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## Supplementary Analysis: Saxony-Anhalt (State of)

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## Supplementary Analysis:

# Saxony-Anhalt (State of)

This report supplements our research update "State of Saxony-Anhalt Affirmed At 'AA+/A-1+' On Very Strong Budgetary Performance; Outlook Stable," published on Oct. 18, 2013. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

## Rationale

The ratings on the State of Saxony-Anhalt reflect our view of the predictable and supportive German institutional framework and the state's "very strong" budgetary performance. The ratings also benefit from the wealthy regional economy and our "positive" view of the state's financial management. While we consider the state's contingent liabilities to be moderate, we view the overall liquidity position as neutral. We factor in the state's strong external market access to liquidity. Saxony-Anhalt's low budgetary flexibility and debt burden, however, weigh on our assessment of its credit strength. We classify both the state's tax-supported debt and its unfunded pension liabilities as very high.

### Issuer Credit Rating

AA+/Stable/A-1+

Standard & Poor's considers the German intergovernmental system to be one of the strongest worldwide. The ratings on Saxony-Anhalt are consequently supported by the very predictable and supportive institutional framework in Germany. Saxony-Anhalt is a recipient of the system, receiving both fiscal equalization payments and special supplementary grants.

These equalization receipts mirror the state's weaker economy when compared nationally. In an international context, the state's economy is however strong. Saxony-Anhalt's GDP per capita at €22,930 is broadly in line with its Eastern German peers, and equates to about 71% of the German average. We expect growth rates for Saxony-Anhalt to be broadly in line with those for Germany, at 0.4% and 1.4% for 2013 and 2014, respectively. Additionally, the state faces high--but decreasing--regional unemployment. At the end of third-quarter 2013, Saxony-Anhalt's unemployment stood at 10.3%, 3.7 percentage points higher than the German average and slightly above the Eastern German average. Due to a slowly decreasing population, the state's management faces budgetary challenges, as transfers decrease. The lower transfers for regional development also put pressure on the budget.

We believe Saxony-Anhalt's management is conscious of these challenges and is addressing them. The ratings thus benefit from our positive view of the state's management, reflecting its firm and credible commitment to reduce debt and continue its consolidation path. We regard debt reduction as achievable, given strong tax revenues and the state's tight expenditure controls, and despite political debates on the timing and the scale of the consolidation efforts. While budgetary flexibility is generally low for German states, because they have only limited influence on their revenues, we believe Saxony-Anhalt can address structural challenges by reining in capital expenditures, while also controlling operating costs.

As a result of high tax revenues and consolidation measures, we view the state's budgetary performance as very strong. Results for 2012 showed a very strong performance, with an operating surplus of 9% of adjusted operating revenues and an almost 1% surplus after capital accounts. This performance stems from strong 2012 tax revenues and exceeds what we estimated in our base-case scenario last year. We expect Saxony-Anhalt's average operating performance in 2013-2015 to be slightly above 6% of adjusted operating revenues, compared with about 5% in 2010-2012. We also capture the state's very stable operating performance in our forecast of a five-year average of almost 7% over our 2011-2015 forecast horizon.

Due to strong operating surpluses, we expect the state to record surpluses after capital accounts in the coming years. Still, the average deficit after capital accounts as a percentage of total adjusted revenues in 2010-2012 was almost 3%, weighed down by the sharp 2010 deficit. In our base case, we anticipate that the coming 2013-2015 three-year and the 2011-2015 five-year averages will show small surpluses after capital accounts, broadly in line with our expectation in 2012. In our opinion, the flooding of the Elbe River in June 2013 does not have a major impact on Saxony-Anhalt's budget. We understand infrastructure rebuilding efforts can be financed via a special national fund, resulting mainly in pass-through items on the state's budget.

We expect the state to gradually reduce its nominal debt outstanding, owing to its surpluses after capital accounts. The debt burden, though, will likely remain broadly stable over the coming years. We project the state's tax-supported debt to stay at about 225% of consolidated operating revenues in 2015, which is very high in an international comparison. In addition, Saxony-Anhalt's unfunded pension liabilities limit the state's future financial flexibility. These liabilities represent roughly 75% of operating revenues in 2012, which is also high by international standards.

The ratings also take into account Saxony-Anhalt's moderate contingent liabilities, stemming from its minority ownership of Norddeutsche Landesbank Girozentrale, among others. Other state guarantees outstanding mainly consist of grants for special purpose banks and their onlending activities. Yearly losses from these guarantee programs are low and carry only minor financial risks for the state, in our view.

Lastly, we consider it sufficiently likely that Saxony-Anhalt would benefit from extraordinary credit support from the central government or other German states in a stress situation. We therefore factor an additional notch of support into our ratings. The federal or other states' treasuries could quickly invest their cash holdings in Saxony-Anhalt without legal approval. Such a cash investment would not qualify as a state transfer, which we would define as extraordinary systemic support.

### **Liquidity**

We assess Saxony-Anhalt's liquidity position as neutral for the ratings, according to our criteria. The state's strong access to external liquidity mitigates its low coverage of debt service by available cash and committed lines. Cash inflows from taxes and transfers are fairly predictable and have followed a steady pattern over the past few years. Saxony-Anhalt's debt service is relatively high compared with other local and regional governments worldwide, at about 30% of operating revenues (excluding commercial paper [CP] refinancing). We think it will remain at about this level, although nominal debt levels are set to decrease slightly over the next few years.

We take into account Saxony-Anhalt's average free cash and liquid assets, as well as two contractually agreed credit lines totaling about €200 million, which we regard as committed and undrawn. The state's average volume of liquidity,

as defined per our criteria, excluding its use of CP, equates to about 75% of 2014 debt service. For the coming years, we expect this ratio to remain fairly stable. The state reported on average of about €1.5 billion in cash over the past 12 months. As Saxony-Anhalt must repay up to €2.3 billion in 2014 (with total debt service including interest payments in 2014 equating to about €2.9 billion), the state will continue to depend on its access to functioning capital markets to refinance its debt.

We believe the state's strong access to external funding through excellent access to financial markets supports its liquidity. Saxony-Anhalt regularly taps international capital markets. Furthermore, its well-perceived CP program rated 'A-1+' and voluntary liquidity exchange mechanisms between German states and the federal government support Saxony-Anhalt's liquidity position.

## **Outlook**

The stable outlook reflects our view that Saxony-Anhalt will continue its consolidation efforts and achieve a small positive balance after capital accounts over the coming two years. We also expect a gradual reduction in the state's nominal debt, although we think debt will remain very high.

We could consider lowering the ratings on Saxony-Anhalt within the next 24 months, if in line with our downside scenario, economic challenges led to rising unemployment. Furthermore, lower revenues than we currently expect could weaken the state's budget. If Saxony-Anhalt's management didn't respond to such a development with additional cost-cutting measures, for instance, we think the state could face persistent deficits after capital accounts and a weakening liquidity position.

We could raise the ratings if we observed a lower dependency on transfers as a result of an improved regional economic profile, at or closer to the German average. This, combined with a stronger internal liquidity position, resulting in higher debt-service coverage, could support ratings upside.

However, we currently view both our downside and upside scenarios as highly unlikely.

## **Institutional Framework: Supportive And Predictable**

Standard & Poor's considers the German equalization system to be one of the most predictable and supportive systems worldwide. We view this system as a central credit strength for German states. Intergovernmental fiscal relations in Germany feature a strong horizontal and vertical fiscal equalizing scheme between the federal government and the states. Tax allocation and mutual support is based on a three-stage approach:

- First, shared taxes are allocated to the state governments;
- Second, taxes are subject to a horizontal redistribution between the states (interstate equalization); and
- Third, the federal government carries out vertical equalization, consisting of additional transfers to states that have above-average financial needs. Horizontal equalization payments and some of the vertical payments depend on the relative revenues of each of the 16 German states in any given year and aim to equalize the tax revenues per capita of the population for each German state. This protects individual states from tax revenue declines in excess of the national average. At the same time, the system significantly reduces the financial capacities of those states with

above-average tax revenues, while improving the financial capacities for states with below-average tax revenues.

The current tax-sharing and equalization system is set until 2019. Any reform must be consensus-based because both the federal parliament ("Bundestag") and the representatives of the 16 German states in the upper house ("Bundesrat") must approve amendments to the law on fiscal equalization. Consequently, we regard material changes to the existing equalization system before 2019 as unlikely.

Still, the largest contributor (in total terms) to the fiscal equalization system, Bavaria, has filed a lawsuit with the German constitutional court against the equalization system, claiming it does not contain proper incentive structures and is too burdensome for the contributing states. Hesse joined the lawsuit in 2013. However, any court decision against the current system would trigger, in our understanding, a renegotiation requirement among the states, which could take several years to finalize. In 2012, there were three contributors and 13 recipient states.

Like all eastern states, Saxony-Anhalt has been a recipient state since the eastern states' full integration into the transfer mechanism. Saxony-Anhalt depends on the German intergovernmental system as it not only receives transfers from peer states but also receives special supplementary grants from the central government according to the "solidarity pact II" agreement. These payments aim to markedly reduce the infrastructure gap between eastern and western Germany. The payments decline according to a predefined scheme and will finally run out in 2019. The agreement provides eastern states with pronounced planning reliability, which Standard & Poor's views as a significant credit strength.

Standard & Poor's is convinced that the timeliness of debt service payments ultimately depends on the creditworthiness of the state government itself, as confirmed by the national constitutional court in autumn 2006 (see "S&P Sees Approach To German States Ratings Confirmed By Court; German States' Ratings Affirmed," published on Oct. 19, 2006, on RatingsDirect). We believe that other states and the federal government would grant extraordinary credit support to a German state in liquidity need. In turn, we factor into the ratings on German states one notch of uplift from their indicative credit level.

Since 2009, German states have been required to structurally balance their budgets until 2020. After this date, German states will be allowed to report deficits only if they are cyclical or result from emergency situations. Over the transition period from 2011 to 2019, five German states, including Saxony-Anhalt, will receive additional consolidation support transfers. Saxony-Anhalt receives €80 million annually for political reasons, even though it is not considered to be in budgetary hardship. The 2009 legislation limiting deficits in our opinion exerts additional external influence on Saxony-Anhalt to implement structural budget measures to prepare for structurally balanced accounts by 2020.

Standard & Poor's views the deficit limit as a significant step forward in the long-term sustainability of fiscal policies in German states. Moreover, a stability council has been established to foster fiscal monitoring and create an early warning system to flag budgetary crises at state level.

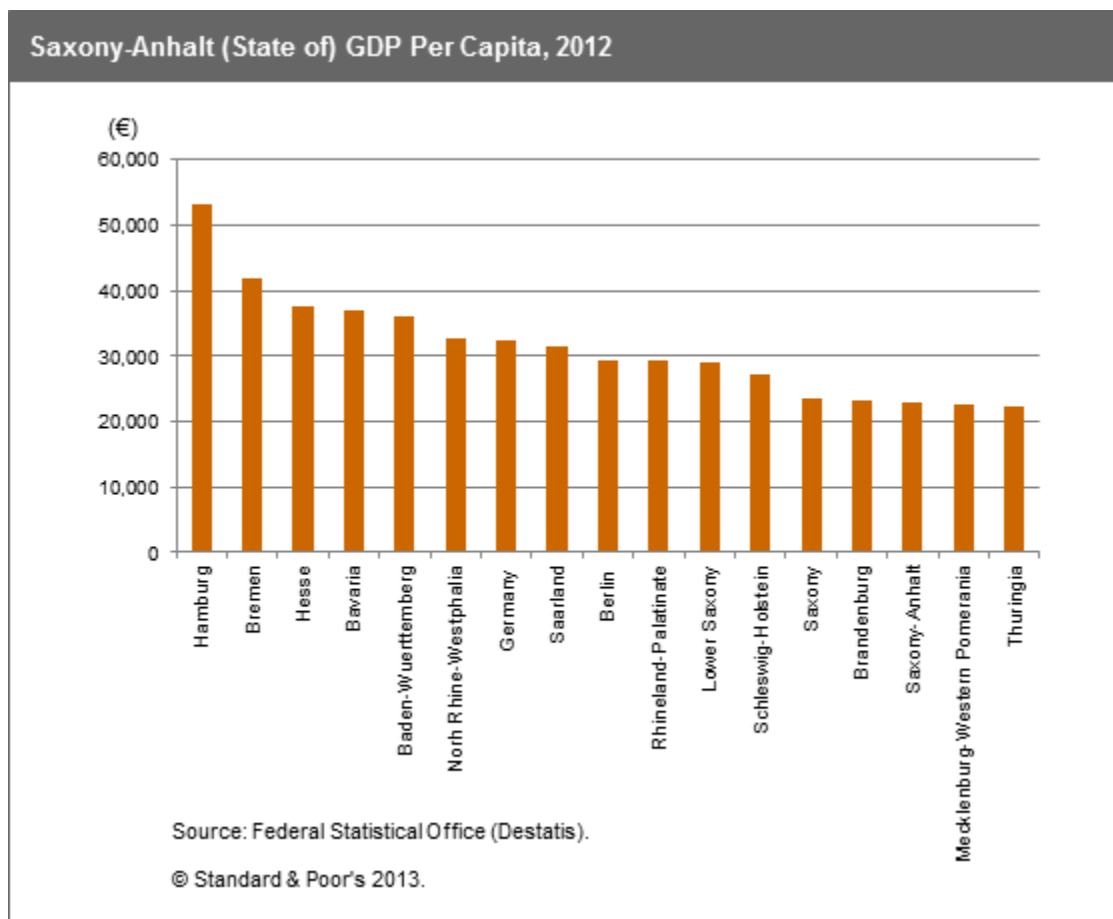
## **Economy: Strong, But High Unemployment And A Decreasing Population**

With 2.3 million inhabitants, Saxony-Anhalt is one of the smaller German states. Its population is declining by about

1% each year, which limits revenue growth considerably. In addition to low natural population growth, the state's population is also decreasing due to continuous outward migration of working-age inhabitants because of higher unemployment than in western German states. The population decline has slightly slowed in recent years particularly due to the attractiveness of the state's university cities. This is unlikely to turn around the general trend, however. Consequently, Saxony-Anhalt's demographic profile has been aging and will likely continue to do so in the future. The Saxony-Anhalt Statistical Office estimates that about 31% of the state's population will be above working age in 2025, compared with 24% in 2008. Projections also show that Saxony-Anhalt's population will keep shrinking until 2025 to below 2 million.

Based on GDP per capita of €22,930, or 71% of the German average, Saxony-Anhalt is one of Germany's less wealthy states, although it is roughly in line with its eastern German peers (see chart 1). Its GDP per capita translates into about 87% of the EU-28 average. After real GDP growth of 0.5% in 2012, we expect Saxony-Anhalt to achieve GDP growth broadly in line with the national average of 0.4% in 2013 and 1.4% in 2014.

**Chart 1**



Unemployment is still high, but decreasing rapidly to 11.5% in 2012 from 18.3% in 2006. Youth unemployment in the state stabilized at 10.2% in 2012 after years of a decreasing trend. Owing to the systemic change after reunification, unemployment has been very high in Saxony-Anhalt. However, the overall trend is now favorable. This, in our view,

reflects the state's relative resilience to the economic recession of 2009 and the quick recovery of its labor market. Still, the absolute unemployment number remains high, with a rate of 10.3% in September 2013, 3.7 percentage points higher than the German average, and 0.7 percentage points above the average of Eastern German states. Saxony-Anhalt's comparably resilient labor market performance is underpinned by the sound performance of the state's economy and growing exports. In particular, the state's chemical industry centers contributed to rising exports. This industry makes up a sizable share of the state's secondary sector, which in turn accounts for 33% of gross value added.

## **Financial Management: Positive, With Challenges Ahead**

In our view, Saxony-Anhalt follows prudent financial policies and practices that ensure a good degree of transparency and fiscal discipline, which has a positive effect on the state's creditworthiness. The political situation in the state is stable, with the coalition parties agreeing on consolidating the budget and reducing the debt burden in light of the current and expected population decline in the state, as well as falling EU transfers over the medium term. While so far consolidation measures have been implemented fairly smoothly, political pressures are now rising, hampering consolidation efforts.

In 2010, the state government implemented a legal requirement to avoid net new borrowing as of 2012, which is more ambitious than the requirement by federal law to structurally balance accounts by 2020. For 2012, the state achieved this goal, and started reducing its debt gradually, a trend to be continued in 2013 and beyond. Saxony-Anhalt's management generally presents biannual budgets and a long-term projection of fiscal developments until 2025. We view these very long-term projections as a transparent tool to make long-term fiscal trends and the implications of declining transfer revenues visible. The current budget under proposal covers 2014 and a biannual budget for 2015/2016 will follow in autumn 2014. Since its 2012/2013 budget, Saxony-Anhalt has implemented a new top-down approach to distributing resources among its departments. Under this structure, the revenues estimated and allocated by management define the maximum amount the departments can spend, contrary to the previous practice, whereby departments communicated their financial needs. These funds must suffice for the budgeting period, but may also be allocated or saved for future years' spending needs. This will help management avoid relying on global savings measures. Furthermore, the state's management intends to fund reserves both for pensions and hardship with budgetary surpluses that should be available once yearly net-debt reduction of €25 million has been achieved.

However, the state uses pure cash accounting--as most German states do--which Standard & Poor's views a credit weakness. For further information on the German states' accounting principles and the adjustments Standard & Poor's applies, see "Public Sector Accounting Report: German States," published March 2, 2006.

## **Budgetary Flexibility: Low, But Similar To German Peers'**

Most taxes in Germany are raised as shared taxes between the national government, the 16 states, and the municipalities. Tax codes and tax rates (with the exception of property transfer taxes) are set at national level, although state representatives in the German Federal Council (Bundesrat) must approve laws that affect their state's

financial revenues. An individual state has little influence on tax rates, except through initiatives to cooperate with fellow states in the Bundesrat. Income, corporate, withholding, and value-added taxes are included in these shared taxes. We expect shared taxes to account for about 60% of Saxony-Anhalt's 2014 adjusted operating revenues, in our base-case scenario. The share of modifiable revenues (mainly fees and charges) is very low compared with international peers, at about 8%. Other revenues, such as special purpose transfers and grants, offer practically no flexibility. Because Saxony-Anhalt's revenues are quite inflexible, we believe that its expenditure structure is key to the state's budgetary performance. Revenue flexibility exists only indirectly through changes in national tax regulation or tax rates.

We expect Saxony-Anhalt's total revenues to stay broadly constant in nominal terms until 2020, owing to the gradual phase-out of Solidarity Pact II and the steady population decline. The state's ability to cope with this situation will be a key factor for its future credit quality and we will continue to monitor management's reactions to these ongoing structural challenges. As Saxony-Anhalt has only limited shareholdings, potential asset sales generating nonrecurring revenue are not a factor in our analysis.

National and state constitutions require each state to assume significant responsibilities--such as education, police and law enforcement, and infrastructure--which are labor-intensive and limit expenditure flexibility. The largest single expenditure item for all German states is personnel, which is mainly nondiscretionary. However, overall personnel expenditure in Saxony-Anhalt is less than in most other German states, reflecting Saxony-Anhalt's relatively young history. It is budgeted to account for 30% of operating revenues in 2014. The state's comparatively low pension payments, which are on a pay-as-you-go basis, grant some flexibility. Nonetheless, the majority of personnel expenditure remains tied to collective bargaining procedures and fixed remuneration schemes. On the other hand, Saxony-Anhalt employs more staff to carry out the same responsibilities as its western German peers. This, in our view, shows the need for structural reforms in the state, especially given its demographic decline. According to Saxony-Anhalt's personnel development concept, it aims to reduce its full-time-equivalent headcount to 40,855 in 2020 from 56,250 in 2012. We view this reduction plan as ambitious, but achievable, limiting future operating expenditure growth.

Saxony-Anhalt's operating expenditures have been growing very slowly over recent years and we expect them to remain fairly stable in the future in nominal terms. We view this as a reflection of the state's success in keeping expenditures under control. The state aims to adjust its personnel and service level costs downward to western German standards.

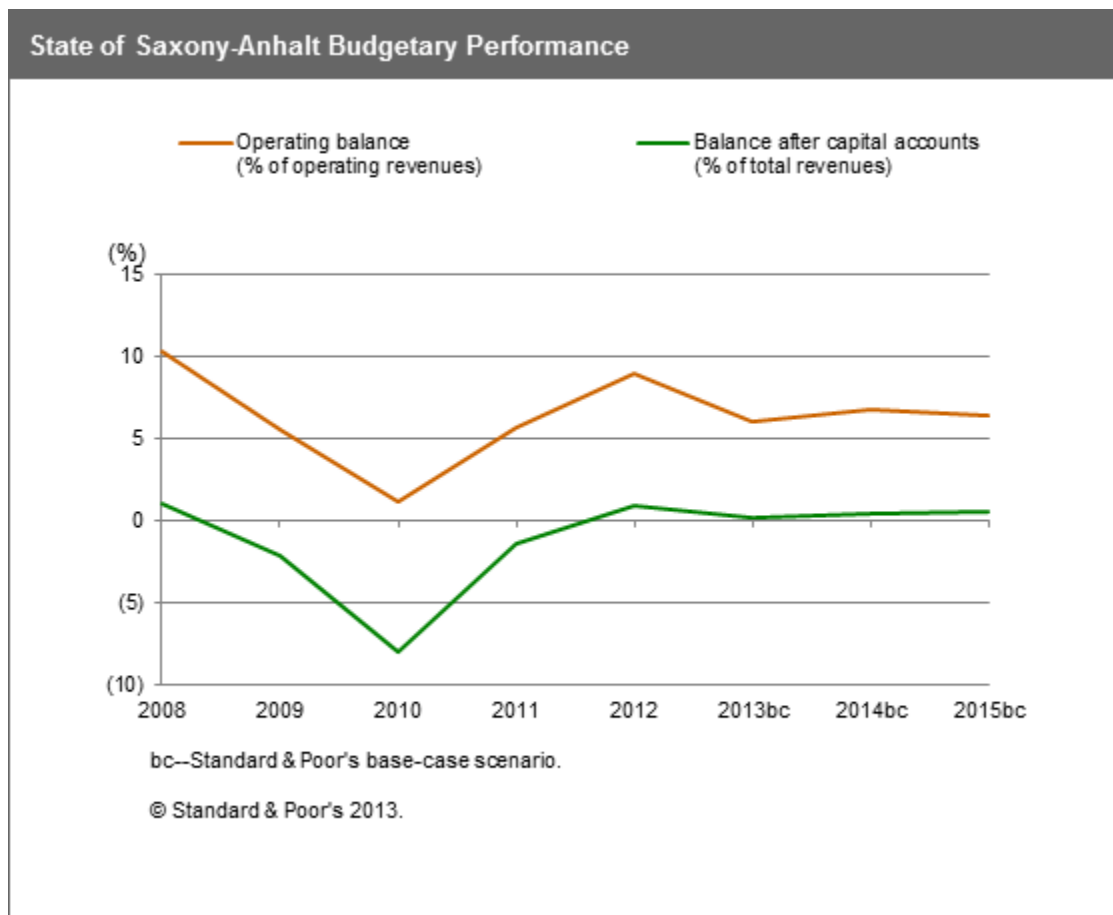
We expect Saxony-Anhalt to report capital expenditures of 13 % of total expenditures in 2014 and we forecast a gradual decrease over the next few years, in part owing to reducing special infrastructure fund transfers. Over the past decade, the level of Saxony-Anhalt's infrastructure has improved substantially to a high level, giving the state the flexibility to delay investment expenditures to control its budgetary challenges. Consequently, we continue to see some flexibility in capital expenditures if the state faced a financial stress scenario.

## Budgetary Performance: On A Very Strong Path

Saxony-Anhalt's budgetary performance is overall very strong. Results for 2012 show an operating surplus of 9% of adjusted operating revenues and a surplus of almost 1% after capital accounts. This exceeds our last year's base-case scenario, and is based on strong tax revenues for 2012. It also represents an improvement over 2011 when the operating surplus was almost 6% of adjusted operating revenues and the deficit after capital accounts was 1.4% of total adjusted revenues. Driven by a weak 2010, Saxony-Anhalt's past three-year average operating performance is about 5% of adjusted operating revenues and we expect the coming three-year average to move to slightly above 6%. This overall very stable budgetary performance is also mirrored in a five-year average of 6.8% over our forecast horizon (2011-2015).

Similarly, the average balance after capital accounts as a percentage of total adjusted revenues over the past three years is weighed down by the 2010 result, to a deficit of almost 3%. However, both the coming three years as well as the five-year average point to balanced after-capital accounts, broadly in line with our previous expectation (see chart 2).

**Chart 2**



Our base-case scenario includes our expectation that, like in 2012, Saxony-Anhalt will be able to reduce its debt on a nominal basis. In addition, Saxony-Anhalt will likely need to spend less on infrastructure development after 2013, enabling it to improve its budgetary performance after capital accounts in the ensuing few years.

Because of the long-term challenges the state continues to face, we think that it will continue its tight consolidation measures. Lower special grants for eastern German states and decreasing tax revenues, owing to the population decline, will continue to hamper the state's long-term budgetary performance. We therefore don't believe that Saxony-Anhalt's total revenues will increase significantly until 2020, highlighting the need for ongoing budgetary consolidation and structural change.

We do not expect a major budgetary impact from the June 2013 flooding of the river Elbe. A national fund has been set up to cover costs, which is estimated to be sufficient to cover Saxony-Anhalt's needs. While the damages are significant--estimated at €2.7 billion for Saxony-Anhalt--the fund is established at €8 billion. The majority of this is financed at the national level, with all states repaying their pre-financed part over the coming years until 2033 in tranches of total €200 million per year.

In our downside scenario, however, we assume lower tax revenue due to a severe deterioration of macroeconomic conditions and persistently higher capital expenditures. Combining these factors, our downside case points to a deficit after capital accounts of 6% of 2015 adjusted total revenues. This would inevitably lead to net new borrowing needs and consequently a rise in tax-supported debt levels.

In our upside scenario, we assume much higher tax revenues due to a sharp rise in shared taxes and decreasing capital expenditures. This would likely lead to a surplus after capital accounts of almost 5% of 2015 adjusted total revenues.

We regard both scenarios as unlikely.

## **Debt Burden: Very High, But Gradually Decreasing**

We expect Saxony-Anhalt's tax-supported debt to total about 225% of consolidated operating revenues over the coming years, which is very high in an international comparison, but only average compared with that of other German states. Saxony-Anhalt's debt ratio rose considerably until 2010, implying a burden on the budget from high interest expenses. We believe in our base-case scenario that Saxony-Anhalt will be able continue its consolidation and slowly but steadily reduce its nominal debt over the next few years. Still, the continuously declining population and subsequent pressure on revenues pose a structural challenge for the state to keep the debt-to-revenues ratio at a sustainable level and stabilize per-capita debt at a level comparable with other German states.

Saxony-Anhalt has voluntarily implemented a policy to refrain from net new borrowing as of 2012, far earlier than 2020 as stipulated under Germany's constitutional framework. In 2012, the state was able to achieve a first net-debt repayment of €25 million. Saxony-Anhalt is one of five German states to receive special grants from the federal government to help reduce debt, supplementing its commitment to zero net new borrowing by 2012. We believe Saxony-Anhalt will continue its consolidation path--a pre-requisite for these special grants--and therefore do not believe that Saxony-Anhalt will have to repay the €80 million grant it will receive each year until 2020.

Pension obligations relating to special status public-sector employees are largely unfunded. To address this, Saxony-Anhalt set up a pension fund at the end of 2006, requiring the state to fully fund pension obligations of special status public-sector employees hired from 2007 onward. We regard this as positive and a sign of Saxony-Anhalt's commitment to fiscal sustainability. In a national comparison, Saxony-Anhalt's pension obligations are less of a burden than those of its western German peers because the state was only founded in 1990. Nonetheless we estimate the net present value of unfunded pension obligations at about 75% of operating revenues, which is a weakness in our view.

## Contingent Liabilities: Moderate Risk

The largest contingent liability for Saxony-Anhalt arises from its 5.6% direct ownership of Norddeutsche Landesbank Girozentrale (NordLB). Although the statutory guarantee ("Gewährträgerhaftung") has been abolished for any obligations incurred by the bank since July 19, 2005 (see "Credit FAQ Update: German Landesbanks' Unguaranteed Obligations; The Bottom-Up Approach," published May 3, 2005), obligations issued prior to this date benefit from Saxony-Anhalt's joint and several statutory guarantee under the grandfathering principle. In addition, Standard & Poor's believes that Saxony-Anhalt continues to feel morally responsible for NordLB even in the absence of explicit guarantees.

Saxony-Anhalt implemented a €500 million portfolio guarantee in 2012, improving capital requirements for the bank on a mezzanine tranche of a €15 billion loan portfolio, also showing its commitment to NordLB.

The state has several other guarantees outstanding, totaling €2.7 billion at year-end 2012, equal to 27.5% of total revenues, mainly consisting of grants for special purpose banks and their on-lending of subsidized loans to housing companies, small businesses, and industrial development companies. Yearly losses from the guarantee program are low and entail only minor financial risks for the state.

## Published Rating Factor Scores

**Table 1**

| State of Saxony-Anhalt Summary Of Published Rating Factor Scores* |                            |
|---|----------------------------|
| Rating factor   | Score                      |
| Institutional framework   | Supportive and predictable |
| Financial management  | Positive                   |
| Liquidity   | Neutral                    |

\*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria. We publish our scores for the three rating factors above.

## Key Statistics

**Table 2**

| <b>State of Saxony-Anhalt Economic Statistics</b> |  |             |             |             |               |
|---|--|-------------|-------------|-------------|---------------|
|   | <b>--Financial year ending Dec. 31--</b> |             |             |             |               |
| <b>(Mil. €)</b>                                   | <b>2009</b>                              | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013bc</b> |
| Population*                                       | 2,356,219                                | 2,335,006   | 2,276,736   | 2,259,393   | 2,242,182     |
| Population growth (%)                             | (1.1)                                    | (0.9)       | (2.5)       | (0.8)       | (0.8)         |
| GDP per capita (€)                                | 20,304                                   | 21,617      | 22,154      | 22,933      | 23,977        |
| Unemployment rate (%)                             | 13.60                                    | 12.50       | 11.60       | 11.50       | N/A           |

\*Break in population time series in 2011 due to updated census figures. bc--Standard & Poor's base-case forecast, reflecting its most likely scenario. N/A--Not applicable. Sources: Federal Statistical Office (Destatis) and Standard & Poor's.

**Table 3**

| <b>State of Saxony-Anhalt--Financial Statistics</b>              |  |             |             |             |               |               |               |
|--|--|-------------|-------------|-------------|---------------|---------------|---------------|
| <b>Fiscal year end</b>   | <b>--Financial year ending Dec. 31--</b> |             |             |             |               |               |               |
| <b>(Mil. €)</b>  | <b>2009</b>                              | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013bc</b> | <b>2014bc</b> | <b>2015bc</b> |
| Operating revenues   | 8,730                                    | 8,490       | 9,097       | 9,338       | 9,077         | 9,275         | 9,109         |
| Operating expenditures   | 8,254                                    | 8,395       | 8,577       | 8,508       | 8,532         | 8,647         | 8,525         |
| Operating balance  | 476                                      | 95          | 520         | 842         | 545           | 628           | 584           |
| Operating balance (% of operating revenues)                      | 5.45                                     | 1.12        | 5.72        | 9.02        | 6.01          | 6.77          | 6.42          |
| Capital revenues   | 818                                      | 698         | 742         | 518         | 819           | 695           | 445           |
| Capital expenditures (capex)                                     | 1,493                                    | 1,531       | 1,401       | 1,268       | 1,343         | 1,281         | 978           |
| Balance after capital accounts                                   | (199)                                    | (738)       | (138)       | 93          | 21            | 42            | 52            |
| Balance after capital accounts (% of total revenues)             | (2.08)                                   | (8.03)      | (1.41)      | 0.94        | 0.22          | 0.42          | 0.54          |
| Debt repaid*   | 4,068                                    | 3,681       | 3,645       | 1,813       | 2,436         | 2,289         | 2,596         |
| Balance after debt repayment and onlending                       | (4,327)                                  | (4,392)     | (2,947)     | (1,709)     | (2,390)       | (2,234)       | (2,525)       |
| Balance after debt repayment and onlending (% of total revenues) | (45.32)                                  | (47.80)     | (29.96)     | (17.34)     | (24.16)       | (22.40)       | (26.43)       |
| Gross borrowings*  | 4,068                                    | 4,420       | 3,758       | 1,767       | 2,411         | 2,264         | 2,547         |
| Balance after borrowings   | (259)                                    | 29          | 120         | 58          | 20            | 30            | 22            |
| Modifiable revenues (% of operating revenues)                    | 8.34                                     | 7.47        | 7.98        | 8.11        | 8.24          | 8.28          | 6.24          |
| Capital expenditures (% of total expenditures)                   | 15.31                                    | 15.42       | 14.04       | 12.99       | 13.60         | 12.90         | 10.29         |
| Direct debt (outstanding at year-end)                            | 19,811                                   | 20,543      | 20,667      | 20,635      | 20,610        | 20,610        | 20,560        |
| Direct debt (% of operating revenues)                            | 226.94                                   | 241.97      | 227.18      | 220.99      | 227.06        | 222.22        | 225.71        |
| Tax-supported debt (% of consolidated operating revenues)        | 226.94                                   | 241.97      | 227.18      | 220.99      | 227.06        | 222.22        | 225.71        |
| Interest (% of operating revenues)                               | 9.52                                     | 9.18        | 8.53        | 7.64        | 7.03          | 6.51          | 7.96          |
| Debt service (% of operating revenues)                           | 56.11                                    | 52.54       | 39.64       | 27.06       | 33.87         | 31.19         | 36.46         |

\*Excluding commercial paper from 2012 onward. bc--Standard & Poor's base-case forecast, reflecting its expectations of the most likely scenario.

## Related Criteria And Research

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Principles Of Credit Ratings, Feb. 16, 2011

- Public Finance System Overview: German States, Jan. 12, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- Methodology And Assumptions: Analyzing The Impact Of Unfunded Pension Liabilities On The Credit Quality Of International Local And Regional Governments, July 31, 2009

### Ratings Detail (As Of November 8, 2013)

#### Saxony-Anhalt (State of)

|                       |                 |
|-----------------------|-----------------|
| Issuer Credit Rating  | AA+/Stable/A-1+ |
| Commercial Paper      |                 |
| <i>Local Currency</i> | A-1+            |
| Senior Unsecured      | AA+             |

#### Issuer Credit Ratings History

|             |                    |
|-------------|--------------------|
| 16-Dec-2010 | AA+/Stable/A-1+    |
| 20-Sep-2010 | AA-/Watch Pos/A-1+ |
| 05-Jun-1998 | AA-/Stable/A-1+    |

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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