Credit Rating Announcement

30 January 2026

Scope downgrades Finland to AA and revises the Outlook to Stable

Rising general government debt, high fiscal deficits, and a modest growth outlook drive the downgrade. A wealthy economy, high net financial assets, and effective institutions anchor the ratings.

Rating action

Scope Ratings GmbH (Scope) has today downgraded the Republic of Finland's (Finland) long-term local- and foreign-currency issuer and senior unsecured debt ratings to AA, from AA+, and revised the Outlook to Stable from Negative. Scope has also affirmed the short-term issuer ratings at S-1+ in both local and foreign currency. As per Rating Definitions updated in December 2025, Outlooks are not assigned to short-term ratings; hence the Outlooks for the short term issuer ratings have been withdrawn (irrelevant rating category).

The downgrade of Finland's long-term ratings is driven by:

1. The sharp rise of the debt-to-GDP ratio over the last years along with a weak fiscal outlook, reflecting continued high fiscal deficits. Despite significant fiscal consolidation efforts there is limited scope for further spending cuts and/or tax increases to sustainably improve the public debt trajectory over the medium-term.

2. Weak economic growth following Russia's war in Ukraine, with output below pre-Covid-19 pandemic levels as of Q3 2025, and a modest growth outlook over the medium-term, reflecting a challenging external environment and long-term demographic pressures.

The Stable Outlook on Finland's long-term ratings reflects Scope's view that risks stemming from challenging fiscal dynamics and modest economic growth are balanced by a wealthy economy, high net financial assets, and effective institutions.

For the latest rating report, please click here.

Key rating drivers

Weak medium-term fiscal outlook including continued high fiscal deficits and a sustained increase in the debt-to-GDP ratio, despite continued fiscal consolidation efforts

Scope estimates Finland's general government deficit will remain above the EU's fiscal governance threshold of 3% of GDP in coming years despite ongoing consolidation efforts given elevated structural fiscal pressures related to an ageing population, higher interest expenditure and higher defence spending needs. While the fiscal deficit is expected to have narrowed to 3.9% of GDP in 2025 from 4.4% in 2024, it is set to increase again to 4.5% in 2026[a]. From 2027, the general government deficit is expected to be less impacted by extraordinary factors, declining gradually from 4.1% in 2027 to 3.6% by 2030.

To address the challenging fiscal outlook the government has already implemented fiscal consolidation measures in recent years. Despite the continued political commitment and the introduction of a new fiscal framework, Scope expects that the measures to date will be insufficient to stabilise public debt over the coming years.

Previous key consolidation measures included cuts to unemployment benefits, a freeze on certain social benefit indexations, changes to tasks in social and health care services, and efficiency improvements in public administration. Additionally, tax increases, such as adjustments to pension income taxation and a 1.5pp hike in the standard VAT (adopted in September 2024) were introduced. This places Finland's VAT rate as the second highest in Europe at 25.5%. In autumn 2025, further new measures of about EUR 1bn were agreed with the aim of temporarily stabilising the debt ratio in 2026-2027 in line with previously stated government targets.

However, during its mid-term budget review[1], Finland's government adjusted its tax policies toward growth-orientated tax cuts. While spending cuts continue to contribute towards fiscal consolidation, the lowering of labour taxation in 2026 and 2027 and the reduction of corporate income tax in 2027 will reduce tax revenue by around EUR 2bn. The timing of the stimulus was questioned, as also noted by Finland's Economic Policy Council[2], given the uncertain scale of the macro-economic boost during an already expected improving cyclical outlook in 2026.

The Council opened an excessive deficit procedure (EDP) concerning Finland in January 2026[3]. This included a recommendation setting out the corrective net expenditure path and timeline required to end its excessive deficit by 2028. In line with the increased pressure to raise defence expenditure across EU member states, the Council previously approved the activation of the national escape clause for Finland, allowing the country to deviate from the maximum growth rates of net expenditure through 2028 by up to 1.5% of GDP compared with 2021[4]. Based on current forecasts, even after taking account of the escape clause, Scope expects there to remain a deviation from the corrective path. The next government after the April 2027 parliamentary elections will be required to introduce further consolidation measures. However, the escape clause for defence expenditure will remain in effect until 2028, limiting institutional pressure to accelerate deeper structural reform to bring the debt trajectory on a more sustainable path.

Despite the fiscal consolidation efforts already undertaken, public debt continues to rise. The public debt-to-GDP ratio increased to a record level of 82% in 2024, up nearly 17pps since 2019, marking the sharpest increase in the euro area. Looking ahead, Scope expects continued upward pressure on the debt ratio given high spending pressures and limited scope for further revenue-raising measures, before the next parliamentary elections in 2027. The debt-to-GDP ratio is expected to rise to around 90% by the end of the current government term in 2027 and to remain on an upward trajectory, reaching around 95% by 2030, well above the average among EU sovereign peers of 69%. Scope notes that this trajectory assumes no additional shock to Finland's growth or fiscal outlook and restrains Finland's fiscal space to respond to future economic crises.

Longer-term estimates by the Bank of Finland[5] suggest that if no changes affecting revenue or expenditure are made after 2028, and NATO defence spending targets are met by 2035, the debt ratio could reach almost 130% by 2040. The adverse public debt trajectory and the difficulty to reverse it underpin Scope's decision to downgrade the sovereign rating.

Modest medium-term potential growth outlook and elevated vulnerability to trade and geopolitical shocks

Finland experienced a period of exceptionally weak economic performance in the years following the COVID-19 pandemic and Russia's war in Ukraine. While economic growth is expected to gradually pick up, Scope does not expect a strong expansionary phase over the coming years, as the economy continues to face persistent structural headwinds, uncertainty related to global trade policy, geopolitical tensions, and additional fiscal consolidation measures. The combination of external shocks and domestic challenges resulted in economic output in Q3 2025 being about 0.3% below pre-pandemic levels, placing it well below the euro area average (+6.9%).

Scope expects a modest improvement in Finland's economic performance with the economy expanding by 0.8% in 2026 and 1.3% in 2027, hence remaining below average growth of 1.4% in the EU in 2026 and 2027. The outlook remains constrained by lingering uncertainty in international relations and trade, weak consumer confidence, subdued housing construction, high unemployment with weak demand for labour, and further fiscal consolidation measures. Still, growth should be supported by rising private consumption, as household purchasing power strengthens, business investment increases and continued growth in exports.

Scope expects Finland's medium-term potential output growth to remain low, however, around 1% per year, down from 1.2% assumed previously, as all key production factors – capital, labour, and total factor productivity – expand only modestly[6]. This places Finland's growth potential at the lower end among its European peers, including Austria (1.0%), Belgium (1.3%) or the Czech Republic (2.3%). Investment growth will only accelerate gradually, despite lower interest rates as high economic uncertainty, low capacity utilisation, and geopolitical tensions dampen firms' willingness to invest. Moreover, productivity growth has been held back by recent crises, including the loss of trade with Russia, supply-chain reorganisation, higher input costs, and rising trade barriers, while defence spending is likely to deliver only modest productivity gains. Labour supply will increase slightly due to net immigration and a growing working-age population, supporting potential output, but this effect will be offset by fewer hours worked on average, population ageing, rising part-time work, and higher structural unemployment, curbing the contribution of labour to long-term growth.

Rating strengths: wealthy economy, high net financial assets that strengthen financing flexibility, and high institutional quality

Finland's AA credit ratings are supported by the country's high GDP per capita of about EUR 49,400 in 2025 (109% of the euro area average), a stable macro-economic environment, including inflation below the 2.0% target, a highly skilled workforce, and continued public investment supporting its leading role in digitalisation, AI-readiness, renewable energy, and green technology. Despite the weak recovery since the Covid-19 pandemic, the economy has proved resilient to a series of major shocks, including the pandemic, the abrupt loss of trade with Russia which accounted for 12% of Finnish goods imports and 5% of exports until 2021; the energy crisis following Russia's invasion of Ukraine; and a sharp rise in interest rates.

The government's ample net financial asset position (58.3% of GDP) as of Q3 2025 stemming from its public pension scheme is an important element of resilience for Finland's government finances. Most of these assets are earmarked to fund pension expenditures, making the Finnish government the wealthiest among euro area sovereigns. As of Q3 2025, the earnings-related pension assets totalled EUR 281bn (101% of GDP), of which approximately 37% relate to the public sector pension institutions and the remainder to private sector investment assets. These pension assets support the government's financing flexibility, as demonstrated by the planned one-time transfer of EUR 1bn from the state pension fund in 2027.

Finally, Finland ranks above the 85th percentile in five out of six World Bank governance indicators, including regulatory quality (86th percentile), government effectiveness (87th), voice and accountability (89th), the rule of law (92nd), and control of corruption (92nd). The country's strong governance reflects a business-friendly environment and strengthens macro-economic stability. Finnish authorities have proved resolute in implementing structural reforms in recent years, strengthening the sustainability of the welfare system, addressing labour market rigidities, and shifting the country's neutral foreign policy stance towards full NATO membership. The landmark healthcare reform that entered into effect in 2023 streamlined the structure of the healthcare system from a previous highly fragmented municipal sector to newly created county governments. This improves the central government's ability to steer the system and could contain costs in an area driving structural imbalances in Finland's government finances. To strengthen long-term fiscal sustainability, the government is introducing a new fiscal framework, which will aim to secure cross-party political commitment to multi-year fiscal planning.

Rating-change drivers

The **Stable Outlook** represents the opinion that risks for the ratings are balanced over the next 12 to 18 months.

Upside scenarios for the long-term ratings and Outlooks are if (individually or collectively):

1. the fiscal outlook improves notably, resulting in a declining debt-to-GDP trajectory; and/or
2. the country's economic growth outlook improves significantly.

Downside scenarios for the ratings and Outlooks are if (individually or collectively):

1. the fiscal outlook continues to weaken over the medium-term, resulting in a sustained increase in government debt;
2. the economic outlook weakens, for example, due to a domestic or external economic shock, lowering economic growth and/or the country's medium-term growth potential;
3. financial stability risks were to crystallise, with damage to the financial and non-financial private sector balance sheets, significantly weakening the economic and fiscal outlooks; and/or
4. geopolitical risks were to escalate significantly, threatening macro-economic stability.

Sovereign Quantitative Model (SQM) and Qualitative Scorecard (QS)

Scope's Sovereign Quantitative Model (SQM) provides a first indicative credit rating of 'aa-' for Finland. This 'aa-' first indicative rating receives a one-notch uplift from the SQM's reserve-currency adjustment and no negative adjustment from the political-risk adjustment. This results in a final SQM indicative credit rating of 'aa' for Finland. On this basis, the final SQM quantitative rating of 'aa' is reviewed by the Qualitative Scorecard (QS) and can be adjusted by up to three notches depending on Finland's qualitative credit strengths or weaknesses compared against a peer group of sovereign states identified by the SQM.

Scope identified the following QS relative credit strengths of Finland: i) fiscal policy framework; ii) environmental factors; and iii) social factors. Conversely, Scope identified the following QS relative credit weakness for Finland: i) growth potential and outlook; and ii) long-term debt trajectory. On aggregate, the QS generates no adjustment affecting Finland's credit rating, resulting in the final AA long-term ratings. A rating committee has discussed and confirmed these results.

Environment, social and governance (ESG) factors

Scope explicitly factors in ESG issues into its ratings process vis-à-vis the sovereign-rating methodology's stand-alone ESG sovereign-risk pillar, which holds a significant 25% weighting under the quantitative model (SQM) and 20% weight under the methodology's qualitative overlay (QS).

With respect to environmental factors, Finland receives high scores in most SQM indicators. These include carbon emissions per unit of GDP, the ecological footprint of consumption compared with available biocapacity, and the second highest ranking in the ND-GAIN index, implying a low vulnerability and high readiness to adapt to climate change. Finland, however, has a relatively weak mark on emissions per capita. Scope assesses Finland's QS adjustment for 'environmental factors' as 'strong'. Finland aims to become carbon neutral by 2035, one of the most ambitious emissions reduction targets globally. The Climate Change Act enforced in July 2022 sets targets to reduce emissions by 60%, 80% and at least 90% compared to 1990 levels by 2030, 2040 and 2050, respectively, which will require significant policy efforts and economic transformations. The 2025 Annual Climate Report[7] indicates that the 2030 and 2040 emission reduction targets can be met when solutions based on carbon capture are taken into account. Finland benefits from ample, diversified and sustainable energy sources. Still, further efforts to improve energy efficiency would support the achievement of emission reduction targets and reduce dependence on fossil-fuels imports, which still account for about 30% of the energy mix.

Regarding social criteria, Finland receives high scores in the SQM model for income inequality and labour force participation, and a weak mark for the old-age dependency ratio. The complementary QS assessment of 'social factors' is assessed at 'strong'. Finland benefits from an advanced social safety net and a high-quality education system, reflected in one of the lowest income inequality levels among European countries, as well as a share of people at risk of poverty and social exclusion, well below the EU average (16% versus 22%). Finland ranks first out of 167 countries in the 2025 Sustainable Development Report[8], which assesses countries' progress towards achieving the UN's 2030 goals. Social risks relate to the country's adverse demographic trends. Finland has one of the highest old-age dependency ratios in the euro area, at 38.1% in 2025, up from 22.2% in 2000.

In the SQM, Finland has outstanding scores in the World Bank's Worldwide Governance Indicators and receives no negative adjustment for political risk. In the QS, Scope assesses Finland's 'governance factors' as 'neutral' compared with its sovereign peer group. Finland benefits from outstanding institutional quality. Scope expects a continuation of a proactive stance to structural reform as illustrated by the government's ambitious reform plans for the labour market and in the healthcare sector. Finland has been directly exposed to geopolitical risks since the escalation of the Russia-Ukraine war given its 1,300 km long border with Russia. The country's international ties to European and other Western allies, underpinned by the recent accession to NATO, help to mitigate security risks.

[a] Compared with previous expectations at the last rating review in August 2025, the lower deficit in 2025 and higher deficit in 2026 is largely the result of the impact in accrual terms of fighter jet deliveries.

Rating committee

The main points discussed by the rating committee were: i) domestic economic risk; ii) public finance risk; iii) external economic risk; iv) financial stability risk; v) ESG-related risk; and vi) rating peers.

Rating driver references

1. Ministry of Finance, General Government Fiscal Plan for 2026-2029, May 2025
2. Economic Policy Council, Opinion General Government Fiscal Plan for 2026-2029, May 2025

3. European Council, Stability and Growth Pact: Council opens excessive deficit procedure for Finland, January 2026
4. European Council, Council Recommendation C/2025/3966 – Activation of the national escape clause, July 2025
5. Bank of Finland, Assessment of public finances – from targets to actions, January 2026
6. Bank of Finland, Forecast for the Finnish Economy – December 2025 – Finland's economy heading out of recession, January 2026
7. Ministry of the Environment, Annual Climate Report 2025, November 2025
8. Sustainable Development Report 2025

Methodology

The methodology used for these Credit Ratings and Outlooks, (Sovereign Rating Methodology, 27 January 2025), is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.
The model used for these Credit Ratings and Outlooks is (Sovereign Quantitative Model (ex CVS Model) 4.1), available in Scope Ratings' list of models, published under scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Credit Ratings were not requested by the Rated Entity or its Related Third Parties. The Credit Rating process was conducted:

With Rated Entity or Related Third Party participation	YES
With access to internal documents	YES
With access to management	YES

The following substantially material sources of information were used to prepare the Credit Ratings: public domain and the Rated Entity.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.
Lead analyst: Eiko Sievert, Executive Director
Person responsible for approval of the Credit Ratings: Alvise Lennkh-Yunus, Managing Director
The Credit Ratings/Outlooks were first released by Scope Ratings in January 2003. The Credit Ratings/Outlooks were last updated on 1 August 2025.

Potential conflicts

See scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings, as well as a list of Ancillary Services and certain non-Credit Rating Agency services provided to Rated Entities and/or Related Third Parties.

Conditions of use / exclusion of liability

About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

Contact

Analyst	Eiko Sievert	e.sievert@scoperatings.com
Team leader	Alvise Lennkh-Yunus	a.lennkh@scoperatings.com

Scope Ratings GmbH • Lennéstraße 5 • D-10785 Berlin • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scoperatings.com