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Research Update:

Swedish Municipality Of Norrkoping 'AA+/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- We expect that Norrköping will maintain exceptional liquidity and adequate budgetary performance, despite increasing capital expenditure over 2016-2018.
- We expect that capital spending and the financing needs of municipal companies will lead Norrköping's debt to increase to a moderate level in 2018. Accordingly, we now assess Norrköping's debt as moderate, previously low, in line with our expectations.
- We are affirming our 'AA+/A-1+' and 'K-1' ratings on Norrköping.
- The stable outlook reflects our expectation that Norrköping will maintain a stable budgetary performance and pursue prudent debt and liquidity strategies to retain its exceptional liquidity.

Rating Action

On Sept. 9, 2016, 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.

Rationale

The ratings are supported by our assessment of the city's exceptional liquidity and very strong local economy, as well as our view of the Swedish institutional framework as extremely predictable and supportive. Norrköping's strong financial management and low contingent liabilities further underpin the ratings. These positive rating factors are balanced by Norrköping's debt burden, which we previously assessed as low and now assess as moderate, and its average budgetary flexibility and budgetary performance. The long-term rating on Norrköping is equivalent to our 'aa+' assessment of its stand-alone credit profile.

Norrköping's economy is very strong compared with that of international peers, in our view. However, owing to the comprehensive equalization system within the Swedish institutional framework--which evens out wealth among Swedish local and regional governments (LRGs)--we use the average national GDP per capita for the past three years (\$57,000) as a starting point for our analysis. Norrköping's economy is well balanced and has undergone successful restructuring, diversifying away from its industrial past. Still, owing to the migration of jobseekers and structural changes, the unemployment rate of 9.5% (as of July 2016) is greater than the 5.8% national average.

We continue to consider Norrköping's financial management as strong, and very prudent in enforcing strict budgetary discipline. We therefore expect that Norrköping's management will maintain its average budgetary performance and exceptional liquidity. Since Norrköping finances the companies it owns through the municipal treasury, its debt ratio is amplified by loans, the proceeds of which are lent to the municipal company sector, where we consider the largest borrowers to be self supporting. We view this positively in light of Norrköping's generally modest debt position. Moreover, we expect Norrköping's management to continue its conservative practice of managing its increasing loan portfolio to minimize refinancing risk. Furthermore, we consider the municipality's contingent liabilities to be low, given that its overall exposure to the municipal company sector is limited.

We consider Norrköping's budgetary flexibility to be average. The city provides mandatory labor-intensive services that cannot be rationalized without affecting the quality of these services. As a result, operating expenditures constituted 88% of Norrköping's total expenditures in 2015. Nevertheless, we believe that the municipality could boost revenues if needed, as it did in 2013, by divesting parts of its property portfolio.

The city has a track record of demonstrating adequate cost controls that keep its budgetary performance at an average level in an international context. The city is experiencing higher spending on education and elderly care, and is committed to carrying out investments, largely in education, elderly care, infrastructure, and property maintenance. As of 2016, the city decided to increase its income tax rate with Swedish krona (SEK) 0.5 (per SEK 100). We project that the city's operating surplus will increase to an average 4.3% of operating revenues in 2016-2018 versus 3.4% in 2014-2015. Moreover, we expect that investments will stay at about the same level as in 2015 for the coming period. We anticipate investments of 9.6% of total expenditures over the next few years, leading to an average deficit after capital accounts of 5.7% annually in 2016-2018, after about 6.8% in 2014-2015.

Consequently, we expect Norrköping's direct debt to increase to 121% of operating revenues by year-end 2018 from 94% at year-end 2015. In line with expectations, we therefore now assess Norrköpings debt as moderate, from previously low. We use direct debt rather than tax-supported debt to assess an LRG's debt burden if revenues from the municipal company sector distort the LRG's tax-supported debt. The proceeds of most of Norrköping's debt is lent to self-supporting housing and water companies. We view this strategy positively when assessing Norrköping's overall debt position.

Liquidity

We continue to regard Norrköping's liquidity as exceptional. We base this view on the city's strong debt service coverage, with available cash and available committed bank lines representing about 127% of debt maturing within one year, and Norrköping's strong access to the capital market.

In calculating Norrköping's debt-service coverage ratio, we take into account its committed bank lines and availability on its checking accounts of SEK4.12 billion (about €0.4 billion), as well as SEK2.9 billion in liquid bonds and equities, which we then apply certain haircuts on as described in our criteria. Furthermore, the municipality has loan agreements with the European Investment Bank (EIB) with currently SEK0.7 billion available. We include as a liquidity source part of the available amount under the EIB loans, taking into account that the EIB program extends beyond one year.

Outlook

The stable outlook reflects our expectation that Norrköping will maintain sound budgetary performance, despite rising social costs and ongoing capital investments. In our base case, we expect that the municipality's liquidity will remain exceptional in 2016-2018, with liquidity coverage exceeding 120% of debt maturing in the following 12 months.

We could consider raising the ratings if we see a sustainable improvement in Norrköping's budgetary performance, resulting in operating balances staying higher than 5% of operating revenues, a stabilization of direct debt, further formalization of risk management, and a track record of conservative debt and liquidity management.

The ratings could come under pressure in 2016-2018 if Norrköping's management proved less strong than we currently expect and the city's budgetary performance were weaker than our base-case expectations for 2016-2018, leading us to regard its liquidity as strong rather than exceptional.

Key Statistics

Table 1

Municipality of Norrköping Financial Statistics

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Operating revenues	8,189	8,684	9,145	9,520	9,833
Operating expenditures	8,007	8,286	8,794	9,102	9,383
Operating balance	182	398	351	418	450
Operating balance (% of operating revenues)	2.2	4.6	3.8	4.4	4.6
Capital revenues	178	60	20	20	20
Capital expenditures	891	1,092	895	1,048	948
Balance after capital accounts	(531)	(634)	(524)	(610)	(478)
Balance after capital accounts (% of total revenues)	(6.3)	(7.3)	(5.7)	(6.4)	(4.8)
Debt repaid	2,877	2,497	4,002	4,350	3,950
Net budget loans	(299)	(315)	(503)	(932)	(791)
Balance after debt repayment and onlending	(3,707)	(3,446)	(5,029)	(5,891)	(5,219)

Table 1

Municipality of Norrköping Financial Statistics (cont.)					
(Mil. SEK)	--Fiscal year end Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Balance after debt repayment and onlending (% of total revenues)	(44.3)	(39.4)	(54.9)	(61.7)	(53.0)
Gross borrowings	3,706	3,551	4,924	5,891	5,219
Balance after borrowings	(1)	105	(105)	0	0
Operating revenue growth (%)	2.1	6.0	5.3	4.1	3.3
Operating expenditure growth (%)	4.3	3.5	6.1	3.5	3.1
Modifiable revenues (% of operating revenues)	69.0	68.1	69.2	68.8	69.2
Capital expenditures (% of total expenditures)	10.0	11.6	9.2	10.3	9.2
Direct debt (outstanding at year-end)	7,148	8,202	9,124	10,666	11,935
Direct debt (% of operating revenues)	87.3	94.4	99.8	112.0	121.4
Tax-supported debt (% of consolidated operating revenues)	75.9	82.0	87.0	97.9	106.2
Interest (% of operating revenues)	4.0	3.0	3.2	3.4	3.5
Debt service (% of operating revenues)	39.1	31.7	47.0	49.1	43.6

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Table 2

Municipality of Norrköping Economic Statistics					
	--Fiscal year end Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Population	135,283	137,035	138,900	141,400	144,200
Population growth (%)	1.2	1.3	1.4	1.8	2.0
Unemployment rate (%)	9.9	9.7	9.5	N/A	N/A

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. Sources typically include national statistical offices, Eurostat, and Experian Limited.

Ratings Score Snapshot

Table 3

Municipality of Norrköping Ratings Score Snapshot

Key rating factors

Institutional framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Average
Budgetary performance	Average
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Low

*Standard & Poor's ratings on local and regional governments (LRGs) are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the foreign currency rating on an LRG.

Key Sovereign Statistics

Kingdom of Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 2, 2016

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Sovereign Risk Indicators - July 6, 2016. An interactive version is available at www.spratings.com/sri
- Default, Transition, and Recovery: 2014 Annual International Public Finance Default Study And Rating Transitions - June 8, 2015
- Swedish Local And Regional Government Risk Indicators: May 2015, May 28, 2015
- Sweden's New Equalization System Will Hurt Some LRGs' Finances But Not Their Credit Quality, Feb. 9, 2015

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

	Rating	
	To	From
Norrköping (Municipality of)		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1
Senior Unsecured		
Foreign and Local Currency	AA+	AA+
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+
Nordic Regional Scale	K-1	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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support

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