Analysis

Rise in cost of living and higher interest rates have increased the pressure on many indebted households

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Many households were under increasing financial pressure when inflation surged and interest rates were raised in the first few years of the 2020s. Households' financial margins narrowed when their essential expenditure increased by more than their income. The simultaneous rise in interest rates and other living costs was felt especially by households with high debt relative to income. Nevertheless, households have, for the most part, coped well with their loan servicing. Borrowers' strong resilience against risks must continue to be maintained in the future.



This is a translation of the Finnish article published on 20 May 2026.

Households have mostly coped well with their loan servicing

The financial environment for households has become more difficult in the 2020s. The rapid increase in the prices of goods and services and the steep rise in interest rates in 2022–2023 weakened households' purchasing power and increased debt servicing costs and other regular household expenses. In Finland, in particular, the impact of higher interest rates has been substantial in comparison with the period of very low interest rates, because most loans are tied to Euribor rates. This means the loan interest is adjusted at least once a year on the basis of market interest rates. This makes both loan servicing costs and new borrowing sensitive to changes in interest rates.

Households, especially mortgage borrowers, have proved resilient against the interest rate risk of their loans, and the majority of loans are still being serviced in accordance with the loan agreement.[1] Temporary and shorter payment delays on mortgages have remained low (Chart 1). However, more severe and protracted payment difficulties have increased in the past two years. This can be seen in the steady increase in the proportion of called-in mortgage loans. The lender can call in a loan, i.e. demand that the borrower repay the loan ahead of time in full, if payment delays are long and severe.

The proportion of non-performing loans is higher in consumer credit than in housing loans, but even in consumer credit, financial difficulties have not increased to any alarming extent.[2] Household loans have not so far caused significant impairment or loan losses to banks. In relative

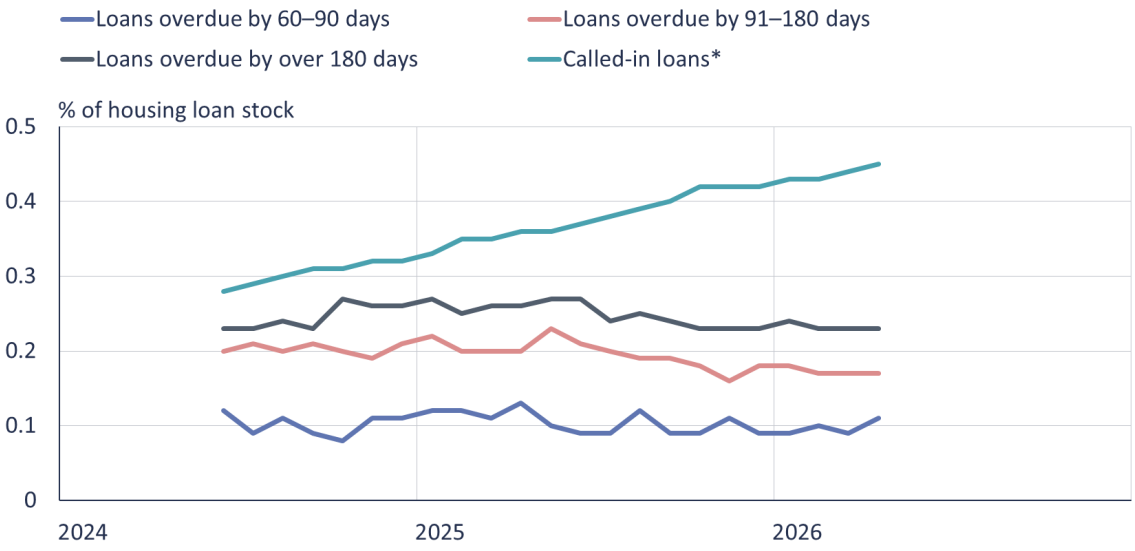
terms, banks suffer more losses from consumer credit, and especially from unsecured credit, than from loans with collateral provided to the bank by the borrower. In January–March 2026, approximately the same volume of new payment defaults (on various invoices and charges) by consumers were recorded as a year earlier, but the volume was lower than in 2022–2024.

The inflation surge and interest rate increases brought financial distress to a proportion of households in the first few years of the 2020s, when their income was no longer sufficient to cover essential expenditure. Rising costs affect different households in different ways depending on their financial position, consumption patterns and amount of debt. A majority of household debt is held by middle and high-income households, while the highest proportion of debt-free households is among low-income households. The rise in interest rates will therefore affect high-income households more, whereas the rise in other living costs will test lower-income households more in relative terms.[3]

Households' nominal disposable income, for example wages and various benefits after taxes and compulsory social security contributions, grew fairly rapidly during the period of high inflation. However, the increase in nominal income fell short of the increase in living costs. In other words, the steep rise in interest rates and other costs gouged a hole in household purchasing power which only recently has been on the point of being filled.

Chart 1.

Mortgage borrowers' temporary payment delays are low, but severe delays have increased



* Called-in loans have been required to be repaid in full due to payment delays.
Sources: Positive Credit Register and calculations by the Bank of Finland.
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Households have a financial margin if they have income left after essential expenditure

Households have a financial margin if they have any income left after paying the most essential regular expenses (for more details, see the information box '*How to calculate a household's financial margin*'). Households can use this residual income for other consumption or savings.[4] An adequate financial margin is necessary for households to be able to adapt to financial setbacks. If finances are already very tight, it will be difficult for the household to cope with unexpected expenditure or an unforeseen decrease in income.

Income losses can be caused by such events as temporary lay-offs or unemployment. On the other hand, expenditure can rise due to higher living costs, such as food and energy prices, and by higher interest rates in the case of indebted households. In addition, personal situations, such as falling ill or separation, can reduce household income and/or increase expenditure from previous levels.

The financial margin between income and essential expenditure does not take account of any buffers previously accumulated by the household, such as liquid, readily accessible financial assets. These may include households' deposits in current accounts, investments in shares and holdings in various equity or fixed income funds. Households can usually quickly redeem these savings and investments for household use, thus patching up their finances at least temporarily. In contrast, selling fixed assets, such as housing and real estate, is usually significantly slower than transactions with various financial assets.

ⓘ How to calculate a household's financial margin

By financial margin we refer to a household's **monetary income** which it has at its disposal after its **regular essential expenditure.** In our calculations, such essential expenditure comprises actual housing costs, interest payments on non-residential loans and other estimated essential consumption expenditure (see below for more details).

We calculated the financial margin in terms of the average amount of euros per month.[5] More specifically, we calculated the margin per **consumption unit**, which makes the margins comparable regardless of the size and structure of the household. This takes

account of the fact that, for example, in a two-person household, the essential expenditure is usually not twice as high as for a one-person household, because the housing costs are typically shared. In addition, children consume less than adults.[6]

The household-specific data used in the calculation are from Statistics Finland's income distribution statistics, and they describe the situation in 2021 and 2023.[7] We compared the margins between 2021 and 2023 in real terms, using **2023 consumer prices**. This allows us to examine whether the purchasing power of the margin has changed. If the real monetary value of the margin remains unchanged, it means that the same amount of goods and services as before can be bought with the same amount of money.

In the calculation, households' **housing costs** are made up of operating and maintenance expenditure. Depending to the form of occupancy, these include maintenance charges for dwellings and real estate, rents, water and waste charges, separate energy expenses and costs of maintenance repairs. In addition, **other housing expenditure** consists of mortgage interest and repayments of the mortgage principal, and the capital charges arising from housing company loans.

In loans other than housing loans, the dataset includes households' consumer credit in excess of EUR 1,700, holiday residence loans, buy-to-let mortgages and other loans for the purpose of acquiring income, and loans charged on a source of income related to, for instance, business activity or agriculture and forestry. We included **interest payments** arising from all these loans as essential expenditure, but the dataset does not contain information on the principal repayments of these loans. Neither does the dataset contain information on student loans or small consumer loans.

The dataset does not include information on **households' other essential consumption expenditure.** Instead, we estimate this in accordance with what is deemed to be a decent minimum consumption level and standard of living. The Centre for Consumer Society Research has published reference budgets for a decent minimum standard of living for various reference households.[8] In many households, actual consumption expenditure is probably higher than this. The calculation may therefore overestimate the margin, especially for high-income households.

Margin narrowed as essential expenditure increased

Below, we examine the extent to which household income, and especially that of indebted

households, was sufficient to cover essential expenditure in the early 2020s, when inflation was high and interest rates had risen steeply, making everyday life and loan servicing considerably more expensive than before. In 2023, about 53% of households had debts which fell under one of the categories of the income distribution statistics, while 47% of households were without debt by this definition.[9]

We divided indebted households into five equally large groups, ranging from the least indebted households (I) to the most indebted households (V). Each debt group comprises one fifth (20%) of households with debt. We measured the indebtedness of each household in terms of its debt-to-income (DTI) ratio, i.e. the amount of debt relative to disposable monetary income. In addition, we separately examined the group of households with no debt, which is larger than the other groups.

A significant proportion of household debt is held by households that are heavily indebted relative to their income. At the end of 2023, the most indebted group (V) had about 52% of household debt and the second most indebted group (IV) had about 27%. The financial situation of these two groups is therefore of great significance in assessing the vulnerabilities and risks to the economy and to the financial system caused by household borrowing and indebtedness.

Table 1.

More than half of household debt in 2023 was held by the most indebted group

Group	Proportion of households	Proportion of debt holders	Debt-to-income ratio	Proportion of debt
Debt-free	47%	–	–	–
I	11%	20%	Less than 30%	2%
II	11%	20%	Over 30%	6%
III	11%	20%	Over 76%	13%
IV	11%	20%	Over 155%	27%
V	11%	20%	Over 280%	52%

Due to rounding, the percentage shares do not necessarily add up to 100%.

Sources: Statistics Finland and the Bank of Finland.

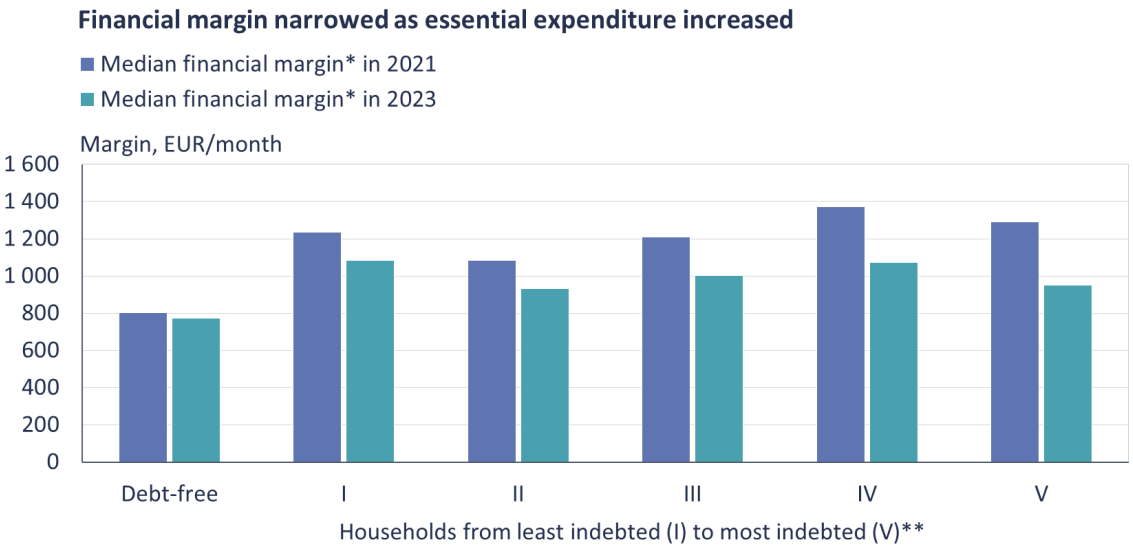
We examined the estimated financial margin of each household group in 2021 and 2023 (Chart 2). Inflation had only risen slightly in 2021 (2.1% on average, as measured by the change in the Harmonised Index of Consumer Prices) and interest rates were still very low. For example, in 2021, the average 12-month Euribor was negative, at -0.5%. In 2022, inflation had already risen to 7.2%, and in 2023 it was still 4.2%. Market interest rates rose sharply in 2022 and 2023. The 12-month Euribor peaked at approximately 4.2% in autumn 2023 and its average for the same year was 3.9%.

The rise in interest rates and other living costs in 2021–2023 eroded households' financial margins extensively, and households were left with less income after essential expenditure. The typical margin for each group (the median margin) declined. Nevertheless, income remained significantly greater than essential expenditure. For example, in the group with the highest indebtedness (V), the margin was typically more than EUR 1,200 per month in 2023, and even in the group of households with no debt, the margin was just slightly below EUR 800.[10]

From 2021 to 2023, households' typical financial margin decreased the most in both absolute and relative terms in groups IV and V, i.e. the most indebted households. In other words, the higher the household's indebtedness, the more the increase in essential expenditure narrowed the financial margin. For example, the monthly margin for the most indebted group (V) contracted by around EUR 340 (26%). This suggests that higher interest payments increased housing expenditure especially in these groups.

The margin also tightened slightly in the group of households with no debt, but the change was significantly smaller in both absolute and relative terms (-3%) than in the groups of indebted households. Already in 2021, the typical margin for households with no debt was significantly narrower than for indebted households. This is largely due to the high proportion of low-income households in the debt-free group. We will examine the significance of income more below (see the section *High indebtedness weakens resilience of high-income households as well)*.

Chart 2.



* For each group I–V, the median financial margin is the margin that is greater than that of half the households in the group and also less than that of half the households in the group. The margins are calculated per consumption unit at 2023 prices.
** Each group I–V comprises one fifth (20%) of indebted households.
Sources: Statistics Finland and calculations by the Bank of Finland.
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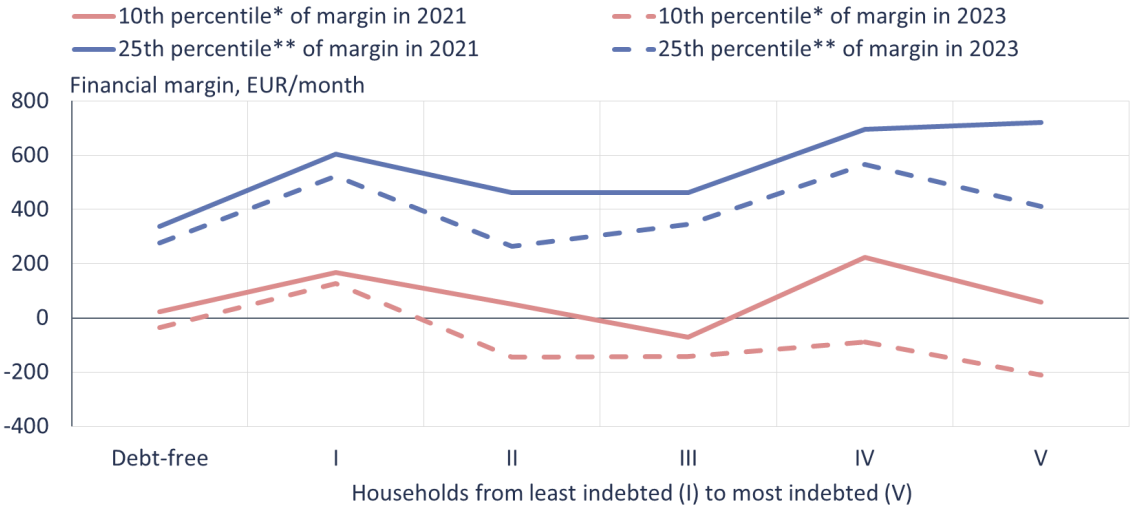
Some households have had to live beyond their means

In both 2021 and 2023, some households had significantly tighter finances than households typically, i.e. compared with the median financial margin. This is evident when we organise households according to their margins, from the smallest to the largest, and when we examine households with the lowest margins in each of the previously formed groups of indebted households (I–V) and the group of households with no debt (Chart 3). The lowest margins are indicated by each group's 10th and 25th percentiles, below which was the margin applicable to 10% and 25%, respectively, of the households in the group.[11]

The financial situation of households with the lowest margins weakened further from 2021 to 2023. For a growing number of households, income was no longer sufficient to cover essential expenditure, and their financial margin went from positive to negative. In 2023, the 10th percentile of the margin was below zero in the groups of indebted households (except in the least indebted group I), and in the group of households with no debt. In other words, in these groups, in at least 10% of households, income was lower than essential expenditure. In practice, these households had to use some of their savings or borrow in order to finance their everyday lives.

Chart 3.

For some households income was insufficient to cover essential expenditure in 2023



* 10th percentile refers to the financial margin below which are the margins of 10% of households.
** 25th percentile refers to the financial margin below which are the margins of 25% of households.
The percentiles are calculated per consumption unit at 2023 prices.
Sources: Statistics Finland and calculations by the Bank of Finland.
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High indebtedness weakens resilience of high-income households as well

Next, we divided households into five categories, from the lowest income (1) to the highest (5). We measured income in terms of disposable monetary income, i.e. income before all expenditure other than the statutory current transfers paid by the household, such as taxes and social security contributions. Each income group comprises one fifth (20%) of households. In addition, we examined the categories of indebted households (I–V) and households with no debt described above.

A significant proportion of households' total debt is held by households with the highest income and the most debt relative to their income, i.e. households that belong to groups 5 and V at the same time (Chart 4). By contrast, households with the lowest income and the lowest debt relative to their income (groups 1 and I) account for only a very small share of total household debt. The number of owner-occupiers and mortgage-indebted households is higher than average among high-income households, while the number of tenant households is higher among low-income households.[12]

In all the groups examined, the typical financial margin of households declined from 2021 to 2023

(Chart 5[13]). The higher the income of a household, the more income it generally had left after essential expenditure. This was the case in all the groups of indebted households (I–V) as well as the group of households with no debt. Therefore, as expected, a household's income level will affect how well it manages with essential expenditure and whether it has the margin to cope with any financial setbacks.[14]

However, a high level of income alone does not guarantee strong resilience if the household's debts are high relative to income. High household indebtedness narrows the margin at all income levels (1–5). In other words, in all income groups, the more debt a household has relative to income, the less income it typically has left after essential expenditure.[15]

In the highest income group (5) in particular, there is a clear difference in the typical margin between households with low (I) and high (V) indebtedness. High-income households with low indebtedness have a wide financial margin, while high-income households with more debt have a significantly narrower margin. Thus, a large debt burden ties a significant portion of the income to debt servicing, weakening the household's ability to adjust to expenditure growth or fluctuations in income – even when the income level is high.

Chart 4.

Significant proportion of household debt is held by households with the highest income and the most debt

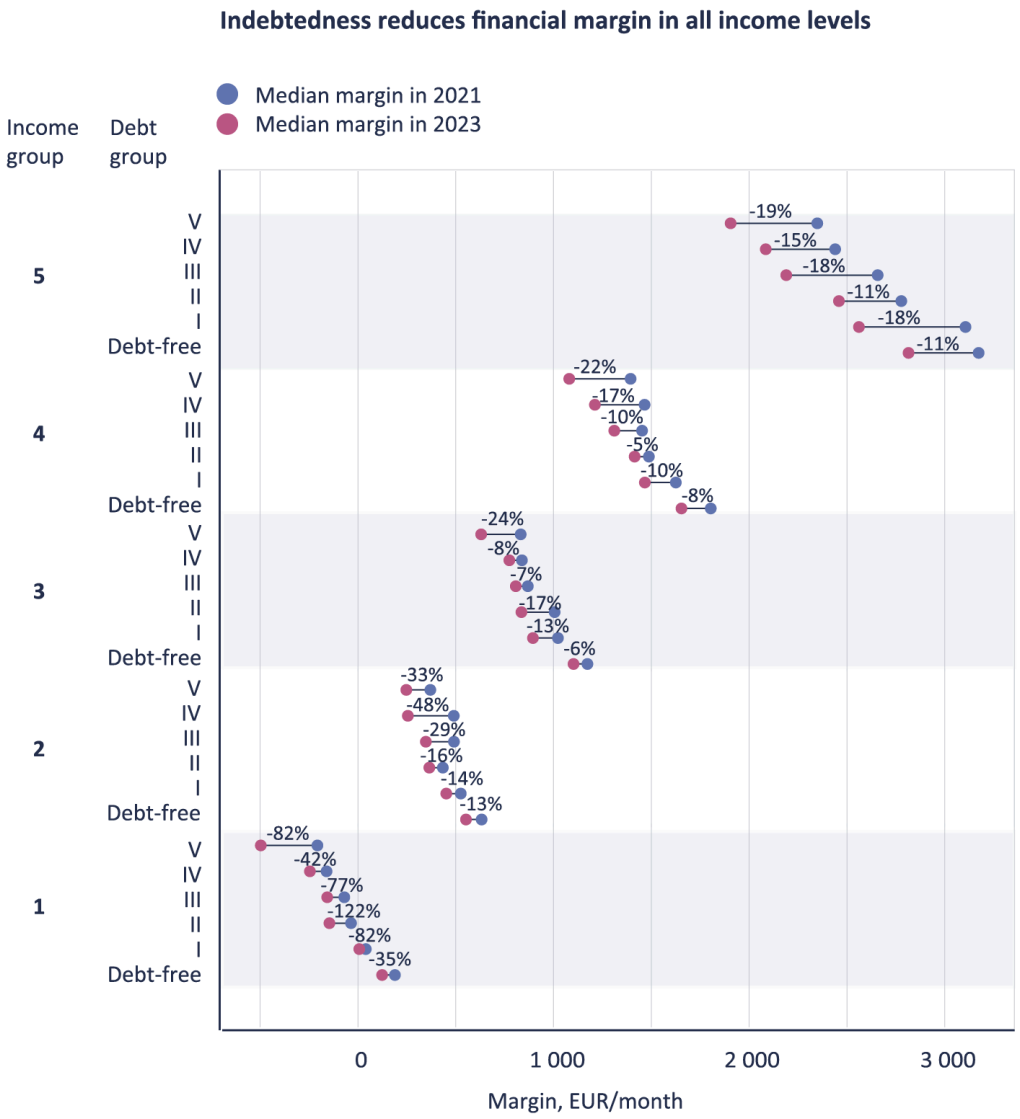


Using the 2023 dataset, households are divided into five groups on the basis of their income (groups 1–5) and their debt-to-income ratio (groups I–V). The highest income and most indebted households are in groups 5 and V.

Sources: Statistics Finland and calculations by the Bank of Finland.

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Chart 5.



Households are divided into five groups on the basis of their income (groups 1–5) and their debt-to-income ratio (groups I–V). The highest income and most indebted households are in groups 5 and V. The margin of each household is calculated per consumption unit at 2023 prices.

Sources: Statistics Finland and calculations by the Bank of Finland.

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Households' financial difficulties became more prevalent

Many households' view of their own financial situation became gloomier during the period of high inflation and high interest rates. This is evident from the responses to household interviews

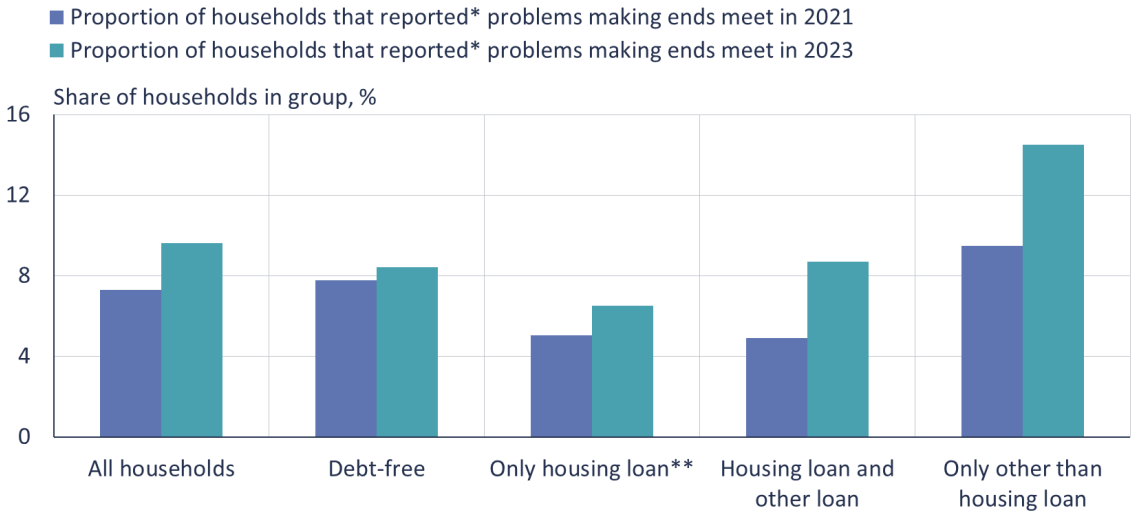
conducted by Statistics Finland.

In 2023, more households reported experiencing difficulties in making ends meet, i.e. in covering their usual *actual* expenditure.[16] Nearly one in ten households reported such difficulties in 2023, compared with slightly over 7% in 2021. This increase corresponds with the fact that, at the same time, households' financial margins contracted in relation to *estimated essential* expenditure (see above for more details). Difficulties were more common among households with low incomes than those with high incomes[17], which in turn is consistent with the fact that high-income households had significantly wider financial margins than low-income households.

The prevalence of difficulty making ends meet can also be examined on the basis of whether a household has debt and what type of debt it has (Chart 6). The proportion of households experiencing difficulties grew from 2021 to 2023, especially among households with debt. In 2023, difficulties were more common in households that did not have a loan taken out for an owner-occupied home but had other forms of debt. Of these households, just over 14% had difficulties in 2023. Mortgage borrowers, on the other hand, had slightly fewer difficulties than the average for all households examined.

Chart 6.

Growing number of households had difficulties making ends meet with their income



* Household reported having had major difficulties or difficulties (excluding minor difficulties) in covering its usual expenses with its income.** Housing loan refers to a loan for an owner-occupied home.
Sources: Statistics Finland and calculations by the Bank of Finland.
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Households' strong resilience is still necessary

The outlook for Finland's economy became gloomier during spring 2026. Inflation in the euro area is forecast to rise due to higher energy and raw material prices, and Euribor rates have consequently already risen in recent months. Uncertainty about the economic outlook has increased further, and consumer confidence in the economy has remained weak for a long time. Consumption demand and sales of new dwellings are weak, hindering the economy's revival from years of subdued performance. In some households, the financial situation may have weakened compared with the calculations in this article. Although interest rates are lower than in 2023, unemployment has increased considerably.

It is difficult for households to reduce the essential expenditure related to housing, debt servicing and other daily consumption. On the other hand, households may be willing and able to reduce their other, less compulsory consumption in financially difficult and uncertain times (and increase it in favourable times). In recent times, households have saved a larger share of their income than usual, possibly due to a decline in the value of assets, higher interest rates or the difficult position of government finances, for example.[18]

Households with a negative or very narrow financial margin mostly belong in the group of lowest income households. These households have a limited capacity to consume and their scope for reducing or increasing their consumption expenditure is limited. Some have high debt relative to income, but the debts account for a very small share of aggregate household debt.

High-income households typically have considerable margin in their finances even when they have a high level of debt. These households account for a large share of aggregate household debt, and their consumption and savings decisions, borrowing and debt servicing are important for the economy, the banking sector and thus the stability of the financial system.

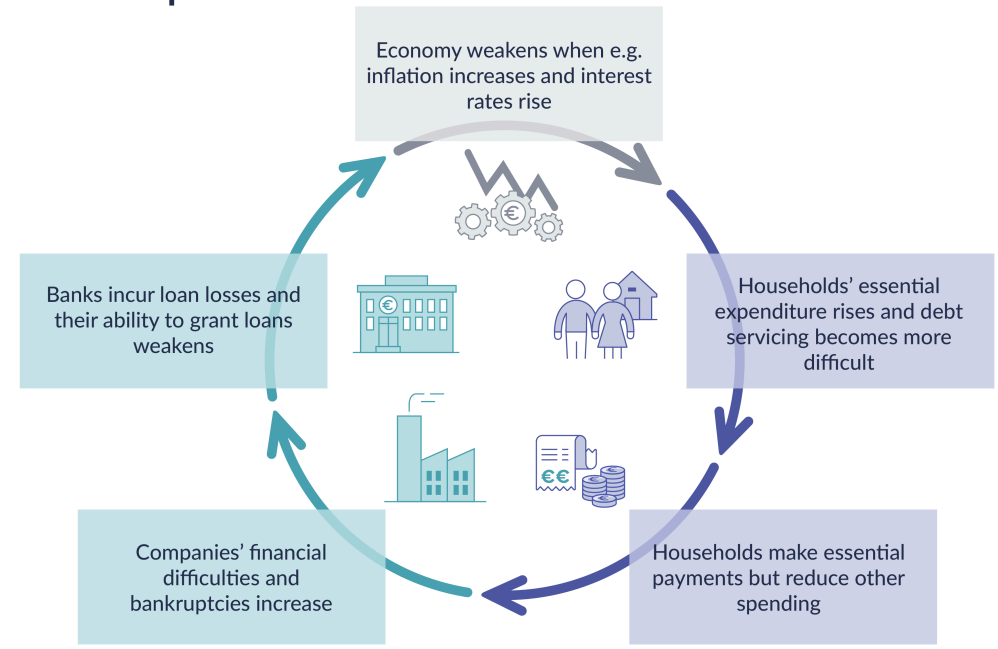
In the worst case, a large-scale reduction in consumption would have far-reaching effects on the economy (Chart 7). When many households reduce their consumption, this will weaken the demand for companies' products and services and the capacity of companies to employ workers. An increase in unemployment and in the threat of unemployment will further reduce households' opportunities and willingness to spend, and the public finances will be weighed down by expenditure on unemployment benefits. The demand for housing will also decline in a downturn, causing difficulties in the construction and real estate sectors.

Severe and long-term financial difficulties in households and in businesses dependent on domestic demand could also push up the volume of non-performing loans and their share of the loan stock. If, as a result, banks' and other lenders' losses on loans to households and businesses were to

increase substantially, this would weaken lenders' profitability, capital adequacy and ability to grant new loans to support economic growth.

Chart 7.

Materialisation of risks may cause a negative economic and financial spiral



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It is important to ensure that households do not incur excessive debt relative to their ability to cope with their loans and maintain normal consumption. The vulnerability of households is not determined solely on the basis of debts or income; instead, it is essential to examine these together. Large debts can significantly weaken the resilience of a household, even when income is high. On the other hand, a moderate debt burden, at the most, leaves even low-income households with leeway to adjust to any financial setbacks.

Large and long-term loans take a long time to grow smaller, which means that many borrowers are very vulnerable for a long time not only to rising interest rates but also to other financial risks. For example, a decline in housing prices or a tightening of lending conditions can have a particularly strong impact on households that have a high level of debt relative to income or to the value of the property held as collateral for a loan. In this case, financial buffers may tighten and access to loans may be reduced from previous levels also for households with high incomes.

The authorities responsible for financial stability have identified the historically and

internationally high indebtedness of Finnish households as a key vulnerability in the financial system, which could amplify cyclical fluctuations in the economy and the housing market in a detrimental way and increase the risks arising from these. Efforts have been made to mitigate the risks through recommendations and statutory requirements that limit the maximum size of new housing loans (for more on this, see 'Macroprudential policy should be reshaped, not dismantled' (in Finnish)). It will be important to maintain good lending practices in the future as well.

Notes

1. Johanna Honkanen and Hanna Putkuri examined more fully the features of housing loans and the debt burden of mortgage borrowers in their article 'Mortgage borrowers have proved resilient against the interest rate risk of their loans' – Bank of Finland Bulletin (2025). ↑

2. A loan is deemed non-performing when payment is more than 90 days past-due or the lender has reason to believe that the borrower is unlikely to pay. ↑

3. See articles by Petri Mäki-Fränti and Aino Silvo 'Inflation and higher interest rates brought financial distress to a proportion of households' – Bank of Finland Bulletin (2026) and 'Savings help households cope with rising interest rates' – Bank of Finland Bulletin (2023). ↑

4. The financial margin reflects whether, after essential expenditure, the household has income left over that it can spend or save. Savings are indicated differently in the National Accounts, however, where they are defined as the disposable income remaining after actual final consumption expenditure. In the National Accounts, savings include all spending on loan principal repayments and acquisition of assets. For example, mortgage principal repayments are deemed to be savings because they reduce mortgage debt and accumulate net housing wealth. In contrast, interest payments are deemed to be consumption in the National Accounts. ↑

5. Petri Mäki-Fränti (in collaboration with others) has examined the financial margins of households in a number of previous Bank of Finland publications. In this article, the margin is calculated in part slightly differently than in previous articles. Consequently, not all results are directly comparable. For more details on the previous results, see 'Inflation and higher interest rates brought financial distress to a proportion of households' (2026), 'Savings help households cope with rising interest rates' (2023), 'The financial situation of heavily indebted households varies in Finland' (2021, in Finnish), 'Finland is greying – Will this diminish the effectiveness of monetary policy?' (2015), and 'Households' indebtedness and financial margin' (2014, in Finnish), 'Finnish households' economic margin' (2011). ↑

6. We use the OECD-modified equivalence scale, in which the first adult of a household is given a weight of 1, additional people aged over 13 are given a weight of 0.5, and children aged 0 to 13 are given a weight of 0.3. ↑

7. The dataset is a sample of households. The results are generalised to apply to the entire population using weighting coefficients. ↑

8. For more details, see 'Reference budgets for the decent minimum standard of living,' Centre for Consumer Society Research, University of Helsinki. We used reference budgets for 2018 and 2023 for 11 different households consisting of adults. We assessed the reference budget need for children on the basis of the number of children and their age. ↑

9. Because the data do not include information on housing company loans borne by households, these are not included in the debts or in the debt-to-income ratios. However, the capital charges related to housing company loans are included in housing expenditure. For more details, see the information box *'How to calculate a household's financial margin'.* ↑

10. The estimated margins may in some cases be larger than they really are, for example because the dataset does not contain information on all debts and related debt servicing costs. In addition, in some households, actual consumption expenditure may be significantly higher than the estimated minimum expenditure. ↑

11. Above, we examined the median of the financial margin, which is, in other words, the 50th percentile. ↑

12. For more details, see 'Savings help households cope with rising interest rates' – Bank of Finland Bulletin (2023). ↑

13. The percentage changes in Chart 5 are symmetrical midpoint changes (arc changes) in cases where a simple percentage change is difficult to determine. This refers to situations in which the percentage change is calculated from negative figures, for example. ↑

14. However, the actual consumption expenditure of these households may normally be somewhat higher than the minimum expenditure estimated in the calculation. ↑

15. In an analysis by Petri Mäki-Fränti, households with the narrowest financial margin in 2009–2012 were those with a DTI ratio of more than 500%. For more information, see ↑

'Household indebtedness and financial margin' (in Finnish), BoF Online 7/2014.

16. Difficulty making ends meet means that the household feels that on the basis of its own experience it has had 'major difficulties' or 'difficulties' (not 'minor difficulties') in covering its usual expenses, taking into account the household's total income. ↑

17. For more on the problems of different income groups in making ends meet, see 'Inflation and higher interest rates brought financial distress to a proportion of households' – Bank of Finland Bulletin (2026). In the article, Petri Mäki-Fränti and Aino Silvo examined five subjective indicators of households' financial position in 2019 and 2023. ↑

18. See analysis by Markku Lehmus, Juho Pitkäranta and Lauri Vilmi, 'Why are euro area households saving more than usual?' – Bank of Finland Bulletin (2026). ↑

Keywords

financial stability, households, indebtedness, interest rates, loans, prices