

City of Goteborg

March 11, 2024

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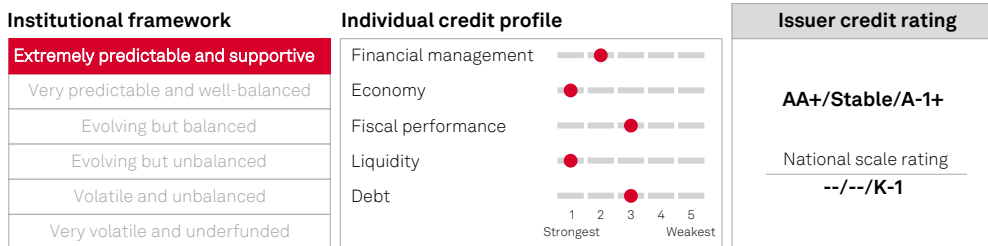
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Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions

--Sweden's extremely predictable and supportive institutional framework underpins the ratings on the City of Göteborg.

--Göteborg's financial management is underpinned by sound cost control as well as risk-averse liquidity and debt practices.

--The city's economic position is supported by a robust labor market and solid socioeconomic fundamentals.

Base-case expectations

--Although Göteborg's budgetary performance will weaken in 2024, we expect gradual improvements thereafter on the back of robust tax revenue growth and less inflationary cost pressure.

--High investment needs will continue to spur debt accumulation in the coming years, but a notable portion of debt will be on-lent to financially strong companies.

--We expect management will remain committed to maintaining a strong liquidity position, which is supported by readily available access to external financing.

S&P Global Ratings expects Göteborg's budgetary performance will remain resilient and gradually improve through 2026 on the back of decreased inflationary cost pressure and

solid tax revenue growth. We think Göteborg will remain committed to budgetary discipline and implement efficiency measures to meet internal surplus targets and uphold a sound financial position. Because of the city's high investment needs in the coming years, we expect its debt will continue to increase. That said, a significant share will be on-lent to financially strong subsidiaries. Moreover, we expect the financial management will remain committed to conservative financial policies, which, in combination with numerous readily available funding channels, underpin the strong liquidity position.

Outlook

The outlook on the 'AA+' long-term rating on Göteborg is stable. It reflects our expectation that Göteborg, on the back of a less fragmented political landscape, will maintain a sound financial position and post relatively steady operating results through 2026, despite weaker macroeconomic fundamentals and inflationary pressure. We expect management will uphold budgetary discipline and remain committed to its conservative financial policies.

Downside scenario

We could consider lowering the ratings if management fails to address a negative budgetary trajectory that could lead to deficits after capital accounts structurally above 10% of total revenue.

Upside scenario

We could raise the ratings if Göteborg tightens control over expenditure, translating into operating balances above 5% on a structural basis. Ratings upside would also hinge on a considerable reduction in debt, potentially on the back of divestments in the company sector.

Rationale

An extremely supportive institutional framework and sound financial management continue to support Göteborg's credit quality

We consider the institutional framework in Sweden extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. Historically, the central government has provided extensive support to the local and regional government (LRG) sector, for example through additional grants distributed in response to the pandemic or more recently to cover rising pension costs (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Since the September 2022, Göteborg is governed by a minority coalition consisting of the Social Democrats, the Left Party, and the Green Party; together, they hold 40 out of the 81 seats in the local parliament. However, the ruling coalition has a technical agreement with the Centre Party that allows for budgets to be passed without any major hurdles. This leads us to believe the political situation is more stable than that of the previous term, during which a weak right-leaning government was unable to get support for all its priorities, resulting in give-and-take politics. Moreover, the city has a track record of budgetary discipline, underpinned by sound cost control and forceful responses to deficits in budgetary units. At the same time, the treasury department activities are based on comprehensive and risk-minimizing financial policies.

Göteborg is Sweden's second-largest city and, as an industrial and regional center, a hub for international trade. As a result, the city has a vibrant and diversified labor market that also attracts many employees from surrounding municipalities. Its employment structure and socioeconomic profile are roughly on par with national levels. Moreover, Göteborg benefits from Sweden's strong economic position, demonstrated by our national GDP per capita forecast of about \$57,600 in 2024.

Robust tax revenue growth and less inflationary cost pressure should mitigate budgetary pressure amid further rising capital spending

Propped up by strong operating performance in recent years, Göteborg's budgetary performance should gradually strengthen through 2026, after a dip in 2024. Last year, inflationary pressure resulted in higher expenditure growth than expected when the budget was announced. Nevertheless, the labor market in Sweden has remained robust, translating into stronger tax revenue growth than anticipated.

We expect cost inflation to squeeze Göteborg's budgetary performance in 2024. Importantly, a new pension agreement will impair Swedish LRGs' operating results. In addition, annual pension provisions will increase since these are indexed to inflation. Based on our inflation projections, we expect these provisions will remain elevated throughout this year. These provisions, however, do not generate cash outflow. This means that our calculated performance metrics are not affected (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023). Still, the city considered the significant accrual-based impact of higher pension costs and budgeted for a negative bottom-line result in 2024. If this scenario materializes, Göteborg plans to use some of its accumulated equity reserves to meet the balanced budget requirement.

For 2025-2026, we expect Göteborg's performance metrics will gradually strengthen as cost pressure abates and tax revenue growth remains robust. Still, we expect the city's operating balances will remain structurally below 5%, partly due to the challenges from an aging population. Moreover, we expect management will stay committed to budgetary discipline and adhere to the municipality's financial targets.

We expect Göteborg's deficits after capital accounts will average 3.5% over 2024-2026 because of sizable investment needs. Investments in infrastructure, public service facilities, and sustainability constitute important drivers of capital expenditure. On the capital revenue side, we also expect substantial inflows of land development gains, especially in 2025.

In the company sector, we expect the borrowing needs of housing company Förvaltnings AB Framtiden (AA-/Negative/A-1+), which is the main spur of debt accumulation in the company sector, will remain notable through 2026. In January 2024, the company announced that it had acquired building permits for a value of Swedish krona (SEK) 1 billion, lifting its borrowing needs for the year. At the same time, the energy company, Göteborg Energi AB, has increased its borrowing needs, partly due to investments related to sustainability targets. Factoring in these investment needs, we expect the city's debt will reach about 128% of operating revenue by 2026, from 109% in 2023.

We assume minimal financial consequences from the February 12 fire at the construction site of the Oceana water park. Municipal amusement park company Liseberg owns the facility, where the causes of the extensive fire are still unclear. The company board has agreed to reconstruct the facility, but it's difficult to estimate how much of a delay/setback this creates for the project's completion. We assume, however, that the insurance contracts in place will shield both Liseberg and the city from any pronounced impact on their respective performance indicators.

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. In our view, that Göteborg has on-lent a significant share of its debt to companies with strong and stable business risk profiles mitigates any potential risks from this centralization. These companies are the housing

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company Framtiden and the water and waste company Gryaab. If we adjust for the on-lending to these companies, the debt ratio falls to 74%. Furthermore, we regard the city's contingent liabilities, including its joint and several guarantee extended to Swedish LRG financing entity Kommuninvest, as limited.

Weighing higher interest rates into our analysis, we expect Göteborg will post elevated interest expenses through 2026. That said, we expect the interest rate on new borrowings will gradually decrease. Moreover, given that Göteborg has on-lent a significant portion of its debt to the company sector, a part of these expenses will be channeled through to the municipal companies and reflected in higher financial revenue, easing the impact on the city's budgetary performance.

Göteborg's liquidity position remains strong, supported by ample amounts of committed facilities, and we estimate the weighted-debt service coverage ratio at 107%. Despite some volatility in the city's upcoming debt repayments through 2026, we expect the liquidity ratio will remain solid. Moreover, we believe Göteborg stands out positively among Swedish LRGs when it comes to access to external liquidity. As one of the largest municipal issuers in the Nordics, the city has been active on the capital markets for decades and has developed a strong name recognition among investors. At the same time, Göteborg has access to a broad range of funding currencies and channels, including bonds, commercial paper, Kommuninvest, the European Investment Bank, the Nordic Investment Bank, and the Council of Europe Development Bank.

City of Goteborg Selected Indicators

Mil. SEK	2021	2022	2023e	2024bc	2025bc	2026bc
Operating revenue	45,233	47,719	51,554	52,812	54,598	56,557
Operating expenditure	42,266	44,415	47,877	50,676	52,208	54,015
Operating balance	2,967	3,304	3,677	2,136	2,390	2,542
Operating balance (% of operating revenue)	6.6	6.9	7.1	4.0	4.4	4.5
Capital revenue	2,479	2,010	1,678	1,624	2,066	1,334
Capital expenditure	5,119	5,116	6,698	5,754	6,286	6,018
Balance after capital accounts	327	198	(1,343)	(1,994)	(1,830)	(2,142)
Balance after capital accounts (% of total revenue)	0.7	0.4	(2.5)	(3.7)	(3.2)	(3.7)
Debt repaid	10,222	11,400	9,970	12,417	13,632	11,250
Gross borrowings	11,704	12,525	18,695	17,892	19,134	16,531
Balance after borrowings	(263)	453	777	(1,158)	0	0
Direct debt (outstanding at year-end)	46,514	47,639	56,364	61,839	67,341	72,623
Direct debt (% of operating revenue)	102.8	99.8	109.3	117.1	123.3	128.4
Tax-supported debt (outstanding at year-end)	52,425	52,918	60,574	66,134	71,721	77,090
Tax-supported debt (% of consolidated operating revenue)	82.4	79.3	85.1	90.8	95.6	99.6
Interest (% of operating revenue)	0.8	1.1	2.6	2.8	3.0	3.9
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	61,633.8	56,560.5	56,187.9	57,592.7	62,280.7	66,686.6

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. SEK--Swedish krona. \$--U.S. dollar.

City of Goteborg Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+
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

- Sovereign Risk Indicators, Dec. 11, 2023. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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 Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023

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- Forvaltnings AB Framtiden Outlook Revised To Negative; 'AA-/A-1+' And 'K-1' Ratings Affirmed, Oct. 26, 2023
- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023

Ratings Detail (as of March 06, 2024)*

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+
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.

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