Stockholm (City of)

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
-- A supportive central government and stronger tax revenue growth will mitigate pressure on Stockholm's performance metrics.	-- The city's debt containment plan remains in place and is proceeding according to plan.
-- Improved labor market fundamentals will boost tax revenue growth in the aftermath of COVID-19.	-- Stricter prioritization of capital expenditure (capex) in combination with substantial divestments of the city's and its company sector's assets will mitigate debt accumulation through 2023.
-- At the same time, continued central government support, albeit at diminishing levels, will counterbalance the increase in expenditure coming from the changing demographic profile.	-- Moreover, we expect Stockholm's liquidity position will remain strong, with the coverage ratio remaining sustainably above 120%.
-- The city has an experienced management, demonstrated by political stability, budget discipline, and willingness to use financial flexibility in order to uphold financial sustainability.	-- The city's 50% ownership of the energy company Stockholm Exergi remains unchanged after the previous owner, Fortum Oyj, finalized the sale of its stake to a consortium of European investors.

The city's management is determined to stabilize the debt trajectory. It intends to achieve this through a combination of reducing capex and divesting nonstrategic assets, both in the city's real estate and in its company sector. Also, owing to improved economic indicators, we expect stronger tax revenue growth, translating into higher operating cash flows that will support the city's solid financial position. Although we factor in long-term uncertainty about the ability of Swedish local and regional governments (LRGs) to balance rising spending responsibilities with revenue sources, we acknowledge the supportive institutional framework. We observe that the central government has provided substantial financial aid to LRGs during the COVID-19 pandemic. At the same time, we expect the city's experienced financial management will uphold the strong liquidity position by securing additional liquidity sources if needed to maintain the robust coverage ratio.

Outlook

The stable outlook reflects our expectation that Stockholm will remain committed to its capital revenue and expenditure plans, both for the city and the company sector, slowing debt build-up in the coming years. In line with the economic recovery, we also forecast stronger tax revenue growth, which should mitigate cost pressure through 2023. 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. We could also lower the ratings if long-term systemic support to the Swedish LRG sector proves insufficient.

Rationale

The central government has provided extensive support to the LRG sector during the pandemic, but structural issues remain unresolved

We consider the institutional framework in Sweden extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the LRG sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. The central government's swift response to the pandemic, partly through the distribution of general grants to the sector, further supports our view.

However, before the outbreak of COVID-19, the sector's budgetary performance had structurally deteriorated due to increasing expenditure, accentuated by central government policymaking, insufficient compensation mechanisms, and LRGs' inadequate countermeasures. Furthermore, it is unclear how the central government aims to address the sector's demographic challenges, characterized by slower growth of the working age group, and to what extent it should provide financial support.

In our view, Stockholm has very strong management. The political landscape is stable, supported by a majority coalition committed to financial sustainability. The city’s debt containment strategy remains a key priority, reflected in the ongoing plan to divest nonstrategic assets and streamline the investment program. At the same time, the city has a track record of budgetary discipline, demonstrated by the city departments’ strict cost-control. Furthermore, we consider the treasury team as highly competent and experienced, supported by risk-minimizing financial policies and robust follow-up procedures that underpin the city’s strong liquidity position.

Stockholm benefits from Sweden's strong economic fundamentals, reflected in our 2021 estimate of national GDP per capita of $60,960. Although the pandemic has had a significant impact on Stockholm, we believe the city is in a favorable position to take advantage of the economic recovery owing to its dynamic and well-diversified labor market. Furthermore, the city benefits from being the financial center in the Nordics and the 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 the city’s management to divest assets to support financial sustainability. The city’s property companies are sitting on substantial surplus values in their asset portfolios, and the interest from prospective buyers remains high due to Stockholm’s favorable market fundamentals.

Stronger tax revenue growth will mitigate the pressure on Stockholm’s performance metrics, while the debt containment strategy is proceeding according to plan

We expect Stockholm will maintain sound operating performance through 2023, albeit at somewhat lower levels than the abnormally strong result in 2020. Demographic issues stemming from a deteriorating dependency ratio, in combination with decreasing extraordinary government support, will pressure performance metrics in the coming years. That said, on the back of positive developments in the city’s labor market, we expect tax revenue growth will start to pick up. At the same time, we believe the city’s management will remain committed to budgetary discipline by implementing efficiency measures if needed to avoid deficits in the city's departments. Still, our base case points to a deterioration in the city's performance metrics, with operating balances falling below 5% in 2022 and 2023.

In line with our previous review, we project a reduction in the city's capex over the forecast period (including the borrowing needs of the school property company SISAB) compared with the past two years. This trajectory reflects the revised capex plan, which, in tandem with a steady inflow of capital revenue, will reduce the city's deficit after capital accounts.

Furthermore, we expect lower borrowing needs from the city's companies on the back of stricter prioritization imposed by the city's management. At the same time, we anticipate increased revenue from asset sales, mainly related to the city's real estate and housing companies. Consequently, we expect moderate debt accumulation in the coming years, with direct debt reaching 109% of operating revenue in 2023.

Debt and liquidity management for the city and the company sector is managed by the in-house bank. All of the city's external debt is attributable to funds 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 the on-lending to housing companies and the water and waste company as low, owing to their strong business profiles and financial positions. Adjusted for their relative share of the company sector's liability 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 the energy company Stockholm Exergi, as limited.

On Sept. 20, 2021, Finnish power group Fortum, which owned 50% of Stockholm Exergi Holding AB (publ) (Stockholm Exergi; BBB+/Stable/A-2) together with the city of Stockholm, finalized the sale of its stake in the company to a consortium of European institutional investors. According to the current political leadership, the company remains strategically important for the city, partly due to its importance in Stockholm's ambitious sustainability plan. Consequently, we do not expect the city will sell its shares in the short to medium term.

Stockholm's liquidity position remains strong, and we estimate the city's sources will cover about 167% of average debt service in the coming 12 months. In our view, the city has prudent liquidity policies in place, and we expect the city treasury will counterbalance pressure on its liquidity position by contracting additional facilities if needed to maintain the coverage ratio above 120%, as debt maturities increase in 2022 and 2023. Moreover, in line with other rated Swedish LRGs, the city benefits from strong and reliable access to capital markets, even during strained credit conditions, as seen during the most tumultuous period of the pandemic last year.

City of Stockholm Selected Indicators

Mil. SEK	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	59,128.6	59,679.9	62,125.4	63,359.4	65,583.3	67,184.3
Operating expenditure	56,075.0	56,929.8	57,079.3	59,849.6	62,347.2	64,123.4
Operating balance	3,053.6	2,750.1	5,046.1	3,509.9	3,236.1	3,060.9
Operating balance (% of operating revenue)	5.2	4.6	8.1	5.5	4.9	4.6
Capital revenue	3,221.0	2,942.7	2,950.8	2,250.0	4,700.7	4,050.0
Capital expenditure	8,651.0	9,037.0	8,126.5	7,091.0	6,628.0	7,646.3
Balance after capital accounts	(2,376.4)	(3,344.2)	(129.6)	(1,331.1)	1,308.8	(535.4)
Balance after capital accounts (% of total revenue)	(3.8)	(5.3)	(0.2)	(2.0)	1.9	(0.8)
Debt repaid	5,462.2	5,626.6	9,740.8	3,162.0	8,436.0	8,874.0
Gross borrowings	14,116.0	14,510.6	15,902.2	8,017.0	9,356.1	13,384.4
Balance after borrowings	520.0	(49.8)	0.0	50.0	0.0	0.0

City of Stockholm Selected Indicators

Direct debt (outstanding at year-end)	48,216.8	57,101.3	63,262.7	68,117.7	69,037.9	73,548.3
Direct debt (% of operating revenue)	81.6	95.7	101.8	107.5	105.3	109.5
Tax-supported debt (outstanding at year-end)	48,216.8	57,101.3	63,262.7	68,117.7	69,037.9	73,548.3
Tax-supported debt (% of consolidated operating revenue)	66.5	78.2	83.7	88.3	86.7	90.2
Interest (% of operating revenue)	0.7	0.7	0.7	0.7	0.7	0.7
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	54,885.6	52,186.7	52,390.1	60,959.7	62,326.1	64,296.7

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

- Sovereign Risk Indicators, Published Oct. 12, 2021. An interactive version is available at www.spratings.com/SRI.

Related Criteria

- 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, Nov. 4, 2021
- Research Update: Stockholm Exergi Holding AB 'BBB+' Rating Affirmed Following Change In Ownership Structure; Outlook Stable, July 6, 2021
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020
- COVID-19 Could Further Strain Swedish LRGs' Budgets, May 20, 2020
- Swedish Government To Mitigate Impact From Coronavirus On Local And Regional Governments, March 11, 2020
- Public Finance System Overview: Swedish Municipalities And Regions, Dec. 3, 2019

Ratings Detail (as of November 15, 2021)*

Stockholm (City of)		
Issuer Credit Rating		AAA/Stable/A-1+
Nordic Regional Scale		--/--/K-1
Commercial Paper		A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
14-May-2021	*Foreign Currency*	AAA/Stable/A-1+
17-May-2019		AAA/Negative/A-1+
18-Dec-2007		AAA/Stable/A-1+
14-May-2021	*Local Currency*	AAA/Stable/A-1+
17-May-2019		AAA/Negative/A-1+
18-Dec-2007		AAA/Stable/A-1+
31-Dec-1998	*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.