Työllisyysrahasto, The Employment Fund

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This report does not constitute a rating action.

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Credit Highlights

Overview

Key strengths	Key risks
In our view, the Employment Fund (EF) plays a critical role for Finland's labor market policy and social security system as the sole entity responsible for funding the country's earnings-related unemployment insurance scheme and adult education allowance.	Although remote, any erosion of EF's position in the policy architecture of the Finnish welfare state could reduce interconnectedness with and importance to the government; this could diminish the government's readiness to provide support to EF.
An integral link with the Finnish government, demonstrated by past financial support received from the government, including in 2020.	
The financial position of the EF has strengthened over the past two years on the back of Finland's resilient labor market.	

Työllisyysrahasto, The Employment Fund, is an indirect public administration mandated with the funding of the earnings-related share of Finland's unemployment insurance scheme and remains a key part of Finland's labor market policy and social security system. As such, we believe the entity will benefit from an almost certain likelihood of extraordinary government support in times of financial stress. We therefore equalize our ratings on EF with those on Finland (AA+/Stable/A-1+).

EF's financial performance is closely linked with developments in Finland's labor market. With employment levels at historical highs, EF's financial buffers are now replenished after two challenging years during the pandemic, during which the government provided financial support to the fund.

Outlook

S&P Global Ratings' stable outlook on EF reflects the outlook on Finland, since we consider that EF's critical role for and integral link with the Finnish government will endure and prompt the authorities to safeguard the entity's solvency and liquidity.

Downside scenario

Downside risks to the rating could build if we observed an unwinding of EF's role in the execution of key public policy, leading to a lower degree of government involvement and support for EF's activities. We consider this scenario unlikely over the next two years and expect our rating on EF to move in line with our rating on Finland.

Upside scenario

We could raise the rating on EF if we raised our ratings on Finland.

Rationale

We equalize our ratings on EF with those on Finland. This reflects our expectation of an almost certain likelihood that the Finnish government would provide timely and sufficient extraordinary support to EF in the event of financial distress. In accordance with our approach for rating government-related entities, we base our assessment of an almost certain likelihood of government support on EF's:

- Critical role for Finland's welfare system and in the execution of key labor market policy in Finland. EF is the sole entity responsible for funding the Finnish earnings-related unemployment insurance scheme and adult education allowance; and
- Integral link with the Finnish government, as indicated by the government's strong supervision and control over EF and its status as an "indirect public administration."

We believe that the almost certain likelihood of extraordinary government support for EF is currently not subject to transition risk. Accordingly, we do not assess EF's creditworthiness on a stand-alone basis. We effectively view EF as a department of the government, reflected in its status as an indirect public administration. As a result, EF must comply with the same rules as public authorities. This status not only underlines EF's integral link with the government, but also implies that, if EF did not exist, the government would have to manage EF's functions directly itself. EF's net financial position is consolidated into Finland's gross general government debt by Eurostat.

In administering the financing of statutory unemployment allowances, EF plays a central role in managing what is a key pillar of the Finnish social security system. Because of this key public-policy role, its interaction with the central government is close and EF has enjoyed support from the government to fulfil its statutory tasks through periods of financial stress. The government's supportive stance toward EF was clearly displayed in 2020 as the COVID-19 pandemic tested the Finnish social security system. The economic shock from the pandemic led to a significant increase in temporary layoffs that prompted an unprecedented rise in statutory benefit payments administered by EF. These developments prompted swift actions from EF, which, thanks to direct financial support from the central government, fully executed its statutory responsibilities during these times.

Changes in employment and unemployment rates affect both EF's revenue (premium income base) and expenditure (unemployment payment base). The shock to the Finnish economy and labor market during the pandemic resulted in deficits of 23% and 18% of turnover in 2020 and 2021, respectively. Consequently, the central government extended €333 million of direct financial support to EF in 2020 to help EF finance temporary layoff schemes. Since then, Finland's labor market has recovered significantly and remains resilient. Unemployment is at one of the lowest levels of the past 15 years and employment levels are at historical highs--even against a challenging macroeconomic environment, like elsewhere in Europe. In particular, we note that the wage sum has increased significantly since 2021, which is important since it correlates with EF's revenue collection. These positive developments should underpin a financial surplus for EF in 2023, following a sizable surplus in 2022. The financial results also benefit from previous adjustments to the unemployment insurance contributions in 2021 and 2022, which had to obtain parliamentary approval.

During 2020 and 2021, EF also tapped its financial buffers and benefitted from a strong precautionary financial arrangement from the government to navigate the labor market repercussions of the pandemic. To safeguard liquidity during the pandemic, the Finnish government provided a guarantee for a €800 million revolving credit facility for EF in April 2020 (the current revolving credit facility stands at €600 million and no longer benefits from a government guarantee). Furthermore, the central government directly financed the temporary layoff schemes that ran from April through year-end 2020, saving EF over €300 million in outlays. We consider the central government to be ultimately responsible for the functioning of the Finnish social security system and hence believe that it will stay committed to ensuring EF's solvency and liquidity position.

In accordance with the Act on the Financing of Unemployment Benefits, EF also maintains a business-cycle buffer generated from the difference between its income and expenses. The stipulated maximum buffer is tailored to annual benefits paid by EF at an unemployment rate of 6%. This buffer is to safeguard EF's solvency and even out changes in unemployment insurance contributions caused by trend cycles in the national economy. EF seeks to ensure the sufficiency of the business-cycle buffer by setting unemployment insurance contribution rates at an appropriate level. EF tapped into its business-cycle buffer extensively over 2020-2021, but has since replenished these funds, which stood at almost €1.3 billion at year-end 2022--compared with €2.9 billion of benefits paid in that year--with further increases expected in 2023 due to the solid labor market. EF also placed two bonds totaling €1.2 billion in 2020, indicating its strong access to loans and capital market funding capabilities, and it was accepted by the European Central Bank as an issuer under its Public-Sector Purchase Program in 2015.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Finland, May 1, 2023
- Default, Transition, and Recovery: 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023
- Sovereign Risk Indicators, April 10, 2023

Ratings Detail (as of July 04, 2023)*

Tyollisyysrahasto, The Employment Fund	
Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+
Issuer Credit Ratings History	
30-Sep-2016	AA+/Stable/A-1+
06-Oct-2015	AA+/Negative/A-1+
21-May-2015	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.