

Land of Saxony-Anhalt

Rating Report

Rating rationale and Outlook

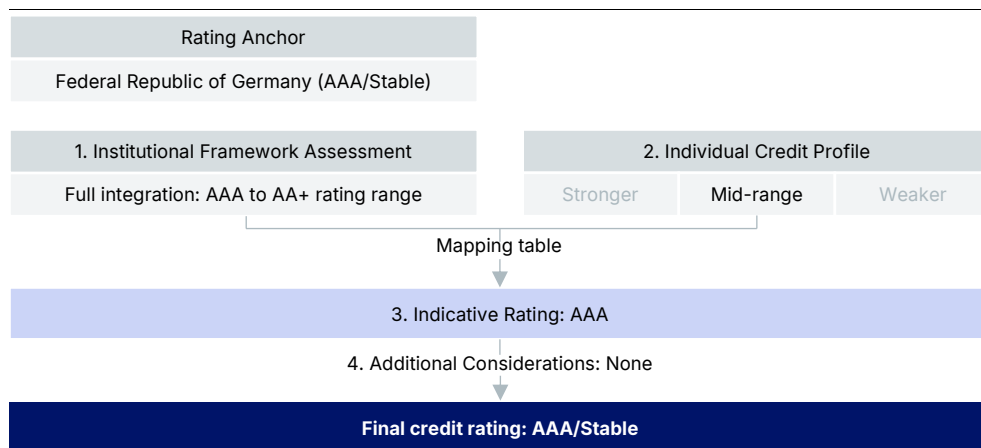
The AAA/Stable rating of the Land of Saxony-Anhalt (Saxony-Anhalt) is driven by:

A highly integrated Institutional Framework, resulting in a close alignment of German federal states' creditworthiness with the German central government's [AAA/Stable](#) rating. Key considerations are a strong revenue equalisation system and the federal solidarity principle, among others.

A 'mid-range' Individual Credit Profile: Saxony-Anhalt's credit strengths are: i) sound budgetary management, with operating performance benefitting from sizeable and predictable intergovernmental transfers; ii) strong debt and liquidity management, including via a commercial paper programme, assured access to external liquidity, and excellent capital market access and funding conditions; and iii) low contingent liability risks.

Challenges are: i) a high debt level; ii) limited revenue flexibility and moderate expenditure flexibility coupled with rising spending pressures; and iii) a modest socio-economic profile vis-à-vis peers.

Figure 1: Saxony-Anhalt's rating drivers



Note: For further details, please see Scope's Sub-sovereigns Rating Methodology.
Source: Scope Ratings

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Lead Analyst

Julian Zimmermann
+49 69 6677389-89
j.zimmermann@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Credit strengths and challenges

| Credit strengths | Credit weaknesses |
|---|--|
| <ul style="list-style-type: none"> Integrated institutional framework, leading to close alignment with German federal government Sound budgetary management and performance Assured liquidity, excellent market access, conservative debt management Low contingent liability risks | <ul style="list-style-type: none"> High debt burden Limited revenue flexibility Moderate expenditure flexibility, spending pressures Modest socio-economic profile |

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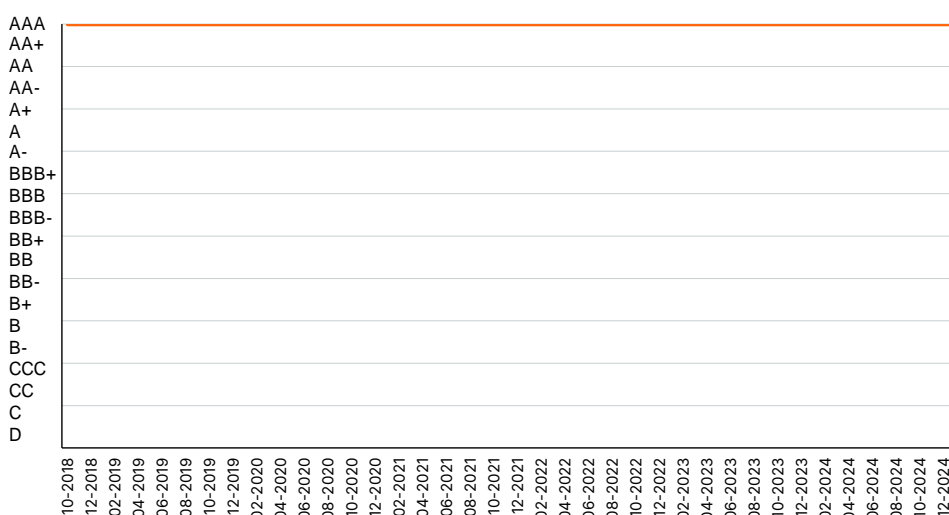
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- Appendix IV. Statistical table

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

| Positive rating-change drivers | Negative rating-change drivers |
|--|--|
| <ul style="list-style-type: none"> NA | <ul style="list-style-type: none"> Downgrade of Germany's sovereign rating Changes in the institutional framework, resulting in notably weaker support Deterioration of individual credit profile |

Figure 2: Rating history¹



Source: Scope Ratings

¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Institutional framework

German Länder² benefit from a mature, highly predictable and integrated institutional framework. The key elements are: i) a strongly interconnected revenue equalisation mechanism enshrined in the constitution; ii) strict fiscal rules and monitoring, iii) wide-ranging participation and veto-rights of the federal states in the national legislation; iv) equal entitlement of federal states regarding negotiations on federal reforms; and v) a solidarity principle that ensures extraordinary system support during budgetary emergencies.

Federal framework results in close rating alignment...

The federal system under which the Länder operate is the most integrated among the European sub-sovereign systems we cover. This is driven by our assessments of 'full integration' for extraordinary support and bailout practices, ordinary budgetary support and fiscal equalisation, fiscal rules and oversight, and revenue and spending powers. We assess funding practices as 'medium integration' (see **Appendix I** for an overview).

The framework assessment for German Länder results in an **indicative downward rating adjustment of up to one notch** from Germany's AAA/Stable rating.

... with distance of up to one notch from the sovereign rating.

Extraordinary support and bail-out practices

Our framework assessment acknowledges a record of extraordinary financial support. Länder have been granted exceptional financial support from the federal government in five instances: Bremen (1992, 2006), Saarland (1992, 2005) and Berlin (2002). The court approved claims on the grounds of the solidarity principle, or *Bundestreueprinzip*, under which the Länder and the federal government are required to support each other in the event of a budgetary emergency. A claim by Berlin was denied in 2006, with the court arguing that the city-state was not in an extreme budgetary situation. However, the judges noted that federal emergency support would still be possible as a last resort if the budget and/or debt situation were later assessed as extreme. We consider the *Bundestreueprinzip* to be an implicit bail-out rule, as it requires the provision of federal support in times of budgetary stress.

Strong solidarity principle ensures extraordinary support

More recently, the federal government confirmed its role as a primary countercyclical shock absorber during the recent Covid-19 and energy crises. Over these years, the federal government financed most anti-crisis measures and direct grants to the Länder to mitigate the impact on their finances.

Federal government as shock absorber during recent crises

Ordinary budgetary support and fiscal equalisation

The federal financial equalisation system strongly aligns different fiscal capacities across the Länder. A reformed equalisation system took effect in 2020, with horizontal distribution occurring via deductions and top-ups to collected VAT, as well as vertical transfers from the federal government. The net effect of the system change is positive for all Länder as contributions from the federal government are greater under the reformed system.

Comprehensive fiscal equalisation system

Saxony-Anhalt is a net beneficiary with total transfers of EUR 3.1bn in 2023, or 25% of operating revenue. These stable and predictable transfers significantly strengthen Saxony-Anhalt's credit profile.

Saxony-Anhalt is a net beneficiary of the system

Funding practices

Länder governments have broad autonomy in their funding choices. There is no use of sovereign on-lending, and Länder can decide autonomously on their borrowing programmes within the framework of the debt brake. Short-term liquidity is available via access to shared liquidity among the Länder and the federal government, essentially eliminating liquidity risk. Basel III risk-weights for Länder debt securities are aligned at 0% with the central government. The Länder have a history of joint bond issuance, although not all the 16 Länder participated. Saxony-Anhalt has not participated in any of the past issues.

Autonomous borrowing, access to shared liquidity

² We use the term 'Land' (or collectively 'Länder') and 'state' interchangeably to refer to German federal states.

Fiscal rules and oversight

Since 2020, the Länder must comply with debt brakes under which they cannot run structural financing deficits unless, for example, hit by a severe economic downturn or a natural disaster.³ The federal debt brake caps the structural annual deficit of the central government at 0.35% of GDP. The German federal parliament used the emergency clause of the debt brake in response to the Covid-19 and energy crises. Separately, Saxony-Anhalt invoked the safeguard clause of its debt brake for 2020-2024 to implement support measures and credit authorisations to mitigate the impact of Covid-19. Borrowing under safeguard clauses comes with mandatory redemption rules.

Debt brake anchors borrowing; stability council conducts oversight

Compliance with the debt brake and Länder finances are monitored by the Stability Council. The Council was established in 2010 to monitor restructuring programmes and compliance with budgetary targets and comprises the finance ministers of each Land and the federal ministers of finance and economic affairs. If the Council determines that a Land is threatened with a budgetary emergency, it agrees on a restructuring programme with the affected authority.

In 2023, Germany's constitutional court ruled the Second Supplementary Budget Act 2021 of the federal government as unconstitutional. The ruling has implications for Länder governments, as they employed budgetary practices of using emergency credit authorisations to create budgetary reserves for spending in subsequent years. This is not in line with requirements set out in the constitutional court ruling which requires annual emergency credit authorisations to be linked to associated spending in each year. Saxony-Anhalt was also affected as it had set up a Covid-19 special fund of EUR 2bn in 2021, targeted at enhancing the state's long-term social resilience. The fund's spending between 2022 and 2027 was initially planned to be funded via a reserve using funds raised via emergency credit authorisations in 2021.

2023 constitutional court ruling with implications for emergency borrowings

To ensure the legal basis of its special fund in line with the constitutional court ruling, Saxony-Anhalt needs to declare a continued emergency budgetary situation and implement credit authorisations each year to fund spending under the special fund. This budgetary response does not lead to higher borrowing, as the special fund's aggregate envelope remains unchanged at EUR 2bn. The reserve of unspent funds raised in 2021 for the special fund was unwound in 2024.

Saxony-Anhalt's Covid-19 special fund envelope unchanged at EUR 2bn

Revenue and spending powers

The Länder and the federal government share a taxation authority and jointly decide on rates and revenue distribution for high-revenue common taxes (income and VAT). The latest reform of federal financial relations (in 2017) took effect in 2020 and resulted in a higher share of VAT revenue being distributed among the Länder. The VAT distribution fully compensates for the variation in taxing powers, replacing the previous process of horizontal payments between the Länder. Alongside common taxes, the central government and the Länder have separate taxation authorities for lower revenue-generating taxes.

Shared tax authority with the federal government

Under the reform agreed in 2017, the Länder have assigned limited executive and legislative rights to the central government in certain policy areas, including physical and digital infrastructure and the higher education system, in return for higher payments from the equalisation system. In line with earlier reforms (*Föderalismusreformen II*), we observe that the higher the share of common national legislation (*konkurrierende Gesetzgebung*), the more integrated the system becomes.

Federal reforms strengthen political coherence

Political coherence and multi-level governance

The German federal system is very predictable and supportive. Major reforms are discussed and agreed upon well in advance and in consultation with the Länder, which can directly influence national policymaking via the upper house of parliament.

³ The debt brake is a legal framework that prohibits structural deficits for the Länder from 2020 onwards; article 109 (3) of the Basic Law stipulates that the Länder may incur deficits in a case of, for example, a recession or a natural disaster provided they pass respective legislation at the state level.

Individual credit profile (ICP)

We assess Saxony-Anhalt’s ICP as ‘mid-range’ among German Länder. This places the Land’s indicative rating at AAA, given our assessment of very close integration with the federal government and our mapping table, see **Appendix II**.

ICP of ‘mid-range’ strength, leading to indicative AAA rating

Saxony-Anhalt’s individual credit strengths are: i) sound budgetary management, with operating performance benefitting from sizeable and predictable intergovernmental transfers; ii) strong debt and liquidity management, including via a commercial paper programme, assured access to external liquidity, and excellent capital market access and funding conditions; and iii) low contingent liability risks, with a well-funded pension fund with regular annual transfers reducing risks from uncovered pension liabilities.

Challenges are: i) a high debt level compared to peers; ii) limited revenue flexibility and moderate expenditure flexibility coupled with spending pressures; and iii) a modest socio-economic profile vis-à-vis peers.

The Covid-19 pandemic led to moderately higher debt and some budgetary deterioration. Budgetary performance recovered strongly in 2022, with the state increasing budgetary reserves, which were subsequently drawn down since to limit capital market borrowing. Thus, the state enters 2025 without meaningful budgetary reserves, necessitating strict expenditure control to comply with the authorities’ long-term fiscal plan and the state debt brake.

As tax revenue growth remains modest and expenditure pressures persist, the Land is moderately increasing its net borrowing in 2025 and 2026 using permissible forms of borrowing under the state debt brake, such as under the cyclical component or for financial transactions⁴, in line with many other states. The debt-to-operating-revenue ratio is projected to remain broadly stable.

Debt and liquidity

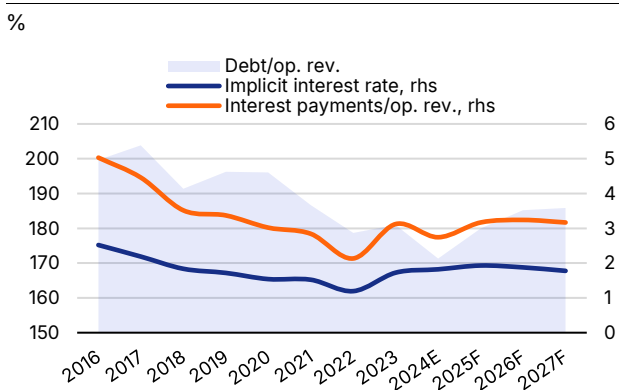
Debt burden and trajectory

Saxony-Anhalt’s debt is high compared to peers. The Land’s debt of around EUR 22bn amounted to 181% of operating revenue at YE 2023 (**Figure 3**). This is the fourth highest ratio among the Länder, and above the sector average of 143% in 2023. We expect the debt-to-operating-revenue ratio to remain broadly stable through 2027 at around 185%, as nominal debt and operating revenue are expected to grow at a broadly similar pace on average.

Relatively high debt, consolidation path before 2019

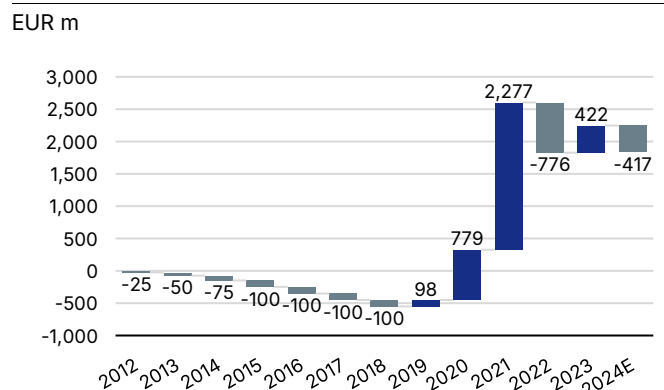
Since 2014, debt has declined from around 215% of operating revenue (EUR 20.3bn), in line with the state’s track record of budgetary consolidation with seven consecutive years up to 2019 of negative net borrowing of up to EUR -100m (**Figure 4**). In 2019, the recapitalisation of NordLB (Saxony-Anhalt holds a 6% stake) led to net borrowing of around EUR 100m.

Figure 3: Debt and interest burden



Sources: Land of Saxony-Anhalt, Destatis, Scope Ratings

Figure 4: Net borrowing



Sources: Land of Saxony-Anhalt, Destatis, Scope Ratings

⁴ These (in net terms) are excluded from debt brake limitations because they are neutral for the financial position as the borrowed funds are matched with corresponding assets.

In 2020 and 2021, net borrowing increased to around EUR 800m and EUR 2.3bn, respectively. In 2020, the state took on net borrowing to counteract the adverse impact of the pandemic on tax revenue and to compensate for higher spending. In 2021, net borrowing under the debt brake emergency provision was mostly used for the Covid-19 special fund.

Net borrowing in 2020-2021 due to Covid-19

In 2022, strong operating budgetary performance allowed the state to redeem EUR 776m of debt (EUR 25m incurred under debt brake emergency provisions and EUR 751m under the cyclical component). In 2023, net borrowing amounted to EUR 422m, with EUR 339m under the cyclical component, EUR 55m under the emergency clause, and EUR 28m for financial transactions. Since the Land had built up budgetary reserves, including for cyclical deviations, net borrowing under the cyclical component in 2023 was deducted from the reserve rather than raised in capital markets.

Budgetary reserves limited capital market borrowing in 2023

In 2024, and as a reaction to the 2023 constitutional court ruling, Saxony-Anhalt fully redeemed its 2021 emergency borrowings under its Covid-19 special fund and dissolved the corresponding reserve of EUR 1.49bn. Thus, annual borrowing for the Covid-19 special fund will reflect actual annual spending until 2027, assuming the Land's parliament decides on corresponding credit authorisations under the emergency clause of the debt brake. This is overall neutral for the Land's nominal debt burden, with the envelope of the special fund unchanged at EUR 2bn. Additionally, EUR 436m in net borrowing was planned for spending on financial transactions.

Covid-19 reserves dissolved in 2024, annual emergency credit authorisations for actual spending of the special fund

For 2025/26, net borrowing (net of the Covid-19 special fund) is projected to amount to around EUR 600m-800m per year, taken on under the cyclical component and for financial transactions. Borrowing under the cyclical component and financial transactions will depend on actual budgetary outcomes, namely tax receipts and actual spending on financial transactions.

Moderate net borrowing for 2025/26 in compliance with debt brake

Overall, we expect nominal debt to increase from EUR 22bn at YE 2023 to around EUR 24.9bn in 2027. As a share of operating revenue, debt should remain broadly stable at around 185%, as nominal debt increases are broadly matched by operating revenue growth.

Broadly stable debt ratio expected until 2027

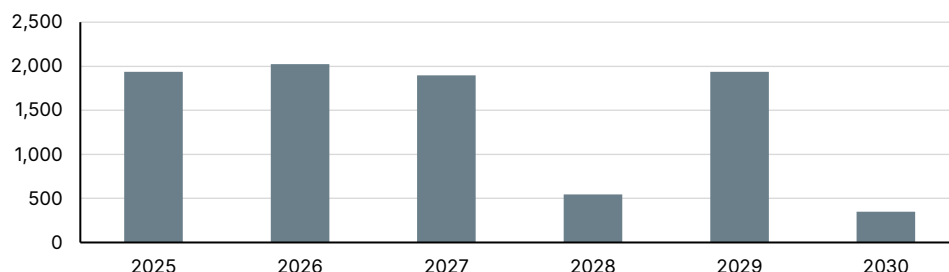
Debt profile and affordability

Risks associated with the relatively high debt stock are mitigated by conservative debt management and a low-risk debt profile. Debt service amounts to around EUR 2.0-2.5bn per year, or 10-15% of the outstanding debt stock, and has been declining in recent years in line with falling interest payments and a long average maturity of debt. The debt redemption profile is smooth over the next years, with average annual redemptions at around EUR 2bn (Figure 5).

Conservative debt management, pro-active funding approach

Figure 5: Debt redemption profile

EUR m, as of 30 September 2024



Source: Land of Saxony-Anhalt, Scope Ratings

Saxony-Anhalt's proactive debt management limits maturity, foreign-currency and interest-rate risks, while securing favourable funding conditions and lower net interest payments for the state. The average maturity of capital market debt is nine years. Saxony-Anhalt maintains a market presence in the USD and GBP markets, although the main funding currency is the euro with around 97% of debt outstanding denominated in EUR. Saxony-Anhalt employs derivatives to hedge its foreign-currency and interest-rate risk, such that after hedging, exposure to these risks is minimal. Overall, the need for hedging declined in recent years due to the Land's higher issuance of EUR-

Well managed interest-rate and foreign-currency risks

denominated, fixed-rate benchmark bonds, which made up around 44% of total issuance in 2023, up from around 25% in 2017-2019.

Saxony-Anhalt's interest payments are low reflecting the proactive debt management and the safe-haven status of the German Länder. The implicit cost of outstanding debt was 1.7% in 2023, up from 1.2% in 2022 but still in line with the peer average. After interest payments had declined to 2.1% of operating revenue in 2022, they rose to 3.1% in 2023 due to the overall tightening of financing conditions in the euro area. These levels remain below levels of 5% observed in 2016, raising financial flexibility (**Figure 3**). We expect the Land's interest payments to rise moderately and stay slightly above 3% of operating revenue in coming years.

Favourable funding conditions,
low interest payment burden

Contingent liabilities

We assess the level of Saxony-Anhalt's contingent liability risks as low. This is due to: i) the low level and low-risk nature of contractual guarantees; ii) limited contingency risk stemming from its shareholdings; and iii) a relatively smaller unfunded pension liability compared to peers and the Land's conservative and forward-looking management of its pension fund.

Low contingent liability risk

First, contractual guarantees stood at EUR 3.2bn in 2023 (26% of operating revenue), up from EUR 3.0bn in 2022. At YE 2023, only around EUR 1.9bn of these guarantees were utilised.

Guarantees of EUR 3bn, low risk
of crystallisation

There is a limited risk that the obligations of entities and projects guaranteed by Saxony-Anhalt will crystallise onto the Land's balance sheet. Around EUR 2.0bn, or two thirds of total contractual guarantees, are related to the wholly owned development bank Investitionsbank Sachsen-Anhalt. In line with other German development banks, we assess the risk stemming from the guarantee as very low, as the bank has ample capitalisation and liquidity, and runs a low-risk, development-oriented business model. Another 8% of guarantees are towards KfW (AAA/Stable), the federal development bank. The newest additions to the guarantee portfolio are in relation to the development of the High-Tech-Parc, accounting for around 1% of the portfolio.

Second, contingency risks stemming from Saxony-Anhalt's shareholdings are low. The state had a total of 48 shareholdings with a private legal form with direct ownership shares at YE 2022, 12 of which were majority-owned. The most notable shareholdings are the wholly owned Investitionsbank Sachsen-Anhalt, a 6.31%-stake in NordLB and two university hospitals (Magdeburg and Halle (Saale)).

Finally, and in line with other Länder, Saxony-Anhalt has unfunded pension liabilities due to pensions related to its civil servants which need to be paid out of regular future budgets. However, we view the risk related to these liabilities as relatively lower than for most other states due to Saxony-Anhalt's conservative management via its pension fund, with assets worth EUR 2.4bn as of September 2024. The fund covers a relatively larger share of pension liabilities compared to that of other states and receives over EUR 300m in annual transfers to ensure a 100% coverage for civil servants that entered after 2007, and at least partial coverage for civil servants that entered before 2007. The pension fund will allow the Land to smooth pension payment peaks.

Pension fund limits unfunded
liabilities, full coverage for civil
servants who entered after 2007

Liquidity position and funding flexibility

In line with all German Länder, we view liquidity management as sound due to comprehensive inter-year cash planning and the availability of numerous sources of liquidity, as well as available cash buffers. In 2023 and up to end-September 2024, the Land's average cash balance stood at around EUR 2bn.

Assured liquidity, commercial
paper programme as unique
feature

One differentiating, unique feature among German Länder is Saxony-Anhalt's commercial paper programme with an envelope of EUR 2bn, raising its short-term financing flexibility.

Cash flows, especially inflows, are prone to seasonal variability driven by the tax calendar. Additional continued access to liquidity to bridge intraday needs, if required, is available through credit facilities from major financial institutions. An additional source of liquidity is also provided by commercial cash transactions between the German Länder, which lend excess liquidity to each other. In combination with excellent market access, the risk of liquidity shortages is negligible.

Further, the Land broadened its capital market presence by issuing its first social bond of EUR 500m in 2023, with proceeds of the issue funding the Land's Covid-19 special fund and therefore its longer-term social resilience. We view the social bond issuance as credit positive, as it widened the Land's investor base.

First social bond issued in 2023

In 2024, Sachsen-Anhalt issued its first digital security, the first German Land to do so. The EUR 50m commercial paper had a term of two months and the issuance took place as part of the ECBs test phase for DLT-based financial transactions.

Issuance of the first digital security in 2024

Budget

Budgetary performance and outlook

Saxony-Anhalt displayed solid budgetary performance between 2016 and 2019, with operating margins of an average 12% of operating revenue (Figure 6), given an accommodative monetary and economic backdrop and consolidation efforts. Operating surpluses supported the Land's ability to cover interest payments and capital expenditure without the need for additional borrowing. As a result, the balance after capital accounts averaged 2% of total revenue between 2016-2019 (despite Saxony-Anhalt's EUR 198m contribution to the recapitalisation of NordLB in 2019).

Track record of solid budgetary performance

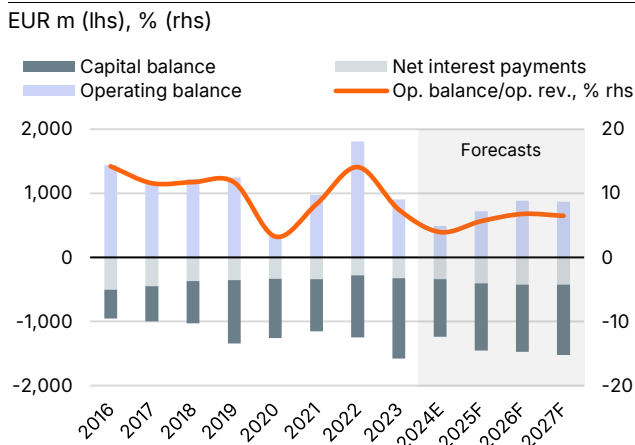
From 2020, the Covid-19 shock heavily impacted budgetary planning and fiscal outcomes. The Land's budget balance turned to a deficit (before debt movement) of 7.9% of total revenue in 2020 and 1.4% in 2021 (Figure 6). In 2021 the Land implemented its Covid-19 special fund, funded via EUR 2bn in emergency credit authorisations.

Covid-19 crisis led to fiscal deficits in 2020 and 2021

Due to debt brake provisions, borrowings taken on under the emergency safeguard clause need to be redeemed according to a mandatory schedule. This amounts to EUR 2.2bn to be redeemed in EUR 100m annual tranches from 2029.

Redemption of EUR 2.2bn emergency borrowing from 2029

Figure 6: Budgetary performance



Sources: Land of Saxony-Anhalt, Destatis, Scope Ratings

In 2022, the Land recorded a EUR 560m surplus before debt movement, or 4.1% of total revenue. The better-than-expected result allowed the state to redeem emergency borrowing net borrowing incurred under the cyclical component, and to allocate funds to its budgetary reserve.

A strong fiscal recovery in 2022...

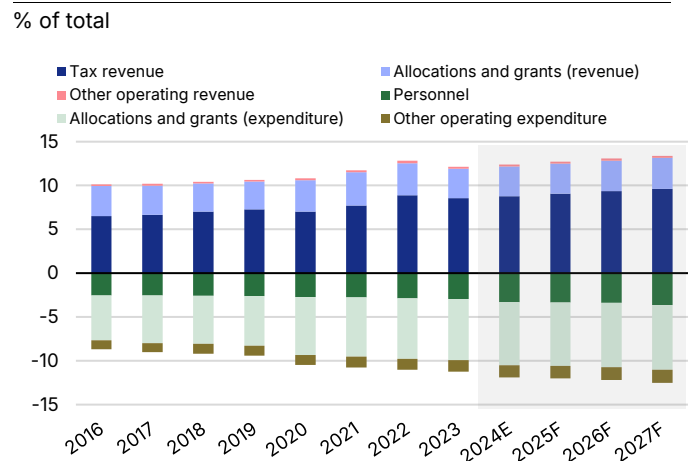
After the surplus in 2022, Saxony-Anhalt recorded a deficit of EUR 673m before debt movement in 2023, or 5.3% of total revenue. This was mainly due to a decline in operating revenue of over 5%, but also a capital balance with a record-high deficit.

...followed by a deficit in 2023.

For 2024, we expect a deficit before debt movement of 5.7% of total revenue. Tax revenue estimates were revised downwards in the October estimates and a latest census exercise also had moderate negative effects for Saxony-Anhalt, as the number of inhabitants relative to other states was revised down, with implications for distribution of shared taxes. Overall, we expect tax

Continued deficit expected for 2024...

Figure 7: Operating budget composition



Sources: Land of Saxony-Anhalt, Destatis, Scope Ratings

revenue to grow around 2.3% YoY, and operating revenue to grow by 2.2%. Operating expenditure is expected to increase by around 6%, given higher spending on personnel, grants and interest.

For the years 2025 to 2027, we expect continued deficits after capital accounts of an average 4.8% of total revenue. While budgetary performance will benefit from tax revenue growth of an average 3.2% per year, high operating and investment spending will persist. Spending pressures arise from higher spending on personnel, not least due to the increase in salaries of employees agreed in December 2023 and corresponding pay rise for civil servants, higher operating transfers to municipalities and high planned capital expenditure, partly also due to the investment needs in coming years linked to the development of the high-tech park.

Considering these budgetary pressures, financial planning will need to enforce tight expenditure control. The state's commitment to fiscal consolidation, conservative budget management and low debt service costs will help mitigate budgetary risks and enable the state to follow its long-term fiscal consolidation strategy.

Revenue flexibility

Saxony-Anhalt's revenue flexibility is very limited, as almost the entirety of operating revenue stems from shared taxes and intergovernmental transfers. In line with constitutional arrangements, the Länder receive shared taxes, largely revenues from personal income taxes, VAT and corporate taxes. These revenues are initially collected by regional tax offices but are later redistributed at a national level in accordance with revenue-sharing agreements and additional transfer mechanisms. While the revenue base of the state is inflexible, the stable and predictable nature of most of the revenue flows is a key credit strength for Saxony-Anhalt.

Expenditure flexibility

Saxony-Anhalt's flexibility to adjust expenditure is moderate, like for all Länder, due to its rigid structure, since minimum legislative requirements and the socially sensitive nature of several expenditure items make most items difficult to trim. At the same time, Saxony-Anhalt's above-average flexibility benefits from a high share of investment relative to total expenditure at an average 12.8% between 2019 and 2023, as well as a relatively lower share of personnel spending of around 26.5% of operating expenditure (including around 4% of operating expenditure in pension spending (**Figure 7**) which is much lower than the Länder average, a common feature among Eastern German states).

Economy

Wealth levels and economic resilience

Saxony-Anhalt's economic profile is modest via-a-vis peers, with a relatively lower GDP per capita than the German average, a small economic size with a contribution to national GDP of around 2%, a higher unemployment rate and lower growth potential than peers, mostly driven by adverse demographic trends. In general, the federal equalisation system largely delinks regional economic and tax revenue performance.

Wealth levels are converging to the German average, with GDP per capita standing at EUR 35,911 in 2023, or 73.7% of the national average, up from 69% in 2018 (**Figure 8**). This was particularly supported by real GDP growth rates overperforming in 2019-2020 and 2022 on average. Net migration into Saxony-Anhalt from other Länder has been positive since 2014, reversing a former trend of negative net migration. Finally, the planned construction of a large chip manufacturing plant by Intel, which would boost regional output and employment, has been put on hold until at least 2026, with a risk of permanent cessation of the project thereafter due to Intel's planning.

... and the remainder of the project horizon.

Budgetary pressures mitigated by track record in consolidation

Very limited revenue flexibility, stable and predictable revenue base

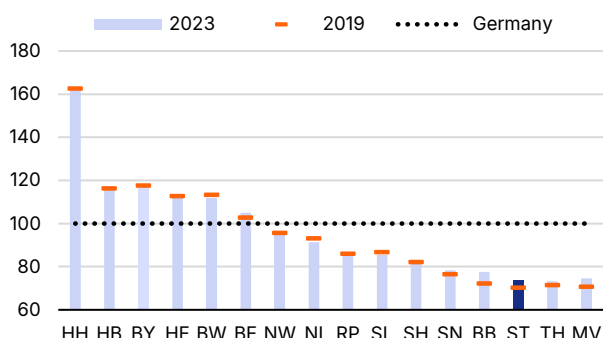
Moderate expenditure flexibility, but above average

Modest economic profile...

... but positive momentum in several areas.

Figure 8: GDP per capita

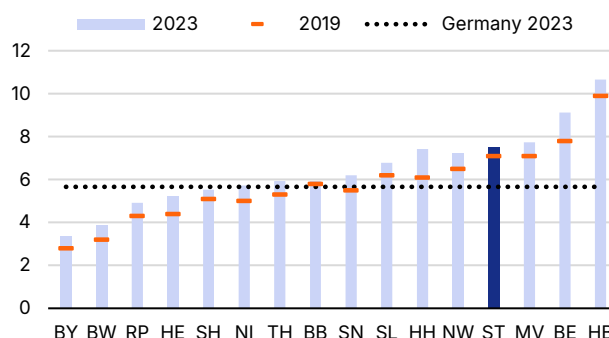
% of national average



Sources: Statistische Ämter des Bundes und der Länder, Scope Ratings

Figure 9: Unemployment rate

%



Sources: Destatis, Scope Ratings

The Land's regional economic structure is relatively more skewed towards pharmaceuticals (around 20% of industrial gross value added), basic metals (9%) and agriculture (2.6% of total gross value added). This makes the economy less prone to cyclical swings, but also points towards a greater exposure to the energy transition, which particularly affects energy-intensive industry. This is reflected in the decline in real GDP in 2023 of 1.4% YoY, versus a 0.3% drop in Germany. In the first half of 2024, real GDP declined by 0.5% YoY. For Germany, we expect a continued subdued economic performance in 2025 with growth only around 0.1%.

Economic structure relatively more exposed to energy shock

Economic sustainability

In the medium term, we expect Saxony-Anhalt to grow at a slower pace than Germany, which is mostly driven by adverse demographics. The state's workforce has declined for years, with a drop in its working-age population (persons aged 15-66) of around 200,000 persons, or 12.6%, between 2010 and 2022. In the years to 2030, official population projections estimate the working-age population to shrink further by an annual 1.2% on average. This contributes negatively to potential growth, which we project at an average 0.2% for Saxony-Anhalt until 2030, against 0.7% for Germany as a whole.

Adverse demographics weigh on potential growth

In line with other Länder, the labour market has been robust, but the unemployment rate remains the fourth highest among Länder, and the regional labour market slowed in 2023. The unemployment rate stood at 7.1% at YE 2022, back at its pre-pandemic level, before rising to 7.5% in 2023, where it also ended in November 2024 (Figure 9).

Labour markets are slowing but remain robust

Governance

Governance and financial management

The CDU, SPD and FDP formed a coalition with Dr. Rainer Haseloff (CDU) as minister president in 2021. We expect policy-continuity until the next scheduled elections in 2026.

Three-party coalition since 2021

The state government's track record of formulating and implementing fiscal policy targeted at long-term fiscal sustainability and its commitment to the debt brake have been highlighted since the Covid-19 shock in 2020, with the state reacting with multiple supplementary budgets. At the same time, authorities will face the challenge of balancing future budgets via tightly controlling spending. For example, consolidation needs of over EUR 1bn ('globale Minderausgaben') annually have been identified in the financial plan for 2025-2027.

Administration committed to fiscal consolidation

Finally, we deem Saxony-Anhalt's debt and liquidity management as comprehensive and effective, in line with the high governance standards of the German Länder.

Environmental and social considerations

Environmental factors and resilience

In response to environmental risks, the state's adopted climate strategy spells out eight concrete and measurable targets for 2030 in support of the central government's climate strategy, with a target of climate net neutrality by 2045.

Climate strategy with concrete emission reduction targets

Saxony-Anhalt's primary target is to reduce regional annual greenhouse gas emissions by 5.65m tonnes of CO₂ equivalents between 2021 and 2026, and by 10m tonnes by 2030 (emissions were around 31m tonnes of CO₂ equivalents in 2021). The strategy also targets climate neutrality in line with the nationwide goal by 2045. Further, the share of renewable energy is to be increased, to 100% of gross electricity consumption by 2030, from 76% in 2021, and to 45% of primary energy consumption, from 26% in 2021.

Saxony-Anhalt is exposed to both physical and transition environmental risks. A prominent risk relates to flooding, as highlighted by heavy rainfall and flooding catastrophes in 2002 and 2013. Also more recently, heavy rainfall led to flooding in some areas in Saxony-Anhalt since late December 2023. In response to past crises, the Land's flooding protection has been steadily improved, enhancing future resilience. After the 2013 flooding, the central and state governments set-up and co-financed a recovery fund of EUR 8bn, highlighting the federal solidarity principle.

Exposure to environmental risks, severely mitigated by federal solidarity principle

Saxony-Anhalt is exposed to transition risks over coming years on its path to climate neutrality by 2045. As a lignite coal region, the region is gradually exiting coal production and closing coal energy plants, with a full exit by 2038. A full exit from electricity production from coal would significantly reduce carbon emissions and support the state's emissions reduction path. The state's largest coal plant is scheduled to be closed in 2034. The central government is supporting the region's coal exit via significant grants in support of the economic transition. These are particularly relevant also due to a high share of energy-intensive industries, such as pharmaceuticals, basic metals and cement.

Federal grants support gradual transition away from coal

Finally, to enhance the sustainability of its financial assets, for example assets held in its pension fund, Saxony-Anhalt employs an active approach via its ownership shares in listed companies.

Social factors and resilience

The main risk related to social factors is the state's shrinking and ageing population. Saxony-Anhalt has the highest share of persons aged 66 and older relative to the total population among German Länder, at around 28%, against the German average of 21%. Due to ageing, the state's population has been shrinking gradually for years, to around 2.18m people in 2023, from 2.24m in 2013.

A shrinking and ageing population is the main social risk

The main budgetary risk linked to this trend is the state's allocation from the financial equalisation system, which is directly linked to population. Thus, the relatively quicker ageing of the state's society leads to annual losses relative to other states of EUR 60m. The result of the latest census also had a negative effect for Saxony-Anhalt but is relatively limited compared to the effect for other Länder. Further, a higher share of older people increases healthcare costs. Finally, the economy is facing a shortage of young and skilled labour, a trend that the state aims to address with its 'Fachkräftesicherungspakt', a main element of the state's economic policy to attract and retain skilled workers.

Finally, two main responsibilities linked to social factors are healthcare and education. In addition to its regular budgetary activities, the state is enhancing its future social resilience via its Covid-19 special fund of EUR 2bn, linked to its social bond framework of 63 measures to be implemented until 2027.

Appendix I. Institutional Framework Assessment

To assess the institutional framework, we apply a Qualitative Scorecard (QS1) centred around 6 components. We assess each analytical component on a five-point scale ranging from a score of 0 for 'low' integration to 100 for 'full' integration. The institutional framework score, ranging from 0 to 100, is calculated as a simple average of these assessments. The score is then used to determine a rating range from the rating anchor level, within which the sub-sovereign's rating can be positioned.

Our assessment of intergovernmental integration between the Länder and the Federal Republic of Germany (AAA/Stable) results in an indicative **downward rating range of up to one notch** from the German sovereign, within which the Länder can be positioned according to their individual credit strengths.

Institutional Framework scorecard (QS1)

| Analytical component | Full integration (100) | Strong integration (75) | Medium integration (50) | Some integration (25) | Low integration (0) |
|--|------------------------|-------------------------|-------------------------|-----------------------|---------------------|
| Extraordinary support and bail-out practices | ● | | | | |
| Ordinary budgetary support and fiscal equalisation | ● | | | | |
| Funding practices | | ● | | | |
| Fiscal rules and oversight | ● | | | | |
| Revenue and spending powers | ● | | | | |
| Political coherence and multilevel governance | ● | | | | |
| Integration score | 92 | | | | |
| Downward rating range | 0-1 | | | | |

| Institutional framework score | 100 > x ≥ 90 | 90 > x ≥ 80 | 80 > x ≥ 70 | 70 > x ≥ 60 | 60 > x ≥ 50 | 50 > x ≥ 40 | 40 > x ≥ 30 | 30 > x ≥ 20 | 20 > x ≥ 10 | 10 > x ≥ 0 |
|-------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Indicative rating range | 0-1 | 0-2 | 0-3 | 0-4 | 0-5 | 0-6 | 0-7 | 0-8 | 0-9 | 0-10 |

Appendix II. Individual Credit Profile

| Risk pillar | Analytical component | Assessment | | |
|--------------------|--|------------|-----------|--------|
| Debt and liquidity | Debt burden & trajectory | Stronger | Mid-range | Weaker |
| | Debt profile & affordability | Stronger | Mid-range | Weaker |
| | Contingent liabilities | Stronger | Mid-range | Weaker |
| | Liquidity position & funding flexibility | Stronger | Mid-range | Weaker |
| Budget | Budgetary performance & outlook | Stronger | Mid-range | Weaker |
| | Revenue flexibility | Stronger | Mid-range | Weaker |
| | Expenditure flexibility | Stronger | Mid-range | Weaker |
| Economy | Wealth levels and economic resilience | Stronger | Mid-range | Weaker |
| | Economic sustainability | Stronger | Mid-range | Weaker |
| Governance | Governance and financial management | Stronger | Mid-range | Weaker |

| Additional environmental and social factors | Assessment | | |
|---|-----------------|-----------|-----------------|
| Environmental factors and resilience | Positive impact | No impact | Negative impact |
| Social factors and resilience | Positive impact | No impact | Negative impact |

| | |
|---------------------|----|
| ICP score | 45 |
| Indicative notching | 0 |

Appendix III. Mapping table

We derive the indicative sub-sovereign rating by mapping the result of the institutional framework assessment (i.e. the indicative rating range) to the ICP score.

For Saxony-Anhalt, this results in an indicative rating aligned with the sovereign rating of AAA. No additional considerations apply.

| Institutional framework assessment | | Individual credit profile score | | | | | | | |
|------------------------------------|-----------------------|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Score | Downward rating range | 100 > x ≥ 80 | 80 > x ≥ 70 | 70 > x ≥ 60 | 60 > x ≥ 50 | 50 > x ≥ 40 | 40 > x ≥ 30 | 30 > x ≥ 20 | 20 ≥ x > 0 |
| 100 > x ≥ 90 | 0-1 | 0 | 0 | 0 | 0 | 0 | 0 | -1 | -1 |
| 90 > x ≥ 80 | 0-2 | 0 | 0 | -1 | -1 | -1 | -1 | -2 | -2 |
| 80 > x ≥ 70 | 0-3 | 0 | -1 | -1 | -1 | -2 | -2 | -3 | -3 |
| 70 > x ≥ 60 | 0-4 | 0 | -1 | -1 | -2 | -2 | -3 | -3 | -4 |
| 60 > x ≥ 50 | 0-5 | 0 | -1 | -1 | -2 | -2 | -3 | -4 | -5 |
| 50 > x ≥ 40 | 0-6 | 0 | -1 | -1/-2 | -2/-3 | -2/-3 | -3/-4 | -4/-5 | -6 |
| 40 > x ≥ 30 | 0-7 | 0 | -1/-2 | -1/-2 | -2/-3 | -3/-4 | -4/-5 | -5/-6 | -7 |
| 30 > x ≥ 20 | 0-8 | 0 | -1/-2 | -2/-3 | -3/-4 | -4/-5 | -5/-6 | -6/-7 | -8 |
| 20 > x ≥ 10 | 0-9 | 0 | -1/-2 | -2/-3 | -3/-4 | -4/-5 | -5/-6 | -7/-8 | -9 |
| 10 > x ≥ 0 | 0-10 | 0 | -1/-2 | -2/-3 | -3/-4 | -4/-5 | -5/-6 | -7/-8 | -9/-10 |

Appendix IV. Statistical table

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025F | 2026F | 2027F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Budgetary performance (EUR m) | | | | | | | | | |
| Operating revenue | 10,646 | 10,825 | 11,729 | 12,829 | 12,136 | 12,398 | 12,734 | 13,067 | 13,376 |
| Operating revenue growth, % | 2.2% | 1.7% | 8.3% | 9.4% | -5.4% | 2.2% | 2.7% | 2.6% | 2.4% |
| Tax revenue | 7,281 | 7,014 | 7,730 | 8,885 | 8,571 | 8,764 | 9,064 | 9,360 | 9,632 |
| Allocations and grants | 3,173 | 3,600 | 3,776 | 3,660 | 3,339 | 3,406 | 3,440 | 3,474 | 3,509 |
| Other operating revenue | 192 | 211 | 223 | 283 | 226 | 228 | 230 | 233 | 235 |
| Operating expenditure | 9,399 | 10,475 | 10,753 | 11,021 | 11,232 | 11,908 | 12,014 | 12,181 | 12,508 |
| Operating expenditure growth, % | 2.3% | 11.4% | 2.7% | 2.5% | 1.9% | 6.0% | 0.9% | 1.4% | 2.7% |
| Personnel | 2,636 | 2,741 | 2,773 | 2,873 | 2,953 | 3,329 | 3,335 | 3,401 | 3,625 |
| Allocations and grants | 5,647 | 6,589 | 6,734 | 6,906 | 6,965 | 7,174 | 7,246 | 7,318 | 7,392 |
| Other operating expenditure | 1,116 | 1,144 | 1,246 | 1,241 | 1,313 | 1,405 | 1,433 | 1,462 | 1,491 |
| Operating balance | 1,247 | 351 | 976 | 1,808 | 904 | 489 | 720 | 885 | 868 |
| Interest received | 5 | -9 | -7 | -8 | 56 | 60 | 7 | 7 | 6 |
| Interest paid | 359 | 327 | 333 | 274 | 379 | 400 | 410 | 430 | 430 |
| Net interest paid | 354 | 336 | 340 | 282 | 323 | 340 | 403 | 423 | 424 |
| Current balance | 893 | 15 | 636 | 1,526 | 581 | 149 | 317 | 462 | 444 |
| Capital balance | -989 | -920 | -812 | -966 | -1,254 | -900 | -1,050 | -1,050 | -1,100 |
| Balance before debt movement | -95 | -905 | -176 | 560 | -673 | -751 | -733 | -588 | -656 |
| New borrowing (credit market) | 5,250 | 4,726 | 6,493 | 908 | 4,356 | 4,007 | 5,022 | 4,671 | |
| Debt redemption (credit market) | 5,152 | 4,209 | 4,397 | 2,032 | 4,202 | 4,733 | 3,342 | 3,392 | |
| Net borrowing | 98 | 517 | 2,097 | -1,124 | 154 | -726 | 1,680 | 1,279 | |
| Debt (EUR m) | | | | | | | | | |
| Direct debt | 20,894 | 21,221 | 21,901 | 22,925 | 21,967 | 21,241 | 22,920 | 24,199 | 24,855 |
| Guarantees | 1,834 | 2,571 | 2,770 | 2,997 | 3,172 | 3,172 | 3,172 | 3,172 | 3,172 |
| Overall debt risk (direct debt plus guarantees) | 22,728 | 23,792 | 24,671 | 25,922 | 25,139 | 24,413 | 26,092 | 27,371 | 28,027 |
| Financial ratios | | | | | | | | | |
| Debt/operating revenue, % | 196.3% | 196.0% | 186.7% | 178.7% | 181.0% | 171.3% | 180.0% | 185.2% | 185.8% |
| Debt/operating balance, years | 16.8 | 60.5 | 22.4 | 12.7 | 24.3 | 43.4 | 31.8 | 27.3 | 28.6 |
| Interest payments/operating revenue, % | 3.4% | 3.0% | 2.8% | 2.1% | 3.1% | 2.7% | 3.2% | 3.2% | 3.2% |
| Implicit interest rate, % | 1.7% | 1.5% | 1.5% | 1.2% | 1.7% | 1.9% | 1.8% | 1.8% | 1.7% |
| Operating balance/operating revenue, % | 11.7% | 3.2% | 8.3% | 14.1% | 7.4% | 3.9% | 5.7% | 6.8% | 6.5% |
| Balance before debt movement/total revenue, % | -0.8% | -7.9% | -1.4% | 4.1% | -5.3% | -5.7% | -5.5% | -4.3% | -4.6% |
| Transfers and grants/operating revenue, % | 29.8% | 33.3% | 32.2% | 28.5% | 27.5% | 27.5% | 27.0% | 26.6% | 26.2% |
| Capital expenditure/total expenditure, % | 14.5% | 12.6% | 10.6% | 13.1% | 13.4% | 11.2% | 13.1% | 13.6% | 13.6% |
| Economy and demographics | | | | | | | | | |
| Nominal GDP, EUR m | 64,747 | 64,286 | 67,830 | 74,502 | 78,380 | | | | |
| GDP per capita, EUR | 29,410 | 29,385 | 31,187 | 34,208 | 35,911 | | | | |
| GDP per capita, % of national GDP per capita | 70.3% | 71.8% | 71.7% | 73.9% | 73.7% | | | | |
| Real GDP growth, % | 1.6% | -2.2% | 1.3% | 2.0% | -1.4% | | | | |
| Population, '000s | 2,195 | 2,181 | 2,169 | 2,187 | 2,180 | | | | |
| Unemployment rate, % labour force | 7.1% | 7.7% | 7.3% | 7.1% | 7.5% | | | | |

Source: Land of Saxony-Anhalt, Destatis, Statistische Ämter des Bundes und der Länder, Scope Ratings

Lead Analyst

Julian Zimmermann
+49 69 6677389-89
j.zimmermann@scoperatings.com

Associate Analyst

Elena Klare
+49 69 6677389-21
e.klare@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

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Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
scoperatings.com

Phone: +44 20 7824 5180
Fax: +49 30 27891-100
info@scoperatings.com



Bloomberg: RESP SCOP
[Scope contacts](#)

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