

Research Update:

Finland-Based Työllisyysrahasto The Employment Fund Affirmed At 'AA+/A-1+'; Outlook Stable

September 29, 2020

S&PGR Affirms Finland's Employment Fund At 'AA+/A-1+'

Overview

- We believe Työllisyysrahasto The Employment Fund (EF) plays a critical role for Finland's labor market policy as the sole entity responsible for funding the country's earnings-related unemployment insurance scheme and adult education allowance.
- Moreover, EF has an integral link with the Finnish government, demonstrated by financial support EF received from the government during the pandemic.
- We are therefore affirming our 'AA+/A-1+' ratings on EF.
- The stable outlook reflects that on Finland and our expectation of an almost certain likelihood that the government will provide extraordinary support to EF in the event of financial stress.

Rating Action

On Sept. 29, 2020, S&P Global Ratings affirmed its 'AA+/A-1+' long-term and short-term issuer credit ratings on Finland-based Työllisyysrahasto, The Employment Fund (EF). The outlook is stable.

Rationale

We equalize our ratings on EF with those on Finland (AA+/Stable/A-1+). 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. Given its critical role in the execution of key labor market policy, which is usually conducted by the government directly, we believe that the almost certain likelihood of extraordinary government support for EF will endure and is not subject to transition risk. We, therefore do not assess EF's creditworthiness on a stand-alone basis.

We still view EF as a department of the government, reflected in its status as an indirect public administration. As a result, EF is treated as a public authority and must therefore comply with the

PRIMARY CREDIT ANALYST

Gabriel Forss
Stockholm
(46) 8-440-5933
gabriel.forss
@spglobal.com

SECONDARY CONTACT

Dennis Nilsson
Stockholm
(46) 8-440-5354
dennis.nilsson
@spglobal.com

ADDITIONAL CONTACT

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

same rules as public authorities. This status not only underlines EF's integral link with the government, but also implies that if it did not exist, a government body would be needed to manage its duties. We note that EF's net financial position is included in the Finland's debt position in the European Monetary Union, a testament to EF's public-sector foundation.

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, as 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.

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 vital public policy role, its interaction with the central government is close and EF has enjoyed unwavering support from government to fulfil its statutory tasks through periods of macroeconomic stress. The government's supportive stance toward EF was displayed this year as the COVID-19 pandemic tested the Finnish social security system. The economic shock from the pandemic led to a significant increase in layoffs that prompted an unprecedented rise in statutory benefits payments administered by EF. These developments prompted swift actions from EF, which thanks to support from the central government, fully executed its statutory responsibilities.

To safeguard liquidity during the pandemic, the Finnish government provided a guarantee for EF's revolving credit facility of €880 million in April 2020. Furthermore, the central government is directly financing the temporary layoff schemes that run from April until the end of 2020, saving EF about €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 at all times.

Aside from leaning on central government support, EF has used its own resources to satisfy the heightened demand for unemployment payouts in March and April by divesting about one-third of its investment assets. These liquid assets were subsequently replenished in June when EF placed two bonds totaling €1.2 billion, bringing the value of its investment and financial assets to €2.05 billion at the end of the month. We expect these funds will be used to finance monthly outflows, estimated at €400 million, for the remainder of the year. Overall, EF benefits from strong access to loans and capital market funding, and was accepted by the European Central Bank as an issuer under its Public-Sector Purchase Program in 2015.

EF's financial performance mirrors the economic and employment conditions in Finland. We expect the Finnish economy will contract by 4.5% in 2020, which is modest in a eurozone comparison; this is partly a result of the depth of the Finnish welfare systems and predictability of income-ensuring frameworks that have sustained household consumption despite a highly uncertain labor market. We forecast Finland's unemployment rate will approach 8% in 2020 from 6.7% in 2019, and remain elevated in 2021.

Changes in employment and unemployment rates affect both EF's revenue (premium income base) and expenditure (unemployment payment base). However, because EF has the tools to propose premium levels, differences between actual employment and unemployment rates compared with its forecasts determine its performance, rather than year-to-year changes in those statistics. The unemployment insurance contribution (UIC) for 2020 stood at 1.25% for employees and employers respectively (the total UIC is 2.5%). In light of the pandemic, EF has submitted a proposal to the Ministry of Social Affairs and Health for the total amount of contributions to be

increased by 0.32% in 2021.

In accordance with the Act on the Financing of Unemployment Benefits, EF 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, equivalent to EF's net asset position, 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, using diverse forecasting methods.

Because of heightened expenditure pressures in the social security system, we forecast EF's profit and loss position will deteriorate over 2020. Depending on the extent to which furloughed workers return to work or become unemployed, we expect a deficit of about €850 million in 2020 in our base case, compared with a budgeted surplus of €100 million in August 2019. As a consequence, we expect EF's net position to reduce to €850 million from €1.7 billion at year-end 2019.

Outlook

The stable outlook reflects that on Finland since we consider that EF's critical role for and integral link with Finland will endure and prompt government to secure the entity's solvency and liquidity in all circumstances.

Downside scenario

Downside risks to the ratings would 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 our outlook horizon and expect our ratings on EF to move in line with those on Finland.

Related Criteria

- 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

Ratings List

Ratings Affirmed

Työllisyysrahasto, The Employment Fund

Sovereign Credit Rating AA+/Stable/A-1+

Senior Unsecured AA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

Research Update: Finland-Based Työllisyysrahasto The Employment Fund Affirmed At 'AA+/A-1+'; Outlook Stable

have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.