Republic and Canton of Geneva

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This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The Republic and Canton of Geneva's economy remains resilient against global headwinds, which could spur tax revenue beyond our forecasts.	S&P Global Ratings expects Geneva's operating balance to gradually decline toward 5% as tax revenue normalizes.
Swiss cantons benefit from a very supportive institutional framework.	The canton should only post minor deficits in 2024-2025 and stabilize its debt level.
Cost-control measures should partially offset risks stemming from Geneva's pension funds.	Geneva maintains access to a deep and liquid capital market, supporting a strong liquidity position.

We expect Geneva's tax revenue to normalize over 2024-2025, but operating margins will remain sound because we believe financial management will continue to control costs. Between 2020 and 2022, tax revenue rose dramatically, driven by corporate tax, which increased more than 50%. This outperformance was mostly fueled by windfall profits from the trade sector amid the strong resilience of Geneva's economy post-pandemic. We expect trade activity will return to its historical trend. Therefore, while upside pressures remain, corporate tax should gradually decline. That said, we note tax revenue has been significantly above our expectations in recent years.

Geneva's tax revenue was exceptional in 2022, and this trend should continue in 2023. Amid the strong resilience of its local economy, corporate tax proceeds exceeded the 2022 budget by about Swiss franc (CHF) 650 million and pushed the canton's operating balance to a record 21%. We forecast a similar budget deviation in 2023 as the economy expands and the canton collects tax adjustments for fiscal year 2022. While we expect tax revenue to normalize, we note upside risks to our forecasts. Combined with stricter cost control, this could positively affect Geneva's budgetary performance and reduce its debt burden.

The canton Is relatively shielded from rising interest rates thanks to a favorable debt profile and low borrowing needs. Geneva's debt stock is largely at fixed rates with long maturities (short-term exposure is capped at 25%). The canton limits refinancing risks and contains interest expenditure compared to other European peers. Geneva's borrowing needs should remain limited until 2025, given our expectation the canton will post only minor deficits. Furthermore, interest rates in the Swiss market are significantly lower than in the euro area. The Swiss National Bank (SNB) policy rate should peak at 1.75%, compared to 4.5% for the European Central Bank refinancing rate.

Outlook

The positive outlook reflects the possibility that taxes could increase beyond our current expectations. This, coupled with continuous cost control, could enable Geneva to achieve stronger performance than our base-case expectations over 2023-2025.

Downside scenario

We could revise the outlook to stable if Geneva maintains capital account ratios close to balance or posts minor deficits due to lower revenue, or because management discontinues its tight financial policies.

Upside scenario

We could upgrade Geneva over the next 18 months if, amid a continued rise in tax revenue, the canton's management continues to limit spending growth, helping further reduce the debt burden.

Rationale

A very wealthy economy and supportive institutional framework underpin Geneva's creditworthiness

The institutional framework for Swiss cantons is very predictable and supportive. Amendments are only made after consultation with all cantons and, in many cases, are voted on in a public referendum. This means changes to the framework take place only after extensive discussions and incrementally, including mitigating measures where required. Swiss cantons benefit from large fiscal revenue and can adjust tax rates to accommodate funding needs. Also, the Swiss national fiscal equalization system continues to support the institutional framework and Geneva is the second largest net contributor to the system.

Geneva benefits from one of the highest global standards of living, with a GDP per capita that reached CHF114,000 in 2022. Its diversified and open economy is supported by a strong wristwatch industry, financial services, and a large trade sector. After a dynamic post-COVID-19 rebound that fueled buoyant tax revenue, we expect Geneva’s economy to remain resilient amid the global economic slowdown. We forecast GDP growth in Switzerland will slow to 0.8% this year, from 2.1% in 2022, before moderately accelerating to 1.0% in 2024 and 1.4% in 2025.

In our view, Geneva's financial management has proven its commitment to financial discipline, with strong institutional rules that ensure cost containment, as well as limited debt intake in recent years. Geneva’s new executive took office in June 2023. We understand the main priorities are maintaining elevated capital expenditure (capex) and containing operating expenditure (opex) growth, but other considerations include reducing specific tax items, notably for the middle class. Under the new multiyear financial plan presented on Nov. 23, 2023, we expect Geneva will abide by its deficit target rules and continue to contain its relatively high debt burden.

In 2019, we note the canton failed in its bid to reform its pension system by moving to a defined contribution scheme from a defined benefit scheme, after rejection via a popular referendum. This would have helped structurally reduce its unfunded pension liabilities. However, the canton closely monitors its pension funds and its government-related entities and is ready to intervene in case of extraordinary needs, adequately analyzing the risks and provisioning for them.

Geneva's debt and liquidity management remains very prudent. The canton ensures it has sufficient liquidity lines to cover intra-year liquidity needs. Moreover, it maintains limited exposure to variable rates and short-term maturities, shielding it from rapid repricing after the SNB increased its policy rate to positive 1.75% in 2023 from negative 0.75% in 2021. With the very high tax revenue collected, the canton generated extra cash in first-half 2023, which it invested only in short-term deposits (less than three months) with investment-grade counterparts to limit credit risk.

Geneva will display solid budgetary performance, allowing for stable debt and strong liquidity

We expect Geneva’s operating margins to gradually normalize over the next two years and reach about 5% of operating revenue in 2025, from about 21% in 2022. In recent years, the canton has benefited from buoyant tax revenue that significantly outperformed our expectations. We understand this mostly relates to the strong performance of the trade sector after windfall effects on both corporate and income tax in 2022 and 2023. Nevertheless, while other sectors should continue to expand, we expect trade to return to its historical trend. Therefore, corporate tax revenue should abate over our forecast horizon. Also, a real estate tax reform should negatively affect tax income by CHF84 million in 2025, albeit partially offset by the adoption of the Organisation for Economic Co-operation and Development's 15% tax rate on large multinational corporations. In the meantime, opex will moderately increase about 3.6% annually over 2023-2025. Personnel costs (30% of Geneva’s opex) should continue to rise, notably because of annual salary indexation, but the canton also expects to increase its health care and social spending. In our view, Geneva’s contribution to the equalization system should increase because of the strong performance of its tax revenue in recent years compared to other Swiss cantons. Also, we note that underfunding pension liabilities on its main pension fund, CPEG, could affect Geneva’s financials in case of recapitalization.

Given the large operating surplus, we expect Geneva to post only minor deficits in 2024 and 2025. We forecast capex will expand significantly over our rating horizon to CHF680 million in 2025, from CHF570 million in 2022. The canton intends to invest in and improve its infrastructure, notably mobility with extended tram lines, or digitalization. Also, we factor in our capex for 2024 the CHF194 million recapitalization of the police pension fund. Therefore, the balance after capital accounts should turn negative at 1% of total revenue in 2025, down from a surplus of 9% in 2023.

In turn, Geneva’s debt burden should stabilize over 2023-2025 but remain elevated compared to those of other Swiss cantons. Tax-supported debt, which includes the canton’s direct debt and the debt of the transportation company, the hospital, and the public assistance office, should reach 129% of consolidated operating revenue in 2025, about the same level as in 2022. Also, we note Geneva benefits from a favorable debt profile, with most of its debt stock at fixed rates and long maturities. Therefore, interest expense should remain low despite current higher interest rates.

Given Geneva’s solid operating performance, we expect the canton will maintain a solid liquidity position. Cash and committed bank lines (CHF1.19 billion) should cover 80%-120% of the canton’s debt service over the next 12 months. We note Geneva also has access to direct and indirect liquidity lines of about CHF4 billion with various public-sector entities and Swiss and international banks. Coupled with a strong market access through short-term placements or long-term issuances in the past, we view Geneva's access to external liquidity as strong.

Republic and Canton of Geneva selected indicators

Mil. CHF	2021	2022	2023bc	2024bc	2025bc
Operating revenue	10,204	11,363	10,883	10,513	10,571
Operating expenditure	9,422	8,994	9,335	9,734	10,006
Operating balance	782	2,369	1,548	779	565
Operating balance (% of operating revenue)	7.7	20.9	14.2	7.4	5.3
Capital revenue	35	88	32	35	35
Capital expenditure	601	570	578	815	680
Balance after capital accounts	216	1,887	1,001	(1)	(80)
Balance after capital accounts (% of total revenue)	2.1	16.5	9.2	(0.0)	(0.8)
Debt repaid	1,255	1,050	1,626	1,433	952
Gross borrowings	573	1	425	1,434	1,032
Balance after borrowings	(466)	838	(200)	(0)	(0)
Direct debt (outstanding at year-end)	16,271	15,222	14,021	14,022	14,102
Direct debt (% of operating revenue)	159.5	134.0	128.8	133.4	133.4
Tax-supported debt (outstanding at year-end)	17,438	16,533	15,359	15,387	15,494
Tax-supported debt (% of consolidated operating revenue)	150.4	129.1	124.6	128.7	129.0
Interest (% of operating revenue)	1.9	1.7	2.0	1.9	2.0
Local GDP per capita ($)	121,949.5	118,932.9	--	--	--
National GDP per capita ($)	93,080.2	92,840.6	99,088.4	101,312.0	101,910.3

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. CHF--Swiss franc.

Republic and Canton of Geneva ratings score snapshot

Key rating factors	Scores
Institutional framework	1

Republic and Canton of Geneva ratings score snapshot

Key rating factors	Scores
Economy	1
Financial management	3
Budgetary performance	3
Liquidity	1
Debt burden	4
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. 11, 2023. 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

- Economic Outlook Eurozone Q1 2024: Headed For A Soft Landing, Nov. 27, 2023
- Switzerland 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Aug. 11, 2023
- Swiss Cantons Benefit From Autonomy And Robust Checks And Balances, May 23, 2023
- Local And Regional Government Risk Indicators: European LRG Indicators Remain Solid Amid Economic Slowdown, Sept. 20, 2023

- Subnational Debt 2023: An Easing Burden In Germany, Austria, And Switzerland, March 2, 2023
- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 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 Detail (as of December 15, 2023)*

Geneva (Republic and Canton of)	
Issuer Credit Rating	AA/Positive/--
Senior Unsecured	AA
Issuer Credit Ratings History	
16-Jun-2023	AA/Positive/--
16-Dec-2022	AA-/Positive/--
21-Dec-2018	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.