

# Ministry of Finance – State of Hesse

## Investor Briefing 2022



Rating: AA+

Rating Agency	Short-term Rating	Long-term Rating	Outlook
Standard & Poor's	A-1+	AA +	stable, last confirmed as of October 21, 2022

### High Credit Quality

- There are no equity restrictions for securities of the state in accordance with Art. 114 para. 4 and Art. 115 para. 2 of the Capital Requirements Regulation (CRR).
- In accordance with § 1807 para. 1 No. 2 of the German Civil Code (BGB) the State Treasury Notes are eligible for the investment of monies held in trust for a ward and in accordance with § 125 of the German Insurance Supervisory Act (VAG) the State Treasury Notes are eligible for the investment of cover funds of insurance companies.
- Concurrent with the listing on a stock exchange, the State Treasury Notes fulfil the eligibility criteria of the European Central Bank-for refinancing. Certificates of indebtedness are also eligible for refinancing with central banks.
- Due to its high economic strength, Hesse has always been one of the major contributors to the German financial equalisation system of the federal government and the federal states (*Länder*). In 2020, the reform of the financial relations between the federal government and the German *Länder* will led to a reorganisation of the domestic fiscal equalisation system. Since then, the new financial equalisation between donor states and recipient states has been uniformly reflected on the revenue side through additions and deductions on value-added tax and is no longer reported as an expense, as was the case with the previous fiscal equalisation system. For the donor State of Hesse, this has resulted in a corresponding reduction in the VAT revenue since 2020.
- Short-term liquidity is ensured through direct access to the money market via other German *Länder*, the 'Bund' and banks.
- A debt brake in the Federal Constitution and a successful referendum on its implementation into the Hessian Constitution prohibit structural deficits from 2020 onwards. From 2016 to 2019, the State of Hesse has repaid debts amounting to € 800 mn. Due to the effects of the Covid-19 pandemic, in the years 2020 to 2022, the Hessian State Parliament has declared the constitutional exceptional situation for dealing with an emergency pursuant to Article 141 para. 4 of the Hessian Constitution in conjunction with § 2 of the Article 141 Act. The repayment of the emergency loans is to begin in 2024.
- To deal with the Corona pandemic, a credit-financed special Covid-19 budget *Sondervermögen* with a total volume of up to €12 bn was established for the period from 2020 to 2023. The Hessian State Court declared the special budget to be incompatible with the Hessian constitution. As a result, Hesse has amended its draft budget for 2022 to comply with the requirements of the State Court. The special budget *Sondervermögen* was dissolved on January 1, 2022 and the emergency loans borrowed up to that date in the amount of € 3.6 bn were transferred to the core budget.

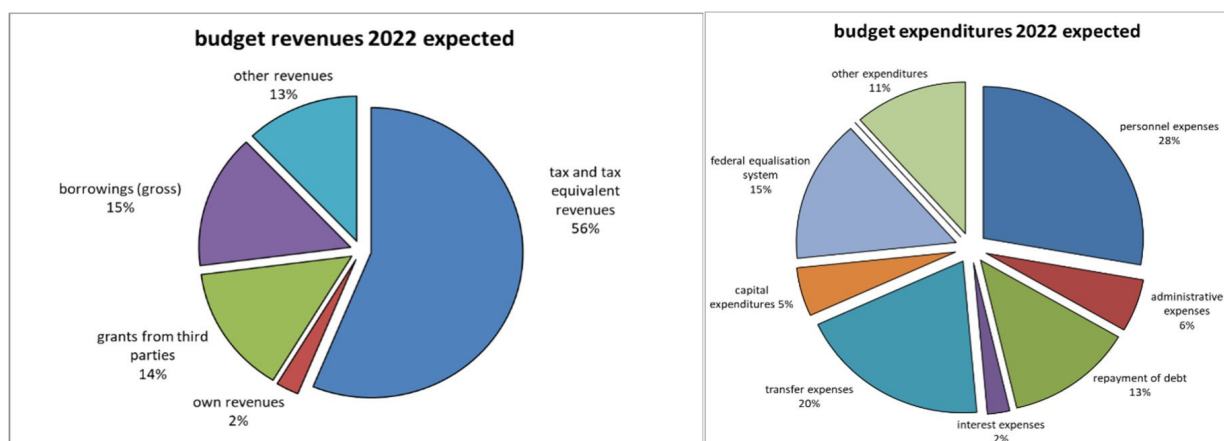
### Refinancing Strategy and Refinancing Volume: € 7.73 bn (gross) in the Budget Year 2022

- The gross capital need for 2022 is approximately € 7.73 bn. The exact timing and amount of borrowing depends on liquidity needs and the budgetary situation as well as the contemporary capital market environment.
- The State of Hesse raises long-term funds in various currencies and with different maturities on the international capital markets. The main currency debt position is in Euro. Debt is also raised in US-dollars, Swiss francs and yen – which are hedged into Euro via Euro currency swaps.
- The documentation is in the form of a certificate of indebtedness or State Treasury Notes.

Private Placements	Public Bonds	Benchmarks
Tailor-made to the individual needs of investors concerning maturities and currencies	Bonds with different maturities, currencies and volumes	High-volume bonds in Euro

### State of Hesse Budget Volume 2022: € 45.6 bn – € 987 mn New Net Borrowing

- With a per capita tax revenue of € 4,603 in 2021, the fiscal capacity of the State of Hesse prior to the execution of the financial equalisation system of the Federal Government and the *Länder* was 14.3% above the average of all German *Länder*.
- € 43.69 bn indebtedness in capital markets as of December 31, 2021 (by calendar year) – including the special Covid-19 budget *Sondervermögen*.
- Due to the ongoing pandemic situation and the uncertain economic framework conditions, it will also not be possible to comply with the regular limits of the debt brake in the 2022 budget. Therefore, the 2022 budget adopted on February 2, 2022 provides a new net borrowing for the state of approximately € 771 mn – applying the constitutional exemption.
- Hesse's € 6,425.1 per capita indebtedness (as of December 31, 2021) is below the average of all German *Länder*.
- In November 2009, the State of Hesse was the first territorial state (*Flächenland*) in the Federal Republic of Germany to present an opening balance sheet prepared in accordance with general business principles as of January 1, 2009. Since then Hesse has regularly published its consolidated financial statements, which have been audited and certified by independent auditors on behalf of the Hessian Court of Auditors (*Hessischen Rechnungshof*). The annual report is published at [www.bilanz.hessen.de](http://www.bilanz.hessen.de) (in German only).



## Above-Average Standard of Living in Hesse

- Hessian GDP amounted to around € 302.5 bn in 2021. The real gross domestic product in Hesse thus increased by 3.1% compared to the previous year. With a GDP of € 48,164 per capita, Hesse is between Finland (€ 45,600) and the Netherlands (€ 49,000) in the EU comparison.
- Unemployment rate as measured by full civilian labour force: 4.5% (as of April 2022)
- Number of inhabitants as of June 30, 2020: 6,266mn (7.6% of the German population)
- Total area: 21,115 km<sup>2</sup>
- State capital: Wiesbaden; biggest city: Frankfurt am Main (Frankfurt)

## Hessian Industry is Closely Linked Internationally

- Hessian companies generate more than 50% of their revenues abroad, namely € 61.0 bn in 2020. The export rate of the Hessian manufacturing sector amounts to 55.2%.
- The United States of America, French Republic and the People's Republic of China were Hesse's most important export countries in 2020. In terms of imports, the United States of America, the People's Republic of China and Switzerland were the most important trading partners.
- The value of Hessian exports reached € 61.2 bn in 2020. Important foreign trade goods include the chemical and pharmaceutical industry (31.9% share in exports and about 30% of total German pharmaceutical sales), machinery (10.9%) as well as the manufacture of vehicles, vehicle parts and accessories (7.9%).
- Hesse is an attractive location for foreign direct investments, adding up to € 104.5 bn. The number of foreign settlements in Hesse in 2019 remains high: 217 international companies established new branches or expanded existing ones in Hesse. The frontrunner with 29 settlements was the USA, followed by the United Kingdom (23) and China (19).

## Hesse: Solid Basis due to Diversified Economic Structures with a Focus on the Service Sector

- Frankfurt is the financial centre of continental Europe with approximately 200 financial institution, including the headquarters of the European Central Bank (ECB) and the Bundesbank, the Frankfurt Stock Exchange and the European Exchange (EUREX). In Frankfurt, approximately 66,000 people are employed in the financial sector.
- Furthermore, the financial centre has international significance with the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), the Federal Financial Supervisory Authority (BaFin) and the Single Supervisory Mechanism (SSM) at the ECB.
- The "House of Finance", where around 200 academics work and research on topics relevant to capital markets, is an addition to the financial centre.
- In 2021, Frankfurt was awarded the contract for the new International Sustainability Standards Board (ISSB), which will develop global minimum standards in the area of financial sustainability reporting.
- The international airport Frankfurt Airport is Germany's biggest regional workplace — hosting more than 81,000 jobs — as well as Germany's biggest airport with 70.6 mn passengers in 2019, a level of traffic that also makes Frankfurt Airport the fourth largest in Europe and 15<sup>th</sup> worldwide.
- Hesse is an important location for creative industry and advertising, public relations, press and films, featuring 20,000 companies with 117,000 employees and a € 11.7 bn turnover.
- Hesse is a centre of European information and communications technology (ICT) with a focus on enterprise software, large data centres, and data security. The industry has 122,000 employees in 10,000 companies and a turnover of € 40 bn. The German Commercial Internet Exchange (DE-CIX) is the central internet exchange point situated in Frankfurt and the largest in the world in terms of data throughput.
- *Messe Frankfurt*, one of the world's largest exhibition centres, is the fair with the longest tradition in Germany. It hosts more than 250 events (trade fairs, exhibitions, concerts, congresses, sport events and the like) in normal times each year.
- Hesse has excellent transport connections and its central location makes it an important centre for logistics companies.
- It hosts the satellite control centre of the European Space Agency (ESA) in Darmstadt.
- Hesse has a well and solidly positioned *Landesbank* Hessen-Thüringen (Helaba) with 8.1% shareholding of the State of Hesse.

## Sustainability: On the Path to a carbon neutral State Administration

- Hesse seeks to protect the climate: In 2030, the state administration is to be CO<sub>2</sub>-neutral, and by 2045, all of Hesse is to be CO<sub>2</sub>-neutral.
- The strategy includes a carbon dioxide balance sheet, public relations, and action to minimise, substitute and offset carbon dioxide emissions.
- The State of Hesse successfully issued its first Green Bond with a value date of June 18, 2021. The Green Bond has a volume of € 600 mn and a maturity of 10 years.
- Since 2019, the State of Hesse has been legally obliged to invest its *Sondervermögen "Versorgungsrücklage des Landes Hessen"* sustainably, developed sustainability guidelines for all asset classes and was the first German State to join the UN Principles for Responsible Investment. Together with the three other Federal States, the state has developed investment standards for sustainable equity investments by the public sector and invests in two appropriately designed equity indices.

## Contacts

More information can be found on the internet at <http://www.hessen.de/> (in German), in Refinitiv under RIC HESSEN, or in Bloomberg under HESSEN or RESP LAEN.

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