S&P Global
Ratings

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Finland

Primary Credit Analyst:
Gabriel Forss, Stockholm + 46 84 40 5933; gabriel.forss@spglobal.com

Secondary Contact:
Aarti Sakhuja, London + 44 20 7176 3715; aarti.sakhuja@spglobal.com

Research Contributor:
Srijan Sil, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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Finland

This report does not constitute a rating action.

Key Rating Factors

Sovereign Credit Rating
AA+/Stable/A-1+

Institutional and economic profile	Flexibility and performance profile
We estimate the Finnish economy will recover lost output by 2022, given that effective support schemes are set to preserve productive capacity • We expect Finland's economic recovery will be propelled by private consumption and expansionary fiscal policy, with exports recovering to prepandemic levels toward 2022. • The government's fiscal response will help cushion the pandemic's impact on the labor market and businesses. • A revival of structural reform momentum is necessary to strengthen growth potential in the rebuilding from COVID-19.	The solid starting point of Finland's public finances allow it to absorb the temporary, pandemic-induced widening of the budget deficit. • Fostering the post-pandemic recovery will require an extension of fiscal support into 2022. • The large banking sector underpins high external financing requirements. • Despite rising borrowing needs, the ECB's response and low interest rates will contain Finland's debt service costs.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the deterioration of Finland's public finances will moderate through 2023 as COVID-19 fiscal stimulus measures are withdrawn, the economy rebounds, and the government embarks on a program of fiscal consolidation alongside the recovering economy.

Downside scenario

We could consider a negative rating action in the next two years if Finland's economic recovery is much weaker than expected, leading to a pronounced deterioration in the country's fiscal position.

Upside scenario

We could raise the long-term ratings if Finland's external performance structurally improves, combined with reform that significantly strengthens economic growth potential and secures stronger public finances.

Rationale

Due to the domestic and external fallout from the COVID-19 pandemic, we anticipate Finland's real GDP will contract by 2.9% in 2020. We consider this decline modest in a eurozone comparison and largely because of Finland's resilient manufacturing sector and measures to contain the virus in tandem with targeted fiscal support, which has amplified comprehensive income support frameworks and supported the resilience of domestic demand components through 2020.

While Finland's fiscal position will weaken in 2020-2021, we consider the budgetary fallout as temporary and anticipate the government will embark on a consolidation path in 2022 that stabilizes net general government debt below 40% of GDP by 2023. Because we still consider this comparatively low, it provides the country with some fiscal headroom. The ultimate fallout for Finland's public finances and the public debt path after COVID-19 will depend on the effectiveness of the government's measures to support a broad-based recovery. Our baseline assumption implies the government will remain committed to incremental progress toward structural reform needs, especially in terms of the labor market.

Finland's high level of economic prosperity; its stable institutions; and the benefits of eurozone membership, including the high credibility of the European Central Bank's (ECB's) monetary policy and access to deep capital markets, further support the ratings. In particular, Finland's debt-servicing costs stand at historical lows because government bond yields benefit from ECB purchasing programs.

Institutional and economic profile: The strength of Finland's economic recovery post-COVID-19 will depend on policy measures to address structural challenges related to productivity and the labor market

We estimate the Finnish economy contracted by 2.9% in 2020. We consider this decline modest and attributable to the economy's resilient manufacturing base alongside the high degree of essential goods in Finnish households' purchases. Consumption in general has been supported by the comprehensiveness of existing social welfare schemes, bolstered by extraordinary policy support.

We note a solid buildup in the order books in the Finnish industry over the second half of 2020 that we believe will support economic activity through 2021. As a consequence, we forecast the economy will have recovered ground lost to COVID-19 by 2022, rebounding by 2.0% in real terms in 2021, primarily due to a return of private consumption as households channel parts of their excess savings from 2020 into the economy. The big overhang of private saving have potential to further invigorate private spending in 2021. This is despite a recent reintroduction of a state of emergency, implying more firm containment measures to combat rising infection levels.

The forecast remains sensitive to the uncertain epidemiological situation and the risk of fresh containment measures and possible delays in vaccination. In particular, the success in immunization, both domestically and abroad, will determine the speed with which activity in the open Finnish economy can normalize during the second half of 2021. By March 1, some 7.7% of the population had received the first dose of the vaccine, which places Finland ahead of the EU average in terms of vaccination efficiency.

The strength of Finland's near-term economic recovery will largely depend on private consumption and a gradual resurgence of demand from key EU trading partners, which we expect will be supported by measures from the EU.

For 2022-2024, we expect growth will average 1.5% as Finland's and medium-term growth potential will be increasingly tested by structural constraints that include lackluster productivity growth amid a shrinking employment pool. Nevertheless, we expect government reform activity will speed up to counter inefficiencies in the labor market. The government has ambitions to mitigate skills mismatches while initiating investments in infrastructure and research and development (R&D) to counter these challenges and sustain growth potential.

The government has commissioned several studies and expert groups to tailor a strategy to boost growth potential after COVID-19. We anticipate the government will move its fiscal focus from short-term emergency support to medium-term policy targets. These include policy proposals to strengthen employment, a key goal in the government program; and plans to strengthen public sector investments, including spending on R&D, digitalization, and improving transportation infrastructure. We foresee a substantial part of investment for green transition. In addition, we expect authorities will make use of eligible resources under the upcoming EU Recovery Fund.

Confidence in Finland's overall reform ability has been impaired by the inability of consecutive governments to implement a longstanding major reform initiative in the social and health care sector--the SOTE reform. Despite the reform delays, we observe a strong political consensus about the need to push the SOTE reform forward to ensure the sustainability of public finances, which, aside from the impact of COVID-19, are under structural pressure from an aging population. The SOTE reform has received renewed traction of late and we anticipate that the incumbent government will pass the necessary legislation through parliament in 2021, with county elections following in early 2022, and the organization of services should be transferred to counties on Jan. 1, 2023.

Flexibility and performance profile: The government's consolidation efforts are set to stabilize Finland's net general government debt at below 40% of GDP by 2023

We estimate that Finland's public deficit will come in at 6% of GDP in 2020. Our projection incorporates the direct fiscal measures and the operation of automatic stabilizers. Over 2020, Finnish authorities introduced significant support measures to preserve the economy's productive capacity and ensure household solvency through the COVID-19-induced demand slump. These quickly deployed direct measures centered on enhancing income and sustaining employment and add up to an estimated cost of 3.0% of GDP. Given the recovery's fragility in 2021-2022, we believe authorities will extend fiscal stimulus through 2021 and 2022 and forecast a general government deficit of 4.5% in 2021, before government consolidation efforts tighten the deficit toward 3% of GDP in 2023-2024.

On top of the direct fiscal measures, the central government guarantees authorizations worth about 4% of GDP as part of COVID-19 support packages to businesses. We understand the take-up under these arrangement has been limited. The exception is found in aviation where airliner Finnair has received support from government, which in its capacity as a 55% shareholder has loan guarantees €540 million (from an authorized €600 million) together with a capital injection of €286 million. We understand the government is preparing an additional €400 million support program to the airliner.

Finland's contingent liabilities, which are predominantly guarantees, are large at almost 30% of GDP. Of the guarantees, 60% relate to deliveries of Finnish cruise ships. We do not see material risks building in government's guaranteed exposures and consider fallout risks from nonfinancial guaranteed liabilities modest.

We forecast Finland's net general government debt to GDP will reach 30% of GDP at year-end 2021, stabilizing below 40% in 2023. In calculating this metric, we deduct from gross debt not only the Finnish Treasury's cash holdings, which increased to a substantial 3% of GDP at year-end 2020, and its minority ownership of publicly listed companies through the state-owned asset manager Solidium, but also, and more importantly, approximately 30% of GDP in liquid assets held by the public sector's earnings-related pension funds. In 2023, we forecast that gross general government debt will stabilize below 75% of GDP.

In addition, we factor in the benefits of the European Central Bank's (ECB's) monetary policy, which we believe will keep the interest bill in check, allowing the Finnish government to weather the temporary shock without a lasting adverse impact on its credit metrics. While Finland's debt stock is rising, its debt servicing cost stands at historical lows with government bonds enjoying negative yields through the 10-year maturity, which will contain the cost of its fiscal response to the pandemic.

We estimate Finland's current account reached a surplus of about 1% of GDP 2020 as dampened demand reduced imports, while exports benefitted from a late-year boost from the delivery of a cruise ship. In addition, the recurring deficit on the services balance reduced due to lower spending by Finns on overseas vacations, with the income balance similarly tightening because of lower income outflows from restrictions on banking sector dividends. We assess these factors as temporary or one-off and forecast Finland's current account to return to annual deficits through 2024 because, although increasing domestic consumption will generate imports and drive the initial rebound, exports will be slow to catch up.

Finland's external ratios continue to be dominated by financial institutions. Although the relocation of Nordea Bank to Finland has affected the country's international investment position, with both assets and liabilities increasing significantly, these moved in tandem, leaving the net position largely unaffected. However, Nordea Bank's move has substantially increased the size of the banking sector to about 335% of Finland's GDP, compared with 250% previously. Although Nordea is under the ECB's remit, the redomicile of the major Nordic bank has prompted the Finnish Financial Supervisory Authority to upscale local supervision and regulatory activities to highlight the importance of continued close regional cooperation and preparedness for crises.

The financial sector's large cross-border exposures, including funding risk related to foreign-financed wholesale funding, are still the key risk. In particular, the economy's external short-term debt will remain well above 100% of current account receipts (CARs), and narrow net external debt will stay high at about 210% of CARs on average over 2021-2023. Still, if we consider Finland's net international investment position, the country looks much stronger, with external assets largely equal to external liabilities.

We view Finland's banking system as profitable and well capitalized and, despite its size, we view the government's contingent liabilities from its financial sector as limited. We believe that, in tandem with the improved recovery prospects for the Finnish economy, risks to the Finnish economy and the banking sector have abated, and now view the economic risk trend for the Finnish banking system as stable. Despite the temporary downturn, we believe nationwide house prices will be stable and market activity in major cities intact, owing to the households' sound financial position and low interest rates, supporting our view that there are no meaningful economic imbalances and that the risk of house price correction remains remote. Of note, although Finnish private sector credit has gradually increased on mortgage and consumer lending growth over the past decade, it remains moderate in a peer comparison, and households' wealth and a strong social safety net will support the private sector's repayment capacity. We expect Finnish banks' asset quality will weaken through 2021, but believe the banking sector's core profitability and superior capitalization will absorb this burden. We do not expect the banking sector will depart from its moderately conservative underwriting standards given persistent low interest rates.

Key Statistics

Table 1

Finland--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic indicators (%)										
Nominal GDP (bil. €)	211	218	226	234	240	237	245	254	263	272
Nominal GDP (bil. $)	235	241	256	276	269	271	294	304	316	327
GDP per capita (000s $)	42.9	43.9	46.5	50.1	48.7	49.0	53.1	54.9	56.9	58.7
Real GDP growth	0.5	2.8	3.2	1.3	1.3	(2.9)	2.0	1.7	1.5	1.4
Real GDP per capita growth	0.2	2.5	2.9	1.1	1.2	(3.0)	1.8	1.5	1.3	1.2
Real investment growth	0.5	9.0	4.8	3.5	(0.9)	(2.8)	2.7	1.4	2.0	1.7
Investment/GDP	21.7	23.3	24.0	25.4	24.2	24.7	24.3	24.6	25.0	25.2
Savings/GDP	20.8	21.3	23.2	23.5	24.1	25.5	24.0	24.3	24.6	24.5
Exports/GDP	35.4	34.8	37.5	38.4	39.8	36.1	37.3	38.0	38.6	38.8
Real exports growth	0.4	3.9	8.8	1.4	6.7	(6.3)	4.5	3.5	3.5	2.2
Unemployment rate	9.4	8.8	8.6	7.4	6.7	7.7	7.7	7.5	7.5	7.5
External indicators (%)										
Current account balance/GDP	(0.9)	(2.0)	(0.8)	(1.9)	(0.2)	0.8	(0.3)	(0.3)	(0.4)	(0.7)
Current account balance/CARs	(2.2)	(4.7)	(1.8)	(4.1)	(0.3)	1.8	(0.6)	(0.7)	(0.9)	(1.5)
CARs/GDP	43.4	42.8	45.4	46.5	49.7	45.1	45.7	46.7	47.0	47.0
Trade balance/GDP	0.9	0.0	0.7	0.1	0.9	1.4	1.6	1.4	1.2	1.0
Net FDI/GDP	7.8	(6.5)	1.3	(4.9)	3.3	0.3	1.0	1.2	1.2	1.2
Net portfolio equity inflow/GDP	0.8	1.8	(0.8)	1.5	(3.0)	(3.2)	(1.0)	(1.0)	(1.0)	(1.0)
Gross external financing needs/CARs plus usable reserves	478.3	393.4	339.1	288.9	346.7	374.5	356.2	345.4	335.8	328.4
Narrow net external debt/CARs	210.6	223.6	248.0	219.5	212.1	236.8	216.0	204.0	193.8	186.7
Narrow net external debt/CAPs	206.2	213.6	243.8	210.9	211.4	241.1	214.6	202.6	192.2	183.9
Net external liabilities/CARs	(9.8)	(10.4)	0.6	14.9	(2.1)	0.8	1.6	1.6	0.7	0.4
Net external liabilities/CAPs	(9.6)	(9.9)	0.6	14.3	(2.1)	0.8	1.6	1.5	0.7	0.4
Short-term external debt by remaining maturity/CARs	426.3	327.0	267.9	208.5	273.1	311.3	287.7	271.2	258.5	248.5

Table 1

Finland--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Usable reserves/CAPs (months)	1.2	1.1	1.1	0.9	0.9	1.1	1.1	0.9	0.8	0.8
Usable reserves (mil. $)	10,018	10,468	10,517	10,310	11,418	12,099	10,878	10,421	10,105	9,779
Fiscal indicators (general government; %)										
Balance/GDP	(2.4)	(1.7)	(0.6)	(0.9)	(1.0)	(6)	(4.5)	(3.2)	(3.0)	(3.0)
Change in net debt/GDP	2.8	1.3	(1.8)	(0.4)	(1.1)	6.5	5.5	3.2	3.0	3.0
Primary balance/GDP	(1.3)	(0.6)	0.4	0.0	(0.2)	(5.3)	(3.9)	(2.5)	(2.3)	(2.2)
Revenue/GDP	54.1	53.9	53.0	52.5	52.3	51.0	52.0	53.0	53.0	53.0
Expenditures/GDP	56.5	55.6	53.6	53.4	53.3	57.0	56.5	56.2	56.0	56.0
Interest/revenues	2.1	2.0	1.9	1.7	1.6	1.4	1.1	1.3	1.3	1.6
Debt/GDP	62.0	61.5	59.5	58.0	57.8	66.2	69.5	70.4	70.9	71.5
Debt/revenues	114.6	114.1	112.2	110.5	110.5	129.7	133.7	132.8	133.8	135.0
Net debt/GDP	24.1	24.7	21.9	20.8	19.2	25.9	30.6	32.7	34.6	36.4
Liquid assets/GDP	37.8	36.8	37.5	37.1	38.6	40.3	39.0	37.6	36.3	35.1
Monetary indicators (%)										
CPI growth	(0.2)	0.4	0.8	1.2	1.1	0.4	1.0	1.4	1.6	1.8
GDP deflator growth	1.6	0.1	0.8	1.9	1.5	1.6	1.3	1.8	2.2	2.0
Exchange rate, year-end (€/$)	0.92	0.95	0.83	0.87	0.89	0.81	0.83	0.83	0.83	0.83
Banks' claims on resident non-gov't sector growth	0.9	1.3	2.7	4.6	4.5	4.3	2.5	4.5	4.5	4.5
Banks' claims on resident non-gov't sector/GDP	96.4	94.9	93.7	94.9	96.5	101.9	101.1	102.1	102.8	103.9
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(3.0)	(3.6)	(8.0)	5.4	(6.2)	(2.2)	N/A	N/A	N/A	N/A

Sources: Eurostat, Statistics Finland (Economic Indicators), Statistics Finland, Eurostat (External Indicators), Statistics Finland, the Bank of Finland (Fiscal Indicators), and the Bank of Finland, International Monetary Fund (Monetary Indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by EFSF.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Finland--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	2	Generally strong track record of policies that deliver sustainable public finances and balanced economic growth. Unbiased enforcement of contracts and respect for rule of law with generally effective checks and balances between institutions. Finland is one of the most cohesive civil societies, as shown through high social inclusion, degree of social order, and capacity of political institutions to respond to societal priorities. However, coordination requirements at the level of the Economic and Monetary Union may hinder timely policy responsiveness.
Economic assessment	1	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
External assessment	4	Based on narrow net external debt/CARs as per Selected Indicators in Table 1.
		The sovereign has external short-term debt by remaining maturity that generally exceeds 100% of CARs, as per Selected Indicators in Table 1.
		The Sovereign's net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	2	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1 excluding the exceptional deviation from the fiscal package of emergency measures.
		The sovereign has large liquid assets relative to GDP as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	2	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenues) as per Selected Indicators in Table 1.
		Nonresidents hold over 60% of government commercial debt.
Monetary assessment	2	In the context of our monetary assessment, we consider the euro to be a reserve currency.
		The European Central Bank has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. The CPI is low and in line with that of its trading partners.
		Finland is a member of the Economic and Monetary Union.
Indicative rating	aa+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	None
Final rating		
Foreign currency	AA+	
Notches of uplift	0	Default risks do not apply differently to foreign-and local-currency debt.
Local currency	AA+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Feb. 3, 2021
- Sovereign Ratings History, Feb. 3, 2021
- Sovereign Ratings Score Snapshot, March 2, 2021
- Banking Industry Country Risk Assessment: Finland, Feb. 9, 2021
- Sovereign Risk Indicators, Dec. 14, 2020. A free interactive version is available at http://www.spratings.com/sri
- European Developed Sovereign Rating Trends Midyear 2020, July 31, 2020
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020

Ratings Detail (As Of March 8, 2021)*		
Finland		
Sovereign Credit Rating		AA+/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Senior Unsecured		AA+
Short-Term Debt		A-1+
Sovereign Credit Ratings History		
16-Sep-2016	*Foreign Currency*	AA+/Stable/A-1+
25-Sep-2015		AA+/Negative/A-1+
10-Oct-2014		AA+/Stable/A-1+
16-Sep-2016	*Local Currency*	AA+/Stable/A-1+
25-Sep-2015		AA+/Negative/A-1+
10-Oct-2014		AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com