

# City of Goteborg

March 10, 2025

This report does not constitute a rating action.

## Ratings Score Snapshot

### Institutional framework

Extremely predictable and supportive
Very predictable and well-balanced
Evolving but balanced
Evolving but unbalanced
Volatile and unbalanced
Very volatile and underfunded

### Individual credit profile



### Issuer credit rating

**AA+/Stable/A-1+**

National scale rating

**--/--/K-1**

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## 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

--Göteborg will maintain slightly stronger operating balances of about 5% as inflationary pressures on its expenditures subside, while performance in accrual terms will remain subdued.

-- Due to high investment needs in the municipal group companies, debt accumulation will remain high, reaching 135% of revenues by 2027, up from 112% in 2024.

--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 through 2027 on the back of decreased inflationary cost pressure and solid tax revenue growth.**

Improved economic development and lower inflation will help Göteborg's financial management to maintain stronger operating balances.

**Rising capital expenditures, mainly carried out by municipal companies, will lead to accelerated debt accumulation.** Due to high investment needs in the coming years, we expect the city's debt will continue to increase. That said, most of the borrowing needs are related to

investments made by the companies within the municipal group, with the city providing the funds through on-lending to meet these needs.

**A key credit strength is Sweden's institutional framework, which we view as extremely predictable and supportive.** We consider the framework to be very stable, with the sector's revenue and expenditure management supported by a comprehensive equalization system and tax autonomy. Historically, the central government has provided extensive support to the local and regional government (LRG) sector.

## Outlook

The outlook on the 'AA+' long-term rating on Göteborg is stable. This 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 2027. 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 significantly increases infrastructure investments that result in deficits after capital accounts exceeding 10% of total revenue, leading to higher debt levels.

### Upside scenario

We could raise the ratings if Göteborg tightens its control over expenditure, translating into stronger performance on a structural basis. A ratings upside would also hinge on considerable debt reduction, potentially on the back of divestments in the company sector or a significant increase in revenues.

## Rationale

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

We consider Sweden's institutional framework to be highly predictable and supportive. It demonstrates a strong degree of stability, with revenue and expenditure management supported by a comprehensive equalization system and tax autonomy. Historically, the central government has provided extensive support to the LRG sector, such as additional grants during the pandemic and more recently to address rising pension costs (see "Swedish Municipalities And Regions Have Flexibility To Balance Costs," published Nov. 29, 2023, on RatingsDirect).

Since September 2022, Göteborg has been governed by a minority coalition comprising the Social Democrats, the Left Party, and the Green Party. Together, they hold 40 of the local parliament's 81 seats. However, the ruling coalition has a technical agreement with the Centre Party that allows for budgets to be passed without any major hurdles. Moreover, the city has a track record of budgetary discipline, underpinned by sound cost control and a forceful response to deficits in budgetary units--exemplified by the very strong operating performance in 2024--which we think will keep performance high in coming years. At the same time, treasury department activities are based on comprehensive and risk-minimizing financial policies. Göteborg centralizes debt and liquidity management for the entire municipal group through its

in-house bank's cash pooling system. This enhances economies of scale and improves efficiency in treasury activities across the various companies within the group.

Göteborg is Sweden's second-largest city and serves as an industrial and regional center, making it a hub for international trade. As a result, the city has a vibrant and diversified labor market that 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 \$62,700 in 2025.

## **Structural improvements in the operating balance will help offset higher investments needs**

We anticipate Göteborg's operating performance will remain solid through 2027, with an operating surplus above 5% of operating revenues. In 2024, the city's operating performance was significantly higher than expected, partly due to a higher share of expenditures being non-cash items--which will largely decrease in 2025--and municipal boards not fully using their allocated funds.

Due to sizable investment needs, we expect Göteborg's deficits after capital accounts will average a moderate 4.5% over 2025-2027. Investments in infrastructure, public service facilities, and sustainability are key drivers of capital expenditure, and this level will remain elevated beyond our current forecast horizon. Although Göteborg conducts a significant portion of its water investments through its municipal accounts, we see an increase in wastewater operation investments made by its subsidiary, Gryaab.

High investment needs in the municipal companies will lead to accelerating debt accumulation. We expect the city's debt will reach about 135% of operating revenue by 2027, from 112% in 2024. We expect the borrowing needs of energy company Göteborg Energi AB will average Swedish krona (SEK) 1.2 billion until 2027. This, together with housing company Förvaltnings AB Framtiden (AA-/Negative/A-1+), will be the main spur of debt accumulation. Overall, government-related entities will require annual on-lending of SEK4 billion during this period, while the municipality average of more than SEK2 billion in financing needs will push debt accumulation upward.

In our view, Göteborg has on-lent a significant portion of its debt to Framtiden, which has a strong and stable business risk profile that helps mitigate the risks associated with the additional debt on the municipal balance sheet. If we adjust for the on-lending to Framtiden, the debt ratio falls to 87%. Furthermore, we regard the city's contingent liabilities, including its joint and several guarantees to the Swedish LRG financing entity Kommuninvest, to be limited.

Interest expenditures will remain elevated compared to historical figures, although market rates have come down significantly in the past year. Moreover, given that Göteborg has on-lent a significant portion of its debt to the company sector, a portion 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 committed facilities, and we estimate the weighted-debt service coverage ratio to be 108%. We expect the liquidity ratio will remain solid. Moreover, we think Göteborg stands out positively among Swedish LRGs when it comes to external liquidity access. As one of the largest municipal issuers in the Nordics, the city has been active in the capital markets for decades, establishing strong recognition among investors. At the same time, Göteborg has access to a broad range of funding currencies and

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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	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	47,719	51,554	54,656	55,901	57,837	59,731
Operating expenditure	44,415	47,877	49,499	52,931	54,878	56,664
Operating balance	3,304	3,677	5,157	2,971	2,959	3,067
Operating balance (% of operating revenue)	6.9	7.1	9.4	5.3	5.1	5.1
Capital revenue	2,010	1,678	2,351	1,725	1,738	1,820
Capital expenditure	5,116	6,698	8,195	7,199	7,421	7,678
Balance after capital accounts	198	(1,343)	(687)	(2,503)	(2,724)	(2,791)
Balance after capital accounts (% of total revenue)	0.4	(2.5)	(1.2)	(4.3)	(4.6)	(4.5)
Debt repaid	11,400	9,970	8,764	12,000	7,950	9,500
Gross borrowings	12,525	18,695	13,432	19,004	14,624	15,512
Balance after borrowings	453	777	(820)	(338)	0	0
Direct debt (outstanding at year-end)	47,639	56,364	61,032	68,036	74,709	80,722
Direct debt (% of operating revenue)	99.8	109.3	111.7	121.7	129.2	135.1
Tax-supported debt (outstanding at year-end)	52,918	60,574	64,914	71,995	78,748	84,841
Tax-supported debt (% of consolidated operating revenue)	79.3	82.0	84.2	91.4	97.0	101.6
Interest (% of operating revenue)	1.1	2.6	3.0	2.7	2.6	2.5
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	55,480.1	55,610.7	60,178.7	62,713.3	66,195.7	69,217.4

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+

## City of Goteborg Rating Component Scores

Key rating factors	Scores
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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. 9, 2024 . 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
- 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 05, 2025)\*

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+

## City of Goteborg

### Ratings Detail (as of March 05, 2025)\*

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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