18 August 2017

Public Finance

Kingdom of Sweden Rating Report

SCOPE

AAA

STABLE OUTLOOK

Credit strengths

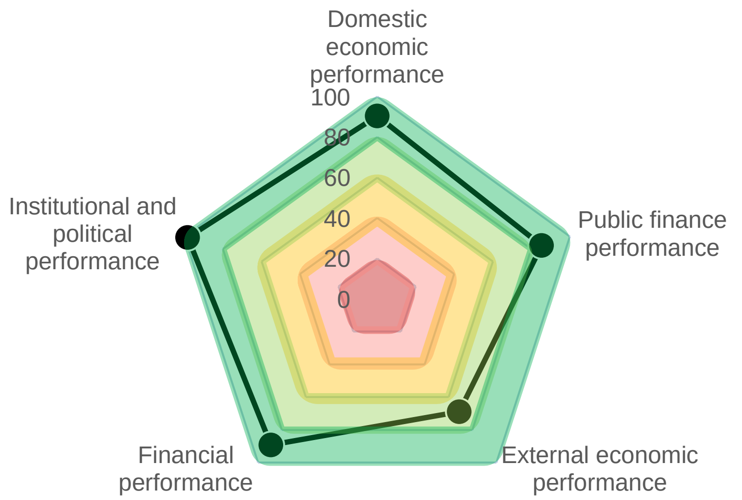
- Diversified and wealthy economy
- Strong economic performance
- Strong public finances
- Low external risk
- Sound macroeconomic policy

Credit weaknesses

- Overheating housing market
- High household debt
- Banking sector vulnerabilities

Rating rationale and Outlook: The AAA rating reflects Sweden's wealthy and diversified economy, strong economic performance and solid public finances with low public debt and strong budget balances, which indicate a high resilience to potential economic downturns. Sweden also benefits from strong fiscal and monetary policy frameworks. However, these supporting factors are balanced by challenges related to financial stability risks emanating from the country's housing market, which shows signs of overheating, and high debt ratios in the household sector. The Stable Outlook reflects Scope's assessment that the risks Sweden faces remain fairly balanced.

Figure 1: Sovereign rating categories summary



Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Sharp correction in housing prices that significantly damages the economy
- Significant economic shock centred around excessive household debt

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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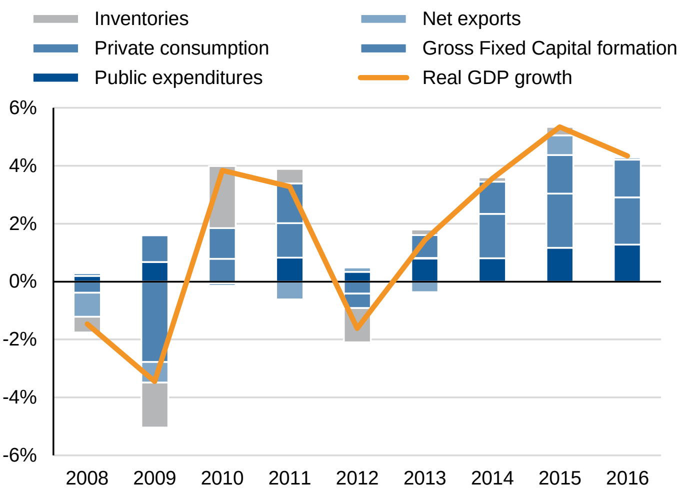
Bloomberg: SCOP

Domestic economic risk

Strong economic performance continues

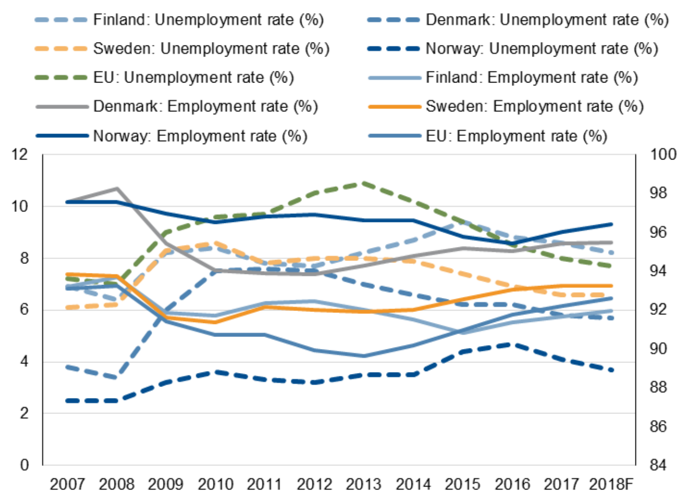
Sweden's economy continued its robust, broad-based growth in 2016, as one of the strongest performers in the European Union (EU). The economy expanded by 3.1%, supported by strong private and public consumption and solid investment. Economic growth is expected to slow in 2017 and 2018 due to a slightly waning contribution from domestic demand, partly owing to moderate wage increases and lower housing investment (which seems to have peaked in 2016). The slight pick-up in inflation is expected in 2017 and 2018 to negatively affect real disposable income growth and private consumption.

Figure 2: Contributions to real GDP growth, %



Source: IMF

Figure 3: Employment and unemployment rates, % of labour force



Source: AMECO

Despite a slowdown, Sweden is still expected to post higher-than-EU-average growth rates of 2.7% and 2.4% in 2017 and 2018 respectively. Compared to the past several years, net exports are likely to increase their contribution to economic growth, supported by a recovery in Sweden's main trading partners (most notably Germany, other Nordic countries, and the United States) and thus higher external demand for goods including high-to-medium technology-intensive machinery and equipment, which is a major Swedish export sector.

Sweden's diversified and open economy is supported by strong employment growth and rising investment, which have helped lift potential growth to pre-crisis levels of 2-3%[1]. Sweden's employment rate is one of the highest among EU countries, and the unemployment rate is below the EU average. Despite strong employment growth, a larger drop in the unemployment rate is constrained by the integration of people with a migrant background, especially those with low skills and poor education. In 2016, Sweden had a very high inflow of immigrants, mostly asylum seekers, which amounted to 1.6% of the population. This inflow is expected to ease going forward.

Having grown at average rates of 5.7% (in real terms) from 2014-2016, investment is expected to keep growing at a solid pace, supported by reforms to planning and building

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[1] Country report Sweden 2017, February 2017, European Commission, p. 4

regulations for residential housing alongside public investment. Infrastructure renovation and construction should act as key underlying growth drivers[2].

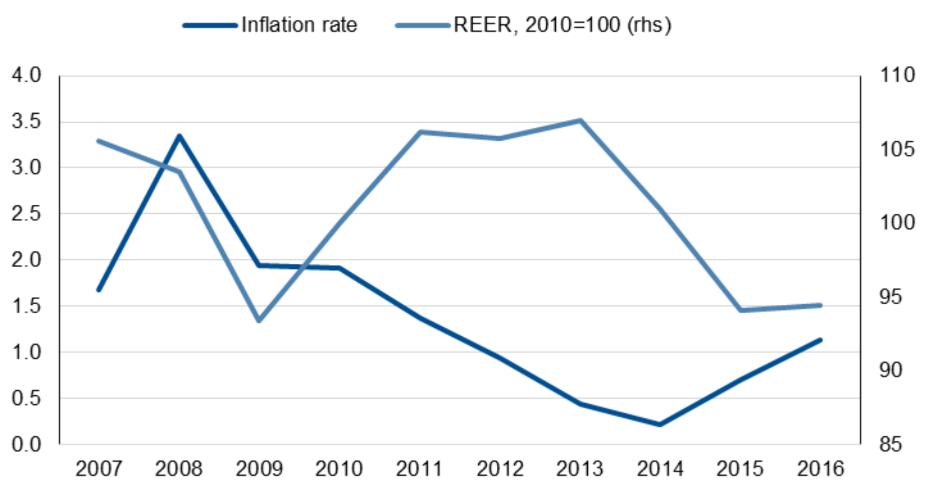
Sweden's buoyant economic growth could be moderated by high leverage ratios for households and rising housing market risks. In the event of a sudden house price correction, this could have an adverse impact on private consumption, one of the main economic growth drivers, and possibly on the domestic banking sector. In the latter scenario, owing to strong ties of Swedish banks with the banking systems of other Nordic countries, this could propel negative spillover across the region.

High credibility of monetary policy framework

The Swedish central bank, the Riksbank, has a high degree of autonomy in formulating and implementing an independent monetary policy. Sweden has a flexible exchange rate. The Riksbank acted swiftly as a lender of last resort and provided local banks with capital and liquidity support during the 2008 financial crisis, which ensured banks' access to wholesale funding (see more discussion on this in the 'Financial stability risk' section of this report).

The Riksbank's inflation target is set at 2%. Beginning in 2013, the Riksbank fought deflationary trends (Figure 4), which had developed due to a sharp fall in commodity prices and weaker global trade, by gradually lowering policy rates to an historic low of -0.5% by February 2016. In addition, the Riksbank employed unconventional policy measures including asset purchases. It has bought SEK 245bn (EUR 25.9bn) in government bonds between 2015 and 2016[3]. In July 2017, the Riksbank decided to extend its asset purchase programme to the end of 2017 and announced that the first rate increase is not expected until the middle of 2018. Inflation showed signs of pick-up in early 2016 and is projected to gradually reach 1.6% by 2018, implying potentially a slow normalisation from very accommodative monetary policy.

Figure 4: Historic inflation rate (%) and real effective exchange rate



Source: IMF

Scope expects Sweden's central bank to maintain accommodative monetary policy to support the gradual rise in inflation. Apart from boosting investment and consumption, the Riksbank's monetary policy has also resulted in very low mortgage interest rates, further deepening domestic imbalances.

[2] Ibid, p. 1
[3] Ibid, p. 5

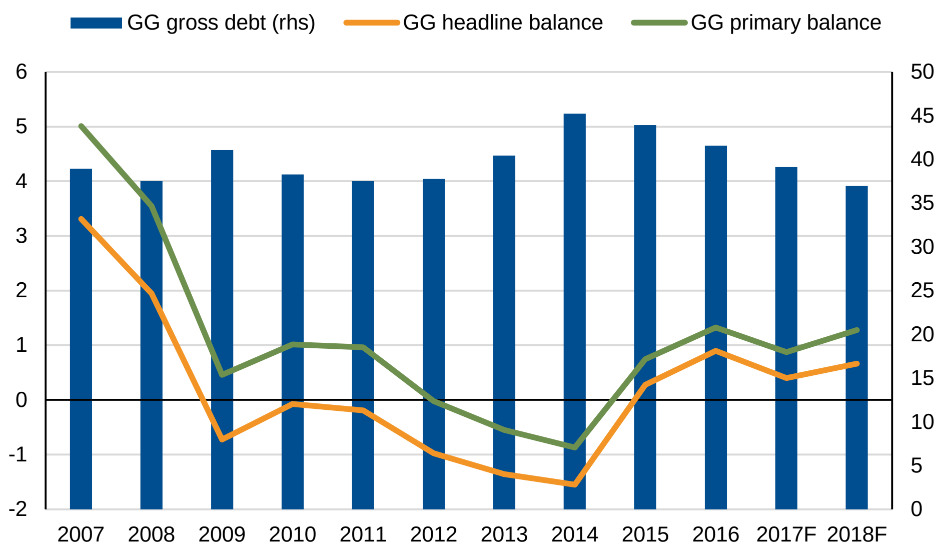
Public finance risk

Sweden runs healthy budget balances and enjoys a moderate level of public debt – at 41% of GDP at the end of 2016. The public debt ratio is expected to gradually decline over the next five years thanks to projected balanced budgets and buoyant growth.

Solid public finances

Following a post-crisis period of small public deficits, the highest of which totalled 1.6% in 2014, the general government budget was balanced in 2015 and showed a surplus of 0.9% in 2016. Solid budgetary performance has come owing to buoyant growth, which resulted in strong tax revenues, alongside from lower expenditures related to the integration of refugees. In 2017, the general government surplus is expected to drop to 0.3% of GDP due to the absence of the one-off factor in the EU rebate (in 2016) in addition to somewhat more expansionary fiscal policy. Going forward, the general government balance is expected to remain broadly in balance, with additional welfare spending offset by pro-cyclical fiscal effects from robust growth.

Figure 5: Public finance performance, % of GDP



Source: IMF

Though Sweden faces low risks to fiscal sustainability in the short and medium term, public finances could come under pressure in the long term due to an increase in healthcare spending. The European Commission projects a 41% increase in these expenditures – from 3.6% of GDP in 2013 to 5.1% by 2060, driven by an ageing population[4].

Strong fiscal policy framework, slated for further reform

Sweden's fiscal policy framework, which was introduced in the 1990s and contributed to a significant drop in general government debt from around 70% of GDP at the end of the 1990s to 41% in 2016, is about to be reformed. First, the 1% of GDP surplus target defined over the cycle (in place since 2007) is expected to be lowered to 0.33% of GDP from 2019 onwards to take into account a stronger public finance position compared with several decades earlier. Second, the debt anchor is to be set at 35% of GDP for general government debt. A deviation of more than 5% from this level would require special written communication from the government to parliament. In addition, the Fiscal Policy Council, an independent evaluator of the government's fiscal policy, will be reinforced with i) a more prominent role in monitoring the surplus target, ii) greater independence in

[4] Ibid, p. 18

the nomination procedure for council members, and iii) a mandate for regular evaluations of official macro-fiscal forecasts[5].

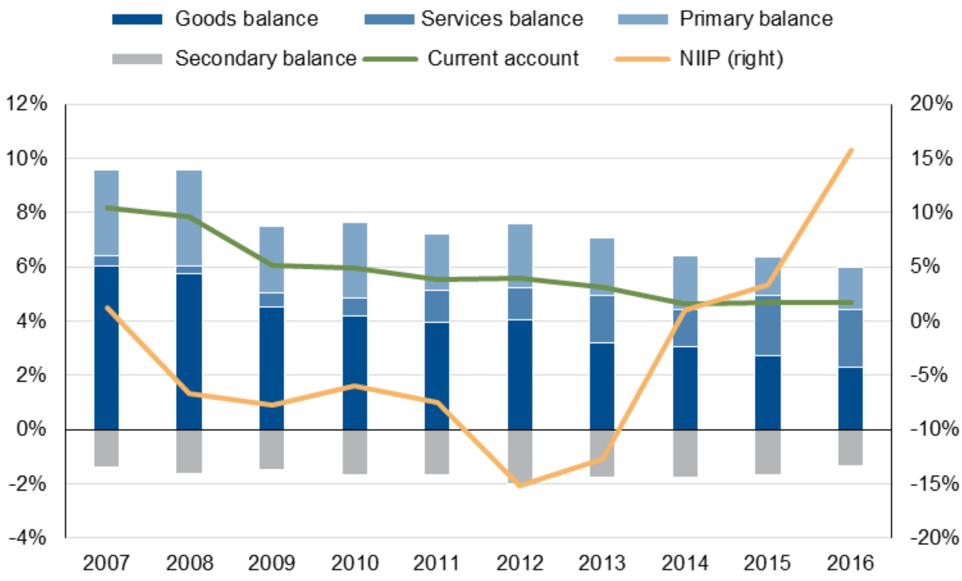
External economic risk

Tradition of current account surpluses

Having held current account surpluses averaging 5.1% of GDP for almost two decades, Sweden's economy has limited dependence on foreign capital inflows. However, the current account surplus has been gradually declining and by 2016 was reduced to around half of its size in 2007. This gradual decline has come due to a falling market share of Swedish exporters worldwide (a trend that the country shares with the majority of developed countries) as well as to strengthening imports.

Despite this recent decline, Sweden's current account surplus was still quite strong at 4.7% in 2016, with broad-based support from goods and services exports as well as from investment income earned by Swedish entities abroad. A gradual recovery in Sweden's main trading partners and a weak krona are expected to improve the outlook for exports going forward, in particular for investment goods.

Figure 6: Current account and net external asset position, % of GDP



Source: IMF

[5] Ibid, p. 17

Financial stability risk

Financial stability risks represent a key challenge. Though fundamentals of the banking sector are strong, macro-financial weaknesses related to overleveraged households and rising house market risks pose concerns.

The Swedish banking sector is large. Its assets are three times the nominal size of Sweden's GDP[6]. It's also highly concentrated with four banks (Handelsbanken, Nordea, SEB, Swedbank) covering 70% of overall lending and holding approximately the same share of system-wide deposits[7]. The recent conversion of Nordea's Nordic subsidiaries into branches and, associated with this, the movement of a large share of bank assets and liabilities to the Swedish balance sheet will increase the banking system's size by approximately 70% of GDP[8].

Resiliency of the domestic banking sector is high…

Swedish banks are profitable and well capitalised. According to the Financial Stability Report issued in May 2017, Swedish banks' return on equity was slightly higher than 12% compared to an approximate 5% average for European banks in Q1 2017 (based on a moving average)[9], underlining the cost efficiency of Swedish banks. Bank capital adequacy ratios are high compared to requirements and have increased over time. In March 2017, major banks' core Tier 1 capital relative to risk-weighted assets stood at 20.6% versus the required 18.5%.

Solid asset quality is another strength of the banking sector in comparison with that of other EU countries. According to the European Banking Authority, the average non-performing-loan ratio was around 1.0% in September 2016, one of the lowest in the EU and well below an EU average of 5.4%[10]. It should be noted that the banks report a very low level of non-performing loans despite high household indebtedness, pointing to resilient debt servicing capacity among private borrowers.

… but it is only partially shielded against adverse changes in the housing market

The buffers held by Swedish banks help shield them against adverse developments in the housing market. However, should a sharp correction occur in housing, this will affect private consumption, which in turn would inevitably adversely impact banks.

Swedish banks also show important vulnerabilities. These include a high reliance on international financial markets for wholesale funding in foreign currency. This dependence on foreign investors, however, exposes banks to global perceptions of risk in the banking sector. Should this perception deteriorate and result in a sudden rise in bank funding costs, this could adversely impact the Swedish banking sector and domestic economy.

Interdependence among Nordic banking systems poses a systemic risk

In addition, the high interconnectedness among the banking systems in northern Europe represents a potential systemic issue. In recent decades, the Swedish banking sector has grown significantly and now dominates the Nordic-Baltic market. Since Swedish banking groups are of systemic importance for countries in the region, any shock to the local banking sector could have wider implications on neighbouring countries.

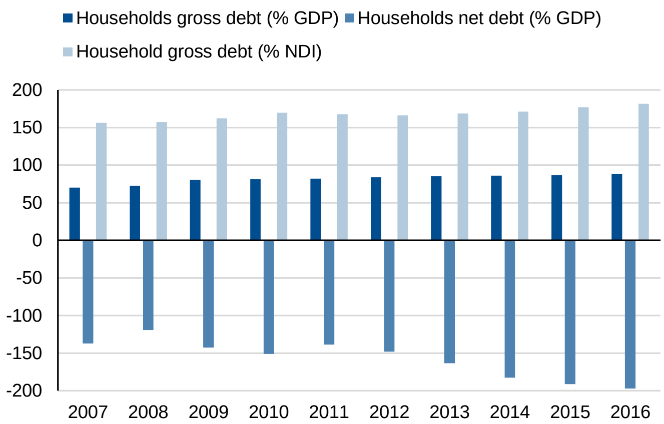
Household debt is rising

Over the last 10 years, household debt has been growing from already-high levels. At the end of 2016, the debt stock amounted to 89% of GDP and 182% of disposable income (Figure 7). In 2016, Sweden was among a group of EU and Nordic countries with significant household indebtedness (Figure 8). The bulk of this debt is associated with

[6] Ibid, p.19
[7] Financial Stability Report 2017:1, Sveriges Riksbank, p. 17
[8] Consultation response on Nordea's applications for permission to implement merger plans. Sveriges Riksbank, p. 3
[9] Financial Stability Report 2017:1, Sveriges Riksbank, p. 5
[10] Country report Sweden 2017, February 2017, European Commission, p. 20

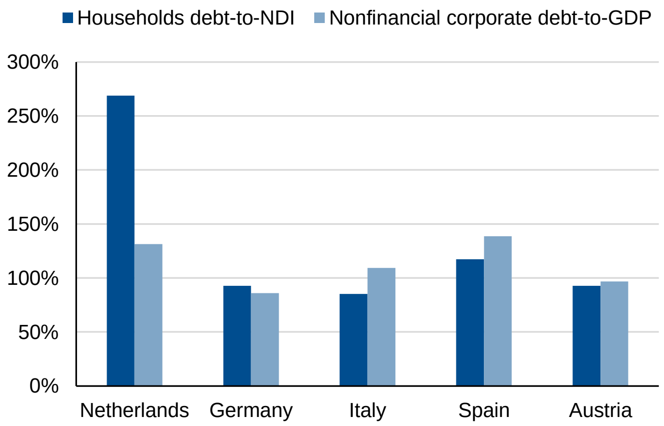
mortgages. Among households with mortgage loans outstanding, the average debt-to-income ratio stands at 343%[11].

Figure 7: Gross and net household debt in Sweden



Source: Statistics Sweden

Figure 8: Household gross debt in 2016



Source: European Commission

The increase in mortgage lending is driven by the boom in house prices. Unlike other European countries, which went through a significant adjustment in real estate prices during the last decade, Swedish home prices continued increases, and by the end of 2016, were around 40% higher than in 2010. This rise was the highest among Nordic countries and compared with that in other countries with high household debt like the UK and Netherlands (Figure 9). House price increases have been particularly steep in the Stockholm and Gothenburg areas. Moreover, the affordability ratio, as measured by price-to-income, suggests that house prices are above long-term averages relative to household income (Figure 10).

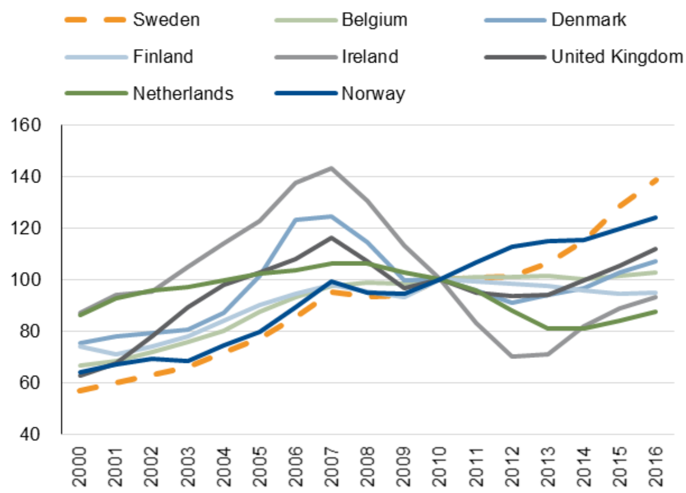
A combination of demand and supply side factors drive rising house prices

A combination of demand and supply side factors are contributing to rising housing prices. These include taxation that favours home ownership as opposed to rentals, an undersupply of houses, and high rent control. National tax legislation favours mortgage-financed real estate investment by allowing full deductibility of mortgage interest payments[12]. Moreover, relatively high capital gains taxes and low recurrent property taxes reduce homeowner mobility.

Housing construction, especially in urban areas, is picking up but is still not sufficient relative to demand. High rent controls encourage home ownership especially for young families due to the very lengthy process of obtaining rental accommodation (on average over 8 years in Stockholm[13], for example). Recently, the waiting list has become even longer due to inward migration.

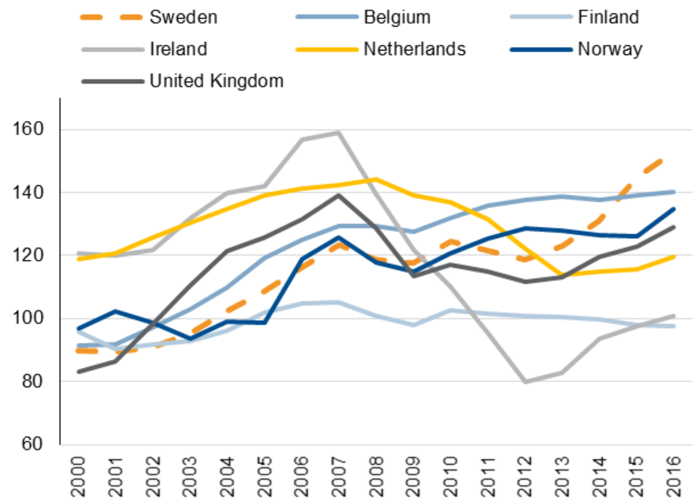
[11] Ibid, p. 5
[12] Ibid, p. 6
[13] Ibid, p. 26

Figure 9: Real house prices index (2010=100)



Source: OECD

Figure 10: House price-to-income ratio (standardised)



Source: OECD

Considerable household assets provide only some cushion in shock

Although Swedish households hold considerable financial assets worth about three times total liabilities (in 2016), this is likely to provide only some cushion in the event of a sharp housing market correction. In 2016, around 40% of household assets were pension fund assets or life insurance instruments, which are illiquid. Another large slice of assets – around 45% of the total – are equity and investment fund shares, which are exposed to market risks. A much smaller share of Swedish household assets is in the form of transferrable deposits, which could be viewed as the most liquid and readily available to be used to offset liabilities in a shock. In addition, household assets are unevenly distributed: younger households and newer borrowers, which constitute a key segment of mortgage borrowers, have less non-real-estate assets relative to debt[14].

In response, the government has taken a number of corrective measures, especially in the area of macroprudential regulation. These include the introduction of a new mortgage amortisation requirement for new loans with a loan-to-value ratio of above 50% and plans to enhance the legal mandate of the macroprudential authority (Finansinspektionen*)*. In addition, a reform of the capital-gains-tax deferral rules for housing transactions has been adopted, which is expected to improve housing market liquidity and improve owner-occupier mobility[15]. Finally, the government put forward a 22-point plan including a range of proposals to increase developable land availability, reduce construction costs, shorten the process of obtaining planning permissions, and reform the rental market.

However, despite these measures, one of the key sparks for housing imbalances and rising household debt – the favourable tax treatment of mortgage debt and home-ownership – has not yet been addressed. Moreover, complex planning and building regulations, limited incentives for municipalities to support new construction, weak competition in the construction sector, and the high level of rent control are still unresolved issues[16].

[14] Ibid, p. 30
[15] Ibid, p. 13
[16] Ibid, p. 16

Corporate debt in Sweden poses a smaller concern. Although companies have a significant stock of debt, they are protected by large equity cushions and high asset values[17].

Institutional and political risk

Following parliamentary elections in September 2014, Sweden has been ruled by a minority coalition government comprised of the Social Democrats and the Greens. The coalition holds 138 seats and is 37 seats short of a majority in the Riksdag, Sweden's unicameral legislature. Having received only 37.9% of the popular vote and holding roughly 39.5% of parliamentary seats, it is one of the weakest minority governments in Sweden's history. This forces the Cabinet to seek support from other parties in the Riksdag to ensure adoption and implementation of legislation.

Unstable minority government

Early elections were narrowly avoided in December 2014 when the government failed to push its budget through Parliament, as the government managed to come to an agreement with the Alliance, comprised of four opposition parties (Centre Party, Christian Democrats, Liberals, Moderate Party). An agreement between the Cabinet and the opposition allowed the government to move subsequent budgets through Parliament in return for concessions on immigration, defence and pension policy.

Recently, there have been three interrelated trends in Swedish politics: a rise in support for the Sweden Democrats, a nationalist anti-immigrant party; faltering support for the ruling coalition, especially for the largest party, the Social Democrats; and disarray within the opposition owing to a sharp decline in support for the biggest member of the Alliance, the Moderate Party. According to polls conducted in June 2017, Sweden Democrats are the second most popular force in Sweden with around 20% of voting intentions for the next parliamentary elections (slated in 2018). The Social Democrats held 27% of voting intentions. A sharp decline in support for the Moderate Party – to 16% in June 2017 from 23% in September 2014 – came because of the party's decision to open the door to cooperation with the Sweden Democrats, breaking a long-standing tradition amongst the Swedish establishment.

Methodology

The methodology applicable for this rating and/or rating outlook "Public Finance Sovereign Ratings" is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration.
Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

[17] Ibid, p. 15

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "AAA" ("aaa") rating range for the Kingdom of Sweden. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Kingdom of Sweden, the following relative credit strengths have been identified: 1) growth potential of the economy, 2) economic policy framework, 3) debt sustainability, 4) market access and funding sources, and 5) financial sector performance. Relative credit weaknesses have been signalled for 1) macro-financial vulnerabilities and fragility. Combined relative credit strengths and weaknesses generate no adjustment and signal a sovereign rating of AAA for the Kingdom of Sweden. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	aaa
QS adjustment	AAA
Final rating	AAA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, analysts examine the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Sweden's debt is predominantly issued in krona, or it is partially hedged. Because of Sweden's history of openness to trade and capital flows, Scope sees no evidence that Sweden would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**aaa**
QS adjustment	**AAA**
Final rating	**AAA**

QS

Maximum adjustment = 3 notches

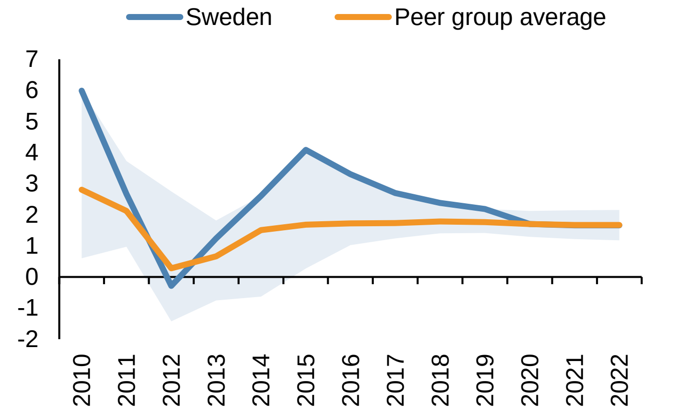
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	◉ Strong outlook, good growth potential	○ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	○ Strong performance	◉ Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	◉ Strong sustainability	○ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	◉ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

Source: Scope Ratings AG

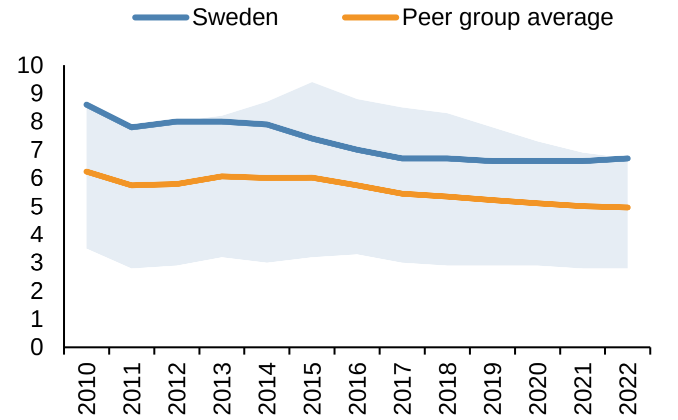
III. Appendix: Peer comparison

Figure 11: Real GDP growth



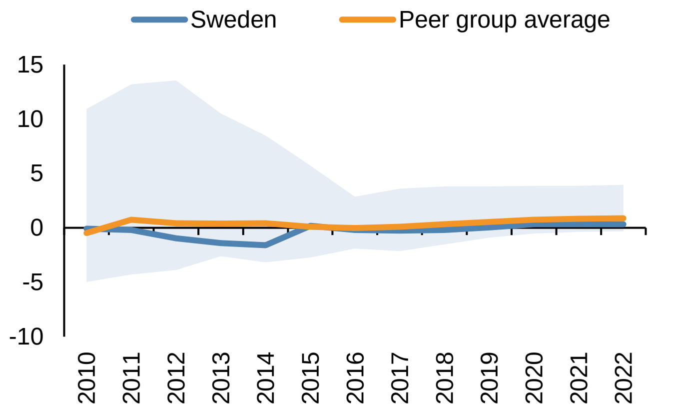
Source: IMF, Calculations Scope Ratings AG

Figure 12: Unemployment rate, % of total labour force



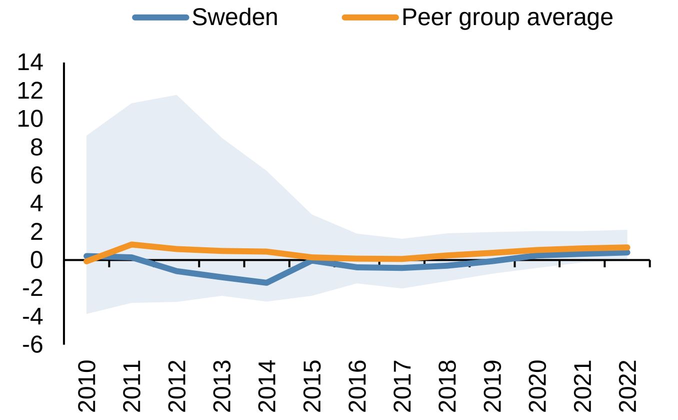
Source: IMF, Calculations Scope Ratings AG

Figure 13: General government balance, % of GDP



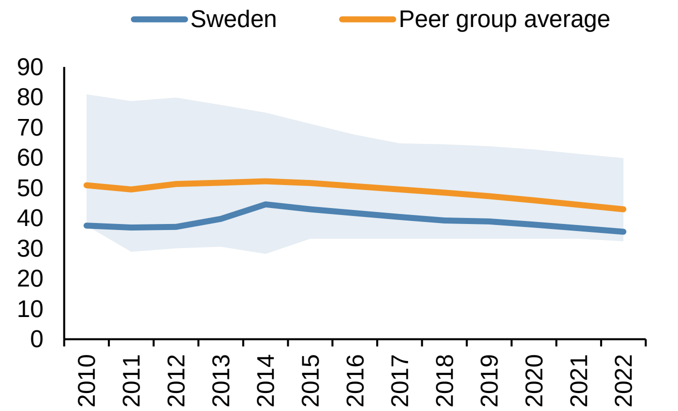
Source: IMF, Calculations Scope Ratings AG

Figure 14: General government primary balance, % of GDP



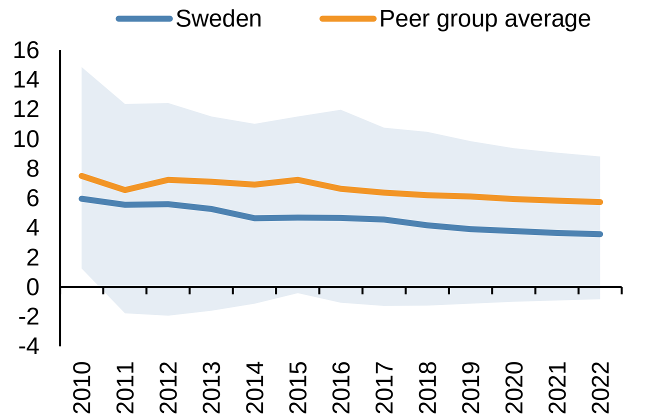
Source: IMF, Calculations Scope Ratings AG

Figure 15: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 16: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (SEK bn)	3,684.8	3,769.9	3,936.8	4,181.1	4,378.6	4,594.7	4,791.9
Population (thous)	9,540.9	9,615.2	9,689.4	9,763.6	9,837.5	9,910.7	9,982.7
GDP-per-capita PPP (USD)	44,725.0	45,673.2	46,404.7	47,823.3	49,174.9	-	-
GDP per capita (SEK thous)	387.1	392.7	406.0	426.7	441.3	456.9	471.2
Real GDP growth	-0.3%	1.2%	2.6%	4.1%	3.3%	2.6%	2.2%
GDP growth volatility (10-year rolling SD)	3.3	3.3	3.2	3.2	3.1	3.1	3.0
CPI, % change	0.9%	0.4%	0.2%	0.7%	1.1%	1.4%	1.4%
Unemployment rate (%)	8.0	8.0	7.9	7.4	6.9	6.6	6.6
Investment (% of GDP)	22.6	22.5	23.4	24.2	24.8	25.3	25.7
Gross national savings (% of GDP)	28.2	27.8	28.0	28.9	29.5	29.8	29.9
Public finances							
Net lending/borrowing (% of GDP)	-1.0	-1.4	-1.5	0.3	0.9	0.4	0.7
Primary net lending/borrowing (% of GDP)	0.0	-0.6	-0.9	0.7	1.3	0.9	1.3
Revenue (% of GDP)	50.8	51.0	50.0	50.5	50.9	50.4	50.1
Expenditure (% of GDP)	51.7	52.4	51.5	50.2	50.0	50.0	49.4
Net interest payments (% of GDP)	1.0	0.8	0.7	0.5	0.4	0.5	0.6
Net interest payments (% of revenue)	1.9	1.6	1.4	0.9	0.8	0.9	1.2
Gross debt (% of GDP)	37.8	40.4	45.2	43.9	41.6	39.1	37.0
Net debt (% of GDP)	-21.3	-21.1	-20.4	-19.4	-18.3	-17.3	-16.4
Gross debt (% of revenue)	74.4	79.2	90.6	87.0	81.6	77.6	73.8
External vulnerability							
Gross external debt (% of GDP)	186.7	184.4	189.9	182.1	175.6	-	-
Net external debt (% of GDP)	58.9	55.8	55.7	47.7	44.6	-	-
Current account balance (% of GDP)	5.6	5.3	4.6	4.7	4.7	5.0	5.2
Trade balance [FOB] (% of GDP)	-	3.2	3.1	3.0	2.6	2.8	2.8
Net direct investment (% of GDP)	2.4	4.6	0.9	1.8	0.6	-	-
Official forex reserves (EOP, Bil. USD)	40.3	55.4	53.3	49.8	51.6	-	-
REER, % change	-0.8%	1.7%	-4.5%	-5.2%	0.9%	-	-
Nominal exchange rate (EOP, SEK/USD)	6.5	6.4	7.7	8.4	9.1	-	-
Financial stability							
Non-performing loans (% of total loans)	0.7	0.6	1.2	1.2	1.0	-	-
Tier 1 ratio (%)	11.3	11.5	19.2	21.0	22.7	-	-
Consolidated private debt (% of GDP)	192.3	192.1	192.3	187.5	186.6	-	-
Domestic credit-to-GDP gap (%)	11.1	6.4	1.6	-3.3	-9.4	-	-

Source: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

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The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

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Rating Committee: the main points discussed were (1) economic performance and outlook, (2) fiscal performance, (3) external economic position, (4) financial and banking sector performance and fragilities, (5) housing market and private debt developments, (6) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of the Kingdom of Sweden, the Riksbank, European Commission, European Central Bank, Statistical Office of the European Communities, IMF, OECD, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

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