

Research Update:

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

November 8, 2024

Overview

- On the back of another tax rate increase and less inflationary pressure, we expect the City of Stockholm will maintain robust budgetary performance through 2026.
- We forecast a gradual build-up in debt due to sizable investment needs in the city and company sector, largely for funding water, wastewater, and sewage infrastructure.
- The city's financial management remains a key credit strength, supported by strict budgetary discipline and sophisticated treasury practices that underpin the strong liquidity position.
- We therefore affirmed our 'AAA/A-1+' ratings on Stockholm and maintained the stable outlook.

Rating Action

On Nov. 8, 2024, 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 contain debt build-up by partly funding its capital expenditure (capex) with divestments of nonstrategic assets, both for the city and the company sector. At the same time, we expect the city's management will remain committed to upholding robust governance practices, strong budgetary performance, and a healthy liquidity position.

Downside scenario

We could lower our rating if we reassess our view of the city's management. This could happen if Stockholm does not utilize its flexibility to sustain a solid budgetary performance or fails to limit its capital expenditure program leading to materially higher debt build-up beyond our

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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, we expect Stockholm's budgetary performance will remain robust through 2026 supported by the recent tax rate increase, less inflationary pressure, and effective cost-containment measures. On the other hand, we project a gradually expanding debt burden because of continued high investment needs in the city and the company sector. We forecast that the city's water, wastewater, and sewerage infrastructure needs will be an important driver of debt build-up from onlending to the water and waste company, Stockholm Vatten och Avfall. However, we expect Stockholm will remain committed to its debt-containment strategy, partly through the divestment of nonstrategic assets to balance 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 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 is based on a far-reaching equalization system and tax autonomy. Historically, the central government has provided extensive support to the local and regional government (LRG) sector, for example through additional grants distributed in response to the pandemic or more recently to cover rising pension costs (for more information, see "Institutional Framework Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

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, we also observe that the city and its companies' managements uphold robust governance practices. The company sector is efficiently run, supported by well-organized communication between the holding company and the government-related entities.

In our view, Stockholm's revenue flexibility is stronger than that of peers, owing to a still low tax rate even after recent increases and its ability and declared willingness to divest non-strategic assets to support financial sustainability. The city owns large tracts of land that can be divested. At the same time, the property companies have substantial surplus values built up 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 2024 GDP per capita estimate of \$59,950.

Increased tax rate and less inflationary pressure should support the city's budgetary performance counterbalancing risks of debt accumulation

We expect Stockholm's budgetary performance will remain robust through 2026 as cost pressures abate and tax revenue growth strengthens in line with the macroeconomic environment and the recently announced 24-basis point (bps) tax increase starting from 2025. The city estimates that the increase will generate an additional Swedish krona (SEK) 875 million in 2025. Moreover, we expect Stockholm will remain committed to budgetary discipline, of which there is strong track record. In cash flow terms, we expect the city will manage to uphold operating balances above 5%. In accrual-terms, the expenditure burden coming from higher pensions will also decrease markedly after two years of higher costs, most notably provisions.

Although the city faces high investment needs, we expect Stockholm will remain committed to financial sustainability, resulting in a moderate increase in capex through 2026 and balanced by substantial inflows from capital revenue from land development gains. A noticeable share of the investment portfolio relates to development projects, which allow for continued expansion of the city. The most sizable investment needs are within water, wastewater, and sewerage to be upgraded and expanded its infrastructure with stricter sustainability requirements. These investments are carried by the city's water and waste company. To enhance comparability with other Swedish municipalities, we now reflect these investments in Stockholm's budgetary performance assessment.

Overall, we expect moderate debt accumulation in the next few years, with direct debt reaching 113% of operating revenue in 2026. Debt and liquidity management for the city and the company sector is carried 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 there is low risk associated with on-lending to the housing companies, 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 66% 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 no longer consider on-lending to Stockholm Vatten och Avfall, to be a mitigating factor in our assessment of Stockholm's debt burden. This reflects our view that as the water and wastewater sector in Sweden embarks on a heightened investment period, mostly debt financed, the sector's credit quality would likely erode. As a result, our analysis of Stockholm is also comparable with our analysis of those municipalities that conduct water and wastewater activities within their own balance sheets and those that integrate these activities in their energy companies.

Stockholm's liquidity position remains strong and we estimate the city's sources will cover about 172% 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 2025. At the same time, Stockholm benefits from strong and reliable access to external liquidity, even during strained credit conditions, as seen during the 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

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

Bank. Consequently, we believe Stockholm stands out positively in a Nordic peer comparison when it comes to access to external financing.

Key Statistics

Table 1

City of Stockholm selected indicators

Mil. SEK	--Fiscal year ending Dec. 31--					
	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	64,444.4	67,860.6	71,744.5	74,120.8	76,731.8	79,471.8
Operating expenditures	59,134.8	62,195.9	64,997.3	68,526.0	70,794.5	73,293.0
Operating balance	5,309.6	5,664.7	6,747.2	5,594.8	5,937.3	6,178.7
Operating balance (% of operating revenues)	8.2	8.3	9.4	7.5	7.7	7.8
Capital revenues	2,420.5	3,375.2	2,580.7	810.0	3,330.0	4,230.0
Capital expenditures	6,953.9	6,845.4	8,383.3	8,750.3	8,714.5	10,675.6
Balance after capital accounts	776.2	2,194.5	944.6	(2,345.5)	552.8	(266.8)
Balance after capital accounts (% of total revenues)	1.2	3.1	1.3	(3.1)	0.7	(0.3)
Debt repaid	3,162.0	8,436.0	8,874.3	9,550.0	12,030.9	8,915.5
Gross borrowings	8,468.3	6,852.0	15,273.0	17,204.2	16,752.6	14,041.1
Balance after borrowings	1,151.2	(487.6)	206.4	(20.0)	0.0	0.0
Direct debt (outstanding at year-end)	67,413.0	65,829.0	72,228.0	79,882.2	84,603.9	89,729.5
Direct debt (% of operating revenues)	104.6	97.0	100.7	107.8	110.3	112.9
Tax-supported debt (outstanding at year-end)	67,413.0	65,829.0	72,228.0	79,882.2	84,603.9	89,729.5
Tax-supported debt (% of consolidated operating revenues)	86.0	79.7	82.4	88.4	90.6	92.9
Interest (% of operating revenues)	0.6	1.0	2.4	2.8	2.8	3.0
Local GDP per capita (SEK)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	526,517.1	561,139.3	589,886.6	605,276.6	628,464.3	654,778.3

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.

Ratings Score Snapshot

Table 2

City of Stockholm ratings score snapshot

Key rating factors

Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	3
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. 29, 2024

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, Oct. 29, 2024
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Sept. 31, 2024
- Nordic Public Finance Credit Outlook 2024: A Mixed Picture, May 16, 2024
- Subnational Debt 2024: Focus on Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29,

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

2024

- Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses, Feb. 29, 2024
- Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023
- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023

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 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/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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

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