

Research Update:

# Swedish City of Stockholm Affirmed At 'AAA/A-1+'; Outlook Stable

November 10, 2023

## Overview

- Amid macroeconomic headwinds and inflationary cost pressure, we expect the City of Stockholm will maintain robust budgetary performance through 2025 thanks to a tax rate increase from 2024.
- We forecast a gradual build-up in debt due to high investment needs in the city and company sector but view positively that a significant share will be on-lent to financially healthy municipal companies.
- The city's financial management remains a key credit strength, shown by strict budgetary discipline and sophisticated treasury practices that underpin the strong liquidity position.
- We therefore affirmed our 'AAA/A-1+' ratings on Stockholm with a stable outlook.

## Rating Action

On Nov. 10, 2023, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on the Swedish City of Stockholm. The outlook is stable.

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

## Outlook

The stable outlook reflects our expectation that Stockholm will remain committed to limiting capital expenditure (capex) while divesting nonstrategic assets, both for the city and the company sector, mitigating debt build-up in the coming years. Despite weaker macroeconomic fundamentals and inflationary pressure, we expect the city's budgetary performance will remain robust in the coming years. Furthermore, we expect management will uphold the city's strong liquidity position, which is underpinned by strong access to external liquidity.

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## **Downside scenario**

We could lower our ratings if management changes its strategy concerning debt containment, resulting in a significant increase in the city's debt beyond our expectations.

## **Rationale**

The 'AAA' rating on the City of Stockholm reflects our view of the high predictability and supportiveness of Sweden's institutional framework. Moreover, amid macroeconomic headwinds and inflationary pressure, we expect Stockholm's budgetary performance will remain resilient through 2025 thanks to a tax rate increase, additional general grants, and cost-containment measures. That said, we forecast weaker operating balances compared to 2021-2022. We project a gradually expanding debt burden because of continued high investment needs in the city and the company sector. However, we expect Stockholm will remain committed to its debt-containment strategy, partly through the divestment of nonstrategic assets to mitigate debt accumulation. At the same time, we expect the city's experienced financial management will uphold the strong liquidity position while benefitting from reliable and broad access to external financing.

## **Sweden's robust institutional framework and Stockholm's competent management continue to support the ratings**

We regard the institutional framework for Swedish municipalities as extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the local and regional government (LRG) sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the LRG sector, supports our view. Although demographic challenges persist and we expect the LRG sector's budgetary performance to weaken as extraordinary support is phased out, we see limited risk of a material deterioration of financial stability.

After the 2022 elections, Stockholm is governed by a left-leaning majority coalition spearheaded by the Social Democrats and including the Left Party and the Green Party. Although ideological differences exist with the previous administration, we haven't seen and don't expect any major changes to the city's operational strategies or financial targets. Overall, we expect the city will continue divesting assets to finance upcoming investments and contain debt accumulation in the coming years. At the same time, the city has a track record of budgetary discipline, demonstrated by strict cost control in its budgetary units. We consider the treasury team highly competent and experienced, supported by risk-minimizing financial policies and robust follow-up procedures that underpin the city's strong liquidity position. Moreover, the company sector is efficiently run, supported by efficient communication between the holding company and government-related entities.

In our view, Stockholm's revenue flexibility is stronger than that of peers, owing to a low tax rate and the ability and declared willingness of management to divest assets to support financial sustainability. The city's property companies sit on substantial surplus values in their asset portfolios, and interest from prospective buyers remains high due to Stockholm's favorable market fundamentals.

The economic landscape in Stockholm is characterized by a dynamic and well-diversified labor market. The city benefits from being the Nordics' financial center and home to many of Sweden's

largest companies. The socioeconomic profile is underpinned by high income levels and an unemployment rate roughly in line with the national average. Stockholm also benefits from Sweden's strong economic fundamentals, reflected in our 2023 GDP per capita estimate of \$55,900.

### **Increased tax rates and additional central government grants will support budgetary performance amid inflationary pressure**

For 2023-2025, we expect Stockholm's budgetary performance will be burdened by inflationary cost pressure. Most importantly, operating results in the Swedish LRG sector will be subdued by higher pension costs from 2023 due to a new pension agreement. In addition, annual pension provisions will increase, since these are indexed to inflation. However, these provisions will not reduce operating cash flow in the near term or affect our calculated performance metrics (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023, on RatingsDirect). That said, as part of the 2024 budget proposal the political leadership has announced its intention to increase the personal income tax rate by 24 basis points, resulting in an estimated revenue increase of about Swedish krona (SEK) 850 million. Moreover, in the central government's 2024 budget, the ruling coalition announced additional support to the LRG sector, from which Stockholm is set to receive a further SEK750 million. Overall, we believe management will remain committed to budgetary discipline by implementing efficiency measures, if needed, to avoid deficits in its departments. Still, our base case points to a deterioration in budgetary performance from the inflated results in 2020-2022, with operating balances falling below 5% through 2025. Although the city faces high investment needs, we expect Stockholm will remain committed to financial sustainability amid inflationary pressure, resulting in a moderate increase in capex through 2025. A noticeable share of the investment portfolio relates to development projects, which allow for continued expansion of the city. At the same time, we expect substantial inflows from capital revenue stemming from land development gains in the coming years, especially in 2025.

Overall, we expect moderate debt accumulation in the next few years, with direct debt reaching 113% of operating revenue in 2025. Debt and liquidity management for the city and the company sector is managed by the in-house bank. All the city's external debt is attributable to funds on-lent to the companies, with the real estate companies, the water and waste company, and the harbor being the largest borrowers. We consider the risks associated with on-lending to the housing companies and the water and waste company as low, owing to their strong business profiles and financial positions. Adjusted for the relative share of the company sector's liabilities toward the city, Stockholm's debt would be about 40% of operating revenue. Furthermore, we regard the city's contingent liabilities, including extended guarantees and its 50% stake in energy company Stockholm Exergi, as limited.

Despite higher interest rates, we expect a limited impact on the city's budgetary performance. Given that the city has on-lent more funds than its external debt, we also expect a corresponding increase in financial revenue, since the companies will have to pay more to the in-house bank. That said, higher interest costs will burden the municipal companies' financial positions, particularly the most indebted.

Stockholm's liquidity position remains strong and we estimate the city's sources will cover about 130% of average debt service in the coming 12 months. In our view, the city has prudent liquidity policies, which underpin our expectation that the liquidity ratio will remain strong in the coming years despite higher debt repayments in 2024 and 2025. Stockholm benefits from strong and reliable access to external liquidity, even during strained credit conditions, as seen during the

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most tumultuous periods of the pandemic. It is also one of the largest and most frequent issuers in the Nordics and has access to a variety of funding channels, including capital market programs, the European Investment Bank, Nordic Investment Bank, and Council of Europe Development Bank. Consequently, we believe Stockholm stands out positively in a Nordic peer comparison in terms of access to external financing.

## Key Statistics

Table 1

### Stockholm (City of) Selected Indicators

Mil. SEK	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenues	62,125	64,444	67,861	68,352	71,717	74,802
Operating expenditures	57,079	59,135	62,196	65,307	68,638	71,323
Operating balance	5,046	5,310	5,665	3,045	3,079	3,479
Operating balance (% of operating revenues)	8.1	8.2	8.3	4.5	4.3	4.7
Capital revenues	2,951	2,421	3,375	2,300	2,375	4,275
Capital expenditures	8,279	6,954	6,845	7,901	9,345	9,896
Balance after capital accounts	(282)	776	2,195	(2,556)	(3,891)	(2,142)
Balance after capital accounts (% of total revenues)	(0.4)	1.2	3.1	(3.6)	(5.3)	(2.7)
Debt repaid	9,741	3,162	8,436	8,874	9,550	12,031
Gross borrowings	15,902	8,468	6,852	15,154	16,743	17,256
Balance after borrowings	0	1,151	(488)	(164)	0	(0)
Direct debt (outstanding at year-end)	63,263	67,413	65,829	72,109	79,302	84,527
Direct debt (% of operating revenues)	101.8	104.6	97.0	105.5	110.6	113.0
Tax-supported debt (outstanding at year-end)	63,263	67,413	65,829	72,109	79,302	84,527
Tax-supported debt (% of consolidated operating revenues)	83.7	86.0	79.7	86.5	91.2	93.5
Interest (% of operating revenues)	0.7	0.6	1.0	1.7	2.8	3.1
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	487,872	528,606	572,067	599,206	613,516	632,009

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful. SEK--Swedish krona.

## Ratings Score Snapshot

Table 2

## Stockholm (City of) Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	2
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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, Oct. 30, 2023

## 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

- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 2022
- Stockholm Exergi Holding AB Outlook Revised To Negative On Cost Pressure; 'BBB+' Ratings Affirmed, April 26, 2023
- Southern Swedish LRGs Bear The Brunt Of Surging Electricity Prices, July 20, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Institutional Framework Assessment: Swedish Municipalities And Counties, Dec. 13, 2021

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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 (City of)

Issuer Credit Rating	AAA/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Senior Unsecured	AAA
Commercial Paper	A-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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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