

Morningstar DBRS Confirms Republic of Finland at AA (high), Stable Trend

SOVEREIGNS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the Republic of Finland's Long-Term Foreign and Local Currency - Issuer Ratings at AA (high). At the same time, Morningstar DBRS confirmed the Republic of Finland's Short-Term Foreign and Local Currency - Issuer Ratings at R-1 (high). The trend on all ratings is Stable.

KEY CREDIT RATING CONSIDERATIONS

The Stable trend reflects Morningstar DBRS' view that Finland's prospects for strengthening economic growth and consolidating fiscal accounts over the medium term remain intact. While growth has been weak in recent years, improving sentiment indicators point to a gradual recovery. Private consumption and investment are poised to strengthen this year on rising household incomes. However, higher energy prices, if sustained, pose downside risks to the near-term growth outlook and could result in additional fiscal costs. Finnish public finances have been strained by a period of weak growth, structurally higher spending on public services and social benefits, and rising interest costs. The government is implementing a fiscal adjustment to stem the rise in public debt, although fiscal policy will be eased slightly in 2026/27 to deliver some cyclical support to the economy. Going forward, the fiscal trajectory could benefit from an updated fiscal framework and broad political consensus around medium-term fiscal targets.

Finland's credit profile is underpinned by its strong institutions and participation in international arrangements such as the EU, the Euro area and NATO. Finland has a track record of sound economic and fiscal policymaking, invests strongly in R&D and education, and maintains high income-per-capita levels. Longer-term fiscal sustainability is supported by the country's partially-funded pension systems. However, the gross government debt burden is somewhat elevated and will likely continue to increase over the medium term. As a medium-sized open economy, Finland is susceptible to adverse developments in the external environment. In addition, a very interconnected banking system and elevated private sector debt could pose vulnerabilities to macrofinancial stability.

CREDIT RATING DRIVERS

Morningstar DBRS could upgrade the credit ratings if the public debt ratio is put on a firm downward trajectory on the back of fiscal consolidation and longer-term economic growth prospects materially improve.

Morningstar DBRS could downgrade the credit ratings if persistently wide fiscal deficits result in a material increase in the public debt ratio.

Strengthening Growth in 2026 and 2027 as Domestic Demand Rebounds, But Middle East Conflict Could Weigh on Momentum

Finland's economic growth is set to strengthen this year after a prolonged period of weakness. Real GDP has not recovered to its 2022 level, as economic activity in recent years has been constrained by subdued consumer spending, a sharp downturn in construction activity, and challenges to external trade following the intensification of the Russia/Ukraine war. In 2025, the economy grew just 0.2%. Nevertheless, there have been nascent signs of strengthening momentum, as sentiment in industry and services sectors has improved over the past year. The Bank of Finland (BoF) projects GDP growth of 0.8% in 2026, 1.7% in 2027, and 1.5% in 2028. This outlook rests on the expectations that rising real wages, supported by some income tax reduction and lower (mainly variable-rate) mortgage burdens, will boost household consumption and investment spending. Business investment is projected to recover moderately amid strengthening external demand, while public investment is expected to remain at a high level. However, adverse repercussions from the Middle East conflict present downside risks to the outlook. In particular, higher-for-longer energy prices could dampen the rebound of private consumption and investment and soften external demand (also see [This Time Might Be Different: EU Inflation Pass-Through Risk From Another Energy Price Shock](#)).

Finland's economy faces several structural challenges related to productivity growth, the labour market, and demographics. While Finland invests strongly in education, research and development, and maintains a strong regulatory environment, labour productivity growth (per hour worked) has performed weakly over the last decade, while the number of hours worked has declined. With regards to the labour market, the unemployment rate rose to 10.0% in January 2026 (Eurostat, seasonally-adjusted). While the recent increase is partly cyclical, it also reflects high structural unemployment compared with EU peers. In addition, Finland's population is ageing and a resultant stagnation or decline in the labour force over the medium to long term could increasingly weigh on the country's growth potential.

Fiscal Policy Prioritises Support for Near-Term Economic Rebound, Delaying Consolidation

Morningstar DBRS expects Finland will remain committed to fiscal consolidation after the 2027 election, even though the fiscal deficit will likely be elevated in the near term. Temporary crisis-related expenditure and structurally higher spending amid subdued economic growth have put pressure on public finances in recent years. Upon taking office in 2023, the Orpo government implemented various consolidation measures, such as raising the VAT rate, trimming unemployment and other social benefits, and limiting healthcare expenditure. However, fiscal savings stemming from recent labour market and administrative reforms, as well as from efforts to enhance spending efficiency, are yet to materialise. Facing a weak economy last year, the government loosened fiscal policy somewhat. Measures included moderate income tax reductions for employees and corporations, which are to be implemented in 2026/27. The BoF forecasts the fiscal deficit will widen to 4.3% in 2026, from an estimated 3.7% in 2025, and--under no-policy-change assumptions--will remain close to 4% in 2027/28. Finland will also likely raise defence spending--estimated at 2.5% of GDP in 2026--to meet NATO's spending target of 3.5% of GDP over time. In addition, the Middle East conflict presents risks to the fiscal outlook, as weaker-than-expected economic growth or a step-up in energy-support measures could weigh on fiscal results.

Recent fiscal outcomes prompted the EU Council to place Finland in Excessive Deficit Procedure (EDP) in January 2026. This will lead to increased fiscal scrutiny and consolidation demands from EU authorities.

Finland introduced a new national fiscal framework from beginning of 2026 with strong parliamentary involvement. The fiscal targets for the next legislative term (2027-2031), agreed in line with the new procedures, have garnered broad political support across government and opposition parties. Finland aligned its national fiscal framework with new EU rules and instated additional mechanisms that could prove to be more fiscally restraining than EU requirements over the long term.

Public Debt Burden is Moderate-to-High; Overall Balance Sheet Supported by Partially-Funded Pension System

Finland's public debt burden will likely remain moderate-to-high over the medium term. The increase in the government debt-to-GDP ratio by 23 percentage points over the past six years reflects temporary crisis-related expenditure amid subdued economic growth, and structurally higher consumptive spending. Elevated primary deficits and increasing interest costs will likely continue outweighing the countervailing effect from moderate economic growth and inflation on public debt dynamics, thereby putting the government debt-to-GDP ratio on an upward trajectory. The BoF projects the ratio will rise from about 88% in 2025 to 93% by 2028. Gross interest expenditure is set to edge up from 1.6% of GDP in 2025 to 1.8% by 2027. Finland's debt dynamics are also impacted by guarantees granted for social housing loans and asset purchases of pension funds within the government sector, which among other factors contribute to typically material positive stock-flow adjustments. The composition of Finland's public debt is sound. Central government debt is almost entirely denominated in local currency EUR and benefits from an extended average maturity of around 8 years and a diversified investor base. There is no currency risk (after hedges) and limited exposure to interest rate risk through derivatives.

Finland's overall public balance sheet position remains strong, with a net financial asset position of 58% of GDP as of 2025Q3. This largely reflects the accumulated assets under Finland's partially-funded pension systems (both, private earnings- and state-related) amounting to about 110% of GDP as of 2025YE, or covering around one-third of the estimated long-term pension liabilities. Returns generated on these assets will mitigate the anticipated pension-related pressures on public finances over time. These government assets support a positive qualitative adjustment to the "Debt and Liquidity" building block assessment. Notably, budgetary financing will be supplemented by a small one-off withdrawal from the state pension fund in 2027. In principle, such assets are not available for budgetary financing beyond fixed yearly contributions. Furthermore, although notional amounts of contingent liabilities are elevated, we view the materialisation risk as limited. General government guarantees (those not already included in government debt) amounted to around 17% of GDP in 2025, and mainly relate to the state-owned export agency.

Strong Institutional Framework and Stable Political Environment; Parliamentary Elections Coming Up In 2027

Finland benefits from strong institutions, EU and NATO membership, and a relatively high degree of political stability. This is reflected in the country's strong rankings in the World Bank's Worldwide Governance Indicators. The approach to policymaking is typically consensus-oriented, as recently demonstrated by the broad adoption of a new fiscal framework and medium-term fiscal targets. The four-party coalition government is expected to stay in office for its full term. The next parliamentary election is scheduled for April 2027. Rebalancing fiscal accounts, strengthening the economy, and bolstering security forces are expected to remain the main priorities of the coalition. Finland, sharing a direct border with Russia, joined NATO in 2023 and is seeking to strengthen defence cooperation with the U.S. and its European partners. Finland is expanding its national defence capacities and has significantly reinforced its border security since the intensification of the Russia/Ukraine war in 2022.

External Position to Remain Sound Despite Elevated Trade Uncertainty; High Cross-Border Exposure of Banking Sector

Finland's external position is set to remain sound over the medium term despite heightened trade tensions and a highly uncertain external environment. The country benefits from an external net asset position and a broadly balanced current account. Trade in goods and services recovered from the adverse impact of the Russia/Ukraine war. Finnish exports have also been resilient to higher U.S. tariffs, despite significant direct trade links to the U.S. (about 11% of total goods exports as of 2025Q3). Over the next few years, Finnish export growth will likely be supported by strengthening growth among key trading partners, in particular the Euro area. At the same time, import demand could increase on the back of strengthening private consumption and investment. The BoF projects small current account surpluses of about 0.2-0.4% of GDP over 2026-28 (after 1.1% in 2025). Finland's net international investment position (NIIP) is in surplus, standing at 22% of GDP as of 2025Q3. This primarily reflects growing private sector foreign-equity portfolio investment and elevated direct investment abroad by Finnish companies. Nevertheless, the country's elevated gross external debt-to-GDP ratio (at around 209% as of 2025Q3), of which a large share relates to cross-border exposure of the Finnish banking sector, remains a potential source of vulnerability.

Financial Sector is in Sound Condition While Some Vulnerabilities Persist; Inflation is Contained

Finland benefits from a sound macroprudential framework, profitable and well-capitalised banks, and robust private sector balance sheets. Corporate and household loan growth has begun to recover following the economic and housing market downturn in recent years. Overall asset quality has been resilient with non-performing loans remaining at a very low 1.2% of total loans as of 2025Q3 (EBA). Finnish Banks are well capitalised to absorb potential losses in their loan portfolios, with the CET1 ratio standing at 18% as of 2025Q3. The Financial Supervisory Authority (FIN-FSA) has maintained the systemic risk buffer rate at 1% of risk-weighted assets since 2023, kept the countercyclical buffer rate unchanged at 0% since 2015, and applies additional buffers for systemically important institutions. Moreover, real estate sector resilience has been strengthened with higher lending standards towards households. Still, structural vulnerabilities persist and relate mainly to the large and interconnected Nordic financial sector, Finnish banks' large exposure to the real estate market and a reliance on short-term wholesale funding. Moreover, Finnish household debt--at 63% of GDP as of 2025Q3--is comparatively high. Mortgages are typically variable-rate with short refixing periods, heightening households' exposure to interest rate risk and potentially amplifying economic downturns. These factors account for the negative qualitative adjustment to the "Monetary Policy and Financial Stability" building block assessment.

While the BoF forecasts Finnish inflation to remain consistent with the ECB's policy target over the medium term--at 1.9% in 2028--higher energy prices, if sustained, could intensify inflationary pressures in the near term. Finnish consumer price (HICP) inflation averaged 1.8% in 2025, which was reflective of weak domestic consumption and moderating energy prices. This was balanced with upward pressure from elevated services price growth and the impact of a VAT rate hike (introduced in September 2024).

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Governance (G) Factors

The following Governance factor had a relevant effect on the credit analysis: Peace and Security. Morningstar

DBRS takes the view that Finland would likely respond to hostilities with neighbouring governments. Finland, sharing a direct border with Russia, joined NATO in 2023 and seeks to strengthen defence cooperation with the U.S. and its European partners. The country is in the process of expanding its defence capacities and increasing border security. Potentially elevated external security risks are exemplified by occasional security incidents in its maritime and air space, and cyber-attacks on institutions and the economy. Morningstar DBRS expects that Finland will further increase defence spending over the next few years and comply with the NATO spending target of 3.5% of GDP over the long term. Morningstar DBRS has taken this factor into account within the "Fiscal Management and Policy" Building Block.

There were no Environmental or Social factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) <https://dbrs.morningstar.com/research/454196>

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments: <https://dbrs.morningstar.com/research/476872>

EURO AREA RISK CATEGORY: LOW

Notes:

All figures are in Euro (EUR) unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments (09 July 2025) <https://dbrs.morningstar.com/research/457952>. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings <https://dbrs.morningstar.com/research/454196> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Bank of Finland (BoF): Forecast for the Finnish Economy (December 2025), Financial Stability Assessment (June 2025); Ministry of Finance of the Republic of Finland: Economic Survey (Winter 2025), Draft budgetary plan 2026, Fiscal Plan for 2026-2029; State Treasury of the Republic of Finland; Statistics Finland; International Monetary Fund (IMF): Staff Report for the Art. IV Consultation (2026), World Economic Outlook (October 2025), Financial System Stability Assessment (2023); World Bank (WB); European Commission (EC): Economic Forecast (Autumn 2025), Debt Sustainability Monitor 2025, Eurostat; European Central Bank (ECB); European Banking Authority (EBA); Bank for International Settlements (BIS); Macrobond. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, these are unsolicited credit ratings. These credit ratings were not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES

With Access to Internal Documents: YES

With Access to Management: NO

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The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/476869>

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Ratings

Finland, Republic of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
20-Mar-26	Long-Term Foreign Currency – Issuer Rating	Confirmed	AA (high)	Stb	 
20-Mar-26	Long-Term Local Currency – Issuer Rating	Confirmed	AA (high)	Stb	 
20-Mar-26	Short-Term Foreign Currency – Issuer Rating	Confirmed	R-1 (high)	Stb	 
20-Mar-26	Short-Term Local Currency – Issuer Rating	Confirmed	R-1 (high)	Stb	 

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