Finland

Key Rating Drivers

Rating Fundamentals: Finland's 'AA+' ratings are supported by very high governance indicators, high income per capita, eurozone membership and the pension system's strong asset position. These are balanced against higher public indebtedness compared with the 'AA' median and low potential growth. The Stable Outlook reflects Fitch Ratings' view of a gradual improvement in economic activity, as well as the political commitment and implementation of public finance and structural reforms to improve Finland's fiscal position over the medium term.

Challenging Economic Outlook: We estimate the economy contracted by 0.5% in 2023 and expect only a modest recovery in 2024 (0.3%), given a weak carryover effect and persistent challenges in key sectors. At present there are limited signs of scarring in the economy from successive external shocks, but persistent external demand or confidence weakness could have a more permanent impact on output. Finland's potential growth is weighed down by structural factors, including an ageing demographic and low productivity growth.

Softening Labour Market: The faster-than-expected slowdown in economic activity is relieving some pressure from the labour market and we expect the unemployment rate to temporarily edge up in 2024. The government has set ambitious targets for the labour market and some reforms (particularly around incentives) have already been approved. Nevertheless, we see some implementation challenges around key targets, such as bringing at least 100,000 people into the labour market by 2027.

Inflation Normalised: Headline inflation has eased rapidly, reaching only 0.7% in January 2024 (one of the lowest rates in the eurozone), largely driven by a negative contribution from falling energy prices. Unit labour costs have been increasing at a faster pace than in the eurozone as a whole, but this is offset by terms of trade developments that have been relatively more favourable in Finland.

Fiscal Uncertainties: A weaker macro backdrop has heightened fiscal risks and could force the postponement of some of the government's fiscal consolidation measures. Finland has a record of structural reform implementation and there is cross-party commitment to improve public finances. Nevertheless, we think important downside risks remain, in particular achieving the government's 1%-of GDP-deficit target by 2027.

Rising Public Debt: We estimate that government debt reached a record high of 75.2% of GDP by end-2023, up from 73.3% in 2022. Our public finance projections are consistent with debt continuously rising further to above 80% by 2025, rising significantly above the forecast 'AA' median.

In Fitch's view, the government's consolidation plans should slow the increase in public debt, but it will take further consolidation measures, possibly over more than one parliamentary term, to stabilise the debt ratio in the medium term. However, risks from a high public debt burden and ageing demographic are mitigated by large pension assets.

Stable Banks: Finland has one of the highest shares in the EU of variable mortgages, leading to a quick pass-through from higher policy rates into lending rates. This has led to a rapid softening of credit growth, with mortgage lending contracting since April 2023. Rapidly rising debt service costs have not yet translated into significantly weaker asset quality metrics for banks in Finland. The sector's non-performing loan ratio increased only slightly, but remains below the pre-pandemic level. Banks in Finland remain well capitalised.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	AA+
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	AA+

Source: Fitch Ratings

Data

	2023E
GDP (USDbn)	303
Population (m)	5.6

Source: Fitch Ratings

Applicable Criteria

Country Ceiling Criteria (July 2023)
Sovereign Rating Criteria (April 2023)

Related Research

Fitch Affirms Finland at 'AA+'; Outlook Stable (February 2024)
Global Economic Outlook (December 2023)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Finland

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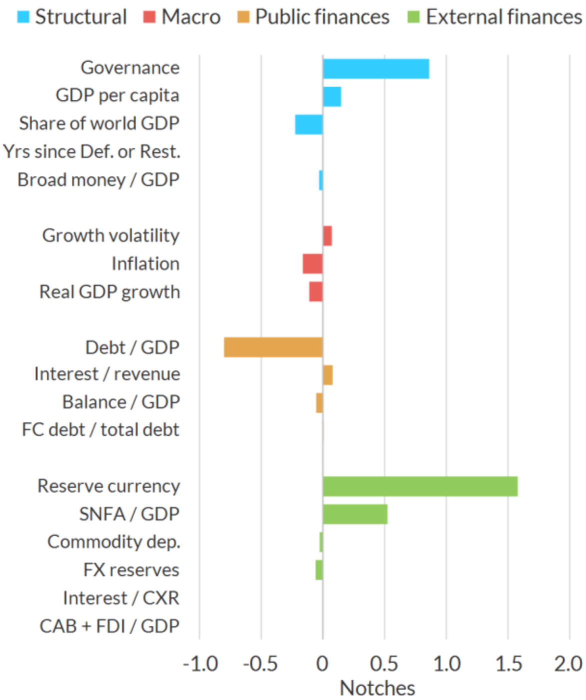
Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: AA+

Sovereign Rating Model: AA+

Contribution of variables, relative to AA median



Qualitative Overlay: 0

Adjustments relative to SRM data and output

Structural features: No adjustment.

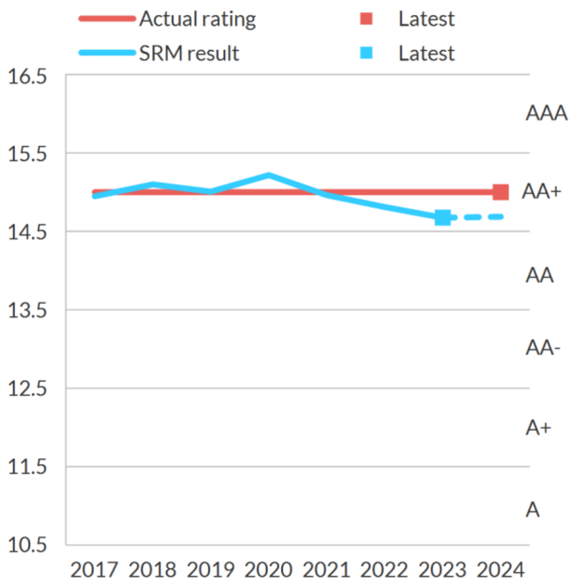
Macroeconomic outlook, policies and prospects: No adjustment.

Public finances: No adjustment.

External finances: No adjustment.

Note: See *Peer Analysis table* for summary data, including rating category medians; see the *Full Rating Derivation table* for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

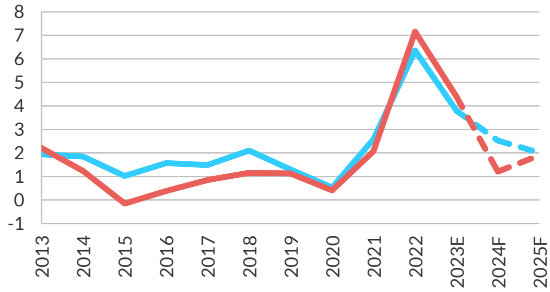
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	AA+	AA+	0	0	0	0
11 Aug 23	AA+	AA+	0	0	0	0
17 Feb 23	AA+	AA+	0	0	0	0
9 Sep 22	AA+	AA+	0	0	0	0
8 Apr 22	AA+	AA+	0	0	0	0
22 Oct 21	AA+	AA+	0	0	0	0
23 Apr 21	AA+	AA+	0	0	0	0
30 Oct 20	AA+	AA+	0	0	0	0
26 Jun 20	AA+	AA+	0	0	0	0
24 Jan 20	AA+	AA+	0	0	0	0

[a] The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024.
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

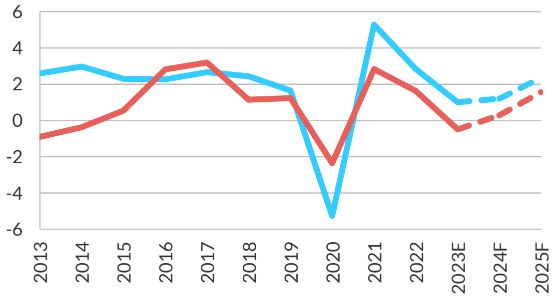
Peer Analysis

Finland | AA Median

Consumer Price Inflation
(annual avg, %)

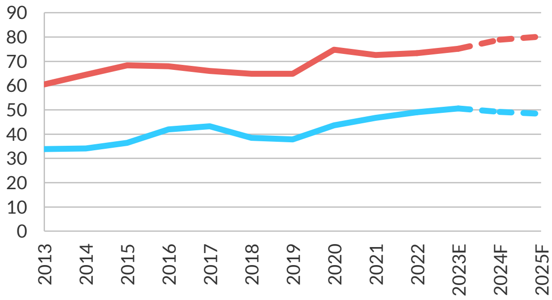


Real GDP Growth
(%)

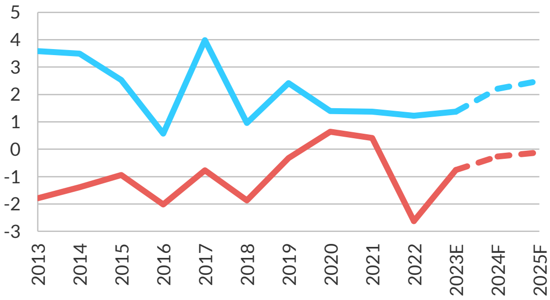


General Government Balance
(% GDP)

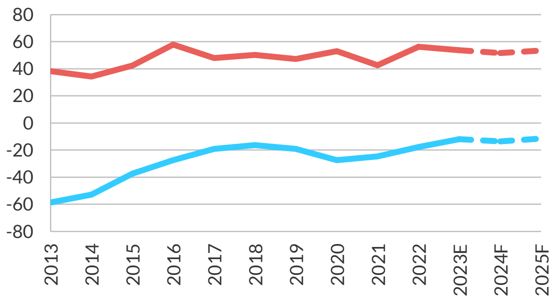
Gross General Government Debt
(% GDP)



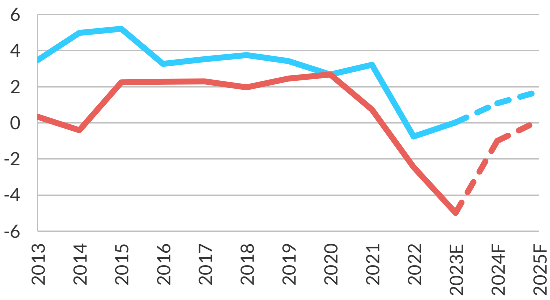
Current Account Balance
(% GDP)



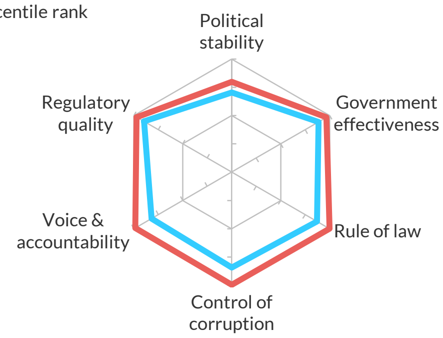
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2023E[a]	Finland	AA median	AAA median	A median
Structural features				
GDP per capita (USD) [SRM]	54,344	52,208	65,874	31,522
Share in world GDP (%) [SRM]	0.3	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	95.3	84.2	93.8	74.7
Human development index (percentile, latest)	94.7	89.4	94.7	82.4
Broad money (% GDP) [SRM]	81.0	98.4	93.3	88.9
Private credit (% GDP, 3-year average)	90.7	104.4	122.6	73.5
Dollarisation ratio (% bank deposits, latest)	3.5	10.3	14.4	10.5
Bank system capital ratio (% assets, latest)	20.3	16.5	14.9	15.9
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	0.5	2.2	2.1	3.7
Real GDP growth volatility (complex standard deviation) [SRM]	2.2	2.4	2.0	3.0
Consumer price inflation (%, 3-year average) [SRM]	4.3	2.1	1.8	2.3
Unemployment rate (%)	7.2	5.1	5.4	6.4
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-2.1	-0.9	-0.2	-2.4
Primary balance (% GDP, 3-year average)	-1.3	0.5	1.1	-0.6
Interest payments (% revenue, 3-year average) [SRM]	1.7	3.5	3.6	4.4
Gross debt (% revenue, 3-year average)	145.2	139.5	113.4	133.9
Gross debt (% GDP, 3-year average) [SRM]	75.8	40.5	43.9	42.1
Net debt (% GDP, 3-year average)	74.3	34.3	37.2	36.6
FC debt (% gross debt, 3-year average) [SRM]	0.0	0.8	0.0	9.8
External finances[c]				
Current account balance (% GDP, 3-year average)	-1.2	1.2	5.1	0.9
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	-1.1	0.6	2.1	2.4
Commodity dependence (% CXR) [SRM]	21.6	15.4	14.9	11.7
Gross external debt (% GDP, 3-year average)	198.2	119.9	178.1	65.9
Net external debt (% GDP, 3-year average)	53.8	-2.3	13.5	-8.1
Gross sovereign external debt (% GXD, 3-year average)	25.6	17.7	11.5	19.0
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	57.3	8.7	-4.6	11.8
External interest service (% CXR, 3-year average) [SRM]	3.8	4.1	7.3	2.3
Foreign-exchange reserves (months of CXP) [SRM]	1.2	2.9	1.4	4.4
Liquidity ratio	40.2	59.7	51.5	98.4

[a] Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = - / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch's most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Free floating (EMU)'.

Rating Factors

Strengths

- Finland's governance scores outperform both the 'AA' and 'AAA' medians. Strong institutions underpin its structural strengths.
- GDP per capita is higher than the 'AA' median and around three-quarters of the 'AAA' median.
- Finland is a core eurozone issuer, with a low interest-to-revenue ratio compared with the 'AA' median.
- The sovereign has a large net external financial asset position, estimated at 56.6% of GDP at end-2023.

Weaknesses

- Low productivity growth and a stable working-age population imply low medium-term growth potential. Demographic trends will raise the dependency ratio.
- General government debt (estimated at 75.2% of GDP at end-2023) is higher than the 'AA' and 'AAA' medians (50.6% and 36.8% of GDP, respectively).
- Finland is a large net external debtor (2023 estimate: 56.2% of GDP, compared to a net creditor position for the 'AA' median). Banks' liabilities account for over half of gross external debt.

Rating	Sovereign
AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
AA+	**Finland**
	Austria
	Canada
	New Zealand
	United States of America
AA	Abu Dhabi
	Macao, China
	Taiwan, China

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** A significant and lasting increase in the government debt/GDP ratio, for example, due to insufficient fiscal consolidation measures or persistently weak economic growth.
- **Macroeconomics:** A structural deterioration in medium-term growth prospects reflecting, for example, due to weakening in competitiveness.
- **Structural:** Substantial worsening of geopolitical risks, notably in the context of an escalation of tensions with Russia.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** An improved fiscal performance, which leads to a reduction in government indebtedness over the medium term.
- **Macroeconomics:** An improvement in medium-term growth prospects, potentially supported by structural reforms and sustained gains in competitiveness.

Forecast Summary

	2020	2021	2022	2023E	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-2.4	2.8	1.6	-0.5	0.3	1.6
Unemployment (%)	7.8	7.6	6.8	7.2	7.7	7.5
Consumer price inflation (annual average % change)	0.4	2.1	7.2	4.4	1.2	1.9
Policy interest rate (annual average, %)	0.0	0.0	0.7	3.9	4.1	3.2
General government balance (% GDP)	-5.6	-2.8	-0.5	-2.4	-3.5	-3.2
Gross general government debt (% GDP)	74.7	72.6	73.3	75.2	78.9	80.2
EUR per USD (annual average)	0.9	0.8	1.0	0.9	0.9	0.9
Real private credit growth (%)	2.7	0.7	-2.5	-5.0	-1.0	0.1
External finance						
Merchandise trade balance (USDbn)	3.2	2.7	-0.5	5.4	5.4	6.5
Current account balance (% GDP)	0.6	0.4	-2.6	-0.8	-0.3	-0.1
Gross external debt (% GDP)	244.5	190.3	204.8	195.5	194.2	195.4
Net external debt (% GDP)	53.1	42.6	56.2	53.6	51.6	53.5
External debt service (principal + interest, USDbn)	66.4	63.0	58.7	57.6	59.1	59.9
Official international reserves including gold (USDbn)	13.5	16.7	16.0	16.2	16.5	16.9
Gross external financing requirement (% int. reserves)	523.7	427.7	359.3	336.0	332.5	327.0
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.4	1.2	1.4
China	2.2	8.4	3.0	5.3	4.6	4.6
Eurozone	-6.4	5.4	3.5	0.5	0.7	1.7
World	-2.8	6.3	2.7	2.9	2.1	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.0	80.0	70.0

E = Estimate; F = Forecast
Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(EURbn)	2023	2024
Uses	**6.6**	**10.0**
Budget deficit	6.6	10.0
MLT amortisation	0.0	0.0
Domestic	0.0	0.0
External	0.0	0.0
Sources	**6.6**	**10.0**
Gross borrowing	15.0	15.0
Domestic	5.6	6.1
External	9.5	8.9
Privatisation	0.0	0.0
Other	-9.8	-6.0
Change in deposits (- = increase)	1.3	1.0

Source: Fitch Ratings

External Finances

(USDbn)	2023	2024
Uses	**53.9**	**53.7**
Current account deficit	2.3	0.8
MLT amortisation	51.6	52.9
Sovereign	12.7	13.0
Non-sovereign	38.9	39.9
Sources	**53.9**	**53.7**
Gross MLT borrowing	59.7	53.5
Sovereign	14.9	15.0
Non-sovereign	44.8	38.5
FDI	0.9	7.8
Other	-6.6	-7.2
Change in FX reserves (- = increase)	-0.1	-0.4

Source: Fitch Ratings

Credit Developments

Weak Economic Recovery Following 2023 Recession

Finland's export-dependent economy has been suffering from weak global demand and depressed domestic consumer and investment confidence. We estimate that the Finnish economy contracted by 0.5% in 2023, with growth deteriorating significantly in 2H23. Real GDP declined sizeably in 3Q23 (-0.9% qoq), driven by falling private and public investment and declining private consumption, which was only partially offset by a positive contribution from net exports due to a large drop in imports.

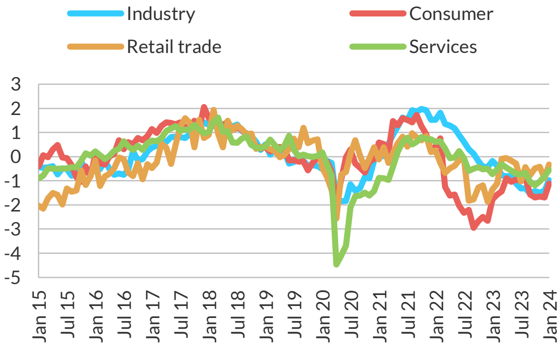
Industrial output weakened significantly last year, with particularly sharp declines in the wood and furniture sectors. New manufacturing orders have dropped from the high levels seen after the pandemic crisis. The prevalence of variable mortgage rates has resulted in a fast transmission of higher monetary policy rates, which has depressed investment activity, in particular construction activity. Private consumption has almost continuously fallen since mid-2022, even as households have dipped into their savings for consumption. Consumer confidence has remained at depressed levels, despite recent improvements.

The outlook for 2024 has worsened since our last review in August. We now predict a shallow recovery for 2024 with growth rebounding by only 0.3% (relative to 1.3% before). Private consumption will recover only gradually as inflation falls and real wages improve. At the same time, weak global demand will continue to weigh on export orders and corporate investment.

Growth will rebound more forcefully by 1.6% in 2025, as export and investment activity recover (in part thanks to large pipeline of green projects). At present, there are limited signs of scaring in the economy, but persistent external or confidence weakness could have a more structural impact. Finland's potential growth is weighed down by structural factors, including an aging demographic and low productivity growth.

Confidence Indicators Remain Weak

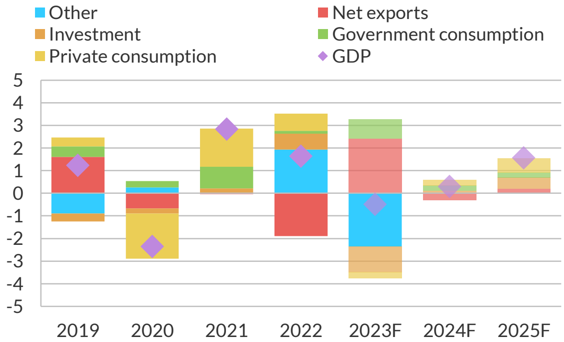
Confidence Indicators, standard deviation from mean (%)



Source: Fitch Ratings, European Commission

Weak Economic Recovery in 2024

Contributions to GDP growth (%)



Source: Fitch Ratings, Statistics Finland

Labour Market Cools; Ambitious Labour Market Reforms

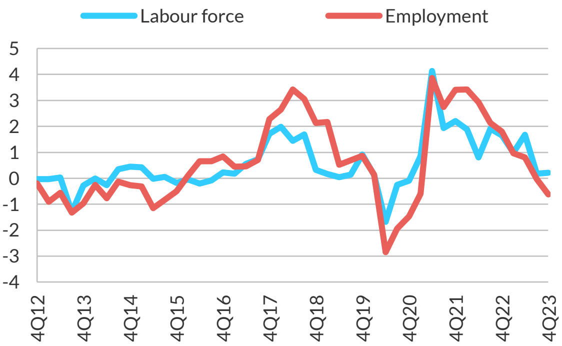
The slowdown in economic activity has meant that labour market pressures are easing. For the first time since 2020, employment growth was negative in 4Q23 (-0.6% yoy) and the job vacancy rate has fallen from its historically high levels in 2022. While Finland's employment rate continues to lag the other Nordic economies and Germany, it is higher than the euro area average. We expect that the Finnish labour market will remain relatively sound, despite recent signs of weakening, and estimate that unemployment will only temporarily edge up to 7.7% in 2024 before falling back to 7.5% in 2025 (exceeding the long-term average of 8.0% from 2013-22).

The government has set ambitious targets to structurally increase employment while simultaneously raising the number of hours worked, which might be difficult to achieve given a more challenging economic environment. It targets bringing at least 100,000 people into the labour market by 2027 and achieving an employment rate of 80% by 2031 (from 72.5% currently). Incentive-driven policy measures have already been partially approved and focus on the tightening of eligibility conditions and reduction of unemployment benefits as well as the freezing of several index-adjusted social benefits throughout the current government term.

Inflation Falls Below 2% ECB Target

Consumer price inflation peaked in November 2022, with the Harmonised Index of Consumer Prices (HICP) at 9.1%, and has since declined. HICP fell to 1.3% in December 2023 and to 0.7% in January 2024, driven by a negative contribution from falling energy prices. Core inflation (excluding energy and unprocessed food) has recently moderated but remains above headline inflation at 2.7% in January. We expect headline inflation to average 1.2% this year, before increasing again to 1.9% in 2025 as the negative impact from falling energy prices fades out.

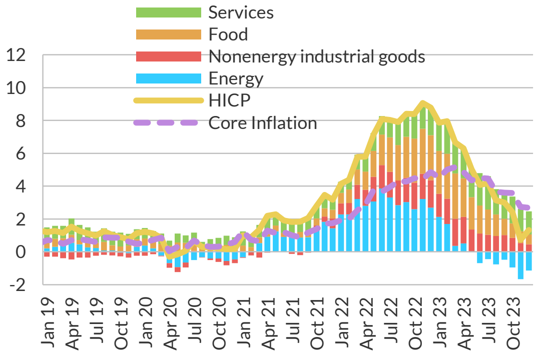
Slowdown in Employment Growth



Source: Fitch Ratings, Statistics Finland

Negative Contribution from Energy on Inflation

yoy %, pp contributions



Source: Fitch Ratings, Eurostat

Worsening Economic Outlook Derails Fiscal Consolidation

We expect that the fiscal deficit rose to 2.4% of GDP in 2023, representing a significant deterioration from the 0.5% deficit recorded in 2022. The worsening of the deficit was the result of weakening revenue growth following exceptionally strong growth in 2021-22, and higher spending driven by discretionary measures to deal with inflationary pressures, higher inflation-indexed expenditures and the costs associated with the reform of health and social services.

Prime Minister Orpo entered office last year with plans to meaningfully consolidate public finances but challenges have risen given weaker-than-expected economic growth. The conservative-led government had targeted reducing the general government balance to 1% of GDP by 2027 through a net consolidation of EUR6 billion (2.1% of 2024 projected GDP), bringing the annual fiscal adjustment to around 0.5% of GDP. The consolidation package includes savings from cuts to social benefits (EUR2 billion), higher revenues and lower expenditures due to increased employment (EUR2 billion), and measures to increase the operational efficiency of public services (EUR2 billion). The government plans to announce additional measures in 2H24.

We project that fiscal consolidation plans will be insufficient to offset a further widening of the deficit in light of weaker than previously expected tax revenue growth and higher expenditures. We project that the deficit will go up to 3.5% of GDP in 2024, in line with the government's 2024 budget forecast, and only slightly narrow to 3.2% in 2025 as economic growth picks up and saving measures kick in. Fiscal downside risks relate to further economic deterioration throughout the year. The 2024 deficit target leaves little room for manoeuvre as fiscal buffers in the form of unallocated reserves are small (below 0.02% of GDP).

General Government Debt Will Rise to Above 80% of GDP by 2025

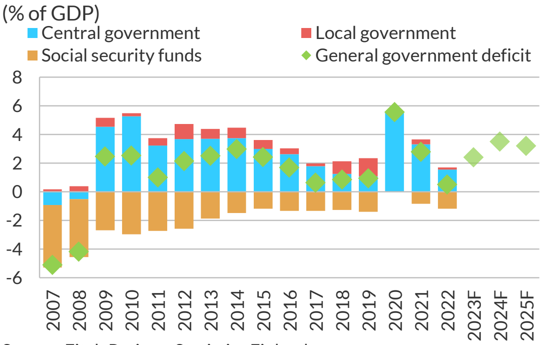
We estimate that government debt reached a new record high at 75.2% of GDP by end-2023, up from 72.5% in 2021. Our public finance projections are consistent with debt continuously rising to 80.2% by 2025, significantly above the forecast 'AA' median of 48.4%. However, risks from a high public debt burden and aging demographic are mitigated by large pension assets. Total pension assets in Finland stood at close to 84% of estimated GDP in 3Q23, of which more than one-third was held by the public sector.

Finland's debt trajectory has been uneven over previous years, reflecting sizeable stock-flow adjustments that capture differences between cash and accrual accounting (including military spending items, and below par issuances as yields have been rising) and surpluses in the pension fund, which cannot be used to finance other layers of government. We estimate that stock-flow adjustments will average 1.2% of GDP over the next two years.

Finland's interest payments/revenue ratio bottomed out in 2021 at 1.0% and will gradually increase again to 2.7% of revenues by 2025, remaining well below the forecast 'AA' median of 3.3%. Spreads to German bunds have almost tripled to around 50-60bp from around 20bp over the past two years, likely due to risk perceptions around Finland's rising debt levels and lower market liquidity for smaller issuers (relative to larger issuers) as a result of ECB quantitative tightening.

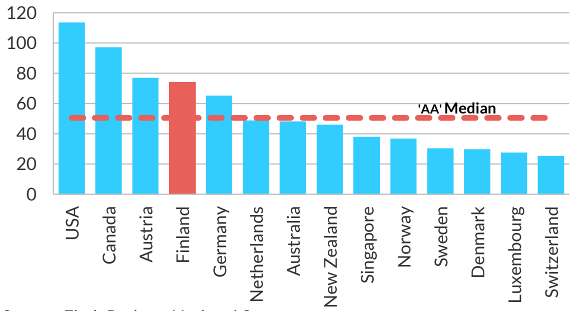
Fiscal Deficits Will Remain Above 3% in 2024-2025

(% of GDP)



Source: Fitch Ratings, Statistics Finland

General Government Debt Well Above 'AA' Median



Source: Fitch Ratings, National Sources

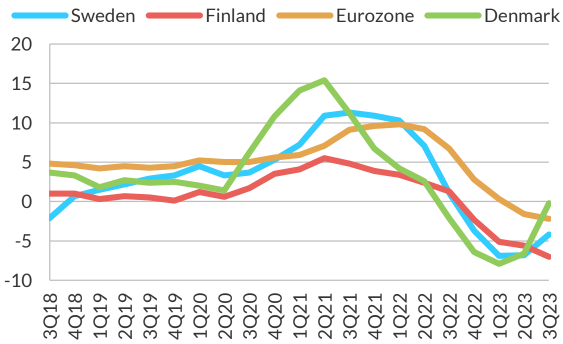
House Prices Falling; Households' Indebtedness Easing

Finland has one of the highest shares of variable mortgages in the EU, leading to a quick pass-through from higher policy rates into lending rates. As of 2Q23, about 98% of mortgage loans carried variable rates according to EBA data. Annual loan growth to households for mortgages has been negative since April 2023 as lending rates have increased. House prices have been declining in nominal terms since 2Q22, with an accumulated decline of almost 10% between 2Q22 and 3Q23, but the level of prices remains above the pre-pandemic level.

Rapidly rising debt service costs have not yet translated into significantly weaker asset quality metrics for banks in Finland. The sector's non-performing loan ratio increased only slightly to 1.1% in 3Q23, up from 0.9% at end-2022, but remains below the pre-pandemic level. Banks in Finland remain well-capitalised, with an aggregate CET1 capital ratio at end-2022 at 17.9%, above the EU average of 15.8%.

Sharp Correction in Housing Prices

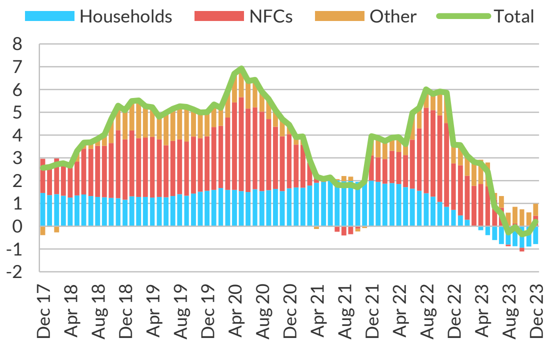
Housing price index, yoy %



Source: Fitch Ratings, Eurostat

Private Credit Growth Has Fallen

Contributions to annual change in total loans (%)



Source: Fitch Ratings, Bank of Finland

Public Debt Dynamics

Gross general government debt should increase to about 83.5% of GDP by 2028, according to Fitch's baseline projections. Scenarios with lower growth, higher interest rates and no fiscal consolidation would result in the debt ratio rising to 83%-88% by 2028. Structural surpluses in social security funds are not used to pay down debt, and therefore appear as debt-increasing stock flow adjustments.

Debt Dynamics - Fitch's Baseline Assumptions

	2022	2023	2024	2025	2026	2027	2028
Gross general government debt (% of GDP)	73.3	75.2	78.9	80.2	81.5	82.5	83.5
Primary balance (% of GDP)	0.1	-1.5	-2.3	-1.8	-1.7	-1.0	-1.0
Real GDP growth (%)	1.6	-0.5	0.3	1.6	1.5	1.2	1.2
Average nominal effective interest rate (%)	0.8	1.3	1.6	1.8	2.0	2.2	2.3
EUR/USD (annual average)	1.0	0.9	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	5.4	4.8	1.8	1.9	2.0	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	1.8	0.7	0.8	0.8	0.8

Source: Fitch Ratings

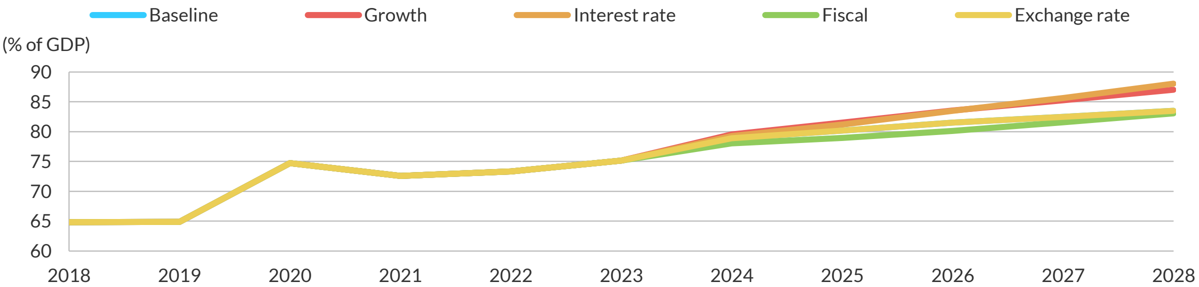
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 0.9% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit of 1.5% of GDP starting 2023
Exchange rate	n.a.

Source: Fitch Ratings

Sensitivity Analysis

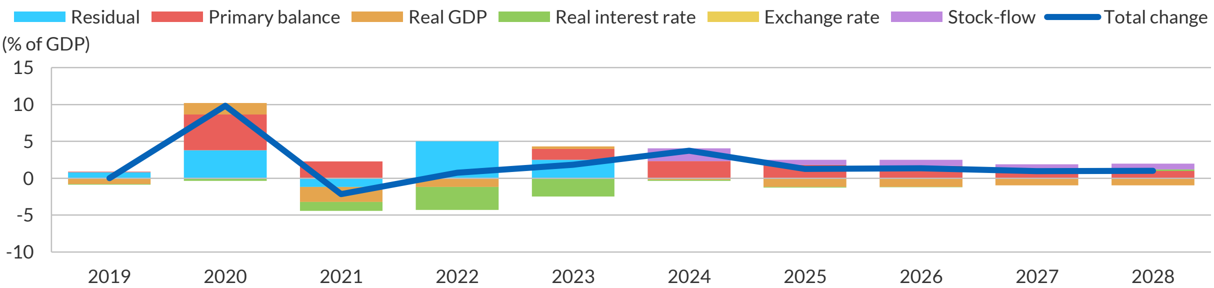
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows

Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Revenue	53.0	52.5	52.4	51.6	53.0	52.8	52.1	51.7	51.5
Expenditure	53.6	53.4	53.3	57.2	55.8	53.3	54.5	55.2	54.7
o/w interest payments	1.0	0.9	0.9	0.7	0.5	0.6	0.9	1.2	1.4
Interest payments (% revenue)	1.9	1.8	1.6	1.4	1.0	1.1	1.7	2.3	2.7
Primary balance	0.3	0.1	-0.1	-4.9	-2.3	0.1	-1.5	-2.3	-1.8
Overall balance	-0.7	-0.9	-0.9	-5.6	-2.8	-0.5	-2.4	-3.5	-3.2
Gross government debt	66.0	64.8	64.9	74.7	72.6	73.3	75.2	78.9	80.2
% of government revenue	124.7	123.4	123.8	144.8	137.0	138.9	144.3	152.6	155.7
Issued in domestic market	16.5	22.1	22.7	30.5	32.9	30.0	30.7	32.3	32.8
Issued in foreign markets	49.6	42.8	42.1	44.2	39.7	43.3	44.4	46.6	47.4
Local currency	66.0	64.8	64.9	74.7	72.6	73.3	75.2	78.9	80.2
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government deposits	1.5	1.4	1.1	3.7	2.4	2.0	1.4	1.1	1.4
Net government debt	64.5	63.5	63.8	71.0	70.2	71.4	73.7	77.9	78.8
Financing		0.9	0.9	5.6	2.8	0.5	2.4	3.5	3.2
Domestic borrowing		6.1	1.2	7.6	3.9	-0.7	2.0	2.2	1.6
External borrowing		-7.3	-0.3	5.7	-5.5	4.0	3.4	3.1	2.3
Other financing		2.1	0.0	-7.8	4.5	-2.8	-3.0	-1.8	-0.7
Change in deposits (- = increase)		0.1	0.3	-2.6	1.1	0.2	0.5	0.4	-0.3
Privatisation		-	-	-	-	-	-	-	-
Other		2.0	-0.3	-5.2	3.3	-3.0	-3.5	-2.1	-0.3

E = Estimate; F = Forecast
Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Current account	-2.0	-5.2	-0.8	1.7	1.2	-7.4	-2.3	-0.8	-0.4
(% GDP)	-0.8	-1.9	-0.3	0.6	0.4	-2.6	-0.8	-0.3	-0.1
Goods	1.7	0.3	2.6	3.2	2.7	-0.5	5.4	5.4	6.5
Services	-1.6	-3.8	-2.2	-2.8	-2.7	-6.4	-8.0	-6.5	-7.2
Primary income	0.2	1.0	1.4	4.6	4.7	2.2	3.2	3.2	3.2
Secondary income	-2.3	-2.7	-2.6	-3.2	-3.5	-2.8	-2.9	-3.0	-2.9
Capital account	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	-7.2	-18.9	-10.3	-1.4	-4.8	-9.7	-2.2	-1.0	-0.5
Direct investment	-3.5	13.7	-8.6	7.4	-4.4	7.4	-0.9	-7.8	6.6
Portfolio investment	-3.2	-24.6	-28.4	-0.1	23.7	-8.5	-3.7	-0.8	2.1
Derivatives	-5.0	-0.7	0.5	-1.7	2.3	-6.6	-1.2	-1.3	-1.7
Other investments	4.4	-7.3	26.1	-7.0	-26.5	-2.0	3.6	9.0	-7.5
Net errors and omissions	-5.9	-14.0	-9.1	-2.3	-2.8	-2.0	0.0	0.0	0.0
Change in reserves (+ = increase)	-0.4	-0.1	0.6	1.0	3.4	0.4	0.1	0.4	0.3
International reserves, incl. gold	10.5	10.3	11.4	13.5	16.7	16.0	16.2	16.5	16.9
Liquidity ratio (%)	34.1	26.8	46.3	39.7	35.1	38.8	40.2	39.4	38.6
Memo									
Current external receipts (CXR)	116.2	128.3	132.6	121.1	145.6	155.1	158.5	166.3	173.7
Current external payments (CXP)	118.2	133.5	133.4	119.4	144.4	162.5	160.7	167.1	174.1
CXR growth (%)	12.7	10.4	3.3	-8.7	20.3	6.5	2.2	4.9	4.5
CXP growth (%)	9.4	13.0	-0.1	-10.5	21.0	12.5	-1.1	4.0	4.2
Gross external financing requirement	43.5	39.7	55.2	59.8	57.7	60.2	53.9	53.7	54.0
% International reserves	415.2	377.7	535.8	523.7	427.7	359.3	336.0	332.5	327.0
Net external borrowing	23.5	31.8	29.0	-4.4	-7.4	83.3	13.2	7.8	24.6

E = Estimate; F = Forecast
Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Gross external debt	404.3	557.1	606.3	663.2	564.3	578.2	591.4	599.2	623.8
% GDP	158.5	202.1	225.8	244.5	190.3	204.8	195.5	194.2	195.4
% CXR	347.9	434.1	457.3	547.7	387.5	372.8	373.2	360.3	359.1
Short-term debt (% GXD)	57.3	51.2	49.2	55.6	53.3	55.4	55.3	55.2	55.5
By debtor									
Sovereign	143.1	129.9	128.0	148.9	139.0	149.0	151.2	153.2	155.5
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	143.1	129.9	128.0	148.9	138.9	149.0	151.2	153.1	155.4
Banks	218.1	373.3	383.6	445.9	373.6	372.7	378.0	381.6	402.3
Other sectors	43.2	53.8	94.6	68.3	51.8	56.4	62.1	64.4	66.0
Gross external assets (non-equity)	281.9	418.3	479.6	519.1	438.0	419.5	429.1	440.0	452.9
Sovereign	89.1	78.9	146.4	153.6	121.9	146.3	148.9	151.8	154.8
International reserves, incl. gold	10.5	10.3	11.4	13.5	16.7	16.0	16.2	16.5	16.9
Other sovereign assets	78.6	68.6	135.0	140.1	105.2	130.3	132.8	135.3	137.9
Banks	94.0	245.4	234.7	255.1	212.1	229.4	228.4	226.5	225.9
Other sectors	98.9	94.0	98.5	110.3	104.0	43.8	51.6	61.5	72.1
Net external debt	122.4	138.8	126.6	144.1	126.3	158.7	162.3	159.2	170.9
% GDP	48.0	50.4	47.2	53.1	42.6	56.2	53.6	51.6	53.5
Sovereign	54.1	51.0	-18.4	-4.7	17.0	2.7	2.1	1.2	0.5
Banks	124.0	127.9	148.9	190.8	161.5	143.3	149.6	155.1	176.4
Other sectors	-55.7	-40.1	-3.9	-42.0	-52.2	12.7	10.6	3.0	-6.1
International investment position									
Assets	281.9	418.3	479.6	519.1	438.0	419.5	429.1	440.0	452.9
Liabilities	404.3	557.1	606.3	663.2	564.3	578.2	591.4	599.2	623.8
Net	3.3	-15.0	10.9	-11.8	2.8	-7.7	-	-	-
Net sovereign	72.7	72.2	162.8	168.9	166.5	162.1	171.4	178.2	185.3
% GDP	28.5	26.2	60.6	62.3	56.2	57.4	56.6	57.8	58.1
External debt service (principal + interest)	46.8	39.8	60.0	66.4	63.0	58.7	57.6	59.1	59.9
Interest (% CXR)	4.5	4.1	4.3	4.0	2.9	3.8	3.8	3.7	3.6

E = Estimate; F = Forecast

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	AA+

Sovereign Rating Model					Applied Rating[d]			AA+
					Model Result and Predicted Rating			14.67 = AA+
Input Indicator	**Weight (%)**	**2022**	**2023**	**2024**	**Adjustment to Final Data**	**Final Data**	**Coefficient**	**Output (notches)**
Structural features								**10.56**
Governance indicators (percentile)	21.4	n.a.	95.3	n.a.	-	95.3	0.077	7.38
GDP per capita (USD)	12.4	n.a.	54,344	n.a.	Percentile	84.6	0.038	3.24
Nominal GDP (% world GDP)	13.9	n.a.	0.30	n.a.	Natural log	-1.2	0.627	-0.75
Most recent default or restructuring	4.6	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-1.822	0
Broad money (% GDP)	1.2	n.a.	81.0	n.a.	Natural log	4.4	0.158	0.70
Macroeconomic performance, policies and prospects								**-0.84**
Real GDP growth volatility	4.6	n.a.	2.2	n.a.	Natural log	0.8	-0.728	-0.56
Consumer price inflation	3.4	7.2	4.4	1.2	3-yr avg.[b]	4.5	-0.067	-0.30
Real GDP growth	2.0	1.6	-0.5	0.3	3-yr avg.	0.5	0.065	0.03
Public finances								**-1.89**
Gross general govt debt (% GDP)	8.9	73.3	75.2	78.9	3-yr avg.	75.8	-0.023	-1.72
General govt interest (% revenue)	4.5	1.1	1.7	2.3	3-yr avg.	1.7	-0.044	-0.07
General govt fiscal balance (% GDP)	2.4	-0.5	-2.4	-3.5	3-yr avg.	-2.1	0.044	-0.09
FC debt (% of total general govt debt)	2.7	0.0	0.0	0.0	3-yr avg.	0.0	-0.007	0
External finances								**2.08**
Reserve currency (RC) flexibility	7.3	n.a.	3.1	n.a.	RC score 0 - 4.5[c]	3.1	0.509	1.58
SNFA (% of GDP)	7.4	57.4	56.6	57.8	3-yr avg.	57.3	0.011	0.62
Commodity dependence	1.2	n.a.	21.6	n.a.	Latest	21.6	-0.004	-0.09
FX reserves (months of CXP)	1.5	n.a.	1.2	n.a.	n.a. if RC score> 0	0.0	0.029	0
External interest service (% CXR)	0.4	3.8	3.8	3.7	3-yr avg.	3.8	-0.007	-0.03
CAB + net FDI (% GDP)	0.1	-5.2	-0.5	2.3	3-yr avg.	-1.1	0.001	-0.00
Intercept Term (constant across all sovereigns)								**4.76**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (Notch Adjustment, Range +/-3)	0
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

Source: Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Finland's credit profile does not support a notching-up of the Long-Term Local-Currency IDR above the Foreign Currency equivalent. In Fitch's view, neither of the two major factors cited in the criteria that support upward notching of the Long-Term Local-Currency IDR is present, namely: strong public finance fundamentals relative to external finance fundamentals and previous preferential treatment of Local- relative to Foreign-Currency creditors. Finland is also a eurozone country, which constrains the Long-Term Local-Currency IDR at the same level as the Foreign-Currency version.

Country Ceiling

The Country Ceiling for Finland is 'AAA', 1 notch above the LT FC IDR. This reflects very strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

Overall Country Ceiling Uplift (CCM + QA, notches)			**+1**
Country Ceiling Model (CCM, notches)			**+1**
Pillar I = Balance of payments restrictions			**+2**
Current account restrictions (% of 40)	Latest	5.0	+3
Capital account restrictions (% of 69)	Latest	21.7	+2
Combined pillar II & III incentives score			**+1**
Pillar II = Long-term institutional characteristics			**+2**
Governance (WB WGI)	Latest	95.3	+3
International trade			+1
Trade openness	2019-23 avg	50.4	+2
Volatility of change in CXR (across 10yrs)	2023	10.9	+1
Export share to FTA partners	2019-23 avg	74.2	+2
International financial integration[a]	2019-23 avg	136.3	+3
Pillar III = Near-term risks			**+1**
Macro-financial stability risks			+2
Composite inflation risk score			+2
Volatility of CPI (across 10yrs)	2023	2.2	+2
Recent CPI peak	2019-23 max	7.2	+3
Cumulative broad money growth	2018-23 chg %	25.2	+3
Volatility of change in REER (across 10yrs)	2023	5.3	+1
Dollarisation	Most recent	3.5	+3
Exchange rate risks			+1
Net external debt (% of CXR)	2021-23 avg	97.2	0
Exchange rate regime	Latest	Free floating	+3
Qualitative Adjustment (QA, notches)			**0**
Pillar I = Balance of payments restrictions			0
Pillar II = Long-term institutional characteristics			0
Pillar III = Near-term macro-financial stability risks			0

[a] Data for international financial integration is the average of private external assets (% of GDP) & private external debt (% GDP).
Source: Fitch Ratings

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
24 Jan 20	AA+	F1+	Stable	AA+	F1+	Stable	AAA
03 Aug 18	AA+	F1+	Positive	AA+	F1+	Positive	AAA
22 Jul 16	AA+	F1+	Stable	AA+	F1+	Stable	AAA
11 Mar 16	AA+	F1+	Stable	AA+	-	Stable	AAA
Mar 15	AAA	F1+	Negative	AAA	-	Negative	AAA
22 Dec 05	AAA	F1+	Stable	AAA	-	Stable	AAA
17 Jun 04	AAA	F1+	Stable	AAA	-	-	AAA
21 Sep 00	AAA	F1+	Stable	AAA	-	-	-
05 Aug 98	AAA	F1+	-	AAA	-	-	-
14 Jul 98	AA+	F1+	-	AA+	-	-	-
29 Apr 97	AA+	F1+	-	AAA	-	-	-
12 Mar 96	AA	F1+	-	AAA	-	-	-
26 Oct 95	AA-	F1+	-	AAA	-	-	-
10 Aug 94	AA-	-	-	-	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organisations, bilateral relations; sanctions or other costly international actions	3	3	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Finland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Worldwide Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Finland has a percentile rank above/below 50 for the respective Governance Indicators, this has a positive/negative impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]'for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Finland, as for all sovereigns. As Finland has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Finland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.