

Land of Hesse

Rating report

Rating rationale and Outlook

The Land of Hesse's (Hesse) AAA rating is driven by:

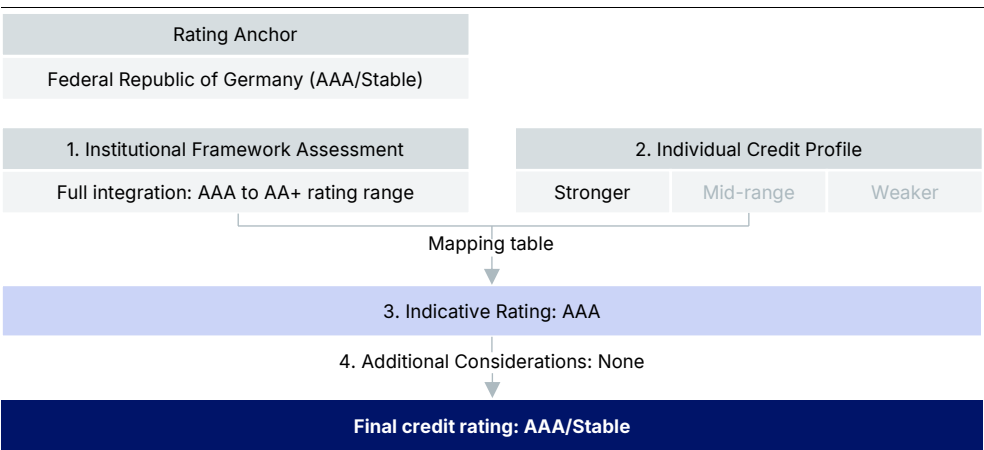
A highly integrated Institutional Framework characterised by a strong revenue equalisation system, where Hesse is a net payer among the Länder, and a strong federal solidarity principle. This results in a close alignment of the Länder's creditworthiness with the German federal government's [AAA/Stable](#) ratings.

Recent amendments to Germany's fiscal framework, including the easing of the debt brake, now allow the Länder to run a collective structural deficit of up to 0.35% of national GDP and access up to EUR 100bn in federally borrowed infrastructure funding, with Hesse's share amounting to around EUR 7.4bn. This increases fiscal flexibility but reflects a more expansionary fiscal stance. We expect operating margins across the Länder to remain below pre-pandemic levels due to higher personnel and administrative costs. However, the highly integrated fiscal framework and continued discipline should help stabilise debt ratios over the medium term, supported by gradually improving revenues.

A strong Individual Credit Profile, underpinned by i) solid budgetary performance and prudent financial management; ii) conservative debt and liquidity policies, with excellent market access and a favourable debt profile; iii) limited contingent liabilities and a well-funded, conservatively managed pension scheme for civil servants; and iv) above-average revenue flexibility.

Credit challenges relate to limited expenditure flexibility, coupled with rising spending pressures, which weigh on budgetary margins over the forecast horizon.

Figure 1: Hesse's rating drivers



Note: For further details, please see Scope's Sub-Sovereign 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
- Highly integrated institutional framework - Solid budgetary performance and prudent financial management - Conservative debt and liquidity policies, supported by excellent market access and a favourable debt profile - Limited contingent liabilities - Above-average revenue flexibility and net payer in the financial equalisation system	Limited expenditure flexibility, spending pressures

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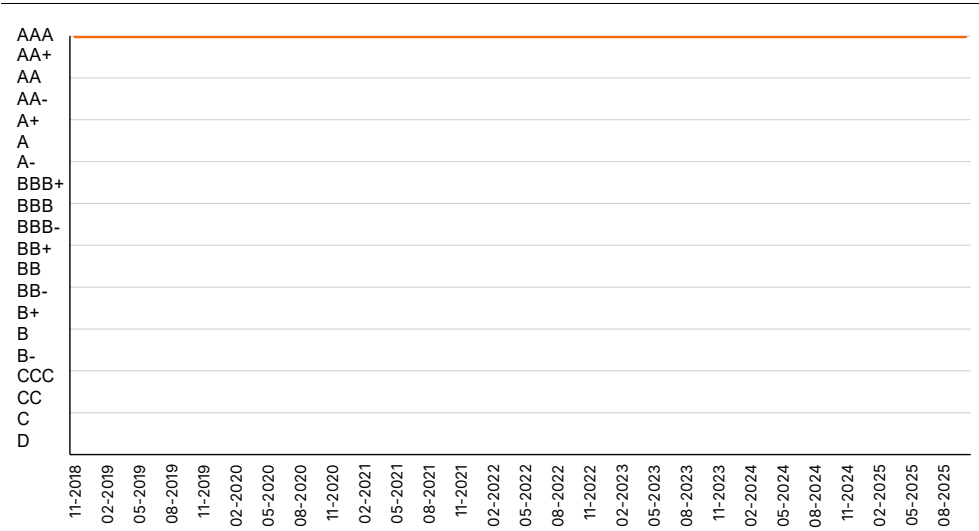
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Outlook and rating triggers

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 - Deterioration of individual credit profile

Figure 2: Rating history¹



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

Hesse, like all German Länder², 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 exceptional support and bailout practices, systemic 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** from Germany's AAA/Stable rating for any of the federal states (see Appendix 1 for an overview).

Federal framework results in close rating alignment...

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

1.1 Exceptional support and bail-out practices

Our framework assessment acknowledges a record of extraordinary financial support. Länder have been granted exceptional financial support from the federal government in five instances: Bremen (1992, 2006), Saarland (1992, 2005) and Berlin (2002). The court approved claims on the grounds of the solidarity principle, or *Bundestreueprinzip*, under which the Länder and the federal government are required to support each other in the event of a budgetary emergency. A claim by Berlin was denied in 2006, with the court arguing that the city-state was not in an extreme budgetary situation. However, the judges noted that federal emergency support would still be possible as a last resort if the budget and/or debt situation were later assessed as extreme. We consider the *Bundestreueprinzip* to be an implicit bail-out rule, as it requires the provision of federal support in times of budgetary stress.

Strong solidarity principle ensures extraordinary support

More recently, the federal government confirmed its role as a primary countercyclical shock absorber during the Covid-19 and energy crises in 2020-2023. Over these years, the federal government financed most countermeasures and provided direct grants to the Länder to mitigate the impact on their finances.

Federal government as shock absorber during recent crises

1.2 Systemic budgetary support and fiscal equalisation

The federal financial equalisation system strongly aligns different fiscal capacities across the Länder. A reformed equalisation system took effect in 2020, with horizontal distribution occurring among the Länder via deductions and top-ups to collected VAT, as well as vertical transfers from the federal government. The net effect of the system change is positive for all Länder as contributions from the federal government are greater under the reformed system.

Comprehensive fiscal equalisation system

Hesse is a net contributor to the system. In the past 30 years, it has contributed over EUR 1bn each year. In 2024, total deductions to collected VAT amounted to EUR 3.7bn, or over 11% of operating revenue. Hesse's contributions have been the second highest after Bavaria ([AAA/Stable](#)) among the Länder since 2012 in per capita terms.

Hesse is a net contributor to the system since 1995

1.3 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

Autonomous borrowing, access to shared liquidity

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

history of joint bond issuance, having issued such instruments on 67 occasions, although not all of the 16 Länder participated. Hesse has not participated in any of the past issues.

1.4 Fiscal rules and oversight

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, are entitled to run a structural deficit of 0.35% of national GDP⁴ 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. 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.

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

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, Hesse invoked the safeguard clause of its debt brake to implement support measures and credit authorisations to mitigate the impact of Covid-19 (special fund 'Sondervermögen Hessens gute Zukunft sichern').

Compliance with the debt brake and Länder finances are monitored by the Stability Council. The Council monitors 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.

Stability council conducts oversight

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 previous 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.

2023 federal constitutional court ruling had implications for the Länder...

This ruling did not affect Hesse's budgetary and financial planning. In Hesse, the special fund set up to tackle the Covid-19 pandemic was closed on 1 January 2022 and all measures and debt taken on (EUR 3.6bn) were transferred to the Land's core budget.

... but no impact on Hesse's budgetary and financial planning.

1.5 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 took effect in 2020 and resulted in a higher share of VAT revenue being distributed among the Länder. The VAT distribution 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.

Shared tax authority with the federal government

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.

Federal reforms strengthen political coherence

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.

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)

We assess Hesse’s ICP as ‘Stronger’ among German Länder. This places the Land’s indicative rating at AAA given our mapping table. For details, see Appendix 2 and Appendix 3.

‘Stronger’ ICP, leading to indicative AAA rating

Hesse’s individual credit strengths include: i) sound budgetary management, reflected in recurring operating surpluses and a firm commitment to the debt brake; ii) conservative debt and liquidity management, with excellent market access and a favourable debt profile; iii) low contingent liabilities alongside a well-funded pension fund; and iv) above-average revenue flexibility.

Challenges stem from limited expenditure flexibility, coupled with broad-based spending pressures, such as rising personnel costs, which make up a large share of operating expenditure. These pressures are expected to make balancing the budgets increasingly difficult over the financial planning horizon through 2028, as reserves continue to decline, highlighting the need for sustained consolidation efforts in future budgets.

3. Debt and liquidity

3.1 Debt burden and trajectory

Hesse’s conservative debt management has supported a stable debt trajectory and a moderate debt-to-operating-revenue ratio, highlighting its commitment to fiscal prudence and long-term sustainability.

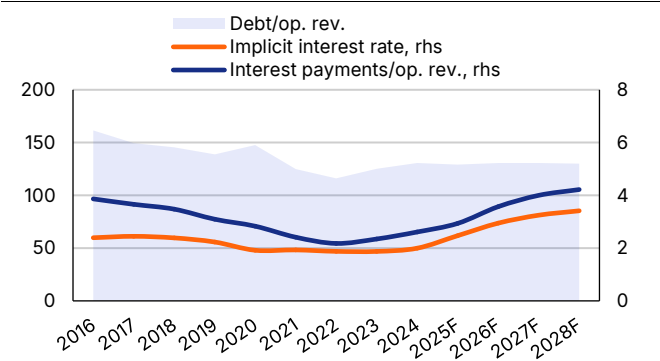
Stable and moderate debt levels

At end-2024, debt stood at around EUR 44.5bn (131% of operating revenue), slightly below the Länder average. While the ratio increased marginally from 125% at end-2023, it remains well below the 162% recorded in 2016 (Figure 3), reflecting steady revenue growth of around 29% over the period.

Between 2016-2023, Hesse resorted to moderate net borrowing in its core budget only in 2020 reflecting pressures due to the Covid-19 pandemic. In previous years and in line with the Land’s consolidation efforts before the debt brake became binding in 2020, the Land redeemed EUR 200m per year (Figure 4). Net borrowing spiked in 2020 due to emergency borrowing via its Covid fund.

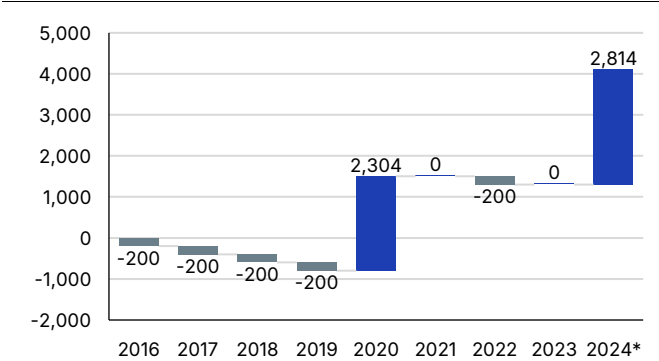
After years of net debt redemptions, Covid-19 led to higher borrowing in 2020/21

Figure 3: Debt and interest burden, %



Sources: Land of Hesse, Destatis, Scope Ratings

Figure 4: Net borrowing, EUR m



Note: 'Nettokreditaufnahme', includes net borrowing for special fund 'Hessens gute Zukunft sichern'. * 2024 includes EUR 2bn taken on to strengthen capital levels for HELABA as part of a regulatory requirement. Sources: Land of Hesse, Scope Ratings

Following the reform of the debt brake in March 2025, we expect Hesse to make use of the additional borrowing headroom. The Land is allocated around 7.4% of the new fiscal space which amounts to approximately EUR 1.1bn annually based on 2024 GDP levels. Hence, we expect the

Increased borrowing, but stable debt trajectory...

current financial plan through 2028 to be revised to reflect higher nominal debt. However, the debt-to-operating revenue ratio is likely to remain broadly stable at around 130%, as rising revenues are supported by a strengthening economy.

Hesse incorporated the debt brake into its constitution (Art. 141) in 2011, prohibiting *structural* net borrowing from 2020. The March 2025 reform of the debt brake at the national level supersedes individual state laws. To make use of the additional headroom, amendments to the Land's budget law can be implemented via a parliamentary vote, without the need for constitutional changes. The Land's government remains committed to the principles of the debt brake, which we expect to help limit net borrowing even under the revised framework.

Continued commitment to the debt brake

3.2 Debt profile and affordability

Hesse's debt profile is favourable and exhibits low interest-rate risks and no foreign-currency risks. The Land's debt profile significantly limits refinancing risks, which we deem remote for all Länder due to their excellent market access. Debt service (including interest payments) amounted to EUR 6-7bn annually since 2018 and rose to EUR 8.5bn in 2022, remaining above EUR 8bn also in 2023 and 2024. The debt redemption profile is smooth with annual redemptions between around EUR 5-7bn in coming years (**Figure 5**).

Conservative debt management...

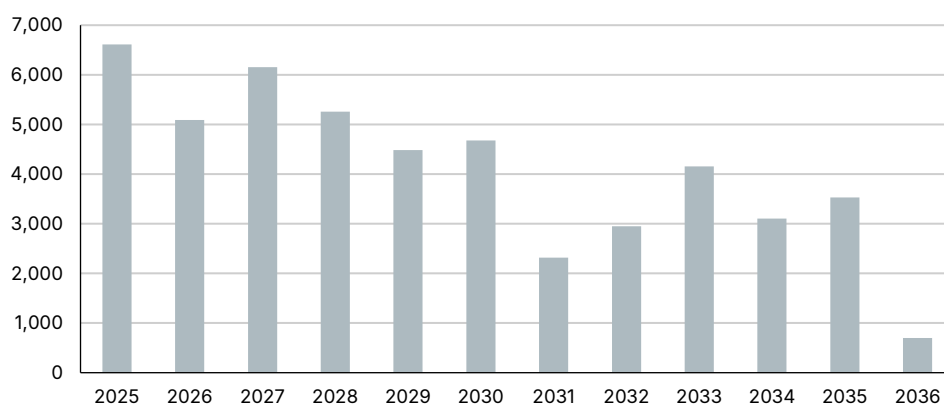
Hesse's interest payments remain low due to proactive debt management and the safe-haven status of the German Länder, although they have been rising along with the ECB's monetary tightening and higher policy rates since 2022. Debt affordability remains excellent, with the implicit interest rate at 2.0% in 2024, which we expect to rise gradually to 3.4% in 2028 as borrowing costs remain elevated and new debt is issued. As a share of operating revenue, we expect interest payments to increase to around 4% by 2027, from 2.6% in 2024.

... and favourable funding conditions...

Hesse's conservative debt management limits maturity, foreign currency, and interest rate risk. The weighted average maturity is around 11 years. There are no unhedged foreign exchange risks and most of Hesse's outstanding debt is fixed rate, with around 3% being variable rate after swaps, ensuring predictability. The state's funding strategy envisages a moderate and gradual increase in the share of variable rate debt to potentially up to 10% of the total stock in the medium term. Derivatives are used to hedge foreign exchange and interest rate risk. Since 2021, the Land can only enter new derivative contracts to hedge foreign exchange risks and to eliminate the risk of receiving negative, variable interest rates in existing derivative contracts. Derivative usage should continue to decline in future years.

... ensure a low-risk debt profile.

Figure 5: Debt maturity profile to 2036, m EUR (as of 2 September 2025)



Source: Land of Hesse, Scope Ratings

3.3 Liquidity position and funding flexibility

Hesse's liquidity management is prudent, supported by careful cash planning, diverse liquidity sources, and ample reserves. Its market access is assessed as excellent.

Assured liquidity, conservative cash management

We view Hesse's liquidity management as conservative and prudent, supported by comprehensive intra-year cash planning, ample liquidity sources, and solid cash buffers. Cash flows, especially inflows, are prone to seasonal variability driven by the tax calendar. To bridge temporary liquidity needs, Hesse maintains credit facilities with major financial institutions and benefits from inter-Länder cash transactions, through which the German states lend excess liquidity to one another. In combination with excellent market access, the risk of liquidity shortages is negligible.

Finally, Hesse's funding access is excellent as a financially stronger Land and one of the larger issuers among German Länder with a gross funding volume of EUR 8.6bn in 2025. The Land also issued its first green bond in 2021 with a volume of EUR 600m and a 10-year maturity. Since then, Hesse issues a green bond every two years, the latest issuance being in June 2025 with a volume of EUR 1.5bn. This marked the largest green benchmark bond issuance of a European region to date.

Hesse enjoys excellent market access as a large sub-sovereign issuer, including in green bonds.

We generally view ESG-labelled bond issuance as credit positive, as it increases the capital market presence and visibility as an issuer and expands the Land's investor base.

3.4 Contingent liabilities

We assess the Land of Hesse's contingent liability risk as low. This is due to: i) limited contingency risk stemming from its shareholdings and guarantees; ii) ongoing provision for its pension liabilities and comparatively well-funded pension fund; and iii) low contingency risks stemming from its municipalities, also due to proactive management of legacy municipal short-term debt (or 'Kassenkredite') in 2018 via its 'Hessenkasse' programme. Finally, due to the Land's accrual-based accounting, its reporting enhances transparency compared to most Länder which still publish cash-based accounts.

Low contingent liability risk...

First, contingency risks stemming from Hesse's shareholdings are low. The focus lies on economic policy, infrastructure, art and culture, and research, science and technology. The most relevant out of the Land's 54 direct shareholdings as of September 2025 were its 30% stake in Landesbank Hessen-Thüringen Girozentrale (Helaba). The Land's share in Helaba increased significantly in 2024 from about 8% in 2023 due to a capital injection of around EUR 2bn, as was required by new EU banking regulations that no longer allowed Helaba to count Hesse's previous "silent participations" as core capital. Other relevant direct shareholdings include Messe Frankfurt GmbH (40% share), Fraport AG Frankfurt Airport Services Worldwide (31.31%), Flughafen GmbH Kassel (68%) and Flughafen Frankfurt-Hahn GmbH (17.5%) and Nassauische Heimstätte Wohnungs- u. Entwicklungsgesellschaft mbH (61.4%).

... from shareholdings and guarantees.

Similarly, risks regarding guarantees are assessed as low. At YE 2024, overall guarantees amounted to around EUR 1.7bn, or 5% of operating revenue. Guarantees mostly related to economic policy, social housing and hospitals.

Second, in line with other Länder, Hesse has unfunded pension liabilities related to its civil servants. With the 'Alterssparbuch Hessen' the Land set up a pension fund to build reserves for future pension payments. The fund receives mandatory and additional transfers from the core budget, and any withdrawals are restricted to the annual returns. To date, the Land has not made withdrawals from the fund. At YE 2024, the fund's assets were worth around EUR 5.7bn, against pension provisions of EUR 99bn, thus providing a funding ratio of around 6%. The funds are invested in fixed income, stocks, corporate bond exchange-traded funds (ETFs) and real estate funds, and adhere to sustainability criteria, e.g. the stocks portfolio is invested according to the STOXX ESG Länder Fossil Free Eurozone index since 2019 and in line with the EU Paris-Aligned Benchmark since 2023.

EUR 5.7bn pension fund partially covers pension provisions; forward-looking and conservative management

Finally, contingency risks relating to the Land's municipalities, for which it is financially responsible, are limited, not least due to the state's proactive management of municipal legacy debt in 2018 via its 'Hessenkasse' programme. The Land took over around EUR 5bn in short-term debt of 178

'Hessenkasse' proactively supported municipal finances

municipalities, which in turn support debt amortisation with favourable conditions. In addition to supporting indebted cities, Hesse also supported other municipalities with its investment programme 'Kommunales Investitionsprogramm', worth EUR 723m.

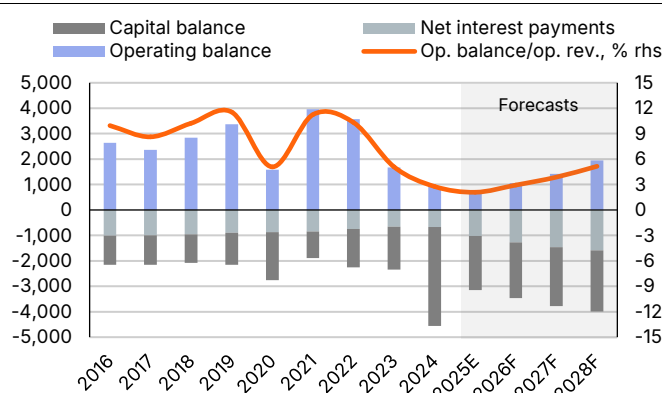
4. Budget

4.1 Budgetary performance and outlook

Hesse demonstrated robust budgetary performance between 2016 and 2019, with operating margins averaging 10% of operating revenues (**Figure 6**). This performance was broadly in line with other Länder, supported by an accommodative monetary and economic backdrop and consolidation efforts ahead of the 2020 debt brake implementation. Sustained operating surpluses enabled the Land to cover interest payments and capital expenditure without additional borrowing.

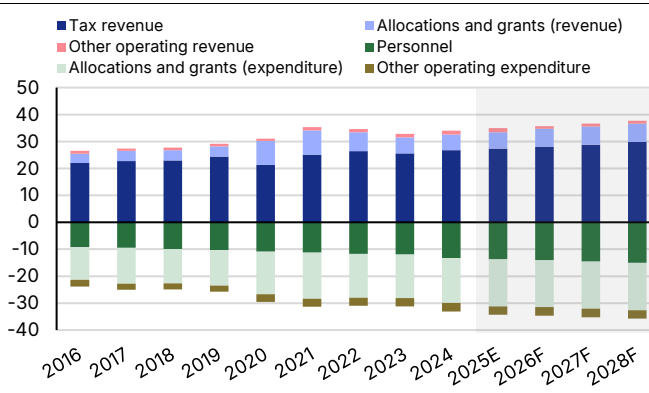
Track record of solid budgetary performance, fiscal surpluses until 2019

Figure 6: Budgetary performance, EUR m (lhs); % (rhs)



Sources: Land of Hesse, Destatis, Scope Ratings

Figure 7: Components of operating balance, EUR bn



Sources: Land of Hesse, Destatis, Scope Ratings

From 2020, the Covid-19 shock impacted budgetary planning and fiscal outcomes. To finance any Covid-19 related measures, Hesse created the special fund 'Hessens gute Zukunft sichern' with credit authorisations of EUR 12bn under the state's debt brake's emergency safeguard clause. Ultimately, only EUR 3.6bn of credit authorisations were used and the fund was closed in early 2022. Debt taken on under the fund must be redeemed under mandatory rules, with EUR 200m annual redemption payments starting in 2024.

Covid-19 crisis led to a deficit in 2020

The Land's core budget balance turned to a deficit (before debt movement) of EUR 1.18bn, or 3.7% of total revenue in 2020. This deficit was financed with EUR 180m in net borrowing and a withdrawal from budgetary reserves of EUR 1bn. A drop in tax revenues of over 12% coupled with an increase in operating expenditures of over 14%, mostly driven by higher transfer expenditure, led to the deterioration in the operating balance.

In 2021, the budgetary performance recovered strongly, mainly driven by a EUR 2.4bn overperformance of tax revenue versus budgeted levels. This allowed the state to return to operating and overall surpluses, redeem EUR 1.4bn in debt and forego budgeted credit authorisations of EUR 816m. In 2022, a better-than-expected result allowed the Land to redeem another EUR 200m and to set aside EUR 1.7bn via budgetary reserves.

Budgetary performance recovered strongly in 2021/22

In 2023 and 2024, budgetary performance deteriorated from the previous years as expenditure growth outpaced revenue growth. In 2023, operating revenue declined by 5% YoY and the subsequent recovery in 2024, with an increase of 3.6%, fell short of simultaneous expenditure increases driven mostly by higher personnel and transfer expenditure. This led to a reduction in the operating margin to 5.1% of operating revenue in 2023 and 2.8% in 2024, from 10.3% in 2022. This decline, combined with moderately higher interest expenses and elevated capital expenditure led to a deterioration in the overall budgetary margin (after capital accounts) to -2.0% of total revenue in 2023 and -10.3% in 2024, from 3.7% in 2022.

Budgetary deterioration in 2023 and 2024

2025 in line with expectations

Budget developments in 2025 are in line with expectations. Hesse's operating margin will remain under pressure, reaching 2.1%, as operating expenditure growth continues to exceed revenue growth. We expect the Land to make use of the new borrowing flexibilities under the revised debt brake and, if utilised in 2025, a budget amendment would be needed before the end of the year. Even with increased borrowing under the revised debt brake, we expect debt as a share of operating revenue to remain stable at around 130% as operating revenue gradually increases.

For 2026 to 2028, we expect continued deficits after capital accounts of an average 6.1% of total revenue due to multiple budgetary headwinds. While budgetary performance will benefit from tax revenue growth of an average 3% per year, this will be largely offset by high operating and investment spending. Spending pressures arise from higher spending on personnel, not least due to the increase in salaries of employees agreed in early 2024 and corresponding pay rises for civil servants, higher operating transfers to municipalities and high planned capital expenditure. Following the debt brake reform, we expect Hesse to benefit from higher national infrastructure spending given its central location, although this is not expected to materially impact budgetary performance.

Remaining budgetary reserves of around EUR 1.8bn and the option to take on limited amounts of structural debt provide Hesse with some budgetary flexibility. However, persistent spending pressures will make balancing budgets for the financial planning period until 2028 challenging, as indicated by budgeted but yet unidentified lower expenditure and higher revenue ('Globale Minderausgaben' und 'Globale Mehreinnahmen') totaling around EUR 2.4bn per year from 2026, or around 7% of 2024 operating revenue.

4.2 Revenue flexibility

As for all German Länder, Hesse's revenue flexibility is generally limited, as a large share of operating revenue stems from shared taxes. In line with constitutional arrangements, the Länder receive shared taxes, largely revenues from personal income taxes, VAT and corporate taxes. These revenues are initially collected by regional tax offices but are later redistributed at a national level in accordance with revenue-sharing agreements and additional transfer mechanisms.

However, vis-à-vis peers, Hesse enjoys above-average flexibility, as a net payer to the financial equalisation system, and a lower share of transfers to operating revenue than the Länder average.

4.3 Expenditure flexibility

Hesse's expenditure flexibility is limited, given a high share of expenditure that is difficult to adjust, including a sizeable share of spending on personnel amounting to 40% of operating expenditure in 2024. Further, transfer expenditure, including to its municipalities, is also rigid and earmarked over multiple years. Given inflationary trends since 2022, Hesse is experiencing increases in spending, which are likely to persist. In early 2024, it reached an agreement with its employees for pay rises over 2024 and 2025, which will lead to additional expenditure of an around EUR 1.5bn in total. Additionally, a recent ruling by the administrative court of justice (VGH) found the remuneration of civil servants not to be in line with the constitutional requirements ('Alimentationsprinzip'), leading to pay rises in 2023 and 2024.

Finally, a contingency risk stems from an outstanding decision regarding the remuneration of civil servants between 2013 and 2020 by the constitutional court. If the constitutional court were to confirm the assessment of Hesse's administrative court that civil servants' pay was too low, the Land could face significant costs. The overall budgetary effect would depend on the timeframe, especially regarding its potential retroactive applicability.

Spending pressures expected to persist

Länder have overall moderate revenue flexibility...

... but Hesse enjoys above-average flexibility.

Limited expenditure flexibility given high personnel and transfer expenditure

Outstanding constitutional court decision regarding civil servants' remuneration is a risk

5. Economy

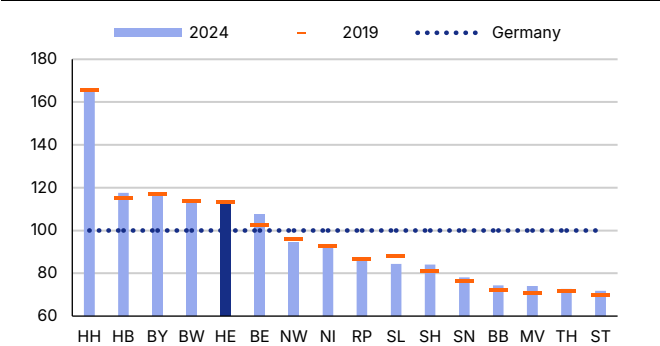
5.1 Wealth and economic resilience

Hesse's economic profile is relatively strong vis-à-vis peers, with a higher GDP per capita than the German average (**Figure 8**) and a considerable economic size with a contribution to national GDP of around 8.6% in 2024. In the last few years, Hesse's real GDP grew in line with the German

GDP growth exceeding the national average since 2014

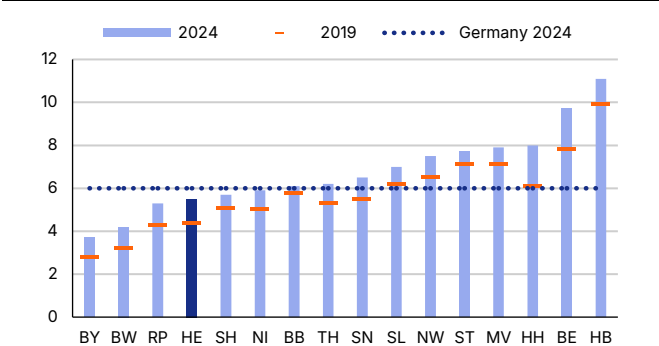
average. In 2023 and 2024, Hesse’s economy grew by 0.4% and 0.6%, versus a drop in real GDP of 0.3% and 0.2% in Germany. The Land’s strong relative economic performance is also reflected in the fact that Hesse is a long-standing contributor to the federal equalisation system.

Figure 8: GDP per capita, % of national average



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

Figure 9: Unemployment rate, %



Sources: Destatis, Scope Ratings

Hesse’s regional economy is relatively more reliant on services, including financial services with Frankfurt at a key financial centre, as well as information and communication services. The state also benefits from a dynamic and growing startup ecosystem in fields like AI, fintech, and sustainability, supported by strong universities, incubators, and government funding programs. Additionally, Frankfurt was chosen as the location for the EU’s new anti-money laundering authority (AMLA), which started operating in July 2025 and will further contribute to the region’s attractiveness as a regional, national and international financial centre.

Strong service economy with a dynamic startup ecosystem

We view Hesse as well-placed to navigate the current challenging macroeconomic environment thanks to its diversified economy, strong financial and industrial base, and high innovation capacity. The labour market has performed strongly since the Covid-19 crisis, although the unemployment rate has risen recently, in line with other Länder, to 5.8% as of September 2025 (Figure 9). Medium-term economic policy measures are also supported by the Land’s development bank, the Wirtschafts- und Infrastrukturbank Hessen. Still, Hesse continues to face many of the same structural pressures as Germany overall, including demographic change, high energy costs, and regulatory hurdles that constrain long-term growth.

Stable labour market despite economic uncertainties

6. ESG

6.1 Environmental factors

Regarding exposure to transition and physical risks, we see Hesse as broadly in line with the nationwide average. Hesse’s economic structure is relatively less reliant on energy-intensive industry and does not face costs related to the phase-out of coal, like some other Länder, placing it relatively more favourably in the green and energy transition.

Transition and physical climate risks broadly in line with German average

To promote climate protection and to adapt to the effects of climate change, Hesse has adopted its first climate act in 2023 with the binding goal of reaching net greenhouse gas neutrality by 2045, in line with the nationwide goal. Further, the state envisages 100% of electricity and heat energy coming from renewable sources by 2045. Until 2030, the regional administration is expected to be net carbon neutral. The Land closely tracks its progress in reducing emissions, with intermediate goals of a 65% reduction vis-a-vis the 1990 level by 2030. Progress in achieving these targets slowed after 2020 and the emissions in 2022 were 29.6% lower compared to 1990.

Hesse aims to be carbon neutral by 2045, in line with federal legislation

Hessen’s climate plan includes 90 targeted measures spanning ten fields of action including Energy, Transport & Mobility, Buildings & Urban Planning, Land Use, and Industry. In addition to legislative steps, Hesse has earmarked EUR 5.1bn in climate-focussed spending in its financial plan until 2028. The Land’s three outstanding green bonds used funding proceeds mostly for public transport, forestry and energy-efficient renovation of the administration’s housing stock.

The state's commitment to sustainability was further manifested in 2018 with the inclusion of sustainability as a state objective in the constitution, after the state had published the first Sustainability Strategy already in 2008. Since 2022, Hesse reports expenditures in the annual report/financial statements matched to the United Nations Sustainable Development Goals.

Sustainability as a constitutional state objective

Finally, the Land's pension fund is managed according to strict sustainability criteria, and the Land is a signatory to the UN PRIs.

6.2 Social factors

A key risk for German Länder is the ageing population and shortage of skilled labour. Hesse's old age dependency ratio stood at 33.7% at YE 2024 (persons aged 65 and over relative to persons aged 15-64), below the national average of 35.9%, and is projected to increase by around 5pps by 2030, a trajectory that remains more favourable than the German average.

An ageing population is a key social risk, but Hesse is moderately affected

Population dynamics vis-a-vis peers are a key factor for financial equalisation and the distribution of intergovernmental transfers. Following the 2022 census, Hesse's estimated population was revised down by 2.6%, reducing revenues by EUR 1.3bn over 2024-2028. Nevertheless, demographic trends remain relatively favourable. Hesse's population has been growing in the last decade, also due to high net migration, including a substantial inflow of Ukrainian refugees in 2022. Population growth across Germany slowed considerably in 2024 and is expected to remain weak.

The accommodation and integration of refugees continue to represent key social and fiscal challenges. Related expenditures exceeded EUR 1bn in 2022, partially driven by increased costs of hosting Ukrainian refugees. Given persistent geopolitical crises, these expenditures stayed elevated until 2024 but have started to decrease in 2025.

Accommodation and integration of refugees a key social factor

Finally, education, security and healthcare all represent important spending areas for German Länder, which all feature prominently in the coalition's near-term policy measures 'Sofort-Programm 11+1 für Hessen' introduced in 2024.

6.3 Governance and transparency

Since January 2024, CDU and SPD are in a coalition with Boris Rhein (CDU) as minister president who has been in office since May 2022. We expect broad policy continuity, though the revised debt brake is expected to result in limited increased structural borrowing going forward.

New government since January 2024

The state government's track record of formulating and implementing fiscal policy targeted at long-term fiscal sustainability and its commitment to the debt brake have been highlighted since the Covid-19 shock in 2020, with the state reacting with its special fund and working towards a swift return to fiscal consolidation. At the same time, authorities will face the challenge of balancing future budgets by tightly controlling spending. For example, consolidation needs of around EUR 1.2bn annually ('globale Minderausgaben') have been identified for 2025-28 on the spending side.

Administration committed to fiscal consolidation

Finally, we deem Hesse's debt and liquidity management as comprehensive and effective, in line with the high governance standards of the German Länder.

6.4 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)
Exceptional support and bail-out practices	●				
Systemic 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
	Liquidity position & funding flexibility	Stronger	Mid-range	Weaker
	Contingent liabilities	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 & economic resilience	Stronger	Mid-range	Weaker
ESG	Environmental factors	Stronger	Mid-range	Weaker
	Social factors	Stronger	Mid-range	Weaker
	Governance & transparency	Stronger	Mid-range	Weaker

ICP score	75
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 Hesse, 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 6 of Scope's Sub-sovereigns Rating Methodology, as applied to the rating anchor's AAA-ratings.

Appendix 4. Statistical table

	2020	2021	2022	2023	2024	2025E	2026F	2027F	2028F
Budgetary performance (EUR m)									
Operating revenue	31,098	35,260	34,548	32,862	34,057	34,994	35,714	36,631	37,727
Operating revenue growth, %	6.6%	13.4%	-2.0%	-4.9%	3.6%	2.8%	2.1%	2.6%	3.0%
Tax revenue	21,315	25,126	26,424	25,521	26,787	27,334	27,946	28,829	29,860
Allocations and grants	8,885	9,019	7,010	5,939	5,856	6,057	6,771	6,777	6,813
Other operating revenue	898	1,114	1,113	1,402	1,415	1,603	997	1,025	1,053
Operating expenditure	29,518	31,296	30,982	31,192	33,115	34,263	34,664	35,211	35,784
Operating expenditure growth, %	14.4%	6.0%	-1.0%	0.7%	6.2%	3.5%	1.2%	1.6%	1.6%
Personnel	10,863	11,288	11,700	12,003	13,338	13,740	14,153	14,577	15,014
Allocations and grants	15,863	17,057	16,288	16,130	16,626	17,538	17,303	17,455	17,617
Other operating expenditure	2,792	2,951	2,994	3,059	3,150	2,985	3,209	3,179	3,152
Operating balance	1,580	3,964	3,566	1,670	943	731	1,050	1,419	1,943
Interest received	4	3	10	111	224	90	98	90	83
Interest paid	880	851	752	771	889	1,118	1,373	1,555	1,675
Net interest paid	876	848	742	660	666	1,028	1,275	1,465	1,592
Current balance	704	3,116	2,824	1,010	277	-297	-226	-46	351
Capital balance	-1,883	-1,045	-1,508	-1,689	-3,890	-2,120	-2,188	-2,316	-2,404
Balance before debt movement	-1,178	2,071	1,316	-679	-3,613	-2,417	-2,414	-2,362	-2,053
New borrowing (credit market)	6,600	2,716	2,625	4,150	9,760	7,055	6,491	7,127	6,286
Debt redemption (credit market)	6,420	5,191	7,749	7,666	7,424	6,385	5,091	5,857	5,111
Net debt movement	181	-2,475	-5,124	-3,516	2,336	670	1,400	1,270	1,175
Debt (EUR m)									
Direct debt	45,882	44,054	40,072	41,134	44,545	45,215	46,615	47,885	49,060
Guarantees	1,798	1,750	1,698	1,663	1,655	1,655	1,655	1,655	1,655
Overall debt risk (direct debt plus guarantees)	47,680	45,804	41,770	42,797	46,200	46,870	48,270	49,540	50,715
Financial ratios									
Debt/operating revenue, %	147.5%	124.9%	116.0%	125.2%	130.8%	129.2%	130.5%	130.7%	130.0%
Debt/operating balance, years	29.0	11.1	11.2	24.6	47.2	61.8	44.4	33.7	25.2
Interest payments/operating revenue, %	2.8%	2.4%	2.2%	2.3%	2.6%	2.9%	3.6%	4.0%	4.2%
Implicit interest rate, %	1.9%	1.9%	1.9%	1.9%	2.0%	2.5%	2.9%	3.2%	3.4%
Operating balance/operating revenue, %	5.1%	11.2%	10.3%	5.1%	2.8%	2.1%	2.9%	3.9%	5.2%
Balance before debt movement/total revenue, %	-3.7%	5.6%	3.7%	-2.0%	-10.3%	-6.7%	-6.6%	-6.3%	-5.3%
Transfers and grants/operating revenue, %	28.6%	25.6%	20.3%	18.1%	17.2%	17.3%	19.0%	18.5%	18.1%
Capital expenditure/total expenditure, %	8.2%	7.2%	6.8%	8.0%	12.5%	10.4%	9.7%	9.9%	10.1%
Economy and demographics									
Nominal GDP, EUR m	293,847	313,308	332,353	354,492	368,298				
GDP per capita, EUR	46,712	49,778	52,395	55,337	57,288				
GDP per capita, % of national GDP per capita	112.6%	112.6%	111.0%	111.7%	112.7%				
Real GDP growth, %	-5.0%	4.5%	1.8%	0.4%	0.6%				
Population, '000s	6,293.2	6,295.0	6,236.9	6,267.5	6,280.8				
Unemployment rate, % labour force	5.4%	5.2%	4.8%	5.2%	5.5%				

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

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