Finland

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This report does not constitute a rating action.

Ratings Score Snapshot

Sovereign credit rating

Foreign currency
AA+/Stable/A-1+

Local currency
AA+/Stable/A-1+

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Finland's recession is deeper and more protracted than we expected, but we project economic growth to resume in second-half 2024.	We expect Finland's fiscal and external deficits to be contained.
--We expect domestic demand will remain weak, primarily due to declining private sector investment in the construction sector, and sluggish private consumption.	--We expect a further widening in the general government deficit in 2024, followed by a period of robust fiscal consolidation.
--We assume domestic demand will recover in second-half 2024, resulting in a less pronounced contraction in economic activity compared with 2023.	--Finland's current account deficit will remain close to balance through 2027, with export growth contributing to further deficit reduction in 2024.
--We expect economic growth in Finland of 1.4% on average between 2025-2027, which, although moderate, is in line with growth rates for wealthy economies.	--We expect inflation to remain moderate at 0.9% on average in 2024, supported by lower energy prices and moderate core inflation.

Finland's economic slump is lasting longer than we anticipated, but we expect the economy will start to recover in the second half of 2024. Currently, private consumption remains subdued, despite real disposable income growth. Private sector investment, mainly in the construction sector, is weakened by higher interest rates and building costs.

Fiscal deficits have been higher than we initially expected, partly reflecting weaker domestic demand**.** However, ongoing consolidation efforts will ensure deficits remain modest at 2.3% of GDP on average over the next two to three years.

Finland's wealthy economy, the moderate stock of net government debt, and the country's stable and mature institutions are important backstops to the ratings

Outlook

The stable outlook reflects our expectation that Finland's economy will recover from the current economic downturn, and fiscal and external deficits will moderate, supported by real wage growth, higher consumption, and stronger external demand from Finland's main trading partners.

Downside scenario

We could consider a negative rating action in the next two years if Finland's economic outlook significantly deteriorates compared with our current expectations, leading to a pronounced and protracted deterioration in the country's fiscal position.

Upside scenario

We could raise the long-term ratings if consolidation efforts strengthened Finland's fiscal performance and if its external balance sheet improved significantly.

Rationale

Institutional and economic profile: We expect the current recession will be temporary and domestic demand will recover in the second half of 2024

The recession in Finland in 2023 was deeper than we initially projected, with real GDP contracting by 1%. Private sector investment contracted sharply, mainly due to higher interest rates and an increase in building costs affecting the construction sector. Additionally, 2023 saw an exceptionally high detraction from growth of 2.9 percentage points due to a draw-down of inventories. We expect continued weak domestic demand in the first half of 2024, improving in the latter part of the year, resulting in an overall contraction of 0.3% for 2024. We expect the labor market will remain buoyant, despite current economic conditions and we forecast disposable income will increase, and inflation will moderate further. External demand from Finland's main trading partners, such as Germany and Sweden, remains relatively weak, but we expect it to pick up during 2024.

Despite the current recession, we believe Finland's economy has remained broadly resilient against the economic effects of the Russia-Ukraine conflict, given its previously high trade exposure to and energy dependence on Russia. Finland substantially decreased trade flows with Russia in 2022 and 2023. Exports to Russia have dropped to below 1% of Finland's total, compared with 5%-6% before the conflict. Similarly, imports from Russia are now less than 2% from an average of 12%-13% during the years before the conflict. Finland also imported about one-third of its energy consumption before the conflict, with the majority originating from Russia. All oil and gas imports from Russia have been substituted, partly facilitated by renting a U.S. liquefied natural gas terminal. Finland has also reduced its electricity imports from Russia (previously 15%-20% of annual consumption) by replacing them with imports from other Nordic countries and the recent commissioning of a nuclear power plant. Further investment in renewable energy production will continue to support these efforts.

We project real growth will gradually accelerate from 2024, as consumption and investment continue to strengthen due to low inflation and some reduction in financing costs. Nevertheless, momentum will be challenged by structural constraints, including lackluster productivity growth amid a shrinking employment pool. Although unemployment in 2024 has reduced compared to 2023, we expect skills mismatches in the labor market will become more evident and the labor market will tighten. We therefore expect unemployment to remain at 6.5%-7.0% despite high vacancies and government reforms to fill gaps by investing in infrastructure and research and development.

In our view, Finland's stable and mature institutional setup and consensus-oriented policy making are credit-supportive. We expect broad policy continuity from the government over the next months, with particular focus on ongoing consolidation efforts, given that all coalition parties concur on fiscal prudence. On April 4, 2023, Finland officially became a member of NATO, having applied for membership following Russia's invasion of Ukraine. Finland's membership prompted a strong diplomatic response from Russia, but we don't expect tensions to increase further.

Flexibility and performance profile: We expect the Finnish government's consolidation efforts will keep fiscal deficits at a moderate 2.3% of GDP on average over the next few years

Weaker economic activity, increasing interest costs, and other expenditure pressures--including from defense, targeted anti-inflation measures, and from the municipal level--led to a widening of the fiscal deficit to 2.7% of GDP in 2023. Although most of these expenditure pressures will persist in 2024, we expect further consolidation efforts will contain the general government deficit at slightly below 3% of GDP in 2024, with a view of adhering to pan-European fiscal rules. From 2024, we expect increased expenditure control will partly offset rising defense, social, and health expenditure, supporting a further reduction in deficits by 2027, to about 2% of GDP.

This fiscal trajectory implies that public debt, net of liquid government assets, will remain at a modest 39% of GDP on average through 2027. In assessing Finland's net general government debt, we deduct from gross debt the Finnish treasury's cash holdings and minority ownership of publicly listed companies through the state-owned asset manager Solidium, as well as approximately 33% of GDP in liquid assets held by the public sector's earnings-related pension funds. In line with global trends, financing costs have risen, but given the long-dated maturity of government debt, the overall interest bill still appears moderate and manageable. We expect interest expense of about 3% of government revenue over the next four years.

Finland has sizable contingent liabilities--predominantly government guarantees--of about 24% of GDP. But we believe the likelihood of these being called is low and we do not expect they will weigh on public debt over our forecast horizon. Most guarantees relate to Finnvera, the state's export credit agency. Over 50% of these guarantees are linked to the Finnish cruise ship sector, which was previously affected by COVID-19 pandemic restrictions. We understand the situation for Finnish shipbuilding has improved and Finnvera has reversed a significant share of the loss provisions applied in 2020. Similarly, Finnvera has been able to reverse most of its 2022 loss provisions of €210 million on operations it had underwritten in Russia. Overall, Finnvera's total exposure in Russia has reduced substantially over the past two years, to currently €97 million, down from about €1 billion at year-end 2021. The Finnish government has also supported its majority-owned airliner Finnair through the pandemic and extended €540 million in loan guarantees while providing a hybrid bond of €350 million and capital injection of €300 million.

Inflation in Finland--as measured by the harmonised index of consumer prices--has remained well below the eurozone average since mid-2021 and we expect it will average about 1% in 2024. Contributing to overall low inflation are decreasing energy prices, which had risen by 30% during 2022. At the same time, weak domestic demand and moderate wage growth have also kept core inflation below the eurozone average. Some of these effects will fade toward the end of 2024, but we believe inflation in Finland will remain below the European Central Bank (ECB)'s target of slightly below 2% through 2027.

In our view, Finland's eurozone membership reduces its monetary flexibility. However, similar to other eurozone members, the country has benefited from the euro membership, including from access to deep capital markets and the ECB's previous asset-purchase programs, namely the public-sector purchase program and the pandemic emergency purchasing program.

Finland's external deficit narrowed in 2023, to 1.4% of GDP, mainly due to the reversal of the terms-of-trade shock from rising energy prices and a contraction in imports due to weak domestic demand. We expect Finland's current account will narrow further in 2024 and remain in a marginal deficit over the next years as trade flows and primary income flows continue to normalize. Primary income outflows were elevated in 2023 due to higher dividend payouts following the discontinuation of the ECB's restrictions on dividend payouts for financial institutions.

Financial institutions continue to dominate Finland's external ratios. Nordea Bank's redomiciling to Helsinki in 2018 substantially increased the size of the banking sector to about 300% of the country's GDP from 250% previously. The financial sector's large cross border exposure, including funding related to foreign-financed wholesale funding, is still the key risk. In particular, the economy's external short-term debt will remain well above 100% of current account receipts (CARs), and narrow net external debt will stay high at about 180% of CARs on average in 2024-2027. Still, if we consider Finland's net international investment position, the country's external profile is much stronger, with external assets largely equal to external liabilities.

We expect the Finnish banking sector will remain resilient. We do not believe it will represent a contingent liability for public finances. In general, the country's banking sector is large, concentrated, and characterized by intense competition and low lending margins. Higher interest rates have been a boon for bank's earnings, and we expect improved returns over the next two years, enabling further investments in digitalization and automation. Thanks to robust capitalization, challenges arising from the muted economic outlook and distress in certain sectors, especially real estate and construction translating into higher credit impairments, are unlikely to shake the banks' resilience. Private sector debt remains moderate compared with other European sovereigns. However, high interest rates, alongside still elevated inflation, will continue to weaken households' disposable income, given that more than 90% of mortgage loans are variable-rate (although this is partly mitigated by the high share of annuity loans and interest rate hedges). Still, we expect the private sector's sound financial buffers, and a prevailing strong social safety will continue to underpin the private sector's solid repayment capacity.

Finland--Selected Indicators

	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. EUR)	233.5	239.9	238.0	250.7	267.7	277.8	280.2	288.2	296.7	305.5
Nominal GDP (bil. $)	275.7	268.5	271.9	296.5	281.9	300.4	307.4	328.5	346.1	359.2
GDP per capita (000s $)	50.0	48.7	49.2	53.6	50.8	54.0	55.2	58.9	62.0	64.2
Real GDP growth	1.1	1.2	(2.4)	2.8	1.3	(1.0)	(0.3)	1.6	1.3	1.3
Real GDP per capita growth	1.0	1.1	(2.5)	2.7	1.1	(1.2)	(0.4)	1.5	1.2	1.2
Real investment growth	3.6	(1.5)	(1.0)	1.0	2.5	(5.1)	(1.0)	3.3	2.0	2.0
Investment/GDP	25.3	24.1	24.5	24.1	26.5	23.2	22.2	22.7	22.8	22.8
Savings/GDP	23.4	23.8	25.1	24.5	24.0	21.8	22.0	22.4	22.5	22.5
Exports/GDP	38.5	39.9	35.8	39.5	45.4	40.9	41.1	41.0	41.0	40.9
Real exports growth	1.5	6.7	(7.8)	6.2	3.6	(1.8)	(0.3)	1.5	1.5	1.5
Unemployment rate	7.5	6.8	7.7	7.7	6.8	7.2	7.5	7.0	6.8	6.8
External indicators (%)										
Current account balance/GDP	(1.9)	(0.3)	0.5	0.4	(2.4)	(1.4)	(0.3)	(0.3)	(0.3)	(0.3)
Current account balance/CARs	(4.0)	(0.6)	1.2	0.8	(4.4)	(2.8)	(0.5)	(0.6)	(0.6)	(0.6)
CARs/GDP	46.6	49.4	44.5	49.2	55.5	52.0	50.2	49.5	49.1	48.9
Trade balance/GDP	0.1	1.0	1.2	0.9	(0.1)	2.9	3.0	2.9	2.9	2.9
Net FDI/GDP	(4.9)	3.2	(2.7)	1.4	(2.7)	(1.0)	0.5	0.3	0.3	0.3
Net portfolio equity inflow/GDP	1.5	(3.0)	(1.2)	(0.5)	(1.2)	(2.2)	(1.0)	(1.0)	(1.0)	(1.0)
Gross external financing needs/CARs plus usable reserves	289.0	350.8	373.4	348.1	291.4	327.4	315.1	312.8	310.3	308.9
Narrow net external debt/CARs	223.1	206.7	257.9	196.3	191.6	187.5	193.6	186.6	181.3	176.8
Narrow net external debt/CAPs	214.6	205.5	261.0	198.0	183.6	182.4	192.6	185.5	180.2	175.8
Net external liabilities/CARs	13.3	(16.2)	1.3	(10.2)	(5.8)	(2.5)	(0.1)	1.2	2.2	2.0
Net external liabilities/CAPs	12.8	(16.1)	1.3	(10.2)	(5.6)	(2.5)	(0.1)	1.2	2.2	2.0
Short-term external debt by remaining maturity/CARs	208.7	277.5	309.8	281.2	218.3	258.3	249.2	243.5	239.8	237.8
Usable reserves/CAPs (months)	1.0	0.9	1.2	1.1	1.2	1.2	1.3	1.2	1.2	1.1
Usable reserves (Mil. $)	10,310.5	11,417.6	13,491.5	16,758.5	16,054.8	16,929.8	16,250.0	16,500.0	16,750.0	17,000.0
Fiscal indicators (general government %)										
Balance/GDP	(0.9)	(1.0)	(5.6)	(2.8)	(0.4)	(2.7)	(2.9)	(2.4)	(2.0)	(2.0)
Change in net debt/GDP	3.0	(2.1)	6.2	(2.6)	8.9	1.6	2.9	2.4	2.0	2.0
Primary balance/GDP	0.1	(0.1)	(4.9)	(2.3)	0.2	(1.6)	(1.5)	(0.9)	(0.5)	(0.4)
Revenue/GDP	52.5	52.4	51.6	53.0	53.0	52.9	52.5	52.5	52.5	52.5
Expenditures/GDP	53.4	53.3	57.2	55.8	53.4	55.6	55.4	54.9	54.5	54.5
Interest/revenues	1.8	1.7	1.4	1.0	1.1	2.1	2.9	2.9	2.9	3.0
Debt/GDP	63.2	63.3	73.1	71.1	72.1	74.5	77.8	79.3	80.4	81.4
Debt/revenues	120.3	120.7	141.7	134.2	136.0	140.7	148.1	151.0	153.2	155.0
Net debt/GDP	27.6	24.8	31.2	27.0	34.2	34.5	37.1	38.5	39.5	40.3
Liquid assets/GDP	35.5	38.4	42.0	44.1	37.9	40.0	40.6	40.8	41.0	41.1
Monetary indicators (%)										
CPI growth	1.2	1.1	0.4	2.1	7.2	4.3	0.9	1.3	1.6	1.6
GDP deflator growth	2.0	1.5	1.6	2.4	5.4	4.8	1.1	1.3	1.6	1.6

Finland--Selected Indicators

Exchange rate, year-end (EUR/$)	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Banks' claims on resident non-gov't sector growth	4.6	4.5	4.3	4.1	3.9	(0.5)	2.8	3.3	3.0	3.0
Banks' claims on resident non-gov't sector/GDP	95.0	96.7	101.5	100.4	97.7	93.6	95.4	95.8	95.8	95.9
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	7.0	(5.1)	(3.2)	8.8	3.2	2.8	N/A	N/A	N/A	N/A

Sources: Eurostat, Statistics Finland (Economic Indicators), Statistics Finland, Eurostat (External Indicators), Statistics Finland, the Bank of Finland (Fiscal Indicators), and the Bank of Finland, International Monetary Fund (Monetary Indicators).

Adjustments: Government debt adjusted by excluding guarantees on debt issued by EFSF.

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

Finland--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	2	Generally strong track record of policies that deliver sustainable public finances and balanced economic growth. Unbiased enforcement of contracts and respect for the rule of law with generally effective checks and balances between institutions. Finland is one of the most cohesive civil societies, as shown through high social inclusion, degree of social order, and capacity of political institutions to respond to societal priorities. However, coordination requirements at the level of the Economic and Monetary Union may hinder timely policy responsiveness.
Economic assessment	1	Based on GDP per capita ($) and growth trends as per Selected Indicators in Table 1.
External assessment	4	Based on narrow net external debt/CARs as per Selected Indicators in Table 1. The sovereign has external short-term debt by remaining maturity that generally exceeds 100% of CARs, as per Selected Indicators in Table 1. The sovereign's net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1. The sovereign has large liquid assets relative to GDP as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	2	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1. Nonresidents hold over 60% of government commercial debt.
Monetary assessment	2	In the context of our monetary assessment, we consider the euro to be a reserve currency. The ECB has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. Finland is a member of the Economic and Monetary Union.
Indicative rating	aa+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	AA+	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.

Finland--Rating Component Scores

Key rating factors	Score	Explanation
Local currency	AA+	

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

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, April 10, 2024
- Sovereign Ratings History, April 10, 2024
- Sovereign Risk Indicators, April 8, 2024. Interactive version available at http://www.spratings.com/sri
- Sovereign Ratings Score Snapshot, April 2, 2024
- Sovereign Debt 2024: Developed European Governments To Borrow About $1.84 Trillion in 2024, Feb. 27, 2024
- Sovereign Debt 2024: Borrowing Will Hit New Post-Pandemic Highs, Feb. 27, 2024
- 2024 Global Sovereign Rating Trends: Mixed Feelings, Dec. 13, 2023
- European Developed Markets Sovereign Rating Trends 2024: Fragile Growth, High Debt, Dec. 13, 2023
- Default, Transition, and Recovery: 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023
- Global Aging 2023: The Clock Ticks, Jan. 18, 2023

Ratings Detail (as of April 25, 2024)*

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

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