

KINGDOM OF SWEDEN

Rating Analysis - 9/2/21

*EJR Sen Rating(Curr/Prj) AA+/ AA+

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

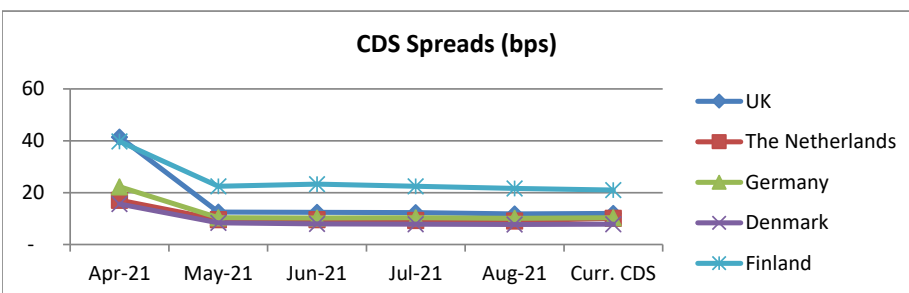
The final Q2 GDP confirmed that the Swedish recovery is well underway as GDP is now back on its pre-crisis level in Q4'19. GDP for the second quarter ended at 3.6% QoQ, SAAR, which was almost unchanged relative to the flash estimate (3.7%). The number is above the Riksbank's latest projection (1.7%). The Swedish economy is rebounding, with projected GDP growth close to 4% in 2021 and 3.5 per cent in 2022, on the back of rising exports, which boost manufacturing production and investment, and strong fiscal and monetary support. During H1 2021, pandemic-related restrictions and voluntary distancing have held back the recovery in services requiring face-to-face interaction, but growth will broaden during the second half of the year. Unemployment is expected to decline gradually. Inflation is set to remain below the 2% target throughout 2021 and 2022.

Monetary policy will remain very accommodative, but margins for further expansion are limited. Short-term destabilization is in the form of Delta variant of COVID spreading too fast. The number of daily infections is close to the second peak of December 2020 and intensive care units are under pressure. The return to the budget surplus target is expected to be gradual. Monetary policy will need to remain accommodative until inflation is durably close to target, with activity expanding at a robust pace. Affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	59.2	55.9	63.5	65.6	69.1	66.7
Govt. Sur/Def to GDP (%)	2.5	2.2	-1.3	-2.9	-4.3	-4.4
Adjusted Debt/GDP (%)	59.2	55.9	63.5	65.7	69.2	66.8
Interest Expense/ Taxes (%)	1.1	1.0	0.8	0.8	0.8	0.8
GDP Growth (%)	4.4	4.6	-1.4	5.0	5.0	5.0
Foreign Reserves/Debt (%)	15.3	14.5	12.4	11.5	10.4	9.4
Implied Sen. Rating	AA+	AA+	AA	AA+	AA+	AA+

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
	Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

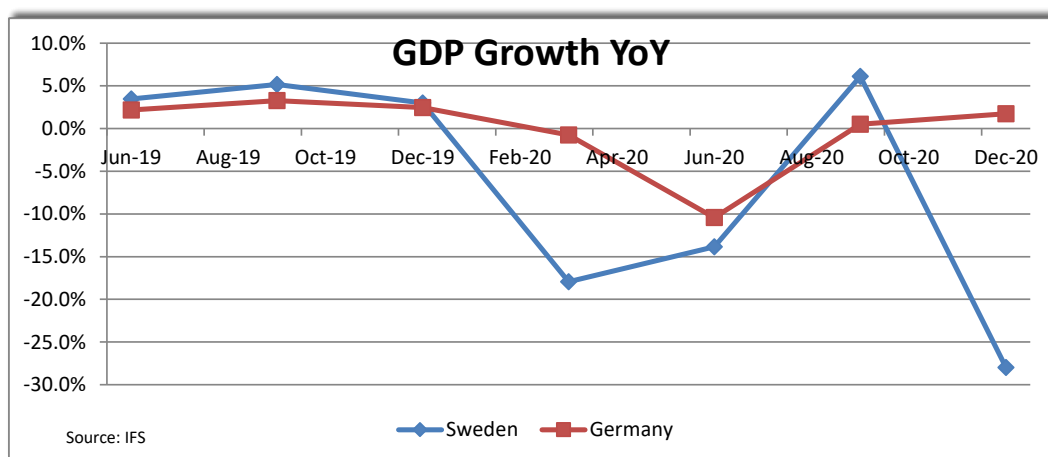
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Kingdom Of Denmark	AAA	58.8	0.2	58.8	1.2	0.5	AA+
United Kingdom	AAA	187.8	-12.8	187.8	7.2	-4.8	B
Kingdom Of The Netherlands	AA+	69.8	-4.0	69.8	2.7	-1.6	A+
Republic Of Finland	AA+	82.0	-4.3	82.0	2.2	-1.6	AA-



Country	EJR Rtg.	CDS
UK	A+	12
The Netherlands	AA-	10
Germany	AA	10
Denmark	AA	8
Finland	AA	21

Economic Growth

Strong exports are raising industrial production, which has already surpassed its pre-crisis level. Manufacturing confidence is well above its historical average. Meanwhile, pandemic-related restrictions and voluntary distancing are holding back activity in services requiring face-to-face interaction. Domestic demand was the driver of the strong Q2 growth. Thus, household consumption was quite robust, while a big positive surprise came from the fixed investment component which increased 15.9% QoQ, saar. Public spending rose by 0.8% YOY on the back of central government consumption and consumption in local and regional governments. Changes in inventories added 0.1% to the GDP growth, while net trade subtracted 0.8% as exports dropped 1.1% and imports rose 0.7%.



Fiscal Policy

Fiscal space, with gross government debt at around 35% of GDP before the crisis, has been appropriately used to damp the recession. The budget balance moved from a small surplus in 2019 to a deficit of more than 3% of GDP in 2020 and 2021, which provides strong support to the economy, even though it is relatively small by OECD standards. Fiscal policy needs to continue supporting businesses and households affected by the pandemic. Budgeted discretionary measures related to the pandemic amount to SEK 259 billion (5% of GDP) in 2021.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Sweden	-1.32	63.50	9.08
Germany	-4.19	79.69	10.33
Denmark	0.20	58.84	7.81
UK	-12.82	187.83	11.99
The Netherla	-4.00	69.76	10.08
Finland	-4.35	82.03	21.00

Sources: Thomson Reuters and IFS

Unemployment

Sweden was suffering from labour market mismatch, with unfilled vacancies coinciding with high unemployment for low-skilled workers and immigrants. The pandemic has exacerbated this problem. Sweden's unemployment rate declined to 8.0% in July 2021, from 8.9% in the same month last year, as the labor market recovery continued its steady recovery from the coronavirus pandemic hit.

	Unemployment (%)	
	2019	2020
Sweden	6.77	8.29
Germany	3.20	4.31
Denmark	4.91	5.66
UK	3.74	4.34
The Netherla	3.38	4.09
Finland	6.80	7.90

Source: Intl. Finance Statistics

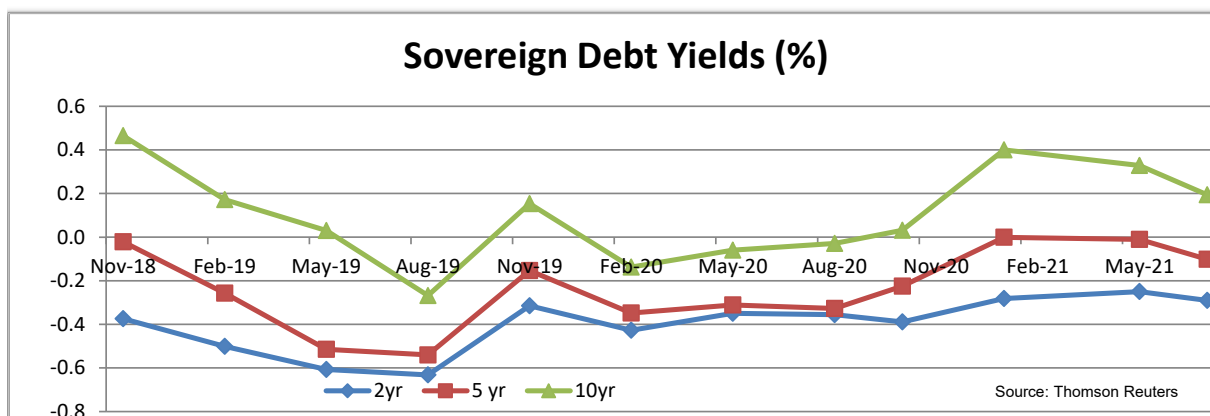
Banking Sector

Swedish banking sector is dominated by "Big Four" domestic banks, operating as universal banks. There are also a number of foreign-controlled banks, and regional savings banks. The "Big Four" Swedish banks (Skandinaviska Enskilda Banken AB, Svenska Handelsbanken AB, Swedbank AB and Nordea Bank Abp) have prominent presence in other Scandinavian Countries and Baltic States.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
Nordea Bank AB	554.8	51.34
Skandinaviska Enskilda Banken AB	3,040.4	8.45
Svenska Handelsbanken AB	3,135.3	6.19
Swedbank AB	2,594.6	7.32
Total	9,325.2	
EJR's est. of cap shortfall at 10% of assets less market cap		6.4
Sweden's GDP		4,977.4

Funding Costs

The repo rate in Sweden was negative for a long period, until it was set to zero% on January 8, 2020. The repo rate has been stable at zero% since. Headline inflation in Sweden ticked up marginally in July 2021, though price pressure is unlikely to affect central bank policy when rate-setters return from their summer recess. Consumer prices in Sweden, measured with a fixed interest rate, rose 0.3% in July from the previous month and were up 1.7% from the same month last year. The Sweden 10Y Government Bond has a 0.17% yield and the current 5-Y Credit Default Swap quotation is 9.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 10 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	10	10	0
Scores:			
Starting a Business	39	39	0
Construction Permits	31	31	0
Getting Electricity	10	10	0
Registering Property	9	9	0
Getting Credit	80	80	0
Protecting Investors	28	28	0
Paying Taxes	31	31	0
Trading Across Borders	18	18	0
Enforcing Contracts	39	39	0
Resolving Insolvency	17	17	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Sweden is above average in its overall rank of 74.7 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 74.7*				
	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	86.6	88.8	-2.2	53.6
Government Integrity	79.1	91.4	-12.3	45.9
Judicial Effectiveness	92.5	79.9	12.6	45.4
Tax Burden	43.6	43.6	0.0	77.7
Gov't Spending	29.5	25.8	3.7	67.1
Fiscal Health	97.6	97.0	0.6	72.1
Business Freedom	83.2	85.3	-2.1	63.2
Labor Freedom	53.9	53.8	0.1	59.5
Monetary Freedom	81.5	81.2	0.3	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

KINGDOM OF SWEDEN has seen a decline in taxes of 1.9% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 1.9% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

KINGDOM OF SWEDEN's total revenue growth has been more than its peers and we assumed a 0.9% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(1.3)	(1.9)	(1.9)	0.5
Social Contributions Growth %	0.6	(1.0)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	1.5	(3.8)	(3.8)
Total Revenue Growth%	(2.4)	(1.5)	(0.9)	(0.8)
Compensation of Employees Growth%	4.5	1.7	1.7	1.7
Use of Goods & Services Growth%	4.5	1.8	1.8	1.8
Social Benefits Growth%	5.8	3.7	3.7	3.7
Subsidies Growth%	130.5	71.9		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.5	0.5	
Currency and Deposits (asset) Growth%	38.0	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	125.4	(199.2)	(1.9)	(1.9)
Shares and Other Equity (asset) Growth%	6.5	(1,223.5)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	(22.9)	77.1	(1.9)	(1.9)
Other Accounts Receivable LT Growth%	25.0	12.8	12.8	12.8
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	14.3	15.1	3.0	3.0
Currency & Deposits (liability) Growth%	1.2	9.6	9.6	9.6
Securities Other than Shares (liability) Growth%	18.4	12.0	8.4	8.4
Loans (liability) Growth%	3.6	10.3	10.3	10.3
Insurance Technical Reserves (liability) Growth%	0.0	11.4	11.4	11.4
Financial Derivatives (liability) Growth%	14.7	(15.1)	(15.1)	(15.1)
Additional ST debt (1st year)(billions SEK)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are KINGDOM OF SWEDEN's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS SEK)					
	2017	2018	2019	2020	P2021	P2022
Taxes	1,907	1,974	2,018	1,979	1,941	1,904
Social Contributions	153	165	172	170	171	172
Grant Revenue						
Other Revenue						
Other Operating Income	<u>283</u>	<u>307</u>	<u>317</u>	<u>322</u>	<u>322</u>	<u>322</u>
Total Revenue	2,343	2,446	2,507	2,471	2,434	2,398
Compensation of Employees	585	614	636	647	658	670
Use of Goods & Services	365	384	395	403	410	418
Social Benefits	763	781	797	826	857	888
Subsidies	74	80	81	140	140	140
Other Expenses				339	339	339
Grant Expense						
Depreciation	146	155	162	166	166	166
Total Expenses excluding interest	<u>2,195</u>	<u>2,305</u>	<u>2,374</u>	<u>2,521</u>	<u>2,570</u>	<u>2,620</u>
Operating Surplus/Shortfall	148	141	134	-50	-136	-222
Interest Expense	<u>20</u>	<u>22</u>	<u>20</u>	<u>16</u>	<u>16</u>	<u>16</u>
Net Operating Balance	128	119	113	-66	-151	-238

ANNUAL BALANCE SHEETS

Below are KINGDOM OF SWEDEN's balance sheets with the projected years based on the assumptions listed on page 5.

	ANNUAL BALANCE SHEETS					
	(BILLIONS SEK)					
Base Case	2017	2018	2019	2020	P2021	P2022
ASSETS						
Currency and Deposits (asset)	189	178	166	221	221	221
Securities other than Shares LT (asset)	597	555	552	510	510	510
Loans (asset)	15	31	-47	47	46	45
Shares and Other Equity (asset)	-26	-27	-8	93	95	97
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	32	29	29	52	51	50
Other Accounts Receivable LT	459	555	582	656	740	835
Monetary Gold and SDR's						
Other Assets					2,931	2,931
Additional Assets	<u>2,645</u>	<u>2,716</u>	<u>2,998</u>	<u>2,931</u>		
Total Financial Assets	3,910	4,037	4,272	4,510	4,594	4,689
LIABILITIES						
Other Accounts Payable	381	447	489	562	579	596
Currency & Deposits (liability)	69	75	69	75	75	75
Securities Other than Shares (liability)	1,373	1,334	1,202	1,346	1,460	1,582
Loans (liability)	554	565	590	650	802	1,040
Insurance Technical Reserves (liability)	403	437	473	527	587	654
Financial Derivatives (liability)	24	21	21	18	15	13
Other Liabilities						
Liabilities	2,804	2,879	2,843	3,179	3,414	3,747
Net Financial Worth	<u>1,106</u>	<u>1,157</u>	<u>1,429</u>	<u>1,331</u>	<u>1,180</u>	<u>942</u>
Total Liabilities & Equity	3,910	4,037	4,272	4,510	4,594	4,689

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA+" whereas the ratio-implied rating for the most recent period is "AA"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer KINGDOM OF SWEDEN with the ticker of 1179Z SS we have assigned the senior unsecured rating of AA+.

There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	6.0	10.0	2.0	AA	AA	AA-
Social Contributions Growth %	7.0	10.0	4.0	AA-	AA-	AA-
Other Revenue Growth %		3.0	(3.0)	AA-	AA-	AA-
Total Revenue Growth%	7.0	9.0	5.0	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA-	AA-	AA-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

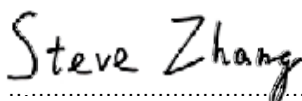


Subramanian NG
Senior Rating Analyst

September 2, 2021

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

September 2, 2021

(Note, see our senior report for additional disclosures.)

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.