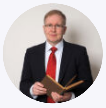
ANALYSIS

Macroprudential policy should be reshaped, not dismantled

Financial stability | 03 July 2026 | Samu Kärkkäinen, Jukka Topi, Karlo Kauko

AUTHORS

Samu Kärkkäinen
Senior Economist



Jukka Topi
Principal Adviser

Karlo Kauko
Adviser

In Finland, macroprudential policy has been used to protect against the systemic risks associated with having a large and concentrated banking sector and high household indebtedness. Even so, the requirements of Finland's macroprudential policy are moderate by comparison with the other Nordic countries, for instance. There are nevertheless grounds for reshaping macroprudential policy, but it is important not to jeopardise the resilience of the financial system. In particular, the basis on which macroprudential policy decisions are made across the EU should be harmonised and the impacts of macroprudential requirements and other regulatory measures should be assessed on a comprehensive, holistic basis.

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

The positive effects of macroprudential policy in underpinning financial stability often become visible only in the longer term.[1] [2] This exposes the policy to criticism and increases pressure to ease the requirements. Critical discussion is always welcome, but it is important to keep in mind why macroprudential requirements are put in place and what they seek to accomplish.

This article examines the fundamentals of macroprudential policy and the related decision-making in Finland and compares policy implementation with other Nordic countries, in particular. The European Central Bank's (ECB) proposed measures for the reform and simplification of macroprudential policy in the EU are also presented.

Macroprudential policy is needed to address risks that are a threat to the stability of the entire financial system

The global financial crisis demonstrated that supervising individual banks and ensuring their operational capacity (microprudential supervision) is not always sufficient for safeguarding the stability of the entire financial system. Even if banks were financially sound enough to withstand disruptions arising from credit risks and other risks, their activities overall may give rise to externalities[3], that is, unintended and often adverse effects on other actors and the economy as a whole. Banks may not necessarily have the incentives to fully take into account the risks they indirectly pose to the financial system and the national economy.

The aim of macroprudential policy is to mitigate such externalities and the systemic risks arising from them and to support the resilience of the financial system against these risks. Macroprudential instruments may address both cyclical and non-cyclical (structural) vulnerabilities. The financial system is stable when it can withstand even severe risks without causing significant disruptions to the functioning of financial institutions, financial markets or the systems supporting them.[4] According to the macroprudential policy strategy of the Board of the Finnish Financial Supervisory Authority (FIN-FSA), the main objective of macroprudential policy in Finland is to reduce the probability of financial crises and other severe disruptions to the financial system and minimise the build-up of vulnerabilities.[5] Therefore, it also supports the conditions for long-term economic growth, as banking crises typically have a strong negative impact on the rest of the economy.

Finland's macroprudential requirements are moderate in comparison with other Nordic countries

The setting of macroprudential capital requirements for banks in order to ensure financial stability has been jointly agreed by the EU. A *capital conservation buffer (CCoB) requirement* has been set at an unvarying 2.5% of banks' risk-weighted assets, to cover systemic risks in general. National macroprudential authorities may, by virtue of the EU Capital Requirements Directive, also impose additional capital requirements on banks in order to strengthen their risk-bearing capacity. The macroprudential authority determines the amount of the additional capital requirements on the basis of the level of identified risks and within the limits set by the regulatory framework. In practice, the requirements are divided into cyclical requirements to curb overheating of the credit cycle and structural requirements to protect against more enduring vulnerabilities.

The countercyclical capital buffer (CCyB) requirement is set on the grounds of cyclical risks, when the credit cycle starts to show signs of overheating. The objective is to strengthen banks' resilience at the upturn phase of the financial cycle. If financial conditions start to deteriorate sharply and banks' losses weaken their lending capacity, for example due to an external shock, the macroprudential authority may withdraw the requirement. This would free up capital for banks to enable them to cover losses and continue lending even during a downturn in the financial cycle. The aim is to avoid a sudden and steep decline in lending and the spread of negative effects associated with this to the real economy.

The macroprudential authority may also impose additional capital requirements to cover risks that are independent of the financial cycle. These structural requirements include *the systemic risk buffer*, which is determined on the basis of the structural characteristics of the financial system, and *the other systemically important institutions (O-SII) requirement* for systemically important credit institutions.[6] The systemic risk buffer strengthens the resilience of banks against structural vulnerabilities. In Finland, such vulnerabilities include the large size and concentration of the credit institution sector and, in terms of key risks related to customer groups, the high level of household indebtedness. The O-SII requirement, in turn, can be imposed on a bank whose serious difficulties could threaten the functioning of the entire financial system.

In Finland, the extent to which additional capital requirements have been set under macroprudential policy has been moderate compared with other Nordic countries.[7] The CCyB requirement has so far remained at zero in Finland, which means it has not yet been activated. In the other Nordic countries, on the other hand, the requirement has been raised to between 2% and 2.5%.

Among the structural requirements, the systemic risk buffer in Finland is currently 1% for all banks. The requirement is calibrated on the basis of rigorous quantitative assessments of the size of capital buffers necessary for maintaining the functioning of the banking sector under stress scenarios for the economy and the financial system, taking into account structural vulnerabilities in Finland. Among the other Nordic countries, the systemic risk buffer has been set at 4.5% in Norway and at 2% in Iceland for domestic exposures, at 3% in Sweden for the largest banks, and at 7% in Denmark as a sector-specific buffer for certain banks' exposures to real estate companies. The systemic risk buffer is applied differently in different countries, which means that the requirements are not entirely comparable. In Finland, O-SII requirements are set for Nordea (2.5%), OP Pohjola (1.5%) and Municipality Finance Plc (0.5%). In other Nordic countries, the O-SII requirements are of the same magnitude, between 1% and 3%.

Macroprudential instruments targeting households are widely in use in the EU

In addition to capital requirements for banks, macroprudential policy can also include instruments that target banks' customers, especially households. These instruments are widely used in Europe, for example in many Nordic countries and in the Baltic countries. In the wider debate on this, it has been argued that the regulation of housing finance in Finland is particularly strict compared to peer countries.[8] This claim is difficult to defend, as the macroprudential instruments in use in Finland and the calibrations of these do not differ significantly from the practices of peer countries (see information box).

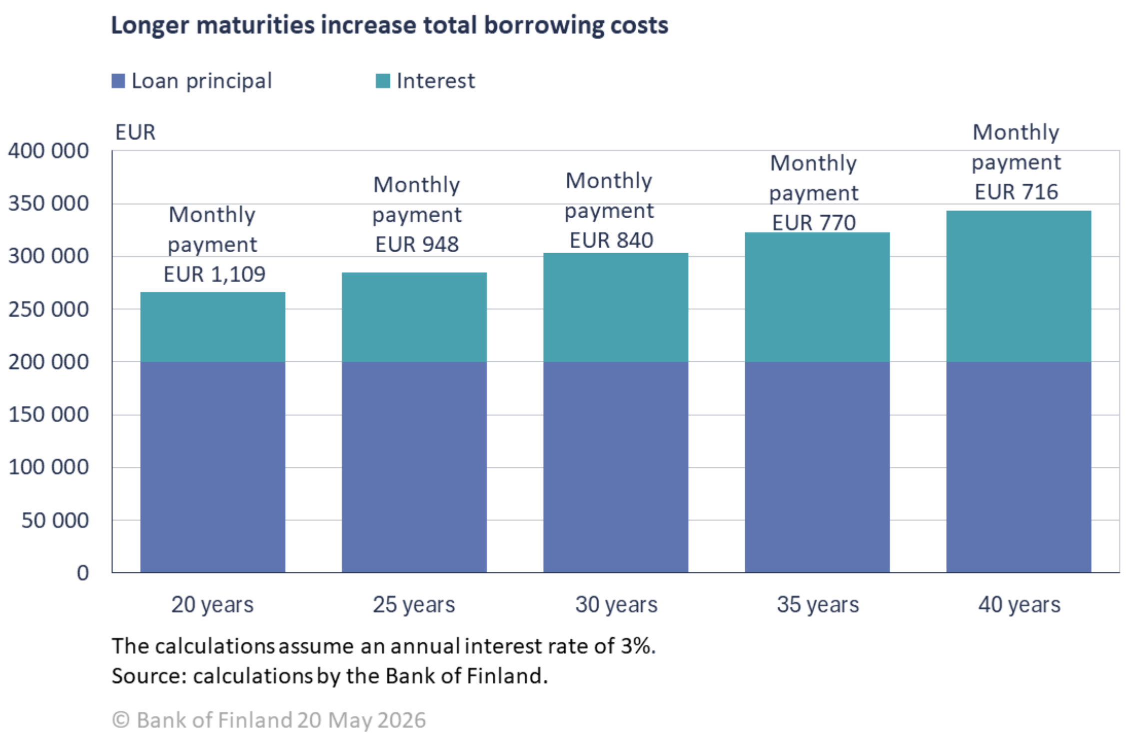
In Finland, a key regulatory tool applied to households is the maximum loan-to-collateral (LTC) ratio stipulated in the Act on Credit Institutions (610/2014), which limits the amount of a mortgage loan relative to the fair value of the collateral at the time the mortgage is granted. In practice, the property being purchased is usually the main collateral. Under the Act, the maximum LTC ratio is 95% for first-time home buyers and 90% for other households, but if the risks to financial stability increase exceptionally, these requirements can be tightened by up to 10 percentage points. As a result of a new legislative amendment, the maximum LTC ratio for non-first-time home buyers may also be raised by 5 percentage points in the future for the purpose of limiting a downturn in the housing market. In Finland, the maximum LTC ratio for non-first-time home buyers was tightened temporarily from its standard level to 85% in 2018 and in 2021, to limit financial stability risks. Since December 2023, the maximum LTC ratio for non-first-time home buyers has been at its statutory standard level of 90%. (Update: as permitted by the legislative amendment, the maximum LTC ratio for non-first-time home buyers was increased to 95% as of 1 July 2026.)

The maximum LTC ratio strengthens the resilience of both banks and households. When the size of a mortgage is limited relative to the value of the collateral, banks' risk of loan loss decreases in situations where housing prices are falling and mortgage borrowers' payment difficulties are increasing. If a mortgage borrower defaults on payment but there is a sufficiently large buffer between the outstanding mortgage and the value of the property, the bank avoids losses by claiming the asset placed as collateral for the loan, in this case, the house. At the same time, the maximum LTC ratio curbs household debt and improves the resilience of households against a sudden rise in interest rates or a fall in income.

Finland's legislation also includes fixed restrictions to limit household indebtedness. In 2023, the maximum repayment period for mortgages was, as a rule, limited to 30 years. Restrictions on housing company loans were also introduced: the maximum maturity for housing company loans was set at 30 years and the maximum loan-to-value ratio at 60%, and interest-only periods were also limited. However, the regulations were eased this spring. The maximum repayment period for mortgages was extended to 40 years, and restrictions on housing companies can in future be eased by a government decree. The decree can, for example, set the maximum loan-to-value ratio for housing corporation loans at 60%–70%, the maximum loan maturity at 30–40 years, and allow an interest-only period of up to two years during the first five years following the completion of a new-build property. In its spring spending limits discussion, the Government stated that the requirements for housing corporation loans will be eased, as permitted by the new legislation.

The objective of the longer loan maturities is to increase household saving and investment. Achieving this requires that households channel any resulting reduction in monthly loan servicing costs to these purposes. However, extending the maximum loan maturity may lead to an increase in household indebtedness and related risks, as the extension allows for larger mortgages to be taken out. Even if the monthly payments were to decrease, a longer maturity and larger principal would lead to higher total borrowing costs over the entire maturity period (Chart 1). A longer loan maturity also exposes households to interest rate fluctuations over a longer period, in practice for the duration of the borrower's entire working life. Easing the requirements for housing company loans may contribute to increased household indebtedness. It could also lead to more housing finance being channelled through housing company loans, which would, in turn, reduce the visibility of underlying risks associated with household indebtedness. On the other hand, properties bearing a share of large housing company loans may deter informed prospective buyers from purchasing such a home, which could slow the recovery of the housing market.

Chart 1.



In addition to the statutory maximum limit on the LTC ratio and the fixed constraints described above, the FIN-FSA Board has issued a recommendation concerning the maximum debt servicing burden of mortgage borrowers. Banks are recommended to refrain from granting mortgages if the loan servicing costs would exceed 60% of the household's net income in a specified stress situation (interest rate 6%, repayment period 25 years). The recommendation aims to prevent households becoming overly indebted relative to their income, and to strengthen their resilience and reduce the spread of negative shocks to the real economy through consumption.

Macroprudential requirements targeting mortgage lending and household indebtedness in the Nordic and Baltic countries

All the Nordic and Baltic countries have, since the mid-1980s, experienced a financial or banking crisis that affected the entire financial system and was preceded by a credit and price-driven bubble in the domestic housing market. Risks in the housing and mortgage markets are therefore widely recognised in these countries, even though, in such crises most loan losses have arisen from sources other than housing loans. Efforts are made to mitigate these risks using macroprudential instruments that target household indebtedness. Unlike additional capital requirements for banks, instruments related to mortgages are not harmonised to the same extent across the EU. As a result, national approaches vary, although they still share many common features.

The most common instrument in use is a maximum loan-to-value (LTV) or loan-to-collateral (LTC) ratio, which is applied in all the countries in this analysis (see Table 1). The LTV ratio regulation limits the loan amount relative to the value of the dwelling, whereas the LTC limit regulates the maximum loan sum relative to all collateral. While most peer countries use LTV limits, the LTC limit is used in Finland. The ratio limit is 85%–90% in most countries, with Denmark (95%) and Iceland (80%) as exceptions.

Limits based on the borrower's income are common. Estonia, Latvia, Lithuania and Iceland have a maximum debt service-to-income (DSTI) ratio in place, which limits the share of income used for making interest payments and principal repayments (35%–50%). Denmark and Norway have introduced a limit on the amount of debt relative to income. In both countries, stress tests are also used to assess the borrower's repayment capacity. In Norway, repayment capacity is assessed at a higher interest rate, while in Denmark a similar stressed calculation is recommended for mortgages on dwellings located in certain areas (Copenhagen and Aarhus).

Estonia, Finland, Lithuania and Latvia have set limits for loan maturities: the maximum maturity is generally 30 years, although in Finland it is being extended to 40 years. Sweden and Norway have rules on mandatory loan amortisation.

Macroprudential instruments targeting mortgage lending are not defined in common European legislation, and their definitions are not harmonised across countries. It is therefore difficult to state unambiguously which country has the most stringent position with these instruments. Some instruments may, for example, take the form of recommendations issued by an authority rather than legally binding constraints (as is the case with the maximum DSTI ratio in Finland), and they may also include various flexibility provisions, which complicates comparability.

Table 1.

Borrower-based macroprudential instruments in the Nordic and Baltic countries

	IS	LV	LT	NO	SE	FI	DK	EE
Loan-to-value (LTV) or loan-to-collateral (LTC) limit	X	X	X	X	X	X	X	X
Debt service-to-income (DSTI) limit	X	X	X			X		X
Debt-to-income (DTI) or loan-to-income (LTI) limit		X		X			X (for certain loans)	
Amortisation requirement			X	X (for certain loans)	X (for certain loans)	X (in housing company loans)		
Maximum loan maturity		X	X			X		X

Sources: national authorities.

Borrower-based macroprudential instruments in the Nordic and Baltic countries

Other stress calculations assessing borrower's debt servicing capacity				X			X	

IS = Iceland, LV = Latvia, LT = Lithuania, NO = Norway, SE = Sweden, FI = Finland, DK = Denmark, EE = Estonia.

Sources: national authorities.

At the Government's mid-term policy review session in 2025, it was stated that housing finance regulation in Finland is the most stringent in the Nordic countries. This assessment is not supported by a comparison of the instruments applied in these countries. Finland does not differ significantly from the other Nordic or Baltic countries in terms of either the number of macroprudential instruments targeting mortgage lending that are in use, or their calibration. Substantiating such an assessment would require a careful country-by-country analysis of the proportion of loan applicants rejected as a result of constraints imposed through macroprudential instruments.[9]

Macroprudential decision-making must be based on a comprehensive assessment

In Finland, decisions on macroprudential policy are taken primarily by the Board of the FIN-FSA, which, in addition to its own expertise, draws on financial stability expertise from a range of perspectives to support decision-making. As a basis for macroprudential decisions, the authorities[10] assess risks and the available macroprudential policy options. The ECB may tighten capital requirements under EU legislation if it considers that national measures are not sufficient.

The legislative amendments on housing finance adopted this spring bring changes to macroprudential policy decision-making and its institutional framework. As a result of these changes, the limits applying to housing companies and other housing corporations can in future be amended by government decree. As already noted, the requirements related to the financing of housing company loans are to be eased as permitted by the legislative amendments. As macroprudential decision-making becomes more decentralised, it is important to ensure comprehensive preparation of decisions and sufficient information sharing among decision-makers.

When further developing macroprudential decision-making, there are good grounds for taking international recommendations into account. The European Systemic Risk Board (ESRB) recommends[11] that, as a general principle, the conduct of national macroprudential policy in EU countries be assigned either to a single authority or to a board composed of the authorities responsible for financial stability, and that the decision-maker be operationally independent of political bodies.

It is appropriate for the macroprudential authority to support growth, in particular by safeguarding the preconditions for it through the resilience and stability of the financial system, without aiming for excessively stringent requirements. Maintaining financial stability is not at odds with the objectives of sustainable economic growth.[12] Financial stability is a fundamental precondition for economic growth, as only a stable and robust financial system can channel financing and support economic growth. Problems could arise if direct support for short-term economic growth or the housing market were to be defined as the primary objective of the macroprudential decision-maker. Such a change could be detrimental to financial stability, and this would also indirectly hinder sustainable economic growth.

Macroprudential policy needs to be simplified, not diluted

Macroprudential policy is a key instrument for safeguarding the stability of the financial system in Finland and across the EU. Macroprudential requirements and other banking regulation have strengthened the resilience of the banking sector, even though the operating environment has at times been exceptionally challenging. However, regulation has been developed in stages and through specific individual solutions, which has increased the complexity overall. Over time, the macroprudential regulatory framework has become more intricate. In addition, national differences in macroprudential policy requirements across the EU have added to fragmentation.

There is therefore a need for a comprehensive assessment and simplification of macroprudential policy and other banking regulation in order to improve their efficiency and effectiveness. At the same time, it is important to examine potential inconsistencies between macroprudential requirements and banks' microprudential regulation and resolution requirements, as these may make the requirements more difficult to understand and, in some cases, weaken the effectiveness of policy. Simplification should not, however, mean an easing of requirements: the means of ensuring the banking sector's resilience must be preserved.

The European Commission intends to publish, in summer 2026, a report on the competitiveness of the EU banking sector and on banking regulation. At a later stage, the Commission is also expected put forward legislative proposals for amending macroprudential policy and macroprudential requirements. In early spring, the Commission gathered views on the topic through a public consultation.

To support the Commission's work on simplifying banking regulation, the High-Level Task Force on Simplification established by the ECB Governing Council published, in December 2025, its recommendations[13] for simplifying the regulatory, supervisory and reporting framework for banks (for more information, see 'Financial Stability Assessment'). These recommendations were incorporated into the Eurosystem's responses to the Commission's consultation, and the Bank of Finland also emphasised them in its own response.

Further development of macroprudential policy is one of the key themes in the ECB's recommendations. According to the ECB, there is a need to simplify macroprudential policy, but this must not lead to a reduction in requirements that underpin financial stability. The objective is therefore not to weaken banks' capitalisation, dismantle liquidity requirements or narrow the scope of the requirements.

ECB recommendations would simplify macroprudential policy in a sustainable manner

If the ECB's recommendations were to be implemented in EU legislation as they stand, macroprudential policy would change and become simpler in Finland and other euro area countries in several respects. The most important changes would be: (1) a reduction in the number of separate macroprudential capital buffer requirements to two; (2) harmonisation of the principles for setting macroprudential requirements and of the criteria for calibrating them; and (3) a holistic assessment of the overall level of banks' capital needs and requirements, which would provide qualitative guidance for the setting of requirements in different countries.

Capital buffer requirements could be reduced in number

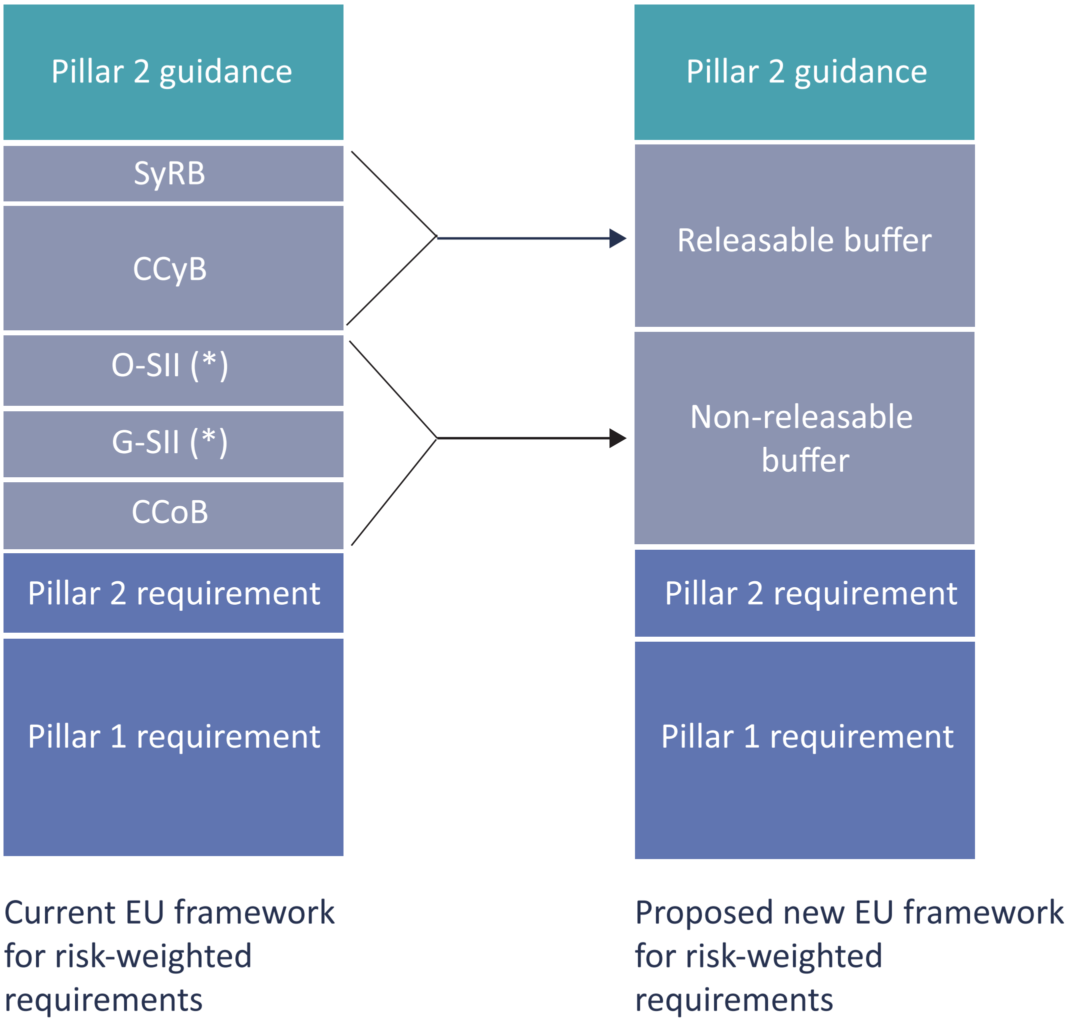
The most visible change recommended by the ECB would be the merging of the current five capital buffer requirements into two (see Chart 2). The current capital conservation buffer (CCoB) requirement, together with the global systemically important institutions (G-SII) buffer requirement and the other systemically important institutions (O-SII) buffer requirement would be merged into *a non-releasable buffer requirement*. The countercyclical capital buffer (CCyB) requirement and the systemic risk buffer (SyRB) requirement would be merged into *a releasable buffer requirement*. For banks that are not systemically important, the non-releasable buffer requirement would most likely be set at 2.5%, corresponding to the current CCoB requirement. This would help ensure that banks' capital requirements remain in line with the Basel standards. The level of the non-releasable buffer requirement would nevertheless vary across banks, as the G-SII and O-SII buffer requirements would likely continue to be set on broadly similar criteria to those currently applied.

The ECB's recommendations do not specify in detail the role, the criteria for setting or, for example, the scope of application of the releasable buffer requirement. Its underlying rationale would likely combine both cyclical and structural considerations. One of the criteria mentioned in the recommendations for the releasable buffer requirement is EU-level stress testing, which would take into account financial cycles and risks at both the European and national levels. The buffer could be expected to be broadly similar in nature to the positive neutral CCyB requirement currently applied in many countries, whereby the buffer rate is set above zero in a neutral phase of the credit cycle and may vary with the phase of the cycle.[14]

Overall, the new buffer requirements would likely cover the same risks and vulnerabilities as the current requirements. As a result of such changes, the room for cyclical policy action would probably increase, including in Finland, as a clearly releasable buffer requirement would be set on the basis of broader criteria than at present.

Chart 2.

ECB's recommended changes to EU macroprudential buffer requirements



SyRB = systemic risk buffer
CCyB = countercyclical capital buffer
O-SII = requirement for other systemically important institutions (domestically important institutions)
G-SII = requirement for global systemically important institutions
CCoB = capital conservation buffer

(*) The higher of the O-SII and G-SII requirement applies.

Source: European Central Bank.

Harmonising the principles for setting macroprudential requirements is key

Perhaps the most important proposal highlighted in a number of the ECB's recommendations, from the perspective of the effectiveness of macroprudential policy across the EU, is harmonisation of the principles for setting regulatory requirements for banks (including both microprudential and macroprudential requirements) and the criteria for their calibration, which would reduce national fragmentation. This proposal is seen in many of the individual recommendations and also directly concerns the application and calibration of macroprudential instruments. According to the ECB's recommendations, however, decision-making powers in macroprudential policy would remain primarily at national level, although in banking union member countries the ECB Governing Council would retain the ability of tightening buffer requirements under EU legislation.

The recommendations explicitly refer to the need to calibrate macroprudential buffer requirements on the basis of common principles and methodologies, including a joint calibration exercise that would draw on, among other things, common EU-level stress tests. More generally, it is recommended that banking regulation across the EU be shifted towards directly applicable EU regulations rather than, as is currently the case in many respects, directives, as their transposition into national law often gives rise to differences between countries' regulatory frameworks.

Harmonising the use of macroprudential instruments would improve the effectiveness of macroprudential policy in many ways. Common principles for setting requirements would enhance the predictability, credibility and acceptability of macroprudential policy, while also helping to prevent regulatory arbitrage. In this way, the common principles could also strengthen the resilience of the financial system if they were to lead to an increase in requirements that are insufficiently stringent relative to risks. Uniform criteria would facilitate communication on macroprudential decisions and their underlying rationale. The harmonisation of other banking regulation and supervision would also contribute to greater consistency in macroprudential policy, for example if the risk weights applied in capital requirements were set on a more uniform basis than at present.

The proposal is also made that if the recommendation on more consistent and harmonised application of macroprudential instruments were to be implemented, macroprudential requirements decided at national level would automatically be reciprocated more extensively than at present for banks operating across borders. For example, if a bank registered in Finland grants credit in Sweden, the macroprudential requirements set by the Swedish macroprudential authorities would automatically apply to the bank's credit exposures in Sweden.

The broader automatic reciprocation of requirements would strengthen the effectiveness of macroprudential policy and improve the clarity and consistency of requirements in cross-border banking. Combined with the harmonisation of the criteria for setting requirements, automatic reciprocation would support a level playing field among banks with operations in different countries.

Holistic assessment is needed to ensure consistency

The ECB recommends that, going forward, a holistic assessment be carried out of the overall level of banks' capital needs across the banking union. In practice, such an assessment could be conducted within the Macroprudential Forum, which is composed of the ECB's Governing Council and Supervisory Board. The assessment would include a qualitative view of the adequacy and appropriateness of the overall level of capital requirements in the banking union, based on common stress testing and other methods. A holistic assessment would identify unwarranted heterogeneity in capital requirements between countries and give guidance towards overall requirements that have greater proportionality and consistency in relation to the risks identified. As noted above, no changes are recommended to macroprudential decision-making powers.

In addition to clarifying macroprudential requirements, implementation of the ECB's recommendations would, to some extent, reduce the interactions between macroprudential requirements and resolution requirements and would also make the different requirements more distinct. In some respects, the distinction between the different sets of requirements could be drawn even more clearly than recommended by the ECB.

The changes to EU macroprudential regulation proposed in the ECB's recommendations would represent a clear step forward and would improve the operating conditions for macroprudential policy, as well as the predictability and credibility of policy in the Member States. It is particularly important that macroprudential policy should rest more firmly than before on commonly agreed principles. However, macroprudential policy itself would remain largely unchanged, as the measures would continue to be based on an analysis of systemic risks and vulnerabilities in the financial system. The recommendations provide an excellent basis for the European Commission's regulatory work. In many respects, however, the recommendations are fairly high-level, and considerable further analysis will be needed to turn them into concrete proposals.

References

Creel, J., Hubert, P. and Labondance, F. (2015), 'Financial stability and economic performance', *Economic Modelling*, 48, pp. 25–40.

Jordà, Ò., Schularick, M. and Taylor, A.M. (2013), 'When Credit Bites Back', *Journal of Money, Credit and Banking*, 45, pp. 3–28.

Norring, A. (2026), Macroprudential policy – Drivers, effects and unintended consequences, *Dissertationes Universitatis Helsingiensis*, 14/2026.

Nyholm, J. and Silvo, A. (2026), 'Household debt, the real economy, and financial stability: A literature review', *Bank of Finland Research Discussion Papers*, 4/2026.

Nyholm, J. and Voutilainen, V. (2021), 'Quantiles of growth – household debt and growth vulnerabilities in Finland', *BoF Economics Review*, 2/2021.

Notes

1. See e.g. Financial regulation has proved its worth in the turbulence of recent years - Bank of Finland Bulletin. ↑

2. Macroprudential policy underpins financial stability and in the long term also promotes economic growth by preventing banking crises that could otherwise have major social and economic costs. Studies of financial crises have found that rapid growth in credit and indebtedness has been linked to severe banking crises in particular and subsequent economic recessions (Jorda et al., 2013). A Finnish study found that growth in household indebtedness is linked to future economic downturns (Nyholm and Voutilainen, 2021). Household indebtedness is one of the key vulnerabilities in the financial system that macroprudential policy aims to mitigate. There is an increasing amount of academic literature studying the effects of macroprudential policy (see e.g. Norring, 2026). ↑

3. Externalities are consequences that a household, a company or other economic actor imposes on others without specific intent. An actor that makes decisions based on its own interests will pay little attention to externalities. This can also be the case with financial activities, and the consequences are often detrimental. A bank that grants large volumes of housing loans may contribute to the formation of a housing market bubble, and the bursting of that bubble will affect more than just the bank itself, therefore making it largely an externality. Practical experience shows that in advanced economies, banking crises have often followed from the bursting of a housing market bubble. A bank that is concerned about its capital adequacy may reduce its risks by cutting back on lending, which is likely to weaken demand in the ↑

national economy, create financial difficulties for companies in other sectors, increase credit losses suffered by other banks and exacerbate unemployment.

4. See also A stable financial system. ↑
5. Macroprudential strategy of the Board of the Financial Supervisory Authority. ↑
6. Additionally, a globally systemically important institutions (G-SII) requirement can be imposed on credit institutions that are systemically important for the global financial system. ↑
7. See Banks' macroprudential buffOk.er requirements lighter in Finland than in its peers – Bank of Finland Bulletin. ↑
8. See e.g. Putting Finland on a path to growth. ↑
9. Over the years, Finland has also received a number of recommendations from the European Systemic Risk Board (ESRB) and the International Monetary Fund (IMF) to expand its macroprudential toolkit beyond the current scope, see e.g. 'IMF recommends measures to strengthen financial stability in Finland' (in Finnish) – Euro & talous and 'Housing markets in Europe – where there are risks, a warning or recommendation will follow' (in Finnish) – Euro & talous. ↑
10. The Bank of Finland, the FIN-FSA, the Financial Stability Authority and the Ministry of Finance. ↑
11. See Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3). ↑
12. E.g. Creel et al. (2015) found that financial instability had a negative impact on economic growth in the EU countries in 2008–2011. ↑
13. See https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html. ↑

14. See ‘Positive neutral – Proactive use of countercyclical capital buffers increases flexibility in a crisis’ (in Finnish) – Euro & talous. ↑

Keywords

banking regulation, financial stability, macroprudential policy