

# Land of Berlin

## Rating Review Annex



**AAA**  
STABLE  
OUTLOOK

### Credit strengths

- Integrated institutional framework
- Conservative budgetary management
- Favourable debt profile
- Excellent capital market access
- Prudent liquidity management
- Strong economic base

### Credit challenges

- High direct debt levels
- Sizeable, though largely low-risk, contingent liabilities
- Unfunded pension commitments
- Limited revenue 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

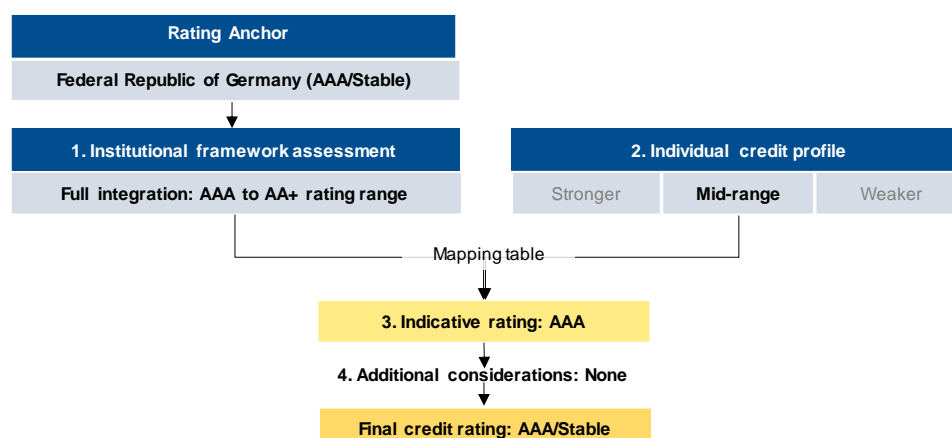
### Rating rationale and Outlook

The Land of Berlin's (Berlin) 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 Länder's creditworthiness with the German federal government's AAA/Stable ratings.
- **A mid-range Individual Credit Profile**, underpinned by i) conservative budgetary management, ii) a favourable debt profile and excellent capital market access, iii) prudent liquidity management and iv) strong economic base. In addition, sizeable federal support measures have mitigated the adverse effects of the Covid-19 crisis on the economy and Berlin's finances over 2020/21. Credit challenges relate to high direct debt, low revenue flexibility given limited leeway to adjust revenue via own taxes, unfunded pension commitments weighing on long-term expenditure flexibility as well as sizeable, though low-risk, contingent liabilities.

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 Berlin



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 the sovereign rating
- Changes in the institutional framework, resulting in weaker support
- Structural deterioration in the individual credit profile

### Lead Analyst

Julian Zimmermann  
+49 69 6677389-89  
[j.zimmermann@scoperatings.com](mailto:j.zimmermann@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)



Bloomberg: RESP SCOP

## 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 Land of Berlin as mid-range vis-à-vis peers, with an ICP score of 55 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	55
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.

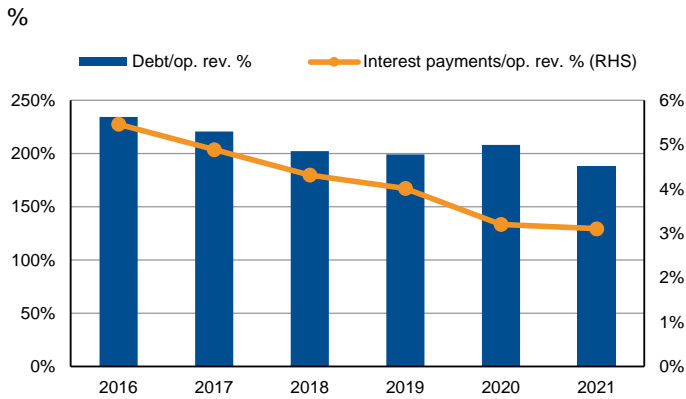
For Berlin, this results in an indicative rating aligned with the sovereign rating of AAA. No additional considerations apply.

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.

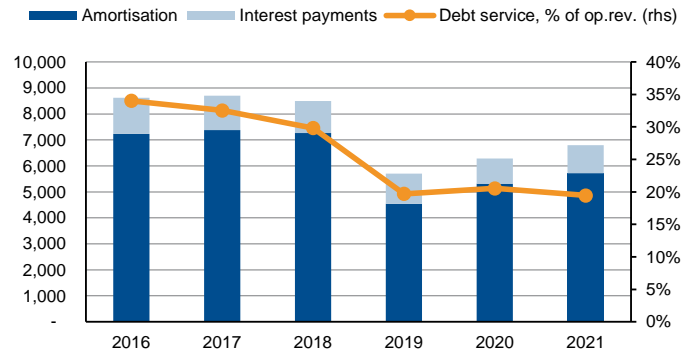
## IV. Selected charts

### Debt and interest burden



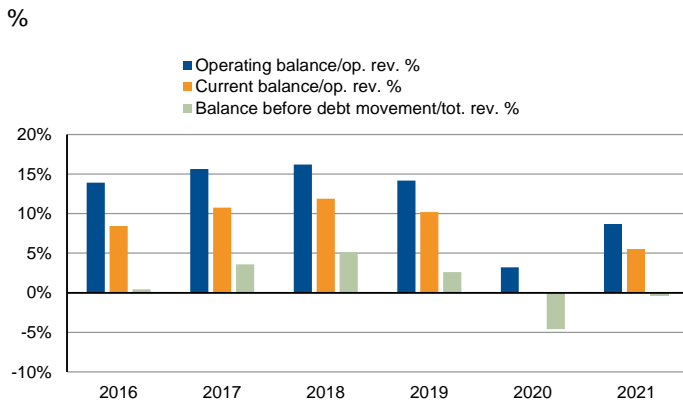
### Debt service

EUR m, % (rhs)



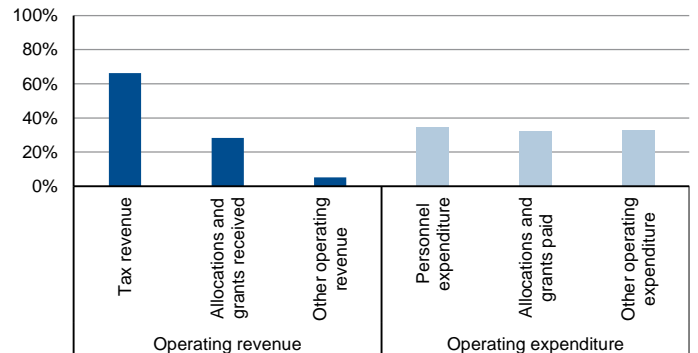
Source: Destatis, Land of Berlin, Scope Ratings

### Budgetary performance



### Operating budget composition

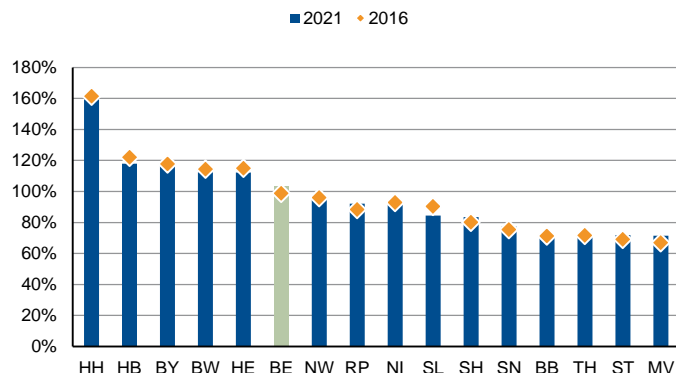
% of operating revenue / expenditure, 2019-21 average



Source: Destatis, Land of Berlin, Scope Ratings

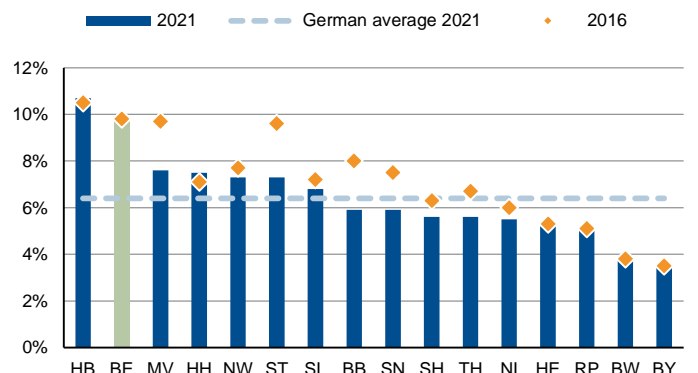
### GDP per capita

% of national average



### Unemployment rate

% of civilian labour force



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

## V. Statistical Overview

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Budgetary Performance (EUR m)</b>										
Operating revenue	21,530	21,795	22,909	23,791	25,362	26,724	28,482	28,925	30,608	34,970
Operating expenditure	18,358	18,952	19,747	20,445	21,833	22,536	23,865	24,824	29,620	31,959
Operating balance	3,172	2,843	3,162	3,346	3,528	4,188	4,617	4,101	988	3,010
Net interest payments	2,097	1,921	1,759	1,607	1,385	1,306	1,229	1,148	971	1,071
Current balance	1,075	922	1,403	1,739	2,143	2,882	3,388	2,953	17	1,939
Capital balance	-425	-469	-549	-1,553	-2,026	-1,882	-1,879	-2,175	-1,450	-2,061
Balance before debt movement	650	453	854	187	118	1,000	1,509	778	-1,432	-122
<b>Debt (EUR m)</b>										
Direct debt	62,256	61,607	60,804	59,906	59,436	58,994	57,600	57,555	63,705	65,923
Guarantees	8,776	8,890	7,510	6,901	5,928	5,152	4,255	3,016	3,007	4,616
Overall debt risk (direct debt plus guarantees)	71,032	70,497	68,314	66,807	65,364	64,146	61,855	60,571	66,712	70,539
<b>Financial ratios</b>										
Debt/operating revenue, %	289.2%	282.7%	265.4%	251.8%	234.4%	220.8%	202.2%	199.0%	208.1%	188.5%
Debt/operating balance, years	19.6	21.7	19.2	17.9	16.8	14.1	12.5	14.0	64.5	21.9
Interest payments/operating revenue, %	9.7%	8.8%	7.7%	6.8%	5.5%	4.9%	4.3%	4.0%	3.2%	3.1%
Implicit interest rate, %	3.4%	3.1%	2.9%	2.7%	2.3%	2.2%	2.1%	2.0%	1.5%	1.6%
Operating balance/operating revenue, %	14.7%	13.0%	13.8%	14.1%	13.9%	15.7%	16.2%	14.2%	3.2%	8.6%
Balance before debt movement/total revenue, %	2.9%	2.0%	3.6%	0.8%	0.4%	3.6%	5.1%	2.6%	-4.6%	-0.3%
Transfers and grants/operating revenue, %	39.0%	38.3%	35.7%	35.7%	33.9%	35.9%	34.3%	33.2%	27.1%	24.6%
Capital expenditure/total expenditure, %	6.6%	6.3%	6.4%	10.0%	11.2%	10.7%	9.8%	10.9%	7.0%	8.3%
GDP per capita, % of national GDP per capita	96.0%	95.3%	95.1%	96.5%	98.6%	99.5%	101.7%	103.0%	104.1%	103.5%

Source: Land of Berlin, 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)

## Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, Scope Innovation Lab GmbH, Scope ESG Analysis GmbH and Scope Hamburg GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.