S&P Global Ratings

Research

Stockholm (Region of)

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
- S&P Global Ratings expects the Region of Stockholm's new political leadership will remain committed to financial sustainability.	- On the back of continued strong cash flow generation, we project a decrease in the region's debt burden as a share of consolidated revenue, despite sizable investment needs in the coming years.
- Stockholm, along with other regions in Sweden, is facing a significant increase in pension costs for 2023-2024, but a sizable share of the expenditure will not generate a cash outflow.	- We expect Stockholm will remain committed to its financial policies, supporting its healthy liquidity position.
- Consequently, despite the region's expectation of accrual-based budgetary deficits in 2023, and possibly 2024, our cash-based performance metrics will remain relatively stable through 2025.	

Despite inflationary pressure, higher pension costs, and gradually increasing contributions to the equalization system, we expect the Region of Stockholm will post relatively stable operating balances through 2025. The region's performance will be supported by robust tax revenue growth and tightly managed expenditure growth. Nevertheless, we still expect slightly weaker operating performance compared with the inflated results in 2020-2022, partly due to expenditure pressures as the region addresses the accumulated health care backlog, stemming from prioritization of COVID-19 patients before nonemergency treatment. At the same time, the changing demographic profile, characterized by an aging population, will increase demand for health care services.

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 41% of consolidated revenue in 2025.

Outlook

The stable outlook reflects our view that the Region of Stockholm will counteract budgetary pressure stemming from inflation, higher contributions to the equalization system, and lingering effects from the pandemic. Furthermore, we expect the region's strong cash flow generation will result in gradually lower tax-supported debt ratios through 2025. 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

We do not anticipate any major changes to the region's financial steering from the change in government after the 2022 election

Since the election held in September 2022, the region is governed by a new minority coalition consisting of the Social Democrats, the Centre Party, and the Green Party. Together with the Left Party, which will play the role of supporting party without formally being a part of the coalition, the new government holds a majority of seats in the local parliament, meaning that it should be able to pass budgets in the regional assembly without major issues. Although the change in government could lead to some re-prioritizations regarding operations, we don't expect any material revisions to the region's financial steering and commitment to budgetary sustainability. 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.

We regard the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, while 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 local and regional government (LRG) sector, supports our view.

Since the pandemic, the central government has remained supportive of the LRG sector, implementing both direct and indirect support packages to boost operating performance for Swedish municipalities. Although structural challenges remain and budgetary performance could weaken somewhat as extraordinary support is phased out, we see limited risk of a material deterioration of the sector's financial stability.

The Region of Stockholm benefits from Sweden's robust economic fundamentals, demonstrated by our estimate of GDP per capita at $58,950 in 2023. 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. Overall, we consider the region's economic fundamentals and socioeconomic profile to be stronger than the national average.

Robust tax revenue growth combined with budgetary discipline should mitigate pressure on operating performance as debt metrics continue to strengthen

Despite inflation and higher contributions to the equalization system, we expect the Region of Stockholm will post fairly stable operating balances through 2025, albeit weaker than the abnormally strong levels over 2020-2022. The higher-than-anticipated operating performance in 2022 can be attributed to stronger tax revenue growth, higher central government grants, and lower expenditure growth in the budgetary units. However, owing to changing commuting patterns, ticket sales from public transportation remained suppressed throughout the year, and only a share of the revenue shortfall was compensated by government grants.

In 2023-2025, we expect pressure on operating performance, partly 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 time and resources to reduce. At the same time, Stockholm along with other Swedish regions--and also to a lesser extent municipalities--face higher pension costs in 2023 and 2024 because of a new agreement for public employees and higher inflation expectations. That said, much of this expenditure--about 60% in 2023--will not generate a cash outflow, meaning that the full effect is not captured in our cash-based budgetary performance metrics. However, given that the balanced budget requirement in Sweden is based on accrual accounting, the region is set to post deficits in the income statement for 2023, and possibly 2024 as well. Given the extraordinary circumstances with significantly higher pension costs in 2023, the Municipal Act allows LRGs to report negative balanced budget results without having to restore the deficit in the subsequent three years, and not draw on the accumulated equity reserves. Moreover, we also acknowledge that the region may face longer-term challenges in terms of revenue shortfall within public transportation, considering the uncertain demand for commuter travel. For 2023 and beyond, the central government has not announced any additional compensation through grants. In addition, given the region’s favorable socioeconomic profile, Stockholm faces higher annual contributions to the equalization system in the coming years. Overall, despite these challenges, we project relatively stable cash-based 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 the central government and the municipalities the underground lines will traverse. To account for potential delays in the region’s investment plan, we apply a haircut to the budgeted figures. Furthermore, the region’s sale of a former hospital building will provide a temporary boost to capital revenue toward the end of the forecast period. Consequently, combined with temporarily lower capital expenditure, we expect a one-off surplus after capital accounts in 2025, which deviates from our expectation of structural deficits going forward.

We assume the Swedish central bank, the Riksbank, will continue to raise the policy rate to combat inflation. As a result, we expect an uptick in the region’s interest expenses throughout the forecast period. That said, compared with many Swedish municipalities we rate, the region has a longer debt maturity profile, meaning that the immediate impact of higher interest rates is less severe.

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 the municipalities. In our view, these pension payments crowd out other expenditure 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 41% of consolidated revenue in 2025, down from 46% in 2022. 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), as well as financial leases. Furthermore, we consider the region’s exposure to contingent liabilities as 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 127%. We expect the region will maintain its long-term debt maturity structure and strong liquidity position through 2025, by contracting additional facilities if needed to maintain the ratio above 120%. 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	2020	2021	2022e	2023bc	2024bc	2025bc

Stockholm (Region of) Selected Indicators

Operating revenue	113,512	119,309	123,048	124,292	128,940	133,303
Operating expenditure	102,307	106,290	110,244	116,227	120,478	124,207
Operating balance	11,205	13,019	12,804	8,066	8,462	9,096
Operating balance (% of operating revenue)	9.9	10.9	10.4	6.5	6.6	6.8
Capital revenue	1,954	3,564	4,969	5,373	4,834	6,973
Capital expenditure	10,916	11,037	13,028	15,106	14,429	13,291
Balance after capital accounts	2,243	5,546	4,745	(1,668)	(1,132)	2,778
Balance after capital accounts (% of total revenue)	1.9	4.5	3.7	(1.3)	(0.9)	2.0
Debt repaid	9,200	9,800	5,503	6,407	4,964	7,525
Gross borrowings	7,024	7,638	520	7,309	6,096	4,747
Balance after borrowings	627	2,450	(3,696)	(766)	0	0
Direct debt (outstanding at year-end)	62,499	59,961	54,558	55,012	55,656	52,350
Direct debt (% of operating revenue)	55.1	50.3	44.3	44.3	43.2	39.3
Tax-supported debt (outstanding at year-end)	64,143	61,760	56,497	57,145	58,002	54,931
Tax-supported debt (% of consolidated operating revenue)	56.5	51.8	45.9	46.0	45.0	41.2
Interest (% of operating revenue)	1.3	1.1	1.1	1.1	1.2	1.2
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,970.2	61,358.3	56,058.3	58,949.0	65,528.0	70,599.0

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

- Sovereign Risk Indicators, Dec. 12, 2022. An interactive version is available at http://www.spratings.com/sri

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, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 2022
- 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

Ratings Detail (as of March 30, 2023)*

Stockholm (Region of)	
Issuer Credit Rating	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Commercial Paper	
Nordic Regional Scale	K-1
Senior Unsecured	AA+
Short-Term Debt	A-1+

Ratings Detail (as of March 30, 2023)*

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	*Nordic Regional Scale*	--/--/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.