Canton of Zurich

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This report does not constitute a rating action.

Ratings Score Snapshot

Institutional framework
Extremely predictable and supportive
Very predictable and well-balanced
Evolving but balanced
Evolving but unbalanced
Volatile and unbalanced
Very volatile and underfunded

Individual credit profile	Score (1 Strongest – 5 Weakest)
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	3

Issuer credit rating
AAA/Stable/--

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Zurich remains one of the most important economic centers in Switzerland and the largest net contributor to the national fiscal equalization system in 2024.	Tax revenues will remain resilient throughout the forecast period, partly offsetting the increase in operating expenditures and the shortfall in Swiss National Bank (SNB) profit distributions.
The canton's economy is expected to grow in line with the national economy through the forecast period.	Budgetary performance will soften before improving in the forecast years with small but narrowing deficits after the capital accounts.
We expect management will stick to the investment reprioritization program and will implement consolidation measures toward more balanced budgets.	The canton's strong access to capital markets and prudent debt management should allow it to easily cover the expected small deficits.

The Canton of Zurich stands as one of the most dynamic economic centers in Switzerland and continues to attract companies and people. It is home to several industry clusters and has one of the highest average taxable incomes in the country. To maintain its competitive edge over other cantons, Zurich reduced personal and corporate taxes, thereby preserving its attractiveness as a place to do business and live.

Tax revenue continues to exceed expectations, providing some fiscal headroom for sizeable investment plans. Despite recent tax reforms, fiscal revenue has demonstrated remarkable resilience, growing at a rate stronger than previously anticipated. This trend underscores the canton's economic dynamism and is expected to drive a slow but steady reduction of deficits after capital accounts forecasted in the coming years.

Zurich's prudent financial management and commitment to fiscal discipline remain among its key credit strengths. The canton's financial management has a track record of successfully implementing consolidation measures, which reinforces our confidence in its ability to implement planned cost control initiatives over the coming years. This proactive approach to financial oversight underpins our view of its stability and creditworthiness.

Outlook

The stable outlook on Zurich reflects our view that the canton's prudent financial management will allow it to navigate expenditure headwinds in a way that will leave its overall financial position largely unaffected. The still-strong economy, with low unemployment and strong tax collection, will provide sufficient buffer.

Downside scenario

We could lower the rating on the canton if its financial position weakens substantially, resulting in a structural deterioration of its budgetary position and a worsening of the liquidity and debt positions. In addition, we could lower the rating if Zuercher Kantonalbank (ZKB; AAA/Stable/A-1+) has to call on Zurich for substantial support, with a meaningful impact on the canton's finances.

Rationale

Dynamic economic environment and responsive fiscal management underpin expectation of a steady recovery

The Canton of Zurich remains the most important economic region in Switzerland. Its economy has become more diversified over the past decade, moving away from the undisputed dominance of the financial sector toward a more dynamic mix. Zurich is currently home to about 40% of the country's information technology companies and is the second-most important location for the life sciences industry in Switzerland. The canton's economy alone accounts for about 20% of national GDP in terms of value added and is expected to continue growing at close to the national average. The Swiss economy is expected to slowly recover despite external headwinds from geopolitical conflicts and declining external demand from major trading partners. Following a slowdown in GDP growth to 0.8% in 2023, we now forecast national growth of 1.2% in 2024 and 1.5% in 2025.

Zurich's unique global position contributes to its dynamism and attractiveness as a place to live and do business, drawing a rapidly growing population. The canton's average taxable income is one of the highest in the country, and its unemployment rate, projected at 2.2% in 2024, remains slightly below the Swiss average of 2.5%. Zurich's local GDP per capita is projected at about 115% of the Swiss average, reaching over Swiss franc (CHF) 167,000 ($192,000) in 2024. These factors highlight the canton's strong and resilient tax revenue base, as evidenced by fiscal revenue proceeds that often exceed budgeted figures year after year, even in the face of a more challenging general economic environment.

The rating on Zurich also benefits from the highly predictable and supportive institutional framework for Swiss cantons, where major reforms are discussed and planned well in advance of implementation. The early involvement of the cantons gives them important leeway to react to important changes in a timely manner and to adjust their medium-term financial plans accordingly. Zurich's strength is reflected in its resource potential and consequently in the size of its contributions to the national equalization system (NFA). In 2024, the canton continues to be the largest net contributor to the NFA with CHF462 million, or approximately 25% of the CHF1.8 billion contributed by all Swiss cantons. In 2025, this share will decrease, and, for the first time, Zurich will be the second-highest net contributor with CHF419 million, or 21% of the total amount paid by the cantons.

Our view of the canton's financial management is underpinned by its adaptability and very prudent liquidity and debt management. Although financial results are often better than budgeted, management has demonstrated ability to cope with a more challenging macroeconomic environment, be it due to unexpected revenue shortfalls, such as the lack of profit distribution payments from the SNB, or unexpected costs such as the court ruling determining the canton must compensate municipalities for the costs of running children's and youth homes.

After posting small deficit after capital accounts in 2023, the government was mandated to present concrete consolidation measures per the canton’s strong financial framework. The most recent medium-term financial plan 2025 to 2028 introduced several measures to reduce expenditure in the planning years. The reprioritization of part of the capital expenditure (capex) program via backloading some investment projects is expected to support in rebalancing the budget toward the outer years of the planning period. Given management's track record in executing various consolidation programs in the past and to the canton's commitment to relatively conservative fiscal policies, we do not expect major deviations from the plan.

Small capital account deficits will be financed without excessive external debt

We expect Zurich's fiscal performance to slowly improve in the upcoming years after softening in 2024. The reduction in the tax multiplier that comes into effect this year means that the canton will lose about CHF75 million per year in tax revenue, which, together with the continued lack of profit distributions from the SNB, represents a significant revenue shortfall. On the expenditure side, lagged effects of inflation are pushing up personnel costs, while other expenses related to education, social welfare, and health care are developing dynamically and weighing on the operating budget. The capex planned for 2024 is still elevated and leads to small deficits in the capital account, which we expect to be partly financed by external borrowing.

Tax revenue projections remain very robust for 2025, and we expect the higher fiscal revenue and a reduction in Zurich's share of net equalization payments to drive some improvement in financial ratios. Although yet another tax cut is planned for next year, when corporate income tax will be reduced to 6% from 7%, we expect fiscal revenue to remain resilient and partially offset the rapid development of operating expenses. From 2026 onward, we believe a return to profit distribution payments from the SNB will further improve operating results, allowing for a progressive reduction of deficits after capital accounts. The improvement in the operating position will increase the canton's capacity to self-finance part of its planned investments while controlling external debt intake. In addition to incorporating the revised capex plan following the reprioritization measures in our forecast, we also apply some haircuts of 5% to projected capex to reflect historical underperformance due to delays or other hurdles in project execution.

The expected deficits after capital accounts, although receding year on year, mean the canton will have to raise new debt in capital markets. We believe Zurich's standing should allow it to refinance upcoming maturities of CHF415 million in 2025 and CHF400 million in 2026 without any issues. In addition to regularly issuing traditional bonds, the canton issued its first Digital Bond in 2023, demonstrating management's sophistication and ability to react to recent market developments. Zurich's exceptional liquidity position is largely secured by a committed CHF750 million credit facility with the ZKB. 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 upcoming maturities.

We expect Zurich to maintain a low debt burden throughout our forecast period. We estimate its direct debt to increase to about 33% of consolidated operating revenue in 2026, which we consider low relative to peers. We consider ZKB to be the canton's most significant contingent liability, which in turn informs our view of the canton's debt. The bank is well capitalized and has a solid credit rating, but the size of its balance sheet relative to the cantonal budget is very large, which could result in a major financial burden for the canton in the event of a downturn leading to capital shortfalls.

We continue to monitor the development of contingent liabilities related to the operation of cantonal hospitals, as in other Swiss cantons. In addition to ongoing subsidies to cantonal hospitals such as the University Hospital Zurich and Winterthur Hospital, which are consolidated in the cantonal budgets, Zurich recently decided to provide financial support in the form of both loans and subsidies to the Children's Hospital, which is not owned by the canton but is deemed systemically relevant. On the other hand, the canton refused to support the Wetzikon hospital, prompting the Board of Directors to file an appeal against the Zurich government's refusal to provide financial support. A decision in favor of the hospital, which is still pending, could result in a liability to the canton and could set a precedent for other hospitals to submit similar applications.

Canton of Zurich Selected Indicators

Mil. CHF	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	18,321	18,317	18,158	18,715	19,587	19,894
Operating expenditure	16,819	16,970	17,574	18,164	18,881	19,115
Operating balance	1,501	1,347	584	551	706	779
Operating balance (% of operating revenue)	8.2	7.4	3.2	2.9	3.6	3.9
Capital revenue	79	65	49	47	37	39
Capital expenditure	1,236	1,078	1,039	1,090	1,145	1,152
Balance after capital accounts	344	334	(406)	(493)	(402)	(334)
Balance after capital accounts (% of total revenue)	1.9	1.8	(2.2)	(2.6)	(2.0)	(1.7)
Debt repaid	1,384	877	646	669	515	500
Gross borrowings	1,123	526	583	1,000	950	950
Balance after borrowings	(52)	24	(516)	(155)	45	129
Direct debt (outstanding at year-end)	5,660	5,309	5,246	5,577	6,012	6,462
Direct debt (% of operating revenue)	30.9	30.0	28.9	29.8	30.7	32.5

Canton of Zurich Selected Indicators

Tax-supported debt (outstanding at year-end)	5,660	5,309	5,246	5,577	6,012	6,462
Tax-supported debt (% of consolidated operating revenue)	30.9	30.0	28.9	29.8	30.7	32.5
Interest (% of operating revenue)	0.3	0.3	0.3	0.5	0.4	0.5
Local GDP per capita ($)	107,071.0	106,758.4	113,532.4	119,240.1	116,683.8	117,783.3
National GDP per capita ($)	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 Zurich--Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	2
Liquidity	1
Debt burden	3
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. A free 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Three Swiss Cantonal Bank Ratings Affirmed; Outlooks Stable; Liquidity Revised To Adequate From Strong, Oct. 25, 2024
- 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
- Switzerland, Feb. 12, 2024
- Bulletin: Sorry, Cantons: No Profit Distributions From The SNB In 2024 And Possibly 2025, Jan. 4, 2024
- Institutional Framework Assessment: Swiss Cantons Benefit From Autonomy And Robust Checks And Balances, May 23, 2023

Ratings Detail (as of November 12, 2024)*

Zurich (Canton of)	
Issuer Credit Rating	AAA/Stable/--
Senior Unsecured	AAA
Issuer Credit Ratings History	
10-May-1994	AAA/Stable/--

*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.