



SACHSEN-ANHALT **#moderndenken**

Capital Market Presentation

June 2023

Content

Chapter 1 **Overview Saxony-Anhalt**

Chapter 2 **Strong constitutional framework of Germany**

Chapter 3 **Saxony-Anhalt – A strong credit**

Chapter 4 **Debt Management - Flexible, investor focused, anticipatory strategy**

Chapter 5 **Saxony-Anhalt's Unique Value Proposition**

Contacts

Chapter 1

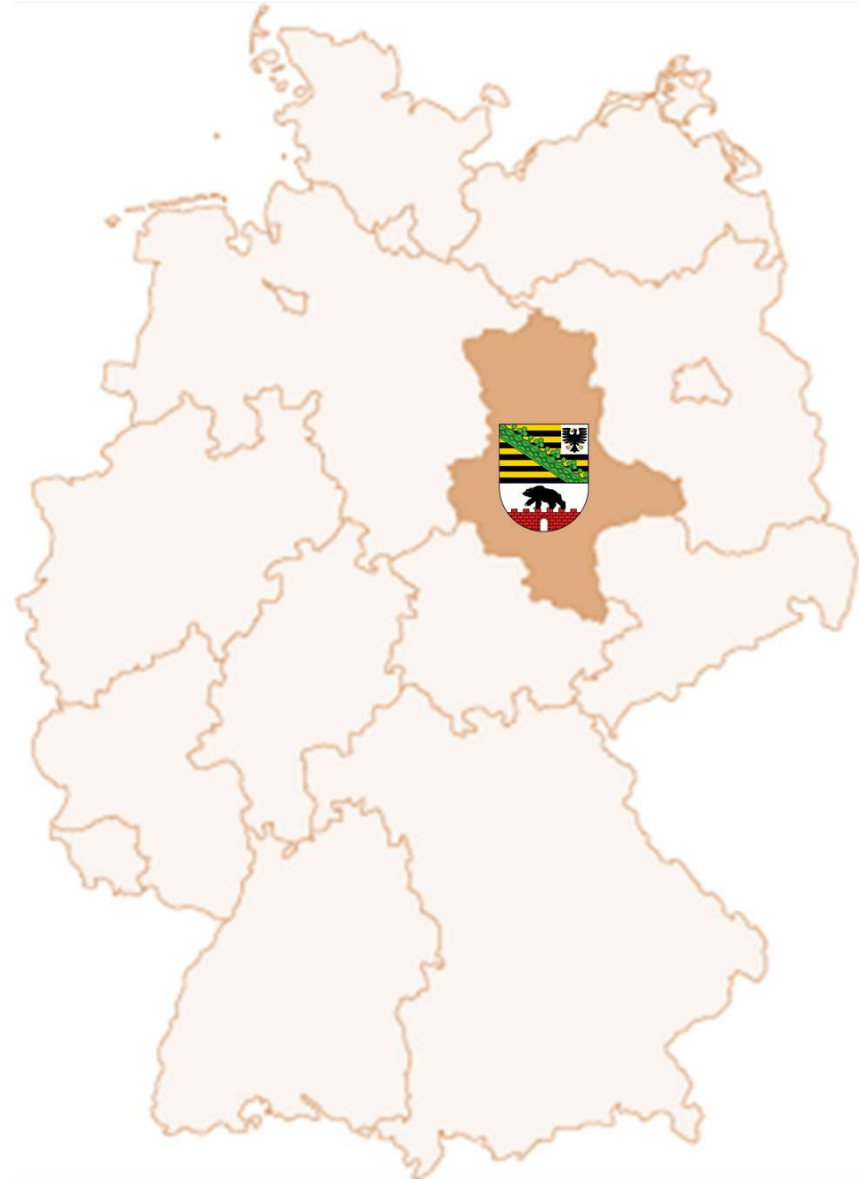
Overview Saxony-Anhalt

Overview

Key facts:

- **Capital:** Magdeburg
- **Airport:** International Airport Leipzig-Halle

Saxony-Anhalt	Key figures	Germany
20,452 km ²	Area	357,588 km ²
2.2 mn inhabitants	Population	84.3 mn inhabitants
EUR 75.4 bn	GDP in 2022	EUR 3,867.5 bn
EUR 75,839	GDP per employee in 2022	EUR 84,669
+2.6%	GDP growth rate in 2022	+1.8%
7.1%	Unemployment rate in 2022	5.3%
Christian Democrats, Social Democrats and Liberals since 2021	Government	Social Democrats, Green Party and Liberals since 2021



Starke Geschichte, große Ideen

In Sachsen-Anhalt haben über Jahrhunderte kluge Köpfe weltverändernde Ideen entwickelt. Jetzt wird Sachsen-Anhalt zu einem Knotenpunkt der digitalen Zukunft ausgebaut.



Himmelscheibe
von Nebra



Bauhaus
Dessau



Luthergedenkstätten
Wittenberg und Eisleben



Altstadt und
Stiftsberg
Quedlinburg



Gartenreich
Dessau-Wörlitz



Naumburger
Dom

Chapter 2

Strong constitutional framework of Germany

The Federal and State Levels of Government in Germany

➤ Constitutional principles

Germany is a Federal Republic, consisting of 2 concurrent levels of government:

State level (“Länder”)

Federal level (“Bund”)

➤ German States – Sovereigns within the German Constitution

The 16 States signed the German Constitution. In addition to that they all have their own parliament, courts and government (German constitution overrules State Constitutions). They are autonomous and independent with regard to their budgets.

➤ Allegiance to the federation (“Bundestreue”)

The federal and state governments are under an obligation to respect their mutual interests, to co-operate in the performance of the tasks assigned to them by the Constitution and to render mutual assistance.

➤ Federal Equalisation System

The **federal equalisation system** (enshrined in the constitution and regulated by law) is an important instrument for apportioning the tax revenues to the States. It ensures sufficient **financial strength of all states** and provides **equal standards of living** for all citizens in Germany.

➤ Zero Borrowing Rule (“debt brake”)

The states have to reduce their deficit to zero by 2020, the Bund to not more than 0.35% of GDP.

➤ Additional Funding opportunity in emergency situations (like COVID-19)

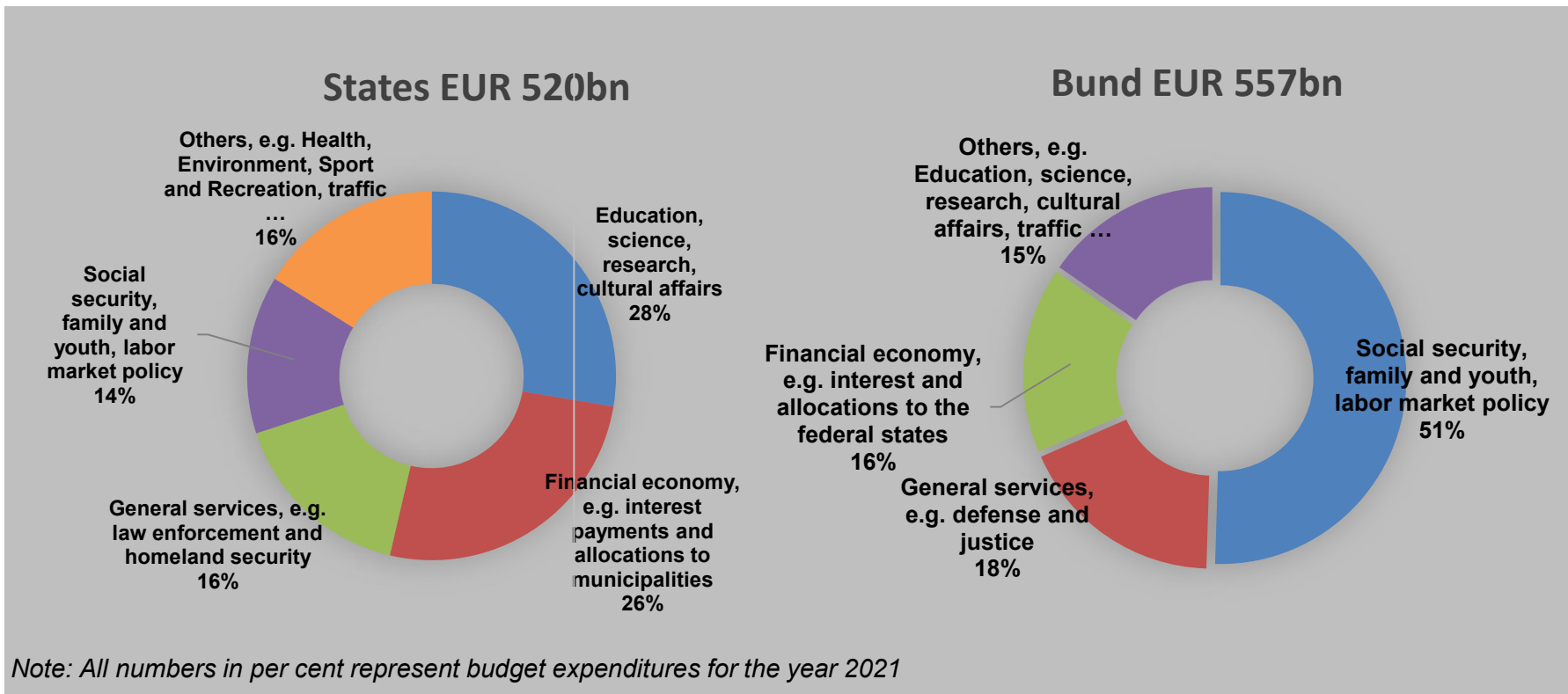
The regulation of the debt brake sets out the opportunity to allow additional borrowings because of natural disasters or emergency situations, which are beyond governmental control and harmful to the financial capacity.

Division of constitutional responsibilities

	States	Federal Level
Primary legislative authority	<ul style="list-style-type: none"> – Education system – Police – Judicial system – Municipal affairs 	<ul style="list-style-type: none"> – Defence & foreign affairs – Banking – Trade policy – Social insurance
Shared responsibility	<ul style="list-style-type: none"> – Tax legislation – Public service – Regional development 	

At federal level most laws (e.g. all laws in connection with states responsibilities or shared responsibilities or financial matters of the States) have to pass the two houses of parliament – the German Federal Parliament (*Bundestag*) and the Parliament of the Governments of the States, the German Council (*Bundesrat*).

Budget Volume and Structure



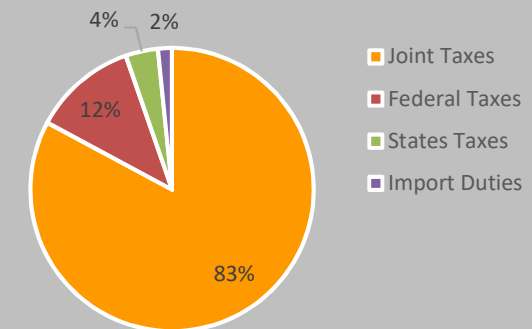
- The importance of the States is displayed by the total sum of governmental expenditures, which are comparable to the federal budget.
- State budgets are characterized by their responsibilities in the areas of education, law enforcement, tax administration and social security, family and youth labor market policy.
- The federal budget is dominated by expenditures for social security – health, financial economy and retirement insurance.

Tax base and Equalisation System

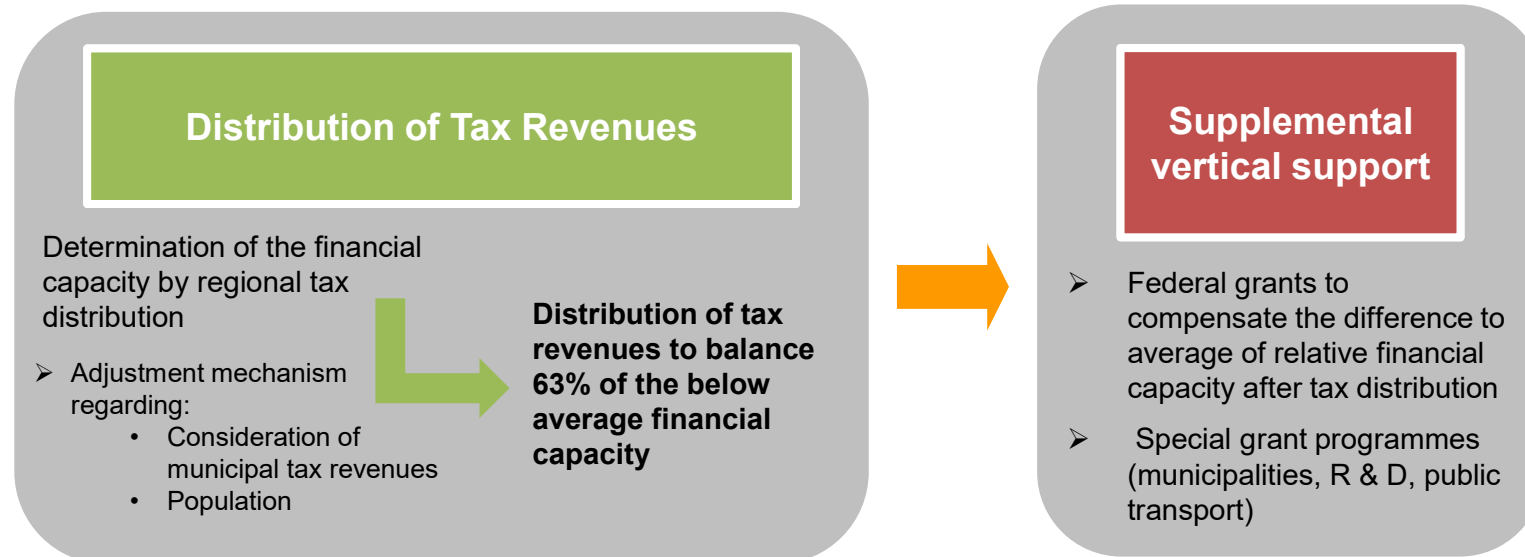
Goal of the revenue equalisation system

- The fiscal equalisation system (regulated by law) is an important instrument for apportioning the tax revenues to the States
- The overriding principle of the equalisation system is to ensure sufficient financial strength of all States to fulfill their constitutional responsibilities
- Living conditions for all German citizens shall be equal, regardless of the States

Distribution of Tax Revenues in 2022



Financial capacity equalisation system since 2020



The new regulation of the debt brake in Germany

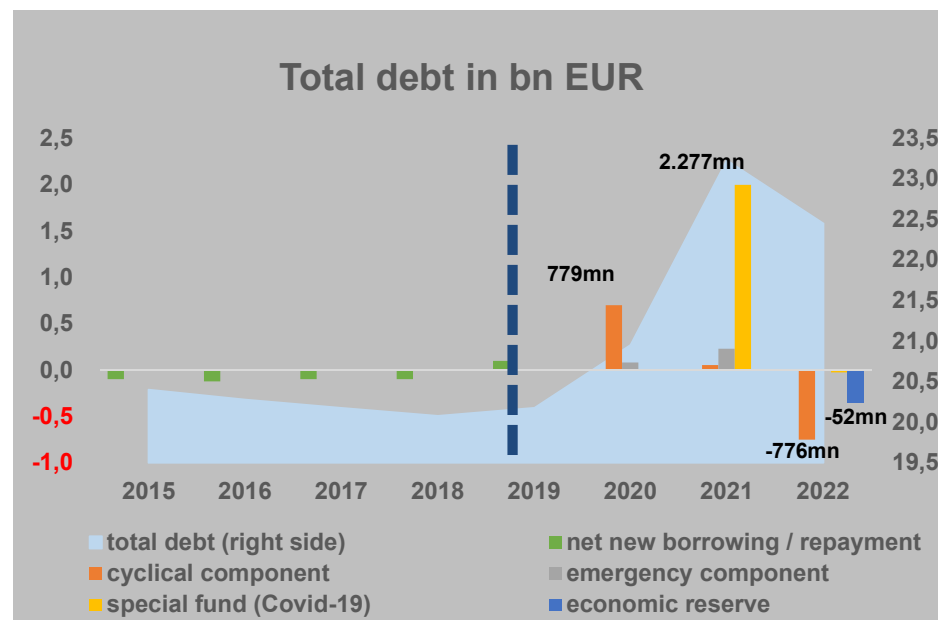
Construction of the debt brake:

- In 2011 the principle of a structural balanced budget of the Federal level (effective in 2016) and the States (effective in 2020) were introduced in Art. 109, 115 GG.
- The goal is to limit public borrowings to secure a long-dated sustainable development of public finances and to guarantee a lasting reduction of public debt.

Structural component of net borrowing of 0.35% of GDP for the Federal level (0% for the States)

Extension of the debt brake with a symmetric cyclical component

Exemption (Art. 115 (2) GG) in the case of natural disasters or emergency situations



2021

Net borrowing EUR 2,277mn

- thereof cyclical component = EUR 53mn
- thereof emergency situation = EUR 227mn
- thereof special fund = EUR 1,997mn (to deal with the efforts of COVID-19 pandemic)

2022

Net borrowing EUR -776 mn

- thereof cyclical component = EUR -751mn
- thereof emergency situation = EUR -25mn

All in all: The regulations of the debt brake apply and have not been suspended

Chapter 3

Saxony-Anhalt – A strong credit

The view of the Rating agencies on the State of Saxony-Anhalt

MOODY'S

*Rated **Aa1**, Stable Outlook
Since December 2006*

STANDARD
& POOR'S

*Rated **AA**, Stable Outlook
Since September 2020*

FitchRatings

*Rated **AAA**, Stable Outlook
Since March 1999*

- ✓ *Strong ongoing support from the German financial equalisation system*
- ✓ *Strong budgetary performance and low contingent liabilities*
- ✓ *Sound debt management, with very good capital markets access*

Strong Support from German Financial Equalisation System

“ The ratings of the State of Saxony Anhalt reflect the stability and sustainability of the solidarity mechanism for German Laender. According to German federalism, underpinned by the constitution, the central government (Bund) and the states (Laender) are jointly responsible for supporting a state in financial distress [...].

Fitch July 2021 ”

Budgetary & Financial Performance

“ The stable outlook on Saxony-Anhalt reflects our expectation that the state will contain its budgetary deficits despite increasing pressures on expenditure and potential headwinds for the German economy. We believe that the state will limit additional new net borrowing over the coming years and will continue to benefit from exceptional access to liquidity.

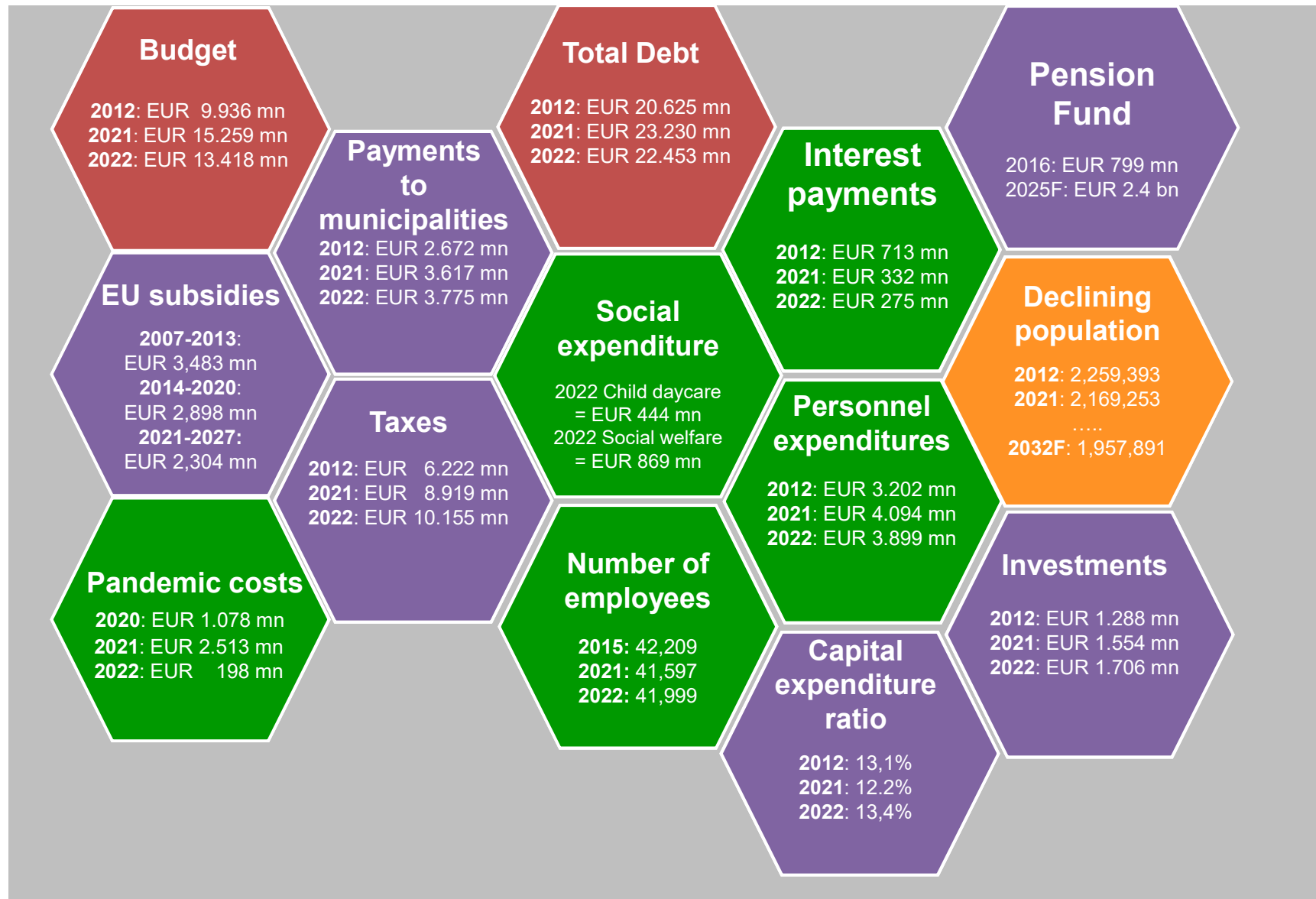
S&P March 2023 ”

Sound Debt Management

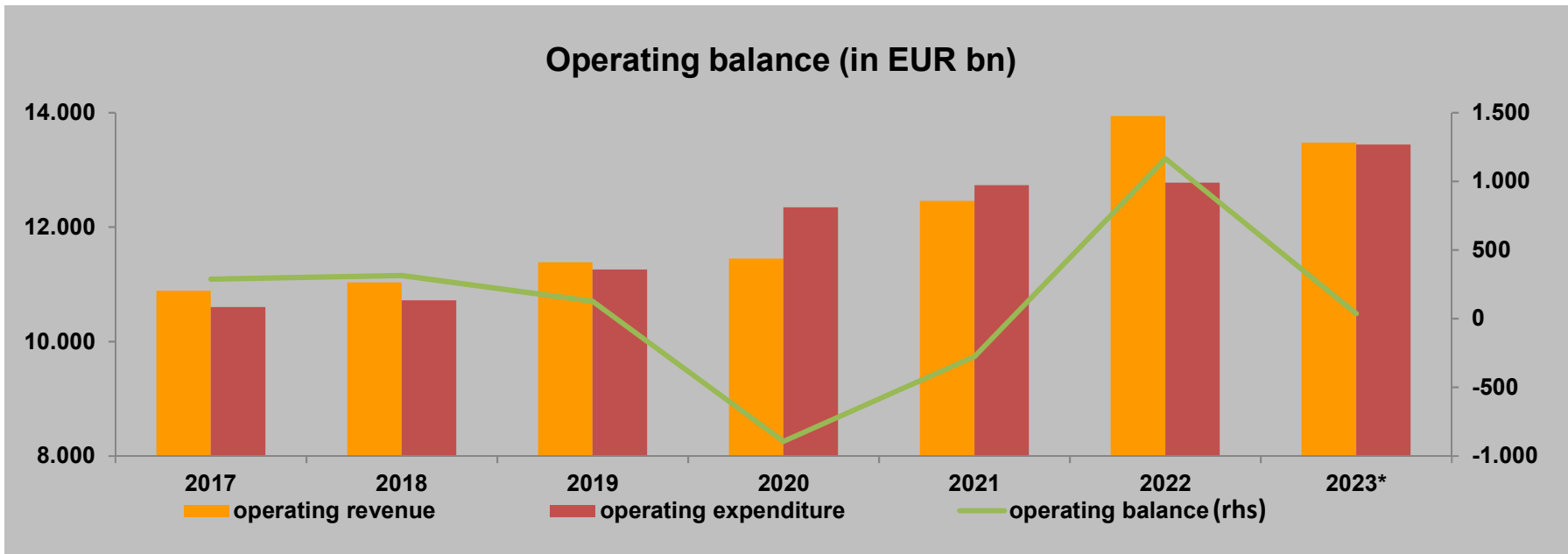
“ Saxony-Anhalt's reporting is transparent, timely and accurate, while budgetary management is characterised by a high degree of prudence.

Moody's December 2022 ”

Key factors driving the States' Budget



The States Budget



- Declining revenues from supplemental vertical support and additional grants expired in 2020. Since then the new debt break and the new revenue equalisation system for all States have been in place.
- Saxony-Anhalt had expected from 2020 a more dynamic development of revenues (and more similar to the revenues of the other States), so the spending behaviour was adapted on that gradually.
- In 2020 und 2021 the Covid-19 pandemic and its consequences led to declining revenues and increasing expenditures. Due to cyclical effects the revenues had been increasing in 2022.

Chapter 4

Debt Management -

Flexible, investor-focused, anticipatory strategy

Saxony-Anhalt Debt Management Products

Benchmark Bonds

- Issuance of liquid benchmark bonds on a regular basis
- Liquid Benchmark curve of the State with maturities between 5 to 10 years
- Track-record of issuing in EUR, GBP and USD

EMTN programme / promissory notes

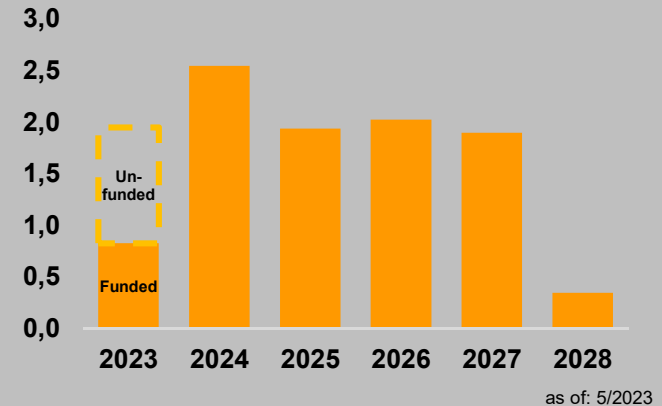
- Volume of the programme: EUR 8 bn
- Maturities between 1 to 30 years; across different currencies
- Listing in Luxembourg

Commercial Paper Programme

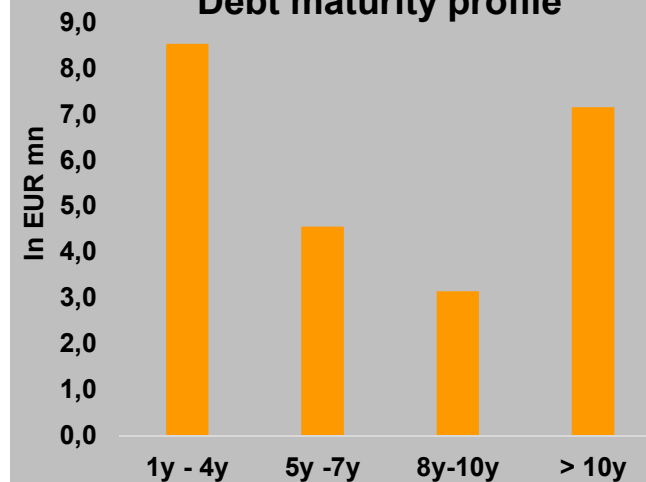
- Volume of the programme: EUR 2 bn
- Maturities between 1 to 12 months for coverage of temporary liquidity needs
- EUR, USD, GBP, CHF and AUD

- **Total debt (2022 YE): EUR 22.4 bn**
- Annual refinancing ratio between 10% to 15% of total debt
- Barbell-Strategy to address the development of interest rate environment and the structure of the €-curve (currently more bullet focussed because of the inversion of the interest rate curve)
- The strategic mix of all instruments enables Saxony-Anhalt to approach debt management in a flexible manner, especially in terms of investor demands
- Active usage of the ECP programme for liquidity management

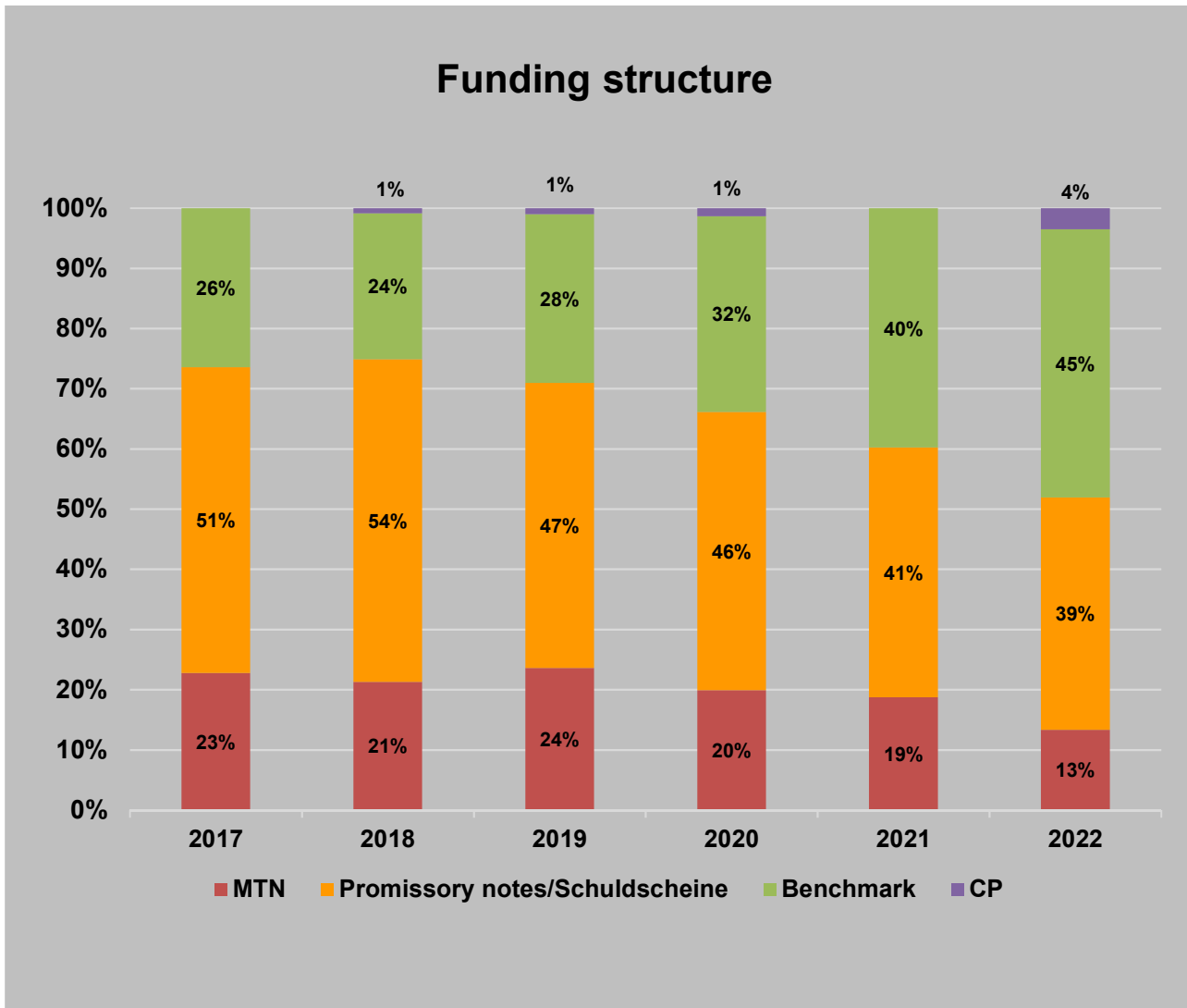
Gross Borrowing Projections in EUR bn



Debt maturity profile



Saxony-Anhalt Debt Management Products



- Strategic financing approach
- Focus on investor diversification
- Clear investor focus - strong product capabilities
- All structures and all foreign currencies are hedged to fix or floating EUR
- Funding history shows high flexibility by using structured products

Chapter 5

State of Saxony-Anhalt's Unique Value Proposition

Key considerations



- Embedded in strongest equalisation system globally among German States and the Federal Republic to support revenue and investment support incl. debt brake

Access to a strong support system



- Strong budgetarian performance through former years
- Well tracked and outperformance on initial targets set to comply with Germany's debt brake mechanism
- Due to higher tax revenues in 2022 complete redemption of the cyclical component debt and part of the emergency component debt (altogether 776 mn €)

proven budget performance



- Access to multiple low cost funding avenues
- Saxony-Anhalt is strongly committed to its investor focused and flexible funding strategy, including regular liquid benchmark bonds

Innovative and flexible issuer



- ECB eligibility and eligibility in the ECB's PSPP
- 0% - risk weighting in most European Countries
- Basel III: HQLA ('High Quality Liquid Asset') – Level 1 asset under LCR

High Quality Asset

Contacts

Contacts

**State of Saxony-Anhalt,
Represented by the Ministry of Finance
Editharing 40
39108 Magdeburg
Germany**

Markus Krause – *Head of Treasury*
Markus.krause@sachsen-anhalt.de
Tel: +49 391 567 1271

Claudia Ristau – *Head of Funding and Portfolio Management*
Claudia.ristau@sachsen-anhalt.de
Tel: +49 391 567 1272

Frank Hufenhaeuser– *Head of Asset and Liquidity Management*
Frank.hufenhaeuser@sachsen-anhalt.de
Tel: +49 391 567 1286

Wolfgang Schleiff – *Senior Funding Manager*
Wolfgang.schleiff@sachsen-anhalt.de
Tel: +49 391 567 1283

Visit us on the Internet:
Ticker on BLOOMBERG:

www.mf.sachsen-anhalt.de
RESP LAEN [GO]

Disclaimer

This presentation has been prepared by the Federal State of Saxony-Anhalt (the “Issuer”) for the information purposes only.

This presentation does not constitute or contain an offer or invitation for the sale or subscription of any securities of the Issuer and neither this presentation nor anything contained herein shall form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

This presentation is published solely for informational purposes and should not be treated as giving investment advice. It has no regard to the specific investment objectives, financial situation or particular needs of any recipient. No representation or warranty, express or implied, is or will be made in relation to, and no responsibility is or will be accepted by the Issuer as to the accuracy or completeness of the information contained in this presentation and nothing in this presentation shall be deemed to constitute such a representation or warranty or to constitute a recommendation to any person to acquire any securities. The Issuer and its respective affiliates, agents, directors, partners and employees accept no liability whatsoever for any loss or damage howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

Any opinions expressed in this material are subject to change without notice and the Issuer is under any obligation to update or keep current the information contained herein.

This presentation has been furnished to you solely for your information and must not be copied, reproduced, distributed or passed (in whole or in part) to any other person at any time without the prior written consent of the Issuer.

The distribution of this presentation into any jurisdictions may be restricted by law and persons in whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such jurisdictions. In particular, neither this presentation nor any copy of it nor the information contained in it is for redistribution directly or indirectly in the US, Canada, Australia or Japan.

© 2023 Federal State of Saxony-Anhalt. All rights reserved. The Federal State of Saxony-Anhalt specifically prohibits the redistribution of this material and accepts no liability whatsoever for the actions of third parties in this respect.