Land of North Rhine-Westphalia

Rating Report

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

Eiko Sievert
+49 69 6677389-79
e.sievert@scoperatings.com

Team Leader

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

Rating rationale and Outlook

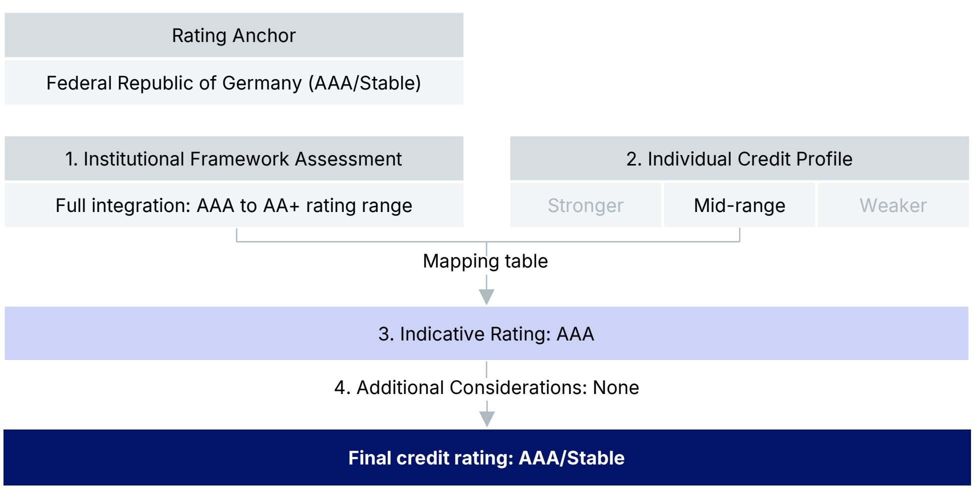
The Land of North Rhine-Westphalia's (NRW) AAA rating is driven by:

A highly integrated Institutional Framework characterised by a strong revenue equalisation system and the federal solidarity principle, which results in a close alignment of the Länder's creditworthiness with the German federal government's AAA/Stable ratings. Amendments to Germany's debt brake now allow Länder collectively to run a structural deficit of 0.35% of GDP and tap up to EUR 100bn in federal infrastructure funding. The allocation and usage of this new borrowing flexibility are yet to be determined and may vary among individual states. While overall debt levels may increase, the shared limit should help keep debt-to-operating revenue ratios relatively stable, reflecting Germany's strong sub-sovereign framework.

A 'mid-range' Individual Credit Profile underpinned by: i) an outstanding market access and funding flexibility as a European benchmark sub-sovereign issuer, leading to low funding costs; ii) very strong financial, liquidity and debt management with a favourable debt profile; iii) forward-looking management of pension provisions via its well-equipped pension fund; and iv) sound economic fundamentals as Germany's largest regional economy, although exposure to energy-intensive industries entails transition costs.

Credit challenges relate to: i) a relatively high debt burden; ii) moderate budgetary performance and flexibility, and limited budgetary reserves, mitigated by strong budgetary management and a commitment to the debt brake; and iii) some exposure to contingent liability risks, including via its municipalities' legacy short-term debt burden ('Kassenkredite').

Figure 1: NRW's rating drivers



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

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Credit strengths and challenges

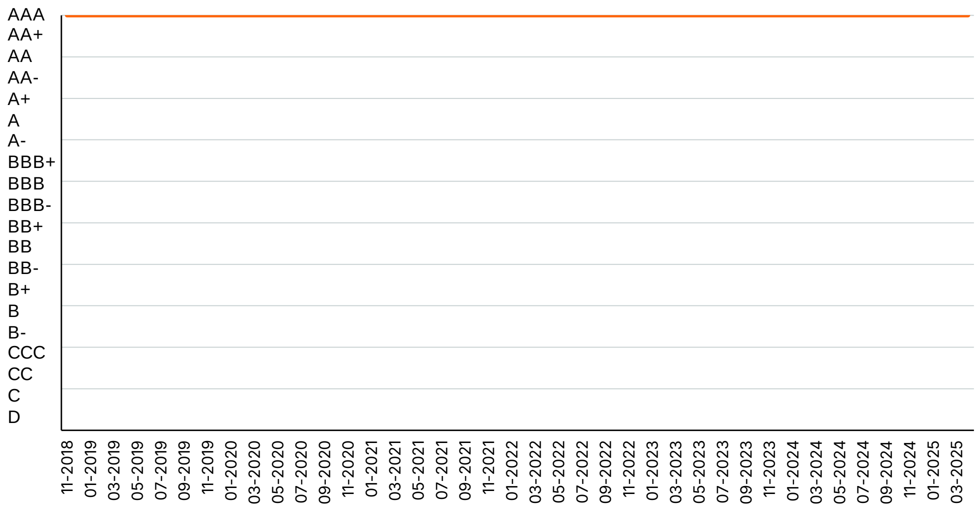
Credit strengths	Credit challenges
• Integrated institutional framework • Outstanding capital market access and funding flexibility as benchmark sub-sovereign issuer, low funding costs • Very strong liquidity and debt management • Forward-looking management of pension provisions via well-equipped pension fund • Largest subnational economy, robust economic fundamentals	• Relatively high debt levels • Moderate budgetary performance and flexibility, limited budgetary reserves, mitigated by strong budgetary management • Some exposure to contingent liabilities, structurally indebted municipalities

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• N/A	• Downgrade of Germany's sovereign rating • Changes in the institutional framework, resulting in notably weaker support • Deterioration of individual credit profile

Figure 2: Rating history[1]



Source: Scope Ratings

[1] Foreign-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 Länder[2] 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 the 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 Covid-19 and energy crises in 2020-2023. Over these years, the federal government financed most anti-crisis measures and direct grants to the Länder to mitigate the impact on their finances. This led to federal budget deficits of an average 3.3% of GDP over 2020-2022, compared with an average deficit of the Länder of 0.14% over the same period.

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 among the Länder 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

NRW is a beneficiary with total transfers received of around EUR 1bn in 2024, or 1.2% of operating revenue. The Land's relative financial strength, or 'Finanzkraft', lies close to the Länder average (100%) with 99% in 2024.

NRW was a marginal beneficiary of the system in 2024

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

Autonomous borrowing, access to shared liquidity

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

Länder debt securities are aligned at 0% with the central government. The Länder have a history of joint bond issuance, having issued such instruments on 66 occasions, although not all of the 16 Länder participated. NRW has not participated in any of the past issues.

Fiscal rules and oversight

Debt brake anchors borrowing; recent amendments will allow for limited structural borrowing for the Länder

Since 2020, the Länder have to comply with debt brakes. Until recently, they could not run structural financing deficits unless, for example, hit by a severe economic downturn or a natural disaster.[3] Following the recent amendments to the debt brake framework, the Länder, in aggregate, will be entitled to run a structural deficit of 0.35% of national GDP.[4] The distribution of the additional headroom among the Länder is still to be specified and we expect there to be differences among Länder on the implementation and usage of the new borrowing flexibility.[5] Similarly, the distribution between Länder of the additional EUR 100bn infrastructure special fund is still to be determined. We expect most Länder to at least partially make use of the higher borrowing capacity. While this will lead to higher levels of debt, the debt-to-operating revenue ratio should remain relatively stable.

The cyclical component of the debt brake and the exemptions in cases of a severe economic downturn or a natural disaster remain unchanged, for the Bund and the Länder. The German federal parliament used the emergency clause of the debt brake in 2020-2023 in response to the Covid-19 and energy crises. NRW invoked the safeguard clause of its debt brake for 2020-22 to implement credit authorisations of up to EUR 25bn to mitigate the impact of Covid-19 (special fund 'NRW-Rettungsschirm'). For the fiscal year 2023, NRW similarly invoked its debt brake's safeguard clause to enact credit authorisations of up to EUR 5bn to mitigate the budgetary impact of the energy shock and repercussions of the war in Ukraine (special fund 'NRW-Krisenbewältigung').

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.

2023 constitutional court ruling had implications for the Länder…

In late 2023, Germany's constitutional court ruled the Second Supplementary Budget Act 2021 of the federal government as unconstitutional. Crucially, the ruling effectively limits the previously commonly used budgetary practice of using emergency credit authorisations to create budgetary reserves for spending in future years, thus also impacting budgetary practices of the Länder.

…but no impact on NRW's financial planning.

The ruling did not affect NRW's budgetary planning, since both the Land's special funds set up since 2020 are terminated since YE 2023 (special fund "NRW-Krisenbewältigung") and since YE 2022 (special fund "NRW Rettungsschirm"). The Land had already reacted to requirements set out by its Court of Audit (LRH) in late 2022 and had separated credit authorisations and funds borrowed between its two special funds. Remaining funds within the special funds are used for interest and redemption payments and will be depleted by the end of 2025.

Revenue and spending powers

Shared tax authority with the federal government

With regards to the high-revenue common taxes (income and VAT), the tax authorities of the Länder act on behalf of the federal government. Both, the Länder and the federal government, jointly decide on rates and revenue distribution for high-revenue common taxes. The latest reform of federal financial relations took effect in 2020 and resulted in a higher share of VAT being distributed among

[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.

[4] The federal debt brake, similarly, caps the structural annual deficit of the central government at 0.35% of GDP.

[5] The changes to the national constitution regarding the debt brake effectively overwrote state laws as most states have manifested the debt brake regulations in either constitutional or ordinary law. This step ensures the same opportunities across the Länder, but was criticised by some for going against Germany's federalism. Additionally, EUR 100bn of the national government's EUR 500bn infrastructure fund will be attributed to the regional authorities. Additional national law will have to define the allocation of funds between Länder.

the Länder. The VAT distribution fully compensates for the variation in taxing powers, replacing the previous process of horizontal payments between the Länder. Alongside shared taxes, the taxation authorities of the Länder administer the regional taxes whereas the taxation authorities of the federal government administer the federal taxes.

Federal reforms strengthen political coherence

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.

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.

Individual credit profile (ICP)

'Mid-range' ICP, leading to indicative AAA rating

We assess NRW's ICP as 'mid-range' among German Länder. This places the Land's indicative rating at AAA given our mapping table. For details, see Appendix II and Appendix III.

NRW's individual credit strengths are: i) an outstanding market access and funding flexibility as a European benchmark sub-sovereign issuer, leading to low funding costs; ii) very strong financial, liquidity and debt management with a favourable debt profile; iii) forward-looking management of pension provisions via its well-equipped pension fund; and iv) sound economic fundamentals as Germany's largest regional economy, although some exposure to energy-intensive industries entails transition costs.

Credit challenges relate to: i) a relatively high debt burden; ii) moderate budgetary performance and flexibility, and limited budgetary reserves, but mitigants are strong budgetary management and a commitment to the debt brake; and iii) some exposure to contingent liability risks, including via its municipalities' legacy short-term debt burden ('Kassenkredite').

Debt and liquidity

Debt burden and trajectory

NRW's debt is relatively high, but debt affordability is excellent

NRW's debt-to-operating revenue ratio is higher than the Länder average, but associated risks are mitigated by a robust debt profile, very high funding flexibility and excellent debt affordability.

Prudent debt management

Prudent debt management ensures that debt is only taken on to the extent necessary. The Land's debt of around EUR 177bn amounted to 183% of operating revenue at YE 2023 (**Figure 3**), above the Länder average of 143%. This included core budget debt of EUR 163bn and extra-budgetary debt of around EUR 14bn. In 2024, NRW used the cyclical component of the debt brake for the first time, issuing around EUR 1,338m of the allowed ex-post cyclical component of EUR 2,526m to balance accounts.[6] In combination with redemptions of the special funds, the Land redeemed a net amount of EUR 1.7bn (**Figure 4**).

NRW's debt-to-operating revenue ratio has fallen, despite crisis-related borrowings in 2020-23...

NRW's debt as a share of operating revenue has been falling substantially from 278% in 2016 to 183% in 2023. While debt in nominal terms declined to EUR 170bn by YE 2019, it rose to EUR 177bn until YE 2023, due to net borrowing under the Land's two special funds (**Figure 4**), under which it

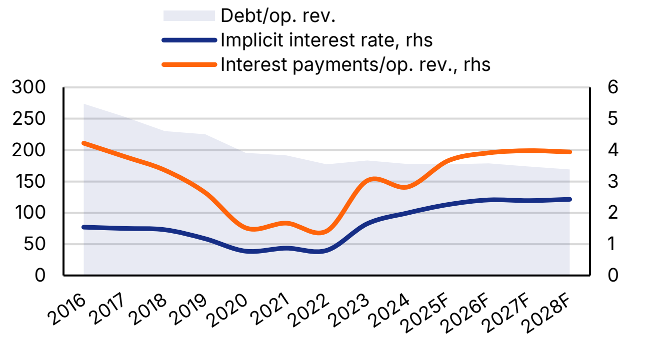
[6] Practically, this is performed by issuing the debt only in Q1 of the following year after final needs have been identified. The debt is then posted back to the prior fiscal year, which is possible until the books are closed. This practice ensures compliance with a ruling by the constitutional court of the state in 2003 which prohibits debt-financed build-up of reserves for the Land.

borrowed an aggregate EUR 22.5bn between 2020-23 (of which EUR 4.64bn have been redeemed already in 2023 and 2024). At the same time, operating revenue stood 28% above its 2019 level in 2023, supporting a drop in the debt-to-operating revenue ratio. In 2024, a moderate growth of operating revenue and net debt redemptions supported a decline in the ratio of debt to operating revenue.

...and is projected to decline further medium-term.

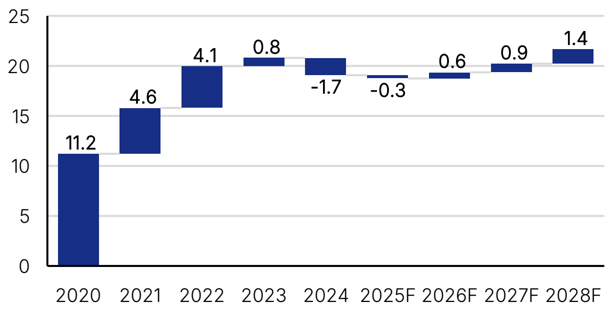
Over the medium term, we expect the increase in core budget debt stemming from continued use of the cyclical component and additional borrowing under the new structural component, to be balanced by growth in operating revenues. Consequently, the debt-to-operating revenue ratio is expected to stabilise around 175%. In line with mandatory debt redemption rules under the debt brake, the Land will continue to redeem the debt taken on under the two special funds by EUR 430m annually in 2026-2028. In 2025, redemptions are planned to be slightly higher given that remaining funds in the "NRW Rettungsschirm" (after interest payments projected around EUR 1.9bn) will be used to redeem more than the annually required EUR 350m.

Figure 3: Debt and interest burden, %



Sources: NRW, Destatis, Scope Ratings

Figure 4: Net borrowing*, EUR bn



* From 2020-2023, this only consists of the two special funds ('NRW-Rettungsschirm' and 'NRW-Krisenbewältigung'). Excludes expected shift of debt burden from municipalities to NRW. Sources: NRW, Scope Ratings

Debt profile and affordability

NRW's debt profile and affordability are excellent

Risks associated with NRW's relatively high debt are significantly mitigated by strong debt management, resulting in a favourable debt profile, and low funding costs.

Annual debt service (redemptions plus interest payments) averaged around EUR 17bn in the past five years, amounting to around 17% of operating revenue. In the next years, currently planned redemptions are smooth and range between EUR 9bn and 16bn per year (**Figure 5**).

Debt stock with limited interest-rate risks...

The Land's debt profile limits interest-rate and foreign-exchange risks and increases predictability for budgetary planning. Exposure to interest rate risk is limited as most of the Land's debt is at fixed rates, with 86% at the end of December 2024. The Land uses interest-rate derivatives to steer and hedge interest-rate risks. Additionally, any unhedged variable rate interest costs are hedged to an extent via variable-rate interest revenues, as seen by interest income of EUR 747m in 2024, up from an average EUR 26m between 2018-22 and EUR 464m in 2023.

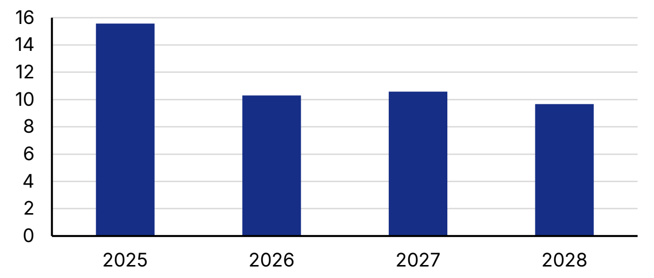
...very long average maturity and no unhedged exchange-rate risks.

Long average maturities and no exposure to unhedged exchange rate risk further strengthen NRW's debt profile. The average maturity stood at 19.9 years at end-February 2025, which is the longest among peers. 50% of outstanding debt comes due in the next eleven years, with the other 50% due between 2036 and 2122. Only around 8% of debt comes due within a year or less (**Figure 6**). A stand-out feature of NRW's issuer profile are its 100-year bonds, which it first issued in 2019. To diversify its funding mix, the Land issues in several currencies other than euros (around 95% of debt stock at YE 2024), including US dollars (3.6%), Norwegian Krone (1.0%), and British pounds (0.5%). The Land hedges any foreign-exchange risk.

Finally, we deem debt affordability to be exceptionally strong, although interest costs have risen in line with higher prevailing monetary policy rates by the ECB. Forward-looking debt management allowed pre-hedging of EUR 11bn during times of an inverse yield curve, which will benefit the Land going forward. Interest payments were on a declining trend between 2016 and 2022, and interest costs relative to operating revenue and NRW's implicit interest rate are roughly in line with the peer average.

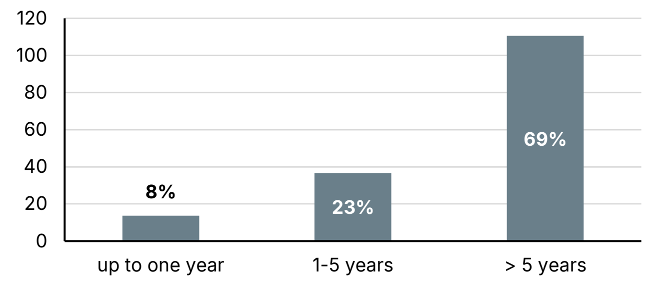
Excellent funding costs and low, although rising, interest costs

Figure 5: Annual debt redemptions, EUR bn



Sources: NRW, Scope Ratings

Figure 6: Debt maturity profile; EUR bn, % of total



Sources: NRW, Scope Ratings

Contingent liabilities

NRW is exposed to some contingent liability risks, although we deem the overall impact on its individual credit profile to be low. Main contingent liabilities stem from: i) the former state bank's wind-down units Erste Abwicklungsanstalt (EAA, NRW holds 48.2%) and Portigon AG (100%); ii) outstanding guarantees, mostly for self-supporting entities such as NRW.Bank; iii) pension provisions, which are partly funded by a well-equipped pension fund; and iv) municipalities' legacy short-term debt ('Kassenkredite').

Some exposure to contingent liabilities…

First, contingency risks arise from EAA and Portigon AG, both entities created in relation to the wind-down of the former WestLB. Remaining risks for NRW are overall moderate and provisioned for.

… arising from EAA and Portigon AG.

EAA was set up to wind-down asset positions of WestLB, with around 96% of assets wound-down by September 2024. Remaining risks stemming from EAA and other contingent liabilities assumed by NRW in connection with the financial market crisis are assessed as limited and sufficiently provisioned for via special funds totalling around EUR 400m. Currently, NRW is examining with relevant partners, whether the EAA can be shut down prematurely given the long remaining maturities of the remaining small portfolio until 2071 (excluding Phoenix).

Portigon AG is the legal successor of WestLB and was set up to reduce WestLB's remaining balance sheet and number of employees, close foreign subsidiaries and return banking licenses. While the wind-down process is progressing, with Portigon AG's balance sheet standing at around EUR 1.4bn at YE 2024, NRW provided EUR 160m in fresh capital in 2021, due to unforeseen risks amounting to around EUR 1bn in 'Cum-Ex' interest and tax claims. Additionally, a credit facility of EUR 192m was extended until YE 2028, which can be converted (partially) into equity under certain conditions.

Another major entity among the Land's 57 direct shareholdings is its wholly-owned development bank NRW.BANK. NRW guarantees NRW.BANK's debt and provides additional liability support mechanisms. Due to NRW.BANK's strong capital and liquidity position and asset quality, and low-risk business profile, risks to NRW are limited. Other important shareholdings include Köln/Bonn airport (31%), Duisburg port (66.7%), Messe Düsseldorf GmbH (20%) and Koelnmesse GmbH (20%), and several hospitals. Overall, we assess risks stemming from the Land's shareholding as low.

Limited risks from shareholdings…

Contingent liabilities in form of guarantees stood at EUR 9.9bn at YE 2024, or 10% of operating revenue. These are mostly towards financial institutions and economic policy.

…and guarantees.

Additionally, and in line with other Länder, NRW faces unfunded pension provisions related to its civil servants. To partially cover these, the Land's pension fund ('Pensionsfonds des Landes Nordrhein-Westfalen') held assets worth EUR 15.9bn at YE 2024, invested roughly equally in stocks and fixed income. In 2024, contributions to the fund ceased and an annual amount limited to the realised return of the portfolio can be withdrawn to ease the pension burden during years of high projected pension payments, which are expected to reach their maximum in 2028. In 2024, EUR 343m were withdrawn, or around 2.3% of the fund's assets. The return measure stood at 3.6% at YE 2024. For 2025, planned withdrawals amount to EUR 460m. The fund's forward-looking management will ensure the assets do not fall below their 2022-level of EUR 13.1bn. The fund adheres to sustainability criteria, for example stocks are invested according to the STOXX ESG Länder Eurozone PAB (Paris-Aligned Benchmark) and STOXX ESG Länder Global Ex-Eurozone PAB.

EUR 14.7bn pension fund partially covers pension liabilities

Finally, some contingent liability risk arises from NRW's municipal sector. Municipalities in NRW hold high legacy short-term borrowings ('Kassenkredite' above a certain limit) of around EUR 19bn in 2023. In February 2025, the state government approved a draft law for the proportional debt relief of its municipalities under which the Land will provide EUR 250m annually to take over municipal debt, shifting the debt burden onto the Land's balance sheet. Following the parliamentary process, the bill is expected to be passed before the summer recess. It allows for federal government participation and the Land has voiced its expectation of the Bund fulfilling previous commitments to participate equally in the municipal debt relief. To support its municipalities and ease administrative burden, as well as support a reduction in fresh short-term borrowings, the Land has amended rules of municipal budgetary management ('3. NKFWG NRW').

EUR 250m annually for municipal debt relief

Liquidity position and funding flexibility

NRW's liquidity management and holdings are very strong. Its capital market access and funding flexibility are assessed as the strongest among peers and constitute a key credit strength.

NRW's liquidity and funding positions are excellent

We view NRW's liquidity management as conservative and prudent due to comprehensive inter-year cash planning and the availability of numerous sources of liquidity, as well as sizeable available cash buffers. We expect liquidity holdings to further decline, as they are drawn down to redeem debt associated with its Covid-19 special fund in 2024-25. Cash flows are prone to seasonal variability driven by the tax calendar. Additional access to liquidity to bridge intraday needs, if required, is available through credit facilities from financial institutions. An additional source of liquidity is provided by commercial cash transactions between German Länder, which lend excess liquidity to each other. In combination with excellent market access, the risk of liquidity shortages is negligible.

Ample liquidity, ensured access to liquidity

NRW has excellent funding flexibility and conditions as the largest sub-sovereign issuer in Europe and its benchmark issuer status, a key credit strength. In 2024, the Land issued EUR 10.1bn in new debt in line with its issuance programme.[7] In 2025, EUR 6.5bn have been issued until end-March. Refinancing costs for 2025 allow for an issuance volume of EUR 13.3bn.[8] Higher issuance volumes, a more liquid curve, higher issuance sizes and bigger investor tickets lead to lower aggregate funding costs vis-a-vis other Länder. NRW's average weighted coupon on fixed rate debt is 1.86%.

NRW's benchmark issuer status is a key credit strength

Further, NRW is a pioneer with respect to ESG capital market issuance. In 2015, it was the first among German Länder to issue an ESG bond and has since regularly issued sustainability bonds, having issued its eleventh issue with a maturity of five years and a volume of EUR 1.25bn in 2024. With over EUR 20bn in sustainability bonds outstanding, NRW is the largest seller of ESG bonds among German Länder and among the largest in the European SSA capital debt markets. We generally view ESG-labelled bond issuance as credit positive, as it increases the capital market presence and visibility as an issuer and also widens the Land's investor base.

Pioneering role in ESG debt issuance

[7] This excludes EUR 1.34bn issued in Q1 2025 under the cyclical component for 2024.

[8] Any issuances under the cyclical component would be expected to fall into Q1 of the following year.

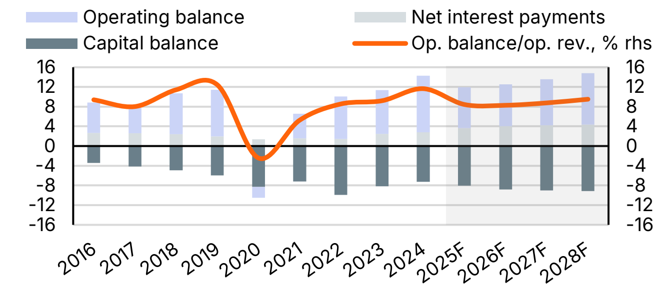
Budget

Budgetary performance and outlook

Track record of solid budgetary performance

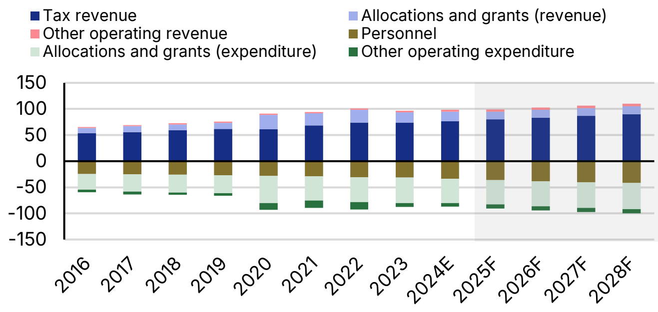
NRW displayed robust budgetary performance between 2016 and 2019, with operating margins of an average of 10% of operating revenues (**Figure 7**), in line with other Länder given an accommodative monetary and economic backdrop and consolidation efforts before the implementation of the debt brake at state level in 2020.

Figure 7: Budgetary performance, EUR bn (lhs); % (rhs)



Sources: NRW, Destatis, Scope Ratings

Figure 8: Components of operating balance, EUR bn



Sources: NRW, Destatis, Scope Ratings

Covid-19 crisis led to a substantial deficit in 2020

From 2020, the Covid-19 shock heavily impacted budgetary planning and fiscal outcomes. To finance Covid-19 related measures, NRW created the special fund 'NRW Rettungsschirm' with credit authorisations of up to EUR 25bn under the state's debt brake's emergency safeguard clause. Overall, about EUR 20bn of credit authorisations were used. The fund is terminated since 2022 and any funds borrowed but not expensed are used for debt redemptions and interest payments until end-2025.

NRW's operating balance, including Covid-19 budgetary effects, turned to a deficit of EUR 2.2bn (2.4% of operating revenue) in 2020. This was mostly driven by an increase in operating expense of over 40% YoY, driven by higher transfer expenditure, which was not fully offset by crisis-related transfers from the federal government. The deficit before debt movement was mainly financed by net borrowing of EUR 11.4bn in 2020.

Operating performance recovered in 2021/22…

Budgetary performance recovered in 2021-22. A rebound in operating revenue was largely driven by higher tax revenue, growing an average 10% YoY. Any outperformance vis-à-vis budgeted levels in 2021/22 was used to lower net borrowing requirements under the Land's Covid-19 special fund. While the operating balance turned to a surplus, the balance after capital accounts remained negative at EUR 3.8bn (3.9% of total revenue) in 2021 and EUR 2.7bn (2.6%) in 2022, and the Land's net borrowing totalled EUR 8.7bn under its Covid-19 special fund for both fiscal years.

Net borrowing in 2023 limited to energy special fund, no borrowing in core budget

In 2023, the budgetary outcome slightly outperformed budgeted levels, by EUR 94m. The Land had also created a special fund dedicated to the energy crisis with credit authorisations of up to EUR 5bn. Operating revenues declined by 4.2%, driven by broadly stable tax revenues (although around EUR 390m lower than budgeted), in contrast to healthy growth rates during 2021-22 due to subdued economic performance and some revenue-reducing federal policies, and lower transfer revenue. Operating expenditure decreased by 5% compared to 2022. Overall, the operating surplus improved to 9.2% of operating revenue and the deficit after capital accounts improved to around 1.7% of total revenues. In terms of net borrowing, the Land redeemed EUR 1.6bn in Covid-19 related borrowings, while net borrowing amounted to EUR 2.3bn within the 2023 special fund. NRW also withdrew nearly all funds in its budgetary reserve ('Allgemeine Rücklage') of around EUR 1bn.

Spending pressures in 2024 and beyond; commitment to debt brake

NRW resumed regular budgeting practices in line with its financial plan following the termination of the Land's special fund "NRW-Rettungsschirm" in 2022 and the special fund "NRW-Krisenbewältigung" in 2023. Similar to its peers, NRW continues to face operating spending pressures, driven by personnel costs in education and the police. Tax revenues amounted to EUR 76.6bn, below originally budgeted levels but better than the autumn tax projections suggested. The operating margin remains robust and increased to over 10%. The Land made partial use of the cyclical component of the debt brake to balance the budget, using around half of the allowed volumes, and redeemed EUR 1.7bn in net terms during the financial year.

Low reserves balanced by prudent budgetary management

Reserves remain relatively low with EUR 93m at the end of 2024 available in the general reserve. This low level compared to peers is partly driven by the ruling of the constitutional court of the state in 2003 that prohibits debt-financed build-up of reserves as performed by some other states. The use of 'Selbstbewirtschaftungsmittel', i.e. independently managed funds, allows NRW some flexibility beyond the financial year to help ensure efficient spending of resources. Such resources can be held as liquidity and must usually be spent up to three years after their original budgeting.[9]

Balancing future budgets will remain challenging as indicated by the anticipated but unidentified lower expenditure ('Globale Minderausgaben') and higher revenue ('Globale Mehreinnahmen') of a total of more than EUR 7bn annually for 2026-2028 in the financial plan. We expect these to decline in final budgets as NRW continues its prudent budgetary management and consolidates its public finances. Additional headroom within the debt brake will likely also be used to address the high operating expenditures, elevated financing costs and high investment needs. The Land aims to maintain its investment ratio of around 10%.

Revenue flexibility

Limited revenue flexibility

As for all German Länder, NRW's revenue flexibility is generally limited, as a large share of operating revenue stems from shared taxes. 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.

Expenditure flexibility

Limited expenditure flexibility, spending pressures over forecast horizon

In line with other Länder, expenditure flexibility is also generally limited. A large share of NRW's expenditure is relatively rigid, including on personnel (36% of operating expenditure in 2023), and transfers (55%), including to municipalities. Given inflationary trends, the Land's expenditure will remain high. In 2023, and together with 14 other Länder, NRW reached an agreement with its employees for pay rises over 2024 and 2025, which were also applied to its civil servants. Additional expected expenditure of EUR 1.8bn in 2024 and EUR 3.0bn in 2025 were already budgeted for in its financial planning for 2023-27. Finally, the Land's capital expenditure ratio stands at around 10% of total expenditure, broadly in line with peers. Given high investment needs, including for NRW's industrial transition, we see limited leeway to adjust capital expenditure, which is planned to increase by around 6% annually between 2025-26.

Economy

Wealth levels and economic resilience

NRW has Germany's largest regional economy

NRW's sound economic profile is characterised by its position as the country's largest regional economy and wealth levels slightly below the national average. In 2024, the Land's GDP made up 20.3% of national output. GDP per capita stood at 94.3% of the national average in 2024 (**Figure 9**). This is slightly below pre-pandemic levels as its regional economy has developed largely in line with the national average since 2020, also due to the considerable weight of NRW in national aggregate statistics. However, NRW's output contraction in 2023 of 1.3% and in 2024 of 0.4% were more

[9] The new regulation in State Budget Code § 15 (3) adopted in February 2025 with effect from 1 January 2025, specifies the usage of the 'Selbstbewirtschaftungsmittel'.

pronounced than the national average (0.3% and 0.2%, respectively), highlighting structural features of NRW's economy.

Broadly diversified economic structure, some exposure to energy-intensive industry

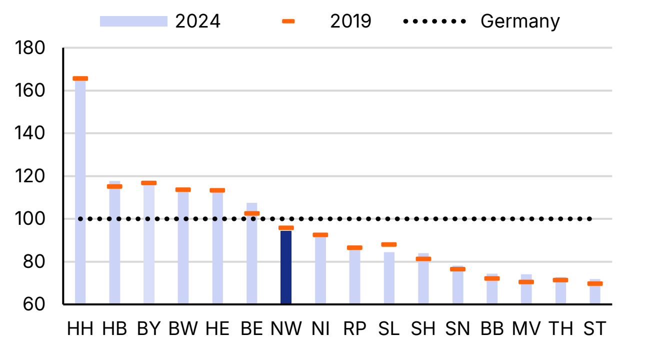
NRW's economic structure is highly diversified and the sectoral contribution of services to overall gross value added has grown to over 70%, but NRW also remains relatively more reliant on energy-intensive industry, including basic chemicals, basic metals and steel-making. In addition, the region 'Rheinisches Revier' remains an important hub for lignite extraction until the planned phaseout by 2030. The importance of energy-intensive industrial production poses transition challenges and left the regional economy more exposed to high and volatile energy prices since 2022. This also partly necessitated the Land's 2023 budgetary special fund, with budgeted measures of around EUR 400m for businesses and to increase energy resilience.

Economic sustainability

NRW plans to become first carbon-neutral industrial hub in Europe by 2045

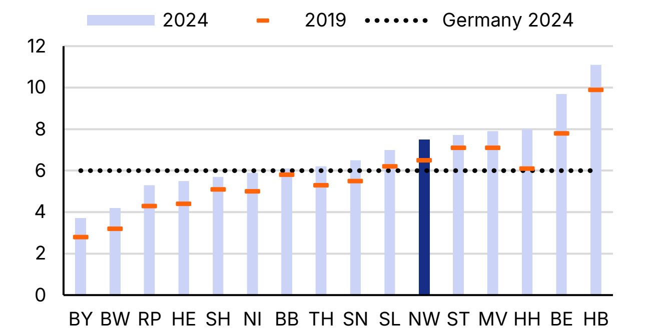
While NRW's energy and sectoral mix are relatively more exposed to transition costs, the state is addressing these challenges with support from the federal government, highlighting the country's solidarity principle. A core element of the Land's economic and energy policy is to become Europe's first carbon-neutral industrial hub by 2045. Core elements of the strategy are increased investment into renewable energy and hydrogen production, including to facilitate green steelmaking. Finally, the state's exit from coal was brought forward to 2030, from 2038, with significant federal transfers of EUR 14.8bn supporting the affected region's transition.

Figure 9: GDP per capita, % of national average



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

Figure 10: Unemployment rate, %



Sources: Destatis, Scope Ratings

The labour market remains robust

Second, the labour market remains robust. While the unemployment rate was slightly above the national average in 2024 (**Figure 10**), the growth in employed persons is in line with the national average. Overall, NRW's economic outlook and growth potential is assessed as broadly in line with the German average, also given NRW's importance in terms of economic output and population. Potential benefits from the national governments new special funds are expected to be largely in line with the national average and according to the ifo index (*Geschäftsklimaindex*), business sentiment has started to improve in Germany in March.

Key risks for regional economy are further disruptions in energy markets, skilled labour supply

Key challenges relate to trade disruptions caused by the sharp increase in global US tariffs, further disruptions in energy markets interrupting the industry's nascent recovery, and energy supply security and cost competitiveness in the medium-term as the state's green and energy transition progresses. Second, a shrinking working age population, in line with peers, is set to intensify the shortage of skilled workers and limit the state's growth potential.

Governance

Governance and financial management

After latest elections in May 2022, the CDU formed a coalition with the Greens as junior partner, with Hendrik Wüst (CDU) as minister president. We expect policy continuity in the coming years.

CDU-led coalition since 2022

NRW is committed to the debt brake, limiting new net borrowing. We view this stance as overall credible, although additional headroom under the reformed debt brake will likely be used at least partially as challenges remain given spending pressures and high investment needs.

Committed to the debt brake

We deem financial planning and reporting, as well as debt and liquidity management as comprehensive and effective, in line with the high governance standards of the German Länder. Finally, we view the Land's efforts related to developing its budgetary management and reporting ('EPOS.NRW project') as positive.

Environmental and social considerations

Environmental factors and resilience

Regarding exposure to transition and physical risks, we see NRW as broadly in line with the nationwide average, also given NRW's size. The state is somewhat more exposed to transition risks, which is however mitigated by the federal institutional framework and significant federal transfers in support of NRW's transition. This stems from the fact that the state's economic structure is relatively more reliant on energy-intensive industry and faces costs related to the phase-out of coal until 2030. A full exit from electricity production from coal will significantly reduce carbon emissions and support the state's emissions reduction path. The central government is supporting the region's coal exit via significant grants in support of the economic transition.

Federal framework supports NRW's climate transition

Physical climate risks are broadly in line with the nationwide average. The supportiveness of the federal framework was also on display when the Ahrtal experienced flooding in 2021, with a EUR 30bn recovery fund set up by the federal government and Länder to share the financial burden. Another physical climate risk relates to droughts and low water-levels of the Rhein river, which runs through NRW and is an important transportation channel, especially for heavy industrial goods. Low water levels experienced in recent years slowed goods transports and led to rising prices.

The Land is addressing these challenges and is striving to become the first carbon neutral industrial region in Europe. To promote climate protection and to adapt to the effects of climate change, the government has passed a climate law in 2021, which was the most ambitious among the German states up until that point. In 2023, the Land published its first climate protection act, with 68 concrete measures to enable the state's climate goals. The key commitment is to become carbon neutral by 2045, which is in line with the current nationwide goal.

NRW is addressing challenges, ambitious climate goals in line with federal government

Finally, the Land's administration aims to be carbon neutral by 2030, with its 542 administrative units and other institutions and around 172,000 persons in employment for the state.

Social factors and resilience

A key risk related to social factors across Germany is the ageing population and shortage of skilled workers. NRW's demographic profile is assessed as in line with nationwide trends. Population changes via-a-vis peers are crucial for financial equalisation and other financial flows.

An ageing population is a key risk, similar to other Länder

In the recent past, the integration of refugees, especially from Ukraine presented a key challenge. Associated spending needs weighted on the budget since the start of the war and continued to put an additional strain in the budget in 2024. At the same time, immigration supports working age population growth and can strengthen economic growth if integration is successful. This is reflected by recent increases in employment.

Significant costs relate to refugees

Education and security remain key spending priorities for the current government and are clearly reflected in NRW's financial planning through 2028.

Sustainability bonds enhance reporting

Finally, proceeds from the Land's sustainability bonds contribute to several social and environmental projects. The latest bond was linked to over 50 such projects in the 2024 budget spanning the areas of education and research, healthcare, transport, climate, and digitalisation.

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	55
Indicative notching	0

Appendix III. Mapping table

We derive the indicative rating by mapping the result of the institutional framework assessment to the ICP score. For NRW, 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	-5/-6	-7/-8	-9/-10	-10

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

Appendix IV. Statistical table

From 2025, the table displays Scope Ratings' estimates and forecasts, which may deviate from the Land's projections.

	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Budgetary performance (EUR m)									
Operating revenue	75,807	91,134	94,442	101,024	96,698	98,711	98,883	102,756	106,367
Operating revenue growth, %	4.1%	20.2%	3.6%	7.0%	-4.3%	2.1%	0.2%	3.9%	3.5%
Tax revenue	62,011	61,034	68,220	74,105	73,984	76,580	79,839	83,370	86,510
Allocations and grants	11,566	27,821	23,560	24,187	19,518	17,959	14,752	14,904	15,207
Other operating revenue	2,230	2,279	2,661	2,732	3,196	4,172	4,292	4,482	4,650
Operating expenditure	66,385	93,351	89,484	92,394	87,804	87,212	90,545	94,253	97,054
Operating expenditure growth, %	2.9%	40.6%	-4.1%	3.3%	-5.0%	-0.7%	3.8%	4.1%	3.0%
Personnel	27,153	28,311	28,998	30,386	31,534	33,618	36,026	38,692	40,221
Allocations and grants	34,248	52,029	46,102	47,737	48,493	46,371	46,519	47,861	49,133
Other operating expenditure	4,983	13,011	14,384	14,271	7,777	7,223	8,000	7,700	7,700
Operating balance	9,422	-2,218	4,958	8,629	8,893	11,499	8,337	8,503	9,314
Interest received	31	14	8	25	464	747	350	200	150
Interest paid	2,002	1,384	1,576	1,432	2,925	3,534	3,970	4,220	4,385
Net interest paid	1,972	1,370	1,568	1,407	2,461	2,787	3,620	4,020	4,235
Current balance	7,450	-3,587	3,390	7,222	6,432	8,712	4,717	4,483	5,079
Capital balance	-5,988	-8,301	-7,187	-9,905	-8,191	-7,264	-8,044	-8,845	-9,006
Balance before debt movement	1,462	-11,888	-3,797	-2,683	-1,759	1,448	-3,327	-4,362	-3,927
New borrowing (credit market)	16,630	26,808	20,533	18,245	14,398	11,134	15,232	18,928	11,440
Debt redemption (credit market)	16,642	15,430	15,834	14,013	13,543	12,836	15,561	10,312	10,588
Net borrowing	-12	11,379	4,699	4,232	855	-1,702	-330	8,616	852
Debt (EUR m)									
Direct debt	170,923	178,500	180,896	179,003	177,159	175,457	175,128	183,743	184,595
Guarantees	7,382	8,704	8,148	7,202	6,640	6,640	6,640	6,640	6,640
Overall debt risk (direct debt plus guarantees)	178,305	187,204	189,044	186,205	183,799	182,097	181,768	190,383	191,235
Financial ratios									
Debt/operating revenue, %	225.5%	195.9%	191.5%	177.2%	183.2%	177.7%	177.1%	178.8%	173.5%
Debt/operating balance, years*	18.1	N/A	36.5	20.7	19.9	15.3	21.0	21.6	19.8
Interest payments/operating revenue, %	2.6%	1.5%	1.7%	1.4%	3.0%	2.8%	3.7%	3.9%	4.0%
Implicit interest rate, %	1.2%	0.8%	0.9%	0.8%	1.7%	2.0%	2.3%	2.3%	2.4%
Operating balance/operating revenue, %	12.4%	-2.4%	5.2%	8.5%	9.2%	11.6%	8.4%	8.3%	8.8%
Balance before debt movement/total revenue, %	1.9%	-12.8%	-3.9%	-2.6%	-1.8%	1.4%	-3.3%	-4.1%	-3.6%
Transfers and grants/operating revenue, %	15.3%	30.5%	24.9%	23.9%	20.2%	18.2%	14.9%	14.5%	14.3%
Capital expenditure/total expenditure, %	11.1%	9.8%	9.1%	11.7%	10.6%	10.2%	10.4%	10.6%	10.4%
Economy and demographics									
Nominal GDP, EUR m	731,488	717,488	754,396	806,852	851,036	871,867			
GDP per capita, EUR	40,774	40,002	42,086	44,746	46,851	47,916			
GDP per capita, % of national GDP per capita	95.8%	96.4%	95.2%	94.8%	94.6%	94.3%			
Real GDP growth, %	0.2%	-3.6%	2.2%	0.3%	-1.3%	-0.4%			
Population, '000s	17,947	17,926	17,925	18,139	18,190				
Unemployment rate, % labour force	6.5%	7.5%	7.3%	6.8%	7.2%	7.5%			

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

Lead Analyst
Eiko Sievert
+49 69 6677389-79
e.sievert@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

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Bloomberg: RESP SCOP
Scope contacts

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