Date of Release: September 23, 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 finances and economic fundamentals mitigate the risks posed by Russia's invasion of Ukraine. The Finnish economy recovered swiftly from the pandemic shock with no significant long-term economic scarring effects. GDP growth continued to be strong during the first half of 2022; however, the energy crisis sparked by Russia's invasion of Ukraine is expected to slow down growth as we move towards next year. The main risks to the economic outlook are linked to the evolution of the energy crisis in Europe, the inflationary dynamics, and the degree of tightening of financial conditions. Finland's traditionally high commercial linkages with Russia have continued to shrink this year and the effects from Russia's gas and electricity cut-off are manageable. During 2021 and part of 2022, Finland's strong economic rebound and the phasing out of the pandemic support measures have helped public finances to rebalance. On the other hand, the weaker economic backdrop and the measures to cope with the fallout from the invasion will increasingly weigh on public finances. Given the spending pressures from an ageing population amid relatively modest growth prospects, reversing the projected gradual increase in the public debt ratio will most likely require additional fiscal consolidation measures in the future.

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 economy, Finland's economic prospects are exposed to swings in external demand and to 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 Energy Crisis Poses Economic Risks

Finland's high GDP per capita, at USD 54,008 in 2021, is an important credit strength and reflects a skilled labour force, high-value-added sectors, and a relatively strong research and development 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. The pandemic halted this positive trend and resulted in a contraction in output of 2.2% in 2020, however, relatively mild from an international perspective thanks to Finland's relatively smaller contact-intensive sectors, better pandemic outcomes, and sizeable policy support. With the reopening of the economy, Finnish real GDP grew by 3.0% in 2021, driven principally by the revival in domestic demand, staging one of the quickest recoveries in Europe and recovering its pre-pandemic activity levels already in Q2 2021. The labour market proved resilient too, benefiting from government support. As of August 2022, the trend employment rate for those aged 15 to 64 stood at 73.6%, exceeding the 72.6% reached in February 2020 and well above the average level of 67.2% during 2015. The trend unemployment rate still remains slightly above pre-pandemic levels at 7.2%.

Economic activity continued to be strong during the first half of 2022, with GDP growth at 1.0% QoQ in Q2; however, the energy crisis sparked by Russia's invasion of Ukraine is intensifying the recessionary risks in the near term. The effects of the energy crisis, which is fuelling inflation and causing a tightening of financial conditions, are expected to intensify ahead of the winter. Finland's consumer price inflation reached 7.6% YoY in August 2022. The erosion of households' purchasing power, higher interest costs, and elevated energy bills will erode domestic demand at the same time that European growth slows down significantly. Subject to elevated uncertainty, the Ministry of Finance projects GDP growth to slow down to 1.7% in 2022 and to 0.5% in 2023 before picking up to 1.4% in 2024. The main risks to the outlook relate to the severity and duration of the economic fallout of Russia's invasion, which could exacerbate the energy/raw material price pressures and cause energy supply shortages, as well as the possibly of faster and more pronounced monetary policy tightening if inflation proves more persistent than anticipated.

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, investment, and productivity in coming years.

Finland Benefits From a 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. After a marked deterioration of the fiscal deficit-to-GDP ratio to 5.5% in 2020 triggered by the pandemic, the ratio improved to 2.7% in 2021 driven by the rapid economic recovery and the phasing-out of coronavirus support. Rapid revenue growth, spurred by activity and employment growth, and the end of the vast majority of coronavirus support measures are helping public finances to continue to rebalance in 2022. On the other hand, a slowdown in economic and employment growth and the implementation of measures to support households and firms absorb higher energy prices are expected to increasingly weigh on the fiscal deficit ratio. The Ministry of Finance now projects the fiscal deficit ratio to decline to 1.4% in 2022 before deteriorating to 2.2% in 2023 and 2024. The main risks in the near term are linked to a weaker evolution of the economy, the need for further measures to deal with the unforeseen effects from the energy crisis, higher healthcare spending due to the backlog created by the pandemic, and higher public wages.

The main challenge for Finland's public sector 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 potential economies of scale and incentives for an efficient provision of these services. DBRS Morningstar will continue to monitor Finland's implementation of this reform, in order to assess its effectiveness in curbing age-related spending in the medium to long term.

The Public Debt Ratio Increased Because of The Pandemic, but a Healthy Public-Sector Balance Sheet Mitigates Risks

Before the pandemic, Finland's public debt as a percentage of GDP increased significantly to 64.9% in 2019 from 34.7% in 2008. Still, Finland's strong public finances provided sufficient room to cushion the coronavirus-related shock, albeit at the expense of lifting the ratio to 74.8% in 2020. The public debt ratio dropped to 72.3% in 2021, helped by strong nominal growth and a shrinking fiscal deficit. Notably, Finland's general government debt statistics from 2000 have been revised this summer to include the interest subsidy loans provided by the Housing Finance and Development Centre of Finland, which represented around 6.1% of GDP in Q4 2021, as part of the general government consolidated EDP debt, instead of being accounted in the state guarantees. The Ministry of Finance projects the public debt ratio to continue declining to 71.2% in 2022, before gradually increasing to 72.7% in 2023 and 74.1% in 2024.

The stock of explicit guarantees of the state, at around 20.0% of GDP in 2021, after excluding the interest subsidy loans, pose additional risks to the public debt ratio. Finland's stock of explicit guarantees has been increasing steadily in recent years and is among the highest in the EU in terms of GDP. Furthermore, the Finnish government recently proposed the introduction of a EUR 10 billion loan and guarantee scheme to ease liquidity needs of electricity producers in Finland. 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 66.4% of GDP in Q1 2022, 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 7.7 years and minimal exchange-rate risk after swaps. While funding costs have been increasing rapidly this year, DBRS Morningstar notes Finland's 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 that was enhanced by the response at the national and euro system level. According to European Banking Authority data, the Finnish banks' CET1 capital ratio of 17.5% and leverage ratio of 5.5% remained healthy and higher than the EU averages as of Q1 2022. Profitability has recovered thanks to lower provisioning during 2021, and asset quality has remained strong with the nonperforming loans ratio at 1.1% in Q1 2022. While Finnish banks' direct exposure to Russia is limited, representing less than 0.1% of total assets according to the Finnish Financial Supervisory Authority, a weaker operating environment and tighter financing conditions could lead to a deterioration in asset quality.

Also, the invasion has increased cyber-security risks. DBRS Morningstar considers that Finnish banks' strong capitalisation provides sufficient buffers to absorb potential losses and continues to provide credit to the economy under most scenarios.

The main vulnerabilities of the financial system are linked to the level of household indebtedness and the structure of the banking system. Household indebtedness, at 134.4% of adjusted disposable income in Q2 2022, has increased steadily over time and remains a source of concern, although it is still below its Nordics peers. 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. Furthermore, Finland's fully amortising mortgages, stricter credit policies, and lower tax deductibility have helped to contain further build ups of risk in recent years. 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. Therefore, retaining the strong confidence among investors that Finnish banks enjoy will remain important under a more challenging environment.

Finland's Restored Cost-Competitiveness Will Help Absorb the Higher Energy Cost on the External Account

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. While the current account turned to positive territory during 2020–21, the Russian invasion of Ukraine has intensified the headwinds on the external front mainly through lower bilateral trade, a weaker external backdrop, and more expensive energy imports. Russia traditionally has been an important trading partner for Finland; however, trade links between the countries have materially diminished since 2013 and even more in recent months as a consequence of the sanctions and voluntary decoupling. Finland´s exports of goods and services to Russia shrank to 2.2% of total in Q2 2022 compared to 4.0% in Q4 2021, while imports of goods and services from Russia declined to 3.9% of total from 10.0%, over the same period. Finland has been able to rely more heavily on Norway and Sweden to at least partially replace its energy dependence from Russia following the energy and gas cut off. Finland's net international investment position was 1.3% of GDP at Q2 2022, however, the country's elevated gross external debt-to-GDP ratio at 229.7% of GDP in Q2 2022 remains a source of concern, given the cross-border exposures of the financial sector, including wholesale funding.

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 policymaking. 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 scheduled for 2 April 2023. DBRS Morningstar expects, regardless of its composition, the next administration to implement measures to help the economy deal with the energy crisis and to remain committed to prudent fiscal policy-making in the medium term. Russia's invasion of Ukraine resulted in a historic change in Finland's defence policy, ending its historical neutrality and leading to its application for NATO membership. Finland will hold an invitee status until the accession protocols have been ratified by the NATO members and the Finnish parliament.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental, Social, and Governance factors that had a significant or relevant effect on the credit analysis.

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (17 May 2022).

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 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/401817/global-methodology-for-rating-sovereign-governments (August 29, 2022). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings, https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (May 17, 2022).

The sources of information used for this rating include the Ministry of Finance (Autumn Economic Survey, September 2022; Press Release - Supplementary budget proposal to secure the effective functioning of the electricity market, September 5, 2022), Bank of Finland (Bulletin 2, July 2022; Bulletin 1, May 2022), Central Government Debt Management Office, Statistics Finland (Exceptional Revision in the Financial Accounts Statistics, June 2022), 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), 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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: https://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/403025.

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

Lead Analyst: Javier Rouillet, Vice President, Global Sovereign Ratings
Rating Committee Chair: Nichola James; Managing Director, Co-Head Global Sovereign Ratings
Initial Rating Date: August 14, 2012
Last Rating Date: March 25, 2022

DBRS Ratings GmbH, Sucursal en España
Paseo de la Castellana 81
Plantas 26 & 27
28046 Madrid, Spain
Tel. +34 (91) 903 6500

DBRS Ratings GmbH
Neue Mainzer Straße 75
60311 Frankfurt am Main Deutschland
Tel. +49 (69) 8088 3500
Geschäftsführer: Detlef Scholz
Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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

Contacts

Javier Rouillet, CFA
Vice President – Global Sovereign Ratings
+34 91903 6503
javier.rouillet@dbrsmorningstar.com

Nichola James
Managing Director, Co-Head of Sovereign Ratings
+49 69 8088 3689
nichola.james@dbrsmorningstar.com

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.

Finland

Scorecard Indicators

Fiscal Management and Policy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	-1.7%	-0.7%	-0.9%	-0.9%	-5.4%	-2.8%	-2.5%	-1.6%	-1.4%	IMF WEO	13 year average	-2.1%
Government Effectiveness (Percentile Rank)	99.0	99.0	99.5	99.5	99.0	-	-	-	-	World Bank	5 year average	99.2
Debt and Liquidity	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
General Government Gross Debt (% of GDP)	63.2%	61.2%	59.8%	59.6%	69.0%	66.7%	67.1%	67.2%	68.0%	IMF WEO	5 year projection	69.8%
Interest Costs (% of GDP)	0.3%	0.3%	0.2%	0.2%	0.1%	0.0%	-0.1%	-0.2%	-0.2%	IMF WEO	5 year average	0.0%
Economic Structure and Performance	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
GDP per Capita (USD thousands)	43.9	46.4	50.0	48.7	49.2	54.0	53.7	56.8	59.3	IMF WEO	10 year average	48.3
Output Volatility (%)	3.1%	3.1%	3.0%	2.9%	2.8%	2.7%	2.7%	2.7%	2.7%	IMF WEO	Latest	2.7%
Economic Size (USD billions)	241	256	276	269	272	299	298	315	328	IMF WEO	5 year average	274
Monetary Policy and Financial Stability	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Rate of Inflation (%, EOP)	1.1%	0.5%	1.3%	1.1%	0.2%	3.2%	3.3%	2.7%	1.8%	IMF WEO	13 year average	1.6%
Total Domestic Savings (% of GDP)	161%	162%	156%	166%	183%	187%	-	-	-	ECB/IMF	Latest[1]	187%
Change in Domestic Credit (% of GDP)	-9.9%	7.3%	-1.0%	-2.2%	7.5%	-7.9%	-	-	-	BIS/IMF	7 year average[1]	0.1%
Net Non-Performing Loans (% of Capital)	9.5%	10.4%	8.2%	9.5%	9.7%	9.2%	-	-	-	IMF IFS	Latest[1]	9.2%
Change in Property Price/GDP Index (%)	-1.5%	-2.6%	-1.7%	-1.8%	2.5%	-1.5%	-	-	-	Eurostat/IMF	7 year average[1]	-1.3%
Balance of Payments	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Current Account Balance (% of GDP)	-2.0%	-0.8%	-1.8%	-0.3%	0.8%	0.9%	0.4%	0.0%	-0.1%	IMF WEO	8 year average	-0.1%
International Investment Position (% of GDP)	5.5%	1.2%	-5.6%	4.0%	-5.0%	-3.5%	-	-	-	IMF	5 year average[1]	-1.8%
Share of Global Foreign Exchange Turnover (Ratio)	195.0%	200.8%	199.2%	206.5%	208.2%	212.1%	-	-	-	BIS/IMF	Latest	212.1%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
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.

[1] Scores for 2021 have been computed using the most recent data when year-end data is not available.

Rating Committee Date: 21-Sep-2022

Finland

Building Block Assessments and Rating Committee Summary

MORNINGSTAR | DBRS

21-Sep-2022

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.32	Strong	N/A	Strong
Debt and Liquidity	14.90	Good	N/A	Good
Economic Structure and Performance	12.68	Good/Moderate	N/A	Good/Moderate
Monetary Policy and Financial Stability	19.61	Very Strong	N/A	Very Strong
Balance of Payments	14.55	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**
	82.6	AAA - AA (high)	82.6	AAA - AA (high)

Finland's Long-Term Foreign Currency - Issuer Rating AA (high)

Main topics discussed in the Rating Committee include: Finland's economic and public finances performance and outlook, the risks related to Russia's invasion of Ukraine, recent political and geopolitical developments, 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)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	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?	N	N
Carbon and GHG Costs	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?	N	N
	Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
	Carbon and GHG Costs:	**N**	**N**
Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
	Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
	Resource and Energy Management:	**N**	**N**
Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social	**Overall:**	**N**	**N**
Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?	N	N
	Are labour or social conflicts a key source of economic volatility?	N	N
	Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
	Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
	Human Capital and Human Rights:	**N**	**N**
Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
	Institutional Strength, Governance, and Transparency:	**N**	**N**
Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
	Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
	Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
	Peace and Security:	**N**	**N**
Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
	Consolidated ESG Criteria Output:	**N**	**N**

* 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

September 23, 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 42.1% of energy consumption came from renewable sources, 28.9% from fossil fuels -excluding natural gas- and peat, 18.2% from nuclear, 5.4% from natural gas, and 4.7% 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 New Climate Change Act 2022 sets a target of net zero emissions by 2035 and becoming carbon negative soon after, which is among the fastest targets in the world. The government submitted an updated national climate and energy strategy to parliament at the end of June 2022, which sets out the medium-term action plan to meet the EU's obligations for 2030 and to achieve the national climate target for 2035, focusing on the green transition and the phasing-out of Russian fossil energy, the import of which has already stopped almost completely.

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 at USD 54,008 in 2021 according to the IMF. 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.