S&P Global
Ratings

RatingsDirect®

Region of Skane

April 21, 2025

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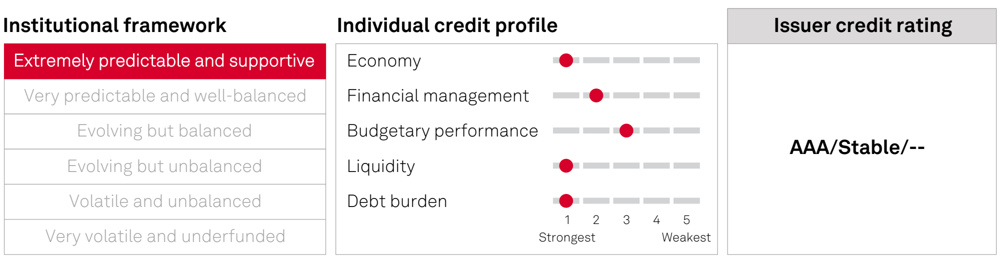
This report does not constitute a rating action.

Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Sweden's extremely predictable and supportive institutional framework underpins the rating on Skane.	After weaker results in 2023-2024, we expect budgetary performance to improve through 2027 on solid tax revenue growth and less inflationary cost pressure.
Lower pension costs should allow Skane to reach a balanced budget and eventually comply with its 2% surplus target.	Strong cash flows and decreasing investments should lead to a gradual decrease in Skane's relative debt burden.
	We expect management will remain committed to robust liquidity and debt management.

The Region of Skane's operating performance is set to strengthen. S&P Global Ratings forecasts Skane will generate stronger cash flow through 2027 with solid tax revenue growth and lower inflation. Management's commitment to curb expenditure growth should also support this trajectory.

Skane's debt burden should remain contained. Owing to strong cash generation and diminishing capital expenditure, we expect tax-supported debt as a percentage of consolidated revenue will decrease through 2027.

Outlook

The outlook is stable because we expect Skane will curb expenditure growth, which, along with lower inflation and continued revenue growth, will lead to contained deficits after capital accounts and a low debt burden.

Downside scenario

We could consider a downgrade if the region's management displayed weaker expenditure control, both operating and capital, and we thought this would result in a structural deterioration of budgetary performance or a materially higher debt burden.

Rationale

Sweden's extremely supportive institutional framework supports the region's credit quality

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

We continue to regard Skane's financial management as strong in an international comparison. Although the region is governed by a minority government (right-center), it has secured support in budget decisions from the Sweden democrats, underpinning a stable political landscape with consensus on key priorities and financial strategies. The health care sector in Sweden is and has been under pressure for some time, and most regions have struggled to contain costs. On top of this, in 2023 and 2024, regions experienced a substantial uptick in pension costs, which were the main explanation for Skane's sizable accrual-based deficits. The region is working actively to limit expenditure growth, recently introducing to this end. We expect management will continue implementing efficiency measures to comply with the stipulated 2% surplus target. Moreover, Skane has a sound and well-functioning debt and liquidity management, demonstrated by an exceptional debt service coverage ratio.

The regional economy benefits from its close integration in the Swedish-Danish Oresund region, which supports growth prospects and diversification. At the same time, Skane benefits from Sweden's robust economic fundamentals, demonstrated by our projection of GDP per capita at about $60,100 in 2025. Nevertheless, although we do not reflect it negatively in our view of the region's economy, unemployment is higher than the national average.

Robust tax revenue growth, continued central government support, and reduced inflation should support the recovery in Skane's budgetary performance

We expect Skane's operating performance will gradually strengthen through 2027, after weaker results in 2023-2024. This will be supported by robust tax revenue growth, and lower inflation, and management's continued commitment to curb expenditure growth. In addition to general cost inflation, we understand Skane has incurred higher expenditure attributable to its pandemic-related health care backlog. At the same time, in 2024, tax revenue growth was below the historical average. In accrual terms, the bottom-line results in both years were also heavily affected by higher pension costs; from 2022-2024, these increased 177%. Consequently, the region reported a deficit in its income statement, but since a sizeable share of pension costs are noncash, the operating balance was 4.5% of revenue in 2024.

Given stronger operating performance and decreasing capital expenditure, we forecast improving balances after capital accounts through 2027. In recent times, the region has made tougher prioritizations in the project portfolio to contain capital spending. Still, Skane has large upcoming investments beyond our forecast period related to property maintenance, hospital upgrades, and public transportation, which could increase capital spending toward the end of the decade.

We assess the region's budgetary flexibility as below average. Annual pension costs at Swedish regions are structurally higher than those at Swedish municipalities because the regions have a higher proportion of high-income earners such as doctors. To comply with the balanced budget requirement for Swedish LRGs, regions could be forced to limit other expenditure to cover pension obligations. Although pension costs will decrease sharply in 2025 due to lower inflation, the underlying budgetary pressure remains.

Noncash pension costs are also key in explaining the difference between the region’s reported, accrual-based deficit for 2024, and our positive, cash flow-based operating balance measure for the year. Under extraordinary circumstances, such as when pension costs are significantly higher, Sweden's Municipal Act allows regions to report negative accrual results without having to either restore full budgetary balance in the subsequent three years. Nevertheless, Skane’s ambition is to report healthy surpluses to make up for the accrued deficits.

Given strong cash flow and gradually lower investments, we expect the region's relative debt burden will decrease through 2027 with tax-supported debt decreasing to 17.8% of consolidated operating revenue from 19.6%. In addition to Skane's own debt, we include extended guarantees of about Swedish krona 1 billion in our calculation of tax-supported debt. Moreover, the region's contingent liabilities, including extended commitments to public transportation, is limited. Skane has, like its Swedish peers, a short-dated debt structure, and we expect nominal interest expenditure will continue to rise, although the interest rate on new borrowings could come down through 2027. Still, owing to its low debt burden, the impact on the region's financial position is limited, and we don't expect interest expenditure will exceed 1% of operating revenue through 2027.

We assess Skane's liquidity position as exceptionally strong, supported by ample cash buffers and committed credit facilities and we estimate the weighted debt-service coverage ratio at about 424%. As part of a banking agreement that took effect early 2025, the region increased the available amount of liquidity sources, counterbalancing the effect of gradually increasing debt maturities through 2027. We expect Skane to maintain its current debt maturity structure and keep enough credit facilities to support its healthy liquidity position. Further reinforcing the position is the region's strong track record of access to external financing, including bonds, commercial paper, and funding from multilateral institutions, even in times of economic stress.

Region of Skane Selected Indicators

Mil. SEK	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	62,818	64,727	68,017	69,912	72,451	75,375
Operating expenditure	58,032	62,699	64,940	66,040	68,383	70,312

Region of Skane Selected Indicators

Operating balance	4,786	2,028	3,077	3,872	4,068	5,063
Operating balance (% of operating revenue)	7.6	3.1	4.5	5.5	5.6	6.7
Capital revenue	6	304	8	3	3	3
Capital expenditure	4,409	4,725	4,263	4,985	4,620	4,422
Balance after capital accounts	383	(2,393)	(1,178)	(1,110)	(548)	644
Balance after capital accounts (% of total revenue)	0.6	(3.7)	(1.7)	(1.6)	(0.8)	0.9
Debt repaid	1,062	2,419	1,139	1,139	1,202	1,900
Gross borrowings	0	4,900	2,656	1,119	1,750	1,256
Balance after borrowings	(1,121)	(233)	1,365	(1,130)	0	0
Direct debt (outstanding at year-end)	8,817	10,800	12,317	12,297	12,846	12,202
Direct debt (% of operating revenue)	14.0	16.7	18.1	17.6	17.7	16.2
Tax-supported debt (outstanding at year-end)	9,960	11,878	13,338	13,440	14,011	13,391
Tax-supported debt (% of consolidated operating revenue)	15.9	18.4	19.6	19.2	19.3	17.8
Interest (% of operating revenue)	0.1	0.3	0.4	0.4	0.4	0.5
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	55,480.1	55,646.7	57,821.7	60,131.1	66,399.7	69,779.6

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. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. SEK--Swedish krona. $--U.S. dollar.

Region of Skane 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, April 10, 2025. An interactive version is available on www.spglobal.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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., April 8, 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
- 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

Ratings Detail (as of April 15, 2025)*

Skane (Region of)	
Issuer Credit Rating	AAA/Stable/--
Issuer Credit Ratings History	
21-Apr-2023	AAA/Stable/--
22-Oct-2021	AA+/Positive/--
02-Nov-2015	AA+/Stable/--

*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.