S&P Global Ratings

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Research Update:

Republic and Canton of Geneva 'AA-' Rating Affirmed; Outlook Stable

June 17, 2022

Overview

- Despite the very strong performance in 2021, we believe the Republic and Canton of Geneva could post deficits in 2023 and 2024 due to a less-favorable economic and financial environment.
- The debt burden decreased in 2021 and we expect only a very moderate increase over our forecast horizon given deficits we project from 2023.
- We therefore affirmed our 'AA-' long-term rating on Geneva.
- The outlook is stable.

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Rating Action

On June 17, 2022, S&P Global Ratings affirmed its 'AA-' long-term rating on the Republic and Canton of Geneva. The outlook is stable.

Outlook

The stable outlook reflects our view that, after a noticeable decrease, Geneva's debt burden will stabilize at still-high levels, fuelled by a modest structural budget deficit.

Upside scenario

We could consider a positive rating action if, due to cost controls or stronger economic development, the canton maintained tight budgetary discipline with sound operating margins and very modest deficits after capital accounts. It would likely lead to a further reduction in Geneva's debt burden.

Downside scenario

We might consider a negative rating action if Geneva's budgetary deficits widened to 10% of total revenue or more, triggering an increase in debt levels. This could come from a continuous increase in spending, lower revenue growth versus our base-case scenario, or higher-than-forecast contingent risks.

Rationale

The rating reflects fundamental strengths in the institutional framework assessment and the canton's diversified economy and income levels. The institutional framework, under which all Swiss cantons operate, is one of the most predictable and transparent globally, and is a rating strength.

In our view, Geneva continues to benefit from uninterrupted access to deep capital markets and European banks, supporting its strong liquidity position. We expect the debt burden to increase only marginally by 2024 after a strong decrease in 2021, on very moderate deficits expected in 2023 and 2024 and a limited increase of the government related entities' debt that we consolidate in our assessment of tax-supported debt.

We continue to see some contingent risks for Geneva. The most relevant one stems from the ownership of the cantonal bank, Banque Cantonale de Genève. However, we expect the risks to remain contained within the high level of debt we assess for Geneva because the canton's debt has decreased and the size of the cantonal bank compared to the government's operating revenue is smaller in relation with that of other cantons.

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).

Flagship sectors such as international trading, finance, and wristwatch remain solid despite the Ukrainian conflict, although the war is affecting commodity trading. We forecast (as of March 2022) GDP growth for Switzerland of 2.4% for the year.

Geneva's financial management, in our view, is committed to financial discipline, with prudent revenue assumptions underpinning budgetary processes, to contain deficits and expenditure growth. Nevertheless, despite very sophisticated monitoring and control tools, and long-term planning documents, we have observed some difficulties in implementing structural reforms to reduce costs or liabilities. Large unfunded pension liabilities and issues in reforming the pension system, for example, by moving away from the defined benefit scheme to a defined contribution one after this was rejected at a referendum in 2019, continues to limit budget consolidation.

Geneva's debt and liquidity management remains prudent. The canton closely monitors its government-related entities and is ready to intervene in case of extraordinary needs. For example, it had granted a loan to the airport company that it would draw in case of need following the fall in revenue linked to the pandemic.

We foresee some minor deficits at the end of the forecast horizon, increasing the debt burden very moderately

We expect minor deficits after capital accounts of about 2.5% of total revenue due to lower operating margins and slightly higher capital expenditure. We see operating margins slipping below 5% of operating revenue in 2023 and 2024, mainly due to the uncertain economy after a record high of 7.7% in 2021 and a more moderate 6.1% in 2022. In 2021, Geneva's operating revenue grew by more than Swiss franc (CHF) 600 million (excluding the increase in subsidies from the confederation for the support granted to the economy). Taxes, notably the corporate related and the real estate ones, increased. Also, the payout from the Swiss National Bank was higher versus 2020. In 2023 and 2024, we assume lower payouts from the national bank and lower revenue from real estate. Real-estate-related taxes could be higher, though, if the cadastral revaluation is implemented.

Deficits after capital accounts should remain near 2.5% of total revenue in 2023 and 2024, below our previous forecast and after two years of small surpluses in 2021 and 2022. We see investment spending only marginally increasing over 2022-2024 to reflect the larger 10-year investment plan because the canton wants to implement environmentally friendly investment for mobility and digitalization improvement. In our view, infrastructure levels are already high, but further investment will likely support economic growth.

We see tax-supported debt increasing only slightly in our forecast horizon on the back of small deficits, to 153% of consolidated operating revenue from 150% in 2021. Tax supported debt includes Geneva's direct debt and the debt of the transportation company and public hospital. In 2021, the canton repaid its yearly debt installment with a mix of gross borrowing and available cash.

Geneva's liquidity position is sound, mainly because of its very strong access to external liquidity. This is 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. Also, in 2021, the canton issued a 38.5-year CHF70 million bond at 0%, and a 20-year CHF175 million bond at 0.05%. In 2020, Geneva 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.

Key Statistics

Table 1

Geneva (Republic and Canton of)--Selected Indicators

	--Fiscal year ended Dec. 31--					
	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	9,061	9,161	10,204	9,992	9,818	9,961
Operating expenditure	8,330	8,863	9,422	9,388	9,474	9,593
Operating balance	731	298	782	605	344	368
Operating balance (% of operating revenue)	8.06	3.25	7.66	6.05	3.50	3.69
Capital revenue	52	47	35	50	50	50

Table 1

Geneva (Republic and Canton of)--Selected Indicators (cont.)

	--Fiscal year ended Dec. 31--					
	2019	2020	2021	2022bc	2023bc	2024bc
Capital expenditure	618	5,826	560	644	650	657
Balance after capital accounts	165	(5,481)	257	11	(257)	(239)
Balance after capital accounts (% of total revenue)	1.81	(59.52)	2.51	0.10	(2.60)	(2.39)
Debt repaid	1,278	1,304	1,255	756	943	1,008
Gross borrowings	1,301	6,485	573	600	1,198	1,246
Balance after borrowings	188	(300)	(425)	(145)	(1)	(1)
Direct debt (outstanding at year-end)	11,836	17,018	16,271	16,115	16,370	16,609
Direct debt (% of operating revenue)	130.63	185.77	159.46	161.28	166.74	166.73
Tax-supported debt (outstanding at year-end)	12,763	17,977	17,227	17,096	17,362	17,612
Tax-supported debt (% of consolidated operating revenue)	123.9	172.9	149.9	148.7	153.2	153.2
Interest (% of operating revenue)	1.8	2.4	1.9	2.0	2.0	2.0
Local GDP per capita (single units)	108,996	106,165	111,443	N/A	N/A	N/A
National GDP per capita (single units)	84,500	81,455	85,250	87,287	89,299	91,310

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	4
Stand-alone credit profile	aa-

Table 2

Geneva (Republic and Canton 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

- Sovereign Risk Indicators, April 11, 2022. Interactive version 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Credit Conditions Special Update: Inflation, War, And COVID Drag On, May 17, 2022
- Local Government Debt 2022: Rising Risks Keep Global Borrowing High, April 12, 2022
- Local Government Debt 2022: Can German, Austrian, And Swiss Borrowing Volumes Continue Their Post-COVID Normalization?, April 6, 2022
- Economic Outlook Eurozone Q2 2022: Healthy But Facing Another Adverse Shock, March 28, 2022

Switzerland, Feb. 14, 2022

- Local And Regional Governments Outlook 2022: Long-Term Challenges Resurface As The Pandemic Eases, Feb. 3, 2022

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the

Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Geneva (Republic and Canton of)	
Issuer Credit Rating	AA-/Stable/--
Senior Unsecured	AA-