

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns A1 rating to the city of Locarno; stable outlook

19 Jan 2026

Frankfurt am Main, January 19, 2026 -- Moody's Ratings (Moody's) has today assigned an a1 Baseline Credit Assessment (BCA) and an A1 long-term issuer rating to the City of Locarno (Locarno). The outlook is stable.

"City of Locarno's A1 rating reflects its wealthy economy, a supportive institutional framework and solid governance, as well as its strong and stable operating performance," says Christina Sterr, Assistant Vice President – Analyst in Moody's Sub-Sovereign Group and lead analyst for the city. "Concurrently, the rating is constrained by expected minor financial deficits and high, though stable, debt burden of 202% at year-end 2024."

RATINGS RATIONALE

Locarno, located in southern Switzerland's Republic and Canton of Ticino (Aa2 stable) is the third-largest city in the canton with about 15,700 inhabitants. The city benefits from Switzerland's strong fundamentals—high wealth levels, low unemployment, low inflation and stable governance. Its economy is centered on services including tourism, and cultural activities, generating income and profits but also some exposure to seasonal demand. The city's revenues are diversified across income and property taxes, equalization transfers, and service fees, while spending comprises personnel, infrastructure, healthcare, and social services expenditures.

Locarno benefits from a wealthy and stable economy, supported by Switzerland's strong fundamentals. GDP per capita in Ticino is around CHF 100,000, broadly aligned with the national average and well above EU levels, underpinning strong household purchasing power. Locarno enjoys low inflation (below 2% in line with the Swiss average) and a stable labor market with unemployment (around 2.9%, expected in 2025, in line with the Swiss average). High-quality public services, healthcare, and education contribute to high standards of living and reinforce the city's attractiveness for residents and businesses.

The municipality operates within a robust institutional and governance framework, defined by cantonal law and supported by a comprehensive equalization system that stabilizes finances. Strong oversight, external audits, and clear fiscal rules ensure transparency and accountability. Locarno maintains financial equilibrium, with a relatively high fiscal local tax rate, providing moderate flexibility, while aiming to preserve competitiveness by keeping tax rates stable going forward.

Locarno's operating performance is consistently strong, with primary operating balances projected at 8.7% and 10.8% of revenues in 2025 and 2026 which highlights the strong governance and management of the city. Healthy margins allow most capital investments to be funded without compromising liquidity. Capital spending will remain solid at about 17% of operating expenses in 2026, focused on infrastructure, mobility, and healthcare upgrades within a disciplined medium-term plan.

Locarno's debt burden remains high compared to peers but stable, with net direct and indirect debt projected at about 204% of operating revenues in 2026, largely unchanged from the 202% recorded in 2024. We forecast that the debt burden will remain elevated due to the city's commitment to its capital program, resulting in minor deficits. Despite the elevated debt burden, interest expenses are low at roughly 2% of revenues, and risks are mitigated by a simple debt structure consisting mainly of long-term, fixed-rate loans (featuring bullet maturities). Indirect debt and contingent liabilities are modest and expected to remain stable.

The small population relative to global peers along with some concentration of economic activity present key credit challenges for Locarno and constrain its capacity to carry debt.

The City of Locarno's A1 rating, combines a BCA of a1 and a moderate likelihood of extraordinary support from the Republic and Canton of Ticino if the city were to face acute liquidity stress.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook indicates our expectations that the city has the financial and institutional ability to absorb potential revenue pressures while keeping expenditure under control, ensuring a solid operating performance over the next two years. Although financial debt is expected to remain roughly stable in nominal terms, reflecting substantial investment needs, the overall debt burden should decrease gradually as operating revenues increase.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Altogether, Environmental, Social and Governance (ESG) considerations do not have a material impact on City of Locarno's rating, which is reflected in the city's CIS-2 Credit Impact Score.

The city's exposure to environmental risks is generally low. Its overall environmental Issuer Profile Score (IPS) is therefore E-2.

Locarno's social IPS is S-2. Like Switzerland, ageing population is a longer-term challenge. That said, Switzerland's openness to immigration flows helps to mitigate the credit impact. The city also benefits from very high income per capita, high-quality education, high-quality health and safety, as well as from good housing availability and very high-quality access to basic services.

The city's strong governance practices have resulted in a track record of strong operating performance, and include prudent budgetary practices, accurate and detailed information, a diversified debt and daily cash management. The city also benefits from a supportive institutional framework. Locarno's governance IPS is G-2.

ECONOMIC DATA

The specific economic indicators, as required by EU regulation, are not available for this entity. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Switzerland, Government of

GDP per capita (PPP basis, US\$): 95,155 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 1% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.1% (2024)

Gen. Gov. Financial Balance/GDP: 0.4% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: 4.9% (2024) (also known as External Balance)

Economic resiliency: aaa

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 16th December 2025, a rating committee was called to discuss the rating of the City of Locarno. The main points raised during the discussion were: the issuer's economic fundamentals, including its economic strength, the issuer's institutions and governance strength, the issuer's governance, the issuer's economic size and fiscal strength, including its debt profile, and capital expenses.

FACTORS THAT COULD LEAD TO AN UPGRADE OR A DOWNGRADE OF THE RATINGS

The following developments could support a positive rating action: a significant and lasting improvement in the gross operating balance, coupled with a sustained and material reduction in leverage. Additionally, an upgrade in the credit quality of the Republic and Canton of Ticino could also lead to an improvement in Locarno's ratings.

Downward rating pressure could arise from one or more of the following: a pronounced and sustained weakening of the city's operating performance; a materially higher ratio of net direct and indirect debt to operating revenue; or a persistent deterioration in liquidity indicators. Furthermore, a decline in the credit strength of the Canton or, albeit unlikely, a sovereign downgrade could also negatively impact Locarno's ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Regional and Local Governments published in May 2024 and available at <https://ratings.moodys.com/rmc-documents/421891>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

This rating action concerns a new rating for an issuer not previously publicly rated by us at the time that the EU sovereign release calendar was published, and is therefore being released on a date not listed in that publication.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

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