MOODY'S RATINGS

CREDIT OPINION
17 June 2025

Update

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Contacts

Sarah Carlson, CFA +33.1.5330.3353
Senior Vice President
sarah.carlson@moodys.com

Diogo Capelo +44.20.3314.2027
Sr Ratings Associate
diogo.capelo@moodys.com

Dietmar Hornung +49.69.70730.790
Associate Managing Director
dietmar.hornung@moodys.com

Marie Diron +44.20.7772.1968
MD-Sovereign Risk
marie.diron@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
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Government of Finland - Aa1 stable

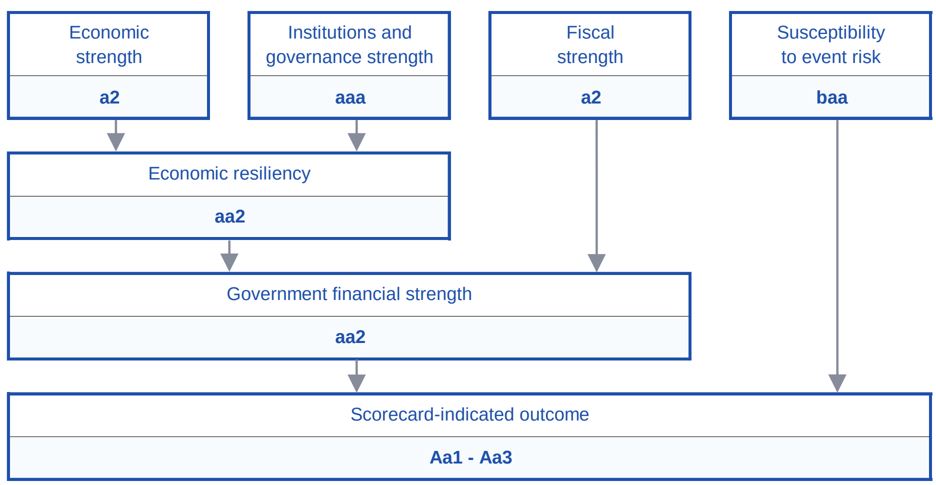
Regular update

Summary

Finland's credit profile is supported by the strength of the country's institutions and knowledge-based economy. These institutions, which are among the strongest in our rated universe, have produced a strong track record of structural reforms, which is reflective of the country's very strong institutional and governance framework. These reforms continue under the current government, which is looking to further bolster the country's strong focus on innovation and address structural labour market challenges by boosting the labour force participation rate and attracting skilled migrants.

However, the public finances have come under considerable pressure since 2020 following the pandemic and Russia's invasion of Ukraine (Ca stable). Higher energy prices and borrowing costs drove the government to enact a series of measures to boost purchasing power, which contributed to an increase in debt burden and interest expenditure. However, we assess that the measures that the government is putting in place through two consolidation packages worth 3.8% of GDP between 2025 and 2028 will materially narrow the deficit and put the debt on a gradual downward trajectory from 2027 onwards.

Exhibit 1
Finland's credit profile is determined by four factors



Source: Moody's Ratings

This publication provides an update on the sovereign credit profile and may also discuss the likely credit implications of a new development or trend for the sovereign. It does not announce a credit rating action.

Credit strengths

» Skilled labour force and strong institutional focus on innovation support knowledge-based economy

» Commitment of the authorities to structural reforms

» Stable, consensus-based political system and effective institutions

Credit challenges

» Elevated general government debt levels that are unlikely to materially decline within the next three years.

» Preservation of fiscal strength and fostering potential growth in light of demographic change

» Elevated exposure to geopolitical risk

Rating outlook

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.

The recent deterioration in the public finances is also being addressed, most notably by a large fiscal consolidation package announced in April 2024, though it will take some years for debt to start declining. 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.

Factors that could lead to an upgrade

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 immigration of skilled workers. These reforms could result in an improvement in the country's medium- to long-term growth potential.

Factors that could lead to a downgrade

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.

Key indicators

Exhibit 2

Finland	2019	2020	2021	2022	2023	2024	2025F	2026F
Real GDP (% change)	1.3	-2.5	2.7	0.8	-0.9	-0.1	1.2	1.5
Inflation rate (% change average)[1]	1.1	0.4	2.1	7.2	4.3	1.0	1.8	2.0
Gen. gov. financial balance/GDP (%)	-0.9	-5.5	-2.7	-0.2	-3.0	-4.4	-3.5	-2.6
Gen. gov. primary balance/GDP (%)	-0.1	-4.9	-2.1	0.4	-1.8	-2.8	-2.0	-1.0
Gen. gov. debt/GDP (%)	65.3	75.3	73.2	74.0	77.5	82.1	85.7	87.1
Gen. gov. debt/revenues (%)	126.4	147.9	139.5	141.1	146.4	154.2	159.9	162.5
Gen. gov. interest payment/revenues (%)	1.6	1.3	1.0	1.1	2.2	3.0	2.7	2.9
Current Account Balance/GDP (%)	-0.1	0.4	0.3	-2.4	-0.5	0.3	-1.1	-1.0

[1] Harmonized Index of Consumer Prices (HICP)

Source: Moody's Ratings

Detailed credit considerations

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. Finland shows comparatively high spending on research and development (R&D) relative to the size of its economy, which explains its high scores in global competitiveness rankings.

Finland continues to be ranked among the top 10 countries globally for innovation performance in 2024 by the World Intellectual Property Organisation. The 2022 PISA scores, which focused on mathematical literacy, showed Finnish students performing above the OECD average, though their performance deteriorated relative to 2006 (the country's best-performing year).

Having said this, our assessment also takes into account long-standing productivity challenges, such as labour and skills shortages in the most productive sectors. Longer term, population ageing is a particular challenge, though recent changes in migration patterns are resulting in significant improvements to demographic trends.

In October 2024, Statistics Finland published new population forecasts in which net immigration increased to 40,000 from the previous assumption of 15,000 made five years ago. Even if Statistics Finland's assumptions prove to be optimistic, independent forecasting body ETLA thinks that it is reasonable to assume that long-term net migration will be at least 60% higher than what was previously assumed.

Our assessment of Finland's **institutions and governance strength** is “aaa”. This is underpinned by the government's high credibility, transparency and consensus on key macroeconomic policies. There is broad political consensus in favour of fiscal consolidation, though current plans anticipate that this will happen at a slow pace. Finland's fiscal framework is tied to multi-annual expenditure ceilings with the Ministry of Finance setting annual limits on central government spending (real expenditure ceiling in absolute terms) for the remaining years of its term.

The assessment also reflects the professional and well-staffed public administration, including the Bank of Finland and Finnish Financial Supervisory Authority, which oversee financial stability and have implemented several rounds of macro-prudential measures to counter rising household debt. Furthermore, Finland scores strongly in global surveys assessing rule of law, voice and accountability, and the control of corruption.

The late-May 2025 OECD country report on Finland considers the country's anti-corruption mechanisms to be among the best of its members. It has recently become the first Nordic country to introduce a transparency register, which publishes lobbying activities for public officials. Finland also keeps its regulatory framework up-to-date for current technologies, most recently crypto assets. Having said this, regulation can slow implementation of infrastructure projects, including those intended to support the green transition.

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. Moreover, while non-financial public sector debt is relatively high, most SOEs are profitable and well-managed.

Public finances in Finland have come under considerable pressure since 2020 following the pandemic and Russia's invasion of Ukraine. Higher energy prices and borrowing costs drove the government to enact a series of measures to boost purchasing power, which ultimately contributed to an increase in the debt burden and interest expenditure.

We anticipate that Finland will start to run primary surpluses from 2028 onwards. In structural terms, the European Commission's estimate is that the primary balance will turn positive from 2025 onwards. However, material stock-flow adjustments, such as those associated with statutory earnings-related pension funds, government investments funded through the sale of central government assets and defence procurement, are a structural feature of Finland's debt dynamics and mean that debt reduction from 2028 onwards will be slow in the absence of even more consolidation measures.

Finland's overall score of "baa" for **susceptibility to event risk,** driven by political risk. Russia's invasion of Ukraine marked a paradigm shift in the post-Cold War European security order. Finland's geographical proximity to Russia is a clear source of vulnerability in the current context, though on balance we see its susceptibility to geopolitical risks as being similar to that of most NATO members; Finland joined NATO in 2023.

Finland is exposed to cyber risks, particularly from Russia, though these risks are largely mitigated by its modern and sophisticated technological infrastructure. To address these risks, the government has published a new Cyber Security Strategy, which extends until 2035; this addresses the requirements of the EU's Cyber Security Directive. The strategy will allocate resources to further modernise technological equipment across the government sector (particularly in the well-being service counties, where there are notable vulnerabilities).

Domestic political risk is low in spite of differing views on the economy, immigration, the EU, and climate policy within the government. The current coalition, which comprises four parties and is led by the National Coalition Party, remains committed to policy continuity, consensus-driven policy-making and fiscal consolidation. Resistance to higher levels of immigration could complicate efforts to increase productivity growth given the decline in the working-age population.

Our banking sector risk score of "a" reflects the large size of the banking system, mitigated by solid capital adequacy and stable profitability of the Finnish banks. Challenges could emerge due to a combination of declining household savings rates, a sharp rise in households' indebtedness, and increased lending to housing corporations. The relocation of Nordea Bank AB (Aa3 positive) headquarters to Helsinki in October 2018 led to a doubling in size of the domestic banking system.

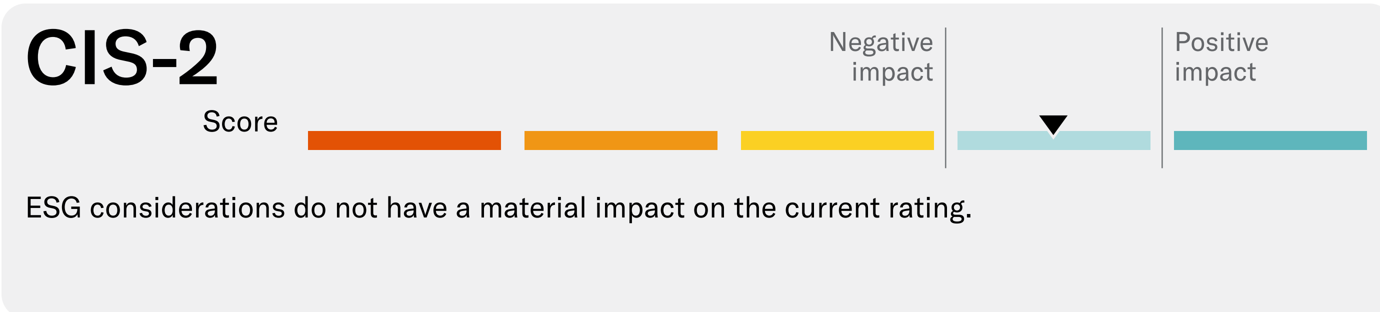
Our government liquidity risk score of "aaa" reflects the government's very strong access to domestic and external funding sources, as illustrated by its very low financing costs.

Our "aa" external vulnerability risk score reflects Finland's relatively stable current-account balance and net international investment position.

ESG considerations

Finland's ESG credit impact score is CIS-2

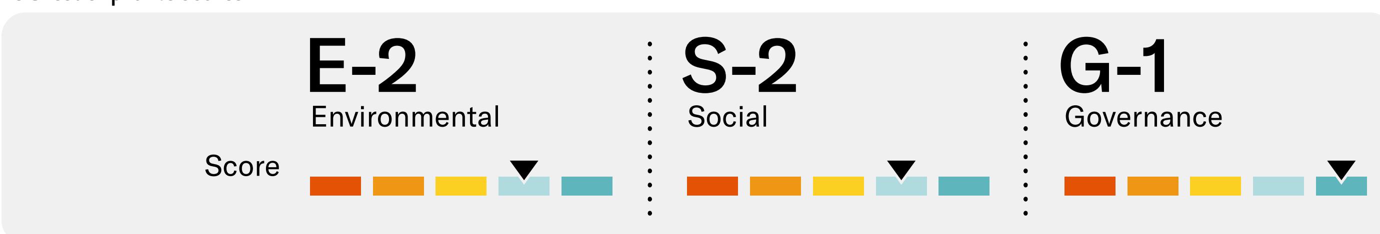
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Finland's ESG Credit Impact Score of **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. This reflects a neutral low exposure to environmental and social risks, very strong governance and, as a result, overall strong capacity to respond to shocks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Finland's exposure to environmental risks is **E-2**, which reflects its low risks across all categories, such as physical climate risks, carbon transition, water management, natural capital, and waste and pollution.

Social

Finland has very low or low exposure to most sources of social risks, which is reflected in its **S-2** issuer profile score. Finland has high-quality education, housing, healthcare and basic services categories that, in our view, support the credit profile. While other countries' education systems have become even more competitive, Finland's remains a particularly strong point. Like many advanced economies, Finland faces long-term economic and fiscal pressures from demographic change, marked by a shrinking working age population and a relatively high dependency ratio, though there are some signs the changes to migration and education policy could be changing these dynamics for the better.

Governance

Finland's institutions and governance is a noteworthy credit strength, which is reflected in the highest-possible G issuer profile score (**G-1**). This is underpinned by the government's high credibility, transparency and consensus on key fiscal policy goals and macroeconomic policies. It also reflects the professional and well-staffed public administration and Finland's very strong scores in global surveys assessing rule of law, voice and accountability, and the control of corruption. Coupled with comparatively strong government financial strength this supports a high degree of resilience.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Recent developments

Fiscal metrics are set to recover

Finland's fiscal metrics have deteriorated somewhat beyond our expectations in 2024. The fiscal deficit widened from 3% in 2023 to 4.4% in 2024. The wider deficit was in large part driven by a smaller-than-expected surplus on the social security fund. The social security fund surplus shrank because of a cut to unemployment insurance contributions and higher expenditure due to indexation of pensions. Adverse macroeconomic conditions, and in particular muted growth, along with a small increase in spending driven by indexed pension expenditures, applied further pressures on the public finances. The primary deficit also contributed to an increase in the debt levels, with the debt-to-GDP ratio rising from 77.5% in 2023 to 82.1% in 2024.

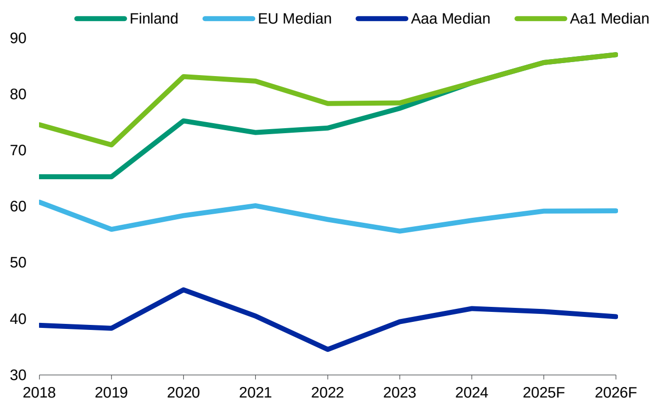
As part of its medium-term spending limits discussion in April 2025, the government has announced additional plans to address the increase in debt with a combination of savings and growth-stimulating measures. On the expenditure side, the government is planning to cut central government spending, transfers to municipalities and development cooperation funds; measures adopted in 2023, namely cuts to social benefits and the freeze of indexation of social benefits, are also starting to have a fiscal impact. It is also continuing with the higher VAT rate and also increasing sickness-related social security contributions.

To stimulate growth and thereby boost revenues in the medium-term, the government is also introducing a €2 billion reduction in income and corporate tax, some of which is expected to be funded through taxes on other products and sectors, such as soft drinks, nicotine pouches, alcohol and the mining industry. Income tax rates for low- and middle-income earners have been cut, at a cost of €650 million, and the upper limit of the highest marginal tax rate will also be decreased from 56% to 52%, at a cost of €500 million. An increase in the child income deduction will also boost consumption in the short term. Our expectation that ECB rate cuts will continue somewhat mitigates the risk that some of these tax cuts will end up boosting private savings.

In all, roughly half of these tax cuts are funded by savings or increases in other taxes; the government anticipates that stronger growth and improved labour force participation will also support deficit reduction. In the next few years (the bulk will be delivered between now and 2027), we will also see the delivery of military equipment (including a large purchase of F-35 fighter jets) that have one-off impacts on deficit numbers; as these purchases are already in the debt numbers due to equipment prepayments, these expenditures will be neutral for both debt and debt affordability metrics.

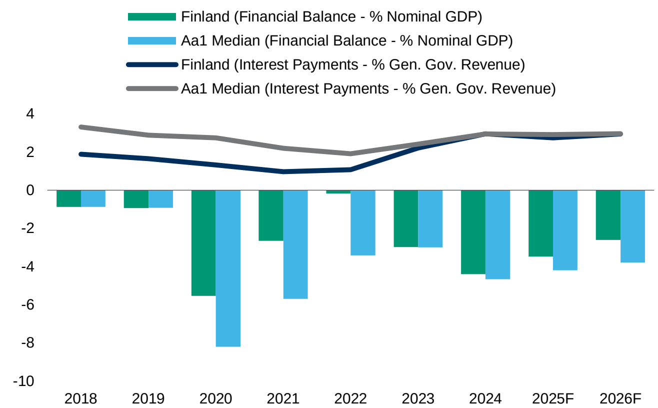
We expect the government's structural reforms and tighter fiscal policy to contribute to a gradual reduction of the deficit. The government introduced two policy packages in 2024 that were aimed both at boosting potential growth and consolidating the deficit through revenue increase and expenditure cuts. On the growth side, the first policy package sought to incentivize work and raise the participation rate of older workers. On the fiscal side, the second package consisted of the VAT hike from 24% to 25.5% which has already been in place since September 2024, as well as a series of cuts in central government, health and social care spending. The effects of the packages will however take some time to affect fiscal metrics, and remain contingent on the growth performance.

Exhibit 5
Finland's debt metrics are in line with rating peers
Debt, % Nominal GDP



Sources: National sources, Eurostat and Moody's Ratings

Exhibit 6
Debt remains affordable despite budget deficits



Sources: National sources, Eurostat and Moody's Ratings

Looking ahead, we expect a gradual improvement in fiscal metrics, driven by fiscal consolidation measures and improving performance of the economy. We are forecasting the deficit will narrow from 4.4% in 2024 to 3.5% in 2025 as the one-off factors that boosted the deficit in 2024 disappear. As growth improves due to the structural reforms, we expect the deficit to improve beyond the Maastricht threshold of 3% of GDP, reaching 2.6% in 2026 and 2% in 2027. Despite this, successive primary deficits will continue pushing the debt trajectory upwards. We forecast debt-to-GDP to increase from 82.1% in 2024 to 85.7% this year, continuing on an upward trend thereafter towards 87.1% in 2026 and 88.6% in 2027, after which point we expect it to start declining. Debt will nonetheless remain affordable. We forecast interest payments to average around 2.9% of government revenues between 2025 and 2027.

The Finnish economy will continue to recover following the recession

Finland experienced two consecutive economic contractions in 2023 and 2024, with real GDP contracting by 0.9% in 2023 and 0.1% in 2024. The performance in 2024 was mixed, with the recession being driven by two large y/y quarterly contractions of 1.3% and 1.2% in the first two quarters of 2024. Falling investment and net exports were the main drags on growth in early 2024, with the high interest rate environment particularly hitting the construction sector, and weak external demand affecting Finnish exports. The recovery began in the second half of 2024, as lower interest rates contributed to a modest pickup in investment levels and private consumption, with the economy experiencing two successive y/y quarterly expansions in the third and fourth quarters of the year. The recovery is carrying on into 2025 albeit at a moderate rate, with real GDP expanding by 0.8% in the first quarter of 2025 driven by the continued strong performance of net exports.

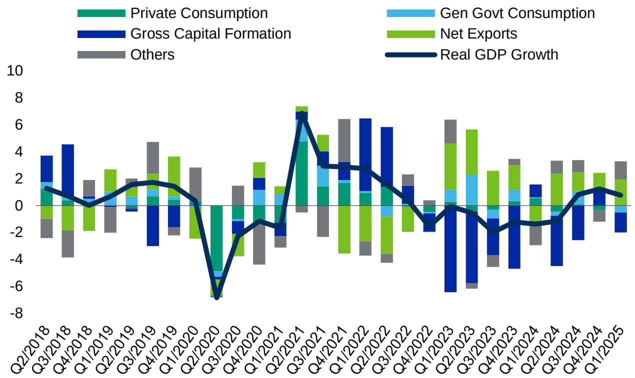
The high interest rate environment continued to hit the construction sector throughout 2024, with gross fixed capital formation in construction facing double-digit contractions in the first two quarters of 2024 and single-digit quarterly contractions of 7.6% and 3.3% y/y in the third and fourth quarters of the year. Growth was supported by a modest expansions of government consumption, as well as a strong performance of services exports, which compensated for a downturn in the export of goods.

Inflation is expected to remain close to target despite the VAT hike that took effect in 2024. Finnish HICP stood at 2.1% in May 2025, slightly up from 1.6% in December 2024 and down from its peak of 9.1% in November 2022. The decline in the price level was mostly driven by a sharp reduction in energy prices, with the special HICP energy aggregate having contracted by 5.5% in May 2025. The small uptick in prices was mostly driven by the standard VAT hike from 24% to 25.5% which took effect in September 2024. Looking ahead, and as the base effects from the VAT increase diminish, we expect inflation to remain close to target, and we forecast the HICP to average at 1.8% in 2025, before stabilising at 2% in 2026 and 2027. While unemployment is relatively high in Finland compared to peers, reaching 8.4% in end-2024, we expect the recovery to contribute to a gradual reduction of the unemployment rate, which we forecast will average 8.1% this year and 7.8% in 2026 and 2027.

Exhibit 7

Recovery continues, driven by net exports

Contribution to real GDP, p.p.

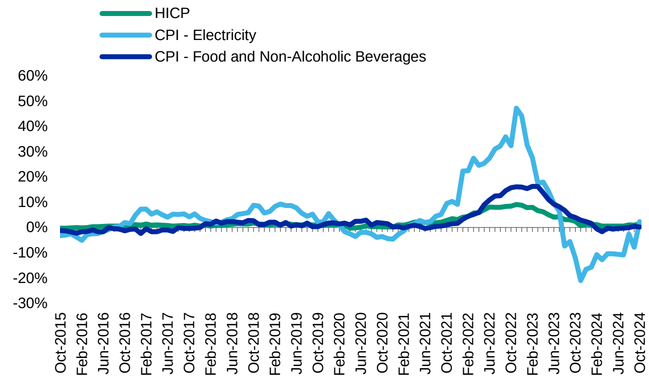


Sources:Eurostat and Moody's Ratings

Exhibit 8

Lower energy costs continue driving down the overall price levels

Year-on-year, % change



Sources:Eurostat, Statistics Finland and Moody's Ratings

Looking ahead, we expect the Finnish economy to gradually recover. We forecast real GDP will expand by 1.2% this year, before growing by 1.5% and 1.3% in 2026 and 2027. Rising wages are expected to contribute to a pickup in private consumption, while the gradual unwinding of monetary policy will boost investment. The monetary policy transmission mechanism is particularly quick in Finland due to an overwhelming majority of mortgages being on variable rate or fixed for very short periods, so we expect residential construction to gradually rebound in 2026. Public investment will also boost growth, driven by large purchases of military equipment in 2025 and 2026.

Moody's rating methodology and scorecard factors: Finland - Aa1 stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				**baa1**	**a2**	**50%**
Growth dynamics	Average real GDP growth (%)	2020-2029F	0.6	caa2		25%
	MAD Volatility in Real GDP Growth (%)	2015-2024	1.4	ba1		10%
Scale of the economy	Nominal GDP ($ billion)	2024	298.7	a2		30%
National income	GDP per capita (PPP, Intl$)	2024	63,445.1	aaa		35%
Adjustment to factor 1	*# notches*				2	max ±9
Factor 2: Institutions and governance strength				**aaa**	**aaa**	**50%**
Quality of institutions	Quality of legislative and executive institutions			aaa		20%
	Strength of civil society and the judiciary			aaa		20%
Policy effectiveness	Fiscal policy effectiveness			aaa		30%
	Monetary and macroeconomic policy effectiveness			aaa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				**aa3**	**aa2**	
Factor 3: Fiscal strength				**baa1**	**a2**	
Debt burden	General government debt/GDP (%)	2024	82.1	b1		25%
	General government debt/revenue (%)	2024	154.2	a1		25%
Debt affordability	General government interest payments/revenue (%)	2024	3.0	aa1		25%
	General government interest payments/GDP (%)	2024	1.6	aa3		25%
Specified adjustments	*Total of specified adjustment (# notches)*			-2	-1	max ±6
	Debt Trend - Historical Change in Debt Burden	2016-2024	13.4	0	0	
	Debt Trend - Expected Change in Debt Burden	2024-2026F	5.0	-1	0	
	General Government Foreign Currency Debt/ GDP	2024	0.0	0	0	
	Other non-financial public sector debt/GDP	2024	24.9	-1	-1	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2024	2.0	0	0	
Other adjustment to factor 3	*# notches*				1	max ±3
F1 x F2 x F3: Government financial strength				**aa3**	**aa2**	
Factor 4: Susceptibility to event risk				**baa**	**baa**	Min
Political risk				baa		
	Domestic political risk and geopolitical risk			baa		
Government liquidity risk				aaa	aaa	
	Ease of access to funding			aaa		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				a	a	
	Risk of banking sector credit event (BSCE)	Latest available	a3	aaa-a3		
	Total domestic bank assets/GDP	2024	240.6	230-400		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				aa	aa	
	External vulnerability risk			aa		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				**Aa2 - A1**	**Aa1 - Aa3**	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

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