

# State of North Rhine-Westphalia

The affirmation of North Rhine-Westphalia's (NRW) ratings reflects Fitch Ratings' unchanged rating approach for the German Laender, under which the ratings are equalised with those of the Federal Republic of Germany (Bund; AAA/Stable/F1+).

## Key Rating Drivers

**Rating Derivation Summary:** NRW's Issuer Default Ratings (IDRs) are linked to those of the Bund. We assess its Standalone Credit Profile (SCP) at 'aa+'. The SCP results from a 'Stronger' risk profile and a financial profile that Fitch assesses as 'a' under its rating-case scenario. No other factors affect the rating. The equalisation of the German Laender's ratings with the Bund's is driven by the stability of the solidarity system underpinning the creditworthiness of all Laender, irrespective of the key risk factors (KRFs) and financial profile assessment.

The solidarity system is enshrined in the German constitution and reflects the institutional framework of the Laender. Under the constitution, all member states of the federal republic are jointly responsible for supporting a Land in financial distress. If a Land experiences 'extreme budgetary hardship', it is entitled to financial assistance from all other Laender and the Bund. This principle has been reaffirmed by the constitutional courts on more than one occasion, most recently in 2006.

**'Stronger' Risk Profile:** Fitch assesses all of NRW's key risk factors (KRFs) as 'Stronger'. This risk profile also reflects the state's very good access to capital markets, corresponding strong refinancing capacity and appropriate treasury facilities preventing any temporary delays in the provision of liquidity and support.

**Financial Profile at 'a':** In Fitch's rating-case scenario, NRW's economic liability burden will improve to 59.6% in 2028 from 64.1% in 2023 while its payback ratio will decrease to 12.1x from 16.8x. Debt service coverage (Fitch's synthetic calculation) will increase to 1.0x from 0.8x and the fiscal debt burden will fall to 136.7% from 155.7%. Our rating case is based on conservative GDP growth assumptions to test rating resilience through the economic cycle.

**Neutral Additional Rating Factors:** NRW's Long-Term (LT) IDR is rated on a par with the sovereign, reflecting the specific approach Fitch applies for the German Laender. Its rating does not account for any other extraordinary support from the Bund. No additional risk factors have been identified.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on [www.fitchratings.com](http://www.fitchratings.com).

## Ratings

### Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

### Local Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

### Debt Ratings

Senior Unsecured Debt - Long-Term Rating	AAA
Senior Unsecured Debt - Short-Term Rating	F1+

## Issuer Profile Summary

NRW is the most populated state in Germany (2023: 18.2 million inhabitants) and the largest contributor to Germany's economy, at about 20% of GDP.

## Financial Data Summary

(EURm)	2023	2028 <sup>rc</sup>
Economic liability burden (%)	64.1	59.6
Payback ratio (x)	16.8	12.1
Synthetic coverage (x)	0.8	1.0
Actual coverage (x)	0.6	1.0
Fiscal debt burden (%)	155.7	136.7
Net adjusted debt	150,594	154,981
Operating balance	8,940	12,820
Operating revenue	96,740	113,381
Debt service	16,058	13,240
Mortgage-style debt annuity	11,545	12,334

rc: Fitch's rating-case scenario  
Source: Fitch Ratings, Fitch Solutions, State of North Rhine-Westphalia

## Applicable Criteria

[International Local and Regional Governments Rating Criteria \(August 2024\)](#)

## Related Research

[Fitch Affirms State of North Rhine-Westphalia at 'AAA'; Outlook Stable \(September 2024\)](#)

[German Laender - Peer Review 2023 \(October 2023\)](#)

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## Rating Synopsis

### North Rhine-Westphalia, State of, LT IDR Derivation Summary

KRF attribute	Key Risk Factors (KRF)						Risk Profile	Financial Profile Assessments					Standalone Credit Profile (SCP)	From SCP to LT IDR			
	Revenue		Expenditure		Liabilities & Liquidity			Primary metric		Secondary metrics		Financial Profile Score		Intergovernmental lending	Ad hoc support	Rating floor	LT IDR Outlook
	Robustness	Adjustability	Sustainability	Adjustability	Robustness	Flexibility		Economic Liability Burden	Payback Ratio (x)	Synthetic DSCR (x)	Fiscal Debt Burden (%)						
								aaa	aaa	aaa	aaa						
Stronger	Higher Influence KRF	Higher Influence KRF	Higher Influence KRF	Higher Influence KRF	Higher Influence KRF	Higher Influence KRF	Stronger	High Midrange	aaa	aaa	aaa	aaa	aaa				
									aa	aa	aa	aa	aa	aa	AA+	AA+	
									a	a	a	a	a	a	AA	AA	
									bb	bb	bb	bb	bb	bb	AA-	AA-	
									bbb	bbb	bbb	bbb	bbb	bbb	A+	A+	
									bbb	bbb	bbb	bbb	bbb	bbb	A	A	
									bb	bb	bb	bb	bb	bb	A-	A-	
									bb	bb	bb	bb	bb	bb	BBB+	BBB+	
									b	b	b	b	b	b	BBB	BBB	
									b	b	b	b	b	b	BBB-	BBB-	
									b	b	b	b	b	b	BB+	BB+	
									b	b	b	b	b	b	BB	BB	
									b	b	b	b	b	b	BB-	BB-	
									b	b	b	b	b	b	B+	B+	
									b	b	b	b	b	b	B	B	
									b	b	b	b	b	b	B-	B-	
									b	b	b	b	b	b	CCC+	CCC+	
									b	b	b	b	b	b	CCC	CCC	
									b	b	b	b	b	b	CCC-	CCC-	
									b	b	b	b	b	b	CC	CC	
									b	b	b	b	b	b	C	C	

Higher Influence KRF Lower Influence KRF

Source: Fitch Ratings

The six KRFs, combined according to their relative importance, collectively represent the Risk Profile of a local and regional government (LRG). Risk Profile and Financial Profile assessments, that measures the LRG’s debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in a Standalone Credit Profile (SCP).

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The ratings are the highest level on Fitch’s rating scale and cannot be upgraded.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign ratings would lead to a downgrade of NRW. An adverse change to the most important institutional feature, the solidarity principle, which Fitch views as unlikely, could also lead to a downgrade.

## Issuer Profile

Based on an extrapolation of the 2011 census, NRW had a population of almost 18.2 million at end-2023. NRW is the largest contributor to Germany’s economy, accounting for about 20% of GDP. NRW’s GDP per capita income in 2023 of EUR46,194 was about 5% below Germany’s average of EUR48,750.

NRW’s economic profile is largely in line with the average in Germany. NRW has an important manufacturing sector and its economy is well diversified, with the chemicals, pharmaceuticals, automotive, automotive supply and retail sectors playing an important role.

The state’s GDP decreased by -1% in real terms to a nominal EUR839.1 billion in 2023, which was still below Germany’s -0.3% real GDP decline. Owing to its energy-intensive industry, the development of NRW’s economy was affected by high energy prices in Germany in 2023 as well as by lagging industry output, especially in the automotive segment. However, energy-intensive industries are expected be less affected in 2024 due to decreasing energy costs.

Fitch anticipates 0.1% real GDP growth for Germany for 2024, 1.1% for 2025 and 1.4% for 2026 (no data is available for the state).

The unemployment rate in NRW was 7.2% in 2023 (Germany: 5.7%), the third-highest rate among western German states. NRW's large number of big cities makes it attractive to job seekers, who often apply for unemployment or social aid on arrival there. This partly explains why NRW has an above-average number of non-working people.

**Socioeconomic Indicators**

	Issuer	Sovereign
Population, 2023 (m)	18.2	84.7
GDP per capita, 2023 (EUR)	46,194.0	48,750.0
GRP growth, 2023 (%)	-1.0	-0.3
Inflation, 2023 (%)	5.6	5.9
Unemployment rate, 2023 (%)	7.2	5.7

Source: Fitch Ratings, national statistics, State of North Rhine-Westphalia

**Risk Profile Assessment**

**Risk Profile: Stronger**

Fitch assesses NRW's risk profile at 'Stronger', reflecting the combination of the following assessments:

**Risk Profile Assessment**

Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility	Implied operating environment score	Risk profile
Stronger	Stronger	Stronger	Stronger	Stronger	Stronger	aa	Stronger

Source: Fitch Ratings

The assessment reflects Fitch's view of a low risk relative to international peers that NRW's ability to cover debt service with the operating balance may weaken unexpectedly over the forecast horizon (2024-2028) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt or debt service requirements.

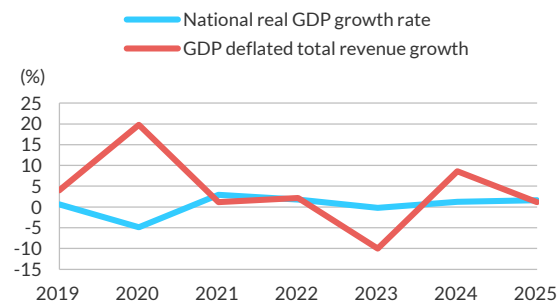
**Revenue Robustness: Stronger**

This assessment is driven by the high share of stable revenue sources due to the strong and diversified tax base and stable transfers from the Bund. We view the Laender as resilient to any potential shocks, mitigating the risk of a shrinking revenue base.

The Laender's main revenue sources consist of common tax revenues (corporate income tax, CIT), VAT and personal income tax (PIT) between the Bund, the Laender, and to a lesser extent, the municipalities. By law the Laender receive 50.0% of CIT and 42.5% of PIT. Their VAT share has a more complex allocation process and marginally varies. In 2023, the share was 49.7% for the Laender, 47.5% for the Bund and 2.8% for the municipalities.

In 2023, tax revenue was 74.1% of NRW's total revenue, with PIT and VAT the largest contributors, at 26.7% and 32.7%, respectively. These taxes have shown stable growth in the past.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, State of North Rhine-Westphalia

Revenue Breakdown, 2023

	Operating revenue (%)	Total revenue (%)
PIT	27.6	26.7
VAT	33.7	32.7
Other taxes	15.2	14.7
Transfers	20.2	19.6
Other operating revenue	3.3	3.2
<b>Operating revenue</b>	<b>100.0</b>	<b>96.9</b>
Interest revenue	-	0.5
Capital revenue	-	2.6
<b>Total revenue</b>	<b>-</b>	<b>100.0</b>

Source: Fitch Ratings, Fitch Solutions, State of North Rhine-Westphalia

Revenue Adjustability: Stronger

This assessment is supported by a strong record of revenue equalisation, an essential part of Fitch’s rating approach, which links Laender’s ratings to the Bund’s. An extensive equalisation system and a broad-based solidarity pact compensate for financial disparity. This equalisation framework requires financially stronger Laender to transfer part of their above-average tax proceeds to financially weaker members. The framework partly offsets the differences among Laender’s tax revenue base and their financial strength.

The most recent reform of the financial equalisation system confirms the stability of revenue equalisation. This is likely to increase transfers from the Bund to financially weaker Laender and lower the burden of net donor states. Fitch views this as credit positive.

NRW is a net receiver from the financial equalisation system and received EUR 1.2 billion in 2023 (EUR1.2 billion in 2022) based on preliminary figures, or about 1.2% of its total revenue.

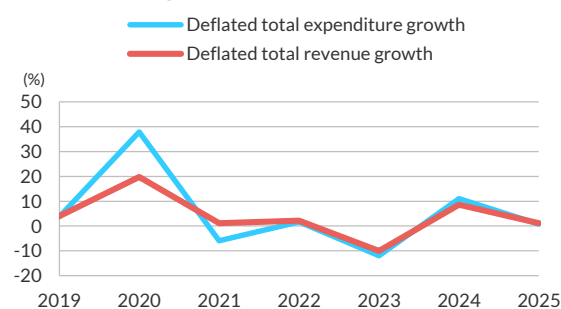
Expenditure Sustainability: Stronger

Laender have a prudent record of controlling operating expenditure (opex). The main spending items are related to education and science, security and infrastructure. In times of economic stress, the Bund carries out anti-cyclical measures.

Laender have been applying cost-consolidation measures since 2010 to comply with the debt-brake rule starting in 2020. They have shown strong spending restraint since 2010 to keep opex growth below that of operating revenue. Cost-consolidation measures are subject to the supervision of the German Stability Board.

NRW, in line with all Laender, is in a tight exchange with the Bund in times of crisis, most recently shown during the pandemic and during the refugee crisis. Additional burdens stemming from the refugee crisis has been partly covered by specific grants from the Bund to the Laender. This means that, even if expenditure increases due to a sudden need, the additional burden is usually met by an adequate revenue stream.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, State of North Rhine-Westphalia

Expenditure Breakdown, 2023

	Operating expenditure (%)	Total expenditure (%)
Staff costs	35.9	31.1
Goods and services	8.8	7.6
Operating subsidies	55.3	47.8
<b>Operating expenditure</b>	<b>100.0</b>	<b>86.5</b>
Interest expenditure	-	2.9
Capital expenditure	-	10.6
<b>Total expenditure</b>	<b>-</b>	<b>100.0</b>

Source: Fitch Ratings, Fitch Solutions, State of North Rhine-Westphalia

### Expenditure Adjustability: Stronger

Laender are legally obliged to run their budgets without taking on new net debt from 2020, which Fitch views positively for expenditure adjustability. However, since the pandemic was declared as an extraordinary emergency situation ("außergewöhnliche Notsituation") beyond the government's control, the additional debt load the Laender faced during 2020 and 2021 was not a breach of the debt-brake rules.

Laender have effective budget rules in place and have demonstrated a strong ability to limit expenditure growth ahead of the debt brake. They have a moderate share of inflexible spending items. Despite the limited flexibility in adjusting capital expenditure (capex), NRW has a good record of cost consolidation.

Personnel costs and transfers accounted for 78.9% of NRW's total expenditure in 2023, while capex accounted for a low of 10.6% of total spending. Operating revenue rises usually outpace the growth of operating expenditure. However, in 2019-2023, NRW's operating revenue increased by 5.9% on average, while opex growth was 6.4% on average, but this was driven by the pandemic.

The operating margin had declined to -2.2% in 2020 due to the pandemic, which resulted in higher operating costs and, in particular, transfers, a large part of which were provided by the Bund in a temporary measure to cope with the crisis. Due to a strong growth of operating revenue, mainly driven by a large rise in tax revenue, the operating margin reached 7.1% in 2022 and 9.2% in 2023.

### Liabilities and Liquidity Robustness: Stronger

NRW, like the other Laender, operates within a solid national framework for debt and liquidity management and shows strict market discipline, which Fitch views as credit positive. As one of the large subnational and frequent issuers, NRW has very good access to international capital markets. NRW regularly taps the markets with benchmark-sized issues.

NRW has prudent debt management, predominantly funding its maturing debt with the proceeds of bond issues during 2023. NRW's exposure to foreign-currency debt is fully hedged and its floating-rate issues are hedged to a large extent.

Because of still high interest rates, the interest burden of the Laender is likely to rise, in contrast to the previous long period of reductions. NRW has lengthened its maturity profile in 2022 at still low interest rates including the issuance of its fourth bond with a 100-year maturity to reduce the risk of a high interest expenditure burden. In 2023 NRW has refinanced EUR 14.1 billion with an average tenor of the new funding of 21.9 years.

NRW has an even maturity profile and its frequent refinancing needs average about EUR8 billion-14 billion a year between 2024 and 2028 (below 10% of its direct debt). Furthermore, NRW has placed its 11th Sustainable Bond in October 2024, amounting to EUR 1.25 billion and with a maturity of five years. Since 2015, NRW has successfully placed sustainable bonds with a total volume of over EUR22 billion.

At end-2023, NRW's direct debt amounted to EUR164.7 billion, comprising bonds (79%) and loans (21%). The average weighted maturity was 19.6 years (2022: 18.6 years) and the average interest rate was 1.77%.

NRW's direct debt at end 2023 included NRW's rescue pack "Rettungsschirm", which amounted to about EUR18.3 billion at end-2023. This rescue pack had been established in 2020 to cope with the pandemic and whose repayment started in 2023 with an instalment of EUR1.6 billion. In 2024 NRW repaid EUR3 billion in relation to Rettungsschirm-debt and in 2025 NRW plans to repay up to EUR1.9 billion and from 2026 onwards EUR350 million p.a.. NRW's parliament has declared an "extraordinary emergency situation" for 2023 due to the effects of the war in Ukraine for NRW, i.e. higher costs for energy and for the refugees. As a result, a special fund (Sondervermögen Krisenbewältigung) was established under which drawdowns of up to EUR5 billion in total were allowed until end-2023 to cope with these effects. Finally, NRW has drawn EUR2.45 billion under this fund in 2023, which will be repaid with EUR40 million in 2024 and from 2025 with annual instalments of EUR80 million.

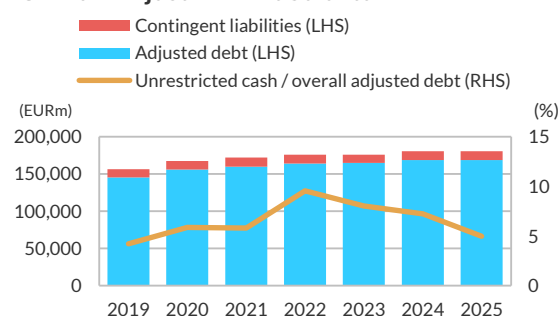
NRW also faces large contingent liabilities in the form of debt guarantee on behalf of their development bank (NRW.BANK; AAA/Stable) and former Landesbank WestLB.

At end-2023, NRW reported guarantees and contingent liabilities of EUR11.1 billion. Of that amount EUR5.6 billion is related to guarantees that NRW granted and also includes inherited liabilities of the former WestLB (now Portigon AG) and the amounts that have been transferred to Erste Abwicklungsanstalt (EAA; AAA/Stable), in which NRW holds a 48.2% stake. Portigon and EAA are in a continuing wind-down process. At end-1H24, EAA's total assets had declined by 5% since end-2023, and its banking book by 95% since 2012.

Fitch assumes NRW is financially liable for the debt of its shareholdings. Considering those in which the state holds a minimum 50.1% share and excluding NRW.BANK and Portigon, we assume NRW to be liable for 31 shareholdings with a relatively low total debt of EUR412 million at end-2022 (the last available information). The majority-owned GRE debt and other contingent liabilities of EUR5.507 billion also include the liabilities of NRW's Bau- und Liegenschaftsbetrieb, a real estate entity, amounting to EUR5.095 billion at end-2022.

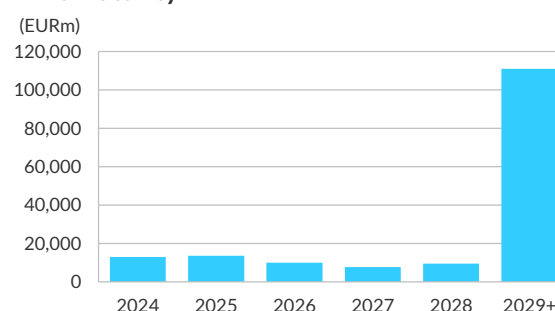
NRW is also liable for all the obligations of the fully owned NRW.BANK, which has a deficiency guarantee (Gewährträgerhaftung) and a maintenance obligation (Anstaltslast). The explicit guarantee enables the bank to meet its obligations (total funding and derivatives amounting to EUR133.8 billion at end-2023) at any time. These represent a large contingent liability for NRW, mitigated by the bank's assets and the fact that a default by a development bank is unlikely, due to its conservative business profile. Fitch has not factored in this amount in Appendix A.

**Overall Adjusted Debt Structure**



Source: Fitch Ratings, State of North Rhine-Westphalia

**Debt Maturity Profile**



Source: Fitch Ratings, State of North Rhine-Westphalia

**Liabilities and Liquidity Flexibility: Stronger**

Laender benefit from strong emergency liquidity support provided by the national government with a counterparty risk of 'AAA'

This established and active liquidity management system, together with Laender's strong access to capital markets and corresponding strong refinancing capacity and appropriate treasury facilities, should prevent delays in the provision of liquidity and support.

The liquidity risk of a single Land is avoided through bilateral and mutual agreements linking all Laender as well as the Bund, ensuring their ability to assist one another. Liquidity would only fail to be forthcoming for any given Land in the event of a complete federal breakdown, in which neither the Laender nor the Bund itself could provide liquidity.

All the liquidity provision facilities underline the strong financial support mechanism that is anchored in the German financial constitution, which requires the Bund and Laender to support any single state in financial distress. This sub-factor is core to Fitch's rating approach for the German Laender.

**Debt Analysis**

	2023
Fixed rate (% of direct debt)	84
Debt in foreign currency (% of direct debt)	6
Apparent cost of debt (%)	1.8
Weighted average life of debt (years)	19.6

Source: Fitch Ratings, State of North Rhine-Westphalia

**Liquidity**

(EURm)	2023
Total cash, liquid deposits and sinking funds	14,924
Restricted cash	818
Cash available for debt service	14,106
Undrawn committed credit lines	0

Source: Fitch Ratings, State of North Rhine-Westphalia

## Financial Profile Assessment

Financial Profile: a category

### Financial Profile Score Summary

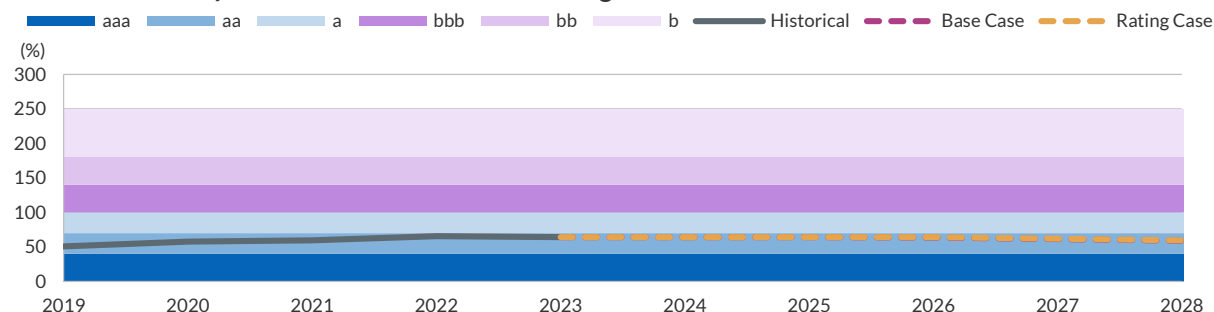
	Primary metric		Secondary metrics	
	Economic liability burden (%)	Payback ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	$X \leq 40$	$X \leq 5$	$X \geq 4$	$X \leq 50$
aa	40 < X ≤ 70	5 < X ≤ 9	2 ≤ X < 4	50 < X ≤ 100
a	70 < X ≤ 100	9 < X ≤ 13	1.5 ≤ X < 2	100 < X ≤ 150
bbb	100 < X ≤ 140	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	140 < X ≤ 180	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X > 180	X > 25	X < 1	X > 250

Note: Yellow highlights show metric ranges applicable to the issuer.  
Source: Fitch Ratings

Fitch classifies German Laender as type A local and regional governments as the state has the ability to incur structural deficits and the German Laender share some key attributes of sovereignty with the central government.

NRW's economic liability burden (primary metric) is assessed at 59.6% in our rating case for 2028 (2023: 64.1%), which corresponds to the 'aa' category. However, on the basis of a weaker assessment of the secondary metrics -the debt payback ratio is assessed at 12.1x ('a' category), the synthetic debt service coverage at 1.0x ('bb') and the fiscal debt burden at 136.7% ('a') - we assess NRW's overall financial profile in the 'a' category.

### Economic Liability Burden - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, State of North Rhine-Westphalia

Fitch's base-case scenario considers the assumptions that are primarily derived from economic data, including Fitch's Global Economic Outlook and Germany's sovereign report, as well as the issuer's forecast. Fitch's assumptions for cash flow in years 2024 to 2028 are primarily based on economic data, in particular national nominal GDP growth and inflation forecasts.

Our rating-case is a "through-the-cycle" scenario, which incorporates revenue stresses. It is based on 2019-2023 actual figures and 2024-2028 projected ratios. The rating case ends in 2028 and relies on the assumptions in the table below.



Scenario Assumptions Summary

Assumptions	5-Year Historical Average	2024 - 2028 Average	
		Base Case	Rating Case
Operating revenue growth (%)	5.9	3.4	3.2
Tax revenue growth (%)	4.5	3.8	3.6
Current transfers received growth (%)	11.8	1.9	1.9
Operating expenditure growth (%)	6.4	2.8	2.8
Net capital expenditure (average per year; m)	-7,864	-8,739	-8,739
Apparent cost of debt (%)	1.2	1.9	1.9

Outcomes	2023	2028	
		Base Case	Rating Case
Economic liability burden (%)	64.1	59.2	59.6
Payback ratio (x)	16.8	11.0	12.1
Overall payback ratio (x)	18.1	11.8	13.0
Actual coverage ratio (x)	0.6	1.0	1.0
Synthetic coverage ratio (x)	0.8	1.1	1.0
Fiscal debt burden (%)	155.7	132.0	136.7

Source: Fitch Ratings, State of North Rhine-Westphalia

Fitch’s net adjusted debt of EUR150.6 billion at end-2023 reflects NRW’s direct debt (2023: EUR164.7 billion) less unrestricted cash (2023: EUR14.1 billion). NRW’s direct debt consists of EUR163.9 billion of capital market debt and EUR 0.8 billion of intergovernmental debt.

We expect NRW’s direct debt to decrease by at least EUR1 billion during 2024. NRW repaid EUR3 billion in relation to the special fund NRW Rettungsschirm in April 2024. However, NRW has obtained an allowance to incur additional debt of up to about EUR2 billion in 2024, which is compliant with the debt brake (Konjunkturkomponente im Rahmen der Schuldenbremse). This is mainly due to the lower than expected tax income at the May 2024 tax estimate. The allowance represents a maximum amount, and its utilisation depends on the final amount of tax revenue received by NRW in 2024.

NRW’s net overall debt of EUR161.7 billion also includes the state’s guarantees (2023: EUR5.6 billion) and the debt of its majority owned government-related entities and other contingent liabilities (2022, latest available information: EUR5.5 billion). Fitch views NRW’s contingent liabilities as low risk.

SCP Positioning and Peer Comparison

Analytical Outcome Guidance

Risk Profile	Financial Profile					
Stronger	aaa or aa	a	bbb	bb	b	
High midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
<b>Suggested analytical outcome (SCP)</b>	<b>aaa</b>	<b>aa</b>	<b>a</b>	<b>bbb</b>	<b>bb</b>	<b>b</b>

Source: Fitch Ratings

Fitch publicly rates 11 German states, of which one has an SCP at ‘aaa’, five have SCPs at ‘aa+’, three at ‘aa’, one at ‘aa-’ and one at ‘a’.

NRW’s closest peers are the States of Lower Saxony and Rhineland Palatinate, whose economic liability burdens (at 56.6% and 47.6% respectively) are close to NRW’s (59.6%) which also have well diversified economies, though North



Rhine-Westphalia’s population is much larger (18.2 million in 2023 compared to Lower Saxony’s 8.2 million and Rhineland-Palatinate’s 4.2 million). They also have SCPs of ‘aa+’.

	Risk Profile	Financial Profile Score	SCP	Rating floor	LT IDR
State of North Rhine-Westphalia	Stronger	a	aa+	AAA	AAA/Stable
State of Lower Saxony	Stronger	a	aa+	AAA	AAA/Stable
State of Rhineland-Palatinate	Stronger	a	aa+	AAA	AAA/Stable
State of Hamburg	Stronger	aa	aaa	AAA	AAA/Stable
State of Berlin	Stronger	a	aa	AAA	AAA/Stable
State of Saarland	Stronger	a	aa-	AAA	AAA/Stable
State of Bremen	Stronger	bbb	a	AAA	AAA/Stable

Source: Fitch Ratings

## Long Term Rating Derivation

### From SCP to LT IDR: Factors Beyond the SCP

SCP	Sovereign LT FC IDR	Support			Rating Cap	Leeway above Sovereign (notches)	LT FC IDR
		Intergovern. Financing	Ad hoc Support	Floor			
aa+	AAA	-	-	AAA	-	-	AAA

Source: Fitch Ratings, State of North Rhine-Westphalia

German Laender ‘AAA’ IDRs are linked to the rating of the Bund. The SCP of NRW is assessed at ‘aa+’, reflecting the combination of a ‘Stronger’ risk profile for NRW and financial profile of ‘a’.

NRW’s IDRs are primarily driven by the stability of the solidarity system that underpins their creditworthiness, irrespective of the KRFs and financial profile assessment.

The solidarity system is enshrined in Germany’s constitution and reflects the institutional framework of the Laender. According to the constitution, all member states of the federal republic are jointly responsible for supporting a Land in financial distress. If a Land experiences "extreme budgetary hardship", it is entitled to financial assistance from all other Laender and the Bund. This principle has been reaffirmed by the constitutional courts on more than one occasion in the past, most recently in 2006.

## Short Term Rating Derivation

NRW’s Short-Term IDRs of ‘F1+’ are mapped to its Long-Term IDRs of ‘AAA’.

## National Ratings

Not applicable.

## Transaction and Securities

NRW’s senior unsecured debt ratings are in line with its respective Long- and Short-Term IDRs.

## Criteria Variation

Not applicable.

## ESG Considerations

The highest level of ESG credit relevance is a score of ‘3’, unless otherwise disclosed in this section. A score of ‘3’ means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch’s ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch’s ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## Appendix A: Financial Data

### State of North Rhine-Westphalia

(EURm)	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
<b>Fiscal performance</b>										
Taxes	62,011	61,034	68,385	74,105	73,984	75,954	79,144	82,152	85,356	88,428
Transfers received	11,452	27,733	23,593	24,457	19,560	18,685	18,466	21,103	21,323	21,507
Fees, fines and other operating revenues	2,346	2,350	2,497	2,732	3,196	3,246	3,296	3,346	3,396	3,446
Operating revenue	75,808	91,117	94,475	101,294	96,740	97,885	100,906	106,601	110,075	113,381
Operating expenditure	-66,109	-93,080	-90,271	-94,141	-87,800	-90,873	-92,872	-94,823	-97,514	-100,562
Operating balance	9,699	-1,962	4,204	7,153	8,940	7,012	8,034	11,778	12,561	12,819
Interest revenue	31	31	8	25	464	394	414	434	454	474
Interest expenditure	-2,002	-1,384	-1,576	-1,432	-2,925	-2,463	-2,783	-3,274	-3,601	-3,765
Current balance	7,728	-3,315	2,636	5,746	6,479	4,943	5,665	8,938	9,414	9,528
Capital revenue	2,536	2,043	1,917	2,531	2,583	2,405	2,738	2,615	2,619	2,519
Capital expenditure	-8,433	-10,344	-8,953	-12,430	-10,771	-10,581	-11,057	-11,538	-11,707	-11,707
Capital balance	-5,897	-8,301	-7,036	-9,899	-8,188	-8,176	-8,319	-8,923	-9,088	-9,188
Total revenue	78,375	93,192	96,400	103,850	99,787	100,684	104,058	109,650	113,148	116,374
Total expenditure	-76,544	-104,807	-100,800	-108,003	-101,496	-103,917	-106,712	-109,635	-112,822	-116,034
Surplus (deficit) before net financing	1,831	-11,616	-4,400	-4,153	-1,709	-3,233	-2,654	15	326	340
New borrowing	16,630	26,808	15,534	18,245	13,988	11,956	13,528	10,030	7,679	9,475
Debt repayment	-16,642	-15,430	-15,389	-14,013	-13,133	-12,956	-13,528	-10,030	-7,679	-9,475
Net direct debt movement	-12	11,379	145	4,232	855	-1,000	0	0	0	0
Overall results	1,819	-237	-4,255	79	-854	-4,233	-2,654	15	326	340
<b>Debt and liquidity</b>										
Short-term debt	1,222	828	0	0	0	13,528	10,030	7,679	9,475	4,251
Long-term debt	142,695	152,953	158,773	163,000	163,900	149,372	152,870	155,221	153,425	158,649
Intergovernmental debt	0	2,142	896	800	800	800	800	800	800	800
Direct debt	143,917	155,923	159,669	163,800	164,700	163,700	163,700	163,700	163,700	163,700
Other fitch-classified debt	1,319	0	0	0	0	0	0	0	0	0
Adjusted debt	145,236	155,923	159,669	163,800	164,700	163,700	163,700	163,700	163,700	163,700
Guarantees issued (excluding adjusted debt portion)	5,611	5,612	6,678	6,299	5,568	5,568	5,568	5,568	5,568	5,568
Majority-owned GRE debt and other contingent liabilities	5,559	5,560	5,482	5,482	5,507	5,507	5,507	5,507	5,507	5,507
Overall adjusted debt	156,406	167,094	171,829	175,581	175,776	174,775	174,775	174,775	174,775	174,775
Total cash, liquid deposits, and sinking funds	6,600	9,800	13,346	18,539	14,924	10,691	8,037	8,053	8,378	8,719
Restricted cash	0	0	3,400	1,772	818	0	0	0	0	0
Unrestricted cash	6,600	9,800	9,946	16,767	14,106	10,691	8,037	8,053	8,378	8,719
Net adjusted debt	138,636	146,123	149,723	147,033	150,594	153,009	155,663	155,647	155,322	154,981
Net overall debt	149,806	157,294	161,883	158,814	161,670	164,084	166,738	166,722	166,397	166,056
Enhanced net adjusted debt	138,636	143,981	148,827	146,233	149,794	152,209	154,863	154,847	154,522	154,181
Enhanced net overall debt	149,806	155,152	160,987	158,014	160,870	163,284	165,938	165,922	165,597	165,256

rc – rating case

Source: Fitch Ratings, Fitch Solutions, State of North Rhine-Westphalia

## Appendix B: Financial Ratios

### State of North Rhine-Westphalia

	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
<b>Fiscal performance ratios</b>										
Operating balance/operating revenue (%)	12.8	-2.2	4.5	7.1	9.2	7.2	8.0	11.0	11.4	11.3
Current balance/current revenue (%)	10.2	-3.6	2.8	5.7	6.7	5.0	5.6	8.4	8.5	8.4
Operating revenue growth (annual % change)	4.1	20.2	3.7	7.2	-4.5	1.2	3.1	5.6	3.3	3.0
Operating expenditure growth (annual % change)	2.6	40.8	-3.0	4.3	-6.7	3.5	2.2	2.1	2.8	3.1
Surplus (deficit) before net financing/total revenue (%)	2.3	-12.5	-4.6	-4.0	-1.7	-3.2	-2.6	0.0	0.3	0.3
Surplus (deficit) before net financing/GDP (%)	0.3	-1.7	-0.6	-0.5	-0.2	-0.4	-0.3	0.0	0.0	0.0
Total revenue growth (annual % change)	4.0	18.9	3.4	7.7	-3.9	0.9	3.4	5.4	3.2	2.9
Total expenditure growth (annual % change)	3.7	36.9	-3.8	7.2	-6.0	2.4	2.7	2.7	2.9	2.8
<b>Debt Ratios</b>										
<b>Primary metrics</b>										
Economic liability burden (%)	50.6	57.8	59.5	65.7	64.1	65.5	64.1	63.9	61.7	59.6
Enhanced economic liability burden (%)	50.6	57.5	59.4	65.6	64.0	65.4	64.0	63.8	61.6	59.5
Payback ratio (x) (Net adjusted debt to operating balance)	14.3	-74.5	35.6	20.6	16.8	21.8	19.4	13.2	12.4	12.1
<b>Secondary metrics</b>										
Fiscal debt burden (%) (Net Debt-to-operating revenue)	182.9	160.4	158.5	145.2	155.7	156.3	154.3	146.0	141.1	136.7
Synthetic debt service coverage ratio (x)	1.0	-0.2	0.4	0.7	0.8	0.6	0.7	1.0	1.0	1.0
Actual debt service coverage ratio (x)	0.5	-0.1	0.2	0.5	0.6	0.5	0.5	0.9	1.1	1.0
<b>Other debt ratios</b>										
Liquidity coverage ratio (x)	0.5	0.3	0.8	1.1	1.6	1.4	1.2	1.5	1.8	1.6
Direct debt maturing in one year/total direct debt (%)	12.4	9.4	8.6	8.0	7.9	8.3	6.1	4.7	5.8	2.6
Direct debt (annual % change)	0.0	8.3	2.4	2.6	0.5	-0.6	0.0	0.0	0.0	0.0
Apparent cost of direct debt (interest paid/direct debt) (%)	1.4	0.9	1.0	0.9	1.8	1.5	1.7	2.0	2.2	2.3
<b>Revenue ratios</b>										
Tax revenue/total revenue (%)	79.1	65.5	70.9	71.4	74.1	75.4	76.1	74.9	75.4	76.0
Current transfers received/total revenue (%)	14.6	29.8	24.5	23.6	19.6	18.6	17.8	19.2	18.8	18.5
Interest revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.5	0.4	0.4	0.4	0.4	0.4
Capital revenue/total revenue (%)	3.2	2.2	2.0	2.4	2.6	2.4	2.6	2.4	2.3	2.2
<b>Expenditure ratios</b>										
Staff expenditure/total expenditure (%)	35.5	27.0	28.8	28.1	31.1	-	-	-	-	-
Current transfers made/total expenditure (%)	44.4	57.7	46.5	45.8	47.8	-	-	-	-	-
Interest expenditure/total expenditure (%)	2.6	1.3	1.6	1.3	2.9	2.4	2.6	3.0	3.2	3.2
Capital expenditure/total expenditure (%)	11.0	9.9	8.9	11.5	10.6	10.2	10.4	10.5	10.4	10.1

rc - rating case

Source: Fitch Ratings, Fitch Solutions, State of North Rhine-Westphalia

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## Appendix C: Data Adjustments

### Net Adjusted Debt Calculations

Fitch's net adjusted debt of EUR150.6 billion at end-2023 reflects NRW's direct debt (2023: EUR164.7 billion) less unrestricted cash (2023: EUR14.1 billion). NRW's direct debt consists of EUR163.9 billion of capital market debt and EUR 0.8 billion of intergovernmental debt.

### Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess the German state's LRGs' debt sustainability

### Specific Adjustments

None

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