S&P Global
Ratings

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Research Update:

Switzerland's Republic and Canton of Geneva Affirmed At 'AA-'; Outlook Stable

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S&PGR Affirms Republic and Canton of Geneva 'AA-' Rating

Overview

- The Republic and Canton of Geneva's after-capital deficits will hover around 5% of total revenue in 2021, slightly worse than our June 2020 forecast because of the pandemic's prolonged effects.
- Deficits above 60% in 2020 will reflect the combined effects of the pandemic, the implementation of corporate tax reform, and the pension fund's recapitalization.
- We believe the canton's diversified economy and high-income levels will help it weather the COVID-19 pandemic and contribute to improving its performance from 2022, with Geneva continuing to benefit from strong access to financial markets to secure its funding needs.
- We are therefore affirming our 'AA-' rating, with a stable outlook, on the canton.

Rating Action

On Dec. 18, 2020, S&P Global Ratings affirmed its 'AA-' long-term issuer credit rating on the Republic and Canton of Geneva. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, despite operating margins declining in 2021 because of the pandemic, after-capital deficits will remain moderate. Geneva's debt will increase to fund these deficits, but the canton has a very good track record of accessing markets and securing its funding needs, both long- and short-term and at very sustainable rates.

Downside scenario

We might consider a negative rating action if, contrary to our expectations, budgetary deficits widened further, triggering a higher increase in debt than expected. This could come either from persisting recessionary conditions stemming from the pandemic or a continuous increase in spending, which could highlight a difficulty in controlling expenditure.

Upside scenario

We could consider a positive rating action if the canton's financial management came in support of significantly improved performance, for example, on cost control or by structurally improving the long-term sustainability of the cantonal pension system.

Rationale

The rating on Geneva continues to be supported by the canton's very sound economic fundamentals and very high wealth levels despite the strong GDP contraction of 2020 due to COVID-19's fallout. Geneva also benefits from the extremely predictable and supportive institutional framework in which Swiss cantons operate and the canton's strong access to financial markets, which contributes to very favorable debt financing costs. Our view of Geneva's credit quality also incorporates the canton's moderate deficits (under normal circumstances and net of the relevant recapitalization in 2020), weighed down by its exposure to unfunded pension liabilities, and very high indebtedness.

Very high income levels and an extremely favorable institutional framework remain the canton's key credit strengths

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), 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.

Geneva's cantonal GDP per capita has systematically exceeded the already-high national average by close to 30% since 2001. S&P Global Ratings forecasts Swiss real GDP to fall by 3.9% in 2020 (a modest drop compared with that of many European peers) and rebound by 3.2% in 2021.

Geneva, being one of the most open cantons in Switzerland due to its high export activity, has been hit strongly by the pandemic, although some exports towards Asia seemed to perform better during the summer. When the global economy recovers, Geneva's diversified economy and still-very-high wealth levels will likely support the canton in its gradual economic recovery.

Geneva's financial leadership continues to display prudent debt and liquidity management. In 2020, the canton issued almost Swiss franc (CHF) 2 billion to fund its deficit and maintain strong access to external liquidity by securing the usual large amount of short-term facilities. Cantonal financial management also monitors closely its government-related entities and is ready to intervene in case of extraordinary need, as demonstrated this year with Geneva's airport. Concerning financial planning, despite very sophisticated monitoring and control tools, and a willingness to apply structural cost-cutting measures and reduce long-term liabilities, we have observed some difficulties in the implementation of structural reforms. A history of large pension liabilities weighs somewhat on our perception of financial management.

The canton's operating margins will improve gradually from the COVID-19 shock starting in 2022, although deficits will remain near 5% of total revenue

We see Geneva's operating margin remaining structurally below 5% of operating revenue over 2020-2022. The canton has continued in 2020 to consolidate its tax base, and both personal income and the corporate tax have performed better than expected, maintaining the operating margin at around 4% of operating revenue. In 2021, we see the operating margin falling to 1.5% of operating revenue due to the drop in corporate benefits (both for the cantonal corporate tax and the federal tax) and setbacks from the corporate tax reform. Also, COVID-19-related costs in 2021, including extra funds for health care, social-related expenditure, and transport--which we estimate will be about 1.5% of operating revenue--contribute to this result. We see operating margins gradually improving from 2022, at 3.6% of operating revenue due to the economic recovery and the assumption that COVID-19-related expenses will fade. We also assume that the possible property revaluation will support Geneva's operating performance. We include in our forecasts management's cost-control efforts once the pandemic's effects subside.

However, we expect deficits after capital accounts remaining within 5% of total revenue in both 2021 and 2022, after a peak of 64% in 2020. We believe investment will remain high over our forecast horizon, above CHF700 million per year on average, as the canton remains committed to supporting the economy. Geneva will pursue its investments in mobility notably through the construction of tramway lines, education by renewing its school buildings, health care, and housing. The canton's tax-supported debt will soar to 183% of operating revenue in 2020 from 124% in 2019 and should stabilize at about 190% by 2022. This includes Geneva's direct debt and the debt of the transportation company and public hospital.

Geneva's direct debt in 2020 comprises approximately CHF5.3 billion to fund the recapitalization of pension funds Caisse de Prévoyance de l'Etat de Genève and Fondation de prévoyance en faveur du personnel des transports publics genevois.

Despite the high indebtedness, interest charges should remain below 3% of operating revenue on average through 2022. In our view, the canton's debt burden could, in a stress scenario, be hit by the cost of a theoretical recapitalization of its bank, Banque Cantonale de Genève, of which Geneva is the largest shareholder.

While the canton's high funding needs will result in low liquidity ratios, we expect Geneva's strong financing track record to offset this. The canton's liquidity debt service coverage ratio largely depends on its available committed credit lines, which we expect will cover about 50% of debt service requirements in the coming 12 months. However, Geneva benefits from very strong access to external liquidity, as reflected in the large number of short-term facilities, totalling CHF1.4 billion of contracted bank lines, as well as more than CHF3.9 billion of direct and indirect liquidity lines with various public-sector entities and Swiss and international banks and that are not formally contracted but generally available and regularly used. The canton is also a frequent issuer of public bonds with a broad base of investors, including for its 2017 and 2019 green issues. From April-September 2020, Geneva issued CHF1.93 billion on the Swiss market with 10 different issues.

Key Statistics

Table 1

Republic and Canton of Geneva--Selected Indicators

	--Fiscal year ended Dec. 31--					
(Mil. CHF)	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenue	8,351	8,866	9,061	8,741	8,620	8,756
Operating expenditure	7,864	7,834	8,330	8,395	8,486	8,439
Operating balance	487	1,032	731	346	134	318
Operating balance (% of operating revenue)	5.8	11.6	8.1	4.0	1.5	3.6
Capital revenue	29	52	52	40	40	40
Capital expenditure*	630	637	618	6,030	655	770
Balance after capital accounts*	(114)	447	165	(5,643)	(481)	(413)
Balance after capital accounts (% of total revenue)*	(1.4)	5.0	1.8	(64.3)	(5.6)	(4.7)
Debt repaid	1,163	805	1,278	880	807	757
Gross borrowings*	1,073	241	1,301	6,398	1,083	1,169
Balance after borrowings	(204)	(117)	188	(125)	(205)	0
Direct debt (outstanding at year-end)*	12,375	11,813	11,836	17,354	17,630	18,043
Direct debt (% of operating revenue)*	148.2	133.2	130.6	198.5	204.5	206.1
Tax-supported debt (outstanding at year-end)*	13,175	12,638	12,710	18,297	18,642	19,085
Tax-supported debt (% of consolidated operating revenue)*	138.0	125.6	123.5	183.1	188.3	189.7
Interest (% of operating revenue)	2.2	1.9	1.8	2.0	2.7	2.7
National GDP per capita (CHF)	81,764	84,219	84,466	79,728	81,839	84,454

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. * the figures of capital expenditures and gross borrowing are heavily impacted in 2020 by the recapitalization of the pension funds, CPEG for CHF5.2 billion and FPTPG for CHF98 million. This affected also the balance after capital accounts, the direct debt and the tax supported debt. CHF--Swiss franc.

Ratings Score Snapshot

Table 2

Republic and Canton of Geneva--Ratings Score Snapshot

Key rating factors	Score
Institutional framework	1
Economy	1
Financial management	3
Budgetary perfomance	4
Liquidity	2
Debt burden	5

Table 2

Republic and Canton of Geneva--Ratings Score Snapshot (cont.)

Key rating factors	Score
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

- Economists Forecast Eurozone Rebound In 2021, Even After Lighter Lockdowns, Dec. 1, 2020
- Sovereign Risk Indicators, Dec. 14, 2020. Interactive version 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

- Institutional Framework Assessments For International Local And Regional Governments, Nov. 5, 2020
- Switzerland 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Aug. 21, 2020
- Comparative Statistics: European Local And Regional Government Risk Indicators, June 30, 2020
- COVID-19 Will Test The Financial Flexibility Of LRGs In Germany, Switzerland, And Austria, April 27, 2020
- Swiss Cantons Will Receive Greater Payouts From SNB, But Will It Last?, March 3, 2020
- Local Government Debt In Germany, Switzerland, And Austria For 2020, March 2, 2020
- Two Popular Votes, Two Approaches To Corporate Tax Reform In Switzerland, May 21, 2019
- Public Finance System Overview: Swiss Cantons, Nov. 20, 2018
- Will The Swiss Tax Reform Plan TP 17 Cost Some Cantons More Than Others?, Aug. 29, 2018

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/--
Geneva (Republic and Canton of)	
Senior Unsecured	AA-