S&P Global Ratings

RatingsDirect®

Geneva (Republic and Canton of)

Primary Credit Analyst:
Mariamena Ruggiero, Milan + 390272111262; mariamena.ruggiero@spglobal.com

Secondary Contacts:
Hugo Soubrier, Paris +33 1 40 75 25 79; hugo.soubrier@spglobal.com
Etienne Polle, Paris (+33) 01 40 75 25 11; etienne.polle@spglobal.com

Table Of Contents

Geneva (Republic and Canton of)

This report does not constitute a rating action.

Credit Highlights

Issuer Credit Rating
AA-/Stable/--

Overview	
Credit context and assumptions	**Base-case expectations**
The pandemic's impact on Geneva's budgetary execution should be moderate over 2021-2023, since Switzerland's GDP was not as affected in 2020 as other European countries, and S&P Global Ratings anticipates a strong rebound in 2021 and 2022.	Geneva will post some deficits, at about 4.3% of total revenue on average in 2021 and 2022 but these will gradually reduce from 2023.
We believe the canton's diversified economy, large external position, and high income levels will help it weather the pandemic's impact and support its dynamic cost base.	After a one-off high deficit after capital accounts in 2020 of 59.5% of total revenue, Geneva's deficits will remain at about 4.3% over 2021 and 2022, primarily due to a contraction of the operating margin.
Tax collection in 2021 is proving stronger than expected, in particular regarding corporate tax, supporting Geneva's high social and health care costs. The delayed effects of the 2020 GDP contraction could affect Geneva's corporate and personal income tax base in 2022. This, together with Geneva's dynamic operating expenditure, will result in operating margins below 2% in 2021 and 2022 on average compared with 3.2% in 2020.	We expect the deficit to narrow to about 2.3% in 2023, due to increased tax revenue on the back of the economic rebound and a reduction in operating expenditure compared with 2021.
The rebound in GDP expected from 2021 will push up operating margins from 2023 to roughly 4% of operating revenue.	Geneva's debt will continue to increase--although slower than we previously expected--to fund its deficits, and the canton will continue to benefit from strong access to financial markets to secure its funding needs.

S&P Global Ratings expects Geneva's performance to gradually improve from 2023 as the impact of the pandemic reduces. We believe this will be primarily fueled by revenue growth but also gradually reduced social costs linked to the pandemic.

Increasing investments over 2022-2031 will not in our view weigh negatively on performance. Compared with the previous investment plan, the new 10-year investment plan is about Swiss franc (CHF) 3 billion higher, at slightly more than CHF11 billion. We expect investments will gradually increase but we do not expect them to hurt performance. Investments will focus on mobility, digital innovation, and the environment.

Outlook

The stable outlook reflects our view that deficits after capital accounts will remain moderate at about 5% of total revenue. Geneva's debt will continue to moderately increase to fund its deficits, but the canton has a very good track record of accessing markets and securing its funding needs, at both long and short terms and at very sustainable rates.

Downside scenario

We might consider a negative rating action in the next two years, if, contrary to our expectations, Geneva's budgetary deficits widened to about 10% of total revenue or more, triggering a higher increase in debt than we expect. This could come from a continuous increase in spending, including investment, or from the need to support Geneva's pension funds, as happened in 2020.

Upside scenario

We could consider a positive rating action if the canton's performance significantly improved, with strong operating margins structurally above 5% of operating revenue and modest deficits after capital accounts below 5% of total revenue. This could occur if management focused its attention on cost control, with a positive effect on performance and debt. Additionally, if the long-term sustainability of Geneva's pension system improved, this could reduce pressure on performance and have a positive impact on the canton's creditworthiness.

Rationale

The presence in Geneva of very strong value-added services support the economy and Geneva's financials

We view the institutional framework for Swiss cantons as extremely predictable and supportive, notably because major reforms are planned well in advance and widely discussed (including the corporate tax reform of 2020), and transparency and accountability standards are very high. In an international context, Swiss cantons display comparatively strong adequacy of revenue and expenditure, supported by equalization mechanisms (among cantons and from the confederation).

Geneva's GDP growth has outperformed the national average since 2017. Strong value-added activities such as the chemicals, wristwatch, and financial sectors are fueling growth, supporting Geneva's strong tax base. Lower value-added sectors such as hotels, restaurants, and construction have been comparatively more affected by the pandemic, and pressure Geneva's unemployment rate, which remains above the national average. led to an increase in Geneva's unemployment rate. After the 3% contraction of Switzerland's nominal GDP in 2020, which was moderate compared with that of many European peers, we forecast GDP growth of 4.1% in 2021 and 4.3% in 2022.

Geneva's financial management in our view is committed to financial discipline, with prudent revenue assumptions underpinning budgetary processes, to contain future deficits and expenditure growth. Nevertheless, despite very sophisticated monitoring and control tools, and long-term planning documents, we have observed some difficulties in the implementation of structural reforms to reduce costs or future liabilities. The canton would like to share more of the burden of dynamic social costs with its municipalities, since such costs are higher in Geneva than in other Cantons. However, it has so far failed to find an agreement with the municipalities. A history of large pension liabilities and difficulty in reforming the pension system, for example, by moving away from the defined benefit scheme to a defined contribution scheme after it was rejected by a popular referendum in 2019, weighs somewhat on our perception of financial management.

Geneva's debt and liquidity management remains prudent. In 2020, the canton issued almost CHF2 billion (about €1.8 billion) to fund its deficit and maintain strong access to external liquidity by securing the usual large number of short-term facilities. In January 2021, the canton issued a 38.5-year CHF70 million bond at 0% and a 20-year CHF175 million bond during the summer at 0.05%. In our view, the canton closely monitors its government-related entities and is ready to intervene in case of extraordinary needs. For example, if the airport company needed support following the fall in revenue linked to the pandemic, we expect the canton would likely provide it.

The canton's deficits should decrease gradually from 2023, thanks to revenue expansion and only moderate expenditure growth

After posting an operating balance of 3.2% of operating revenues in 2020, we forecast Geneva's operating margin will temporarily weaken to about 2% in 2021 and 2022, but recover to about 4% in 2023. We expect to see the impact of the pandemic on the tax base mainly in 2022. For these reasons, we expect the operating margin to remain below its 2020 level until 2023.

Deficits after capital accounts should remain slightly above 4% of total revenue in both 2021 and 2022, before decreasing in 2023 in line with the improvement of the operating margin. We see investment spending only gradually increasing over 2022 and 2023 by about CHF650 million per year from CHF615 million in 2021 to reflect the larger 10-year investment plan the canton has put in place to implement environment friendly investments to improve mobility and digitalization. We do not expect such investments to hamper Geneva's performance for the time being. We understand that the canton's aim is also to create new job opportunities for the lower value-added sectors that have suffered more from the impact of the COVID-19 pandemic.

The canton's tax-supported debt soared to 175% of operating revenue in 2020 from 124% in 2019, due essentially to the CHF5.3 billion debt-funded recapitalization of the two pension funds Caisse de Prévoyance de l'Etat de Genève and Fondation de prévoyance en faveur du personnel des transports publics genevois, which also led to a one-off deficit of more than 50% of total revenue. Tax-supported debt should stabilize at about 173% by 2023. This includes Geneva's direct debt and the debt of the transportation company and public hospital.

We see some contingent risks for Geneva. In our view, the canton's debt burden could, in a stress scenario, be hit by the cost of a theoretical recapitalization of Banque Cantonale de Genève, of which Geneva is the largest shareholder.

The canton's funding needs result in low liquidity ratios, although slightly improved, but we expect Geneva's strong financing track record to offset this. The canton's liquidity largely depends on its available committed credit lines, which we expect will cover more than 50% of debt-service requirements in the coming 12 months. Geneva benefits from very strong access to external liquidity, as reflected in its large number of short-term facilities, comprising CHF1.3 billion of committed bank lines, as well as more than CHF4 billion of direct and indirect liquidity lines with various public-sector entities and Swiss and international banks. These liquidity lines are not formally contracted and, as such, we do not include them in our debt-service coverage ratio; but they are generally available and regularly used. The canton is also a frequent issuer of public bonds and has a broad base of investors, including for its 2017 and 2019 green issues.

Key Statistics

Table 1

Geneva (Republic and Canton of)--Selected Indicators

	--Fiscal year end Dec. 31--					
Mil. CHF	**2018**	**2019**	**2020**	**2021bc**	**2022bc**	**2023bc**
Operating revenues	8,866	9,061	9,161	9,251	9,134	9,404
Operating expenditures	7,834	8,330	8,864	9,101	8,944	9,020
Operating balance	1,032	731	297	150	190	383
Operating balance (% of operating revenues)	11.6	8.1	3.2	1.6	2.1	4.1
Capital revenues	52	52	47	60	70	70
Capital expenditures	637	618	5,826	615	644	670
Balance after capital accounts	447	165	(5,482)	(405)	(384)	(217)
Balance after capital accounts (% of total revenues)	5.0	1.8	(59.5)	(4.3)	(4.2)	(2.3)
Debt repaid	805	1,278	1,304	956	754	954
Gross borrowings	241	1,301	6,485	1,195	1,138	1,107
Balance after borrowings	(117)	188	(301)	(166)	0	(64)
Direct debt (outstanding at year-end)	11,813	11,836	17,018	17,257	17,641	17,794
Direct debt (% of operating revenues)	133.2	130.6	185.8	186.5	193.1	189.2
Tax-supported debt (outstanding at year-end)	12,638	12,763	17,970	18,234	18,647	18,830
Tax-supported debt (% of consolidated operating revenues)	125.6	123.9	170.1	170.5	175.8	172.7
Interest (% of operating revenues)	1.9	1.8	2.4	2.5	2.4	2.4
Local GDP per capita (CHF)	108,679	108,996	106,165	N/A	N/A	N/A
National GDP per capita (CHF)	84,179	84,500	81,455	84,423	87,720	90,268

Figures for capital expenditure and gross borrowing were heavily affected in 2020 by the recapitalization of the pension funds, CPEG for CHF5.2 billion and FPTPG for CHF98 million. This also affected the balance after capital accounts, direct debt, and tax-supported debt. 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. CHF--Swiss franc. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Geneva (Republic and Canton of)--Ratings Score Snapshot	
Key rating factors	**Scores**
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	4
Liquidity	2
Debt burden	5
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. 13, 2021. An interactive version is available at http://www.spratings.com/sri.

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- European Economic Snapshots Show A Robust Expansion Ahead, Dec. 6, 2021
- Eurozone Economic Outlook 2022: A Look Inside The Recovery, Nov. 30, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Nov. 4, 2021
- Switzerland, Aug. 23, 2021
- Local Government Debt 2021: The Pandemic Takes More Of The Shine Off Large Developed Regions' Credit Quality, March 25, 2021
- Local Government Debt 2021: Global Borrowing To Hit $2.25 Trillion, March 25, 2021
- Bulletin: Swiss National Bank's Higher Payout To Government Offers Budgetary Relief, Feb. 3, 2021
- Institutional Framework Assessment: Swiss Cantons, Jan. 14, 2021
- Economic Research: The Eurozone Is Healing From COVID-19, Sept. 24, 2020

Ratings Detail (As Of December 20, 2021)*	
Geneva (Republic and Canton of)	
Issuer Credit Rating	AA-/Stable/--
Senior Unsecured	AA-
Issuer Credit Ratings History	
21-Dec-2018	AA-/Stable/--
04-Nov-2016	AA-/Negative/--
20-Sep-2010	AA-/Stable/--

*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.