S&P Global
Ratings

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Research Update:

Swiss Canton of Basel-Country Upgraded To 'AAA/A-1+' On Strong Financial Management And Performance; Outlook Stable

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Overview

- We expect Basel-Country will be only moderately affected by the Russia-Ukraine conflict, thanks to its stable economy and resilient tax base.
- The canton's finances have improved in the last few years, and we project financial management will remain committed to sound budgetary performance and debt reduction, albeit at a slower pace than previously.
- Additionally, Basellandschaftliche Kantonalbank, which remains a key element of our contingent liability analysis given cantonal guarantees, continues to be profitable and well capitalized, limiting risk.
- Therefore, we raised our long-term issuer credit rating on the Canton of Basel-Country to 'AAA' from 'AA+', and affirmed the 'A-1+' short-term rating. The outlook is stable.

Rating Action

On Nov. 4, 2022, S&P Global Ratings raised its long-term issuer credit rating on the Swiss Canton of Basel-Country to 'AAA' from 'AA+'. We affirmed our 'A-1+' short-term issuer credit rating. The outlook is stable.

We also raised our issue rating on the canton's senior unsecured debt to 'AAA' from 'AA+'.

Outlook

The stable outlook on the canton reflects our view that its financial management will be able to take measures to offset potential negative effects from additional budgetary challenges like a slowdown in economic activity and high inflation. We also assume that the debt burden will decrease, but at a moderate pace.

Downside scenario

We could take a negative rating action if the current financial position substantially weakened, resulting in structural deterioration of the canton's budgetary position and worsening of its liquidity and debt positions. Additionally, we could lower the rating if Basellandschaftliche Kantonalbank had to call on the canton for substantial support.

Rationale

In our view, the canton's management has enough financial headroom to react to the current macroeconomic headwinds. We also assume Basel-Country's financial management remains committed to fiscal discipline. The canton regularly outperforms its budgetary plans, thanks to tax revenue that is often higher than anticipated and tight expenditure control. We believe overall sound budgetary performance will allow Basel-Country to continue decreasing its direct debt while retaining strong liquidity over the coming years.

As a residential canton, Basel-Country's tax revenue is made up of a higher share of taxes sourced from individuals. Furthermore, Basel-Country will continue to benefit from a diversified and solid economy. Both factors provide an extremely resilient tax base despite the current economic slowdown.

Our ratings on Basel-Country are also underpinned by the institutional framework for Swiss cantons, one of the most predictable and transparent globally, with major reforms planned far in advance and widely discussed, notably between the federal government and the cantons, and among the cantons themselves.

Despite macroeconomic headwinds, Basel-Country benefits from a strong and resilient economic and institutional base

We expect Basel-Country's economy, and that of Switzerland, to be only moderately affected by the Russia-Ukraine conflict, thanks to its diversified economy and contained financial links. We forecast the canton's real GDP will continue to increase in the next years, although at a slow pace of 1.0%-2.0%. Inflation, even if currently high by Swiss standards, will likely peak at a comparatively modest 3.1% in 2022 and then slow to 1.5% in 2024. Regional GDP per capita of about Swiss franc (CHF) 75,000 in 2022, while below the national average, still constitutes a very high level of wealth in an international comparison. Basel-Country benefits from a diversified economy, with logistic/wholesaling, business services, capital goods, and chemicals/pharmaceuticals having the largest presence, which provides a stable economic environment. Additionally, as a residential canton, Basel-Country's tax revenue is made up of a higher share of taxes sourced from individuals, which tend to be more stable than corporate taxes, than almost any other Swiss canton.

We consider the institutional framework, under which Basel-Country operates, as one of the most predictable, supportive, and transparent globally. The canton is now a marginal recipient and may become a donor in the following years; however, we don't project this will represent a burden for the canton's financial performance. Additionally, the supportiveness of the system under extraordinary circumstances was demonstrated through the large volume of federal funds made available in 2020 and 2021 to mitigate the economic consequences of the COVID-19 pandemic.

In our opinion, cantonal financial management is exceptionally strong. We have seen an improvement of the canton's finances in the last few years, including solid budgetary performance, conservative debt management, and excellent liquidity policies. This reflects in improved transparency, steering processes to align medium-term financial planning and current budget execution with the latest economic developments, and a focus on fiscal consolidation and debt reduction. We also note the canton's financial management continues to pursue reforms designed to improve its economic competitiveness. We understand there are plans to increase capital expenditure as well as realign the taxation of individuals' income and wealth to make the canton a more attractive place of residence for higher-earning taxpayers. We expect Basel-Country's management will carefully balance long-term strategic initiatives with budgetary constraints, reducing expenditure if revenue weakens and maintaining the solid trajectory of recent years.

The financial management will take actions needed to successfully face macroeconomic uncertainty

We project Basel-Country's budgetary results will remain solid, although weaker than in 2021. For 2022, despite an expected slowdown in the economy in the second half of the year and higher inflation, we estimate Basel-Country will outperform its budget and record an operating margin above 8% of operating revenue and a small surplus after capital accounts under our cash-focused calculation approach. The main reasons are significantly better-than-budgeted tax collections and elevated profit distributions from cantonal companies and the Swiss National Bank (SNB). We project that the current deterioration of the macroeconomic environment will translate into small deficits after capital accounts in 2023 and 2024. Even though Basel-Country's tax collection will remain robust, we estimate that there will be no profit distribution from the SNB in 2023, following the bank's loss of CHF142 billion in third-quarter 2022. We believe Basel-Country's management will adjust expenditure should revenue be weaker than currently estimated.

In the last two years, Basel-Country's debt burden has decreased about 30 percentage points, and we anticipate its overall debt burden will continue to decline, albeit at a slower pace due to new moderate borrowing needed to fund capital expenditure. The canton's debt burden remains above 60%, exceeding that of its equally rated domestic peers; however, we don't anticipate risks from the deterioration of the macroeconomic environment, since the canton follows a conservative debt-management approach, with predominantly fixed-rate, long-dated funding instruments and no foreign currency exposure.

The profitable and well-capitalized Basellandschaftliche Kantonalbank remains a key contingent liability for the canton. Our view stems primarily from its balance sheet size of almost 10x Basel-Country's operating revenue and the canton's statutory guarantee for practically all of the bank's liabilities.

The canton's liquidity position remains exceptional. It has no maturities due in 2023 and holds a very high coverage ratio. This is also influenced by the volume of committed and uncommitted credit lines the canton has established with financial institutions, and its, in our view, strong access to the deep capital market for Swiss cantonal borrowers.

Key Statistics

Table 1

Selected Indicators--Canton of Basel-Country

(Mil. CHF)	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenues	2,844	2,720	3,115	3,020	2,918	2,982
Operating expenditures	2,477	2,632	2,782	2,763	2,781	2,816
Operating balance	366	88	332	257	137	166
Operating balance (% of operating revenues)	12.9	3.2	10.7	8.5	4.7	5.6
Capital revenues	21	25	15	22	21	28
Capital expenditures	183	203	148	190	215	238
Balance after capital accounts	204	(91)	199	89	(56)	(44)
Balance after capital accounts (% of total revenues)	7.1	(3.3)	6.4	2.9	(1.9)	(1.5)
Debt repaid	460	50	85	540	0	175
Gross borrowings	272	100	N/A	N/A	N/A	105
Balance after borrowings	4	(42)	119	(446)	(51)	(109)
Direct debt (outstanding at year-end)	2,888	2,936	2,891	2,351	2,351	2,281
Direct debt (% of operating revenues)	101.5	107.9	92.8	77.8	80.6	76.5
Tax-supported debt (outstanding at year-end)	2,902	2,961	2,913	2,373	2,374	2,305
Tax-supported debt (% of consolidated operating revenues)	100.8	107.7	91.8	77.0	79.6	75.6
Interest (% of operating revenues)	1.2	1.2	1.0	1.0	1.0	0.9
Local GDP per capita (single units)	72,929	70,866	73,536	75,439	77,242	78,934
National GDP per capita (single units)	83,300	80,120	83,726	87,272	89,375	91,166

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. CHF--Swiss franc.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot--Canton of Basel-Country

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary perfomance	1
Liquidity	1
Debt burden	4
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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, Oct. 10, 2022. An interactive version is 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Credit Conditions Downside Scenario: Recession Risks Deepen, Oct. 12, 2022
- Full Analysis: Basellandschaftliche Kantonalbank, March 7, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Cantons Will Likely Withstand Temporary Instability Of Swiss National Bank Profit Distributions, Aug. 17, 2022

- Switzerland, Aug. 15, 2022
- Institutional Framework Assessment: Swiss Cantons, Jan. 14, 2021

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; Ratings Affirmed

	To	From
Basel-Country (Canton of)		
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Positive/A-1+
Senior Unsecured	AAA	AA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914