

Ratings Navigator			
Publish Date:	17-Aug-18		
Ratings	Outlooks		
Long-Term FC IDR	AA+	Positive	
Long-Term LC IDR	AA+	Positive	
Short-Term FC IDR	F1+		
Short-Term LC IDR	F1+		
Country Ceiling	AAA		
Rating History			
Date	LT FC IDR	Action	
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	
28-Mar-14	AAA Stable	Affirmed	
24-Oct-13	AAA Stable	Affirmed	
03-May-13	AAA Stable	Affirmed	
22-Jun-12	AAA Stable	Affirmed	
20-Jul-11	AAA Stable	Affirmed	

Sovereign Rating Model (SRM) Output ¹					AA+
Factors	Structural	Macroeconomic	Public Finances	External Finances	SRM Predicted Rating
Weights(%)	54.7	10.5	16.7	18.1	AAA
Percent Rank ⁴					AA+
90-100					AA
80-90					AA-
70-80					A+
60-70					A
50-60					BBB+
40-50					BBB
30-40					BBB-
20-30					BB+
10-20					BB
0-10					BB-
					B+
					B
					B-
					CCC or Below

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

Bar Chart Legend			
Vertical Bar Height = Percent Rank vs all Sovereigns			
Bar Colors = Relative Influence of Rating Factor in SRM ⁶			
█	Higher Influence (Sovereign Data)		
█	Moderate Influence (Sovereign Data)		
█	Lower Influence (Sovereign Data)		
█	Peer Data (Rating Category Median)		
Bar Arrows = Rating Factor Outlook			
↑	Positive	↓	Negative
↕	Evolving	□	Stable
◆	Peer Median		

Relevant Criteria	
Sovereign Rating Criteria (Jul 2018)	
Country Ceilings Criteria (Jul 2018)	
Analysts	
Eugene Chiam (+44 20 3530 1512)	
Kit Ling Yeung (+44 20 3530 1527)	

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

Rating Drivers	
Institutional Strengths Offset Growth Challenges	Finland's ratings balance a high value-added economy, strong governance and business indicators, solid institutions and high fiscal financing flexibility against pressures from an ageing population and competitiveness issues.
Debt Dynamics Converging Toward Medians	Public debt/GDP is on a downward trend and should fall to 59.6% in 2018 and 53.4% by 2027. Debt/GDP is still higher than 'AA' (39.2%) and 'AAA' (44.8%) medians, but the downward trajectory is underpinned by adherence to the EU's SGP rules.
Ageing Constrains Potential Growth	We believe estimates for medium-term potential growth have improved slightly to 1.3%-1.5% per year since our March 2016 review. Medium-term potential growth continues to be constrained by the impact of an ageing population on labour growth.
Competitiveness Gap Narrowing	Measures from the competitiveness pact helped narrow the big unit labour cost gap versus key trading partners. Along with good external conditions, Finnish exports grew, returning the current account balance to small surpluses from 2017.
Pensions Boost Public Net Asset Position	Finland has a general government net asset position of 59.3% of GDP at 1Q18, according to Eurostat, reflecting its large statutory pension funds. These are offset by long-term pension liabilities but boost fiscal financing flexibility.
Solid Governance and Policy Making	Finland outperforms peers in governance indicators and is aligned with the 'AAA' median on doing business indicators. Strong political institutions and a track record of solid macroeconomic policies underpin structural strengths.

Summary Strengths & Weaknesses (SRM + QO)				
	Structural	Macroeconomic	Public Finances	External Finances
Status	Strength	Weakness	Neutral	Neutral
Trend	Stable	Positive	Positive	Stable

Rating Sensitivities	
Positives	
Lower Government Debt/GDP	Sustained downward trend in the government debt/GDP ratio toward 'AA' and 'AAA' peer medians.
Growth and Competitiveness	Evidence of further improvement in medium-term growth prospects and sustained gains in competitiveness.
Negatives	
Rising Government Debt/GDP	Reversal of the downward trend in general government debt/GDP over the medium term, for example because of significant fiscal slippage or lower GDP growth.
Poor Growth or Competitiveness	Weaker medium-term growth prospects or deterioration in competitiveness.

Sovereign Rating Model							
Model Framework			Country		Rating Category Data		
Indicator	Data point	Weight	Data	SRM	A	AA	AAA
		(%)		(Notches)	Median	Median	Median
Structural		54.7	11.38				
Composite governance indicators	Latest, percentile	19.6	95.3	7.0	75.2	85.0	94.0
GDP per capita	Latest, percentile	13.6	85.9	3.8	65.2	80.8	90.4
Share in world GDP (%)	Latest	12.8	0.3	-0.7	0.3	0.4	0.9
Inverse years since Default/Restructuring ⁴	Declining weight	6.5	0.0	0.0	0.0	0.0	0.0
Broad money (% of GDP)	Latest	2.1	76.9	1.2	86.2	95.7	93.2
Macroeconomic		10.5	-0.84				
Real GDP volatility (standard deviation)	10-year	5.4	3.5	-1.0	2.5	2.1	2.0
CPI (%) - yoy change in annual average	3 year centred avg	2.5	1.2	-0.1	2.4	2.3	1.8
Real GDP growth (%)	3 year centred avg	2.7	2.5	0.2	3.7	2.4	2.1
Public finances		16.7	-1.34				
Gross general govt debt (% of GDP)	3 year centred avg	7.9	59.6	-1.2	41.0	39.2	44.8
General govt interest (% of Revenue)	3 year centred avg	4.0	1.6	-0.1	4.8	4.2	4.0
General govt budget balance (% of GDP)	3 year centred avg	3.2	-0.6	0.0	-2.3	-0.5	-0.3
Public foreign-currency debt (% of GGGD)	3 year centred avg	1.5	0.0	0.0	13.8	0.8	0.0
External finances		18.1	1.95				
Reserve currency (share in global FX) ⁵	Declining weight	7.5	3.1	1.7	0.0	0.0	3.1
Sovereign net foreign assets (% of GDP)	3 year centred avg	5.8	47.3	0.5	11.8	3.4	-7.5
Commodity dependence (% of CXR)	Latest	1.7	18.3	-0.1	11.1	15.6	13.5
Reserves (months of CXP) [for RC = 0 only]	Latest	1.1	1.5	n.a.	3.7	1.5	0.0
External interest service (% of CXR)	3 year centred avg	1.2	5.0	-0.1	2.4	4.8	7.7
CAB + Net FDI (% of GDP)	3 year centred avg	0.8	0.4	0.0	2.7	0.5	1.9
Intercept term ¹			3.94				
Total		100	15.09 ²				
SRM predicted rating			AA+				
SRM override flag and applied rating ³	No		n.a.				

¹ The intercept term is constant across all sovereigns.

² 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.

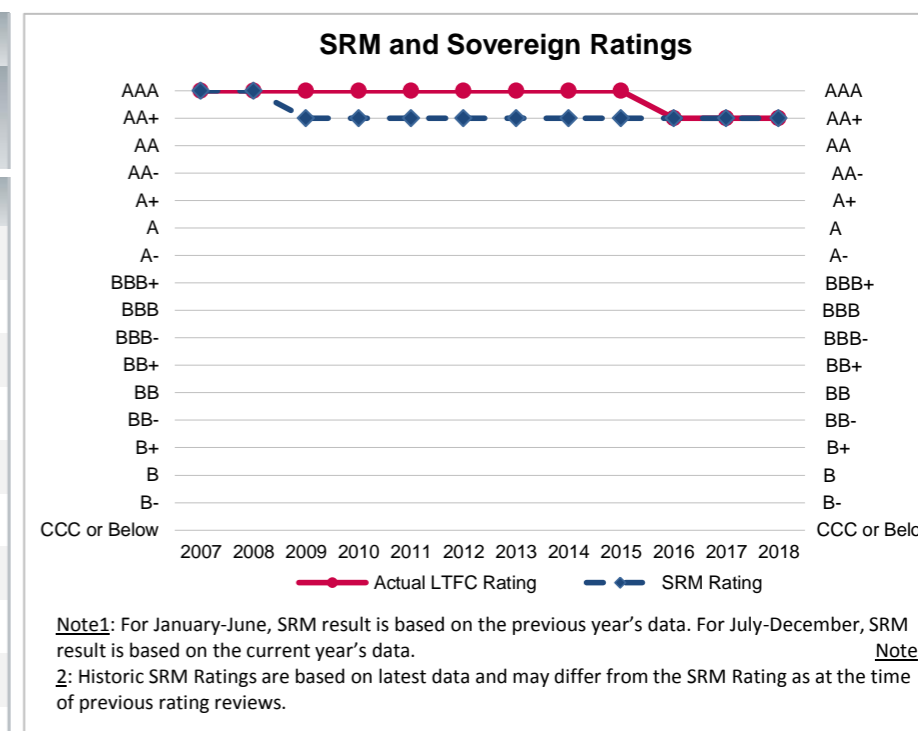
³ Sovereign Rating Committee can override SRM predicted rating if a marginal change in the Total result leads to a notch change which is judged to be temporary.

⁴ 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).

⁵ 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
	Canada
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United States of America
AA+	Finland
	Austria
	Hong Kong
AA	Abu Dhabi
	France
	Kuwait
	Macao
	New Zealand
	United Kingdom



Forecast Summary Tables					
Indicator	2016	2017	2018f	2019f	2020f
Real GDP growth (%)	2.5	2.8	2.7	1.9	1.6
CPI (%) - yoy change in annual average	0.4	0.8	1.3	1.5	1.8
Unemployment rate (%)	8.8	8.6	8.2	7.7	7.2
Short-term interest rate (annual avg%)	0.0	0.0	0.0	0.2	0.6
General govt budget balance (% of GDP)	-1.7	-0.7	-0.7	-0.3	-0.1
Gross general govt debt (% of GDP)	63.0	60.4	59.6	58.7	57.7
Current account balance (% of GDP)	-0.3	0.7	1.4	1.2	1.1
Net external debt (% of GDP)	43.0	59.2	50.3	48.3	44.5
Official international reserves (USDbn)	10.5	10.5	16.1	23.3	31.4
Nominal GDP (USDbn)	239.1	252.9	276.6	276.9	286.3
Exchange rate per USD (end-year)	0.95	0.83	0.87	0.87	0.87

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