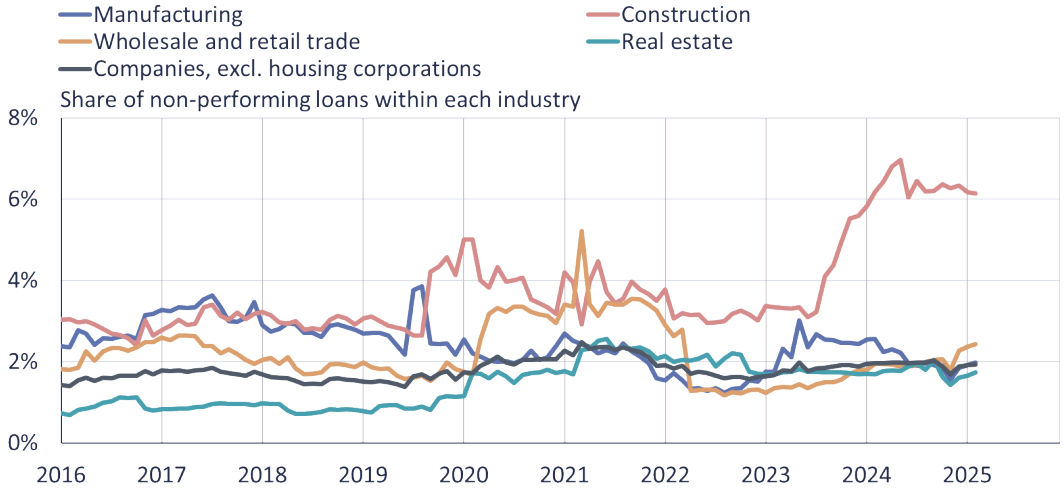
Non-financial corporations' access to finance has also continued to be good, for the most part. Lower interest rates have eased financing conditions, and the most recent surveys indicate that companies' views on future sales have improved[4]. Furthermore, companies have not reported access to finance as a significant obstacle to growth. However, the survey was carried out before US President Donald Trump's tariff announcements of 2 April 2025. The outlook for many companies is currently affected by the trade policy uncertainty and the possibility of additional tariffs.

Major differences in debt servicing capacity between industries

Although companies have been able to service their debts well at the aggregate level, there are considerable differences between industries. Construction, accommodation and food service activities stand out in regard to non-performing loans, as the proportion of such loans in these industries is considerably higher than average (Chart 3). However, the industries that have serviced their loans least well comprise a fairly small proportion of the corporate loan stock of Finnish banks: for example, the debts of companies in accommodation and food service activities make up just 1.2%, and those of construction just 4.4%, of the entire corporate loan stock. The increase in debt servicing problems of companies has therefore not led to a significant risk for banks (Chart 4). However, the difficulties of the corporate sector could also affect financial stability indirectly, for example through the credit risks of households, if the weak situation of companies reduces their ability to provide employment.

Chart 3.

Corporate debt servicing problems are most prevalent in construction, accommodation and food service activities



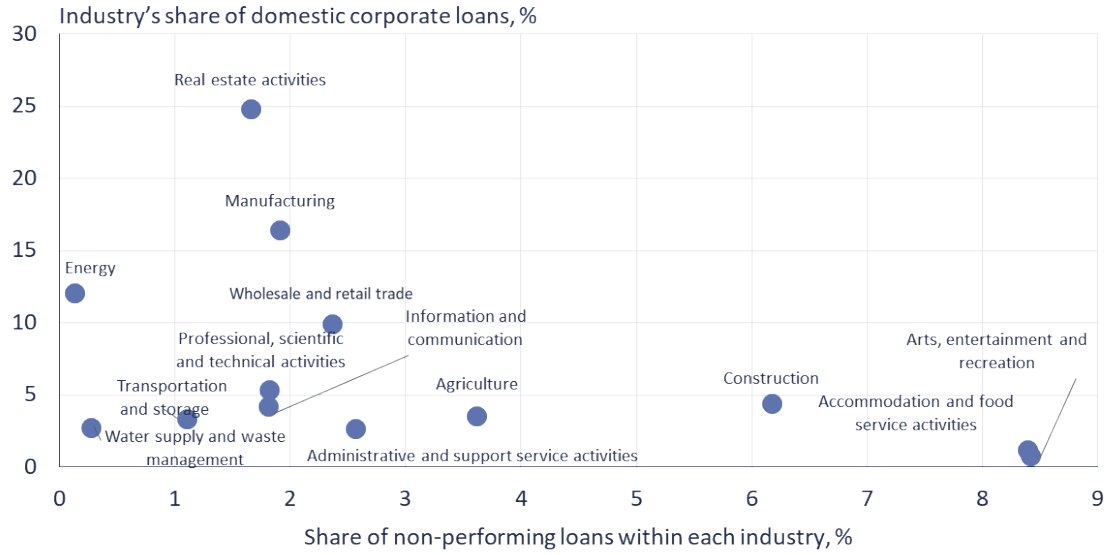
Note: Non-performing loans are calculated in net terms, i.e. the loss provisions carried out have been deducted from them.
Source: Bank of Finland.

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Chart 4.

Industries with the weakest debt servicing account for only a small share of the entire corporate loan stock, January 2025



Source: Bank of Finland.

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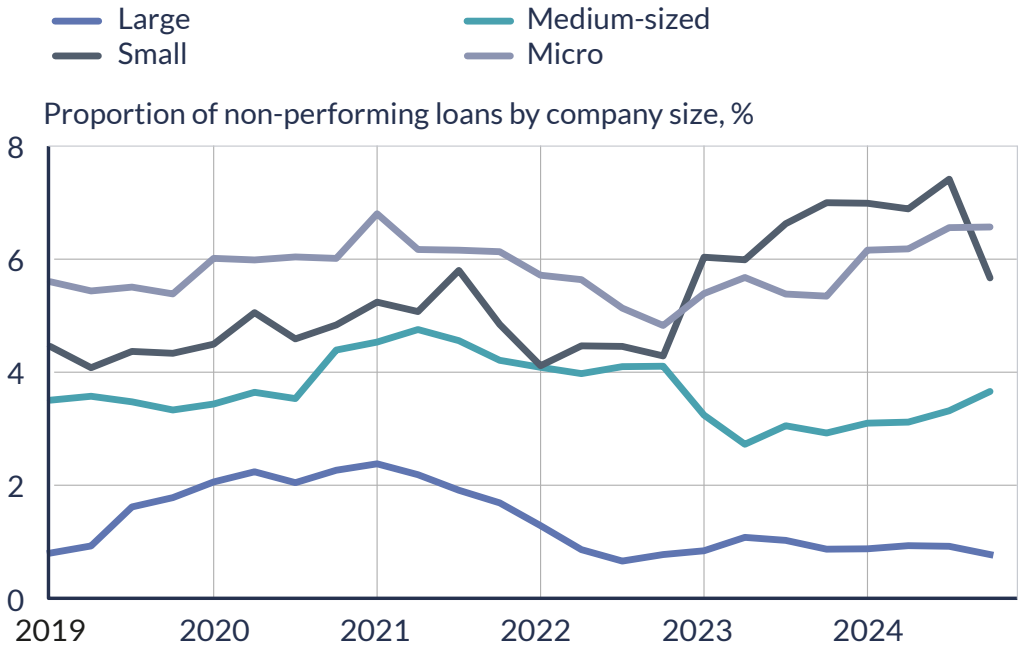
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Real estate is the largest individual sector in the corporate loan stock of Finnish banks. The steep downturn in the real estate market and the decline in real estate prices[5] have so far not hampered the debt servicing of companies in the sector to any great extent. The outlook for the real estate market has also begun to improve as interest rates have started to decline, although turbulence in the international financial markets may tighten the financing conditions of real estate companies once more, threatening the recovery of the real estate market (for more details see the Financial Stability Assessment)[6].

In the corporate sector as a whole, debt servicing problems have a higher concentration among small and medium-sized enterprises, or SMEs (Chart 5). Even before the surge in inflation and the rise in interest rates, a larger proportion of loans were non-performing among SMEs than among large corporations. The difference is a result not only of the impacts of changes in the operating environment, but also because the credit risk on small companies' loans is typically higher than for large corporations. Large corporations account for around half of the entire corporate loan stock, and this proportion has been growing slightly for the past four years. A decline in the availability of bank financing for smaller companies would be problematic especially as they have fewer alternative sources of funding (such as the capital markets) than large corporations. However, for the time being, the slight decline in SMEs' share of the corporate loan stock is probably mainly a reflection of the subdued demand for business loans, rather than challenges in accessing financ[7].

Chart 5.

Small companies have more non-performing loans than large corporations



Source: Bank of Finland, credit data collection.

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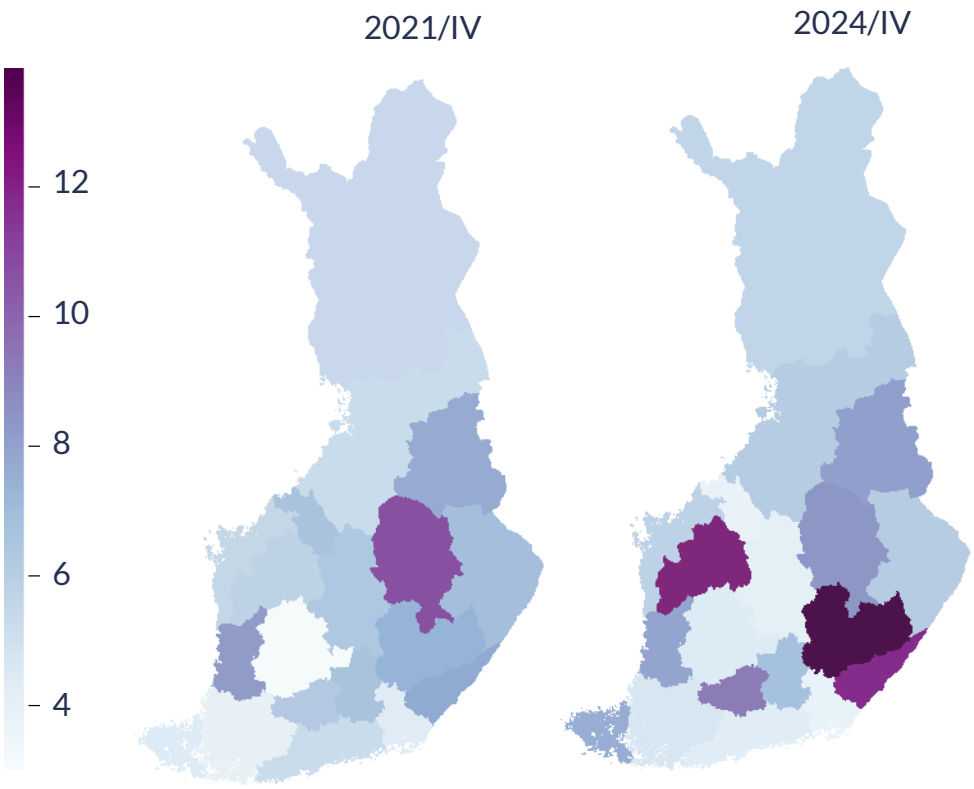
Regional differences in corporate debt servicing

There is also some regional variation in the debt servicing capacity of SMEs. In recent years, the number of non-performing loans has increased proportionally more in Eastern Finland, especially South Karelia, than in other parts of the country (Chart 6). This is likely explained by the stagnation of tourism since the beginning of Russia's war in Ukraine, as EU countries have stopped granting tourist visas to Russian citizens. From a regional perspective, South Karelia's economy suffered the most, as measured by the change in volume of value added[8], which is also reflected in companies' credit risks. In South Ostrobothnia and South Savo, SMEs have significantly more non-performing loans than the national average. In these regions, the increase in non-performing loans is explained by the difficult situation for the regional real estate sector and construction operators.

Chart 6.

Proportionally highest number of non-performing loans in Eastern Finland and Central Ostrobothnia

Proportion of SMEs' non-performing loans within the entire loan stock, %

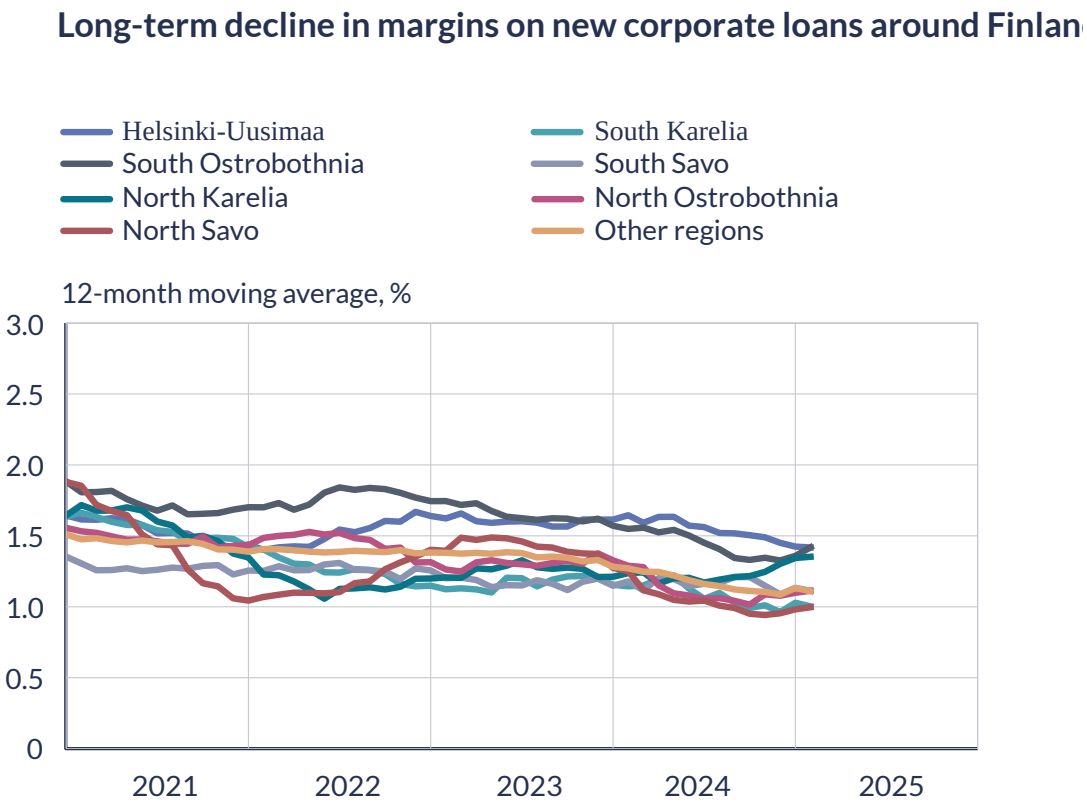


Source: Bank of Finland, credit data collection.

Despite the growing credit risks, margins on new loans taken out by SMEs operating in South Savo and South Karelia have remained moderate. This is partly explained by the fact that proportionally fewer loans have been granted in these regions to operators in the real estate and construction sectors, which have been in a downturn in recent years. In the corporate loan stock for the Uusimaa region, the weight of operators in the real estate sector is clearly higher, and the increased credit risks priced into new loans by banks have been reflected as higher margins throughout the region. However, in various regions around Finland margins on new loans have mainly remained unchanged or have even decreased (Chart 7). This probably says more about the decline in demand for finance caused by the strong rise in interest rates than about lenders

considering that credit risks have declined at a general level.

Chart 7.



Source: Bank of Finland, credit data collection.

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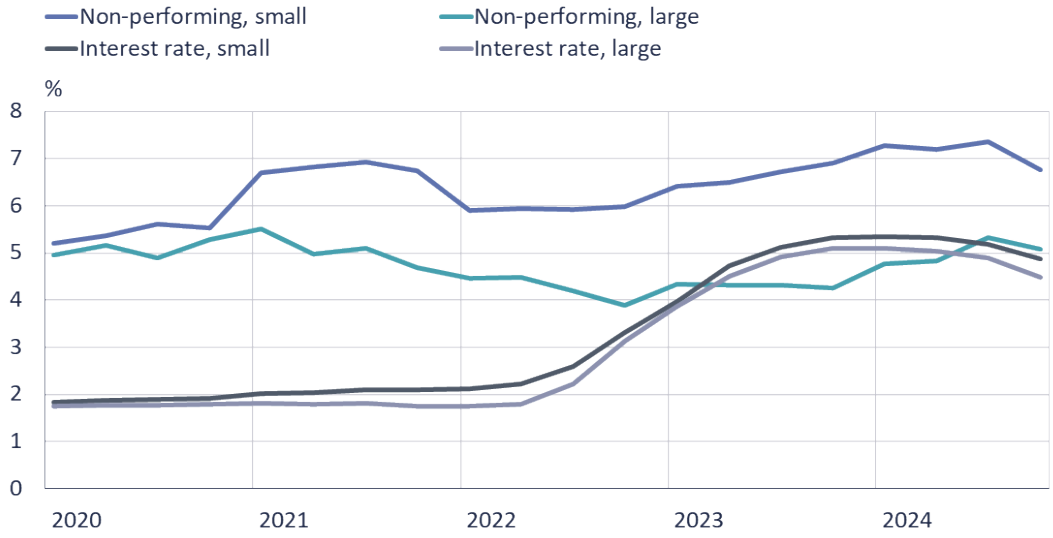
Small banks have more non-performing loans

In terms of financial stability, it is important that difficulties in servicing corporate loans do not accumulate at particular banks. When examining small and large banks separately, we can see that smaller banks have had proportionally more problems with loans to SMEs than large banks[9] (Chart 8). SMEs' share of non-performing loans has grown steadily since 2021, while in larger banks this share has remained more stable. The divergence of smaller banks may be attributable to them granting corporate loans that have a higher risk, on average. This view is also supported by the fact that the average interest rate of corporate loans is higher in smaller banks; in other words, it reflects the average riskiness of the loans. Following the earlier increases in the general level of interest rates, the interest rate distribution of the loan stocks issued by smaller banks has also

expanded more than the distribution for large banks (Chart 9). This may indicate that although access to finance has remained good, the terms of financing for the riskiest companies, in particular, have become less favourable because of the difficult operating environment.

Chart 8.

Growth of non-performing loans to SMEs is higher in small banks than in large banks

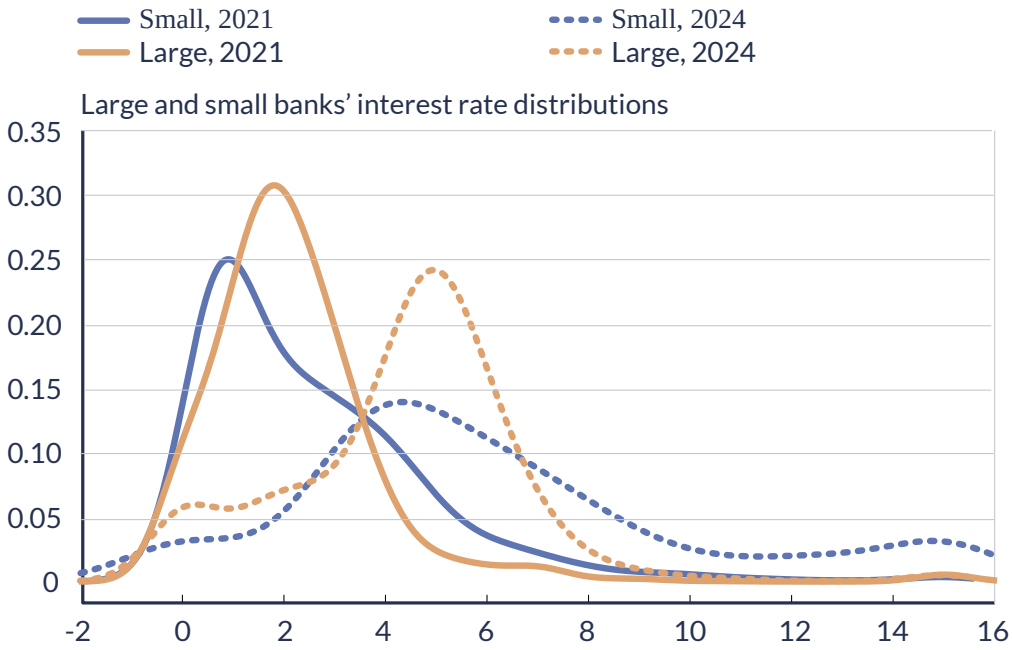


Source: Bank of Finland, credit data collection.

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Chart 9.

Distribution of corporate loan interest rates has widened more in small banks than in large banks



Outliers of the right-hand tail have been winsorized at 15%.

Source: Bank of Finland, credit data collection.

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Risks from threat of trade war affect larger companies

The Finnish economy has started to recover from the earlier shock caused by the surge in inflation and rise in interest rates, but the corporate operating environment is already overshadowed by new threats. In early April, US President Donald Trump announced a 20% tariff on nearly all goods imports from the EU. However, this 20% tariff has been postponed and will enter into force in July, but a lower 10% tariff on a substantial proportion of imports to the United States became effective in April. In addition, the US imposed a 25% tariff on imports of steel, aluminium and cars, which entered into force already in early March. There is still much uncertainty about the tariffs and retaliatory tariffs, as imposition announcements have been followed by postponements.

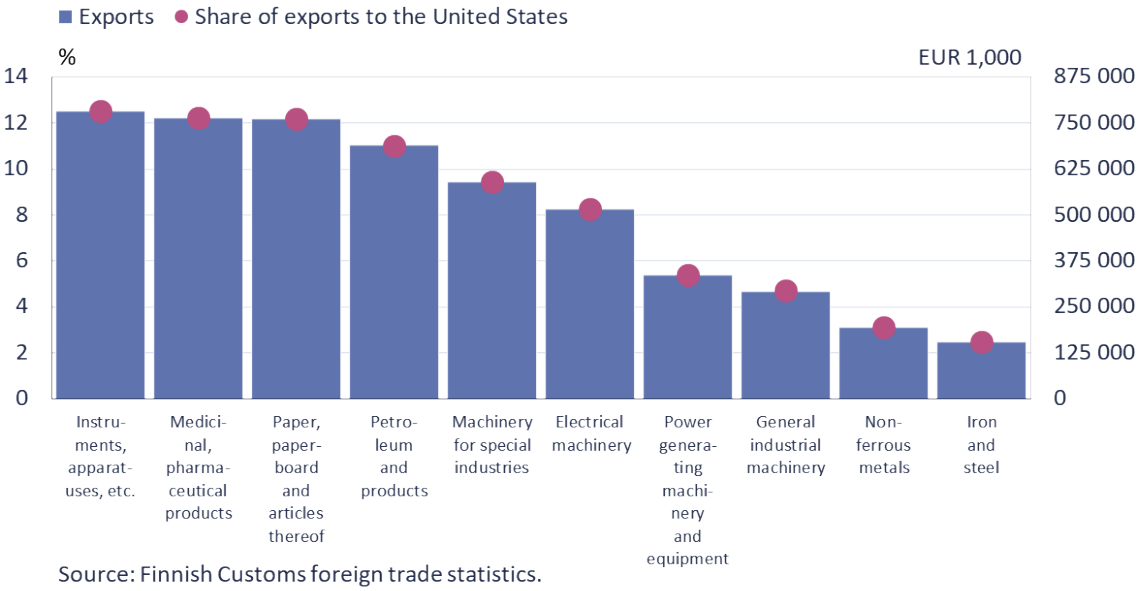
The uncertainty brought by the tariffs and the trade war could have significant impacts on the Finnish corporate sector and especially the export industry. With the share of Finland's goods exports accounted for by the United States having grown to approximately 10% in recent years,

the tariffs affect the exports of a significant proportion of Finnish companies. Furthermore, the unpredictable trade policy of the United States can in itself create uncertainty in the operating environment of export-driven companies, which could be reflected in the terms of financing, for example.

Finland's key export products to the United States include various instruments and apparatuses, pharmaceutical products, paper and paperboard, and various machines for manufacturing and other uses (Chart 10). When examining the significance of the US in terms of its share of the exports of each product group, many of the above-mentioned product groups stand out (Chart 11). In the pharmaceutical products category, exports to the US were as high as 40%, and in the instruments and apparatuses category they amounted to 30%. Pharmaceutical preparations have been excluded from the tariffs for the time being.[10] Nearly 15% of exports of power generating machinery and equipment and around 13% of paper and paperboard products were also destined for the United States in 2024.

Chart 10.

Finland's exports to the United States in 2024 included instruments, pharmaceuticals and heavy machinery

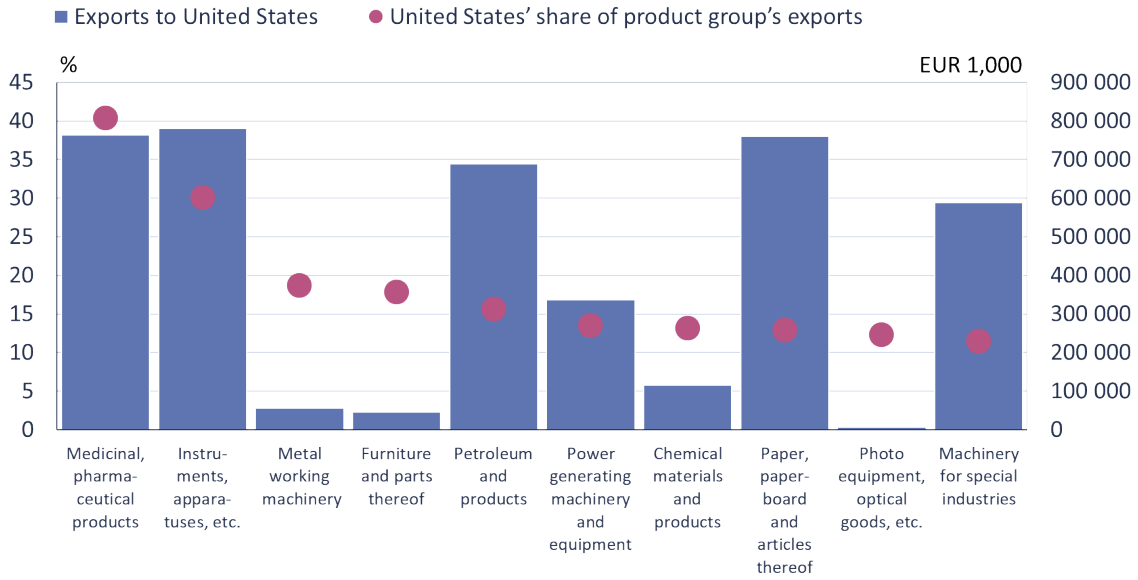


Source: Finnish Customs foreign trade statistics.

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Chart 11.

Product groups that are most dependent on exports to the United States



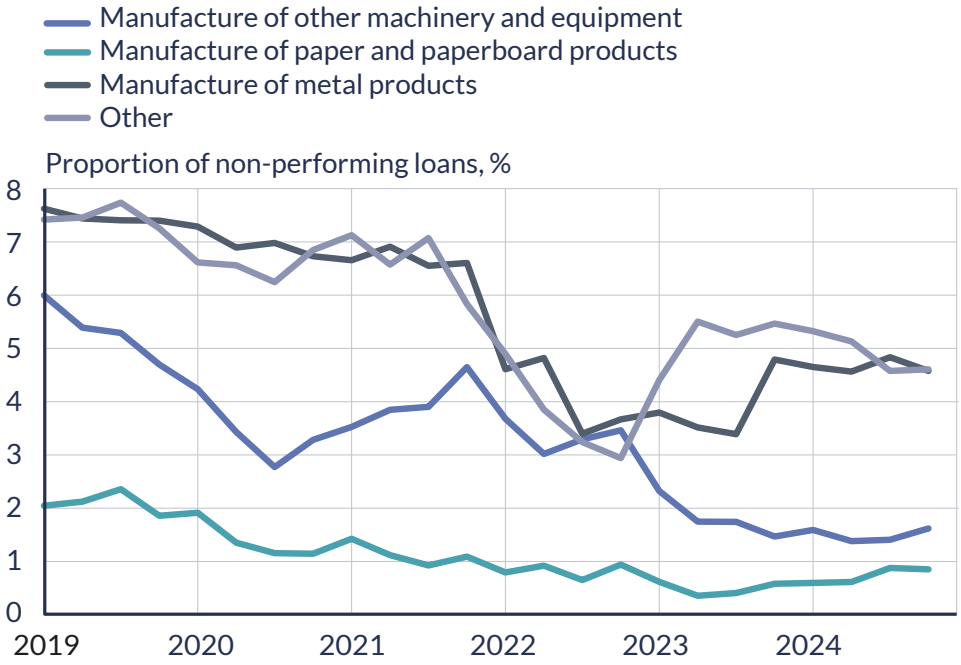
Source: Finnish Customs foreign trade statistics.

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The amount of debt financing in industries that are dependent on exports to the United States varies, and there are also variations in banks' exposures to the difficulties of these industries. Only around 2% of corporate loans from Finnish banks have been granted to pharmaceutical companies, whereas paper and paperboard companies and mechanical engineering companies have large volumes of bank loans. Manufacturing companies have mainly good debt servicing capacity, as there has been no significant increase in the number of non-performing loans among such companies. The debt servicing of the largest manufacturing industries that are affected by tariffs – manufacture of other machinery and equipment and manufacture of paper and paperboard products – is even better than average (Chart 12). The estimated credit risks are also lower than those of other manufacturing companies.

Chart 12.

Manufacturing industry debt is well serviced in sub-industries with the largest loan stocks



Source: Bank of Finland, credit data collection.

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Companies have so far shown good adaptability to the changes in the operating environment, such as the cessation of trade with Russia. However, the fact that trade policy negotiations are in progress and exceptions can be made even for individual products and companies makes assessing the impacts of tariffs on economic growth and financial stability more difficult. US President Donald Trump has also made changes at short notice.

Persistent weak growth in the economy could hamper companies' debt servicing capacity

Despite the shocks experienced in recent years and the difficult operating environment, companies have been able to adjust their business and service their loans relatively well. The proportion of non-performing corporate loans among all loans has remained moderate also by international standards. This has helped corporate lending by banks to remain steady, and the terms and conditions of loans to remain more or less unchanged. However, the weak economy

combined with high interest rates have hampered the debt servicing of SMEs, in particular. Construction companies and accommodation and food service companies have been facing the most difficulties. The regions with the highest rates of debt servicing difficulties include South Karelia, South Ostrobothnia and South Savo.

There are differences in the risk levels of the banks' corporate loan stocks. This is reflected as bank-specific differences in the trajectory of non-performing loans. Small banks have a greater volume of riskier corporate loans than large banks, and in smaller banks the risks on corporate loans have also partly materialised as a greater proportion of non-performing loans in comparison with larger banks. The greater exposure of smaller banks to the risks of the construction industry, in particular, has been a reason for the increase in the number of bad loans.

The new risks raised by the possible trade war and planned tariffs threaten the profitability of manufacturing companies and could even increase their credit risks. However, in terms of financial stability, the position of manufacturing companies is favourable, because the quality of the loan stock of manufacturing companies has remained good in the difficult operating environment prevailing in recent years. The transformation of the security environment may also create opportunities for Finnish industry when European countries increase their investment in areas such as defence.

Tariff increases and a trade war present significant risks to major international corporations, but their indirect impacts also extend to small companies, which are already in a vulnerable position. The impacts of a global downturn potentially caused by a trade war could spread more widely into the Finnish corporate sector, beyond manufacturing. If the difficulties of the corporate sector start to cause the employment rate to weaken further, rising household credit risks could also cause problems for financial stability[11].

Notes

1. In this article, housing companies and other entities classified as housing corporations have been excluded from the definition of corporate sector. ↑
2. See: e.g. ECB's Bank Lending Survey – Bank of Finland. ↑
3. A non-performing loan is a loan for which the mandatory payments are at least 90 days overdue or where the lender considers it likely that, regardless of the amount of payments due, the debtor will default on their payment obligations unless the collateral is realised. ↑
4. Business Tendency Survey – Confederation of Finnish Industries (EK). ↑
5. Analysis: Real estate investment market's challenges have not undermined financial stability (in Finnish) – Euro & talous. ↑
6. KTI – The Finnish Property Market. ↑

7. Bank Lending Survey (in Finnish) – Bank of Finland and Production Bottlenecks (in Finnish) – Confederation of Finnish Industries (EK). ↑
8. Economy grew in most regions in 2022 – Statistics Finland. ↑
9. In this analysis, large banks are defined as credit institutions operating in Finland that managed a corporate loan stock with a total nominal value of at least EUR 1 billion at the end of 2024. All those banks that did not meet this criterion are defined as small banks. In this analysis, banks are examined at unit level, i.e. by business identity code. ↑
10. Data for 15 May 2025. ↑
11. See: Mortgage borrowers have proved resilient against the interest rate risk of their loans – Bank of Finland Bulletin. ↑

Keywords

corporate finance, credit risks, financial stability