

# Land of Baden-Württemberg

## Rating Review Annex



### Credit strengths

- Integrated institutional framework
- Large, wealthy and resilient economy
- Sound budgetary performance
- Declining debt burden, favourable debt profile
- Excellent capital market access

### Credit challenges

- Moderate budgetary flexibility
- High pension burden weighing on long-term expenditure flexibility

### Ratings and Outlook

#### Foreign & local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

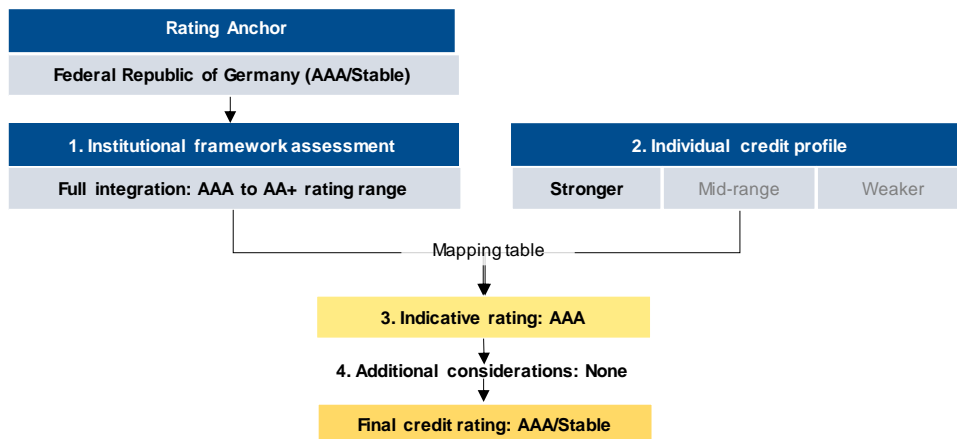
### Rating rationale and Outlook

The Land of Baden-Württemberg’s (Baden-Württemberg) AAA rating is driven by:

- **A highly integrated Institutional Framework**, which results in a close alignment of Länder’s creditworthiness with the German federal government’s AAA/Stable ratings.
- **A strong Individual Credit Profile**, underpinned by i) a large, diversified economic base with robust growth prospects and a low unemployment rate, ii) solid budgetary performance and management, iii) a moderate, and declining, debt burden with a low-risk debt profile, and iv) excellent capital market access. Credit challenges relate to limited revenue and expenditure flexibility, and high pension liabilities weighing on expenditure flexibility in the long-term, although risks are mitigated by regular contributions to the state’s pension funds.

The Stable Outlook represents Scope’s view that risks to the ratings over the next 12 to 18 months are balanced.

### Scope’s approach to rating the Land of Baden-Württemberg



Note: For further details, please see Scope’s [Sub-sovereigns Rating Methodology](#). Source: Scope Ratings

### Positive rating-change drivers

- N/A

### Negative rating-change drivers

- Downgrade of Germany’s sovereign rating
- Changes in the institutional framework, resulting in a weaker individual credit profile
- Structural deterioration in the individual credit profile

### Lead Analyst

Eiko Sievert  
+49 69 6677389-79  
[e.sievert@scoperatings.com](mailto:e.sievert@scoperatings.com)

### Team Leader

Dr Giacomo Barisone  
+49 69 6677389-22  
[g.barisone@scoperatings.com](mailto:g.barisone@scoperatings.com)

### Scope Ratings GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main

Phone +49 69 6677389-0

### Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891-0  
Fax +49 30 27891-100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



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## 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 German federal states, or Länder, and the Federal Republic of Germany (AAA/Stable) results in an indicative downward rating range of one notch from the German sovereign, within which the Länder can be positioned according to their individual credit strengths.

### Institutional Framework scorecard (QS1)

Analytical components	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Extraordinary support and bailout practices	●	○	○	○	○
Ordinary budgetary support and fiscal equalisation	●	○	○	○	○
Funding practices	○	○	●	○	○
Fiscal rules and oversight	●	○	○	○	○
Revenue and spending powers	●	○	○	○	○
Political coherence and multi-level governance	●	○	○	○	○

Integration score	92
<b>Downward rating range</b>	<b>0-1</b>

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

## II. Individual Credit Profile or ICP

To assess the ICP, we apply a Qualitative Scorecard 2 (QS2), centred around 10 components underpinned by peer benchmarking. We assess each analytical component on a three-point scale by benchmarking a sub-sovereign's performance and risk exposures to that of peers. Scores are 0 for 'weaker', 50 for 'mid-range', and 100 for 'stronger' for each component. The individual credit profile score, ranging from 0 to 100, is calculated as a simple average of these assessments. In addition, we make two additional assessments for environmental factors and resilience and social factors and resilience, which can lead to adjustments of the ICP score by up to +/- 10 points.

We assess the individual credit profile of the Baden-Württemberg as Stronger vis-à-vis peers, with an ICP score of 80 out of 100.

### Individual Credit Profile scorecard (QS2)

Risk pillar	Analytical components	Stronger (100)	Mid-range (50)	Weaker (0)
Debt and liquidity 40%	Debt burden & trajectory	●	○	○
	Debt profile & affordability	○	●	○
	Contingent liabilities	○	●	○
	Liquidity position & funding flexibility	●	○	○
Budget 30%	Budgetary performance & outlook	●	○	○
	Revenue flexibility	●	○	○
	Expenditure flexibility	○	●	○
Economy 20%	Wealth levels & economic resilience	○	●	○
	Economic sustainability	●	○	○
Governance 10%	Governance & financial management quality	●	○	○
Additional environmental and social factors		Positive impact (+5)	No impact (0)	Negative impact (-5)
Environmental factors and resilience		○	●	○
Social factors and resilience		○	●	○

ICP score	80
Indicative notching	0

## 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.

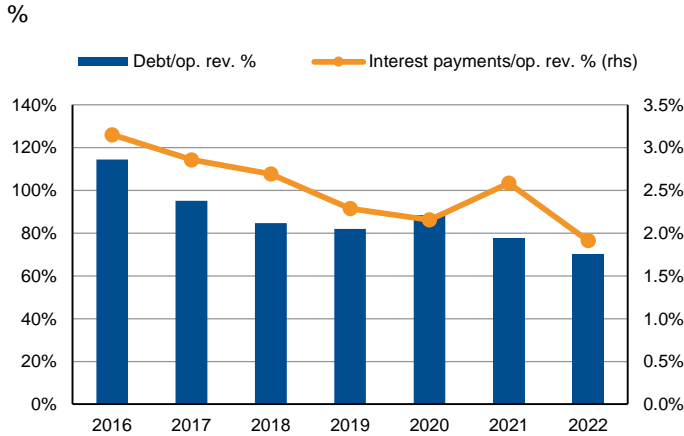
For Baden-Württemberg, this results in an indicative rating of 0 notches below the sovereign rating, resulting in a AAA rating.

Rating anchor	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
Federal Republic of Germany										
AAA/Stable	100 > x ≥ 90	0-1	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+
	90 > x ≥ 80	0-2	AAA	AAA	AA+	AA+	AA+	AA+	AA	AA
	80 > x ≥ 70	0-3	AAA	AA+	AA+	AA+	AA	AA	AA-	AA-
	70 > x ≥ 60	0-4	AAA	AA+	AA+	AA	AA	AA-	AA-	A+
	60 > x ≥ 50	0-5	AAA	AA+	AA+	AA	AA	AA-	A+	A
	50 > x ≥ 40	0-6	AAA	AA+	AA+/ AA	AA/ AA-	AA/ AA-	AA-/ A+	A+/ A	A-
	40 > x ≥ 30	0-7	AAA	AA+/ AA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	BBB+
	30 > x ≥ 20	0-8	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	A-/ BBB+	BBB
	20 > x ≥ 10	0-9	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	BBB+/ BBB	BBB-
	10 > x ≥ 0	0-10	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A/ A-	BBB+/ BBB	BBB-/ BB+	BB+

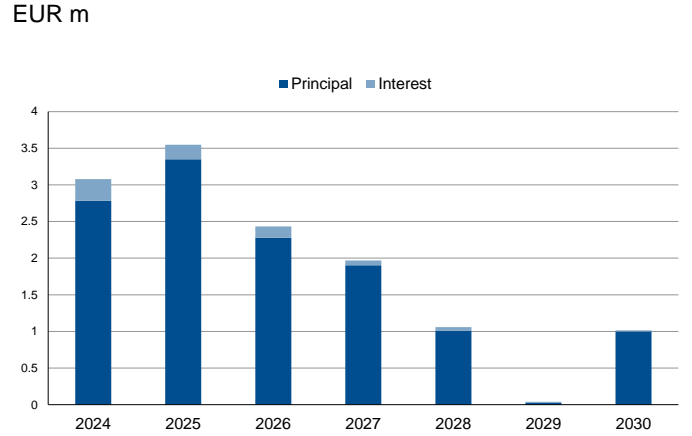
Note: Mapping table under section 4 of Scope's Sub-sovereigns Rating Methodology, as applied to the rating anchor's AAA-ratings.

## IV. Selected charts

### Debt and interest burden

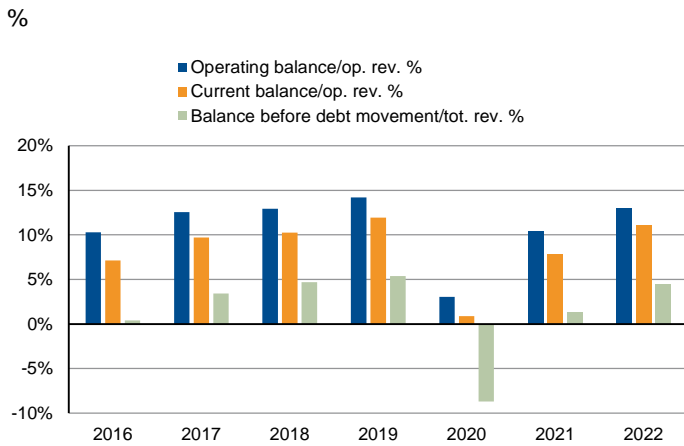


### Debt profile



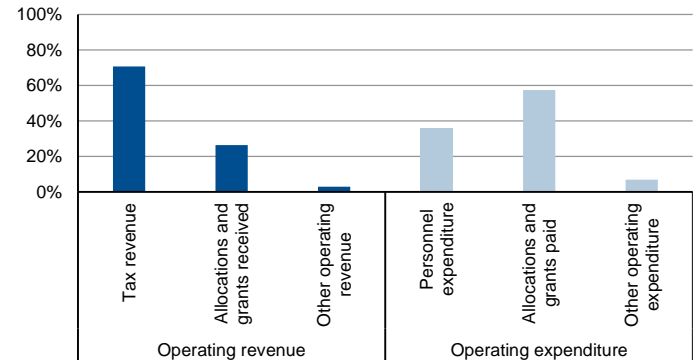
Source: Destatis, Bloomberg Finance L.P., Scope Ratings

### Budgetary performance



### Operating budget composition

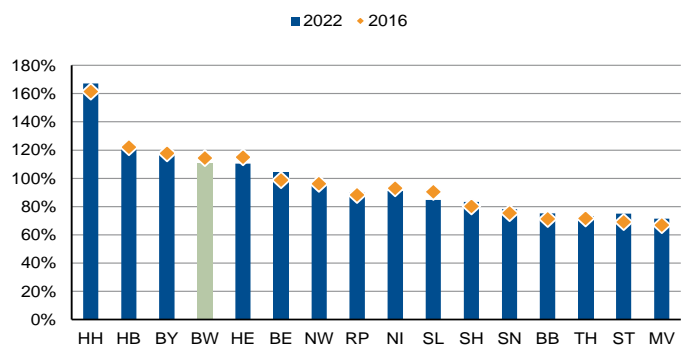
% of operating revenue / expenditure, 2020-22 average



Source: Destatis, Scope Ratings

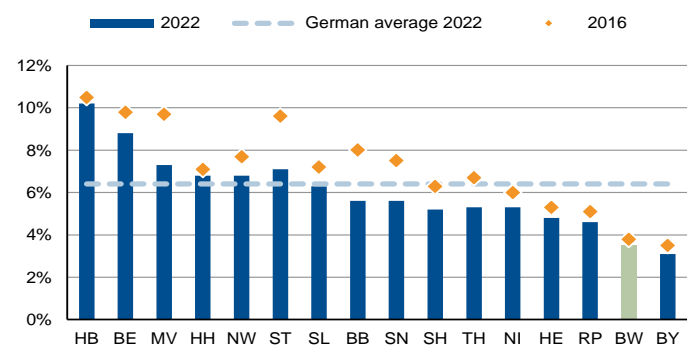
### GDP per capita

% of national average



### Unemployment rate

% of civilian labour force



Source: Destatis, Statistische Ämter des Bundes und der Länder, Scope Ratings

## V. Statistical Overview

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Budgetary Performance (EUR m)</b>										
Operating revenue	39,319	41,516	42,859	46,399	48,573	51,924	53,816	54,285	60,741	62,353
Operating expenditure	35,548	36,576	38,172	41,635	42,472	45,208	46,168	52,634	54,425	54,263
Operating balance	3,771	4,941	4,687	4,764	6,101	6,716	7,648	1,652	6,316	8,090
Net interest payments	1,724	1,578	1,530	1,457	1,384	1,394	1,230	1,168	1,568	1,191
Current balance	2,047	3,363	3,157	3,308	4,717	5,322	6,419	484	4,748	6,898
Capital balance	-2,441	-2,882	-3,153	-3,121	-3,002	-2,818	-3,468	-5,268	-3,946	-4,071
Balance before debt movement	-394	480	4	187	1,715	2,504	2,951	-4,785	802	2,827
<b>Debt (EUR m)</b>										
Direct debt	63,895	52,591	53,107	53,091	46,181	44,009	44,134	47,989	47,050	43,758
Guarantees	37,403	23,083	23,859	20,114	12,067	11,743	12,040	11,989	11,988	-*
Overall debt risk (direct debt plus guarantees)	101,298	75,674	76,966	73,205	58,248	55,752	56,174	59,978	59,038	43,758
<b>Financial ratios</b>										
Debt/operating revenue, %	162.5%	126.7%	123.9%	114.4%	95.1%	84.8%	82.0%	88.4%	77.5%	70.2%
Debt/operating balance, years	16.9	10.6	11.3	11.1	7.6	6.6	5.8	29.1	7.4	5.4
Interest payments/operating revenue, %	4.4%	3.8%	3.6%	3.2%	2.9%	2.7%	2.3%	2.2%	2.6%	1.9%
Implicit interest rate, %				2.8%	3.0%	3.2%	2.8%	2.4%	3.3%	2.7%
Operating balance/operating revenue, %	9.6%	11.9%	10.9%	10.3%	12.6%	12.9%	14.2%	3.0%	10.4%	13.0%
Balance before debt movement/total revenue, %	-1.0%	1.1%	0.0%	0.4%	3.4%	4.7%	5.4%	-8.7%	1.3%	4.4%
Transfers and grants/operating revenue, %	19.2%	19.0%	18.6%	18.4%	18.9%	18.4%	18.4%	27.6%	28.7%	23.0%
Capital expenditure/total expenditure, %	8.7%	10.1%	9.9%	9.2%	9.0%	8.3%	8.9%	10.2%	8.2%	9.4%
GDP per capita, % of national GDP per capita	115.1%	114.7%	115.8%	114.3%	114.5%	115.2%	113.4%	112.0%	112.0%	110.8%

\* Not available

Source: Destatis, Statistische Ämter des Bundes und der Länder, Scope Ratings



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

### Oslo

Karenslyst allé 53  
N-0279 Oslo

Phone +47 21 62 31 42

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid

Phone +34 91 572 67 11

### Paris

10 avenue de Messine  
FR-75008 Paris

Phone +33 6 6289 3512

### Milan

Via Nino Bixio, 31  
20129 Milano MI

Phone +39 02 30315 814

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU

Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

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