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**Region of Stockholm Ratings
Affirmed At 'AA+/A-1+'; Outlook
Stable**

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Overview

The central government has announced it will compensate local and regional governments for extraordinary expenditure related to COVID-19, mitigating the budgetary pressure on the Region of Stockholm.

Because of stable operating cash flows and lower capital expenditure, we expect the region's debt burden to decrease during our forecast period through 2022.

We are therefore affirming our 'AA+/A-1+' global scale and 'K-1' regional scale ratings on the Region of Stockholm.

The outlook remains stable.

Rating Action

On April 3, 2020, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term global scale issuer credit ratings on Sweden's Region of Stockholm. The outlook is stable.

At the same time, we affirmed our 'K-1' short-term Nordic regional scale rating on the region.

Outlook

The stable outlook reflects our view that the Region of Stockholm will counteract budgetary pressure stemming from both the revised cost equalization system and the operational and financial challenges related to the spread of COVID-19, both in terms of upholding its healthcare operations and addressing the effects on the region's labor market. Our base case also incorporates the central government's recent announcement that

it will compensate Swedish local and regional governments (LRGs) for extraordinary expenditure linked to the virus outbreak. Furthermore, we expect the region's tax-supported debt ratio will gradually trend down in 2020-2022, partly because of delays in investment projects.

Downside scenario

We could lower the ratings if the region's budgetary performance weakens substantially in light of the COVID-19 outbreak, and management fails to use its budgetary flexibility to counteract the financial pressure. We could also lower the rating if the central government fails to provide sufficient ongoing systemic support to the LRG sector.

Upside scenario

We could raise the rating if the region's budgetary performance improves further, leading to a structural surplus after capital accounts, and an improved debt position. An upgrade would also require a general stabilization of the COVID-19 situation, with only limited uncertainties remaining about the region's health care operations, the effects on revenue and expenditure, and the stabilization of capital markets.

Rationale

Despite the uncertainties related to COVID-19 and changes to the cost equalization system, we expect the Region of Stockholm to post strong operating balances in 2020-2022. Furthermore, although we expect high investment needs, we have revised down our capital expenditure forecast, partly owing to risks of a prolonged lockdown in the construction sector. Consequently, in combination with strong operating cash flows, we expect the region's debt burden to decrease throughout the forecast period, with tax-supported debt as percentage of consolidated revenue falling below 60% in 2022.

Sectorwide challenges could put pressure on the rating

We continue to view Sweden's institutional framework as a key component of our ratings on Swedish LRGs. The system is underpinned by a far-reaching equalization system and full autonomy over the local tax rate. In addition, the framework displays a high degree of institutional stability and transparency, partly owing to the balanced budget requirement, which adds to the LRG sector's financial stability.

However, disregarding the effects of COVID-19, the sector's budgetary performance is under pressure, accentuated by central government policymaking in combination with inadequate compensation mechanisms and countermeasures undertaken by the LRGs. Consequently, we currently see a weakening trend in the institutional framework for Swedish LRGs.

Apart from a few management-related issues in the past, we regard the region's management as competent. Management adheres to strict budget discipline, evidenced 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 as the majority center-right coalition continues its focus on improving healthcare standards, addressing demographic issues, and expanding transportation infrastructure to accommodate the region's growing population.

The Region of Stockholm benefits from Sweden's robust economic fundamentals, demonstrated by strong GDP per capita of \$51,900 in 2019. The region's economy is strong, supported by a well-diversified labor market and high incomes, signaling its importance as a national and regional growth center. However, in the near term, we expect significantly higher unemployment rates driven by the COVID-19 spread and its effects on economic activity. Still, our expectation is that the labor market will recover relatively quickly once the situation improves.

Central government support and efficiency measures will counterbalance pressure from the outbreak of COVID-19 and the revised equalization system

Despite the current challenges, we expect Region of Stockholm to post strong operating balances, averaging 7.1% in 2020-2022. In light of the spread of COVID-19, we expect the region to incur higher costs related to healthcare in 2020. However, the central government has announced that it will compensate for extraordinary expenses arising because of the virus, mitigating the effect on the region's budgetary performance.

Furthermore, we expect the ongoing turbulence will lead to lower economic activity and higher unemployment, resulting in lower tax revenue growth throughout our forecast period to year-end 2022. Our expectation is also that revenue from public transportation will decrease in 2020.

Moreover, the Region of Stockholm will be negatively affected by changes to the cost equalization system starting in 2020, meaning that the region's annual contributions to the system will increase. However, it will receive implementation grants in 2020-2022 to ease the transition. Furthermore, we expect that management will remain committed to the already initiated and planned efficiency measures, especially those linked to the healthcare department, which has experienced financial difficulties in recent years.

We expect the Region of Stockholm's investment needs will remain high, leading to high capital expenditure throughout the forecast period. One major infrastructure project is the extension of the underground system, which will improve commuting options for many citizens living in the greater Stockholm area. Given the risks of a prolonged lockdown in the construction sector due to COVID-19, we have adjusted our project completion rate assumption in 2020, leading to lower capital expenditure and borrowing needs.

In assessing the region's budgetary performance, we regard financial flexibility as below average. Similar to the other Swedish health care regions, Stockholm employs a significant share of high-income earners, leading to higher annual pension costs compared with the municipalities. In our view, these pension payments can crowd out other expenditures and require additional revenue to meet the balanced budget requirement.

Given our updated base-case expectations of continued strong operating cash flows and lower capital expenditure, especially in 2020, we now predict that the region's tax-supported debt will decrease to 57% of consolidated revenue in 2022, from 62% in 2019. However, we note that the debt ratio is relatively close to the 60% threshold and sensitive to adjustments in our capital expenditure forecast. Furthermore, given the challenges in light of the COVID-19 outbreak, it is uncertain whether the improvement is structural. The tax-supported debt figures in our base case also include our estimate of the present value of capital and funding costs from the public-private partnership agreement for New Karolinska Hospital.

Given that we assess Region of Stockholm on a consolidated basis, our analysis incorporates debt held by the region's subsidiaries, including transport company AB Storstockholms Lokaltrafik. We consider the exposure to financial leases as the primary component of the region's contingent liabilities. These leases could result in future losses but we currently view the risks as limited. Furthermore, the exposure outstanding as a share of consolidated revenue is negligible.

We regard the Region of Stockholm's liquidity position as exceptionally strong, supported by ample liquidity sources, including large cash holdings and committed facilities. We estimate the weighted debt service coverage ratio at 209%. We expect that the region will maintain its long-term maturity structure and that its liquidity position will remain exceptionally strong over 2020-2022. 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 sophisticated with prudent financial policies. Despite the current volatility in the financial markets, we expect the Region of Stockholm to be able to tap the capital markets. This view is partly supported by the Swedish Riksbank's commitment to buy bonds issued by LRGs.

Key Statistics

Table 1

(Mil. SEK)	Region of Stockholm Selected Indicators					
	--Year ended Dec. 31--					
	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenues	97,259	101,749	106,522	111,978	111,406	114,234
Operating expenditures	87,794	94,331	96,130	104,004	103,351	106,203
Operating balance	9,465	7,418	10,392	7,974	8,055	8,031
Operating balance (% of operating revenues)	9.7	7.3	9.8	7.1	7.2	7.0
Capital revenues	1,948	2,385	1,906	2,623	4,196	3,618
Capital expenditures	13,860	12,211	11,923	10,155	12,315	13,842
Balance after capital accounts	(2,447)	(2,408)	375	442	(64)	(2,192)

Balance after capital accounts (% of total revenues)	(2.5)	(2.3)	0.3	0.4	(0.1)	(1.9)
Debt repaid	2,050	5,977	2,388	6,345	7,617	8,293
Gross borrowings	3,602	8,296	3,160	4,862	7,681	10,485
Balance after borrowings	(895)	(89)	1,147	(1,041)	0	(0)
Direct debt (outstanding at year-end)	60,660	64,219	64,980	63,154	62,842	64,623
Direct debt (% of operating revenues)	62.4	63.1	61.0	56.4	56.4	56.6
Tax-supported debt (outstanding at year-end)	61,484	65,076	65,837	64,011	63,699	65,480
Tax-supported debt (% of consolidated operating revenues)	63.2	64.0	61.8	57.2	57.2	57.3
Interest (% of operating revenues)	2.1	2.1	2.4	2.4	2.6	2.6
Local GDP per capita (SEK)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	462,329	477,635	490,591	N/A	N/A	N/A

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Region of Stockholm Ratings Score Snapshot		
Key rating factors		Score
Institutional framework		1
Economy		1
Financial management		2
Budgetary performance		3
Liquidity		1
Debt burden		3
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 Statistics

Research Update: Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable (/en_US/web/guest/article/-/view/sourceld/11347008), Feb. 14, 2020

Related Criteria

Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S. (/en_US/web/guest/article/-/view/sourceld/10969943), July 15, 2019

General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceld/10011703), April 7, 2017

General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceld/5612636), Sept. 14, 2009

Related Research

Swedish Government To Mitigate Impact From Coronavirus On Local And Regional Governments (/en_US/web/guest/article/-/view/sourceld/11386110), March 11, 2020

Local Government Debt 2020: Low Growth And High Refinancing Are Fueling European Borrowing (/en_US/web/guest/article/-/view/sourceld/11364609), March 2, 2020
Sovereign Risk Indicators (/en_US/web/guest/article/-/view/sourceld/11281946), Dec. 12, 2019. An interactive version is available at <http://www.spratings.com/sri> (<http://www.spratings.com/sri>)
Ratings History List: Europe, Middle East, And Africa Local And Regional Government Ratings Since 1975 (/en_US/web/guest/article/-/view/sourceld/10904218), March 8, 2019
Public Finance System Overview: Swedish Municipalities And Regions (/en_US/web/guest/article/-/view/sourceld/11266768), Dec. 3, 2019
S&P Publishes 2020 Outlook For Local And Regional Governments Outside The U.S., (/en_US/web/guest/article/-/view/sourceld/11239086) Nov. 18, 2019
Sweden's Local Governments To Get A Slight Boost From 2020 Budget (/en_US/web/guest/article/-/view/sourceld/11161876), Sept. 20, 2019
S&P Global Ratings Definitions (/en_US/web/guest/article/-/view/sourceld/504352), Sept. 18, 2019
Sweden's Municipal Sector Faces An Equalization Shake-Up (/en_US/web/guest/article/-/view/sourceld/11125176), Sept. 13, 2019
2018 Annual International Public Finance Default And Rating Transition Study (/en_US/web/guest/article/-/view/sourceld/11101634), Aug. 19, 2019
Institutional Framework Assessments For International Local And Regional Governments (/en_US/web/guest/article/-/view/sourceld/11052471), July 4, 2019
A Potential Profit Cap On Private Operators In Sweden's Welfare Sector Could Increase LRG Spending (/en_US/web/guest/article/-/view/sourceld/10902725), March 11, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed
Stockholm (Region of)

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

Nordic Regional Scale--/--/K-1

Senior Unsecured AA+

Commercial Paper K-1

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

Regulatory Disclosures For Each Credit Rating Including Ratings List Table

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Key Elements Underlying The Credit Rating

ESG Credit Factors

Solicited Or Unsolicited Status

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Office Responsible For The Credit Rating

Materials Used In The Credit Rating Process

Criteria Applied

Models Applied, Loss, And Cash Flow Analysis Performed

Scenario Analysis

Sensitivity Analysis

Risk Warning, Understanding Credit Rating Categorizations, And Criteria

Rated Entity Notification

Ancillary And Additional Services

Attributes And Limitations Of The Credit Rating

Information Specific To Structured Finance And Securitization Instruments

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