MOODY'S RATINGS

Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Finland, Government of

13 Jun 2025

Paris, June 13, 2025 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Finland and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 10 June 2025 in which we reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Finland's credit profile, including its Aa1 rating, is supported by the strength of its institutions and economy, which underpin economic resiliency and mitigate the sovereign's fiscal and debt challenges. In particular, Finland's institutions have produced a strong track record of structural reforms—which continues to this day. In this context, we expect that the authorities' medium-term fiscal strategy will gradually start to reverse the sharp increase in the government's debt burden over the past five years.

Since our last rating action in December 2024, credit developments have been broadly in line with our expectations. Following a contraction of 1% in 2023, the Finnish economy started recovering in the second half of 2024, with the economy contracting by 0.1% by the end of the year. Investment, particularly in the construction sector, is gradually recovering, in part driven by the unwinding of tighter monetary policy. Given the high share of variable-rate mortgages in Finland, this has also translated into a pickup in private consumption. Fiscal metrics continued to deteriorate, in part due to one-off factors related to changes in social security taxation that reduced surpluses in the social security funds. In all, the deficit widened to 4.4% of GDP in 2024, which also pushed debt levels above 80% of GDP. The annual increase in the deficit was also caused by an increase in indexed expenditures. The factors that led to the fiscal deterioration last year are largely one-off issues, and we expect the government's consolidation and growth-enhancing reform packages introduced in 2024 and 2025 to put the public finances on a gradual improvement path, with debt peaking in 2027, after which point it will slowly decline.

We assess Finland's economic strength as "a2", above the initial score of "baa1", reflecting the country's high wealth levels, a very well-educated labour force and strong institutional support for innovation, which create a solid foundation for a knowledge-based economy. Having said this, our assessment also takes into account long-standing productivity challenges, such as labour and skills shortages in the most productive sectors. Our assessment of Finland's institutions and governance strength is "aaa", which is underpinned by the government's high credibility, transparency and consensus on key macroeconomic policies. We score Finland's fiscal strength as "a2", which is higher than the initial score of "baa1". This adjustment reflects the temporary nature of the debt increase and the partially funded nature of its pension commitments, which reduces pension-related risks. Finland's overall score of "baa" for susceptibility to event risk, driven by political risk given Russia's ongoing war in Ukraine (Ca stable), which marked a paradigm shift in the post-Cold War European security order.

The stable outlook reflects balanced risks at the Aa1 level. Finland retains its significant competitiveness, and changes to migration patterns and government policy are meaningful steps to counteract labour supply issues. As mentioned, the recent deterioration in the public finances is also being addressed, most notably by a large fiscal consolidation package announced in April 2024. Should further fiscal efforts be needed to put debt firmly on a downward path, Finland's strong institutional framework suggests that these will be forthcoming.

Finland's Aa1 rating could come under upward pressure if we were to see a sustained improvement in the debt trajectory earlier and faster than what we currently expect. This could be accompanied by favourable surprises to the impact of structural reforms—particularly related to labour force participation of older workers and migration of skilled workers. These reforms could result in an improvement in the country's medium- to long-term growth potential.

Downward pressure on the outlook, or ultimately the rating, could develop if the government did not deliver on its commitment to reverse the deterioration in fiscal metrics. More precisely, a failure to take additional measures if its medium-term fiscal strategy underperformed expectations would place downward pressure on Finland's credit profile. A material worsening of the medium-term growth outlook, combined with an unwillingness or inability to address the impact of lower growth on the public finances, would be credit negative, too. Although it is not our baseline assumption, an escalation of Russia's war in Ukraine that directly involves NATO members would also exert downward rating pressure.

Finnvera's ratings, including the Aa1 backed senior unsecured ratings, and stable outlook also remain unchanged. The senior debt instruments issued by Finnvera are backed by unconditional and irrevocable guarantees from the Finnish government.

This document summarizes our view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Sovereigns published in November 2022. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Finland's "a2" economic strength is set above the initial score of "baa1" to reflect Finland's very high wealth levels, a very well-educated labour force, and strong institutional support for innovation, which creates a solid foundation for a knowledge-based economy. Its "a2" fiscal strength is set above its initial score of "baa1" to reflect the temporary nature of the debt increase and the partially funded nature of its pension commitments, which reduces pensions-related risks. These factors lead to a final scorecard-indicated outcome of Aa1-Aa3, compared to an initial scorecard-indicated outcome of Aa2-A1. The assigned rating is within the final scorecard-indicated outcome.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non-EU rated, non-UK rated, non-EU endorsed and non-UK endorsed ratings may be referenced herein to the extent necessary, if they are part of the same organization list.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

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