



SACHSEN-ANHALT

Capital Market Presentation

May 2022

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Chapter 1

Overview Saxony-Anhalt

Overview

Key facts:

- **Capital:** Magdeburg
- **Airport:** International Airport Leipzig-Halle

Saxony-Anhalt	Key figures	Germany
20,452 km ²	Area	357,588 km ²
2.2 mn inhabitants	Population	83.1 mn inhabitants
EUR 67.1 bn	GDP in 2021 <i>(in current prices)</i>	EUR 3,570,62 bn
EUR 67.662	GDP per employee in 2021	EUR 79.488
+5.9%	GDP growth rate in 2021	+6.0%
7.3%	Unemployment rate in 2021	5.7%
Christian Democrats, Social Democrats and Liberals since 2021	Government	Social Democrats, Green Party and Liberals since 2021



Chapter 2

Strong constitutional framework of Germany

The Federal and State Levels of Government in Germany

➤ Constitutional principles

Germany is a Federal Republic, consisting of 2 concurrent levels of government:

State level ("Länder") ↔ *Federal level ("Bund")*

➤ German States – Sovereigns within the German Constitution

The 16 States signed the German Constitution. In addition to that they all have their own parliament, courts and government (German constitution overrules State Constitutions). They are autonomous and independent with regard to their budgets.

➤ Allegiance to the federation ("Bundestreue")

The federal and state governments are under an obligation to respect their mutual interests, to co-operate in the performance of the tasks assigned to them by the Constitution and to render mutual assistance.

➤ Federal Equalisation System

The **federal equalisation system** (enshrined in the constitution and regulated by law) is an important instrument for apportioning the tax revenues to the States. It ensures sufficient **financial strength of all states** and provides **equal standards of living** for all citizens in Germany.

➤ Zero Borrowing Rule ("debt brake")

The states have to reduce their deficit to zero by 2020, the Bund to not more than 0.35% of GDP.

➤ Additional Funding opportunity in emergency situations (like COVID-19)

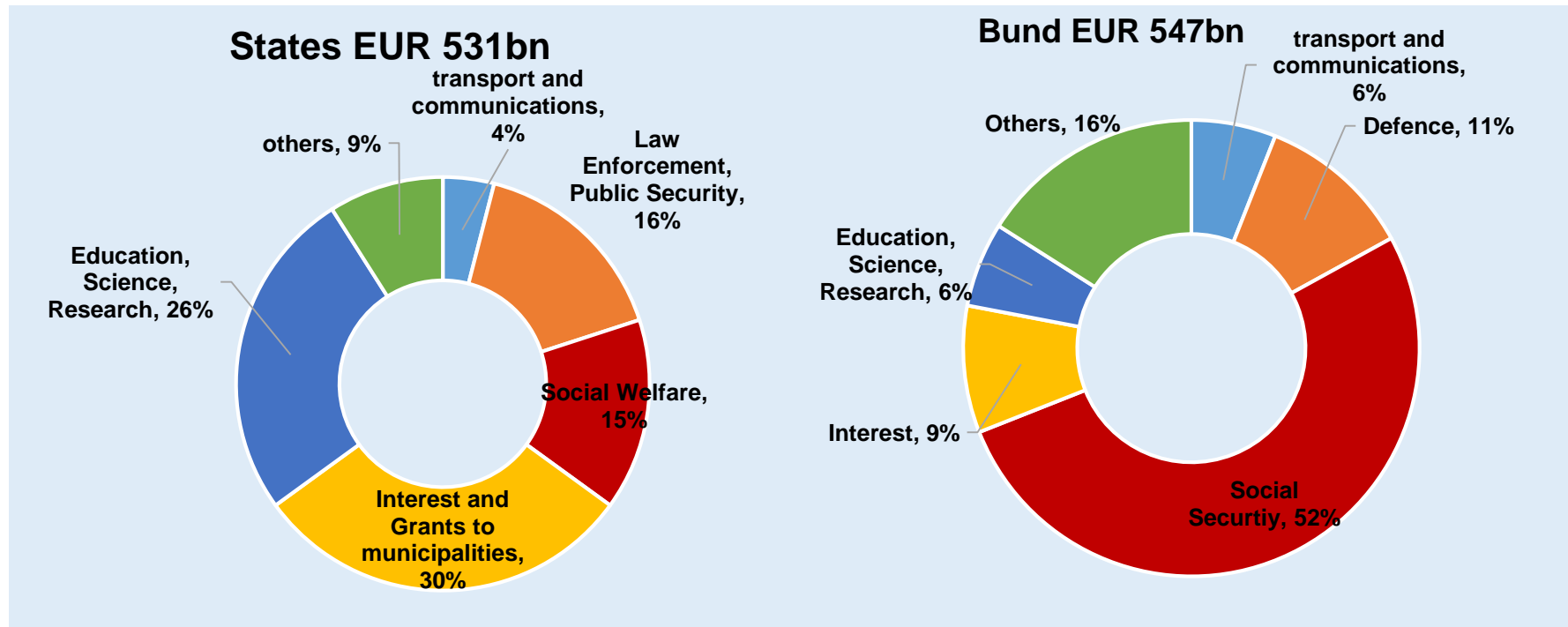
The regulation of the debt brake sets out the opportunity to allow additional borrowings because of natural disasters or emergency situations, which are beyond governmental control and harmful to the financial capacity.

Division of constitutional responsibilities

	States	Federal Level
Primary legislative authority	<ul style="list-style-type: none"> – Education system – Police – Judicial system – Municipal affairs 	<ul style="list-style-type: none"> – Defence & foreign affairs – Banking – Trade policy – Social insurance
Shared responsibility	<ul style="list-style-type: none"> – Tax legislation – Public service – Regional development 	

At federal level most laws (e.g. all laws in connection with states responsibilities or shared responsibilities or financial matters of the States) have to pass the two houses of parliament – the German Federal Parliament (*Bundestag*) and the Parliament of the Governments of the States, the German Council (*Bundesrat*).

Budget Volume and Structure



- The importance of the States is displayed by the total sum of governmental expenditures, which are comparable to the federal budget.
- State budgets are characterized by their responsibilities in the areas of education, law enforcement, tax administration and infrastructure.
- The federal budget is dominated by expenditures for social security – health, unemployment and retirement insurance.

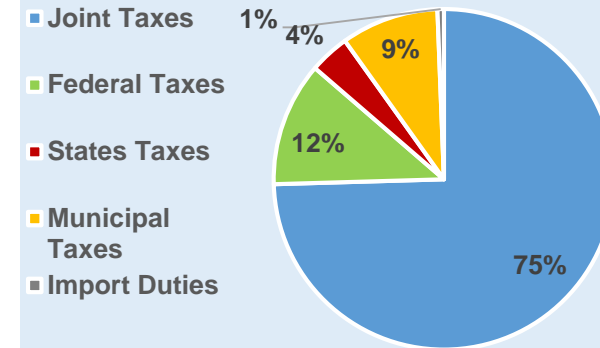
Note: All numbers in per cent represent budget expenditures for the year 2020

Tax base and Equalisation System

Goal of the revenue equalisation system

- The fiscal equalisation system (regulated by law) is an important instrument for apportioning the tax revenues to the States
- The overriding principle of the equalisation system is to ensure sufficient financial strength of all States to fulfill their constitutional responsibilities
- Living conditions for all German citizens shall be equal, regardless of the States

Distribution of Tax Revenues in 2021



Financial capacity equalisation system as of 2020

Distribution of Tax Revenues

Determination of the financial capacity by regional tax distribution

- Adjustment mechanism regarding:
 - Consideration of municipal tax revenues
 - Population



Distribution of tax revenues to balance 63% of the below average financial capacity



Supplemental vertical support

- Federal grants to compensate the difference to average of relative financial capacity after tax distribution
- Special grant programmes (municipalities, R & D, public transport)

The new regulation of the debt brake in Germany

Construction of the debt brake:

- In 2011 the principle of a structural balanced budget of the Federal level (effective in 2016) and the States (effective in 2020) were introduced in Art. 109, 115 GG.
- The goal is to limit public borrowings to secure a long-dated sustainable development of public finances and to guarantee a lasting reduction of public debt

Structural component of net borrowing of 0.35% of GDP for the Federal level (0% for the States)

Extension of the debt brake with a symmetric cyclical component

Exemption (Art. 115 (2) GG) in the case of natural disasters or emergency situations

The debt brake during the COVID-19 pandemic:

2020

net borrowing EUR 779mn

- thereof cyclical component = EUR 698mn
- thereof emergency situation = EUR 81mn

2021

net borrowing EUR 2,277mn

- thereof cyclical component = EUR 53mn
- thereof emergency situation = EUR 227mn
- thereof special fund = EUR 1,997mn (to deal with the efforts of COVID-19 pandemic)

2022 **Planned net borrowing EUR 280mn**

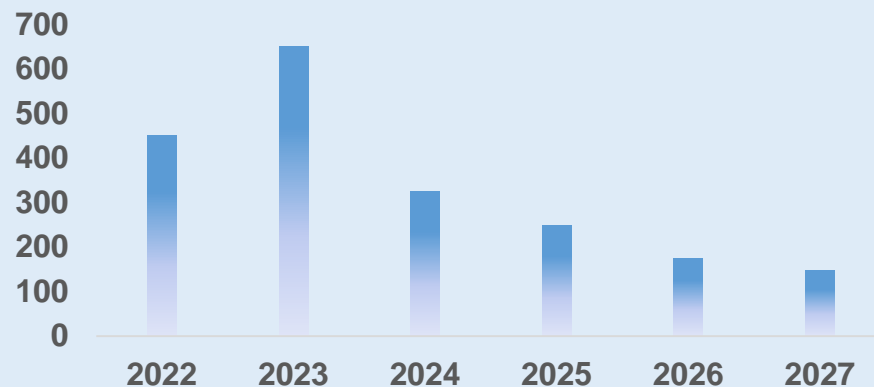
All in all: the regulations of the debt brake apply and were not suspended

- The impact and consequences to the economy set very high challenges for the German State. The parliament sees here a case of an emergency situation, which could be substantially harmful to the financial capacity of the State. For such an emergency situation the Basic law and also the debt brake of the State of Saxony-Anhalt envisage a possibility of an exemption of the debt brake.
- To react consequent and comprehensive to financial and social effects of the COVID19-crisis the State of Saxony-Anhalt established a special fund with up to EUR 1.997bn to finance possible expenditures as a result of the crisis.

Gesamtübersicht der zu finanzierenden Maßnahmen

Lfd. Nr.	Bezeichnung Maßnahme	Mittelbedarf in Euro
1	Einrichtung Katastrophenschutzstab der Landesregierung	50 000
2	Beschaffung von Technik zur Digitalisierung aller Rettungsmittel	2 560 000
3	Erweiterung um ein Laserwaffen- und Simulationssystem zur Aufrechterhaltung des Schießbetriebs	330 000
4	Ausstattung der Polizei mit mobiler Informationstechnologie	6 033 900
5	Beschaffung eines Impfmobils	800 000
6	Beschaffung von Netzersatzanlagen	3 360 000
7	Zuschüsse an Sportvereine und -verbände zur Unterstützung bei der Bewältigung der Folgen des Pandemiegesehens	4 400 000
8	Entgelte der Arbeitnehmerinnen und Arbeitnehmer im Geschäftsbereich des Ministeriums für Arbeit, Soziales, Gesundheit und Gleichstellung	10 800 000
9	Digitalisierung von sozialen Einrichtungen und Beratungsstellen	12 747 700
10	Ausbildungsvergütung für Pflegehelferinnen und Pflegehelfer	18 555 000
11	Investitionen in die soziale Infrastruktur zur Sicherstellung der Hygieneschutz-Standards	154 900 000
12	Investitionen Krankenhäuser – Krankenhauskurftgesetz	199 118 900
13	Investitionen Krankenhäuser – Medizinisch-technische Großgeräte einschließlich baulicher Anpassungen	91 504 000
14	Ausstattung mit Luftfiltern in Einrichtungen der freien Träger der Jugendberuf und der Jugendsocialarbeit	4 600 000
15	Maßnahmen zum Gewaltschutz und für Beratungsstellen für Frauen und deren Kinder	264 400
16	Ausstattung der Hochschulen mit mobilen Luftfilteranlagen	5 800 000
17	Digitalisierungsmaßnahmen an den Hochschulen	13 356 150
18	Ersatz- und Ergänzungsbeschaffung für Großgeräte in den Universitätsklinikum Halle und Magdeburg	5 000 000
19	Vorhaben zur Pandemieforschung	5 000 000
20	Ausgleichszahlungen an die außeruniversitären Forschungseinrichtungen	5 881 800
21	Digitalisierungsmaßnahmen an außeruniversitären Forschungseinrichtungen	15 795 200
22	Ausstattung der außeruniversitären Einrichtungen mit	2 023 000

ALLOCATION OF RESOURCES (IN EUR MN)



- In that special fund the State determines 63 projects to address three major fields of intervention:
 - 1) Resilience through digitalisation (37%)**
 - 2) Restart of economy and society (13%)**
 - 3) Support of public healthcare (50%)**
- The funds have been made available until 2027. The State plans to redeem this additional debt from 2029 onwards.

Chapter 3

Saxony-Anhalt – A strong credit

The view of the Rating agencies on the State of Saxony-Anhalt

MOODY'S

*Rated Aa1, Stable Outlook
Since December 2006*

STANDARD
& POOR'S

*Rated AA, Stable Outlook
Since September 2020*

FitchRatings

*Rated AAA, Stable Outlook
Since March 1999*

- ✓ *Strong ongoing support from the German financial equalisation system*
- ✓ *Strong budgetary performance and low contingent liabilities*
- ✓ *Sound debt management, with very good capital markets access*

**Strong Support from
German Financial
Equalisation System**

“ The ratings of the State of Saxony Anhalt reflect the stability and sustainability of the solidarity mechanism for German Laender. According to German federalism, underpinned by the constitution, the central government (Bund) and the states (Laender) are jointly responsible for supporting a state in financial distress [...].

Fitch July 2019 ”

**Budgetary &
Financial
Performance related
to COVID-19-Crisis**

“ 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.

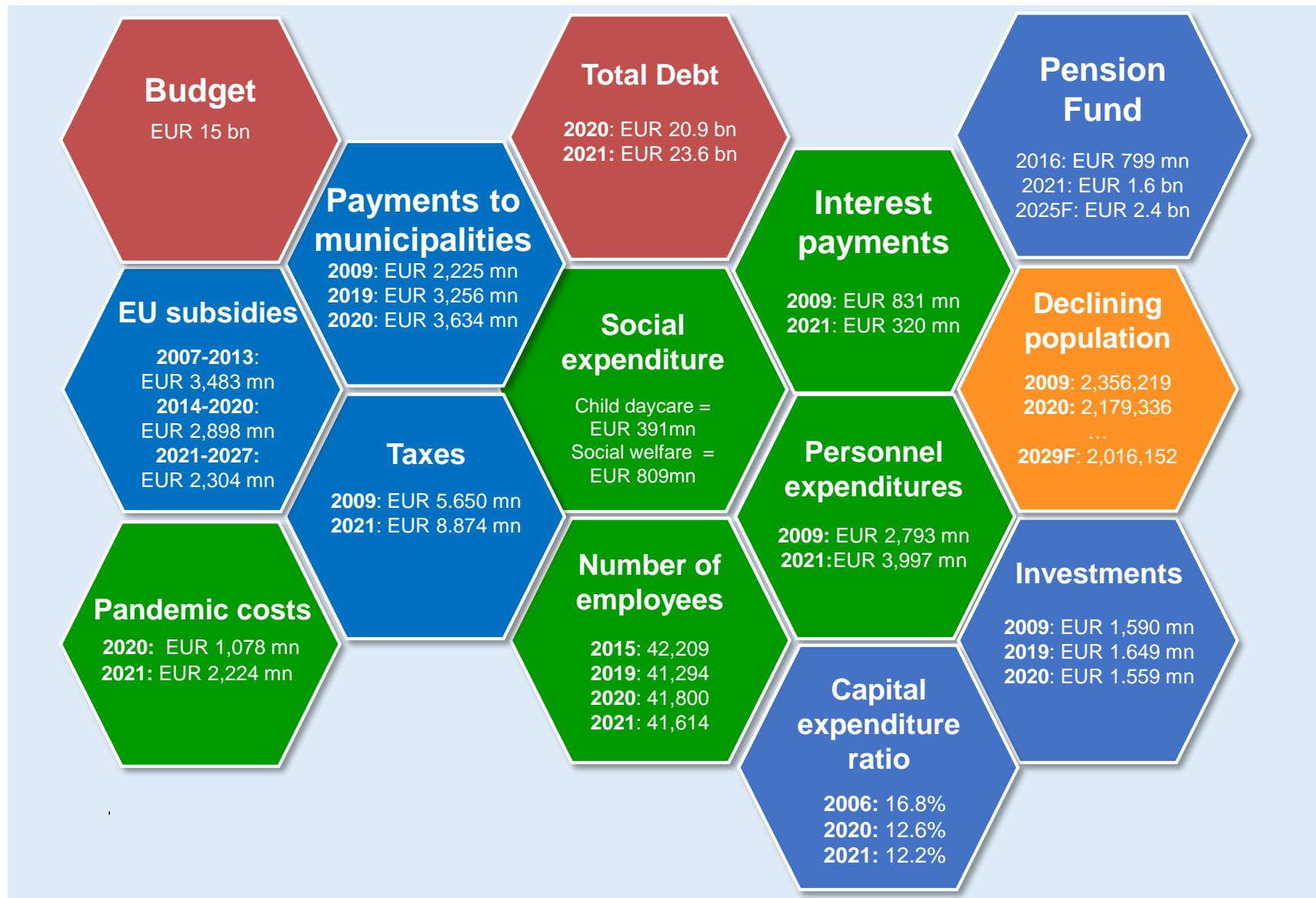
S&P September 2021 ”

**Sound Debt
Management**

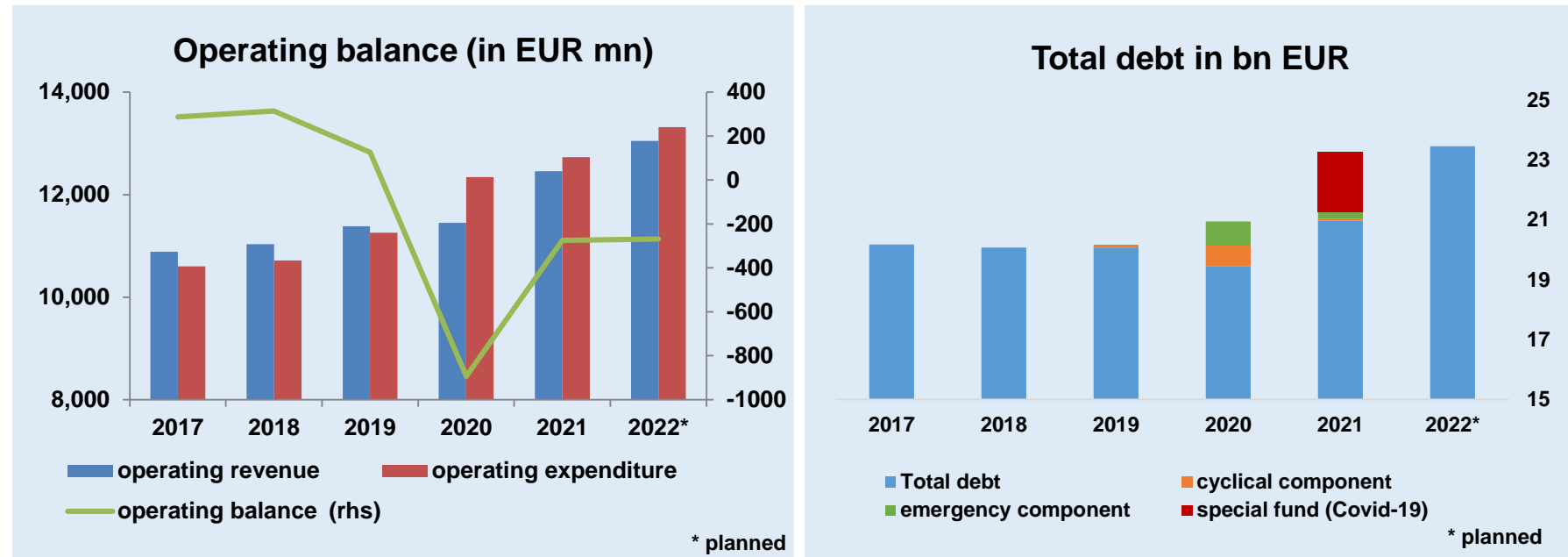
“ Saxony-Anhalt's reporting is transparent, timely and accurate, while budgetary management is characterised by a high degree of prudence.

Moody's March 2021 ”

Key factors driving the States' Budget



The States Budget



- Declining revenues from supplemental vertical support and additional grants expired in 2020. Since then the new debt break and the new revenue equalisation system for all States have been in place.
- Saxony-Anhalt had expected from 2020 a more dynamic development of revenues (and more similar to the revenues of the other States), so the spending behaviour was adapted on that gradually.
- Exogenous shocks (e.g. capital increase of NORD/LB in 2019 and the Covid-19 pandemic) changed the development and led to a discontinuation of the positive operating balance and the debt reduction.

Chapter 4

Debt Management -

flexible, investor-focused, anticipatory strategy

Benchmark Bonds

- Issuance of liquid benchmark bonds on a regular basis
- Liquid Benchmark curve of the State with maturities between 5 to 10 years
- Track-record of issuing in EUR and USD

EMTN programme / promissory notes

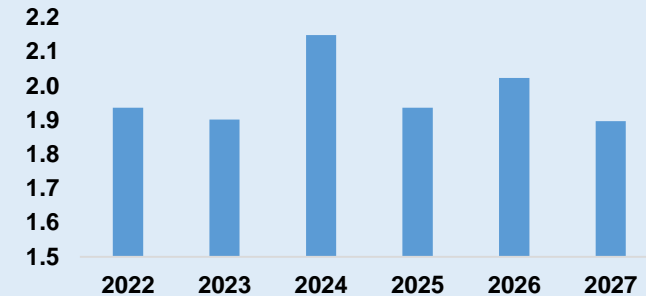
- Volume of the programme: EUR 8 bn
- Maturities between 1 to 30 years; across different currencies
- Listing in Luxemburg

Commercial Paper Programme

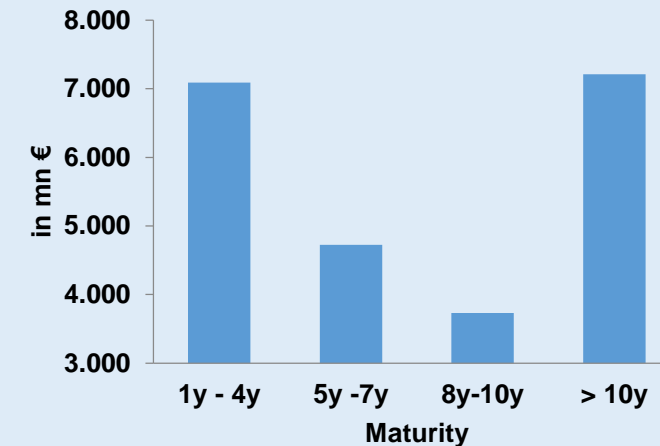
- Volume of the programme: EUR 2 bn
- Maturities between 1 to 12 months for coverage of temporary liquidity needs
- EUR, USD, GBP, CHF and AUD

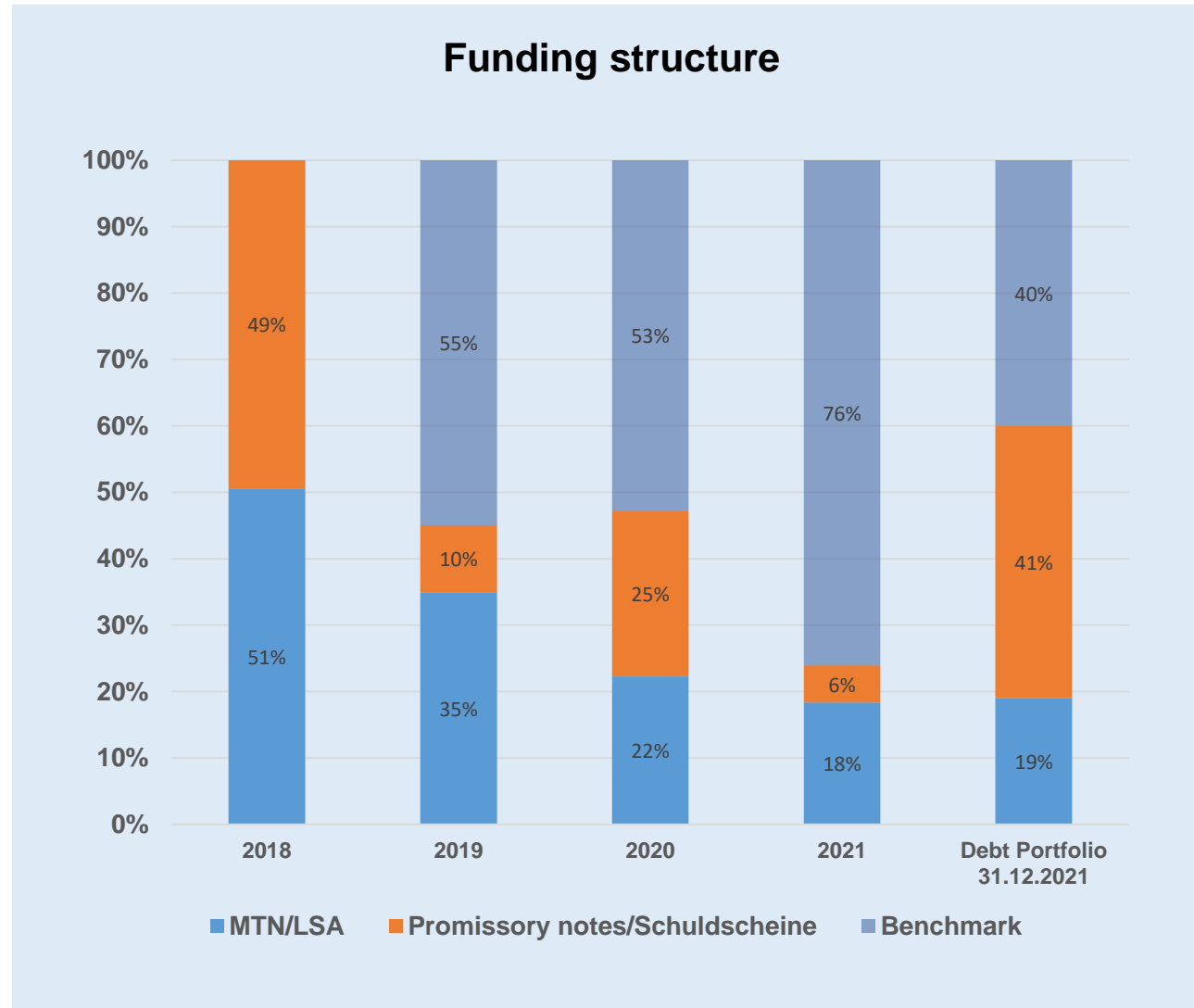
- **Total debt (2021YE): EUR 23.2 bn**
- Annual refinancing ratio between 10% to 15% of total debt
- Barbell-Strategy to address the development of interest rate environment and the structure of the €-curve
- The strategic mix of all instruments enables Saxony-Anhalt to approach debt management in a flexible manner, especially in terms of investor demands
- Active usage of the ECP programme for liquidity management

Gross Borrowing Projections in EUR bn

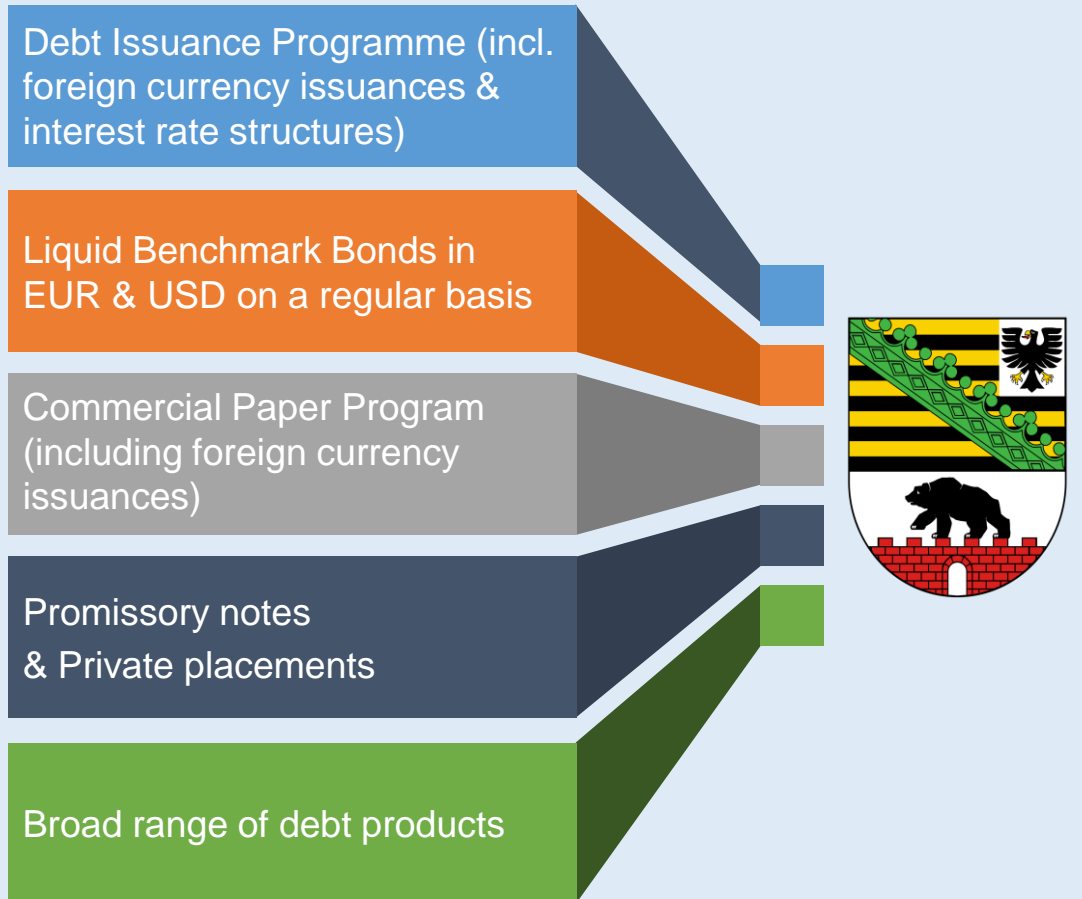


Debt maturity profile





- Strategic financing approach
- Focus on investor diversification
- Clear investor focus- strong product capabilities
- All structures and all foreign currencies are hedged to fix or floating EUR
- Funding history shows high flexibility by using structured products



➤ Innovative issuer

- 1998 - establish MTN & Commercial Paper Program^(*)
- 1998 - initial Rating from S&P followed by Moody's and Fitch^(*)
- 1998 - inaugural benchmark issue (*)

➤ Strong product capabilities

- 1999 - 1st issue in foreign currency^(*)
- 2004 - 1st issue of SUKUK Trust Certificate^(*)

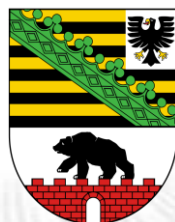
^(*) „Pioneer“ among the States

Innovation and **Investor-focus** is driving by States approach to maximize name-recognition and flexibility of funding sources especially after financial crisis

Chapter 5

State of Saxony-Anhalt's Unique Value Proposition

Key considerations



- Embedded in strongest equalisation system globally among German States and the Federal Republic to support revenue and investment support incl. debt brake

Access to a strong support system



- Strong budgetarian performance through former years
- Well tracked and outperformance on initial targets set to comply with Germany's debt brake mechanism
- Current deficit to mitigate the effects of the Covid-19 pandemic through net borrowing, but with an innovative and flexible approach

proven budget performance



- Access to multiple low cost funding avenues
- Saxony-Anhalt is strongly committed to its investor focused and flexible funding strategy, including regular liquid benchmark bonds

Innovative and flexible issuer



- ECB eligibility and Eligibility in the ECB's PSPP
- 0% - risk weighting in most European Countries
- Basel III: HQLA ('High Quality Liquid Asset') – Level 1 asset under LCR

High Quality Asset

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