

According to OECD, the COVID-19 pandemic has pushed Finland into a deep recession, with private consumption and investment as well as exports plunging in H1 2020. In the event of a second virus wave, GDP is projected to fall by 9.2% in 2020 and to increase by only 2.4% in 2021. The European Commission has warned that Finland is one of a handful of countries at risk of being non-compliant with the growth and stability pact of the European Union in 2020. Fiscal deficit is a concern given the govt's spending increases in areas such as education, social security, health care and infrastructure, which would be partially funded by revenue-increasing measures but would inevitably lead to a substantial increase in expenditure.

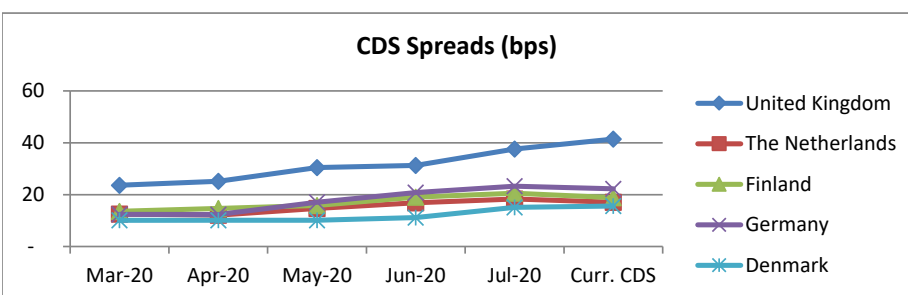
EJR expects that should more fiscal stimulus than announced so far be needed to support the recovery, it would be most effective if, like the new business subsidy announced in May 2020, it is well targeted. A gradual recovery will be led by exports and consumption. Investment will be slower to recover owing to weakened balance sheets, low capacity utilization and high uncertainty on demand revival. A gradual recovery is likely to be led by exports and consumption. We are affirming.

Annual Ratios
(source for past results: IMF, CountryEconomy)

CREDIT POSITION	2017	2018	2019	P2020	P2021	P2022
Debt/ GDP (%)	61.8	60.0	59.4	59.8	60.5	61.4
Govt. Sur/Def to GDP (%)	-0.1	-0.1	-0.5	-0.8	-1.2	-1.5
Adjusted Debt/GDP (%)	61.8	60.0	59.4	59.8	60.5	61.4
Interest Expense/ Taxes (%)	3.3	3.0	2.8	2.8	2.8	2.8
GDP Growth (%)	3.7	3.6	3.3	2.3	2.3	2.5
Foreign Reserves/Debt (%)	3.9	3.7	4.2	4.0	4.4	4.1
Implied Sen. Rating	AA	AA	AA	AA	AA	AA

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSROs	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA
Kingdom of Denmark	AAA	33.2	4.2	33.2	1.5	4.4	AAA
Kingdom of Sweden	AAA	35.6	2.2	35.6	1.0	3.9	AA+
Kingdom of The Netherlands	AA+	48.7	1.8	48.7	3.0	4.5	AAA
United Kingdom	AA	88.1	-1.2	88.1	8.0	4.3	AA+

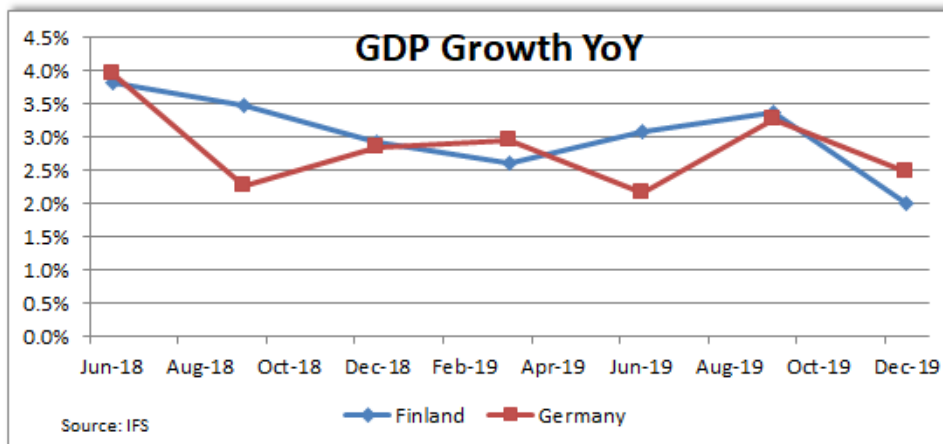


(Source: Thomson Reuters)

Country	EJR Rtg.	CDS
United Kingdom	A+	41
The Netherlands	AA-	17
Finland	AA	19
Germany	AA	22
Denmark	AA	16

Economic Growth

Finland's GDP contracted by 4.8 percent YOY in June 2020, after an upwardly revised -5.6 percent in the prior month. It was the fourth straight month of decline in the economy, but the smallest decrease in the current sequence as production of services fell less (-4.7 percent vs -6.8 percent in May), while manufacturing production continued to drop (-5.9 percent vs -3.5 percent). On the other hand, output of agriculture, forestry and fishing continued to expand (3.8 percent vs 4.3 percent). Business Confidence has slightly revived to -16.60 points in July from -24 points in June of 2020. Tracking business slowdown and lockdown measures, 549 companies reported for bankruptcy in the second quarter of 2020 vs. 772 companies in Q1 2020.



Fiscal Policy

To help businesses and individuals cope with the crisis, the Finnish government launched a series of support packages totalling around EUR 18.6 billion (7.8% of GDP), of which EUR 3.8 billion (1.7% of GDP) increase the budget deficit in 2020; a further package amounting to EUR 5.5 billion presented to Parliament on June 5. Fiscal Expenditure in Finland increased to €5839.70 Million in June from €5026 Million in May 2020. On broad basis, Finland's finance ministry has proposed a 2021 budget of €61.6 billion with a deficit of €7 billion, down from an estimated deficit of €18.9 billion for 2020 largely due to the COVID-19 epidemic.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Finland	-0.50	59.36	18.83
Germany	1.58	59.76	22.28
Denmark	4.22	33.19	15.61
Sweden	2.18	35.59	41.42
Netherlands	1.84	48.70	17.09
Uk	-1.24	88.12	16.10

Sources: Thomson Reuters, IFS and CountryEconomy

Unemployment

Finland's unemployment rate increased to 7.9 percent in June 2020 from 6.2 percent in the same month the previous year, as the number of unemployed increased by 47 thousand to 223 thousand while the number of employed dropped by 87 thousand to 2.59 million. The activity rate was down to 67.9% in June from 69.1% a year earlier, and the employment rate eased to 73.7% from 75.7%. Meanwhile, the unemployment rate for young people aged 15 to 24 went up to 20.9% in June from 15.2% in the preceding year. The temporary layoff scheme, which provides employers with a more flexible alternative to reduce staffing than permanent layoffs and access to unemployment benefits for temporarily laid-off employees, will also help to reduce bankruptcies and shore up household income.

	Unemployment (%)	
	2018	2019
Finland	7.36	6.60
Germany	3.40	3.20
Denmark	4.97	4.91
Sweden	6.28	6.73
The Netherland	3.84	3.76
UK	4.09	3.80

Source: Intl. Finance Statistics

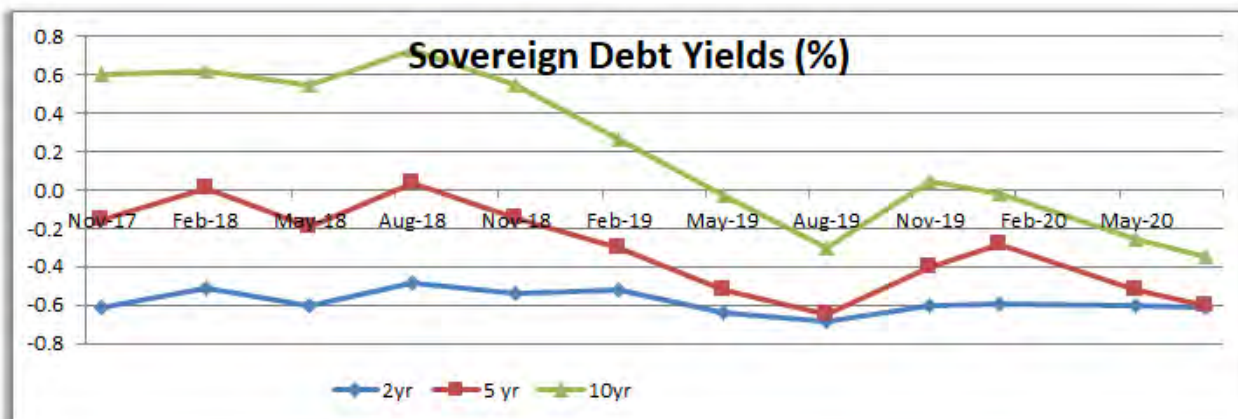
Banking Sector

Credit institutions' capital adequacy requirements have been reduced to boost their lending capacity by €30 billion (12.5% of GDP). Finland's Domestic Credit increased 6.1 % YoY in Jun 2020, compared with an increase of 4.8 % YoY in the previous month. Domestic Credit reached US\$394.5 billion in Jun 2020 and Money Supply M2 increased 13.4% YoY in Jun 2020. Finland's Foreign Exchange Reserves was measured at US \$6.5 billion and equals 1.2 months of import. Finland's household debt accounted for 76.7 % of the country's Nominal GDP in December 2019, compared with the ratio of 74.5 % in the previous year.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
Actia Bank	9.7	6.42
ALBAV FH Equity	5.6	5.10
Total	15.3	
EJR's est. of cap shortfall at 10% of assets less market cap		0.6
Finland's GDP		240.0

Funding Costs

Finland 5 Years CDS value is 13.5051, which reveals a 0.23% implied probability of default, on a supposed 40% recovery rate. Finland 5 Years Sovereign CDS reached a maximum value of 21.624 (23 April 2020) and a minimum yield of 7.1598 (18 February 2020). Finland's Three-Month Interbank Rate was at -0.48 percent as of Aug 2020.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 20 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	20	13	-7
Scores:			
Starting a Business	31	26	-5
Construction Permits	42	37	-5
Getting Electricity	24	20	-4
Registering Property	34	27	-7
Getting Credit	80	55	-25
Protecting Investors	61	62	1
Paying Taxes	10	12	2
Trading Across Borders	37	34	-3
Enforcing Contracts	45	46	1
Resolving Insolvency	1	2	1

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Finland is strong in its overall rank of 75.7 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 75.7*				
	2020 Rank**	2019 Rank	Change in Rank	World Avg.
Property Rights	92.3	89.6	2.7	56.6
Government Integrity	96.1	81.2	14.9	43.8
Judicial Effectiveness	80.5	92.5	-12.0	45.1
Tax Burden	67.5	66.8	0.7	77.3
Gov't Spending	11.2	7.2	4.0	66.0
Fiscal Health	90.7	86.4	4.3	69.1
Business Freedom	84.8	89.4	-4.6	63.3
Labor Freedom	50.3	50.3	0.0	59.4
Monetary Freedom	83.6	84.8	-1.2	74.6
Trade Freedom	86.4	86.0	0.4	73.8

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

REPUBLIC OF FINLAND has grown its taxes of 2.2% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 2.2% per annum over the next couple of years and 2.2% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

REPUBLIC OF FINLAND's total revenue growth has been less than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr. 1&2	Yr. 3,4,5
Taxes Growth%	3.2	2.2	2.2	2.2
Social Contributions Growth %	4.4	1.3	1.3	1.3
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	2.5	4.4	4.4
Total Revenue Growth%	3.8	2.0	2.0	1.8
Compensation of Employees Growth%	4.4	2.4	2.4	2.4
Use of Goods & Services Growth%	4.5	4.4	4.4	4.4
Social Benefits Growth%	2.7	1.8	1.8	1.8
Subsidies Growth%	3.0	8.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.4	1.4	1.4
Currency and Deposits (asset) Growth%	1.7	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	2.4	(0.5)	(0.5)	(0.5)
Shares and Other Equity (asset) Growth%	12.2	16.4	16.4	14.8
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	2.6	7.3	2.2	2.2
Other Accounts Receivable LT Growth%	2.5	(2.5)	(2.5)	(2.5)
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(1.4)	(1.8)	3.0	3.0
Currency & Deposits (liability) Growth%	(1.6)	14.5	2.2	2.2
Securities Other than Shares (liability) Growth%	2.7	2.7	1.9	1.9
Loans (liability) Growth%	(1.2)	5.6	5.6	5.6
Insurance Technical Reserves (liability) Growth%	0.0	7.0	2.0	2.0
Financial Derivatives (liability) Growth%	0.0	12.3	2.9	2.9
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF FINLAND's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT

(MILLIONS EUR)

	2016	2017	2018	2019	P2020	P2021
Taxes	67,209	69,688	71,148	72,693	74,292	75,927
Social Contributions	27,938	27,300	27,916	28,280	28,649	29,022
Grant Revenue						
Other Revenue						
Other Operating Income	<u>22,157</u>	<u>22,870</u>	<u>23,669</u>	<u>24,266</u>	<u>24,266</u>	<u>24,266</u>
Total Revenue	117,304	119,858	122,733	125,239	127,207	129,215
Compensation of Employees	28,763	28,069	28,830	29,518	30,222	30,944
Use of Goods & Services	23,516	24,332	25,319	26,423	27,575	28,778
Social Benefits	48,368	48,953	49,662	50,580	51,515	52,467
Subsidies	2,673	2,703	2,744	2,971	2,971	2,972
Other Expenses				6,651	6,651	6,651
Grant Expense						
Depreciation	7,545	7,737	8,022	8,229	8,229	8,229
Total Expenses excluding interest	<u>117,444</u>	<u>117,816</u>	<u>120,862</u>	<u>124,372</u>	<u>127,164</u>	<u>130,040</u>
Operating Surplus/Shortfall	-140	2,042	1,871	867	43	-825
Interest Expense	<u>2,392</u>	<u>2,294</u>	<u>2,146</u>	<u>2,063</u>	<u>2,093</u>	<u>2,123</u>
Net Operating Balance	-2,532	-252	-275	-1,196	-2,050	-2,948

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF FINLAND's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2016	2017	2018	2019	P2020	P2021
Currency and Deposits (asset)	17,786	20,626	18,023	15,895	15,895	15,895
Securities other than Shares LT (asset)	42,387	39,948	39,136	36,798	36,798	36,798
Loans (asset)	31,057	28,476	25,501	25,371	25,242	25,113
Shares and Other Equity (asset)	184,992	198,566	196,521	228,839	266,472	310,293
Insurance Technical Reserves (asset)	293	284	287	308	308	308
Financial Derivatives (asset)	2,010	2,507	7,717	8,280	8,462	8,648
Other Accounts Receivable LT	8,699	13,125	10,496	10,236	9,982	9,735
Monetary Gold and SDR's						
Other Assets						
Additional Assets						
Total Financial Assets	287,224	303,532	297,681	325,727	363,159	406,791
LIABILITIES						
Other Accounts Payable	14,517	18,338	15,295	15,013	15,463	15,927
Currency & Deposits (liability)	874	908	787	901	901	901
Securities Other than Shares (liability)	116,911	114,833	114,851	117,895	120,082	122,310
Loans (liability)	32,046	31,090	31,968	33,745	35,795	38,743
Insurance Technical Reserves (liability)	115	123	128	137	140	143
Financial Derivatives (liability)	-557	745	6,260	7,032	7,233	7,440
Other Liabilities	<u>522</u>	<u>522</u>	<u>522</u>	<u>522</u>	<u>522</u>	<u>522</u>
Liabilities	164,428	166,559	169,811	175,245	214,727	261,307
Net Financial Worth	<u>122,796</u>	<u>136,973</u>	<u>127,870</u>	<u>150,482</u>	<u>148,432</u>	<u>145,484</u>
Total Liabilities & Equity	287,224	303,532	297,681	325,727	363,159	406,791

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF FINLAND with the ticker of 1306Z FH we have assigned the senior unsecured rating of AA. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	2.2	6.2	(1.8)	AA	AA	AA-
Social Contributions Growth %	1.3	4.3	(1.7)	AA	AA	AA
Other Revenue Growth %	0.0	3.0	(3.0)	AA	AA	AA
Total Revenue Growth%	2.0	4.0	0.0	AA	AA	AA
Monetary Gold and SDR's Growth %	(2.5)	(0.5)	(4.5)	AA	AA	AA

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

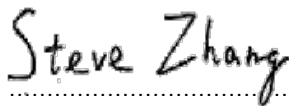


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Subramanian NG
Senior Rating Analyst

Today's Date

August 20, 2020
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Reviewer Signature:



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Steve Zhang
Senior Rating Analyst

Today's Date

August 20, 2020
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Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.