State of Saxony-Anhalt

RATING Aa1, AA-, NR

Overview
Formerly part of East Germany, the central state of Saxony-Anhalt has a population of 2.44m (at year-end 2008, 3% of the total) and a land area of 20,445 sq km (5.7% of the total). Despite growing chemical and clean-tech industries, it ranks only 12th in Germany by GDP (€52.8bn in 2008) and is still heavily dependent on federal transfers and equalisation payments, which account for more than one-third of annual revenues. Per capita GDP stood at €22,427 in 2008, the fourth-lowest level in the country.

Debt Issuance (2005-10)

Funding Programme 2010

Key Recent Rating Agency Commentary

Standard & Poor’s
AA-, stable outlook

Strengths
• Strong system support from German fiscal equalisation payments and additional solidarity pact II transfers
• Management’s medium-term commitment to fiscal consolidation and debt reduction
• Very good access to liquidity and sophisticated debt management

Weaknesses
• Economic recession is causing large medium-term budget deficits after capital expenditures
• Relatively high debt burden in an international context
• Limited revenue growth likely over the next decade due to the declining population trend and the phase-out of solidarity pact II payments

The stable outlook reflects S&P’s view that Saxony-Anhalt will return to balanced budgets following the economic recession. Saxony-Anhalt’s management is in S&P’s opinion willing to tackle the fiscal challenges ahead and will continue to take restructuring measures to reduce the state’s costs over the medium term. The recently introduced balanced structural budget rule exerts additional external pressure on the state to structurally balance its budget until 2019. However, in S&P’s opinion due to the state’s large debt level, significant debt reduction will only proceed at a very moderate rate.

The ratings could come under pressure if the state fails to continue its consolidation program once the economic cycle has stabilised. The ratings could be lowered if the current cyclical deficit turns into an extended structural deficit. The ratings could improve if S&P observes continuing tight expenditure-side cost-control measures and balanced budgets after capital expenditures over several years, leading to a declining trend in the currently high debt level.

Investor Base by Region

Outstanding Issuance by Currency

Outstanding Issuance by Type

Financing supranationals and agencies

Source: Ministry of Finance, Saxony-Anhalt