

## CREDIT OPINION

21 December 2023

Update



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### RATINGS

#### Saxony-Anhalt, Land of

Domicile	Germany
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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# Land of Saxony-Anhalt (Germany)

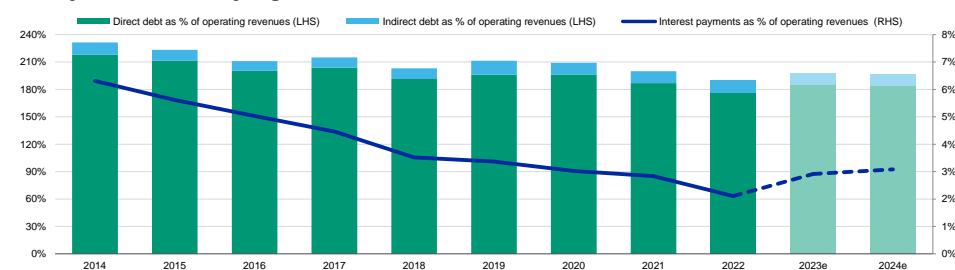
## Update to credit analysis

### Summary

The credit profile of the [Land of Saxony-Anhalt](#) (Aa1 stable) reflects the very supportive federal equalisation system, but also its strong governance and management practices and its excellent capital market access. The rating also takes into account the debt level, which is likely to remain high, with net direct and indirect debt (NDID) at nearly 200% of operating revenue in 2023 (see Exhibit 1). In 2023 and 2024, we expect the Land to achieve balanced financial result, despite economic and tax revenue slowdown and expenditure pressure. Still, the Land has low fiscal flexibility. The credit profile also reflects the very high likelihood that the [Government of Germany](#) (Aaa stable) would provide support if the Land were to face acute liquidity stress.

Exhibit 1

### Saxony-Anhalt has very high debt, but low interest cost



2023-24e - Moody's estimate.

Sources: Issuer, German Statistics Office and Moody's Investors Service

### Credit strengths

- » Strong financial equalisation system, which ensures federal transfers and revenue predictability
- » Strong debt management and good capital market access

### Credit challenges

- » Budgetary pressure, which weighs on financial performance
- » Very high debt burden
- » Modest tax base, with limited financial flexibility to raise additional revenue

## Rating outlook

The stable rating outlook reflects Saxony-Anhalt's capacity to maintain largely balanced budgets and slowly declining debt burdens over the coming two to three years. In case of a deeper and longer economic slowdown than currently expected, strong institutions and governance at the Länder (regions) and national levels are likely contribute to a prompt resumption of strong financial positions.

## Factors that could lead to an upgrade

A substantial reduction in the Land's debt burden, combined with an improvement in its financial performance, could lead to a rating upgrade.

## Factors that could lead to a downgrade

Saxony-Anhalt's ratings could be downgraded if its fiscal performance and debt burdens deviated significantly and durably from our current projections. This could occur should economic growth deteriorate sharply and the Land were unable to contain the medium-term implications on its fiscal balances and debt burden. In addition, a downgrade of the sovereign rating, or any indication of weakening government support, would likely lead to a rating downgrade of Saxony-Anhalt.

## Key indicators

Exhibit 2

### Land of Saxony-Anhalt

	2019	2020	2021	2022	2023e	2024e
Population (in mn)	2.2	2.2	2.2	2.2	2.2	2.2
GDP per capita (in EUR)	29,385	29,345	31,381	34,505	37,000	38,000
GDP per capita as % of national average	70.3	71.6	72.6	75.3	75.3	75.3
Intergovernmental revenues as % of operating revenues	29.8	33.2	32.2	29.3	24.5	25.2
Interest payments as % of operating revenues	3.4	3.0	2.8	2.1	2.9	3.1
Gross operating balance (GOB) as % of operating revenues	8.4	0.1	-14.0	12.9	8.9	9.9
Capital expenses (Capex) as % of total expenses	14.5	12.6	10.4	13.1	13.3	13.4
Financing result (surplus or deficit) as % of total revenues	-0.8	-7.9	-19.7	6.7	0.6	1.2
Net direct and indirect debt (NDID) as % of operating revenues	211.4	209.2	199.9	190.8	197.8	196.7
Short-term direct debt as % of total direct debt	13.9	13.7	7.5	12.1	9.3	9.0

2023-24e - Moody's forecast.

Sources: Issuer, German Statistics Office and Moody's Investors Service

## Detailed credit considerations

The credit profile of Saxony-Anhalt, as expressed in its Aa1 stable rating, combines a Baseline Credit Assessment (BCA) of aa3 and a very high likelihood of extraordinary support from the federal government in the event that the Land faces acute liquidity stress.

### Baseline Credit Assessment

#### Strong financial equalisation system, which ensures federal transfers and revenue predictability

The institutional framework, which encompasses the legislative background and financial flexibility, is reflected in the arrangements determining intergovernmental relations at all levels, and jurisdictional powers and responsibilities. The framework is mature and highly developed, with minor changes occurring at a measured pace and in a transparent manner.

Germany has one of the strongest equalisation systems worldwide. The German federal constitution guarantees that Länder receive appropriate levels of funding and prescribes high fiscal homogeneity among them. With the amended financial equalisation scheme from 2020, the Länder sector (at the expense of the federal government) benefitted financially because of a higher share in value-added tax revenue, higher general federal transfers and higher supplementary transfers. Under the financial equalisation system,

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Saxony-Anhalt benefits from special financial subsidies because of its status as a financially relatively weaker region. Intergovernmental revenue makes up nearly one-third of the Land's revenue.

Another institutional factor to align Länder budgets and discipline is a constitutional requirement (debt-brake mechanism) that mandates each region to maintain structurally balanced budgets from 2020.

However, the constitutional requirement had been suspended for several years, reflecting an extraordinary emergency situation, which allowed for debt-funding of measures to alleviate the economic and social impact of the pandemic. More recently and following a [Constitutional Court decision on federal level](#), the Land again claimed for an exception clause for 2023 and 2024 to allow proper use of its previously funded projects via an off-budget entity. At the same time, Saxony-Anhalt is obliged to repay any such additional debt over the coming years.

#### **Strong debt management and good capital market access**

Saxony-Anhalt's reporting is transparent, timely and accurate, while budgetary management is characterised by a high degree of prudence. Like other German Länder, the Land shows strong institutional capacity.

Active debt management and sound liquidity ease the burden of Saxony-Anhalt's debt-service requirements and funding needs.

Foreign-currency risks are fully hedged, while the Land's outstanding debt has an average maturity of around nine years. More than 90% of debt has a fixed interest rate, with limited interest rate risk, but there is some exposure to derivatives. The Land actively uses forward interest hedges and thereby has locked in very low interest rates for a significant portion of its maturities.

Saxony-Anhalt's share of short-term debt has been declining over the recent years, from about 20% of direct debt five years ago to less than 10% of direct debt in 2022 and 2023. Saxony-Anhalt has a lower volume of maturing debt, because of its tendency towards longer maturities when refinancing maturing debt in recent years. The utilisation of Saxony-Anhalt's commercial paper (CP) programme, which is a unique feature among German Länder, is low. The Land uses its CP programme to maintain access to various investor groups and invests its excess liquidity at highly rated counterparties, maturing within a year.

The Land has financial relationships with a broad range of investors, which are willing to grant continued access to liquidity based on their confidence in the German Länder solidarity system. In 2023, the Land issued its first Social Bond with a volume of €0.5 billion. The Land committed to allocate the proceeds for a range of social-related initiatives, which attracted additional investor attention. Apart from the allocation of its proceeds, the bond does not differ from bonds and we view the issuance of ESG-linked bonds generally as credit positive as it widens the investor base.

In the money markets, the Land has access to the inter-Länder liquidity pool, whereby individual Länder offer their surplus cash to other Länder, and access to the German state financing agency (BRD Finanzagentur GmbH).

Interest expenses are likely to account for a modest 3% of operating revenue in 2023 and following years, compared with a low 2.1% in 2022. Saxony-Anhalt's overall amortisation profile is relatively balanced, and its access to capital markets is very good, based on a broad set of instruments and a sophisticated state treasury management. Annual debt-service payments are relatively stable and moderate at below 20% of operating revenue.

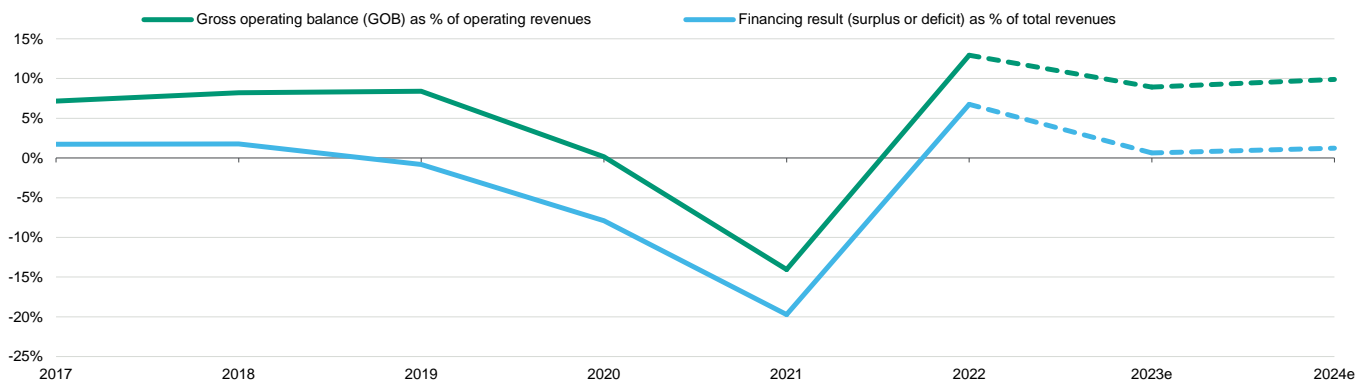
#### **Budgetary pressure weighs on financial performance**

In 2023, a stagnating economy and sluggish tax revenue, combined with an additional spending programme and inflation, has put the Land's budget execution under pressure, compared with the financial surplus achieved in 2022. In 2023 and 2024, we expect a gross operating surplus of below 10% of operating revenue, compared with a high 13% in 2022.

Nominal tax revenue is likely to stagnate or slightly decline in 2023 but is likely to grow over the coming three years at 4%-6% each year, while in 2022 and 2021, because of the economic recovery and catch-up effects, tax revenue recorded surprisingly high growth of more than 10% compared with that in 2020, when tax revenue fell as a result of the pandemic and the related slowdown in economic activity.

Our baseline assumption for 2023 and 2024 projects only a fairly balanced financial result, compared with a strong surplus of 7% of total revenue in 2022.

Exhibit 3  
**The pandemic has put some pressure on operating and financial performance**



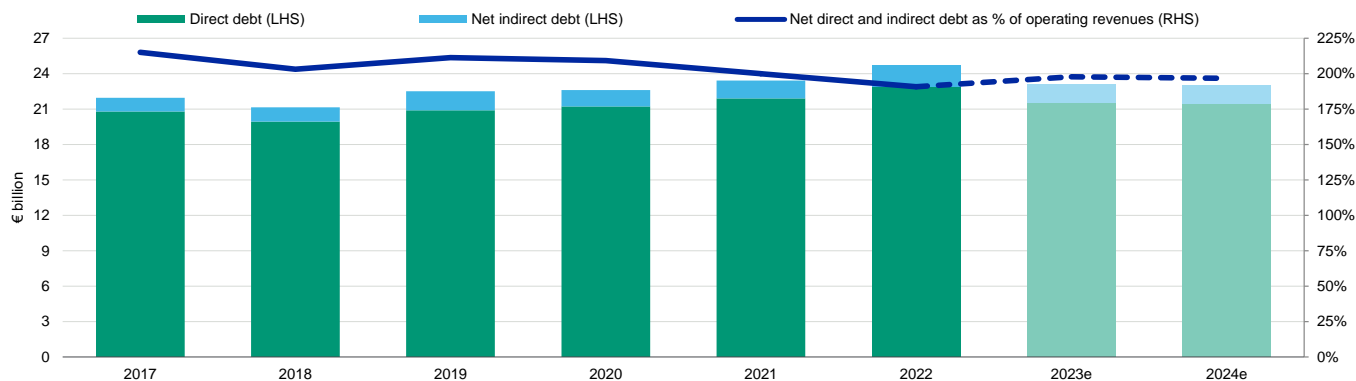
2023-24e - Moody's estimate.  
 Sources: Issuer, German Statistics Office and Moody's Investors Service

**Very high debt burden**

The Land's direct debt is likely to remain at a high 185% of operating revenue as of year-end 2023, compared with 177% a year earlier. We expect direct debt to remain at a similar level in 2024, before declining slowly thereafter. The ratio is very high in an international context and is above the German Länder average of 115% as of 2022.

If we include indirect debt (for example, some guarantees), Saxony-Anhalt's NDID ratio is likely to stand at nearly 200% of operating revenue as of year-end 2023, and we expect it to remain at a similar level in 2024, before declining slowly thereafter. The Land's indirect debt mainly consists of guarantees for subsidiary company debt, housing projects, and small and medium-sized businesses.

Exhibit 4  
**Saxony-Anhalt's debt burden remains very high**



2023-24e - Moody's estimate.  
 Sources: Issuer, German Statistics Office and Moody's Investors Service

Saxony-Anhalt's contingent liabilities are very limited compared with those of most German Länder. The Land holds a relatively low number of participations in companies and other entities, which overall are self-supporting. Saxony-Anhalt holds and provides guarantees to a regional development bank (Investitionsbank Sachsen-Anhalt)<sup>1</sup>, which provides services to local small and medium-sized enterprises, supports real estate development and lends to the local government sector.

Similar to those of all German Länder, Saxony-Anhalt's pension obligations are only partially funded. The Land established a pension fund and aims to cover obligations of all newly employed civil servants from 2007. Saxony-Anhalt's unfunded obligations are significantly lower than those of many West German Länder. In general, pension obligations could limit budget flexibility and affect a region's creditworthiness. However, we regard the setup of a pension fund as a forward-looking first step towards addressing the budget impact of unfunded liabilities.

#### Modest tax base, with limited financial flexibility for raising additional revenue

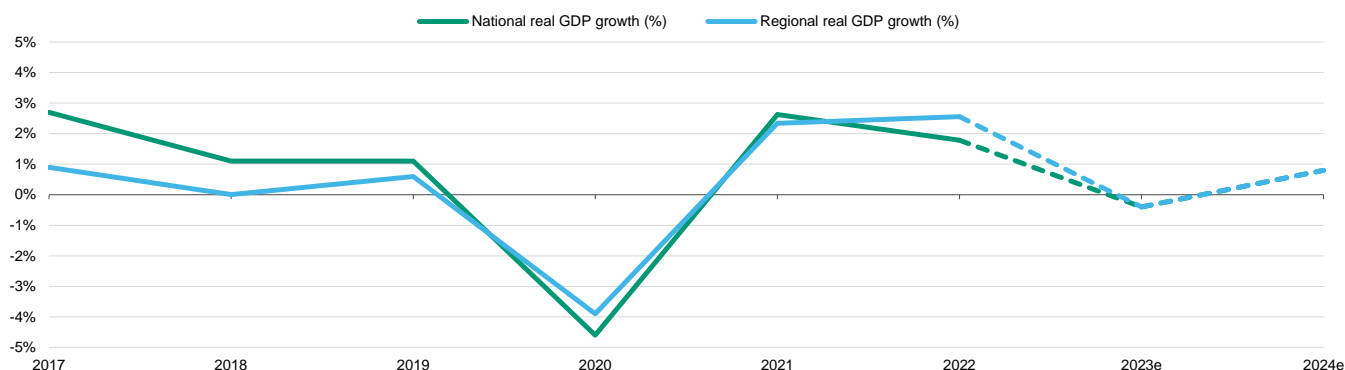
As is the case for all German Länder, Saxony-Anhalt has a rigid expenditure structure and limited revenue-raising flexibility. Even if its regional tax base grew above the national average, it would have only a limited effect on the Land's budgetary performance. The above-average tax revenue growth would be partly offset by the equalisation system. In general, more than 90% of its revenue stems from shared taxes and transfers, and the German Länder have only limited tax-setting rights.

Saxony-Anhalt's economy is still in transition, but the Land's restructuring efforts are taking effect, as demonstrated by an announcement of the chip manufacturer [Intel Corporation](#) (A2 negative) to build a factory close to Saxony-Anhalt's capital city Magdeburg. Meanwhile GDP growth in recent years has been more in line with the national average (see Exhibit 4). The Land's total GDP accounts for only 2% of Germany's national GDP, and Saxony-Anhalt's per capita GDP is around 70% of the German average.

In 2023, we [expect an economic contraction of -0.4% for Germany, while in the following two years we expect a recovery of 1% or 2%, respectively](#). The slower-than-previously-expected post-pandemic recovery is mainly a result of the Russia-Ukraine military conflict, affecting the German industrial sector's exposure to higher energy prices, broader supply chain disruption and a drop in household consumption.

Exhibit 5

#### Saxony-Anhalt's economy has been somewhat less burdened by the pandemic unlike Germany as a whole



2023-24e - Moody's forecast.

Sources: Issuer, German Statistics Office and Moody's Investors Service

Saxony-Anhalt has had a longer period of adverse demographics when migration outflows had contributed to comparatively adverse age structure. The pace of outward migration has slowed, although it remains potentially negative for the economy and for the budget because both the original tax base and transfer payments are based on population figures. An ageing population will lead to economic (declining labour supply reducing revenue) and expenditure (higher pension and other social costs) pressures, which are among the social risks faced by Saxony-Anhalt.

### Extraordinary support considerations

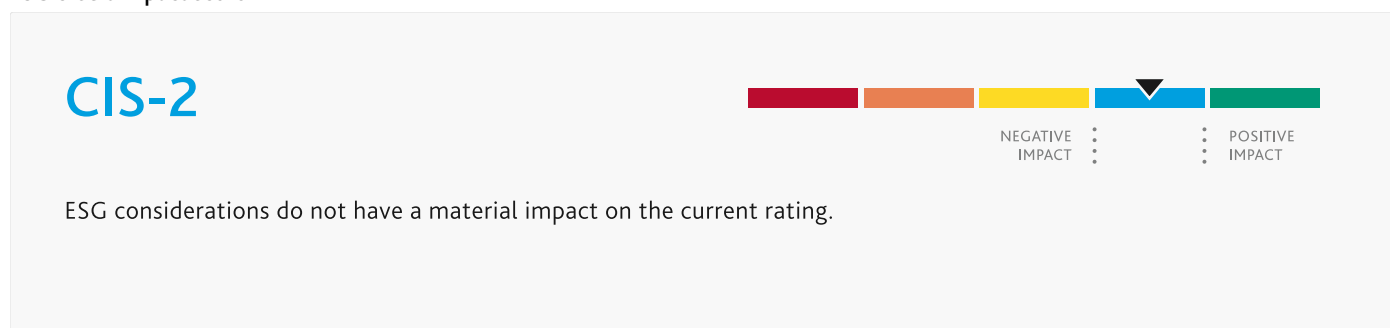
The very high likelihood of extraordinary support from the Federal Government of Germany reflects our assessment of the high reputational risk for Germany as a whole in case of default by a Land, and the Bundestreuekonzept, according to which all German Länder must express mutual solidarity in the event that one of them or the Federal Republic faces a severe budgetary crisis. Also, the debt volumes and structure of German Länder are extremely complex and an event of nonpayment would be considered to have a corresponding impact on Germany as a whole. The principle of solidarity is firmly entrenched in the Grundgesetz (basic law), thereby providing a reassurance that, if required, financial support for a member in distress would be forthcoming. We have, therefore, incorporated two notches of uplift, to Aa1 from aa3, into Saxony-Anhalt's final rating.

### ESG considerations

#### Saxony-Anhalt, Land of's ESG credit impact score is CIS-2

Exhibit 6

#### ESG credit impact score

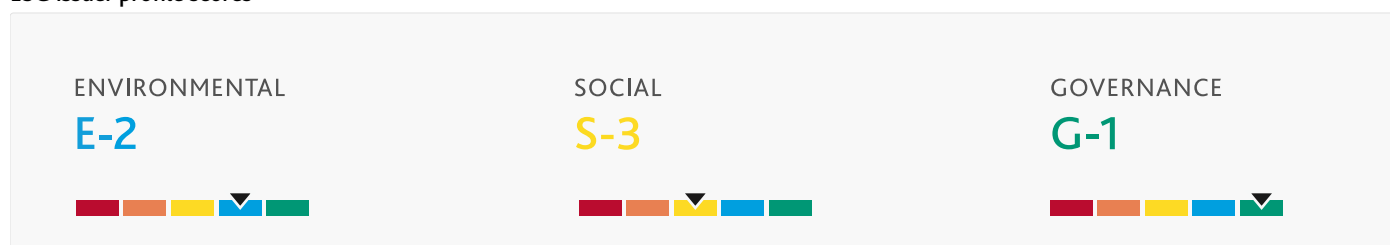


Source: Moody's Investors Service

The Land of Saxony-Anhalt's ESG Credit Impact Score (**CIS-2**) reflects neutral-to-low exposure to environmental and moderately negative social risk, along with very strong governance and policy effectiveness that mitigates the region's susceptibility to these risks.

Exhibit 7

#### ESG issuer profile scores



Source: Moody's Investors Service

#### Environmental

The environmental issuer profile score (**E-2**) reflects neutral-to-low risks for all environmental factors. Despite its traditional high exposure to heavy industries the Land has carbon emission levels somewhat above per capita German average, with Saxony-Anhalt promoting carbon transition schemes.

#### Social

The social issuer profile score (**S-3**) reflects risks foremost on demographics (which scores highly negative) as well as labour and income (which scores moderately negative), somewhat counterbalanced by broadly neutral-to-low risks from most other social factors, except for health and safety (which scores positive). The main risk is driven by the region's relatively adverse demographics with migration and age structure weaker than for Germany overall. The trend of ageing population will result in declining labour supply and higher pension and social cost.

## Governance

The governance issuer profile score (**G-1**) reflects the very strong national institutional and governance framework. Budgetary discipline in Germany is a constitutional requirement, which requires each of the regions to maintain structurally balanced budgets. Budget planning in Saxony-Anhalt is prudent, transparent and highly predictable.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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 aa3 is close to the scorecard-indicated BCA of aa2. The matrix-generated BCA of aa2 reflects an Idiosyncratic Risk score of 3 (presented below) on a 1-9 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 Germany.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published on 16 January 2018.

Exhibit 8

### Saxony-Anhalt, Land of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Factor 1: Economic Fundamentals</b>				<b>6.60</b>	<b>20%</b>	<b>1.32</b>
Economic Strength [1]	9	74%	70%			
Economic Volatility	1		30%			
<b>Factor 2: Institutional Framework</b>				<b>3</b>	<b>20%</b>	<b>0.60</b>
Legislative Background	1		50%			
Financial Flexibility	5		50%			
<b>Factor 3: Financial Position</b>				<b>3.75</b>	<b>30%</b>	<b>1.13</b>
Operating Margin [2]	5	3.39%	12.5%			
Interest Burden [3]	3	2.45%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	190.78%	25%			
Debt Structure [5]	3	12.09%	25%			
<b>Factor 4: Governance and Management</b>				<b>1</b>	<b>30%</b>	<b>0.30</b>
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>3.35 (3)</b>
<b>Systemic Risk Assessment</b>						<b>Aaa</b>
<b>Suggested BCA</b>						<b>aa2</b>
<b>Assigned BCA</b>						<b>aa3</b>

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Investors Service; Fiscal 2022.

## Ratings

Exhibit 9

Category	Moody's Rating
<b>SAXONY-ANHALT, LAND OF</b>	
Outlook	Stable
Baseline Credit Assessment	aa3
Issuer Rating	Aa1
Senior Unsecured	Aa1
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

## Endnotes

<sup>1</sup> We do not count guarantees provided for Investitionsbank Sachsen-Anhalt as indirect debt as we view them as contingent liabilities.



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