

Research Update:

Municipality of Norrköping 'AA+/A-1+' Ratings Affirmed; Outlook Remains Stable

December 8, 2023

Overview

- The midsize Swedish Municipality of Norrköping benefits from a supportive institutional framework and resilient labor market.
- We expect Norrköping's operating performance will return to more normalized levels compared to the exceptionally strong 2021-2022 period.
- In addition, high investment needs will lead to a sustained deficit after capital accounts and gradual increase in the debt burden through to 2025.
- We therefore affirmed our 'AA+/A-1+' issuer credit ratings and 'K-1' Nordic regional scale rating on Norrköping. The outlook on the long-term issuer credit rating is stable.

Rating Action

On Dec. 8, 2023, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term issuer credit ratings on the Swedish Municipality of Norrköping. The outlook is stable. At the same time, we affirmed our 'K-1' Nordic regional scale rating on Norrköping.

Outlook

The stable outlook reflects our expectation that Norrköping will remain committed to sound financial policies, supporting a solid liquidity position and strong operating performance, despite macroeconomic headwinds.

Downside scenario

We could lower the rating if Norrköping's management is unable to mitigate pressures from demographic changes, the current economic slowdown, and high inflation, leading to a structural increase in spending and a material rise in debt beyond our base-case expectations.

PRIMARY CREDIT ANALYST

Freja L Dobreff
Stockholm
+46 84405938
freja.dobreff
@spglobal.com

SECONDARY CONTACT

Erik A Karlsson
Stockholm
+ 46(0)84405924
erik.karlsson
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Upside scenario

We could raise the rating if we see Norrköping tighten control of its operating and capital expenditure, leading to a notable reduction in the municipality's debt burden.

Rationale

The 'AA+' rating on Sweden's Municipality of Norrköping reflects our view of the extremely predictable and supportive institutional framework under which it operates. It also reflects the solid local economy, and management's commitment to a generally risk-averse financial policy. We expect the municipality's budgetary performance to remain solid through 2025, albeit weaker than in 2021-2022. In our view, inflationary pressure and demographic challenges will offset steady tax revenue growth over the forecast period. Norrköping's debt burden is set to increase moderately as it implements its extensive investment plan. That said, we acknowledge a large part of the municipality's debt is on-lent to financially strong municipal companies.

General political consensus on long-term strategies supports fiscal sustainability, while the strong local economy and robust institutional framework underpin the rating

Norrköping's local economy benefits from a diversified structure, with a large share of employers in the public sector, logistics, and administration. It is also home to the campus of one of Sweden's top universities. We believe that the ongoing construction of a new high-speed railway connecting Norrköping with the prosperous Mälardalen area will help increase demand for labor in the region. However, we acknowledge that Norrköping has weaker income and employment levels than the national average.

We view Norrköping's financial management as experienced and competent. Our overall view is that the municipality remains committed to long-term financial sustainability, which we expect will support sound operating performance and address structural demographic changes. We also expect that the municipality's prudent financial strategies will mitigate the risks arising from its expanding debt portfolio by increasing its available liquidity sources in line with its liquidity policy. Overall, we have observed a track record of consensus on long-term strategies across coalition government terms in Norrköping.

We note that Norrköping recently updated its financial guidelines to improve the long-term planning of its financial management. This comes amid an upcoming increase in capital spending related to the large high-speed railway project. The new guidelines involve a less strict and more liberal approach toward Sweden's balanced budget requirement compared to the sector in general. However, we think they somewhat reduce the predictability of Norrköping's financial results, since budgetary performance volatility could increase compared to a stricter surplus target.

We regard the institutional framework for Swedish municipalities as extremely predictable and supportive (see "Institutional Framework Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Norrköping benefits from high tax income but we project its debt burden will increase due to sizeable investment needs.

Overall, we expect continued strong tax revenue growth, coupled with cost-efficiency measures, will support Norrköping's operating performance. However, like other Swedish local and regional governments (LRGs), we forecast this will be weaker than the extraordinarily strong results over the past two years. In the next two years, we expect a greater impact from inflation on operating costs, notably personnel costs that represent about 50% of operating expenditure, following higher wage increases.

Although we expect Norrköping will post weak accrual-based net performance in 2023-2024, owing to large pension expenditure, its operating cash flow will remain strong (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023). Furthermore, Norrköping on-lends about half of its debt stock to municipal companies, and we expect the interest income that flows to the municipality from these companies servicing their own debt will mitigate higher interest costs.

The municipality is facing high investment needs to meet structural demographic challenges. As a result, we expect moderate deficits after capital accounts, averaging slightly less than 5% of revenue through 2025. Investments mainly relate to core municipal infrastructure, along with larger projects such as the development of an area around the harbor, and Norrköping's contribution to the new high-speed railway.

We forecast a steady increase in Norrköping's already relatively elevated debt through 2025, due to investment needs in the municipality and on-lending to municipal companies. The in-house bank carries out this lending and is responsible for meeting the funding and liquidity needs of the municipality and its companies. More than half of Norrköping's debt is on-lent to financially solid municipal companies, which we believe alleviates its debt burden. Furthermore, we consider the municipality's contingent liabilities to be limited, including extended guarantees to public sector funding agency Kommuninvest.

Like the rest of the Swedish LRG sector, Norrköping has a short average period of fixed-rate debt, meaning rising interest rates take effect more quickly. However, interest rates are increasing from very low levels, and we expect interest costs will not surpass a moderate 5% of revenue. The municipality is also actively managing its exposure to interest rates, for instance, by using derivatives.

Norrköping's liquidity position remains very strong, supported by ample contracted facilities, checking accounts, and financial assets. We estimate the ratio of liquidity sources to debt service costs at a solid 130%. Moreover, in line with other rated Swedish LRGs, Norrköping has a track record of reliable access to external financing, even in times of financial stress. It has a wide range of funding sources, including commercial paper and medium-term note programs, along with borrowings from Kommuninvest and the European Investment Bank.

Key Statistics

Table 1

Norrköping (Municipality of) selected indicators

Mil. SEK	2021	2022	2023bc	2024bc	2025bc
Operating revenues	11,452	11,862	12,297	12,734	13,283

Table 1

Norrköping (Municipality of) selected indicators (cont.)

Mil. SEK	2021	2022	2023bc	2024bc	2025bc
Operating expenditures	10,305	10,812	11,473	12,108	12,494
Operating balance	1,147	1,050	824	626	789
Operating balance (% of operating revenues)	10.0	8.9	6.7	4.9	5.9
Capital revenues	347	260	263	174	379
Capital expenditures	1,458	1,175	1,519	1,579	1,610
Balance after capital accounts	36	135	(431)	(779)	(442)
Balance after capital accounts (% of total revenues)	0.3	1.1	(3.4)	(6.0)	(3.2)
Debt repaid	4,251	4,575	4,300	5,050	5,500
Gross borrowings	5,521	5,101	4,647	6,384	6,451
Balance after borrowings	48	(49)	(470)	0	(0)
Direct debt (outstanding at year-end)	15,092	15,818	16,165	17,499	18,450
Direct debt (% of operating revenues)	131.8	133.4	131.5	137.4	138.9
Tax-supported debt (outstanding at year-end)	15,097	15,823	16,170	17,504	18,455
Tax-supported debt (% of consolidated operating revenues)	112.1	113.1	111.9	121.6	123.1
Interest (% of operating revenues)	1.6	2.2	2.9	3.4	4.8
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	528,606	572,067	596,359	607,603	625,921

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

Ratings Score Snapshot

Table 2

Norrköping (Municipality of) ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+

Table 2

Norrköping (Municipality of) ratings score snapshot (cont.)

Key rating factors	Scores
Issuer credit rating	AA+

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. 30, 2023.

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 Assessment: 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
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., March 22, 2023
- Most Rated Swedish LRGs Can Absorb Higher Interest Costs, Sept. 12, 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

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

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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

Norrkoping (Municipality of)

Issuer Credit Rating	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Commercial Paper	
Global scale	A-1+
Nordic scale	K-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/sourceld/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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