

**CREDIT OPINION**

13 December 2024

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)

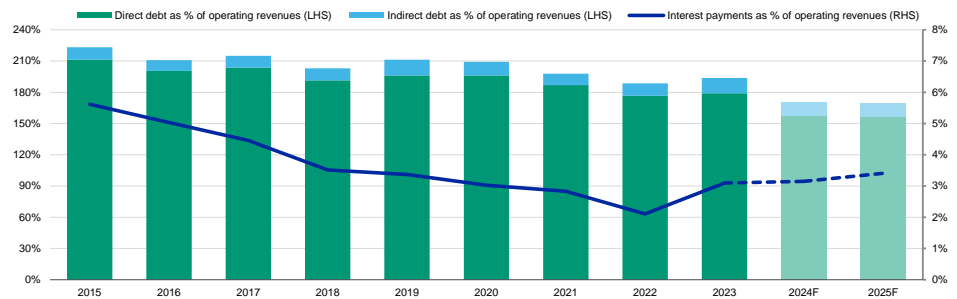
## Update to credit analysis

### Summary

The credit profile of the [Land of Saxony-Anhalt](#) (Aa1 stable) reflects the very supportive federal equalisation system, its strong governance and management practices and its excellent access to capital markets. It also takes into account the debt level, which is still high, although declining to below 170% of operating revenue over the coming two years. In 2024 and 2025, we expect the Land will report a slight financial deficit, in context of economic and tax revenue slowdown and expenditure pressure. As for all German regions, fiscal flexibility is low. 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

### While Saxony-Anhalt's high debt burden is falling, its interest expense is rising



2024-25F - Moody's forecast.

Sources: Issuer, German Statistics Office, German Ministry of Finance and Moody's Ratings

### Credit strengths

- » Strong financial equalisation system ensures federal transfers and revenue predictability
- » Strong debt management
- » Good access to funding in capital markets

### Credit challenges

- » Budgetary pressure weighing on financial performance
- » 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 solid operating surpluses and nearly balanced financials in 2025 and beyond, despite some pressure from social spending and higher interest costs. Should weaker than currently expected economic growth persist, a strong institutional framework and governance at the Länder and national levels is likely to foster financial resilience and contribute to a prompt resumption of strong financial positions.

## Factors that could lead to an upgrade

An upgrade could occur should Saxony-Anhalt's debt burden decline substantially, combined with an improvement in its financial performance, probably through sustained expense discipline.

## Factors that could lead to a downgrade

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

## Key indicators

Exhibit 2

### Land of Saxony-Anhalt

Saxony-Anhalt, Land of	2020	2021	2022	2023	2024F	2025F
Cash and cash equivalents as % of operating revenues	9.0%	14.7%	13.6%	5.1%	4.6%	4.5%
Primary operating balance (POB) as % of operating revenues	3.2%	-11.2%	15.0%	7.5%	13.5%	10.8%
Interest payments as % of operating revenues	3.0%	2.8%	2.1%	3.1%	3.1%	3.4%
Capital expenses (Capex) as % of total expenses	12.6%	10.4%	13.1%	13.3%	17.0%	15.2%
Financing result (surplus or deficit) as % of total revenues	-7.9%	-19.7%	6.7%	-2.8%	-2.1%	-2.4%
Net direct and indirect debt (NDID) as % of operating revenues	209.2%	197.9%	188.5%	193.7%	170.4%	169.8%

2024-25F - Moody's forecast.

Sources: Issuer, German Statistics Office, German Ministry of Finance and Moody's Ratings

## Detailed credit considerations

The credit profile of Saxony-Anhalt, as expressed in its Aa1 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 ensures federal transfers and revenue predictability

The institutional framework, which includes the legislative background and financial flexibility, is reflected in the arrangements determining intergovernmental relations at all levels as well as 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 (regions) receive appropriate levels of funding and prescribes high fiscal homogeneity among them. With the amended financial equalisation scheme from 2020, the Länder benefitted financially (at the expense of the federal government) due to a higher share in value-added tax revenue, higher general federal transfers and higher supplementary transfers. Under the financial equalisation system, Saxony-Anhalt benefits from special financial subsidies stemming from its status as a financially relatively weaker region. Intergovernmental revenue makes up nearly one-third of the Land's revenue.

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.

Another institutional factor aimed to align state budgets and enforce fiscal discipline is a constitutional requirement, known as the debt-brake mechanism, for each region to maintain structurally balanced budgets beginning in 2020.

However, the constitutional requirement was 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. Then, in context of a [Constitutional Court decision](#), announced in November 2023 at the federal level, the Land again claimed for an exception clause for 2023 and 2024 which allowed proper use of its previously funded projects via an off-budget entity. In 2024, the entity was dissolved and any future spending will be reported on the Land's core budget, contributing to additional transparency. As in previous years, 2025 and 2026 budget plan foresees the possibility to debt-financing of specific expenses due to the exception clause. Saxony-Anhalt is committed to repay any such exceptional debt over the coming years.

#### **Strong debt management**

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 management 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 to ten 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 more than five years ago to around 12% of direct debt as of year-end 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 relatively 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.

#### **Good access to funding in capital markets**

Saxony-Anhalt has financial relationships with a broad range of investors, who 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 social bond does not differ from other bonds. We view the issuance of ESG-linked bonds generally as credit positive as it widens the investor base. Another example of the Land's innovative role in taping capital markets is a recent issuance of a digital commercial paper, using the German central bank's (Bundesbank) Trigger Solution for cash settlement of the transaction.

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).

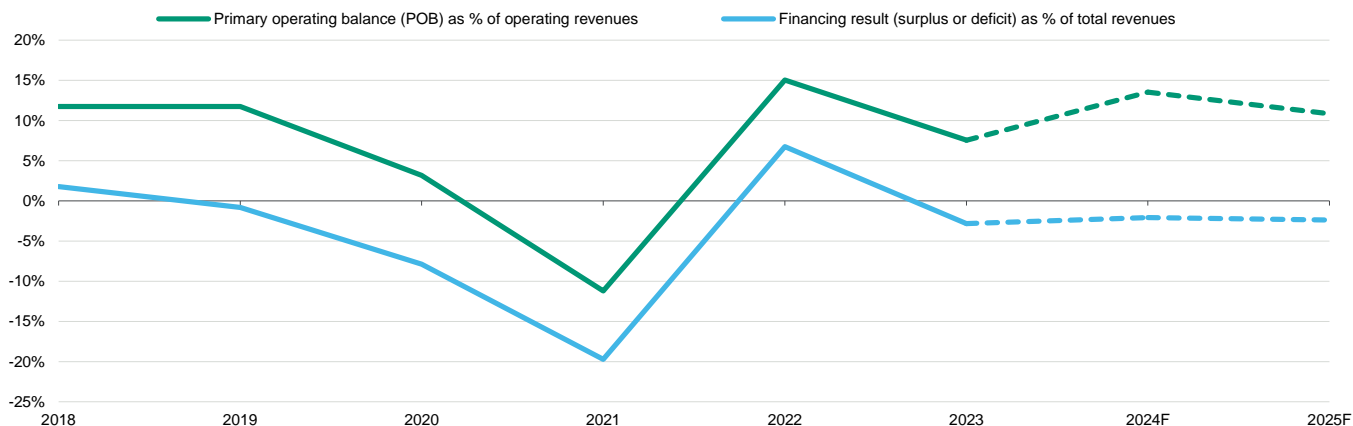
Interest expense was a modest 3.1% of operating revenue in 2023 and is expected similarly for 2024. Although this is only somewhat higher than the 2.1% in 2022, it indicates an upward trend in interest cost reflecting the rate increases compared to a few years ago. Saxony-Anhalt's overall amortisation profile is relatively balanced, and its access to capital markets is very good, based on a broad set of instruments and its sophisticated state treasury management. Annual debt-service payments are relatively stable and moderate at typically around 20% of operating revenue.

#### **Budgetary pressure weighing on financial performance**

The combination of a stagnating economy, sluggish tax revenue, additional spending program and inflation has put the Land's budget execution under pressure. Nominal tax revenue is expected to only grow slowly in 2024, while it had declined in 2023. Nonetheless, a primary operating surplus of up to 13.5% of operating revenue is expected in 2024, while only a 7.5% of operating revenue was achieved in 2023. We expect nominal tax revenue to grow at no more than 3% in the coming years, which will support to maintain double-digit primary operating surpluses.

Our baseline assumption for 2024 and 2025 projects financial deficits, partly a result of capital investment transactions, but also due to above mentioned revenue and expenditure pressure.

Exhibit 3  
**Operating and financial performance is stabilising at solid level**



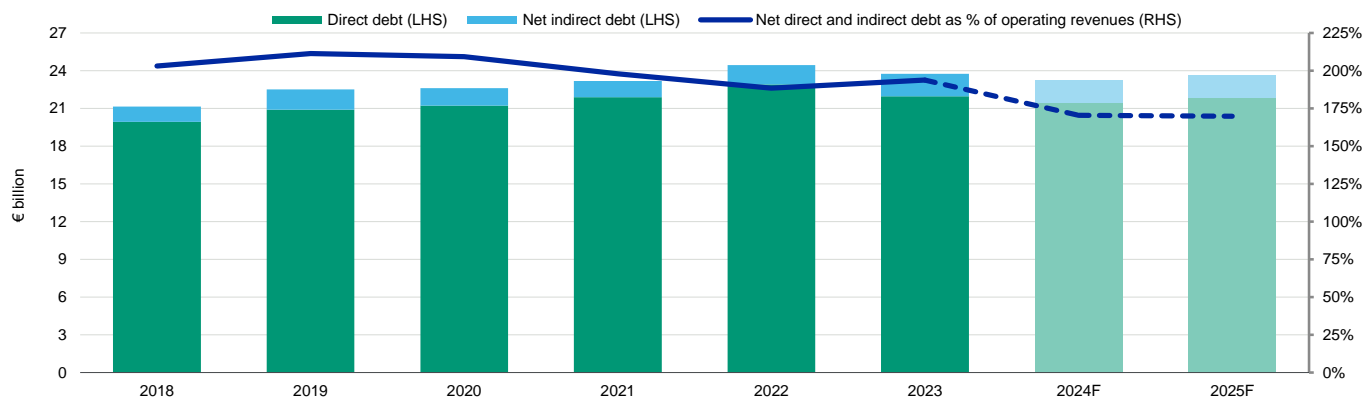
2024-25F - Moody's forecast.  
 Sources: Issuer, German Statistics Office, German Ministry of Finance and Moody's Ratings

**High debt burden**

The Land's direct debt is high, measuring 179% of operating revenue as of year-end 2023. The ratio is high in an international context and is well above the German Länder sector average of 115% as of 2023. We expect a modest decline for the Land to below 160% of operating revenues over the next two years as a result of operating revenue growth, but also due to use of liquidity to fund expenses.

If we include indirect debt, which mainly consists of guarantees for subsidiary company debt, housing projects, and small and medium-sized businesses, Saxony-Anhalt's net direct and indirect debt (NDID) ratio is 194% of operating revenue as of year-end 2023. Similar to the direct debt measure, we expect a modest decrease over the next two years.

Exhibit 4  
**Saxony-Anhalt's debt burden remains high but is set to decline**



2024-25F - Moody's forecast.  
 Sources: Issuer, German Statistics Office, German Ministry of Finance and Moody's Ratings

Saxony-Anhalt's contingent liabilities are very low 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 step towards addressing the budget impact of unfunded liabilities.

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

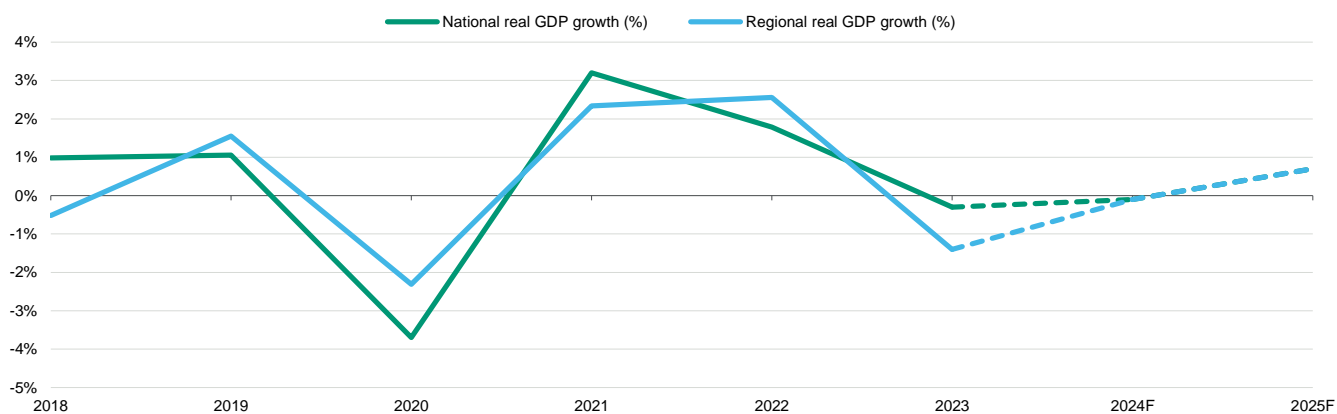
As is the case for all German Länder, Saxony-Anhalt has a rigid expenditure structure and limited revenue-raising flexibility. Even if its regional tax base grew above the national average, it would have only a limited effect on the Land's budgetary performance. The above-average tax revenue growth would 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. Meanwhile GDP growth in recent years has been more in line with the national average (see Exhibit 5). The Land's total GDP accounts for only 2% of Germany's national GDP, and Saxony-Anhalt's per capita GDP is below 75% of the German average.

In 2023 and 2024, Germany's economy did not grow and 2025 projections indicate a very marginal growth rate, overall weaker than previously expected.

Exhibit 5

#### Saxony-Anhalt's economy is expected only very marginally, but in line with Germany overall



2024-25F - Moody's forecast.

Sources: Issuer, German Statistics Office and Moody's Ratings

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

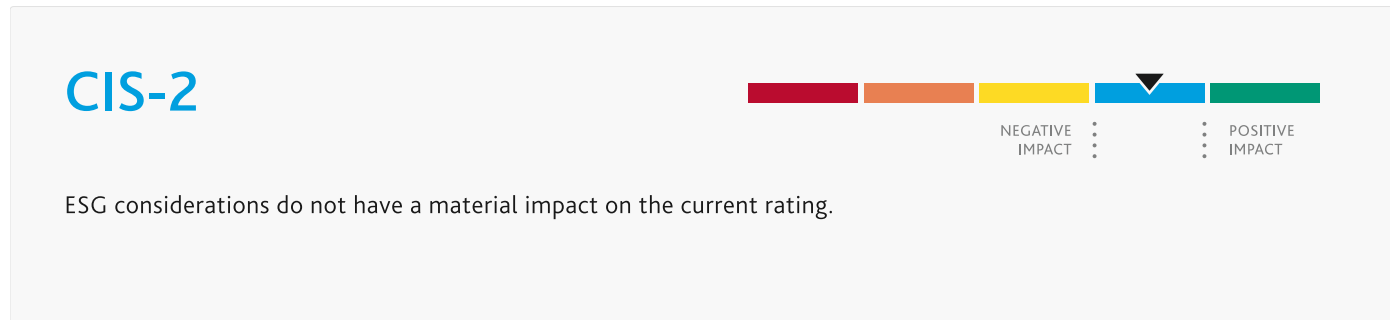
Saxony-Anhalt has a very high likelihood of extraordinary support from the federal government, which reflects our assessment of the high reputational risk for Germany as a whole in case of default by a Land. Furthermore, under the Bundestreuekonzept, all German Länder must provide mutual support if one of them, or the Federal Republic, faces a severe budgetary crisis. Also, the debt volumes of the German Länder are high, their debt structure is 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 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

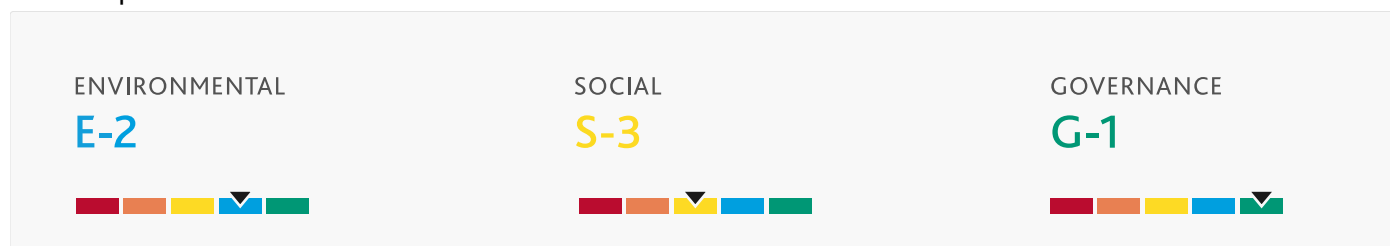


Source: Moody's Ratings

The Land of Saxony-Anhalt's ESG Credit Impact Score (**CIS-2**) reflects partial mitigation of environmental and social risks by with the very strong governance and policy effectiveness.

Exhibit 7

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

The environmental issuer profile score (**E-2**) reflects the absence of material 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**) is primarily driven by demographic risks as well as labour and income, although somewhat counterbalanced by most other social factors. 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 Moodys.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 in line with the BCA scorecard-indicated outcome.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published on 28 May 2024.

Exhibit 8

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

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
<b>Factor 1: Economy</b>					<b>25%</b>	<b>1.26</b>
Regional Income [1]	4.43	48387.65	15%	0.66		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
<b>Factor 2: Institutional Framework and Governance</b>					<b>30%</b>	<b>0.60</b>
Institutional Framework	3.00	aa	15%	0.45		
Governance	1.00	aaa	15%	0.15		
<b>Factor 3: Financial Performance</b>					<b>20%</b>	<b>1.62</b>
Operating Margin [2]	8.98	7.54%	10%	0.90		
Liquidity Ratio [3]	13.46	5.07%	5%	0.67		
Ease of Access to Funding	1.00	aaa	5%	0.05		
<b>Factor 4: Leverage</b>					<b>25%</b>	<b>2.49</b>
Debt Burden [4]	11.52	193.74%	15%	1.73		
Interest Burden [5]	7.64	3.10%	10%	0.76		
<b>Preliminary BCA Scorecard-Indicated Outcome (SIO)</b>						<b>(5.98) a2</b>
<b>Idiosyncratic Notching</b>						<b>0.0</b>
<b>Preliminary BCA SIO After Idiosyncratic Notching</b>						<b>(5.98) a2</b>
<b>Sovereign Rating Threshold</b>						<b>Aaa</b>
<b>Operating Environment Notching</b>						<b>2.0</b>
<b>BCA Scorecard-Indicated Outcome</b>						<b>(3.98) aa3</b>
<b>Assigned BCA</b>						<b>aa3</b>

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

## 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 Ratings

## 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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