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Research Update:

Swedish Municipality Of Norrköping '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 expenditures over 2017-2019.
- We expect that the municipality's and its municipal companies' capital spending and financing needs will put Norrköping's direct debt on an increasing trajectory.
- 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 policies.

Rating Action

On Sept. 8, 2017, 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, S&P Global Ratings affirmed its 'K-1' Nordic regional scale rating on Norrköping.

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 2017-2019, with liquidity coverage exceeding 120% of debt maturing in the following 12 months.

Downside Scenario

We could consider a negative rating action in 2017-2019, if Norrköping's financial management were weaker than we currently expect and its budgetary performance were below our base-case forecasts for the period, and we expected this would lead to a deterioration in the city's liquidity.

Upside Scenario

We could consider raising our rating if we saw 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.

Rationale

The affirmation reflects our opinion that Norrköping will show operating balances of 4.5% on average over 2017-2019, as a result of strict budgetary discipline. However, the municipality's population will continue to grow, at an estimated pace of 1.6% on average over 2017-2019 compared with the national average of 1.3%, resulting in increasing investments needs of about Swedish krona (SEK) 1 billion (€110 million) a year on average to accommodate the increasing volumes. We expect that this will lead to yearly financing needs after capital expenditures of 5.8% of total revenues on average. Similarly, the municipality requires investments in the construction of housing units and water and sewage infrastructures, which we believe it will meet by onlending about SEK800 million annually on average to its company sector. We expect that the financing needs of Norrköping and its company sector will put the municipality's direct debt on an upward trajectory.

Norrköping benefits from the stability of the Swedish institutional framework and strong financial management

Norrköping's economy is 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 (\$54,000) 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 2017) is greater than the 5.7% national average. We consider Sweden's extremely predictable and supportive institutional framework for LRGs to be a key support of our ratings on Norrköping. In our view, the Swedish LRG system shows a high degree of institutional stability, and the LRG sector's revenue and expenditure management is based on the far-reaching equalization system and autonomy in setting local taxes.

We view Norrköping's financial management as strong, given that it has shown the ability to maintain strict budgetary discipline. We also consider that Norrköping's financial management has prudent and risk-averse liquidity management practices, which we expect will enable the city to maintain its exceptional liquidity over our forecast horizon through year-end 2019.

We believe that Norrköping's operating balances will return to about 4.5% of operating revenues on average over 2017-2019, despite a somewhat stronger performance in 2016 that was due to some one-off extraordinary revenues and delays executing some budgeted expenditures. We anticipate that Norrköping's capital expenditures will remain at about SEK1 billion annually on average over the coming years to accommodate the fast-growing population. By our estimate, the municipality's yearly financing needs after investments will stand at 5.7% of operating revenues on average over 2017-2019.

We expect that Norrköping's debt position will increase over 2017-2019 due to the funding needs of the municipality and its company sector. More than one-half of Norrköping's debt consists of debt that it lends on to its company sector, primarily to its housing and water companies. We believe both companies are self-supporting,

which in our view mitigates the risk arising from debt onlent to them. We forecast that Norrköping's direct debt will stand at 125% of adjusted operating revenues at year-end 2019. Moreover, we expect Norrköping's management to continue its conservative practice of managing the increasing loan portfolio to minimize refinancing risk.

We consider Norrköping's budgetary flexibility to be average. The city provides mandatory labor-intensive services that cannot be streamlined without affecting the quality of these services. As a result, operating expenditures constituted 91% of Norrköping's total expenditures in 2016. Nevertheless, we believe that the municipality has the ability to boost revenues if needed, as it did in 2013, by divesting parts of its property portfolio.

We consider the municipality's contingent liabilities to be low. Although Norrköping's company sector is relatively large, the city's overall exposure to the sector is limited.

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 140% of debt service within one year. Furthermore, we consider that Norrköping has strong access to the capital market, which we think is positive for overall liquidity.

In calculating Norrköping's debt-service coverage ratio, we take into account its committed bank lines and availability on its checking accounts of SEK4.1 billion, as well as SEK3.4 billion in cash, liquid bonds, and equities, to which we then apply certain haircuts as described in our criteria (see "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," published Oct. 15, 2009, on RatingsDirect). Furthermore, the municipality has loan agreements with the European Investment Bank (EIB), with SEK0.7 billion currently 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.

Key Statistics

Table 1

Municipality of Norrköping Financial Statistics

	--Fiscal year ending Dec. 31--					
(Mil. SEK)	2014	2015	2016	2017bc	2018bc	2019bc
Operating revenues	8,189	8,684	9,711	9,810	10,152	10,468
Operating expenditures	8,007	8,286	9,183	9,362	9,701	10,005
Operating balance	182	398	528	448	451	463
Operating balance (% of operating revenues)	2.2	4.6	5.4	4.6	4.4	4.4
Capital revenues	178	60	164	20	20	20
Capital expenditures	891	1,092	897	1,062	1,035	1,053

Table 1

Municipality of Norrköping Financial Statistics (cont.)						
	--Fiscal year ending Dec. 31--					
(Mil. SEK)	2014	2015	2016	2017bc	2018bc	2019bc
Balance after capital accounts	(531)	(634)	(205)	(594)	(564)	(570)
Balance after capital accounts (% of total revenues)	(6.3)	(7.3)	(2.1)	(6.0)	(5.5)	(5.4)
Debt repaid	2,877	2,497	4,006	4,054	4,250	3,950
Gross borrowings	3,706	3,551	4,724	5,428	5,639	5,338
Balance after borrowings	(1)	105	(106)	0	0	0
Modifiable revenues (% of operating revenues)	69.0	68.1	64.9	67.5	67.4	67.6
Capital expenditures (% of total expenditures)	10.0	11.6	8.9	10.2	9.6	9.5
Direct debt (outstanding at year-end)	7,148	8,202	8,920	10,295	11,684	13,072
Direct debt (% of operating revenues)	87.3	94.4	91.9	104.9	115.1	124.9
Tax-supported debt (outstanding at year-end)	7,158	8,212	8,926	10,301	11,690	13,078
Tax-supported debt (% of consolidated operating revenues)	75.9	82.0	78.9	90.2	99.2	108.0
Interest (% of operating revenues)	4.0	3.0	3.1	3.3	3.4	3.5
Local GDP per capita (SEK)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	408,180	428,947	444,134	458,621	473,105	487,085

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

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

*S&P Global Ratings bases its ratings on local and regional governments on the eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

Kingdom of Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 1, 2017

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14, 2017
- 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, 2017. An interactive version is available at www.spratings.com/sri
- Default, Transition, and Recovery: 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 8, 2017

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

Research Update: Swedish Municipality Of Norrköping 'AA+/A-1+' Ratings Affirmed; Outlook Stable

	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 Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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