

# RatingsDirect®

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## Goteborg (City of)

**Primary Credit Analyst:**

Linus Bladlund, Stockholm + 46-8-440-5356; linus.bladlund@spglobal.com

**Secondary Contact:**

Erik A Karlsson, Stockholm + 46(0)84405924; erik.karlsson@spglobal.com

### Table Of Contents

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Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria

Related Research

# Goteborg (City of)

This report does not constitute a rating action.

## Key Rating Factors

### Issuer Credit Rating

AA+/Stable/A-1+  
*Nordic Regional Scale*  
--/--/K-1

Credit context and assumptions	Base-case expectations
<p>The local parliamentary situation remains fragmented, characterized by give-and-take politics.</p> <ul style="list-style-type: none"><li>• The ruling coalition only holds 30% of local parliament seats, complicating the implementation of policy reforms and efficiency measures.</li><li>• One dividing issue concerns the city's dividends from the company sector, since the minority government lacks support to reduce these to a more sustainable level.</li></ul>	<p>Continued central government support will mitigate pressure on operating performance through 2023.</p> <ul style="list-style-type: none"><li>• Stronger tax revenue growth, driven by improved labor market fundamentals, will boost the city's performance metrics throughout the forecast period.</li><li>• That said, the city's and company sector's investment needs will remain high, leading to a steady debt build-up.</li><li>• Despite high capital expenditure (capex), S&amp;P Global Ratings expects the city will remain committed to its financial policies and uphold the strong liquidity position.</li></ul>

## Outlook

The stable outlook reflects our expectation that Göteborg, despite the challenging parliamentary situation and financial hurdles triggered by the COVID-19 pandemic, will maintain its sound financial position and post relatively stable operating results through 2023. We expect management will uphold budgetary discipline and remain committed to its conservative financial policies. Furthermore, despite high investment needs in the coming years caused by the city's expanding population, we expect Göteborg's experienced treasury will limit debt accumulation and adhere to its internal policies.

### Downside scenario

We could consider lowering the ratings if a negative budgetary trajectory led to deficits after capital accounts structurally above 10% of total revenue, or the debt burden expanded beyond our base-case expectations.

Furthermore, we could take a negative rating action if medium-term systemic support to the local and regional government (LRG) sector proves insufficient.

### Upside scenario

We could raise the ratings if a higher degree of political consensus, with Göteborg maintaining tighter control over expenditure, leads to structurally improved operating margins at above 5% of revenue. In this scenario, we also expect the city's debt burden would decrease owing to stronger cash flow generation.

## Rationale

We expect Göteborg's operating performance will remain relatively stable through 2023, owing to continued central government support and stronger tax revenue growth from improved labor market fundamentals in Sweden. However, like other LRGs in Sweden, Göteborg faces demographic challenges, driven partly by an unfavorable old-age dependency ratio, which will spur expenditure growth in the coming years. Also, the city's political situation remains challenging due to the fragmented parliament governed by a minority government. Because of Göteborg's high investment needs in the coming years, we expect debt will increase through 2023, although the lion's share will be on-lent to financially strong subsidiaries, in particular the housing company.

### **The fragmented parliamentary situation remains, while sector-wide risks could pressure credit quality**

The political situation remains challenging in Göteborg as the ruling center-right coalition holds only 30% of local parliament seats. The fragmented parliamentary situation has resulted in give-and-take politics, since the ruling coalition has been unable to proceed with all its priorities. This became evident during the budgeting process in November 2019, when the opposition voted against the coalition's proposed budget, pointing to exorbitant efficiency measures proposed for the educational department. We believe this incident pointed to the political leadership's lack of support to implement necessary policy reforms to contain the city's spending and debt burden. On the other hand, we consider the civil servant team highly experienced, especially that in charge of the treasury department.

We consider the institutional framework in Sweden to be extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the LRG sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the sector, supports our view.

However, before the COVID-19 pandemic, the sector's budgetary performance had structurally deteriorated due to increasing expenditure, accentuated by central government policymaking, insufficient compensation mechanisms, and LRGs' inadequate countermeasures. Furthermore, how the central government aims to address the sector's demographic challenges, and to what extent it should provide financial support, are unclear. Consequently, we assess the institutional framework trend as weakening.

Göteborg benefits from Sweden's strong economic position, demonstrated by our national GDP per capita forecast of about \$60,800 in 2021. Göteborg is Sweden's second-largest city and, as an industrial and regional center, a hub for international trade. Its employment structure and socioeconomic profile are roughly on par with national levels.

## **Stronger tax revenue growth will mitigate pressure on the city's performance metrics, but debt continues to rise**

In line with the Swedish LRG sector as a whole, Göteborg posted an abnormally strong operating result in 2020 due to the extensive central government support distributed in light of the COVID-19 pandemic. In 2021-2023, we expect lingering effects from the pandemic and gradually decreasing extraordinary government support will translate into more normal performance metrics compared with the inflated result in 2020. However, a relatively large share of the government grants announced last year were made permanent, and additional support to the elderly care sector was announced as part of the 2021 Budget Bill. In addition, following positive developments in the Swedish labor market, we expect stronger tax-revenue growth in the coming years compared with six months ago. However, given the city's upcoming challenges, including demographic issues, we expect Göteborg's operating balance margins will remain below 5% on a structural basis.

In our view, the relatively large dividends Göteborg has extracted from its company sector are unsustainable, since they could impair government-related entities' (GREs') financial stability. The ruling coalition's ambition is to structurally reduce dividends, but the fragmented political situation complicates the implementation, given opposition from some parties.

We forecast Göteborg's deficits after capital accounts will remain notable throughout the forecast period, driven by high investment needs at both the municipality and the companies. Most importantly, we expect the borrowing needs of housing company Förvaltnings AB Framtiden (AA-/Stable/A-1+), which is the main spur of debt accumulation in the company sector, will remain notable through 2023. In contrast, property company Higab recently sold assets that will mitigate the aggregate borrowing needs in the company sector in 2021. Consequently, we expect the city's debt accumulation will be lower than in our previous base case.

Göteborg's debt and liquidity management is centralized via the in-house bank, which is responsible for the city's and the companies' funding needs. We consider it a mitigating factor that Göteborg has on-lent a significant share of its debt to companies that, in our view, have strong and stable business risk profiles. These companies are Framtiden and water and waste firm Gryaab. Furthermore, we regard the city's contingent liabilities, including its joint and several guarantee extended to Kommuninvest, as limited.

Göteborg's liquidity position remains very strong; we estimate the weighted debt service coverage ratio at 152%. The city recently contracted additional facilities and extended existing contracts, resulting in a total increase in available liquidity sources. The decision can be seen in the light of the city's expanding debt burden and the maturity of the 'AAA' rated covered bonds portfolio in March next year. We forecast relatively stable debt repayments throughout the forecast period, although high investments will weigh negatively on the liquidity ratio. That said, we expect Göteborg's experienced treasury department will secure additional liquidity sources if needed to maintain a strong liquidity position. Furthermore, in line with other rated Swedish LRGs, Göteborg has a strong track record of reliable access to external financing.

## Key Statistics

Table 1

Goteborg (City of) Selected Indicators						
(Mil. SEK)	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenues	42,050	43,550	43,821	44,800	45,938	46,773
Operating expenditures	40,177	41,699	40,306	42,514	43,760	44,667
Operating balance	1,873	1,851	3,515	2,285	2,179	2,106
Operating balance (% of operating revenues)	4.5	4.3	8.0	5.1	4.7	4.5
Capital revenues	2,163	1,652	1,254	1,309	1,847	1,320
Capital expenditures	4,950	5,682	6,010	6,000	6,487	6,500
Balance after capital accounts	(914)	(2,179)	(1,241)	(2,406)	(2,461)	(3,074)
Balance after capital accounts (% of total revenues)	(2.1)	(4.8)	(2.8)	(5.2)	(5.2)	(6.4)
Debt repaid	5,939	9,872	10,055	10,222	11,950	10,384
Gross borrowings	6,916	12,965	13,208	13,833	18,629	16,822
Balance after borrowings	(257)	(446)	639	(441)	(0)	0
Direct debt (outstanding at year-end)	38,313	41,879	45,032	48,643	55,322	61,760
Direct debt (% of operating revenues)	91.1	96.2	102.8	108.6	120.4	132.0
Tax-supported debt (outstanding at year-end)	43,093	47,098	50,805	54,416	61,095	67,533
Tax-supported debt (% of consolidated operating revenues)	73.0	76.5	82.2	86.1	94.4	102.5
Interest (% of operating revenues)	1.0	1.0	1.0	1.0	1.0	1.0
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	477,094	493,600	481,951	506,733	528,119	545,883

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful. SEK--Swedish krona.

## Ratings Score Snapshot

Table 2

Goteborg (City of) Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+

Table 2

### Goteborg (City of) Ratings Score Snapshot (cont.)

Key rating factors	Scores
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

## Key Sovereign Statistics

- Sweden, Aug. 16, 2021

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Sept. 8, 2021
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020
- COVID-19 Could Further Strain Swedish LRGs' Budgets, May 20, 2020
- Swedish Government To Mitigate Impact From Coronavirus On Local And Regional Governments, March 11, 2020
- Public Finance System Overview: Swedish Municipalities And Regions, Dec. 3, 2019

### Ratings Detail (As Of September 13, 2021)\*

Goteborg (City of)		
Issuer Credit Rating		AA+/Stable/A-1+
<i>Nordic Regional Scale</i>		--/--/K-1
Commercial Paper		A-1+
<i>Nordic Regional Scale</i>		K-1
Senior Unsecured		AA+
Short-Term Debt		A-1+
Issuer Credit Ratings History		
30-Nov-2007	<i>Foreign Currency</i>	AA+/Stable/A-1+
21-Jun-2007		AA/Positive/A-1+

**Ratings Detail (As Of September 13, 2021)\*(cont.)**

10-Apr-2000		AA/Stable/A-1+
30-Nov-2007	<i>Local Currency</i>	AA+/Stable/A-1+
21-Jun-2007		AA/Positive/A-1+
10-Apr-2000		AA/Stable/A-1+
31-Dec-1998	<i>Nordic Regional Scale</i>	--/--/K-1

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

**Additional Contact:**

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

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