

Fitch Affirms Sweden at 'AAA'; Outlook Stable

Written by press

Friday, 10 January 2014 06:31 - Last Updated Thursday, 30 January 2014 06:32

LONDON, January 10 (Fitch) Fitch Ratings has affirmed Sweden's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'AAA' with Stable Outlooks. The issue ratings on Sweden's senior unsecured foreign and local currency bonds have also been affirmed at 'AAA'. The Country Ceiling has been affirmed at 'AAA' and the Short-term foreign currency IDR at 'F1+'.

KEY RATING DRIVERS Sweden's 'AAA' ratings reflect its high governance and human development indicators, high income per capita, and track record of sound macroeconomic policy implementation. Public finances are a rating strength, underpinned by a strong fiscal framework. Sweden's gross general government debt, estimated to be just over 42% of GDP in 2013, is lower than the 'AAA' median of 46.7%, allowing it some discretion to implement a mildly expansionary fiscal policy to support growth. The budget for 2014 includes discretionary tax cuts worth around SEK20bn taking the general government deficit to 1.6% of GDP from an estimated 1.3% in 2013. The authorities envisage that the budget will be in balance by 2016. Fitch estimates that real GDP growth in 2013 was 0.9%. Strong domestic demand over the next two years is expected to translate into a pick-up in GDP growth to 2.3% in 2014 and 3.5% in 2015. Exports are also expected to rebound as growth prospects in Sweden's main trading partners improve, and the current account surplus is likely to remain around 5%-6% of GDP. The Swedish banking sector is large relative to the size of the economy, with assets around four times GDP. Risks to the sector are balanced. Major Swedish banks are well-capitalised and already meet the common equity Tier 1 capital ratios of 12% required by 2015. However, the banking system remains heavily reliant on wholesale funding, much of it in foreign currency, leaving it vulnerable to shocks in market funding conditions. Loan to deposit ratios for major banks are among the highest in comparison with other major European banks. Higher international reserves, up by 26% in 2013 to USD66bn, help mitigate financial sector risks. Household indebtedness is sizeable from both a historical and an international perspective. In mid-2013, household debt was around 170% of disposable income. The Swedish mortgage market is also characterised by a large stock of non-amortising mortgages. The Swedish authorities have introduced a number of measures designed to reduce risks to the macroeconomy and financial stability arising from household debt. However, in a context of rising house prices, it could take some years for the debt to income ratio to stabilise.

RATING SENSITIVITIES The Outlook is Stable. Consequently, Fitch does not currently anticipate developments with a high likelihood of leading to a rating change. However, future developments that could, individually or collectively, result in downward pressure on the ratings include: -A sharp downward correction of house prices could lead to a degree of retrenchment on the part of more leveraged households. This could translate into higher savings, falls in private consumption, and losses on banks' corporate and household loan books, straining economic and financial stability. -A systemic shock to funding conditions in the financial system could translate into pressure on the sovereign rating, given the relative size of the banking sector.

KEY ASSUMPTIONS Fitch assumes that the Swedish authorities remain committed to the current fiscal policy framework, notwithstanding parliamentary elections scheduled for later this year. The government debt to GDP ratio is expected to peak at 42.9% this year, before falling back to 41.5% in 2015. In its debt sensitivity analysis, Fitch assumes a primary balance of 0.4% of GDP, trend GDP growth of 3.0%, GDP deflator growth of 1.7%, and a nominal effective interest rate of around 2.4%. Under these assumptions, gross government debt as a share of GDP would decline to 31.2% of GDP by 2023. In a growth stress scenario, where real GDP growth is on average just 1.3% over the next ten years, the debt to GDP ratio would only fall back by around 7pp by 2023, to 36.8% of GDP. Fitch assumes that the risk of fragmentation

Fitch Affirms Sweden at 'AAA'; Outlook Stable

Written by press

Friday, 10 January 2014 06:31 - Last Updated Thursday, 30 January 2014 06:32

of the eurozone remains low. Contact: Primary Analyst Alex Muscatelli Director +44 20 3530 1695 Fitch Ratings Limited 30 North Colonnade London E14 5GN Secondary Analyst Kit Ling Yeung Analyst +44 20 3530 1527 Committee Chairperson Paul Rawkins Senior Director +44 20 3530 1046 Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com; Hannah Huntly, London, Tel: +44 20 3530 1153, Email: hannah.huntly@fitchratings.com. Additional information is available on www.fitchratings.com. Applicable criteria, 'Sovereign Rating Criteria' dated 13 August 2012 and 'Country Ceilings' dated 09 August 2013, are available at www.fitchratings.com. Applicable Criteria and ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [here](#)

IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.