Date of Release: September 22, 2023

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

Industry Group: Public Finance – Sovereigns
Region: Europe

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 CREDIT 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 higher living costs and tightening financing conditions. The economic slowdown in tandem with higher spendings, will interrupt the improvement in the public deficit recorded over the last two years. However, Finland's prudent budgetary finance position is expected to be restored in the medium term. After two years of decline the public debt-to-GDP ratio slightly increased to 72.9% in 2022 from 72.5% in 2021, and it is set to continue to rise, although moderately. The new government agenda includes a prudent fiscal stance aimed at stabilising the public debt-to-GDP ratio over the next years. This mitigates the risk of further deteriorations in public accounts.

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.

CREDIT RATING DRIVERS

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

CREDIT RATING RATIONALE

A Resilient Labour Market Mitigates Risks Stemming from Weaker Economic Performance

Finland's credit ratings benefit from a high per capita GDP, estimated at USD 50,655 in 2022, reflecting a skilled labour force, high-value-added sectors, and a relatively strong research and development investment intensity. This is offset by a moderate GDP growth potential estimated at around 1.0%, which is constrained by a shrinking working age population and relatively weak productivity growth.

After facing multiple shocks over the past years showing a sound degree of resiliency, Finland's economic performance is expected to temporarily weaken in 2023. GDP is projected to stagnate after a sound post-pandemic recovery when it expanded by 1.6% and 3.2%, in 2022 and 2021, respectively. Subdued private consumption and investment amid increasing living costs and the rise in interest rates will weigh on the country's domestic demand. The construction sector will be mainly hit as a result of the contraction in residential prices and housing transactions. As inflation moderates and the external environment improves, GDP growth should moderately peak up at 1.4% in 2024 and at 1.9% in 2025, according to the latest government estimates published in June. However, a still moderately tight and sound labour market, which benefits from an elevated employment rate trend of 74.2% as of July 2023, reduces the risks of a material downturn.

The main risks to the outlook are related to the possibility of a faster and more pronounced monetary policy tightening if inflation proves more persistent than anticipated. This could further weigh on investment and on the housing market. Moreover, the severity and duration of the economic fallout of Russia's invasion of Ukraine, could re-exacerbate energy/raw material price pressures as well as geopolitical tensions. At the same time, over the medium to long term, successfully 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.

New Government's Fiscal Agenda Expected to Improve Fiscal Accounts Over Time

DBRS Morningstar considers Finland's track record and commitment to prudent fiscal policy, supported by a strong fiscal framework, to be its key credit strengths. The unwinding of the Coronavirus Disease (COVID-19)-related support, along with higher fiscal revenues contributed to a significant improvement in public accounts over the past two years. The fiscal deficit declined to 0.8% of GDP in 2022 from 5.6% in 2020. Nevertheless, the economic slowdown, energy-related measures, and the impact of the healthcare reform and social benefits indexation, are expected to put pressure on the deficit, which is estimated to rise above 2.0% of GDP this year.

The new coalition government's agenda points to a conservative fiscal stance, which should counteract past expansionary spendings. In recent weeks, the new coalition government has announced central budget spending limits for the 2024-2027 period, and it foresees a net consolidation fiscal impact of EUR 4 billion by 2027 at the central government level. According to the programme, the general government deficit should decline by EUR 6 billion by 2027, reflecting a reduction of EUR 4 billion in expenditures and EUR 2 billion in structural reforms. Moreover, the government plans to finance additional investments amounting to EUR 4 billion with the sale of assets. Although not all details have been outlined, and there is a high degree of uncertainty, DBRS Morningstar views positively an improvement in public finances, which is likely to mitigate the upward public debt trajectory. However, stabilising the public debt ratio over the medium term might require additional measures that could go beyond the current political cycle.

The main risks in the near term are linked to a weaker evolution of the economy, which might require further support in the context of high inflation and rising interest rates. 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 the Risk of a Persistent Rise in the Public Debt-to-GDP Ratio

In DBRS Morningstar's view, the new government's more prudent fiscal stance should place the debt-to-GDP ratio on a less steep trajectory than expected before the elections. However, with a high degree of uncertainty, additional efforts might be needed to avoid a persistent rise in the public debt ratio over the medium term. After a slight decline to 72.5% of GDP in 2021 from a peak of 74.7% in 2020, the public debt ratio increased slightly again to 72.9% in 2022 and a further rise to 73.9% in 2023 is projected by the European Commission. Fiscal consolidation measures highlighted by the government might not be enough to offset the shrinking nominal GDP growth as well as higher debt servicing costs, along with higher public investment for military equipment. DBRS Morningstar, however, continues to expect the debt-to-GDP ratio to not exceed 80% of GDP by 2027.

The stock of explicit guarantees of the state is large and represents a vulnerability. However, contingent liability risk remains contained and the government benefits from a sound debt affordability as well as its strong public asset position. State guarantees estimated at around 19% of GDP as of June 2023, after excluding the guarantees of the national housing fund already included in the public debt, are among the largest in the EU. These relate mainly to Finnvera, the state export agency and are not expected to exert significant pressure on the debt ratio. Nevertheless, Finland's strong public balance sheet and good debt affordability position reinforce the government's ability to fund its liabilities. The general government's net financial assets ratio stood at 59.9% of GDP in Q1 2023, 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 relatively long maturity 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 is well placed to withstand the economic slowdown amid falling house prices and the deterioration in households' debt affordability. Non-performing loans (NPLs) will likely increase, although from low levels, and banks will likely absorb losses supported by a high level of capitalisation and good profitability. This reduces the risk of contingent liabilities.

Households' debt as a share of disposable income remains very high at 130.3% as of Q1 2023 and a growing share of households is facing high debt servicing costs as a result of the steep and rapid rise in interest rates. This mainly reflects a high share of mortgages at variable rates in tandem with a relatively short refixing period. Nevertheless, banks are well capitalised with a CET1 capital ratio at 17.1% as of Q1 2023 and the NPL ratio at around 1.0% continues to not show signs of an increase, according to the European Banking Authority (EBA). In addition, imbalances appear to be relatively contained as a results of Finland's fully amortising mortgages, stricter credit policies, and lower tax deductibility. Moreover, most indebted households tend have also high levels of wealth and the recent EBA stress test points to a sound degree of resilience of banks.

After several years of persistent growth, housing prices are correcting in the Nordic region and in Finland they declined by around 9% from the peak reached in 2022. Compared to other Nordic regions, overvaluation seem less intense in Finland but a prolonged fall in residential property prices could further weigh on investments in the construction sector, with a potential negative impact for banks in Finland. Moreover, the Finnish banking system's size, concentration, interconnectedness, and reliance on wholesale funding are concerning, as these could amplify shocks to the economy, especially if investor confidence deteriorates. Therefore, retaining the strong confidence among investors that Finnish banks enjoy will remain paramount under a more challenging environment.

A Gradual Improvement in the Current Account Position is Expected. External Debt Linked to the Financial Sector Remains a Source of Concern

Finland's external position is good and reflects a restored price-competitiveness in the context of moderate deficits and broadly balanced net international investment position. The current account shifted to a historical negative record position of 3.6% of GDP in 2022 from a surplus of 0.4% in 2021, owing to high energy prices, lower Russian and Asian tourist arrivals, and the abolishment of the suspension of dividend payments for financial institutions. DBRS Morningstar projects a gradual reversal over time, as energy prices and external demand normalise, even though high investment, including for military equipment, might prevent the current account's early return to a surplus position. Past improvements in cost competitiveness, should unit labour costs dynamics remain in line with trading partners, mitigate the risk of a material and persistent current account deterioration. The country has also reduced its energy dependency on Russia, particularly oil, relying instead on alternative sources. Finland's negative international investment position tends to hover around a balanced position over the last years and it is not expected to deteriorate significantly. However, the country's elevated gross external debt-to-GDP ratio at 224.1% of GDP in Q1 23, remains a source of concern, given the cross-border exposures of the financial sector, including wholesale funding.

Country's Strong Institutional Framework and Political Stability Support the Ratings

Finland's credit ratings benefit from its political and institutional framework, which is among the strongest in the world, as well as the country's consistent ranking among the top performers on the World Bank's governance indicators. In April, the elections resulted in a new coalition government including the center-right National Coalition Party, the right-wing Finns Party, along with the Swedish People's Party, and the Christian Democrats, following a centre-left coalition government led by Social Democrats. The government should benefit from a majority of 108 seats out of the 200 in parliament and, under Prime Minister Petteri Orpo, is expected to rule for the full term even though frictions among the coalition partners are likely to emerge. A more prudent fiscal stance both domestically and in the EU, higher security, and a reinforced commitment to the West after Finland's accession to NATO are expected to be the focus of the current government.

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 (July 4,

2023) https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments: https://www.dbrsmorningstar.com/research/420956/.

EURO AREA RISK CATEGORY: LOW

Notes:
All figures are in Euros 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 (29 August 2022) https://www.dbrsmorningstar.com/research/401817/global-methodology-for-rating-sovereign-governments. 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/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings. in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

The sources of information used for these credit ratings include Ministry of Finance (Spring Economic Survey, June 2023; Government Programme - A strong and committed Finland, June 2023; Press Release - Ministry of Finance publishes position on spending limits decision for 2024–2027, August 2023), Bank of Finland (Financial stability assessment– June 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 these credit ratings to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, these are unsolicited credit ratings. These credit ratings were 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 credit 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 credit 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://registers.esma.europa.eu/cerep-publication. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/420955/.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: August 14, 2012
Last Rating Date: March 24, 2023

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Issuer	Debt Rated	Credit Rating Action	Credit 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 Debt - Issuer Rating	Confirmed	R-1 (high)	Stable
Finland, Republic of	Short-Term Local Currency Debt - Issuer Rating	Confirmed	R-1 (high)	Stable

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Finland

Scorecard Indicators

Fiscal Management and Policy	2017	2018	2019	2020	2021	2022	2023	2024	2025	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	-0.7%	-0.9%	-0.9%	-5.5%	-2.7%	-1.9%	-2.5%	-2.4%	-3.0%	IMF WEO	13 year average	-2.3%
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)	66.0%	64.9%	64.9%	74.8%	72.6%	74.8%	74.5%	75.9%	77.8%	IMF WEO	5 year projection	80.9%
Interest Costs (% of GDP)	0.3%	0.2%	0.2%	0.1%	0.0%	-0.1%	0.3%	0.6%	0.6%	IMF WEO	5 year average	0.2%
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	53.6	50.7	54.4	56.0	57.6	IMF WEO	10 year average	48.6
Output Volatility (%)	3.1%	3.0%	2.9%	2.8%	2.8%	2.8%	2.7%	2.7%	2.7%	IMF WEO	Latest	2.8%
Economic Size (USD billions)	256	276	269	272	297	281	302	311	319	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%	8.8%	5.3%	2.5%	2.2%	IMF WEO	13 year average	2.2%
Total Domestic Savings (% of GDP)	162%	156%	166%	183%	191%	173%	-	-	-	ECB/IMF	Latest[1]	173%
Change in Domestic Credit (% of GDP)	7.3%	-0.9%	-2.2%	7.7%	-2.1%	-10.9%	-	-	-	ECB/IMF	7 year average[1]	-1.6%
Net Non-Performing Loans (% of Capital)	10.4%	8.2%	9.5%	9.7%	9.2%	19.8%	-	-	-	IMF IFS/BoF	Latest[1]	19.8%
Change in Property Price/GDP Index (%)	-2.8%	-2.2%	-2.3%	2.5%	-0.6%	-4.9%	-	-	-	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%	0.4%	-4.2%	-3.4%	-2.2%	-1.8%	IMF WEO	8 year average	-1.6%
International Investment Position (% of GDP)	1.2%	-5.6%	4.0%	-4.0%	1.0%	-3.6%	-	-	-	IMF	5 year average[1]	-1.6%
Share of Global Foreign Exchange Turnover (Ratio)	199.8%	198.3%	205.5%	206.6%	210.2%	204.6%	-	-	-	BIS/IMF	Latest	204.6%
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: 19-Sep-2023

Finland

Building Block Assessments and Rating Committee Summary

19-Sep-2023

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.10	Strong	N/A	Strong
Debt and Liquidity	13.62	Good	N/A	Good
Economic Structure and Performance	12.73	Good/Moderate	N/A	Good/Moderate
Monetary Policy and Financial Stability	19.31	Very Strong	N/A	Very Strong
Balance of Payments	14.13	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**
	80.7	AAA - AA	80.7	AAA - AA

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

Main topics discussed in the Rating Committee include: new government fiscal stance, Finland's economic performance, public debt sustainability, political environment. 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

Republic of Finland: ESG Considerations

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	Under key IPCC climate scenarios up to a 2°C rise in temperature by 2050, 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

September 22, 2023

Environmental

This factor does not affect the ratings assigned to Finland. The country's target to reduce greenhouse gas emission by 50% in 2030 (Effort Sharing regulation), compared with the 2005 level, is ambitious and will require a significant amount of investment but not such to derail a prudent fiscal stance. 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 50,655 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 Worldwide 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.