S&P Global
Ratings

RatingsDirect®

Goteborg (City of)

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
- The impending elections could alter the fragmented political landscape in the city of Göteborg.	- High investment needs will continue spur debt accumulation in the coming years.
- Despite weaker macroeconomic fundamentals and rising inflation, we expect Göteborg will post relatively robust operating results through 2024.	- That said, a notable portion of debt will be onlent to the financially strong housing company, Förvaltnings AB Framtiden.
- Sectorwide risks have lessened on the back of strong central government support implemented since the start of the COVID-19 pandemic.	- Although interest expenses are set to increase in the coming years, we believe Göteborg has sufficient headroom to absorb the financial effect, partly as a result of onlending to its municipal companies.

We expect Göteborg's operating performance will remain resilient through 2024, albeit somewhat weaker compared with the inflated results in 2020 and 2021. The deterioration will stem from diminishing central government grants and accelerated operating expenditure growth caused by normalizing demand for municipal services as the pandemic fades. We also expect inflationary pressure, higher pension costs, and other spillover effects from the military conflict in Ukraine will add to the pressure on Göteborg's performance metrics. That said, we believe Göteborg will remain committed to budgetary discipline and implement efficiency measures to meet internal surplus targets and uphold a sound financial position. Furthermore, although it is too early to tell, the city's political situation could stabilize after the upcoming elections if a stronger ruling coalition can be formed. Because of

Göteborg's high investment needs in the coming years, we expect debt will increase gradually through 2024, although a significant share will be on-lent to financially strong subsidiaries, in particular the housing company.

Outlook

The stable outlook reflects our expectation that Göteborg--despite the challenging parliamentary situation, weaker macroeconomic fundamentals, and inflationary pressure--will maintain a sound financial position and post relatively stable operating results through 2024. 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 if the debt burden expanded beyond our base-case expectations.

Upside scenario

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

Rationale

The fragmented political landscape could stabilize after the impending elections

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, as 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 aggressive efficiency measures proposed for the educational department. We believe this incident highlighted the political leadership's lack of support to implement necessary policy reforms to contain the city's spending and debt burden. On Sept. 11, elections are being held in all tiers of government in Sweden, which could pave the way for a more stable political landscape in the city. However, it is difficult to predict the outcome. Furthermore, we consider the civil servant team highly experienced, especially the team 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 local and regional government (LRG) sector's revenue and expenditure management is based on a far-reaching equalization system and tax autonomy. Since the outbreak of COVID-19, the central government has remained supportive of the LRG sector, implementing both direct and indirect support packages to boost operating performance for Swedish LRGs. Although structural challenges remain and budgetary performance could weaken somewhat as extraordinary support is phased out, we regard the risk of a material deterioration of the sector's financial stability as limited. Consequently, we see the trend on the institutional framework assessment for Swedish municipalities and counties as stable (see "Institutional Framework Assessment: Swedish Municipalities And Counties," published Dec. 13, 2021, on RatingsDirect).

Göteborg benefits from Sweden's strong economic position, demonstrated by our national GDP per capita forecast of about $59,200 in 2022. 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.

Resilient tax revenue growth will mitigate pressure on the city's performance metrics, but high investment needs will spur debt accumulation

We project that Göteborg will report weaker operating results in the coming years, compared with the abnormally strong results in 2020 and 2021. We expect the challenges will emerge from the gradual decline in government support and higher expenditure growth in some budgetary units as the pandemic fallout abates. At the same time, inflationary pressure and higher interest expenses will further strain Göteborg's performance metrics through 2024. In addition, pension costs are set to rise in 2023 because of the new agreement for public employees and higher price levels. That said, the majority of the city's operating revenue is comprised of personal income tax, meaning that Göteborg's budgetary performance is shielded from rising inflation to a certain extent. Moreover, despite weaker macroeconomic fundamentals, we expect tax revenue growth will remain resilient and counterbalance negative effects on the operating expenditure side. Furthermore, we expect management will remain committed to budgetary discipline and financial targets, while maintaining operating balances structurally above 5%.

Although the conflict in Ukraine will continue affecting Swedish LRGs, both directly through higher expenditure and indirectly as a result of a global economic slowdown, we believe the central government will remain supportive and compensate most of LRGs' additional costs, similar to the 2015 European refugee crisis. However, should the conflict lead to notable and permanent immigration to Göteborg, it could spur additional capital spending and cause increased deficits after capital accounts for the city. That said, a limited number of refugees have arrived in Göteborg so far.

We forecast Göteborg's deficits after capital accounts will remain notable throughout the forecast period, driven by high investment needs in both the municipality and the companies. To an extent, this will be counterbalanced by asset sales and land development gains in the coming years. In the company sector, 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 significant through 2024, albeit somewhat lower than six months ago. In contrast, due to the divestment of a subsidiary, the energy company Göteborg Energi AB now forecasts debt reduction in 2022. Overall, we expect the city's debt accumulation will be lower than in our previous base case, with debt reaching 121% of operating revenue in 2024.

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 the housing company Framtiden and the water and waste firm Gryaab. If we adjust for the onlending to these companies, the debt ratio falls to 66%. Furthermore, we regard the city's contingent liabilities, including its joint and several guarantee extended to Kommuninvest, as limited.

We assume the Swedish central bank, the Riksbank, will continue to raise interest rates to combat rising inflation. As a result, we expect a substantial uptick in the city's interest expenses throughout the forecast period, reaching 3.6% of operating revenue in 2024. 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, counterbalancing the effect on the city's operating performance.

Göteborg's liquidity position remains strong: we estimate the weighted debt service coverage ratio at 128%. The city recently contracted additional facilities and extended existing contracts, resulting in an increase in available liquidity sources. The decision can be seen in light of the city's expanding debt burden and the maturity of the 'AAA' rated covered bonds portfolio. 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.

City of Goteborg Selected Indicators

Mil. SEK	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	43,550	43,821	44,800	47,216	48,785	50,757
Operating expenditure	41,699	40,306	42,514	44,782	46,979	48,692
Operating balance	1,851	3,515	2,285	2,434	1,806	2,065
Operating balance (% of operating revenue)	4.3	8.0	5.1	5.2	3.7	4.1

City of Goteborg Selected Indicators

Capital revenue	1,652	1,254	1,309	1,982	1,220	1,542
Capital expenditure	5,682	6,010	6,000	5,742	6,687	6,875
Balance after capital accounts	(2,179)	(1,241)	(2,406)	(1,326)	(3,661)	(3,268)
Balance after capital accounts (% of total revenue)	(4.8)	(2.8)	(5.2)	(2.7)	(7.3)	(6.3)
Debt repaid	9,872	10,055	10,222	11,400	8,564	10,414
Gross borrowings	12,965	13,208	13,833	11,837	16,527	16,977
Balance after borrowings	(446)	639	(441)	(3,178)	0	0
Direct debt (outstanding at year-end)	41,879	45,032	48,643	46,951	54,914	61,477
Direct debt (% of operating revenue)	96.2	102.8	108.6	99.4	112.6	121.1
Tax-supported debt (outstanding at year-end)	47,098	50,805	54,416	52,981	61,064	67,750
Tax-supported debt (% of consolidated operating revenue)	76.5	82.2	86.1	80.3	89.9	96.4
Interest (% of operating revenue)	1.0	1.0	1.0	1.7	2.8	3.6
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,186.7	52,970.2	61,302.8	59,177.2	63,590.8	68,804.9

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.

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+
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, July 11, 2022. An interactive version is available at 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 Assessments For International Local And Regional Governments, July 26, 2022
- Southern Swedish LRGs Bear The Brunt Of Surging Electricity Prices, July 20, 2022
- Sweden, May 2, 2022
- Swedish Local Governments Are Holding Up Against Cyber Attacks, Jan. 26, 2022
- Swedish Municipalities And Counties, Dec. 13, 2021

Ratings Detail (as of September 08, 2022)*

Goteborg (City of)	
Issuer Credit Rating	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Commercial Paper	A-1+
Nordic Regional Scale	K-1
Senior Unsecured	AA+
Short-Term Debt	A-1+

Issuer Credit Ratings History

Ratings Detail (as of September 08, 2022)*

30-Nov-2007	*Foreign Currency*	AA+/Stable/A-1+
21-Jun-2007		AA/Positive/A-1+
10-Apr-2000		AA/Stable/A-1+
30-Nov-2007	*Local Currency*	AA+/Stable/A-1+
21-Jun-2007		AA/Positive/A-1+
10-Apr-2000		AA/Stable/A-1+
31-Dec-1998	*Nordic Regional Scale*	--/--/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.