

Date of Release: March 25, 2022

## **DBRS Morningstar Confirms Republic of Finland at AA (high), Stable Trend**

**Industry Group:** Public Finance – Sovereigns

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Republic of Finland's Long-Term Foreign and Local Currency – Issuer Ratings at AA (high). At the same time, DBRS Morningstar confirmed the Republic of Finland's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trends on all ratings remain Stable.

### **KEY RATING CONSIDERATIONS**

The Stable trend reflects DBRS Morningstar's view that Finland's strong public finance and economic fundamentals mitigate the risks posed by the pandemic and Russia's invasion of Ukraine. The Finnish economy recovered swiftly from the pandemic shock and had already exceeded its pre-pandemic levels during 2021 with no significant long-term economic scarring-effects. The economic and fiscal implications to Finland from Russia's invasion are uncertain at the moment, however, DBRS Morningstar assesses them to remain manageable. The main channels are associated with trade, given Finland's relatively high but declining commercial linkages with Russia, and to an intensification of inflationary pressures eroding household purchasing power and private consumption. In turn, a slowdown in activity could affect revenue growth, which coupled with likely higher spending to cope with the fallout from the invasion, will increase fiscal pressures. While fiscal rebalancing could be temporarily delayed, DBRS Morningstar expects the impact to remain limited and risks to be mitigated by its strong public finances.

Finland's AA (high) ratings are underpinned by the strong public-sector balance sheet, which reinforces its ability to fund future liabilities, and the Finnish government's commitment to sound economic policies. Finland's wealthy economy, with significant human capital and high value-added sectors, also supports the ratings. On the other hand, an ageing population will constrain potential growth and burden public finances over the medium term. As an open and small country, Finland's economic prospects are exposed to swings in external demand and global financial conditions. Furthermore, DBRS Morningstar notes that the high level of household debt, which could amplify economic downturns, remains a concern.

### **RATING DRIVERS**

One or any combination of the following factors could trigger an upgrade: (1) progress in curbing healthcare and long-term care spending growth pressures, (2) an improvement in Finland's medium-term economic performance, and (3) sustained improvement in fiscal performance and a reduction in the public debt ratio.

One or any combination of the following factors could trigger a downgrade: (1) a material and persistent worsening in Finland's economic performance, (2) a deterioration in Finland's fiscal performance leading to a sustained increase in its public debt ratio, and (3) a substantial crystallisation of contingent liabilities.

**RATING RATIONALE****After a Rapid Recovery From the Pandemic, the Russian Invasion Poses Economic Risks**

Finland's high GDP per capita, estimated at USD 53,519 in 2021, is an important credit strength and reflects its skilled labour force, its expertise in high-tech sectors, including its leading role in digital and clean-energy technologies; and relatively strong research and development (R&D) investment intensity. Pre-pandemic, Finland's GDP growth averaged 2.1% per annum from 2016 to 2019 underpinned by a recovery in exports and investments after a prolonged period of weak economic performance.

Finland had recovered its pre-pandemic activity levels already in Q2 2021 and exceeded it by 2.3% in Q4 2021, using seasonally and workday adjusted data. After a relatively mild contraction from an international perspective of 2.3% in 2020, Finnish real GDP grew by 3.5% in 2021 driven principally by the revival in domestic demand, staging one of the quickest recoveries in Europe. Finland's relatively smaller contact-intensive sectors, better pandemic situation, and sizable policy support underpinned its rapid recovery. The labour market has also recovered swiftly, benefiting from the government support. As of February 2022, the trend employment rate for those aged 15 to 64 stood at 74.0%, exceeding the 72.6% reached in February 2020 and well above the average level of 67.2% during 2015. The unemployment rate still remains slightly above pre-pandemic levels at 6.8%. Consumer inflation reached 4.5% in February 2022 driven by energy prices.

Russia's invasion of Ukraine has increased significantly the uncertainty over economic and inflation prospects. Finland could be affected mainly through the trade channel, due to the sanctions/countersanctions and voluntary decoupling, and greater inflationary pressures from rising energy/raw material prices and further shortages of materials and inputs. The impact will depend on the duration and depth of the conflict as well as the ability of firms to redirect trade with Russia. While Finland's trade links with Russia have materially diminished since 2013, Russia continues to be an important trading partner for Finland. The value of Finland's exports of goods and services represented 4.5% of the total in 2021, including machinery and equipment manufactures and tourism exports that remained subdued lately due to the pandemic restrictions. On the other hand, the value of Finland's imports of goods and services from Russia represented around 8.3% of total in 2022, especially dependent on Russian petroleum products and other raw materials. Finland's high reliance on Russian fossil fuels is mitigated by the fact that crude oil could be supplied by other sources, albeit at higher costs, and natural gas only represents around 6% of the Finnish total energy consumption.

The Bank of Finland has recently published two scenarios to illustrate the potential impact of the Russian invasion on the Finnish economy. Assuming the war is short-lived and Russian trade and business is redirected relatively smoothly, the impact of higher energy/raw material prices and uncertainty could reduce output growth in 2022 to 2.0% compared to the 2.6% forecasted in December 2021 and leave it unaltered at 1.5% in 2023. On the other hand, if the conflict becomes more protracted and trade is not easily diverted, then GDP growth could drop to 0.5% for both 2022 and 2023. These scenarios do not include energy supply disruptions nor government compensation measures.

While the Russian invasion will weigh on activity at least during 2022, DBRS Morningstar considers the improving pandemic situation, EU funds, and employment trends to remain supportive. Over the medium to long term, countering

the effects of unfavourable demographics and relatively weak productivity growth will remain key to Finland's economic prospects. In this sense, DBRS Morningstar will continue to monitor the effectiveness of the government reforms and investments in raising employment, productive investment, and productivity in coming years.

#### Finland Benefits From Strong Fiscal Track-Record But Population Age-Related Expenditures Weigh on Public Finances

DBRS Morningstar considers Finland's track record and commitment to prudent fiscal policy, supported by a strong fiscal framework, to be key credit strengths. Before the pandemic hit, Finland managed to lower its fiscal deficit to 0.9% of GDP in 2019 from 3.0% of GDP in 2014 by controlling expenditures and benefitting from employment growth generated through measures in the Competitiveness Pact. After a marked deterioration of the fiscal deficit-to-GDP ratio to 5.5% in 2020 triggered by the pandemic, the fiscal deficit ratio declined to 2.6% in 2021 driven by the rapid economic recovery and the phase-out of COVID-19 support. This was better than the MoF's December 2021 (2.8%) and October 2021 (3.9%) projections for 2021. The fiscal deficit was expected to continue to decline towards 1% of GDP by the mid-2020s as activity and employment dynamics helped revenue growth. While DBRS Morningstar expects this overall trend to remain in place, the Russian invasion could delay rebalancing as the growth slowdown affects revenue growth and measures to compensate for the higher energy costs, improve defence capabilities, accelerate the energy transition, or deal with the social and economic consequences of the war weigh on public finances.

The main challenge for Finland's public accounts in the medium to long term is the increasing fiscal pressure from an ageing and shrinking working-age population. In relation to this, after more than a decade in the making, the Finnish parliament approved the plan to transfer the responsibility for organising health, social, and emergency services to newly created 'wellbeing services counties' from the municipalities by the start of 2023. The reform is expected to create transitional costs for several years and to potentially generate savings around the turn of the decade and onward, which will hinge on the potential economies of scale and the incentives for an efficient provision of these services. DBRS Morningstar will continue to monitor its implementation to assess the effectiveness of the reform in curbing age-related spending in the medium to long-term.

#### The Public Debt Ratio Increased Due To The Pandemic But A Healthy Public-Sector Balance Sheet Mitigates Risks

Finland's strong public finances have provided sufficient room to cushion the coronavirus-related shock. As a consequence, the public debt-to-GDP ratio considerably increased to 69.0% in 2020 from 59.6% in 2019, reversing the reduction that took place during 2016–19. The strong nominal GDP growth, coupled with a declining deficit and drawdown of extraordinarily high cash buffer, had a favourable effect on the debt ratio, which dropped to 65.8% in 2021. This is better than the MoF's October 2021 (71.2% of GDP) and December 2021 (67.7% of GDP) projections. Similarly, the Ministry of Finance had improved their medium term projections in December 2021 to reflect a stabilisation in the debt dynamics. Nevertheless, DBRS Morningstar notes that these projections could be revised upwards to reflect the economic and fiscal impact from Russia's invasion of Ukraine.

The stock of explicit guarantees of the general government around 27.0% of GDP in 2020 or its implicit liabilities associated with a relatively large banking sector pose additional risks to the public debt ratio. Finland's stock of explicit guarantees has been increasing steadily in recent years and is the highest in the EU in terms of GDP. Nevertheless,

Finland's strong public balance sheet and good debt affordability reinforce the government's ability to fund its liabilities. The general government net financial assets ratio stood at 70.2% of GDP in Q3 2021, although around two-thirds of the assets are ring-fenced for pension payments and not available for budgetary purposes. Finland's central government debt has an average maturity of 7.8 years and minimal exchange-rate risks after swaps. After staying in the negative territory since mid-2019, Finland's 10 year bond yield has increased rapidly in recent weeks and stood at 0.87% on March 22, 2022 as inflation concerns in the euro area could lead to faster than anticipated monetary policy normalisation. Nevertheless, DBRS Morningstar notes Finland's financing costs remain very favourable and its lengthy debt profile means higher funding costs will permeate only gradually.

#### Financial System is Sound and Risks to Financial Stability are Contained

The Finnish banking system weathered the impact of the pandemic thanks to its strong initial position and enhanced by the response at the national and euro system level. According to European Banking Authority data, Finnish banks' CET 1 capital ratio of 17.5% and leverage ratio of 5.6% remained healthy and higher than the EU averages as of Q3 2021. Profitability has recovered due to lower provisioning during 2021 and asset quality has remained strong with the non-performing loans ratio at 1.2% in Q3 2021. The full withdrawal of COVID-19 support and repercussions from Russia's invasion could lead to a deterioration in asset quality. Finnish banks' direct exposure to Russia are small, less than 0.1% of total assets, according to the Finnish FSA. Nevertheless, the invasion could create a weaker operating environment and increase cyber-security risks. DBRS Morningstar considers that Finnish banks' strong capitalisation provide sufficient buffers to absorb potential losses and continue to provide credit to the economy under most scenarios. On the other hand, the Finnish banking system's relative size, concentration, interconnectedness, and reliance on wholesale funding are structural features that could amplify shocks to the economy, especially if combined with investor confidence deterioration.

DBRS Morningstar notes that Finland's high level of household debt, at 143.9% of disposable income in Q3 2021, is still below its Nordic peers, but its continuously increasing level remains a source of concern. On a more positive note, Finland's fully amortising mortgages, stricter credit policies, and lower tax deductibility have helped to contain further build-ups of risks in recent years. DBRS Morningstar considers the risks to financial stability to be contained. The banks remain highly exposed to the property market; however, there is no discernible evidence of significant imbalances in the residential or commercial property market.

#### Finland Has Recovered Cost-Competitiveness and Shows No Evidence of External Imbalances

Before the pandemic, Finland had largely restored cost-competitiveness thanks to the Competitiveness Pact and to wage moderation between 2016 and 2018. The current account recorded an average deficit of 1.4% of GDP during 2011–19, with no signs of imbalances building up in DBRS Morningstar's view, given its small and stable pattern. This period was preceded by ample current-account surpluses before the structural decline in demand for Nokia's handset business and paper products. Against the pandemic backdrop, the current account shifted to a surplus of 0.8% of GDP in 2020 and 0.9% of GDP in 2021. However, trade with Russia could be significantly impacted in coming years. On the other hand, Finland's information and communications technology exports and capital and intermediate goods exports could benefit

should it occur from a strong recovery in its most important export markets (northern Europe, the United States, and China) and a global investment increase. Finland's net international investment position was negative at 4.7% of GDP at end-2021. While Finland's gross external debt-to-GDP ratio remains high at 203.9% of GDP at end-2021, a sizable portion of these liabilities corresponds to long-term debt and intercompany lending, which tends to be more stable than other sources of financing.

#### Strong Institutional Framework and Policy Stability

Finland's political and institutional framework is among the strongest in the world, consistently ranked among the top performers in the World Bank's governance indicators. Despite the political fragmentation, a tradition of coalition governments with strong majorities leads to stable and consensus-based policy making. Prime Minister Sanna Marin of the Social Democratic Party heads a five-party centre-left coalition government that holds a majority in parliament. The next parliamentary elections are currently scheduled to take place in April 2023.

Russia's invasion of Ukraine has brought to the fore questions regarding the possibility of Finland applying for NATO membership. The government will submit to Parliament in early April a security report assessing various security policy options and its associated risks, which will form the basis for cross-party parliamentary discussion. In addition, the Finnish parliament will assess a citizen-led petition to hold a referendum on NATO membership. The Finnish parliament has an obligation to consider the citizen's initiative provided its backed by at least 50,000 signatories within a period of six months. According to the latest poll by Finland's national public broadcasting company Yle, 62% of respondents supported joining NATO while 16% opposed to it, marking a significant shift in public support in favour of Finland's membership since the invasion.

#### ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

EURO AREA RISK CATEGORY: LOW

#### Notes:

All figures are in euros (EUR) unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments <https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments> (July 9, 2021). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and

Governance Risk Factors in Credit Ratings, <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (February 3, 2021).

The sources of information used for this rating include Ministry of Finance (Winter Economic Survey, December 2021; Draft Budgetary Plan 2022, October 2021), Bank of Finland (Scenarios for Finland's Economic Development In The Next Few Years, March 2022; Bulletin 5, December 2021), Central Government Debt Management Office, Statistics Finland (Tilastokeskus), European Commission, European Banking Authority, Finnish Financial Supervisory Authority (Press Release - Press Conference March 15, 2022), Ministry of Social Affairs and Health (Health and Social Services Reform), Ministry of the Environment (Press Release - March 3, 2022), Yle (Finnish Broadcasting Company), The Social Progress Imperative (2021 Social Progress Index), European Central Bank, Statistical Office of the European Communities, Bank of International Settlements, Organisation for Economic Co-operation and Development, IMF, World Bank, and Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES

With Access to Internal Documents: NO

With Access to Management: NO

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/394222>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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 Initial Rating Date: August 14, 2012  
 Last Rating Date: September 24, 2021

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| Issuer               | Debt Rated                                  | Rating Action | Rating     | Trend  |
|----------------------|---|---------------|------------|--------|
| Finland, Republic of | Long-Term Foreign Currency – Issuer Rating  | Confirmed     | AA (high)  | Stable |
| Finland, Republic of | Long-Term Local Currency – Issuer Rating    | Confirmed     | AA (high)  | Stable |
| Finland, Republic of | Short-Term Foreign Currency – Issuer Rating | Confirmed     | R-1 (high) | Stable |
| Finland, Republic of | Short-Term Local Currency – Issuer Rating   | Confirmed     | R-1 (high) | Stable |

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# Finland

## Scorecard Indicators

Source

Current Scorecard Input

| <b>Fiscal Management and Policy</b>               | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|-----------------------------|--------|
| Overall Fiscal Balance (% of GDP)                 | -1.7%       | -0.7%       | -0.9%       | -1.0%       | -5.5%       | -4.6%       | -2.6%       | -1.9%       | -1.8%       | IMF WEO       | 13 year average             | -2.3%  |
| Government Effectiveness (Percentile Rank)        | 99.0        | 99.0        | 99.5        | 99.5        | 99.0        | -           | -           | -           | -           | World Bank    | 5 year average              | 99.2   |
| <b>Debt and Liquidity</b>                         | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
| General Government Gross Debt (% of GDP)          | 63.2%       | 61.2%       | 59.8%       | 59.5%       | 69.5%       | 72.2%       | 72.2%       | 73.6%       | 74.4%       | IMF WEO       | 5 year projection           | 75.1%  |
| Interest Costs (% of GDP)                         | 0.3%        | 0.3%        | 0.2%        | 0.2%        | 0.1%        | 0.0%        | -0.1%       | -0.2%       | -0.1%       | IMF WEO       | 5 year average              | 0.0%   |
| <b>Economic Structure and Performance</b>         | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
| GDP per Capita (USD thousands)                    | 43.9        | 46.4        | 50.0        | 48.7        | 48.8        | 53.5        | 56.8        | 59.5        | 62.4        | IMF WEO       | 10 year average             | 48.3   |
| Output Volatility (%)                             | 3.1%        | 3.1%        | 3.0%        | 2.9%        | 2.8%        | 2.8%        | 2.8%        | 2.8%        | -           | IMF WEO       | Latest                      | 2.8%   |
| Economic Size (USD billions)                      | 241         | 256         | 276         | 269         | 270         | 296         | 315         | 330         | 346         | IMF WEO       | 5 year average              | 273    |
| <b>Monetary Policy and Financial Stability</b>    | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
| Rate of Inflation (% EOP)                         | 1.1%        | 0.5%        | 1.3%        | 1.1%        | 0.2%        | 2.2%        | 1.6%        | 1.6%        | 1.8%        | IMF WEO       | 13 year average             | 1.3%   |
| Total Domestic Savings (% of GDP)                 | 161%        | 162%        | 156%        | 166%        | 184%        | 189%        | -           | -           | -           | ECB/IMF       | Latest <sup>1</sup>         | 189%   |
| Change in Domestic Credit (% of GDP)              | -9.9%       | 7.3%        | 0.5%        | -3.8%       | 9.6%        | -3.8%       | -           | -           | -           | BIS/IMF       | 7 year average <sup>1</sup> | 1.0%   |
| Net Non-Performing Loans (% of Capital)           | 9.5%        | 10.4%       | 8.2%        | 9.5%        | 9.7%        | 9.2%        | -           | -           | -           | IMF IFS / BoF | Latest <sup>1</sup>         | 9.2%   |
| Change in Property Price/GDP Index (%)            | -2.0%       | -2.4%       | -2.1%       | -1.8%       | 3.5%        | 1.5%        | -           | -           | -           | Eurostat/IMF  | 7 year average <sup>1</sup> | -0.8%  |
| <b>Balance of Payments</b>                        | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
| Current Account Balance (% of GDP)                | -2.0%       | -0.8%       | -1.8%       | -0.3%       | 0.8%        | -0.1%       | 0.4%        | 0.4%        | 0.7%        | IMF WEO       | 8 year average              | -0.1%  |
| International Investment Position (% of GDP)      | 5.5%        | 1.2%        | -5.6%       | 4.0%        | -5.3%       | -2.4%       | -           | -           | -           | IMF           | 5 year average <sup>1</sup> | -1.6%  |
| Share of Global Foreign Exchange Turnover (Ratio) | 194.8%      | 200.5%      | 198.9%      | 206.1%      | 207.8%      | 210.8%      | -           | -           | -           | BIS/IMF       | Latest                      | 210.8% |
| Exchange Rate Classification (see footnote)       | 5           | 5           | 5           | 5           | 5           | 5           | -           | -           | -           | IMF           | Latest                      | 5      |
| <b>Political Environment</b>                      | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> | <b>2024</b> |               |                             |        |
| Voice and Accountability (Percentile Rank)        | 97.0        | 99.0        | 98.6        | 99.5        | 99.5        | -           | -           | -           | -           | World Bank    | 5 year average              | 98.7   |
| Rule of Law (Percentile Rank)                     | 100.0       | 100.0       | 100.0       | 100.0       | 100.0       | -           | -           | -           | -           | World Bank    | 5 year average              | 100.0  |

See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

<sup>1</sup> Scores for 2021 have been computed using the most recent data when year-end data is not available.

# Finland

Building Block Assessments and Rating Committee Summary



22-Mar-2022

| Building Blocks                         | Scorecard Result           | Quantitative Assessment | Net Impact of Qualitative Factors   | Building Block Assessment |
|---|----------------------------|-------------------------|-------------------------------------|---------------------------|
| Fiscal Management and Policy            | 17.06                      | Strong                  | N/A                                 | Strong                    |
| Debt and Liquidity                      | 14.18                      | Good                    | N/A                                 | Good                      |
| Economic Structure and Performance      | 13.14                      | Good                    | N/A                                 | Good                      |
| Monetary Policy and Financial Stability | 19.24                      | Very Strong             | N/A                                 | Very Strong               |
| Balance of Payments                     | 14.63                      | Good                    | N/A                                 | Good                      |
| Political Environment                   | 20.00                      | Very Strong             | N/A                                 | Very Strong               |
| Overall Assessment                      | Composite Scorecard Result | Scorecard Rating Range  | Composite Building Block Assessment | Indicative Rating Range   |
|   | 81.9                       | AAA - AA (high)         | 81.9                                | AAA - AA (high)           |

## Finland's Long-Term Foreign Currency - Issuer Rating

AA (high)

Main topics discussed in the Rating Committee include: the potential impact on Finland's economic performance and public finances from the evolution of the pandemic and the Russian invasion of Ukraine, political discussion around security arrangements, financial sector developments, and measures to counteract the effects of an ageing population in the medium and long term. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

## DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories

|                     |           |      |           |      |               |          |               |       |             |        |             |
|---------------------|-----------|------|-----------|------|---------------|----------|---------------|-------|-------------|--------|-------------|
| Lower Bound         | 0.00      | 1.00 | 3.00      | 5.00 | 7.00          | 9.00     | 11.00         | 13.00 | 15.00       | 17.00  | 19.00       |
| Upper Bound         | 0.99      | 2.99 | 4.99      | 6.99 | 8.99          | 10.99    | 12.99         | 14.99 | 16.99       | 18.99  | 20.00       |
| Assessment Category | Very Weak | Weak | Weak/Poor | Poor | Poor/Moderate | Moderate | Good/Moderate | Good  | Strong/Good | Strong | Very Strong |

## Republic of Finland ESG Checklist

| ESG Factor  | ESG Credit Consideration Applicable to the Credit Analysis:   | Y/N             | Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)* |          |
|---|---|-----------------|---|----------|
| <b>Environmental</b>  |   | <b>Overall:</b> | <b>N</b>  | <b>N</b> |
| <b>Emissions, Effluents, and Waste</b>                      | Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?                                      |                 | <b>N</b>  | <b>N</b> |
| <b>Carbon and GHG Costs</b>                                 | Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk? |                 | <b>N</b>  | <b>N</b> |
|   | Will recent regulatory changes have an impact on economic resilience or public finances?  |                 | <b>N</b>  | <b>N</b> |
|   | <b>Carbon and GHG Costs:</b>  |                 | <b>N</b>  | <b>N</b> |
| <b>Resource and Energy Management</b>                       | Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?  |                 | <b>N</b>  | <b>N</b> |
|   | Is the economy reliant on industries that are vulnerable to import or export price shocks?  |                 | <b>N</b>  | <b>N</b> |
|   | <b>Resource and Energy Management:</b>  |                 | <b>N</b>  | <b>N</b> |
| <b>Land Impact and Biodiversity</b>                         | Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?   |                 | <b>N</b>  | <b>N</b> |
| <b>Climate and Weather Risks</b>                            | Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?  |                 | <b>N</b>  | <b>N</b> |
| <b>Social</b>   |   | <b>Overall:</b> | <b>N</b>  | <b>N</b> |
| <b>Human Capital and Human Rights</b>                       | Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?  |                 | <b>N</b>  | <b>N</b> |
|   | Are labour or social conflicts a key source of economic volatility?   |                 | <b>N</b>  | <b>N</b> |
|   | Are individual and human rights insufficiently respected or failing to meet the population's expectations?  |                 | <b>N</b>  | <b>N</b> |
|   | Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?   |                 | <b>N</b>  | <b>N</b> |
|   | <b>Human Capital and Human Rights:</b>  |                 | <b>N</b>  | <b>N</b> |
| <b>Access to Basic Services</b>                             | Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?  |                 | <b>N</b>  | <b>N</b> |
| <b>Governance</b>   |   | <b>Overall:</b> | <b>N</b>  | <b>N</b> |
| <b>Bribery, Corruption, and Political Risks</b>             | Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?  |                 | <b>N</b>  | <b>N</b> |
| <b>Institutional Strength, Governance, and Transparency</b> | Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?  |                 | <b>N</b>  | <b>N</b> |
|   | Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?  |                 | <b>N</b>  | <b>N</b> |
|   | Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?   |                 | <b>N</b>  | <b>N</b> |
|   | <b>Institutional Strength, Governance, and Transparency:</b>  |                 | <b>N</b>  | <b>N</b> |
| <b>Peace and Security</b>                                   | Is the government likely to initiate or respond to hostilities with neighboring governments?  |                 | <b>N</b>  | <b>N</b> |
|   | Is the government's authority over certain regions contested by domestic or foreign militias?   |                 | <b>N</b>  | <b>N</b> |
|   | Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?   |                 | <b>N</b>  | <b>N</b> |
|   | <b>Peace and Security:</b>  |                 | <b>N</b>  | <b>N</b> |
| <b>Consolidated ESG Criteria Output:</b>                    |   |                 | <b>N</b>  | <b>N</b> |

\* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

## **Republic of Finland: ESG Considerations**

March 25, 2022

### **Environmental**

This factor does not affect the ratings assigned to Finland. From a credit perspective, environmental policies are deemed sound, and the fiscal cost of new investments is currently managed appropriately within Finland's budgetary framework. Finland's energy sources are diversified. As of 2020, around 39% of energy consumption came from renewable sources, 37% from fossil fuels and peat, 19% from nuclear, and 4% from net imports of electricity. Finland has been one of the first countries globally seeking to identify the connections between sustainable development and its government budgetary proposals. The Finnish government sent to parliament in early March 2021 the New Climate Change Act 2022, expected to come into force in July 2022, including the objective of reaching carbon neutrality by 2035 and becoming carbon negative soon after, which is among the fastest targets in the world. The Act also sets emission reduction targets for 2030, 2040 and 2050. According to the European Commission, reaching the ambitious target of carbon neutrality by 2035 will require a comprehensive set of policies and investments. On that note, Finland is planning to dedicate 50% of the funds it expects to receive from the NGEU programme to support the green transition.

### **Social**

This factor does not affect the ratings assigned to Finland. Its competitive economy benefits from high levels of human capital and productivity, reflected in its GDP per capita estimated at USD 53,519 in 2021. Respect for human rights is high, and there is widespread access to quality healthcare and other basic services. Finland ranks 2nd among countries in the 2021 Social Progress Index.

### **Governance**

This factor does not affect the ratings assigned to Finland. The country has independent and transparent institutions, providing a strong environment for investment and rather limited scope for corruption. Finland's political and institutional framework is among the strongest in the world, consistently being ranked among the top performers in the World Bank's governance indicators, including government effectiveness (99.0 percentile rank), voice and accountability (99.5 percentile rank), and for rule of law (100.0 percentile rank) as of 2020.