

Research Update:

Swedish Region of Skåne 'AAA' Ratings Affirmed; Outlook Stable

April 19, 2024

Overview

- We expect Skåne's operating performance will gradually improve on the back of cost-containment measures, tax-revenue growth, and government grants, after a weak 2023, affected by high inflation and post-pandemic cost pressures.
- Despite relatively high investments, Skåne's deficit after capital accounts will remain modest through 2026, containing growth of its extremely low debt burden.
- We therefore affirmed our 'AAA' rating on Skåne. The outlook is stable.

Rating Action

On April 19, 2024, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on the Region of Skåne. The outlook is stable.

Outlook

The outlook is stable because we expect Skåne will curb expenditure growth, which in combination with slower inflation and continued revenue growth, will lead to a contained deficit after capital accounts and a low debt burden.

Downside scenario

We could consider a downgrade if we saw Skåne's management displaying weaker cost control, including on capital spending, and we thought this would result in a structural deterioration of the region's budgetary performance or a materially higher debt burden.

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Rationale

The affirmation reflects our view that Skåne will take necessary actions to contain expenditure growth, which in combination with stable tax-revenue growth and central government grants, will support healthy operating performance. We forecast modest borrowing needs in the coming two years, underpinned by tougher project prioritization, alongside delays in existing and upcoming projects. Consequently, we don't envisage a material increase of Skåne's debt burden. That said, we note large investments beyond our forecast horizon, for instance related to public transportation and construction of hospitals. These could weigh on the region's performance and require additional borrowing.

Sweden's extremely supportive institutional framework supports a solid financial position

We consider the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, while the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Historically, central government has provided extensive support to the local and regional government (LRG) sector, and we expect this will continue (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

We continue to regard Skåne's managerial abilities as strong in an international comparison. Although the region is governed by a minority government (right-center), it has secured passive support in budget decisions from the Sweden democrats. We think this will facilitate stable budget processes. Like other Swedish regions, Skåne is facing substantial pressure on its accrual-based performance in 2023-2024, owing to a temporary hike in pension costs, resulting in large regulatory deficits. Skåne's performance was weaker than peers in 2023, and we expect management will take necessary actions to curb cost pressures and comply with regulatory requirements in 2025-2026.

Skåne benefits from Sweden's wealthy economy, where we estimate national GDP per capita will be close to \$60,000 in 2024. Skåne benefits from its close integration in the Swedish-Danish Oresund region, which supports its growth prospects and diversification. Although we do not reflect it negatively in our view of Skåne's economy, we note that Skåne's unemployment, at 9.1% in February 2024, is higher than the national average (6.8%).

Stable tax revenue growth, continued central government support, and reduced inflation will support recovery in performance metrics

We expect Skåne's operating performance will gradually strengthen through 2026, compared with the weaker-than-expected 2023. In addition to general cost inflation, we understand Skåne incurred higher expenditures attributable to its pandemic-related healthcare backlog. Skåne is more exposed than peers in this respect since it closed more planned activities. We expect expenditure growth will gradually fall in the coming two years on the back of cost-containment measures and lower inflation. We also forecast tax revenues will increase by a healthy 3.7% on average through 2026, and we think public-transportation-related revenues will continue to contribute positively to Skåne's performance. In addition, the Swedish central government has provided additional grants to the regions in 2024, amounting to about Swedish krona (SEK) 800 million (about €70 million) for Skåne. We have included only announced central government grants

in our forecast, although we do not rule out additional grants.

Like other Swedish regions, Skåne's budgetary flexibility is weak, in our view. This is because Skåne employs a greater share of high-income earners, leading to larger annual pension costs than the municipalities in relative terms. These pension payments crowd out other expenditures and require additional revenue to comply with the balanced budget requirement. This has become more evident in 2023-2024 when surging inflation translated into notably higher pension costs.

On the back of weaker operating performance, we forecast somewhat wider deficits after capital accounts through 2026, compared with our previous forecast. However, owing to tougher prioritizations in the project portfolio and delays, capital spending is down compared with our previous expectations. This will contain the deficit after capital accounts at modest levels. We note that Skåne has large upcoming investments beyond our forecast period related to property maintenance, major rebuilds, upgrades of its four largest hospitals, and the public transportation investments, which could push up capital spending beyond 2026.

Although we expect nominal debt will continue to increase, we forecast Skåne's debt burden will remain fairly stable in relation to revenues. In addition to Skåne's own debt, we include extended guarantees of about SEK1.2 billion in our calculation of tax-supported debt. The region's contingent liabilities, including extended commitments to public transportation, is limited. Skåne has, like other Swedish peers, a short-dated debt structure, and we expect interest expenditures will continue to rise on the back of high interest levels and new borrowings. That said, owing to its low debt burden, the impact on Skåne's financial position is limited, and we don't expect interest expenditure will exceed 1% of revenue through 2026.

We assess Skåne's liquidity position as exceptionally strong, supported by available cash and committed credit facilities covering 205% of debt service within one year. We expect the region to maintain its current debt maturity structure and keep enough credit facilities to support its liquidity position. Skåne's liquidity position is further reinforced by the region's strong track record of access to external financing, including bonds, commercial paper, and funding from multilateral institutions. In our calculation, we include SEK4.1 billion of cash and committed and undrawn facilities, close to SEK900 million of estimated borrowing needs, and SEK1.6 billion of maturing loans and interest payments over the coming 12 months.

Key Statistics

Table 1

Region of Skane--Selected indicators

	2021	2022	2023e	2024bc	2025bc	2026bc
Mil. SEK						
Operating revenues	59,293	62,818	64,727	68,528	70,783	74,018
Operating expenditures	54,237	58,032	62,699	65,190	67,040	69,459
Operating balance	5,056	4,786	2,028	3,338	3,744	4,559
Operating balance (% of operating revenues)	8.5	7.6	3.1	4.9	5.3	6.2
Capital revenues	27	6	304	82	82	82
Capital expenditures	4,636	4,409	4,725	4,738	4,834	4,758
Balance after capital accounts	447	383	(2,393)	(1,318)	(1,008)	(117)

Table 1

Region of Skane--Selected indicators (cont.)

	2021	2022	2023e	2024bc	2025bc	2026bc
Balance after capital accounts (% of total revenues)	0.8	0.6	(4)	(1.9)	(1.4)	(0.2)
Debt repaid	1,246	1,062	2,419	1,141	1,505	2,200
Gross borrowings	1,882	0	4,900	2,700	2,575	2,000
Balance after borrowings	712	(1,121)	(233)	241	62	(317)
Direct debt (outstanding at year-end)	9,380	8,817	10,800	12,360	13,430	13,230
Direct debt (% of operating revenues)	15.8	14.0	16.7	18.0	19.0	17.9
Tax-supported debt (outstanding at year-end)	10,571	9,960	11,879	13,503	14,596	14,419
Tax-supported debt (% of consolidated operating revenues)	17.8	15.9	18.4	19.7	20.6	19.5
Interest (% of operating revenues)	0.1	0.1	0.2	0.4	0.4	0.7
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	528,606	571,313	598,264	608,711	628,917	648,518

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. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Region of Skane--Ratings score snapshot

Key rating factors

Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	1
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, April 8, 2024. An interactive version is available on www.spglobal.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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., April 8, 2024
- Subnational Debt 2024: Focus on Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 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

Region of Skane

Issuer Credit Rating AAA/Stable/--

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.

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