# Finland

## Full Rating Report

### Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | AA+ |
| Short-Term IDR | F1+ |

**Local Currency**

| | |
|---|---|
| Long-Term IDR | AA+ |
| Short-Term IDR | F1+ |
| Country Ceiling | AAA |

### Outlooks

| | |
|---|---|
| Foreign-Currency Long-Term IDR | Positive |
| Local-Currency Long-Term IDR | Positive |

### Financial Data

**Finland**

| USDbn | 2018 |
|---|---|
| GDP | 276.6 |
| GDP per head (USD 000) | 49.9 |
| Population (m) | 5.5 |
| International reserves | 15.5 |
| Net external debt (% GDP) | 50.5 |
| Central government total | 51.9 |
| CG foreign-currency debt | 0 |
| CG domestically issued debt (EURbn) | 120.9 |

### Rating Derivation

| Component | Outcome |
|---|---|
| **Sovereign Rating Model (SRM)** | **AA+** |
| **Qualitative Overlay (QO)** | 0 |
| Macroeconomic | 0 |
| Structural features | 0 |
| Public finances | 0 |
| External finances | 0 |
| **Long-Term Fgn Currency IDR (SRM + QO)** | **AA+** |

Source: Fitch

### Related Research

Global Economic Outlook (June 2018)

Sovereign Data Comparator (June 2018)

Western Europe Sovereign Credit Overview - 2Q18 (April 2018)

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## Key Rating Drivers

**Outlook Revised to Positive:** On 3 August, Finland's Long-Term Issuer Default Ratings (IDRs) were affirmed at 'AA+', with the Outlooks revised to Positive from Stable. The Outlook revision reflects its falling government debt/GDP trajectory, track record of fiscal consolidation, improved competitiveness and medium-term potential growth since the ratings were last downgraded in March 2016.

**Improved Public Debt Dynamics:** Finland's public debt dynamics have improved since its government debt/GDP ratio peaked at 63.5% in 2015, with Fitch forecasting the ratio to fall to 53.4% by 2027. Although debt/GDP is still higher than the historical 'AA' and 'AAA' medians, the downward trajectory represents a material improvement compared with our expectations of debt rising to 67.5% by 2020, at the time of the last rating downgrade in March 2016.

**Fiscal Consolidation Narrows Deficits:** Fiscal consolidation and the robust recovery in economic growth in 2016-2017 have led to a narrowing of the fiscal deficit to 0.7% of GDP in 2017, from a peak of 3.2% in 2014. Fitch forecasts the deficit to remain unchanged in 2018, before narrowing further towards balance by 2020.

**Growth Outlook Improves:** Medium-term potential growth has improved to 1.3%-1.5% per year, stronger than the 1.0%-1.2% range we expected in our March 2016 review. Medium-term growth continues to be constrained by the ageing population, but could benefit from the 2017 competitiveness pact and the recent pension reform. Real GDP growth picked up to 2.5% and 2.8% in 2016 and 2017, respectively, driven by private consumption, investments, and favourable external demand.

**Competitiveness Gap Narrowing:** Wage freezes, lower social security contributions and lower public sector bonuses included in the competitiveness pact since 2017 have contributed to the narrowing of unit labour costs relative to main trading partners, helping to boost Finnish exports during this upswing in the external environment. Recent moderate wage agreements and stronger German and Swedish wage growth suggest gains will persist until at least 2019.

**Strong Net Asset Position:** Finland has a general government net asset position of 59.3% of GDP in 1Q18, reflecting the strong financial position of its large statutory pension funds. These funds are offset by long-term pension liabilities, although they support fiscal financing flexibility.

**Solid Governance, Policy Making:** Finland outperforms the 'AA' and 'AAA' medians in governance indicators and is aligned with the 'AAA' median on doing business indicators. Strong political institutions and a track record of solid macroeconomic policy management underpin its structural strengths.

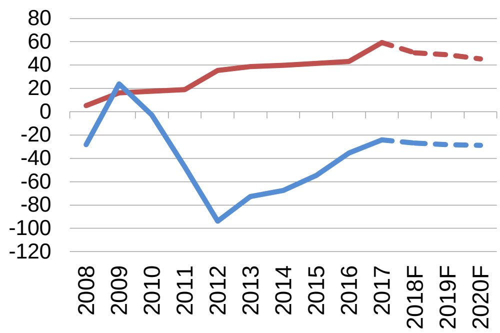
## Rating Sensitivities

**Government Debt Trajectory:** Sustained downward trend in the government debt-to-GDP ratio towards the 'AA' and 'AAA' peer medians would be positive for the rating. However, a reversal of the downward trend in general government debt to GDP over the medium term, for example because of significant fiscal slippage or lower GDP growth, would be rating negative.

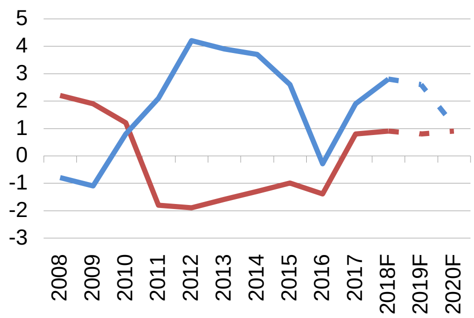
**Growth Outlook and Competitiveness:** Evidence of further improvement in medium-term growth prospects and sustained gains in competitiveness could lead to a positive rating action, while weaker medium-term growth prospects or deterioration in competitiveness could result in a negative action.

## Peer Comparison

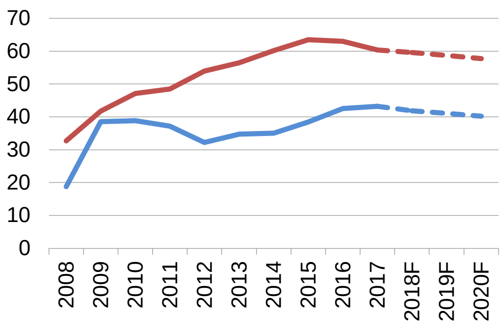
**Net External Debt**
% of GDP



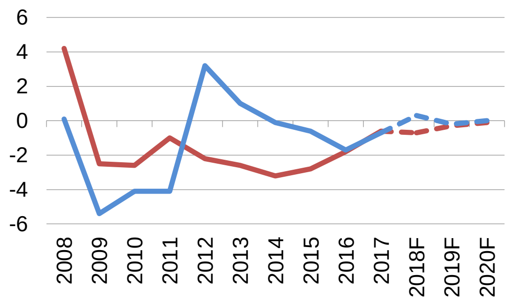

**Current Account Balance**
% of GDP




**General Government Debt**
% of GDP

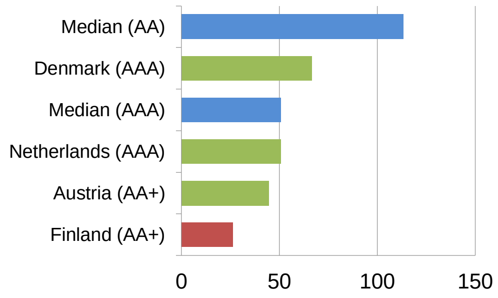



**General Government Balance**
% of GDP

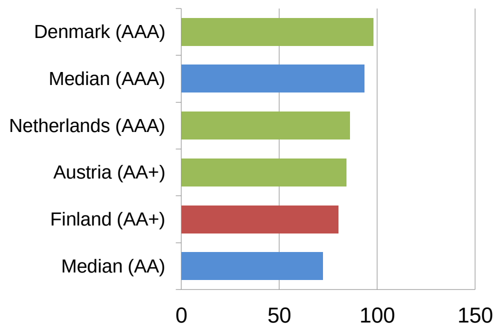



Finland Median(AA)

**International Liquidity Ratio, 2018F**
%




**GDP per Capita Income, 2018F**
At market exchange rates, USA = 100




Note: Medians based on data for sovereigns in the respective Rating category at the end of each year. Latest Ratings are used for the current year and forecast period

### Related Criteria

Sovereign Rating Criteria (July 2018)
Country Ceilings Criteria (July 2018)

## Rating Factors

### Summary: Strengths and Weaknesses

| Rating factor | Macroeconomic | Public finances | External finances | Structural issues |
|---|---|---|---|---|
| Status | Weakness | Neutral | Neutral | Strength |
| Trend | Positive | Stable | Stable | Stable |

Note: Relative to 'AA' category
Source: Fitch

### Strengths

- Finland outperforms the 'AAA' and 'AA medians in governance indicators and is aligned with the 'AAA' median on doing business indicators. Strong political institutions and a track record of solid macroeconomic policy management underpin its structural strengths.
- The sovereign's net asset position of 59.3% of GDP in 1Q18 is strong relative to peers, and is driven by the strong financial position of the statutory pension funds.
- Social security reserves are large at 89.3% of GDP at end-2017 and currently estimated to be sustainable. The state pension's share of these reserves is sizeable at 9% of GDP and has historically seen transfers to the budget in years of high fiscal deficits, while the large size of the other pension pots could provide additional fiscal financing flexibility too.
- The high degree of fiscal financing flexibility is reflected in low debt interest costs.
- GDP per capita is higher than the 'AA' median.

### Weaknesses

- Cost competitiveness has improved in recent years owing to significant structural reforms, but a large unit labour cost gap remains vis-à-vis Finland's main trading partners.
- Finland is one of the earliest Western European economies to be impacted by its ageing population, with an old-age dependency ratio of 32.8% in 2016 according to the European Commission (surpassed only by Italy and Greece).
- Medium-term potential growth is weak, with EC and the authorities estimating it to average roughly 1.3%-1.5%. This is constrained by poor demographics, but also due to slightly weaker total factor productivity growth assumptions relative to the eurozone and EU averages.
- General government guarantees are large at 28.0% of GDP at end-2016. Half (51%) related to the export financing credit and 26% related to the state housing fund. Historically, less than 0.5% of Finland's state guarantees have been called.

### Local Currency Rating

Finland's credit profile does not support a notching up of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the two key factors that support upward notching of the Long-Term Local-Currency IDR cited in the criteria is present, namely: (i) strong public finance fundamentals relative to external finance fundamentals; and (ii) previous preferential treatment of local-currency creditors relative to foreign-currency creditors. Finland is a member of the eurozone, which constrains the Long-Term Local-Currency IDR at the same level as the Long-Term Foreign-Currency IDR.

### Country Ceiling

Finland's Country Ceiling is 'AAA', reflecting Fitch's view that the risk of capital or exchange controls being imposed in the eurozone is low but non-negligible. This is consistent with Fitch's maximum Country Ceiling uplift of six notches above eurozone member states' Long-Term Foreign-Currency IDRs.

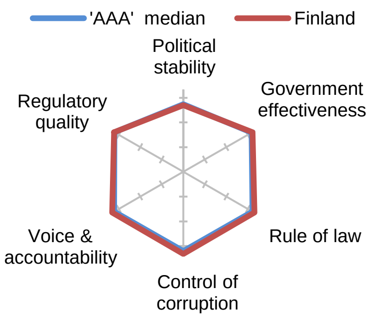
### Peer Group

| Rating | 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 |

### Rating History

| Date | Long-Term Foreign Currency | Long-Term Local Currency |
|---|---|---|
| 11 Mar 16 | AA+ | AA+ |
| 5 Aug 98 | AAA | AAA |

**Governance Indicators**
Percentile rank




Source: World Bank

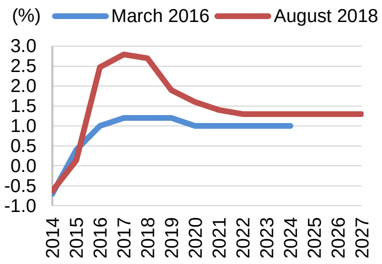
## Strengths and Weaknesses: Comparative Analysis

| 2018 | Finland AA+ | AA median | AAA median | Denmark AAA | Netherlands AAA | Austria AA+ |
|---|---|---|---|---|---|---|
| **Macroeconomic performance and policies** | | | | | | |
| Real GDP (5yr average % change) | 1.5 | 3.0 | 2.2 | 1.8 | 2.4 | 1.8 |
| Volatility of GDP (10yr rolling SD) | 3.5 | 2.1 | 2.0 | 2.1 | 2.1 | 2.0 |
| Consumer prices (5yr average) | 0.7 | 2.4 | 1.9 | 0.6 | 0.7 | 1.5 |
| Volatility of CPI (10yr rolling SD) | 1.1 | 1.3 | 0.9 | 1.0 | 1.0 | 0.9 |
| Unemployment rate (%) | 8.2 | 5.1 | 5.3 | 5.6 | 3.8 | 5.2 |
| Type of exchange rate regime | EMU | n.a. | n.a. | Peg | EMU | EMU |
| Dollarisation ratio (% of bank deposits) | 0.0 | 13.5 | 20.3 | 4.6 | 0.0 | 5.5 |
| REER volatility (10yr rolling SD) | 6.6 | 4.3 | 3.2 | 2.1 | 2.8 | 1.7 |
| | | | | | | |
| **Structural features** | | | | | | |
| GDP per capita (USD, mkt exchange rates) | 49,862 | 46,637 | 57,967 | 61,007 | 53,490 | 52,387 |
| GNI per capita (PPP, USD, latest) | 43,720 | 48,625 | 50,270 | 50,270 | 49,930 | 50,530 |
| GDP (USDbn) | 276.6 | n.a. | n.a. | 351.1 | 913.9 | 459.7 |
| Human development index (percentile, latest) | 88.2 | 88.8 | 95.0 | 97.3 | 96.7 | 87.7 |
| Governance indicator (percentile, latest)[b] | 95.3 | 85.0 | 94.0 | 93.5 | 93.8 | 89.4 |
| Broad money (% GDP) | 76.9 | 95.7 | 93.2 | 70.0 | 115.0 | 114.7 |
| Default record (year cured)[c] | - | n.a. | n.a. | - | - | - |
| Ease of doing business (percentile, latest) | 93.7 | 88.1 | 93.7 | 99.0 | 83.6 | 88.9 |
| Trade openness (avg. of CXR + CXP % GDP) | 45.5 | 46.9 | 50.8 | 60.9 | 114.9 | 57.3 |
| Gross domestic savings (% GDP) | 23.8 | 26.3 | 27.8 | 28.1 | 32.4 | 28.8 |
| Gross domestic investment (% GDP) | 22.8 | 23.0 | 22.6 | 21.0 | 20.8 | 24.7 |
| Private credit (% GDP) | 93.6 | 104.3 | 119.0 | 165.8 | 110.7 | 82.5 |
| Bank systemic risk indicators[d] | -/1 | n.a. | n.a. | a/1 | a/1 | bbb/1 |
| Bank system capital ratio (% assets) | 21.4 | 14.4 | 14.2 | 19.9 | - | 16.4 |
| Foreign bank ownership (% assets) | 51.7 | 25.0 | 15.0 | - | - | 19.4 |
| Public bank ownership (% assets) | - | 20.1 | 8.2 | 0.4 | - | 11.0 |
| | | | | | | |
| **External finances** | | | | | | |
| Current account balance + net FDI (% GDP) | 0.3 | 0.5 | 1.9 | 2.9 | 7.3 | 1.7 |
| Current account balance (% GDP) | 1.2 | 1.5 | 4.7 | 6.6 | 9.9 | 2.3 |
| Net external debt (% GDP) | 50.5 | -21.6 | 18.6 | -10.3 | 4.7 | 11.1 |
| Gross external debt (% CXR) | 374.2 | 211.5 | 310.6 | 258.2 | 395.1 | 239.7 |
| Gross sovereign external debt (% GXD) | 28.5 | 15.2 | 14.7 | 8.0 | 7.0 | 48.7 |
| Sovereign net foreign assets (% GDP) | 45.9 | 3.4 | -7.5 | 9.3 | -4.4 | -48.6 |
| Ext. interest service ratio (% CXR) | 5.1 | 4.8 | 7.7 | 3.7 | 7.3 | 5.9 |
| Ext. debt service ratio (% CXR) | 54.3 | 24.4 | 41.6 | 30.9 | 69.5 | 41.2 |
| Foreign exchange reserves (months of CXP) | 1.5 | 2.5 | 1.3 | 3.8 | 0.5 | 1.2 |
| Liquidity ratio (latest)[e] | 26.2 | 81.5 | 52.0 | 66.4 | 50.6 | 44.5 |
| Share of currency in global reserves (%) | 20 | n.a. | n.a. | 0 | 20 | 20 |
| Commodity export dependence (% CXR, latest) | 18.4 | 15.6 | 13.5 | 19.6 | 20.9 | 12.1 |
| Sovereign net foreign currency debt (% GDP) | -5.6 | -7.8 | -3.8 | -18.1 | -3.3 | -5.8 |
| | | | | | | |
| **Public finances[f]** | | | | | | |
| Budget balance (% GDP) | -0.7 | -0.5 | -0.3 | -0.3 | 0.9 | -0.5 |
| Primary balance (% GDP) | 0.1 | 1.5 | 1.2 | 0.7 | 1.7 | 1.2 |
| Gross debt (% revenue) | 114.6 | 105.2 | 115.4 | 68.0 | 119.9 | 155.0 |
| Gross debt (% GDP) | 59.6 | 39.2 | 44.8 | 35.5 | 52.3 | 74.5 |
| Net debt (% GDP) | 58.1 | 27.6 | 39.2 | 31.1 | 51.4 | 73.7 |
| Foreign currency debt (% total debt) | 0.0 | 0.8 | 0.0 | 0.0 | 1.9 | 0.0 |
| Interest payments (% revenue) | 1.6 | 4.2 | 4.0 | 1.8 | 1.9 | 3.3 |
| Revenues and grants (% GDP) | 52.0 | 40.4 | 43.2 | 52.2 | 43.6 | 48.1 |
| Volatility of revenues/GDP ratio | 2.1 | 4.9 | 2.6 | 2.1 | 1.1 | 1.3 |
| Central govt. debt maturities (% GDP) | 13.2 | 7.4 | 8.9 | 8.0 | 5.1 | 5.6 |

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] No modern history of default
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch

## Key Credit Developments

**Growth More Robust and Potential Growth Revised up Since March 2016 Review**
Real GDP growth




Source: Statistics Finland, Fitch

### Medium-Term Potential Growth Improved; Constrained by Demographics

Finland's medium-term potential growth has improved compared with our expectations when we downgraded the rating to 'AA+' from 'AAA' in March 2016. We view the indicative range of 1.3%-1.5% per year, based on estimates by the European Commission and the national authorities, as being credible, and stronger than the 1.0-1.2% range expected at our March 2016 review, which reflected very weak demand and prospects for key sectors.

Adverse demographics continue to constrain the contribution of labour inputs to potential growth with fertility estimates recently revised down. The old-age dependency ratio is the third highest in the EU, implying Finland's labour market would be one of the first hit by ageing.

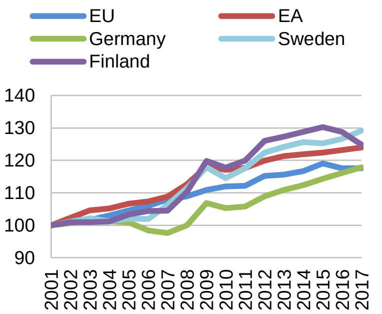
Productivity growth is expected to be the main contributor of potential growth, with some positive signs from recent key investments into the high value-added paper and ICT sectors. Prospects for higher potential growth would require further structural reforms and would depend on the policy agenda of the new government following the 2019 elections.

### Real GDP Growth Set to Slow Gradually

Compared to our expectations of real GDP growth stagnating at 1.0% per year at our March 2016 review, real GDP growth picked up to 2.5% and 2.8% in 2016 and 2017, respectively, driven by private consumption and investments, but also benefitted from favourable external demand, via strong growth in the euro area and the economic recovery in Russia.

We forecast the strong growth momentum to continue in 2018 at 2.7%, slowing to 2.0% and 1.7% in 2019-2020. Growth is expected to be driven by strong private consumption (supported by low savings and interest rates) and investments (boosted by high capacity utilisation rates), but will continue to benefit from cyclically favourable, albeit waning, external demand from the EU and Russia.

**Closing Competitiveness Gap**
Unit Labour Costs (2010 = 100)




Source: Eurostat

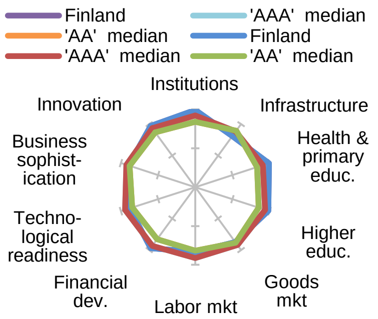
Risks are on the downside with the threat of global trade wars weighing on Finland's open economy. While direct exports of steel products to the US are low (1.8% of steel exports), indirect effects of lower steel demand from affected EU industries would hurt the steel sector.

### Labour Market Improving, Moderate Wage Rises to 2019

The unemployment rate fell to 6.7% in June 2018 from 8.8% a year ago, as employment growth accelerated to 3.8% yoy. Employment growth is softening following a rapid recovery in recent months. The natural rate of unemployment is estimated to be high, at 6.5%-7.0% owing to skills mismatches, and suggests that labour market pressures could be forming.

Wage negotiations have mostly concluded wage agreements lasting through to end-2019, with wages set to increase 1.6% yoy for 2018 and 2019, with some variation across sectors. This is expected to result in wage growth of 1.8% in 2018 and 2.6% in 2019. New wage negotiation rules by the employers' federation made negotiations with trade unions more decentralised, allowing for an export sector-led approach, further securing competitiveness gains.

**Competitiveness Indicators**
Percentile rank




Source: World Economic Forum (2016-17)

### Current Account Turns into Surplus, But Forecast to Narrow

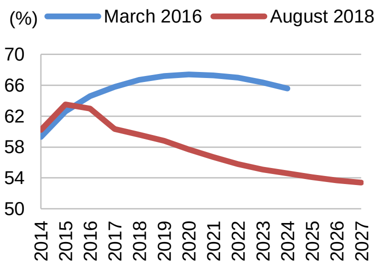
The current account balance recorded a surplus of 0.7% of GDP in 2017, the first surplus since 2010, and partly reflects favourable terms of trade (primarily low oil prices), but also growing exports from favourable external conditions and improving cost competitiveness that saw Finland gain 7.5% on relative ULCs in 2015-2019.

Export growth was robust in 2017 after stagnating since 2011, and net factor incomes continued rising, reflecting investment income from large pension reserves invested abroad.

With moderate wage increases agreed relative to Swedish and German peers, competitiveness gains should persist in the forecast horizon, resulting in the current account surplus rising to

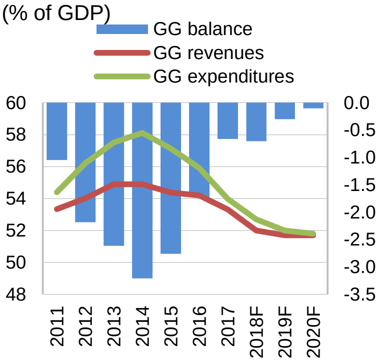
1.2% of GDP in 2018, before falling to 0.7% by 2020 as consumption growth raises imports. However, a competitiveness gap relative to Sweden and Germany remains to be closed.

**Government Debt Dynamics Improved Since March 2016 Review**
GGGD-to-GDP



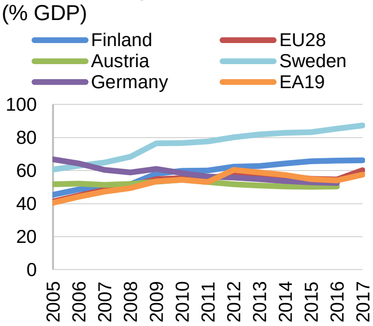

Source: Eurostat, Fitch

**Reduction of Fiscal Deficits**
(% of GDP)




Source: Fitch

**Household Debt Above EU and EA Avg.**
(% GDP)




Source: Eurostat

## Public Debt Dynamics Improved; Fiscal Consolidation Narrows Deficit

Public debt dynamics have improved since the government's debt/GDP ratio peaked at 63.5% in 2015, with Fitch forecasting the ratio to fall to 59.6% in 2018 and 53.4% by 2027. This contrasts with our projection of debt/GDP rising to 67.5% by 2020 at our March 2016 review.

Fiscal consolidation measures and the robust recovery in economic growth in 2016-2017 have led to a narrowing of the general government fiscal deficit to 0.7% of GDP in 2017, from a peak of 3.2% of GDP in 2014. A public sector wage freeze and cuts in public sector holiday bonuses resulted in expenditures falling as a share of GDP in 2017. Strong labour market developments and a one-off corporate tax receipt resulted in better-than-expected tax revenues, but continued to fall as a share of GDP in 2017 due to the tax cuts under the competitiveness pact.

Fitch forecasts the fiscal deficit to be unchanged at 0.7% of GDP in 2018, narrowing further towards balance by 2020. Fitch expects that while fiscal policy could loosen under some political scenarios after the elections, reliance on the main centrist parties to form a government would broadly maintain the current fiscal policy direction and debt reduction strategy.

The 'SOTE reforms' (due to be voted on in parliament by end-2018) propose to regionalise healthcare administration under new regional counties, and to provide more end-user choice between private and public healthcare providers. Delays to the bill could jeopardise its implementation before the current government's term ends.

Recent pension reforms in 2017 could help mitigate the constraints that the ageing population poses to longer-term growth, while the reform of healthcare and social services could help mitigate rising ageing costs, which represent a medium-term risk to public finances. The government's expected EUR3 billion savings potential from the SOTE reforms (1.3% of GDP by 2029) have not been factored into the government's or our forecast, with uncertainty surrounding the savings potential of some elements of the plan.

## 2019 Election Outcome too Close to Call

The Social Democrats currently lead the polls just marginally ahead of the National Coalition party. With the waning popularity of the right-wing populist Finns party, Fitch expects the dynamics of the next government at the 2019 general elections to return to the three traditional parties (Social Democrats, National Coalition and Centre parties). Given the significant impact of the SOTE reforms, the outcome of vote on these reforms could have an impact on opinion polls in the coming months. There appears to be broad consensus in parliament that the next government would need to reform the social security system and introduce labour market reforms to improve work incentives, but parties remain divided on specific recommendations.

## Rising Household Debt Increases Risks

Household credit growth picked up slightly to 2.6% yoy in June 2018, raising household indebtedness in Finland to 66.3% of GDP at end-2017, slightly higher than the EU average of 50.2% at end-2017. Household debt-to-income has risen steadily to 116.4% in 2017 (2013: 106.9%) against a euro area average of 94.0%. Roughly 80% of housing loans are concentrated at the three largest banks, and also amongst 50% of households. With 96% of household debt priced in floating rates, a sharp rise in interest rates, or a severe shock to economic growth or house prices would pressure debt servicing and weigh on private consumption growth.

However, the rising popularity of mortgages with interest rate collars mitigates some interest rate risks, while a significant share of fixed monthly debt service payment arrangements could also dampen the impact that a sharp rise in interest rates would have on debt servicing.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

## Public Debt Dynamics

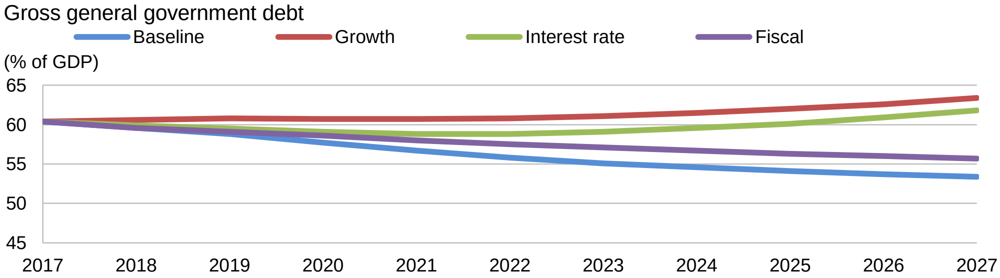
According to Fitch's baseline projections, GGGD should fall to 53.4% of GDP by 2027. Debt reduction will be driven primarily by growing primary surpluses and to a lesser extent nominal GDP growth. The main risk to debt sustainability would be a failure to increase the primary budget balance as ageing costs rise.

### Debt Dynamics: Fitch's Baseline Assumptions

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|
| Gross general government debt (% GDP) | 60.4 | 59.6 | 58.8 | 57.7 | 56.7 | 55.8 | 53.4 |
| Primary balance (% of GDP) | 0.4 | 0.1 | 0.4 | 0.6 | 0.6 | 0.5 | 0.1 |
| Real GDP growth (%) | 2.8 | 2.7 | 1.9 | 1.6 | 1.4 | 1.3 | 1.3 |
| Avg. nominal effective interest rate (%) | 1.6 | 1.4 | 1.3 | 1.2 | 1.2 | 1.3 | 1.7 |
| Local currency/USD (annual avg.) | 0.89 | 0.84 | 0.87 | 0.87 | 0.87 | 0.87 | 0.87 |
| GDP deflator (%) | 0.8 | 1.3 | 1.5 | 1.8 | 2.0 | 2.0 | 2.0 |

### Sensitivity Analysis

Gross general government debt




Source: Fitch debt dynamics model

### Debt Sensitivity Analysis: Fitch's Scenario Assumptions

| | |
|---|---|
| Growth | GDP growth 1.7% lower (half standard deviation lower) |
| Interest rate | marginal interest rate 250bp higher |
| Fiscal | no change in primary balance from 2018 level |

### Forecast Summary

| | 2014 | 2015 | 2016 | 2017 | 2018f | 2019f | 2020f |
|---|---|---|---|---|---|---|---|
| **Macroeconomic indicators and policy** | | | | | | | |
| Real GDP growth (%) | -0.6 | 0.1 | 2.5 | 2.8 | 2.7 | 1.9 | 1.6 |
| Unemployment (%) | 8.7 | 9.4 | 8.8 | 8.6 | 8.2 | 7.7 | 7.2 |
| Consumer prices (annual average % change) | 1.2 | -0.2 | 0.4 | 0.8 | 1.3 | 1.5 | 1.8 |
| Short-term interest rate (bank policy annual avg.) (%) | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.6 |
| General government balance (% of GDP) | -3.2 | -2.8 | -1.8 | -0.7 | -0.7 | -0.3 | -0.1 |
| General government debt (% of GDP) | 60.2 | 63.5 | 63.0 | 60.4 | 59.6 | 58.7 | 57.7 |
| EUR per USD (annual average) | 0.75 | 0.90 | 0.90 | 0.89 | 0.84 | 0.87 | 0.87 |
| Real effective exchange rate (2000 = 100) | 109.0 | 106.0 | 104.5 | 101.3 | 100.3 | 99.3 | 98.3 |
| Real private sector credit growth (%) | -0.5 | 2.0 | 1.6 | 2.2 | 2.2 | 2.0 | 1.7 |
| **External finance** | | | | | | | |
| Current account balance (% of GDP) | -1.3 | -1.0 | -1.4 | 0.7 | 1.2 | 0.8 | 0.7 |
| Current account balance plus net FDI (% of GDP) | 5.1 | 6.8 | -7.1 | 0.6 | 0.3 | -0.2 | -0.2 |
| Net external debt (% of GDP) | 39.9 | 41.4 | 43.0 | 59.2 | 50.5 | 48.9 | 45.4 |
| Net external debt (% of CXR) | 86.9 | 93.5 | 97.4 | 128.3 | 109.6 | 105.3 | 101.0 |
| Official international reserves including gold (USDbn) | 10.6 | 10.0 | 10.5 | 10.5 | 15.5 | 21.6 | 28.6 |
| Official international reserves (months of CXP cover) | 1.0 | 1.1 | 1.2 | 1.1 | 1.5 | 2.1 | 2.7 |
| External interest service (% of CXR) | 7.2 | 6.8 | 5.4 | 5.1 | 5.1 | 4.9 | 4.9 |
| Gross external financing requirement (% int. reserves) | 604.6 | 969.1 | 668.9 | 546.1 | 564.8 | 373.3 | 267.6 |
| **Real GDP growth (%)** | | | | | | | |
| US | 2.6 | 2.9 | 1.5 | 2.3 | 2.8 | 2.5 | 2.1 |
| China | 7.3 | 6.9 | 6.7 | 6.9 | 6.6 | 6.3 | 6.1 |
| Eurozone | 1.3 | 2.1 | 1.8 | 2.4 | 2.3 | 1.8 | 1.5 |
| World | 2.8 | 2.8 | 2.5 | 3.3 | 3.3 | 3.2 | 3.0 |
| **Oil** (USD/barrel) | 98.9 | 52.4 | 45.1 | 54.9 | 70.0 | 65.0 | 57.5 |

Source: Fitch

## Fiscal Accounts Summary

| (% of GDP) | 2015 | 2016 | 2017 | 2018f | 2019f | 2020f |
|---|---|---|---|---|---|---|
| **General government** | | | | | | |
| **Revenue** | **54.4** | **54.1** | **53.1** | **52.0** | **51.7** | **51.7** |
| **Expenditure** | **57.1** | **55.9** | **53.7** | **52.7** | **52.0** | **51.8** |
| O/w interest payments | 1.2 | 1.1 | 1.0 | 0.8 | 0.7 | 0.7 |
| | | | | | | |
| Primary balance | -1.6 | -0.7 | 0.4 | 0.1 | 0.4 | 0.6 |
| **Overall balance** | **-2.8** | **-1.8** | **-0.7** | **-0.7** | **-0.3** | **-0.1** |
| | | | | | | |
| **General government debt** | **63.5** | **63.0** | **60.4** | **59.6** | **58.7** | **57.7** |
| % of general government revenue | 116.8 | 116.4 | 113.7 | 114.6 | 113.6 | 111.6 |
| | | | | | | |
| Central government deposits | 1.3 | 1.3 | 1.5 | 1.5 | 1.4 | 1.4 |
| Net general government debt | 62.2 | 61.7 | 58.8 | 58.1 | 57.3 | 56.3 |
| | | | | | | |
| **Central government** | | | | | | |
| **Revenue** | **24.9** | **24.8** | **24.7** | **24.3** | **24.4** | **28.8** |
| O/w grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Expenditure and net lending** | **27.9** | **27.5** | **26.4** | **26.0** | **25.2** | **29.3** |
| O/w current expenditure and transfers | 26.1 | 25.7 | 24.7 | 24.4 | 23.7 | 27.5 |
| - Interest | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| O/w capital expenditure | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.8 |
| | | | | | | |
| Current balance | -1.3 | -1.0 | 0.0 | 0.0 | 0.7 | 1.3 |
| Primary balance | -1.9 | -1.7 | -0.8 | -0.8 | 0.0 | 0.3 |
| **Overall balance** | **-3.0** | **-2.7** | **-1.7** | **-1.7** | **-0.9** | **-0.6** |
| | | | | | | |
| Central government debt | 54.1 | 53.6 | 52.3 | 51.9 | 51.1 | 50.0 |
| % of central government revenues | 217.4 | 216.3 | 212.0 | 213.7 | 209.6 | 173.5 |
| | | | | | | |
| **Central government debt (EURbn)** | **113.3** | **115.8** | **117.0** | **120.9** | **123.0** | **124.4** |
| By residency of holder | | | | | | |
| Domestic | 13.6 | 13.9 | 14.0 | 14.5 | 14.8 | 14.9 |
| Foreign | 99.7 | 101.9 | 103.0 | 106.4 | 108.3 | 109.5 |
| By currency denomination | | | | | | |
| Local currency | 113.3 | 115.8 | 117.0 | 120.9 | 123.0 | 124.4 |
| Foreign currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| In USD equivalent (eop exchange rate) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Average maturity (years) | 5.9 | 5.9 | 6.1 | 6.1 | 6.1 | 6.1 |
| **Memo** | | | | | | |
| Nominal GDP (EURbn) | 209.6 | 216.1 | 223.8 | 232.9 | 240.9 | 249.1 |

Source: Ministry of Finance and Fitch estimates and forecasts

## External Debt and Assets

| (USDbn) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018f |
|---|---|---|---|---|---|---|
| **Gross external debt** | **582.6** | **545.6** | **488.4** | **452.2** | **495.7** | **477.1** |
| % of GDP | 215.7 | 199.8 | 209.9 | 189.1 | 196.0 | 172.5 |
| % of CXR | 464.3 | 435.4 | 473.9 | 428.7 | 424.9 | 374.2 |
| | | | | | | |
| **By maturity** | | | | | | |
| Medium- and long-term | 323.7 | 504.3 | 318.6 | 295.9 | 313.4 | 300.8 |
| Short -term | 258.9 | 41.3 | 169.8 | 156.2 | 182.4 | 176.3 |
| % of total debt | 44.4 | 7.6 | 34.8 | 34.6 | 36.8 | 37.0 |
| | | | | | | |
| **By debtor** | | | | | | |
| **Sovereign** | **148.7** | **146.8** | **130.7** | **123.5** | **141.1** | **136.2** |
| Monetary authorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| General government | 148.7 | 146.8 | 130.6 | 123.5 | 141.1 | 136.2 |
| O/w central government | 131.7 | 122.7 | 108.3 | 107.4 | 123.7 | 122.3 |
| **Banks** | **315.4** | **290.4** | **245.7** | **227.9** | **233.9** | **226.4** |
| **Other sectors** | **118.4** | **108.4** | **112.0** | **100.8** | **120.8** | **114.6** |
| | | | | | | |
| **Gross external assets (non-equity)** | **478.3** | **436.7** | **392.0** | **349.4** | **346.0** | **337.4** |
| International reserves, incl. gold | 11.3 | 10.6 | 10.0 | 10.5 | 10.5 | 15.5 |
| Other sovereign assets nes | 113.3 | 98.7 | 49.6 | 49.1 | 126.8 | 126.2 |
| Deposit money banks' foreign assets | 229.1 | 216.0 | 171.0 | 141.1 | 80.3 | 77.1 |
| Other sector foreign assets | 124.6 | 111.4 | 161.2 | 148.3 | 127.9 | 123.3 |
| | | | | | | |
| **Net external debt** | **104.3** | **108.9** | **96.3** | **102.8** | **149.8** | **139.7** |
| % of GDP | 38.6 | 39.9 | 41.4 | 43.0 | 59.2 | 50.5 |
| Net sovereign external debt | 24.1 | 37.4 | 70.8 | 63.4 | 3.3 | -0.9 |
| Net bank external debt | 86.4 | 74.4 | 74.7 | 86.9 | 153.6 | 149.3 |
| Net other external debt | -6.2 | -2.9 | -49.2 | -47.5 | -7.2 | -8.7 |
| | | | | | | |
| **Net international investment position** | **10.8** | **-7.9** | **3.5** | **7.5** | **15.2** | **17.0** |
| % of GDP | 4.0 | -2.9 | 1.5 | 3.1 | 6.0 | 6.1 |
| | | | | | | |
| **Sovereign net foreign assets** | **94.8** | **100.1** | **96.3** | **100.8** | **127.0** | **127.0** |
| % of GDP | 35.1 | 36.6 | 41.4 | 42.1 | 50.2 | 45.9 |
| | | | | | | |
| **Debt service (principal & interest)** | **73.4** | **73.7** | **107.8** | **69.4** | **65.1** | **69.2** |
| Debt service (% of CXR) | 58.5 | 58.8 | 104.6 | 65.8 | 55.8 | 54.3 |
| Interest (% of CXR) | 7.3 | 7.2 | 6.8 | 5.4 | 5.1 | 5.1 |
| | | | | | | |
| Liquidity ratio (%) | 41.5 | 51.0 | 74.3 | 43.1 | 40.4 | 26.2 |
| Net sovereign FX debt (% of GDP) | -4.2 | -3.9 | -4.3 | -4.4 | -4.2 | -5.6 |
| **Memo** | | | | | | |
| Nominal GDP | 270.0 | 273.1 | 232.7 | 239.1 | 252.9 | 276.6 |
| Inter-company loans | 53.8 | 56.0 | 65.7 | 51.2 | 66.8 | 63.4 |

Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

## Balance of Payments

| (USDbn) | 2015 | 2016 | 2017 | 2018f | 2019f | 2020f |
|---|---|---|---|---|---|---|
| **Current account balance** | **-2.3** | **-3.3** | **1.9** | **3.3** | **2.2** | **2.1** |
| % of GDP | -1.0 | -1.4 | 0.7 | 1.2 | 0.8 | 0.7 |
| % of CXR | -2.3 | -3.1 | 1.7 | 2.6 | 1.7 | 1.6 |
| | | | | | | |
| **Trade balance** | **2.0** | **0.3** | **3.0** | **4.4** | **3.8** | **3.8** |
| Exports, fob | 59.3 | 58.6 | 67.7 | 74.4 | 75.9 | 74.7 |
| Imports, fob | 57.3 | 58.3 | 64.7 | 70.0 | 72.1 | 70.9 |
| | | | | | | |
| **Services, net** | **-3.1** | **-3.1** | **-1.5** | **-1.5** | **-1.6** | **-1.9** |
| Services, credit | 25.8 | 26.4 | 28.7 | 31.5 | 31.5 | 32.3 |
| Services, debit | 28.9 | 29.5 | 30.2 | 33.0 | 33.1 | 34.2 |
| | | | | | | |
| **Income, net** | **1.6** | **2.3** | **2.6** | **2.9** | **2.5** | **2.8** |
| Income, credit | 16.7 | 19.2 | 18.8 | 20.2 | 19.8 | 20.3 |
| Income, debit | 15.1 | 16.9 | 16.2 | 17.3 | 17.2 | 17.6 |
| O/w: Interest payments | 7.0 | 5.7 | 6.0 | 6.5 | 6.3 | 6.3 |
| | | | | | | |
| **Current transfers, net** | **-2.9** | **-2.8** | **-2.1** | **-2.5** | **-2.6** | **-2.5** |
| | | | | | | |
| **Capital and financial accounts** | | | | | | |
| Non-debt-creating inflows (net) | 4.5 | -4.5 | -16.3 | 1.0 | 2.0 | 3.0 |
| O/w equity FDI | 2.2 | -8.9 | -2.8 | 1.0 | 2.0 | 3.0 |
| O/w portfolio equity | 2.3 | 4.4 | -13.5 | 0.0 | 0.0 | 0.0 |
| O/w other flows | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Change in reserves | -0.1 | 0.9 | -0.5 | 5.0 | 6.1 | 7.0 |
| **Gross external financing requirement** | 103.2 | 67.0 | 57.3 | 59.4 | 58.0 | 57.8 |
| **Stock of international reserves, incl. gold** | 10.0 | 10.5 | 10.5 | 15.5 | 21.6 | 28.6 |

Source: IMF and Fitch estimates and forecasts

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