Canton of Basel-City

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This report does not constitute a rating action.

Ratings Score Snapshot

Institutional framework	Individual credit profile		Issuer credit rating
Extremely predictable and supportive	Economy	1	AAA/Stable/A-1+
Very predictable and well-balanced	Financial management	1	
Evolving but balanced	Budgetary performance	1	
Evolving but unbalanced	Liquidity	1	
Volatile and unbalanced	Debt burden	4	
Very volatile and underfunded		1 Strongest – 5 Weakest	

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The implementation of the OECD minimum tax rate and the expected associated tax revenue windfall from 2025 demonstrates the dynamism of the canton's economy.	Tax reforms, continued lack of Swiss National Bank dividends, and increasing operating costs will soften budgetary performance.
Repeated strong fiscal results drive an increasing amount of net transfers into the fiscal equalization mechanism.	Strong results in previous years allow ambitious capital investment plans to be partially financed without resorting to excessive external financing.
Historically high investment plans include future-oriented projects related to green infrastructure, affordable housing, and regional development.	Debt levels are expected to remain stable through the forecast period after a moderate increase in 2024.

The improvement in the Canton of Basel-City's resource strength is driven by the dynamism and strength of its economy. The pharmaceutical and life sciences cluster in Basel-City continues to attract companies and people to the canton, underpinning growth and strong performance from recent years.

The tax shortfall from recent personal income tax cuts is partly offset by strong performance of corporate and federal tax revenue. The tax revenue base is proving to be extremely resilient, even after-tax cuts and despite a tougher macroeconomic environment.

The emission of green, social, and digital bonds in addition to traditional issues demonstrates the canton's deep market reach. Basel-City's access to the financial markets is broad, which further supports S&P Global Ratings' assessment of its liquidity as exceptional.

Outlook

The stable outlook reflects our view that Basel-City will continue to achieve sound operating performance over the next few years, despite the current volatility of geopolitical risks, and contain the deficits that we anticipate will result from its capital spending (capex) program.

Downside scenario

We could lower the rating if the canton's management fails to exercise budgetary discipline and loosens its grip on financial performance more than we currently assume. This could include significantly elevated capex volumes, for example repeated, sizable (in relation to the canton's overall budget) real estate purchases for the canton's financial account, leading to a deterioration in budgetary performance and eventually a markedly higher debt burden. In addition, pressure on the rating would build if the cantonal bank calls on Basel-City for support.

Upside scenario

Given the rating is already at the highest level, 'AAA', there is no possibility of an upgrade.

Rationale

Resilient economic performance remains one of Basel-City's key strengths

We expect Basel-City's economy to continue growing well above the Swiss average. The national economy is expected to slowly recover despite external headwinds from geopolitical conflicts and contracting external demand from important trading partners. After a slowdown in GDP growth to 0.8% in 2023, S&P Global Ratings now forecasts national growth of 1.2% in 2024 and 1.5% in 2025. Estimated local GDP per capita for Basel-City is projected to be more than double the Swiss average, reaching over Swiss franc (CHF) 216,000 ($251,000) in 2024.

Inflation in Switzerland, as measured by the consumer price index, continues to decline, and is expected to reach 1.3% in 2024 and 1.1% in 2025. Although these rates are much more benign than in most European peers, the impact of cost inflation figures in previous years has had a pronounced lag effect on costs, particularly in relation to services and personnel in general. This dynamic is also influenced by the continued expectation of tight labor markets in the country. While the national unemployment rate is now expected to remain at around 2% at the end of 2024, cantonal figures are projected to be slightly higher at around 3%.

The strong presence of a major pharmaceutical and life sciences cluster in Basel-City remains a key factor behind the success of the local economy. The canton alone was responsible for around 30% of Switzerland's total exports in 2023 with pharmaceutical products accounting for more than 75% of this share. The pharma industry is by far the most important sector in terms of value creation in the local economy, making up for over 40% of the canton's total output. The presence of large, multinational companies in Basel-City contributes to the canton's strong and resilient tax revenue base, as evidenced by tax collection often exceeding budgeted figures year after year, even in the face of a more challenging general economic environment.

The implementation of the Organisation for Economic Co-operation and Development's (OECD's) minimum tax reform and the associated tax windfall are another indicator of the dynamism of the business environment in the canton. After Basel-City raised its corporate tax rate by around 2 percentage points to the new required minimum of 15%, additional corporate tax revenue of around CHF300 million are expected from 2025. The cantonal government has announced the creation of an economic incentive fund to reinvest most of the additional revenue in maintaining and expanding the canton's attractiveness as an international business location. The funding vehicle will finance a range of innovation, social development, and environmental measures, alongside other tax incentives for research and development for companies operating in the canton.

The economic potential of Basel-City places it in a very favorable position in terms of revenue potential and has allowed it to consistently post high operating surpluses despite rising operating costs in recent years. We expect total tax revenue in 2024 to exceed budgeted figures despite the canton foregoing more than CHF112 million (around 2.5% of operating revenue) after a tax reform package increased income tax deductions and adjusted tax brackets to compensate for the effects of inflation (bracket creep).

Basel-City is one of the seven net contributors to the Swiss fiscal equalization system and will pay CHF198 million in resource equalization in 2024, equivalent to around 4.1% of the canton's adjusted operating revenue for this year. This amount is expected to increase, peaking at CHF218 million in 2025. Another important expenditure item that will be added to the cantonal budget from 2025 is a package of measures aimed at improving the provision of childcare. Amounting to around CHF33 million per year, it includes investments in infrastructure, staff salaries, and training. Beyond that, Basel-City will also host a major sporting event with the UEFA Women's Euro 2025, which is initially expected to cost the canton CHF11 million.

In our view, the main challenge continues to be the very ambitious investment plan for the coming years, which could result in pressure on the budget in the event of eventual revenue shortfalls. Projects such as the electrification of the bus fleet, the purchase of new tram cars, the re-development of the port area, investments in wastewater treatment, and other energy efficiency-related projects are already included in the canton's core budget and will, on their own, lead to a historic peak in investment by 2027. We include Basel-City's expansion plans for affordable housing as additions to the existing investment plans into our analysis. We also treat part of the loan for the renovation of the University Hospital in Basel as capital investment rather than onlending, because we believe there are reasonable indications that it might be converted to equity instead of being redeemed. However, in a scenario where we would see an upturn in the deficit after the capital accounts, we expect that financial management will be able to offset this with appropriate measures without resorting to excessive borrowing.

Strong operating performance helps finance historically high investment levels

We expect Basel-City to continue to post strong operating results, albeit at a lower level than in previous years. The expected decline is partly due to the direct impact of the loss of personal tax revenue following the tax reform packages and the continued absence of dividend payments from the Swiss National Bank (SNB), which are only partly offset by estimated higher-than-budgeted corporate and federal tax revenue. In 2025, we expect a further decline in the operating level. Although we estimate a net gain of around CHF50 million from the implementation of the OECD minimum tax, we still do not expect the SNB to pay a dividend in 2025, while historically higher fiscal equalization payments, additional costs related to the childcare initiative, and the hosting of major events are expected to weigh on the expenditure side. From 2026, tax revenue should strengthen on the back of moderate economic growth and the expected return of SNB dividend, supporting even better operating results.

Following the trajectory of the operating performance and as a result of Basel-City's very ambitious investment plan, we expect to observe small but continued deficits after capital accounts through 2026. We assume a reduced execution rate based on historical figures of about 80% for all budgeted investments, but we add payments of up to CHF150 million annually for assets such as affordable housing units that the canton designates as optional (Finanzvermögen) and therefore reports separately. We continue to treat Basel-City's planned CHF300 million equity-convertible loan toward the remodeling of the University Hospital Basel as capex rather than onlending because concerns about the hospital's ability to repay those loans still exist. We model the loan as pro-rata capex of CHF20 million per year during the construction phase.

We believe Basel-City's strong position in the capital market should allow the canton to refinance upcoming maturities with ease and flexibility. In addition to the regular issuance of green and social bonds, the canton issued its first digital bond in 2023, demonstrating the responsiveness of its financial management to market developments. We now expect Basel-City's consolidated debt burden to increase to 60% and remain around that level through 2026 on account of the predicted small deficits after capital accounts and expected borrowings by the University Hospital Basel and other government related entities. All of Basel-City's direct capital market debt is fixed rate and denominated in Swiss franc.

Basel-City's exceptional liquidity position is largely secured by a committed CHF900 million credit facility with the local lender Basler Kantonalbank (BKB), which is majority-owned by the canton. Beyond that, the canton benefits from access to the deep and liquid Swiss capital market for government borrowers. Cash held in bank accounts supports our liquidity assessment, but, in our calculation, falls short of the outflow for the next 12 months, given elevated capex and debt service.

We continue to view the BKB as the canton's most significant contingent liability, given the bank's size and the canton's statutory guarantee. While the bank is well capitalized, its balance sheet size exceeds the canton's annual operating income by almost 12 times. Other contingent liabilities included in our calculations include minority stakes in EuroAirport Basel Mulhouse Freiburg and the MCH Group trade fair organizers, as well as full ownership of the local utility company Industrielles Werk Basel (IWB). As in other Swiss cantons, we continue to monitor the development of contingent liability risks related to the operation of cantonal hospitals. Although not yet observed in Basel-City, recent developments in Switzerland point to increased pressure across the sector. Several hospitals in the country are struggling to balance rising operating costs and high investment needs, an imbalance that may lead to calls for capital injections and increased burdens on cantons.

Canton of Basel-City Selected Indicators

Mil. CHF	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	4,510	4,666	4,898	4,804	5,250	5,339
Operating expenditure	4,048	4,067	4,213	4,365	4,849	4,866
Operating balance	463	599	685	439	401	473
Operating balance (% of operating revenue)	10.3	12.8	14.0	9.1	7.6	8.9
Capital revenue	28	11	10	12	11	21

Canton of Basel-City Selected Indicators

Capital expenditure	380	853	423	475	488	556
Balance after capital accounts	111	(243)	273	(23)	(75)	(62)
Balance after capital accounts (% of total revenue)	2.4	(5.2)	5.6	(0.5)	(1.4)	(1.2)
Debt repaid	408	525	502	350	381	325
Gross borrowings	0	454	405	400	500	500
Balance after borrowings	(283)	(352)	84	(25)	(64)	22
Direct debt (outstanding at year-end)	2,781	2,710	2,613	2,710	2,829	3,004
Direct debt (% of operating revenue)	61.7	58.1	53.3	56.4	53.9	56.3
Tax-supported debt (outstanding at year-end)	2,870	2,855	2,892	3,009	3,128	3,303
Tax-supported debt (% of consolidated operating revenue)	63.6	61.2	59.0	62.6	59.6	61.9
Interest (% of operating revenue)	0.1	0.1	0.3	0.5	0.6	0.7
Local GDP per capita ($)	223,309.3	222,657.3	236,785.3	248,689.4	243,358.0	245,651.1
National GDP per capita ($)	93,297.6	93,984.3	99,815.3	104,628.2	102,296.3	103,260.9

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-City Rating Component Scores

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. 7, 2024. 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 2024: Turn In Credit Cycle Won't Be Plain Sailing, Sept. 25, 2024
- Economic Research: Economic Outlook Eurozone Q4 2024: Consumer Spending To The Rescue, Sept. 24, 2024
- Your Three Minutes In Swiss Cantons: Are Hospitals A Major Financial Risk?, Aug. 22, 2024
- Basler Kantonalbank (BKB) And Subsidiary Bank Cler Ratings Affirmed; BKB Liquidity Revised To Adequate From Strong, July 23, 2024
- Switzerland, Feb. 12, 2024
- Bulletin: Sorry, Cantons: No Profit Distributions From The SNB In 2024 And Possibly 2025, Jan. 4, 2024
- Canton of Basel-City's First Digital Bond Rated 'AAA'; Paves The Way For Other Issuers, Nov. 27, 2023
- Institutional Framework Assessments: Swiss Cantons Benefit From Autonomy And Robust Checks And Balances, May 23, 2023

Ratings Detail (as of October 29, 2024)*	
Basel-City (Canton of)	
Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA
Issuer Credit Ratings History	
09-Nov-2018	AAA/Stable/A-1+
10-Nov-2017	AA+/Positive/A-1+
16-Jun-2009	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.