

RatingsDirect®

Research Update:

Swedish Municipality of Jönköping Assigned 'AA+/A-1+' Ratings, Outlook Stable; 'K-1' National Scale Rating

Primary Credit Analyst:

Gabriel Forss, Stockholm (46) 8-440-5933; gabriel.forss@standardandpoors.com

Secondary Contact:

Carl Nynerod, Stockholm (46) 8-440-5919; carl.nynerod@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Swedish Municipality of Jönköping Assigned 'AA+/A-1+' Ratings, Outlook Stable; 'K-1' National Scale Rating

Overview

- The Swedish Municipality of Jönköping has a strong local economy and robust budgetary performance, and benefits from Sweden's predictable and supportive local and regional government system.
- We are assigning our 'AA+/A-1+' long- and short-term ratings and 'K-1' Nordic national scale rating to Jönköping.
- The stable outlook reflects our view that Jönköping will maintain sound budgetary performance and adequate liquidity supported by strong access to external financing.

Rating Action

On June 14, 2013, Standard & Poor's Ratings Services assigned its 'AA+' long-term and 'A-1+' short-term issuer credit ratings to the Swedish Municipality of Jönköping. The outlook is stable. At the same time, we assigned our 'K-1' Nordic national scale rating.

Rationale

The ratings reflect our view of Sweden's predictable and supportive local and regional government (LRG) system and the municipality's strong local economy and robust budgetary performance. The ratings also incorporate our assessment of Jönköping's "neutral" liquidity position and average budgetary flexibility.

In our view, the Swedish LRG system has a high degree of institutional stability. The LRG sector's revenue and expenditure management is based on a far-reaching equalization system and autonomy in setting local taxes.

Jönköping's local economy is well balanced and exhibits a diverse industry structure with an employment profile focused on logistics and trade. In terms of economic activity and wealth, we calculate the city's annual GDP per capita at a strong \$47,000. Moreover, we assess the city's employment structure as robust with no large concentrations on key employers or industries sensitive to swings in the economic cycle. In April 2013, the municipality's unemployment rate stood at 5.6% compared with the national average of 6.6%. We view Jönköping's growth prospects as robust, with the population set to increase by 0.8% yearly in our base case through 2015. This rate is slightly above the national average.

Jönköping's stable budgetary performance over the past few years has stemmed from its balanced macroeconomic fundamentals and prudent municipal budget discipline, in our view. As such the municipality has a track record of sound operating balances averaging 7.0% of operating revenues in 2009-2012. In 2012 its operating balance stood at a robust 7.1% of operating revenues, with performance supported by sound developments in tax revenues and a Swedish krona (SEK) 118 million (about €13.5 million) reimbursement of previously paid health care insurance premiums. Jönköping's robust operating performance helped to finance its capital expenditures, which were substantial in 2012 at a high SEK829 million. This resulted in a deficit after capital accounts of 2.8%. We observed an uptick in capital expenditures over the past three years with particularly high levels in 2011 and 2012 as some large-scale projects were completed.

In our base case for 2013-2015, we expect the municipality's tax revenue growth to marginally decline in 2014. Still, we believe Jönköping has leeway to maneuver its operating balance to an average of about 6.0% of operating revenues in 2013-2015. We also expect the municipality's capital expenditures to trend downward from 2012 and average SEK625 million yearly through 2015, leaving only modest deficits after investments of about 1.0% on average in our base-case scenario.

We note that Jönköping's management continues to be strict in enforcing budget discipline. As such, we assess the municipality's management as a "positive" ratings factor. We consider the municipality's management practices important for the ratings and assess its budgetary flexibility as average, owing to its generally rigid spending structure.

While we expect only modest financing needs for capital expenditures, we believe investments in Jönköping's company sector, particularly in utility Jönköping Energi, will require debt financing of about SEK1.0 billion in 2013-2015. Jönköping has pooled the financing of its company group into an in-house bank function. This function was legally placed within the holding company, Jönköping Rådhus AB, which carries out funding on municipal guarantees. In our analysis of Jönköping's tax-supported debt, we include guarantees extended to tax-supported entities. In this respect we assess the two largest borrowers, utility Jönköping Energi and housing company Vätterhem as self-supporting. For 2013, we expect Jönköping will increasingly acquire funding through municipal capital market programs by providing new funding and refinancing some of Rådhus' loans in the municipal treasury. We expect Jönköping's tax-supported debt will level out at a moderate 58% of consolidated revenues at year-end 2015, up from 43% in 2012 and stemming from financing of company group investments.

Liquidity

We consider Jönköping's liquidity "neutral," according to our criteria. The municipality normally holds a low cash balance and uses committed credit facilities from banks to handle its liquidity needs and manage refinancing

risk. Jönköping's in-house banking function is normally situated in holding company Rådhus AB, which conducts the company group's financing of municipal guarantees. Funding is primarily sourced from municipal funding vehicle Kommuninvest i Sverige AB (AAA/Stable/A-1+) which currently supplies 75% of Jönköping's total external financing. The remainder consists of traditional bank loans and loans under the municipality's SEK800 million medium-term note (MTN) program.

We expect Jönköping will increasingly tap the capital markets for financing from 2013 by introducing a commercial paper program of SEK1.5 billion and extending its municipal MTN program to SEK2 billion. To prepare for this, the municipality treasury has begun to contract additional liquidity facilities, which currently reach SEK1.54 billion.

We include the loans held at Rådhus AB in our analysis of Jönköping's liquidity position. In May-June 2013, the municipal treasury prolonged its maturity profile of loans from Kommuninvest. As of June 2013, we forecast Jönköping's cash and available committed bank facilities at 50% of debt maturing over the following 12 months, including our expectation of financing required for city investments and loan repayments. We consider this liquidity coverage ratio weak but balanced by Jönköping's strong and reliable capital market access and its membership in funding agency Kommuninvest. We expect Kommuninvest will remain Jönköping's main loan provider over the medium term. We assign the Swedish domestic banking sector a Banking Industry Country Risk Assessment score of '2', with '1' being the lowest risk and '10' being the highest, reflecting our view of the sector's overall robustness.

Outlook

The stable outlook reflects our expectation that Jönköping's management will be able to retain strong budgetary performance. This is despite a potential decline in revenues due to Sweden's likely revision of its equalization system. In our base case, we also incorporate a moderate buildup of debt to fund a new bio-fuel plant at utility Jönköping Energi together with increased municipal lending activity. In light of this debt increase, we expect Jönköping's management will enforce a prudent handling of refinancing risks associated with expanded capital market activities.

Ratings upside could stem from significantly improved liquidity, together with a further formalization and institutionalization of a conservative municipality risk management and prudent capital market activity.

Conversely, the rating could come under pressure within the next 24 months if, in line with our downside case, Jönköping's budgetary performance weakened, leading to deteriorating debt and liquidity positions.

Related Criteria And Research

- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- 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, Oct. 15, 2009

Ratings List

New Rating; CreditWatch/Outlook Action

Municipality of Jonkoping

Issuer Credit Rating	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.