Finland

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This report does not constitute a rating action.

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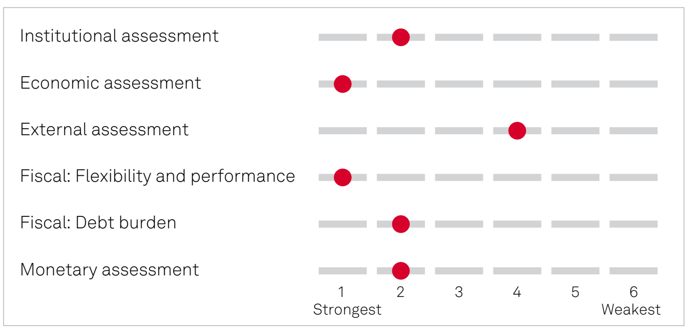
Ratings Score Snapshot



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
Global trade tensions could threaten the nascent economic recovery.	High liquid government assets provide a buffer against currently elevated deficits and rising government debt.
--Elevated economic uncertainty will weigh on investments and consumer confidence in 2025; we have lowered our forecast for real growth to 0.5% this year.	--Social spending, additional military expenditure, and high interest costs will keep deficits at a high 3.7% in 2025.
--Current trade disruptions with the U.S. could present challenges for Finland's export sectors.	--Although we expect deficits will narrow to 2.3% by 2028, this will not be sufficient to reverse government debt rising over the next few years.
--The government is pursuing an ambitious investment program of building up infrastructure and promoting research and development relating to Finland's energy transition.	--Despite a recent uptick, mainly due to a value-added tax (VAT) rate hike, we expect inflation will remain below the eurozone average and below the ECB's target of slightly below 2% over the forecast period.

Finland's economic recovery started in the second half of 2024, however, geopolitical uncertainty dampens the outlook going forward. Economic uncertainty could weigh on consumer confidence and the investment outlook. In addition, current trade disputes with the U.S., one of the main destinations for Finland's goods exports, could represent another major disruption for Finland's export-oriented business sectors following the discontinuation of trade flows with Russia in 2022.

The government's consolidation efforts have not been realized. In 2024, deficits were higher than initially expected and a challenging economic outlook, social spending, additional military expenditure, and high interest costs will continue to complicate consolidation efforts.

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 continue to recover from its economic downturn, although at a slower pace than previously expected. We also think that fiscal deficits will remain contained, rises in public debt will be moderate, and external balances will be narrow.

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 global trade tensions will slow, but not derail, Finland's economic recovery in 2025

Finland's real economy contracted for the second consecutive year in 2024, but a stronger-than-expected rebound in the second half of the year curtailed the overall contraction compared to initial expectations. The recovery has continued into the first months of 2025. We have however lowered our forecast for real growth to 0.5% in 2025, given the heightened economic uncertainty globally. Domestic demand will recover at a slower pace. Consumption will remain muted this year, despite real wages growing in 2024, following two years of negative real wage growth. Unemployment continues to rise while the saving rate remains well above its long-term average. Both developments will take some time to revert. More positively, the investment outlook has improved: Construction activity has bottomed out after high interest rates and a previous overhang of supply have suppressed activity over the past two years. In addition, public investments in housing, defense expenditure, and relating to Finland's green transition will increase in 2025. The latter includes investment into renewable energy production, decarbonization of the economy, and promoting adjacent industries, including into data centers and battery development, and will be spread over several years. We also note that services exports have recently increased, mainly relating to IT services.

As elsewhere, Finland's economic outlook remains clouded by potential disruptions to international trade flows. The U.S. remains an important destination for Finnish goods exports--

the country was Finland's largest goods trading partner in 2023 and its third largest in 2024. Accordingly, any prolonged disruptions to these trade flows would also affect Finland's economy. The overall effect will depend on the magnitude and length of these disruptions as well as the effects of the retaliatory measures from the EU. Business sectors that are particularly exposed in this regard are shipping, pharmaceuticals, forestry, and machinery.

S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

The disruption to trade flows represents the second major shock to Finland's exporting sectors over a short period, after the country successfully decoupled its trade flows from and energy dependence on Russia--one of its main trading partners before 2022. Exports to Russia have dropped below 1% of Finland's total, compared with 5%-6% before the conflict. Similarly, imports from Russia are now less than 2% compared with an average of 12%-13% during the years before the conflict. These imports previously included about one-third of Finland's energy consumption before the conflict, which have been entirely substituted by higher domestic electricity production and energy imports from other countries.

In our view, Finland's stable and mature institutional setup and consensus-oriented policymaking are credit supportive. We expect broad policy continuity from the government over the next few 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 North Atlantic Treaty Organization, having applied for membership following Russia's invasion of Ukraine. Finland's membership initially prompted a strong diplomatic response from Russia, but we do not expect tensions to increase further.

Flexibility and performance profile: We expect the Finnish government's consolidation efforts will result in deficits lowering to 2.3% of GDP by 2028, from about 4.5% of GDP in 2024

Fiscal deficits in 2024, at about 4.5% of GDP, exceeded our previous expectations due to a combination of weaker tax revenue and higher-than-expected social spending. Public deficits have continued to widen over the past years and, so far, the government's consolidation measures have not been able to reverse this trend. In addition to subdued economic activity, certain expenditure items have been increasing and we expect it may be challenging to reverse this trend: Interest costs will have increased threefold between 2021 and 2025, to about 1.4% of GDP; defense spending and other security measures at the border will remain at about 2.5% of GDP until at least 2026; and social and health expenditure continue to rise, including through wellbeing service counties.

To reign in deficits over the next few years, the government has announced consolidation measures of €9 billion in total over several years, equivalent to about 3.2% of estimated GDP in 2025. Of these, €6 billion represent mainly budget expenditure cuts, as well as higher consumption taxes. A further €2 billion will come from economic reforms mainly targeting the labor market, and slightly below €1 billion will be achieved through tighter health and social expenditure control at the county level. We expect this will be able to reduce deficits to 3.7% in 2025 and to 2.3% by 2028. At the same time, the government is pursuing an ambitious investment program of €4 billion, which should be entirely funded from the state's substantial asset holding, including through divestments.

Finland's forecast fiscal trajectory implies that public debt, net of liquid government assets, will slightly rise to 54% of GDP on average through 2028. 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 Oy, as well as approximately 25% of estimated 2025 GDP in liquid assets held by the public sector's earnings-related pension funds. In line with global trends, financing costs have increased, but the overall interest bill appears moderate and manageable. We expect interest expense slightly below 3% of government revenue over the next four years. Although Finland has sizable contingent liabilities--predominantly government guarantees--of about 24% of GDP, we think that the likelihood of these being called is low and we do not expect they will weigh on public debt over our forecast horizon.

Inflation in Finland has increased over the past few months, following a VAT hike in September 2024, which added around 1 percentage point to overall price increases. Inflation has remained below the eurozone average, currently at 1.9% in March. 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. We expect inflation in Finland will remain below the European Central Bank (ECB)'s target of slightly below 2% through 2028.

In our view, Finland's eurozone membership reduces its monetary flexibility. However, Finland also benefits from the 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 current account posted a small surplus in 2024--following an already substantial rebound in 2023 on the back of a reversal of the terms-of-trade shock from rising energy prices. External balances improved further as imports contracted due to weak domestic demand and services exports recovered, mainly in IT services. We expect Finland's current account will remain in a marginal surplus over the next few years as trade and primary income flows remain close to long-term averages.

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 above 200% of CARs on average in 2025-2028. Still, if we consider Finland's net international investment position, the country's external profile is much stronger, with external assets exceeding external liabilities by almost 30% of CARs on average.

The Finnish banking sector remains resilient amid the ongoing house price correction and overall still-subdued macroeconomic conditions. Therefore, we do not think it will represent a contingent liability for public finances. In general, the country's banking sector is large, concentrated, and characterized by intense competition. Higher interest rates have been a boon for bank's earnings and retained earnings have further bolstered the system's already robust capitalization. In our view, the banking sector has sound buffers to absorb credit losses, even beyond our base case, given banks' strong operating profitability. Challenges arising from the recent recession and distress in certain sectors, especially real estate and construction translating into higher credit impairments, are unlikely to shake the banks' resilience.

Finland--Selected Indicators

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Economic indicators (%)										
Nominal GDP (bil. EUR)	238.5	236.4	248.8	266.1	272.8	276.2	282.3	292.0	300.2	309.0
Nominal GDP (bil. $)	268.0	268.6	292.7	280.1	296.5	300.2	288.3	307.6	339.3	355.1
GDP per capita (000s $)	48.6	48.6	52.9	50.5	53.3	53.6	51.4	54.7	60.3	63.0
Real GDP growth	1.4	(2.5)	2.7	0.8	(1.0)	(0.1)	0.5	1.8	1.2	1.3
Real GDP per capita growth	1.3	(2.6)	2.5	0.5	(1.2)	(0.8)	0.4	1.7	1.1	1.2
Real investment growth	(1.0)	(1.1)	1.8	1.5	(7.4)	(7.1)	0.5	2.0	1.8	1.8
Investment/GDP	24.5	25.1	24.8	27.3	22.6	21.5	21.4	21.5	21.6	21.7
Savings/GDP	24.4	25.5	25.1	25.1	22.1	22.1	21.6	21.6	21.8	21.8
Exports/GDP	40.6	36.2	39.9	46.3	43.1	41.7	41.9	41.7	41.7	41.7
Real exports growth	6.9	(8.5)	6.0	4.4	0.2	0.1	1.3	1.8	1.5	1.5
Unemployment rate	6.8	7.7	7.7	6.8	7.2	8.4	8.8	8.4	8.2	8.0
External indicators (%)										
Current account balance/GDP	(0.1)	0.4	0.3	(2.2)	(0.4)	0.6	0.2	0.1	0.2	0.2
Current account balance/CARs	(0.3)	0.9	0.7	(3.9)	(0.8)	1.1	0.4	0.1	0.4	0.3
CARs/GDP	50.6	45.2	50.0	56.3	54.4	51.5	52.7	51.8	51.1	50.8
Trade balance/GDP	1.1	1.2	0.9	(0.0)	3.5	2.5	2.4	2.5	2.5	2.5
Net FDI/GDP	3.6	(3.0)	1.1	(3.2)	0.4	(1.2)	(0.3)	(0.3)	(0.3)	(0.3)
Net portfolio equity inflow/GDP	(3.0)	(1.2)	(0.5)	(1.2)	(5.8)	1.4	(0.8)	(0.8)	(0.8)	(0.8)
Gross external financing needs/CARs plus usable reserves	343.1	374.1	350.5	296.7	319.3	327.4	329.9	323.7	310.2	304.4
Narrow net external debt/CARs	205.7	262.8	205.7	188.2	202.0	211.9	221.1	214.0	199.7	194.5
Narrow net external debt/CAPs	205.2	265.2	207.1	181.2	200.5	214.2	221.9	214.3	200.4	195.1
Net external liabilities/CARs	1.6	8.5	(4.5)	(11.4)	(34.7)	(33.8)	(31.6)	(28.7)	(25.9)	(24.5)
Net external liabilities/CAPs	1.6	8.6	(4.5)	(11.0)	(34.4)	(34.2)	(31.7)	(28.8)	(26.0)	(24.6)
Short-term external debt by remaining maturity/CARs	269.0	310.2	283.6	224.5	250.2	264.5	268.8	260.3	243.2	235.9
Usable reserves/CAPs (months)	0.9	1.1	1.1	1.2	1.2	1.3	1.4	1.4	1.3	1.2
Usable reserves (Mil. $)	11,425.8	13,570.4	16,805.7	16,025.5	17,032.2	17,735.5	17,985.5	18,235.5	18,485.5	18,735.5
Fiscal indicators (general government %)										
Balance/GDP	(0.9)	(5.5)	(2.7)	(0.2)	(3.0)	(4.5)	(3.7)	(3.0)	(2.5)	(2.3)
Change in net debt/GDP	(1.2)	6.7	(0.2)	9.9	2.1	4.3	3.7	3.0	2.5	2.3
Primary balance/GDP	(0.1)	(4.9)	(2.1)	0.4	(1.9)	(3.1)	(2.3)	(1.6)	(1.1)	(0.9)
Revenue/GDP	51.7	50.9	52.5	52.5	52.9	52.0	52.7	52.9	53.1	53.1
Expenditures/GDP	52.6	56.5	55.1	52.6	56.0	56.5	56.5	55.9	55.6	55.4
Interest/revenues	1.7	1.3	1.0	1.1	2.2	2.6	2.7	2.7	2.6	2.7
Debt/GDP	63.7	73.7	71.7	72.6	76.2	80.8	82.9	84.0	85.4	86.5
Debt/revenues	123.3	144.8	136.7	138.5	144.0	155.2	157.2	158.8	160.8	162.8

Finland--Selected Indicators										
Net debt/GDP	32.2	39.1	37.0	44.5	45.5	49.3	52.0	53.2	54.2	55.0
Liquid assets/GDP	31.5	34.6	34.7	28.1	30.7	31.5	30.9	30.8	31.2	31.5
Monetary indicators (%)										
CPI growth	1.1	0.4	2.1	7.2	4.3	1.0	1.9	1.6	1.5	1.5
GDP deflator growth	1.5	1.6	2.5	6.2	3.5	1.4	1.7	1.6	1.6	1.6
Exchange rate, year-end (EUR/$)	0.9	0.8	0.9	0.9	0.9	1.0	1.0	0.9	0.9	0.9
Banks' claims on resident non-gov't sector growth	4.5	4.3	4.1	3.9	(0.4)	(0.9)	3.3	3.0	3.0	3.0
Banks' claims on resident non-gov't sector/GDP	97.2	102.3	101.2	98.2	95.5	93.5	94.5	94.1	94.3	94.3
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	(5.1)	(3.2)	8.8	3.2	2.8	(4.2)	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.

Country--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 of 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	

Country--Rating Component Scores

Key rating factors	Score	Explanation
Final rating		
Foreign currency	AA+	Default risks do not apply differently to foreign- and local-currency debt.
Notches of uplift	0	
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, March 20, 2025
- Sovereign Ratings History, March 20, 2025
- Sovereign Risk Indicators, April 10, 2025. Interactive version available at http://www.spratings.com/sri
- Sovereign Ratings Score Snapshot, April 7, 2025
- Sovereign Debt 2025: Commercial Debt Will Reach A New Record High Of $77 Trillion, March 4, 2025
- Default, Transition, and Recovery: 2024 Annual Global Sovereign Default And Rating Transition Study, March 24, 2025

Ratings Detail (as of April 23, 2025)*		
Finland		
Sovereign Credit Rating		AA+/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Sovereign Credit Ratings History		
16-Sep-2016	*Foreign Currency*	AA+/Stable/A-1+

Ratings Detail (as of April 23, 2025)*

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.

This unsolicited rating(s) was initiated by a party other than the Issuer (as defined in S&P Global Ratings' policies). It may be based solely on publicly available information and may or may not involve the participation of the Issuer and/or access to th