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Now is the time to deploy the rainy day buffers

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The corona crisis has impacted negatively on the Finnish economy and on the country's banks and their customers in a number of ways. The banks now need to deploy the financial buffers they have been accumulating since the global financial crisis just over a decade ago. By granting new loans and amortisation holidays, the banks can for their part help businesses and households survive the acute phase of the current crisis. At the same time, banks must prepare for an increase in loan losses from previously granted loans.



The coronavirus pandemic has caused the economy and financial markets to falter throughout the world. Movements of people, meetings and business activities have been restricted, and the global economy has come to an unprecedented halt. In Finland, the corona crisis will reduce economic activity substantially during the course of 2020. Estimates of the length and depth of the crisis are still very uncertain.

Finland's government, authorities and banks have deployed a range of measures to help households and businesses come through the corona crisis. Businesses that have found themselves in severe financial distress require a mixture of credit and direct support in order to

cope with the surprise external shock to the economy. The measures taken are aimed at ensuring the temporary cash flow problems experienced by businesses do not lead to a wave of bankruptcies and mass unemployment.

Finns are consuming very cautiously in view of the increased uncertainty over their health and their own financial situation. Many people's income has declined due to temporary or permanent lay-offs or the difficulties encountered in their own business activities. They are accordingly buying less goods and services than in good times. The restrictive measures introduced by the government have also reduced opportunities to consume. Households are postponing large financial decisions, such as moving house, until the outlook for the economy improves.

Housing market risks have often been a major factor behind the emergence and severity of economic and financial crises. If the economic recession is prolonged, this could trigger the risks surrounding households' large housing and other loans and cause disruptions to the housing market in Finland and across the Nordic region in general. The Nordic countries are vulnerable to the same sort of risks, as Nordic households have a large amount of debt and housing loans comprise a large proportion of the lending by Nordic banks.

Banks and large non-financial corporations derive much of their funding from the international financial markets. The corona crisis has caused market tensions and uncertainty, with share prices falling and funding becoming more expensive. Central banks and financial supervisors have adopted new measures to stabilise the markets and ensure access to funding. As a result of these measures, banks can grant loans and temporary amortisation holidays to households and businesses of different sizes.

The decline in incomes due to the corona crisis is making it harder for many businesses and households to service their debts. The loan losses of banks operating in Finland could grow substantially in the immediate years ahead. However, banks in Finland and across Europe are facing the current crisis from a stronger foundation than they faced the financial crisis of a decade ago. Moreover, the interest rates on loans are at an historic low. This will make it much easier for people to service their debts compared with, for example, the Finnish recession of the 1990s.

Keywords

banks, companies/firms, COVID-19, COVID-19 virus pandemic, financial stability, households