



Quarterly Review

Q2/2021

The State Treasury publishes a quarterly review, which includes information on recent developments in debt management and an outlook for the upcoming quarter.

OUTLOOK FOR THE FINNISH ECONOMY AND PUBLIC FINANCES

The contraction of the Finnish economy last year was considerably less pronounced than in most other European countries. This year the performance of the Finnish economy is expected to be rather bright. The trajectory of the economy has fluctuated considerably in the first part of the year, reflecting the path taken by the COVID-19 pandemic, but a favourable outlook has developed and become more firmly established.

According to the forecast of the Ministry of Finance, Finland's economy will grow particularly in the latter part of 2021 and the recovery will continue in the early part of next year. The export market will pick up strongly and the investment outlook will become brighter. As a result, the Finnish GDP growth this year is expected to reach 2.6%. GDP growth in 2022 is forecasted to be even faster at 2.8%. Increase in consumer prices will be 1.8% this year and current account will be close to balance.¹

General government finances will show a substantial deficit in 2021, despite the positive trend in the economy. Next year, the imbalance between expenditure and revenue is expected to narrow considerably, as many of the pandemic-related support measures will come to an end and GDP growth will continue to be brisk. General government finances will nevertheless remain significantly in deficit, and the ratio of general government debt to GDP will continue to increase. General government debt in relation to GDP is expected to stand at 71.7% in the end of this year, while central government debt ratio is expected to be considerably lower at 55.6%.

Finland's relatively strong public finances and modern economy, among many other things, have traditionally been reflected in the high credit ratings of the central government. The central government of Finland has solicited credit ratings from two credit rating agencies: S&P Global Ratings and Fitch Ratings. For long-term debt both agencies have assigned an AA+ credit rating with a stable outlook for the rating. Calendar dates for credit rating announcements in 2021 are published on the State Treasury's central government debt management website on <https://www.treasuryfinland.fi/government-borrowing/credit-ratings/>. The State Treasury will also publish rating reports on the same website during the year.

REVIEW OF TREASURY OPERATIONS BY THE STATE TREASURY, APRIL TO JUNE 2021

On 20 April 2021, Finland conducted a tap auction of the 20-year euro benchmark bond due 15 September 2040. The amount bid was EUR 1 891 million, and a total auctioned amount of EUR 1 000 million brought the outstanding amount of the bond to EUR 5 173 million. The bonds were allocated at a yield of 0.386%.

On 19 May 2021, in its second euro benchmark issue of the year, the Republic of Finland raised EUR 3 000 million with a new 10-year benchmark bond, maturing on 15 September 2031. The bond was priced at 3 basis points below the euro swap curve. The final order book amounted to over EUR 13 000 million. The issue was allocated to over 110 investors at a yield of 0.163%.

This new 10-year euro benchmark bond maturing on 15 September 2031 was tapped in an auction on 15 June,

¹ Economic Survey of the Ministry of Finance, Summer 2021

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together with the benchmark maturing on 15 September 2028. The total of the funding raised in this auction was EUR 1 417 million, as the 10-year line yielding -0.015% allocated EUR 974 million and the 7-year line yielding -0.304% allocated EUR 443 million.

In the second quarter, the Republic of Finland conducted monthly auctions of euro-denominated Treasury bills. The auctions on 13 April, 10 May and 8 June 2021 raised a total amount of EUR 5 969 million. The auctioned bills' maturities ranged from 6 to 11 months and carried yields between -0.625% and -0.645%. Bid-to-cover ratios ranged from 2.0 to 2.7.

NEAR-TERM OUTLOOK FOR THE PERIOD OF JULY TO SEPTEMBER 2021 AND BEYOND

The government's latest supplementary budget for 2021, dated 23 June, indicates a net borrowing requirement of EUR 14.4 billion which implies gross borrowing of EUR 38.6 billion. At the end of the second quarter, approximately 55% of foreseen long-term funding has been completed.

The State Treasury is planning to issue a new euro benchmark bond in the third quarter of the year, likely in August - September.

The next bond auction will take place on 21 September. Further details on the auction and an updated auction calendar are published on <https://www.treasuryfinland.fi/funding-instruments/auctions/#serial-bond-auctions>

As in previous years, bonds may be issued under the EMTN programme to complement the funding in euro benchmark bonds during the year, market conditions permitting.

The next auctions of euro-denominated Treasury bills will take place on 17 August and 14 September. The auctions will be arranged in the Bloomberg Auction System and are open to the RFTB dealer group. Further information on Treasury bill auctions and a quarterly updated auction calendar will be published on <https://www.treasuryfinland.fi/funding-instruments/auctions/#treasury-bill-auctions>.

In addition to Treasury bill auctions, an issuance window for bills is likely to open during the second half of the year. The timing of the Treasury bill issuance is subject to the liquidity position and refinancing needs of the central government. Treasury bills are issued in euros and US dollars with monthly or semi-monthly maturity dates.

The next Quarterly Review will be published on 30 September 2021.

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