S&P Global Ratings

RatingsDirect®

Research Update:

Republic and Canton of Geneva Upgraded To 'AA'; Outlook Positive On Resilient Economy And Prudent Financial Practices

June 16, 2023

PRIMARY CREDIT ANALYST

Mariamena Ruggiero
Milan
+ 390272111262
mariamena.ruggiero
@spglobal.com

SECONDARY CONTACT

Hugo Soubrier
Paris
+33 1 40 75 25 79
hugo.soubrier
@spglobal.com

Overview

- We expect Geneva's resilient revenue and ongoing cost control to result in minor budgetary surpluses, on average, over 2023-2025, supporting a stronger liquidity position than previously anticipated.
- If Geneva's economic dynamism continues to feed tax growth and financial policies remain prudent, the canton's performance could further improve.
- We therefore upgraded the Republic and Canton of Geneva to 'AA' from 'AA-'.
- The outlook is positive.

Rating Action

On June 16, 2023, S&P Global Ratings raised its long-term foreign and local currency issuer credit ratings on the Republic and Canton of Geneva to 'AA' from 'AA-'. The outlook is positive.

Outlook

The positive outlook reflects the possibility that sustained tax growth and firm cost control could enable Geneva to achieve stronger performance than our base case expectation over 2023-2025.

Upside scenario

We could upgrade Geneva over the next two years if, amid an ongoing rise in tax revenue, Geneva's management continues limiting spending growth, helping to further reduce the debt burden.

Downside scenario

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

Rationale

We raised our long-term foreign and local currency issuer credit ratings on Geneva to 'AA' from 'AA-' to reflect the strength of its economy and managerial prudence, which have led to improved performance and a strengthened liquidity position.

The rating continues to encompass strengths in the institutional framework for Swiss cantons. It is also supported by the canton's diversified and resilient economy and high-income levels, which contribute to the tax dynamism we have observed since 2021. Geneva also benefits from uninterrupted access to deep capital markets and European banks, supporting its very strong liquidity position.

The rating is constrained by a relatively high debt burden and contingent liabilities--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 Transports Publics Genevois [FPTPG], and Caisse de Prévoyance des fonctionnaires de police et des établissements pénitentiaires [CP]). We believe Geneva manages such risks and aims to anticipate the needs of the pension funds.

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

We view the institutional framework for Swiss cantons as 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. The Swiss national fiscal equalization system continues to support the institutional framework.

Geneva's flagship sectors--such as international trade, finance, and wristwatch manufacturing--remain very solid. These sectors underpin the canton's high wealth levels, with a GDP per capita of almost Swiss franc (CHF) 114,000 in 2022, and the strong tax revenue growth the canton has enjoyed since 2021. We expect Geneva's economy to perform in line with the confederation; we forecast GDP growth for Switzerland, as of March 2023, of only 0.6% for the year compared with 4.2% in 2021 and 2.1% in 2022.

Geneva's financial management, in our view, has proven its commitment to financial discipline, with strong institutional rules in place that ensure cost containment and limited debt intake. The strong rise in tax revenues in both 2021 and 2022 did not automatically drive up operating expenditure, so the canton has been able 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 this was rejected by popular referendum. This would have helped the canton structurally reduce its unfunded pension liabilities. The canton however 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 for intra year liquidity needs. Besides, it continues to have limited exposure to variable rates, shielding it from increased interest rates that have turned positive since October 2022. This also implies that interest costs will increase over our forecast horizon, but will remain largely below a modest 5% of operating revenues.

We project the canton will continue to demonstrate solid budgetary performance, maintaining a strong liquidity position and a rather stable, albeit high debt burden

We expect operating margins to decrease over 2023-2025 compared with the very high operating surpluses of 2022, but to remain well above 5% of operating revenues, on average. Combined with only slightly higher investment levels, mostly linked to the ecological transition, this will lead to continuous surpluses in 2023 and 2024, though below the very high surplus recorded in 2022, and a minor deficit in 2025.

In our view, the projected economic slowdown in 2023 will stem tax revenue growth. Additionally, we do not anticipate that the Swiss National Bank will make any payouts to Geneva over 2023-2025. However, 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 as well as personnel costs. We also project that Geneva's contribution to the equalization system increase because of the very strong results posted in 2021 and 2022.

Geneva's sound operating performances should enable surpluses after capital accounts to remain at around 3%-4% of total revenue in 2023 and 2024, and then slip into a minor deficit of 1% in 2025. We see investment spending marginally increasing over 2023-2025 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 broadly stable, albeit relatively high, in the medium term. Tax-supported debt will stand at around 134% of consolidated operating revenues in 2025. Tax-supported debt includes Geneva's direct debt and the debt of the transportation company and the public hospital.

Geneva's improved budgetary performance strengthens its liquidity position. The canton has also proven to enjoy strong access to external liquidity. Even though it has not issued any long-term debt since 2022, it maintains strong access to the market through short-term bank loans. The canton maintains 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.

Key Statistics

Table 1

Geneva (Republic and Canton of)

	--Year ended Dec. 31--					
	2020	2021	2022	2023bc	2024bc	2025bc
Selected Indicators						
Operating revenues	9,161	10,204	11,363	10,616	10,442	10,412
Operating expenditures	8,865	9,422	8,994	9,451	9,682	9,874
Operating balance	296	782	2,369	1,165	760	538
Operating balance (% of operating revenues)	3.2	7.7	20.9	11.0	7.3	5.2
Capital revenues	47	35	88	35	37	37
Capital expenditures	5,874	601	570	542	660	680
Balance after capital accounts	(5,531)	377	2,142	658	137	(105)
Balance after capital accounts (% of total revenues)	(60.1)	2.1	16.5	6.2	1.3	(1.0)
Debt repaid	1,304	1,255	1,050	1,626	1,285	1,224
Gross borrowings	6,485	573	1	969	1,148	1,328
Balance after borrowings	(350)	(466)	838	1	0	(1)
Direct debt (outstanding at year-end)	17,018	16,271	15,222	14,565	14,428	14,533
Direct debt (% of operating revenues)	185.4	159.3	133.8	137.2	138.2	139.6
Tax-supported debt (outstanding at year-end)	17,977	17,210	16,253	15,625	15,518	15,654
Tax-supported debt (% of consolidated operating revenues)	172.6	149.6	128.4	131.4	132.4	133.9
Interest (% of operating revenues)	2.4	1.9	1.7	2.1	2.2	2.4
Local GDP per capita (single units)	106,165	111,443	113,561	N/A	N/A	N/A
National GDP per capita (single units)	80,120	83,726	87,552	89,215	90,554	91,911

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

Geneva (Republic and Canton of) Ratings Score Snapshot

Table 2

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	3
Budgetary performance	3

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

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, April 10, 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

- 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

Upgraded

	To	From
Geneva (Republic and Canton of)		
Issuer Credit Rating	AA/Positive/--	AA-/Positive/--
Senior Unsecured	AA	AA-