

Region of Vastra Gotaland

September 30, 2024

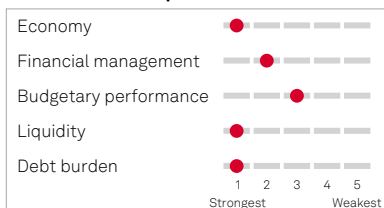
This report does not constitute a rating action.

Ratings Score Snapshot

Institutional framework

Extremely predictable and supportive
Very predictable and well-balanced
Evolving but balanced
Evolving but unbalanced
Volatile and unbalanced
Very volatile and underfunded

Individual credit profile



Issuer credit rating

AAA/Stable/A-1+
National scale rating
--/--/K-1

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Credit Highlights

Overview

Credit context and assumptions

Sweden's extremely predictable and supportive institutional framework underpins the ratings on The Swedish Region of Vastra Gotaland (Västra Götaland).

The strong regional economy should support solid tax revenue growth through 2026.

In our view, the management team can maintain a very strong liquidity position.

Base-case expectations

Demographic shifts and higher pension costs will result in somewhat weaker, albeit still sound, operating surpluses after an extraordinarily strong performance in 2022-2023.

Västra Götaland's debt should stay low on the back of historically accumulated budgetary surpluses.

The region is likely to have exceptionally high holdings of cash and liquid asset at about Swedish krona (SEK)16 billion, representing about 2x direct debt.

The 'AAA' rating on Västra Götaland reflects our view of the high predictability and supportiveness of Sweden's institutional framework.

It also reflects the region's wealthy local economy and its conservative debt and liquidity management, which result in its very low debt and outstanding liquidity coverage.

We expect the region's budgetary performance will remain solid through to 2026, albeit weaker than in 2022-2023.

This includes steady tax revenue growth that will counteract inflationary cost pressures over the forecast period. However, rising and rigid expenditure, linked to demographic shifts toward a lower share of working age (20-64 years old) population and higher pension costs, constrains the region's budgetary flexibility.

Outlook

The stable outlook indicates that we expect Västra Götaland will counteract budgetary pressure stemming from inflation and rising health care costs associated with demographic changes. This will enable the region to keep debt low while maintaining exceptional liquidity amid sizable capital investments.

Downside scenario

We could lower the rating on Västra Götaland if we observed a structural weakening of the region's financial policy, leading to widening deficits after capital accounts or failure to comply with regulatory requirements, potentially caused by a rapid increase in expenditure.

Upside scenario

Given the rating is 'AAA', the highest rating we assign, there is no scenario in which we would raise the rating or assign a positive outlook.

Rationale

We expect management will remain committed to prudent debt and liquidity policies, while the strong local economy and Sweden's robust institutional framework will continue to underpin the rating

We consider the region's financial management as strong and there is political consensus on broad operating matters. Therefore, we view it as unlikely that fiscal risks would emerge from Västra Götaland's ruling coalition. We believe the region will continue to exercise prudent debt and liquidity management and stay committed to budgetary discipline, even though capital spending needs remain high.

The region benefits from Sweden's very strong economic fundamentals. Households across the region enjoy relatively strong net worth, translating into stable tax revenue. In addition, the region's significant automotive industry is investing, among other things, in the conversion to electric vehicles.

We regard the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the local and regional government (LRG) sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the LRG sector, supports our view. Although demographic challenges persist, and we expect the LRG sector's budgetary performance to weaken as extraordinary support is phased out, we see limited risk of a material deterioration in Västra Götaland's finances.

Solid tax revenue developments will act as a counter to cost pressure stemming from demographic changes, while exceptional liquidity holdings and low debt are key rating strengths

The regional economy continues to expand and support tax revenue growth. We forecast that Västra Götaland's tax revenue will remain robust in nominal terms over the coming years, and that tax revenue growth should rebound in line with the general economy from 2025 after

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slower growth this year. Although lingering inflationary pressure, for instance on personnel costs, which make up nearly 45% of adjusted operating expenditure following higher wage agreements, will affect expenditure, we believe Västra Götaland is well placed to maintain its operating surplus of 6.5% of operating revenue on average for 2024-2026. Pension-related expenditure constitutes an increased portion of the region's budget, however, which can crowd out other expenditure, hampering the region's budgetary flexibility.

We project capital expenditure (capex) will remain elevated and that Västra Götaland will have small deficits after capex on average. The region's investments are largely aimed at property maintenance, upgrading hospital buildings and equipment, and large public transport projects through Västtrafik. We expect that annual investment will be facilitated by still strong cash flow, limiting borrowing needs in our base-case projections.

Västra Götaland has limited volumes of debt. It mainly finances its investments via cash flow from operations, supplemented occasionally by taking up debt or using its liquid assets. Therefore, we anticipate the debt burden will remain very low, with tax-supported debt reaching a modest 10% of operating revenue through 2026. We expect Västra Götaland will raise most of its external financing through the Public Sector Funding Agency Kommuninvest i Sverige AB (Kommuninvest; AAA/Stable/A-1+). We consider Västra Götaland's contingent liabilities as limited, including those that are associated with its joint and several guarantee to Kommuninvest.

We view Västra Götaland's liquidity as a key rating strength. After applying haircuts, we include in our assessment liquid assets of SEK16 billion. Although part of this liquidity portfolio is earmarked for pension payments, we believe these assets would be available for debt service if needed. We therefore include these assets in our liquidity analysis. Additional liquidity is available through a SEK750 million checking account. Västra Götaland's debt maturities are covered by the region's cash and liquid assets by a comfortable 850%, and we note the region's strong access to markets.

Region of Vastra Gotaland Selected Indicators

Mil. SEK	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	77,979	80,588	82,712	85,427	88,052	90,717
Operating expenditure	69,918	72,108	76,396	80,210	82,413	84,339
Operating balance	8,061	8,480	6,316	5,218	5,639	6,378
Operating balance (% of operating revenue)	10.3	10.5	7.6	6.1	6.4	7.0
Capital revenue	143	142	128	60	60	60
Capital expenditure	5,374	5,014	5,575	5,875	6,814	8,019
Balance after capital accounts	2,830	3,608	869	(597)	(1,115)	(1,581)
Balance after capital accounts (% of total revenue)	3.6	4.5	1.1	(0.7)	(1.3)	(1.7)
Debt repaid	70	1,700	1,732	2,695	1,380	765
Gross borrowings	4,810	3,067	386	2,871	2,495	2,096
Balance after borrowings	2,565	2,427	(560)	(421)	(0)	(250)
Direct debt (outstanding at year-end)	6,051	7,418	6,072	6,248	7,363	8,694
Direct debt (% of operating revenue)	7.8	9.2	7.3	7.3	8.4	9.6

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Region of Vastra Gotaland Selected Indicators

Tax-supported debt (outstanding at year-end)	6,131	7,495	6,151	6,327	7,442	8,773
Tax-supported debt (% of consolidated operating revenue)	7.9	9.3	7.4	7.4	8.5	9.7
Interest (% of operating revenue)	0.0	0.1	0.1	0.2	0.2	0.2
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	61,390.2	55,480.1	55,592.0	59,566.2	62,377.3	66,230.8

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. \$--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
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, July 8, 2024. An interactive version is available at <http://www.spratings.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: 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 Assessments For Local And Regional Governments Outside Of The U.S., Sept. 18, 2024
- Kommuninvest i Sverige AB, Dec. 13, 2023
- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023
- Local And Regional Governments' Positive Momentum Is Losing Steam, June 29, 2023
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Institutional Framework Assessment: Swedish Municipalities And Counties, Dec. 13, 2021

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 Detail (as of September 20, 2024)*

Vastra Gotaland (Region of)

Issuer Credit Rating	AAA/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Nordic Regional Scale</i>	K-1

Issuer Credit Ratings History

22-Nov-2010	AAA/Stable/A-1+
20-Sep-2010	AA+/Watch Pos/A-1+
07-Nov-2007	AA+/Stable/A-1+
06-Feb-2004	<i>Nordic Regional Scale</i> --/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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