

# Finland

## Key Rating Drivers

**High Governance, Debt, Demographics:** Finland's 'AA+' ratings are supported by very high governance indicators, high income per capita, eurozone membership and the pension system's strong asset position. Public indebtedness will remain above both 'AA' and 'AAA' medians and the potential growth rate of the economy is low.

**Deficit Rising in 2023:** Strong revenue growth and the removal of Covid-19 support measures drove a reduction in the general government deficit in 2022, to an estimated 1.0% of GDP from 2.8% in 2021. However, the deficit will increase substantially this year to 3.1% due to the impact of the downturn in the economy on revenues, higher spending on defence and security, higher social transfers linked to inflation and the implementation of healthcare and social services reform. We expect the economic recovery will help reduce the deficit to 2.6% of GDP.

**Government Indebtedness to Rise:** Our public finance projections are consistent with the government debt ratio increasing to 75.7% by 2024, higher than both the 'AA' and 'AAA' medians (47.2% and 39.6%, respectively), and rising further under our baseline projections. This implies that consolidation measures are required to stabilise government indebtedness.

Risks to debt sustainability and pressures on public finances from the ageing population are mitigated by a strong public sector balance sheet bolstered by large pension assets (overall pension assets in Finland were about 90% of GDP in 3Q22, of which about 33% in the public sector system). Debt-servicing costs are increasing but remain below the 'AA' median.

**Mild Recession Under Way:** We estimate that real GDP growth for 2022 was 1.9%. Domestic demand will decline this year leading to a mild recession. Export growth will slow, while weak imports will help limit the overall fall in GDP to 0.4%. We expect economic activity to start growing again in real terms from 2H23, and the pace in activity to accelerate in 2024, with GDP rising by 1.4%. We assume medium-term economic growth of about 1.0%-1.2% per year.

**Inflation, Contained Wage Risks:** Consumer price inflation appears to have peaked in November 2022 at 9.1%. We expect inflation to fall during this year and next. Underlying measures of inflation are still rising, indicating that inflationary pressures are entrenched across the economy. Risks that high inflation becomes locked in through wage negotiations still seem contained. However, labour cost growth accelerated in 2022 on certain measures.

**Household Sector Risks:** Home prices have started declining in nominal terms, but the only moderate overvaluation levels and generally healthy household sector balance sheets suggest that the economic and financial impact from any correction in prices should be contained. The dampening in households' demand for credit has slowed the rise in household indebtedness. But higher debt-servicing costs and lower home prices reducing household wealth risks translate into a sharper downward correction in consumer spending than we are expecting.

**Banking Sector Resilient:** We expect the banking sector to be resilient to potential deteriorations in asset quality deriving from the economic downturn and starts from low levels of non-performing loans. The non-performing loans ratio for the Finnish banking sector was 1.0% in 3Q22, down from 1.2% a year earlier. Finnish banks are well-capitalised, with a common equity Tier 1 (CET1) capital ratio of 16.9% in 3Q22, higher than the EU average of 15.0%.

**Elections and Geopolitical Risks:** The upcoming parliamentary elections on 2 April 2023 lead to some uncertainty regarding economic policy priorities and public finance prospects, but this is within the context of a broad consensus on economic policies. It will be the new government that will introduce both the budget for 2024 and the multi-annual fiscal plan for the next parliamentary term. The Ukraine war and heightened tensions with Russia, which have led Finland to seek NATO accession, highlight geopolitical risks.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on [www.fitchratings.com](http://www.fitchratings.com).

## 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

	2022E
GDP (USDbn)	285
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 \(February 2023\)](#)

[Global Economic Outlook \(December 2022\)](#)

[Interactive Sovereign Rating Model](#)

[Fitch Fiscal Index - Analytical Tool](#)

[Click here for more Fitch Ratings content on Finland](#)

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Rating Summary

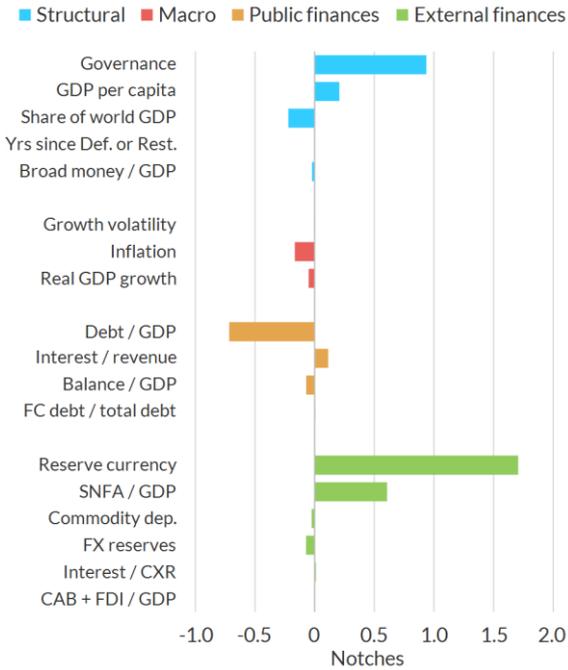
Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR): AA+

Sovereign Rating Model: AA+

Qualitative Overlay: 0

Contribution of variables, relative to AA median

Adjustments relative to SRM data and output



Structural features: 0 notch(es)/No adjustment.

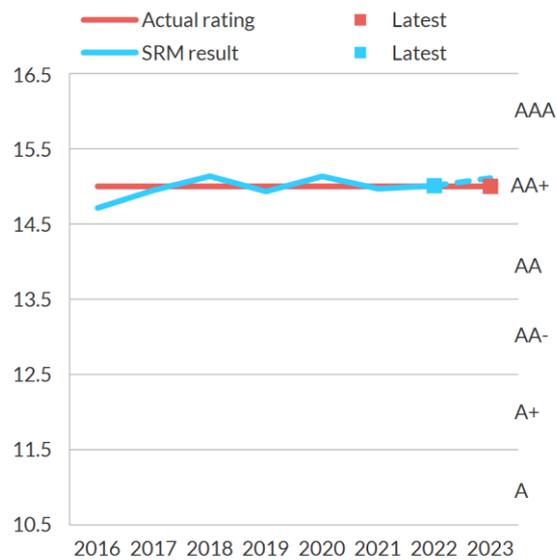
Macroeconomic outlook, policies and prospects: 0 notch(es)/No adjustment.

Public finances: 0 notch(es)/No adjustment.

External finances: 0 notch(es)/No adjustment.

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

Sovereign Rating Model Trend



Recent Rating Derivation History

Review Date	LT FC IDR	SRM Result <sup>ab</sup>	QO			
			S	M	PF	EF
Latest	AA+	AA+	0	0	0	0
9 Sep 22	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

<sup>a</sup> The latest rating uses the SRM result for 2022 from the chart. This will roll forward to 2023 in July 2023.

<sup>b</sup> 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

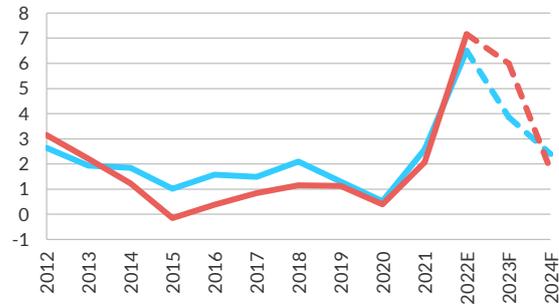
**Peer Analysis**

— Finland

— AA Median

**Consumer Price Inflation**

(annual avg, %)



**Real GDP Growth**

(%)



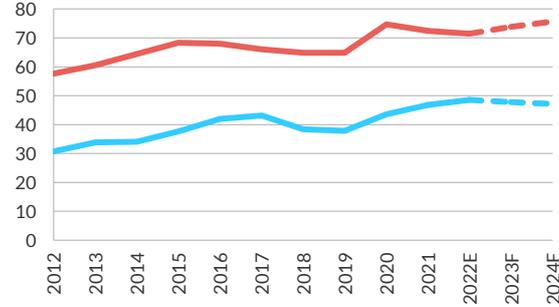
**General Government Balance**

(% GDP)



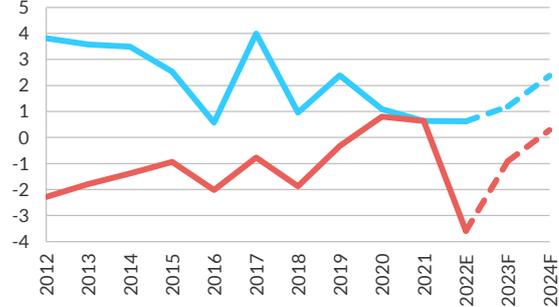
**Gross General Government Debt**

(% GDP)



**Current Account Balance**

(% GDP)



**Net External Debt**

(% GDP)



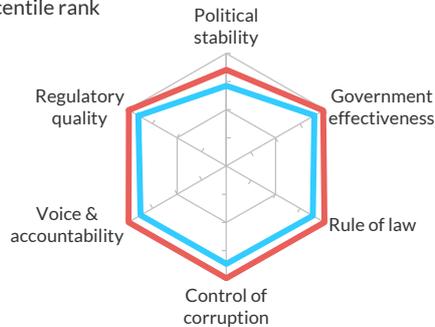
**Real Private-Sector Credit Growth**

(%)



**Governance Indicators**

Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

## Peer Analysis

2022E	Finland	AA median	AAA median	A median
<b>Structural features</b>				
GDP per capita (USD) [SRM]	51,248	48,827	68,545	28,763
Share in world GDP (%) [SRM]	0.3	0.0	0.0	0.0
<b>Composite governance indicator (percentile, latest) [SRM]<sup>b</sup></b>	<b>97.0</b>	84.3	93.9	75.0
Human development index (percentile, latest)	94.7	89.4	94.7	82.2
Broad money (% GDP) [SRM]	89.2	100.3	93.3	90.1
Private credit (% GDP, 3-year average)	93.7	104.2	121.6	74.6
Dollarisation ratio (% bank deposits, latest)	3.5	12.7	16.7	10.3
Bank system capital ratio (% assets, latest)	21.8	16.1	15.0	15.7
<b>Macroeconomic performance and policies</b>				
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]	5.1	2.2	1.8	2.3
Unemployment rate (%)	6.8	5.0	5.4	6.4
<b>Public finances (general government)<sup>c</sup></b>				
Balance (% GDP, 3-year average) [SRM]	-2.3	-0.8	-0.2	-2.3
Primary balance (% GDP, 3-year average)	-1.7	0.8	1.1	-0.5
Interest payments (% revenue, 3-year average) [SRM]	1.1	3.7	3.8	4.6
Gross debt (% revenue, 3-year average)	140.1	138.1	113.5	134.0
Gross debt (% GDP, 3-year average) [SRM]	72.6	39.8	44.1	40.9
Net debt (% GDP, 3-year average)	70.6	27.9	37.5	35.9
FC debt (% gross debt, 3-year average) [SRM]	0.0	0.8	0.0	10.5
<b>External finances<sup>c</sup></b>				
Current account balance (% GDP, 3-year average)	-1.3	1.0	4.8	0.9
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	-1.4	0.6	2.0	2.3
Commodity dependence (% CXR) [SRM]	21.1	15.0	14.3	11.5
Gross external debt (% GDP, 3-year average)	221.5	117.8	173.8	65.2
Net external debt (% GDP, 3-year average)	77.4	-1.9	15.3	-7.9
Gross sovereign external debt (% GXD, 3-year average)	22.5	16.9	12.2	18.9
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	58.0	4.9	-4.9	11.8
External interest service (% CXR, 3-year average) [SRM]	2.8	4.5	7.3	2.4
Foreign-exchange reserves (months of CXP) [SRM]	1.3	2.9	1.4	4.5
Liquidity ratio	40.1	59.4	50.2	99.8

<sup>a</sup> Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.

<sup>b</sup> Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).

<sup>c</sup> 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 both the 'AA' and 'AAA' medians. Strong institutions underpin its structural strengths.
- GDP per capita is higher than the 'AA' median and around three-quarters of the 'AAA' median.
- The Finnish sovereign has a large net financial asset position, estimated at about 60% of GDP in 3Q22.
- Finland is a core eurozone issuer, with a low interest-to-revenue ratio compared with the 'AA' median.

### 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 71.4% of GDP at end-2022) is higher than both the 'AA' and 'AAA' medians (39% and 49% respectively).
- Finland is a large net external debtor (about 62% at end-2021; 'AA' median is a net creditor position). Banks' liabilities account for about 60% of gross external debt.

Rating	Sovereign
AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United States of America
AA+	<b>Finland</b>
	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

- **Public Finances:** A significant and lasting increase in the government debt/GDP ratio, for example, due to weak growth and/or insufficient fiscal consolidation.
- **Macroeconomics:** A severe economic and financial shock that leads to broader macroeconomic stress and a renewed fiscal deterioration, for example originating from severe downturns among Finland's main trading partners or renewed energy price volatility.
- **Structural:** Substantial worsening of geopolitical risks, notably in the context of an escalation of tensions with Russia.

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

- **Public Finances:** An improved fiscal performance that 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	2022E	2023F	2024F
<b>Macroeconomic indicators and policy</b>						
Real GDP growth (%)	1.2	-2.4	3.0	1.9	-0.4	1.4
Unemployment (%)	6.7	7.8	7.6	6.8	7.3	7.0
Consumer price inflation (annual average % change)	1.1	0.4	2.1	7.2	6.0	1.8
Policy interest rate (annual average, %)	0.0	0.0	0.0	0.7	3.7	3.4
General government balance (% GDP)	-0.9	-5.6	-2.8	-1.0	-3.1	-2.6
Gross general government debt (% GDP)	64.9	74.7	72.4	71.4	73.8	75.7
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	0.7	-2.9	-2.9	0.2
<b>External finance</b>						
Merchandise trade balance (USDbn)	2.6	3.6	3.4	-1.0	1.7	3.5
Current account balance (% GDP)	-0.3	0.8	0.6	-3.6	-0.9	0.3
Gross external debt (% GDP)	211.8	230.0	193.9	234.2	236.3	239.6
Net external debt (% GDP)	33.2	56.2	62.4	84.1	85.7	86.9
External debt service (principal + interest, USDbn)	60.0	58.9	63.2	63.8	71.9	74.0
Official international reserves including gold (USDbn)	11.4	13.5	16.7	17.2	17.9	19.3
Gross external financing requirement (% int. reserves)	536.1	454.0	424.4	419.2	407.6	382.1
<b>Real GDP growth (%)</b>						
US	2.3	-3.4	5.7	1.9	0.2	1.6
China	6.0	2.2	8.1	2.8	4.1	4.8
Eurozone	1.3	-6.4	5.4	3.3	0.2	1.8
World	2.6	-3.3	6.0	2.6	1.4	2.7
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)	2022E	2023F
<b>Uses</b>	<b>29.4</b>	<b>33.3</b>
Budget deficit	2.7	8.7
MLT amortisation	26.7	24.6
Domestic	12.9	11.9
External	13.8	12.8
<b>Sources</b>	<b>29.4</b>	<b>33.3</b>
Gross borrowing	29.4	31.4
Domestic	15.3	15.1
External	14.1	16.3
Privatisation	-	-
Other	-	-
Change in deposits	0.0	1.9
(- = increase)		

Source: Fitch Ratings

### External Finances

(USDbn)	2022E	2023F
<b>Uses</b>	<b>70.2</b>	<b>70.1</b>
Current account deficit	10.2	2.6
MLT amortisation	60.0	67.5
Sovereign	14.0	15.8
Non-sovereign	45.9	51.7
<b>Sources</b>	<b>70.2</b>	<b>70.1</b>
Gross MLT borrowing	144.0	84.0
Sovereign	27.8	17.9
Non-sovereign	116.1	66.0
FDI	-2.8	-2.2
Other	-70.5	-10.9
Change in FX reserves	-0.5	-0.7
(- = increase)		

Source: Fitch Ratings

**Credit Developments**

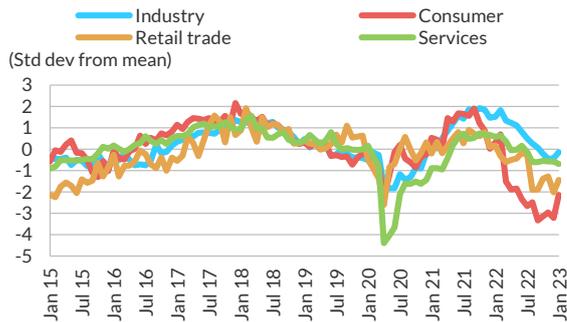
**Mild Recession Under Way**

Economic activity slowed down substantially in 2H22, with real GDP falling by 0.3% in 3Q22, as consumer spending declined and companies reduced their build-up of stocks. On the basis of short-term output indicators showing continued weakness in industrial production, we estimate that real GDP continued to decline in 4Q22, while business and consumer confidence levels remain low, while their decline appears to have bottomed out. For 2022 as a whole, we estimate that real GDP rose by 1.9%, driven by the strong performance of the economy in 1H22. At the same time, monthly output indicator data showed an upturn in activity in December.

Domestic demand will decline this year. Consumer spending will fall further, as household real income is eroded by high prices. Capital spending will be constrained by lower demand, which will affect both capital goods and construction, in the context of rising interest rates and weakening house prices. Export growth will slow, as Finland’s main trading partners enter a period of stagnating economic activity (real GDP declined qoq in 4Q22 in both Germany and Sweden), and trade relations with Russia are further reduced. But the weakness of domestic demand will translate into falling imports with net exports limiting the overall decline in real GDP, which we expect to be 0.4% over the course of this year (a slight upward revision from the previous review in September 2022).

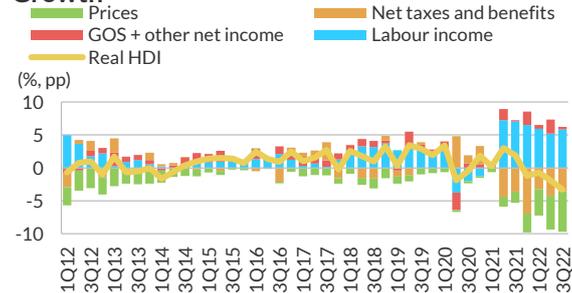
Fitch expects economic activity to starting growing again in real terms from 2H23, and the pace in activity to accelerate in 2024, as household real income dynamics improve while inflation recedes, and a recovery in the European economy as a whole supports investment and exports. We expect real GDP growth to average 1.4%, unchanged from September 2022, and broadly in line with the pace of recovery expected among Finland’s main trading partners and the Eurozone as a whole.

**Confidence Indicators**



Source: Fitch Ratings, European Commission

**Contributions to Real Household Income Growth**



Source: Fitch Ratings, Statistics Finland

The labour market had shown signs of tightness following the strong expansion of the economy in 2021 and 1H22, with the vacancies/unemployed ratio reaching historical highs in 1H22, and employment growth in annual terms reaching 3.2%. Moreover, labour force participation has also increased, possibly reflecting not just the cyclical upswing of the economy, but also the impact of past reforms aiming to increase labour force participation and raise the effective retirement age. The unemployment rate declined to 6.1% in seasonally adjusted terms to in April 2022 but has since increased, reaching 7.1% at end-2022. We expect the unemployment rate on average to be 7.3% this year, before edging down to 7.0% in 2024.

**Inflation to Ease, Wage Agreements**

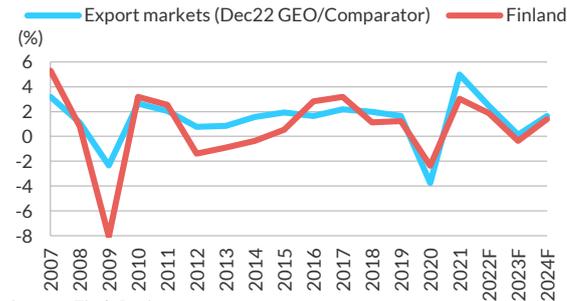
Consumer price inflation appears to have peaked in November 2022, with the annual headline inflation rate reaching 9.1% on the harmonised HICP measure. Since then, the inflation rate has fallen to 8.8% in December, and 8.0% in the January 2023 preliminary estimate. We expect inflation to fall further, averaging 6.0% over the course of this year, before falling at a sharper rate in 2024, averaging 1.8%.

Underlying measures of inflation are still rising – the inflation rate, excluding energy and food, reached 6.3% by year-end, compared with 1.9% in December 2021, indicating that inflationary pressures are entrenched across the economy. There is a risk that high prices could be locked in through wage negotiations, although this appears contained for now. Higher labour costs, if unmatched by productivity improvements or similar developments among trading partners, could translate to a loss in external competitiveness. On certain measures, labour cost growth has accelerated in 2022. Unit labour costs over the first three quarters of 2022 increased faster on an annual basis than in the eurozone as a whole (3.7% compared with 2.7%), but this is offset by terms of trade developments that have been more favourable in Finland than in the eurozone.

In early February 2023, a new collective agreement was signed in the export-oriented technology industry, which will raise salaries by 3.5% this year, with workers also receiving a one-off payment of EUR400 and a 2% rise in 2024. Overall, the agreement should lead to an increase in costs of about 7% for employers. An agreement envisaging a similar cost rise followed suit in the chemicals industry. The agreement by the technology industry, usually the reference industry in Finnish wage negotiations, may also affect other sectors. The collective agreement signed last summer for the municipal sector contained a clause that adds retrospectively the difference between the export-oriented technology industry settlement and the municipal workers' settlement for 2023.

**GDP Growth Forecasts**

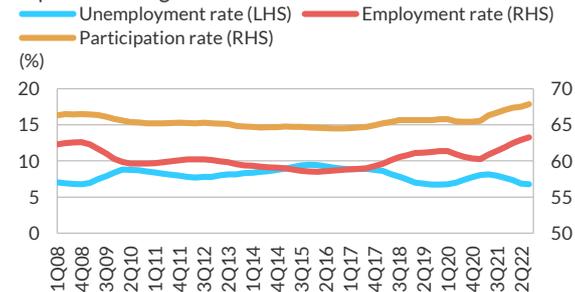
Finland and main export markets



Source: Fitch Ratings

**Labour Market Trends**

4-quarter average



Source: Fitch Ratings, Statistics Finland

**House Price Falls, Credit Flows**

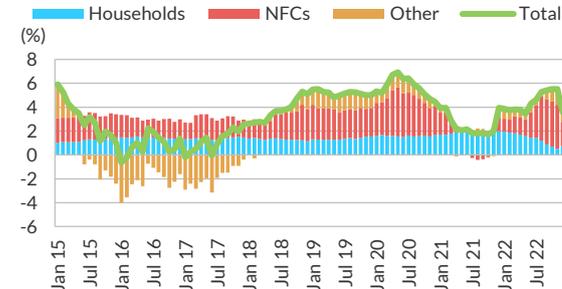
Growth in lending to households has slowed down as constrained real incomes and rising interest rates have dampened demand for loans. Housing loans have mostly variable interest rates, implying a rapid passthrough from policy interest rates to mortgage rates. House prices are declining in nominal terms, with steeper declines seen in large cities. The dampening in households' demand for credit has slowed the increase in household indebtedness. The household debt/income ratio increased only marginally in the four quarters to 3Q22, to 133.6% from 132.8%. At the same time, the combination of higher debt-servicing costs and lower house prices reducing household wealth risks translated into a sharper downward correction in consumer spending than we are expecting.

Growth in credit flows to firms had risen until mid-2022, and reached 7.5% on an annual basis in July, before accelerating further, with energy firms requiring funds to finance collateral calls for derivative markets. In December 2022, credit to firms slowed down sharply, which will likely lead to a period of dampened demand for loans, as the cost of finance increases.

The banking sector appears resilient to potential deteriorations in asset quality deriving from the economic downturn. According to the European Banking Authority data, the non-performing loans ratio for the Finnish banking sector was 1.0% in 3Q22, down from 1.2% a year earlier, and lower than the EU average of 1.8%. Finnish banks are well-capitalised, with a CET1 capital ratio of 16.9% in 3Q22, higher than the EU average of 15.0%.

**Bank Lending to Other Sectors**

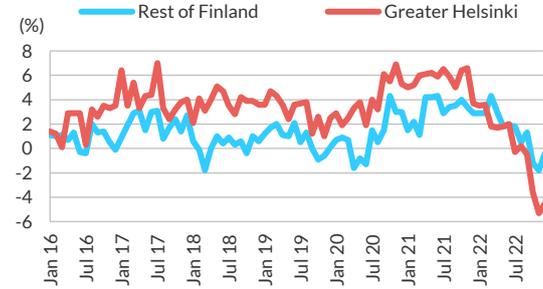
Contributions to annual change in total loans



Source: Fitch Ratings, Bank of Finland

**House Price Inflation**

Annual change in house prices, all building types



Source: Fitch Ratings, Statistics Finland

**Deficit and Debt to Rise in 2023, Policy Uncertainty**

Strong revenue growth and the removal of Covid-19 support measures drove a reduction in the general government deficit in 2022, which we estimate has declined to 1.0% of GDP from 2.8% in 2021 and 5.6% in 2020. The deficit will increase substantially this year due to a combination of the impact of the downturn in the economy on revenues, and

higher spending driven by a combination of discretionary policy measures, higher social transfers linked to inflation and the implementation of the reform of healthcare and social services.

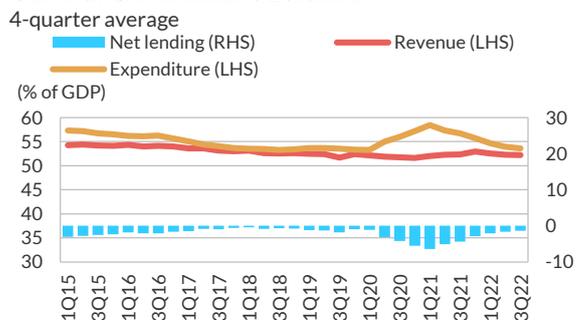
The 2023 Budget included expenditure interventions to support households in the payment of electricity bills until April, a fixed-term tax credit on electricity, and a reduction in the VAT rate on electricity to 10% until April. These and other minor measures increase the deficit by about EUR1.3 billion (about 0.5% of forecast GDP). Overall, the 2023 budget envisages spending at central government to increase by about 4% in net terms, excluding transfers between different levels of the general government sector. In early February 2023, the government submitted a supplementary budget, which increases the overall public spending estimate for this year by about EUR2 billion (about 0.7% of GDP). About a quarter of this extra projected spending is allocated to the funding of the 'wellbeing counties', the new layer of local government entities that, from the start of this year, are responsible for health and social care (previously the responsibility of municipalities).

We expect the general government deficit to increase this year to 3.1% of GDP. We also project that the economic recovery from mid-2023 will drive a decline in the deficit to 2.6% of GDP in 2024. There is, however, high uncertainty on public finance prospects for 2024, as parliamentary elections will take place on 2 April 2023, and it will be the new government that will introduce both the budget for 2024 and the multi-annual fiscal plan for the next parliamentary term.

We estimate that general government debt as a share of GDP declined to 71.4% at end-2022 from 72.4% in 2021. The decline in the debt ratio was more moderate than implied by the drivers of debt dynamics. This is due to a substantial stock-flow adjustment estimate of about 3.3% of GDP increasing the level of debt, and accounted for by the surplus of the social security funds' sector (surpluses do not pay down debt but accumulate as assets), military spending for equipment that will be delivered in future years and other items. Due to the uncertainty related to the political cycle, we expect the debt ratio to increase further to 75.5% in 2024.

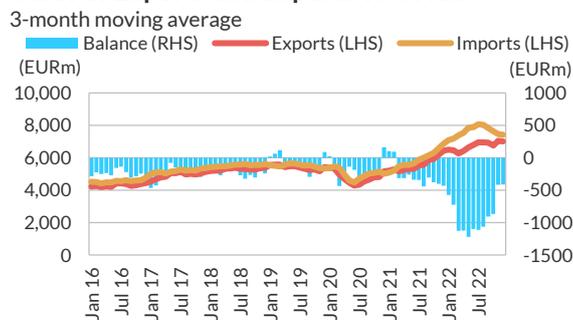
In the baseline projections for our Debt Sensitivity Analysis (see below), the government debt ratio will continue to increase reaching just under 79% in 2026. This indicates that further consolidation measures will be necessary to stabilise the debt ratio. The Ministry of Finance has indicated that policy measures worth about EUR9 billion (3.2% of forecast 2023 GDP) over the next two parliamentary terms would be necessary to stabilise the debt ratio and avoid a continued increase in government indebtedness.

**General Government Balance**



Source: Fitch Ratings, Eurostat

**Value of Exports and Imports of Goods**



Source: Fitch Ratings, Finnish Customs

**Current Account Deterioration to Unwind**

The current account deteriorated significantly in 2022, as energy prices drove a sharp rise in imports, causing the trade balance to turn negative. The current account balance was further weakened by an unusually negative income balance. We expect that the estimated deficit of about 4% of GDP for 2022 will decline this year, as lower energy prices and weak domestic demand reduce imports, and that the current account will turn to a small surplus in 2024 (+0.3% of GDP).

## Public Debt Dynamics

According to Fitch’s baseline projections, gross general government debt will increase to reach almost 79% of GDP by 2026. A persistent primary deficit would push the debt ratio up to almost 85% by 2026. Structural surpluses in the social security funds’ sector are not used to pay down debt, and, therefore, appear as debt-increasing stock-flow adjustments. In the short term, other debt-increasing stock-flow adjustments include accounting for military equipment purchases.

### Debt Dynamics - Fitch’s Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	74.7	72.4	71.4	73.8	75.7	77.4	78.9
Primary balance (% of GDP)	-4.9	-2.2	-0.4	-2.4	-1.7	-1.3	-1.1
Real GDP growth (%)	-2.4	3.0	1.9	-0.4	1.4	1.2	1.2
Average nominal effective interest rate (%)	1.1	0.7	0.8	1.0	1.3	1.7	1.9
EUR/USD (annual average)	0.9	0.8	1.0	1.0	1.0	1.0	1.0
GDP deflator (%)	1.6	2.5	5.8	4.6	2.5	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	-3.3	-2.2	-2.0	-1.5	-1.4

Source: Fitch Ratings

### Debt Sensitivity Analysis: Fitch’s Scenario Assumptions

Growth	Real GDP growth 1.0% lower
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit of around 3% of GDP from 2023

Source: Fitch Ratings

### Sensitivity Analysis

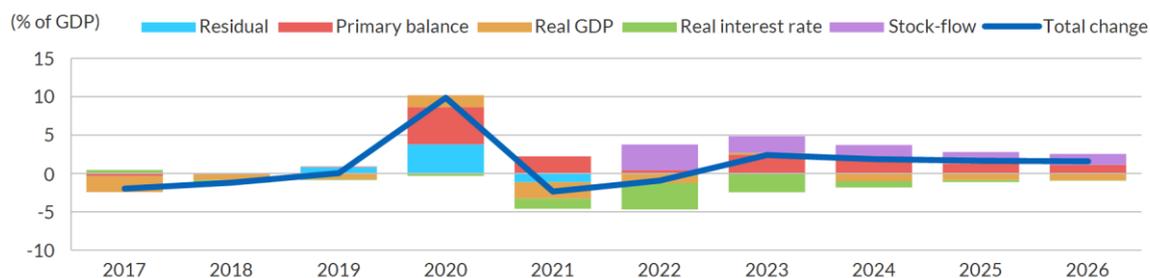
Gross general government debt



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	2022E	2023F	2024F
Revenue	53.9	53.0	52.5	52.4	51.6	52.9	51.7	50.9	50.9
Expenditure	55.6	53.6	53.4	53.3	57.2	55.7	52.7	54.0	53.5
o/w interest payments	1.1	1.0	0.9	0.9	0.7	0.5	0.6	0.7	1.0
Interest payments (% revenue)	2.0	1.9	1.8	1.6	1.4	1.0	1.1	1.3	1.9
Primary balance	-0.6	0.3	0.1	-0.1	-4.9	-2.2	-0.4	-2.4	-1.7
Overall balance	-1.7	-0.7	-0.9	-0.9	-5.6	-2.8	-1.0	-3.1	-2.6
Gross government debt	68.0	66.0	64.8	64.9	74.7	72.4	71.4	73.8	75.7
% of government revenue	126.1	124.7	123.4	123.8	144.8	136.8	138.2	145.2	148.9
Domestic debt	17.0	16.5	22.1	22.7	26.3	34.2	33.8	34.9	35.8
External debt	51.1	49.6	42.8	42.1	48.4	38.1	37.6	38.9	39.9
Local currency	68.0	66.0	64.8	64.9	74.7	72.4	71.4	73.8	75.7
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	2.2	1.4	1.0
Net government debt	66.7	64.5	63.5	63.8	71.0	70.0	69.3	72.4	74.7
Financing		0.7	0.9	0.9	5.6	2.8	1.0	3.1	2.6
Domestic borrowing		0.2	6.1	1.2	3.4	9.3	2.0	2.5	2.2
External borrowing		6.9	-7.3	-0.3	10.2	-11.0	0.1	0.4	2.5
Other financing		-6.4	2.1	0.0	-8.1	4.5	-1.1	0.3	-2.0
Change in deposits (- = increase)		-0.3	0.1	0.3	-2.6	1.1	0.0	0.7	0.3
Privatisation		-	-	-	-	-	-	-	-
Other		-6.1	2.0	-0.3	-5.5	3.3	-1.1	-0.4	-2.4

Source: Fitch Ratings, Ministry of Finance

## Balance of Payments

(USDbn)	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F
Current account	-4.8	-2.0	-5.2	-0.9	2.2	1.9	-11.9	-2.6	0.9
% GDP	-2.0	-0.8	-1.9	-0.3	0.8	0.6	-4.2	-0.9	0.3
Goods	0.0	1.7	0.3	2.6	3.6	3.4	-1.6	1.7	3.5
Services	-3.1	-1.6	-3.8	-2.2	-2.8	-2.8	-6.8	-3.4	-2.8
Primary income	1.0	0.2	1.0	1.3	4.7	4.8	-0.5	1.5	2.5
Secondary income	-2.8	-2.3	-2.7	-2.6	-3.3	-3.5	-3.0	-2.5	-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	-1.4	-5.8	-10.5	-3.2	-0.3
Direct investment	15.5	-3.5	13.7	-8.6	7.4	-4.6	2.8	2.2	-0.1
Portfolio investment	4.3	-3.2	-24.6	-28.4	-0.1	23.7	3.2	2.3	3.1
Derivatives	-1.2	-5.0	-0.7	0.5	-1.7	2.3	-5.5	-1.0	-1.1
Other investments	-27.3	4.4	-7.3	26.1	-7.0	-27.3	-11.0	-6.6	-2.2
Net errors and omissions	-3.3	-5.9	-14.0	-9.0	-2.8	-4.5	0.0	0.0	0.0
Change in reserves (+ = increase)	0.6	-0.4	-0.1	0.6	1.0	3.4	0.5	0.7	1.3
International reserves, incl. gold	10.5	10.5	10.3	11.4	13.5	16.7	17.2	17.9	19.3
Liquidity ratio (%)	39.1	34.1	28.1	45.6	40.8	38.5	40.1	40.8	40.3
Memo									
Current external receipts (CXR)	103.2	116.2	128.3	132.5	121.6	145.8	149.3	152.6	157.2
Current external payments (CXP)	108.0	118.2	133.5	133.4	119.5	143.9	159.6	155.3	156.3
CXR growth (%)	1.4	12.7	10.4	3.3	-8.2	19.9	2.4	2.2	3.0
CXP growth (%)	3.9	9.4	13.0	-0.1	-10.4	20.5	10.8	-2.7	0.7
Gross external financing requirement	48.8	43.5	48.0	55.3	51.9	57.2	70.2	70.1	68.6
% International reserves	486.8	415.2	457.3	536.1	454.0	424.4	419.2	407.6	382.1
Net external borrowing	-15.1	23.5	31.8	29.0	-4.4	-7.3	90.9	20.2	15.5

Source: Fitch Ratings, IMF

## External Debt and Assets

(USDbn)	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F
Gross external debt	460.1	418.7	557.1	568.7	624.0	576.5	667.4	687.6	703.1
% GDP	191.2	164.2	202.1	211.8	230.0	193.9	234.2	236.3	239.6
% CXR	446.0	360.3	434.1	429.1	513.0	395.3	446.9	450.5	447.3
Short-term debt (% GXD)	54.8	48.8	51.2	52.5	52.6	48.0	49.5	49.5	49.7
By debtor									
Sovereign	129.9	146.8	129.9	128.0	161.1	134.8	148.6	150.7	151.9
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	129.9	146.7	129.9	128.0	161.1	134.7	148.5	150.7	151.9
Banks	297.2	228.8	373.3	383.6	395.0	339.2	422.7	436.5	450.3
Other sectors	33.0	43.2	53.8	57.0	67.8	102.5	96.1	100.4	100.9
Gross external assets (non-equity)	320.7	281.9	418.3	479.6	471.4	391.0	427.7	438.4	448.0
Sovereign	67.7	89.1	78.9	146.4	104.6	74.4	75.4	77.2	79.7
International reserves, incl. gold	10.5	10.5	10.3	11.4	13.5	16.7	17.2	17.9	19.3
Other sovereign assets	57.2	78.6	68.6	135.0	91.1	57.6	58.2	59.3	60.4
Banks	167.1	94.0	245.4	234.7	252.0	207.3	247.3	253.7	258.0
Other sectors	85.5	98.9	94.0	98.5	114.8	109.3	105.3	108.1	112.1
Net external debt	139.4	136.9	138.8	89.0	152.5	185.5	239.7	249.2	255.0
% GDP	58.0	53.7	50.4	33.2	56.2	62.4	84.1	85.7	86.9
Sovereign	61.8	57.8	51.0	-18.4	56.5	60.4	73.5	74.2	73.9
Banks	130.1	134.8	127.9	148.9	143.0	131.9	175.4	182.8	192.3
Other sectors	-52.5	-55.7	-40.1	-41.5	-47.0	-6.8	-9.2	-7.8	-11.1
International investment position									
Assets	320.7	281.9	418.3	479.6	471.4	391.0	-	-	-
Liabilities	460.1	418.7	557.1	568.7	624.0	576.5	-	-	-
Net	12.7	3.3	-15.0	10.9	-11.8	-4.0	-	-	-
Net sovereign	39.6	69.1	72.2	162.8	107.7	123.1	187.1	194.6	202.4
% GDP	16.4	27.1	26.2	60.6	39.7	41.4	65.7	66.9	69.0
External debt service (principal + interest)	49.3	46.8	48.1	60.0	58.9	63.2	63.8	71.9	74.0
Interest (% CXR)	5.3	4.5	4.1	4.3	4.0	2.8	2.6	2.9	2.9

Source: Fitch Ratings, central bank, IMF, World Bank

**Full Rating Derivation**

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

Sovereign Rating Model				Applied Rating <sup>d</sup>				AA+
				Model Result and Predicted Rating				15.01 = AA+
Input Indicator	Weight (%)	2021	2022	2023	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
<b>Structural features</b>								<b>10.85</b>
Governance indicators (percentile)	20.3	n.a.	97.0	n.a.	-	97.0	0.074	7.16
GDP per capita (USD)	13.3	n.a.	51,248	n.a.	Percentile	85.5	0.042	3.56
Nominal GDP (% world GDP)	13.2	n.a.	0.30	n.a.	Natural log	-1.2	0.596	-0.72
Most recent default or restructuring	5.0	n.a.	None	n.a.	Inverse 0-1 <sup>a</sup>	0.0	-2.017	0
Broad money (% GDP)	1.4	n.a.	89.2	n.a.	Natural log	4.5	0.188	0.85
<b>Macroeconomic performance, policies and prospects</b>								<b>-0.85</b>
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	7.2	6.0	3-yr avg. <sup>b</sup>	5.1	-0.058	-0.29
Real GDP growth	2.4	3.0	1.9	-0.4	3-yr avg.	1.5	0.076	0.11
<b>Public finances</b>								<b>-1.74</b>
Gross general govt debt (% GDP)	8.3	72.4	71.4	73.8	3-yr avg.	72.6	-0.022	-1.58
General govt interest (% revenue)	4.5	1.0	1.1	1.3	3-yr avg.	1.1	-0.043	-0.05
General govt fiscal balance (% GDP)	2.6	-2.8	-1.0	-3.1	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
<b>External finances</b>								<b>2.26</b>
Reserve currency (RC) flexibility	7.8	n.a.	3.1	n.a.	RC score 0 - 4.5 <sup>c</sup>	3.1	0.549	1.71
SNFA (% of GDP)	7.3	41.4	65.7	66.9	3-yr avg.	58.0	0.011	0.66
Commodity dependence	1.1	n.a.	21.1	n.a.	Latest	21.1	-0.004	-0.09
FX reserves (months of CXP)	1.8	n.a.	1.3	n.a.	n.a. if RC score > 0	0.0	0.036	0
External interest service (% CXR)	0.4	2.8	2.6	2.9	3-yr avg.	2.8	-0.006	-0.02
CAB + net FDI (% GDP)	0.1	2.2	-4.6	-1.7	3-yr avg.	-1.4	0.001	-0.00
<b>Intercept Term (constant across all sovereigns)</b>								<b>4.49</b>

<sup>a</sup> Inverse 0-1 scale, declining weight; <sup>b</sup> of truncated value (2%-50%); <sup>c</sup> Declining weight; <sup>d</sup> The 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 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 LT Local-Currency (LC) IDR above the LT FC IDR. In Fitch's view, neither of the two key factors cited in the criteria that support upward notching of the LT LC IDR is present, namely: strong public finance fundamentals relative to external finance fundamentals, and previous preferential treatment of LC creditors relative to FC creditors. Finland is also a member of the eurozone, which constrains the LT LC IDR at the same level as the LT FC 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' LT FC IDRs.

## Full Rating History

Date	Foreign-Currency Rating			Local-Currency Rating			Country Ceiling
	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	
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 <sup>a</sup>
<b>Environmental (E)</b>				
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
<b>Social (S)</b>				
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 ageing, rapidly rising youth population; pensions sustainability	3	2	3
<b>Governance (G)</b>				
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 organisations, 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').

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### 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](http://www.fitchratings.com/esg).

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## 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 (WBI), 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.

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