

Basel-Country (Canton of)

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Major Rating Factors

Strengths:

- Highly sophisticated and conservative fiscal management.
- Diversified economy, with a cluster in the life-science industry, which is not very cyclical.
- Low debt levels in international context.
- Excellent liquidity.

Weaknesses:

- Forecast decline of budgetary performance due to economic recession, tax cuts, and planned capital expenditure.
- Large contingent liability related to cantonal bank Basellandschaftliche Kantonbank.

Issuer Credit Rating

AAA/Stable/A-1+

Rationale

The ratings on the Swiss Canton of Basel-Country are supported by our view of the canton's highly sophisticated and conservative fiscal management team, its diversified economic profile, low debt, and very high level of liquid assets. These positive rating factors are mitigated by Standard & Poor's Ratings Services' expectation that Basel-Country's budgetary performance will further weaken. We also consider that the canton has large contingent liabilities stemming from its ownership of and explicit guarantee for Basellandschaftliche Kantonbank (BLKB; AAA/Stable/A-1+).

The ratings on the canton profit from the above-average stability of its economy, as shown throughout the recession in 2009. Basel-Country's economy has a strong focus on the less cyclical life-science industry, with a share of value added of 25%, which is significantly higher than the Swiss average of 5%. Basel-Country's debt was 33.5% of operating revenues in 2009, which is relatively low compared with international peers. We project in our base-case scenario that the canton's relative debt level will remain constant until 2013 because we assume that the canton will use its large liquid reserves to offset the expected budget deficits. Basel-Country's excellent liquidity position provides a buffer to offset forecast after-capital-account deficits.

We expect the canton's historically very strong budgetary performance to decline. It has deteriorated since 2009 and we expect it to remain pressured between 2010 and 2013, partly as a result of the economic recession in 2009 and Basel-Country's tax revenue reporting methodology that reflects weakening tax bases earlier than other cantons. We nevertheless view weaker budgetary results as partly driven by high planned capital expenditures and lower tax revenues following tax cuts. We deem it therefore necessary that the canton cuts expenditures or improves revenues to restore a long-term sustainable budgetary performance. We believe that Basel-Country's management team is committed to taking the necessary fiscal consolidation measures to restore the sound financial performance of the canton over the long term. Our forecast for budgetary development over 2010-2013 takes into account the canton's announced saving measures and our economic recovery assumption for 2010 to 2013, which is above the canton's official forecast. In our opinion, the canton's debt limit rule further exerts pressure on policymakers to take appropriate consolidation steps from 2011.

The ratings also reflect the canton's statutory guarantee for BLKB, which constitutes its largest contingent liability. We believe a major financial problem at the bank could considerably burden the canton's creditworthiness. We currently view such a stress scenario as unlikely, however, given the bank's high stand-alone credit profile and its good capitalization.

Liquidity

We view the canton's liquidity as excellent. According to our liquidity criteria for local and regional governments, we estimate that the canton had free cash and liquid assets of Swiss franc (CHF) 615 million as of May 2010, which equals one-third of the canton's 2009 operating revenues. (see " Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs," published on Oct. 15, 2009, on RatingsDirect). This exceptional liquidity position allows the canton to offset forecast after-capital-account deficits for 2010 and 2011. The canton has one committed credit line of CHF50 million with BLKB. In our assessment, the canton enjoys a very good reputation in financial markets and we regard the external access to liquidity via financial markets as very strong. There are no foreign currency risks in the debt portfolio. The next debt maturity of CHF200 million is in June 2011.

Outlook

The stable outlook reflects our opinion that Basel-Country's management will undertake appropriate expenditure and revenue-side measures to restore a sustainable budgetary performance over the medium term. We expect the canton to use its high liquid assets and to reduce expenditures to counterbalance declining revenues over 2010 to 2013. In our base-case scenario we therefore assume there will be no increase in the relative debt level of about 35% of operating revenues until 2013.

The ratings could come under pressure if further tax cuts lead to significantly lower revenues or new borrowing was to significantly exceed our base-case estimate. Should this fiscal stance weaken or should the management be unable to implement its announced consolidation measures, we might lower the ratings. Moreover, a major financial problem at the cantonal bank, which we currently view as remote, might also burden the ratings on the canton.

Peer Comparison

Although Basel-Country's average operating surplus of 5.5% of operating revenues is a very positive result in an international context, it is below the median value of 8.7% for the 'AAA' rating category (see table 1). Its balance after capital expenditure is, however, better than peers. The ratio of capital expenditures to total expenditures of 7.2% is similar to that of the Swedish City of Stockholm (AAA/Stable/A-1+), but is below the median value for 'AAA' rated local and regional governments. This partly reflects Basel-Country's mature infrastructure. The canton has only moderate debt, at 33% of 2009 operating revenues, which is much lower than for the Canton of Basel-City (AA+/Stable/A-1+). Basel-Country's net financial liabilities of 54.5% of consolidated 2009 operating expenditures include the underfunding of the canton's pension fund, which has a higher relative underfunding compared with the Canton of Aargau (AAA/Stable/A-1+). Basel-Country's exceptionally high free cash and equivalents as a percentage of debt service underline the canton's well-above-average liquidity position.

A full report is available in German. Please e-mail PublicFinanceEurope@standardandpoors.com to request a copy.

Table 1

Basel-Country (Canton of) 2009--Peer Comparison								
	Basel-Country (Canton of)	AAA Median	Aargau (Canton of)	Basel-City (Canton of)	Halton (Regional Municipality of)	Stockholm (City of)	Zurich (Canton of)	
Issuer credit rating as of Aug. 31, 2010	AAA/Stable/A-1+	N.M.	AAA/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/--	AAA/Stable/A-1+	AAA/Stable/--	
Three-year averages, using actual results only								
Operating balance (% of operating revenues)	5.5	8.7	15.0	16.8	20.5*	1.8	10.8*	
Balance after capital expenditures (% of total revenues)	1.1	(2.4)	(5.9)	3.9	2.5*	0.9¶	3.5*	
Capital expenditures (% of total expenditures)	7.2	15.1	20.0	13.7	29.6*	7.9	10.8*	
Transfers received (% of total revenues)	18.5	17.2	27.1	11.4	14.7*	1.3*	28.8*	
2009 (mil. CHF)								
Total revenues	2,650.3	N/A	4,079.7	4,414.2	671.4*	6,944.9	10,838.0*	
Modifiable revenues (% of operating revenues)	80.4	58.9	69.2	87.3	83.7*	94.0	67.7*	
Direct debt (at year-end)	857.0	N/A	2,082.0	2,324.7	203.9*	1,308.2	4,696.5*	
Direct debt (% of operating revenues)	33.5	29.0	52.4	53.5	35.0*	19.1	44.3*	
Direct debt (% of GDP)	5.9	4.5	6.6	8.2	N.A.	N.A.	4.1*	
Tax-supported debt (% of conso oper revenues)	27.2	N/A	52.4	53.6	7.0*	(17.5)	63.3*	
Net financial liabilities (% of conso oper rev)	54.5	N/A	48.2	46.1	(132.4)*	19.6	91.8*	
Interest (% of operating revenues)	1.4	1.0	1.8	1.8	1.6*	3.4*	2.2*	
Debt service (% of oper revenues)	5.3	N/A	9.8	15.4	6.2*	17.8	11.0*	
Free cash & liquid assets as % DS	620.8	N/A	52.7	55.4	2,250.9*	1.0	177.3*	
Population	274,673	N/A	604,263	190,800	482,788	829,417	1,344,866	
Unemployment rate (%)	3.3	N.A.	3.4	3.8	9.4	5.1	3.7	
Total revenues (% of GDP)	18.2	12.2	13.0	15.5	N/A	N/A	9.5*	

* Figures for 2008. ¶ Figures for 2007. N.A.--Not available. N/A--Not applicable. CHF--Swiss franc.

Table 2

Basel-Country (Canton of)--Financial Statistics									
--Year ended Dec. 31--									
(Mil. CHF)	2013e	2012e	2011e	2010e	2009	2008	2007	2006	2005
Operating revenues	2,618.4	2,564.6	2,542.4	2,550.2	2,561.5	2,886.5	2,613.5	2,574.4	2,343.8
Operating expenditures	2,623.9	2,599.7	2,562.1	2,527.1	2,506.8	2,647.4	2,457.5	2,405.6	2,188.4
Operating balance	(5.5)	(35.1)	(19.7)	23.1	54.7	239.1	156.1	168.8	155.4
Operating balance (% of operating revenues)	(0.2)	(1.4)	(0.8)	0.9	2.1	8.3	6.0	6.6	6.6
Capital revenues	61.0	68.0	83.0	197.8	88.8	52.1	97.0	100.2	59.1
Capital expenditures (capex)	166.0	172.0	241.0	324.0	209.2	160.2	218.7	189.6	216.6
Balance after capex	(110.5)	(139.1)	(177.7)	(103.1)	(65.7)	131.0	34.3	79.4	(2.2)
Balance after capex (% of total revenues)	(4.1)	(5.3)	(6.8)	(3.8)	(2.5)	4.5	1.3	3.0	(0.1)
Debt repaid	180.0	100.0	200.0	200.0	100.0	16.7	25.0	0.0	0.0
Net budget loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance after debt repayment and onlending	(290.5)	(239.1)	(377.7)	(303.1)	(165.7)	114.2	9.3	79.4	(2.2)
Balance after debt repayment and onlending (% of total revenues)	(10.8)	(9.1)	(14.4)	(11.0)	(6.3)	3.9	0.3	3.0	(0.1)
Gross borrowings	230.0	100.0	200.0	200.0	0.0	0.0	0.0	0.0	0.0
Balance after borrowings	(60.5)	(139.1)	(177.7)	(103.1)	(165.7)	114.2	9.3	79.4	(2.2)
Balance after borrowings (% of total revenues)	(2.3)	(5.3)	(6.8)	(3.8)	(6.3)	3.9	0.3	3.0	(0.1)
Modifiable revenues (% of operating revenues)	81.7	81.8	81.8	81.6	80.4	82.0	80.6	81.1	81.5
Capex (% of total expenditures)	6.0	6.2	8.6	11.4	7.7	5.7	8.2	7.3	9.0
Operating-revenue growth (%)	2.1	0.9	(0.3)	(0.4)	(11.3)	10.4	1.5	9.8	3.5
Operating-expenditure growth (%)	0.9	1.5	1.4	0.8	(5.3)	7.7	2.2	9.9	3.0
Direct debt (debt outstanding at year-end)	907.0	857.0	857.0	857.0	857.0	955.0	971.8	221.1	194.6
Direct debt (% of operating revenues)	34.6	33.4	33.7	33.6	33.5	33.1	37.2	8.6	8.3
Tax-supported debt (% of conso oper revenues)	32.7	31.5	30.2	30.1	27.2	27.5	31.1	2.6	1.5
Interest (% of operating revenues)	1.0	1.0	1.1	1.0	1.4	1.4	1.4	1.5	1.6
Debt service (% of oper revenues)	7.9	4.9	8.9	8.9	5.3	2.0	2.4	1.5	1.6
Free cash & liquid assets as % operating expenditures	1.5	7.7	13.3	20.5	24.8	27.3	16.8	16.2	19.2
Free cash & liquid assets as % DS	22.3	201.0	170.1	258.9	620.8	4,322.5	1,650.9	N.A.	N.A.

e--Standard & Poor's estimate. N.A.--Not available. CHF--Swiss franc.

Table 3

Basel-Country (Canton of)--Economic Statistics							
--Year ended Dec. 31--							
	2011f	2010f	2009e	2008	2007	2006	2005
Population (in '000s)	275.8	275.2	274.673	273.147	271.341	269.638	268.382
Population growth (in %)	0.2	0.2	0.6	0.7	0.6	0.5	0.3
Unemployment rate (in %)	3.2	3.4	3.3	2.2	2.3	2.8	3.3
GDP (nominal) (mil. CHF)	15,638.5	15,286.9	14,987.2	15,062.5	14,378.8	13,711.0	13,018.3
GDP (nominal) per capita (CHF)	54,998.3	53,734.2	54,563.7	55,144.3	52,991.5	50,849.8	48,506.7
GDP (real) growth (%)	2.3	2.0	(0.5)	2.5	3.1	3.5	2.7

f--Standard & Poor's forecast. e--Standard & Poor's estimated. `CHF--Swiss franc.

Ratings Detail (As Of August 31, 2010)*	
Basel-Country (Canton of)	
Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured (3 Issues)	AAA
Issuer Credit Ratings History	
21-Nov-2001	AAA/Stable/A-1+
Default History	
None	
Population	274,673 (Cantonal Statistics)
Per Capita GDP	CHF54,563 (2009 estimate; Source: Experian Data)
Current Government	
The current government was elected in 2007. Mr. Jörg Krähenbühl is head of the canton's government from July 2010 to June 2011. All five government members are directly elected by the people and belong to four different political parties.	
Election Schedule	
Last election: February 2007	
Next election: March 2011 cantonal parliament and government	
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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