

# Republic of Finland

## Rating Report

SCOPE

AA+

STABLE  
OUTLOOK

### Credit strengths

- Wealthy and modern economy
- High government debt affordability
- Outstanding institutional quality

### Credit challenges

- Moderate growth potential
- Rising fiscal pressures
- Financial stability vulnerabilities

### Rating rationale:

**Wealthy and modern economy:** Finland's ratings are supported by its wealthy and modern economy, which benefits from high human capital and a strong infrastructure in economic areas such as digitalisation and the environmental transition. The economy proved resilient to the Covid-19 pandemic and the Russia-Ukraine war, although the growth outlook for 2023-24 is modest.

**High government debt affordability:** Finland's fiscal resilience is anchored to the government's ample net financial asset position, a favourable debt structure and prudent liquidity management, underpinning debt affordability in the context of rising financing costs and indebtedness.

**Outstanding institutional quality:** Finland ranks among the top countries globally in terms of governance indicators and has a strong record of implementing reforms to enhance external competitiveness, improve the sustainability of the welfare system, and address labour market rigidities. The new government has focused its programme on strengthening government finances.

**Rating challenges:** i) the country's moderate growth potential, constrained by weak productivity growth, labour market rigidities and a declining working-age population; ii) rising fiscal pressures from Finland's ageing population, which weigh on the medium-term trajectory of public finances; and iii) financial stability risks, including those arising from the size of the Finnish banking sector relative to that of the domestic economy.

### Finland's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa-	EUR [+1]	0	AA+	
Public Finance Risk	20%	a+		0		
External Economic Risk	10%	b		0		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		aa		+1/3
	Social Factors	7.5%		b+		+1/3
	Governance Factors	12.5%		aaa		0
<b>Indicative outcome</b>		<b>aa</b>		<b>+1</b>		
<b>Additional considerations</b>				<b>0</b>		

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

#### Positive rating-change drivers

- Improved fiscal outlook, resulting in sustained debt reduction
- Material improvement in growth outlook

#### Negative rating-change drivers

- Weaker fiscal outlook, resulting in a material increase in public debt
- Significant deterioration in growth outlook over the medium term
- Crystallisation of financial stresses on the government balance sheet
- Escalation of geopolitical risks threatening macroeconomic stability

### Ratings and Outlook

#### Foreign currency

Long-term issuer rating	AA+/Stable
Senior unsecured debt	AA+/Stable
Short-term issuer rating	S-1+/Stable

#### Local currency

Long-term issuer rating	AA+/Stable
Senior unsecured debt	AA+/Stable
Short-term issuer rating	S-1+/Stable

### Lead Analyst

Giulia Branz, CFA  
+49 69 6677389-43  
[g.branz@scoperatings.com](mailto:g.branz@scoperatings.com)

### Team Leader

Dr Giacomo Barisone  
+49 69 6677389-22  
[g.barisone@scoperatings.com](mailto:g.barisone@scoperatings.com)

### Scope Ratings GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main

Phone +49 69 6677389-0

### Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891-0  
Fax +49 30 27891-100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



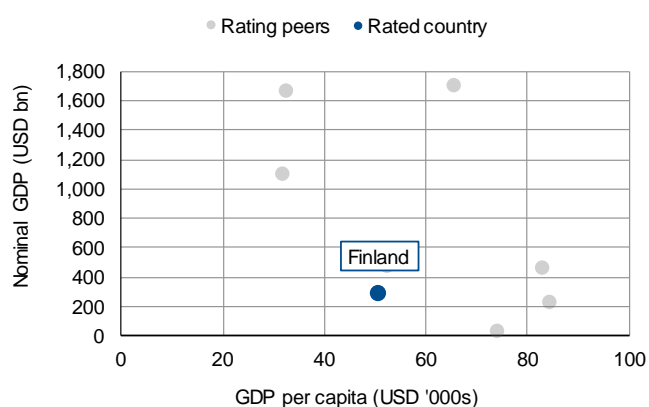
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for Finland's *Domestic Economic Risk*

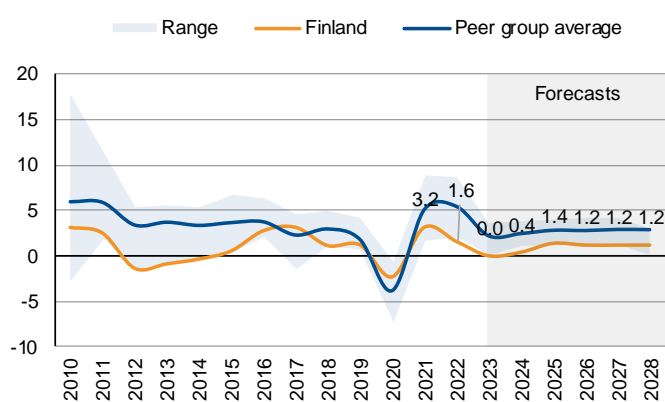
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential of the economy	Neutral	0	Resilient economy, relatively modest growth potential
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Competitive economy, favourable business environment and highly skilled labour force; limited economic diversification

#### Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

#### Real GDP growth, %



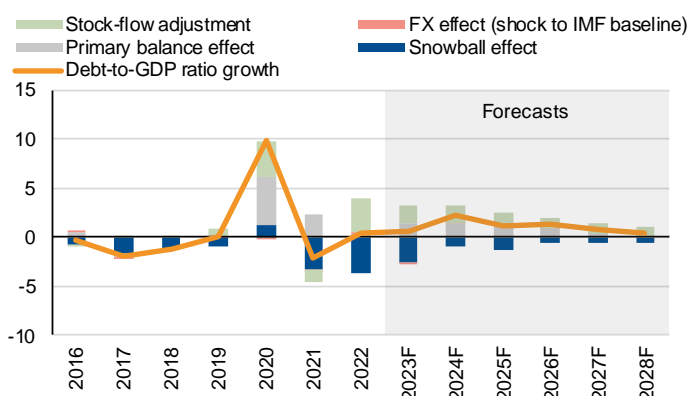
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for Finland's *Public Finance Risk*

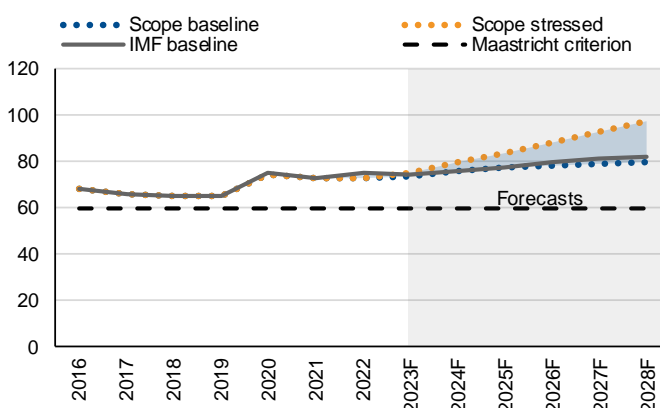
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Fiscal policy framework	Neutral	0	Rising spending pressures over the medium term; commitment to adjustment measures aiming at gradual budget rebalancing
	Debt sustainability	Neutral	0	Debt set to remain on a slight upward trajectory in the medium term
	Debt profile and market access	Neutral	0	Excellent market access, favourable debt profile

#### Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



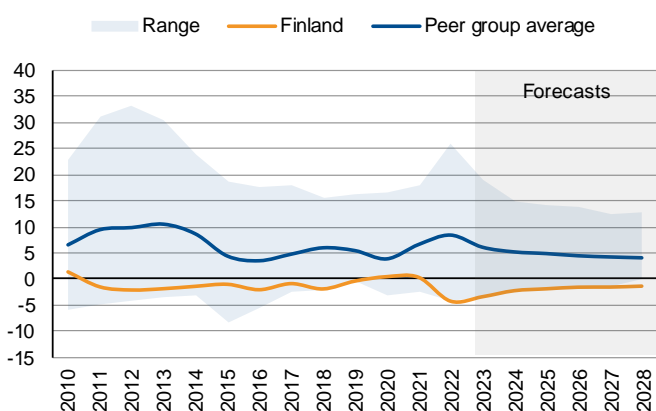
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for Finland's External Economic Risk

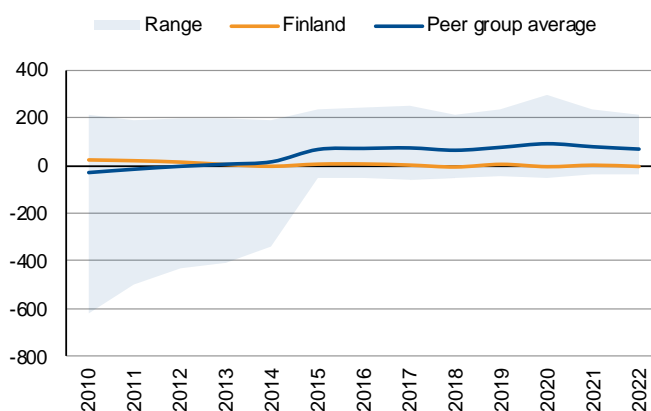
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Current account resilience	Neutral	0	Adequate export diversification across sectors; good international competitiveness
	External debt structure	Neutral	0	Sizeable external debt, reflecting liabilities of Finnish financial institutions; balanced and stable external position of the economy
	Resilience to short-term external shocks	Neutral	0	Euro-area membership mitigates exposure to international markets

#### Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

#### Net international investment position (NIIP), % of GDP



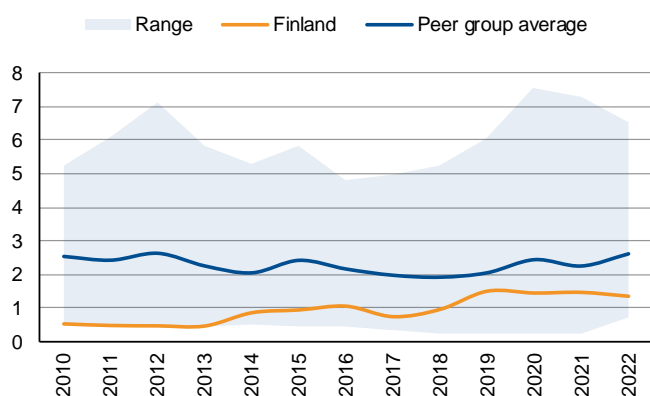
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for Finland's Financial Stability Risk

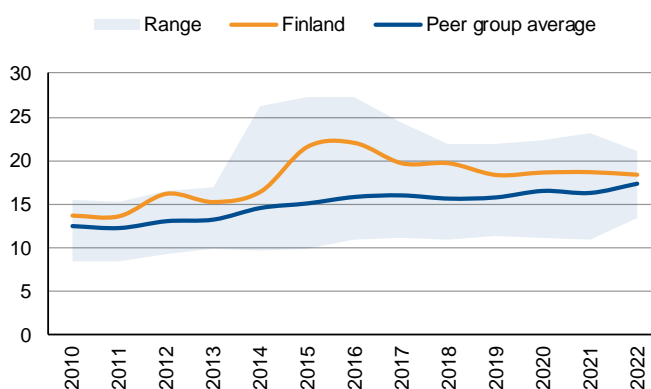
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Profitable and well capitalised banking sector
	Banking sector oversight	Neutral	0	Effective oversight by the Bank of Finland and the ECB as part of the European banking union
	Financial imbalances	Neutral	0	High private sector debt, highly concentrated and interconnected banking sector

#### Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

#### Tier 1 capital, % of risk-weighted assets



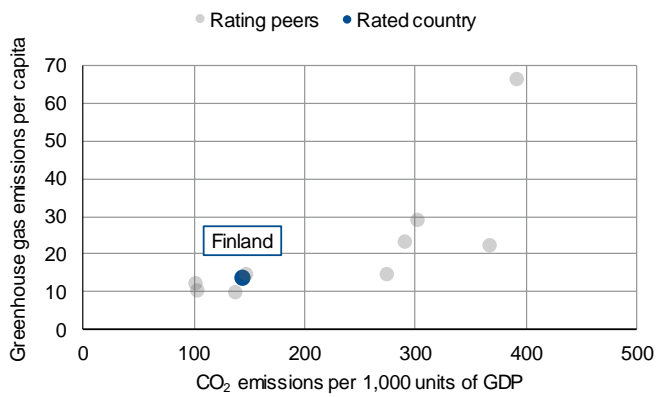
Source: IMF, Scope Ratings

### ESG risk

#### Overview of Scope's qualitative assessments for Finland's ESG risk

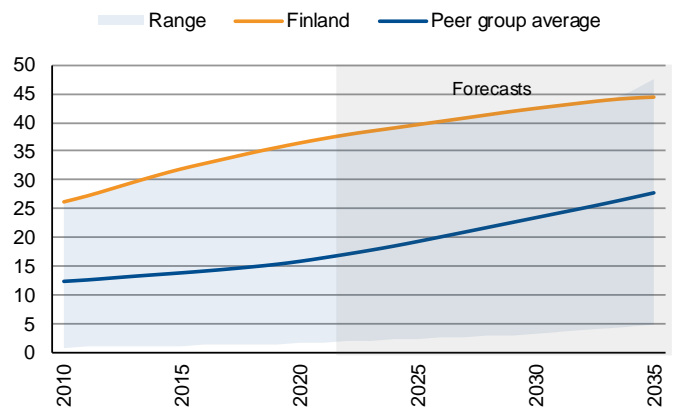
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Environmental factors	Strong	+1/3	Strong record in environmental sustainability and governance; ambitious policy efforts to achieve carbon neutrality by 2035
	Social factors	Strong	+1/3	Strong equality and social inclusion, high-quality education system; weak demographics, though fiscal costs mitigated by solid pension system
	Governance factors	Neutral	0	High quality of institutions and orderly political environment, exposure to geopolitical risks

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



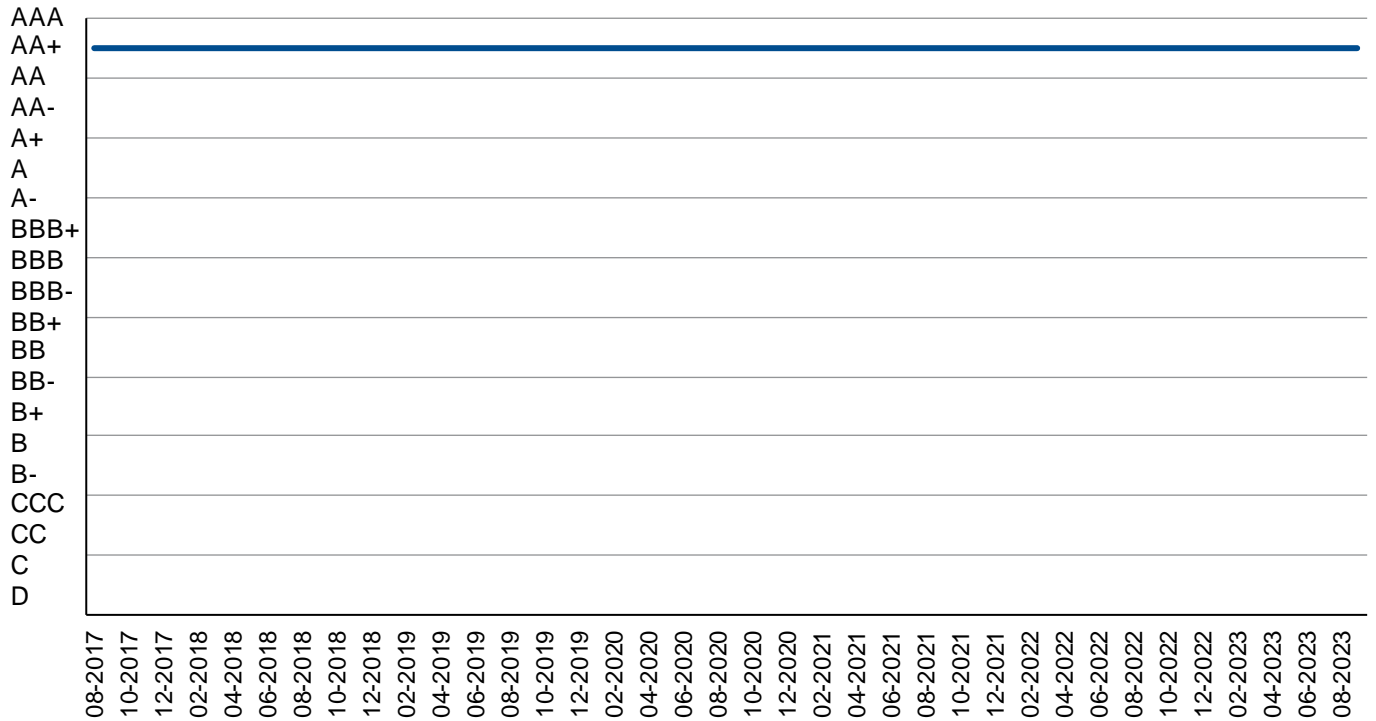
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

## Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

## Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

Peer group*
Austria

Publicly rated sovereigns only; the full sample may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	50.0	48.7	49.2	53.6	50.7
	Nominal GDP, USD bn	IMF	275.8	268.5	271.7	296.6	281.0
	Real growth, %	IMF	1.1	1.2	-2.4	3.0	2.1
	CPI inflation, %	IMF	1.2	1.1	0.4	2.1	7.2
	Unemployment rate, %	WB	7.4	6.7	7.8	7.6	6.8
Public Finance	Public debt, % of GDP	IMF	64.9	64.9	74.8	72.6	74.8
	Net interest payment, % of revenue	IMF	0.3	0.3	0.2	0.0	-0.2
	Primary balance, % of GDP	IMF	-0.7	-0.8	-5.4	-2.8	-2.0
External Economic	Current-account balance, % of GDP	IMF	-1.8	-0.3	0.6	0.4	-4.2
	Total reserves, months of imports	WB	1.0	1.1	1.4	1.5	1.2
	NIIP, % of GDP	IMF	-5.5	4.1	-4.3	1.0	-2.7
Financial Stability	NPL ratio, % of total loans	IMF	1.0	1.5	1.5	1.5	1.4
	Tier 1 ratio, % of risk-weighted assets	IMF	19.6	18.3	18.6	18.6	18.3
	Credit to the private sector, % of GDP	WB	94.2	95.4	100.2	99.4	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	180.2	163.3	145.9	143.8	-
	Income share of bottom 50%, %	WID	21.7	21.7	21.5	21.5	-
	Labour-force participation rate, %	WB	77.8	78.2	78.1	78.7	-
	Old-age dependency ratio, %	UN	34.7	35.5	36.4	37.1	37.8
	Composite governance indicators*	WB	1.8	1.7	1.8	1.8	-

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 22 September 2023

22.3



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin  
Phone +49 30 27891 0

### Oslo

Karenslyst allé 53  
N-0279 Oslo  
Phone +47 21 09 38 35

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main  
Phone +49 69 66 77 389 0

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid  
Phone +34 91 572 67 11

### Paris

10 avenue de Messine  
FR-75008 Paris  
Phone +33 6 6289 3512

### Milan

Via Nino Bixio, 31  
20129 Milano MI  
Phone +39 02 8295 8254

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU  
Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

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