Republic of Finland Rating Report

SCOPE AA+ STABLE OUTLOOK

Credit strengths

- Wealthy and diversified economy
- Strong institutions
- High debt affordability
- Large public sector assets

Credit weaknesses

- Growth constraints
- High and rising household debt

Rating rationale and Outlook: The AA+ rating reflects Finland's wealthy and diversified economy, strong institutions and high debt affordability with a strong fiscal framework. Scope expects growth to be strong and resilient, without housing market distortions seen elsewhere in the Nordic and Baltic regions. Institutional policy continuity is strong and reflects a broad consensus. The rating is challenged by growth constraints, based on both ageing population and competitiveness issues, as well as high and rising household debt. The Stable Outlook reflects Scope's assessment that risks for Finland remain balanced.

Figure 1: Sovereign rating categories summary

Scope's sovereign risk categories	Finland	Peer comparison		
		Average	Denmark	Estonia
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	1		2	-2
Final rating	AA+		AAA	A+

AAA AA A BBB BB B CCC CC C

Positive rating-change drivers

- Significant improvement in growth potential
- Quicker-than-expected return to primary budget surpluses

Negative rating-change drivers

- Derailed implementation of reforms
- Deterioration of growth prospects

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

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Bloomberg: SCOP

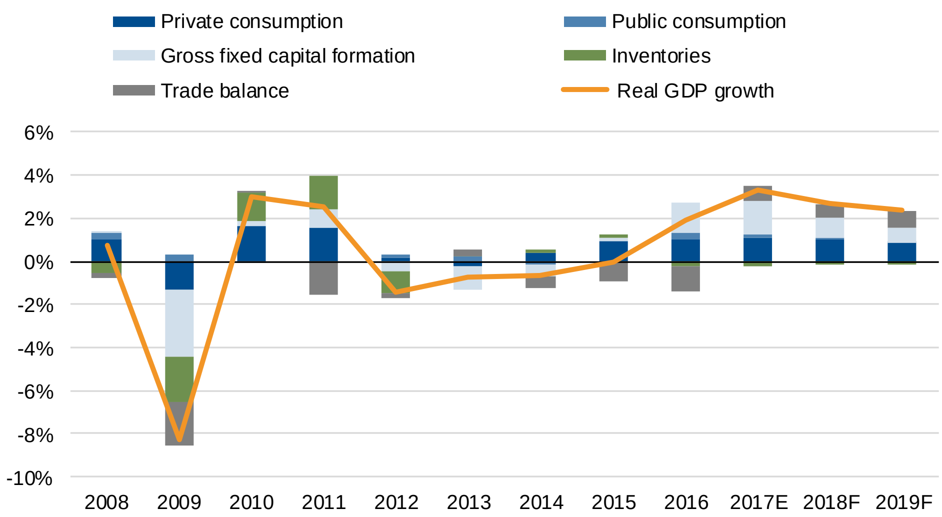
Domestic economic risk

Recovery is underway and strengthening

The recovery of the Finnish economy from both the GFC[1] and structural shifts in the economy has broadened and strengthened, with GDP growth in 2017 expected to reach 3.0% after a revised 2.1% in 2016.[2] Growth will remain strong in 2018-19 averaging 2.4% but will slow somewhat, as private consumption softens due to the impacts of wage moderation and rising inflation. Weaker than expected external demand, protectionist measures that adversely affect global trade, and rising geopolitical tensions may negatively impact the Finnish recovery. On the other hand, stronger than expected external demand, confidence and investment could lead to a broader economic recovery.

Leading confidence indicators, especially the consumer confidence indicator, which is at its highest level since 2010, clearly point to continued economic recovery. Moreover, preliminary GDP for Q3 2017, which rose at a quarterly rate of 0.4%, indicates the economic expansion continues.

Figure 2: Percentage point contribution to real GDP growth



Source: IMF, Calculations Scope Rating AG

On the medium term, the rating is challenged by growth constraints facing Finland. Finland's standing with a well-educated, highly-productive workforce also depends on resolving the prospects of a declining labour pool with misalignments between wages and productivity.[3] While the Competitiveness Pact has helped, the Finnish labour market's improvements significantly lag overall economic growth. The comprehensive welfare state needs both high employment and incomes to cope with an ageing population, but the working-age population, which started to decline in 2010, is expected to continue shrinking by 0.25% per year over the medium-term. While there is room for improvement in labour participation, the Finnish market remains characterised by high unemployment, long term unemployment, barriers to market entry and lengthy education. These factors restrain Finland's growth potential: the share of national income paid to Finnish workers is now lower than the 1980s, resulting in weaker aggregate demand and hence is a constraint to stronger GDP growth.[4]

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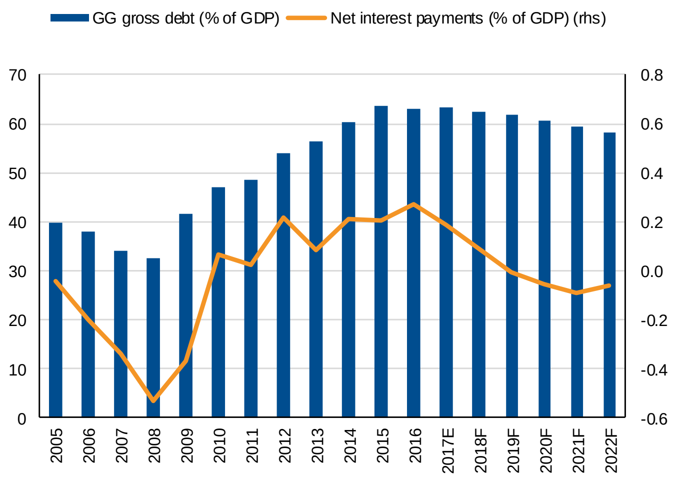
[1] Scope uses the term "Great Financial Crisis" of the BIS for the financial crisis 2007-2009
[2] Publications consulted preparing for this report are the IMF Article IV Consultation, December 2017, IMF Country Report No. 17/370; OECD Economic Outlook 2017, Volume 2017 Issue 2, EC European Economic Forecast Winter 2018 (Interim), hereafter IMF Art IV, OECD; EC.
[3] Economic Survey, Winter 20117, Ministry of Finance Publication 42c/2017
[4] Outlook and Challenges for Finland's Public Finances, Ministry of Finance Publication 78/2017

Public finance risk

Economic recovery and fiscal consolidation measures will reduce budget deficits

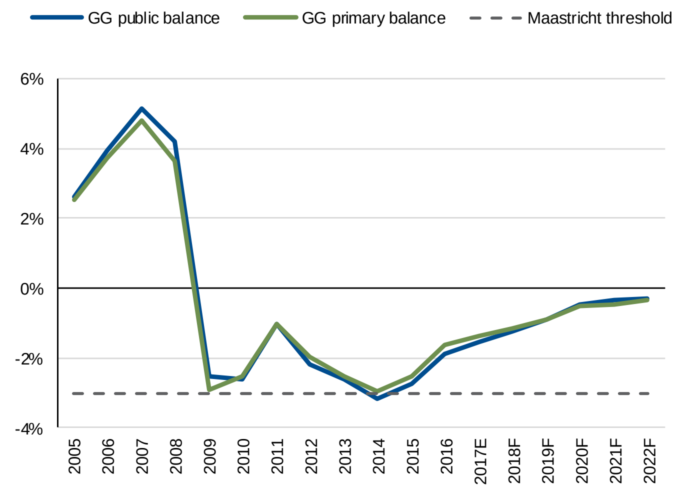
The rating is also supported by a solid public-sector balance and a long track record of prudent fiscal policies. Although the Finnish primary balance was negative in 2016 at -0.7% of GDP, it is expected to improve slightly in 2017 to -0.4% of GDP due to stronger revenues. Hence fiscal deficits have started to narrow and while Scope does not expect Finland to generate a positive primary balance, government fiscal policies remain prudent.

Figure 3: Debt and interest payments, % of GDP



Source: IMF

Figure 4: Public and primary balances, % of GDP



Source: IMF

Finland's fiscal deficit in 2016 was 1.8% of GDP, down significantly from the budget forecast deficit of 2.8%, reflecting not only higher tax revenues but also increased savings in discretionary spending. Gross government debt, after having reached 63.6% of GPD in 2015, dropped to 63.0% in 2017 and Scope expects Finland to return to compliance with the Maastricht criteria of 60% of GDP in 2022. However, public finances face long-term challenges from demographics and age-related spending: the comprehensive welfare state needs both high employment and incomes to cope with an ageing population, but the working age population, which started to decline in 2010, is expected to continue shrinking by 0.25% per year over the medium-term.[5]

Government policy balancing deficits and growth

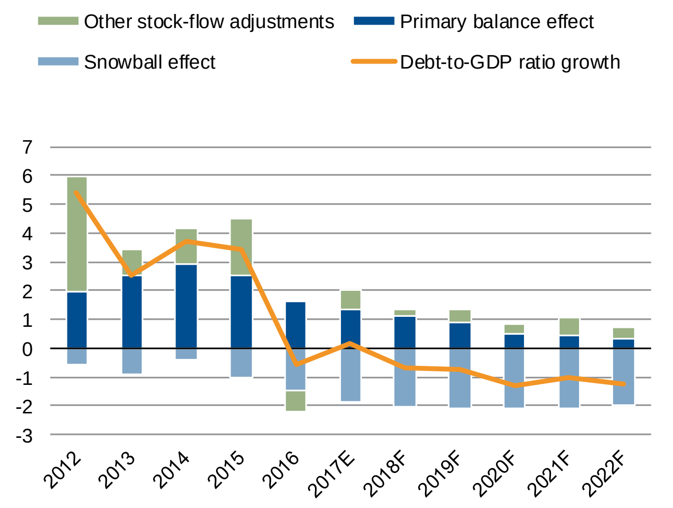
Government policy is aimed at addressing these concerns while ensuring that growth remains largely unaffected. Spending reforms may need to reach 5% of GDP to ensure long-term fiscal sustainability: given that the government has committed to 2% of discretionary expenditure cuts, the Competitiveness Pact may add another 1%, reforms of social and health services may generate 1.5%, and streamlining processes to increase efficiency may add a further 0.5%, Scope believes the goal to be reasonable and achievable, but represents a risk to the rating if the reforms do not meet their ambitious goals.

Scope anticipates that the Finnish fiscal stance in 2018 will remain pro-cyclical, but move to a neutral stance thereafter to aid reaching fiscal balance as quickly as possible without endangering ongoing reform spending. Further, Scope anticipates any positive unexpected growth benefits will be channelled into deficit reduction. However, Scope also

[5] Outlook and Challenges for Finland's Public Finances, Ministry of Finance Publication 78/2017, p. 13

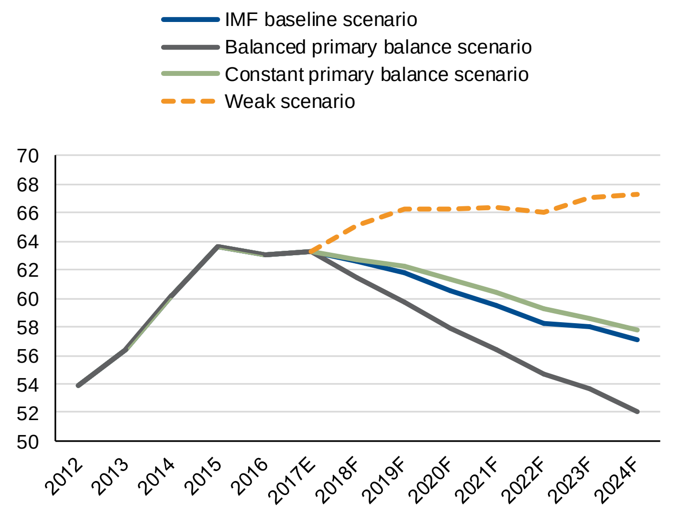
recognises that some potential expenditure cuts may be difficult to enforce with the largely autonomous local governments in Finland.

Figure 5: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 6: Government debt, % of GDP



Source: Calculations Scope Ratings GmbH

	Real GDP growth (% change)	Primary balance (% of GDP)	Real effective interest rate (%)
IMF baseline (WEO October 2017) 2017 – 2022 average	1.9	-0.8	-1.6
Balanced primary balance scenario 2017-2022 average	1.9	0.0	-1.5.
Weak scenario 2017 – 2022 average	1.3	-1.7	-1.5

Source: IMF, Ministry of Finance, Calculations Scope Ratings GmbH

Fiscal framework helps contain government expenditures

Scope conducted debt sustainability simulations and while the debt under most scenarios will clearly be brought down and approach pre-crisis debt levels, a renewed economic crisis leading to increasing government spending results in debt climbing above Maastricht criteria levels and remaining there over the mid-term. The sustainability of Finnish public debt is aided by limits on central government spending during any given parliamentary term. With spending ceilings adjusted on an annual basis for price and cost developments in real terms, Scope believes this is a sound fiscal framework, as it covers close to 80% of central government expenditures, but also prudently excludes those prone to cyclical volatility, such as unemployment benefits. Including social security expenditures, central government expenditures make up around 60% of general government spending.

Public debt has seen rapid increase

During the GFC and its aftermath, Finnish debt increased markedly, despite these mechanisms, as the government acted to address the problems created by the GFC. Public debt went from 32.7% at the end of 2007 to 63.1% at the end of 2016. While central government spending limits largely helped curb expenditure growth to within the 3% Maastricht deficit (excepting 2014), the GFC revealed deficiencies in expenditure adjustment mechanisms during periods of sharp revenue decline.

High levels of debt affordability

While debt levels are somewhat elevated, Finland enjoys a high level of debt affordability. The interest-to-revenue ratio in 2017 was 1.89% with a downwards trajectory. Average central government debt maturity was around six years at the end of 2016, continuing five years of stable debt maturity at around that rate, and gross financing needs stood at a moderate 9.1% of GDP. Upcoming reforms to social and health care may have a further positive impact on government finances, but have been delayed due to the scope of the reforms and the importance of these institutions for Finland

Net debt is negative thanks to high stock of prefunded pensions

Further, the Finnish net public debt ratio is both large and negative, estimated at -47.2% in 2017. This means that the Finnish government is one of the wealthiest in the world, with only Norway being wealthier.[6] The government assets are largely pensions funds, which are partially pre-funded and hence show large positive balances. However, this will be negatively affected by low interest rates and declining demographics.

Contingent liabilities adequately covered

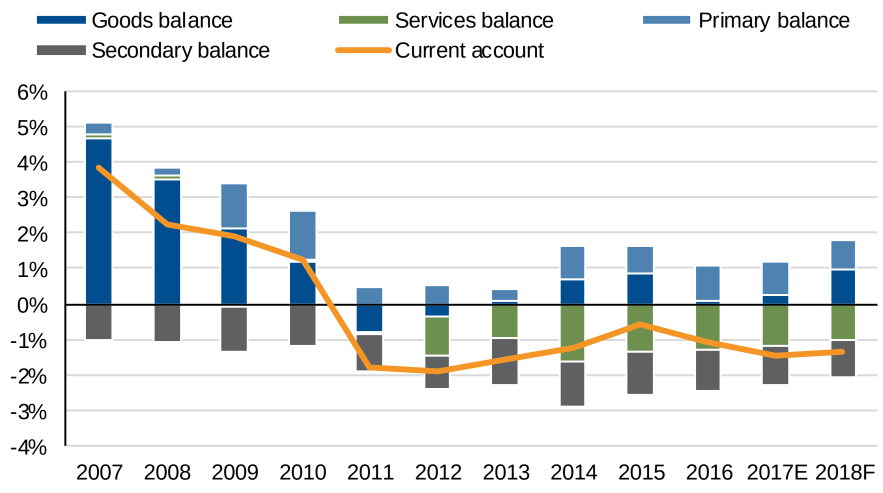
Finnish government contingent liabilities are largely for guarantees and callable capital in the euro area. These almost doubled over the last six years, driven by the expansion of guarantees provided to Finnvera, the export credit and SME financing agency, and contributions to the European Stability Mechanism (ESM) and European Financial Stability Facility (EFSF). The National Housing Fund, an off-budget fund that subsidises interest payments for housing projects that are mostly socially oriented, also benefits from government guarantees. Scope believes that the level and extent of government contingent liabilities is adequately covered by government net assets.

External economic risk

Finland is a creditor country with a slightly negative current account

Scope views Finland's external risk as moderate. Finland's current account, which has remained in deficit between 2011-16, is expected to return to a small surplus in 2017 (0.4% GDP) helped by stronger export growth as well as improvements in primary income, aided in turn by higher equity investment returns and a lower interest burden. Scope anticipates that the current account balance, will remain positive over the medium term. While Scope believes that the Competitiveness Pact will improve Finnish exports and help its external position, any improved outlook for Finnish export industries will still be determined by the structure of exports and the economic performance of major trading partners.[7] Finnish exports have seen strong broadly-based growth due to rebound in key export markets, especially the euro area, Sweden and the USA, but also including increased demand from Russia.

Figure 7: Current account balance, % of GDP



Source: IMF

[6] Debt Management Annual Review 2016, www.treasuryfinland.fi/annualreview2016
[7] IMF Art IV

High gross external debt is likely to decline

Finland's gross external debt stood at a high 201.4%% of GDP in 2017, down slightly from 203.5% in 2016, the result of reliance on external funding, largely from banks and corporations. Net external debt is much lower at 62.9% of GDP in Q2 2017, with considerable external assets held across multiple sectors.

Financial stability risk

Sound banking system

Finland's banking system is sound, with high capital ratios and relatively good profitability levels. Scope views financial stability risks in Finland as contained. However, high and increasing household indebtedness, mainly in the form of mortgages, is a source of financial vulnerability. Risks are less than in the other Nordic countries as house prices have been broadly stable over recent years.[8] Furthermore, several macro-prudential measures, including loan-to-value cap and minimum risk weights on mortgages, are being put in place to safeguard financial stability.

Nordea move effects

Nordea's decision to move its headquarters to Finland (subject to shareholder approval in March 2018) will significantly enlarge the banking sector in Finland, and potentially increasing the government's contingent liabilities.[9] If approved, it will become the fourth largest banking sector in Europe, measured as a share of GDP, after Luxembourg, the UK and Malta. The sector's assets would increase from 120% of GDP to 320%, would triple deposit liabilities covered under Finnish deposit guarantee schemes and would, in Scope's view, extend the time the Finnish guarantee fund would need to reach the target for covered deposits of 0.8%.

Nordea would, however, also be placed under the single supervisory and single resolution mechanism of the EU, which will both reduce some governance dangers and the risk to the sovereign that bank failure costs would appear as contingent liabilities. A further effect will be an increase in banking sector complexity and interlinkage, but the government, in November 2017, has already moved to proactively impose, when needed, a systemic risk buffer (increased capital requirements between 0% and 5% for systemically important banks).

The Finnish banking system is a low risk to financial stability apart from select concerns

The Finnish banking sector remains large and concentrated. In June 2017, total MFI assets were equal to 207.6% of GDP, and the three largest banks – OP Group, Nordea Bank Finland and Danske Bank Nordea – control the market. The very high degree of regional interconnectedness exposes the Finnish financial sector to risks of contagion from downturns in their neighbours.[10]

Non-financial private sector debt is high, reaching 140.5% of GDP at the end of Q1 2017. At that time point, non-financial corporate debt was 53.2% of non-financial private sector debt, with household holding 46.8%. Household debt has been rising both in terms of a percentage of GDP and as a percentage of disposable income, but household interest expenses at the end of Q1 2017 were only 1.6% of disposable income, underscoring the high affordability of debt in Finland. While household debt is at elevated levels, reaching 133.36% of net disposable income in 2016, approximately two-thirds of all households are debt-free.

Despite the high level of household indebtedness, risks to financial stability are low

Scope does not believe that the increase in debt will negatively impact household net asset positions, as these are supported by household assets including equity holdings via pension plans and real estate assets. While most Finnish household mortgages have variable interest rates, they also have fixed monthly payments, buffering households from any significant interest rate shocks. Constraints[11] put into place in July 2016 for new

[8] OECD
[9] IMF Art IV, p. 26
[10] IMF Art IV, p. 26
[11] a maximum 90% loan-to-value ratio for housing loans (and 95% for first time buyers), combined with a gradual reduction in the tax deductibility of interest payments

loans and home buyers should continue to slow new mortgage growth, slowing debt increases. These high levels of debt, unlike Norway or Sweden, do not reflect strong increases in home prices, which in Finland have been largely stable.

Institutional and political risk

Government coalition has been stable despite turmoil within the Finns Party

Finland's AA+ rating remains underpinned by strong political institutions and a commitment to structural reform. The government has introduced a wide range of reforms to boost employment, improve cost-competitiveness, and enhance the efficiency of public sector expenditures. These include the Competitiveness Pact, which includes a number of measures aimed at containing wage increases in both the public and private sectors in the short term and aligning them long term with labour productivity, particularly in the export sector.

Scope considers the commitment of the government to reforms to be strong, with successful, proactive policymaking within a multi-party political consensus and broad popular support. Some upcoming reforms will be challenging however, especially reforming the extensive social welfare system to respond effectively to demographic challenges, as well as increasing labour participation rates to avoid excessive wage inflation. The re-election of the independent Sauli Niinistö as President on 28 January, with 62.7% of the vote, should ensure continued political cooperation and continuity, as populist candidate Laura Huhtasaari received only 6.9% of votes.[12]

Methodology

The methodology applicable for this rating and/or rating outlook "Public Finance Sovereign Ratings" is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

[12] http://www.stat.fi/til/pvaa/2018/pvaa_2018_2018-02-02_tie_001_en.html

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "AA" ("aa") rating range for the Republic of Finland. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Republic of Finland, the following relative credit strengths have been identified: 1) economic policy framework, 2) macroeconomic stability and imbalances, and 3) market access and funding sources. No relative credit weaknesses were identified. Combined relative credit strengths and weaknesses generate a one notch adjustment and signal a sovereign rating of AA+ for Finland. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	aa
QS adjustment	AA+
Final rating	AA+

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Finland's debt is predominantly issued in euros, or it is hedged. Because of its history of openness to trade and capital flows and the euro's reserve currency status, Scope sees no evidence that Finland would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS Results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**aa**
QS adjustment	**AA+**
Final rating	**AA+**

QS

Maximum adjustment = 3 notches

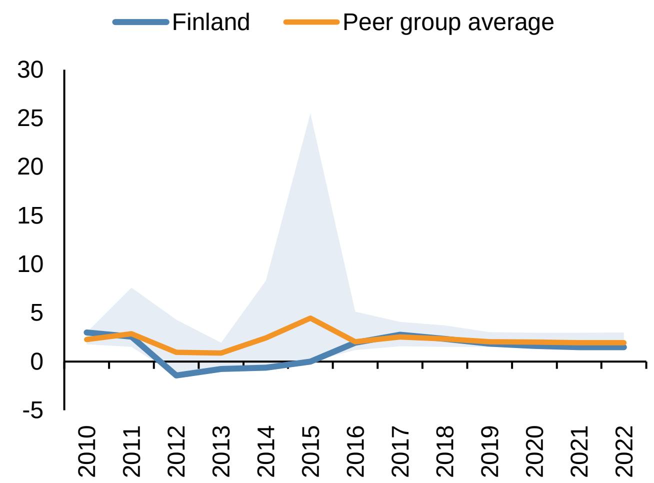
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negativ
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	○ Strong performance	◉ Neutral	○ Weak performanc	○ Problematic performa
Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	◉ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	◉ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

Source: Scope Ratings GmbH

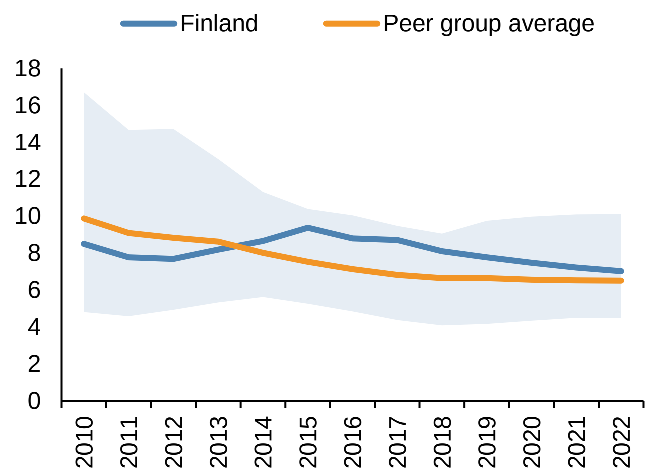
III. Appendix: Peer comparison

Figure 8: Real GDP growth



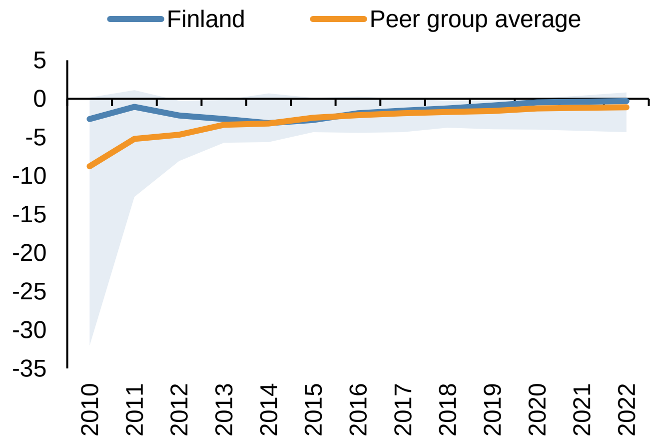
Source: IMF, Calculations Scope Ratings GmbH

Figure 9: Unemployment rate, % total labour force



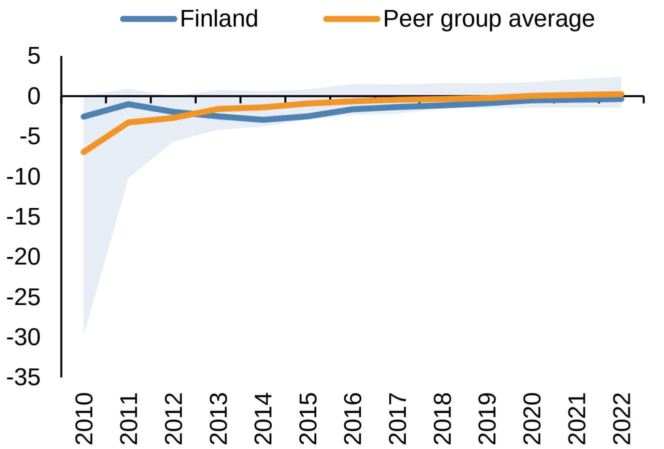
Source: IMF, Calculations Scope Ratings GmbH

Figure 10: General government balance, % of GDP



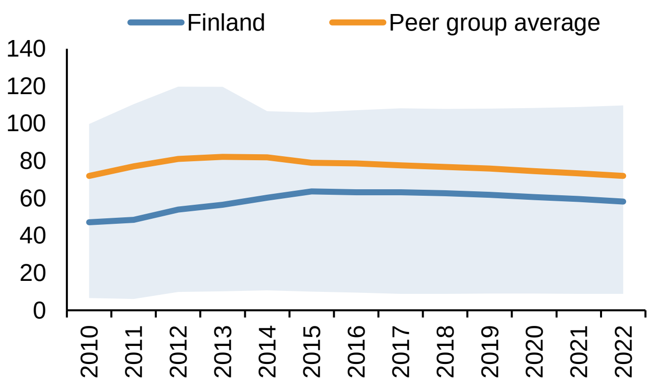
Source: IMF, Calculations Scope Ratings GmbH

Figure 11: General government primary balance, % of GDP



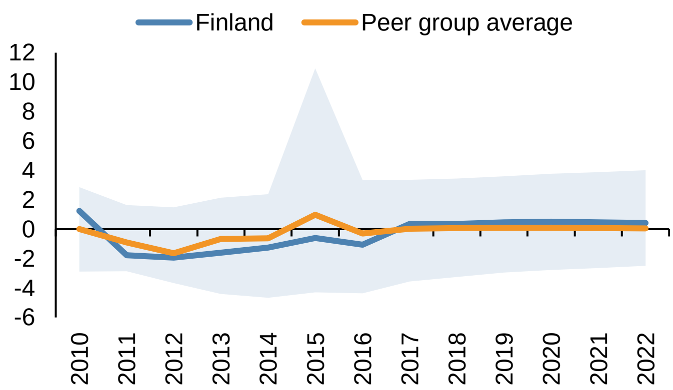
Source: IMF, Calculations Scope Ratings GmbH

Figure 12: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 13: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (EUR bn)	199,8	203,3	205,5	209,6	215,6	223,0	231,1
Population ('000s)	5.401,0	5.427,0	5.451,0	5.472,0	5.487,0	5.504,0	5.524,0
GDP-per-capita PPP (USD)	40.620,2	41.293,5	41.511,8	42.289,4	43.365,1	-	-
GDP per capita (EUR)	36.990,0	37.470,1	37.692,9	38.302,4	39.293,4	40.515,5	41.828,3
Real GDP growth, % change	-1,4	-0,8	-0,6	0,0	2,1	3,0	2,3
GDP growth volatility (10-year rolling SD)	3,9	3,9	3,8	3,8	3,6	3,3	3,4
CPI, % change	3,2	2,2	1,2	-0,2	0,4	0,8	1,2
Unemployment rate (%)	7,7	8,2	8,7	9,4	8,8	8,7	8,1
Investment (% of GDP)	22,5	21,4	20,9	20,9	21,8	22,3	22,9
Gross national savings (% of GDP)	20,6	19,8	19,7	20,3	20,8	22,7	23,3
Public finances							
Net lending/borrowing (% of GDP)	-2,2	-2,6	-3,2	-2,7	-1,9	-1,5	-1,2
Primary net lending/borrowing (% of GDP)	-2,0	-2,5	-2,9	-2,5	-1,6	-1,4	-1,2
Revenue (% of GDP)	54,0	54,9	54,9	54,2	53,8	52,7	51,9
Expenditure (% of GDP)	56,2	57,5	58,1	57,0	55,7	54,3	53,1
Net Interest payments (% of GDP)	0,2	0,1	0,2	0,2	0,3	0,2	0,1
Net Interest payments (% of revenue)	0,4	0,2	0,4	0,4	0,5	0,3	0,2
Gross debt (% of GDP)	53,9	56,5	60,2	63,6	63,1	63,3	62,6
Net debt (% of GDP)	9,6	13,2	14,6	20,9	22,3	23,1	23,5
Gross debt (% of revenue)	99,8	102,8	109,7	117,4	117,2	120,0	120,6
External vulnerability							
Gross external debt (% of GDP)	227,5	207,7	218,7	218,7	203,4	-	-
Net external debt (% of GDP)	39,7	40,3	47,8	49,6	51,8	-	-
Current-account balance (% of GDP)	-1,9	-1,6	-1,3	-0,6	-1,1	0,4	0,4
Trade balance [FOB] (% of GDP)	-	0,1	0,7	0,8	0,1	0,3	0,9
Net direct investment (% of GDP)	1,3	-0,8	-6,3	-8,3	9,2	-	-
Official forex reserves (EOP, mil EUR)	4.313,0	4.845,0	5.286,0	5.721,0	6.171,0	5.302,0	-
REER, % change	-2,7	2,8	2,5	-2,9	1,3	-1,0	-
Nominal exchange rate (EOP, USD/EUR)	1,3	1,4	1,2	1,1	1,1	1,2	-
Financial stability							
Non-performing loans (% of total loans)	0,8	0,7	1,5	1,3	1,3	-	-
Tier 1 Ratio (%)	16,3	15,5	16,6	22,4	23,1	-	-
Consolidated private debt (% of GDP)	148,6	147,7	149,6	152,9	149,2	-	-
Domestic credit-to-GDP gap (%)	5,4	5,6	6,8	8,1	-11,3	-	-

Source: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings GmbH

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Rating prepared by John F. Opie, Lead Analyst

Person responsible for approval of the rating: Dr Giacomo Barisone, Head Public Finance

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 18.08.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were last assigned by Scope on 18.08.2017.

Rating Committee: the main points discussed were: i) the move by Nordea from Sweden to Finland and its consequences for the banking sector in Finland, ii) the fiscal performance and debt sustainability, iii) the banking sector soundness, iv) demography and the pressures it creates towards accelerating reforms. The committee pointed out the need of reforming the social welfare system to induce people back into the workforce (especially older workers).

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of Finland, the Central Bank of Finland, European Commission, European Central Bank (ECB), Statistical Office of the European Communities (Eurostat), IMF, OECD, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Conditions of use/exclusion of liability

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