

Stockholm (Region of)

April 4, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions

--Sectorwide risks have lessened on the back of strong central government support.

--Improved labor market fundamentals have boosted tax revenue growth in the aftermath of COVID-19.

--That said, we acknowledge uncertainties relating to macroeconomic conditions and international security risks may be looming on the horizon.

--We expect increased expenditure pressure in the coming years related to changes in the cost equalization system, inflation, as well as post-pandemic challenges in health care and public transportation.

Base-case expectations

--As a result of implemented central government support and strong tax revenue growth, we expect Stockholm will maintain robust operating performance through 2024, despite higher inflation.

--Continued strong cash flow generation will enable a decreasing debt burden, despite sizeable investment needs in the coming years.

--We expect Stockholm will remain committed to its financial policies, supporting its very healthy liquidity position.

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Through some headwinds, we expect the Region of Stockholm will post relatively stable operating balances through 2024. Stockholm's performance will be supported by strong tax revenue growth and tightly managed expenditure growth, despite the gradual decline of extraordinary central government transfers, looming inflation, and changes to the cost equalization system. Nevertheless, we still expect slightly weakening operating performance due to a combination of lower central government grants and forthcoming expenditure pressures as the region addresses the accumulated health care backlog, stemming from prioritization of COVID-19 patients before nonemergency treatments.

Despite high investment needs in the coming years, we expect the region's strong cash flow generation will result in gradually improved debt metrics. We forecast the region's debt will decrease, with tax-supported debt falling to 46% of consolidated revenue in 2024.

Outlook

The stable outlook reflects our view that the Region of Stockholm will counteract budgetary pressure stemming from the aftermath of the COVID-19 pandemic, supported by strong tax revenue growth. We also continue to expect expenditure growth to be tightly managed, despite higher inflation and a potentially weaker macroeconomic forecast. Furthermore, we expect the region's strong cash flow generation will result in gradually lower tax-supported debt ratios through 2024. At the same time, we expect the region's experienced financial management will maintain a strong liquidity position.

Downside scenario

We could lower the ratings if the region's management fails to contain operating expenditure, leading to a substantial deterioration of budgetary performance. In this scenario, we would also expect the region's liquidity and debt positions to weaken.

Upside scenario

We could consider a positive rating action if management's budgetary discipline improves further, leading to structural surpluses after capital accounts.

Rationale

The political landscape remains stable while sectorwide risks facing Swedish LRGs have lessened

We consider the institutional framework in Sweden to be extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the revenue and expenditure management of local and regional governments (LRGs) is based on a far-reaching equalization system and tax autonomy. The central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the sector, supports our view.

Since the outbreak of COVID-19, the central government has remained supportive of the LRG sector, implementing both direct and indirect support packages to boost operating performance for Swedish LRGs. Although structural challenges remain and budgetary performance could weaken somewhat as extraordinary support is phased out, we regard the risk of a significant deterioration of the sector's financial stability as limited. Consequently, we revised the trend on the institutional framework assessment to stable from weakening in December 2021 (see "Institutional Framework Assessment: Swedish Municipalities And Counties," published Dec. 13, 2021, on RatingsDirect).

Apart from a few management-related issues in the past, we regard the region's management as competent. The region's management adheres to strict budget discipline, demonstrated by a strong track record of balanced budgets. Furthermore, we believe that management will remain committed to prudent and risk-minimizing financial policies. Politically, the region remains stable and the majority center-right-green coalition continues its focus on improving health care standards, addressing demographic issues, and expanding transport infrastructure to accommodate the region's growing population.

The Region of Stockholm benefits from Sweden's robust economic fundamentals, demonstrated by our estimate of GDP per capita at \$61,100 in 2022. The region's economy is strong, supported by a well-diversified labor market and high incomes, signalling its importance as a national and regional growth center. Overall, we consider the region's structural economic fundamentals to be strong, with slightly lower unemployment than the national average.

Strong tax revenue growth will mitigate pressure on operating performance and debt metrics continue to decrease

Despite gradually declining government support and changes to the cost equalization system, we expect the Region of Stockholm will post relatively stable operating balances through 2024, albeit weaker than the abnormally strong bottom-line results in 2020 and 2021. Region of Stockholm's result for 2021 is mainly driven by strong tax revenue growth and central government grants, which provided full coverage for increased health care expenditures. However, there have been substantial revenue shortfalls in public transportation as a result of restrictions and changed commuter patterns during the pandemic. These shortfalls have only been partially compensated by the central government (about 33%), and the extent of further compensation remains uncertain with no additional announcements from the central government to date.

Stockholm (Region of)

In 2022-2024, we expect pressure on operating performance stemming from the last two years' prioritization of COVID-19 patients. This has caused nonemergency surgeries and other medical treatments to be postponed, and the region has accumulated a health care backlog that will require significant time and resources to reduce. We also acknowledge that the region may face longer-term challenges in recovering revenues in public transportation to pre-pandemic levels, considering the shifted demand for travel in commuter traffic. In addition, the region will remain adversely affected by changes to the cost equalization system that took effect in 2020, since its annual contributions to the system will increase. The temporary annual implementation grant will decrease gradually and stop in 2023. On the other hand, we expect management will remain committed to the planned efficiency measures. Overall, despite these factors and looming inflation we project relatively stable operating balances in the coming years, comfortably above 5% of operating revenue.

We expect the region's investment needs will remain high, leading to high capital expenditure throughout the forecast period. One major infrastructure project concerns the extension of the underground railway system, which will improve commuting options for residents of the greater Stockholm area. The capital expenditure related to this project will be co-financed by affected municipalities through which the underground lines will traverse. To account for potential delays in the region's investment plan, we apply a haircut of 20% to the budgeted figures. Furthermore, the region's sale of a former hospital building provides a temporary boost to capital revenues.

In assessing the region's budgetary performance, we regard financial flexibility as below average. This is because, similar to other Swedish health care regions, the Region of Stockholm employs a higher share of high-income earners, leading to larger annual pension costs than for the municipalities. In our view, these pension payments crowd out other expenditures and require additional revenue to comply with the balanced budget requirement.

Given our base-case expectations of continued strong operating cash flows and high co-financing contributions for capital expenditure, we forecast the region's tax-supported debt will decrease to 46% of consolidated revenue in 2024 from 52% in 2021. This trend also reflects gradually decreasing debt related to the public-private partnership project regarding the Nya Karolinska Solna hospital. Furthermore, since we assess the Region of Stockholm on a consolidated basis, our analysis incorporates the debt of the region's subsidiaries, including transport company AB Storstockholms Lokaltrafik (SL). We consider the region's exposure to financial leases to be the primary component of the region's contingent liabilities. These leases could result in future losses, although we view the size of these risks as fairly limited, measured as a share of consolidated revenues.

We regard the Region of Stockholm's liquidity position as very strong, supported by ample liquidity sources, including cash holdings and committed facilities. We estimate the weighted debt-service coverage ratio at 164%, despite high maturing debt in 2022. We expect the region will maintain its long-term debt maturity structure and strong liquidity position through 2024. Furthermore, the region has a strong track record of reliable access to external financing, including bonds, commercial paper, and funding from the European Investment Bank. Overall, we consider the region's debt and liquidity management to be sophisticated, underpinned by prudent and risk-minimizing financial policies.

Stockholm (Region of) Selected Indicators

Mil. SEK	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	106,522.0	113,512.0	119,309.0	118,656.0	119,312.0	122,828.0
Operating expenditure	96,130.0	102,307.0	106,290.0	109,180.5	111,234.8	115,015.2
Operating balance	10,392.0	11,205.0	13,019.0	9,475.5	8,077.2	7,812.8
Operating balance (% of operating revenue)	9.8	9.9	10.9	8.0	6.8	6.4
Capital revenue	1,906.0	1,954.0	3,564.0	3,597.8	6,543.0	5,228.0
Capital expenditure	12,093.0	10,916.0	11,037.0	13,575.2	14,643.2	13,333.6
Balance after capital accounts	205.0	2,243.0	5,546.0	(501.9)	(23.0)	(292.8)

Stockholm (Region of)

Stockholm (Region of) Selected Indicators

Balance after capital accounts (% of total revenue)	0.2	1.9	4.5	(0.4)	(0.0)	(0.2)
Debt repaid	6,219.0	9,200.0	9,800.0	8,318.0	5,366.0	3,997.0
Gross borrowings	7,292.0	7,024.0	7,638.0	4,357.9	5,389.0	4,289.8
Balance after borrowings	1,491.0	627.0	2,450.0	(4,462.0)	0.0	0.0
Direct debt (outstanding at year-end)	65,018.0	62,499.0	59,961.0	55,588.9	55,164.0	54,968.8
Direct debt (% of operating revenue)	61.0	55.1	50.3	46.9	46.2	44.8
Tax-supported debt (outstanding at year-end)	66,106.0	64,143.0	61,760.0	57,441.9	57,072.5	56,934.6
Tax-supported debt (% of consolidated operating revenue)	62.1	56.5	51.8	48.4	47.8	46.4
Interest (% of operating revenue)	1.2	1.3	1.1	1.1	1.1	1.1
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	52,186.7	52,431.1	60,448.6	61,061.1	63,954.9	67,352.6

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. SEK--Swedish krona. \$--U.S. dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	2
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sweden, Feb. 7, 2022

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, March 7, 2022
- Local And Regional Governments Outlook 2022: Long-Term Challenges Resurface As The Pandemic Eases, Feb. 3, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Institutional Framework Assessment: Swedish Municipalities And Counties, Dec. 13, 2021
- Default, Transition, And Recovery: 2020 Annual International Public Finance Default Rating And Transition Study, Sept. 14, 2021

Ratings Detail (as of March 30, 2022)*

Stockholm (Region of)

Issuer Credit Rating	AA+/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Nordic Regional Scale</i>	K-1
Senior Unsecured	AA+
Short-Term Debt	A-1+

Issuer Credit Ratings History

23-Nov-2007	AA+/Stable/A-1+
21-Jun-2007	AA/Positive/A-1+
08-Sep-2004	AA/Stable/A-1+
28-Sep-1999	<i>Nordic Regional Scale</i> --/--/K-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.

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