

Kingdom of Sweden

Rating Report


AAA
 STABLE
 OUTLOOK

Credit strengths

- Wealthy, diversified economy
- Strong fiscal framework and low public debt
- Robust external position

Credit challenges

- High household and corporate debt levels
- Risk of severe housing market correction

Rating rationale:

Wealthy, diversified economy: Sweden benefits from a wealthy, internationally competitive and diversified economy, which recovered quickly from the Covid-19 crisis. Growth in 2022 was supported by private consumption and investments although inflationary pressures have caused a slowdown since mid-2022, with economic growth expected to turn negative in 2023. Over the medium-term we estimate Sweden's growth potential at around 1.8%.

Robust fiscal framework and low public debt ratio: Sweden's credible fiscal policy enabled an effective fiscal response to the Covid-19 pandemic with a focus on the green transition and social inclusion. It also placed the government in a strong position to increase military spending to meet Nato's 2% of GDP target, and to shield households from rising energy prices. The rating is supported by the strong fiscal framework, which anchors the debt-to-GDP ratio at 35% (+/-5%). Looking ahead, we expect fiscal deficits of 0.4% in 2023 and 1.1% in 2024, a return to budget surpluses from 2026 onwards, and the debt-to-GDP ratio to remain below 35% over the coming years.

Robust external position: Sweden is an open, diversified economy that has benefitted from current account surpluses over the last two decades and has a net external creditor position. Paired with a good level of reserves, these aspects shield the country from short-term shocks.

Rating challenges include: i) financial stability risk, including from high household and corporate debt levels; and ii) the risk of a persistent correction in the housing market.

Sweden's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating				Notches
Domestic Economic Risk	35%	aa	SEK [+0]	+1/3	AAA	
Public Finance Risk	20%	aaa		+1/3		
External Economic Risk	10%	aa		+1/3		
Financial Stability Risk	10%	aaa		-1/3		
ESG Risk	Environmental Factors	5%		aaa		+1/3
	Social Factors	7.5%		bb		0
	Governance Factors	12.5%		aaa		0
Indicative outcome	aaa		+1			
Additional considerations			0			

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Significant deterioration in fiscal outlook
- Significant deterioration in economic outlook, for example, due to a sharp correction in the housing market

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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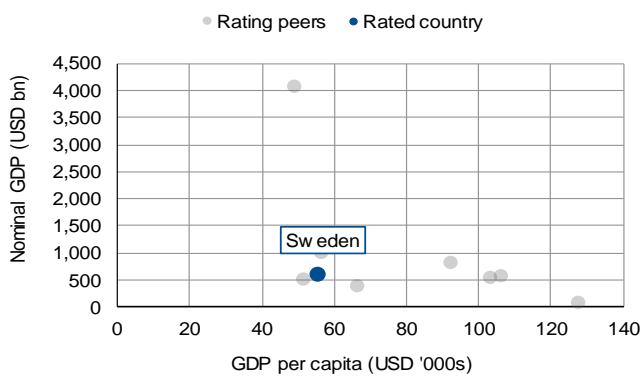
Bloomberg: RESP SCOP

Domestic Economic Risks

Overview of Scope's qualitative assessments for Sweden's *Domestic Economic Risks*

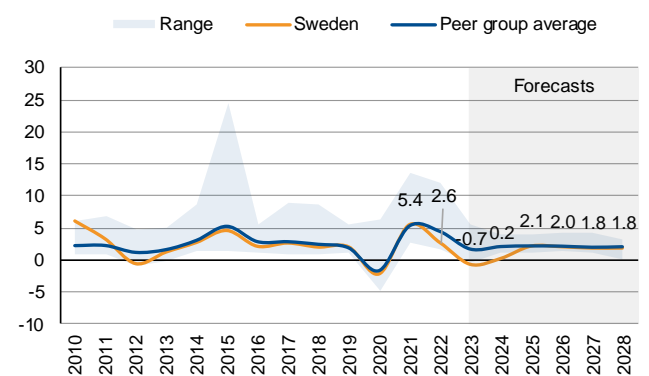
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential of around 1.8%
	Monetary policy framework	Neutral	0	Riksbank is a credible and effective monetary authority, still elevated inflation pressures
	Macro-economic stability and sustainability	Strong	+1/3	Competitive economy, favourable business environment and highly skilled labour force; healthy labour market with high employment and labour force participation rates

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



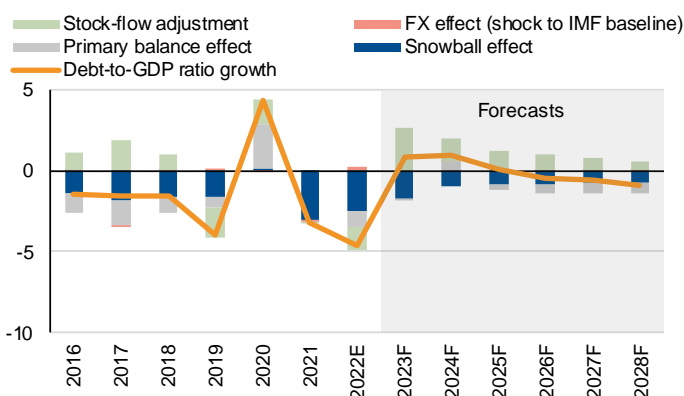
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risks

Overview of Scope's qualitative assessments for Sweden's *Public Finance Risks*

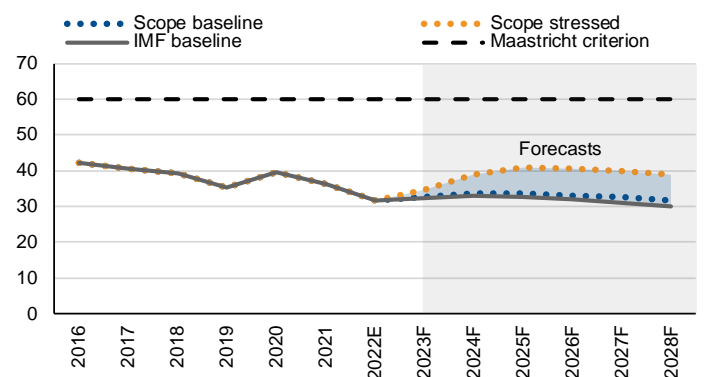
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Appropriate countercyclical response to the Covid-19 and energy crises; track record of prudent fiscal policies
	Debt sustainability	Neutral	0	Low public debt and stable public debt trajectory in the long term
	Debt profile and market access	Neutral	0	Excellent market access, low government financing costs and relatively short debt maturity

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



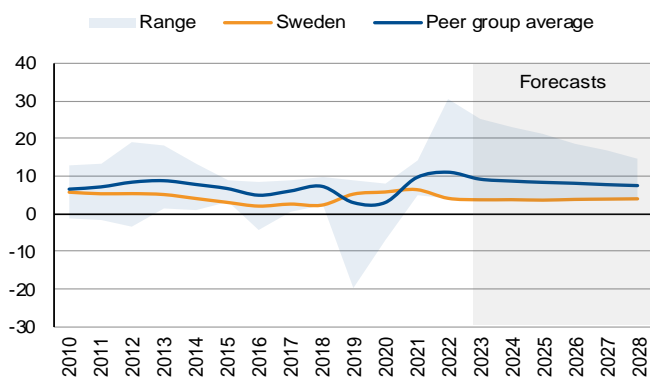
Source: IMF WEO, Scope Ratings forecasts

External Economic Risks

Overview of Scope's qualitative assessments for Sweden's *External Economic Risks*

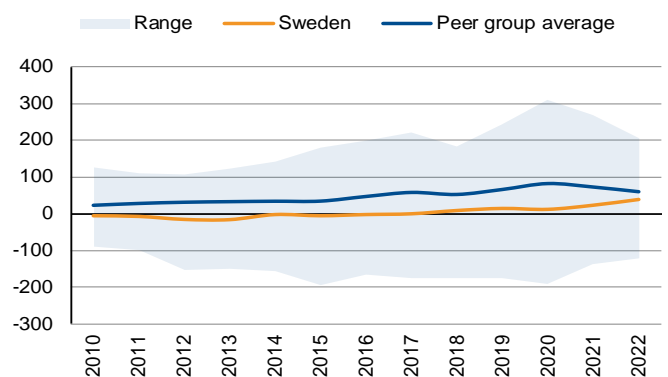
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Current account resilience	Neutral	0	External sector competitiveness underpins track record of current account surpluses
	External debt structure	Neutral	0	High external debt, especially in the financial institutions sector, in line with peers
	Resilience to short-term shocks	Strong	+1/3	Net external creditor position; regional safe-haven status of Swedish Krona

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



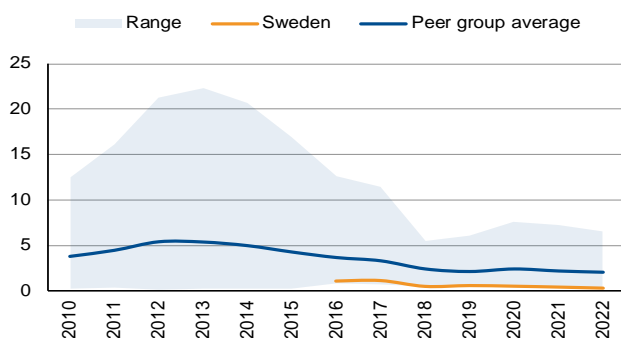
Source: IMF, Scope Ratings

Financial Stability Risks

Overview of Scope's qualitative assessments for Sweden's *Financial Stability Risks*

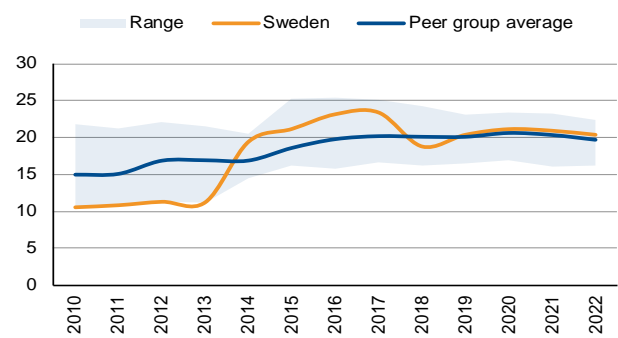
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	High bank capitalisation levels; dependent on global financial markets for funding
	Banking sector oversight	Neutral	0	Prudent oversight under Riksbank and Financial Supervisory Authority
	Financial imbalances	Weak	-1/3	High private-sector indebtedness, large size of the banking sector vis-à-vis the real economy and highly interconnected financial system; high interest rate sensitivity given short mortgage rate fixation; house price correction

Non-performing loans, % of total loans



Source: World Bank, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



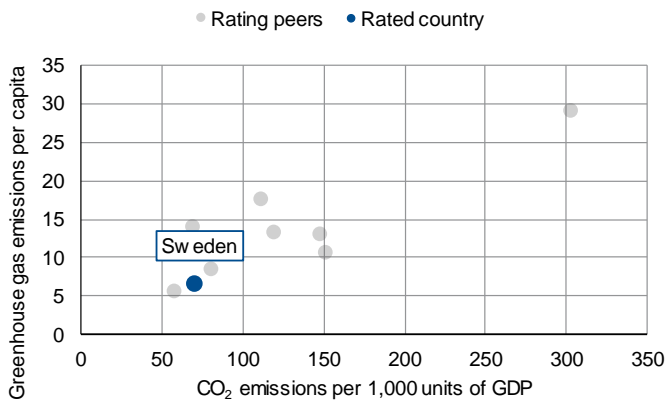
Source: IMF, Scope Ratings

ESG Risks

Overview of Scope's qualitative assessments for Sweden's ESG Risks

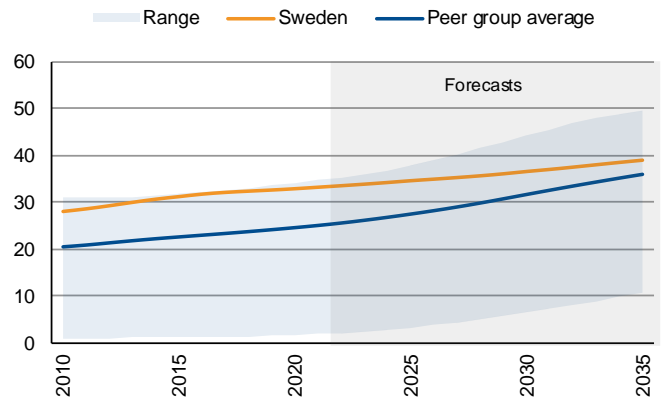
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Strong	+1/3	High environmental standards, ambitious targets for achieving carbon neutrality by 2045 and very high carbon taxes
	Social factors	Neutral	0	Relatively favourable demographics compared with peers, advanced social safety net and healthy labour market
	Governance factors	Neutral	0	High-quality institutions, minority ruling coalition government, pending Nato membership

CO₂ emissions per GDP and per capita, mtCO₂e



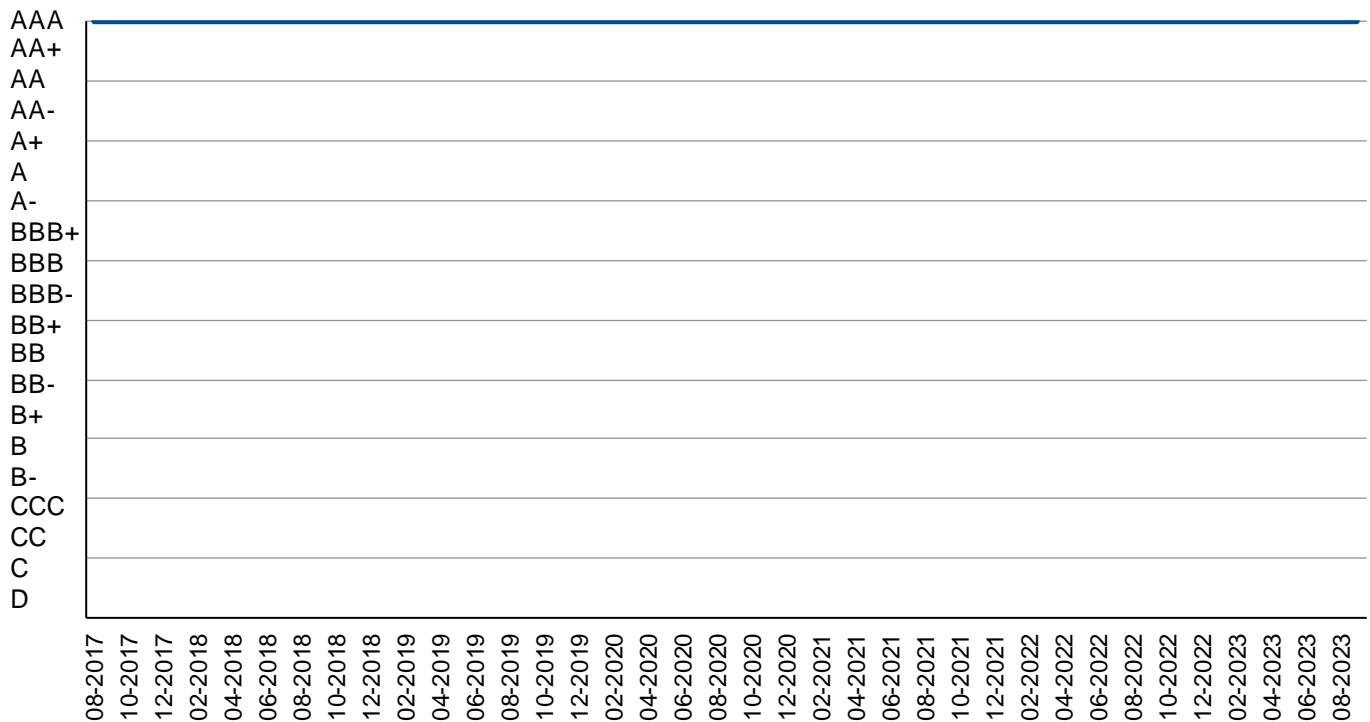
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard embedding a methodological reserve-currency adjustment.

Peer group*
Denmark
Germany
Ireland
Luxembourg
Netherlands
Norway
Switzerland

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	54.3	51.7	52.7	60.9	55.7
	Nominal GDP, USD bn	IMF	555.5	533.9	547.1	636.9	585.9
	Real growth, %	IMF	2.0	2.0	-2.2	5.4	2.6
	CPI inflation, %	IMF	2.0	1.7	0.7	2.7	8.1
	Unemployment rate, %	WB	6.4	6.8	8.3	8.7	7.4
Public Finance	Public debt, % of GDP	IMF	39.2	35.2	39.5	36.3	31.7
	Net interest payment, % of revenue	IMF	0.3	0.2	0.1	0.2	0.8
	Primary balance, % of GDP	IMF	0.9	0.7	-2.7	0.0	1.1
External Economic	Current-account balance, % of GDP	IMF	2.5	5.3	5.9	6.5	4.3
	Total reserves, months of imports	WB	2.5	2.4	2.8	2.3	2.2
	NIIP, % of GDP	IMF	7.9	13.7	11.2	22.6	38.6
Financial Stability	NPL ratio, % of total loans	IMF	0.5	0.6	0.5	0.4	0.3
	Tier 1 ratio, % of risk-weighted assets	IMF	23.1	18.5	18.8	21.1	19.9
	Credit to the private sector, % of GDP	WB	131.9	131.1	137.8	135.6	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	80.7	77.7	73.9	70.4	-
	Income share of bottom 50%, %	WID	24.2	23.9	23.3	23.3	-
	Labour-force participation rate, %	WB	82.7	82.9	82.5	82.8	-
	Old-age dependency ratio, %	UN	32.2	32.5	32.8	33.1	33.4
	Composite governance indicators*	WB	1.7	1.7	1.6	1.6	-

This table presents a selection of the indicators (24 out of 29 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard.

¹ Forecasted values are produced by Scope

² Average of the six World Bank Worldwide Governance Indicators

Source: European Commission, IMF WEO, World Bank, Scope Ratings

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 10 September 2023

14.07



Kingdom of Sweden

Rating Report

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