Finland

Key Rating Drivers

High Governance, Debt Above Peers, Weak Demographics: Finland's 'AA+' rating is supported by very high governance indicators, high GDP per capita, and eurozone membership. Public debt is likely to remain above 'AA' and 'AAA' medians, and demographic pressures translate into a low potential growth rate for the Finnish economy.

Economic Downturn: Russia's invasion of Ukraine will lead to a downturn in the Finnish economy from 3Q22, due to three main factors: a reduction in trade with Russia; a sharp economic slowdown in the eurozone, in the context of an assumed complete shut-off of all Russian pipeline gas flows to Europe; and high inflation adversely affecting real incomes and consumer and business confidence. We expect GDP to decline in real terms by 0.6% in 2023 before rising by 1.4% in 2024, as economic prospects recover in Finland's main trading partners.

High Inflation for Longer: Consumer price inflation has increased sharply in 2022. Fitch Ratings has sharply raised its estimate for inflation for the full year to 7.1% and expects inflation to fall only moderately next year, averaging 4.5%, and then decline faster in 2024 (average rate of 1.5%).

Government Indebtedness to Rise: We expect the government debt-to-GDP ratio to decrease in 2022, in the context of strong nominal GDP growth, but then to start rising from 2023, reaching 73.1% of GDP by 2024. This would leave the debt ratio substantially higher than the forecast 'AA' median. The steady upward rise in the government debt ratio implies that fiscal consolidation measures would be needed to stabilise the debt ratio.

A strong public-sector balance sheet (the general government net asset position was 66.4% in 1Q22) bolstered by large pension assets mitigate debt-sustainability risks. Debt-servicing costs will rise with interest rates, but gradually – the interest/revenue ratio in 2024 will be lower than the 'AA' median (1.4% vs. 1.9%). Our projections do not include the government's loan and guarantee scheme introduced in September; the announced envelope for loans and guarantees is EUR10 billion (around 3.7% of forecast GDP) and represents a risk to our projections.

Budget Support to Households Drives Fiscal Deficit: The government's 2023 draft budget includes some temporary measures to address the impact of high electricity prices. The VAT rate on electricity will be lowered to 10% from 24% from December 2022 to April 2023, and tax credits and financial support for electricity are planned for January-April. These would cost around 0.3% of GDP. Other measures include increasing social benefits and adjusting income tax thresholds to offset the impact of fiscal drag, which would also cost around 0.3% of GDP.

The strong revenue performance will push down the general government deficit this year. However, we expect the deficit to widen to 2.4% of GDP in 2023, due to support measures and the worsened macroeconomic outlook, and to remain broadly stable in 2024 (2.2%).

Easing Household Debt Growth: Signs of an easing in credit growth to households may reflect the low levels of consumer confidence that may also be behind weaker house prices, which have slowed to 1.2% in July from 4.5% in 4Q21. This should translate into a flattening in the household debt-to-income ratio, which was 134.2% in 1Q22, slightly higher than a year earlier (133.6%) and is high compared to the average for the eurozone in 1Q22 of 96.2%.

Finnish banks' asset quality is also high, with a non-performing loan ratio of 1.1% in 1Q22 on the basis of EBA data, compared to 1.4% in 1Q21. Banks' capitalisation remains high, with the common equity Tier 1 capital ratio at 17.4% in 1Q22, compared with 18.1% a year earlier.

Ratings

Foreign Currency

Long-Term IDR	AA+
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA+
Short-Term IDR	F1+

Country Ceiling AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	AA+
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	AA+

Source: Fitch Ratings

Data

	2022F
GDP (USDbn)	286
Population (m)	5.6

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (July 2022)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Affirms Finland at 'AA+'; Outlook Stable (September 2022)
Global Economic Outlook (September 2022)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Finland

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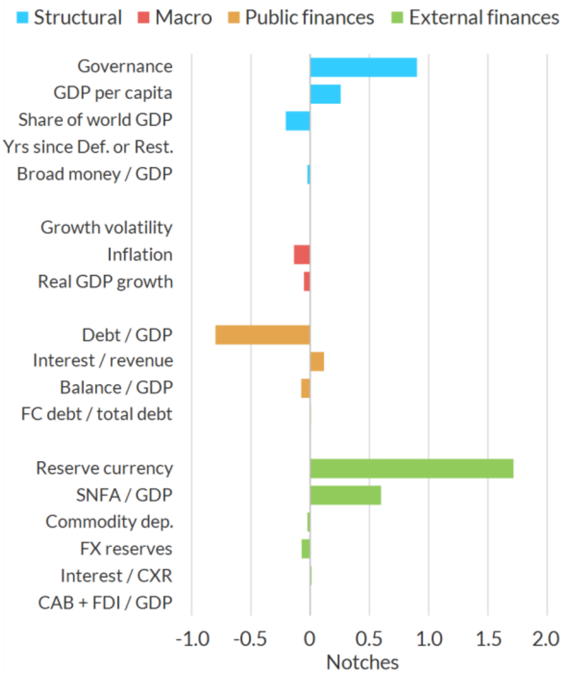
Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: AA+

Sovereign Rating Model: AA+

Contribution of variables, relative to AA median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural features: No adjustment.

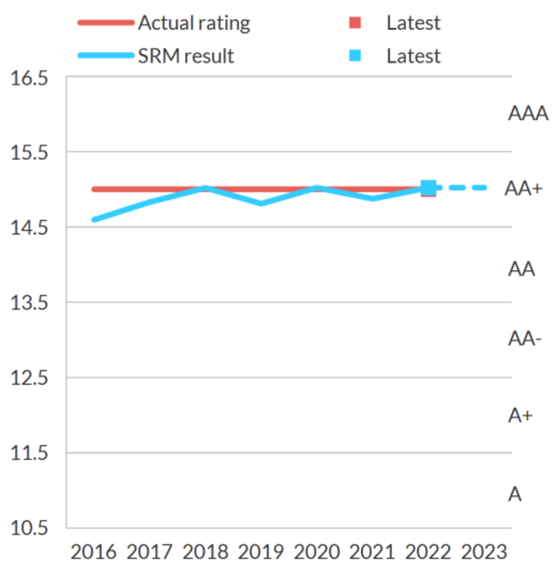
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data.

Sovereign Rating Model Trend



Rating Derivation History (Last 10 Reviews)

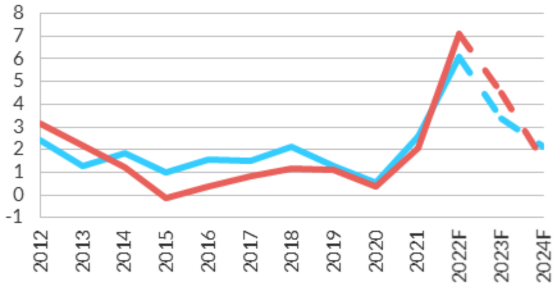
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	AA+	AA+	0	0	0	0
8 Apr 22	AA+	AA+	0	0	0	0
22 Oct 21	AA+	AA+	0	0	0	0
23 Apr 21	AA+	AA+	0	0	0	0
30 Oct 20	AA+	AA+	0	0	0	0
26 Jun 20	AA+	AA+	0	0	0	0
24 Jan 20	AA+	AA+	0	0	0	0
26 Jul 19	AA+	AA+	0	0	0	0
1 Feb 19	AA+	AA+	0	0	0	0
3 Aug 18	AA+	AA+	0	0	0	0

[a] The latest rating uses the SRM result for 2021 in the chart (this will roll forward to 2022 in July 2022).
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

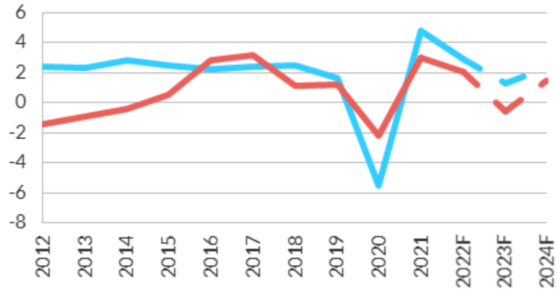
Peer Analysis

Finland AA Median

Consumer Price Inflation
(annual avg, %)

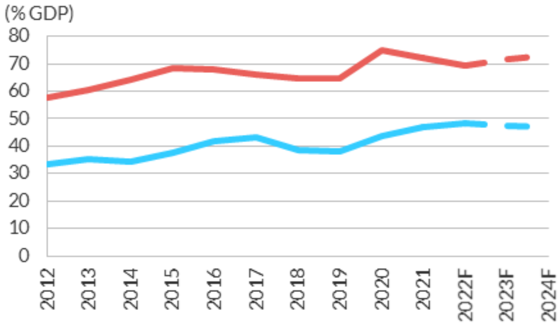


Real GDP Growth
(%)

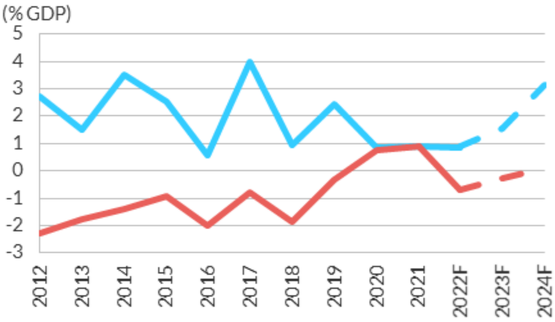


General Government Balance
(% GDP)

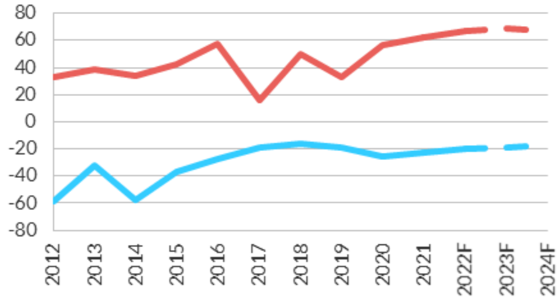
Gross General Government Debt
(% GDP)



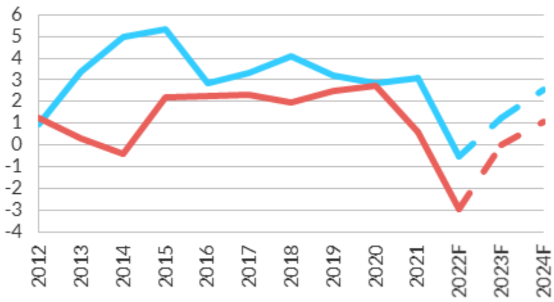
Current Account Balance
(% GDP)



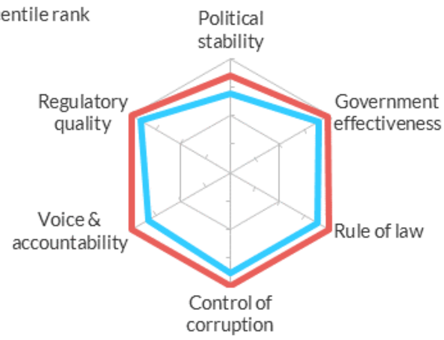
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



Source: Fitch Ratings, Eurostat, IMF, World Bank

Peer Analysis

2022F[a]	Finland	AA median	AAA median	A median
Structural features				
GDP per capita (USD) [SRM]	51,375	48,649	70,720	28,618
Share in world GDP (%) [SRM]	0.3	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	97.0	84.5	93.8	75.6
Human development index (percentile, latest)	94.7	88.7	95.6	81.9
Broad money (% GDP) [SRM]	88.2	100.3	93.3	89.2
Private credit (% GDP, 3-year average)	94.5	104.2	121.6	73.6
Dollarisation ratio (% bank deposits, latest)	3.5	12.2	16.7	10.3
Bank system capital ratio (% assets, latest)	21.8	16.1	15.0	15.7
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	1.5	2.2	2.1	3.7
Real GDP growth volatility (complex standard deviation) [SRM]	2.3	2.3	1.9	2.9
Consumer price inflation (%, 3-year average) [SRM]	4.6	2.1	1.8	2.3
Unemployment rate (%)	6.5	4.9	5.4	6.4
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-2.3	-0.7	-0.2	-2.3
Primary balance (% GDP, 3-year average)	-1.8	0.8	1.1	-0.5
Interest payments (% revenue, 3-year average) [SRM]	1.0	3.7	3.8	4.6
Gross debt (% revenue, 3-year average)	137.4	137.5	113.5	138.4
Gross debt (% GDP, 3-year average) [SRM]	71.2	39.6	44.1	42.8
Net debt (% GDP, 3-year average)	69.2	27.9	37.8	38.6
FC debt (% gross debt, 3-year average) [SRM]	0.0	1.0	0.0	10.5
External finances[c]				
Current account balance (% GDP, 3-year average)	-0.0	1.2	4.9	0.9
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	0.3	0.7	2.1	2.4
Commodity dependence (% CXR) [SRM]	20.7	14.9	14.1	11.5
Gross external debt (% GDP, 3-year average)	201.5	117.1	173.8	64.9
Net external debt (% GDP, 3-year average)	65.9	-3.4	15.3	-7.9
Gross sovereign external debt (% GXD, 3-year average)	23.2	17.2	12.1	18.9
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	59.8	4.9	-4.9	11.7
External interest service (% CXR, 3-year average) [SRM]	2.8	4.6	7.3	2.4
Foreign-exchange reserves (months of CXP) [SRM]	1.4	2.9	1.4	4.4
Liquidity ratio	40.2	54.3	50.3	107.4

[a] Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = n.a. / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch's most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange-rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Free floating (EMU)'.

Rating Factors

Strengths

- Finland's governance scores outperform the 'AA' and 'AAA' medians. Strong institutions underpin its structural strengths.
- GDP per capita is above the 'AA' median and is around four-fifths of the 'AAA' median.
- The Finnish sovereign has a large financial net asset position, estimated at 66.4% of GDP in 1Q22.
- Finland is a core eurozone issuer, with low interest-to-revenue ratio compared to 'AA' and 'AAA' peers.

Weaknesses

- Low productivity growth and a stable working-age population imply a low medium-term growth rate. Demographic pressures will raise the dependency ratio.
- General government debt (estimated at 77.0% of GDP at end-2021) is higher than the 'AA' and 'AAA' medians (around 40% and 44%, respectively).
- Finland is a large net external debtor (around 61% of GDP at end-2021; 'AA' median -19%). Banks account for around half of external liabilities.

Rating	Sovereign
AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United States of America
AA+	**Finland**
	Austria
	Canada
	New Zealand
AA	Abu Dhabi
	France
	Macao, China
	Taiwan, China

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Macroeconomics:** A severe economic or financial shock that leads to broader macroeconomic stress, for example originating from prolonged energy supply shortages in Finland or in its main trading partners.
- **Public Finances:** A significant and lasting increase in the government debt/GDP ratio, for example, due to fiscal slippage and/or weak growth.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** An improved fiscal performance, which provides greater confidence of a reduction in government indebtedness over the medium term.
- **Macroeconomics:** An improvement in medium-term growth prospects, potentially supported by structural reforms and sustained gains in competitiveness.

Forecast Summary

	2019	2020	2021	2022F	2023F	2024F
Macroeconomic indicators and policy						
Real GDP growth (%)	1.2	-2.2	3.0	2.1	-0.6	1.4
Unemployment (%)	6.7	7.7	7.7	6.5	6.8	6.8
Consumer price inflation (annual average % change)	1.1	0.4	2.1	7.1	4.5	1.5
Policy interest rate (annual average, %)	0.0	0.0	0.0	0.7	2.0	1.8
General government balance (% GDP)	-0.9	-5.5	-2.7	-1.9	-2.4	-2.2
Gross general government debt (% GDP)	64.9	74.8	72.3	69.5	71.7	73.1
EUR per USD (annual average)	0.9	0.9	0.8	1.0	1.0	1.0
Real private credit growth (%)	2.5	2.7	0.6	-2.9	-0.0	1.1
External finance						
Merchandise trade balance (USDbn)	2.6	3.6	3.4	2.0	1.8	2.7
Current account balance (% GDP)	-0.3	0.8	0.9	-0.7	-0.3	0.1
Gross external debt (% GDP)	211.8	230.1	193.1	203.1	208.2	201.0
Net external debt (% GDP)	33.2	56.3	61.8	67.0	68.8	66.5
External debt service (principal + interest, USDbn)	60.0	58.9	63.2	63.4	64.4	65.0
Official international reserves including gold (USDbn)	11.4	13.5	16.7	15.4	14.1	12.8
Gross external financing requirement (% int. reserves)	536.1	455.2	418.4	368.3	398.4	432.0
Real GDP growth (%)						
US	2.3	-3.4	5.7	1.7	0.5	1.7
China	6.0	2.2	8.1	2.8	4.5	4.7
Eurozone	1.3	-6.4	5.4	2.9	-0.1	2.3
World	2.6	-3.3	5.8	2.4	1.7	2.8
Oil (USD/barrel)	64.1	43.3	70.6	100.0	85.0	65.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General government)

(EURbn)	2022F	2023F
Uses	**32.3**	**31.3**
Budget deficit	5.1	6.6
MLT amortisation	27.2	24.7
Domestic	11.4	10.4
External	15.8	14.3
Sources	**32.3**	**31.3**
Gross borrowing	23.3	10.9
Domestic	9.8	13.1
External	13.5	18.2
Privatisation	-	-
Other	-	-
Change in deposits (- = increase)	0.9	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2022F	2023F
Uses	**61.7**	**61.4**
Current account deficit	2.0	0.8
MLT amortisation	59.6	60.6
Sovereign	14.0	14.3
Non-sovereign	45.6	46.4
Sources	**61.7**	**61.4**
Gross MLT borrowing	61.4	61.0
Sovereign	13.3	13.2
Non-sovereign	48.2	47.9
FDI	-0.7	-1.6
Other	-0.4	0.6
Change in FX reserves (- = increase)	1.3	1.3

Source: Fitch Ratings

Credit Developments

Downturn Forecast Despite Resilience in 1H22

The Finnish economy has displayed a degree of resilience in 2022, despite the shock to the world economy brought about by the Russian invasion of Ukraine. Real GDP increased by 0.5% qoq in 1Q22, with higher government spending, investment and stock-building offsetting a decline in household spending. Exports declined sharply, although this appears related to volatility in services data. Real GDP also increased in 2Q22, by 1.0% qoq, despite the worsening macroeconomic outlook brought about by the war. Domestic demand was the main driver of growth, with continued strength in inventory building by firms and higher public and private current spending, partly offset by broadly flat exports and higher imports.

Retail sales data appear slightly at odds with this estimate, as these fell in volume terms in 2Q22, albeit at a slower pace than before; manufacturing output and activity in the services sector continued to grow in 2Q22, while new orders in the manufacturing sector decreased in 1Q22 from 4Q21, before picking up in 2Q22.

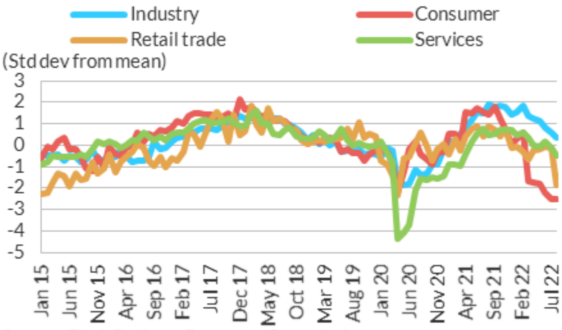
The contrast between retail activity and other parts of the economy is also reflected in business and consumer confidence data; while business confidence has decreased at a moderate pace for industry and services since the autumn of last year, consumer confidence has fallen sharply, to levels close to the trough in 2008, during the global financial crisis, and confidence in the retail sector fell sharply in August. Survey data also suggest that industrial firms now see a lack of demand as a growing constraint on production in the months ahead.

We expect a sharp slowdown in economic activity from 3Q22, caused by three main factors: a sharp reduction in exports to Russia, which in 2021 accounted for around 4.5% of exports of Finnish goods and services (on a balance of payments basis); a sharp slowdown in growth in the eurozone; and the persistence of high prices adversely affecting real incomes and consumer and business confidence. In particular, in our September Global Economic Outlook we assume a complete or near-complete shut-down of gas exports from Russia to the EU. This has a particularly severe impact on the German and Italian economies, the most vulnerable of the larger eurozone economies to restrictions in gas supply. We expect eurozone GDP to contract in 2023, and this will have a substantial impact on Finland's growth prospects.

The strong carryover effect from the economy's performance in 2021 and the resilient performance of the economy in 1H22 means that the annual GDP growth forecast for this year will be broadly unchanged from our April review (2.1%), with robust domestic demand offset in part by net exports dragging down the overall growth rate. We expect GDP to decline by 0.6% in 2023 due to forecast weak economic activity in 1H23, although we expect the economy to start growing in 2H23 and through 2024, as economic prospects recover in Finland's main trading partners, which will translate into a 1.4% rise in GDP.

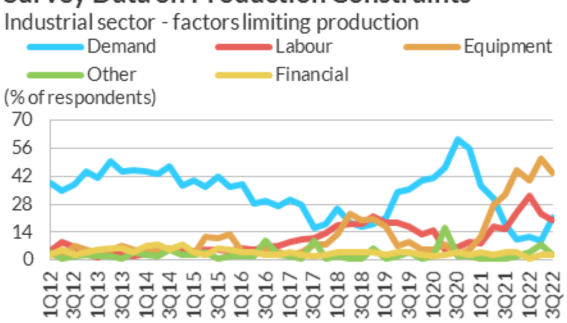
The value of goods exports in 1H22 has risen more slowly than imports (23.2% versus 34.5%), implying a worsening in the trade balance and current account. Trade links with Russia have weakened, due to the impact of sanctions, counter-sanctions, and firms' adjustments. Exports to Russia in June were 28% lower than a year earlier, while imports had fallen by 43% yoy, with a complete cessation of imports of natural gas and electricity.

Confidence Indicators



Source: Fitch Ratings, European Commission

Survey Data on Production Constraints



Source: Fitch Ratings, European Commission

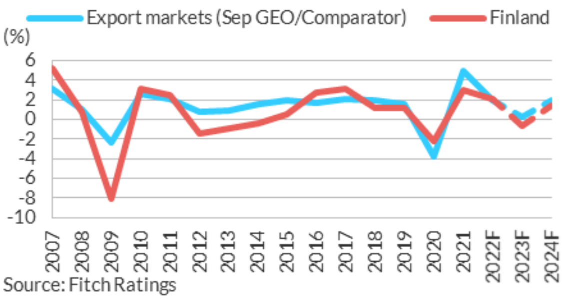
Natural gas accounted for a low share of Finland's total energy consumption even before the Russian invasion of Ukraine (around 5%), but virtually all of the natural gas was imported from Russia. High prices had already brought about a reduction in natural gas consumption in 2021, with the share of natural gas in the energy mix falling to 4.3% by end-2021. In May, the import of Russian gas ended, due to Finland's refusal to pay for gas in roubles. Finland has also halted electricity imports from Russia, and is phasing out crude oil imports from Russia. Finland can import gas from the Baltic states via an interconnector to Estonia and gas storage sites there. LNG terminals will provide significant additional source of natural gas.

High Inflation; Labour Market Tightness; Competitiveness Risks

Consumer price inflation has increased sharply this year, to 8.4% in September on the harmonised HICP measure from 3.2% in December 2021. Core inflation has also increased sharply, to 5.3% in August from 1.9% at end-2021, as price pressures have spread from energy and other commodities to the rest of the economy. Even with an assumed fall in the annual inflation rate for the rest of the year, we have raised sharply our estimate for inflation in 2022 to 7.1%; we expect inflation to fall only moderately in 2023, averaging 4.5%, and then decline faster in 2024 (average rate of 1.5%).

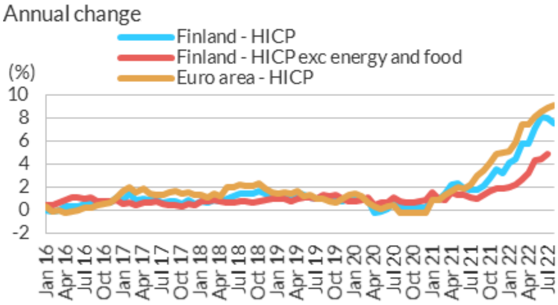
Developments in headline inflation will be closely linked to energy prices, but a key risk to the economy is that current high prices are locked-in through wage negotiations. If these potential increases are unmatched by productivity improvements, it would adversely affect Finland's external competitiveness. Wage data so far do not point to a substantial acceleration in labour costs. Earnings excluding bonuses increased by 2.0% in the year to June, implying a substantial decline in real wages. In June municipal workers negotiated a settlement that envisages a pay rise of 1.9% for 2023, but also a clause whereby if export industries introduce a higher settlement increase, the percentage difference will be applied to municipal workers too. In early October, care workers negotiated a very similar settlement to that of municipal workers – these settlements cover around 450,000 employees. Export industries wage settlements typically set the guideline for other wage negotiations, but no agreement has been reached, and new negotiations will take place in the coming weeks.

GDP Growth Forecasts
Finland and main export markets



Source: Fitch Ratings

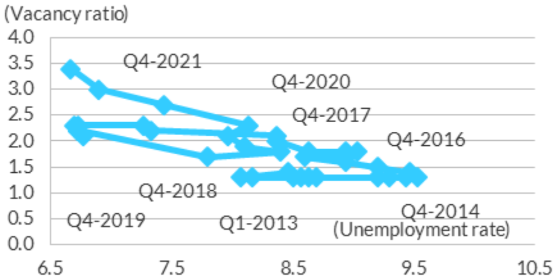
Consumer Price Inflation
Annual change



Source: Fitch Ratings, Eurostat

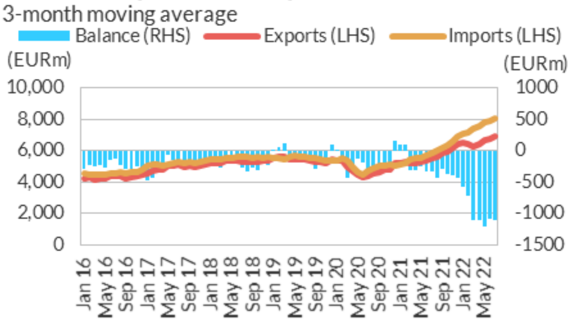
The labour market has tightened substantially since the middle of 2020 with vacancy rates increasing to all-time highs, and the unemployment rate falling sharply from a post-pandemic high of 8.8% in August 2020 to 6.1% in May. However, recent developments point to a reversal to some degree of this tightness, with the unemployment rate increasing in June, July and August (to 7.3%), and employment and labour force growth easing in 2Q22. We now expect the unemployment rate to average 6.8% in 2023 and 2024.

Beveridge Curve
Seasonally adjusted data



Source: Fitch Ratings, Eurostat

Value of Exports and Imports of Goods
3-month moving average



Source: Fitch Ratings, Finnish Customs

Weaker export growth and higher import prices will translate into a lower current account, with the balance turning from a surplus in 2021 to a deficit of 0.7% this year. We expect the current account balance to be close to zero in 2023 and 2024.

Overall Deficit Decline; Debt Ratio to Resume Increase

Public finances improved substantially in 2021 with the recovery in economic activity. The general government deficit narrowed to 2.7% of GDP in 2021 from 5.5% of GDP in 2020, while the central government deficit declined from 5.5% to 3.3%. For 2022, we expect a further narrowing of the general government deficit, as the impact of scaling back of Covid-19 pandemic-related support measures is partly offset by extra defence and security spending and support for high energy price rises.

The government's 2023 draft budget envisages extra defence spending, scope to support households and business against energy price rises, and the implementation of the health and social care reform. The VAT rate on electricity will be lowered to 10% from 24% from December to April 2023, and tax credits and financial support for electricity are planned for January-April. These would cost around 0.4% of GDP. Other measures include increasing social benefits and adjusting income tax thresholds to offset the impact of fiscal drag, which would also cost around 0.3% of GDP.

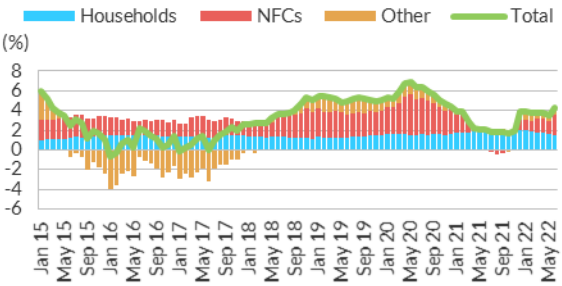
We project that due to the deteriorating macroeconomic outlook, the public finances will worsen next year, with the deficit widening to 2.4% of GDP (slightly higher than the government's projection for 2023 in the budget), before edging down to 2.2% in 2024.

There is, however, a degree of uncertainty about future fiscal and economic policy settings as the current parliamentary term will end in spring 2023, and elections to form a new parliament and government will be held in April next year. The current government, headed by Prime Minister Sanna Marin, applied for NATO membership in May in view of the worsened geopolitical and security environment, at the same time as Sweden. The accession process to NATO will be completed as soon as member states ratify the application.

A statistical reclassification of subsidised loans with a state guarantee offered by the Finnish Housing Finance and Development Centre (ARA) for social housing has led to a step increase in the level of general government debt of around EUR15 billion (5.9% of GDP) in 2021. On this basis, the level of government indebtedness in 2021 was 72.3% of GDP, down from a (revised) 74.8% in 2020. Our public finance projections are consistent with the debt ratio falling this year, but then increasing in 2023 and 2024, reaching 73.1% in 2024.

MFI Loans to Other Sectors

Contributions to annual change in total loans



Source: Fitch Ratings, Bank of Finland

House Price Inflation

Source: Fitch Ratings, Statistics Finland

Household Debt Increase to Ease; House Price Inflation Slowing

Credit flows to the private sector have continued to grow steadily, with annual growth of around 4.0% in the first eight months of the year. The pace of growth of credit to households has eased recently, to 1.2% annually in August, with a rise in the rate of lending to non-financial corporates offsetting this. This easing may reflect the weakness of consumer confidence, and also point to some waning in house price growth, which has slowed from an annual average 4.5% in 4Q21 to 0.4% in June (with annual house price inflation turning negative in the greater Helsinki area). Slower growth in housing loans should translate into a flattening in the household debt-to-income ratio, which was 134.4% in 2Q22, compared to 132.9% a year earlier.

Household indebtedness remains high, but Finnish banks' asset quality is also high, with a non-performing loan ratio of 1.1% in 1Q22 on the basis of EBA data, compared to 1.4% in 1Q21. Banks' capitalisation remains high, with the CET1 capital ratio at 17.4% in 1Q22, compared to 18.1% a year earlier.

Public Debt Dynamics

According to Fitch's baseline projections, GGGD will rise to just under 80% of GDP in 2026. In a scenario of no improvement in the primary balance, the debt ratio will increase to 84.4%. Persistently low growth or higher interest rates would also result in a less-sharp rise in the debt ratio. Structural surpluses in the social security funds sector are not used to pay down debt, and therefore appear as debt-increasing stock-flow adjustments.

Debt Dynamics - Fitch's Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	81.1	77.0	74.9	77.1	78.3	79.0	79.7
Primary balance (% of GDP)	-4.8	-2.2	-1.3	-1.8	-1.5	-0.8	-0.5
Real GDP growth (%)	-2.2	3.0	2.1	-0.6	1.4	1.2	1.0
Average nominal effective interest rate (%)	1.0	0.7	0.7	0.7	1.0	1.2	1.4
EUR/USD (annual avg)	0.9	0.8	0.9	1.0	1.0	1.0	1.0
GDP deflator (%)	1.5	4.2	5.0	3.0	1.9	1.8	1.8
Stock-flow adjustments (% of GDP)	0.0	0.0	-1.2	-1.5	-1.5	-1.3	-1.3

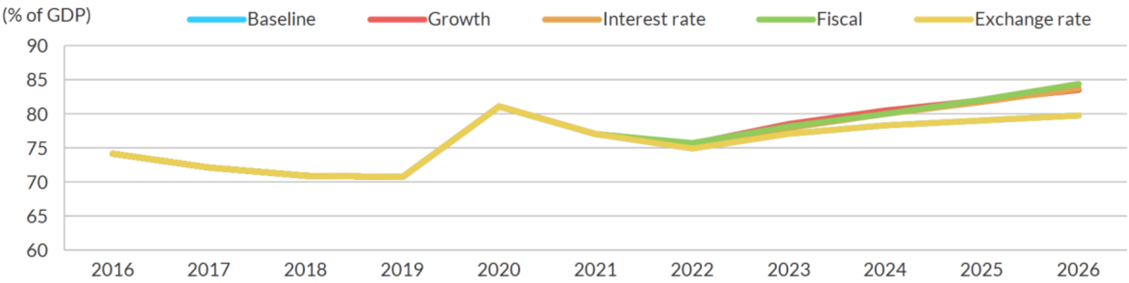
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.0% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit of 2.1% of GDP from 2021

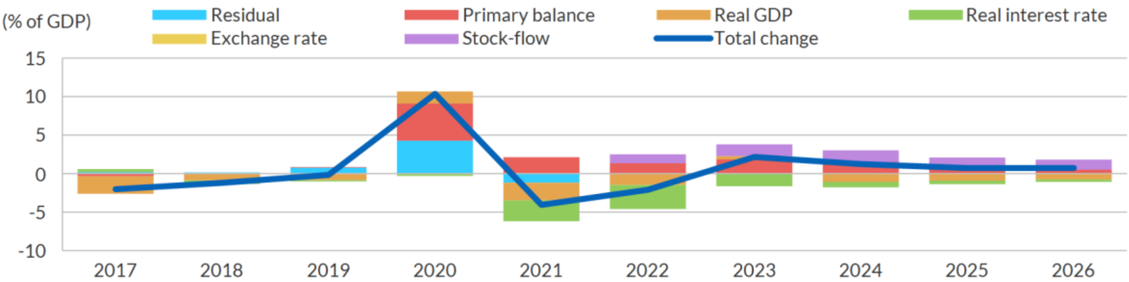
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Revenue	53.9	53.0	52.5	52.4	51.6	52.8	51.6	50.9	51.0
Expenditure	55.6	53.6	53.4	53.3	57.2	55.5	53.5	53.3	53.2
o/w interest payments	1.1	1.0	0.9	0.9	0.7	0.5	0.5	0.5	0.7
Interest payments (% revenue)	2.0	1.9	1.8	1.6	1.4	1.0	1.0	1.0	1.4
Primary balance	-0.6	0.3	0.1	-0.1	-4.8	-2.2	-1.3	-1.8	-1.5
Overall balance	-1.7	-0.7	-0.9	-0.9	-5.5	-2.7	-1.9	-2.4	-2.2
Gross government debt	68.0	66.0	64.9	64.9	74.8	72.3	69.5	71.7	73.1
% of government revenue	126.1	124.7	123.5	123.9	144.8	136.9	134.5	140.8	143.4
Domestic debt	17.0	16.5	22.1	22.7	26.4	34.0	32.7	33.8	34.4
External debt	51.1	49.6	42.8	42.1	48.4	38.2	36.8	38.0	38.7
Local currency	68.0	66.0	64.9	64.9	74.8	72.3	69.5	71.7	73.1
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government deposits	1.3	1.5	1.4	1.1	3.7	2.4	1.8	1.8	1.7
Net government debt	66.7	64.5	63.5	63.8	71.1	69.9	67.6	70.0	71.4
Financing		0.7	0.9	0.9	5.5	2.7	1.9	2.4	2.2
Domestic borrowing		0.2	6.1	1.2	3.4	9.1	1.5	1.8	1.8
External borrowing		6.9	-7.3	-0.3	10.3	-10.9	-2.9	2.1	2.0
Other financing		-6.4	2.1	-0.0	-8.2	4.5	3.3	-1.5	-1.5
Change in deposits (- = increase)		-0.3	0.1	0.3	-2.6	1.1	0.3	0.0	0.0
Privatisation		-	-	-	-	-	-	-	-
Other		-6.1	1.9	-0.3	-5.5	3.4	3.0	-1.5	-1.5

Source: Fitch Ratings, Eurostat, IMF

Balance of Payments

(USDbn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Current account	-4.8	-2.0	-5.2	-0.9	2.0	2.7	-2.0	-0.8	0.3
% GDP	-2.0	-0.8	-1.9	-0.3	0.8	0.9	-0.7	-0.3	0.1
Goods	0.0	1.7	0.3	2.6	3.6	3.4	2.0	1.8	2.7
Services	-3.1	-1.6	-3.8	-2.2	-3.0	-2.8	-2.5	-2.7	-2.5
Primary income	1.0	0.2	1.0	1.3	4.7	5.5	1.0	2.5	2.5
Secondary income	-2.8	-2.3	-2.7	-2.6	-3.3	-3.5	-2.5	-2.4	-2.4
Capital account	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	-8.7	-7.2	-18.9	-10.3	-2.3	-3.9	-0.5	0.7	1.7
Direct investment	15.5	-3.5	13.7	-8.6	7.3	-5.4	0.7	1.6	-0.9
Portfolio investment	4.3	-3.2	-24.6	-28.4	-0.9	24.8	-2.9	-2.9	-2.0
Derivatives	-1.2	-5.0	-0.7	0.5	-1.7	2.3	-0.9	-0.1	0.0
Other investments	-27.3	4.4	-7.3	26.1	-7.0	-25.6	2.6	2.2	4.6
Net errors and omissions	-3.3	-5.9	-14.0	-9.0	-3.6	-3.4	0.0	0.0	0.0
Change in reserves (+ = increase)	0.6	-0.4	-0.1	0.6	1.0	3.4	-1.3	-1.3	-1.3
International reserves, incl. gold	10.5	10.5	10.3	11.4	13.5	16.7	15.4	14.1	12.8
Liquidity ratio (%)	39.1	34.1	29.2	47.6	40.8	38.5	40.2	38.6	37.4
Memo									
Current external receipts (CXR)	103.2	116.2	128.3	132.5	121.6	143.4	134.8	137.0	145.6
Current external payments (CXP)	108.0	118.2	133.5	133.4	119.6	140.7	136.9	137.7	145.4
CXR growth (%)	1.4	12.7	10.4	3.3	-8.2	17.9	-6.0	1.6	6.3
CXP growth (%)	3.9	9.4	13.0	-0.1	-10.4	17.7	-2.7	0.6	5.5
Gross external financing requirement	48.8	43.5	23.2	55.3	52.0	56.4	61.7	61.4	61.0
% International reserves	486.8	415.2	220.5	536.1	455.2	418.4	368.3	398.4	432.0
Net external borrowing	-15.1	23.5	31.8	29.0	-3.8	-13.6	6.1	2.9	-1.1

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Gross external debt	460.1	321.9	557.1	568.7	624.0	574.3	580.4	583.2	582.1
% GDP	191.2	126.2	202.1	211.8	230.1	193.1	203.1	208.2	201.0
% CXR	446.0	277.0	434.1	429.1	513.0	400.4	430.4	425.8	399.7
Short-term debt (% GXD)	54.8	72.0	51.2	52.5	52.6	48.1	47.8	47.5	47.2
By debtor									
Sovereign	129.9	139.5	129.9	128.0	161.2	135.1	134.3	133.2	131.4
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	129.9	139.5	129.9	128.0	161.1	135.0	134.3	133.2	131.4
Banks	297.2	139.2	373.3	383.6	395.0	339.2	337.2	334.4	328.2
Other sectors	33.0	43.2	53.8	57.0	67.8	100.1	108.9	115.7	122.6
Gross external assets (non-equity)	320.7	281.9	418.3	479.6	471.4	390.4	389.1	390.4	389.7
Sovereign	67.7	89.1	78.9	146.4	104.6	74.4	73.6	74.3	75.0
International reserves, incl. gold	10.5	10.5	10.3	11.4	13.5	16.7	15.4	14.1	12.8
Other sovereign assets	57.2	78.6	68.6	135.0	91.1	57.7	58.2	60.2	62.2
Banks	167.1	94.0	245.4	234.7	252.0	207.3	201.2	196.5	188.4
Other sectors	85.5	98.9	94.0	98.5	114.8	108.7	112.8	116.3	121.1
Net external debt	139.4	40.0	138.8	89.0	152.6	183.9	191.3	192.8	192.4
% GDP	58.0	15.7	50.4	33.2	56.3	61.8	67.0	68.8	66.5
Sovereign	61.8	50.5	51.0	-18.4	56.6	60.6	59.2	55.5	51.1
Banks	130.1	45.2	127.9	148.9	143.0	131.9	136.0	137.9	139.8
Other sectors	-52.5	-55.7	-40.1	-41.5	-47.0	-8.6	-3.9	-0.6	1.5
International investment position									
Assets	320.7	281.9	418.3	479.6	471.4	390.4	389.1	390.4	389.7
Liabilities	460.1	321.9	557.1	568.7	624.0	574.3	580.4	583.2	582.1
Net	12.7	3.3	-15.0	10.9	-14.7	-9.9	-23.8	-35.5	-48.1
Net sovereign	39.6	76.3	72.2	162.8	108.1	123.9	188.1	201.3	215.4
% GDP	16.4	29.9	26.2	60.6	39.8	41.6	65.8	71.9	74.4
External debt service (principal + interest)	49.3	46.8	23.3	60.0	58.9	63.2	63.4	64.4	65.0
Interest (% CXR)	5.3	4.5	4.1	4.3	4.0	2.8	2.8	2.8	2.6

Source: Fitch Ratings, IMF

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO) AA+

Sovereign Rating Model

					Model Result and Predicted Rating			Applied Rating[d] AA+
								15.02 = AA+
Input Indicator	**Weight (%)**	**2021**	**2022**	**2023**	**Adjustment to Final Data**	**Final Data**	**Coefficient**	**Output (notches)**
Structural features								**10.90**
Governance indicators (percentile)	20.3	n.a.	96.5	n.a.	-	96.5	0.074	7.13
GDP per capita (USD)	13.3	n.a.	52,876	n.a.	Percentile	87.3	0.042	3.64
Nominal GDP (% world GDP)	13.2	n.a.	0.30	n.a.	Natural log	-1.2	0.596	-0.71
Most recent default or restructuring	5.0	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-2.017	0
Broad money (% GDP)	1.4	n.a.	88.2	n.a.	Natural log	4.5	0.188	0.84
Macroeconomic performance, policies and prospects								**-0.82**
Real GDP growth volatility	5.1	n.a.	2.3	n.a.	Natural log	0.8	-0.815	-0.67
Consumer price inflation	2.9	2.1	7.1	4.5	3-yr avg.[b]	4.6	-0.058	-0.26
Real GDP growth	2.4	3.0	2.1	-0.6	3-yr avg.	1.5	0.076	0.11
Public finances								**-1.82**
Gross general govt debt (% GDP)	8.3	77.0	75.0	77.1	3-yr avg.	76.4	-0.022	-1.67
General govt interest (% revenue)	4.5	1.0	1.0	1.1	3-yr avg.	1.0	-0.043	-0.04
General govt fiscal balance (% GDP)	2.6	-2.7	-1.9	-2.4	3-yr avg.	-2.3	0.048	-0.11
FC debt (% of total general govt debt)	2.4	0.0	0.0	0.0	3-yr avg.	0.0	-0.006	0
External finances								**2.27**
Reserve currency (RC) flexibility	7.8	n.a.	3.1	n.a.	RC score 0 - 4.5[c]	3.1	0.549	1.72
SNFA (% of GDP)	7.3	41.0	64.0	68.3	3-yr avg.	57.7	0.011	0.66
Commodity dependence	1.1	n.a.	20.6	n.a.	Latest	20.6	-0.004	-0.09
FX reserves (months of CXP)	1.8	n.a.	1.4	n.a.	n.a. if RC score> 0	0.0	0.036	0
External interest service (% CXR)	0.4	2.8	2.7	2.6	3-yr avg.	2.7	-0.006	-0.02
CAB + net FDI (% GDP)	0.1	2.7	-0.6	-0.4	3-yr avg.	0.6	0.001	0.00
Intercept Term (constant across all sovereigns)								**4.49**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	**0**
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

Source: Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR). Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Finland's credit profile does not support a notching-up of the Long-Term Local-Currency IDR above the Foreign-Currency IDR. In Fitch's view, neither of the two key factors cited in the criteria that support upward notching of the Long-Term Local-Currency IDR is present: strong public finance fundamentals relative to external finance fundamentals, and previous preferential treatment of local-currency creditors relative to foreign-currency creditors. Finland is also a member of the eurozone, which constrains the Long-Term Local Currency IDR at the same level as the Long-Term Foreign-Currency IDR.

Country Ceiling

Finland's Country Ceiling reflects Fitch's view that the risk of capital or exchange controls being imposed in the eurozone is low, but not negligible. This is consistent with Fitch's maximum Country Ceiling uplift of six notches above eurozone member states' Long-Term Foreign-Currency IDRs.

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
24 Jan 20	AA+	F1+	Stable	AA+	F1+	Stable	AAA
03 Aug 18	AA+	F1+	Positive	AA+	F1+	Positive	AAA
22 Jul 16	AA+	F1+	Stable	AA+	F1+	Stable	AAA
11 Mar 16	AA+	F1+	Stable	AA+	-	Stable	AAA
20 Mar 15	AAA	F1+	Negative	AAA	-	Negative	AAA
22 Dec 05	AAA	F1+	Stable	AAA	-	Stable	AAA
17 Jun 04	AAA	F1+	Stable	AAA	-	-	AAA
21 Sep 00	AAA	F1+	Stable	AAA	-	-	-
05 Aug 98	AAA	F1+	-	AAA	-	-	-
14 Jul 98	AA+	F1+	-	AA+	-	-	-
29 Apr 97	AA+	F1+	-	AAA	-	-	-
12 Mar 96	AA	F1+	-	AAA	-	-	-
26 Oct 95	AA-	F1+	-	AAA	-	-	-
10 Aug 94	AA-	-	-	-	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Finland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Worldwide Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Worldwide Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Finland has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]'for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Worldwide Governance Indicators is relevant to the rating and a rating driver. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Finland, as for all sovereigns. As Finland has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Finland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.