

Research Update:

Region of Stockholm Upgraded To 'AAA' On Stronger Cash Flows And Financial Management; Outlook Stable

March 28, 2025

Overview

- We now expect the Region of Stockholm to post structurally positive balances after capital accounts over our forecast horizon to 2027.
- The region's management is still committed to upholding financial sustainability and the region is forecast to benefit from solid tax revenue growth and sizable cofinancing contributions related to the expansion of the underground railway system.
- Therefore, we anticipate that its debt burden will continue to decrease until 2027, in both nominal and relative terms.
- We raised our long-term rating on the Region of Stockholm to 'AAA' from 'AA+'. The outlook is stable.

Rating Action

On March 28, 2025, S&P Global Ratings raised its long-term issuer credit rating on Region of Stockholm to 'AAA' from 'AA+' and affirmed our 'A-1+' short-term rating. The outlook is stable.

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

Outlook

The stable outlook indicates that we expect the region to continue to report strong budgetary performance metrics and surpluses after capital accounts, based on the solid growth in its tax revenue and management's continued commitment to sound cost control. Moreover, we forecast that the region's debt burden will decrease further through 2027, despite a sizable capital spending program.

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Downside scenario

We could lower the ratings if a failure to contain the region's operating and capital expenditure causes a substantial deterioration in its budgetary performance compared with our current forecast--in particular, sustained deficits after capital accounts. In such a scenario, we could also reassess our view of the region's financial management.

Rationale

We upgraded the region because of management's continued commitment to budgetary discipline, combined with the sizable cofinancing contributions it is receiving toward the cost of expanding its underground railway. Combined, these should allow the region to report surpluses after capital accounts and so maintain a downward trajectory to both its nominal and relative debt burden. Our ratings are also supported by the region's experienced management team and its robust liquidity position, which benefits from strong and reliable access to external funding channels.

Region of Stockholm benefits from an extremely supportive institutional framework and strong socioeconomic fundamentals

We consider that the institutional framework in Sweden is extremely predictable and supportive, and displays a high degree of stability. The sector's revenue and expenditure management are based on a far-reaching equalization system and bolstered by tax autonomy. Historically, the central government has provided the local and regional government (LRG) sector with extensive support; for example, it distributed additional grants in response to the pandemic and, more recently, to cover rising pension costs (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Overall, our view of Stockholm's management has improved. The region is governed by a minority coalition consisting of the Social Democrats, the Centre Party, and the Green Party, supported by the Left Party (which has a role as a supporting party but is not formally part of the coalition). Combined, these four parties control a majority of seats in the regional parliament and have shown a high degree of consensus regarding key focus areas and priorities.

The team that currently manages the region appears competent and has taken strict budgetary discipline and cost control as its guiding principles. Until 2023, the Region of Stockholm had a long record of posting positive results on an accrual basis; in 2023 and 2024, budgetary performance dipped because of extraordinary pension costs. That said, the accrual-based deficits of the past two years do not weigh on our view of the region's management because we consider that they occurred because of circumstances beyond the Region of Stockholm's control. In our view, management is still committed to prudent financial policies that minimize risk and this underpins the region's strong liquidity position.

The Region of Stockholm has a strong economy, supported by a well-diversified labor market and high income levels that signal its importance as a national and regional growth center. At the same time, the region benefits from the robust economic fundamentals demonstrated in our projection of Sweden's national GDP per capita at about \$62,700 in 2025.

Solid tax revenue growth, lower cost inflation, and sizable cofinancing contributions will continue to support budgetary performance metrics and further debt reduction

The Region of Stockholm posted solid cash-based operating results for 2024, and we forecast that robust tax revenue growth and lower cost inflation will support operating margins through 2027. That said, the ruling coalition plans to lower the tax rate for 2026 by 5 basis points, a partial retraction of the 30 basis-point increase implemented in 2024. Moreover, the coalition's goal of improving the quality and accessibility of health care in the region will require additional funds to be allocated and so will increase expenditure growth. In the longer term, the region may also experience revenue shortfalls within public transportation, given the uncertainty of demand for commuter travel. Commuter traffic has yet to return to the level seen before the pandemic began. Overall, however, we expect ongoing revenue growth to assist the region in maintaining stable operating balances.

Throughout our forecast period, we anticipate that the region will have sizable, but shrinking investment needs. The extension of the underground railway system is the largest infrastructure project in the region and will improve commuting options for residents in the greater Stockholm area. A significant share of the project's capital costs will be covered by cofinancing contributions from the central government and the municipalities in the expanded underground network. The region's strong cash flows from operations, combined with these contributions to its railway expansion project, should enable it to maintain a structurally positive balance after capital accounts in 2025-2027. In addition, the region's capital revenue will gain a temporary boost in 2025 or 2026, when it receives the projected cash inflow from the sale of a former hospital building.

We assess the region's financial flexibility as below average, based on its budgetary performance. Annual pension costs at Swedish regions are structurally higher than those at Swedish municipalities because Swedish regions handle health care costs. Thus, a higher proportion of their employees are high-income earners such as doctors. Although pension costs are noncash costs, to comply with the balanced budget requirement for Swedish LRGs, regions may be forced to limit other expenditure so that they can cover their pension obligations. We anticipate that lower inflation will cause pension costs to decrease sharply in 2025 and beyond, which will improve the region's starting position and so make it easier to balance its budget in accrual terms. Nevertheless, the region is still subject to the underlying budgetary pressure.

Noncash pension costs are also key to explaining the difference between the Region of Stockholm's reported, accrual-based deficit for 2024, and our positive, cash flow-based operating balance measure for the year. Under extraordinary circumstances, such as when pension costs are significantly higher, Sweden's Municipal Act allows regions to report negative accrual results without having to either restore full budgetary balance in the subsequent three years, or draw on their accumulated equity reserves. That said, the Region of Stockholm plans to restore a balanced, accrual-based budget in the coming years.

Given that we expect the region to maintain its strong operating cash flow and to receive sizable cofinancing contributions, we forecast that its tax-supported debt will continue to decrease to about 31% of consolidated revenue in 2027, from 37% in 2024. The downward trend will be reinforced by the gradual reduction in debt related to the Nya Karolinska Solna hospital project, a public-private partnership. Because we assess the Region of Stockholm on a consolidated basis, our tax-supported debt figure incorporates the financial liabilities of the region's subsidiaries, which include transport company AB Storstockholms Lokaltrafik, as well as financial leases.

Nevertheless, the region's exposure to further contingent liabilities as a share of consolidated revenue is limited, in our view.

We regard the region's liquidity position as very strong. It is supported by ample liquidity sources, including cash holdings and committed facilities and we estimate the weighted debt-service coverage ratio at about 166%. We forecast that the region will maintain its long-term debt maturity structure and strong liquidity position through 2027. Furthermore, the region has a strong record of maintaining its access to external financing, including bonds, commercial paper, and funding from the European Investment Bank. Overall, we consider the region's liquidity management to be sophisticated. In addition, it is fortified by the region's prudent financial policies that minimize risk.

Key Statistics

Region of Stockholm--Selected indicators

(Mil. SEK)	--Year ended Dec. 31--					
	2022	2023	2024e	2025bc	2026bc	2027bc
Operating revenue	123,048	127,960	135,352	137,200	140,717	145,074
Operating expenditure	110,244	116,186	120,898	125,232	128,407	132,191
Operating balance	12,804	11,774	14,454	11,968	12,310	12,883
Operating balance (% of operating revenue)	10.4	9.2	10.7	8.7	8.7	8.9
Capital revenue	4,969	5,702	5,009	5,959	5,857	5,880
Capital expenditure	13,028	16,785	19,106	18,337	17,433	14,551
Balance after capital accounts	4,745	691	357	(410)	734	4,212
Balance after capital accounts (% of total revenue)	3.7	0.5	0.3	(0.3)	0.5	2.8
Debt repaid	5,503	6,406	4,964	7,526	6,124	7,614
Gross borrowings	520	4,857	3,251	6,251	4,890	2,902
Balance after borrowings	(3,696)	1,397	(56)	(1,686)	(500)	(500)
Direct debt (outstanding at year-end)	54,558	52,606	50,405	48,602	46,796	41,467
Direct debt (% of operating revenue)	44	41	37	35	33	29
Tax-supported debt (outstanding at year-end)	56,497	54,698	52,547	50,958	49,388	44,318
Tax-supported debt (% of consolidated operating revenue)	45.9	42.7	38.8	37.1	35.1	30.5
Interest (% of operating revenue)	1.1	1.1	1.1	1.0	1.0	1.0
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	561,139	590,038	603,039	623,997	652,027	678,330

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. SEK--Swedish krona. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

Ratings Score Snapshot

Region of Stockholm--Ratings score snapshot

Key rating factors

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, Feb. 3, 2025

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

- Local And Regional Government Outlook 2025: Moderate Debt Accumulation In The Nordics, Jan. 16, 2025
- 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

Upgraded; Outlook Action; Ratings Affirmed

	To	From
Stockholm (Region of)		
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Positive/A-1+

Ratings Affirmed

Stockholm (Region of)		
Nordic Regional Scale		
Issuer Credit Rating	--/--/K-1	
Commercial Paper	K-1	

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