



Quarterly Review

Q1/2021

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

OUTLOOK FOR THE FINNISH ECONOMY AND PUBLIC FINANCES

The volume of Finland's GDP fell by 2.8 per cent in 2020, according to Statistics Finland's preliminary data. This represented a much smaller decline than feared earlier last year. The contraction of the economy was also considerably less pronounced than in most other European countries.

The Finnish economy is expected to recover in 2021 as the easing of the coronavirus (COVID-19) pandemic will bring back the economy closer to normal conditions and the international economy will return to its growth path. Exports and domestic demand items will recover especially towards the end of the year. Inflation will remain subdued and the current account will show a small deficit. Evidently, the current economic forecasts include significant uncertainties related to the pandemic and the sentiment among companies and consumers in Finland and globally.

Contraction of the Finnish economy and the government fiscal policy measures to moderate the adverse impacts of the COVID-19 pandemic seriously weakened general and central government finances in Finland in 2020. According to the Ministry of Finance's winter forecast, the general government debt-to-GDP ratio increased to 69% in the end of last year. In 2021, the growth in the debt ratio will probably slow as the epidemic recedes and the economy gathers steam. However, the imbalance between general government revenue and expenditure will continue to exist over a longer period of time, not least because of increases in spending due to population ageing in Finland.

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

REVIEW OF TREASURY OPERATIONS BY THE STATE TREASURY, JANUARY TO MARCH 2021

On 19 January 2021, Finland conducted a tap auction of the latest 10-year euro benchmark bond due 15 September 2030. The bond was priced to yield -0.395% and EUR 1 billion was auctioned to bring the outstanding amount of this bond to EUR 4,915 billion.

On 2 February 2021, in its first syndicated issue of the year, the Republic of Finland raised EUR 3 billion with a new 30-year benchmark bond, maturing on 15 April 2052. The order book amounted to over EUR 19 billion. The issue attracted bids from more than 130 investors. The bond was priced at 2 basis points over the euro swap curve.

The euro benchmark bond maturing on 15 September 2030 was further tapped in an auction on 16 March, together with the longest benchmark maturing on 15 April 2052. The total of the funding raised in this auction was EUR 995 million, as the 10-year line yielding -0.218% allocated EUR 495 million and the 30-year line yielding 0.419% allocated EUR 500 million.

In the first quarter, the Republic of Finland conducted three auctions of euro-denominated Treasury bills. The auctions on 12 January, 9 February and 9 March 2021 raised a total amount of EUR 5,888 billion. The auctioned bills' maturities ranged

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from 6 to 11 months and carried yields between -0.620% and -0.610%. Bid-to-cover ratios ranged from 1.99 to 2.46.

The tap window for T-bill issuance in USD-denominated bills was open in March, producing USD 4 billion of issuance in maturities ranging from 6 to 9 months.

NEAR-TERM OUTLOOK FOR THE PERIOD OF APRIL TO JUNE 2021

The government's latest supplementary budget for 2021, dated 25 February, indicates a net borrowing requirement of EUR 11.8 billion, which implies gross borrowing of EUR 35.9 billion. Approximately EUR 17.5 billion of this is expected to be covered with long-term debt, the rest with short-term debt.

In the second quarter of the year, the State Treasury is planning to issue a second new euro benchmark bond, which is likely to have a 10-year maturity. The long-term funding operations are expected to include two to three euro benchmark bond tap auctions during the quarter. The State Treasury estimates to complete about 60 per cent of the above annual long-term funding by the end of June.

The next bond auction is expected to take place on 20 April. Further details on the auction and an updated auction calendar are published on <https://www.treasuryfinland.fi/funding-instruments/auctions/#serial-bond-auctions>.

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

The next auction of euro-denominated Treasury bills will take place on 13 April 2021. The auction will be arranged in the Bloomberg Auction System and is open to the RFTB dealer group. Further information on Treasury bill auctions and a quarterly updated auction calendar will be published on <https://www.treasuryfinland.fi/funding-instruments/auctions/#treasury-bill-auctions>.

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

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

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