Research Update:

Finnish Municipality Finance & Municipal Guarantee Board Ratings Affirmed At 'AA+/A-1+'; Outlook Stable

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Overview

- Our ratings on Municipality Finance and Municipal Guarantee Board, which comprise the funding system for Finnish local and regional governments (LRGs), are supported by a robust risk-adjusted capital position, very strong liquidity, and competent management.
- We have revised upward our view on Municipality Finance's liquidity position as its liquidity ratio has been consistently above 1x over the past six years.
- Moreover, its credit quality is supported by a joint and pro rata guarantee commitment from the Municipal Guarantee Board.
- The ratings on both entities are capped by our ratings on the Republic of Finland (AA+/Stable/A-1+).
- We affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on Municipality Finance and Municipal Guarantee Board. The outlook is stable.

Rating Action

On Dec. 16, 2025, S&P Global Ratings affirmed its 'AA+' long- and 'A-1+' short-term issuer credit ratings on Finnish local government funding agencies Municipality Finance PLC (MuniFin) and Municipal Guarantee Board (MGB). The outlook on the ratings is stable.

Outlook

The stable outlook reflects our expectation that the credit quality of Finnish LRGs and social housing providers will remain high while MuniFin will maintain robust capital and funding and liquidity positions.

Downside scenario

We could lower the ratings if the credit quality of the municipal sector deteriorates, MuniFin loses its business position as a predominant lender to the sector, and MuniFin's financial position weakens materially.

Upside scenario

We could raise the ratings if we take a similar rating action on the sovereign, provided that the group credit profile remains very strong.

Rationale

MuniFin and MGB comprise the funding system for Finnish LRGs. Given the institutionalized links and close integration between the two, we consider them a de facto group. MuniFin's lending and funding activities dominate the group's operations, so our assessment of the group credit profile is primarily based on MuniFin's credit features.

The track record of robust liquidity coverage further strengthens our view of the group’s liquidity position. Its funding and liquidity position is also supported by central bank access and strong presence in the capital markets. In addition, the group remains very well capitalized, demonstrated by an adjusted risk-adjusted capital (RAC) ratio of 49%.

We consider MuniFin core to the group because it carries out all lending and funding activities and plays an important role in providing financing to Finland's municipalities, wellbeing services counties, and non-profit housing organizations, the latter of which benefit from guarantees extended by Finland's central government. MuniFin has close links with the LRG sector, as well as the central government, illustrated by its lending mandate and the statutes that govern it. We also consider MGB core to the group, and a crucial component of Finland's joint LRG and social housing funding system. The LRG sector guarantees MuniFin's total financial liabilities through MGB.

We cap our ratings on MuniFin and MGB at 'AA+', the sovereign rating level, which is one notch below the group's anchor, due to tight direct and indirect links between the group and the sovereign. Firstly, the State of Finland holds a 16% share of MuniFin. Secondly, the sectors to which MuniFin lends rely on state transfers as part of its funding (municipalities and wellbeing services counties) and central government deficiency guarantees (state-subsidized housing).

Sector risk profile: Low-risk lending activities are at the heart of MuniFin's public policy mandate

We consider MuniFin's asset quality to be high. Following the implementation of social and health care reform in 2023, MuniFin's lending activities can be divided into three categories: municipalities (including municipal companies when covered by a guarantee); wellbeing services counties; and non-profit housing organizations. The exposure to the newly created counties sits at about 9% and is therefore comparatively minor compared with the other two. Consequently, we don't explicitly account for this exposure when deriving the sector risk profile. Furthermore, because the counties are not members of the MGB at this stage, and therefore remain outside the guarantee system, the MGB has imposed an annual cap on MuniFin's long-term financing, which includes financial leasing, to these entities, amounting to €400 million. As long as this cap remains in place, we don't expect the lending share to the counties will change notably.

We expect the financial position of Finnish municipalities will remain relatively solid going forward. The institutional framework for municipalities rests on:

- A constitutionalized tax-raising autonomy and strong revenue flexibility in an international comparison;
- A comprehensive equalization system that aims to address differences in socioeconomic and financial conditions across the country;
- Formal and comprehensive central government monitoring with defined procedures for handling municipalities facing difficult financial positions; and
- High standards in terms of transparency and reporting practices combined with comprehensive forecasting procedures. For more information, see "Institutional Framework Assessment: Finnish Municipalities Have Flexibility To Balance Their Budgets" published Dec. 9, 2024, on RatingsDirect.

That said, we note a general pressure on public finances in Finland, which could constrain the municipal finances over the medium term, in our view. While it could dent investment demand, we don't expect any significant reduction in MuniFin's market position or widespread asset quality deterioration.

For state-subsidized housing, the financial conditions have been constrained by higher operating costs and interest expenses. However, the housing companies have managed to cover a meaningful share of the higher operating expenditure through increased rents. In a broader context, the financial position of the state-subsidized housing sector remains robust. About 49% of MuniFin's loans are directed to the housing sector, carrying central government deficiency guarantees, which we reflect in our sector risk profile. In June 2024, a parliamentary decision was passed to dissolve The Housing Finance and Development Centre of Finland (ARA), which administers the guarantees. ARA's operations have been transferred to a department within the Ministry of the Environment, called VARKE in 2025. We view this as an organizational change rather than structural change of the guarantee structure and we understand that this change in itself will not impact the state-subsidized housing system. Consequently, this has no effect on our sector risk profile.

Individual credit profile: A competent and experienced management, a robust market position, and strong financials support the group's credit quality

MuniFin's market position has gradually strengthened in recent years, and we estimate that its market share in new lending will be in the region of 80% for 2025. The presence of commercial banks and other financial entities is limited and they are mostly active in the municipal and county sectors. MuniFin has also sharpened its focus on sustainable loan products, which are increasingly in demand in the sector. In June 2025, green and social loans accounted for about 28% of the total long-term customer financing.

We view MuniFin's overall financial management, and by extension, that of the group, as very strong. European Central Bank supervision and bank regulation play an important role in forming the internal risk management policies, and MuniFin is proactive in managing its regulatory requirements. In our view, MuniFin has robust frameworks for assessing the credit quality of its lending counterparties and managing other risks.

Overall, we believe MuniFin has a very robust capital position that is stronger than that of its Nordic peers, with a high RAC ratio of 77% as of June 2025. When factoring in our adjustment for single-name concentration in underlying borrowers, the RAC ratio remains extremely strong at 49%. MuniFin also has a robust common equity Tier 1 capital ratio of 89.4% as of June 2025. This is largely due to the zero-risk weight applied to MuniFin's customer exposures.

MuniFin benefits from strong name recognition in the international capital markets, allowing for a deep investor base. The agency has established debt programs and is a regular benchmark issuer, with a well-diversified funding profile in terms of markets, currencies, regions, maturities, and investor types. Since 2016, MuniFin has also issued green bonds, which has further expanded its investor base. In 2020, MuniFin also ventured into the themed bond space and issued its inaugural social bond, becoming the first Nordic entity in the sovereigns, supranationals, and agencies category to do so. We expect green and social bonds will play an increasingly important role in MuniFin's funding strategy.

We view MuniFin's management of its structured funding portfolio as prudent and note that the agency accepts no market risk. Derivative contracts include stipulations for a two-way credit support extension, and the agency prudently accounts for collateral flows in its regular funding activities. However, the importance of structured funding has gradually decreased in recent years; in 2025, only about 11% of new funding has been issued in structured format. MuniFin's last issuance in the Japanese Uridashi market for structured products was three years ago, and the remaining structured products are mainly fixed-rate, callable transactions. In our view, the diminishing share of structured funding is positive because it allows the agency to focus more on its core markets, while reducing the exposure to exotic asset derivative products and potential reputational risks.

In 2024, MuniFin began shifting its allocations from cash to long term high-quality liquid assets, and has ramped-up the move in 2025. We believe this will weaken its funding ratios as assets are being shifted beyond the 12-month horizon. However, the impact on its liquidity ratios will be more muted as it will be invested in low-risk fixed-income assets that can be sold in the market if needed.

We view the funding conditions as neutral for the credit rating, taking into account MuniFin's access to external funding together with some risks to its funding coverage ratio. MuniFin's one-year assets-to-liabilities ratio has marginally improved over the past year and stands slightly above 1x in June 2025, up from 0.9x in June 2024. This ratio has been fluctuating around the 1x range over the past six years.

We note that the group's liquidity position has remained resilient, with the 12-month liquidity coverage ratio, including scheduled disbursement, exceeding 1x for the past six years. This track record is positive for our liquidity assessment on MuniFin and led to the change in our view. Although MuniFin is exposed to risks through its dependence on wholesale market funding, this is mitigated by prudent liquidity policies, significant levels of high-quality pre-funding, and access to financing from the Finnish central bank, which is a part of the Eurosystem. We continue to assess MuniFin's status as a central bank counterparty and its access to liquidity from the central banking system as a distinguishing strength. In addition to its municipal loan book, the vast majority of its securities portfolio is eligible as collateral with the central bank.

MuniFin conducts active asset and liability management, but the size of its balance sheet and strategies to optimize its financial position result in occasional volatility of its liquid assets. MuniFin has taken steps to structurally improve its liquidity position, partly by extending the survival horizon. Our liquidity sources-to-uses ratio indicates that MuniFin will be able to meet its financial obligations over a one-year period, factoring in stressed market conditions.

Support via a joint and pro rata guarantee mechanism via MGB

The group benefits from a joint and pro rata guarantee commitment from the municipal sector through MGB. The guarantee system rests on an extensive and permanent membership base, and the members are bound by a joint pro rata liability mechanism. MGB was set up by law, which ensures its long-term existence, and its sole purpose is to guarantee funding to the municipal sector and affiliates. We assess the guarantees as predictable and immediately enforceable by law. We note that, unlike a joint and several guarantee commitment, there could be a delay in determining the required pro rata amounts across the member local governments if the MGB guarantee were triggered. Although it is yet to be tested, we believe the process could take up to one month. Even so, if the guarantee were called, we anticipate that MGB would remain proactive and secure timely payment through the flexibility that exists within the MGB Act. Under the MGB Act (section 1), MGB can grant guarantees for the funding of credit institutions directly or indirectly owned or controlled by municipalities. Between 1997 and 2001, there were two credit institutions within the meaning of the law: Municipality Finance PLC and Municipal Housing Finance PLC. Since 2001, MuniFin has been the only credit institution that meets the criteria set out in the MGB Act.

Key Statistics

Municipality Finance PLC--Selected indicators

(Mil. €)	2025 H1	2024 H1	2023 H1	2022 H1	2021 H1
Business position					
Total adjusted assets	55,175	50,954	48,377	47,491	45,658
Customer loans (gross)	36,541	33,302	30,130	28,831	28,582
Growth in loans (%)	10.3	10.5	4.5	0.9	6.9
Net interest revenues	124	129	124	122	138
Non interest expenses	44	41	43	48	34
Capital and risk position					
Total liabilities	53,285.3	49,147.0	46,753.0	46,010.0	43,865.0
Total adjusted capital	2,054.7	1,928.0	1,676.0	1,532.0	1,427.0
Assets/capital	29.7	29.0	30.0	31.0	32.0
RAC before diversification (%)	76.8	94.0	75.2	68.9	69.1
RAC after diversification (%)	48.5	52.6	37.4	37.8	36.3
Gross nonperforming assets/gross loans (%)	0.9	0.4	0.0	0.3	0.5
Funding and liquidity (x)					
Liquidity ratio with loan disbursement (one year)	1.1	1.0	1.1	1.3	1.3
Liquidity ratio without loan disbursement (one year)	1.2	1.1	1.2	1.3	1.3
Funding ratio (one year)	1.0	0.9	1.0	1.1	1.1

H1--First half of the year. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Rating Component Scores

Municipality Finance PLC--Ratings score snapshot

Sector risk profile	Very Strong
Individual credit profile:	
Business position	Strong
Management & governance	Very Strong

Municipality Finance PLC--Ratings score snapshot

Sector risk profile	**Very Strong**
Individual credit profile:	
Capital adequacy	Very Strong
Funding & liquidity	Strong
Anchor	aaa
Overriding factors and caps	0
Holistic analysis	0
Group credit profile	aa+
Extraordinary support	0
Municipality Finance	
Group status	Core
Issuer credit rating	AA+/Stable/A-1+
Municipal Guarantee Board	
Group status	Core
Issuer credit rating	AA+/Stable/A-1+

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessment: Finnish Municipalities Have Flexibility To Balance Their Budgets, Dec. 9, 2024
- Finland 'AA+/A-1+' Ratings Affirmed; Outlook Stable, Oct. 25, 2024

Ratings List

Ratings List
Ratings Affirmed

Ratings List

Municipal Guarantee Board	
Municipality Finance PLC	
Issuer Credit Rating	AA+/Stable/A-1+
Foreign Currency	AA+/Stable/A-1+
Municipality Finance PLC	
Senior Unsecured	AA+
Commercial Paper	A-1+