S&P Global
Ratings

RatingsDirect®

Goteborg (City of)

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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
The parliamentary situation remains fragmented, characterized by give-and-take politics. • The ruling coalition only holds 30% of the local parliament seats, complicating the implementation of policy reforms and efficiency measures. • 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.	Extraordinary central government support will mitigate pressure on operating performance through 2023. • Additional general grants, in combination with relatively strong tax revenue growth, will support the city's budgetary performance throughout the forecast period. • That said, the city's and company sector's investment needs will remain high, leading to a steady debt build-up. • Despite high capital expenditure (capex), we expect the city will remain committed to its financial policies and uphold the strong liquidity position.

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 perfomance	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+
Nordic Regional Scale	--/--/K-1
Commercial Paper	A-1+
Nordic Regional Scale	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	*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.

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