



Subnational Government Outlook 2025: Nordics

Infrastructure Needs Will Keep Investments High

S&P Global
Ratings

Carl Nyrreröd
Linus Bladlund
Ekaterina Ermolenko
Dennis Nilsson
Johanna Melinder
Freja Dobreff
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This report does not constitute a rating action

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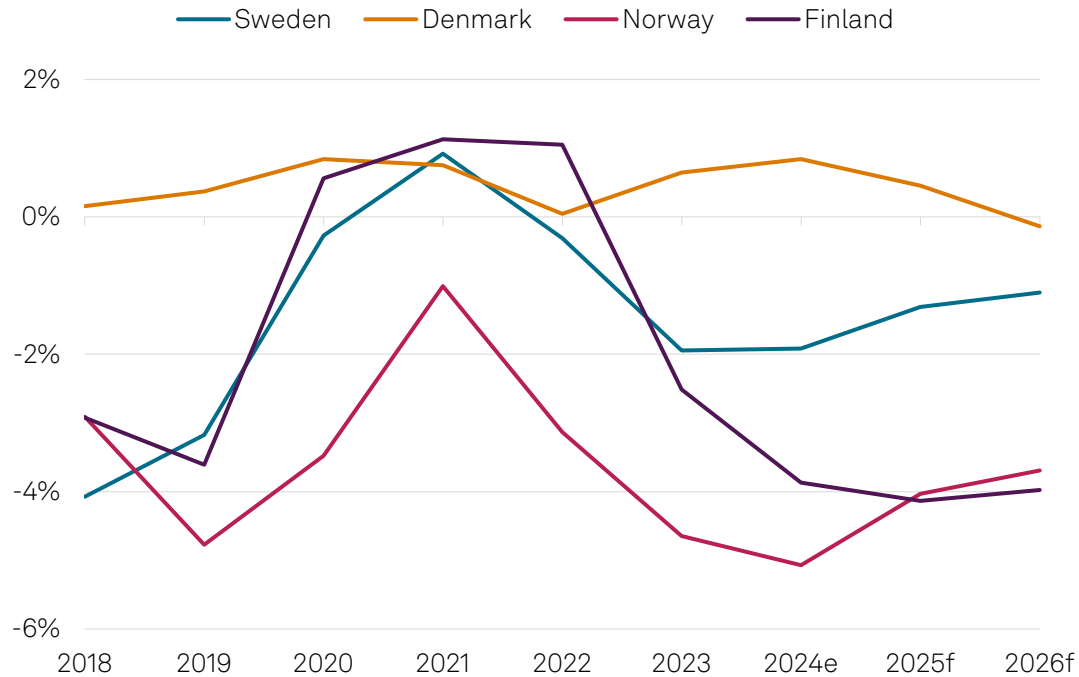
Key Takeaways

- Investment needs for local and regional governments (LRGs) in the Nordics will remain relatively elevated overall, driven by changing demographic structures and the need to expand and upgrade existing public-sector infrastructure, notably within water and wastewater management.
- In Sweden, weaker population growth could slow the rise in LRGs' capital expenditure, but if the economy remains subdued, LRGs won't be able to rely on strong revenue increases to cover spending growth.
- LRGs in Finland face wider funding gaps, with newly created wellbeing services counties needing to implement efficiency measures and rely on state transfers to achieve balanced budgets. In contrast, the shift of responsibility for health care and social services alleviates the pressure on municipalities' financial position.
- We forecast Danish LRGs' tax-supported debt (including guarantees) will increase gradually in nominal terms, owing to district heating companies' investment in the energy transition using LRG-guaranteed debt, but remain low versus that of Nordic peers.
- Because Norwegian LRGs' operating balances are under pressure due to slower tax revenue growth, and investments in local infrastructure remains sizeable, we expect debt accumulation to be high in the coming years.

We Forecast Wider Funding Gaps In Finland And Norway

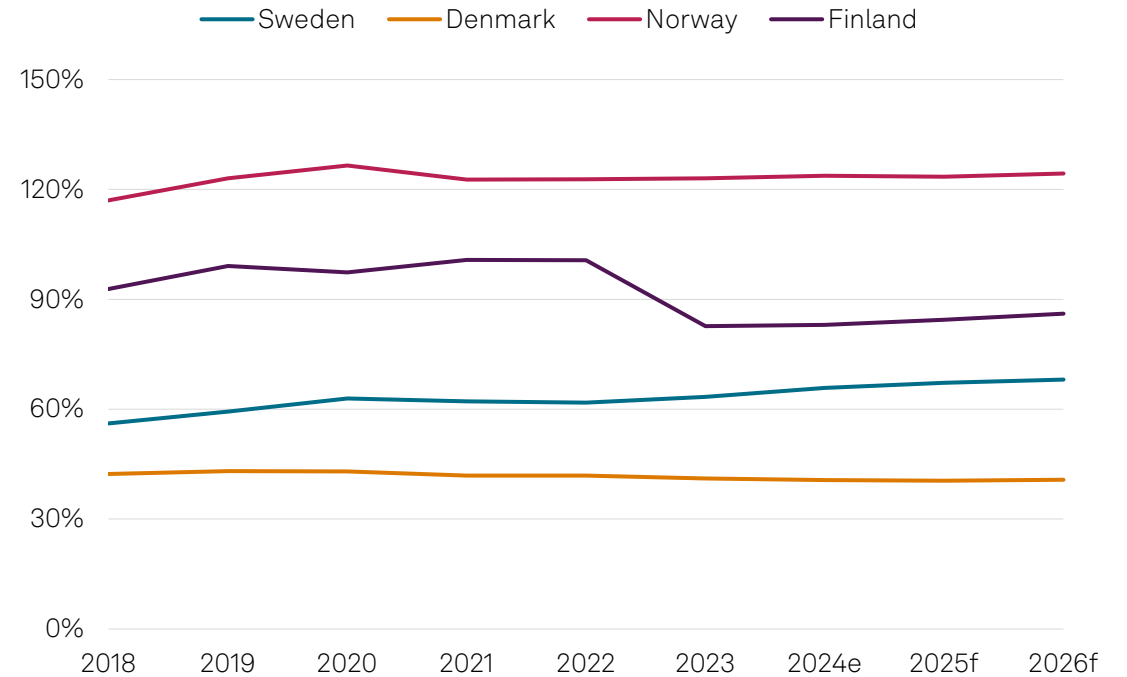
..whereas LRGs in Denmark will maintain balanced budgets overall

Balance after capital accounts (% of total revenue)



e--Estimate. f--Forecast. Source: S&P Global Ratings.

Tax-supported debt (% of operating revenue)

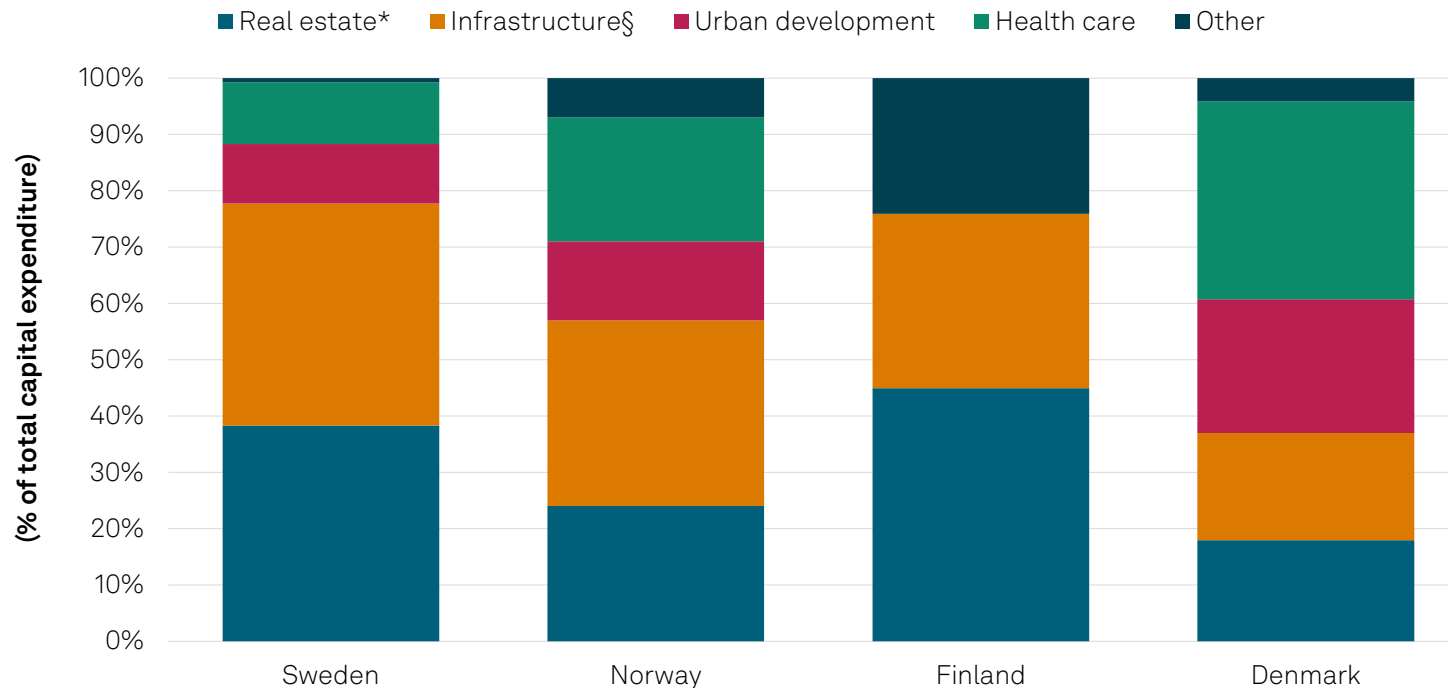


e--Estimate. f--Forecast. Source: S&P Global Ratings.

Investments In Infrastructure Will Remain Elevated

However, the impact on LRGs' budgets differs between countries

Breakdown of capital expenditure (data from 2023)



*Including housing and public service properties. §Including water and wastewater.

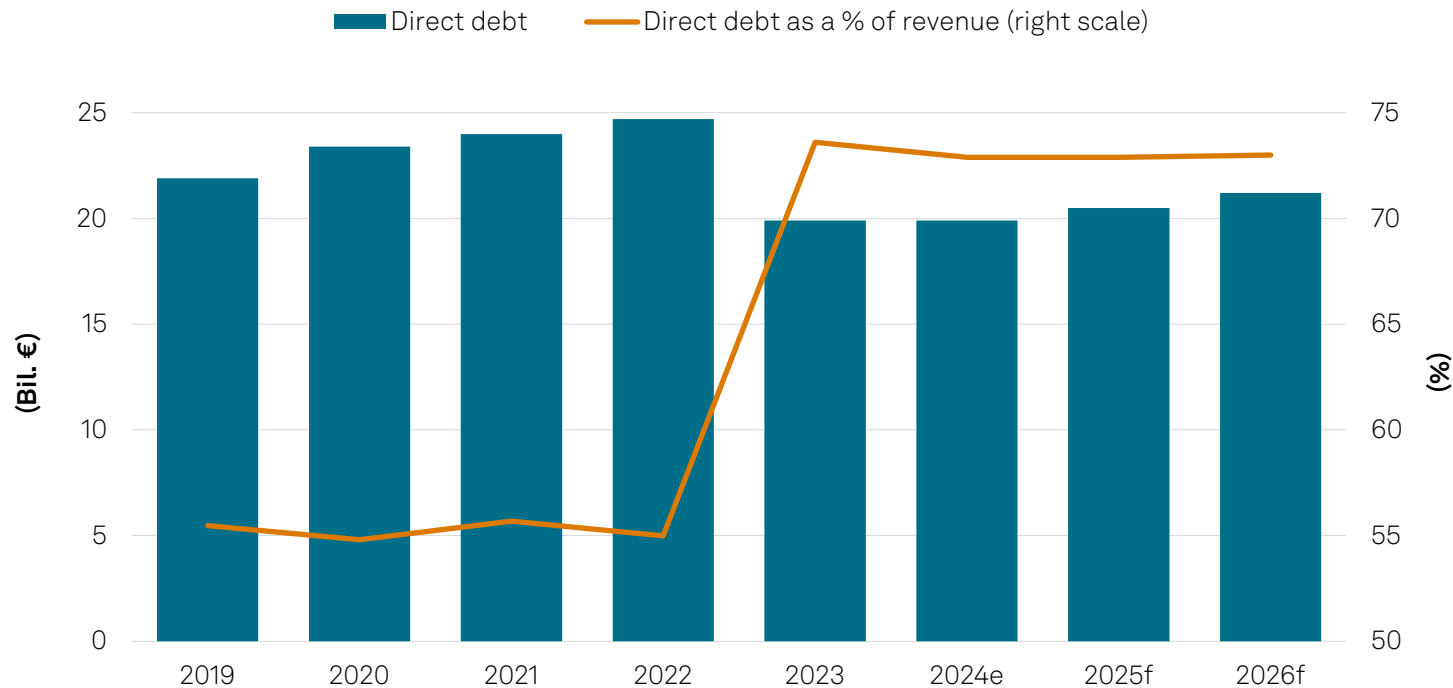
Sources: Kommuninvest, Statistics Denmark, Kommunalbanken, Association of Finnish Cities and Municipalities, S&P Global Ratings.

- Investments in infrastructure and real estate are expected to remain high in the coming years, primarily driven by water and wastewater management.
- Because of slower population growth in Sweden and Norway, investments in, for example, public service properties will likely decrease, offsetting some cost pressure.
- In Denmark, public investments are to a large extent carried out by municipal companies or associations, and LRGs' budgets are therefore not directly affected, though these activities often benefit from a municipal guarantee.

Finland

Finnish Municipalities' Relative Debt Will Remain Stable Through 2026

Debt looks set to increase only gradually over the next few years

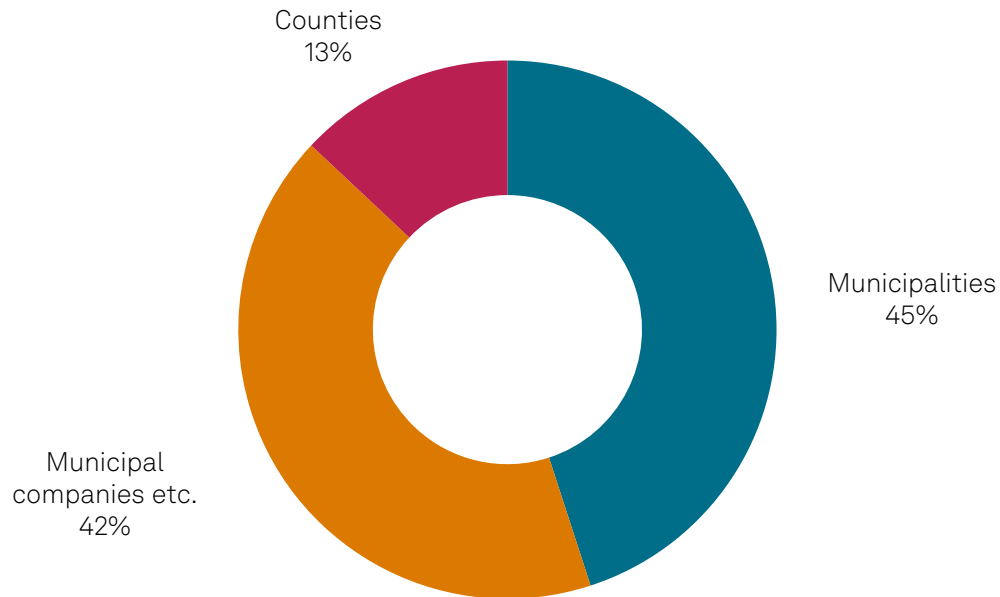


e--Estimate. f--Forecast. Source: S&P Global Ratings.

- After the social and health care (SOTE) reform in 2023, a new tier of government was created, consisting of wellbeing services counties.
- As a result, the municipalities' operating revenue has decreased more than total loans, leading to higher relative debt burdens.
- That said, municipalities are no longer burdened by operating or capital expenditure for health care and social services.
- This alleviates some of the strain on their financial positions; therefore, we project moderate deficits after investments and debt build-up in the coming years.

Wellbeing Services Counties Are On A Path Toward Balanced Budgets

LRG debt after the SOTE reform (at year-end 2023)



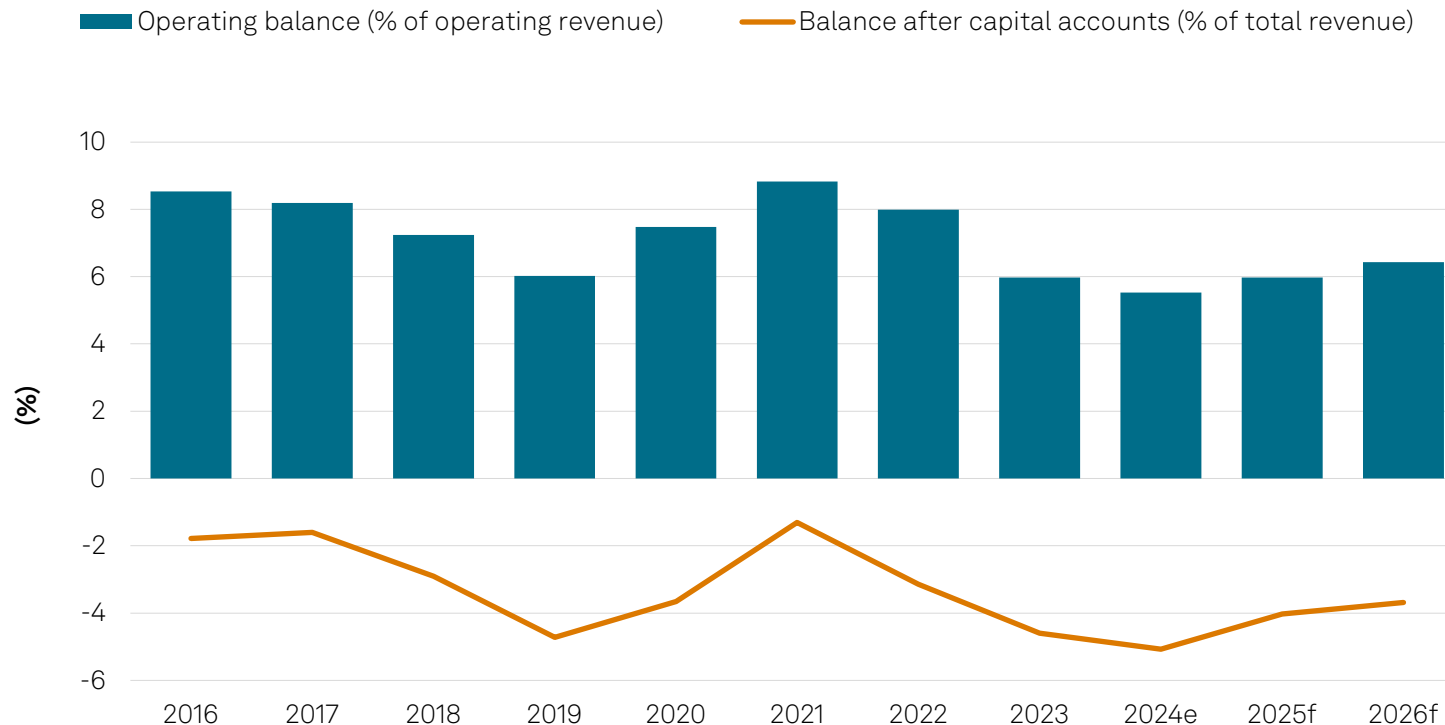
SOTE--Social and health care Sources: LRG accounts, S&P Global Ratings.

- Finland's new wellbeing services counties now account for about 13% of the LRG sector's total debt, including joint municipal authorities and companies.
- These counties were created after the social and health care reform (SOTE), amid tough economic conditions, and they reported deficits on aggregate in 2023, which we expect continued in 2024.
- Investment needs in the health care sector remain elevated, so these counties' debt could increase in the coming years.
- The counties are implementing efficiency measures to balance their budgets, and a retroactive increase in state transfers will boost the sector's budgetary performance by about €1.4 billion in 2025.

Norway

Debt Is Rising In Norway's LRG Sector

Operating balances are recovering only slowly



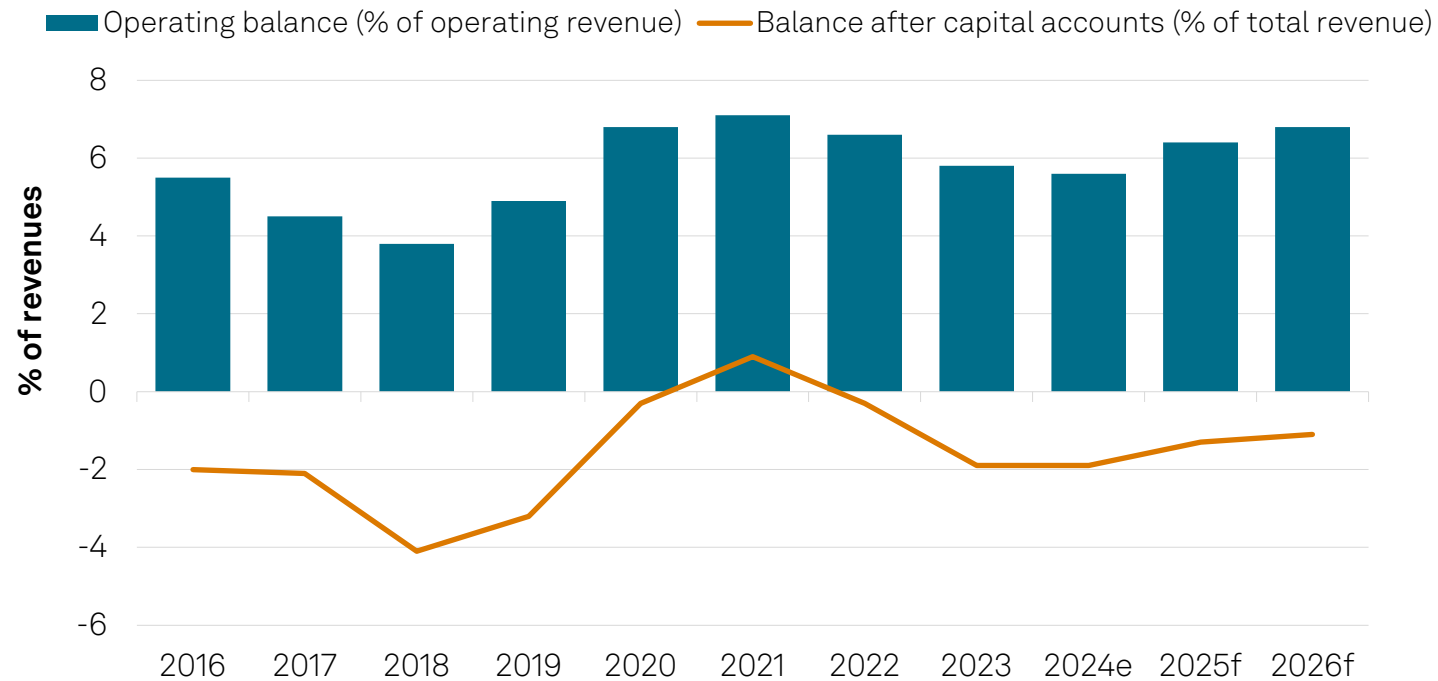
- Norwegian LRGs' debt is already high in a Nordic peer comparison, with borrowing needs related to water and wastewater and demographic shifts driving debt accumulation.
- The rising debt burden results from insufficient grant coverage of investments, which makes the sector's financial position unpredictable.
- Solid revenue growth will contain pressures on deficits after capital accounts from high investment needs.

e--Estimate. f--Forecast. Source: S&P Global Ratings.

Sweden

Inflation Has Reined In Real Revenue Growth For Sweden's LRGs

Revenue per inhabitant has fallen



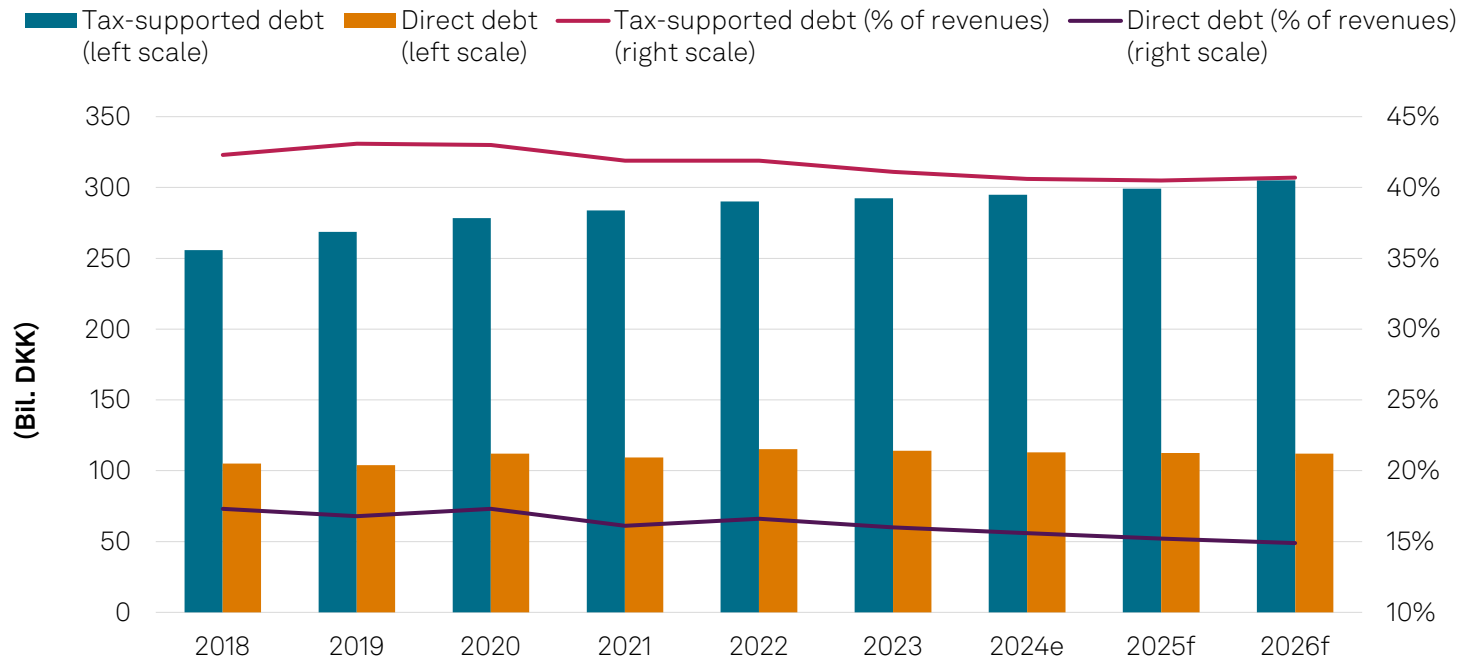
e--Estimate. f--Forecast. SEK--Swedish krona. Source: S&P Global Ratings.

- In 2022, rising inflation led to real revenue per inhabitant decreasing for the first time in over 20 years, which also pressured LRGs' reported surpluses in accrual terms.
- Spending also increased, although partly offset by growth in the tax base through salaries.
- If economic and population growth remains subdued, Swedish LRGs won't be able to rely on strong revenue increases to cover spending growth.
- This implies a need to increase financing, for example by raising local tax rates, receiving larger state grants, or reducing spending, all of which are uncertain at this point.

Denmark

Guaranteed Debt To Support The Energy Transition Is Increasing

Tax-supported debt (including guarantees) is set to increase in nominal terms but remain low in a Nordic comparison



DKK--Danish krone. e--Estimate. f--Forecast. Source: S&P Global Ratings.

- Unlike their Nordic peers, Danish LRGs finance part of their investments through guarantees to public housing and local utility companies.
- As of Dec. 31, 2023, the LRGs had extended more than Danish krone (DKK) 200 billion in guarantees, corresponding to about 28% of their operating revenue.
- We forecast that Danish LRGs' guaranteed debt will increase modestly through 2026 but stay low in a Nordic peer comparison.
- The projected increase will result from district heating companies' continued investments in energy transition projects, with the help of guarantees from LRGs.

Related Research

- Subnational Government Outlook 2025: Regional Differences In Developed Markets Intensify, Jan. 16, 2025
- Subnational Government Outlook 2025: Anticipating A Year Of Change, Jan. 16, 2025
- Institutional Framework Assessment: Danish LRGs Benefit From Equalization And Central Government Support, Dec. 10, 2024
- Institutional Framework Assessment: Finnish Municipalities Have Flexibility To Balance Their Budgets, Dec. 9, 2024
- Institutional Framework Assessment: Rising Debt Points To A Weakening Trend For Norwegian LRGs, Mar. 21, 2024
- Institutional Framework Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023

Analytical Contacts

Carl Nyreröd

Director

Stockholm

carl.nyrerod@spglobal.com

Dennis Nilsson

Associate Director

Stockholm

dennis.nilsson@spglobal.com

Ekaterina Ermolenko

Associate Director

Stockholm

ekaterina.ermolenko@spglobal.com

Linus Bladlund

Associate Director

Stockholm

linus.bladlund@spglobal.com

Johanna Melinder

Associate Director

Stockholm

Johanna.melinder@spglobal.com

Freja Dobreff

Senior Analyst

Madrid

freja.dobreff@spglobal.com

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