

Basel-Country (Canton of)

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Major Rating Factors

Strengths:

- Sound budgetary performance until 2010.
- Conservative financial guidelines, which set high standards for financial planning.
- High budgetary flexibility.
- Wealthy regional economy including a high share of pharmaceutical and life science companies.
- Strong access to liquidity and a high level of liquid assets.

Weaknesses:

- Expected weaker budgetary performance.
- Low but rising debt burden.
- Large contingent liability related to the statutory guarantee for cantonal bank Basellandschaftliche Kantonalbank.

Issuer Credit Rating

AAA/Stable/A-1+

Rationale

The ratings on the Swiss Canton of Basel-Country are based on Standard & Poor's Ratings Services' expectation that it will continue its track record of good budgetary results, due to the canton's credible financial principles. Nevertheless, we do not expect the sound results achieved up until 2010 to be repeated in the coming years. In 2010, the canton posted an operating surplus of 1.5% of operating revenues, and a moderate deficit after capital accounts of 2.5% of adjusted total revenues. For the next three years, we assume temporarily slightly weaker results in our base-case scenario.

We anticipate that the canton's highly qualified management will implement measures to structurally balance its accounts, in line with its conservative financial guidelines. We view this prudent financial planning, as well as the example set out by the canton's deeply entrenched guidelines as a key credit strength. Furthermore, due to its extraordinarily high budgetary flexibility, highlighted by more than 80% modifiable revenues, we believe that the canton would be able to effectively counteract a structural deterioration of its financial position.

The ratings also reflect the canton's dynamic economy, which helps to make it one of the wealthiest regions in Western Europe. The canton has a GDP per capita that reaches 140% of the EU-27 average and its real economic growth has proven more dynamic than that of Switzerland over the past decade. This positive development is primarily fuelled by the high value added of the life sciences and pharmaceuticals sector, which has its Swiss center in the Basel region. The ratings are also based on the canton's very positive liquidity situation, characterized by a high stock of liquid assets, and strong access to capital markets.

Aside from the projected slightly weaker budgetary performance, the ratings also reflect the canton's low but increasing tax-supported debt burden. In our base-case scenario, this will rise to 44.9% of operating revenues until 2013. Taking into account the canton's unfunded pension liabilities, we expect its net financial liabilities to increase to 84.1% of operating revenues until 2013--a moderate level by international standards.

Our assessment of the canton's creditworthiness also reflects our view that its statutory guarantee for Basellandschaftliche Kantonalbank (BLKB; AAA/Stable/A-1+) represents a large contingent liability. Basel-Country guarantees all the bank's liabilities and is the majority owner of BLKB. A major financial problem for the bank could also burden the canton's creditworthiness. However, we view such a support scenario as highly unlikely, given the bank's very good capitalization and its low risk profile.

Liquidity

We view the canton's liquidity position as very positive. It had free cash and liquid assets that amount to Swiss franc (CHF) 450 million (about \$576.5 million) as of year-end 2010, which could easily be sold if needed. Free cash and liquid assets account for about 200% of yearly debt service. Due to past budget surpluses and its exceptional liquidity position, the canton was able to refrain from issuing debt instruments from 2005 to 2010. There are no foreign currency risks in the debt portfolio.

Outlook

The stable outlook reflects our expectation that Basel-Country will continue to exhibit sound budgetary performance and post only moderate deficits after capital accounts. It also reflects our belief that the canton's management will succeed in returning to a structurally balanced budget in the medium term. We also believe that the canton can partly draw on its liquid assets in order to cover projected deficits.

We could reconsider our assessment of the canton's creditworthiness if there was sustained deterioration of its budgetary performance, leading to an increase in debt levels beyond those projected in our base-case scenario. Moreover, a major financial problem at BLKB, resulting in a capital injection from the canton, could strain the ratings on Basel-Country. We currently view both scenarios as remote.

Peer Comparison

Taking our base-case scenario until 2013 into account, Basel-Country exhibits an average five-year budgetary performance slightly below the median of the 'AAA' rating category. The operating surplus is lower than for other 'AAA' rated local and regional governments. Nevertheless, the deficit after capital accounts is slightly higher than the median. Basel-Country benefits from a low direct debt burden compared with international peers. For example, it has only one-third of the State of Bavaria's debt burden. It also benefits from high budgetary flexibility, a predictable and supportive institutional framework in Switzerland, and a very positive liquidity situation.

By national standards, Basel-Country has less than half the debt burden of Basel-City and the Canton of Vaud (both 'AA+') and posts better liquidity figures than both of these cantons. The Canton of Zurich--also rated 'AAA'--has a higher tax-supported debt burden, but a lower underfunding of its pension fund than Basel-Country. All of these cantons contribute to the national fiscal equalization system to different extents.

For a full analysis in the local language (German), please contact PublicFinanceEurope@standardandpoors.com.

Table 1

Basel-Country (Canton of)--2010 Peer Comparison									
(Mil. CHF)	Basel-Country (Canton of)	AAA Median	Basel-City (Canton of)	Bavaria (State of)	Goteborg (City of)	Saskatchewan (Province of)	Vaud (Canton of)	Zurich (Canton of)	
Issuer credit rating (as of Aug. 30, 2011)	AAA/Stable/A-1+	N/A	AA+/Stable/A-1+	AAA/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AA+/Positive/--	AAA/Stable/--	
--Five-year averages (two years of actual data, current budget, and two years of Standard & Poor's forecast)--									
Operating balance (% of adjusted operating revenues)	1.2	4.5	7.4	6.0	3.6	N.A.	9.6*	6.9*	
Balance after capital accounts (% of adjusted total revenues)	(4.6)	(3.9)	(1.0)	(5.4)	(1.6)	N.A.	6.7*	1.1*	
--Year ended Dec. 31, 2010--									
Total adjusted revenues	1,923.9	5,915.8	3,325.8	40,225.8	3,241.2	9,278.9¶	5,263.4*	7,775.5*	
Transfers received (% of total adjusted revenues)	17.0	25.1	11.3	9.4	16.0	16.2¶	24.4*	24.3*	
Modifiable revenues (% of adjusted operating revenues)	80.6	66.1	88.6	9.4	70.7	83.5¶	75.3*	75.4*	
Capital expenditures (% of total adjusted expenditures)	0.9	12.2	12.9	12.0	4.5	8.7¶	3.6*	7.8*	
Direct debt (at year-end)	621.3	N/A	2,309.8	30,596.5	2,208.9	3,140.2¶	2,179.8*	2,498.8*	
Direct debt (% of adjusted operating revenues)	33.1	33.6	69.8	79.6	68.2	34.5¶	41.9*	32.7*	
Direct debt (% of GDP)	N.A.	N.A.	N.A.	6.8*	N.A.	7.4¶	8.7*	3.2*	
Tax-supported debt (at year-end)	505.3	N/A	2,309.8	35,396.5	2,482.9	3,246.4¶	2,584.0*	2,507.8*	
Tax-supported debt (% of consolidated operating revenues)	26.9	N/A	69.8	92.1	69.2	35.6¶	49.7*	32.8*	
Net financial liabilities (% of consolidated operating revenues)**	66.8	63.1	62.4	394.6	103.0	59.3¶	86.6*	47.0*	

Table 1

Basel-Country (Canton of)--2010 Peer Comparison (cont.)								
Interest (% of operating revenues)	1.8	1.4	1.7	2.7	2.7	5.6¶	1.6*	1.6*
Debt service (% of operating revenues)	9.6	1.8	13.6	11.7	4.8	11.2¶	9.3*	9.6*
Free cash & liquid assets (% of debt service)	182.3	1,297.30	54.6	37.7	72.5	220.8¶	115.7*	151.2*
Population	273,520¶	1,101,101¶	184,963§	12,497,100*	513,751	1,029,100*	679,876§	1,320,147§
Unemployment rate (%)	N.A.	N.A.	N.A.	4.9*	6.9*	4.8*	N.A.	3.9*
Nominal GDP per capita (unscaled)	N.A.	N.A.	N.A.	34,124.7*	33,058.6§	34,632.5*	N.A.	55,660.4*
GDP per capita (% of national average)	N.A.	N.A.	N.A.	115.5*	92.7§	122.8*	N.A.	121.9*
Real GDP Growth (%)	N.A.	N.A.	N.A.	(4.7)*	N.A.	(3.9)*	N.A.	N.A.
Total revenues (% of GDP)	N.A.	N.A.	N.A.	9.13*	N.A.	19.98¶	20.94*	9.95*

*Figures for 2009. **This ratio is calculated using Standard & Poor's estimates of unfunded pension liabilities for German states. ¶Figures for 2011. §Figures for 2008. 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)	2013bc	2013dc	2012bc	2012dc	2011bc	2011dc	2010	2009	2008
Exchange rate date	12/31/2013	12/31/2013	12/31/2012	12/31/2012	12/31/2011	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Exchange rate to USD	1.0	1.0	1.0	1.0	0.9	0.9	1.0	1.1	1.1
Operating revenues	2,687	2,561	2,630	2,504	2,610	2,534	2,654	2,562	2,886
Operating expenditures	2,684	2,709	2,629	2,654	2,551	2,576	2,604	2,480	2,411
Operating balance	3.0	(148.0)	1.0	(150.0)	58.3	(42.7)	49.7	82.0	475.0
Operating balance (% of adj. operating revenues)	0.1	(5.8)	0	(6.0)	2.2	(1.7)	1.9	3.2	16.5
Capital revenues	71.0	71.0	79.0	79.0	93.6	93.6	81.0	88.8	52.1
Capital expenditures (capex)	225.0	225.0	247.0	247.0	468.0	1,068.0	197.9	209.2	160.2
Balance after capital accounts	(151.0)	(302.0)	(167.0)	(318.0)	(316.1)	(1,017.1)	(67.2)	(38.4)	366.9
Balance after capital accounts (% of adj. total revenues)	(5.5)	(11.5)	(6.2)	(12.3)	(11.7)	(38.7)	(2.5)	(1.5)	12.5
Debt repaid	180.0	180.0	100.0	100.0	200.0	200.0	200.0	100.0	16.7
Balance after debt repayment and onlending	(331.0)	(482.0)	(267.0)	(418.0)	(516.1)	(1,217.1)	(267.2)	(138.4)	350.2

Table 2

Basel-Country (Canton of)--Financial Statistics (cont.)									
Balance after debt repayment and onlending (% of adj. total revenues)	(12.0)	(18.3)	(9.9)	(16.2)	(19.1)	0.0	(9.8)	(5.2)	11.9
Gross borrowings	331.0	482.0	267.0	418.0	516.1	1,217.1	200.0	0	0
Balance after borrowings	0	0	0	0	0	0	(67.2)	(138.4)	350.2
Balance after borrowings (% of adj. total revenues)	0	0	0	0	0	0	(2.5)	(5.2)	11.9
Modifiable revenues (% of adj. operating revenues)	N/A	N/A	N/A	N/A	81.5	N/A	80.6	80.4	82.0
Operating revenue growth (%)	2.2	(2.6)	0.8	(4.1)	(1.7)	(4.5)	3.6	(11.3)	10.4
Operating expenditure growth (%)	2.1	3.0	3.0	4.0	(2.0)	(1.1)	5.0	2.8	2.2
Direct debt (outstanding at year-end)	1,491	2,494	1,340	2,192	1,173	1,874	857	857	955
Direct debt (% of adjusted operating revenues)	55.5	97.4	51.0	87.5	45.0	74.0	32.3	33.5	33.1
Tax-supported debt (% of consolidated operating revenues)	55.5	97.4	51.0	87.5	45.0	74.0	32.3	33.5	33.1
Interest (% of adjusted operating revenues)	0.7	0.8	0.8	0.8	1.0	1.1	1.8	1.4	1.4
Debt service (% of adjusted operating revenues)	7.4	7.8	4.6	4.8	8.7	9.0	9.3	5.3	2.0
Free cash and liquid assets (% of adjusted operating expenditures)	16.8	N/A	17.2	N/A	17.7	N/A	17.3	25.0	30.0
Free cash and liquid assets (% of debt service)	225.8	N/A	376.3	N/A	199.2	N/A	182.3	460.5	1,251.7

bc--Base case. dc--Downside case. N/A--Not applicable. CHF--Swiss franc.

Table 3

Basel-Country (Canton of)--Economic Statistics									
(Mil. CHF)	--Year ended Dec. 31--								
	2013e	2012e	2011	2010	2009	2008	2007	2006	2005
Population (000s)	275.6	274.5	273.5	272.5	274.5	270.5	268.0	266.4	265.6
GDP (nominal)	16,721	16,410	16,092	15,734	15,291	15,581	14,907	14,011	13,323

e--Estimated.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of August 30, 2011)*	
Canton of Basel-Country	
Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured (5 Issues)	AAA
Issuer Credit Ratings History	
21-Nov-2001	AAA/Stable/A-1+
*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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