

CREDIT OPINION

16 July 2024

Update



RATINGS

Berne, City of

Domicile	Berne, Switzerland
Long Term Rating	Aa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Berne (Switzerland)

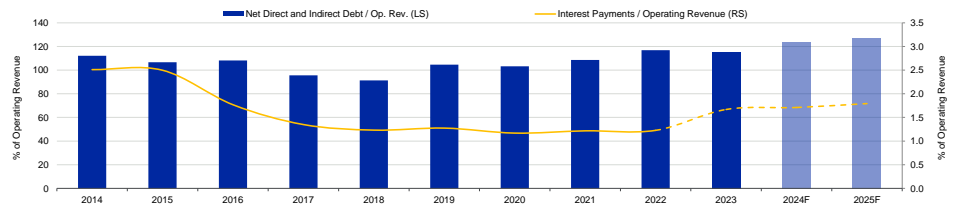
Update to credit analysis

Summary

The credit quality of the [City of Berne](#) (Aa1 stable) reflects the city's good financial performance with operating surpluses over a long time horizon. The city has conservative budgetary management and strong governance practices, which will help in preserving the city's good operating margins and contain financial deficits. The city has a sophisticated debt management and generally maintains solid liquidity levels. Cash flows are well predictable and in case of need, the city enjoys unquestioned access to external funding. Berne is the capital of Switzerland, with wealth levels significantly higher than the national average and a diversified economic profile. We also take into account the city's relatively high debt and overall limited financial flexibility. The city's debt burden remained stable in 2023, with net direct and indirect debt around 116% of operating revenue and is expected to remain at least that high over the coming three years, a reflection of partly debt-funded infrastructure spending for its growing population.

Exhibit 1

Berne's relatively high debt level will remain because of planned infrastructure spending



The forecasts (F) reflect Moody's base-line scenario.

Sources: Issuer and Moody's Ratings

Credit strengths

- » Good financial performance
- » Mature and developed institutional framework and oversight
- » Strong and robust economy

Credit challenges

- » Relatively high debt level
- » Some contingent liabilities, related to municipal companies

Rating outlook

The stable outlook on Berne's rating reflects the city's continued efforts to achieve good operating surpluses, with a limited increase in debt over the next three years.

Factors that could lead to an upgrade

We could upgrade Berne's Aa1 rating if there is a significant reduction in the city's debt burden, in combination with an improvement in the credit strength of the Canton of Berne.

Factors that could lead to a downgrade

We could downgrade Berne's Aa1 rating if the city's debt increases significantly or it were to experience a prolonged fiscal slippage. Although not likely, a sovereign downgrade or a weakening in the canton's credit strength could also result in a downgrade of Berne's rating.

Key indicators

Exhibit 2

City of Berne

	2021	2022	2023	2024F	2025F
Net direct and indirect debt as % of Operating revenue	108.6%	116.9%	115.5%	124.1%	127.4%
Primary Operating Balance as % of Operating revenue	8.1%	8.6%	9.3%	7.8%	5.7%
Interest payments as % of Operating revenue	1.2%	1.2%	1.7%	1.7%	1.8%
Intergovernmental revenue as % of Operating revenue	28.4%	27.8%	27.7%	26.8%	27.0%
Capital expenses as % of Total expenses	11.1%	11.5%	13.2%	11.7%	11.3%
Liquidity ratio	2.1%	4.6%	0.5%	2.6%	2.6%

The forecasts (F) reflect Moody's base-line scenario.

Source: Moody's Ratings

Detailed credit considerations

The credit quality of the City of Berne, as expressed in the Aa1 stable rating, combines a Baseline Credit Assessment (BCA) of aa1 and the moderate likelihood of extraordinary support from the Canton of Berne in the event the city faces acute liquidity stress.

Baseline Credit Assessment

Good financial performance

Berne's medium-term financial plan foresees a slight increase in tax revenue over the coming year. The city's 2023 tax revenue was higher than initially budgeted, reflecting the somewhat conservative planning of the city's management, as well as better-than-expected economic development. Tax revenue growth from 2024 onwards takes into account a stability in city's economic growth expectations, in line with our baseline scenario. Operating surpluses in 2024 and 2025 will likely be similar, although slightly weaker, to those in 2023. The city's management typically outperforms its budget plans, also supported by its implemented cost-saving measures over the course of the year.

The city's primary operating surplus (POB) was a good 9.3% of operating revenue in 2023, compared with 8.6% in 2022. Tax revenue, which accounts for half of the city's budget, was around 5% higher than that in 2022, but they are likely to remain at this level over the coming two years. Good primary operating results, around 8% to 9% of operating revenue, over the past few years were largely driven by the administration's efforts to limit growth in operating expenditure, reflecting the city's conservative and cautious budgetary policy, and we do not expect these good results to deteriorate throughout the planning horizon of the next three years.

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In 2023, the city continued with the implementation of its large investment plan that aims at closing the investment and maintenance gap following the prolonged period of financial consolidation. This resulted in a financing deficit of around -6% in 2023, which we expect to remain around this level in the next two years, before gradually decreasing afterwards. Therefore, part of the city's investments will persist in being funded through debt. The city has the flexibility to recalibrate its planned investments to ease the pressure on its budget.

The city's liquidity position remains adequate, despite the significant drop at year-end 2023, which was due to the repayment of a large amount of short-term debt coming due in December 2023. Nevertheless, Berne's liquidity management is deemed to be sophisticated and carefully planned.

Some uncertainty around future capital spending policy might arise due to upcoming municipal elections planned for November 2024, which might result in a change in the composition of the municipal council and potentially to the city's financial strategy.

Mature and developed institutional framework and oversight

The city's financial statements are audited by external auditors, and its finances benefit from the canton's strong oversight. The Canton of Berne is the supervisory authority for the local governments in its territory and has the right to intervene in cases where the budgetary exercise is deemed to have not been conducted in accordance with cantonal laws. The canton receives annual reports and has the right to request any financial information from the city for the current fiscal year, with the ability to intervene in case of delays in the budgetary agreement.

The institutional framework — which encompasses the arrangements outlining intergovernmental relationships at all levels and jurisdictional powers and responsibilities — is mature and highly developed. Similar to the Swiss cantons, Swiss municipalities also have fiscal autonomy, within the limits fixed by the canton (Article 50 of the Swiss Constitution), which is embedded in a "law for municipalities" that exists in each canton.

Strong and robust economy

The City of Berne is the capital of the Swiss Federation and its administrative center. The city also hosts the headquarters of key national institutions such as the federal railways and the national postal company. The city is a thriving center for businesses in the telecommunications, pharmaceutical, financial, and commercial services industries. As of the end of 2023, it is the fifth-largest city in Switzerland, with a population of approximately 145,300. The city's population is growing, largely attributed to immigration flows, which will continue to drive economic growth in the next five years.

The city's GDP growth rates generally align with the national average, reflecting a moderate growth trajectory. This moderate level of growth is largely driven by the public sector's dominance in the local economy (like the federal administration and the university), resulting in a lower degree of economic diversification, while limiting the volatility of the local economy and providing stability to the city's finances during recession periods. We expect future growth rates to stabilize and remain in line with the national economic trend. The city's unemployment rate remains very low, at less than 2% since 2022.

Relatively high debt level

Berne's net direct and indirect debt remained relatively stable in 2023, at a relatively high 116% of operating revenue (Exhibit 1). We expect debt to remain stable at this relatively high level over the coming three years, driven by new investments, partly financed with new debt. However, this debt burden still compares well with the even higher levels recorded 10 years earlier.

The city also provides some very marginal guarantees, which we include in indirect debt (amounting to less than 2% of operating revenue).

Berne has a conservative debt management approach and low risks associated with the characteristics of its debt. In fact, Berne's debt is in Swiss francs and at fixed rates.

Debt service is between 15% to 20% of operating revenue in 2023 and 2024 each, but we expect a lower level in the coming years. Over the last few years, the city was able to lock in low interest rates to issue long-term notes. Currently, there are no long-term bond maturities before 2025. Berne benefits from the comparatively low interest rate environment in Switzerland, and has excellent access to the well-developed and extremely liquid domestic capital market.

The city's interest cost was low at 1.7% of operating revenue in 2023, slightly higher compared to the last 3 years. We adjust the amount of interest costs, as the city reports the interest paid on debt (on-lent from the city) of its owned companies in its accounts, which is a pass-through for the city's budget.

Some contingent liabilities, related to municipal companies

The city is exposed to some contingent liabilities, related to its subsidiaries, none of which we consider a potential source of risk. We deem the debt of majority-owned companies as almost entirely self-supporting, and thus contingent liabilities are not included in the above-mentioned direct and indirect debt.

The city's largest public company is Energie Wasser Bern (EWB), a utility corporation under public law. The company is profitable, and its privatisation is not under consideration. Another major publicly owned entity is Bernmobil, a local public transport company, which also benefits from operational links with and financial support from the canton. Berne also has shareholdings in other companies, which we consider minor risks. The largest of them, Fonds für Boden & Wohnbaupolitik, is a conservatively funded public real estate developer.

The city's pension fund is mostly fully funded by assets, exceeding the statutory requirement level; hence, we do not account it as a contingent liability.

Extraordinary support considerations

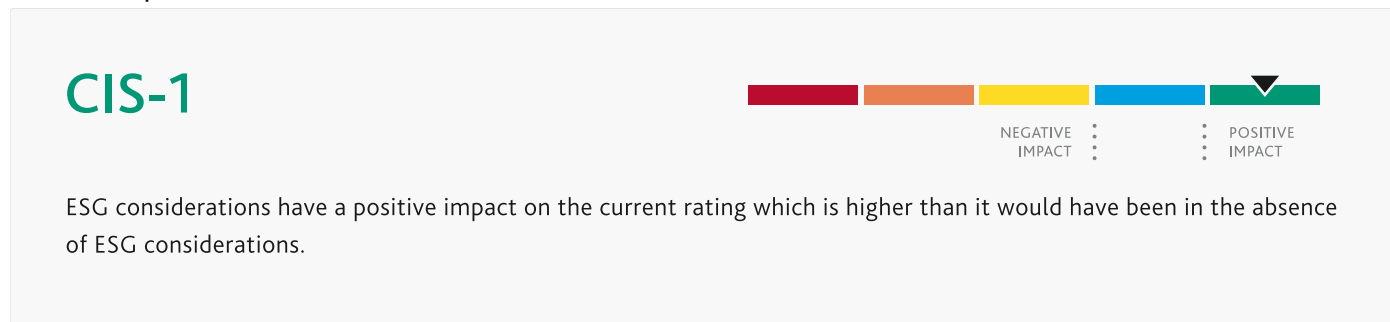
We assess a moderate likelihood of Berne receiving extraordinary support from the Canton of Berne, reflected in our assessment of the canton's stringent supervision, as it receives the city's annual reports and has the right to request any financial information for the current fiscal year. In case of deficits, the city has to present a plan for budgetary consolidation, with the final approval resting with the canton. Despite this reliance, there are no implicit or explicit bailout mechanisms for the city provided by the canton or other institutional schemes.

ESG considerations

Berne, City of's ESG credit impact score is CIS-1

Exhibit 3

ESG credit impact score

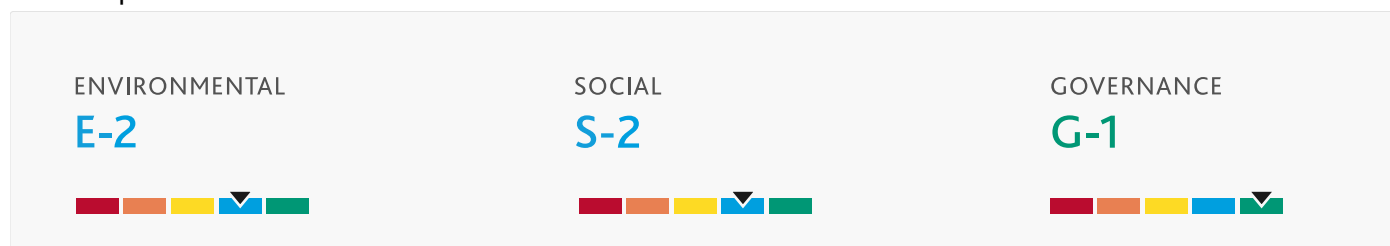


Source: Moody's Ratings

The City of Berne's ESG Credit Impact Score (**CIS-1**), reflects the limited impact of environmental and social risks on the rating, along with very strong governance and policy effectiveness that mitigates the city's susceptibility to these risks.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The E issuer profile score (**E-2**), reflects limited risks for all environmental factors. Berne's economy is strongly exposed to services industries, including public sector and administration. We view the city's economic structure to be well positioned to weather a transition towards emission free economy, a reflection of its high wealth level and its strongly service oriented structure.

Social

The S issuer profile score (**S-2**) reflects the absence of material risk for most social factors. While demographics and housing considerations exist, there is excellent profile for education, health and safety as well as access to basic services. Housing appears to be a somewhat higher risk for cities like Berne, which face growing population, implying lower housing affordability. Berne, as Switzerland overall, face a trend of ageing population, resulting in declining labour supply and higher pension and social cost.

Governance

The G issuer profile score (**G-1**) reflects the country's very strong institutional (federal and cantonal) and governance framework. The city uses prudent financial planning, and its budget practices are transparent and predictable.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa1 is close to the BCA Scorecard-Indicated outcome.

For details on our rating approach, please refer to the rating methodology [Regional and Local Governments](#), published in May 2024.

Exhibit 5

Berne, City of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	0.83
Regional Income [1]	0.50	175020.22	15%	0.08		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	6.00	a	5%	0.30		
Factor 2: Institutional Framework and Governance					30%	0.90
Institutional Framework	3.00	aa	15%	0.45		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	1.92
Operating Margin [2]	7.91	9.31%	10%	0.79		
Liquidity Ratio [3]	19.54	0.48%	5%	0.98		
Ease of Access to Funding	3.00	aa	5%	0.15		
Factor 4: Leverage					25%	1.67
Debt Burden [4]	7.78	115.53%	15%	1.17		
Interest Burden [5]	5.00	1.67%	10%	0.50		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(5.31) a1
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(5.31) a1
Sovereign Rating Threshold						Aaa
Operating Environment Notching						2.0
BCA Scorecard-Indicated Outcome						(3.31) aa2
Assigned BCA						aa1

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 6

Category	Moody's Rating
BERNE, CITY OF	
Outlook	Stable
Baseline Credit Assessment	aa1
Issuer Rating	Aa1

Source: Moody's Ratings

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