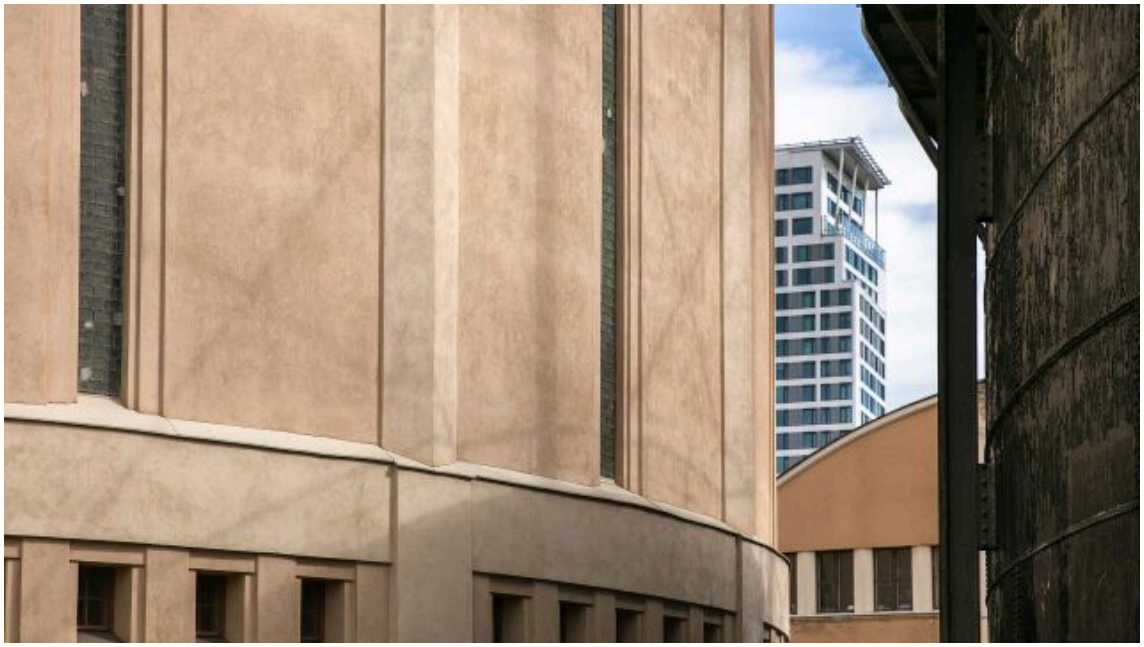
Financial Stability Assessment, May 2026

High geopolitical volatility – Financial stability safety nets must not be dismantled

Financial stability | 18 June 2026

The rise in energy prices and market interest rates caused by the Iran war is threatening to stall Finland's economy and freeze up the housing market. Finland's financial system remains stable and has demonstrated strong resilience in a difficult operating environment. Although economic growth must gain greater momentum, this must not be at the expense of financial stability. Growth in the economy will best be fostered by ensuring the financial system is stable and that banks have a strong lending capacity. The resilience of banks and borrowers should not be compromised, especially as the Government's ability to respond to crises in the economy or the financial system is being weakened by the heavy public debt burden. Financial sector entities should ensure their technological data security coverage and the adequacy of cyber risk management. Europe should also mitigate the financial system's operational risks by reducing the dependence on providers of ICT services located outside Europe.



Overview

The rise in energy prices, raw material prices and market interest rates darkened Finland's economic outlook in the spring. The geopolitical shocks of recent times, coming one after the other, have been like a cold shower for the Finnish economy – an economy suffering from slow productivity growth, notably high unemployment and weak consumer confidence.

The harm to the global and Finnish economies from the war in Iran will depend on the duration of the crisis. Even if the conflict cools off quickly, the unpredictable power politics of the superpowers may create new disruptions for the international economy and financial system. The possibility of a serious crisis in international financial markets cannot be ruled out if the geopolitical situation re-escalates or if companies do not meet the high profit and growth expectations of securities investors.

The Finnish housing market has been very slow to recover from the interest rate increases of a few years ago and from the overproduction of smaller dwellings that preceded this. If the economy performs less well than forecast, this could further delay the recovery of the housing market and make it more difficult for households to maintain spending and service their loans. Setbacks in the economy and the housing market would also put a strain on construction companies, indebted real estate investors, real estate funds, investor-driven housing corporations, and state-subsided residential construction and rental homes, among other things.

Recent years and past experience have shown that the Finnish housing market is exposed to major cyclical fluctuations and crises. The risk is that the looser provisions due to enter into force in summer 2026 regulating mortgages and housing corporation loans will not stimulate the housing market by much, but will in the longer run increase household indebtedness and the proportion of households that are heavily indebted relative to their debt servicing capacity, and will also increase housing market volatility.

Finland's banking system and the rest of the financial system have remained stable. Even so, the resilience of banks, households, businesses and the public sector to disruptions in the financial system must be maintained and enhanced. This is especially important in the current operating environment, which is marked by aggressive global politics, chronically slow growth in the Finnish economy and interdependencies between countries being turned from strengths into vulnerabilities.

In a volatile operating environment, it is important to ensure that banks' capital requirements and capital buffers remain strong in the future too, to cover even major loan losses. The regulation, supervision and reporting requirements of European banks can be simplified without jeopardising

financial stability, and this can be done on the basis of the European Central Bank's recommendations, for example.

The resilience of Finnish banks must be ensured through the use of sufficient additional capital requirements imposed on financial stability grounds. Making decisions on the size of banks' capital requirements should continue to be the responsibility of the Financial Supervisory Authority (FIN-FSA) in its capacity as the Finnish macroprudential authority.

A huge and rapidly growing debt burden is weakening the Government's ability to use expansionary fiscal policy to respond where necessary to crises in the economy or the financial system. If the Finnish Government's creditworthiness diminishes, this could also increase the cost of finance sought by Finnish banks and businesses in international markets.

Many banking services are dependent on international data connections for their operation. Finland must further reinforce its national backup systems which ensure the availability of critical banking services in all circumstances. The rapid development of language-based artificial intelligence (AI) could increase the cybersecurity operational risks of financial sector entities. To navigate this landscape it will be important to ensure that data security technologies are in place, cyber risks are managed and comprehensive cooperation is undertaken. It will also be necessary for Europe to reduce its high dependence on individual major providers of ICT services located outside Europe. Reduced dependence would decrease both political risks and the financial system's operational risks.

In the immediate years ahead, there may be sufficient political will in the European Union for promoting some of the projects that have been on hold. Finland should support closer integration of European capital markets and the introduction of a common European deposit insurance scheme that would reinforce the ability of the European banking system to weather crises and would loosen the sovereign-bank nexus.

Operating environment risks to the financial system		
		

Credit risks: Higher interest rates, weak confidence and persistent recession are stalling the economy and freezing up the housing market, as well as increasing credit risks among banks' borrowers.	**Market and operational risks:** Geopolitical shocks create instability in international financial markets. Cyber and hybrid attacks bring about serious disruptions to international data connections and domestic electronic banking services.	**Policy risks:** Dismantling banking regulations and weakening the toolkit and independence of the macroprudential authorities heightens the risk of financial crises.
Factors bolstering the resilience of the financial system		
		
Finnish banks have strong resilience. Household indebtedness has declined and debt-servicing burdens are moderate, on average.	The authorities have experience in crisis management. The loss-absorbing capacity of the international banking system is stronger than before. Backup systems have been put in place as a contingency measure for operational disruptions.	The resilience of the financial system has been improved by measures taken since the global financial crisis to reinforce international financial regulations, supervision and crisis management.
Policy recommendations for strengthening financial stability		
The resilience of banks and borrowers must be maintained by means of macroprudential policy and responsible lending.	**The confidence of international investors in Europe and Finland must be strengthened, as must the strategic autonomy of the European financial system and domestic preparedness.**	**Banking regulation must be simplified but not diluted.**
Banks must be cautious in granting mortgages	Europe's banking union must be completed with the introduction of	EU banking regulation must be simplified but

and housing corporation loans with very long maturities and high loan-to-value ratios.	a common European deposit insurance scheme. Further steps must be taken towards the creation of a European safe asset, and the Savings and Investments Union (SIU) initiatives must be accelerated.	not diluted.
Banks need strong capital buffers as a counterbalance to their structural vulnerabilities and the looser provisions on mortgages and housing corporation loans.	Excessive dependence on ICT service providers located outside Europe must be reduced.	Both EU and domestic financial regulations must primarily be based on common international standards.
Responsibility for deciding on the additional capital requirements and other macroprudential tools applied to Finnish banks must remain with the Financial Supervisory Authority (FIN-FSA).	Finland's payment backup systems must be strengthened. Banks' ability to protect themselves against sophisticated, AI-generated cyberattacks must be ensured.	Finland's public finances must be strengthened to ensure the Government's ability to use expansionary fiscal policy to respond as necessary to crises in the economy or the financial system.

International financial markets shaken by geopolitics

Geopolitical tensions, which have been elevated for a number of years already, came to a head in March–April 2026, when Israeli and United States forces attacked the Iranian leadership, targeting both military and civilian sites. The extent and severity of the Iran war's repercussions will depend on the duration of the crisis and the extent of disruptions to oil production infrastructure and oil supply chains. The war in Iran, together with other volatility in the global geopolitical landscape, may weaken the global and Finnish economies and undermine the conditions for financial stability, as well as tightening financing conditions through a variety of channels (see the information box).

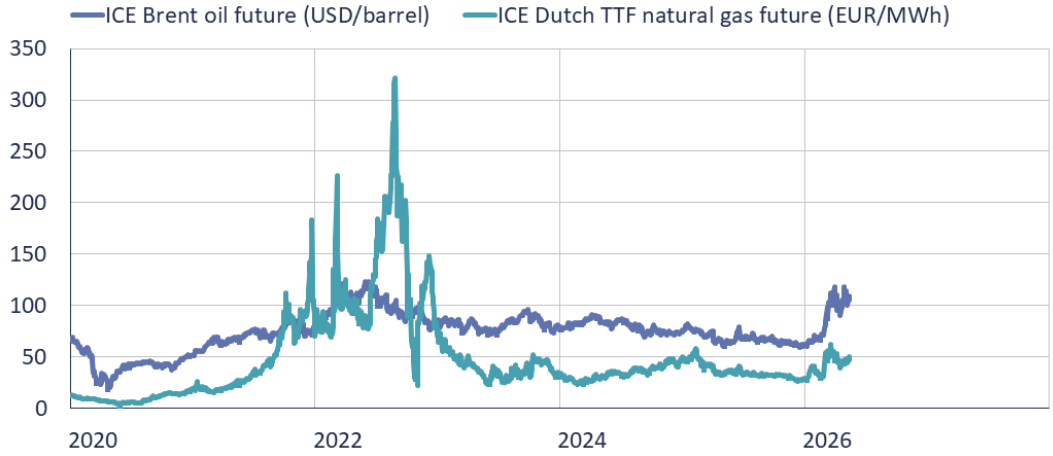
The Russia-Ukraine war has moved closer to Finland's borders, as Ukraine has attacked Russian oil terminals on the coast of the Gulf of Finland, with some Ukrainian drones ending up in Finnish territory. The demands of the US administration to take possession of Greenland and US

dissatisfaction with its allies' position in the Iran war have put the unity of the North Atlantic Treaty Organisation (NATO) to the test. The twists and turns in global power politics could, in a worst case situation, end up increasing Finland's country risk and reducing its appeal to investors.

The Iran war has quickly driven up world market prices of oil and gas (Chart 1) as well as inflation expectations and money market rates, and has created turbulence in securities markets (Chart 2).

Chart 1.

Middle East crisis has driven up oil and natural gas prices substantially



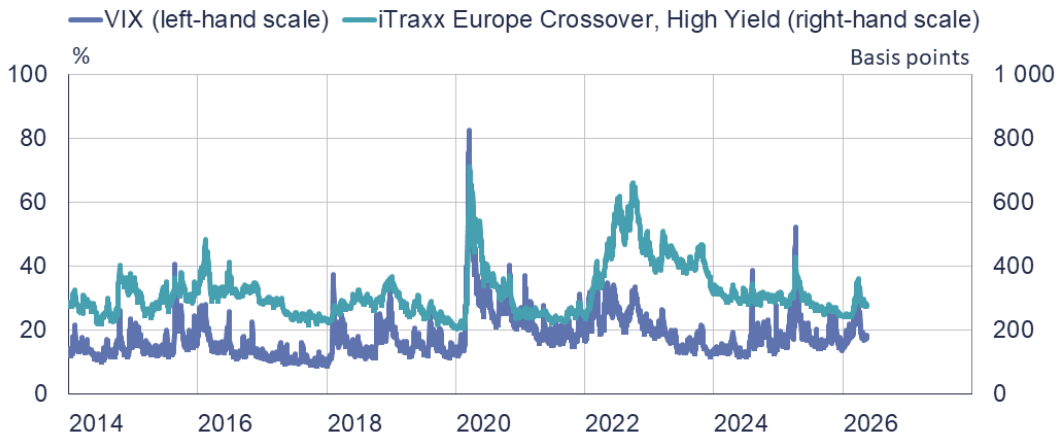
The ICE Brent oil future is the key future price for crude oil which serves as the benchmark for as much as 80% of the global crude oil trade. Brent prices are determined on the Intercontinental Exchange (ICE). The ICE Dutch TTF natural gas future is the key European reference rate for natural gas and refers to the price of Dutch TTF natural gas futures traded on the ICE.
Source: Intercontinental Exchange (ICE).

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Investors in international securities markets are also concerned about the high share prices, growing indebtedness and huge investment needs of companies that are developing artificial intelligence (AI) and AI applications. If these companies do not meet the high expectations placed on them, their share prices could fall. The rapid advances in AI have clouded the future outlook of many software and IT companies, in particular. Many of these companies are heavily indebted to lenders such as private credit funds, which are financed by capital investors (see 'Investors in private credit markets concerned about AI' (in Finnish)).

Chart 2.

Credit risks and investor concerns about volatility have increased in securities markets



The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) measures the market's expectation of 30-day forward-looking volatility derived from S&P 500 index option prices. The iTraxx Europe Crossover (high yield) index measures the credit risk of high yield corporate bonds (junk bonds).
Source: Bloomberg.

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The volume of private credit granted by lenders other than financial institutions has risen to a high level in the United States. Although the private credit market is closely connected to the banking system, the operation of this market is rather opaque and in part lightly supervised. Given the linkages and large size of the private credit market, serious problems in the market could even spill over to the banking system and the rest of the financial system, and across borders – if the problems were to spread more widely to high-risk credit markets.

ⓘ Geopolitical shocks could undermine financial stability through various channels

Geopolitical uncertainty has increased significantly in recent years (Chart 3). While the realisation of geopolitical risks will always affect the parties to a conflict or war most strongly, any increase in risks could be transmitted to geographically more distant economies and financial systems via three main channels: the real economy, the financial

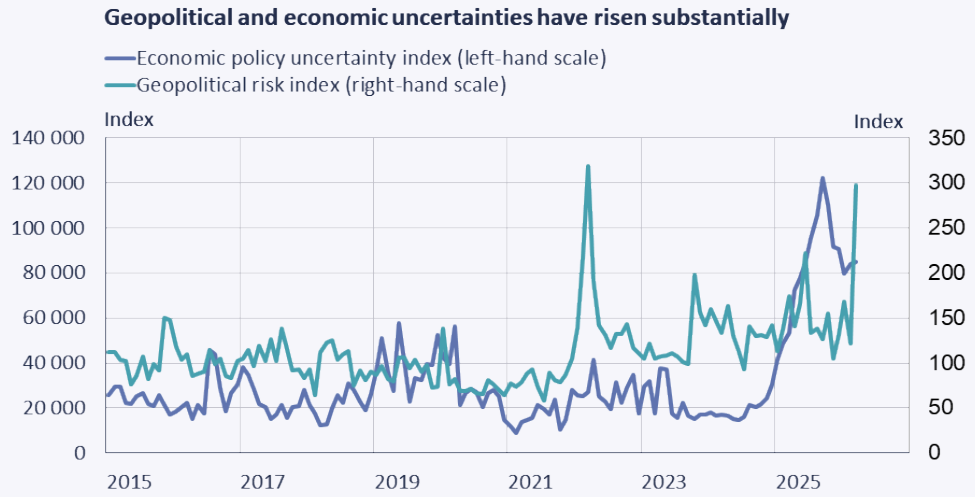
markets and operational effects.[1]

Geopolitical shocks will damage the *real economy* if, for example, they cause a contraction in the country's exports and total output, disruptions in supply chains, higher energy costs or heightened inflationary pressures. *In financial markets*, geopolitical disruptions could be reflected in, for example, turbulence in securities prices, declining share prices, wider credit risk premia on securities, and tighter financing conditions overall. *Operational risks* could materialise in the event of, for example, disruptions to the operation of critical financial market infrastructure or an increase in the incidence of cyberattacks.

The magnitude of the adverse effects on the economies of individual countries depends, among other things, on the openness of the economy, the level of public debt, the interconnectedness of financial markets with a global or regional financial system and the banking sector's ability to withstand shocks. Open and high-debt economies have often proved to be the most vulnerable. The high importance of an individual trading partner may make a country particularly vulnerable to external shocks.

In the most serious geopolitical crises, in particular, the adverse effects are transmitted via the financial markets. In these kinds of crises, credit, market, liquidity and operational risks of banks may grow and spread via the linkages between financial system participants and become risks that threaten the stability of the entire financial system. As an example, Russia's invasion of Ukraine in 2022 led to a decrease in bank lending in the euro area, an increase in domestic bias in investments and a decline in foreign investors' holdings of securities issued by businesses and banks in euro area countries.

Chart 3.



The geopolitical risk index is calculated based on newspaper articles on geopolitical tensions. The economic policy uncertainty index is calculated based on newspaper articles on economic policy uncertainty.
Sources: Economic Policy Uncertainty and Macrobond.

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Housing market gloom threatens to be prolonged

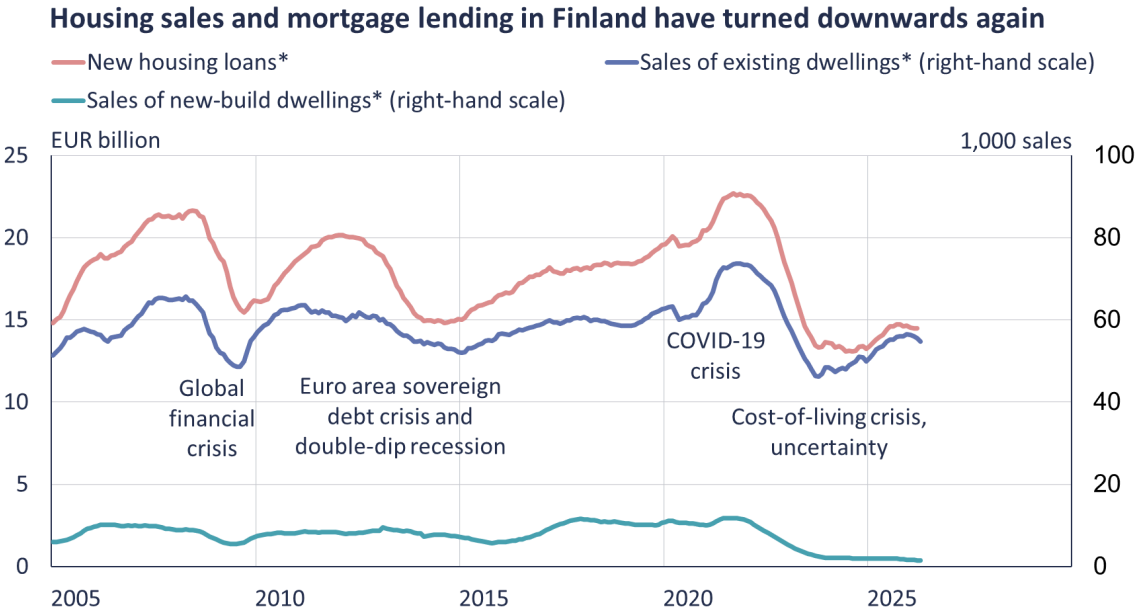
Finland's economy has been weak for a long time. Its outlook has been darkened by the war in Iran, and uncertainty about economic growth has increased further. In spring 2026, however, there was a touch of optimism brought by, for instance, the major vessel orders received in the Finnish shipbuilding industry.

According to the Bank of Finland's March interim forecast, the rise in energy and raw material prices will slow Finland's GDP growth, drive up inflation and add to unemployment, in comparison with the Bank's previous economic forecast made in December. The impacts will depend crucially on the duration of the Middle East war and the energy shock, which is difficult to predict.

The risks surrounding economic growth in Finland are predominantly on the downside and inflation may rise more than expected. According to the interim forecast's scenarios, a long-term rise in energy and raw material prices would slow the Finnish economy more and for longer than a temporary, short-term shock. In addition, a simultaneous increase in uncertainty would curb household consumption and corporate investment more than assumed in the scenarios. If economic growth turns out to be weaker than projected and if inflation is higher than expected, this could tighten financing conditions.

The rise in market interest rates and higher energy prices are casting a shadow over the Finnish housing market and its outlook. Sales of existing dwellings in early 2026 were fewer than a year earlier and took longer to complete, and prices fell further. At the same time, drawdowns of new housing loans decreased (Chart 4). The demand for housing has long been forecast to rise, responding to a projected pick-up in economic growth, an increase in household purchasing power and stronger confidence in the economy. However, the recent economic setbacks could further delay the housing market's return to normal.

Chart 4.



*12-month moving total for volume of housing loans in euros and number of sales.
Sources: Federation of Real Estate Agency in Finland and Bank of Finland.
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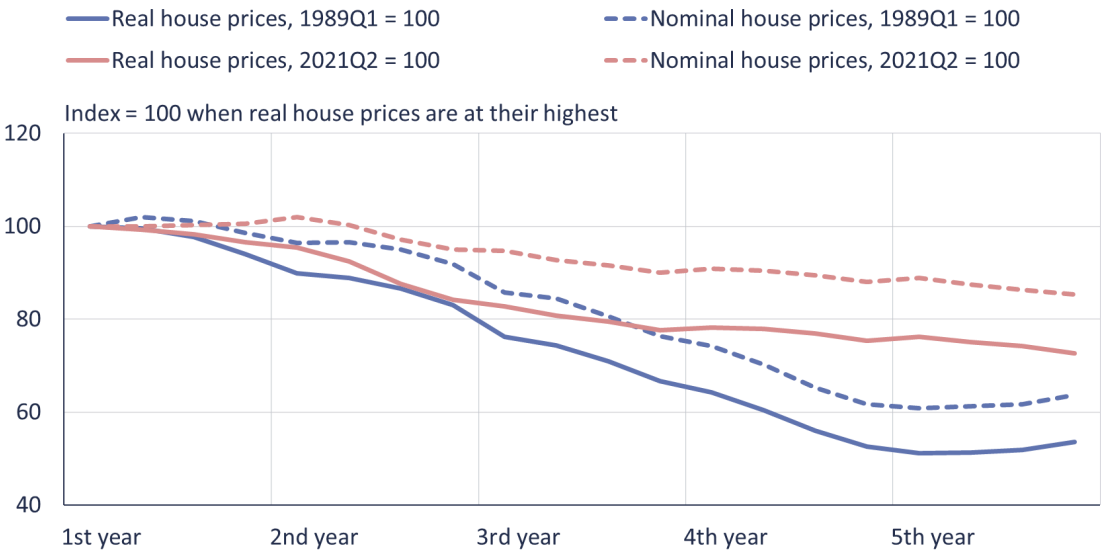
Residential construction has declined substantially since the years of very low interest rates. The prices of new-build homes have remained higher than those of existing dwellings, and demand for new-build homes is currently low. The large difference in prices between new-build and existing homes can be explained by many factors. New-build construction costs rose substantially during the period of high inflation, and building plots have remained expensive particularly in growth centres. Selling new-build homes at significantly lower prices would erode the profitability of construction companies and could raise the cost of their real estate-backed financing.

The prices of existing dwellings in real terms, i.e. adjusted for consumer prices, have long been declining, but less steeply than during the recession and the banking crisis of the early 1990s. The decline in the nominal prices of dwellings has not lasted quite as long as that in real prices (Chart 5). The decrease in the value of residential property assets may partly explain the sluggishness of

household consumption and why households are saving a larger share of their income.

Chart 5.

Housing prices have declined for a longer period but at a slower rate than during the early 1990s recession



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

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In the real estate investment market, sales picked up in the early months of 2026. The nominal value of real estate transactions by professional investors was relatively high at the beginning of the year, but was still significantly lower than it was a few years ago. Real estate valuations have not yet risen on any broader scale.

In 2025, valuation changes were negative in most real estate investment segments. The chronic underutilisation of office premises is still eroding the return on investment in office real estate. As a result of the cautious recovery of the real estate market, some of the real estate funds that restricted redemptions have reopened. Investors' redemptions from open-end funds have nevertheless still been larger than new investments in the funds.

Risk assessment: Finland cannot afford further financial crises

The Finnish financial system's existing and anticipated future vulnerabilities have remained largely unchanged (Chart 6). *Household* indebtedness has decreased from the highest levels, but Parliament's decision in the spring to ease the regulatory provisions concerning mortgage lending and lending to housing corporations may increase the risks concerning indebtedness and the

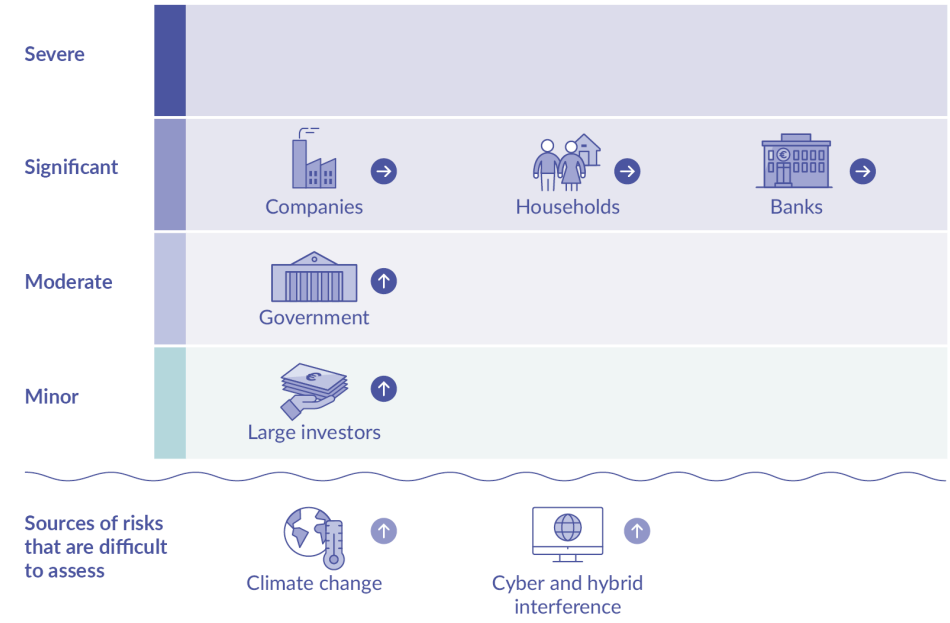
housing market in the longer term.

The situation of Finnish *businesses* is mixed. The profitability and future prospects of many large listed companies are strong and their share prices have risen. In contrast, bankruptcies and closures of micro and small enterprises, in particular, have increased rapidly. On the other hand, there has been no decrease in the number of new businesses established. Among the different sectors of the economy, the construction industry remains subdued because of the housing market gloom.

Finnish *banks* are financially sound and profitable, but the Finnish banking system is structurally vulnerable: banking crises could have severe consequences for the banking system and the Finnish economy, due to the banking sector's large size, degree of concentration, common risk exposures and dependence on market finance. The *Government's* ability to use expansionary fiscal policy to respond to crises in the economy or the financial system as necessary is weaker than before, due to the rising burden of government debt.

Chart 6.

Financial system's vulnerabilities: extent and expectation



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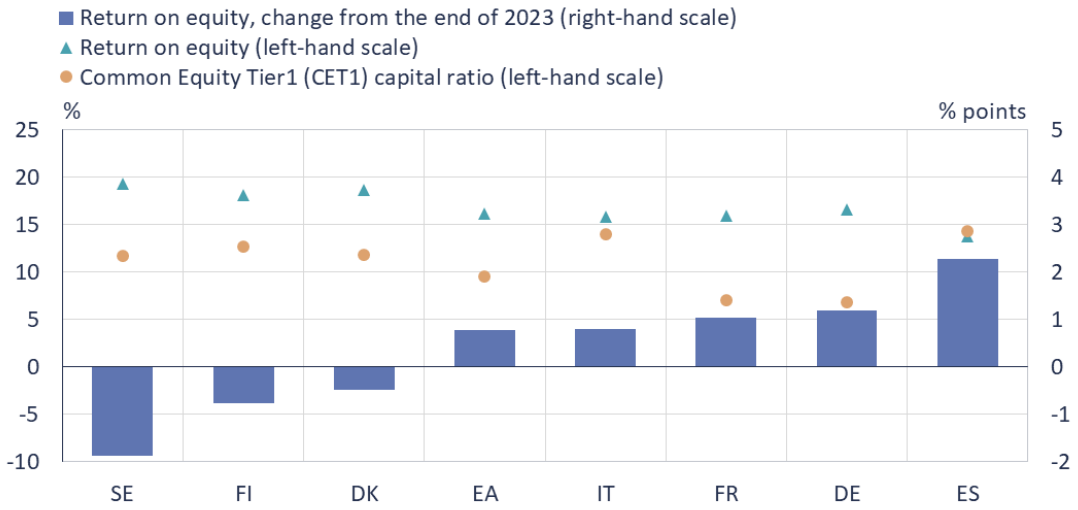
Finland's banking sector is profitable but structurally vulnerable

Banks are by far the most important source of external financing for Finnish businesses. The banking sector's strong capital position and profitability support the intermediation of finance to households and businesses and protects financial stability against external shocks. The profitability of Finnish banks is, on average, higher than that of European banks (Chart 7), despite the decrease in interest income from the level of a couple of years ago.

Banks' performance in 2025 was mixed. The decline in interest rates reduced interest income but, on the other hand, it improved the position for households and businesses. Lending picked up, the real estate market started to recover slowly and the average quality of the credit stock improved. However, credit risks on loans to the housing and real estate markets could start to increase if interest rates – which rose in spring 2026 – remain elevated.

Chart 7.

Nordic banks' capital position and profitability good despite decline in interest income



NB. Latest observation 30 September 2025. The end-September return on equity has been converted to an annual basis. EA refers to the weighted average of countries in the euro area.
Source: European Central Bank, Consolidated Banking Statistics.

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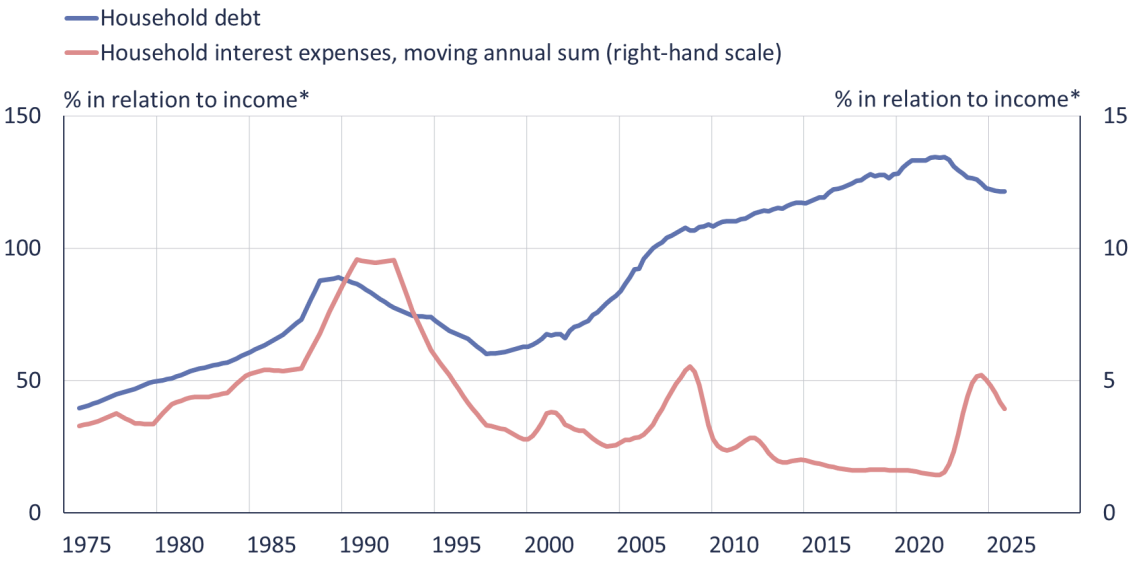
Finnish banks acquire a large part of their funding on international financial markets. Banks' access to funding could be constrained by, for example, geopolitical shocks, a notable rise in interest rates, a significant downgrade of the credit rating of Finnish government bonds or an increase in Finland's country risk. Finnish banks nevertheless have various sources of funding, and Nordic banks have typically been considered a safe investment even in difficult financial market conditions.

Financial margin of many indebted households has shrunk

Household debt relative to income has decreased significantly since 2022 and has remained unchanged in recent quarters (Chart 8). Indebtedness decreased as households took out fewer new loans and repaid their old loans, and this was accompanied by an increase in nominal disposable income. The decreased indebtedness has somewhat reduced the vulnerabilities related to borrowing and high household debt in circumstances that are increasingly difficult, as economic conditions worsened and interest rates rose in spring 2026.

Chart 8.

Finnish households' debt burden has decreased but is still large



*In relation to annual disposable income of households.
Sources: Statistics Finland and calculations by the Bank of Finland.
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Household indebtedness is still high relative to Finland's historical data and higher than the euro area and EU average. The shocks of recent years have weakened households' ability to adapt to new disruptions. The rise in interest rates and other costs of living brought financial distress to a proportion of households and left a dent in purchasing power, and the recovery from this is still in progress. Particularly in the case of indebted households, the financial margin was smaller, meaning that they had less money left over for spending or saving after taking account of essential housing, debt-servicing and consumption costs (see Rise in cost of living and higher interest rates have increased the pressure on many indebted households). The volume of households' non-performing loans has remained low, however.

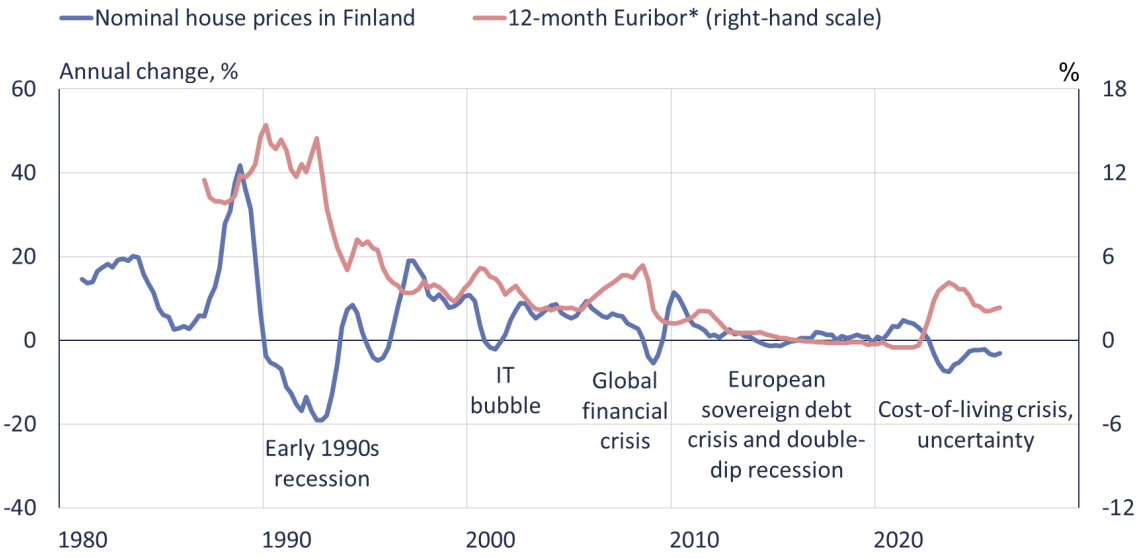
The decline in housing prices has reduced the value of many households' residential property

assets. These assets have also decreased relative to household debt. This decrease in net wealth may have contributed to curbing some households' consumption and new borrowing, and their intentions to move to another property.

In Finland, the majority of mortgage reference rates are variable rates, which increases the vulnerability and sensitivity of households and the housing market to cyclical fluctuations. Changes in interest rates are therefore transmitted rapidly to borrowers' interest expenses and affect housing demand and prices (Chart 9).

Chart 9.

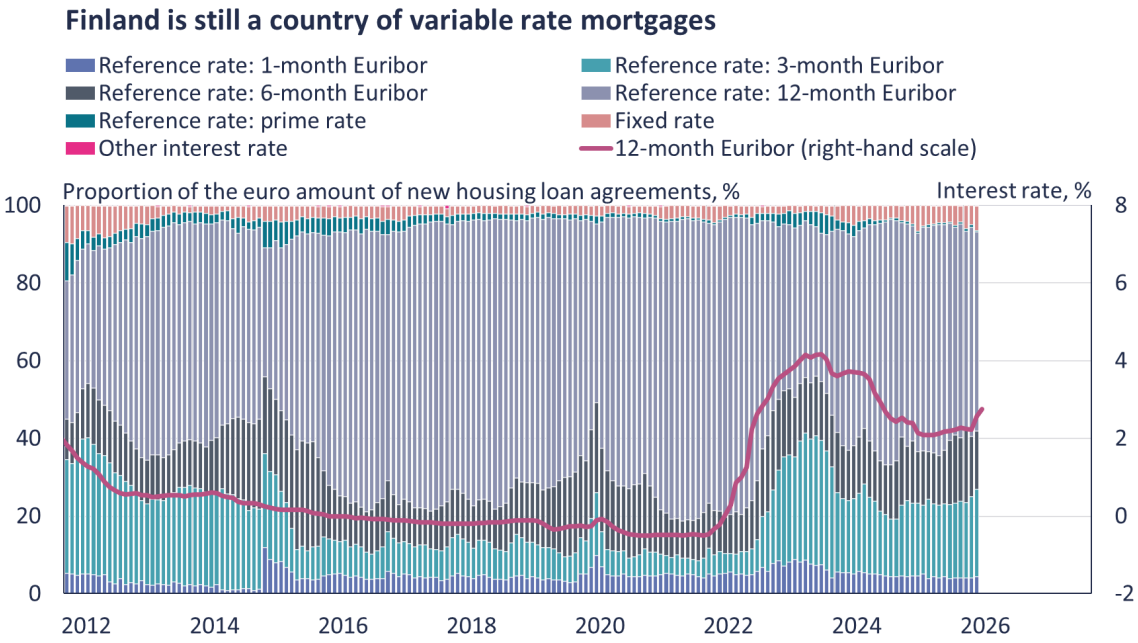
Housing prices have fallen in the same periods in which interest rates have risen



*12-month Helibor before 1999.
Sources: Statistics Finland, LSEG and Bank of Finland.
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In Finland, new mortgages are still tied almost exclusively to Euribor rates, and those tied to the 3-month and the 6-month Euribor have become increasingly popular compared to the period of extremely low interest rates (Chart 10). In the majority of cases, a rise in interest rates will increase the size of the monthly mortgage payment (principal plus interest). The interest rate risk is nevertheless mitigated by the fact that approximately one fifth of the stock of housing loans has a separately agreed interest rate hedging product, such as a fixed term interest rate cap. In addition, a proportion of housing loans are repaid in fixed monthly payments, which means that the maturity of the loan lengthens when interest rates rise.

Chart 10.



Sources: Bank of Finland and LSEG.

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Higher interest rates and the sluggish economy could increase household indebtedness and housing market risks. If economic growth is weaker than forecast, due to, for example, a prolongation of the war in Iran, this could further delay the recovery in the housing market and make it more difficult for households to maintain their spending and service their loans.

Housing corporations' non-performing loans and the risks of state-subsidised housing production have increased

The share of non-performing loans of housing companies and other housing corporations has increased to a level higher than normal. The majority of these are loans by professional entities that have constructed or been a developer for rental housing and own such dwellings. The increase in credit risks is due particularly to the repayment difficulties of a number of fairly large entities. Difficulties have been experienced by both for-profit and non-profit entities.

The downturn in the housing market has led in a variety of ways to an increase in the risks and vulnerabilities associated with state-subsidised housing production (see Hidden stability risks lie behind the financing of publicly subsidised housing production). For example, a large proportion of housing corporations other than housing companies are either directly or indirectly owned by the public sector. State-subsidised housing corporations have on average significantly more debt than other housing corporations and the maturities of their loans are longer on average. Large loans

with long maturities increase the risks associated with government guarantees.

Rents in social housing production have in recent years risen at a higher pace than market rents. The rise in rents may lower the occupancy rates in rental homes within social housing and push up rents further. In the worst case, this may lead to a spiral of reduced cash flows, rent increases and low occupancy rates in state-subsidised rental housing.

Finnish companies broadly in two groups and access to finance has weakened

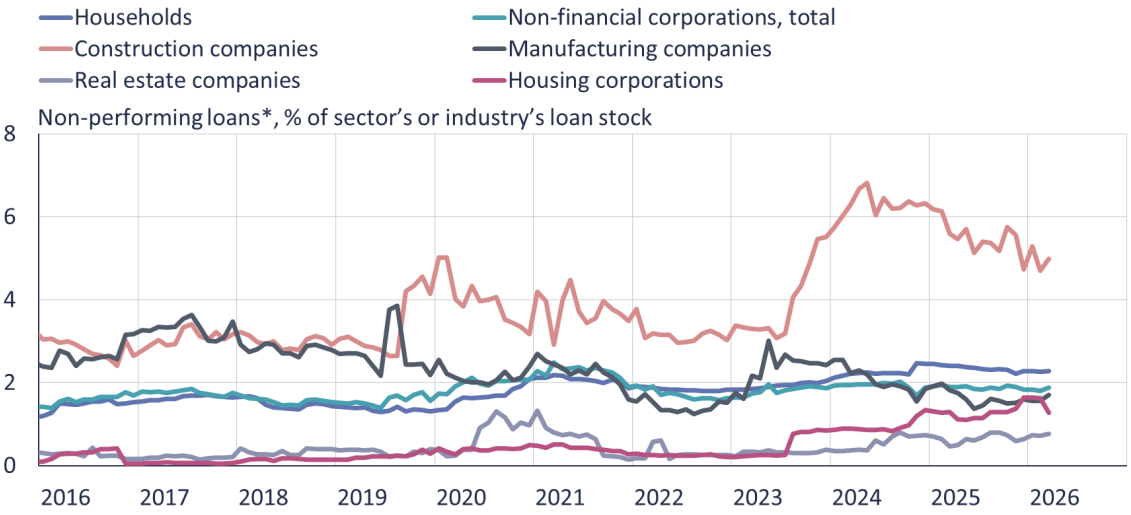
The debt servicing capacity of large Finnish companies, in particular, has remained strong, which has supported the stability of Finland's financial system in an unpredictable geopolitical environment. The number of bankruptcies, however, has risen to very high levels, with micro and small enterprises in particular going bankrupt. However, more recently the number of jobs lost due to bankruptcies has no longer been increasing.

Banks' credit losses from corporate loans have remained low. The share of non-performing corporate loans has not changed much in recent years either, although there are large differences between business sectors (Chart 11). The number of non-performing loans in the cyclically sensitive construction sector rose sharply after the rise in interest rates in 2022 and has remained high ever since. In contrast, the volume of non-performing loans among real estate companies has been low. These companies primarily own properties other than residential housing. Easier financing conditions helped the real estate sector recover until spring 2026 and contributed to boosting real estate transactions.

There could be an increase in the credit risks of corporate loans given by banks if the prices of energy and raw materials stay elevated and market interest rates continue to rise. Housing and real estate sales and construction activity are particularly sensitive to changes in interest rates. An increase in interest rates weakens the debt servicing capacity of the most indebted and smaller companies, in particular.

Chart 11.

Proportion of non-performing loans: significant differences between sectors and industries



*Loans overdue by more than 90 days and loans where the borrower is unlikely to pay because of liquidity problems. Loans are net, excluding recognized impairment losses.
Source: Bank of Finland.
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According to a survey by the European Central Bank (ECB), Finnish small and medium-sized enterprises (SMEs) have had greater difficulties than before in obtaining the financing they need. Access to finance has likely been hampered at least by the rise in interest rates and Finland's weak economic conditions.

The number of bank branches in Finland has declined (in Finnish), as local cooperative and savings banks have closed many of their branches over the past fifteen years. Economic research shows that the decline in the number of bank branches may hamper access to finance especially for small companies. Access to finance may have become more difficult especially in small towns, where branches have been closed and there have been only a few competing banks.[2]

Government under strain from rising debt and expenditure pressures

Finland's public debt has grown rapidly. Heightened geopolitical tensions and the higher level of interest rates than a few years ago have further narrowed the financial margin of public finances and increased pressures for fiscal consolidation.

Public finances are strained by subdued economic growth, the rise in interest expenditure and structural expenditure pressures. The increase in the demand for health and social services due to population ageing, together with the growing cost of these services and the weakening

dependency ratio place a strain on the long-term sustainability of the public finances.

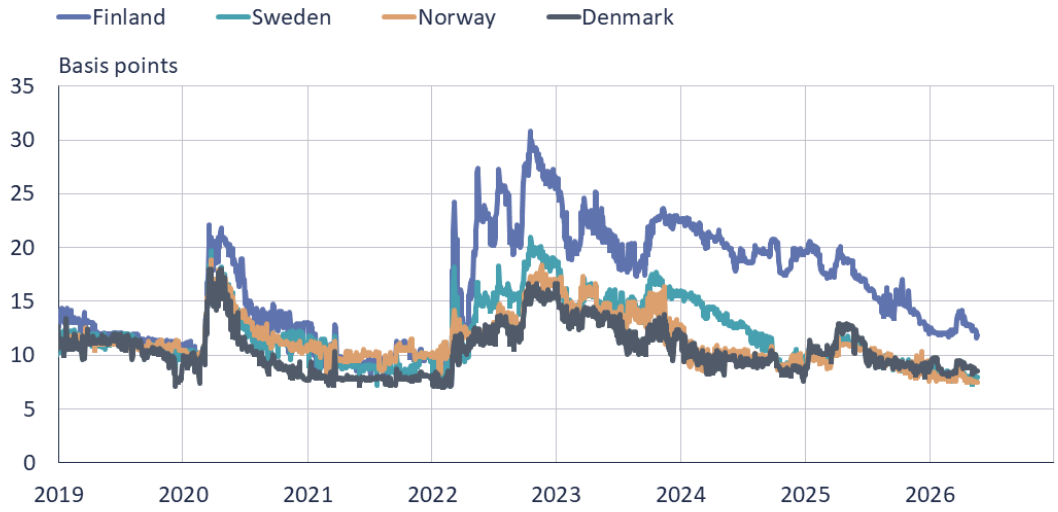
Finland's geopolitical and security policy environment has become more challenging, forcing the country to increase its defence spending, in particular, in the immediate years ahead. The planned gradual increase in defence spending to about 3.5% of GDP by 2035 will intensify the need for the Government to reduce other expenditure or raise revenues.

The Act on a National Framework for Fiscal Policy (1440/2025) entered into force in early 2026. Its objective is to reduce the general government debt ratio over the medium term and to strengthen the sustainability of the public finances also during government terms to come. However, cuts in public expenditure and tax increases may slow economic recovery in the short term.

International investors' confidence in Finland's ability to service its debt has remained strong (Chart 12), which has contributed to curbing the rise in public debt financing costs. The credit rating agency S&P revised Finland's credit rating outlook from stable to negative in April 2026. Decisive strengthening of the public finances is necessary to maintain confidence in the Finnish Government's ability to service its debt in the future too, and to ensure that the Government is able to respond to crises in the economy and financial system through expansionary fiscal policy as necessary.

Chart 12.

Nordic countries' sovereign credit risks have remained low based on credit default swap (CDS) spreads



5-year sovereign CDS spreads.
Source: S&P Capital IQ Pro.

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Major investors have made good returns, with the exception of real estate funds

Despite the geopolitical volatility, major Finnish investors such as private pension insurance companies, life and non-life insurance companies and investment and alternative investment funds have had, on average, good returns on investment since 2024. The rise in share prices and fall in interest rates from peak levels have increased returns on investment. The tightening of US tariff policy in spring 2025 and the attack on Iran in spring 2026 lowered share prices only temporarily. However, the full impact of the war in Iran on the financial markets has yet to be seen.

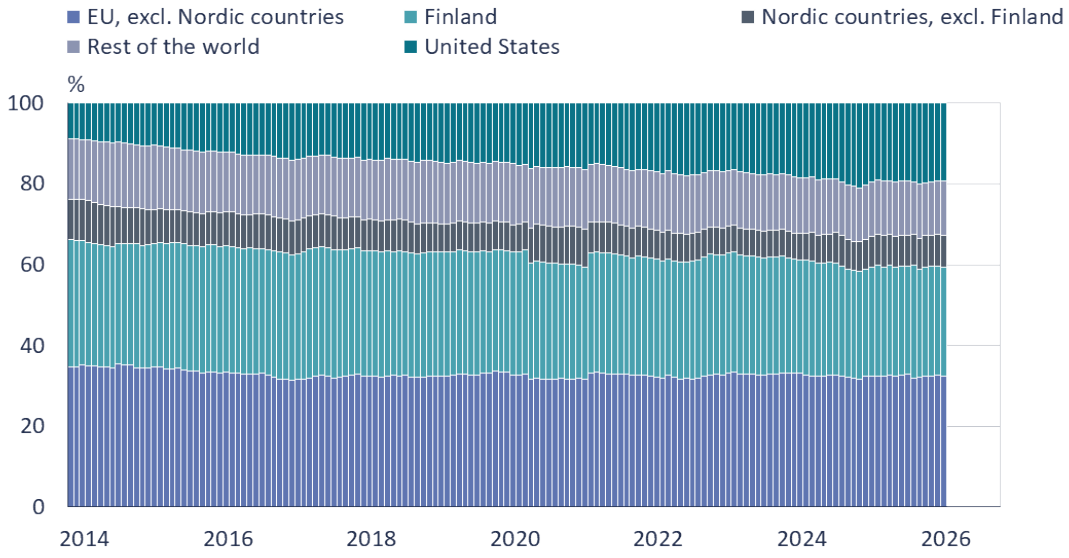
The role of major investors in the domestic financial markets includes purchasing debt securities issued by Finnish companies and the public sector, and making equity investments in listed and unlisted companies. Savings by households and businesses are intermediated to corporate borrowers in different ways, including through funds. The Bank of Finland's statistics show that major investors own around 17% of all bonds issued by non-financial corporations, with investment funds and alternative investment funds making up around 12 percentage points of this. A significant decrease in investment returns could increase redemptions from these funds and weaken the availability of market financing for companies.

Finnish investors' interest in domestic investment opportunities improves companies' access to financing, but at the same time concentrates risks for investors. Returns on investment will decrease if Finland's country risk materialises and investment valuations decline.

Possible political risks associated with investing in the United States and concerns about the future outlook for AI and software companies have had little visible impact on major investors' investments in the US securities market. However, the growth in the share of investments made in the United States came to a halt in 2025. At the end of March 2026, 20% of all securities investments made by major investors were in the United States (Chart 13). These investments involved a significant market risk, as 49% of them were direct equity investments. In addition, 39% consisted of fund holdings, a large proportion of which were equity funds.

Chart 13.

Share of investments in the United States by major investors has remained stable since the beginning of 2025



Source: Bank of Finland.

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Geographical diversification of investments reduces risk to investors. Investments abroad may, however, transmit disruptions from international financial markets to Finland. Large foreign ownership of Finnish companies may, in turn, increase the vulnerability of corporate financing to external shocks. Domestic institutional investors, on the other hand, typically have a long-term approach to investing and are not susceptible to selling pressures caused by short-term fluctuations in the securities market.

Banking services must remain operational in all circumstances

The cybersecurity threat landscape in the financial sector has darkened in recent years as cyberattacks have become more frequent and complex. Cyber threat actors utilise artificial intelligence tools in their attacks, and the lines between nation-state actors, hacker activists and cybercriminals have become blurred.

The European Union's Digital Operational Resilience Act (DORA) became applicable in January 2025. The ECB and the FIN-FSA underline the importance of digital operational resilience and cybersecurity in their supervisory activities. The FIN-FSA focuses its inspections and thematic reviews on both digital operational resilience and the prevention of risks associated with the use of digital customer channels.

International data connections are essential for many banking services. The repeated acts of sabotage targeting undersea cables in the Baltic Sea, most recently in 2025, have demonstrated the hybrid interference risks to financial market infrastructure. National backup systems must ensure that banking services remain operational even in situations where international data connections are disrupted or severely damaged.

Payment preparedness needs to be improved, as electronic payments need to function under all circumstances. Cash usage is low among Finns, while the use of international payment cards is widespread. The digital euro, which is currently under development, is an example of a new European retail payment method that would operate throughout the euro area.

The financial sector's dependence on a few major ICT service providers, particularly in cloud services, has grown from operational risk for individual companies to a systemic risk to financial stability. Financial sector entities must, first and foremost, assess and manage, on the one hand, the risks associated with their own third parties and, on the other hand, their operational continuity arrangements. In addition to this, companies that are critical for the provision of ICT services to the financial sector are to have their own supervisory framework. Managing third party risks is essential, as a disruptive event at a single widely used service provider can affect the entire financial system.

AI and other new technologies bring benefits, but also new risks. The recent rapid development of language-model AI in data security testing has raised the question of whether AI could already in the short term increase the number of advanced cyberattacks, for example against financial sector processes and infrastructure. Financial sector entities should closely follow software and hardware manufacturers' recommendations on this and ensure their data security technology and cyber risk management are sufficient. The identification and prevention of payment fraud also requires close cooperation between the authorities and financial sector entities, as well as constant vigilance from those who use banking services.

Climate change and biodiversity loss create vulnerabilities in the financial system that are difficult to predict

Work on international policy cooperation for slowing climate change has recently suffered setbacks. The United States withdrew from the Paris Agreement after the Trump administration took office in early 2025, and in Europe the political landscape for climate policy remains divided. Nevertheless, the EU remains committed to its objective of becoming carbon neutral by 2050. In early 2026, the Council of the European Union approved an intermediate objective of reducing EU net emissions by 90% from the 1990 level by 2040.

Climate change poses both physical and transition risks to the economy and the financial system. As the global average temperature rises, extreme weather events such as floods, storms, heatwaves and droughts increase. This can cause financial losses to businesses and households. Policy measures aimed at achieving carbon neutrality may render certain industries and companies unprofitable and increase the associated risks of loan losses.

In Finland, the risks related to drought and water availability, for example, are not as acute as in southern Europe.[3] Nevertheless, the increased environmental risks arising from global warming should be taken seriously in Finland, too. More frequent flooding, for example, may increase banks' risks of loan losses in Finland.[4] Forest damage caused by insect pests and forest fires may become more prevalent due to warmer, longer and drier summers, resulting in financial losses and reducing the collateral value of forests.

Extensive and detailed datasets will continue to play a key role in assessing the risks that climate and environmental factors pose to the stability of the financial system. The objectives of the EU's Omnibus package of legislative proposals presented in 2025 include the simplification of companies' sustainability reporting. If reporting requirements are reduced too much, however, banks' access to information on customers' transition risks, among other things, may weaken.

Risks associated with easing the regulation that safeguards financial stability

In April 2026, the Finnish Parliament approved legislative amendments that significantly ease the regulation of residential mortgages and housing corporation loans. The amendments extend the maximum repayment period for mortgages from 30 years to 40 years and give the Government the right, within given limitations, to extend the maximum repayment period for housing corporation loans used for financing new-build construction, to increase the loan-to-value limit and to extend the maximum duration of interest-only periods beyond the current limit.

The legislative amendments' stated objectives of promoting saving and investment, supporting the housing market and construction activity, and making it easier to move to another home all merit support. If households were to allocate more of their assets to financial and other forms of wealth rather than housing, this would help diversify the risks faced by households and the national economy.

Longer repayment periods can encourage households to save and invest more if they reduce monthly loan servicing costs and therefore free up funds for investment. However, this will not necessarily be the case. The increase in the average maturity of housing loans in Finland has been

linked to growth in the average size of loans and an increase in household indebtedness. Longer permitted loan terms may encourage some loan applicants to take larger loans, which is likely to increase household indebtedness.[5]

During strong upswings in the housing market, there may be times when rapidly rising housing prices cause a price spiral and the housing market overheats. In such circumstances, the size and duration of new mortgages may start to increase quickly. The new 40-year maximum repayment period would then be less effective than its predecessor in curbing an undesirably rapid increase in mortgage maturities and sizes.

Financing new-build construction with housing company loans involves significant risks. For this reason, legislation that entered into force in July 2023 introduced a maximum maturity for these loans, a loan-to-value limit (maximum credit share), and a maximum duration of interest-only periods. The risks have not disappeared, as evidenced by the recent difficulties of some professional residential property investors in servicing housing company loans used as leverage.

The regulation of maximum maturity, loan-to-value limits and the maximum duration of interest-only periods for housing company loans falls within the sphere of macroprudential policy. To date, decisions on the use of macroprudential instruments in Finland have been taken by the Board of the Financial Supervisory Authority (FIN-FSA). The limits applied on housing corporation loans have been fixed and are set out in legislation. Splitting macroprudential decision-making between the FIN-FSA and the Government would require broad-based preparation of decisions and sufficient exchange of information between the decision-makers.

In addition to the regulatory amendments approved by Parliament in April 2026, the question has also arisen in domestic debate as to who should hold decision-making powers in regard to the imposition of the systemic risk buffer (SyRB) requirement on the basis of structural vulnerabilities in the banking sector. According to international recommendations[6], macroprudential policy decisions should be taken either by a single authority or by a board composed of the authorities responsible for financial stability, and the decision-maker should be operationally independent of political bodies and the financial sector. From this perspective, assigning decision-making on the magnitude of the SyRB requirement to the FIN-FSA Board has been a justifiable solution.

European banking regulation could be simplified

Banking regulation in the EU is complex in certain respects. For example, the statutes concerning banks' capital requirements are more complex than would be required by the recommendations of the Basel Committee on Banking Supervision (BCBS). In December 2025, the High-Level Task Force on Simplification appointed by the Governing Council of the European Central Bank (ECB)

issued recommendations for simplifying the European prudential regulatory, supervisory and reporting framework for banks (see the information box and the feature article 'Macroprudential policy must not be dismantled but reformed').

European Central Bank's High-Level Task Force proposes ways to reduce complexity in banking regulation, supervision and reporting

The High-Level Task Force on Simplification appointed by the European Central Bank (ECB) examined ways to simplify the EU's prudential framework without reducing the overall level of banks' capital requirements or undermining financial stability, and without deviating from the Basel Committee's recommendations. Its members included senior leaders from euro area national central banks, among them Bank of Finland Governor **Olli Rehn**. The Task Force issued 17 concrete and feasible recommendations.

The key finding of the Task Force was that EU banking legislation has become overly complex in certain respects relative to the benefits achieved through regulation. Differences between Member States, for example in the national application of banks' capital requirements, should be reduced.

Additional capital requirements imposed on banks by national supervisory, macroprudential and resolution authorities supplement the common minimum capital requirements that apply to all banks. The Task Force considered that these additional requirements consist of too many elements and that there are too many differences between countries in how they are set. In its report, the Task Force proposes that the capital buffers imposed on banks on financial stability grounds (macroprudential buffers) be merged, replacing the existing five with two requirements. The calibration of the buffers should be based on more harmonised principles than at present.

Banks' leverage ratio requirements define, in simplified terms, how much capital (own funds) a bank should hold at a minimum relative to the size of its balance sheet. In the EU, these requirements consist of several components, which the Task Force propose to be merged into two.

Large banks in particular are subject to specific additional capital requirements and

funding-related requirements (resolution requirements) to ensure that a bank in crisis can, if necessary, continue its functions critical to society and can be recapitalised without recourse to taxpayers' funds. The Task Force proposes that EU-level resolution requirements be simplified and aligned with international standards.

The Task Force recommends that macroprudential measures imposed by an individual EU Member State on its domestic banks be applied more systematically on a reciprocal basis to banks from other Member States operating in that country. This would strengthen macroprudential policy particularly in the Nordic and Baltic countries, as their banking sectors are already to some extent integrated and some of the larger banks operate extensively outside their home countries. However, broader reciprocity would require Member States to apply macroprudential tools in a more harmonised manner than at present.

According to the Task Force, supervision and regulation should be simpler for small banks than for larger banks. A larger share of EU-level banking regulation should be implemented through regulations rather than directives, as regulations are directly and uniformly applicable in all Member States.

The Task Force proposes simplifying the methodology for EU-wide bank stress tests. Banks' reporting requirements could be eased, for example by reducing duplicative reporting by banks to multiple authorities and by promoting the sharing of reporting data among authorities.

Financial regulation is never complete as such, but has to evolve with the world around it. Digitalisation in particular is transforming financial markets in ways that require continuous assessment of regulatory needs. Crypto-assets, for example, have grown in popularity and become increasingly interconnected with the traditional financial system. Although the crypto sector (including crypto-assets, their underlying technologies, and crypto-related services and service providers) does not currently pose a threat to financial stability, it is important to identify linkages between the crypto sector and the traditional financial sector and the vulnerabilities arising from them.

Crypto-assets are based on distributed ledger technology. Financial sector entities have also begun to test this technology in traditional financial products, such as deposits (so-called tokenised deposits). The potential use of this technology in payment and settlement systems is also being explored. If different types of financial services and systems are built on the same technology, then service providers and infrastructure operators would need to be required to

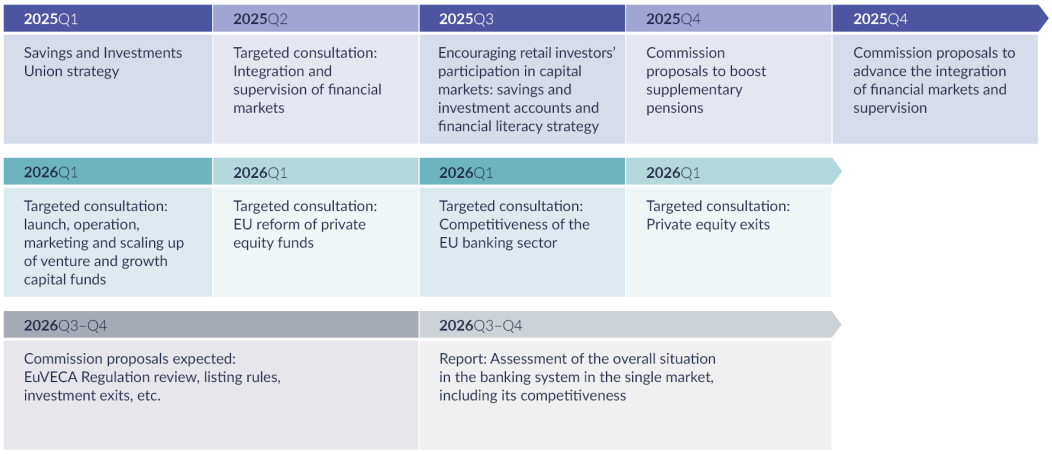
have robust risk management and clear governance models to prevent the technology giving rise to stability risks. European financial services should rely on European technologies that comply with European regulation. At the same time, it is important to promote the uniformity of regulation internationally.

From fragmented to integrated financial markets in Europe

In the EU, a key issue within the financial system is the fragmentation of securities markets into small national markets. In March 2025, the European Commission adopted a strategy for the Savings and Investments Union (SIU), where one of the strategy's objectives is to reduce this fragmentation. Through SIU initiatives, progress should be made from fragmented national markets towards more integrated European financial markets. Since the publication of the strategy, a number of measures have already been taken to advance the SIU (Chart 14).

Chart 14.

Progress with the Savings and Investments Union



Sources: European Commission and Bank of Finland.
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In December 2025, the Commission took an important step forward by publishing a package of measures on market integration and supervision. The aim of the package is to remove barriers that keep EU capital markets fragmented and hamper the efficient allocation of capital. Among other things, the Commission proposes strengthening the role and powers of the European Securities and Markets Authority (ESMA). A report on the targeted consultation on the competitiveness of the EU banking sector is expected in the course of 2026. In addition to the SIU, work is also under way this year in Europe to reform the regulatory framework on securitisation and to introduce a voluntary EU-level limited liability company form (known as the '28th regime').

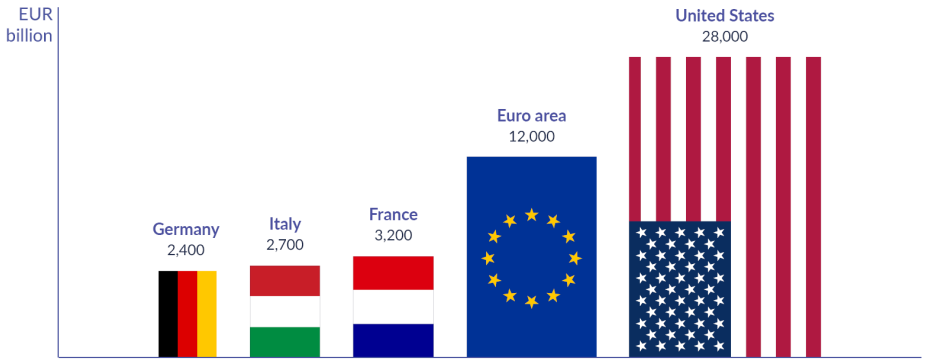
Progress on the SIU would help European companies to access more financing at lower cost from more integrated financial markets. Small capital markets constrain start-ups, which need risk capital to grow rapidly and bring their innovative business ideas to market. Large companies, in turn, would benefit from a greater number of multinational banks operating in Europe that would be sufficiently large to finance major corporations.

The euro is the world's second largest currency. Europe lacks a common European safe asset comparable to US government bonds. Such a safe asset would be a low-risk instrument with large, well-functioning markets and no strong link to any single EU Member State. Nor does Europe have market-determined interest rates for such instruments that could serve as reference rates in a wide range of financial contracts.

Without a European safe asset, large institutional investors are unable to carry out large-scale bond transactions in the euro area without affecting interest rates and other market prices. This reduces the attractiveness of euro-denominated bonds as an investment for, for example, central banks, sovereign wealth funds and other large institutional investors. Even the largest euro area countries are small in global terms as markets compared with the United States (Chart 15).

Chart 15.

The sovereign bond markets of even the largest euro area countries are small globally



Sources: BIS and calculations by the Bank of Finland.
Marketable outstanding general government debt securities in selected countries, 2025.
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Deposit insurance schemes in Europe remain national, which means that the credibility of a bank's home-country scheme matters to depositors. Stronger and more harmonised deposit protection would strengthen and complete the banking union. Overall, completing the banking union would improve Europe's resilience and also make Europe more integrated from the perspective of

international investors.

Notes

1. The European Systemic Risk Board and the Eurosystem have sought to develop methods for assessing the transmission channels of geopolitical risks and the magnitude of the transmission. The Bank of Finland has also been involved in this work. For more information, see: https://www.ecb.europa.eu/pub/pdf/other/ecb.report202601_financialstabilityrisks.en.pdf?640b4328004d04797e1fd7ebf0e39aa0. ↑
2. The research literature was reviewed in the article 'Domestic corporate finance is still fairly local' (in Finnish) – Euro & talous. ↑
3. See: e.g. The European economy is not drought-proof. ↑
4. See: Increased flood risks caused by climate change will also affect banks – Bank of Finland Bulletin. ↑
5. Research on the effects of rising household indebtedness on the real economy and financial stability is discussed in the Bank of Finland Research Discussion Paper entitled Household debt, the real economy, and financial stability: A literature review. ↑
6. See: Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3). ↑

Keywords

banks, crisis resilience, cyber risks, deposit insurance, financial market infrastructure, financial regulation, financial stability, geopolitics, housing loans, housing markets, macroprudential policy, real estate investment market, SIU (Savings and Investments Union)