Land of Berlin

Rating report

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. This framework closely aligns the creditworthiness of the Länder with the German federal government's AAA/Stable ratings. Recent amendments to Germany's fiscal framework, including the easing of the debt brake, now allow the Länder collectively to run a structural deficit of up to 0.35% of national GDP and to access up to EUR 100bn in federally sourced infrastructure funding. While this provides additional fiscal capacity, it also reflects a shift toward a more expansionary fiscal stance. We expect operating margins across the Länder to remain under pressure, having declined from pre-pandemic levels due to higher personnel and administrative costs as well as slower economic momentum. These factors suggest a shift toward moderately higher deficits, though within a still-supportive institutional and fiscal framework.

A 'mid-range' Individual Credit Profile underpinned by: i) conservative budgetary management and a track record of fiscal consolidation; ii) excellent capital market access and a favourable debt profile; iii) prudent liquidity management; and iv) a strong socio-economic profile.

Credit challenges relate to: i) relatively high direct debt; ii) rising budgetary pressures and moderate budgetary flexibility, in line with other Länder; and iii) largely unfunded pension commitments weighing on long-term expenditure flexibility as well as sizeable, but manageable, contingent liabilities.

Figure 1: Berlin's rating drivers

Rating Anchor

Federal Republic of Germany (AAA/Stable)

1. Institutional Framework Assessment	2. Individual Credit Profile		
Full integration: AAA to AA+ rating range	Stronger	Mid-range	Weaker

Mapping table

3. Indicative Rating: AAA

4. Additional Considerations: None

Final credit rating: AAA/Stable

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

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

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Credit strengths and challenges

Credit strengths	Credit challenges
• Integrated institutional framework • Conservative budgetary management, track record of fiscal consolidation • Excellent capital market access, favourable debt profile • Prudent liquidity management • Strong socio-economic profile	• High debt levels • Budgetary pressures, moderate budgetary flexibility • Sizeable, though largely low-risk contingent liabilities; unfunded pension commitments

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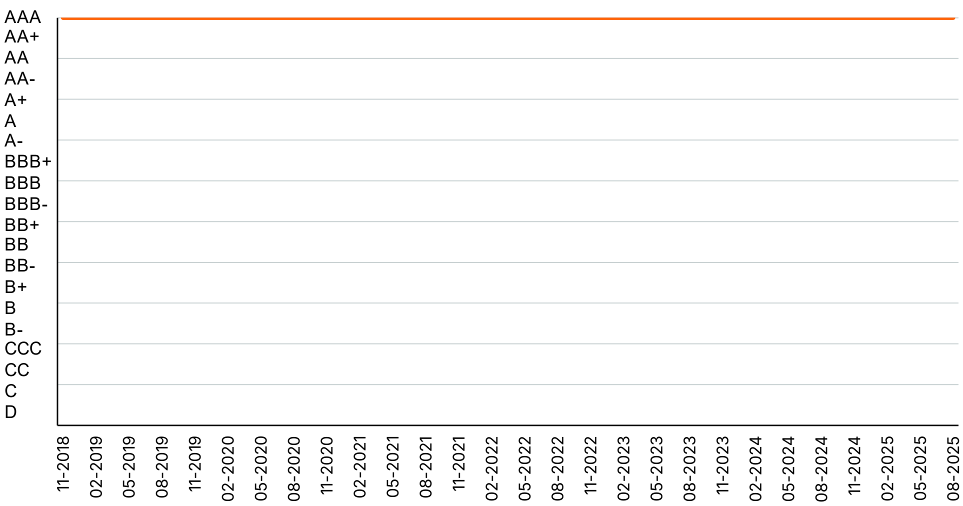
Outlook and rating triggers

The Stable Outlook reflects Scope's 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 a notably weaker individual credit profile • Individual credit profile weakens significantly and structurally

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

1. Institutional framework

Federal framework results in close rating alignment...

Berlin, like all German Länder[2] 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'.

...with distance of up to one notch from the sovereign rating.

The framework assessment results in an **indicative downward rating adjustment of up to one notch** from Germany's AAA/Stable rating for any of the federal states (see Appendix I for an overview).

1.1 Extraordinary support and bail-out practices

Strong solidarity principle ensures extraordinary support

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.

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 most countermeasures and provided direct grants to the Länder to mitigate the impact on their finances.

1.2 Ordinary budgetary support and fiscal equalisation

Comprehensive fiscal equalisation system

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 via deductions and top-ups to collected VAT, as well as vertical transfers from the federal government.

Berlin is the largest beneficiary of the equalisation system

As in the previous system, Berlin is the largest net beneficiary with total transfers of EUR 5.7bn in 2024, including EUR 3.9bn in redistributed VAT. The net effect of the system change is positive for all Länder as contributions from the federal government are greater under the reformed system.

1.3 Funding practices

Autonomous borrowing, access to shared liquidity

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 66 occasions, although not all of the 16 Länder participated. Berlin has not participated in any of the past issues.

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

1.4 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. Exceptions to the debt brake allow debt issuances in cases of natural disasters or severe economic downturns; such emergency and cyclical loans are not considered structural borrowing, but rather legally defined exceptions to the fiscal rule[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] and to access EUR 100bn from the national infrastructure special fund. The government has agreed on the distribution of the additional headroom in line with the Königssteiner Schlüssel, however finalisation of the draft law is pending the remaining legislative process in the Bundestag and Bundesrat. While we expect most Länder to at least partially make use of the higher borrowing capacity, there will be differences among them in the implementation and extent of usage of the new borrowing flexibility.[5] 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 an emergency 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. Similarly, 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.

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 Länder's finance ministers 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 federal constitutional court with implications for Länder's financial planning…

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. The ruling also affected Berlin's budgetary strategy, with the state cancelling its plans for a climate fund funded via emergency credit authorisations.

1.5 Revenue and spending powers

Shared tax authority with the federal government

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 took effect in 2020 and resulted in a higher share of VAT revenue being distributed among the Länder. The VAT distribution s mitigates differences in taxing powers among the Länder, replacing previous horizontal payments. 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.

[3] The debt brake is a legal framework that prohibited 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 caps the structural annual deficit of the central government at 0.35% of GDP, with a constitutional exemption for debt-financed defence spending.

[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.

1.6 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. Individual credit profile (ICP)

Strongest individual credit profile among peers

We assess Berlin'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.

This is underpinned by the Land's: i) conservative budgetary management and a track record of fiscal consolidation; ii) excellent capital market access and a favourable debt profile; iii) prudent liquidity management; and iv) a strong socio-economic profile.

Credit challenges relate to i) high and increasing direct debt levels; ii) budgetary pressures with overall moderate budgetary flexibility, in line with other Länder; and iii) largely unfunded pension liabilities weighing on long-term expenditure flexibility, as well as sizeable, but manageable, contingent liabilities. To balance its budget for 2025 as well as 2026/27, we expect the state to use up its remaining, budgetary reserves and take on new borrowing. Longer-term, the state's consolidation efforts will be crucial to balancing budgets.

3. Debt and liquidity

3.1 Debt burden and trajectory

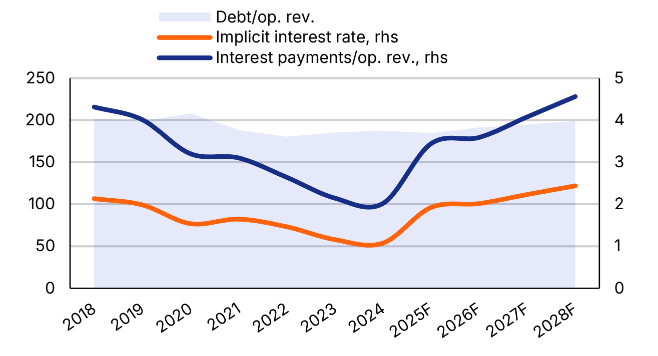
Berlin's debt is relatively high, Covid-19 reversed debt reduction trend

Berlin's debt burden is relatively high in a national and international context. After successful budget consolidation leading up to the Covid-19 shock and a reduction in the debt level to EUR 57.6bn at YE 2019, debt increased to EUR 65.9bn in 2021/22 due to crisis-related borrowing. While nominal debt had slightly declined in 2023, it rose to EUR 67.1bn in 2024. Relative to operating revenue, debt amounted to 188% at YE 2024, slightly up from recent lows of 180% in 2022, but still well-below a peak of 289% in 2012 (**Figure 3**).

Berlin utilised safeguarding clause of debt brake for Covid-19

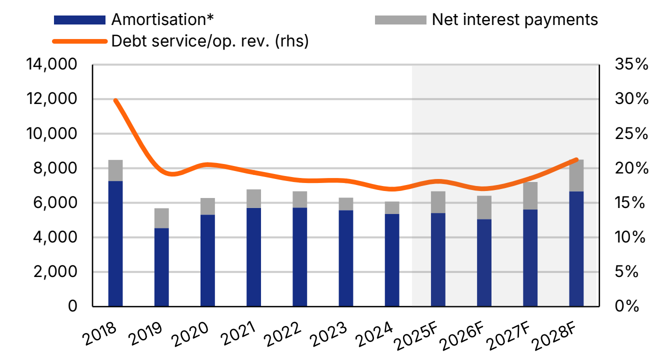
In response to the pandemic, Berlin's parliament invoked the safeguard clause of the state's debt brake and implemented credit authorisations of EUR 7.3bn. Berlin made use of the full envelope of authorisations to issue the corresponding amount of debt. Funds raised but not needed were placed in a pandemic reserve earmarked for tax revenue shortfalls and pandemic-related expenditures. The pandemic reserve was closed at the end of 2023.

Figure 3: Debt and interest burden, %



Sources: Berlin, Scope Ratings

Figure 4: Debt service, EUR m (lhs), % (rhs)



*Amortisations reflect known amounts as of end-June 2025; they may increase if new short-term debt is issued between 2025 and 2028.Sources: Berlin, Scope Ratings

Increased borrowing expected

In the coming years, we expect the Land of Berlin to make full use of the expanded fiscal space under the revised debt brake to address rising investment needs. For 2025, net borrowing plans have more than doubled to EUR 977 m, and early drafts for 2026/27 point to new debt issuance of up to EUR 7.7bn. Adjusted debt brake rules allow for additional borrowing flexibility of roughly EUR 800m annually, on top of the cyclical component and financial transaction leeway. As a result, we expect nominal debt to increase meaningfully. In the absence of stronger tax revenue growth, we forecast the debt-to-operating revenue ratio to reach 200% by 2028 (**Figure 3**).

3.2 Debt profile and affordability

The risks associated with Berlin's relatively high debt stock are mitigated by a favourable debt profile and excellent market access.

Excellent market access and conservative debt management

Berlin's debt service has been on a declining trend in recent years as a result of an increase in the average maturity of outstanding debt and declining interest rates. However, debt servicing needs are set to rise, with redemptions increasing from EUR 5.3bn in 2024 to over EUR 6.6bn by 2028 (**Figure 4**). New borrowing will add to this pressure, pushing debt service costs above 20% of operating revenue by 2028, up from current levels of 17%, but still well below the 45% peak observed in 2013. The eventual burden will depend on the maturity structure of new debt, with much of the impact materialising over the medium term. In 2025, Berlin has already refinanced EUR 6.4bn, a large share of its EUR 7.8–11.4bn issuance plan.

Berlin employs a conservative debt management strategy with very limited foreign currency and interest rate risks. At YE 2024, the average maturity of outstanding credit market debt was 8.7 years, lengthened from 7.8 years in 2018. Almost all debt is denominated in euro (99.8% at YE 2024), and Berlin hedges interest rate risk, such that after swaps, 98.9% of debt was at fixed coupon rates at YE 2024. 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. A second sustainable bond is planned for later this year.

Low interest payment burden

Berlin's interest expenses are in line with the safe-haven status of the Länder ensuring debt affordability. The average cost of debt rose to 1.78% in 2024, up from 1.26% in 2021, reflecting higher bond yields amid ECB tightening. Although interest payments remain contained at 2.0% of operating revenue in 2024, this share is expected to double over the forecast horizon as refinancing at higher rates gradually feeds through, eroding budgetary flexibility.

3.3 Contingent liabilities

Some exposure to contingent liabilities, overall risk low

Berlin 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) contractual guarantees mostly for utilities, housing, and the Berlin-Brandenburg airport, ii) strategic shareholdings, and iii) largely unfunded pension liabilities.

Low-risk guarantees

Berlin's outstanding guarantees rose to EUR 5.2bn in 2024, up 27% year-on-year due to new commitments for Berlin Energie Rekom 3 GmbH, but remain well below the 2010 peak of EUR 26.6bn. The risk of these guarantees materialising on the Land's balance sheet is considered low.

Berlin's contractual guarantees are concentrated in low-risk sectors, with over 70% linked to public utilities, such as the electricity grid (EUR 1.7bn), Berlin Energy (EUR 1.2bn), and water utility (EUR 859m), reflecting the city-state's municipal-level responsibilities. Additional guarantees for subsidised housing (EUR 331m via IBB and KfW) and for housing associations are also considered low risk due to stable rental income. Guarantees for Berlin Brandenburg Airport total EUR 688m but remain manageable within the Land's overall credit profile.

Shareholdings play a critical role in Berlin's investment policy

Berlin's shareholdings play a critical role in the state's investment policy. In October 2024, Berlin updated its Principles of Shareholding Management, further strengthening active participations. These include holdings in the transport, water and waste, hospital, energy, social housing sectors as well as the Land's exhibition centre, and a 37%-stake in the Berlin-Brandenburg airport and IBB.

On aggregate, Berlin's state holdings recorded a positive net result of EUR 220m in 2024 (**Figure 5)**, down from EUR 403m in 2023. While most profitable companies reported stable earnings compared to the previous year, losses increased notably, driven in part by one-off effects. In 2024, Vivantes and Berlin Energie Rekom 3 GmbH posted substantial losses, while Berlin Brandenburg Airport reduced its deficit but remained in negative territory. The Land continues to provide capital support to ensure its entities maintain covenant compliance amid rising external borrowing. Berlin plans substantial capital injections in 2026 and 2027. A EUR 660m capital contribution to Berlin

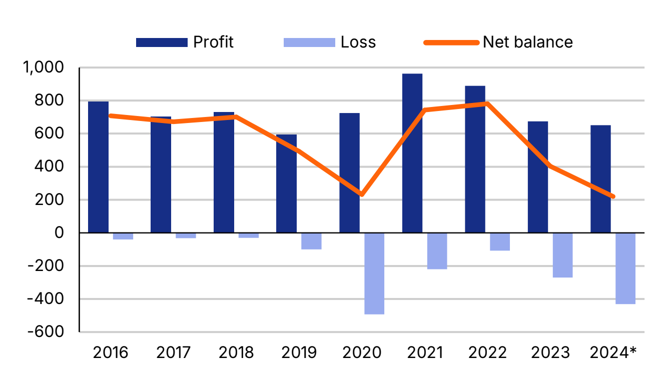
Brandenburg Airport is expected in 2026, together with Brandenburg and the national government, to support its transition to financial self-sustainability. Concurrently, Stromnetz Berlin is set to invest EUR 380m (EIB-backed) between 2025 and 2027, as part of a broader EUR 2.9bn infrastructure plan through the end of the decade.

Recent purchases underpin Land's efforts for the energy transition

In 2024, Berlin expanded its public ownership in the energy sector by acquiring BEW Berliner Wärme und Energie, following the 2021 acquisition of the electricity grid, underscoring its strategic role in the energy transition. A planned GASAG AG stake purchase was aborted in late 2024. As a result of these activities, total liabilities of Berlin's holdings more than doubled to EUR 31.3bn from EUR 13.5bn in 2015 (**Figure 6**), alongside asset growth to EUR 54.4bn and equity rising to EUR 18.2bn, marking a significant expansion in the financial scope of its shareholdings. Investment activity rose markedly, with total investment volumes increasing by nearly 30% to EUR 4.36bn in 2024, largely due to Gewobag doubling its investments and the land acquisition tied to the Tegel project.

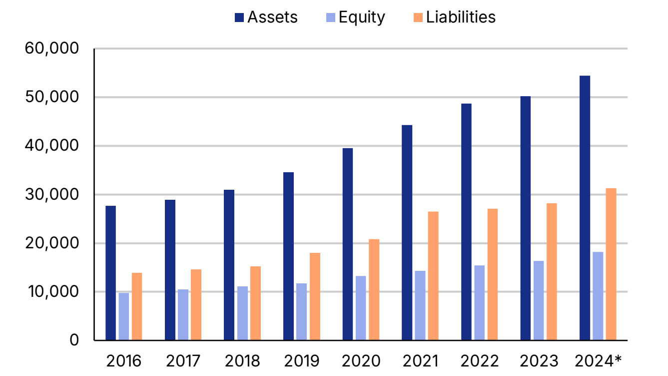
Total financial debt at state-owned entities rose 11% to EUR 31.3bn, reflecting the partial debt-financed acquisition of BEW. This increase was matched by coherent growth in fixed assets, which rose 8% to EUR 54.4bn, around half of which is attributable to the state's housing companies.

Figure 5: Profit and losses of Berlin's holdings, EUR m



* Preliminary data for 2024. Sources: Berlin, Scope Ratings

Figure 6: Assets, liabilities, and equity of shareholding, EUR m



* Preliminary data for 2024. Sources: Berlin, Scope Ratings

Only partial coverage of pension liabilities, in line with other Länder

Finally, and in line with other Länder, Berlin faces significant, unfunded pension liabilities for its civil servants, which are financed via the state's regular budget. Berlin contributes EUR 80.5m annually to its pension fund (paused in 2020–2021). As of end-2023, fund assets stood at EUR 1.4bn versus over EUR 70bn in future obligations[6], highlighting the largely unfunded nature of pension liabilities. The fund acts as a buffer for peak payments, with withdrawals permitted from 2031. In line with federal and Länder regulations, the civil servant retirement age is gradually rising from 65 to 67.

3.4 Liquidity position and funding flexibility

Prudent liquidity management and very strong funding flexibility

Liquidity management is 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.

Berlin's cash balance surged in 2020–22 due to a EUR 7.3bn pandemic-related reserve. After a temporary decline in late 2023, liquidity rose sharply again in Q1 2024, supported by front-loaded refinancing in favourable market conditions. While higher rates dampened frontloading in early 2025, Berlin continues to align issuance with investor demand, typically in H1. Cash flows remain seasonally volatile due to the tax calendar, but short-term liquidity needs are well covered by credit

[6] Pension obligations are projected to decline from EUR 75bn in 2024 to a trough of EUR 61bn in eight years, before gradually increasing to EUR 79bn in the long term, primarily due to assumed interest rate trends.

lines from major banks. 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.

4. Budget

4.1 Budgetary performance and outlook

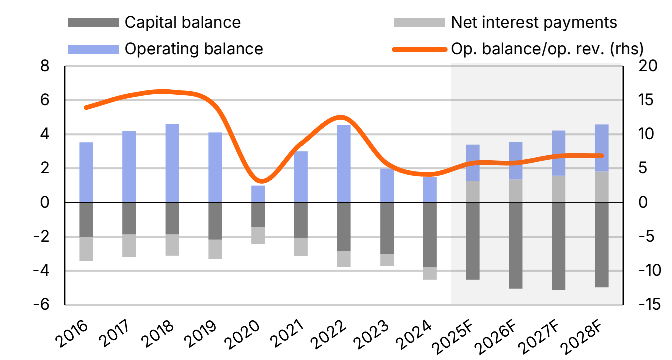
Solid budgetary performance pre-pandemic; tax rebound in 2022

Berlin's track record of solid budgetary performance and management has been underpinned by controlled expenditure growth between 2012 and 2019, with high operating surpluses averaging 14% of operating revenue (**Figure 8)**. This supported overall surpluses averaging 2.6% of total revenue, enabling reserve accumulation and gradual debt reduction. In 2020–21, pandemic-related revenue shortfalls and spending pressures reduced Berlin's operating margin to 5.9% and drove average deficits of 2.5% of total revenue. A strong tax rebound in 2022 led to a EUR 750m surplus (2.0% of revenue), enabling the Land to build fiscal buffers that supported deficit absorption in subsequent years.

Rising budgetary pressures

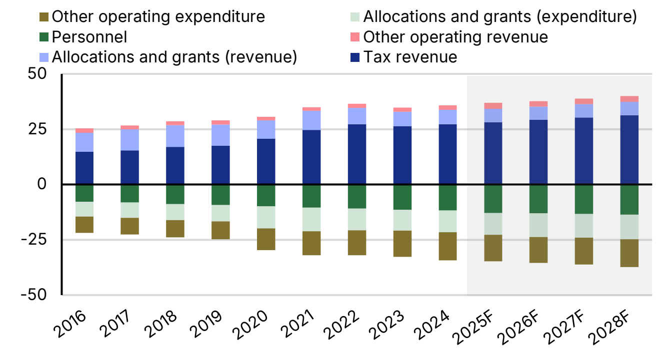
In 2023, Berlin's operating margin narrowed to 5.7% amid a 5.1% drop in revenue and rising expenditure, resulting in a EUR 1.8bn deficit before debt movement (5% of revenue). To ease pressure on the 2024 and 2025 budgets, Berlin prepaid EUR 810m in 2023, more than triple the mandatory EUR 270m, using remaining pandemic reserves and thereby frontloading a significant portion of future redemption obligations.

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



Sources: Berlin, Scope Ratings

Figure 8: Components of operating balance, EUR bn



Sources: Berlin, Scope Ratings

Berlin's 2024 fiscal results point to a continued weakening in budgetary performance, with both operating and overall balances deteriorating compared to prior years. The operating balance as a share of operating revenue fell to 4.1% in 2024. This marks the lowest level since the pandemic years and reflects pressure from higher recurring spending. The overall balance before debt movement also further declined to a deficit of 8.3% in 2024. This deterioration is largely driven by increased investment needs and the acquisition of BEW Berliner Wärme und Energie, a one-off transaction that added to capital outflows.

Deficits likely from 2025 onward; consolidation remains key

Despite falling transfers and grants as a share of operating revenue, from 27.1% in 2020 to 18.2% in 2024, Berlin has expanded its investment activity. Capital expenditure rose to 11.7% of total expenditure in 2024, up from 10.8% in 2023, underscoring the government's ongoing commitment to infrastructure, climate transition, and housing. We expect that budgetary flexibility will remain limited as non-discretionary costs continue to rise. Despite increased fiscal leeway under the amended debt brake, sustained consolidation is needed, with operating margins stabilising but investment-driven deficits likely to persist.

For 2025 and beyond, we expect a gradual recovery in Berlin's operating performance, with the operating balance improving to 5.8% in 2025 and stabilising near 6.9% by 2028. However, high capital spending will continue to weigh on overall fiscal results. Deficits before debt movement are forecast to remain elevated at around 10% of total revenue annually through 2028. This results from the usage of new borrowing headroom created by adjustments to Germany's debt brake and the use of financial transactions. Capital expenditure is expected to remain above 9.5% of total spending over the forecast period, maintaining fiscal pressure but also supporting Berlin's long-term investment goals. Overall, Berlin's medium-term fiscal outlook reflects a balance between sustained investment pressures and the need to stabilise operating performance through consolidation and moderate revenue growth.

Berlin anticipated negative impact from 2022 census exercise

Finally, the 2022 census downward revision of Berlin's population by 130,000 reduces its VAT share by EUR 450m annually, rising to EUR 550m by 2028. While Berlin pre-emptively built reserves to cushion the fiscal impact, the permanent revenue loss heightens long-term consolidation needs. Retroactive adjustments for 2022 and 2023 (EUR 150m and EUR 300m) will weigh on budgets in 2025 and 2026. Moreover, a pending constitutional court ruling on A-Besoldung could result in retroactive salary payments for 2016–2019, posing fiscal risks likely to materialise in 2026. Berlin has set aside EUR 280m in reserves to mitigate the impact.

4.2 Revenue flexibility

Limited revenue flexibility, financial equalisation and central government transfers

As for all German Länder, Berlin'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 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.

4.3 Expenditure flexibility

Moderate expenditure flexibility, persistent spending pressures

In line with other Länder, expenditure flexibility is also generally limited. 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 to around 34% of operating expenditure in 2024, broadly in line with its long-term average, while transfers represented 18%. Even with consolidation efforts, including on personnel costs, these expenditures are expected to remain high.

In December 2023, Berlin reached an agreement with its employees for pay rises over 2024 and 2025, which is also applied to its civil servants, together with 14 other Länder. Total additional costs resulting from the agreement over employees and civil servants amount to over EUR 1.6bn over 2024 and 2025. Additional spending was anticipated and already budgeted in in the financial plan. The next round of wage negotiations will start in December 2025 for 2026 and 2027.

High levels 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 2018 and 2024. 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. Including investments under SIWA, total investment spending amounted to EUR 4.8bn in 2024, up from EUR 4.25bn in 2023. Around EUR 1bn was connected to the acquisition of shares in BEW in 2024. Despite some new flexibility under the amended debt brake, some prioritisation will remain necessary to allow for structural consolidation while investment volumes will further increase.

5. Economy

5.1 Wealth levels and economic resilience

Berlin benefits from a strong socio-economic profile underpinned by strong growth dynamics, favourable demographics and a lively start-up and IT sector. Berlin contributed around 4.8% of national GDP in 2024, up from 4.1% in 2015. The state's GDP per capita has exceeded the German average since 2018 and stood at 108% in 2024.

Berlin's economy grew by 1.5% in 2023 and 0.8% in 2024, while the national average contracted by 0.3% and 0.2%, respectively, proving resilient throughout the energy shock and recent economic slowdown (**Figure 9**). This relative resilience was supported by further growth in the services sector, which contributes over 80% to total output in Berlin. Additionally, Berlin's industry is well-diversified and not as energy intensive as in other Länder.

GDP growth exceeding the national average since 2014

Moreover, the growing relevance of Berlin as a technology center places the capital city to benefit from further growth in technological innovations, such as advancements in artificial intelligence. We expect Berlin's economy to continue to outperform national outcomes.

5.2 Economic sustainability

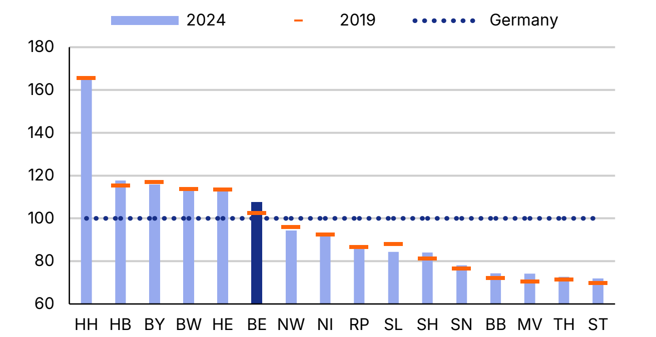
In line with the dynamic economic activity, the labour market in Berlin has performed robustly, but the unemployment rate further increased to 10.3% in July 2025, from 9.7% in 2024 and 7.8% in 2019 (**Figure 10**), well above the national average due to high structural unemployment and many jobseekers entering Berlin. Further, total employment in the Land has been robust during the pandemic and energy shocks, standing at an all-time high of 2.2m at YE 2024. This supports the regional tax base, even though the federal equalisation system delinks to a large extent regional economic and tax revenue performance.

Stable labour market despite economic uncertainties

Berlin benefits from favourable social and demographic profiles. With around 3.7m inhabitants, 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 and non-European countries. At the same time, shortage of skilled labour is a key constraint to the economy, in line with the rest of Germany.

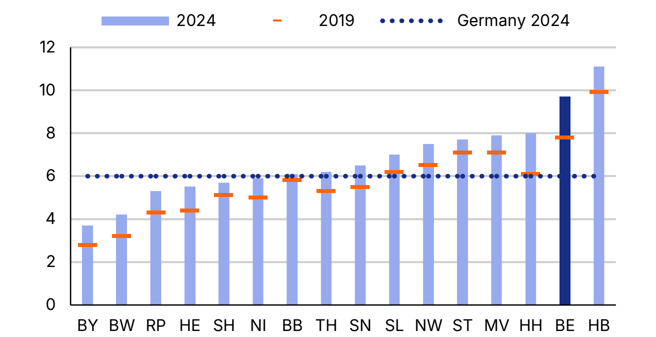
Favourable demographics

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

6. Governance

6.1 Governance and financial management

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.

Formation of governing coalition after bumpy election period

In June 2025, Berlin's Senate has approved a key administrative reform aimed at clarifying responsibilities between the state and districts, reducing inefficiencies, and improving service delivery to citizens and businesses. Once implemented in early 2026, the reform should enhance institutional effectiveness.

Administrative reform

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. The Berlin senate has also been responsive to longer-term social and environmental challenges. The priorities of the coalition government include ambitious decarbonisation efforts, administrative reforms, improvements in equipment for police and fire departments and advancements in housing construction.

Administration committed to fiscal consolidation and responsive to long-term challenges

7. Environmental and social considerations

7.1 Environmental factors and resilience

Berlin has acknowledged the challenges posed by climate change and has developed a comprehensive climate action plan. This plan targets a reduction in greenhouse gas emissions by 70% relative to 1990 levels by 2030 and aims for carbon neutrality (a 95% reduction) by 2045.

First issuances of sustainable bond; carbon neutrality by 2045

The severe weather in June 2025 triggered renewed calls for climate resilience investment in Berlin. The financial burden of damage repair, primarily falling on the districts, highlights both their fiscal vulnerability and the need for more coordinated, state-level adaptation planning.

In May 2024, Berlin acquired 100% of the shares of BEW Berliner Energie und Wärme AG for EUR 1.39bn. This acquisition is pivotal as Berlin's energy mix remains heavily reliant on gas, which constituted 45% of its primary energy consumption in 2022, while renewables only made up 6%. Decarbonising district heating is essential for the Land in reaching its climate goals.

Acquisition of energy supply company BEW in May 2024

7.2 Social factors and resilience

The provision of affordable housing remains a critical social challenge for Berlin, particularly as the city continues to grow. In response, the government is implementing several measures to support households during the current cost-of-living crisis.

Affordable housing is the main social challenge

In July, Berlin updated its Alliance for New Housing Construction, reaffirming the annual target of 20,000 new units, including up to 5,000 for social housing. The Land's own housing companies are expected to deliver 6,500 units per year, underscoring its active policy role. Since 2022, the alliance has supported 50,000 completions, aided by legislative tools like the Faster Construction Act and simplified planning. New measures include tighter rent controls for state-owned housing and income-linked affordability limits, reflecting efforts to balance supply expansion with social policy goals.

Berlin outperforms peers in terms of education attainment as reflected by a higher-than-average share of graduates 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 36% (national average), the second lowest among peers (after Hamburg). This is also a key driver for Berlin's continued economic outperformance.

Strong demographics development vis-à-vis peers

7.3 Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix 1. 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 2. 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	**50**
Indicative notching	**0**

Appendix 3. 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.

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

	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F
Budgetary performance (EUR m)									
Operating revenue	30,608	34,970	36,540	34,691	35,764	36,859	37,637	38,860	40,016
Operating revenue growth, %	5.8%	14.3%	4.5%	-5.1%	3.1%	3.1%	2.1%	3.2%	3.0%
Tax revenue	20,732	24,653	27,220	26,364	27,302	28,052	29,257	30,289	31,275
Allocations and grants	8,302	8,616	7,403	6,461	6,513	6,194	5,941	6,075	6,096
Other operating revenue	1,573	1,700	1,917	1,866	1,949	2,613	2,439	2,496	2,645
Operating expenditure	29,620	31,959	31,996	32,708	34,288	34,731	35,450	36,214	37,269
Operating expenditure growth, %	19.3%	7.9%	0.1%	2.2%	4.8%	1.4%	2.1%	2.2%	2.9%
Personnel	9,859	10,505	10,941	11,463	11,696	12,986	13,091	13,363	13,704
Allocations and grants	9,983	10,713	9,712	9,453	9,932	9,800	10,678	10,668	11,097
Other operating expenditure	9,778	10,741	11,343	11,793	12,659	11,945	11,682	12,183	12,468
Operating balance	988	3,010	4,544	1,982	1,476	2,128	2,187	2,646	2,747
Interest received	9	14	11	6	8	22	22	22	22
Interest paid	980	1,085	966	745	722	1,290	1,373	1,607	1,848
Net interest paid	971	1,071	954	739	714	1,268	1,351	1,585	1,826
Current balance	17	1,939	3,590	1,244	763	860	835	1,061	921
Capital balance	-1,450	-2,061	-2,840	-3,004	-3,819	-4,522	-5,058	-5,147	-4,973
Balance before debt movement	-1,432	-122	750	-1,760	-3,056	-3,662	-4,223	-4,086	-4,052
New borrowing (credit market)	12,129	3,470	5,390	6,338	6,390	6,389	8,966	9,420	10,478
Debt redemption (credit market)	5,315	5,714	5,721	5,572	5,362	5,412	5,066	5,620	6,678
Net borrowing	6,815	-2,244	-331	766	1,028	977	3,900	3,800	3,800
Debt (EUR m)									
Direct debt	63,705	65,923	65,903	64,243	67,110	68,086	71,986	75,786	79,586
Guarantees	3,007	4,616	4,283	4,106	5,233				
Overall debt risk (direct debt plus guarantees)	66,712	70,539	70,187	68,349	72,343				
Financial ratios									
Debt/operating revenue, %	208.1%	188.5%	180.4%	185.2%	187.6%	184.7%	191.3%	195.0%	198.9%
Debt/operating balance, years	64.5	21.9	14.5	32.4	45.5	32.0	32.9	28.6	29.0
Interest payments/operating revenue, %	3.2%	3.1%	2.6%	2.1%	2.0%	3.4%	3.6%	4.1%	4.6%
Implicit interest rate, %	1.5%	1.6%	1.5%	1.2%	1.1%	1.9%	1.9%	2.1%	2.3%
Operating balance/operating revenue, %	3.2%	8.6%	12.4%	5.7%	4.1%	5.8%	5.8%	6.8%	6.9%
Balance before debt movement/total revenue, %	-4.6%	-0.3%	2.0%	-5.0%	-8.3%	-9.7%	-11.0%	-10.3%	-9.9%
Transfers and grants/operating revenue, %	27.1%	24.6%	20.3%	18.6%	18.2%	16.8%	15.8%	15.6%	15.2%
Capital expenditure/total expenditure, %	7.0%	8.3%	10.1%	10.8%	11.7%	11.7%	10.1%	9.9%	9.7%
Economy and demographics									
Nominal GDP, EUR m	159,011	171,190	184,512	197,924	207,058				
GDP per capita, EUR	43,365	46,636	49,648	52,518	54,607				
GDP per capita, % of national GDP per capita	104.5%	105.5%	105.2%	106.0%	107.5				
Real GDP growth, %	-2.4%	5.3%	4.4%	1.5%	0.8%				
Population, '000s	3,664	3,677	3,633	3,662.4	3,685.3				
Unemployment rate, % labour force	9.7%	9.8%	8.8%	9.1%	9.7%				

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

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