Annual growth in corporate loan stock in Finland

- Non-financial corporations and housing corporations, annual growth rate
- Non-financial corporations, annual growth rate
- Housing corporations, annual growth rate

Source: Bank of Finland.
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1 Summary

The demand for bank loans decreased in 2014. Nevertheless, loan markets were more robust in Finland than in most of the other euro area countries, and household and corporate loan stocks grew despite the decline in loan demand.

Growth in the stock of housing loans moderated due to poor economic developments, weaker household confidence in their own financial outlook and a decrease in house purchases. Even the low level of interest rates and slight contraction in housing loan margins in 2014 were not enough to boost housing purchases.

By contrast, the stock of loans to housing corporations grew briskly in 2014. Indebtedness of housing corporations is broadly comparable to households taking out housing loans, and it reflects renovation activity. In times of subdued economic activity, renovations are often funded by housing corporation loans, which increases households’ debt burdens. Another factor explaining the brisk growth in the stock of loans to housing corporations is that the debt share is often very high in the case of housing corporation loans for new construction.

The stock of loans granted by banks to Finnish non-financial corporations grew steadily. As in previous years, new corporate loans were taken in 2014 primarily for refinancing and working capital purposes. Lending for investment purposes continued at a subdued pace. Nor did non-financial corporations increase their direct lending from markets via bonds.

The stock of bonds issued by credit institutions grew in 2014. Higher bond volumes reflect banks’ preparations for the forthcoming regulatory changes.

The share of non-MFI deposits in bank funding contracted slightly from the previous year. Deposits with agreed maturity were less popular among households, and funds were shifted from fixed-term commitments to overnight deposits. In an uncertain economic situation, there is a tendency to hold financial assets in liquid form. Because deposit rates are very low, households also invested in investment funds and equities, which can generate higher returns than deposits.

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The net stable funding ratio (NSFR) requirement aims to avoid excessive structural funding risk which arises from maturity mismatch between claims and liabilities. Under the NSFR requirement banks must have a sufficient amount of stable funding sources (term deposits and debt securities with long maturities) relative to the maturity and volume of lending.
2 Aggregated MFI balance sheet

The aggregated balance sheet of Finnish MFIs\(^1\) grew by a good 10% in 2014. Growth was primarily fuelled by an increase in the balance sheet value of derivatives resulting from a decline in long-term market interest rates.

At the end of 2014, the aggregated balance sheet of Finnish MFIs totalled EUR 579 bn, which was EUR 54 bn – or over 10% – more than a year earlier. The aggregated balance sheet began to contract in 2012, and the trend continued in the first months of 2014. In May, the annual rate of change turned positive. Growth in balance sheet assets was fuelled by derivatives (EUR 40 bn), but also by other items in the category ‘other assets’ (EUR 7 bn), due to growth in collateral deposits linked with derivatives. At the liabilities side of the balance sheet, growth was correspondingly recorded in debt securities issued by credit institutions (EUR 8 bn).

In summer 2014, the Governing Council of the ECB decided on measures to support lending. These monetary policy tools included targeted longer-term refinancing operations (TLTROs). The purpose of these operations is to improve bank lending, thereby also promoting economic recovery. The operations commenced in August 2014 and will continue until 2016. Counterparty banks have the possibility to participate in the TLTROs, if they so wish. By the end of 2014, the TLTROs had a minor impact on Finnish MFIs’ balance sheet.

At end-2014, credit institutions had derivatives in an amount of about EUR 115 bn on both the assets and the liabilities side of the balance sheet.\(^2\) Derivatives in the balance sheet are primarily interest rate derivatives whose market value changes along with interest rate changes. In fact, growth in the balance sheet value of derivatives was largely due to a decline in long-term market rates during 2014.

Finland’s contribution to the aggregated balance sheet of euro area MFIs remained at just under 2% in 2014. France and Germany accounted both for about a fourth of the balance sheet total, Italy for 13% and Spain for 10%. At end-2014, the aggregated balance sheet of euro area MFIs totalled EUR 31,175 bn. The annual rate of change of the euro area balance sheet has been negative since November 2012. In December, however, growth turned positive and the aggregated balance sheet grew by 1.2% on a year earlier. Of the euro area countries, weak developments were recorded especially in the aggregated balance sheet of GIIPS countries, where balance sheets contracted throughout the year.

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\(^1\) The monetary financial institutions (MFI) sector (excl. the Bank of Finland) comprises credit institutions and money market funds (MMFs) operating in Finland. MMFs’ share in the aggregated MFI balance sheet contracted in 2014, to 0.6 percentage point at the end of the year. MMF developments are discussed in more detail in the Investment Funds Annual Review.

\(^2\) In Finland, derivatives are entered in the balance sheet on the basis of market value, either as assets or liabilities, depending on whether the value is positive (assets) or negative (liabilities). The stock of MFI derivatives agreements is usually very close to zero on net, since banks seek to hedge any derivatives agreements made with customers by reverse positions.
Household and corporate loan stocks growing faster in Finland than elsewhere in the euro area

Loans to residents in the euro area – primarily in Finland – were the most significant item on the assets side of Finnish MFIs’ balance sheet, covering almost half of total assets. The volume of loans granted to euro area residents turned slightly up during 2014, after having contracted for about two years. At the end of 2014, the stock of loans was 3% higher than at end-2013. Loans to households accounted for about 45% and loans to non-financial corporations for over a quarter of the loan stock. A new classification of sectors4 in accord with the European System of National Accounts (ESA 2010) was introduced in January 2014, and in this connection the vast majority of reporting institutions began to use Statistics Finland’s up-to-date Business Register. Due to this change, many companies were shifted to the statistical sectors ‘other financial corporations’ and 'general

3 In the context of MFI statistics, annual changes are calculated on the basis of flow data computed by deducting, from changes in stocks, other changes affecting the stock data during the period, such as price changes, impairments and reclassifications. Reclassifications arise e.g. from changes in sector and instrument classifications, the structure of the MFI sector and accounting practices. Therefore, flow data reflect banks’ transactions during a certain period. Hence, annual rates of change calculated on the basis of flow data reflect the impact of genuine transactions on the stock. At the beginning of 2014, a new classification of sectors was introduced in MFI statistics, and in this connection many instruments shifted from one sector to another. For this reason, the flow data-based annual rates of change do not correspond to changes calculated from stocks of two periods.

government’. There were also several classification changes within the corporate sector, such as shifts from actual non-financial corporations to housing corporations.

The annual growth rate of loans granted to households moderated in 2014, to just under 2% at year-end. Growth in the total stock of loans to non-financial corporations and housing corporations contracted also slightly during the year, to about 5% at year-end. Growth was primarily fuelled by an expansion of the stock of loans to housing corporations. Loans to other financial corporations continued to grow strongly, albeit at a noticeably slower pace than before. This was due to a moderation of growth in the volume of repo agreements\(^5\) with financial corporations.

In the euro area, the stock of loans granted to entities other than MFIs and the general government continued to contract during 2014, albeit at a slower pace than in the previous year; in December 2014, the loan stock contracted by 0.4%. The annual growth rate of the stock of loans to household has remained at around zero for three years. In 2014 the loan stock contracted slightly and was 0.3% smaller in December 2014 than a year earlier.

The stock of loans to non-financial corporations grew faster in Finland (4.9% in December 2014) than in most of the other euro area countries. The annual rate of change in the total stock of loans to euro area non-financial corporations was negative throughout 2014, standing at −1.3% in December. At the end of the year, annual growth in the corporate loan stock was faster than in Finland only in Luxembourg and Malta.

\(^5\) A repo or repurchase agreement is an arrangement where, in connection with a sale of securities, the seller undertakes to repurchase the same securities at an agreed price at an agreed date.
The bulk of non-MFI deposits with Finnish MFIs consists of deposits placed by households, and the majority of these are households’ current accounts and deposits with agreed maturity. The stock of household deposits began to contract slightly in 2013, and the trend continued in 2014. At the end of the year, the household deposit stock was 1% smaller than at end-2013. Growth in the stock of deposits placed by non-financial corporations slowed sharply in 2013, but accelerated again in 2014, with the annual growth rate fluctuating around 10%. Growth in the stock of deposits reflected a marked increase in repo agreements.

The total stock of euro area non-MFIs grew by a good 1% in 2014. Non-MFI deposits in the euro area have developed modestly for several years, with the annual growth rate remaining below 3% since 2011. Non-MFI deposits are growing faster than in Finland only in Estonia and Malta. Increased uncertainty in Greece in the context of parliamentary election in January was reflected in December as a drop of about 3% in the stock of non-MFI deposits with Greek MFIs.

Finnish MFIs had no difficulties in obtaining market-based funding in 2014. The volume of debt securities issued, which is another significant funding item for MFIs, grew to over 6% on average, from over 5% a year earlier. By contrast, in other euro area countries the stock of debt securities contracted further: at the end of the year, the stock of debt securities issued was almost 8% smaller than at end-2013. The need for market-based funding eased on account of banks’ efforts to adjust their balance sheets with the weak economic situation.
Table 1. Aggregated MFI balance sheet\(^1\) (excl. Bank of Finland), EUR m

<table>
<thead>
<tr>
<th></th>
<th>Credit institutions</th>
<th>Money market funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to euro area residents</td>
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<td>272 772</td>
<td>331</td>
</tr>
<tr>
<td>Securities other than shares issued by euro area residents</td>
<td>24 769</td>
<td>29 169</td>
<td>1 977</td>
</tr>
<tr>
<td>Shares and other equity issued by euro area residents</td>
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<td>10 084</td>
<td>0</td>
</tr>
<tr>
<td>External assets</td>
<td>135 090</td>
<td>126 635</td>
<td>1 128</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>645</td>
<td>662</td>
<td>0</td>
</tr>
<tr>
<td>Remaining assets</td>
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<td>136 515</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>521 877</td>
<td>575 838</td>
<td>3 436</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits of euro area residents</td>
<td>183 441</td>
<td>186 251</td>
<td>0</td>
</tr>
<tr>
<td>Debt securities issued held by euro area residents</td>
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<td>79 866</td>
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</tr>
<tr>
<td>Money market fund shares held by euro area residents</td>
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<td>0</td>
<td>3 391</td>
</tr>
<tr>
<td>Capital and reserves</td>
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<td>28 857</td>
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<tr>
<td>External liabilities</td>
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<td>139 839</td>
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<tr>
<td>Remaining liabilities</td>
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<td>141 024</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>521 877</td>
<td>575 838</td>
<td>3 436</td>
</tr>
</tbody>
</table>

\(^1\) Derivatives are included in items 'Remaining assets' and 'Remaining liabilities'.

Source: Bank of Finland.
3 Loans and securities assets

At the end of 2014, the stock of euro-denominated loans granted by Finnish MFIs to euro area non-MFIs totalled EUR 214 bn. The annual growth rate of loans moderated noticeably during the year, to 4.1% in December 2014. Stocks of loans to non-financial corporations and households grew further, albeit the growth rate of housing loans decelerated.

The non-MFI loan stock comprises loans to households, non-financial corporations, general government, insurance corporations and non-monetary financial institutions. The majority of the stock of loans granted by Finnish MFIs to non-MFIs consists of loans to households. At end-2014, household loans accounted for 55%, or EUR 119 bn, of the non-MFI loan stock, almost unchanged on the previous year. Before this, the proportion of household loans has long been at around 60%.

A repo or repurchase agreement is an arrangement where, in connection with a sale of securities, the seller undertakes to repurchase the securities at an agreed price at an agreed date. Growth in repo purchases in Finland stems from one bank’s

organisational arrangements, due to which certain market operations are concentrated in Finland.

Central counterparties are classified in the sector ‘other financial institutions’.

At the end of 2014, the total stock of loans granted by Finnish MFIs to non-MFIs, also including loans in foreign currencies and loans to non-euro area residents, amounted to EUR 255 bn. The loan stock grew by EUR 12 bn on the previous year. Loans granted to Finnish residents accounted for 80% of the total non-MFI loan stock, loans to residents of other euro area countries for 6% and loans to residents of non-euro area countries for 14%.

The structure of the loan stock has changed in recent years as a result of a strong growth in repo purchases that began in 2011. Repo agreements became more common especially with insurance corporations and central counterparties. Prior to 2011, MFIs made repo agreements primarily directly with other MFIs.

At the end of 2014, 16% of the loan stock consisted of loans in other currencies than euro. The
proportion of loans in other currencies has increased in recent years at the same time as repo agreements have increased. Loans in the Swedish krona and the Danish krone accounted for 90% of the loans in foreign currencies.

3.1 Loans to households

The stock of euro-denominated loans granted by Finnish MFIs to households totalled EUR 119 bn at the end of 2014. The household loan stock continued to grow, albeit at a slower pace than in the previous year. Despite this deceleration, the growth rate is higher in Finland than in the euro area. In the euro area, the household loan stock contracted in December 2014 on a year earlier, while in Finland it grew by 1.9%.

Chart 5. Annual growth in household loan stock: Finland and euro area

3.1.1 Housing loans

In December 2014, the stock of euro-denominated housing loans granted by Finnish MFIs totalled EUR 90 bn. The housing loan stock grew steadily in the early part of the year, but towards the end of the year the growth rate moderated. The annual growth rate of the housing loan stock slowed to 1.7%. Despite this deceleration, the annual growth rate was still higher in Finland than in the euro area, where it averaged around zero in 2014. Housing loan growth in the euro area was dampened by the muted growth rates in large countries, such as Spain, Portugal and France. In France, the annual growth rate was markedly affected by housing loan securitisations executed in May 2014. In these transactions, housing loans were transferred from the balance sheets of French MFIs outside of the euro area. These securitisations are reflected as a clear level shift in the aggregated euro area time series.

Chart 6. Annual growth in housing loan stock: Finland and euro area

In 2014, Finnish households drew down EUR 15 bn in new housing loans, which was EUR 1.25 bn on average per month. New housing loan agreements were made in the amount of EUR 17 bn, almost as much as in 2013.

The decline in the demand for loans in recent years has resulted from protracted economic uncertainty. According to the banking barometer (IV/2014) of the Federation of Finnish Financial Services, bankers estimate that the demand for household credit will also remain low in the near future. Nevertheless, despite the agreements, to renegotiated agreements on existing loans regardless of whether the loan is drawn during the reporting period.

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8 New drawdowns include loans (new or old) drawn down during the period. New agreements refer, in addition to genuine new loan agreements, to renegotiated agreements on existing loans regardless of whether the loan is drawn during the reporting period.
muted dynamics in the housing loan markets, households have indebted further. This is partly explained by the fact that a part of a loan taken out by a housing company – used e.g. for the financing of renovations – is actually household loan. Households often repay this loan in the form of housing-company charge for financial costs.

Housing loans in Finland are most often linked to Euribor rates. Euribor rates covered 94% of all housing loan agreements concluded in 2014. As the ECB lowered the key policy rate and the deposit rate to unprecedentedly low levels in 2014, this was immediately reflected in Euribor rates, which follow movements in key ECB rates, and thereby also in interest rates on households’ housing loans. The low level of interest rates has kept interest rate expenditures low for households that have linked their housing loans to market interest rates.

As in the previous years, 12 months was still the most common period of interest rate fixation for new housing loans linked to Euribor rates. In December 2014, 53% of Euribor-linked housing loans were fixed for 12 months. The second (23%) most common rate fixation period was 6 months. Partly due to the low level of interest rates, banks have granted only a marginal amount of housing loans with 1-month Euribor rates in the past two years. Since the shortest Euribor rates are close to zero, banks’ interest income is very low, if this has not been taken into account e.g. in customer loan margins. Housing loans fixed to the 3-month Euribor have also contracted noticeably: in 2014 they accounted for about 22% of all Euribor-linked housing loans, compared to 27% in the previous year.

The proportion of fixed interest rates and prime rates in housing loans remained modest in 2014, at 2–4% depending on the month. In December 2014, fixed interest rates covered 3.8% and prime rates 2.4% of housing loans.

In December 2014, the average interest rate on housing loans stood at 1.6% in Finland, as opposed to 2.8% in the euro area. Loan interest rates are affected by reference rates, the use of which varies by country. In Finland, a relatively high proportion of housing loans is linked to floating interest rates with short fixation periods, while in many euro area countries housing loans are linked to fixed rates where the interest rate is agreed for several years.

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9 Statistics Finland, Financial Account.
The average imputed interest rate margin on new housing loans granted by Finnish credit institutions stood at 1.4% in December 2014. The interest rate margin narrowed slightly during the year. However, interest margins on housing loans are still considerably wider than in 2011, when they averaged around 0.7 percentage point.

According to a report by the Federation of Finnish Financial Services, the average size of housing loan per person is EUR 89,200, compared to EUR 89,500 a year earlier. Regional developments in housing loan sizes have varied rather noticeably: housing loan sizes increased in the Helsinki metropolitan area from spring 2013, but decreased elsewhere in Finland. Due to higher housing prices, housing loans are also larger in the Helsinki metropolitan area than in the rest of the country. In 2014, the average size of a housing loan was EUR 115,700 in the Helsinki metropolitan area, up 5.7% on a year earlier. Elsewhere in Finland housing loans average currently at EUR 84,200, and loan sizes have declined especially in rural municipalities. In housing loans taken out in the past two years, the average loan repayment period has been 16.9 years.

### 3.1.2 Consumer credit

In December 2014, the stock of consumer credit granted by Finnish credit institutions to households was EUR 13.5 bn, which was EUR 0.4 bn more than at the end of 2013. The annual rate of change of consumer credit was 4.8%, noticeably faster than the rate of 2.4% recorded at end-2013. The average interest rate on the consumer credit stock increased slightly on 2013, to 4.7% in December 2014.

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10 Imputed interest rate margin is the difference of the agreed annual interest rate and the reference rate on a new housing loan. Credit institutions do not report figures on loan margins to the Bank of Finland, but the imputed margin is based on Bank of Finland calculations.

11 Federation of Finnish Financial Services (spring 2014) Säästämien, luotonkäyttö ja maksutavat (‘Saving, use of credit and payment methods’).
Consumer credit granted by banks cover almost 90% of total consumer credit to households. Also other financial corporations operating without a credit institution’s authorisation grant consumer credit to households, particularly for financing car purchases. According to Statistics Finland, the stock of credit granted to households by other financial corporations (excl. insurance corporations and general government) totalled EUR 2 bn at the end of September 2014. Of this, consumer credit accounted for 94%.

At the end of 2014, a third of the stock of consumer credit was overdrafts and credit card credit. These loans are available up to a predetermined credit limit. The stock of overdrafts and credit card credit amounted at end-2014 to EUR 4.5 bn, of which 12% were interest-free convenience credit card credits. The proportion of extended, usually interest-bearing, credit card credit was about 60% and the proportion of credit card credit was 12%. The shares remained unchanged on the previous year. At the end of the year, the average interest rate on the stock of overdrafts and credit card credit stood at 6.7%, as opposed to 6.8% at end-2013. Overdrafts and credit card credit are mostly unsecured.

At end-December 2014, the stock of other loans granted by MFIs to households totalled EUR 15 bn. The annual growth rate of other loans accelerated to around 2%. The average interest rate on other loans stood at 2.0% at end-December. Loans for other purposes of use cover student loans, loans for leisure time dwellings and sole proprietors as well as other loans, such as investment loans. The largest sub-item of other loans is loans for sole proprietors. The stock of loans to sole proprietors totalled EUR 5.2 bn and the average interest rate on the stock was 2.5%. The bulk (over 80%) loans to sole proprietors consisted of loans to households pursuing farming and forestry.

### 3.2 Loans to non-financial corporations

The growth rate of the stock of loans to non-financial corporations was positive throughout the year in Finland, and compared to the majority of the other euro area countries, the corporate loan stock grew at a rapid pace. The cost of borrowing for non-financial corporations is close to the average euro area level in Finland. However, in the case of smaller loans, non-financial corporations in Finland paid a lower interest rate on the loan than corporations in other euro area countries. Interest rates on higher loans of over EUR 1 m were at the same level as in the euro area on average. However, economic uncertainty was reflected in the demand for corporate loans, which was weaker than in the previous years.

At the end of 2014, the total stock of loans granted by Finnish credit institutions to euro area non-financial corporations and housing corporations, including foreign currency-denominated loans, amounted to
EUR 71 bn. This was less than 2% of the total euro area corporate loan stock.

Economic uncertainty and the weakness of the business cycle in Finland were reflected in moderated growth in the stock of loans to non-financial corporations. However, compared to the euro area and other euro area countries, the corporate loan stock developed positively in Finland. While in the euro area the annual growth rate of the corporate loan stock was negative throughout 2014, in Finland it was positive, standing at 4.9% in December. However, even though the growth rate remained positive in Finland, it slowed during 2014.

Developments in the stock of loans to non-financial corporations vary across euro area countries. For example, in Portugal the corporate loan stock contracted by 7.6% in 2014, while in France it expanded at an annual rate of 2.9%. At the end of 2014, growth was most robust in Finland, Malta and Luxembourg. The annual growth rate of the euro area corporate loan stock turned negative already in 2012, due to a significant deterioration of growth figures for Italy, Portugal, Spain and France.

Chart 11. Annual growth in loans to non-financial corporations: Finland and euro area

The cost of borrowing for non-financial corporations is close to the average euro area level in Finland when considering all corporate loans. In December, the average interest rate on new corporate loan agreements was 2.0% in Finland and 2.2% in the euro area.

However, the borrowing costs diverge at euro area and individual euro area country-level when looking at corporate loan prices in terms of loan sizes. In December 2014, the interest rate on corporate loans of up to EUR 250,000 was 2.8% in Finland, as opposed to 3.6% in the euro area. Small corporate loans were cheaper than in Finland in France (2.6%), Austria (2.7%) and Belgium (2.1%). However, the difference relative to the euro area levelled off in the case of corporate loans of over EUR 1 m: at end-2014 the average interest rate on these loans was the same in Finland as in the euro area on average, i.e. 1.9%.

Assuming that loans of over EUR 1 m are largely taken out by large non-financial corporations and loans of up to EUR 250,000 by small and medium-sized enterprises, smaller companies in Finland pay higher interest on their loans, on average, than large companies. This is not surprising, since risk margins are often higher for smaller companies than for larger ones.

3.2.1 Loans to domestic non-financial corporations

The majority of loans granted by Finnish credit institutions to non-financial corporations are loans to Finnish non-financial corporations. At the end of 2014, the stock of loans to Finnish non-financial corporations12 amounted to EUR 46 bn. The loan stock contracted considerably in January 2014, but this was

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12 This section discusses loans to ‘traditional’ companies (i.e. non-financial corporation excluding housing corporations).
explained solely by the introduction of the new classification of sectors (ESA 2010) in the compilation of statistics. In January-December, the corporate loan stock grew by EUR 1.5 bn. The growth rate of the stock of loans to domestic non-financial corporations remained steady throughout the year, at around 5%.

### Chart 12. Corporate loan stock

![Chart 12. Corporate loan stock](image)

Source: Bank of Finland.

Domestic non-financial corporations concluded new corporate loan agreements during 2014 in the total amount of EUR 28 bn. Genuine new agreements accounted for EUR 22 bn and renegotiated loans for about EUR 6 bn of the total. By renegotiating loans, companies seek to renew the terms and conditions of their existing loans. As in previous years, new corporate loans were taken out in 2014 primarily for refinancing and working capital purposes. Lending for investment purposes continued at a subdued pace.

In addition to bank-based financing, non-financial corporations can obtain funding directly from the markets. However, non-financial corporations did not draw on market-based funding in 2014, since net issuances of both debt securities and bonds remained negative in annual terms.

#### 3.2.2 Loans to domestic housing corporations

In the classification of sectors, housing corporations are classified under the non-financial corporations sector. However, the housing corporation business differs from traditional business activity, and housing corporation business is not as evident elsewhere in Europe as in Finland.

According to the Statistics Finland’s classification of sectors, housing corporations include e.g. housing companies, housing cooperatives, residential real estate companies, right of occupancy associations and other housing corporations, as well as companies engaged in renting, ownership and management of housing (excl. management of real estate on a fee or contract basis). For example SATO, VVO and housing companies controlled by municipalities are housing corporations. Therefore, loans taken out e.g. by housing companies are classified as housing corporation loans. A part of a loan taken out by a housing corporation is actually household loan, since households repay loans taken out by housing companies via housing-company charge for financial costs.

The stock of euro-denominated loans granted by Finnish credit institutions to domestic housing

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13 The introduction of the new classification of sectors (ESA 2010) in the compilation of statistics at the beginning of 2014 affected particularly entities classified in the non-financial corporations sector. Part of entities previously classified in this sector shifted in sectors ‘other financial corporations’ and ‘general government’. There were also shifts between so-called traditional companies and housing corporations within the non-financial corporations sector, as part of traditional companies shifted under housing corporations and vice versa in January 2014. When data for 2014 are compared with previous years’ data, changes from the new classification of sectors must be taken into account.

14 Renegotiated loans refer to new loan agreements that are made as a result of renegotiations of existing loans. New negotiations can lead to an agreement e.g. when the loan margin is renegotiated.

corporations amounted to EUR 21 bn at end-2014. The loan stock accounted for almost a third of the total stock of loans (EUR 67 bn) to non-financial corporations (Chart 13). The stock of loans to housing corporations grew by 12% in 2014. Hence, growth in the total corporate loan stock was largely due to increased borrowing by housing corporations. Growth in the stock of loans to housing corporations is fuelled by new construction and renovation activity alike. Growth in the loan stock is also partly influenced by the fact that the debt share is very high in loans for new construction.

Credit institutions increased their investments in shares

Credit institutions increased their investments in securities during 2014 by over EUR 5 bn, which was notably more than in the previous two years. The majority (about EUR 3 bn) of the increase stemmed from investments in shares and other equity.

Credit institutions’ securities investments amounted to about EUR 78 bn. Long-term debt securities accounted for 80% of credit institutions’ portfolios, short-term debt securities for 5% and shares and other equity for the remaining 15%.

The stock of investment in long-term debt securities grew in 2014 by about EUR 1 bn, to a good EUR 62 bn at the end of the year. The proportion of short-term debt securities grew notably during the year, and the stock amounted to over EUR 4 bn at year-end. Regulatory changes require banks to increase the level of high quality liquid assets via the requirement on the liquidity coverage ratio (LCR). High quality liquid instruments include e.g. government debt securities, covered bonds and highly rated corporate bonds. Even though the LCR requirement does not enter fully into force until in 2018, part of the banks are attempting to meet the forthcoming requirements already in advance.

Over half of debt securities held by credit institutions are issued by MFIs. Three-quarters of these holdings were MFI covered bonds. The most significant issuer country of covered bonds was Denmark, which accounted for over half of debt securities issued by MFIs. The second highest
proportion consisted of debt securities issued by Swedish MFIs (12% of credit institutions’ debt security holdings). Of debt securities issued in Denmark, 40% were denominated in euro. All in all, almost 60% of debt securities issued by MFIs were denominated in euro. Other significant currencies were the Danish krone and the Swedish krona, with a total proportion of about 38%.

Growth in the stock of debt securities held by credit institutions reflected purchases of short-term debt securities, i.e. instruments with a maturity of less than one year. In 2014, credit institutions’ total purchases of short-term debt securities amounted to EUR 1.5 bn. Almost EUR 1 bn of this was invested in debt securities issued by central governments. Government debt securities also attracted the largest investments in the category of long-term debt securities with a maturity of over one year (about EUR 2.5 bn). Overall, at end-2014, credit institutions’ investments in government debt securities amounted to over EUR 15 bn, which was about EUR 4 bn more than a year earlier. The biggest sovereign issuers in credit institutions’ portfolios were Germany, Finland, France and the United States.

As in the previous two years, credit institutions favoured debt securities issued by local governments (e.g. municipalities and state government). Credit institutions’ portfolios contained EUR 2.5 bn of debt securities issued by local governments (e.g. municipalities and state government). Credit institutions’ portfolios contained EUR 2.5 bn of debt securities issued by the states of Germany, while holdings of debt securities issued by Finnish municipalities totalled EUR 1 bn (about EUR 200 m more than in 2013).

70% of debt securities held by credit institutions were denominated in euro, which is a few percentage points more than in the previous year. Out of debt securities denominated in foreign currency, the second most favoured group was instruments denominated in the Danish krone. These holdings totalled over EUR 12 bn (EUR 2.5 bn more than in 2013). Holdings of debt securities denominated in the Swedish krona halved in 2014, from almost EUR 10 bn to less than EUR 5 bn.

Credit institutions’ investment in shares grew considerably during 2014: the stock of investment in shares totalled almost EUR 10 bn at year-end, compared to EUR 7 bn a year earlier. Hence, the stock of shares grew by over 35%. The majority of these investments focused on shares of the other financial corporations sector (EUR 5 bn). Credit institutions also favoured shares of non-financial corporations (EUR 2.7 bn) and insurance corporations (EUR 1.4 bn). The bulk of credit institutions’ investments in shares focus on domestic shares (about EUR 8.5 bn). Investments in Swedish shares amount to EUR 0.5 bn and investments in US shares to just under EUR 0.2 bn.

Table 2. Credit institutions’ investment in securities, 2011-2014

<table>
<thead>
<tr>
<th>EUR m</th>
<th>Short-term debt securities</th>
<th>Long-term debt securities</th>
<th>Shares and equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Flow</td>
<td>Valuation change</td>
<td>Stock</td>
</tr>
<tr>
<td>2011</td>
<td>–98</td>
<td>3</td>
<td>3 331</td>
</tr>
<tr>
<td>2012</td>
<td>18</td>
<td>21</td>
<td>3 299</td>
</tr>
<tr>
<td>2013</td>
<td>–762</td>
<td>–13</td>
<td>2 504</td>
</tr>
</tbody>
</table>

Source: Bank of Finland.
4 Deposits and other funding

Funding raised by traditional credit institutions consists of deposits placed by non-MFIs and credit institutions’ issuance of debt securities. At the end of 2014, euro-denominated deposits placed by euro area non-MFIs totalled EUR 145 bn. The stock of debt securities issued by credit institutions totalled EUR 97 bn.\(^{16}\)

Compared to the previous year, the share of non-MFI deposits in credit institutions’ funding contracted slightly. At the same time, interest rates on deposits plunged to historically low levels.

At the end of 2014, credit institutions had EUR 576 bn of debt, which is EUR 54 bn more than at end-2013. Total deposits placed by non-MFIs (incl. deposits of non-euro area residents and deposits denominated in currency other than euro) accounted for 30% of funding. Interbank deposits accounted for 24% and debt securities issued for 17%. Other debt items – primarily derivatives-based liabilities – accounted for 24% and equity for 5% of credit institutions’ funding.

4.1 Deposits by non-MFIs

The stock of deposits placed by euro area non-MFIs grew only slightly during 2014. The deposit stock stood at EUR 145 bn at end-2014, as opposed to EUR 142 bn a year earlier. The stock of household deposits, which is over half of total deposits, contracted by about EUR 1 bn, to EUR 81 bn. By contrast, deposits by non-financial corporations increased by about EUR 2bn, to EUR 30 bn. This was due to a substantial increase in repo agreements.

\(^{16}\) Incl. debt securities denominated in euro and other currencies.
In December 2014, the annual rate of change in the non-MFI deposit stock was 2.0%, which is ½ percentage point less than a year earlier. The annual change in corporate deposits stood at 4.3%, which is just under 3 percentage points less than at end-2013. The annual rate of change in the corporate deposit stock was positive throughout the year. By contrast, the annual rate of change in household deposits was negative throughout the year, standing at –1.1% in December, compared to –0.7% a year earlier.

The annual rate of change in deposits of financial and insurance corporations stood at 6.3% and the stock at year-end totalled over EUR 22 bn. Annual growth in the general government deposits was 12.3% and the stock was EUR 11.5 bn at end-2014. Deposit stocks of both of these sectors fluctuated considerably more during the year than the deposit stocks of non-financial corporations and households.

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17 The maturity of an investment deposit is typically from one month to several years. The interest rate is usually fixed for the investment period and is determined on the basis of the size of the invested amount and the duration of the deposit period.
It is evident that households have wanted to shift from fixed-term commitments to deposits that are easier to convert. In an uncertain economic situation, there is a tendency to hold financial assets in liquid form. The low level of interest rates has contributed to reducing the popularity of time deposits among households. Because deposit rates are very low, households also invest in investment funds and equities, which can generate higher returns than deposits.

The stock of households’ deposits with an agreed maturity of up to 1 year has contracted by over a half since 2009, to just under EUR 9 bn at end-2014. The stock of deposits with an agreed maturity of over 2 years has stood at around EUR 2 bn. The interest rate on households’ new deposits with an agreed maturity continued to decline in 2014, falling in December for the first time under 1% (0.96%). The interest rate on new deposits with an agreed maturity of over 2 years fluctuates considerably more than the interest rate on time deposits with shorter maturities. At the latter part of the year, there were no investments in structured deposits where the interest rate is usually fixed to an index, equity basket or a derivative.
4.2 Other funding

Deposits placed by non-MFIs are an important source of funding for credit institutions, but debt securities issued by credit institutions also constitute a significant part of funding. In addition to deposits, credit institutions fund their lending business e.g. with short-term instruments with a maturity of less than one year (certificates of deposits) and long-term instruments with a maturity of over one year (bonds).

At the end of 2014, the stock of debt securities issued by credit institutions amounted to EUR 97 bn, increasing by about 9% on a year earlier. The stock of bonds with a maturity of over 2 years grew the most. Covered bonds accounted at end-2014 for EUR 29 bn of the total stock of debt securities, i.e. a third of the total stock.

Five years ago, at end-2009, the stock of debt securities totalled EUR 65 bn. In five years the stock has grew by about 50%.

Growth in the stock of debt securities stems from an increase in the stock of long-term instruments with a maturity of over one year (bonds). By contrast, the stock of short-term instruments with a maturity of up to one year (certificates of deposits) has contracted during the same period by about a fourth, to about EUR 20 bn at end-2014.

Growth in bond volumes reflects banks’ preparations for the forthcoming regulatory changes. The net stable funding ratio (NSFR) requirement aims to avoid excessive structural funding risk which arises from maturity mismatch between claims and liabilities. Under the NSFR requirement banks must have sufficient amount of stable funding sources (term deposits and debt securities with long maturities) relative to the maturity and volume of lending.
5 Reporting entities

As in the previous years, the number of MFIs in Finland decreased further in 2014, due to mergers among credit institutions.

At the end of 2014 there were 304\(^{18}\) MFIs operating in Finland, of which 291 were credit institutions and 12 were money market funds. The MFI sector also includes the Bank of Finland. The MFI sector contracted by seven credit institutions during the year, mainly due to mergers within the OP Group and the Savings Bank Group. S-Bank and LähiTapiola merged into a new S-Bank. In addition, three new MFIs commenced operations in 2014 (Table 3).

There were a total of 6,502 MFIs in the euro area. Germany had the most MFIs among the euro area countries, as many as 1,844. It was followed by France, Austria and Italy. The euro area countries had 730 money market funds, of which the highest number was registered in France, Luxembourg and Ireland.

More detailed information on changes in the credit institutions sector during 2014 is presented in the adjacent tables.

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\(^{18}\) An up-to-date list of Finnish MFIs is available at the Bank of Finland’s website at: [http://www.suomenpankki.fi/en/tilastot/tase_ja_korko/Pages/rahalaitoslista.aspx](http://www.suomenpankki.fi/en/tilastot/tase_ja_korko/Pages/rahalaitoslista.aspx)
### Table 4. MFIs (excl. money market funds) merged in 2014

<table>
<thead>
<tr>
<th>Name of MFI</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vaskion Osuuspankki</td>
<td>February</td>
</tr>
<tr>
<td>Kosken Osuuspankki</td>
<td>February</td>
</tr>
<tr>
<td>Kollis-Savon Seudun Osuuspankki</td>
<td>February</td>
</tr>
<tr>
<td>Pohjois-Savon Osuuspankki</td>
<td>February</td>
</tr>
<tr>
<td>Kantasäästöpankki Oy</td>
<td>March</td>
</tr>
<tr>
<td>Oma Säästöpankki Oy</td>
<td>March</td>
</tr>
<tr>
<td>Juuan Osuuspankki</td>
<td>March</td>
</tr>
<tr>
<td>Pohjois-Karjalan Osuuspankki</td>
<td>April</td>
</tr>
<tr>
<td>Eafex Pankki Oy</td>
<td>April</td>
</tr>
<tr>
<td>Elite Varainhoito Oy</td>
<td>April</td>
</tr>
<tr>
<td>Etelä-Karjan Säästöpankki</td>
<td>April</td>
</tr>
<tr>
<td>S-Pankki Oy</td>
<td>May</td>
</tr>
<tr>
<td>LähiTapiola Pankki Oy</td>
<td>May</td>
</tr>
<tr>
<td>Suodenniemen Säästöpankki</td>
<td>May</td>
</tr>
<tr>
<td>Oma Säästöpankki Oy</td>
<td>May</td>
</tr>
<tr>
<td>Vörå Sparbanks Aktiastiftelse</td>
<td>June</td>
</tr>
<tr>
<td>Aktia Bank Abp</td>
<td>July</td>
</tr>
<tr>
<td>Skärgårdssparbanken Ab</td>
<td>November</td>
</tr>
<tr>
<td>Aktia Bank Abp</td>
<td></td>
</tr>
<tr>
<td>Etelä-Karjan Säästöpankki Oy</td>
<td>November</td>
</tr>
<tr>
<td>Oma Säästöpankki Oy</td>
<td></td>
</tr>
</tbody>
</table>

M = Merged MFI
R = Receiving MFI

Source: Bank of Finland
**Appendix 1. Charts**

**Chart 23. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)**

- Credit institutions
- Money market funds

**Chart 24. Loans to non-MFIs by sector**

- Financial and insurance corporations (excl. MFIs) (LHS)
- General government (LHS)
- Non-financial corporations (incl. housing corporations) (LHS)
- Households (incl. NPISHs) (LHS)
- Households' share of loans to euro area residents (RHS)

**Chart 25. Stock and average interest rate on housing loans**

- Stock (LHS)
- Average interest rate (RHS)

**Chart 26. Stock of housing loans by reference rate**

- Fixed and other rates
- Prime
- Euribor

**Chart 27. Average interest rate on housing loan stock by interest rate linkage**

- Euribor
- Prime
- Fixed rates

**Chart 28. Volume and average interest rate on new drawdowns of housing loans**

- Volume (LHS)
- Average interest rate (RHS)
Chart 29. Stock and average interest rate on consumer credit to households

![Graph showing stock and average interest rate on consumer credit to households from 2008 to 2014.](image)

Source: Bank of Finland.

Chart 30. Stock and average interest rate on student loans

![Graph showing stock and average interest rate on student loans from 2008 to 2014.](image)

Source: Bank of Finland.

Chart 31. New business on loans to non-financial corporations of over EUR 1 million, 2009-2013

![Graph showing new business on loans to non-financial corporations of over EUR 1 million, 2009-2013.](image)

Source: Bank of Finland.

Chart 32. Average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size

![Graph showing average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size.](image)

* Collection of statistical data from MFIs was revised in June 2010. Consequently, the series is not fully comparable with previous observations.

Sources: Bank of Finland and Reuters.

Chart 33. Stock of loans to housing corporations and its share in total corporate loan stock

![Graph showing stock of loans to housing corporations and its share in total corporate loan stock.](image)

Source: Bank of Finland.

Chart 34. Stock of loans to sole proprietors by industry

![Graph showing stock of loans to sole proprietors by industry from 2011 to 2014.](image)

Source: Bank of Finland.
**Chart 35. Annual growth and average interest rate on non-MFI deposits**

- **Annual growth (LHS)**
- **Average interest rate (RHS)**

**Source:** Bank of Finland.

**Chart 36. Average interest rate on non-MFI deposit stock by reference rate**

- Deposits linked to Euribor
- Deposits linked to banks’ own reference rates
- Deposits linked to fixed and other reference rates
- Average of prime rates

**Source:** Bank of Finland.

**Chart 37. Average interest rates on household deposits in Finland and euro area**

- Finland: overnight deposits
- Finland: deposits of up to 2 years’ agreed maturity
- Euroarea: overnight deposits
- Euroarea: deposits of up to 2 years’ agreed maturity

**Sources:** European Central Bank and Bank of Finland.

**Chart 38. Annual growth of deposit stock of Finnish non-financial corporations by claim**

- Deposits redeemable at notice
- Deposits with agreed maturity over 2 years
- Deposits with agreed maturity over 1 year and up to 2 years
- Deposits with agreed maturity up to 1 year
- Overnight deposits
- Total deposits

**Source:** Bank of Finland.