S&P Global Ratings

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Canton of Aargau

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This report does not constitute a rating action.

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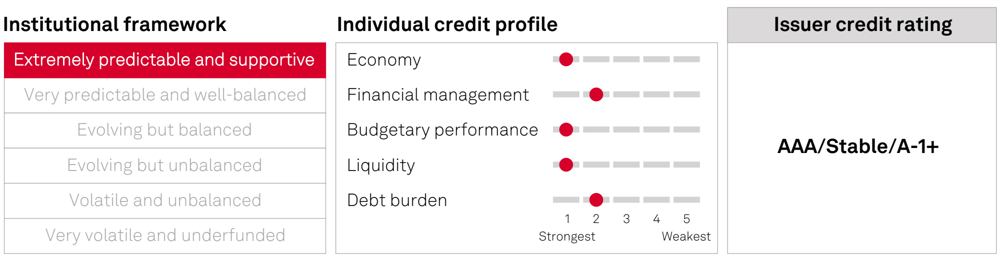
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The Swiss economy remains resilient amid challenging economic conditions and the Canton of Aargau continues to benefit from its highly predictable and supportive institutional framework.	Despite various tax reforms, we project the cantonal tax base will remain robust, thereby supporting positive budgetary performance over the forecast horizon.
Despite expenditure pressures, Aargau's financial performance has been resilient, backed by higher tax revenues and expenditure control.	Additional revenue from the Swiss National Bank (SNB) and Axpo, together with management's commitment to maintaining balanced budgets, will support positive budgetary results and debt reduction in 2025.
The canton's financial management will remain committed to reducing its debt burden.	Aargau will retain its exceptional liquidity position and very low debt burden.

S&P Global Ratings thinks Aargau benefits from a supportive institutional framework and strong economic fundamentals. Despite the challenges posed by external economic headwinds and revisions to tax laws, we anticipate the cantonal tax base will remain resilient over the forecast period. Furthermore, revenues in 2025 will be supported by dividend payouts along with additional transfers from the equalization system.

We do not expect trade tensions to substantially impact Aargau's fiscal health. Aargau is predominantly a residential canton, with 60% of its tax revenue derived from income tax, suggesting its reliance on corporate taxes is reduced. This mitigates the impact of tariff-related volatility on corporate tax revenues resulting from U.S. tariffs on imports from Switzerland. Furthermore, approximately 21% of the canton's exports are allocated to the U.S. market. While this is not an insignificant share, we expect diversification will help mitigate the risk of corporate tax shortfalls associated with potentially lower demand.

We expect the canton to maintain exceptional liquidity and a low debt burden. Aargau's solid budgetary performance will preserve the canton's ample cash reserves and allow it to continue to reduce direct debt burden over the medium term.

Outlook

The stable outlook on Aargau reflects our expectation that the canton will maintain solid budgetary performance over the medium term, as well as cautious use of liquidity and debt, offsetting volatility on budgetary performance.

Downside scenario

We could lower the rating if cantonal management fails to exercise budgetary discipline and loosens its grip on financial performance, leading to material debt accumulation, for instance as a result of higher investment programs or further capital injections to cantonal hospitals. In addition, pressure on the ratings would build if the cantonal bank called upon Aargau for support.

Rationale

Our rating on Aargau is underpinned by a strong economy and a very supportive institutional framework

We expect the Swiss economy to remain resilient in the face of challenging economic uncertainty. After GDP growth of 1.3% in 2024, Swiss economy will grow 0.9% in 2025 and 1.2% in 2026. Global trade tensions and weak economic performance in the eurozone could weigh on Aargau's growth but Switzerland has previously coped well with external headwinds, and we expect domestic demand and relatively tight labor markets will support growth. In 2025, we expect Aargau's GDP per capita to be about $79,600. Although this represents only 75% of the Swiss average, it is very strong when compared to international levels. Further, Aargau's unemployment rate of 3.2% in April 2025 is only slightly above the 2.8% national average, demonstrating a robust and persistently dynamic economy. The canton benefits from its geographical proximity to Basel and Zurich, two important Swiss economic centers, and is comparatively more industrially oriented than the average Swiss canton, with pharmaceuticals, chemicals, electrical, and engineering being the most important economic sectors. Furthermore, the rating on Aargau is underpinned by a highly predictable and supportive institutional framework for Swiss cantons.

While we do not expect the trade tensions with the U.S. to have a significant near-term impact in Aargau's tax collection, they are part of a broader trend of escalating protectionist policies that could heighten long-term economic risks. However, Aargau's current fiscal and institutional strength provides a solid foundation to absorb potential future pressures without materially altering its creditworthiness in the short-term.

Strong budgetary performance and ample liquidity will help maintain low direct debt

We expect Aargau to continue to post strong budgetary performance in the next two years, an improvement on our previous base case. This is due to positive results in 2024 and additional unanticipated revenue in 2025. Given SNB's positive results in 2024, the canton will receive a dividend payout from the bank in 2025 of Swiss franc (CHF) 162 million--our previous base case did not consider any payout--as well as a special dividend of about CHF60 million from the energy generation and trading group Axpo Energie, which will further improve performance. We expect the cantonal tax base to remain robust, supported by resilient tax collections in recent years despite tax cuts. The tax law revisions are part of the canton’s 2022-2030 tax strategy, which aims to strengthen Aargau's appeal as a residential, business, and economic location and will be implemented gradually. The first phase of the revisions will be implemented in 2025 after being approved by the referendum in May. This stage will focus on reducing wealth taxes and increasing deductions for third-party childcare costs, job-oriented training, and further education costs. The second phase, planned for 2027, will implement personal income tax measures. The canton is staggering the phases so it can assess the fiscal viability of the revisions, which aligns with our view of the canton’s financial management as cautious.

Moreover, the canton could gain from the Organization for Economic Cooperation and Development's minimum corporate tax rate reform, but since funds will be used to improve the canton's appeal, the overall impact will be neutral. In our view, resilient tax revenues will partially offset cost pressures stemming from increased personnel, transfers, and subsidies, particularly in healthcare and education. We anticipate capital investment spending to remain elevated in areas such as road projects, the construction of new buildings, schools, and renovations. Overall, we project operating margins between 4.2%-7.2% and surpluses after capital accounts between 0.4%-2.5% over 2025-2027.

We project Aargau’s direct debt level to remain low and that it will continue to decrease to below 10% of adjusted operating revenues over 2027, which clearly remains one of its key credit strengths. We anticipate tax-supported debt to remain below 30% over the medium term. This includes the direct debt and debt of specific government-related entities, most importantly from cantonal hospital Aarau, which placed a CHF150 million green bond in May 25 to fund its Dreiklang building project. We also note that the canton abstains from using foreign currency debt, swaps, and derivative instruments, reflecting its conservative debt-management policies.

In our contingent liabilities assessment, we include Aargau's exposure to Aargauische Kantonalbank, which is 100%-owned by the canton and benefits from a statutory cantonal guarantee. Although the bank's balance sheet is almost seven times larger than the canton's budget, we regard the likelihood of the guarantee being called to be very low. Other contingent liability exposure mainly comes from the cantonal hospital Baden and Aargau's 14% direct stake in Axpo, and a further 14% indirectly via the subsidiary AEW Energie AG.

Aargau's liquidity remains exceptionally strong and covers several times its debt service over the next 12 months. In addition to cash and money market deposits, which we expect will remain high, the canton maintains contractually committed credit lines and uncommitted credit lines. Moreover, Aargau will comfortably repay its debt redemptions of CHF100 million in 2025 and CHF45 million in 2026 from liquid assets while maintaining exceptional liquidity. The canton's proven access to bond market financing is an additional positive factor in our liquidity assessment.

Canton of Aargau--Selected indicators

Mil. CHF	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	5,747	5,555	5,881	6,141	6,051	6,236
Operating expenditure	5,260	5,133	5,448	5,696	5,794	5,887
Operating balance	487	421	433	445	256	349
Operating balance (% of operating revenue)	8.5	7.6	7.4	7.2	4.2	5.6
Capital revenue	78	53	45	64	69	87
Capital expenditure	290	483	260	353	299	365
Balance after capital accounts	276	(9)	218	156	26	71
Balance after capital accounts (% of total revenue)	4.7	(0.2)	3.7	2.5	0.4	1.1
Debt repaid	160	49	0	100	45	0
Gross borrowings	49	0	0	0	0	0
Balance after borrowings	165	(58)	218	56	(19)	71
Direct debt (outstanding at year-end)	739	690	690	590	545	545
Direct debt (% of operating revenue)	12.9	12.4	11.7	9.6	9.0	8.7
Tax-supported debt (outstanding at year-end)	1,259	1,167	1,261	1,361	1,516	1,566
Tax-supported debt (% of consolidated operating revenue)	19.7	18.7	19.4	20.0	22.5	22.7
Interest (% of operating revenue)	0.2	0.2	0.3	0.3	0.3	0.3
Local GDP per capita ($)	70,404.2	74,766.7	77,665.2	79,646.7	76,563.0	74,719.7
National GDP per capita ($)	93,984.3	99,799.1	103,671.6	106,323.3	102,217.5	99,767.3

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 Aargau--Rating component scores

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	2
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, April 10, 2025. An 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Switzerland, Feb. 10, 2025
- Institutional Framework Assessment: Swiss Cantons Use Fiscal Autonomy To Retain Attractiveness, Jan. 31, 2025
- Subnational Government Outlook 2025: Swiss Cantons Are Navigating Budgetary Pressures And Shifting Debt Dynamics, Jan. 16, 2025
- Your Three Minutes In Swiss Cantons: Are Hospitals A Major Financial Risk?, Aug. 22, 2024
- Aargauische Kantonalbank, Nov. 29, 2024

Ratings Detail (as of June 12, 2025)*

Aargau (Canton of)		
Issuer Credit Rating		AAA/Stable/A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
16-Dec-2022	*Foreign Currency*	AAA/Stable/A-1+
18-Jun-2021		AA+/Positive/A-1+
20-Jul-2018		AA+/Stable/A-1+
16-Dec-2022	*Local Currency*	AAA/Stable/A-1+
18-Jun-2021		AA+/Positive/A-1+
20-Jul-2018		AA+/Stable/A-1+

*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.