

Land of Berlin Rating Report



Credit strengths

- Integrated institutional framework
- Conservative budgetary management
- Track record of fiscal consolidation
- Favourable debt profile
- Excellent capital market access
- Prudent liquidity management
- Strong economic base

Credit weaknesses

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

Ratings & Outlook

Foreign and local

currency

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

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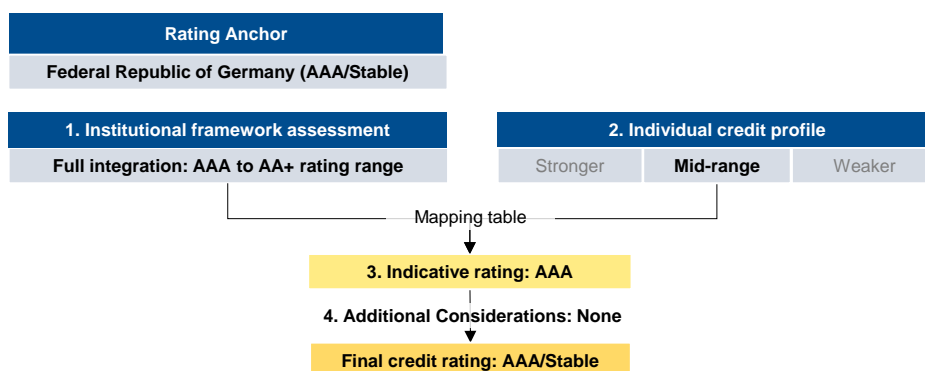
Rating rationale and Outlook:

The Land of Berlin's (Berlin) AAA ratings are driven by:

- A highly integrated institutional framework, characterised by a very strong revenue equalisation system paired with the federal solidarity principle, which results in the close alignment of Länder's creditworthiness with the German federal government's AAA/Stable ratings.
- The rating also reflects Berlin's individual credit profile, assessed as 'mid-range'. This reflects its conservative budgetary management, track record of fiscal consolidation, favourable debt profile, excellent capital market access, prudent liquidity management and strong economic base. 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 but manageable contingent liabilities.

The Stable Outlook reflects our assessment that the risks Berlin faces remain well balanced.

Figure 1: Our rating approach for the Land of Berlin



For further detail, see Scope's [Sub-sovereigns Rating Methodology](#).

Source: Scope Ratings

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Downgrade of Germany's sovereign rating, necessitating a rating review
- Changes in the framework, resulting in weaker support
- Individual credit profile weakens significantly and structurally

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Bloomberg: RESP SCOP

Integrated framework results in close alignment of creditworthiness**Institutional framework**

Berlin, like all German Länder¹, benefits 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.

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'.

The framework assessment results in an indicative downward rating adjustment of up to one notch between the Federal Republic of Germany (AAA/Stable) and the rating of any federal state. For an overview of our framework assessment, see [Appendix I](#).

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**Federal government as shock absorber during recent crises**

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 costly crisis measures, leading to federal budget deficits of an average 3.3% of GDP over 2020-2022. In response to the Russia-Ukraine war and resulting high and volatile energy prices, the federal government will be financing gas and electricity price brakes until at least April 2024, budgeted at EUR 83.3bn in 2023, among other measures.

Comprehensive fiscal equalisation system**Ordinary budgetary support and fiscal equalisation**

The German system is shaped by a federal financial equalisation system that strongly aligns different fiscal capacities across regions. A reformed equalisation system took effect in 2020, with horizontal distribution occurring via deductions and top-ups to collected VAT, as well as vertical transfers from the federal government.

Berlin is largest beneficiary of the equalisation system

As in the previous system, Berlin is the largest net beneficiary with total transfers of EUR 5.3bn in 2022. The net effect of the system change is positive for all Länder as contributions from the federal government are greater under the reformed system.

¹ We use the term 'Land' (or collectively 'Länder') and 'state' interchangeably to refer to German federal states.

Autonomous borrowing, access to shared liquidity**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 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 63 occasions in the past, although not all of the 16 Länder participated.

Debt brake laws anchor borrowing; stability council conducts oversight**Fiscal rules and oversight**

Since 2020, the Länder have to comply with debt brakes under which they cannot run structural financing deficits unless, for example, hit by a severe economic downturn or a natural disaster.² The debt brake also caps the structural annual deficit of the central government at 0.35% of GDP. The German parliament used the emergency clause of the debt brake in 2020-2022 in response to the Covid-19 and energy crises. Separately, Berlin invoked the safeguard clause of its debt brake for 2020 to implement support measures and credit authorisations to mitigate the impact of Covid-19. Borrowing under safeguard clauses comes with mandatory redemption rules.

The finances of the Länder and their compliance with debt limits are monitored by the Stability Council, established in 2010 to monitor restructuring programmes and compliance with budgetary targets. The Council comprises the finance ministers of each Land and the federal ministers of finance and economic affairs. If the Stability Council determines that a Land is threatened with a budgetary emergency, it agrees on a restructuring programme with the affected authority.

Shared tax authority with the federal government**Revenue and spending powers**

The Länder and the federal government share a taxation authority and jointly decide on rates and revenue distribution for high-revenue common taxes (income and VAT). The latest reform of federal financial relations (in 2017) took effect in 2020 and resulted in a higher share of VAT revenue being distributed among the Länder. The VAT distribution fully compensates for the variation in taxing powers, replacing the previous process of horizontal payments between the Länder. Alongside common taxes, the central government and the Länder have separate taxation authorities for lower revenue-generating 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.

² 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.

Individual credit profile of 'mid-range' strength

Individual credit profile

We assess Berlin's individual credit profile as 'mid-range' among German Länder. This is underpinned by the Land's: i) favourable debt profile, prudent liquidity management and excellent capital market access; ii) conservative budgetary management, which has enabled a gradual build-up of budgetary reserves in recent years, along with moderate revenue and expenditure flexibility; iii) large and diversified economic base with solid growth prospects and favourable demographic long-term trends; and iv) high quality of governance.

Credit challenges relate to high direct debt levels, limited revenue flexibility with little room for increases of own taxes and high pension liabilities weighing on long-term expenditure flexibility, as well as sizeable, yet manageable, contingent liabilities. The Covid-19 crisis has led to higher debt and a temporary budgetary deterioration due to revenue losses and additional expenditure, although not as severe as initially expected. Due to a better-than-expected performance, the state entered 2023 with sizeable reserves, but budgetary headwinds, such as slowing tax revenue growth coupled with expenditure pressures will lead to an expected draining of reserves in the near-term, requiring additional consolidation efforts for the coming years.

Berlin's debt is relatively high, Covid-19 and energy crises reversed debt reduction trend

Debt burden and liquidity profile

Berlin's debt burden is relatively high in a national and international context. After successful consolidation and debt reduction leading up to the Covid-19 shock in 2020, Berlin's budgetary response caused direct debt to rise to EUR 63.7bn in 2020 and EUR 65.9bn in 2021, from EUR 57.6bn in 2019. In 2022, Berlin's nominal debt stock remained stable at EUR 65.9bn, above its previous peak in 2012. Debt relative to operating revenue amounted to 180% at YE 2022, down from 189% a year before, and still well below a peak of 289% in 2012 (**Figure 2**, next page).

Like other states and federal government, Berlin utilised safeguard clause of debt brake

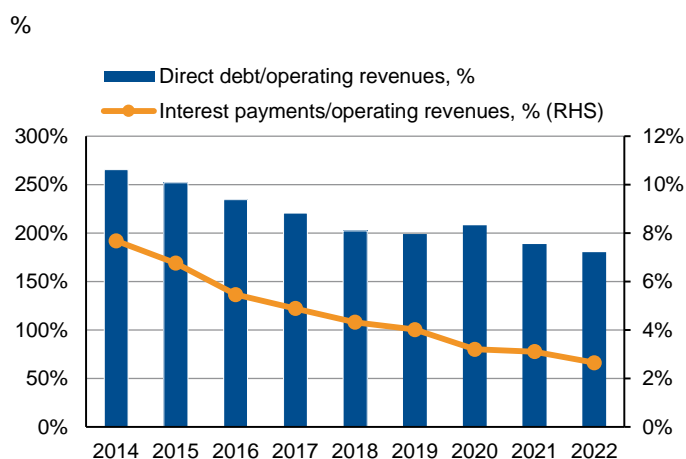
In response to the pandemic, Berlin's parliament invoked the safeguard clause of the state's debt brake and implemented credit authorisations of EUR 7.3bn³. Berlin made use of the full envelope of authorisations to issue the corresponding amount of debt. Funds raised but not needed in 2020 and 2021 remained at around EUR 5.4bn and were placed in a pandemic reserve earmarked for tax revenue shortfalls and pandemic-related expenditures. The size of the pandemic reserve decreased to EUR 3.4bn at YE 2022. The remaining portion of the reserve is budgeted to be used up in 2023.

The government programme foresees a debt-funded special fund worth up to EUR 10bn

The government programme of the recently formed CDU/SPD government foresees a debt-funded special fund worth EUR 5bn (potentially to be topped up to EUR 10bn in 2024) for energy savings in the building sector, renewable energies, climate friendly mobility and the transformation of the economy. The government identifies the green transition and the need for exiting fossil energy sources as an emergency situation as defined in the state's debt brake, and thus allowing for credit authorisations.

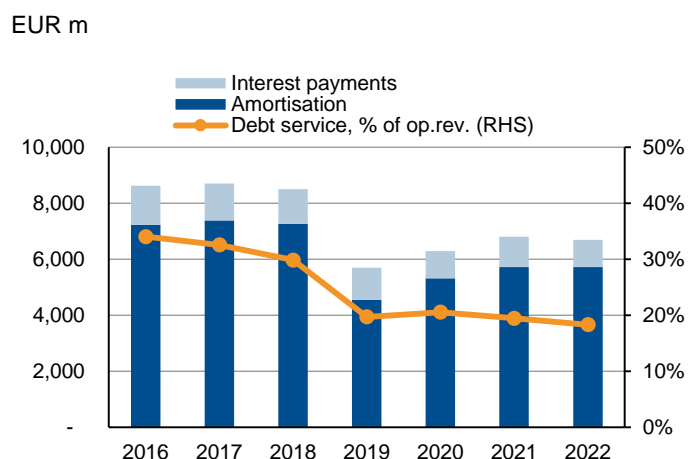
³ Law on the adoption of the Berlin budget for fiscal years 2020 and 2021 (Haushaltsgesetz 2020/2021 - HG 20/21) of 17 December 2019 (GVBl. p. 830), last amended by law of 17 December 2020 (GVBl. p. 1487).

Figure 2: Debt and interest burden



Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

Figure 3: Debt service



Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

Excellent market access and conservative debt management

The risks associated with Berlin's high debt stock are mitigated by a favourable debt profile and excellent market access. Berlin's debt service has been on a declining trend as a result of an increase in the average maturity of outstanding debt and declining interest rates (**Figure 3**). Although redemptions will remain high over the coming years at around EUR 5.4bn-5.5bn, or 15% of operating revenue, it is significantly down from EUR 9.7bn or 45% of operating revenue in 2013. The mandatory redemption plan for debt incurred under the 2020 pandemic credit authorisation foresees annual instalments of EUR 270m between 2023 and 2049, leading to manageable additional debt service requirements.

Berlin employs a conservative debt management strategy with very limited foreign currency and interest rate risks. At YE 2022, the average maturity of outstanding debt was 8.3 years, lengthened from 7.8 years in 2018. Almost all debt issued by Berlin is denominated in euro (99.8% at YE 2022), and Berlin hedges interest rate risk, such that after swaps, 96.4% of debt was at fixed rate at YE 2022. Finally, the Land issued a first sustainable bond of EUR 750m in February 2023, which was significantly oversubscribed, highlighting the Land's widening and reliable investor base.

Low interest payment burden

Berlin's interest expenses are in line with the safe-haven status of the Länder. The average cost of outstanding debt was 1.41% in 2022, up from 1.26% in 2021 reflecting the increase in bond yields due to the ECB's monetary tightening. Still, interest payments declined further in 2022, to 2.6% of operating revenue in 2022 from 9.7% in 2012, raising Berlin's financial flexibility. The latest stability report submitted to the Stability Council stated that Berlin was expected to meet three out of four financial thresholds⁴ over the financial planning period and comply with the debt brake.

Prudent liquidity management

We view liquidity management as sound due to comprehensive inter-year cash planning and the availability of numerous sources of liquidity. Berlin also benefits from prudent financial planning and maintains a sizeable cash buffer throughout the year. Following the pandemic-related funding of EUR 7.3bn, which was allocated to a pandemic reserve, Berlin's cash balance significantly rose over 2020-22. In 2023, the liquidity buffer is expected to decrease gradually but remain very comfortable. The Land's cash flows, especially inflows, are prone to seasonal variability driven by the tax calendar. Additional continued access to liquidity to bridge intraday needs, if required, is available through

⁴ The four ratios are the structural budget balance per inhabitant, the credit finance ratio, the interest-to-adjusted tax ratio and debt per inhabitant.

credit facilities from major financial institutions. An additional source of liquidity is also provided by commercial cash transactions between the German Länder, which lend excess liquidity to each other. In combination with excellent market access, the risk of liquidity shortages is negligible.

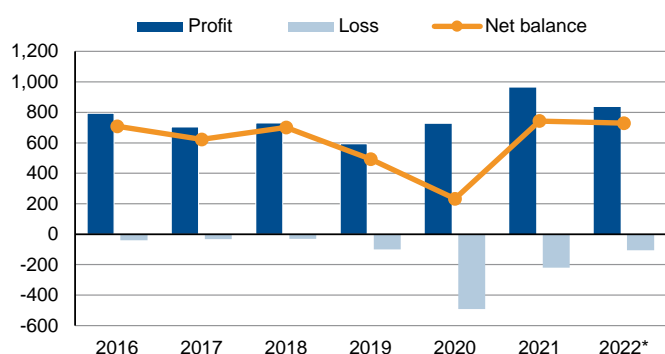
Low-risk guarantees

Berlin also has a moderate level of contractual guarantees outstanding. As of 2022, outstanding guarantees stood at EUR 4.3bn, down from EUR 26.6bn in 2010. There is a limited risk that the obligations of entities and projects guaranteed by Berlin will crystallise onto the Land's balance sheet.

Contractual guarantees are primarily related to three sectors. Half of the outstanding guarantees are for Berlin public companies, especially the Berlin electricity grid (EUR 1.7bn) and the Berlin water works (EUR 922m), whose business models are low-risk, with positive and stable financial results expected in future years. Similarly, outstanding guarantees relating to subsidised housing transactions conducted by Investitionsbank Berlin and KfW are assessed as low risk, amounting to EUR 496m. Guarantees for debt held by housing associations also do not pose a material credit concern, because the associations generate stable rental income. Finally, guarantees for Berlin Brandenburg Airport amounted to EUR 866m.

Figure 4: Profits and losses of Berlin's holdings

EUR m



* Based on preliminary information. Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

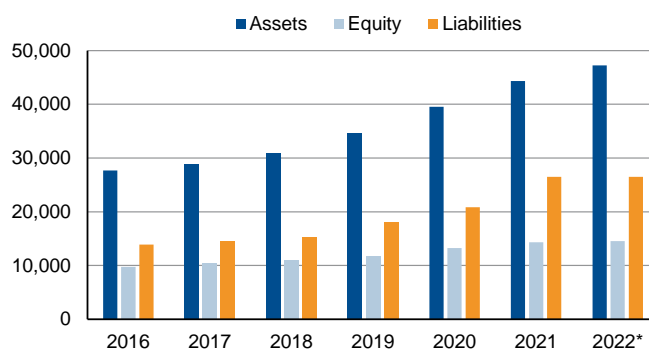
Shareholdings play critical role in investment policy

Berlin's shareholdings play a critical role in the state's investment policy. The roughly 40 majority-owned companies fulfil a significant public-sector mandate for Berlin by helping to boost the city's regional economy. They have a record of positive annual results, which supported high and sustained investment volumes. The Covid-19 crisis has adversely affected the profitability of several of the Land's holdings in 2020-22 (**Figure 4**).

The shareholdings most affected by pandemic restrictions were Berlin Brandenburg Airport, the exhibition centre Messe Berlin, and the hospital operator Vivantes. The budgetary impact on the Land however is overall moderate. Total liabilities at Berlin's holdings increased to EUR 26.5bn in 2022, up from EUR 20.9bn in 2020 (**Figure 5**). Correspondingly, assets increased to EUR 47.2bn in 2022. Equity increased to EUR 14.5bn in 2022, broadly stable vis-à-vis 2021. Most of the shareholdings' liabilities were incurred by the Land's regional development bank and social housing associations. Risks related to the airport are not yet fully resolved, as highlighted by a capital injection of EUR 1.2bn in 2022, and a final tranche planned in 2026. At the same time, risks to the Land are mitigated by the fact that it holds only 37% of shares.

Figure 5: Assets, liabilities, and equity of Berlin's shareholdings

EUR m



* Based on preliminary information. Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

Good budgetary performance before the pandemic

Budgetary performance and flexibility

Berlin's track record of solid budgetary performance has been underpinned by controlled expenditure growth between 2012 and 2019, with high operating surpluses averaging 14% of operating revenue. The administration has shown a strict commitment to fiscal consolidation through effective cost control, with growth in operating expenditure matching that for operating revenue over 2012-2019. Consistently high operating surpluses have enhanced Berlin's ability to cover interest payments and capital expenditure. As a result, after investment activities and interest payments, Berlin posted surpluses between 2012 and 2019 averaging 2.6% of total revenue, which supported a gradual reduction of its direct debt until YE 2019.

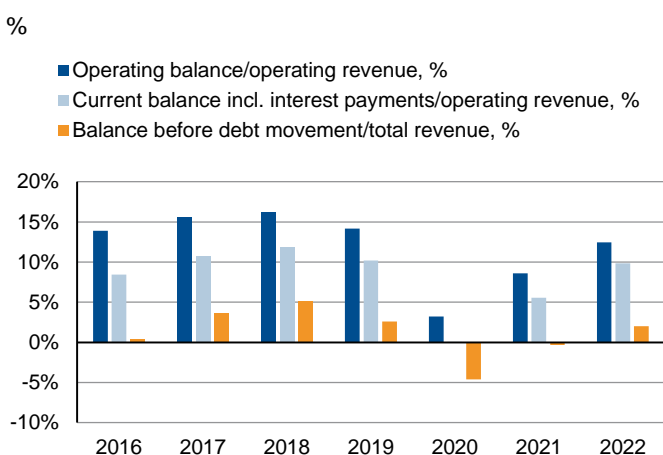
Berlin reacted to crises with amending budgets

As was the case for the German federal government and other Länder, Berlin's budgetary planning and fiscal outcomes were heavily impacted by the Covid-19 and energy crises between 2020 and 2022. Berlin's senate reacted promptly to the shock and made the necessary adjustments to strengthen flexibility for the 2020/21 budget to counteract lower tax revenue and implement support measures for regional businesses and expand healthcare, testing and vaccination capacity. In reaction to the energy shock, the Land implemented an amending budget for 2022/23, including several measures amounting to a total EUR 2.6bn to support businesses and households during the cost-of-living shock. The 2022/23 amending budget did not include any additional credit authorisations.

2020/21 results affected by the pandemic, strong recovery in 2022

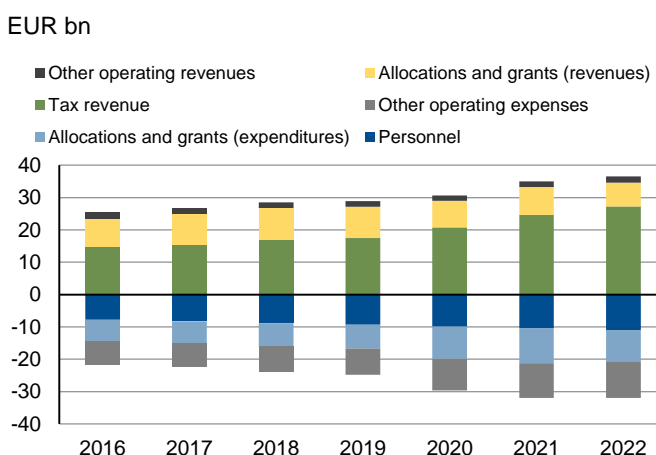
Berlin's budget balance turned to a deficit (before debt movement) of EUR 1.4bn, or 4.6% of total revenue, in 2020 and 0.3% in 2021 (**Figure 6**). In 2022, the state posted strong results, ending the year with a EUR 750m surplus before debt movement, or 2.0% of total revenue. As in 2021, financial performance in 2022 benefitted from very strong nominal tax revenue. Tax revenue stood at EUR 28.9bn, up 10% from 2021. This was primarily driven by robust growth in shared taxes, such as VAT and personal income tax, but also due to strong trends in inheritance tax, real estate transfer tax and corporate income tax. Operating expenditure was broadly stable at 2021 levels.

Figure 6: Budgetary performance



Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

Figure 7: Components of operating balance



Source: Senatsverwaltung für Finanzen Berlin, Scope Ratings

2023 results expected in line with budget

We expect Berlin's financial result in 2023 to be in line with budgeted levels and therefore to be in moderate deficit before debt movement of around 1% of total revenue. Tax revenues are expected to be in line with budgeted levels at around EUR 28bn for 2023. The Land had already incorporated last year's tax relief implemented at the federal level into its projections, leading only to moderate effects on the Land's expected tax revenue of the latest tax projections in May 2023. At the same time, this would result in a decrease of tax revenue by around 3% relative to 2022, in contrast to the high growth

rates experienced in 2021 and 2022, highlighting that the rising budgetary pressures related to inflationary developments on the expenditure side are unlikely to be mitigated as strongly as in 2021/22 by higher-than-budgeted revenues.

Ukraine-Russia war adds to Covid-19 budgetary implications

We also expect lasting structural consequences from the pandemic and energy crises. Additional debt service expenses from the EUR 7.3bn in pandemic-related new debt will represent expenditure of about EUR 270m, or 0.8% of operating revenue, while additional interest expenses will be manageable. To ease the burden on the 2024/25 budget, the Land will redeem EUR 810m in 2023, partly using the remaining pandemic reserve, instead of the mandatory EUR 270m. The inflationary shock related to the war in Ukraine and associated monetary tightening will have long-lasting effects on expenditure items such as interest costs, costs related to Ukrainian refugees, as well as other operating costs such as for energy.

Budgetary pressures in the medium-term mitigated by track record in consolidation

Structurally higher spending will require Berlin to re-balance spending and investment activity. In the financial planning, tight expenditure control will be necessary in view of high spending and investment needs as well as the pandemic reserve being exhausted at YE 2023. Over the medium term, we expect Berlin to adhere to its long-term fiscal consolidation strategy, supported by a commitment to fiscal consolidation, conservative budget management, low debt service costs, budgetary flexibility, and economic and demographic outperformance of national peers.

High level of investment strengthens budgetary flexibility

Berlin's budgetary flexibility benefits from a high share of investment relative to total expenditure at an average 10% between 2017 and 2022. Berlin's investment strategy is based on three pillars: i) the core budget including funds from the federal government's municipal investment promotion programme; ii) the SIWA fund (a special fund for infrastructure investments); and iii) infrastructure investments by the Land's shareholdings, which improve budgetary flexibility. While the core budget and SIWA contributed above EUR 2.5bn per year in investments, Berlin's major holdings have regularly undertaken more than EUR 3.5bn in infrastructure investments in recent years. Including investments under SIWA, total investment spending amounted to EUR 4.1bn in 2022. Other reserves include a reserve for higher construction costs to enable the Land to mitigate the inflationary effects on its construction activities.

Budgetary reserves provide additional budgetary leeway

Conservative budgets and accommodative financing conditions have significantly reduced Berlin's interest payment burden over the last ten years, strengthening budgetary flexibility. The Land has expanded its social infrastructure in recent years to respond to rapid population growth and a constrained local property market. Berlin also has around EUR 1.8bn remaining as budgetary reserves (earmarked mostly for investments), accumulated via allocations of previous budgetary surpluses to the SIWA fund. The reserves can be used beyond an accrued fiscal year, providing additional budgetary leeway and partially mitigating shocks from economic downturns.

Rigid operating expenditure structure

Berlin has limited flexibility to adjust operating expenditure due to its rigid structure, since minimum legislative requirements and the socially sensitive nature of several expenditure items make most items difficult to trim. Personnel costs amounted around 34% of operating expenditure in 2022, broadly in line with its long-term average, while transfers to districts represented 30% (**Figure 7**).

Strong and diversified tax base, stable transfers from the Bund

Like all German Länder, Berlin also has limited flexibility to adjust revenue. The German financial equalisation system weakens the link between a Land's tax revenue and its economic performance. In line with constitutional arrangements between the Länder and the Bund, Berlin receives shared taxes, largely revenues from personal income taxes, VAT and corporate taxes. These revenues are initially collected by Berlin's tax offices but are later redistributed at a national level in accordance with revenue-sharing agreements

and additional transfer mechanisms. Berlin has also made use of its city-state status to introduce municipal fees, which have supported budget consolidation. Berlin is a net recipient of the reformed financial equalisation system.

Increasing pension burden

Going forward, pension expenditure will constitute an increasing budgetary burden. In 2022, pension payments amounted to 8% of total expenditure, below the national average of 9%. This is because after reunification, civil servants in the new Länder were not included in the pension scheme but in a pay-as-you-go system under the Pension Transition Act. To ease the pressure from pension obligations, Berlin provides mandatory payments to the pension contribution plan (required by German law). These totalled a cumulative EUR 1.2bn at YE 2022, resulting in largely unfunded pension commitments. The fund is not designed to cover future liabilities but serves as a buffer for future payment peaks. According to an external actuary appointed by Berlin, pension obligations for the next 30 years amount to around EUR 70bn.

Economy and social profile

Berlin benefits from a strong socio-economic profile underpinned by strong growth dynamics, favourable demographics and a lively start-up and IT sector. Berlin contributes around 4.6% of national GDP, up from 4.1% in 2015. The state's GDP per capita has exceeded the German average since 2018, and stood at around 105% in 2022.

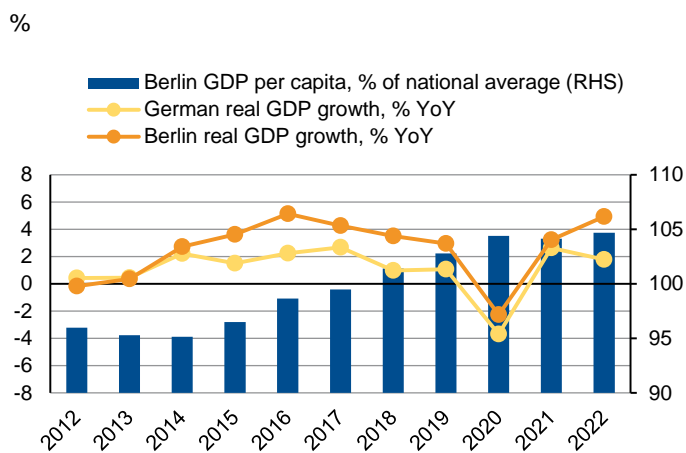
Economy expands in 2022, but economic uncertainties remain

Before Covid-19, Berlin's economy had expanded strongly, with real GDP growth exceeding the German average since 2014. As a result, GDP per capita rose above the national average for the first time since 2000, to 101.4% of the German average in 2018, highlighting the Land's success in economic convergence. After a strong decline in 2020, Berlin's economy recovered by 3.2% in 2021, a higher rate than the German average of 2.6%. The economy continued to prove resilient throughout the energy crisis, increasing its real gross domestic product by 4.9% in 2022, surpassing nationwide growth of 1.8% (**Figure 8**, next page). The service sectors increased value added by 6.2% in real terms last year, significantly contributing to Berlin's economic growth. We expect the economy to grow in 2023 by around 1.5%, but higher prices and their dampening effect on consumption provide downside risks to the forecast.

Stable labour market despite economic uncertainties

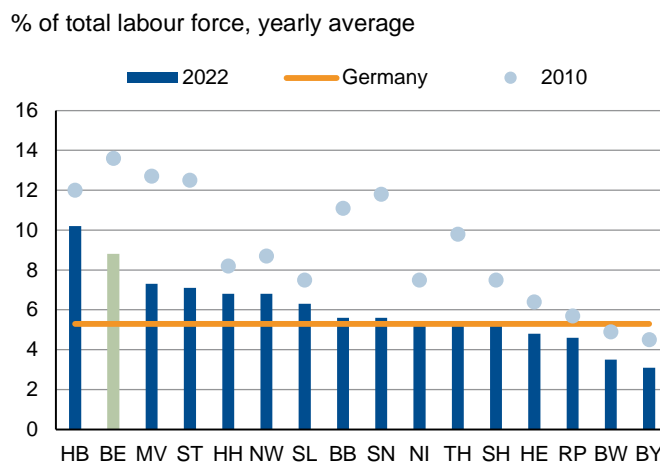
In line with the recovery in economic activity and employment protection measures, the labour market in Berlin has performed robustly over 2022 and into 2023. After peaking at 10.6% in February 2021, the unemployment rate has been gradually decreasing to 9.2% in April 2023, and therefore converging back to its pre-pandemic level (**Figure 9**, next page). Further, total employment in the Land has been robust during the pandemic and energy shocks, standing at an all-time high of around 2.2m at YE 2022. This supports the regional tax base, even though the federal equalisation system delinks to a large extent regional economic and tax revenue performance.

Figure 8: Real GDP growth



Source: Volkswirtschaftliche Gesamtrechnung der Länder, Scope Ratings

Figure 9: Unemployment ratio



Source: Destatis, Scope Ratings

Favourable demographics compared to other Länder

Berlin benefits from favourable social and demographic profiles. With around 3.7m inhabitants in 2022, the German capital is also by far the country's largest city. The city's population has been growing dynamically, due to Berlin's attractiveness and net immigration from other European countries, adding an average 31,000 inhabitants each year over 2016-2022. Immigration in 2022 also included around 43,000 refugees from Ukraine.

Formation of governing coalition after bumpy election period

After the Berlin constitutional court ruled that the 2021 elections for the Berlin parliament and the district assemblies had to be re-run, elections took place in February 2023. The Christian Democratic Union (CDU) emerged as the winner of the elections with 28.2% of the votes, followed by the Social Democratic Party (SPD) and the Greens with 18.4% each. The CDU and SPD formed a coalition with Kai Wegner (CDU) as Berlin's governing mayor. We expect broad policy-continuity until the next scheduled elections in 2026.

Administration firmly committed to fiscal consolidation and responsive to short-and medium-term challenges

Berlin's fiscal policy has been effective at balancing investment and consolidation needs. The state's senate reacted promptly to the Covid-19 shock and the Russia-Ukraine crises, making the necessary adjustments to the budget and ensuring access to liquidity for the regional real economy via direct fiscal support or liquidity funds to the hardest-hit businesses and vulnerable households. At the same time, a goal for structurally balanced budgets has been set only for 2028, signalling challenges in the medium-term to consolidate rising expenditures with the Land's regular revenues.

The Berlin senate has also been responsive to longer-term social and environmental challenges. The priorities of the new coalition agreement include a multi-billion-euro climate protection programme, a reform of the administration, better equipment for the police and fire department and significant progress in housing construction.

First issuance of sustainable bond; climate neutrality by 2045

Environmental and social considerations

Berlin has recognised the challenges coming from climate change and has put in place a climate plan that aims to reduce greenhouse gas emissions by 70% relative to 1990 levels by 2030 and become climate neutral (95% reduction) by 2045. As part of its Sustainable Finance Strategy, Berlin has issued its first ten-year sustainability bond with a volume of EUR 750m in February 2023 to accompany the city's financing of the sustainable transformation.

Affordable housing is the main social challenge

The government has identified the provision of affordable housing in a growing city as a main challenge and is implementing measures to support households amid the current cost-of-living crisis. Through its six housing associations, it has implemented a moratorium of evicting tenants based on late payments during the energy crisis, as well as a rent freeze until end-2023.

Further, the Land has set a goal of adding around 20,000 new apartments per year, of which up to 5,000 should be for social housing purposes. Out of the 20,000, the Land's housing associations are to add around 6,500 per year, highlighting the Land's active policy-making through its holdings.

Strong demographic development vis-à-vis peers

Berlin outperforms peers in terms of education attainment as reflected by a higher-than-average share of graduates (44.6% vs 30.9% national average) but has the highest share of young people neither in employment nor in education training among the Länder. In terms of demographic related indicators, Berlin similarly outperforms peers with an old-age dependency ratio of 29% versus 34.2% (national average), the second lowest among peers. According to data provided by Destatis, the working-age population is expected to decline for all federal states between 2022 and 2030, except for Berlin (2.9%) and Hamburg (0.7%), based on a moderate net migration scenario.

Appendix I: Institutional Framework Assessment

To assess the institutional framework, we apply a Qualitative Scorecard (QS1) centred around six 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
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 (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 50 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	50
Indicative notching	0

Appendix 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	100 > x ≥ 90	0-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
	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.

Appendix IV: Statistical table

	2015	2016	2017	2018	2019	2020	2021	2022
Financial performance in EUR m (unless noted otherwise)								
Operating revenue	23,791	25,362	26,724	28,482	28,925	30,608	34,970	36,540
<i>Operating revenue growth, %</i>	3.8%	6.6%	5.4%	6.6%	1.6%	5.8%	14.3%	4.5%
Tax revenue	13,626	14,767	15,399	17,027	17,534	20,732	24,653	27,220
Allocations and grants	8,496	8,593	9,600	9,756	9,616	8,302	8,616	7,403
Other operating revenue	1,669	2,002	1,725	1,699	1,775	1,573	1,700	1,917
Operating expenditure	20,445	21,833	22,536	23,865	24,824	29,620	31,959	31,996
<i>Operating expenditure growth, %</i>	3.5%	6.8%	3.2%	5.9%	4.5%	19.3%	7.9%	0.1%
Personnel	7,487	7,807	8,221	8,854	9,310	9,859	10,505	10,941
Allocations and grants	6,452	6,755	6,923	7,215	7,370	9,983	10,713	9,712
Other operating expenditure	6,506	7,271	7,392	7,795	8,144	9,778	10,741	11,343
Operating balance	3,346	3,528	4,188	4,617	4,101	988	3,010	4,544
Net interest payments	1,607	1,385	1,306	1,229	1,148	971	1,071	954
Current balance	1,739	2,143	2,882	3,388	2,953	17	1,939	3,590
Capital balance	-1,553	-2,026	-1,882	-1,879	-2,175	-1,450	-2,061	-2,840
Balance before debt movement	187	118	1,000	1,509	778	-1,432	-122	750
New borrowing (credit market)	7,136	7,039	5,425	4,511	2,967	12,129	3,470	5,390
Debt redemption (credit market)	8,324	7,228	7,381	7,262	4,539	5,315	5,714	5,721
Financial ratios								
Balance before debt movement/total revenue, %	0.8%	0.4%	3.6%	5.1%	2.6%	-4.6%	-0.3%	2.0%
Operating balance/operating revenue, %	14.1%	13.9%	15.7%	16.2%	14.2%	3.2%	8.6%	12.4%
Interest payments/operating revenue, %	6.8%	5.5%	4.9%	4.3%	4.0%	3.2%	3.1%	2.6%
Current balance/operating revenue, %	7.3%	8.5%	10.8%	11.9%	10.2%	0.1%	5.5%	9.8%
Capital expenditure/total expenditure, %	10.0%	11.2%	10.7%	9.8%	10.9%	7.0%	8.3%	10.1%
Debt								
Direct debt	59,906	59,436	58,994	57,600	57,555	63,705	65,923	65,903
Guarantees	6,901	5,928	5,152	4,255	3,016	3,007	4,616	4,283
Overall debt risk (direct debt plus guarantees)	66,807	65,364	64,146	61,855	60,571	66,712	70,539	70,187
Debt ratios								
Direct debt/operating revenue, %	251.8%	234.4%	220.8%	202.2%	199.0%	208.1%	188.5%	180.4%
Overall debt risk (incl. guarantees)/operating revenue, %	280.8%	257.7%	240.0%	217.2%	209.4%	218.0%	201.7%	192.1%
Interest payments/direct debt, %	2.7%	2.3%	2.2%	2.1%	2.0%	1.5%	1.6%	1.5%
Debt per inhabitant (EUR)	16,831	16,486	15,744	15,008	14,773	17,386	17,926	17,644
Economic performance								
GDP at market prices	124,914	133,210	141,322	149,391	157,131	156,762	165,457	179,379
<i>share in Germany's GDP, %</i>	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.6%	4.6%
GDP per capita (EUR)	35,741	37,551	39,320	41,164	42,965	42,752	45,074	48,147
<i>% of Germany's GDP per capita</i>	96.5%	98.6%	99.5%	101.4%	102.8%	104.4%	104.1%	104.7%
Population ('000s)	3,520	3,575	3,613	3,645	3,669	3,664	3,677	3,735
Real GDP growth, %	3.6%	5.1%	4.3%	3.5%	3.0%	-2.3%	3.2%	4.9%
Unemployment rate, % of labour force	10.7%	9.8%	9.0%	8.1%	7.8%	9.7%	9.8%	8.8%

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



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