

# RatingsDirect®

---

## Goteborg (City of)

**Primary Credit Analyst:**

Linus Bladlund, Stockholm + 46-8-440-5356; [linus.bladlund@spglobal.com](mailto:linus.bladlund@spglobal.com)

**Secondary Contact:**

Karin Erlander, London + 44 20 7176 3584; [karin.erlander@spglobal.com](mailto:karin.erlander@spglobal.com)

### Table Of Contents

---

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 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 the 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>Extraordinary central government support will mitigate pressure on operating performance through 2023.</p> <ul style="list-style-type: none"><li>• Additional general grants, in combination with relatively strong tax revenue growth, will support the city's budgetary performance 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), we expect the city will remain committed to its financial policies and uphold the strong liquidity position.</li></ul>

## Outlook

The stable outlook reflects S&P Global Ratings' 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**

Owing to extraordinary central government support to the LRG sector in light of the COVID-19 pandemic, we expect Göteborg's operating performance will remain relatively stable through 2023. However, similar to 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 of its priorities. This became evident during the budget 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 points 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 outbreak of COVID-19, 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 \$59,700 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.

### **Government support will mitigate pressure on operating performance, but debt continues to rise**

Despite the adverse economic effects from COVID-19 and structural demographic challenges, we expect Göteborg will post relatively stable operating margins through 2023. Since the pandemic got a foothold in Sweden, the central government has announced unprecedented support packages to the LRG sector, especially for 2020. At the same time, the central government has provided extensive support to the private sector, through employment schemes, shielding tax revenue growth since the start of the pandemic. As a result, the preliminary accounts point to a very strong operating balance for 2020. Moreover, as a part of the 2021 Budget Bill, the central government announced additional support for 2021 and 2022, albeit at a declining rate. In addition, we expect lingering effects from COVID-19 and demographic factors will pressure operating performance in 2021-2023. In Göteborg's 2021 budget, the ruling coalition has incorporated extensive support to the city's municipal units, leading to relatively weak bottom-line results. For 2021 and 2022, the city also plans to draw down on accumulated equity reserves to comply with the balanced budget requirement. Structurally, we expect Göteborg's operating balances will remain below 5%.

In our view, the relatively large dividends Göteborg has extracted from its company sector are unsustainable, since they could impair the 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. Still, the financial hit from COVID-19 on some companies, especially amusement park Liseberg, means we expect somewhat lower dividends in 2021.

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. Consequently, we forecast a gradual increase in the city's debt burden over the coming years.

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 include Framtiden and Gryaab, the water and waste company. Furthermore, we regard the city's contingent liabilities, including its joint and several guarantee extended to Kommuninvest, as limited.

Göteborg's very strong liquidity position relies on a mix of contracted facilities and liquid assets, including a 'AAA' rated covered bonds portfolio and facilities with the European Investment Bank and Council of Europe Development Bank. 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 as the city's debt portfolio continues to expand. We estimate the weighted debt service coverage ratio at 144%. 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						
	2018	2019	2020e*	2021bc	2022bc	2023bc
Operating revenues	42,050	43,550	43,821	44,302	45,445	46,466
Operating expenditures	40,177	41,699	40,306	42,514	43,501	44,446
Operating balance	1,873	1,851	3,515	1,788	1,944	2,020
Operating balance (% of operating revenues)	4.5	4.3	8.0	4.0	4.3	4.3
Capital revenues	2,163	1,652	1,254	1,099	1,597	1,320
Capital expenditures	4,950	5,682	6,010	5,600	6,487	6,500
Balance after capital accounts	(914)	(2,179)	(1,241)	(2,714)	(2,946)	(3,160)
Balance after capital accounts (% of total revenues)	(2.1)	(4.8)	(2.8)	(6.0)	(6.3)	(6.6)
Debt repaid	5,939	9,872	10,055	10,222	11,950	10,384
Gross borrowings	6,916	12,965	13,208	15,907	19,497	16,938
Balance after borrowings	(257)	(446)	(639)	(441)	0	0
Direct debt (outstanding at year-end)	38,313	41,879	45,032	50,717	58,265	64,819
Direct debt (% of operating revenues)	91.1	96.2	102.8	114.5	128.2	139.5
Tax-supported debt (outstanding at year-end)	43,093	47,098	50,805	56,779	64,630	71,502
Tax-supported debt (% of consolidated operating revenues)	73.0	76.5	82.2	90.6	100.7	109.0
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	491,114	479,018	497,494	517,705	536,641

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. \*2020 figures are an estimate as we have not received finalized financial statements.

## 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 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Feb. 12, 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, Feb. 8, 2021
- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- European Local And Regional Government Risk Indicators, June 30, 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
- Sweden's Local Governments To Get A Slight Boost From 2020 Budget, Sept. 20, 2019
- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019

### Ratings Detail (As Of March 15, 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

**Ratings Detail (As Of March 15, 2021)\*(cont.)**

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.

**Additional Contact:**

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.