

# Stockholm (City of)

November 14, 2022

This report does not constitute a rating action.

## Credit Highlights

### Overview

#### Credit context and assumptions

--S&P Global Ratings expects the City of Stockholm's new political leadership will remain committed to financial sustainability, partly by maintaining the debt containment strategy.

--The city's management remains a key credit strength, demonstrated by strict budgetary discipline and sophisticated treasury practices and policies.

--Sector-wide risks have lessened on the back of strong central government support during the COVID-19 pandemic, as well as planned and already implemented initiatives to combat structural issues.

#### Base-case expectations

--Despite weaker macroeconomic fundamentals and rising inflation, we expect Stockholm will post resilient operating results through 2024.

--Considering the city's high investment needs, we forecast a gradual build-up in debt, but a significant share will be on-lent to financially healthy companies.

--Owing to a clear commitment from management, we expect liquidity will remain strong in the coming years.

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**Amid macroeconomic headwinds and inflationary pressure, we expect the City of Stockholm's budgetary performance will remain resilient through 2024.** That said, we forecast weaker operating balances compared to those in 2020-2021.

**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 despite the shift in political leadership after the Sept. 11, 2022, election. 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.

## 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. We expect the city's budgetary performance will remain robust through 2024, despite heightened macroeconomic risks and inflationary pressure. Although economic growth could come under pressure because of the Russia-Ukraine conflict, we expect tax revenue growth will

remain resilient, supporting performance metrics in the coming years. Furthermore, we expect management will uphold the city's strong liquidity position by adhering to financial policies stipulating a debt coverage ratio in excess of 120%.

## Downside scenario

We could lower our ratings if management changes its strategy concerning debt containment or fails to reduce capex and divest nonstrategic assets, resulting in a significant increase in the city's debt beyond our expectations.

## Rationale

### **The new political leadership will likely continue prioritizing financial sustainability, partly by maintaining the debt-containment strategy**

Elections were held for all tiers of Swedish government on Sept. 11, 2022. After a surge in support for the Social Democrats, a new majority coalition has now been formed, which also includes the Left Party and the Green Party. Although ideological differences exist with the previous administration, we don't expect any major changes to the city's operational strategies or financial targets.

Consequently, we expect the city will continue divesting assets to finance upcoming investments and mitigate 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.

We consider the institutional framework in Sweden extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Since the pandemic began, the central government has remained supportive of the local and regional government (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 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).

Stockholm benefits from Sweden's strong economic fundamentals, reflected in our 2022 GDP per capita estimate of \$56,200. Although the pandemic has significantly affected the city, economic activity has gradually increased and unemployment significantly decreased since the peak in 2020. The economic landscape is characterized by a dynamic and well-diversified labor market. Furthermore, the city benefits from being the financial center in the Nordics and home to many of Sweden's largest companies.

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

### **Resilient tax revenue growth and continued budgetary discipline will underpin performance amid inflationary pressure and increased pension costs**

Through 2024, we expect the city will post somewhat weaker operating results compared to the inflated performance during the pandemic. Notably, as pandemic effects abate, we expect demand for municipal services to normalize, yielding higher expenditure growth in some budgetary units. At the same time, inflationary pressure and higher energy prices will further strain Stockholm's performance metrics through 2024. Moreover, pension costs are set to rise in 2023 because of a new agreement for public employees and higher prices. That said, the lion's share of the city's operating revenue comprises personal income tax, in which inflation-induced wage increases are reflected, meaning that Stockholm's budgetary performance is shielded from rising inflation to a certain extent. Overall, we believe city management will remain committed to budgetary discipline by implementing efficiency measures if

## Stockholm (City of)

needed to avoid deficits in its departments. Still, our base case points to a deterioration in budgetary performance, with operating balances falling below 5% in 2023 and 2024.

Although the city faces high investment needs, we expect Stockholm will remain committed to financial sustainability in light of higher construction costs, resulting in a moderate increase in capex through 2024. 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. In the company sector, we expect noticeable borrowing needs through 2024, with water and waste company Stockholm Vatten och Avfall AB the main recipient of on-lent funds. Overall, we expect moderate debt accumulation in the coming years, with direct debt reaching 109% of operating revenue in 2024.

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 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 41% 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.

We assume the Swedish central bank, the Riksbank, will continue to raise the policy rate to combat rising inflation. As a result, we expect a gradual increase in the city's interest expenses throughout the forecast period. That said, given 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. Consequently, we expect that higher interest rates will have a limited effect on operating performance, although interest expenses as a share of operating revenue will increase markedly through 2024.

Stockholm's liquidity position remains strong and we estimate the city's sources will cover about 134% of average debt service in the coming 12 months. In our view, the city has prudent liquidity policies and we expect the treasury will counterbalance pressure by contracting additional facilities, if needed, to maintain coverage above 120% as debt maturities increase in 2023 and 2024. The city recently contracted a new Swedish krona 3.5 billion revolving credit facility with a forward start on Jan. 1, 2023. Moreover, the city benefits from strong and reliable access to external liquidity, even during strained credit conditions, as seen during the most tumultuous periods of the pandemic. Stockholm is 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.

### City of Stockholm Selected Indicators

Mil. SEK	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	59,680	62,125	64,444	67,417	69,495	72,251
Operating expenditure	56,930	57,079	59,135	63,446	66,842	69,297
Operating balance	2,750	5,046	5,310	3,970	2,653	2,953
Operating balance (% of operating revenue)	4.6	8.1	8.2	5.9	3.8	4.1
Capital revenue	2,943	2,951	2,421	3,642	2,975	3,400
Capital expenditure	9,037	8,127	5,988	6,500	7,486	7,376
Balance after capital accounts	(3,344)	(130)	1,742	1,112	(1,858)	(1,023)
Balance after capital accounts (% of total revenue)	(5.3)	(0.2)	2.6	1.6	(2.6)	(1.4)
Debt repaid	5,627	9,741	3,162	8,436	8,874	9,550
Gross borrowings	14,511	15,902	8,468	7,660	15,167	15,033
Balance after borrowings	(50)	0	1,151	(151)	0	0

## City of Stockholm Selected Indicators

Direct debt (outstanding at year-end)	57,101	63,263	67,413	66,637	72,929	78,412
Direct debt (% of operating revenue)	95.7	101.8	104.6	98.8	104.9	108.5
Tax-supported debt (outstanding at year-end)	57,101	63,263	67,413	66,637	72,929	78,412
Tax-supported debt (% of consolidated operating revenue)	78.2	83.7	86.0	81.6	86.8	90.0
Interest (% of operating revenue)	0.7	0.7	0.7	0.9	2.3	3.0
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	52,186.7	52,970.2	61,243.5	56,152.1	57,261.3	63,555.4

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	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

## Stockholm (City of)

- Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 28, 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, Sept. 13, 2022
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 2022
- Stockholm Exergi Holding AB (publ), May 2, 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 November 09, 2022)\*

### Stockholm (City of)

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

### Issuer Credit Ratings History

14-May-2021	<i>Foreign Currency</i>	AAA/Stable/A-1+
17-May-2019		AAA/Negative/A-1+
18-Dec-2007		AAA/Stable/A-1+
14-May-2021	<i>Local Currency</i>	AAA/Stable/A-1+
17-May-2019		AAA/Negative/A-1+
18-Dec-2007		AAA/Stable/A-1+
31-Dec-1998	<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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