

Republic of Finland

This annex refers to the release of the monitoring note of 11 December 2020

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		aa+
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Neutral
20%	Fiscal policy framework	Neutral
	Debt sustainability	Neutral
	Debt profile and market access	Neutral
20%	Current account resilience	Weak
	External debt structure	Weak
	Resilience to short-term shocks	Neutral
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Strong
QS adjustment (notches)		-1
Additional considerations (notches)		0
Final rating		AA+ STA

Annex II: Selected indicators

	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	43,866	46,362	50,075	48,810	48,461	54,817	57,381
Real GDP, % change	2.8	3.3	1.5	1.1	-4.0	3.6	2.0
CPI, % change	0.4	0.8	1.2	1.1	0.7	1.3	1.5
General government balance, % of GDP	-1.7	-0.7	-0.9	-0.9	-6.8	-4.1	-2.6
General government debt, % of GDP	63.2	61.3	59.6	59.0	67.9	68.6	69.1
Current account balance, % of GDP	-2.0	-0.9	-1.7	-0.5	-1.8	-0.7	-0.3
Gross external debt, % of GDP	185.8	172.4	207.1	214.0	-	-	-

Source: Macrobond, IMF, Statistics Finland, Scope Ratings GmbH

Annex III: Economic development and default indicators

IMF Development Classification²

AE

5y USD CDS spread (bps) as of 10 December 2020

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¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Finland	December 2020	Assessment	Rationale
Peers*	Austria, Germany, Netherlands, Denmark, Norway, Sweden		
Domestic economic risk	Growth potential	Weak	Resilient economy, relatively modest growth potential
	Monetary policy framework	Neutral	ECB is a highly credible and effective central bank; appropriate central bank response to the 2020 global crisis
	Macro-economic stability & sustainability	Neutral	Competitive economy, favourable business environment and highly skilled labour force, counterbalanced by lesser economic diversification
Public finance risk	Fiscal policy framework	Neutral	Appropriate budgetary response to the 2020 crisis with sizeable countercyclical stimulus
	Debt sustainability	Neutral	Debt set to remain on an upward trajectory in the medium term
	Debt profile & market access	Neutral	Excellent government market access, low government financing costs, in line with peers
External economic risk	Current account resilience	Weak	Surplus in the trade balance insufficient to offset persistent deficits in the secondary income and services balances; structural external competitiveness weaknesses
	External debt structure	Weak	Elevated and increasing external debt, reflecting liabilities of Finnish financial institutions; a large share is short-term external debt
	Resilience to short-term shocks	Neutral	Small and open economy, benefits from euro area membership
Financial stability risk	Banking sector performance	Neutral	High banking system capitalisation levels, but declining profitability
	Banking sector oversight	Neutral	Oversight under the Bank of Finland and the ECB as part of Banking Union
	Financial imbalances	Weak	High private-sector debt levels, large size of the banking sector vis-à-vis the real economy, potential overvaluations in the real estate market
ESG risk	Environmental risks	Neutral	Good track record in environmental sustainability and governance; ongoing development of a medium-term climate policy plan to achieve objective of carbon neutrality by 2035
	Social risks	Neutral	Weak demographic, but strong income and gender equality, high-quality education system
	Institutional and political risks	Strong	Very high quality of institutions and stable political environment

*Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.