Research Update:

Republic and Canton of Geneva Outlook Revised To Positive; 'AA-' Rating Affirmed

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Overview

- Geneva's resilient economy and management's commitment to a balanced budget will result in sound budgetary performance in 2023 and 2024, with only minor deficits and limited debt intake.
- The year 2022 marks the second in a row when dynamic tax growth will boost the canton's performance.
- As such, budgetary performance could outperform our base-case scenario.
- We therefore revised our outlook on Geneva to positive from stable and affirmed our 'AA-' long-term issuer credit rating on the canton.

Rating Action

On Dec. 16, 2022, S&P Global Ratings revised its outlook on the Republic and Canton of Geneva to positive from stable. At the same time, we affirmed our 'AA-' long-term issuer credit rating on the canton.

Outlook

The positive outlook reflects our expectation that sustained tax growth, together with continual cost control, might allow Geneva to keep improving performance, outperforming our base-case scenario and thereby reducing its debt burden.

Upside scenario

We could upgrade Geneva if, over the next two years, the canton maintains cost control despite economic challenges and regardless of the cantonal election outcome in 2023. This would be the result of robust cost controls or continued strong tax growth leading to consistently sound budgetary performance.

Downside scenario

We could revise the outlook to stable if Geneva's financial management does not rein in costs as expected and if performance remains in line with or below our base-case scenario. This could result from a continual increase in spending, lower revenue growth versus our base-case scenario, or higher-than-forecast contingent risks.

Rationale

In our view, management's willingness to curb spending, combined with resilient economic growth, is now more likely to lead Geneva's budgetary performance to outperform our expectations.

The rating continues to reflect fundamental strengths in the institutional framework assessment. It is also supported by the canton's diversified and resilient economy and high income levels, which contribute to the tax dynamism we observed in 2021 and 2022. The institutional framework, under which all Swiss cantons operate, is one of the most predictable and transparent globally, and is a rating strength. Geneva also benefits from uninterrupted access to deep capital markets and European banks, supporting its strong liquidity position.

Although we factor in some contingent risks for Geneva--mainly linked to the ownership of Banque Cantonale de Genève and the pension funds (Caisse de Prévoyance de l'Etat de Genève [CPEG], Fondation de Prévoyance en faveur du personnel des Trasnports Publics Genevois [FPTPG], and Caisse de Prévoyance des fonctionnaires de police et des établissements pénitentiaires [CP])--we believe Geneva manages such risks and works to anticipate the needs of the pension funds. The ownership of the cantonal bank is the biggest contingent risk. However, the bank's size as a proportion of the canton's operating revenue is less than that of other cantons.

Very strong value-added services support the economy and Geneva's tax revenues

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 strong adequacy of revenue and expenditure, supported by equalization mechanisms (among cantons and from the confederation).

Geneva's flagship sectors--such as international trading, finance, and wristwatch manufacturing--remain solid. We expect the canton's economy to perform in line with the confederation. As such, we forecast GDP growth for Switzerland of 2.2% for the year (as of November 2022) and 0.5% for 2023.

Geneva's financial management, in our view, has proven to be committed to financial discipline. We anticipate substantial continuity in financial management practices following the cantonal elections in spring 2023. The strong rise in tax revenues in both 2021 and 2022 has not automatically increased operating expenditure, enabling the canton to reduce its relatively high debt burden. However, in 2019, it failed in its bid to reform its pension system by moving to a defined contribution scheme from a defined benefit scheme, as it was rejected by a popular referendum. This would have helped the canton structurally reduce its unfunded pension liabilities. Geneva's debt and liquidity management remains prudent.

Given the very strong performance estimated for 2022, we do not expect the canton to revert to long-term borrowing. From October 2022, interest rates turned positive and, as such, we see interest costs slightly increasing over our forecast horizon, although largely remaining below a modest 5% of operating revenues. The canton closely monitors its government-related entities and pension funds and is ready to intervene in case of extraordinary needs. For example, it introduced a draft law in order, among others, to recapitalize the police pension fund, CP, by CHF113 million to guarantee that engagements are fully covered.

After surpluses in 2021 and 2022, we project very minor deficits over 2023 and 2024 due to the economic slowdown

We expect operating margins to shrink over the next two years, although remaining just above 5% on average. Combined with rising investments (excluding recapitalization costs) mostly linked to the ecological transition, the downturn will likely lead to very mild deficits after capital expenditure in 2023 and 2024 compared to a slight surplus in 2021 and 2022.

We also expect the projected economic slowdown to slow tax revenue growth. Additionally, we do not anticipate that the Swiss National Bank will make any payouts to Geneva, although we expect the canton's airport to resume dividend distributions after the interruption due to the COVID-19 pandemic in the years 2020-2022. Operating expenditures will continue to moderately increase, largely thanks to health care and social welfare expenses.

Deficits after capital accounts should remain at around 1% 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 marginally increasing over 2022-2024 to reflect the larger 10-year investment plan because the canton wants to invest in environmentally friendly ways to improve mobility and digitalization. In our view, infrastructure levels are already high, but further investment will likely support economic growth.

As a result, the canton's debt burden will remain relatively high. Tax-supported debt will stabilize in 2023-2024 at around 150% of consolidated operating revenues. Tax-supported debt includes among other elements, Geneva's direct debt and the debt of the transportation company and public hospital.

In our view, Geneva's improved budgetary performance has strengthened its liquidity, as will its CHF452 million "cas de rigueur" (in case of hardship) cash injection that it will receive by close of 2022. These are central government grants made over the past three years to reimburse cantons for expenses linked to COVID-19. Geneva has also proven to enjoy strong access to external liquidity. This is reflected in its large number of short-term facilities comprising CHF1.19 billion of committed bank lines, as well as almost CHF4 billion of direct and indirect liquidity lines with various public-sector entities and Swiss and international banks. Even though the canton did not issue long-term debt in 2022, it maintained strong access to the market through short-term bank loans.

Key Statistics

Table 1

Geneva (Republic and Canton of) -- Selected Indicators

	--Fiscal year ended Dec. 31--					
	2019	**2020**	**2021**	**2022bc**	**2023bc**	**2024bc**
Operating revenues	9,061	9,161	10,204	10,491	10,240	10,369
Operating expenditures	8,330	8,863	9,422	9,547	9,680	9,877
Operating balance	731	298	782	944	560	492
Operating balance (% of operating revenues)	8.1	3.3	7.7	9.0	5.5	4.7
Capital revenues	52	47	35	35	37	37
Capital expenditures	618	5,826	560	713	660	680
Balance after capital accounts	165	(5,481)	257	266	(63)	(151)
Balance after capital accounts (% of total revenues)	2	(60)	3	3	(1)	(1)
Debt repaid	1,278	1,304	1,255	1,395	1,241	1,208
Gross borrowings	1,301	6,485	573	1,128	1,302	1,358
Balance after borrowings	188	(300)	(425)	(1)	(2)	(1)
Direct debt (outstanding at year-end)	11,836	17,018	16,271	16,004	16,065	16,215
Direct debt (% of operating revenues)	130.6	185.8	159.5	152.5	156.9	156.4
Tax-supported debt (outstanding at year-end)	12,763	17,977	17,210	17,024	17,096	17,258
Tax-supported debt (% of consolidated operating revenues)	123.9	172.9	149.8	140.9	144.5	144.3
Interest (% of operating revenues)	1.8	2.4	1.9	1.9	2.1	2.1
Local GDP per capita (single units)	108,996	106,165	111,443	N/A	N/A	N/A
National GDP per capita (single units)	83,300	80,120	83,726	87,102	88,671	90,270

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.

Ratings Score Snapshot

Table 2

Republic and Canton of Geneva -- Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	4
Liquidity	2
Debt burden	4

Table 2

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

Key rating factors	Scores
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. 12, 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

- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Switzerland, Aug. 15, 2022
- 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
- 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)		
Senior Unsecured	AA-	
Ratings Affirmed; Outlook Action		
	To	**From**
Geneva (Republic and Canton of)		
Issuer Credit Rating	AA-/Positive/--	AA-/Stable/--