

Saxony-Anhalt (State of)

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Saxony-Anhalt (State of)

This report does not constitute a rating action.

Key Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Credit context and assumptions	Base-case expectations
<p>Despite high indebtedness, Saxony-Anhalt benefits from exceptional access to external funding and support from the institutional framework.</p> <ul style="list-style-type: none">• High outstanding debt and a weaker socio-economic profile are the main weaknesses of the state's credit profile.• This is mitigated by the institutional framework, which is extremely predictable and supportive.• The state has extraordinary access to external funding and low contingent liabilities.	<p>Budgetary performance has deteriorated but consolidation measures are expected.</p> <ul style="list-style-type: none">• Projected sluggish tax revenue growth will prolong the period of fiscal deficits until at least 2024.• At the same time, the state will fund its budgetary deficit with net borrowing.• However, S&P Global Ratings believes that Saxony-Anhalt's financial management will take appropriate policy actions to ensure budget sustainability.

Outlook

The stable outlook is based on our belief that the state will increase its consolidation efforts as soon as the pandemic fades. Although the sluggish recovery in tax revenue will continue to burden the state's budgetary performance, we expect that its prudent management team will take all necessary steps to limit debt intake in 2021.

Downside scenario

Downward pressure on the ratings could build if financial management loses its grip on expenditure, which could be the case if the political environment increases the risk of divergence from financial consolidation.

Upside scenario

We could raise our ratings if Saxony-Anhalt succeeds in accumulating reserve funds while returning to a path of consistently reducing its high outstanding debt and pension obligations.

Rationale

We believe Saxony-Anhalt's financial management will refocus on fiscal consolidation after the COVID-19 pandemic and take appropriate policy actions to ensure the budget's sustainability.

The ratings are based on the extremely predictable and supportive institutional framework under which German states operate, which shields Saxony-Anhalt from above-average losses to its revenue base in an economic recession.

In our view, high outstanding debt and a weaker socio-economic profile than the German average are the main weaknesses of the state's credit profile. These factors are mitigated, however, by sound liquidity and low contingent liabilities.

Despite a slow economic recovery, budgetary consolidation measures are expected

Last year, Saxony-Anhalt recorded its first deficit after capital accounts since 2010 due to tax revenue losses and additional expenditure to fight the pandemic.

We forecast that the partial economic recovery in second-half 2021, with steady economic growth thereafter, will likely translate into higher revenue. However, we expect to see deficits, although decreasing, at least until 2024, funded mainly by debt. Nevertheless, additional consolidation measures will have to be implemented to close the gaps shown in current official financial planning.

Regardless of the current situation, Saxony-Anhalt continues to benefit from the extremely supportive institutional framework for German states; it receives significant equalization transfers that augment its locally sourced tax revenue.

Excellent access to liquidity, despite high debt

We assume that the lasting effects of the pandemic will lead to an increase in debt and reduction in liquid reserves. We forecast that tax-supported debt will peak at about 218% of consolidated operating revenue by 2022 and slowly reduce thereafter. We regard this level as high, both in a national and international comparison. Saxony-Anhalt successfully reduced its nominal debt burden in the years up to 2019, and we expect the state will return to its previous policy of debt reduction once the temporary financial impact softens.

In our view, the state uses derivatives in a professional manner to manage its exposure to currency and interest-rate fluctuations inherent in its liability portfolio.

Considering the state's demonstrated access to different sources of funding, we believe Saxony-Anhalt displays an exceptional liquidity position and therefore will be able to source the funding needed to fully cover approximately €5.0 billion of debt service forecast over the next 12 months. The state regularly borrows from the national and international capital markets using various instruments, maintains two smaller credit lines with banks, and can access other government entities for liquidity.

Saxony-Anhalt has no large government shareholdings, and therefore, in our view, no large contingent liabilities. The state's stake in Nord/LB remains its largest exposure in this respect, but it is relatively small compared to its overall budget size. However, Saxony-Anhalt plans to transfer its promotional bank, Investitionsbank Sachsen-Anhalt, out of

Nord/LB and into a separate legal entity, and to allow its university hospitals to directly borrow on the financial market. Once the decisions are taken, we will assess the impact of these measures on the state's exposure to contingent liabilities.

Key Statistics

Table 1

State of Saxony-Anhalt Selected Indicators						
(Mil. €)	2019	2020	2021bc	2022bc	2023bc	2024bc
Operating revenues	10,728	10,809	10,836	10,976	11,213	11,518
Operating expenditures	9,610	10,785	10,802	10,834	10,865	10,986
Operating balance	1,119	24	34	142	348	532
Operating balance (% of operating revenues)	10.4	0.2	0.3	1.3	3.1	4.6
Capital revenues	647	632	880	807	749	712
Capital expenditures	1,649	1,559	1,488	1,449	1,508	1,564
Balance after capital accounts	117	(903)	(575)	(500)	(412)	(320)
Balance after capital accounts (% of total revenues)	1.0	(7.9)	(4.9)	(4.2)	(3.4)	(2.6)
Debt repaid	4,323	3,993	4,429	3,196	3,726	4,006
Gross borrowings	5,035	4,728	5,026	5,197	3,838	4,026
Balance after borrowings	837	(159)	0	1,500	(300)	(300)
Direct debt (outstanding at year-end)	19,955	21,049	21,946	23,946	24,058	24,078
Direct debt (% of operating revenues)	186.0	194.7	202.5	218.2	214.6	209.0
Tax-supported debt (outstanding at year-end)	20,065	21,152	22,189	24,189	24,301	24,321
Tax-supported debt (% of consolidated operating revenues)	187.0	195.7	204.8	220.4	216.7	211.2
Interest (% of operating revenues)	3.3	3.0	3.2	3.5	3.4	3.3
Local GDP per capita (single units)	29,123	28,652	30,188	32,068	33,207	34,233
National GDP per capita (single units)	41,545	40,114	42,292	44,956	46,565	48,013

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

State of Saxony-Anhalt Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	2
Budgetary performance	3
Liquidity	2
Debt burden	4

Table 2

State of Saxony-Anhalt Ratings Score Snapshot (cont.)

Key rating factors	Scores
Stand-alone credit profile	aa
Issuer credit rating	AA

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, July 12, 2021. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- 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

- Institutional Framework Assessments For International Local And Regional Governments, Sept. 8, 2021
- Germany And Affected States Can Absorb Response To Devastating Floods, July 21, 2021
- Non-U.S. Local Governments: To What Extent Did Sovereign Support Offset The Pandemic Downturn, July 19, 2021
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 26, 2021
- German State of Saxony-Anhalt Affirmed At 'AA/A-1+'; Outlook Stable, March 19, 2021
- Public Finance System Overview: German States, Aug. 13, 2019

Ratings Detail (As Of September 20, 2021)*

Saxony-Anhalt (State of)	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Short-Term Debt	A-1+
Issuer Credit Ratings History	
18-Sep-2020	AA/Stable/A-1+

Ratings Detail (As Of September 20, 2021)*(cont.)

20-Sep-2019	AA+/Negative/A-1+
16-Dec-2010	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.

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