

Canton of Basel-Country

November 6, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Basel-Country benefits from a strong national and local economy, with an extremely dynamic and robust tax base.	Budgetary performance will weaken compared to the very strong results in 2021-2022, but remain positive.
Supported by recent strong operating results, Basel-Country plans to increase capital expenditure (capex), and implement initiatives focused on improving its competitiveness over the next few years.	We anticipate fiscal outcomes will pick up again from 2024 but likely remain below the very strong performance seen in the past two years.
S&P Global Ratings expects Basel-Country's management will carefully balance long-term strategic initiatives with budgetary constraints.	We expect the canton's financial management will remain committed to sound budgetary performance and debt reduction, albeit at a slower pace.

Basel-Country benefits from its diversified economy. The canton's strong industrial base is less affected by energy shortages and real losses in purchasing power than other industries, providing a stable economic environment. Industries such as logistics, wholesaling, business services, pharmaceuticals, and life sciences are most prevalent. The canton's unemployment rate remains very low at 1.7% as of September 2023.

We believe Basel-Country's financial management will continue to demonstrate fiscal discipline. The projected softened budgetary results during 2023-2025 are mainly the result of macroeconomic developments, such as a lack of profit distribution from the Swiss National Bank (SNB), and elevated inflation, by Swiss standards, which should decline. However, we believe management will continue to act prudently should these challenges persist.

Budgetary performance should remain solid and debt contained, while strong funding access underpins Basel-Country's liquidity. We expect the canton will continue to achieve sound operating surpluses, and its overall debt burden will continue to decline, albeit at a slower pace due to new moderate borrowing to fund capex.

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Outlook

The stable outlook reflects our view that the canton's financial management will be able to take measures to offset potential negative effects from additional budgetary challenges, such as a slowdown in the economy and higher inflation. We also assume the debt burden will decrease, but at a moderate pace.

Downside scenario

We could take a negative rating action if the canton's current financial position substantially weakened, resulting in structural deterioration of its 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

Basel-Country's strong local economy and prudent financial management underpin the canton's financial resilience

The Swiss economy has proven resilient to challenges emanating from abroad. We expect the Swiss GDP to expand by 0.6% in 2023, accelerating to 1.2% in 2024, with an inflation rate of 2.3% in 2023, followed by 1.6% in 2024. The latter is high by Swiss standards, but lower than in many other European countries. Projected regional GDP per capita of about Swiss franc (CHF) 78,900 (equivalent to \$87,000) in 2023, while below the national average, constitutes very high wealth in an international comparison. We expect Basel-Country to benefit from a diversified economy, with logistics, wholesaling, business services, capital goods, and chemicals/pharmaceuticals having the largest presence. Additionally, as a residential canton, Basel-Country's tax revenue is made up of a higher share of taxes sourced from individuals than in almost any other Swiss canton, and such taxes tend to be more stable than corporate taxes.

In our view, the canton's management has enough financial headroom to react to additional macroeconomic headwinds, such as inflationary shocks. We assume Basel-Country's financial management will prioritize fiscal discipline, based on conservative budgetary plans, which are usually outperformed thanks to often higher-than-anticipated tax revenue and tight expenditure control. We believe overall sound budgetary performance will allow Basel-Country to continue reducing its direct debt in 2024, both in absolute terms and in relation to operating revenue, while retaining strong liquidity over the coming years.

We understand the canton will continue to pursue reforms designed to improve its competitiveness, with plans to discuss further revisions of income and wealth tax to make it a more attractive place to live for high-earning taxpayers. In our opinion, the canton's financial management is prudent, shown by its solid budgetary performance, conservative debt management, and excellent liquidity policies over the past few years. We expect Basel-Country's management will carefully balance long-term strategic initiatives with budgetary constraints.

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 between the federal government and the cantons, and among the cantons themselves. Current pending national legislative initiatives such as higher subsidization of health insurance premiums for low-income households, and cost-free child care, could affect the canton's finances in the medium term. However, we believe the representation of the cantons in the second chamber of the national parliament and the possibility of a referendum can prevent extreme budgetary pressures in Basel-Country.

Budgetary results will soften but remain solid, and debt will continue to decrease, albeit at a slower pace

From 2023, we expect softer, albeit sound, operating margins than in previous years, and modest surpluses after capital accounts. This mainly reflects the effects of inflation, which is currently high by Swiss standards, no SNB profit distribution (at least in 2023, but possibly also in 2024), and higher expenditure in health care and education. In the coming years, the canton plans to invest more in digitalization, the first stage of the Polyfeld Muttentz campus, and the construction of a university campus in the Dreispitz district. Even though we predict Basel-Country's tax collection will remain robust, we estimate that financial management will adjust expenditure should revenue be weaker than currently estimated.

In the past two years, Basel-Country's debt-to-operating-revenue ratio 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 capex. The canton's debt remains above 60% of operating revenue, exceeding that of its equally rated domestic peers. However, we don't anticipate additional risks, since the canton follows a conservative debt-management approach, with predominantly fixed-rate, long-dated funding instruments and no foreign currency exposure. In our assessment, we include the profitable and well-capitalized Basellandschaftliche Kantonalbank, which remains a key contingent liability for the canton. Our view stems primarily from Basellandschaftliche Kantonalbank's balance-sheet size, of almost 11x Basel-Country's operating revenue, and the canton's statutory guarantee for practically all the bank's liabilities.

The canton's liquidity position remains exceptional and covers several times its debt service for the next 12 months. In addition to cash and money market deposits, the canton maintains committed and uncommitted credit lines it has established with financial institutions and, in our view, has strong access to the deep capital market for Swiss cantonal borrowers. We understand management intends to use the canton's cash reserves to repay CHF175 million of debt maturing in 2024 before returning to long-term capital market funding.

Canton of Basel-Country Selected Indicators

MIL. CHF	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	2,720	3,115	3,148	3,021	3,070	3,157
Operating expenditure	2,632	2,782	2,714	2,798	2,841	2,861
Operating balance	88	332	434	223	229	296
Operating balance (% of operating revenue)	3.2	10.7	13.8	7.4	7.5	9.4
Capital revenue	25	15	16	16	18	17
Capital expenditure	203	148	162	215	213	219
Balance after capital accounts	(91)	199	289	25	34	93
Balance after capital accounts (% of total revenue)	(3.3)	6.4	9.1	0.8	1.1	2.9
Debt repaid	50	85	540	0	175	100
Gross borrowings	100	--	--	--	--	100
Balance after borrowings	(42)	119	(246)	30	(141)	98
Direct debt (outstanding at year-end)	2,936	2,891	2,351	2,351	2,176	2,176
Direct debt (% of operating revenue)	107.9	92.8	74.7	77.8	70.9	68.9
Tax-supported debt (outstanding at year-end)	2,961	2,934	2,417	2,417	2,242	2,242

Canton of Basel-Country Selected Indicators

Tax-supported debt (% of consolidated operating revenue)	107.7	93.3	76.0	79.2	72.3	70.3
Interest (% of operating revenue)	1.2	1.0	0.9	0.9	0.9	0.8
Local GDP per capita (\$)	75,472.2	81,005.3	81,016.9	87,031.3	88,205.2	86,871.8
National GDP per capita (\$)	85,568.2	93,080.2	92,869.0	99,467.7	100,611.1	99,187.4

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. CHF--Swiss franc. \$--U.S. dollar.

Canton of Basel-Country--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	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. 9, 2023. 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

- Credit Conditions Europe Q4 2023; Resilience Under Pressure Amid Tighter Financial Conditions, Sept. 26, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023
- Switzerland 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Aug. 11, 2023
- Swiss Cantons Benefit From Autonomy And Robust Checks And Balances, May 23, 2023
- Basellandschaftliche Kantonalbank, Feb. 17, 2023

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 Detail (as of October 31, 2023)*

Basel-Country (Canton of)

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA

Issuer Credit Ratings History

04-Nov-2022	AAA/Stable/A-1+
05-Nov-2021	AA+/Positive/A-1+
17-Jan-2014	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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