MOODY'S INVESTORS SERVICE

CREDIT OPINION
23 June 2023

Update

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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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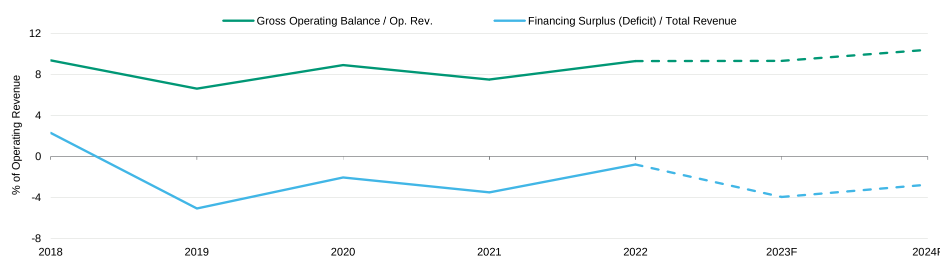
City of Berne (Switzerland)

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 financial results (Exhibit 1). The city has strong liquidity, thanks to its sophisticated debt management, predictable cash flow and unquestioned access to external funding in case of need. Berne is the capital of Switzerland, with wealth levels significantly higher than the national average and a well-diversified economic profile. We also taken into account the city's relatively high debt and overall limited financial flexibility. The city's debt increased slightly in 2022, with net direct and indirect debt reaching 117% of operating revenue, reflecting significant infrastructure spending for its growing population.

Exhibit 1
Berne will record financial deficits because of increased capital spending



2023-24F: Moody's estimates.
Sources: Issuer and Moody's Investors Service

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

	2019	2020	2021	2022	2023F	2024F
Gross Operating Balance (GOB) as % of Operating Revenue	6.6	8.9	7.5	9.3	9.3	10.4
Capital Expenses as % of Total Expense	11.7	11.5	11.2	11.7	13.1	13.1
Financing Result (Surplus or Deficit) as % of Total Revenue	-5.1	-2.0	-3.5	-0.8	-3.9	-2.7
Interest Payments as % of Operating Revenue	1.3	1.2	1.2	1.2	1.1	1.1
Intergovernmental Revenues as % of Operating Revenue	26.5	27.4	29.0	27.6	26.6	27.1
Net Direct and Indirect Debt as % of Operating Revenue	104.7	104.5	110.9	117.1	120.5	123.7

2023-24F: Moody's estimates.
Source: Moody's Investors Service

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 2022 tax revenue was significantly 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 2023 onwards takes into account the city's economic growth expectations, in line with our baseline expectations. Operating surpluses in 2023 and 2024 will likely be similar to those in 2022. 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 operating surplus was a good 9.3% of operating revenue in 2022, compared with 7.5% in 2021. Tax revenue, which accounts for half of the city's budget, was 7% higher than that in 2021, but is likely to grow at a slower pace over the coming three years. Good operating results, ranging between 7% and 9% of operating revenue, over the past few years (Exhibit 1) 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.

Berne's financing deficit improved slightly to -0.8% of total revenue in 2022 from -3.5% a year earlier. The city's infrastructure investments are aimed at closing the investment and maintenance gap following a prolonged period of financial consolidation. We expect a financial deficit of up to -4% in the current year, which will, however, gradually improve afterwards. Therefore, part of the city's investments will be debt-funded. The city has the flexibility to accommodate the investment programme to ease the pressure on its budget.

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 centre. The city also houses the headquarters of important national entities such as the federal railways and the national postal company. The city is home to businesses operating in telecommunications, pharmaceutical, financial and commercial services sectors. With around 144,400 inhabitants as of year-end 2022, Berne is the fifth-largest city in Switzerland. The city's population is growing, largely attributed to immigration flows, which will continue to drive economic growth in the next five years. A proposed merger with a neighbouring municipality could enlarge the city by around 10% (in terms of population but also budget size). A referendum is planned for October this year and the implementation is proposed to be from 2025. Overall, the city's GDP growth rates are broadly in line with the national average. 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), which limits economic volatility and acts as a supporting factor for the city during periods of recession. We expect future growth rates to be in line with the national economic trend. The city's unemployment rate is very low, at less than 2% in 2022.

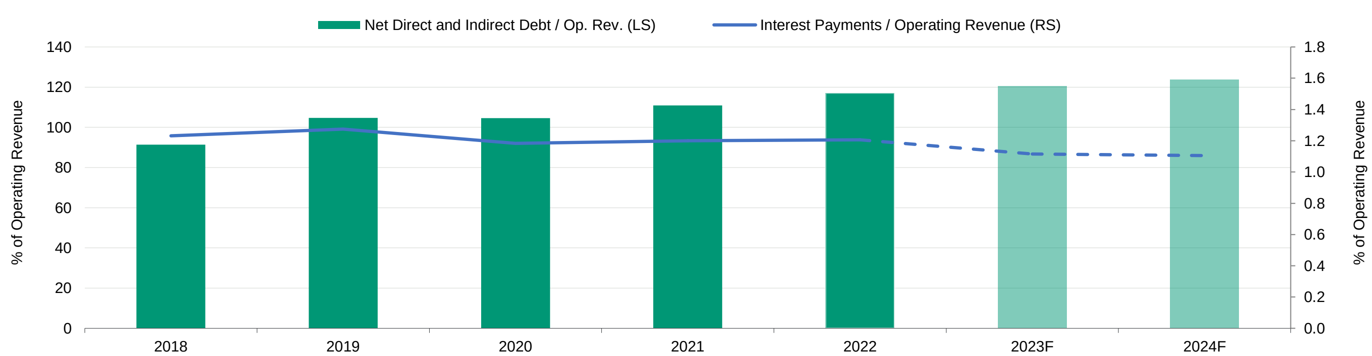
Relatively high debt level

Berne's net direct and indirect debt remained relatively stable in 2022, at a relatively high 117% of operating revenue (Exhibit 3). 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).

Exhibit 3

Berne's relatively high debt level will remain at that level because of increased investments



2022-23E: Moody's estimates.
Sources: Issuer and Moody's Investors Service

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. The use of derivatives is limited and managed carefully.

Debt service is above 10% of operating revenue in 2022 and 2023 each, but we expect a significantly lower level in the coming year. Over the last few years, the city was able to lock in low interest rates to issue long-term notes, including a bond issuance in 2020 with a 50-year maturity. 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 1.2% of operating revenue in 2022, and very stable compared with the level in the previous two 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.

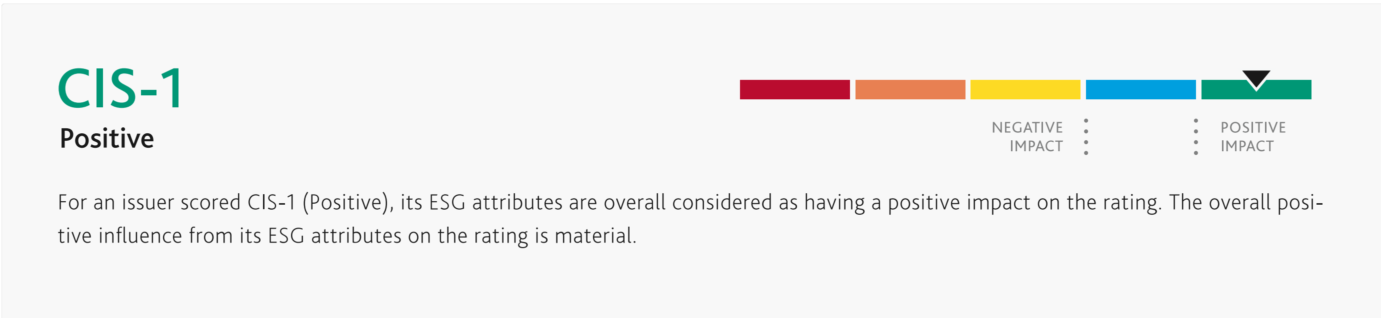
Extraordinary support considerations

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

City of Berne's ESG Credit Impact Score is Positive CIS-1.

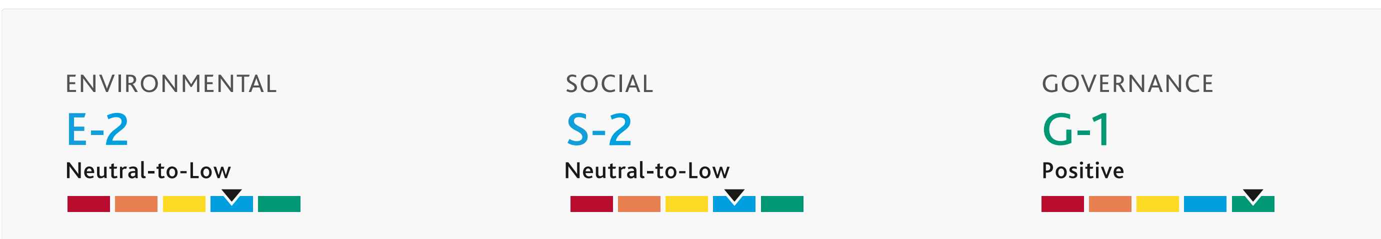
Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

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 5
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The E issuer profile score (**E-2**), reflects neutral-to-low 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 overall neutral-to-low risks from most social factors, other than demographics and housing (which score moderately negative) and education, health and safety as well as access to basic services (which all score positive). 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. We view the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety in the city.

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 in line with the suggested BCA. The suggested BCA of aa1 reflects an Idiosyncratic Risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aaa, as reflected in the sovereign bond rating of Switzerland.

For details about our rating approach, please refer to our Regional and Local Governments rating methodology, published on 16 January 2018.

Exhibit 6

City of Berne

Regional and Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**1**	**20%**	**0.20**
Economic Strength [1]	1	181.04%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**3**	**20%**	**0.60**
Legislative Background	1		50%			
Financial Flexibility	5		50%			
Factor 3: Financial Position				**3.50**	**30%**	**1.05**
Operating Margin [2]	3	8.80%	12.5%			
Interest Burden [3]	3	1.22%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	117.11%	25%			
Debt Structure [5]	3	15.47%	25%			
Factor 4: Governance and Management				**1**	**30%**	**0.30**
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**2.15 (2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA Outcome						**aa1**
Assigned BCA						**aa1**

[1] Local GDP per capita as a percentage of national GDP per capita.
[2] Gross operating balance/operating revenue.
[3] Interest payments/operating revenue.
[4] Net direct and indirect debt/operating revenue.
[5] Short-term direct debt/total direct debt.
Source: Moody's Investors Service, fiscal 2022

Ratings

Exhibit 7

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

Source: Moody's Investors Service

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