

Research Update:

Swedish Municipality of Östersund 'AA+/A-1+' And 'K-1' Ratings Affirmed; Outlook Negative

April 11, 2025

Overview

- Östersund's financial management has heavily cut its capital spending (capex) plan to reduce debt accumulation.
- We continue to expect sizable deficits in coming years and that the revised plans present some uncertainty owing to the capex needs.
- We view positively Östersund's ambition to reduce debt accumulation.
- We therefore affirmed our 'AA+/A-1+' and 'K-1' ratings on Östersund and maintained the negative outlook.

Rating Action

On April 11, 2025, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the Swedish Municipality of Östersund. The outlook is negative.

At the same time, we affirmed our 'K-1' short-term Nordic regional scale rating on the municipality.

Outlook

The negative outlook reflects the risk that we could lower the rating over the coming 18 months if Östersund's management is unable to contain capital spending (capex) in line with its revised plans, leading to wider deficits and further debt accumulation.

Downside scenario

We could lower the rating if Östersund's investments grow more than planned or if the management changes its financial plans toward increased expenditure, for instance through underestimated maintenance spending and or cost inflation impacting infrastructure projects. This could lead to higher debt levels than our current forecast and may indicate deficiencies in

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planning processes and cost management.

Upside scenario

We could revise the outlook to stable if Östersund's management successfully carries out its reduced capex plans, limiting deficits to 5% of operating revenue on a structural basis. This could be the case if Östersund were able to successfully carry out lower capital spending and if it contains expenditure growth in the coming years and that leads to stronger operating performance.

Rationale

We expect Östersund's capex will remain at historically high levels and cause the municipality to generate sizable deficits through 2027, despite reduced capex plans. Östersund has some larger capex projects ongoing, for instance a new water treatment plan and local infrastructure. We think these projects and the volatility in capex plans add uncertainty to just how large the deficits will be in coming years. From 2025, we believe improved economic development and lower inflation will help Östersund's management to gradually strengthen its operating balance as wage growth picks up. We believe management will remain committed to its financial policies and try to contain deficits and reduce growth in debt.

An extremely supportive and institutional framework and strong local economy continue to support our rating on Östersund

We consider the institutional framework for local and regional governments (LRGs) in Sweden extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Historically, the central government has provided extensive support to the LRG sector, for example through additional grants distributed in response to the pandemic or more recently to cover rising pension costs (for more information, see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Östersund is a well-managed and stable municipality with a relatively stable population and low unemployment. There is a positive trend of employers in the region relocating operations to the city, although population growth has slowed due to lower immigration and birth rates. Östersund is governed by a majority collaboration between the Social Democrats and the Center Party, which will have to adapt to changing population growth and the consequential shift in demand on welfare services. Revised capex plans might indicate a willingness to adapt to slower population growth, but management will still be challenged by growing debt accumulation. The accumulation of debt and concentration of capex needs that will pressure finances in the coming years could indicate weakness in the long-term planning process, which correlates with slower population growth. We think that management will aim to contain pressure and remain committed to fiscal discipline. We also expect that Östersund's management will continue to use prudent debt and liquidity practices as the municipal group's debt stock is growing.

Östersund's economy is supported by Sweden's comparably high wealth levels, as seen in our estimated 2025 GDP per capita of \$62,700. We expect population growth for the municipality, roughly in line with the national average, from about 65,000 in 2024. The local economy is diversified with a wide range of small and midsize enterprises in various industries. Being the

largest city in the region, Östersund benefits from centralization of jobs, leading to unemployment at 4.9% as of March 2025, which is better than the national average.

Deficits could remain sizable following reduced capex plans

Strong economic development and lower inflation will help Östersund achieve a gradually improving operating balance in coming years. Since revenue growth is linked mainly to development in wages, we see strong potential for growth in the coming years as wages are expected to grow in real terms to recover some of the lost purchasing power during recent years' high inflation. With operating performance normalizing at strong levels, Östersund's ability to contain deficits after capital accounts is strengthening. However, we believe that capex will remain high and mount through 2027 due to investments in local infrastructure, such as a new water treatment plant, although at a slower pace than we previously expected.

Debt accumulation in Östersund has historically been mainly a reflection of capex carried out by its government-related entities (GREs), with about 70% of debt being lent on to Jämtkraft as of year-end 2024. Capex related to local infrastructure--for instance in water and waste infrastructure--will increase to levels approaching Swedish krona (SEK) 1 billion annually through 2027. This is slightly lower than we previously expected thanks to the management reducing planned capex considerably. Among Östersund's GREs, we expect energy company Jämtkraft will have moderate borrowing needs through 2027, requiring debt funding of about SEK400 million annually. Consequently, we expect Östersund's debt will notably increase in the coming years and reach 160% of operating revenue by 2027, compared with our previous forecast where we expected the debt ratio to reach 165% by the end of 2026.

Like most other Swedish LRGs, the profile of Östersund's debt is short dated from an international perspective, which has pushed up average interest rates for the debt stock. Despite a continued growth in debt stock, we think interest expenditure as a share of revenue peaked at 4.6% in 2024, and now we anticipate a smooth decrease as lower interest rates and stronger revenue growth help contain the share spent on interest. The debt is, however, mainly serviced by Östersund's GREs, given that about 85% (or SEK8 billion) of the debt stock was lent on to these companies as of the end of 2024. Östersund charges a margin fee on this debt and, as a result, the impact on Östersund's operating balance from rising interest expense is limited. We continue to consider the municipality's contingent liabilities as limited because they constitute only small amounts of extended guarantees.

We regard Östersund's liquidity as exceptionally strong, stemming from an ample amount of liquidity sources, covering 149% of average annual debt service, and our view of its strong access to external capital. We note that Östersund has structurally increased its liquidity sources over the past year, and we expect the coverage ratio will remain solid. In our liquidity calculation, we include SEK4.1 billion in cash, financial assets, and back-up facilities. We also include an average of SEK2.3 billion of maturing debt and interest.

Key Statistics

Table 1

Municipality of Östersund--Selected indicators

	--Fiscal year end Dec. 31--					
	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenues	5,833	6,926	6,812	6,955	7,218	7,408

Table 1

Municipality of Ostersund--Selected indicators (cont.)

	--Fiscal year end Dec. 31--					
	2022	2023	2024	2025bc	2026bc	2027bc
Operating expenditures	5,330	5,953	6,221	6,475	6,670	6,869
Operating balance	503	973	591	480	548	539
Operating balance (% of operating revenues)	8.6	14.0	8.7	6.9	7.6	7.3
Capital revenues	19	24	55	45	58	29
Capital expenditures	1,161	872	742	905	979	1,036
Balance after capital accounts	(639)	126	(96)	(379)	(373)	(468)
Balance after capital accounts (% of total revenues)	(10.9)	1.8	(1.4)	(5.4)	(5.1)	(6.3)
Debt repaid	1,900	1,700	2,375	2,300	2,900	3,450
Gross borrowings	3,120	3,350	3,625	3,300	3,850	4,100
Balance after borrowings	(26)	(165)	(114)	21	(48)	7
Direct debt (outstanding at year-end)	6,445	8,095	9,345	10,345	11,295	11,945
Direct debt (% of operating revenues)	110.5	116.9	137.2	148.7	156.5	161.2
Tax-supported debt (outstanding at year-end)	6,635	8,282	9,526	10,536	11,485	12,135
Tax-supported debt (% of consolidated operating revenues)	40.6	51.6	63.8	68.1	71.2	73.4
Interest (% of operating revenues)	1.3	4.1	4.6	4.5	4.5	4.4
National GDP per capita (single units)	561,139	590,421	611,039	632,276	660,677	687,329

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.

Ratings Score Snapshot

Table 2

Municipality of Ostersund--Ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	4

Table 2

Municipality of Ostersund--Ratings score snapshot (cont.)

Key rating factors	Scores
Stand-alone credit profile	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

- Sovereign Risk Indicators, Dec. 9, 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., March 4, 2025
- Nordic Public Finance Credit Outlook 2024: A Mixed Picture, May 16, 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
- 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

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

Municipality of Ostersund	
Issuer Credit Rating	AA+/Negative/A-1+
Nordic Regional Scale	--/--/K-1

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