S&P Global Ratings

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Tyollisyysrahasto, The Employment Fund

October 7, 2022

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This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
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.	Although remote, any erosion of its position in the policy architecture of the Finnish welfare state could reduce interconnectedness with the government and consequently the government's readiness to provide support.
Integral link with the Finnish government, demonstrated by past financial support received from the government, including during the pandemic.	
A business-cycle buffer safeguards its solvency and evens out changes in unemployment insurance contributions caused by trend cycles in the national economy.	

Tyollisyysrahasto, The Employment Fund (EF) is an indirect pubic administration mandated with the funding of the earnings-relate share of Finland's unemployment insurance scheme and remains a key part of Finland's labor market policy.

As such, we believe the entity will benefit from almost certain likelihood of extraordinary government support in times of financial stress.

The entity's financial performance is closely linked with developments in Finland's labor market; the recent rise in employment figures will reflect positively on annual results this year after two challenging years during the pandemic, during which the government provided an extraordinary financial contribution to EF.

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 Finland will endure and prompt the government to secure the entity's solvency and liquidity.

Downside scenario

Downside risks to the rating 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 the next two years and expect our rating on EF to move in line with the rating on Finland.

Upside scenario

We could raise the rating on EF if we raise our rating on Finland, all else remaining equal.

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. 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 in the execution of key labor market policy, 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.

We believe that the almost certain likelihood of extraordinary government support for EF is not subject to transition risk. We, therefore, do not assess EF's creditworthiness on a stand-alone basis. We 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 it did not exist, the government would have to manage EF's functions directly itself. We note that 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 macroeconomic stress. The government's supportive stance toward EF was displayed in recent years 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 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 as a result of the pandemic resulted in a stark rise in benefit payments for EF, as people became unemployed or entered the temporary unemployment scheme, an existing feature of Finnish labor market legislation. As a result, the fund's profit-and-loss position deteriorated markedly in 2020 and 2021, with deficits of 23% and 18% of turnover. However, we note that, during the pandemic, the central government extended direct financial support to finance temporary layoff schemes in 2020, where it disbursed €333 million to help EF meet requirements. However, Finland's labor market has recovered significantly over the past few months and remains resilient, even against a challenging macroeconomic environment as elsewhere in Europe. The unemployed rate has now recovered to prepandemic levels and employment levels are at historical peak levels. In particular, we note that the wage sum has increased meaningfully in 2021 and 2022, which is important since it correlates with EF's revenue collection. We expect these positive developments will result in financial surpluses for EF in 2022 and 2023, also backed by adjustments to the unemployment insurance contributions in 2021 and 2022, which had to attain 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 COVID 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 has no government guarantee). Furthermore, the central government directly financed the temporary layoff schemes that ran from April through the end of 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, using diverse forecasting methods. Aside from leaning on central government support, EF has used its own resources to satisfy the heightened demand for unemployment payouts. EF has tapped its business-cycle buffer extensively over 2020-2021, but we expect it will increase to about €1 billion in 2022, on the back of a solid labor market. EF also placed two bonds totaling €1.2 billion in 2020, indicating EF's 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
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Ratings Detail (as of October 07, 2022)*

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.