



State Treasury  
Republic of Finland

# Finnish central government borrowing

March 2024

# AA+

# AA+

## Credit ratings

The government has solicited credit ratings from two credit rating agencies: Fitch Ratings and S&P Global Ratings.

For long-term debt, they are

**AA+** and **AA+**

(stable, stable)

# 1 Finnish economy

# Economic growth to return in 2024 post contraction in 2023

- Decelerating inflation, falling interest rates and income growth support household purchasing power in 2024
- Export growth expected, supported by good cost competitiveness
- The general government deficit will widen to 3.5% due to slow tax revenue growth and rapid expenditure growth

	2023*	2024*	2025*	2026*
GDP change, %	-0.5	0.7	2.0	1.6
Inflation, %	6.3	2.0	1.4	1.7
Current account, % of GDP	-0.8	-0.8	-0.9	-0.9
Private investment change, %	-5.4	0.9	2.9	4.2
Exports change, %	-1.3	2.0	3.8	3.0
Unemployment rate, %	7.2	7.5	7.1	6.6
Public deficit, % of GDP	-2.5	-3.5	-3.4	-3.0
Public debt, % of GDP*	75.5	79.1	81.4	83.3

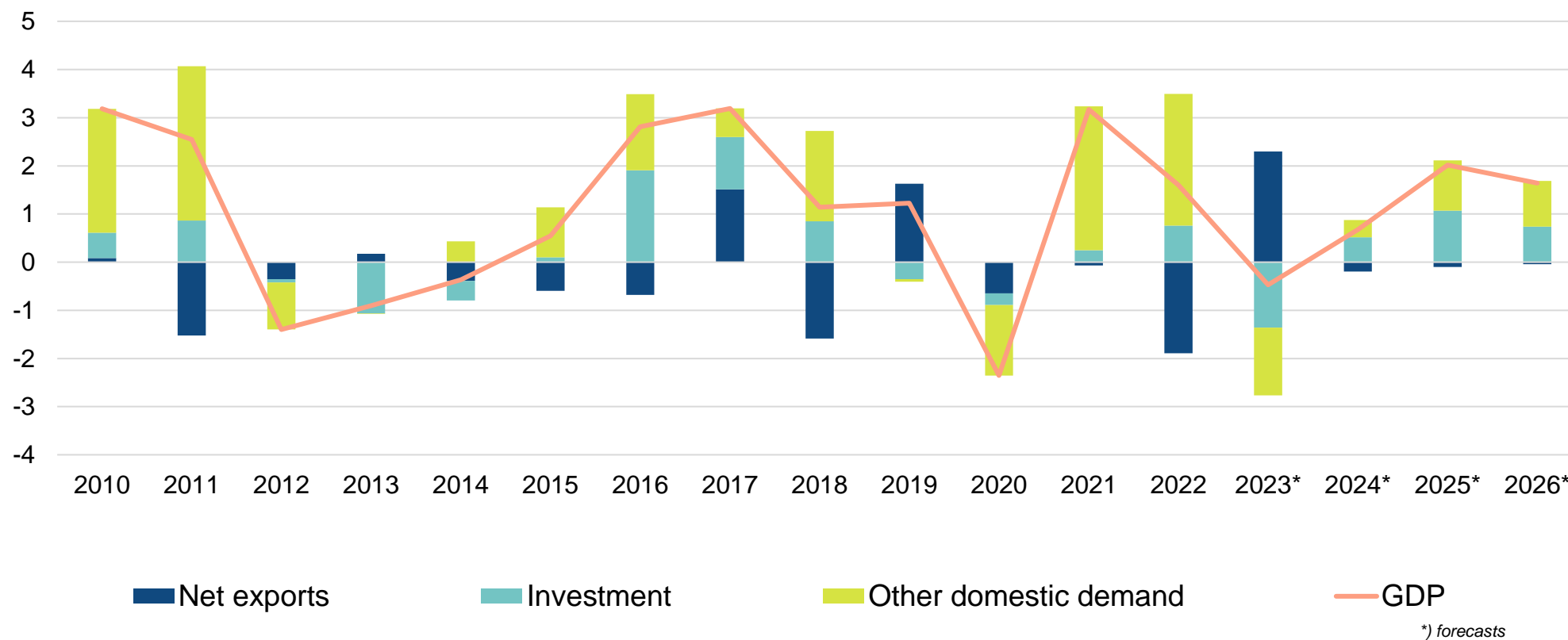
\*The general government debt ratio increased by about 6 percentage points (approximately EUR 15 billion) from 66% to roughly 72% at the level of 2021 **due to Statistics Finland implementing a change in methodology**. The change was related to the interest subsidy loan system for rental and right-of-occupancy dwellings.



# Domestic demand and investments contribute to GDP growth

## Contribution to GDP growth in Finland

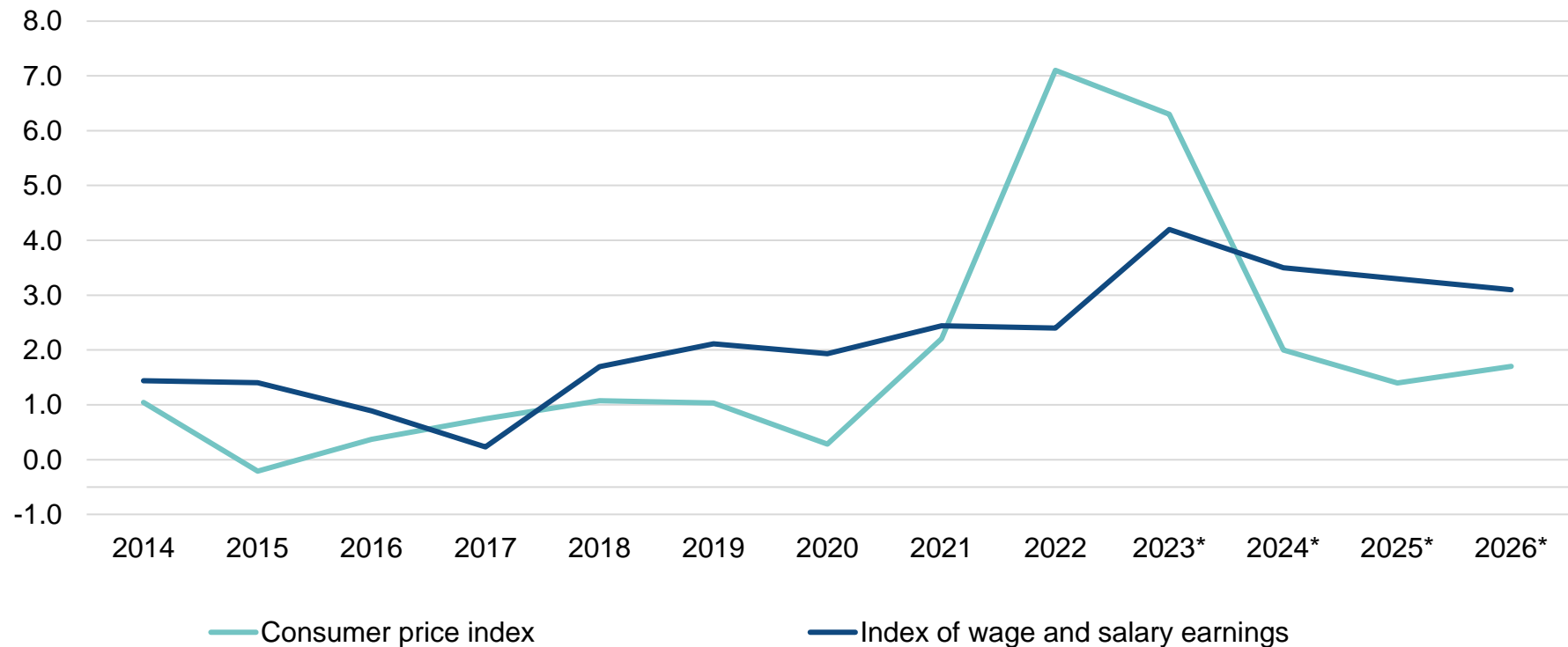
percentage points



# Rapid rise in prices is decelerating

## Consumer price index and index of wage and salary earnings

change yoy, %

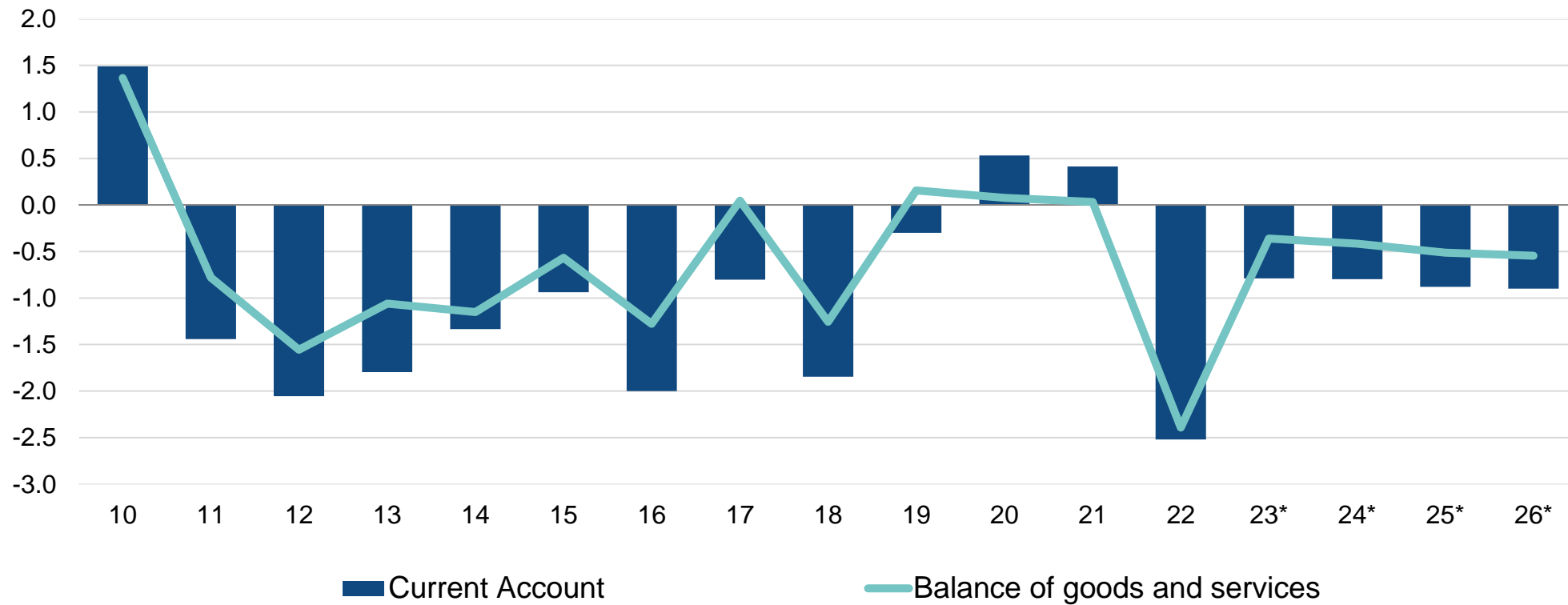


\*)forecasts

# Current account deficit is stabilising

## Current account

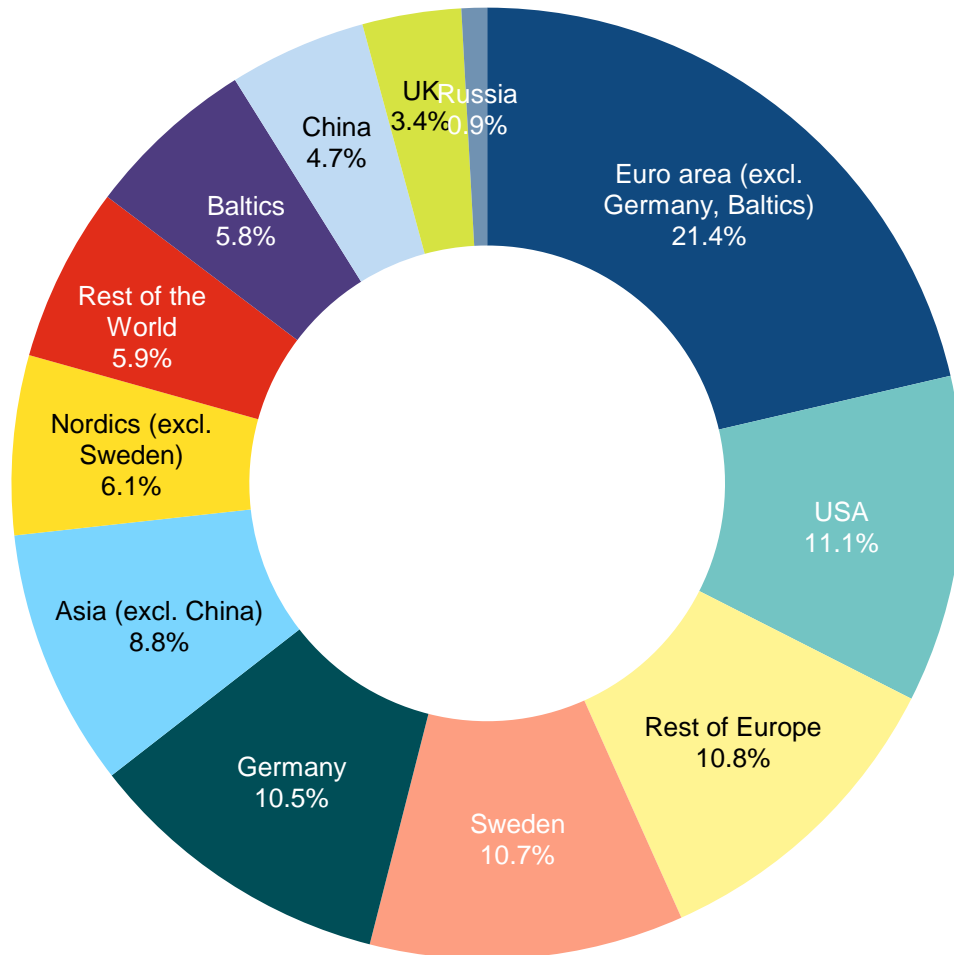
% of GDP



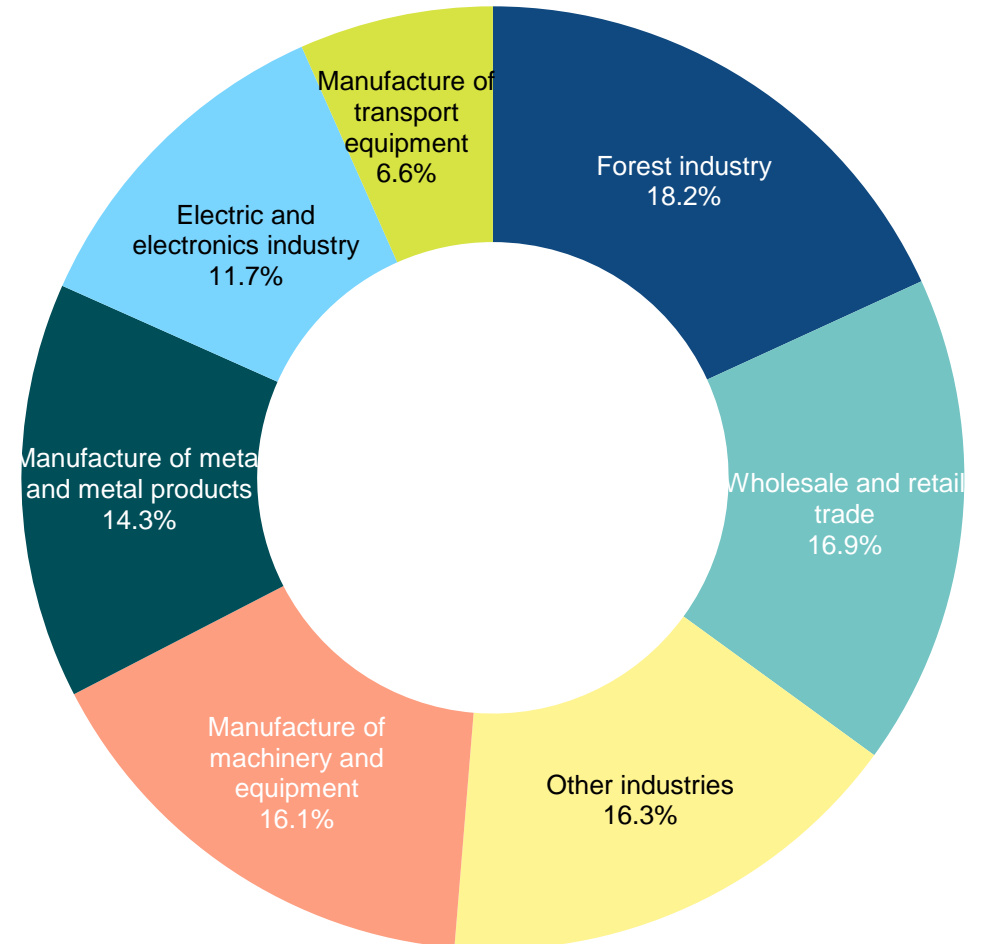
\*)forecasts

# Exports of goods

## Exports by countries 2023



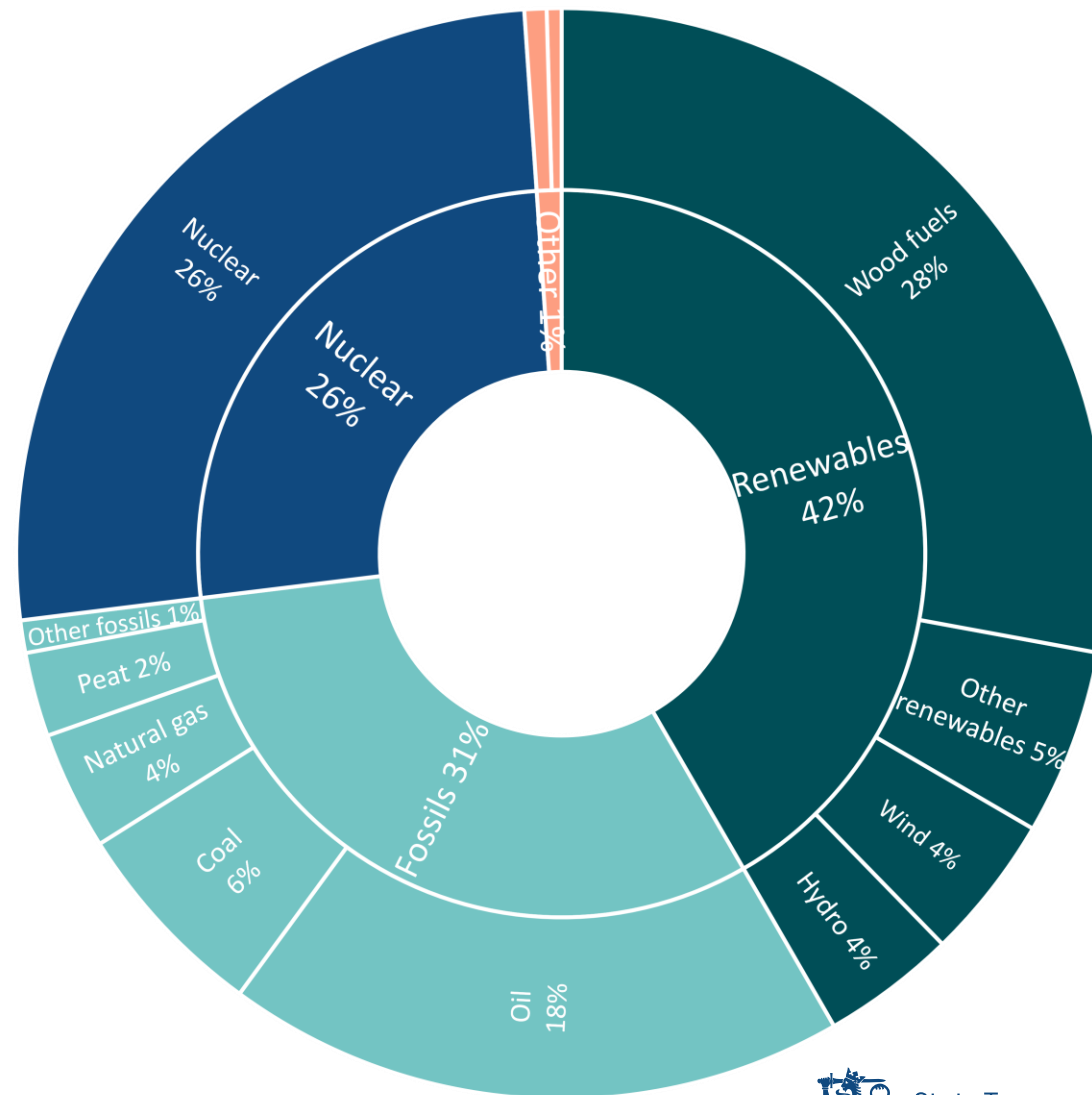
## Exports by industries 2023



# The energy sector in Finland

Total energy consumption by source 1H 2023

- Share of renewables 42% of total energy consumption in 2022.
- The new **Olkiluoto 3** nuclear powerplant increases Finland's self-sufficiency in energy. It generates 15 per cent of the electricity consumed in Finland. Its regular electricity production started in April 2023.
- Natural gas covers only 4% of total energy consumption, mainly used in district heating and electricity production as a complementing source.
- Wind power capacity grew by 75% in 2022



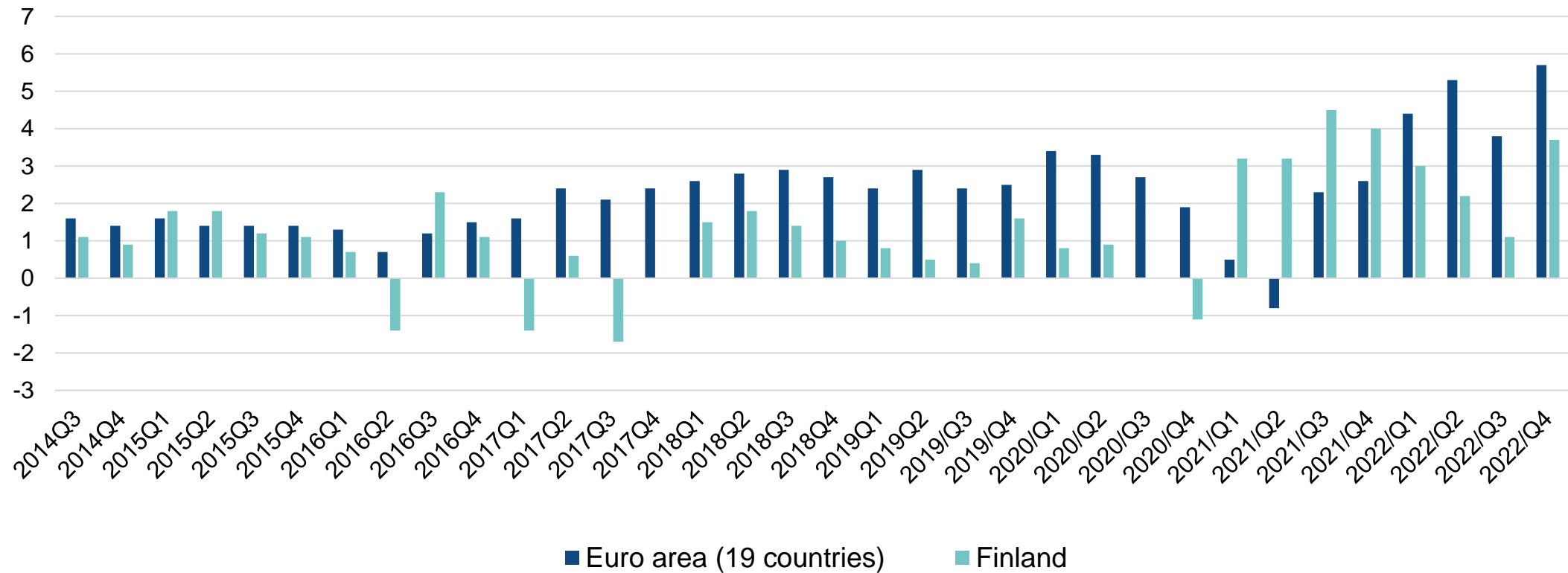
# Challenge of replacing Russian energy resolved, some impact on economy from export loss

- Trade in energy commodities with Russia has been discontinued. Finland has a well-diversified energy palette which has enabled replacing fossil energy sources or forms of energy. The use of natural gas is relatively low and predominantly industrial.
- A new floating LNG terminal (35 Terawatts) operational in Inkoo since January 2023.
- With full production at Olkiluoto 3 nuclear power plant since April 2023, Finland is self-sufficient in electricity production.
- The economy is expected to receive a boost from an increase of green investment projects in the energy sector.
- Exports to Russia fell to below 1% of total exports 1H2023 from 5% in 2021.

*Sources: Ministry of Finance April 2022, National board of customs data Jan-Sep 2022, Gasgrid, TVO*

# Labour costs competitiveness

## Hourly labour cost % change from previous year



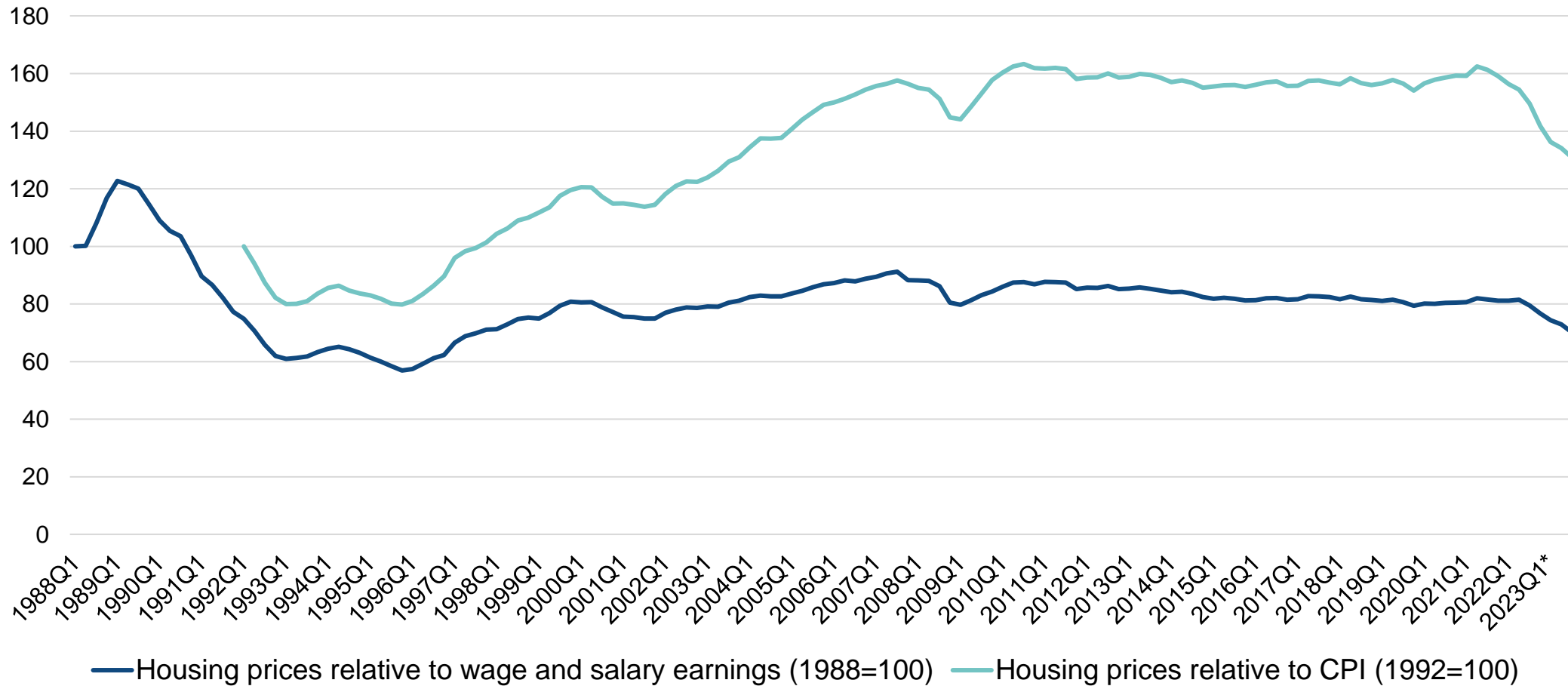
# Finnish banking sector has solid capital adequacy

- The banking sector's total capital ratio at 20.9% (Q2/2023) (EU average 19.4% Q1/2023)
- SVB crisis: Direct exposures to US banking sector are small (0,2% of total balance sheet), no open derivatives contracts with the US crisis banks.
- The Finnish financial sector's direct exposures to Russia were small (as of March 2022):

Banking sector	Insurance sector	Fund management companies
<ul style="list-style-type: none"><li>• Less than 0.1% (circa EUR 600 mio) of the total assets</li></ul>	<ul style="list-style-type: none"><li>• 0.3% (EUR 700 mio) of insurance entities' investments</li></ul>	<ul style="list-style-type: none"><li>• 0.4% (EUR 500 mio) of fund management companies' investments</li></ul>

# Relative housing prices in Finland

## Relative housing prices in Finland





## Finland's defence & security

- **Finland joined NATO on 4 April 2023**
- **Defence spending** estimated 2,3% of GDP in 2024.
- **Military defence is based on conscription:** Wartime troop strength and military reserve are among strongest in Europe, relative to size. Will for national defence is record high at over 80%
- **Strategy of comprehensive security:** Involving all sectors of society, as well as citizens, in building preparedness & resilience for crises.



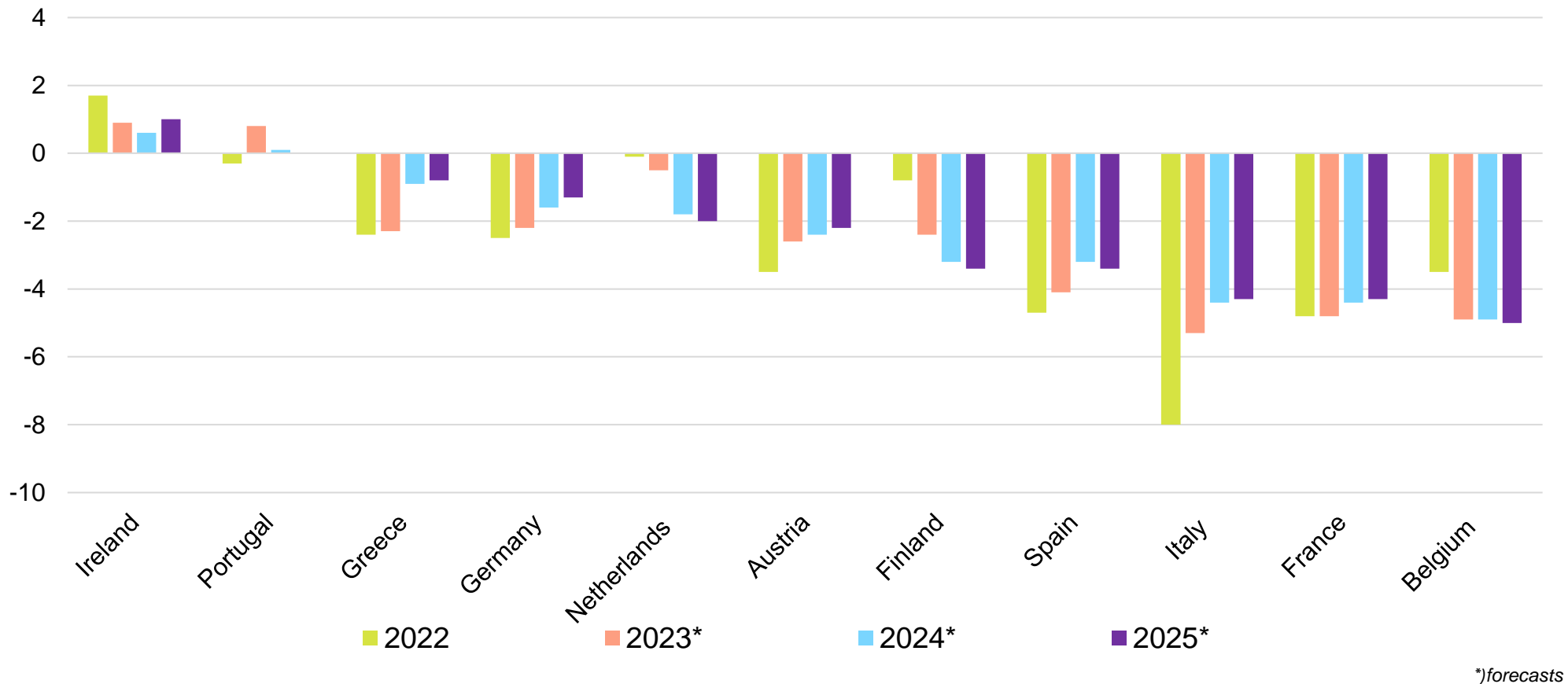
# 2 Public finances



# EMU general government financial balance

## EMU general government financial balance

in ratio to GDP, %



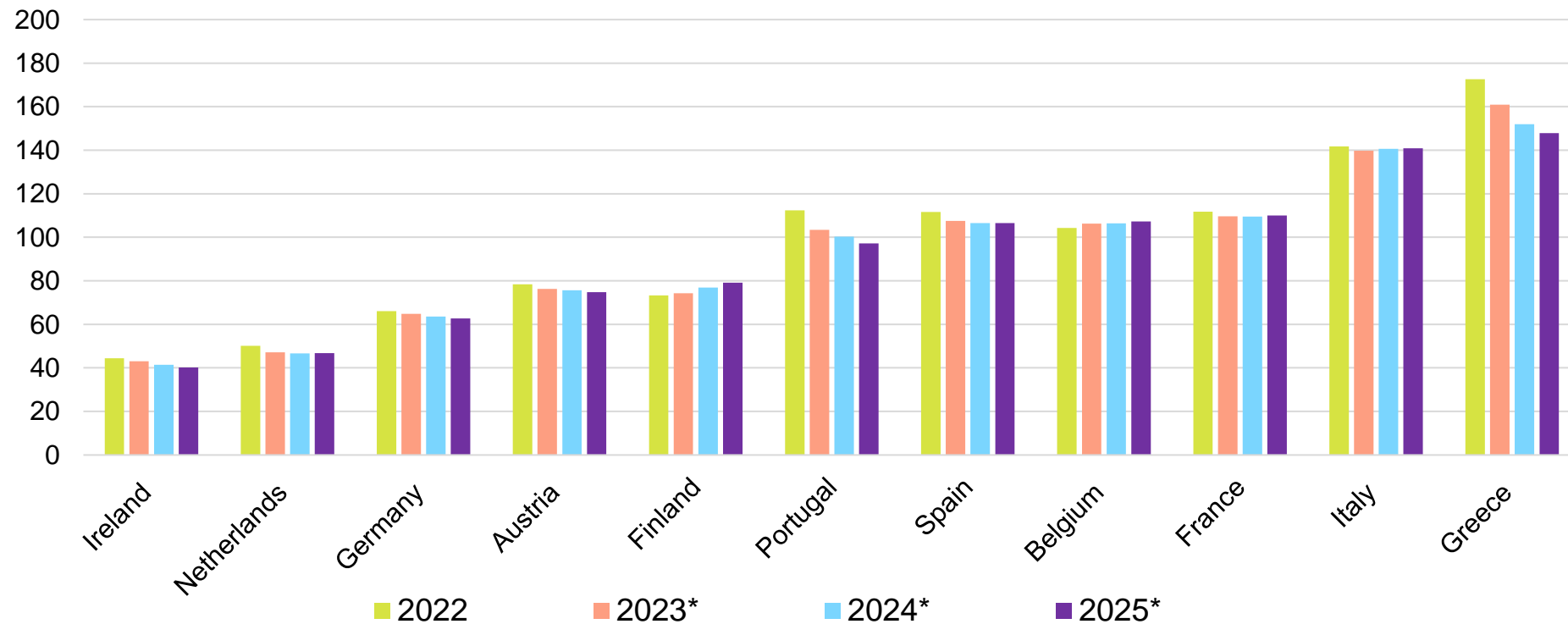
Source: European Commission, Autumn 2023  
\*)forecasts



# The public debt-to-GDP ratio in Finland is below the EU average

## EMU General Government Gross Debt

% of GDP



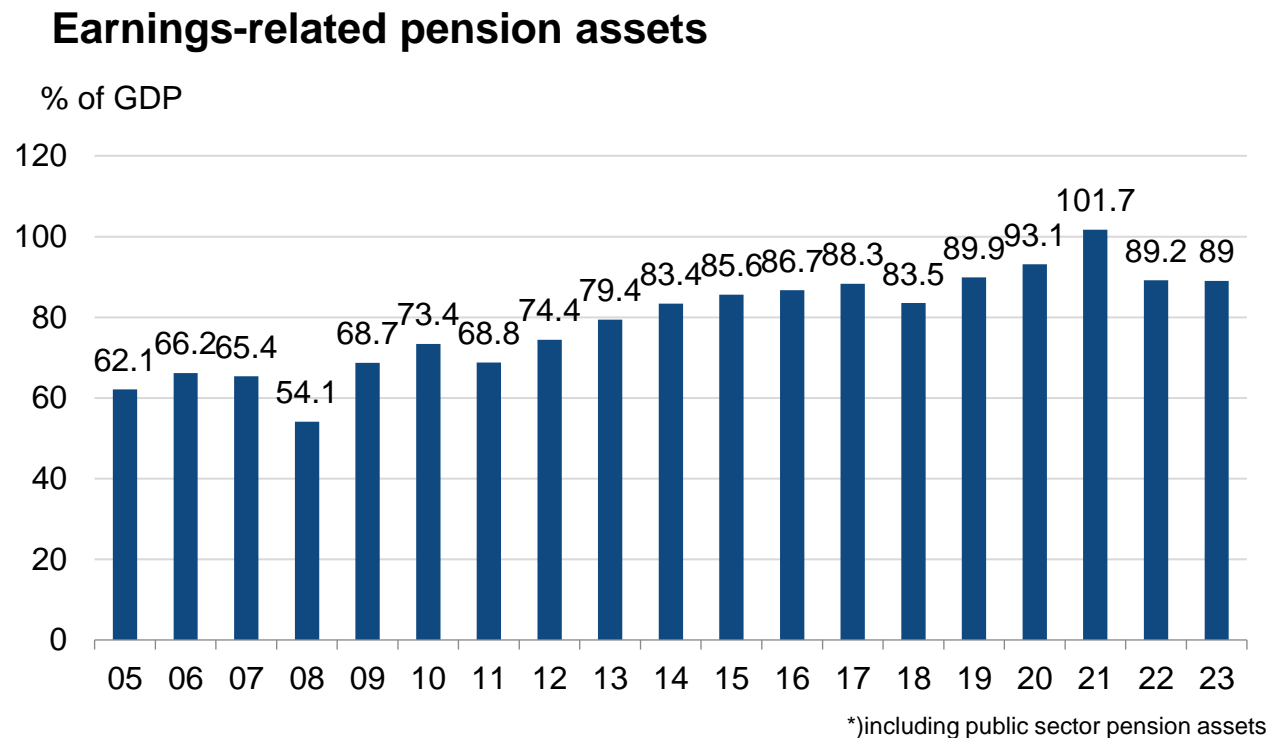
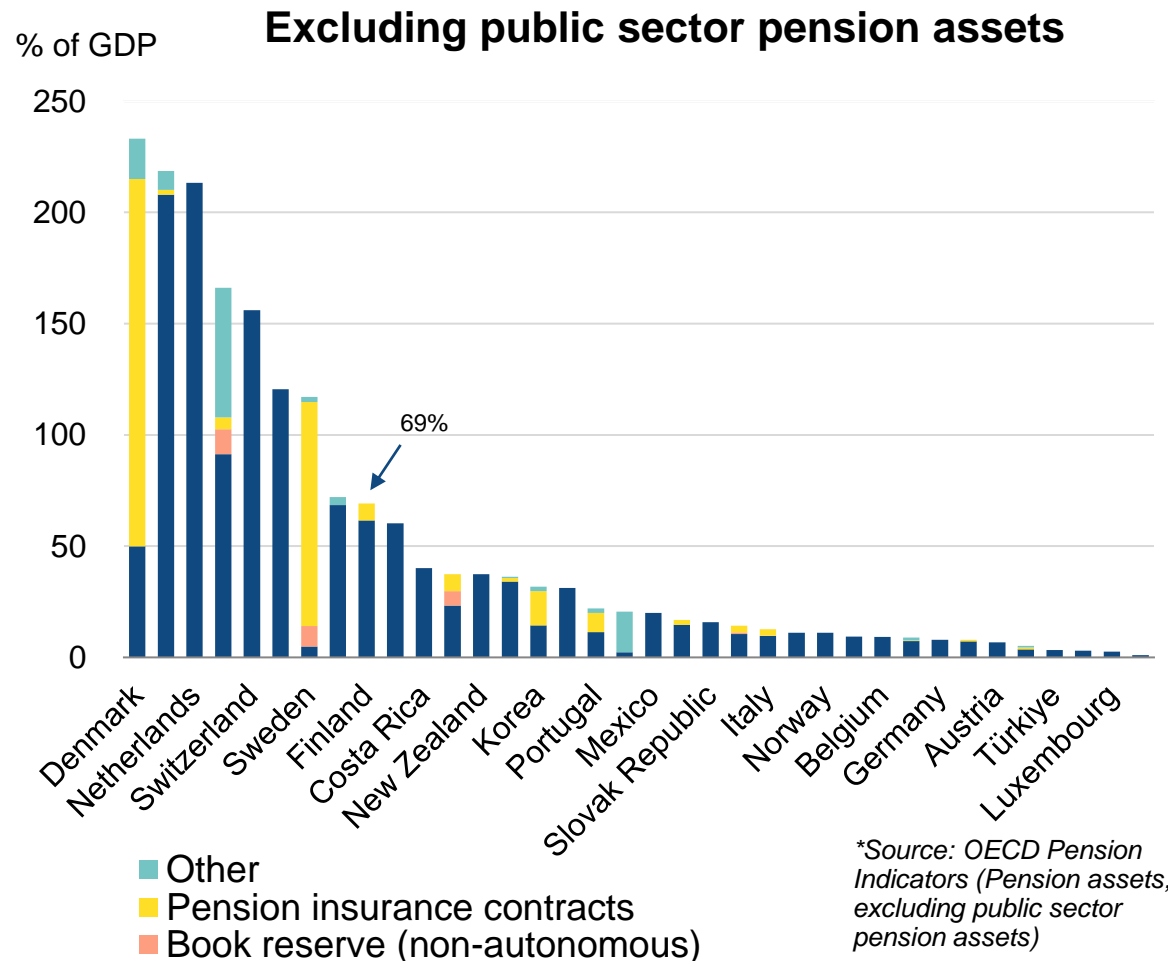
\*)forecasts



# The Finnish employment pension system in brief

- A mandatory system funded by employers' and employees' pension contributions.
- The system is partly funded, i.e., approximately one quarter of the pension contributions are directed to pension funds
- Employment pension institutions' assets stood at approximately 251 billion euros in Q4 2023.

# Earnings-related pension assets as % of GDP

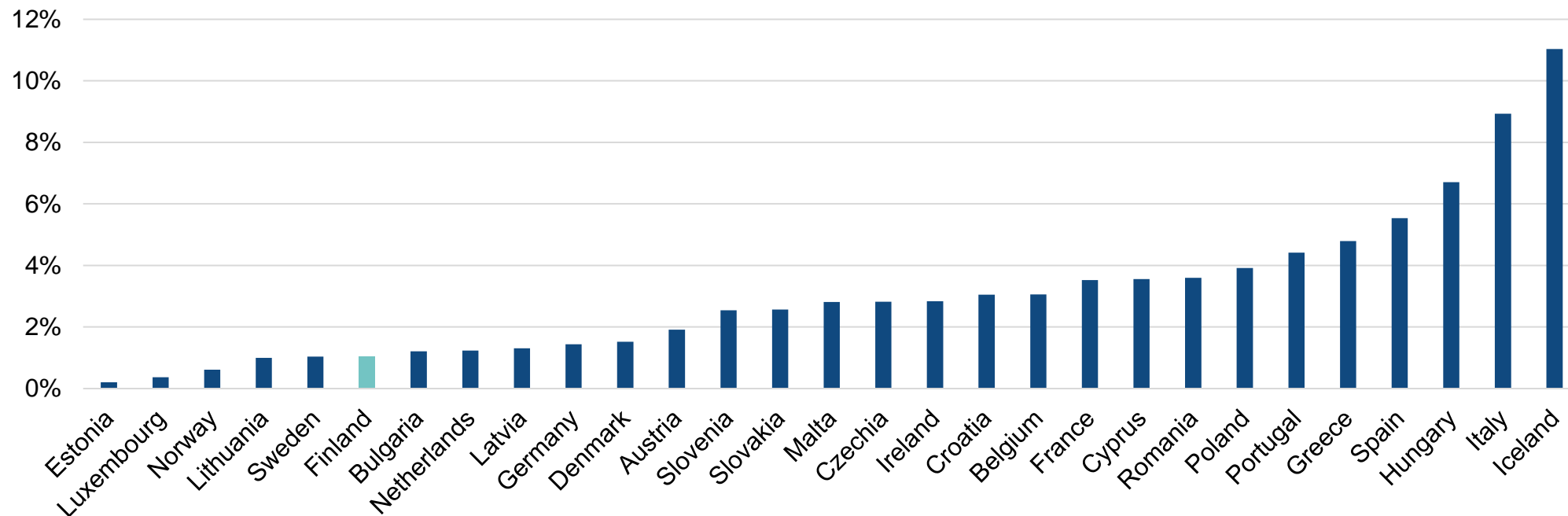


Source: Finnish Pension Alliance, Earnings related pension assets, including public sector pension assets

# Risk related to debt affordability low

Interest payments as % of general government revenues 2022

## Debt affordability

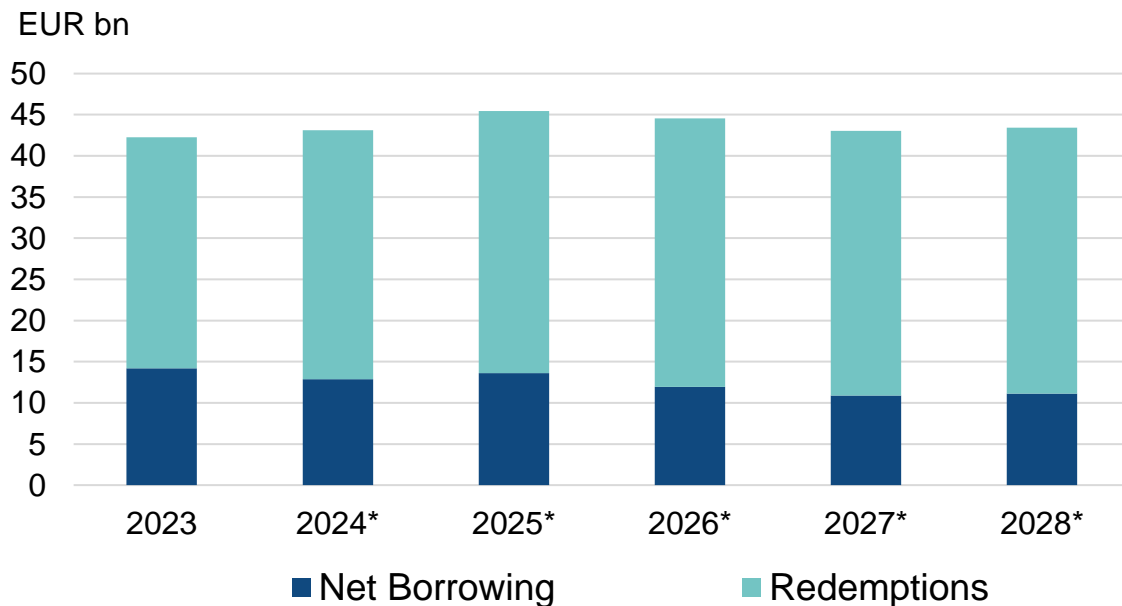


# 3 Funding

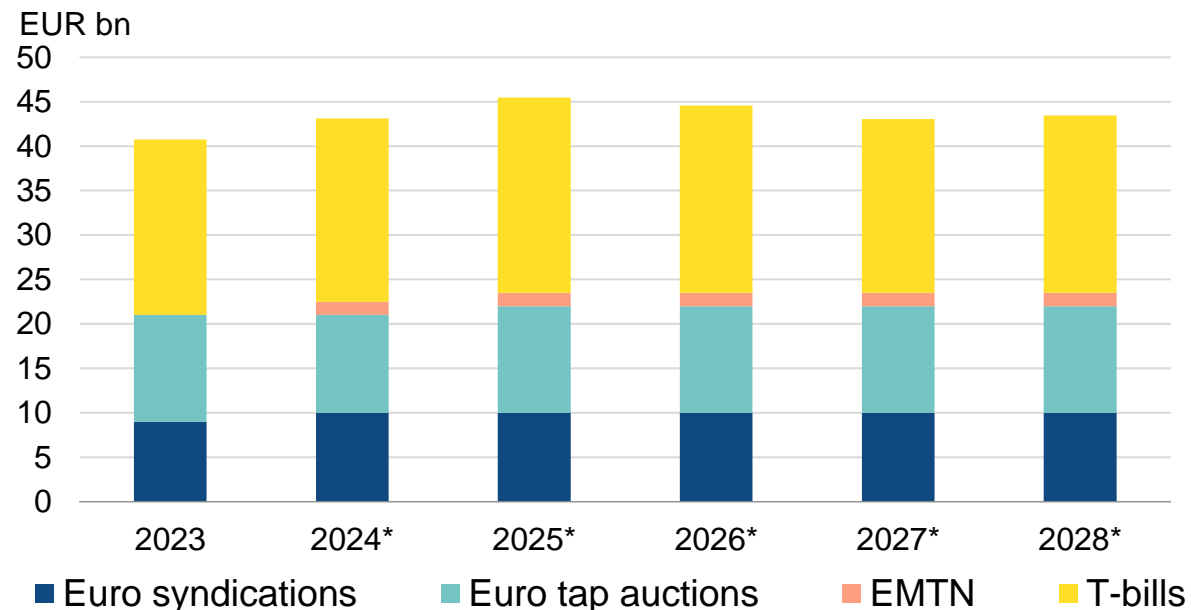


# Central government gross borrowing estimate and projected funding instrument allocation

## Central government gross borrowing



## Projected funding instrument allocation

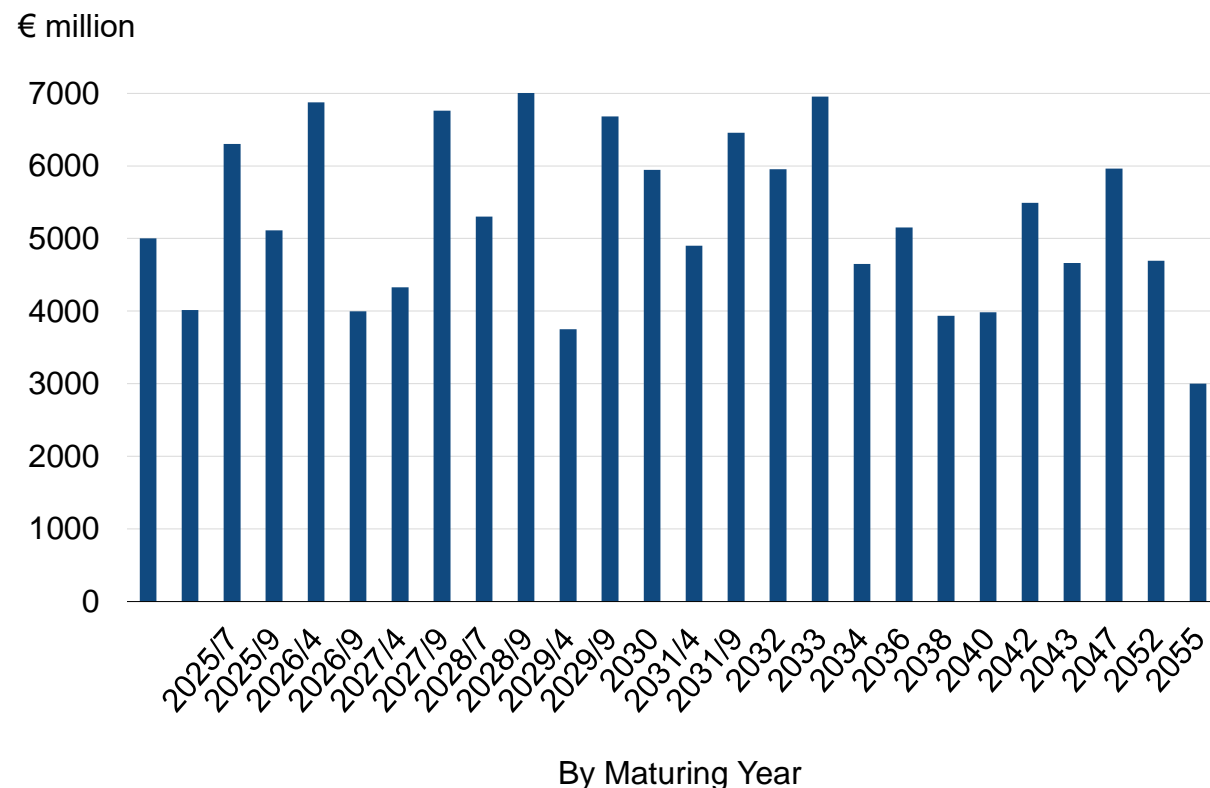


# Funding strategy

“Maintaining a globally diversified investor base by geography and investor type”

- Euro benchmark bond curve to 30 years
- Three syndicated euro benchmark bonds per year complemented by tap auctions
- Liquidity in focus – Primary Dealers and both customer and inter-dealer platforms
- EMTN issuance complements euro benchmark bonds

Benchmark bonds outstanding

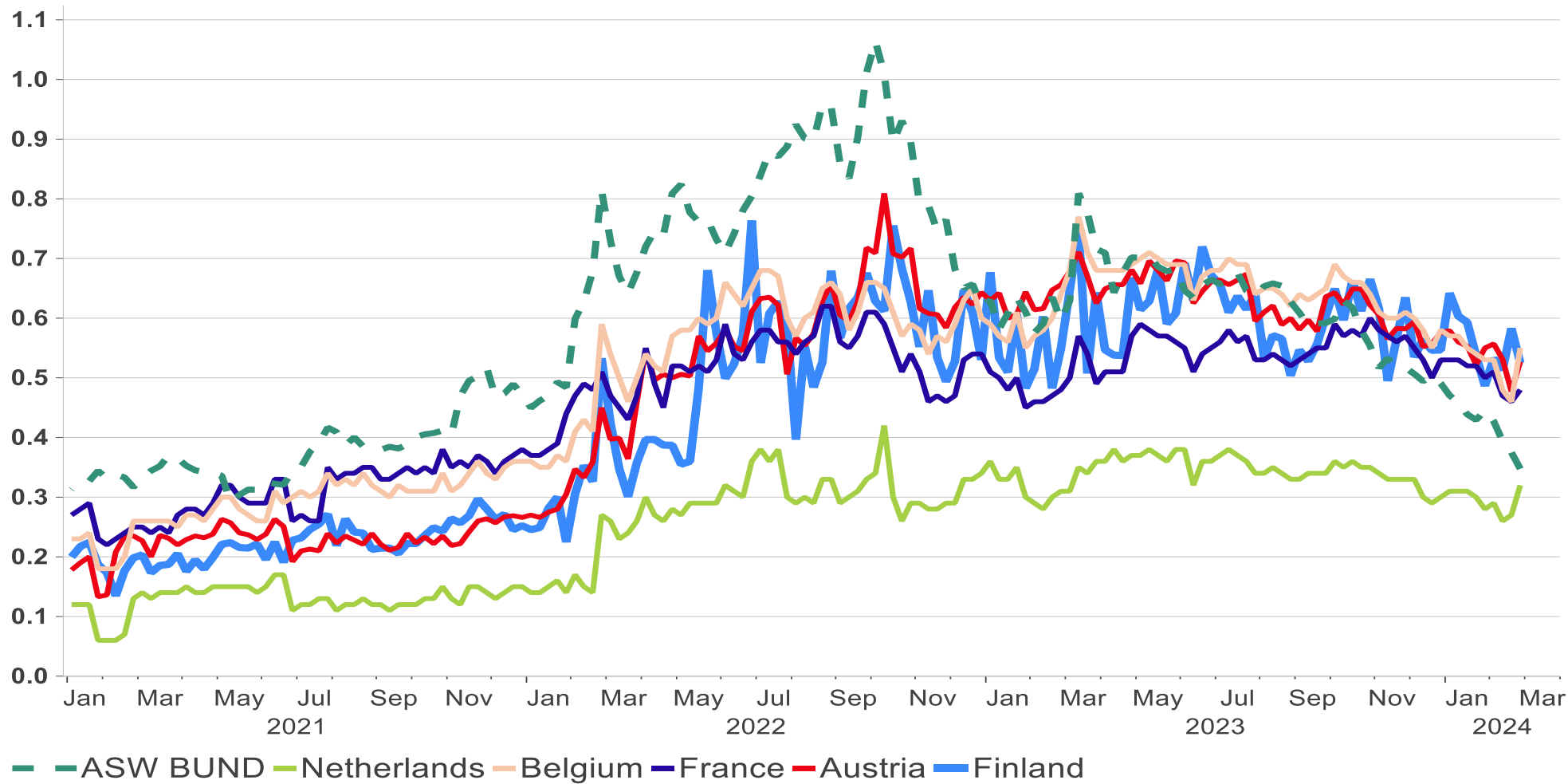


# Funding plan 2024

- Gross borrowing requirement foreseen at EUR 43.0 bn
  - Includes a net borrowing estimate of EUR 12.9 bln
  - Both long and short term financing expected to resemble the 2023 pattern
- Expected long term funding EUR 22 - 23 bn
  - Most likely three syndicated benchmarks
  - Auction calendar announced quarterly
  - Expect tap auctions to include off-the-run supply, optional reverse inquiry auctions (=ORI) to continue
  - Currency MTNs a complementary tool subject to funding cost
  - Treasury bill issuance to continue in auctioned (EUR) and ECP-supply (USD & EUR)

# 10-year government bond yield spreads to Germany & ASW BUND

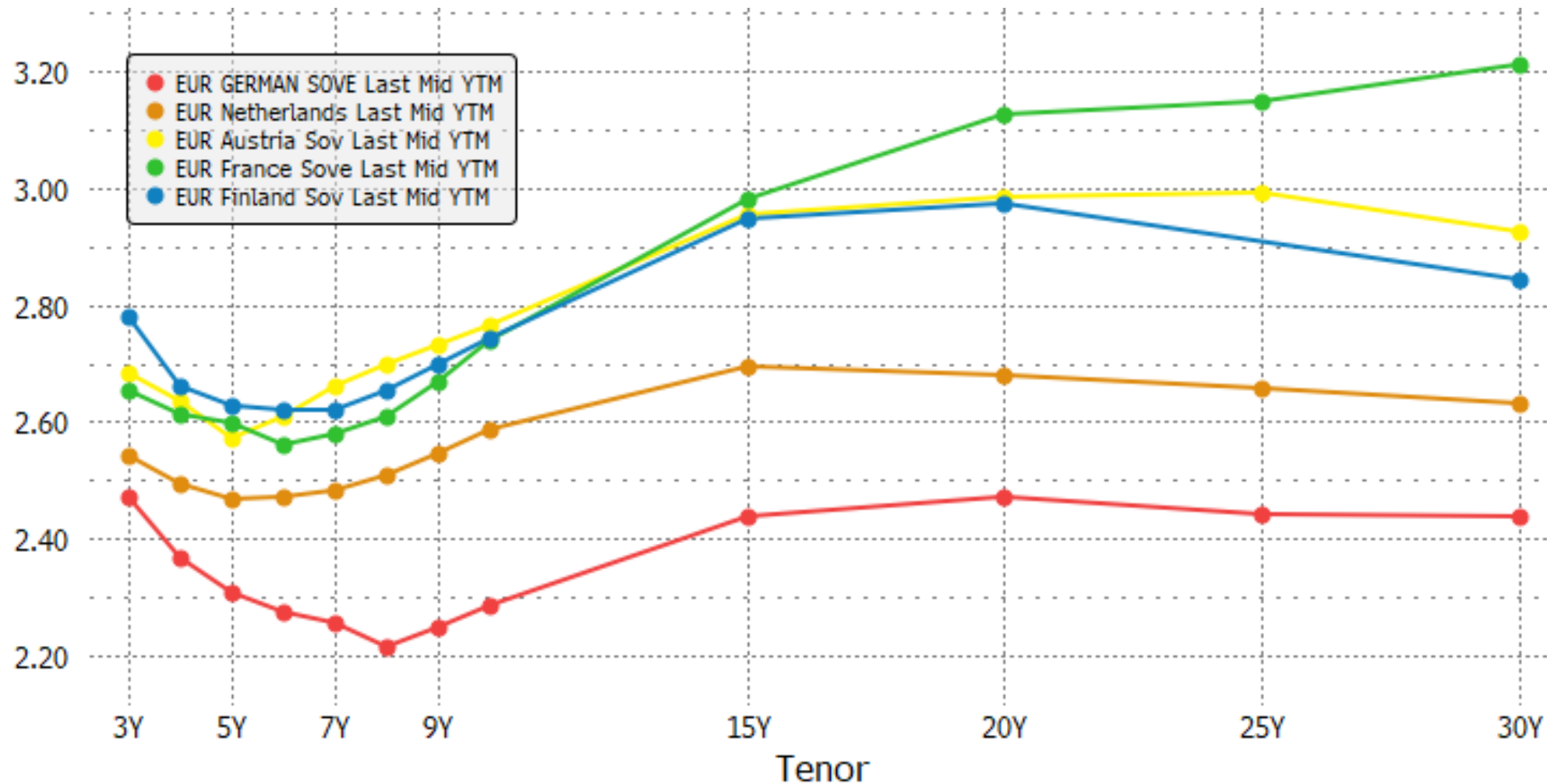
Percentage points



MACROBOND



# EUR government bond yield curves



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# Primary Dealers 2024

BofA Securities

HSBC

Barclays

J.P. Morgan

BNP Paribas

Nomura

Citi

Nordea

Crédit Agricole

Société Générale

Danske Bank

Deutsche Bank

Goldman Sachs

# Treasury bill issuance

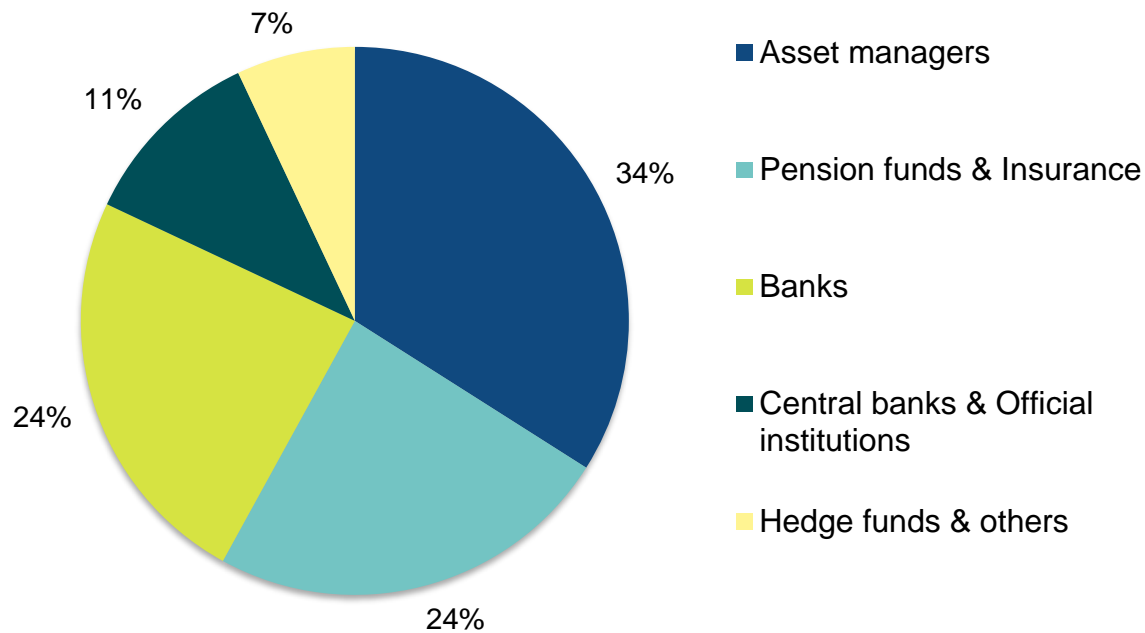
- **EUR bill auctions**, expect 10 auctions in 2024
  - Typical auction size EUR 2 bn total for two lines, pricing is uniform price
  - Usually second Tuesday of month, Bloomberg auction system
  - Maturity range 6-11 months
- **Euro Commercial Paper** issuance complements auctioned supply
  - Both EUR and USD
  - Currency of issuance depends on all-in-cost and demand
  - Treasury sets target price level
  - Issuance volume depends on Treasury's liquidity position
  - In 2023 average maturity of EUR issuance was 5.3 and USD 6.5 months
- Same legal instrument (RFTB) in both EUR bill auctions and ECP issuance
- Outstanding stock EUR 22.5 bn, USD 1.8 bn (as of March 5th 2024)



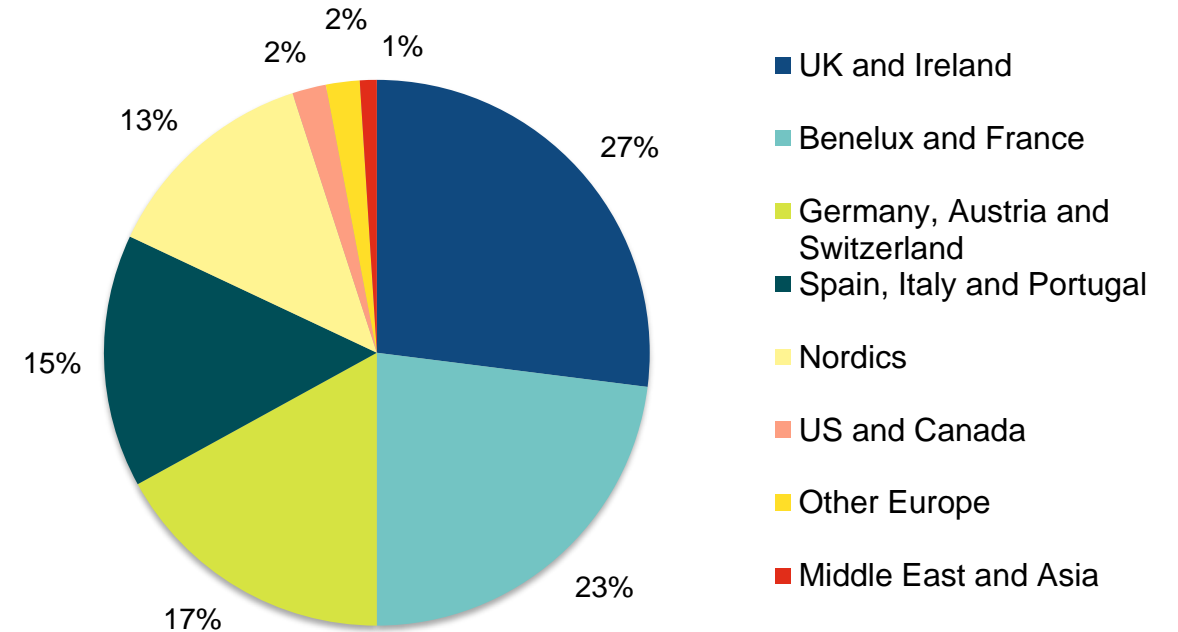
# Investor base for RFGB 2.950% EUR 3bn due 15 April 2055

- Launched in January 2024
- Allocated to over 90 investors

**Distribution of the bond by investor type**



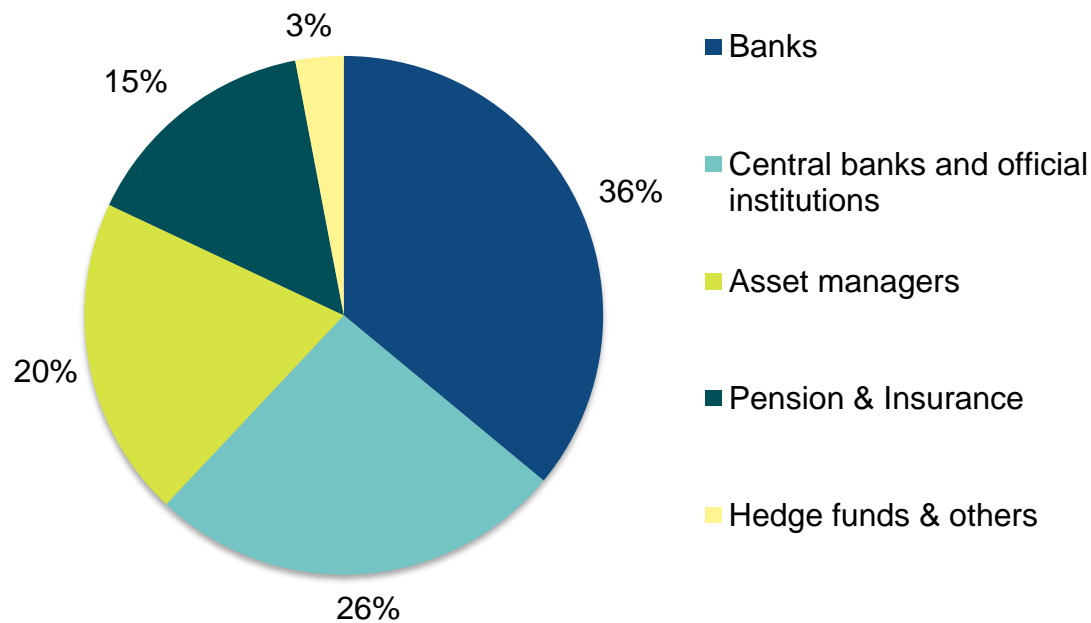
**Distribution of the bond by region**



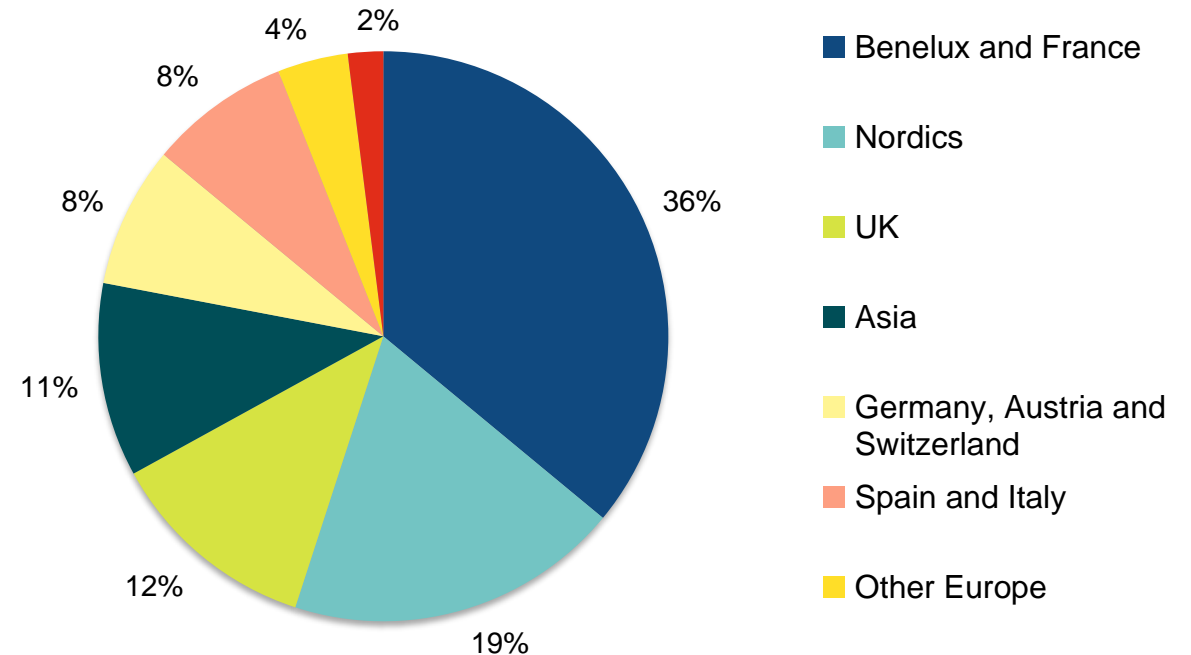
# Investor base for RFGB 3% EUR 3bn due September 2033

- Launched in April 2023
- Allocated to circa 90 investors

**Distribution by investor type**



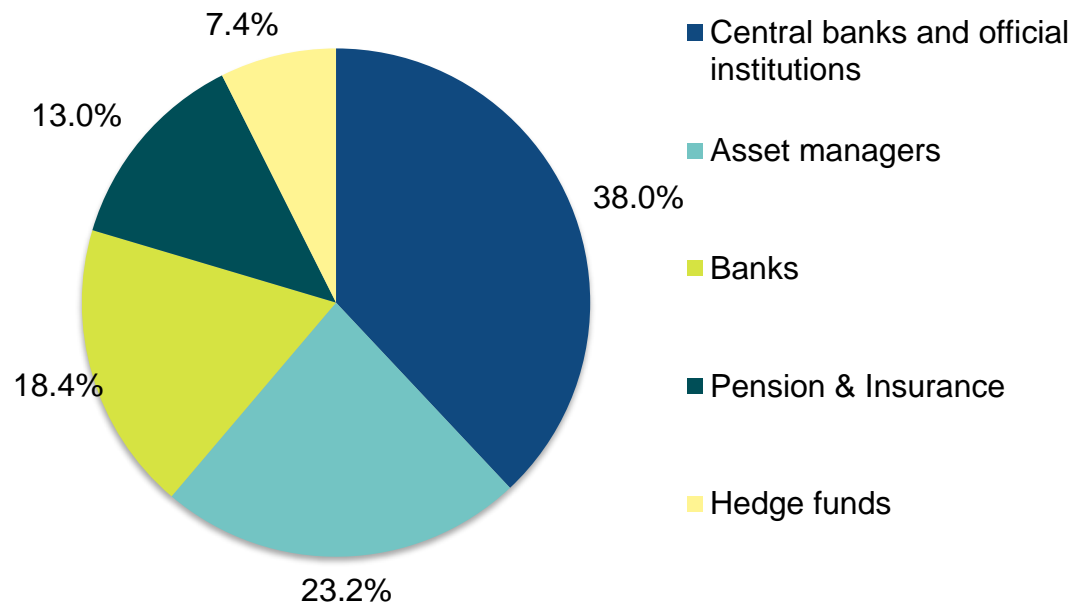
**Distribution of the bond by region**



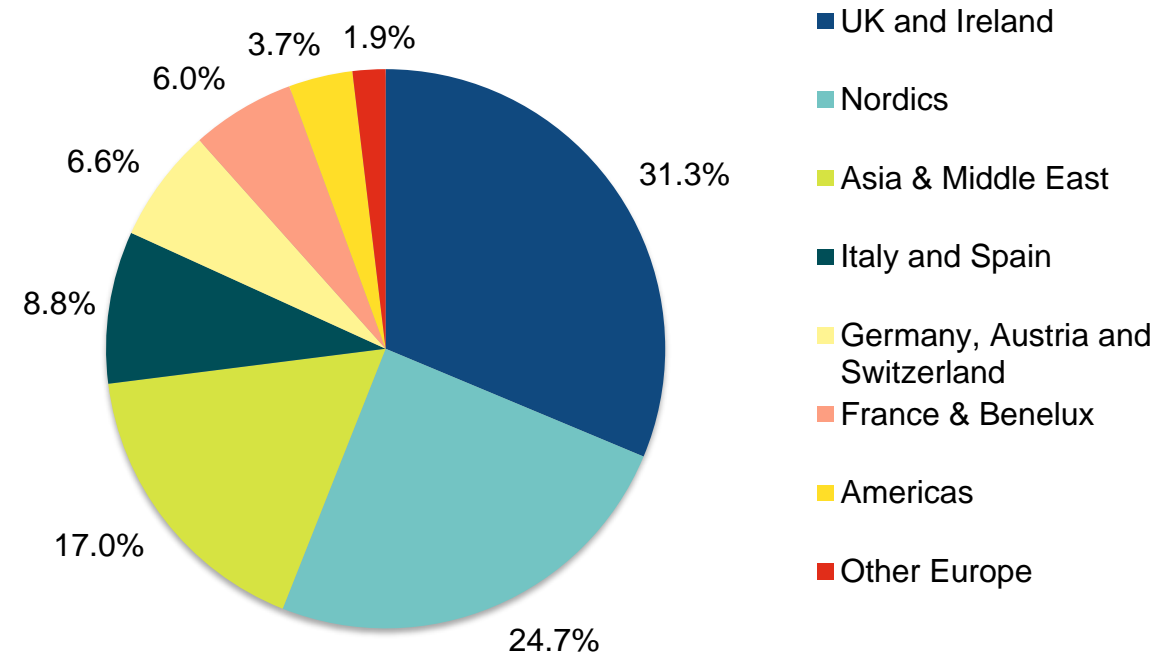
# Investor base for RFGB 2.875% EUR 3bn due April 2029

- Launched in August 2023
- Allocated to circa 80 investors

**Distribution of the bond by investor type**



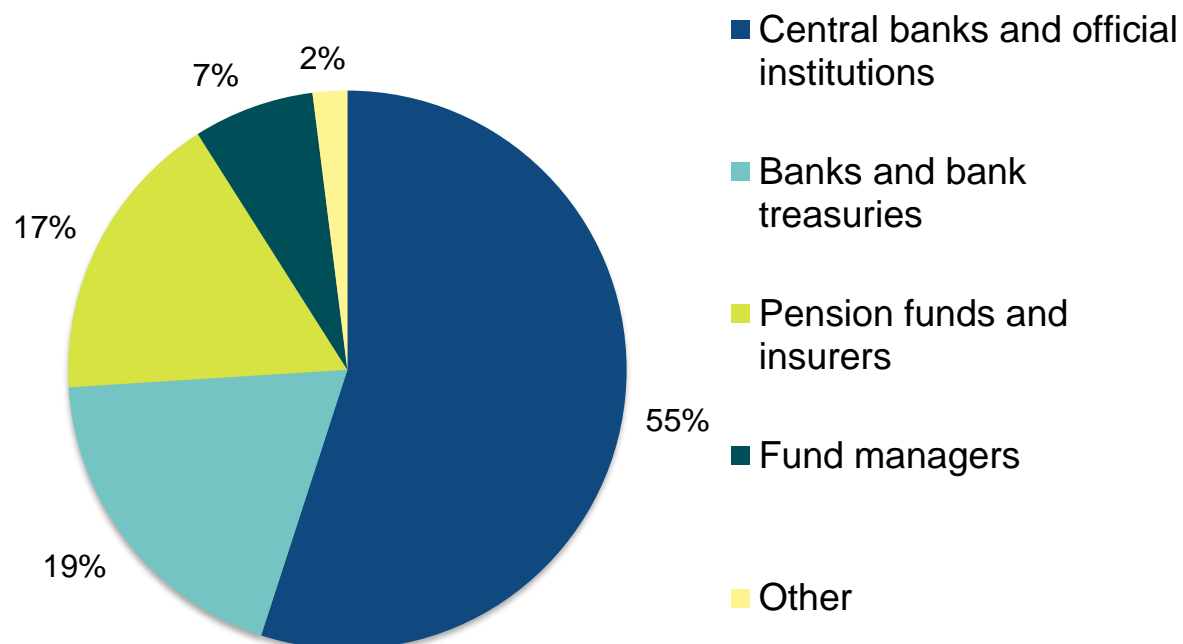
**Distribution of the bond by region**



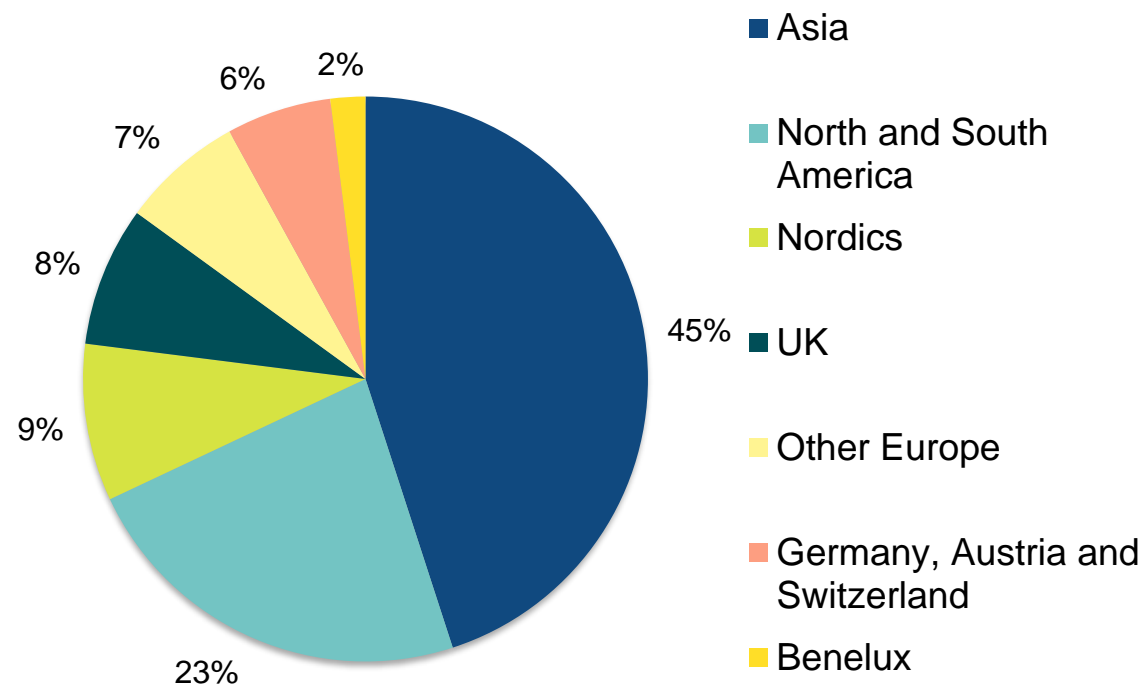
# Investor base for FINL 0.875% USD 1.5 bn due 2030

- Launched in May 2020
- Allocated to 87 investors

Distribution of the bond by investor type



Distribution of the bond by region



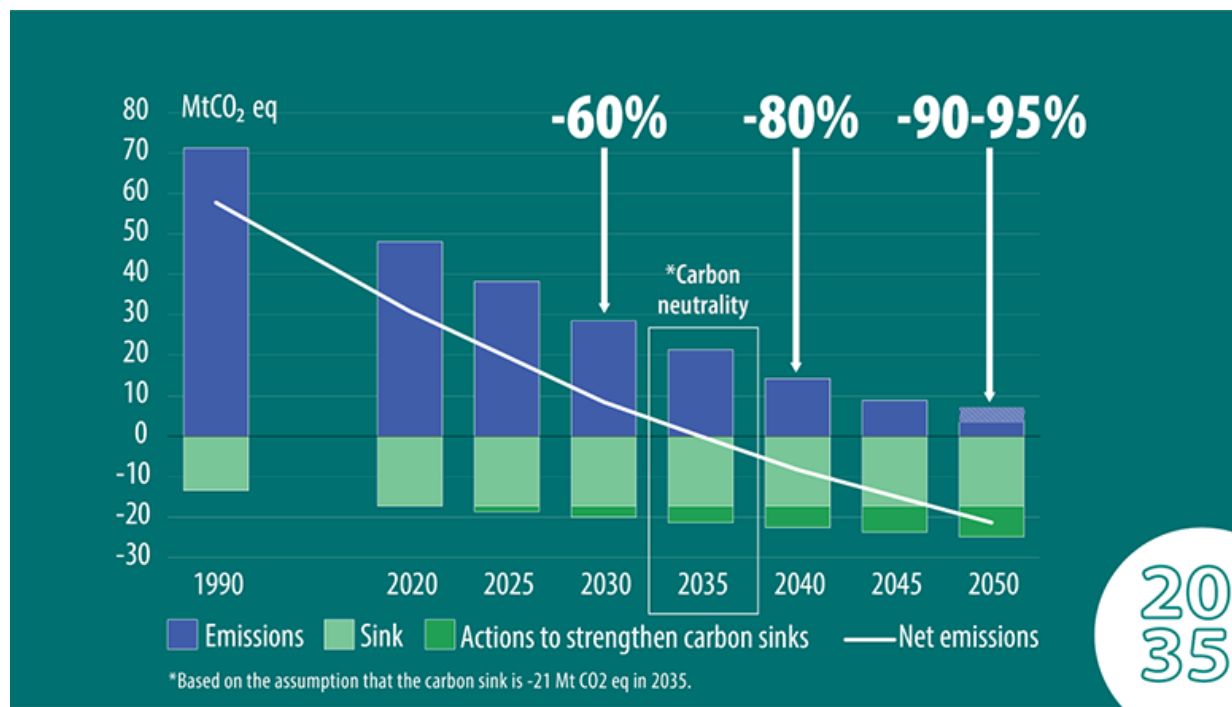
# 4 Sustainable development

# Sustainability in Finland: current themes

- Finland is by many metrics a global forerunner in sustainability
- Finland ranks #1 progress in towards the **Sustainable Development Goals**
- Finland's net zero emissions goal is 2035
  - New Climate Change Act in 2022
  - **Annual Climate Report** tracks progress towards the target
- National Biodiversity strategy underway
- More on **Finland & ESG** at [treasuryfinland.fi](https://treasuryfinland.fi)

# Finland's national target is net zero carbon emissions by 2035

## Emissions reduction targets set in the Climate Change Act



**Latest estimate:** rate of emission reductions in line with the 2030 target of climate act

- Finland's total emissions in 2022, 46.0 Mt CO<sub>2</sub> eq (excl. LULUCF), is **36% less than in 1990**
- Over past five years, rate of GhG emission reductions has averaged around 4% a year
- The phasing out of fossil fuels in electricity and heat production will be accomplished in the coming years
- Most challenging: the land use sector, where additional measures are needed to strengthen carbon sinks

# The Sustainable Development Goals (SDG) Index by UN

<u>Rank</u>	<u>Country</u>	<u>Score</u>
1	<b>Finland</b>	86.76
2	Sweden	85.98
3	Denmark	85.68
4	Germany	83.36
5	Austria	82.28
6	France	82.05
7	Norway	82.00
8	Czechia	81.87
9	Poland	81.80
10	Estonia	81.68

## Finland's progress on Sustainable Development Goals

Source:  
Sustainable Development Report 2023



### Dashboards:

● SDG achieved ● Challenges remain ● Significant challenges remain ● Major challenges remain

### Trends:

↑ On track or maintaining SDG achievement ↗ Moderately improving → Stagnating ↓ Decreasing





## Biodiversity in Finland

- New National Biodiversity Strategy and an action plan to 2030 currently underway
- The aim of the strategy is to halt the loss of biodiversity by 2030 and turn the trend towards recovery by 2035
- 74% of Finnish land area is **forests**
- Of the 48 000 species living in Finland, 11,9% are evaluated threatened (2019)
- Changes in the forest environment is the most significant cause of threat to species

**Sources:** Environment at a Glance Indicators (oecd-library.org), Red List for Finnish Species 2019



State Treasury  
Republic of Finland

# 5 Appendices

# Key forecast figures

	2022	2021	2022	2023**	2024**	2025**	2026**
	EUR bn						
GDP at market prices	269	3.2	1.6	-0.5	0.7	2.0	1.6
Imports of goods and services	128	6.0	8.5	-6.1	2.4	4.0	3.0
<b>Total supply</b>	<b>397</b>	<b>3.9</b>	<b>3.5</b>	<b>-2.3</b>	<b>1.2</b>	<b>2.6</b>	<b>2.0</b>
Exports of goods and services	122	5.8	3.7	-1.3	2.0	3.8	3.0
Consumption	203	3.6	1.4	0.4	0.5	1.4	1.2
private	138	3.5	1.7	-0.8	0.7	2.0	1.7
public	65	3.9	0.8	3.0	0.0	0.1	0.3
Investment	65	1.0	3.2	-5.6	2.2	4.6	3.1
private	54	4.3	4.0	-5.4	0.9	2.9	4.2
public	11	-11.8	-0.2	6.6	9.0	12.5	-1.3
<b>Total demand</b>	<b>395</b>	<b>3.7</b>	<b>3.3</b>	<b>-2.3</b>	<b>1.2</b>	<b>2.6</b>	<b>2.1</b>
domestic demand	274	3.0	3.2	-2.7	0.9	2.1	1.7

Source: Ministry of Finance, Winter 2023



# Key forecast figures

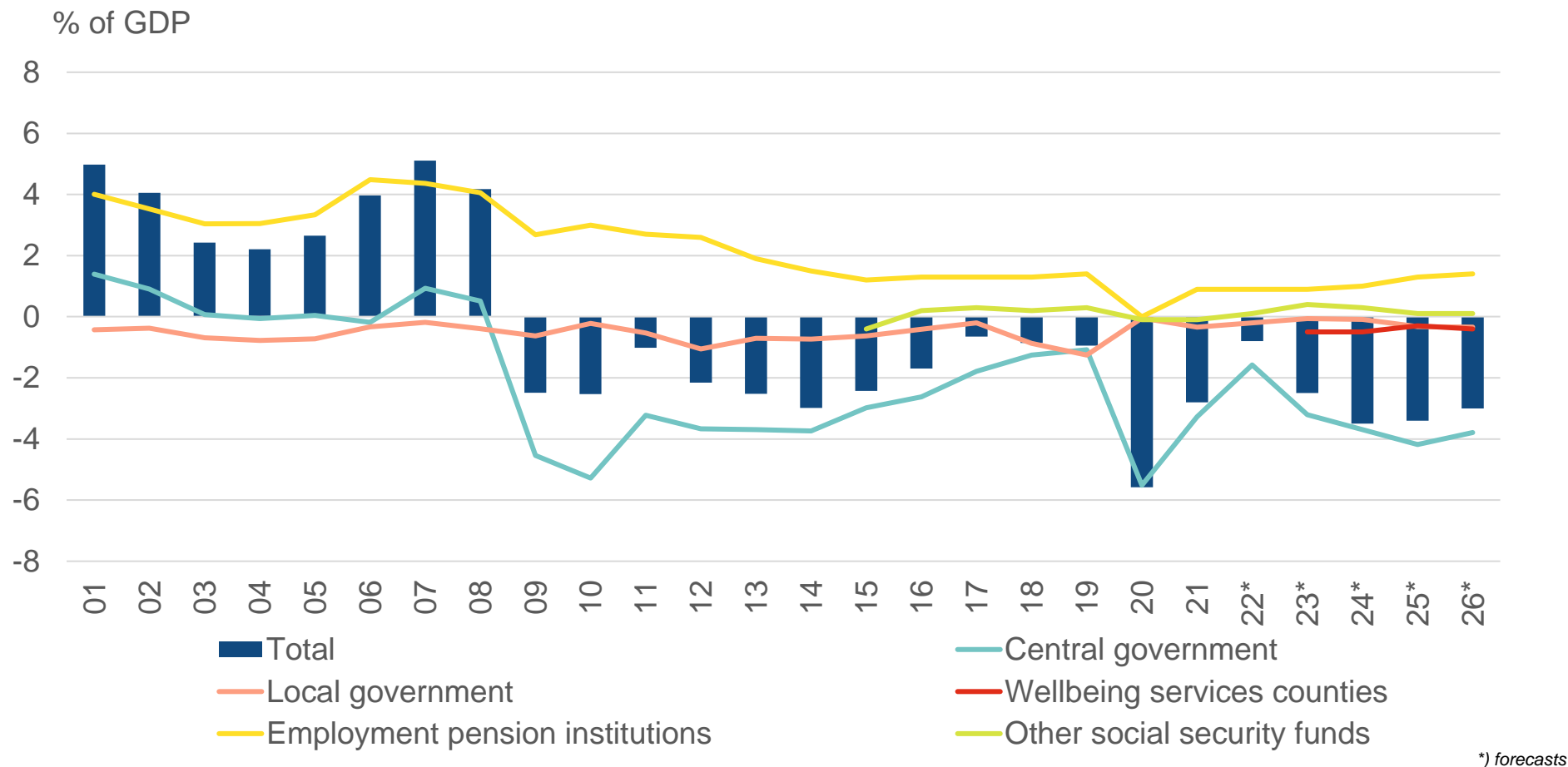
	2021	2022	2023**	2024**	2025**	2026*
GDP, EUR bn	251	269	282	289	301	313
Services, change in volume, %	4.3	3.2	0.9	0.7	1.5	0.9
Industry, change in volume, %	2.0	-1.3	0.2	1.8	2.8	1.9
Labour productivity, change, %	1.4	0.0	0.0	1.7	1.3	0.7
Employed labour force, change, %	2.4	2.5	0.1	-0.2	0.8	0.9
Employment rate (15-64 yrs), %	72.3	73.8	73.6	73.5	74.1	74.8
Employment rate (20-64 yrs), %	76.6	78.1	77.9	77.9	78.7	79.5
Unemployment rate, %	7.7	6.8	7.2	7.5	7.1	6.6
Consumer price index, change, %	2.2	7.1	6.3	2.0	1.4	1.7
Index of wage and salary earnings, change, %	2.4	2.4	4.2	3.5	3.3	3.1
Current account, EUR bn	1.0	-6.8	-2.2	-2.3	-2.7	-2.8
Current account, relative to GDP, %	0.4	-2.5	-0.8	-0.8	-0.9	-0.9
Short-term interest rates (3-month Euribor), %	-0.5	0.3	3.4	3.4	2.4	2.1
Long-term interest rates (10-year govt. bonds), %	-0.1	1.7	3.1	3.2	3.1	3.1
General government expenditure, relative to GDP, %	55.7	53.3	54.5	54.9	54.7	53.9
Tax ratio, relative to GDP, %	43.1	42.9	41.5	40.5	40.5	40.3
General government net lending, relative to GDP, %	-2.8	-0.8	-2.5	-3.5	-3.4	-3.0
Central government net lending, relative to GDP, %	-3.3	-1.6	-3.2	-3.7	-4.2	-3.8
General government gross debt, relative to GDP, %	72.5	73.3	75.5	79.1	81.4	83.3
Central government debt, relative to GDP, %	51.3	52.7	55.4	58.5	60.6	62.2



# The Finnish t-bill (RFTB) market in figures

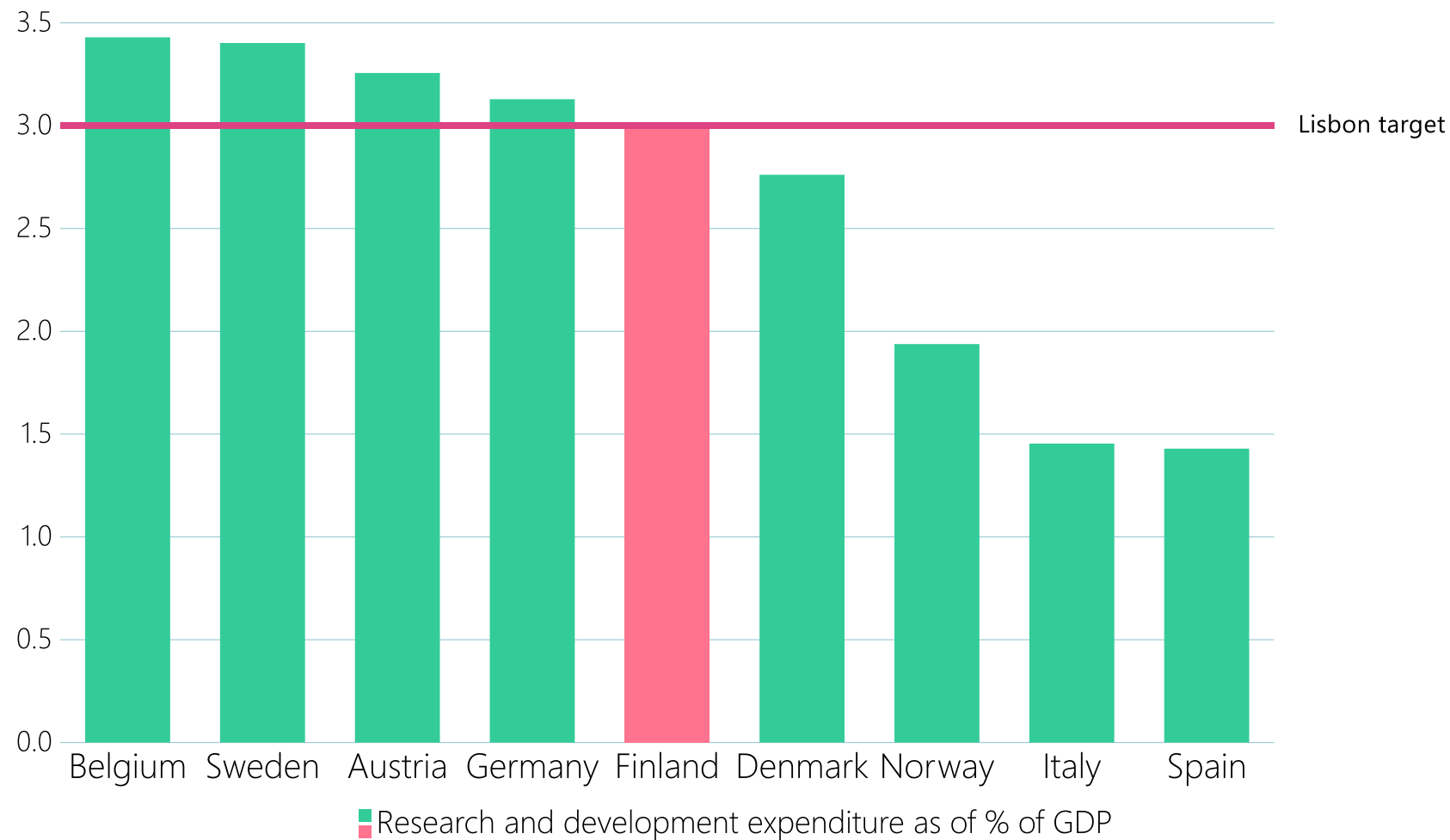
	2023	2022
RFTB EUR stock at year end (bn)	19.0	13.5
RFTB USD stock at year end (bn)	1.8	4.1
RFTB gross EUR issuance (bn)	29.5	18.4
Out of which ECP EUR issuance (bn)	9.7	5.9
Gross ECP USD issuance (bn)	4.3	9.3
# of dealers (including 13 RFGB Primary Dealers)	16	16

# The financial balance of general government subsectors

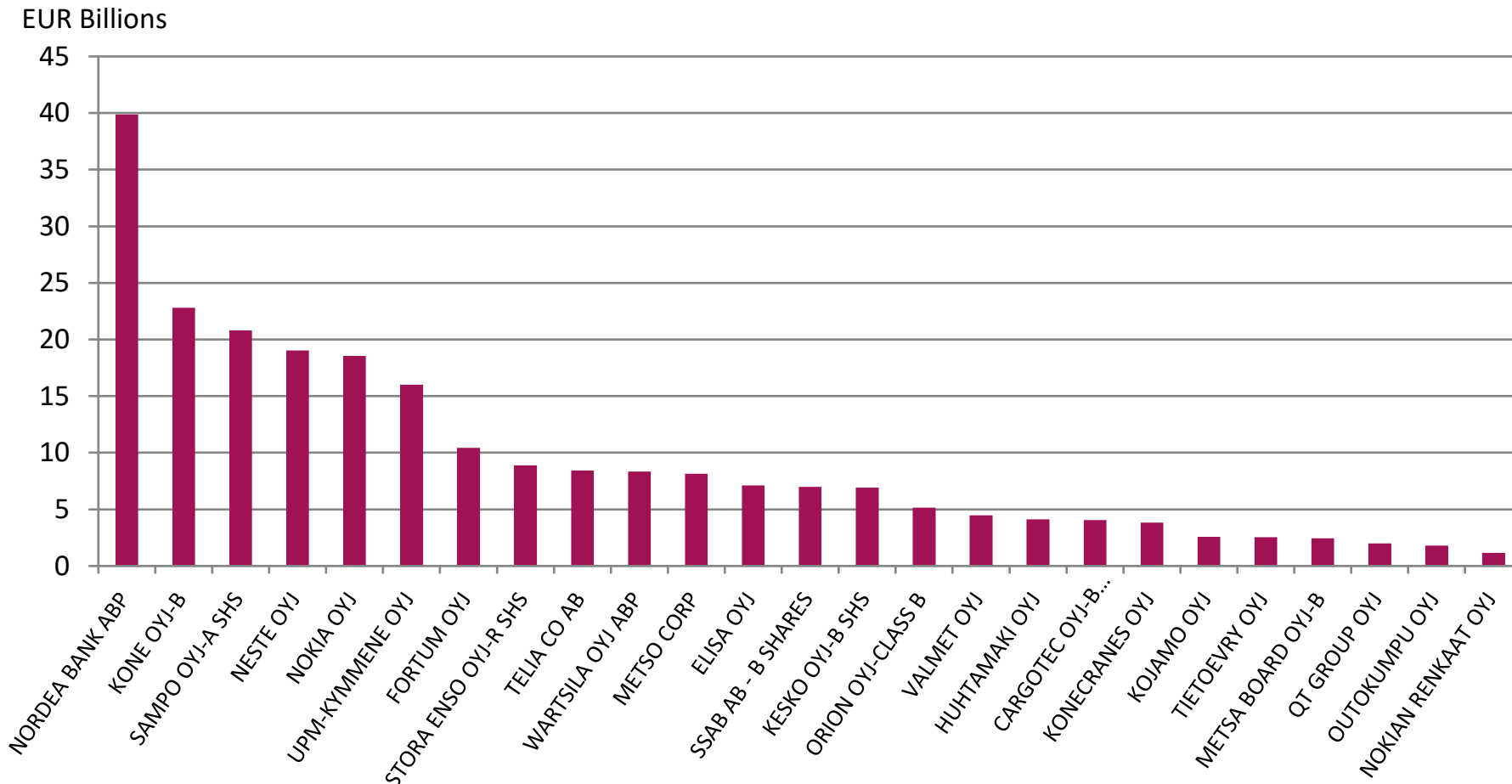


# Research and development expenditure

as % of GDP 2021



# NASDAQ OMX 25 Helsinki Market Capitalization



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