

Republic of Finland

Rating report

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. However, high inflation and interest rates caused economic output to decline by 1.0% in 2023. The growth outlook remains weak in 2024 at -0.3% before an expected recovery in 2025 of 1.8% as exports increase and interest rates decline.

High government debt affordability: Finland's fiscal resilience is supported by the government's ample net financial asset position and prudent liquidity management, underpinning debt affordability in the context of rising financing costs and indebtedness. The government is implementing several fiscal consolidation measures to help stabilise the high and rising public debt ratio at around 80-85% of GDP in coming years.

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 current government was elected in April 2023 and has focused its programme on strengthening government finances.

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

Figure 1: Finland's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	aa-	EUR	Finland	0	AA+
Public finance risk	20%	a-			0	
External economic risk	10%	bb			0	
Financial stability risk	10%	aaa			0	
ESG risk	Environmental factors	5%	[+1]	[-0]	1/3	
	Social factors	7.5%			1/3	
	Governance factors	12.5%	aaa		0	
Sovereign Quantitative Model	aa				+1	
Additional considerations					0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

AA+/Stable

Senior unsecured debt

AA+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AA+/Stable

Senior unsecured debt

AA+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Credit strengths and challenges

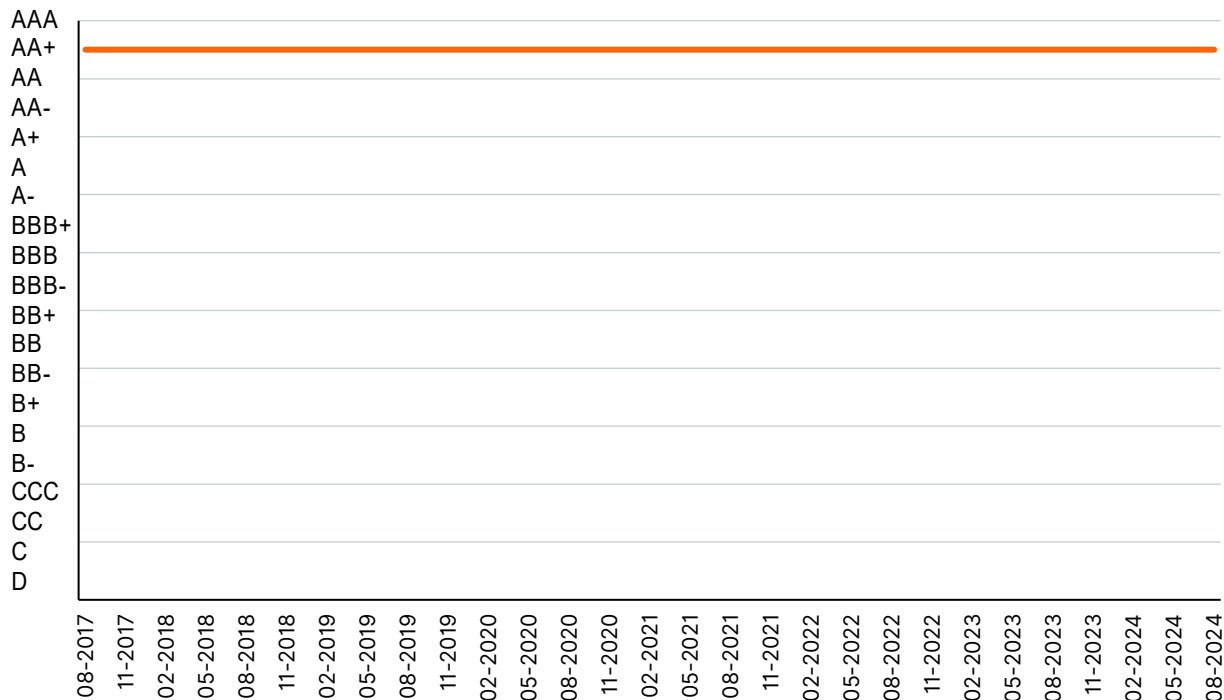
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Wealthy and modern economy High government debt affordability Outstanding institutional quality 	<ul style="list-style-type: none"> Rising fiscal pressures Moderate growth potential Financial stability vulnerabilities

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Improved fiscal outlook, resulting in sustained debt reduction Material improvement in medium-term growth outlook 	<ul style="list-style-type: none"> Weaker fiscal outlook, resulting in material increase in public debt Significant deterioration in growth outlook over the medium term Crystallisation of financial stability risks causing a deterioration in private sector balance sheets, significantly weakening the economic and fiscal outlooks Escalation of geopolitical risks threatening macroeconomic stability

Figure 2: Rating history¹



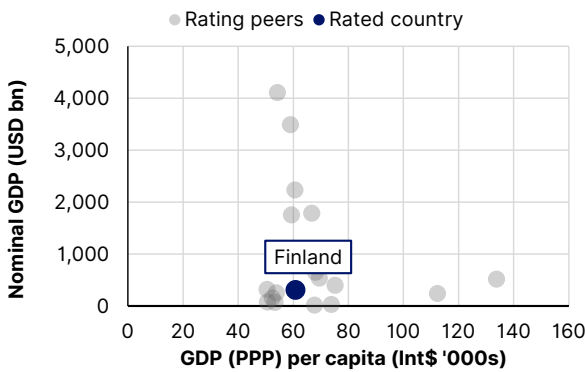
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Finland's Domestic Economic Risk

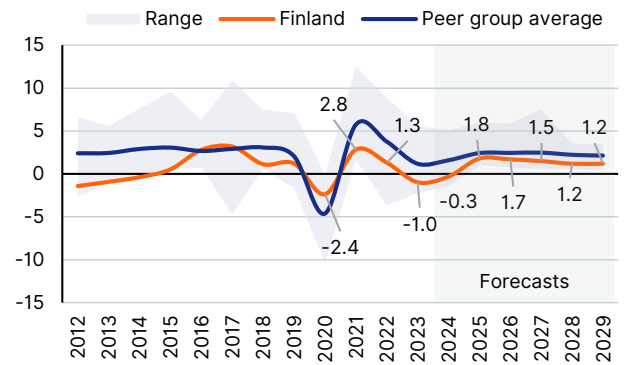
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Neutral	0	Resilient economy, relatively modest growth potential
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank
	Macroeconomic stability and sustainability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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



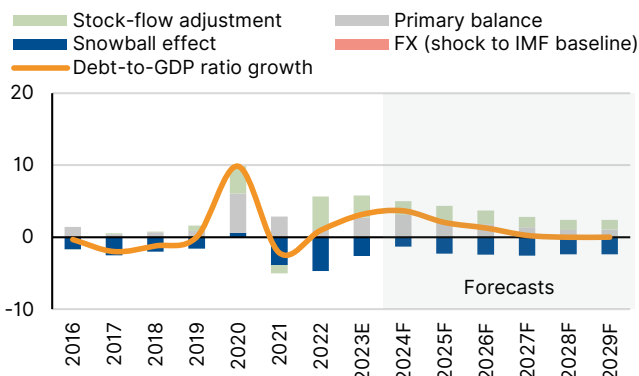
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Finland's Public Finance Risk

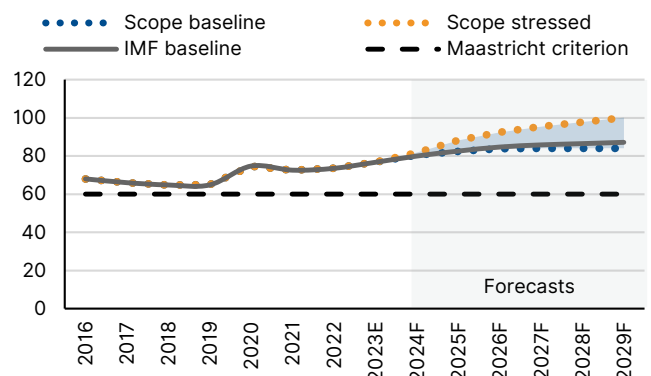
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Fiscal policy framework	Strong	+1/3	Rising spending pressures over the medium term; political commitment to gradually balance budget; high pension assets mitigate impact of rising pension expenditure
	Long-term debt trajectory	Weak	-1/3	Debt set to remain elevated in the medium term, with debt-to-GDP staying above the previous peak of 75% reached during the Covid-19 pandemic in 2020
	Debt profile and market access	Neutral	0	High government debt affordability and excellent market access; average debt maturity shortened using interest rate swaps

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

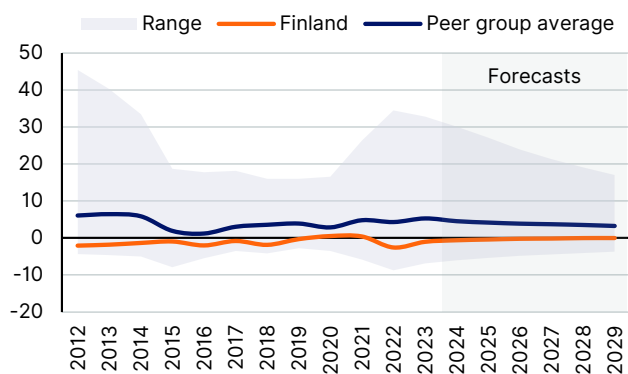
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Finland's *External Economic Risk*

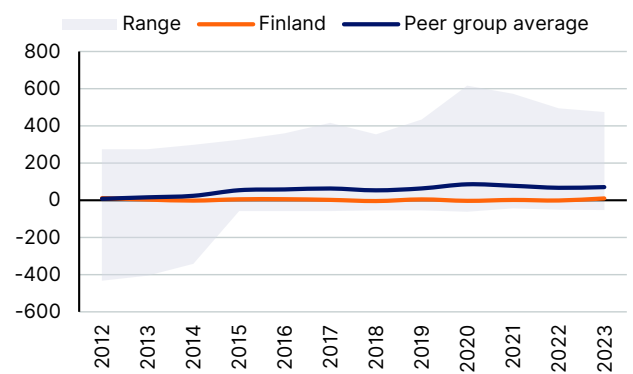
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Current account resilience	Neutral	0	Adequate export diversification across sectors; good international competitiveness
	External debt structure	Neutral	0	Sizeable external debt, reflecting liabilities of Finnish financial 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

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



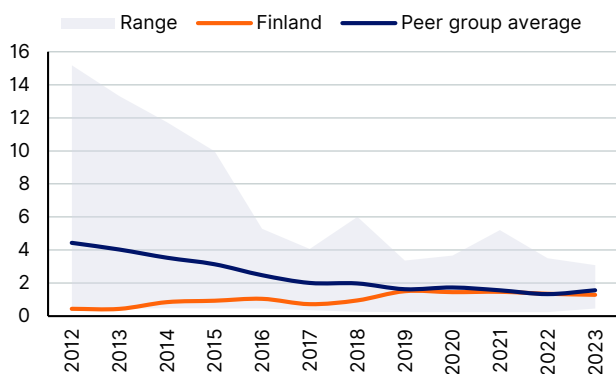
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Finland's *Financial Stability Risk*

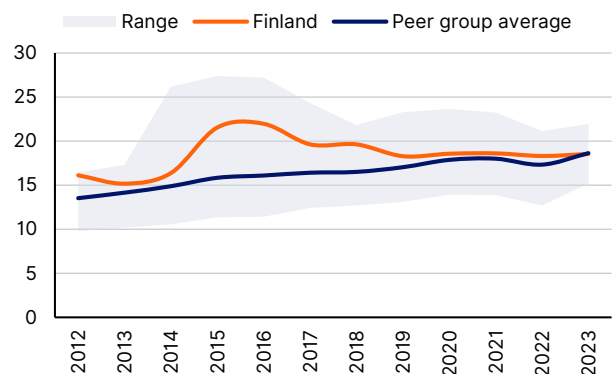
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Profitable and well capitalised banking sector
	Financial sector oversight and governance	Neutral	0	Effective oversight by the Bank of Finland and the ECB as part of the European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

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



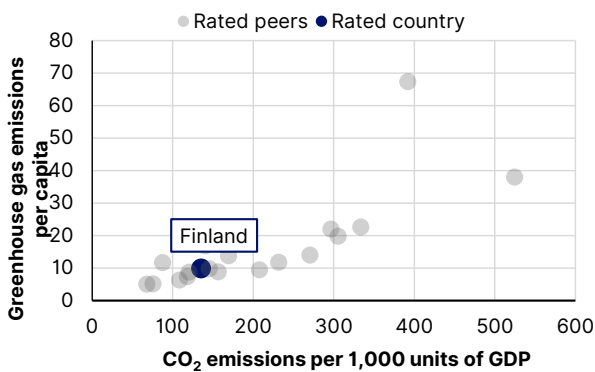
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Finland's ESG Risk

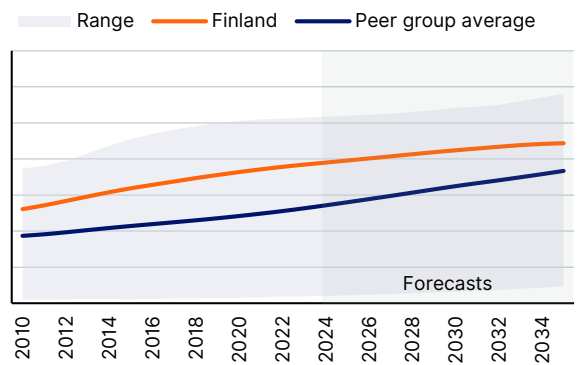
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Environmental factors	Strong	+1/3	Strong record in environmental sustainability and governance; ambitious policy efforts to achieve carbon neutrality by 2035
	Social factors	Strong	+1/3	Strong equality and social inclusion, 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

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

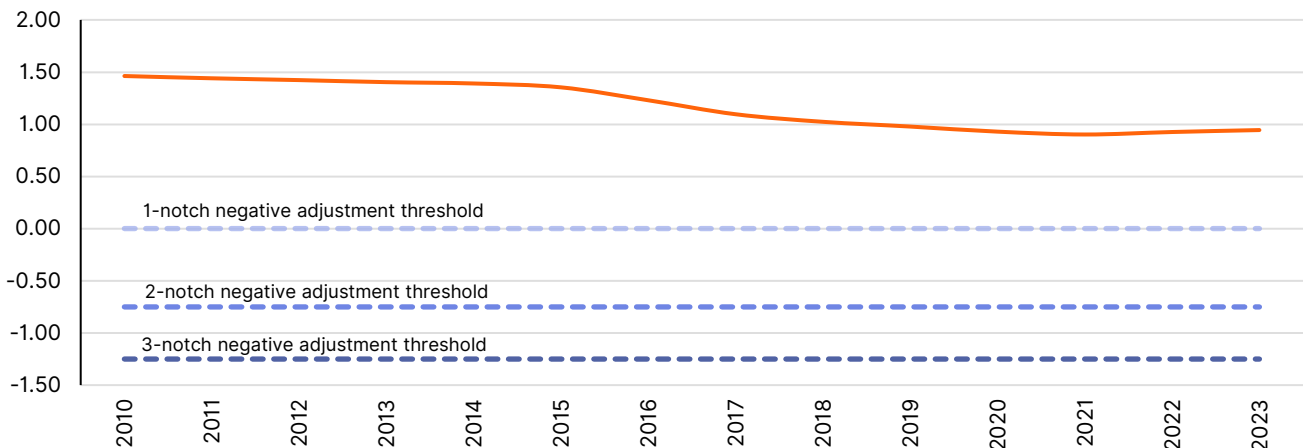
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Finland, 3-year moving average



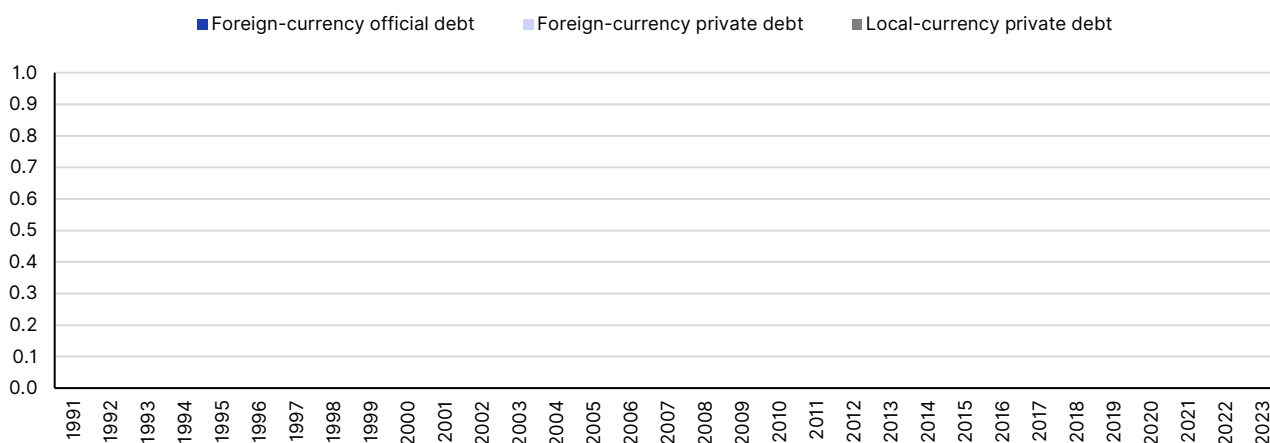
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Austria
Belgium

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 28 August 2024	19.8

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	49.2	50.6	50.0	53.7	58.1	59.4
	Nominal GDP, USD bn	IMF	276	269	272	297	282	300
	Real growth, %	IMF	1.1	1.2	-2.4	2.8	1.3	-1.0
	CPI inflation, %	IMF	1.2	1.1	0.4	2.1	7.2	4.3
	Unemployment rate, %	WB	7.4	6.7	7.8	7.6	6.7	7.2
Public Finance	Public debt, % of GDP	IMF	64.8	64.9	74.7	72.6	73.5	76.7
	Net interest payment, % of government revenue	IMF	0.3	0.3	0.2	-0.1	-0.1	0.2
	Primary balance, % of GDP	IMF	-0.7	-0.8	-5.5	-2.9	-0.9	-2.7
External Economic	Current-account balance, % of GDP	IMF	-1.8	-0.3	0.5	0.4	-2.6	-1.0
	Total reserves, months of imports	WB	1.0	1.1	1.4	1.4	1.2	1.3
	NIIP, % of GDP	IMF	-5.5	4.1	-4.3	0.9	-2.3	9.8
Financial Stability	NPL ratio, % of total loans	IMF	1.0	1.5	1.5	1.5	1.4	1.3
	Tier 1 ratio, % of risk-weighted assets	IMF	19.4	17.9	18.1	18.7	18.4	17.9
	Credit to the private sector, % of GDP	WB	94.2	95.4	101.0	99.4	95.6	91.7
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	178.0	162.9	149.0	144.7	135.5	-
	Income share of bottom 50%, %	WID	22.1	22.1	21.8	23.4	23.5	-
	Labour-force participation rate, %	WB	77.8	78.2	78.1	78.7	79.6	-
	Old-age dependency ratio, %	UN	34.7	35.5	36.4	37.1	37.8	38.4
	Composite governance indicators*	WB	1.9	1.9	1.9	1.9	1.9	-
	Political stability, index	WB	0.9	0.8	1.0	1.0	0.9	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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