Date of Release: 24 March 2023

DBRS Morningstar Confirms Republic of Finland at AA (high), Stable Trend

Industry Group: Public Finance – Sovereigns

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Republic of Finland's (Finland) Long-Term Foreign and Local Currency – Issuer Ratings at AA (high). At the same time, DBRS Morningstar confirmed Finland's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trends on all ratings remain Stable.

KEY RATING CONSIDERATIONS

The Stable trend reflects DBRS Morningstar's view that risks to Finland's ratings are balanced. The country's public finance position and its economic fundamentals are not expected to be materially undermined by the risks posed by Russia's invasion of Ukraine, including high living costs and tightening financing conditions. The short-lived and shallow economic recession this year, in tandem with higher spending, will interrupt the improvement in the public deficit, but Finland's prudent budgetary finance position is expected to be restored in the medium term. Recent international financial market instability adds to economic uncertainty and might cause a weaker economic performance in the near term, but risks at the moment remain contained for the Finnish banking sector. After two years of decline the public debt-to-GDP ratio slightly increased from 72.6% in 2021 to 73.0% in 2022, and it is set to continue to rise, although moderately, unless a more conservative fiscal stance is adopted. Given the spending pressures from an ageing population amid relatively modest growth prospects, reversing the projected gradual increase in the public debt ratio will most likely require additional fiscal consolidation measures in the future. There is uncertainty over the upcoming parliamentary elections, but DBRS Morningstar anticipates the next government to be committed to a conservative fiscal strategy, therefore, preventing a material rise in the public debt-to-GDP ratio in coming years.

Finland's AA (high) ratings are underpinned by its strong public-sector balance sheet, which reinforces its ability to fund future liabilities, and the Finnish government's commitment to sound economic policies. Moreover, governance indicators are also very strong. Finland's wealthy economy, with significant human capital and high-value-added sectors, also supports the ratings. On the other hand, an ageing population will constrain potential growth and burden public finances over the medium term. As an open and small economy, Finland's economic prospects are exposed to swings in external demand and to global financial conditions. Furthermore, DBRS Morningstar takes the view that the high level of household debt, which could amplify economic downturns, remains a concern.

RATING DRIVERS

One or any combination of the following factors could trigger an upgrade: (1) progress in curbing healthcare and long-term care spending growth pressures, (2) an improvement in Finland's medium-term economic performance, and (3) sustained improvement in fiscal performance and a reduction in the public debt ratio.

One or any combination of the following factors could trigger a downgrade: (1) a material and persistent worsening in Finland's economic performance, (2) a deterioration in Finland's fiscal performance leading to a sustained increase in its public debt ratio, and (3) a substantial crystallisation of contingent liabilities.

RATING RATIONALE

The Recession in 2023 Is Expected to Be Mild and Temporary and not to Dampen Finland's Potential Growth

Finland's ratings benefit from a high GDP per capita, estimated at USD 50,818 in 2022, reflecting a skilled labour force, high-value-added sectors, and a relatively strong research and development investment intensity. This is offset by moderate GDP potential growth estimated at around 1.0%, which is constrained by a shrinking working age population and relatively weak productivity growth.

The impact of the Russian invasion of Ukraine, including high inflation and lower external demand, will result in short-lived recession this year after a sound post-pandemic economic performance. Following GDP growth of 3.0% and 2.1% in 2021 and 2022, respectively, subdued private consumption and investment amid increasing living costs and the rise in interest rates will weigh on economic growth this year. GDP is expected to decline by 0.2% in 2023, below the Euro area average (0.9%), before picking up to 0.9% in 2024 supported by lower inflation and higher trading partner external demand, according to the Bank of Finland. The short-lived GDP contraction is unlikely to have a material impact on the labour market which benefits from an elevated employment rate trend, with the rate at 74.2% as of February 2023.

The main risks to the outlook continue mainly to relate to the severity and duration of the economic fallout of Russia's invasion of Ukraine, which could exacerbate energy/raw material price pressures, as well as the possibility of a faster and more pronounced monetary policy tightening if inflation proves more persistent than anticipated. Nevertheless, the warm winter and the high gas storage levels among European countries is contributing to a moderation in the gas prices, even though risks of lower energy supply in the next winter season remain. Recent volatility in global financial markets due to concerns over financial stability in the banking system is not expected to have a direct impact on Finland, unless this remains prolonged. In such a scenario economic growth both in Finland and in its trading partners could be weaker than expected. Over the medium to long term, countering the effects of unfavourable demographics and relatively weak productivity growth, will remain key to Finland's economic prospects. In this regard, DBRS Morningstar will continue to monitor the effectiveness of the government's reforms and investments in raising employment, investment, and productivity in coming years.

Finland Benefits From a Strong Fiscal Track Record, but Population Age-Related Expenditures Weigh on Public Finances

DBRS Morningstar considers Finland's track record and commitment to prudent fiscal policy, supported by a strong fiscal framework, to be key credit strengths. Energy-related support in tandem with the social and healthcare services reform and additional spending for defence and security should not alter the prudent trend of Finland's fiscal accounts, provided that the next government remains committed to a conservative fiscal strategy.

The unwinding of Covid-19 related support, along with higher fiscal revenues contributed to a significant improvement in public accounts over the last two years. The fiscal deficit declined to 0.8% of GDP in 2022 from 5.6% in 2020. Nevertheless, the economic slowdown, the government measures to shelter households from high energy costs and the impact of the healthcare reform could widen the deficit to around 3.0% of GDP this year. DBRS Morningstar anticipates a gradual improvement from 2024, reflecting lower support for energy costs and an improvement in the economic environment. Although a degree of uncertainty remains, the result of the next elections is not expected to weaken materially the government's commitment to a prudent fiscal stance. The most likely outcome is an implementation of a more prudent budgetary strategy, including some consolidation measures to lower the rising deficit.

The main risks in the near term are linked to a weaker evolution of the economy, the need for further measures to deal with the unforeseen effects from the energy crisis, higher healthcare spending due to the backlog created by the pandemic, and higher public wages. On the other hand, pressure on Finland's public sector accounts in the medium to long term will likely depend on the ageing and shrinking working-age population. In relation to this, the healthcare reform, although expected to create transitional costs for several years, could potentially generate savings around the turn of the decade and onward. DBRS Morningstar will continue to monitor Finland's implementation of this reform, in order to assess its effectiveness in curbing age-related spending in the medium to long term.

A Healthy Public-Sector Balance Sheet Mitigates Risk of a Persistent Rise in the Public Debt-to-GDP Ratio

After a slight decline to 72.6% of GDP in 2021 from a peak of 74.7% in 2020, the public debt ratio increased slightly again to 73.0% of GDP last year. Using a no-policy change assumption, the debt ratio will likely continue to increase, but not to exceed 80% of GDP by 2027 as nominal growth will shrink, and debt servicing costs and primary deficit will remain elevated. According to the Ministry of Finance (MoF) around EUR 9 billion of measures would be necessary to stabilize the debt in coming years. This would require strong commitment from the next government.

The stock of explicit guarantees of the state, estimated at around EUR 51 billion (20% of GDP) in early 2022, after excluding the guarantees of the national housing fund already included in the public debt, pose additional risks to the debt ratio. Finland's stock of explicit guarantees has been increasing steadily in recent years and is among the highest in the European Union in terms of GDP. Nevertheless, Finland's strong public balance sheet and good debt affordability reinforce the government's ability to fund its liabilities. The general government net financial assets ratio stood at 60.7% of GDP in Q3 2022, although around two thirds of the assets are ring-fenced for pension payments and not available for budgetary purposes. Finland's central government debt has an average maturity of 7.5 years and minimal exchange-rate risk after swaps. While funding costs have been increasing rapidly, DBRS Morningstar notes Finland's lengthy debt profile means higher funding costs will permeate only gradually.

Financial System is Sound and Risks to Financial Stability are Contained

The Finnish banking system weathered the impact of the pandemic thanks to its strong initial position that was enhanced by the response at the national and euro system level. According to European Banking Authority (EBA) data, the Finnish banks' CET1 capital ratio, although slightly declining at 16.9% as of Q3 2022 from 18.6% in Q2 2021, remains very solid. While Finnish banks' direct exposure to Russia is limited, a weaker operating environment and tighter financing conditions could lead to a deterioration in asset quality. Also, the invasion has increased cyber-security risks. DBRS Morningstar considers that Finnish banks' strong capitalisation provides sufficient buffers to absorb potential losses and continues to provide credit to the economy under most scenarios.

The main vulnerabilities of the financial system are linked to the level of household indebtedness and the structure of the banking system. Household indebtedness, at 133.1% of adjusted disposable income in Q4 2022, has increased steadily over time and remains a source of concern, although it is still below its Nordic peers. Finnish banks remain highly exposed to the property market and recently house prices have been declining reflecting high servicing costs; however, there is no discernible evidence of significant imbalances in the residential or commercial property market. Furthermore, Finland's fully amortising mortgages, stricter credit policies, and lower tax deductibility have helped to contain further build ups of risk in recent years. On the other hand, the Finnish banking system's relative size, concentration, interconnectedness, and reliance on wholesale funding are structural features that could amplify shocks to the economy, especially if combined with investor confidence deterioration. Recent financial market volatility if prolonged could also put pressure on the wholesale funding costs of Finnish banks, translating into lower credit standards. Therefore, retaining the strong confidence among investors that Finnish banks enjoy will remain important under a more challenging environment.

A Gradually Improvement in The Current Account Position is Expected Reflecting a Restored Cost Competitiveness

Headwinds on the current account position come mainly from the consequences of Russia's invasion of Ukraine, despite the fact that Finland has restored its cost competitiveness. Lower bilateral trade flows with Russia, a weaker external backdrop, and more expensive energy imports weigh on the trade balance. These factors, along with the negative impact of the income balance, mainly due to banks' profit distributions, led the current account deficit to shift to a negative position of 4.2% of GDP in 2022 from the average surplus of 0.5% of GDP in the 2020-2021 period. Nevertheless, DBRS Morningstar considers this deterioration as temporary and past improvements in cost competitiveness should help the country to rebalance the current account over the medium term.

The country has reduced its energy dependency from Russia, particularly on oil, relying instead on alternative sources. Finland's negative international investment position tends to hover around a balanced position, however, the country's elevated gross external debt-to-GDP ratio at 213.5% of GDP in 2022, remains a source of concern, given the cross-border exposures of the financial sector, including wholesale funding.

Elections Not Expected to Undermine the Country's Strong Institutional Framework and Political Stability

Finland's political and institutional framework is among the strongest in the world and the country consistently ranks among the top performers in the World Bank's governance indicators. Despite the political fragmentation, a tradition of coalition governments with strong majorities leads to stable and consensus-based policymaking. The next parliamentary elections are scheduled in early April 2023. DBRS Morningstar expects, regardless of its composition, the next administration to implement measures to continue to help the economy deal with the energy and higher living cost crisis and to implement more prudent fiscal policy-making in the medium term. Russia's invasion of Ukraine resulted in a historic change in Finland's defence policy, ending its historical neutrality and leading to its application for NATO membership. Finland will hold an invitee status until the accession protocols have been ratified by NATO members and the Finnish parliament.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

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

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (17 May 2022)

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

EURO AREA RISK CATEGORY: LOW

Notes:
All figures are in Euros (EUR) unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments, https://www.dbrsmorningstar.com/research/401817/global-methodology-for-rating-sovereign-governments (29 August 2022). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings, https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (17 May 2022).

The sources of information used for this rating include the Ministry of Finance (Winter Economic Survey, December 2022; Press Release - Government submits supplementary budget proposal to Parliament, February 2, 2023), Bank of Finland (Bank of Finland's interim forecast: Finnish economy in hibernation – March 2023), Central Government Debt Management Office, Statistics Finland, European Commission, EBA, The Social Progress Imperative (2022 Social Progress Index), European Central Bank, Statistical Office of the European Communities, Bank of International Settlements, Organisation for Economic Co-operation and Development, IMF (2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Finland, January 2023), World Bank, and Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: NO
With Access to Management: NO

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: https://www.fca.org.uk/firms/credit-rating-agencies.

The sensitivity analysis of the relevant key rating assumptions can be found at: https://www.dbrsmorningstar.com/research/411583.

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

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Initial Rating Date: 14 August 2012
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Issuer	Debt Rated	Rating Action	Rating	Trend
Finland, Republic of	Long-Term Foreign Currency – Issuer Rating	Confirmed	AA (high)	Stable
Finland, Republic of	Long-Term Local Currency – Issuer Rating	Confirmed	AA (high)	Stable
Finland, Republic of	Short-Term Foreign Currency – Issuer Rating	Confirmed	R-1 (high)	Stable
Finland, Republic of	Short-Term Local Currency – Issuer Rating	Confirmed	R-1 (high)	Stable

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Finland

Scorecard Indicators

Scorecard Indicators	2017	2018	2019	2020	2021	2022	2023	2024	2025	Source	Current Scorecard Input	
Fiscal Management and Policy	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
Overall Fiscal Balance (% of GDP)	-0.7%	-0.9%	-0.9%	-5.5%	-2.6%	-2.1%	-1.7%	-2.1%	-2.7%	IMF WEO	13 year average	-2.2%
Government Effectiveness (Percentile Rank)	99.0	99.5	99.5	99.0	98.6	-	-	-	-	World Bank	5 year average	99.1
Debt and Liquidity	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
General Government Gross Debt (% of GDP)	61.2%	59.8%	59.6%	69.0%	66.2%	66.7%	67.4%	69.6%	71.5%	IMF WEO	5 year projection	75.1%
Interest Costs (% of GDP)	0.3%	0.2%	0.2%	0.1%	0.0%	0.0%	0.1%	0.1%	0.3%	IMF WEO	5 year average	0.1%
Economic Structure and Performance	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
GDP per Capita (USD thousands)	46.4	50.0	48.7	49.2	53.8	50.8	51.2	52.8	54.8	IMF WEO	10 year average	48.6
Output Volatility (%)	3.0%	3.0%	2.9%	2.8%	2.7%	2.7%	2.7%	2.7%	-	IMF WEO	Latest	2.7%
Economic Size (USD billions)	256	276	269	272	298	281	284	292	304	IMF WEO	5 year average	279
Monetary Policy and Financial Stability	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
Rate of Inflation (%, EOP)	0.5%	1.3%	1.1%	0.2%	3.2%	6.6%	3.5%	1.8%	1.8%	IMF WEO	13 year average	1.8%
Total Domestic Savings (% of GDP)	162%	156%	166%	183%	189%	170%	-	-	-	ECB/IMF	Latest[1]	170%
Change in Domestic Credit (% of GDP)	7.3%	-1.0%	-2.2%	7.5%	-2.9%	-9.0%	-	-	-	ECB/IMF	7 year average[1]	-1.4%
Net Non-Performing Loans (% of Capital)	10.4%	8.2%	9.5%	9.7%	9.2%	9.6%	-	-	-	IMF IFS/ BoF	Latest[1]	9.6%
Change in Property Price/GDP Index (%)	-2.8%	-2.2%	-2.3%	2.6%	-1.0%	-4.3%	-	-	-	Eurostat/IMF	7 year average[1]	-1.7%
Balance of Payments	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
Current Account Balance (% of GDP)	-0.8%	-1.8%	-0.3%	0.6%	0.9%	-0.8%	-0.2%	-0.2%	-0.5%	IMF WEO	8 year average	-0.3%
International Investment Position (% of GDP)	1.2%	-5.6%	4.0%	-4.0%	-1.4%	1.3%	-	-	-	IMF	5 year average[1]	-1.1%
Share of Global Foreign Exchange Turnover (Ratio)	200.7%	199.3%	206.9%	208.5%	212.6%	209.2%	-	-	-	BIS/IMF	Latest	209.2%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
Voice and Accountability (Percentile Rank)	99.0	98.6	99.5	99.5	99.5	-	-	-	-	World Bank	5 year average	99.2
Rule of Law (Percentile Rank)	100.0	100.0	100.0	100.0	100.0	-	-	-	-	World Bank	5 year average	100.0

See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

[1] *Scores for 2022 have been computed using the most recent data when year-end data is not available.*

Rating Committee Date: 22-Mar-2023

Finland

Building Block Assessments and Rating Committee Summary

22-Mar-2023

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.23	Strong	N/A	Strong
Debt and Liquidity	14.55	Good	N/A	Good
Economic Structure and Performance	12.76	Good/Moderate	N/A	Good/Moderate
Monetary Policy and Financial Stability	19.23	Very Strong	N/A	Very Strong
Balance of Payments	14.61	Good	N/A	Good
Political Environment	20.00	Very Strong	N/A	Very Strong

Overall Assessment	Composite Scorecard Result	Scorecard Rating Range	Composite Building Block Assessment	Indicative Rating Range
	82.0	AAA - AA (high)	82.0	AAA - AA (high)

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

Main topics discussed in the Rating Committee include: political and fiscal outlook, public debt trajectory, contingent liabilities, banking sector vulnerabilities, impact of the Russian invasion of Ukraine on the economy. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

Finland, Republic of

ESG Checklist

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

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Republic of Finland: ESG Considerations

March 24, 2023

Environmental

This factor does not affect the ratings assigned to Finland. From a credit perspective, environmental policies are deemed sound, and the fiscal cost of new investments is currently managed appropriately within Finland's budgetary framework. Finland's energy sources are diversified. As of 2021, around 42.1% of energy consumption came from renewable sources, 28.9% from fossil fuels -excluding natural gas- and peat, 18.2% from nuclear, 5.4% from natural gas, and 4.7% from net imports of electricity. Finland has been one of the first countries globally seeking to identify the connections between sustainable development and its government budgetary proposals. The New Climate Change Act 2022 into force since 2022 and updated in July of last year sets very ambitious climate targets including net zero emissions by 2035. The country aims to become carbon negative soon after, which is among the fastest targets in the world.

Social

This factor does not affect the ratings assigned to Finland. Its competitive economy benefits from high levels of human capital and productivity, reflected in its GDP per capita at USD 50,818 in 2022 according to the IMF. Respect for human rights is high, and there is widespread access to quality healthcare and other basic services. Finland ranks 3rd among countries in the 2022 Social Progress Index.

Governance

This factor does not affect the ratings assigned to Finland. The country has independent and transparent institutions, providing a strong environment for investment and rather limited scope for corruption. Finland's political and institutional framework is among the strongest in the world, consistently being ranked among the top performers in the World Bank's governance indicators, including government effectiveness (98.6 percentile rank), voice and accountability (99.5 percentile rank), and for rule of law (100.0 percentile rank) as of 2021.