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# Finland



## Ratings Navigator Sovereigns

Ratings Navigator			
Publish Date:	November 2020		
Ratings	Outlooks		
Long-Term FC IDR	AA+	Stable	
Long-Term LC IDR	AA+	Stable	
Short-Term FC IDR	F1+		
Short-Term LC IDR	F1+		
Country Ceiling	AAA		
Rating History			
Date	LT FC IDR	Action	
30-Oct-20	AA+	Stable	Affirmed
26-Jun-20	AA+	Stable	Affirmed
24-Jan-20	AA+	Stable	Affirmed
26-Jul-19	AA+	Positive	Affirmed
01-Feb-19	AA+	Positive	Affirmed
03-Aug-18	AA+	Positive	Affirmed
09-Feb-18	AA+	Stable	Affirmed
11-Aug-17	AA+	Stable	Affirmed
17-Feb-17	AA+	Stable	Affirmed
02-Sep-16	AA+	Stable	Affirmed
11-Mar-16	AA+	Stable	Downgrade
18-Sep-15	AAA	Negative	Affirmed
20-Mar-15	AAA	Negative	Affirmed
26-Sep-14	AAA	Stable	Affirmed
Bar Chart Legend			
Vertical Bar Height = Percent Rank vs all Sovereigns			
Bar Colors = Relative Influence of Rating Factor in SRM <sup>6</sup>			
<span style="color: red;">■</span>	Higher Influence (Sovereign Data)		
<span style="color: blue;">■</span>	Moderate Influence (Sovereign Data)		
<span style="color: lightblue;">■</span>	Lower Influence (Sovereign Data)		
<span style="color: gray;">■</span>	Peer Data (Rating Category Median)		
Bar Arrows = Rating Factor Outlook			
↑	Positive	↓	Negative
↕	Evolving	□	Stable
◆	Peer Median		
Applicable Criteria & References			
<a href="#">Sovereign Rating Criteria (Oct 2020)</a>			
<a href="#">Country Ceilings Criteria (Jul 2020)</a>			
Analysts			
Kit Yeung (+49 69 768076 129)			
Alex Muscatelli (+49 69 768076 272)			

Sovereign Rating Model (SRM) Output <sup>1</sup>					AA+
Factors	Structural	Macroeconomic	Public Finances	External Finances	SRM Predicted Rating
Weights(%)	53.7	10.9	18.0	17.4	AAA
Percent Rank <sup>4</sup>					AAA
90-100		◆	◆	■	AA+
80-90	■	◆			AA
70-80		■			A+
60-70			↓		A
50-60					BBB+
40-50				◆	BBB
30-40					BB+
20-30					BB
10-20					BB-
0-10					B+

<sup>1</sup> See page 2 for full list of SRM indicators and data points.  
<sup>2</sup> Adjustment framework. Maximum total net notching restricted to +3 to or -3, except in certain circumstances.  
<sup>3</sup> Long-Term Foreign Currency Issuer Default Rating (the "Sovereign rating") is equal to the SRM predicted rating plus the QO adjustment.  
<sup>4</sup> Relative to all rated Sovereigns.  
<sup>5</sup> And contingent liabilities.  
<sup>6</sup> Relative influence is fixed across all sovereigns, and reflects the relative weight of each rating factor in the SRM.

Rating Drivers	
<b>Strong Institutional Framework</b>	Finland outperforms the majority of 'AA' and 'AAA' rated peers in governance indicators. Finland's 'AA+' rating is also consistent with a strong institutional framework and a record of sound policymaking.
<b>Structural Reform Commitment</b>	Fitch believes the Finnish authorities will maintain their long-standing commitment to implement reforms needed to boost the country's medium-term growth prospects without jeopardising fiscal sustainability, despite challenges from the coronavirus pandemic.
<b>Structural Challenges</b>	The pandemic has exacerbated structural challenges to medium-term growth potential. Pre-pandemic issues of low productivity and a shrinking working-age population will be negatively affected by the current shock to the labour market.
<b>Debt Sustainability</b>	Near-term debt sustainability is supported by fiscal space and low debt servicing costs. Finland is a core EU issuer. Longer-term debt sustainability faces increasing age-related costs, poor demographics, and low potential growth.
<b>Weak External Finances</b>	Finland is a large net external debtor (65.7% of GDP, 2019; vs 'AA' median net creditor position 8.3% of GDP). Projected widening of the current account deficit in 2020 will increase external indebtedness.
<b>Stable Banking Sector</b>	Finnish banks are well-capitalised and there is ample liquidity in the sector. However, Fitch expects some weakening to asset quality and earnings as the pandemic results in reduced business volumes and rising loan impairment charges.

Qualitative Overlay (QO) <sup>2</sup>		0	AA+
Factors	Notch Adjustment	Long-Term FC IDR <sup>3</sup>	
<b>Structural</b>	0	AAA	
Political Stability & Capacity		AA+	
Financial Sector Risks		AA	
Other Structural Factors		AA-	
<b>Macroeconomic</b>	0	A+	
Policy Credibility & Coherence		A	
GDP Growth Outlook		A-	
Macro Stability		BBB+	
<b>Public Finances</b>	0	BBB	
Fiscal Financing Flexibility		BBB-	
Public Debt Sustainability <sup>5</sup>		BB+	
Fiscal Structure		BB	
<b>External Finances</b>	0	BB-	
External Financing Flexibility		B+	
External Debt Sustainability		B	
Vulnerability to Shocks		B-	
<b>Total QO Adjustment</b>	0	CCC+/CCC/CCC-	
		C	
		RD	
		D	

Rating Sensitivities	
<b>Positives</b>	
<b>Macroeconomics</b>	An improvement in medium-term growth prospects, potentially supported by structural reforms and sustained gains in competitiveness that would improve external finances.
<b>Public Finances</b>	A sustained downward trend in government debt-to-GDP ratio, particularly if supported by policy measures tackling the adverse impact from worsening demographics and high ageing-related costs.
<b>Negatives</b>	
<b>Public Finances</b>	Failure to put debt/GDP on a downward trajectory over the medium term, for instance from an absence of a post-coronavirus fiscal consolidation strategy and/or lack commitment towards structural reform addressing fiscal risks.
<b>Structural/Macroeconomics</b>	Sustained macroeconomic stress leading to a deterioration in medium-term growth prospects originating for example in the household sector.

Sovereign Rating Model							
Model Framework			Country		Rating Category Data		
Indicator	Data point	Weight	Data	SRM	A	AA	AAA
		(%)		(Notches)	Median	Median	Median
<b>Structural</b>		<b>53.7</b>	<b>10.83</b>				
Composite Governance indicators	Latest, percentile	20.4	95.5	7.2	76.0	84.3	94.0
GDP per capita	Latest, percentile	12.3	88.0	3.5	66.1	82.0	90.6
Share in world GDP (%)	Latest	13.2	0.3	-0.7	0.3	0.4	0.9
Inverse years since Default/Restructuring <sup>4</sup>	Declining weight	6.4	0.0	0.0	0.0	0.0	0.0
Broad money (% of GDP)	Latest	1.4	94.5	0.8	87.6	97.5	93.9
<b>Macroeconomic</b>		<b>10.9</b>	<b>-0.96</b>				
Real GDP volatility (standard deviation)	Weighted history	4.9	3.0	-0.8	2.7	2.1	1.9
CPI (annual average, truncated 2%-50%)	3 year centred avg	3.1	2.0	-0.1	2.3	2.2	1.8
Real GDP growth (%)	3 year centred avg	2.9	-0.2	0.0	3.7	2.3	2.1
<b>Public finances</b>		<b>18.0</b>	<b>-1.72</b>				
Gross general govt debt (% of GDP)	3 year centred avg	8.0	67.2	-1.4	43.0	38.9	44.3
General govt interest (% of Revenue)	3 year centred avg	4.7	1.4	-0.1	4.6	3.8	3.8
General govt budget balance (% of GDP)	3 year centred avg	3.0	-4.4	-0.2	-2.4	-0.6	-0.1
Public foreign-currency debt (% of GGGD)	3 year centred avg	2.4	0.0	0.0	10.7	0.6	0.0
<b>External finances</b>		<b>17.4</b>	<b>2.21</b>				
Reserve currency (share in global FX) <sup>5</sup>	Declining weight	7.8	3.1	1.7	0.0	0.0	3.0
Sovereign net foreign assets (% of GDP)	3 year centred avg	6.7	53.2	0.6	13.9	4.9	-6.5
Commodity dependence (% of CXR)	Latest	0.8	17.6	-0.1	10.7	16.6	14.5
Reserves (months of CXP) [for RC = 0 only]	Latest	1.3	1.1	n.a.	3.4	1.3	0.0
External interest service (% of CXR)	3 year centred avg	0.7	4.3	-0.1	2.3	4.8	7.8
CAB + Net FDI (% of GDP)	3 year centred avg	0.2	-1.8	0.0	2.3	0.6	2.3
Intercept term <sup>1</sup>				<b>4.49</b>			
<b>Total</b>		<b>100</b>		<b>14.85</b> <sup>2</sup>			
<b>SRM predicted rating</b>				<b>AA+</b>			
<b>SRM override flag and applied rating</b> <sup>3</sup>	No			n.a.			

<sup>1</sup> The intercept term is constant across all sovereigns.

<sup>2</sup> Total maps to LT FC rating scale as follows: < 0.5 = CCC and Below, 0.5-1.5 = B-, 1.5-2.5 = B, etc up to 14.5-15.5 = AA+ and >15.5 = AAA.

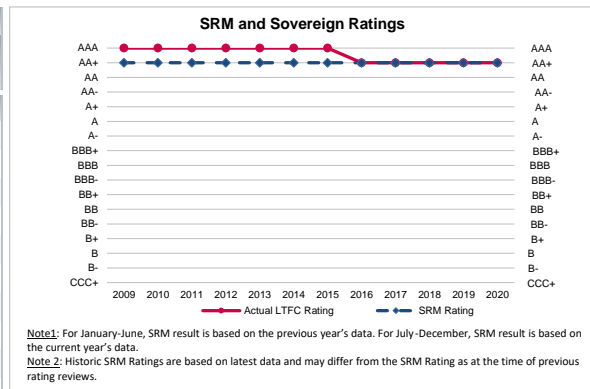
<sup>3</sup> Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis.

<sup>4</sup> A non-linear representation of the number of years since the last default or restructuring event, ranging from zero (if there has been no event after 1980) to one (if there has been an event in the current year, or the sovereign remains in default).

<sup>5</sup> A non-linear representation, ranging from 0 to 4.6. The full share of Euro holdings is applied for all euro area economies.

Acronyms used: foreign currency (FC), local currency (LC), issuer default rating (IDR), gross domestic product (GDP), consumer price inflation (CPI), current external receipts (CXR), current external payments (CXP), gross general government debt (GGGD), reserve currency (share in global FX) (RC), foreign direct investment (FDI).

Peers	
Long-Term FC IDR	Country
AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United States of America
AA+	<b>Finland</b>
	Austria
	Canada
AA	Abu Dhabi
	France
	Kuwait
	Macao
	New Zealand



Forecast Summary Tables					
Indicator	2018	2019	2020f	2021f	2022f
Real GDP growth (%)	1.5	1.1	-4.3	2.7	2.1
CPI (annual average)	1.2	1.1	0.3	1.0	1.2
Unemployment rate (%)	7.4	6.7	8.2	8.2	7.8
Short-term interest rate (annual avg%)	0.0	0.0	0.0	0.0	0.0
General govt budget balance (% of GDP)	-0.9	-1.1	-7.4	-4.8	-3.3
Gross general govt debt (% of GDP)	59.6	59.4	70.1	72.1	72.9
Current account balance (% of GDP)	-1.7	-0.2	-1.8	-1.8	-1.5
Net external debt (% of GDP)	80.2	65.0	80.6	80.5	80.7
Official international reserves (USDbn)	10.3	11.4	11.7	11.4	11.0
Nominal GDP (USDbn)	275.8	269.3	262.2	275.2	284.5
Exchange rate per USD (end-year)	0.87	0.89	0.87	0.87	0.87

Credit-Relevant ESG Derivation

Finland has 2 ESG key rating drivers, 2 ESG rating drivers and 9 ESG partial rating drivers

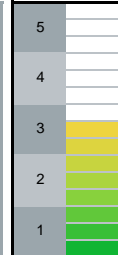
- ➔ Political stability is a key rating driver, as reflected in the World Bank Governance Indicators having the highest weight in Fitch's SRM. Finland is a robust democracy and political stability compares well with peers.
- ➔ Government effectiveness, control of corruption, rule of law and regulatory quality are key rating drivers for Finland, as reflected in the World Bank Governance Indicators having the highest weight in Fitch's SRM. They are among the strongest in the world.
- ➔ Social stability and voice and accountability are rating drivers for Finland, as reflected in the World Bank Governance Indicators having the highest weight in the SRM. Finland compares well with peers on the Voice and Accountability Indicator.
- ➔ Willingness to service and pay debt is a rating driver for Finland, as for all sovereigns.
- ➔ Demographic trends are relevant to the rating in combination with other factors. Poor demographics constrain Finland's higher medium-term growth potential and with increasing pensions costs pose a risk to long-term sustainability of public finances.
- ➔ International relations and trade are relevant to the rating in combination with other factors. The EU and Russia are important trade partners and the implementation of trade sanctions between Russia and the EU negatively affected exports, trade balance and GDP growth.

				Overall ESG Scale	
key driver	2	issues	5		
driver	2	issues	4		
partial driver	9	issues	3		
not a rating driver	2	issues	2		
	0	issues	1		

Environmental (E)

General Issues	SRM	QO	E Score	Key Sovereign Issues	Sovereign Rating Criteria References
GHG Emissions and Air Quality	2	2	2	Emissions and air pollution as a constraint on GDP growth	SRM - Macroeconomic performance, policies and prospects (Macro); Macro: real GDP growth; QO - Macro: GDP growth outlook
Energy Management	3	2	3	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	SRM - External finances: commodity dependence; SRM and QO - indirectly affects other SRM variables and QO judgments
Water Resources and Management	2	2	2	Water resource availability and management as a constraint on GDP growth	SRM - Macro: real GDP growth; QO - Macro: GDP growth outlook
Biodiversity and Natural Resource Management	3	2	3	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	SRM - External finances: commodity dependence; SRM and QO - indirectly affects other SRM variables and QO judgments
Natural Disasters and Climate Change	3	2	3	Impact of adverse climate trends, and likelihood of and resilience to shocks	SRM - Structural features: share in world GDP; Macro: GDP volatility; QO - External finances: vulnerability to shocks; SRM and QO - potential impact on other variables

E Scale



How to Read This Page

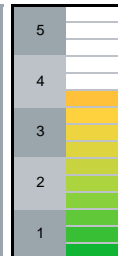
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The E, S or G score for each General Issue component reflects the higher of the SRM (Sovereign Rating Model) and Qualitative Overlay (QO) sub scores, which are derived from the SRM and QO steps of the Sovereign Rating Criteria, respectively. The right-hand box shows the aggregate E, S, or G score. General Issues and the more specific Key Sovereign Issues are relevant across all sovereigns. Scores are assigned to each Key Sovereign Issue. These scores signify the credit-relevance of the Key Sovereign Issues to the issuing entity's overall credit rating. The Sovereign Rating Criteria References box highlights the particular criterion which the corresponding ESG issues are captured by in Fitch's credit analysis.

Social (S)

General Issues	SRM	QO	S Score	Key Sovereign Issues	Sovereign Rating Criteria References
Human Rights and Political Freedoms	4	2	4	Social stability, voice and accountability, regime legitimacy	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity
Human Development, Health and Education	3	2	3	Impact of human development, health and education on GDP per capita and GDP growth	SRM - Structural features: GDP per capita; Macro: real GDP growth; QO - Macro: GDP growth outlook
Employment and Income Equality	3	2	3	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	SRM - Structural features: GDP per capita; Macro: real GDP growth; QO - Macro: GDP growth outlook; Structural features: political stability & capacity
Public Safety and Security	3	2	3	Impact of public safety and security on business environment and/or economic performance	SRM - Macro: real GDP growth; QO - Structural features: political stability & capacity; Macro: GDP growth outlook
Demographic Trends	3	3	3	Population decline or aging, rapidly rising youth population; pensions sustainability	SRM - Macro: real GDP growth; Public Finances: government debt/GDP; QO - Public finances: public debt sustainability; Structural features: political stability; Macro: growth outlook

S Scale



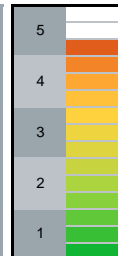
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or partial drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's Sovereign Rating Criteria and the General Issues and Key Sovereign Issues have been informed by SASB's Materiality Map and the UNPRI's sovereign fixed income working group framework.

Governance (G)

General Issues	SRM	QO	G Score	Key Sovereign Issues	Sovereign Rating Criteria References
Political Stability and Rights	5	2	5	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	5	2	5	Government effectiveness, control of corruption, rule of law, regulatory quality	SRM - Structural features: World Bank governance indicators (have highest weight in SRM); QO - Structural features: political stability & capacity
International Relations and Trade	3	3	3	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	SRM - External finances: Current account deficit and FDI; Macro: real GDP growth; QO - Structural features: political stability; External finances: vulnerability to shocks; Macro: growth outlook
Creditor Rights	4	2	4	Willingness to service and repay debt	SRM - Structural features: years since default or restructuring even; QO - Potential adjustment in one of the QO pillars
Data Quality and Transparency	3	2	3	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	Data Sources, Limitations and Reasonable Investigation; Data Revisions and Limitations

G Scale



CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5		Highly relevant to rating, a key rating driver with a high weight.
4		Relevant to rating, a rating driver.
3		Relevant, but only has an impact on entity rating in combination with other factors.
2		Irrelevant to the entity rating but relevant to the sector.
1		Irrelevant to the entity rating and irrelevant to the sector.

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