

Land of Berlin

Rating Report



Credit strengths

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

Credit challenges

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

Ratings and Outlook

Foreign & local currency

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

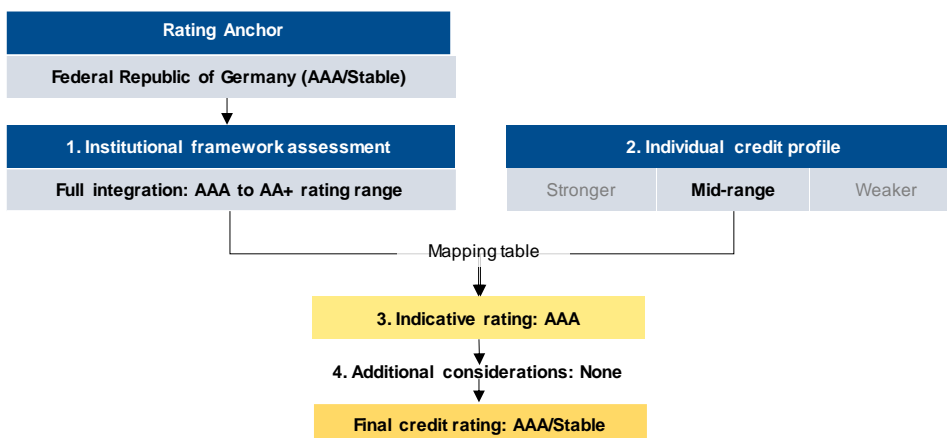
Rating rationale and Outlook

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

- **A highly integrated institutional framework**, characterised by a very strong revenue equalisation system paired with the federal solidarity principle, which results in the close alignment of Länder's creditworthiness with the German federal government's AAA/Stable ratings.
- The rating also reflects **Berlin's individual credit profile, assessed as 'mid-range'**. This reflects its conservative budgetary management, track record of fiscal consolidation, favourable debt profile, excellent capital market access, prudent liquidity management and strong economic base. Credit challenges relate to high direct debt, low revenue flexibility given limited leeway to adjust revenue via own taxes, unfunded pension commitments weighing on long-term expenditure flexibility as well as sizeable but manageable contingent liabilities.

The Stable Outlook represents Scope's view that risks to the ratings over the next 12 to 18 months are balanced.

Scope's approach to rating the Land of Berlin



Note: For further details, please see Scope's [Sub-sovereigns Rating Methodology](#).

Source: Scope Ratings

Positive rating-change drivers

- N/A

Negative rating-change drivers

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

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I. Institutional Framework Assessment

To assess the institutional framework, we apply a Qualitative Scorecard (QS1) centred around 6 components. We assess each analytical component on a five-point scale ranging from a score of 0 for 'low' integration to 100 for 'full' integration. The institutional framework score, ranging from 0 to 100, is calculated as a simple average of these assessments. The score is then used to determine a rating range from the rating anchor level, within which the sub-sovereign's rating can be positioned.

Our assessment of intergovernmental integration between the German federal states, or Länder, and the Federal Republic of Germany (AAA/Stable) results in an indicative downward rating range of one notch from the German sovereign, within which the Länder can be positioned according to their individual credit strengths.

Institutional Framework scorecard (QS1)

Analytical components	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Extraordinary support and bailout practices	●	○	○	○	○
Ordinary budgetary support and fiscal equalisation	●	○	○	○	○
Funding practices	○	○	●	○	○
Fiscal rules and oversight	●	○	○	○	○
Revenue and spending powers	●	○	○	○	○
Political coherence and multi-level governance	●	○	○	○	○

Integration score	92
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

II. Individual Credit Profile or ICP

To assess the ICP, we apply a Qualitative Scorecard 2 (QS2), centred around 10 components underpinned by peer benchmarking. We assess each analytical component on a three-point scale by benchmarking a sub-sovereign's performance and risk exposures to that of peers. Scores are 0 for 'weaker', 50 for 'mid-range', and 100 for 'stronger' for each component. The individual credit profile score, ranging from 0 to 100, is calculated as a simple average of these assessments. In addition, we make two additional assessments for environmental factors and resilience and social factors and resilience, which can lead to adjustments of the ICP score by up to +/- 10 points.

We assess the individual credit profile of the Land of Berlin as mid-range vis-à-vis peers, with an ICP score of 50 out of 100.

Individual Credit Profile scorecard (QS2)

Risk pillar	Analytical components	Stronger (100)	Mid-range (50)	Weaker (0)
Debt and liquidity 40%	Debt burden & trajectory	○	●	○
	Debt profile & affordability	○	○	●
	Contingent liabilities	○	●	○
	Liquidity position & funding flexibility	○	●	○
Budget 30%	Budgetary performance & outlook	○	●	○
	Revenue flexibility	○	●	○
	Expenditure flexibility	○	○	●
Economy 20%	Wealth levels & economic resilience	○	●	○
	Economic sustainability	●	○	○
Governance 10%	Governance & financial management quality	●	○	○
Additional environmental and social factors		Positive impact (+5)	No impact (0)	Negative impact (-5)
Environmental factors and resilience		○	●	○
Social factors and resilience		○	●	○

ICP score	50
Indicative notching	0

III. Mapping Table

We derive the indicative sub-sovereign rating by mapping the result of the institutional framework assessment (i.e. the indicative rating range) to the ICP score.

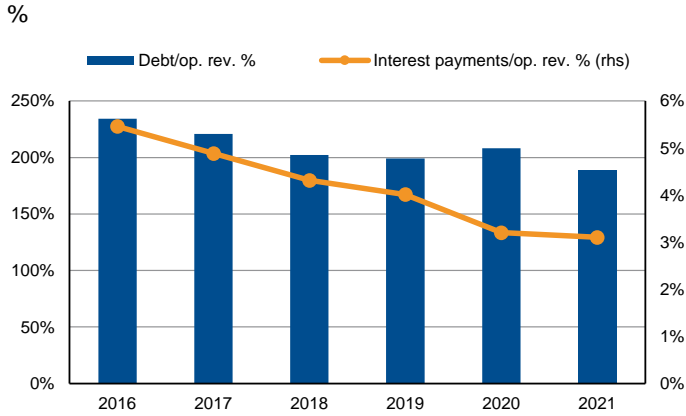
For Berlin, this results in an indicative rating aligned with the sovereign rating of AAA. No additional considerations apply.

Rating anchor	Institutional framework assessment		Individual credit profile score							
	Score	Downward rating range	100 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 0
Federal Republic of Germany										
AAA/Stable	100 > x ≥ 90	0-1	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+
	90 > x ≥ 80	0-2	AAA	AAA	AA+	AA+	AA+	AA	AA	AA
	80 > x ≥ 70	0-3	AAA	AA+	AA+	AA+	AA	AA	AA-	AA-
	70 > x ≥ 60	0-4	AAA	AA+	AA+	AA	AA	AA-	AA-	A+
	60 > x ≥ 50	0-5	AAA	AA+	AA+	AA	AA	AA-	A+	A
	50 > x ≥ 40	0-6	AAA	AA+	AA+/ AA	AA/ AA-	AA/ AA-	AA-/ A+	A+/ A	A-
	40 > x ≥ 30	0-7	AAA	AA+/ AA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	BBB+
	30 > x ≥ 20	0-8	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	A-/ BBB+	BBB
	20 > x ≥ 10	0-9	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A+/ A	A/ A-	BBB+/ BBB	BBB-
	10 > x ≥ 0	0-10	AAA	AA+/ AA	AA/ AA-	AA-/ A+	A/ A-	BBB+/ BBB	BBB-/ BB+	BB+

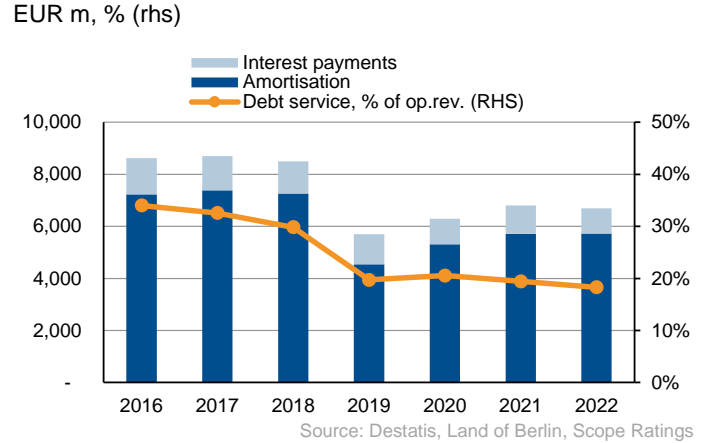
Note: Mapping table under section 4 of Scope's [Sub-sovereigns Rating Methodology](#), as applied to the rating anchor's AAA-ratings.

IV. Selected charts

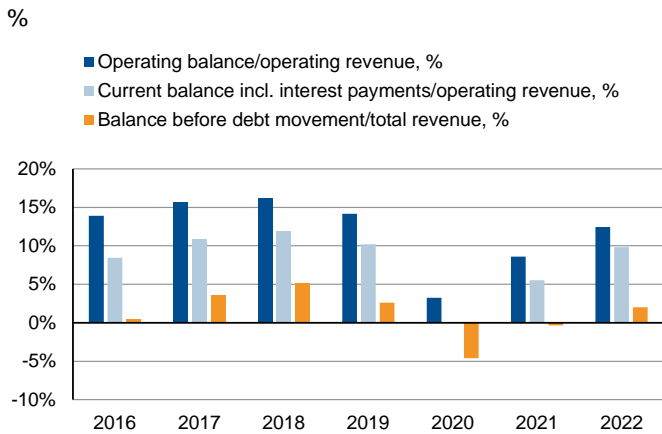
Debt and interest burden



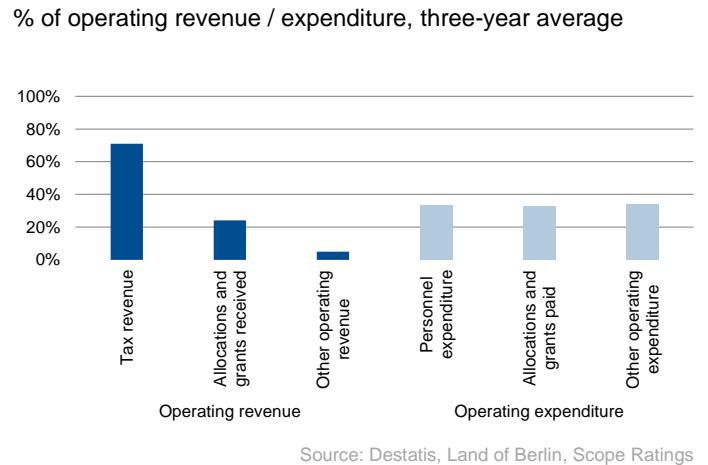
Debt service



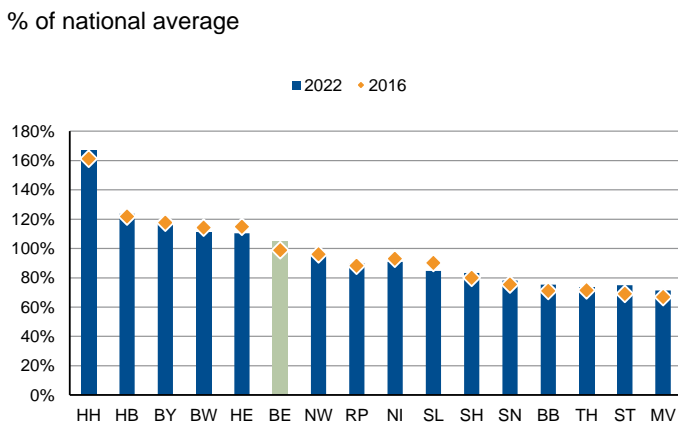
Budgetary performance



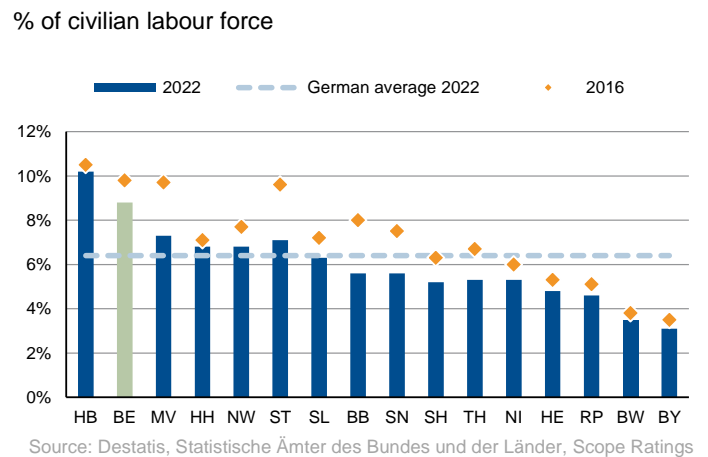
Operating budget composition



GDP per capita



Unemployment rate



V. Statistical Overview

	2015	2016	2017	2018	2019	2020	2021	2022
Budgetary Performance (EUR m)								
Operating revenue	23,791	25,362	26,724	28,482	28,925	30,608	34,970	36,540
Operating expenditure	20,445	21,833	22,536	23,865	24,824	29,620	31,959	31,996
Operating balance	3,346	3,528	4,188	4,617	4,101	988	3,010	4,544
Net interest payments	1,607	1,385	1,306	1,229	1,148	971	1,071	954
Current balance	1,739	2,143	2,882	3,388	2,953	17	1,939	3,590
Capital balance	-1,553	-2,026	-1,882	-1,879	-2,175	-1,450	-2,061	-2,840
Balance before debt movement	187	118	1,000	1,509	778	-1,432	-122	750
Debt (EUR m)								
Direct debt	59,906	59,436	58,994	57,600	57,555	63,705	65,923	65,903
Guarantees	6,901	5,928	5,152	4,255	3,016	3,007	4,616	4,283
Overall debt risk (direct debt plus guarantees)	66,807	65,364	64,146	61,855	60,571	66,712	70,539	70,187
Financial ratios								
Debt/operating revenue, %	251.8%	234.4%	220.8%	202.2%	199.0%	208.1%	188.5%	180.4%
Debt/operating balance, years	17.9	16.8	14.1	12.5	14.0	64.5	21.9	14.5
Interest payments/operating revenue, %	6.8%	5.5%	4.9%	4.3%	4.0%	3.2%	3.1%	2.6%
Implicit interest rate, %	2.7%	2.3%	2.2%	2.1%	2.0%	1.5%	1.6%	1.5%
Operating balance/operating revenue, %	14.1%	13.9%	15.7%	16.2%	14.2%	3.2%	8.6%	12.4%
Balance before debt movement/total revenue, %	0.8%	0.4%	3.6%	5.1%	2.6%	-4.6%	-0.3%	2.0%
Transfers and grants/operating revenue, %	35.7%	33.9%	35.9%	34.3%	33.2%	27.1%	24.6%	20.3%
Capital expenditure/total expenditure, %	10.0%	11.2%	10.7%	9.8%	10.9%	7.0%	8.3%	10.1%
GDP per capita, % of national GDP per capita	96.5%	98.6%	99.5%	101.4%	102.8%	104.4%	104.1%	104.7%

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



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