Municipality of Orebro

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This report does not constitute a rating action.

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Ratings Score Snapshot

Institutional framework	Individual credit profile	Issuer credit rating
Extremely predictable and supportive	Economy	**AA+/Positive/A-1+**
Very predictable and well-balanced	Financial management	
Evolving but balanced	Budgetary performance	National scale rating
Evolving but unbalanced	Liquidity	**--/--/K-1**
Volatile and unbalanced	Debt burden	
Very volatile and underfunded	1 2 3 4 5 (Strongest – Weakest)	

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Sweden's extremely predictable and supportive institutional framework underpins Örebro's creditworthiness.	We expect Örebro to deliver a surplus after capital accounts because the maintenance needs of municipal properties have largely been fulfilled.
Strong local fundamentals and the resilient Swedish economy support tax-revenue growth.	Although public housing provider Örebrobostäder will require some funding, we expect Örebro's companies will have only minimal borrowing needs through 2027.
Improved economic development and lower inflation will help Örebro to deliver in line with its financial plans.	Stronger revenue growth, as wages pick up in real terms, will lead to a decrease in debt as a share of operating revenue over the coming years.

S&P Global Ratings believes Örebro can maintain its operating performance. We forecast an uptick in operating revenue, since taxable wage growth is expected to rise significantly above inflation in 2025 and 2026. This offers some relief to the operating expenditure pressure Swedish local and regional governments (LRGs) have experienced recently.

Örebro should be able to consolidate its companies' financial position since the investment peak is behind them. We expect stable capital expenditure (capex) in the municipality will be coupled with a gradual decrease in the funds Örebro lends to the municipal company group, leading to a gradual decrease in the group's debt to revenue through at least 2027.

A key credit strength is Sweden's institutional framework, which we view as extremely predictable and supportive. We consider the framework to be very stable, with the sector's revenue and expenditure management supported by a comprehensive equalization system and tax autonomy. Historically, the central government has provided extensive support to the LRG sector.

Outlook

The positive outlook reflects our view that Örebro can reduce debt in relation to revenue through 2027, while adhering to budget control and maintaining strong operating balances as well as surpluses after capital accounts.

Downside scenario

We would revise the outlook to stable if Örebro cannot contain operational- or capital spending, leading to further uptake of debt, eliminating prospects for a decreasing debt-to-revenue ratio.

Upside scenario

We could consider an upgrade in the coming year if we perceive that Örebro's debt will continue to decline to less than 120% of revenue. This could result from stronger growth in revenue and lower debt financing needs.

Rationale

An extremely supportive institutional framework and sound financial management

We consider Sweden's institutional framework to be highly predictable and supportive. It demonstrates a strong degree of stability, with revenue and expenditure management supported by a comprehensive equalization system and tax autonomy. Historically, the central government has provided extensive support to the LRG sector, such as additional grants during the pandemic and more recently to address rising pension costs (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

We view the political situation in Örebro as stable and have observed consensus regarding long-term strategies across the political spectrum locally. The municipality is governed by a majority coalition of Social Democrats, the Moderate Party, and the Center Party, and we view positively the stability created from having a majority in place.

In our view, Örebro's budgetary control is in line with that of comparable Swedish peers, although with historically higher debt. However, we observe that Örebro is ahead of many peers when it comes to refurbishment of core municipal properties. We expect management will remain committed to budgetary discipline and undertake necessary measures to comply with the balanced budget requirement. Örebro's debt and liquidity management are centralized through its in-house bank, which is responsible for the funding needs of the municipality and its companies. In our view, the treasury adheres to prudent financial policies.

Örebro benefits from Sweden's high wealth and strong economic fundamentals, with an estimated national GDP per capita of about $62,700 in 2025. The municipality is a regional

growth center, with a dynamic and well-diversified local economy. Unemployment and income levels are roughly in line with national averages.

A gradual decrease in lending to municipal companies will eventually lead to reduced indebtedness

Operating performance in 2024 was strong, since the municipality was able to execute strong budget discipline. Örebro has been performing in line with its budget (adjusted for unrealized gains on financial assets), leading to an operating balance of about 4% in 2024. We expect the stronger wage growth forecast in Sweden for 2025 and 2026 will help Örebro contain rising operating expenditure from a new care home to be completed this year and achieve slightly stronger operating balances close to 5%.

Small deficits in 2024 will turn into surpluses as investment needs in municipal properties decrease. Municipal investments increased last year because the completion rate of budgeted capex was higher than in previous years, leading to small deficits after capital accounts. However, the municipal property provider Futurum has caught up on refurbishments. This, together with slower population growth resulting in reduced need for investments in existing and new childcare facilities and schools, implies that Futurum can continue amortizing its debt. As a result, we believe the municipality will be able to fully self-finance its capex from 2026 and post a structural balance after capital accounts for the foreseeable future.

Surpluses will generate minimal borrowing needs through 2027. The proceeds of most of the additional and existing debt is lent to Örebro's public housing company Örebrobostäder, which is the largest borrower among the municipal company group, accounting for 52% of the group's total debt. We understand Örebrobostäder will focus its investments mainly on needed refurbishments of existing property and not on new development. Additionally, we believe the company might conduct smaller asset sales to help fund its capex. Still, we expect that Örebrobostäder will require some net new lending from the municipality in 2025-2027, averaging about Swedish krona (SEK) 270 million (about €24 million) annually.

We continue to view Örebro's lending to Örebrobostäder as mitigating our overall assessment of Örebro's debt, based on the company's strong enterprise and financial profiles. This is underpinned by stable noncyclical operating cash flow on the back of high demand for rental housing. Adjusting for lending of debt proceeds to Örebrobostäder, Örebro's direct debt falls to 63% of operating revenue from 133% (without adjustment) by year-end 2025. We continue to regard the municipality's contingent liabilities, including its joint and several guarantee to Kommuninvest, as limited.

Since interest rates have increased rapidly over the past three years, however, we think Örebro's interest burden will stabilize at about 2.8% of revenue in 2025 and decrease toward 2.5% thereafter. Since the proceeds of all of Örebro's debt have been lent to its municipal companies, which service the debt, we expect higher interest expenditure will be accompanied by matching higher interest income, mitigating the impact on the municipality's budget. We believe companies performing core municipal services, such as Futurum, will receive higher contributions through increased fees and rents from the municipality. At the same time, we expect municipality-owned companies with commercial revenue, such as Örebrobostäder, can absorb increasing interest expenditure without the municipality's support.

Örebro's liquidity position remains solid, and we estimate the weighted debt-service-coverage ratio at 140%. We forecast the ratio will remain comfortably above 120% over the next two years. The municipality's liquidity position is supported by ample reserves of cash holdings, financial assets (to which we applied discounts based on the security's underlying credit quality),

committed facilities, and strong access to external liquidity. Örebro's funding sources are diversified through a SEK15 billion medium-term note program, a SEK5 billion commercial paper program, and borrowings from Kommuninvest. We expect Örebro will maintain its relative share of commercial paper as a percentage of the debt portfolio, prioritizing long-term funding. Overall, we expect relatively stable debt repayments through 2027, which the municipality also manages through its financial policies, including the use of a variable commercial paper program to keep maturing debt within its targets.

Municipality of Orebro Selected Indicators

Mil. SEK	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	13,054	14,323	15,520	15,398	15,985	16,442
Operating expenditure	12,105	13,680	14,879	14,662	15,176	15,648
Operating balance	949	643	641	736	809	794
Operating balance (% of operating revenue)	7.3	4.5	4.1	4.8	5.1	4.8
Capital revenue	209	384	249	175	175	225
Capital expenditure	839	860	1,006	970	973	892
Balance after capital accounts	319	167	(116)	(59)	11	127
Balance after capital accounts (% of total revenue)	2.4	1.1	(0.7)	(0.4)	0.1	0.8
Debt repaid	4,237	4,600	5,574	4,583	5,100	5,357
Gross borrowings	5,337	5,482	6,358	5,350	5,450	5,450
Balance after borrowings	57	(153)	69	(10)	(1)	40
Direct debt (outstanding at year-end)	18,000	18,882	19,666	20,433	20,783	20,876
Direct debt (% of operating revenue)	137.9	131.8	126.7	132.7	130.0	127.0
Tax-supported debt (outstanding at year-end)	18,757	19,668	20,420	21,343	21,781	21,939
Tax-supported debt (% of consolidated operating revenue)	119.9	115.7	111.2	116.3	114.4	112.1
Interest (% of operating revenue)	2.2	3.1	2.7	2.9	2.8	2.7
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	55,480.1	55,610.7	60,178.7	62,713.3	66,195.7	69,217.4

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.

Municipality of Örebro--Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	2
Liquidity	1

Debt burden	3
Stand-alone credit profile	aa+
Issuer credit rating	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. 11, 2023. 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

- Sweden, Feb. 3, 2025
- Local And Regional Government Outlook 2025: Moderate Debt Accumulation In The Nordics, Jan. 16, 2025
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., July 31, 2024
- Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023

Ratings Detail (as of March 26, 2025)*

Orebro (Municipality of)	
Issuer Credit Rating	AA+/Positive/A-1+
Nordic Regional Scale	--/--/K-1
Senior Unsecured	AA+
Issuer Credit Ratings History	
29-Mar-2024	AA+/Positive/A-1+
02-Apr-2021	AA+/Stable/A-1+
03-Apr-2020	AA+/Negative/A-1+

Ratings Detail (as of March 26, 2025)*

18-May-2010	*Nordic Regional Scale*	--/--/K-1

*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.