Subnational Government Outlook 2025

Swiss Cantons Are Navigating Budgetary Pressures And Shifting Debt Dynamics

S&P Global
Ratings

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This report does not constitute a rating action

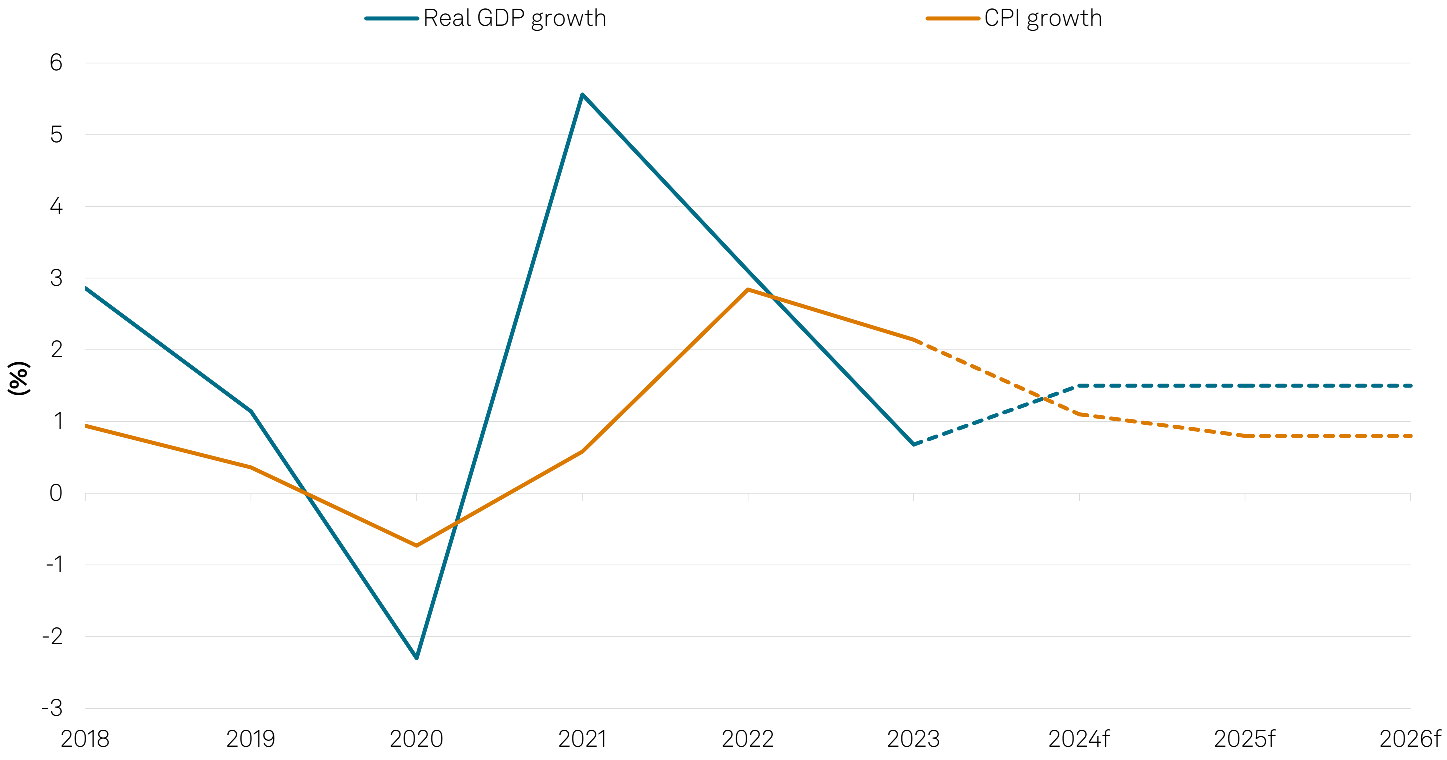
Key Takeaways

- While significant economic and geopolitical risks remain, we think the extremely predictable and supportive institutional framework and robust financial position of most Swiss local and regional governments (LRGs) will enable them to successfully navigate the challenges of the near future.
- S&P Global Ratings forecasts a gradual economic strengthening for Switzerland, with annual GDP growth of 1.5% in 2024-2026, supported by inflation receding further.
- However, we expect some pressure on Swiss LRG budgets, driven by cantonal initiatives to improve attractiveness, the shifting of financial burden under proposed central government austerity measures, and rising healthcare costs.
- As a result, we now anticipate the Swiss LRG sector will post only marginal surpluses over the coming years, creating a need to refinance rather than repay maturing debt.
- Annual Swiss LRG bond issuance surprisingly peaked in 2024, at more than 7 billion Swiss francs (CHF). This was almost double the amount issued the previous year.
- For 2025 and 2026, we forecast gross borrowing in bond format will normalize, falling into a range of CHF4 billion-CHF5 billion annually, supported by limited upcoming bond maturities.

A Resilient National Economy Will Remain A Key Strength Of Swiss LRGs

We predict a robust development in key macroeconomic parameters

Slightly stronger GDP growth and marginally declining inflation



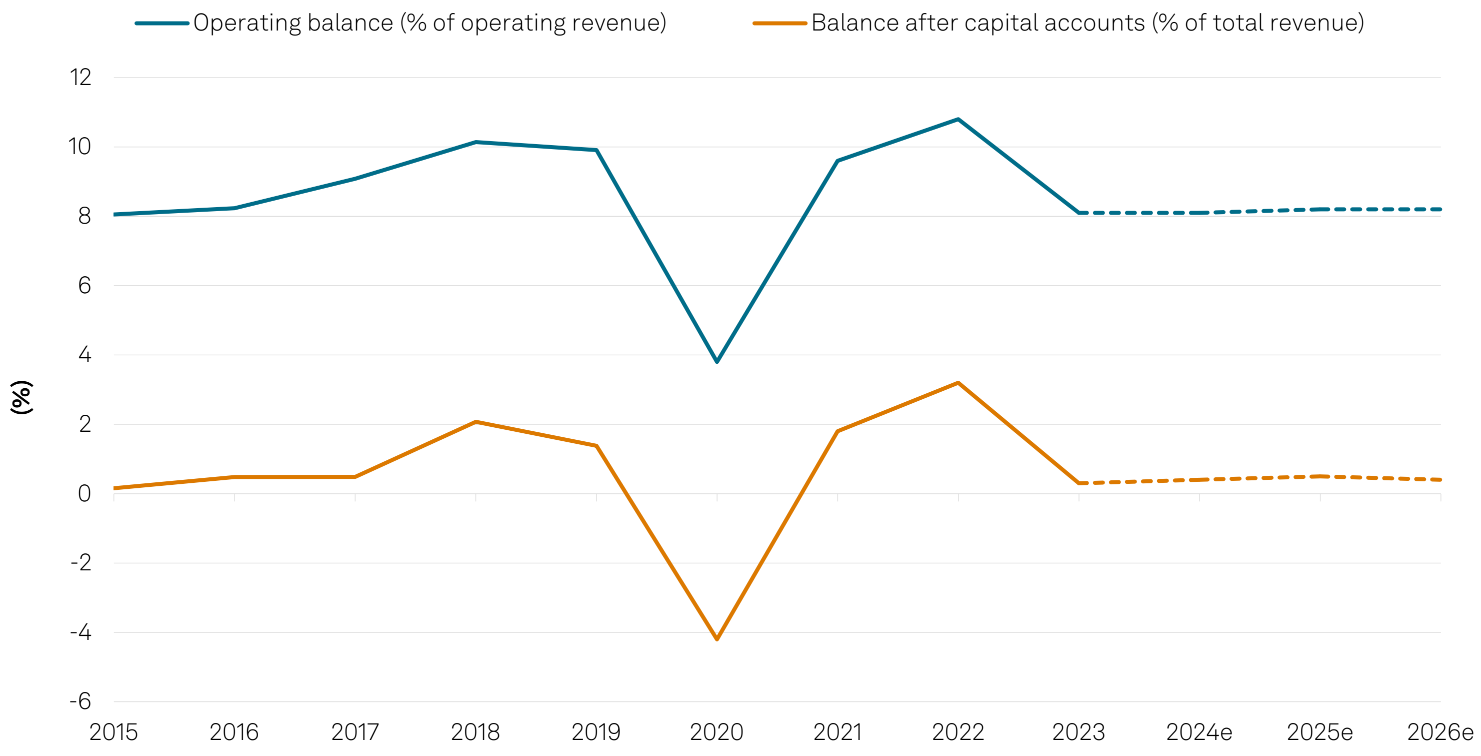
f--Forecast. Source: S&P Global Ratings.

- S&P Global Ratings projects a constant GDP growth rate of 1.5% for Switzerland in 2024, 2025, and 2026, after a slowdown to 0.7% in 2023.
- We project 1.1% inflation in 2024 and 0.8% in 2025 and 2026, remaining below European peers.
- In our view, the Swiss economy's growth will be driven by robust private consumption and its competitive export sector.
- However, the economic outlook could be affected by decisions made by trading partners regarding tariffs and spending.

LRGs Will Continue To Post Surpluses, Albeit Weaker Than Previously

Cantonal and federal initiatives will likely weigh on performance in 2025 and 2026

Swiss LRG balances are expected to remain positive



e--Estimate. LRG--Local and regional governments. Sources: Swiss Federal Statistics Office, S&P Global Ratings.

- Several cantons are planning tax reforms and pursuing ambitious investment plans to boost competitiveness.
- At the same time, the Swiss federal government is implementing austerity measures to reduce anticipated deficits from 2026.
- We think cantons have sufficient political power to prevent material burden shifting, but we anticipate additional pressure.
- Our forecast benefits from the Swiss National Bank (SNB) resuming profit distributions, after two years without any. The payment of CHF 2 billion by the SNB to the cantons is equivalent to an operating margin of a little less than 1%.

Swiss LRG Debt Could Increase Marginally Over The Coming Years

This would end the recent trend of declining outstanding debt

Swiss LRGs are more likely to refinance than repay maturing debt

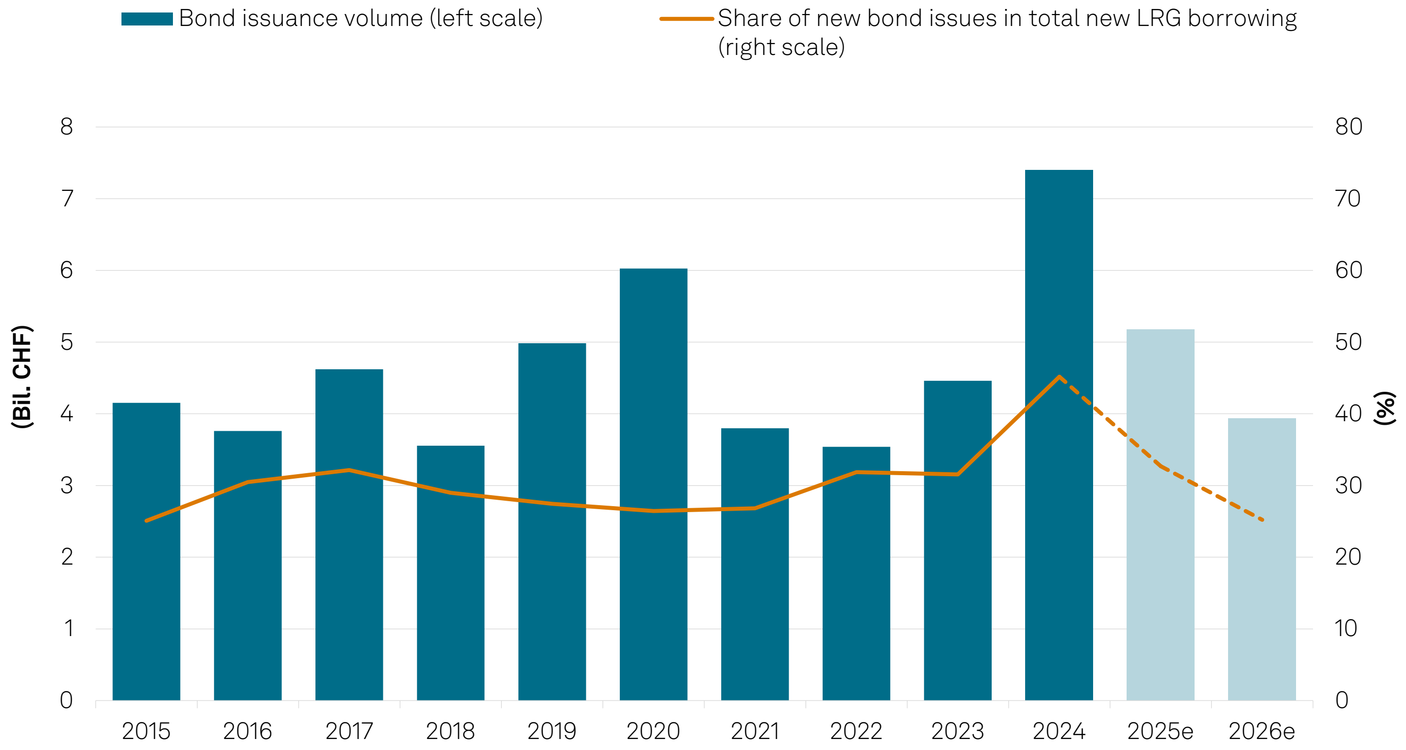
e--Estimate. LRG--Local and regional governments. Sources: Swiss Federal Statistics Office, S&P Global Ratings.

- Given budgetary challenges and existing investment plans, we expect most of the debt maturing in 2025 and 2026 to be refinanced rather than repaid.
    - We estimate maturities of about CHF15 billion per year over 2025-2026.
    - Against this backdrop, we predict annual borrowings of about CHF16 billion.
- Replenishment of cash holdings and funding of new assets held in the financial account (which does not get captured in official deficits) explain the anticipated slight growth of the debt stock despite broadly balanced accounts.
- We think the total outstanding debt of Swiss LRGs will remain slightly below CHF100 billion by 2026, which is below 60% of operating revenues.

Projected Annual Bond Issuance Volumes Of CHF4 Billion-CHF5 Billion

After a very active 2024, we anticipate issuance volumes will normalize in the coming years

Anticipated Swiss LRG bond issuance volumes



e--Estimate. LRG--Local and regional governments. Sources: Swiss Federal Statistics Office, S&P Global Ratings.

- Debt issuance peaked in 2024, which we attribute to:
  - Pre-funding, since an inverted yield curve during most of 2024 made short-term deposits attractive.
  - Elevated issuance volumes from the Swiss urban centers, which we understand to have invested heavily.
- We expect new bond issuance activity to normalize at CHF4 billion-CHF5 billion annually, from CHF7.4 billion observed in 2024.
- Our projection reflects known maturities and the anticipation of, on aggregate, broadly balanced accounts in the sector.
- At CHF50 billion by year-end 2024, Swiss LRG-issued bonds account for almost half of the sector's total outstanding debt.

Little Change In The List Of Largest Swiss LRG Bond Issuers

Urban centers continue to dominate the issuer ranking

Largest cantonal issuers

1. Republic and Canton of Geneva

Rating	AA+/Stable/--
Amount outstanding	CHF 8,225 million
Amount issued in 2024	--

2. Canton of Zürich

Rating	AAA/Stable/--
Amount outstanding	CHF 4,540 million
Amount issued in 2024	CHF 910 million

3. Canton of Bern

Rating	Not rated
Amount outstanding	CHF 3,305 million
Amount issued in 2024	CHF 430 million

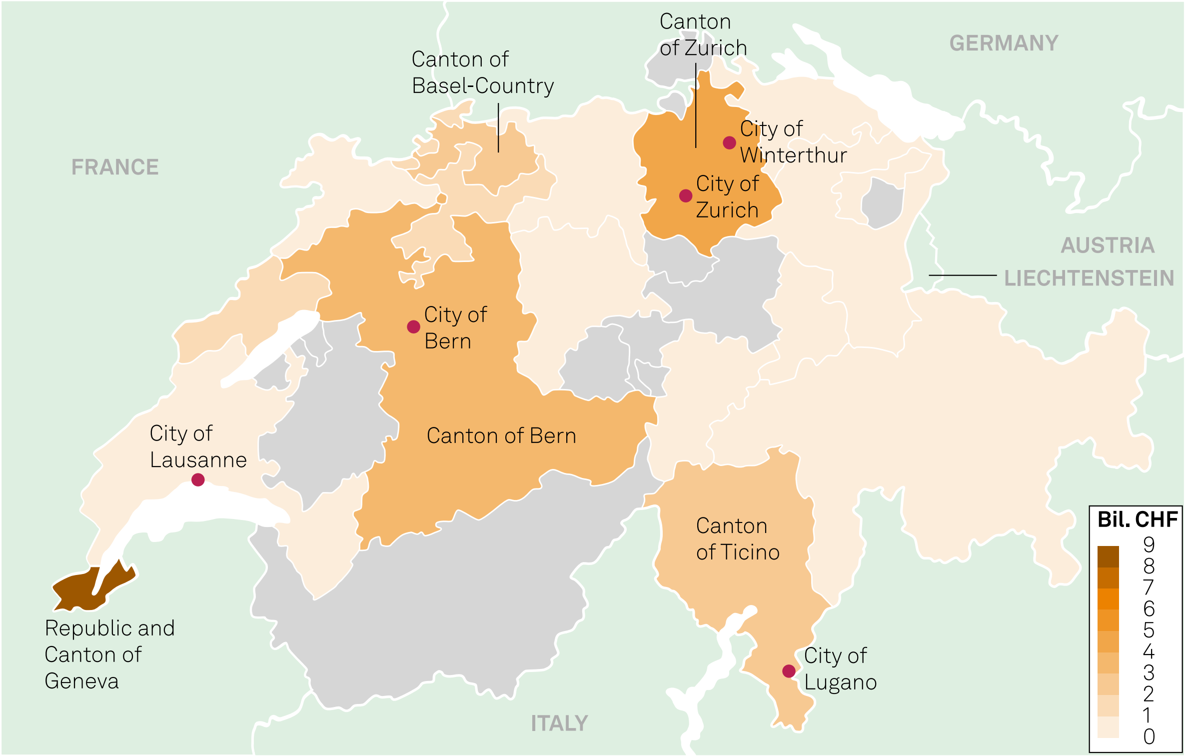
4. Canton of Ticino

Rating	Not rated
Amount outstanding	CHF 2,870 million
Amount issued in 2024	CHF 750 million

5. Canton of Basel-Country

Rating	AAA/Stable/A-1+
Amount outstanding	CHF 2,225 million
Amount issued in 2024	CHF 100 million

Bonds outstanding as of December 2024



Largest municipal issuers

1. City of Zürich

Rating	AAA/Stable/A-1+
Amount outstanding	CHF 6,475 million
Amount issued in 2024	CHF 1,350 million

2. City of Bern

Rating	Not rated
Amount outstanding	CHF 2,870 million
Amount issued in 2024	CHF 810 million

3. City of Lausanne

Rating	AA-/Stable/--
Amount outstanding	CHF 2,000 million
Amount issued in 2024	CHF 300 million

4. City of Winterthur

Rating	Not rated
Amount outstanding	CHF 1,455 million
Amount issued in 2024	CHF 245 million

5. City of Lugano

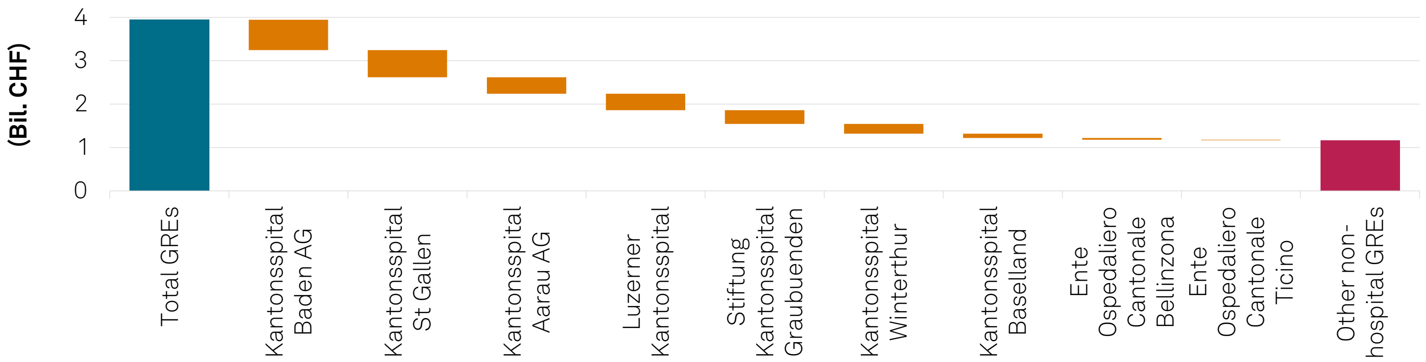
Rating	Not rated
Amount outstanding	CHF 1,010 million
Amount issued in 2024	CHF 220 million

CHF--Swiss franc. Sources: Bloomberg, S&P Global Ratings.

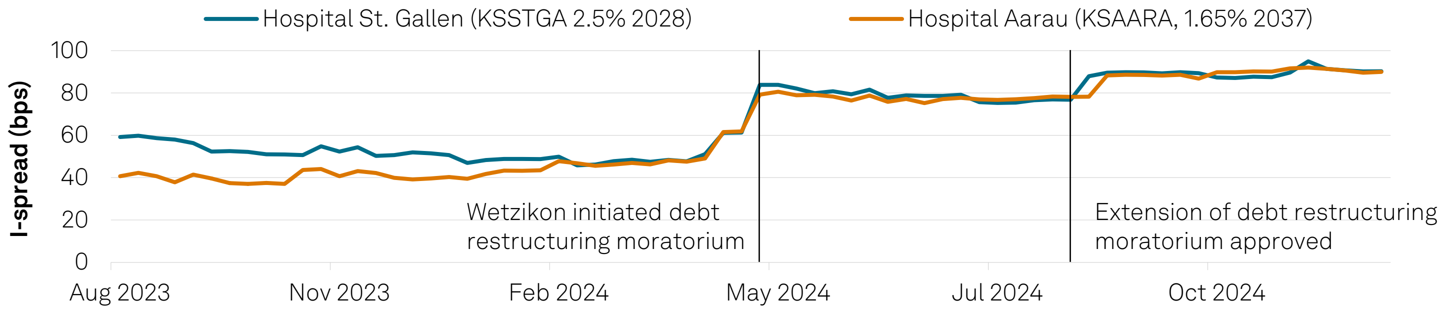
Hospitals Are The Largest LRG-Related Bond Issuers Outside Core Budgets

But the default of a municipal hospital in Wetzikon highlights challenges within the sector

Outstanding bonds of LRG-related GREs 2024



Two examples of rising spreads of cantonal hospital bonds



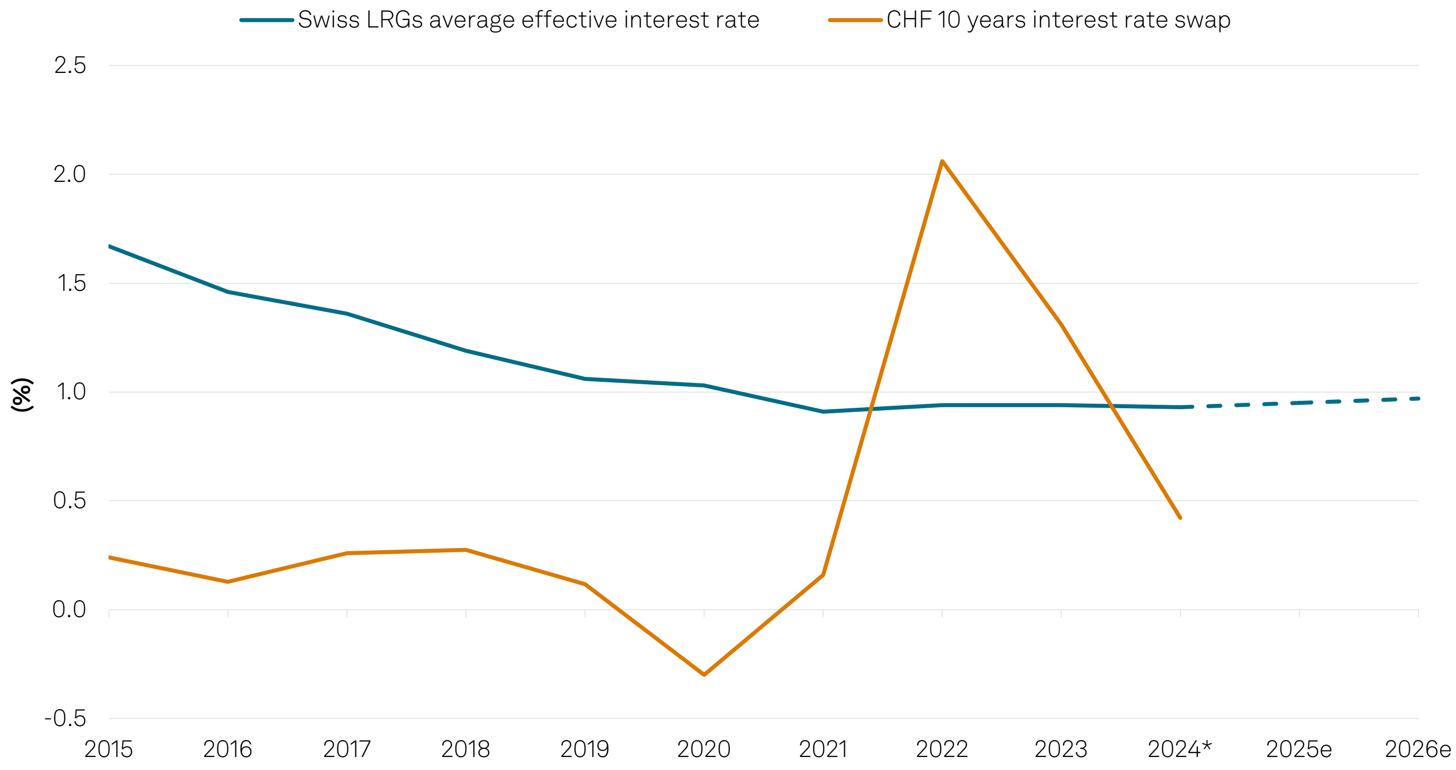
GREs--Government related entities. Sources: Bloomberg, S&P Global Ratings.

- In general, Swiss hospitals remain under financial pressure from rising costs and insufficient tariff adjustments.
- Additionally, aging infrastructure needs replacing and upgrading.
- Funding needs have prompted several canton-affiliated hospitals to issue bonds, making them the largest group of LRG-affiliated issuers.
- However, the default of Wetzikon municipal hospital in 2024, along with required bailouts at other hospitals, has highlighted the sector’s issues and caused repricing risk.
- It remains to be seen if reform efforts, including a new split of healthcare costs between insurance providers and cantons, will lead to material improvements.

Rise In Effective LRG Interest Rates Appears To Have Been Cancelled

Benefitting from long-term debt, Swiss LRGs' interest cost should remain fairly stable

Estimated average effective interest rate of Swiss LRGs over time



*December 2024. e--Estimate. LRG--Local and regional government. Source: Source: S&P Global Ratings.

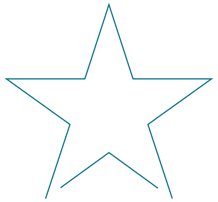
- After peaking in 2022, Swiss government bond yields have fallen back to a much lower low level.
- We project the average portfolio interest rate of Swiss LRGs to remain at about 1% until 2026, only marginally above the 0.9% recorded in 2022.
- In any case, Swiss LRGs should be well protected against rate shocks:
  - An estimated >90% of Swiss LRG debt is fixed rate.
  - Long average tenors limit refinancing needs (for bonds, we calculate a weighted average life of about 9.5 years as of year-end 2024).
  - The average LRG indebtedness is moderate (we estimate about 60% of operating revenue for 2025).

Identifiable Key Risks For Swiss LRGs

Despite the current robust fiscal position, challenges remain that limit visibility

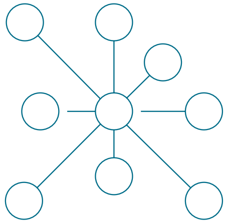
Swiss federal austerity measures

- To ensure compliance with deficit targets from 2026, the Swiss central government is considering savings measures that could impact cantons and municipalities, including:
  - Reducing cantons' share of direct federal tax.
  - Reallocating tasks--and hence fiscal responsibilities --between the federal government and LRG levels.



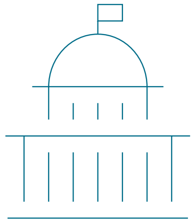
Pressure to improve competitiveness

- Efforts to increase the competitiveness of cantons could add pressure on performance:
  - Costly upgrades to public infrastructure (including hospitals and affordable housing), investments in sustainability projects, and digitalization of services.
  - Tax cuts and deductions to attract businesses and individuals.



Geopolitical event risk

- Potential protectionist decisions by key trading partners.
- The escalation of the Russia-Ukraine and Middle East conflicts, with potential economic spillovers and challenges from refugees and migration.



European Union relations

- Switzerland and the EU are negotiating the extension and modernization of existing bilateral agreements.
- Failure to implement the recently drafted agreement, for example due to a negative referendum, could gradually erode Swiss attractiveness over time.
- Research and development and the skilled labor supply could be affected.

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