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Research Update:

Swedish Region Of Västra Götaland Long-Term Rating Raised To 'AAA' On Strong Profile; Off Watch; Outlook Stable

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Overview

- In our view, the Swedish Region of Västra Götaland's profile is characterized by a very favorable debt position, strong liquidity, and supportive macroeconomic structure.
- We are raising our long-term credit rating on Västra Götaland to 'AAA' from 'AA+' and removing it from CreditWatch, where it was previously placed with positive implications.
- The stable outlook reflects our view that Västra Götaland has ample debt capacity to handle its forecast build-up of debt, with which it plans to finance an expanding capital expenditure program.

Rating Action

On Nov. 22, 2010, Standard & Poor's Ratings Services raised its long-term credit rating on Sweden's Region of Västra Götaland to 'AAA' from 'AA+' and removed it from CreditWatch, where it was placed with positive implications on Sept. 20, 2010, as a consequence of new rating criteria for rating local and regional governments.

At the same time, we affirmed the 'A-1+' short-term issuer credit rating and 'K-1' Nordic national scale rating. The outlook is stable.

Rationale

The ratings on Västra Götaland reflect its very favorable debt position, strong liquidity position, and an economic structure that we view as strong in an international context. In addition, we think Sweden's stable and supportive local and regional government (LRG) system further supports the ratings. We have factored into our assessment of the ratings a moderate build-up of debt to finance the region's expanding capital expenditure program.

Västra Götaland holds a strong debt position, in our view. Our forecast for 2010 suggests that the region will remain debt free at year end. However, we note that a period of high investments is imminent, which could require a moderate degree of debt financing. This capital expenditure relates to regional infrastructure and property maintenance, in addition to an expected acquisition of a local transport company. At the end of 2013, we expect the region's tax-supported debt ratio to have increased to about 20% of consolidated revenues, a significant increase from the current level, but still modest given the region's ample debt capacity.

Västra Götaland has more than 1.5 million inhabitants, which is equivalent to about 17% of the national population. Similarly, the region generates about 17% of Sweden's GDP. We estimate the region's GDP per capita to be a robust Swedish krona (SEK) 332,000 ($49,000). Västra Götaland's population growth has largely followed the national trend in recent years with average yearly increases of 0.8%. Over the planning period through 2013, we expect the region's growth prospects to remain solid and mirror the national average.

The region's economic structure has become increasingly diverse in recent years, but a slight concentration in the manufacturing and auto industries continues to make the region vulnerable to the economic cycle. Nevertheless, costs related to increasing unemployment do not directly affect the Swedish regions or county councils; consequently, we do not regard the region's exposure to cyclically-sensitive industries as a major negative factor when assessing its economic profile.

Västra Götaland benefits from strong system support and institutional stability. In our view, the Swedish LRG system demonstrates predictability, supportiveness, and a high degree of institutional stability. In addition, the country's fiscal policy framework promotes budgetary discipline through a balanced-budget requirement with which the sector is broadly compliant. The LRG sector's revenue and expenditure management is based on a far-reaching equalization system and autonomy in setting local taxes.

Liquidity

We consider Västra Götaland's liquidity position to be a very positive rating factor. This is owing to the fact that the region does not have any upcoming debt repayments over the short term, as well as its vast liquidity reserves. In October 2010, the region had cash and liquid short-term investments of about SEK5 billion. In addition, the region has prudent investment guidelines in place and we understand there is no material risk exposure within its investment portfolios. Moreover, a pension fund with a market value of SEK1.65 billion provides additional resources for the region to draw upon in need. Additional liquidity is available through a checking account of SEK750 million and further committed facilities totaling SEK3 billion.

We understand that Västra Götaland will possibly draw on its liquidity reserves as a means of partly financing its upcoming capital expenditure program. Similarly, the region's forecast of an expanded loan portfolio is likely, in our view, to lead to a marked increase in debt service over the next few years. We expect the region's management to handle this transition prudently. We also expect its liquidity position to remain a positive credit factor over the medium term.

Outlook

The stable outlook reflects our expectation of a build-up of debt to finance the region's upcoming capital spending. We think Västra Götaland's tax-supported debt could reach 20% of consolidated revenues by 2013; over the longer term, however, we do not expect tax-supported debt to surpass 30%. We also expect Västra Götaland to prudently manage the maturity structure of its expanding loan portfolio, in order to keep refinancing risk low.

The ratings could come under pressure if the region were to run significant operating deficits in combination with debt ratios that are significantly more than the current expectations in our base-case scenario. Further rating downside could result from a significant deterioration in Västra Götaland's liquidity position and increased debt service from an expanded loan portfolio.

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

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Vastra Gotaland (Region of)		
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Watch Pos/A-1+
Nordic National Scale Rating	K-1	
Commercial Paper	K-1	

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Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.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) 495-783-4011.