

Research Update:

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

Primary Credit Analyst:

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

Secondary Contact:

Carl Nyreerod, Stockholm (46) 8-440-5919; carl_nyreerod@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

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

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	

Additional Contact:

International Public Finance Ratings Europe;PublicFinanceEurope@standardandpoors.com

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.

Copyright © 2010 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, 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 S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, 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, 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) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. 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's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. 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.

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 non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related 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 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.