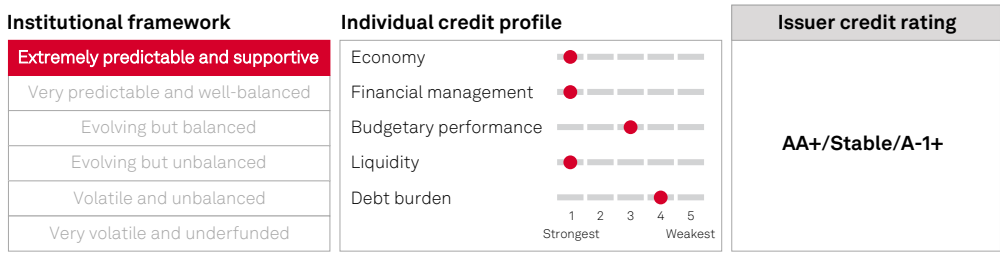


State of Hesse

October 13, 2025

This report does not constitute a rating action.

Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
We believe Hesse's financial management is well prepared and able to prudently manage budgetary challenges.	We assume moderate cost-saving measures to that will lead to generally balanced budgets.
Federal and local economic growth will pick up again in the medium term, supporting Hesse's revenue base through linked tax revenue growth.	At the same time the recent debt-brake easing for German states will provide leeway for investments.
Hesse continues to operate in a predictable and supportive institutional framework.	Hesse will continue to have excellent access to capital markets if needed and manage its debt and liquidity prudently.

S&P Global Ratings believes the German state of Hesse is prudently addressing continuing revenue shortfalls and aims for generally balanced budgets. We believe that effective management by the state will mitigate operating cost challenges, by implementing savings measures throughout 2025 and 2026. Together with expected improvements in national and regional GDP growth from 2026 and thereafter, which are set to boost tax revenue for Hesse, we forecast the operating balance rebounding to approximately 5% of operating revenue.

We continue to see Hesse operating in an extremely supportive and predictable institutional framework. Under its municipal support program, Hesse is repaying the short-term debt of its municipalities out of the state budget, which in our view, puts Hesse at the forefront of German states' initiatives to alleviate the debt burden of their municipalities. We believe that Hesse will

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continue financially supporting municipalities to not put these achievements at risk. While this could put additional one-off pressure on Hesse's financial performance, it is well in line with our expectations for a very strong financial management.

Outlook

The stable outlook reflects our view that national economic recovery and simultaneous local cost control measures will help to improve budgetary performance over our forecast horizon. This is despite our assumption that the state will make use of the recent decision to ease debt-brake rules and allow it to post structural-but-limited deficits after capital accounts, if necessary. It also reflects our view of Hesse's excellent access to external liquidity for long- and short-term financing.

Downside scenario

We could lower our ratings on Hesse if management failed to contain expenditure growth or tax revenue recovery is substantially less pronounced than we expect. In this case, we would expect the state's budgetary performance to deteriorate, which would require additional need for debt-financing. This could also lead to a reassessment of Hesse's management.

Upside scenario

We could raise the ratings on the state if cost-saving leads to structural surpluses after capital expenditure, which would allow Hesse to reduce its debt more significantly than we expect.

Rationale

We continue to expect that national and regional GDP growth in 2026 and beyond will lead to higher tax revenue for Hesse. Together with our expectation that the state's management will implement and execute further cost-saving measures, we think the state's operating balance will recover to levels of about 5% of operating revenue. We believe that Hesse's share in the national infrastructure package will have a largely neutral impact on its budgetary performance, as incoming revenue is expected to roughly match the additional expenditure. However, we anticipate that the state may utilize the debt-brake easing to incur up to 0.35% of local GDP in structural new debt if needed. While Hesse's cash reserves are relatively low compared with international standards, we are confident that the state will have no difficulty refinancing its maturing debt, thanks to its consistent access to robust capital markets and bank financing, as well as Germany's short-term interstate liquidity support mechanism.

Management will continue to implement cost-savings measures to aim for balanced budgets

We have recently published our national economic growth projections, factoring in the impacts of the announced national infrastructure and military spending (see "[Economic Outlook Eurozone Q4 2025: Recovery Continues Despite Consumer Hesitancy](#)," Sept. 23, 2025), despite the developments related to tariffs since April 1. We still anticipate that Hesse's economy will generally align with the German national average. The state continues to enjoy the advantages of a robust and diversified economy, primarily driven by the services sector, which accounts for approximately 75% of gross value-added. It also boasts a strong pharmaceuticals sector and significant involvement in finance and transport. While the state's economy is resilient due to its

combination of services and manufacturing, it remains somewhat vulnerable to global trade and supply-chain risks due to its export-oriented businesses.

The institutional framework governing German states is among the most predictable and supportive within the public finance systems we assess. Along with Bavaria and Baden-Wuerttemberg, Hesse is a significant net contributor to the federal government's tax-equalization system, which ensures nearly equal per capita revenue across all German states, thereby protecting state budgets from major fluctuations in local economies. On March 21, 2025, legislation was approved by the second chamber of government, which will allocate €100 billion for infrastructure to the states over a span of 12 years. We expect Hesse to pass on a significant share of its allocation of these funds to municipalities. Concurrently, this law allows German states to engage in annual structural net borrowing of up to 0.35% of GDP, instead of mandating a complete budget balance as is currently required (see "[Proposed Easing Of The Debt Brake Leaves German States To Chart Their Own Fiscal Paths](#)," March 6, 2025). We perceive the discussions surrounding this legislation and the acknowledgment of states' requirements at the federal level as generally favorable for our framework assessment.

We believe that Hesse's financial management will continue to be a credit strength. While we expect the state to utilize its new capacity to run structural deficits of up to 0.35% of GDP, we do not anticipate a significant rise in operating expenditure as a result. In fact, following an increase in personnel costs in recent years to preempt a potential court ruling, we think management will focus on limiting the growth of Hesse's operating expenditure. Simultaneously, we anticipate that the state will employ the deficit allowance to fund additional capital expenditure, resulting in modest deficits after capital accounts [capital accounts over our forecast period. We also expect Hesse to fully utilize its share of the infrastructure fund, estimated to be around €620 million, although the final allocation has not yet been disclosed. We believe this share will equally boost capital revenue and expenditure, rendering it balance neutral. However, if Hesse's tax revenue grows at a faster pace than we expect, we do not foresee the state significantly increasing its spending; rather, it is likely to either maintain or accelerate its debt repayment. Hesse displays a high standard of debt and liquidity management by actively managing its debt portfolio. The state has fixed interest rates on some debt maturities and substantially extended the average duration of its debt portfolio. These measures increase the predictability of interest payments.

Recovering tax revenue growth will help budgetary recovery, despite higher investments

Based on our current assumptions for real GDP growth in Germany, we anticipate that tax revenue growth will support Hesse's management in balancing its increased operating expenditure levels. We believe that management has prudently preempted a likely ruling from the federal constitutional court by raising personnel costs in recent years to levels that exceed those stipulated by the current collective bargaining agreement. With these developments largely settled, we see Hesse as well-positioned to contain the growth of operating expenditure through various cost-saving measures. Collectively, these measures are expected to drive operating budgetary performance back to levels close to or exceeding 5% of operating revenue in the latter years of our forecast period. However, we understand Hesse would make use of its structural debt allowance under the easing of debt brake rules to finance capital expenditure, if necessary. This will lead to moderate, but likely more structural than previously assumed, deficits after capital accounts. In this regard, we view the share of investment allocated to Hesse under the national infrastructure fund as neutral to its budgetary performance. We believe that there will be moderate crowding-out effects, which will lead to a rough balance of all additional revenue with corresponding added expenditure.

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The deficits after capital expenditure will result in Hesse's tax-supported debt remaining very high in an international context. Initially, we had anticipated that stable nominal debt figures would lead to a decrease in the state's relative indebtedness (as a share of total consolidated revenue), but we now perceive this decline will be somewhat slower than we previously expected. Hesse's one-time €2 billion cash capital injection into the commercial bank Helaba in 2024, which was entirely debt financed, elevated its debt to 151% of consolidated operating revenue, although this figure is still lower than the 158% recorded in 2021. We now project that the state's debt burden will decrease to approximately 140% of consolidated operating revenue by 2027. Our tax-supported debt figure encompasses direct debt, capitalized long-term rental obligations (stemming from three sale-and-rent-back transactions), and committed debt repayments related to the two municipal support programs. In our assessment, Hesse's contingent liabilities are relatively lower than national standards. These liabilities include various risks associated with the state's stake in Helaba, particularly in WI-Bank, where Hesse currently holds a 30% ownership; debt linked to its participations; and other outstanding guarantees.

We consider Hesse's liquidity to be very strong in an international comparison. The shift in liquidity strategy from a historically negative position to a balanced cash approach with moderate cash holdings planned at the year-end, along with the positive impact this has on debt-service coverage, reinforces our liquidity assessment. Our calculation of the state's debt-service coverage for the upcoming 12 months includes cash holdings and debt issued for the current year. However, it does not include the amounts accumulated in the pension fund or the special assets designated for housing and municipal investment support.

We also maintain our assessment of Hesse's exceptional access to external liquidity. In our view, the state enjoys uninterrupted access to deep capital markets and bank financing, as well as to Germany's interstate short-term liquidity support mechanism, which we consider a significant credit strength. Hesse has demonstrated its capability to access markets under extremely favorable conditions, particularly during the pandemic years of 2020-2021 when it significantly increased its funding activities. The state currently finances collateral deposits, which amount to approximately €500 million, using its own funds. But these deposits are restricted and not available for debt-servicing. In 2025, Hesse issued its third green bond of benchmark size relative to other German states, which attracted considerable investor interest, and we anticipate that the state will pursue this financing option in coming years.

State of Hesse Selected Indicators

Mil. EUR	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	34,633	32,970	34,281	36,242	37,147	38,258
Operating expenditure	31,380	31,965	34,004	34,935	35,799	36,424
Operating balance	3,253	1,006	277	1,307	1,348	1,834
Operating balance (% of operating revenue)	9.4	3.1	0.8	3.6	3.6	4.8
Capital revenue	819	1,081	936	1,377	1,591	1,605
Capital expenditure	2,211	2,650	4,733	3,543	3,641	3,682
Balance after capital accounts	1,860	(563)	(3,520)	(859)	(702)	(243)
Balance after capital accounts (% of total revenue)	5.3	(1.7)	(10.0)	(2.3)	(1.8)	(0.6)
Debt repaid	8,749	7,666	7,424	6,385	5,091	5,857
Gross borrowings	3,630	9,073	10,776	8,655	5,876	6,227
Balance after borrowings	(3,377)	728	(262)	1,293	(35)	9
Direct debt (outstanding at year-end)	47,707	48,867	51,730	53,512	53,809	53,691

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State of Hesse Selected Indicators

Direct debt (% of operating revenue)	137.8	148.2	150.9	147.7	144.9	140.3
Tax-supported debt (outstanding at year-end)	47,707	48,867	51,730	53,512	53,809	53,691
Tax-supported debt (% of consolidated operating revenue)	137.8	148.2	150.9	147.7	144.9	140.3
Interest (% of operating revenue)	2.2	2.3	2.6	3.0	3.5	3.8
Local GDP per capita (\$)	55,171.9	59,835.9	62,008.5	65,956.9	70,600.5	73,859.5
National GDP per capita (\$)	50,468.2	54,889.6	56,145.5	59,837.6	63,891.3	66,890.1

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. EUR--euro. \$--U.S. dollar.

State of Hesse Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	3
Liquidity	1
Debt burden	4
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- [Sovereign Risk Indicators](http://www.spratings.com/sri), July 7, 2025. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S.](#), July 15, 2019
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Economic Outlook Eurozone Q4 2025: Recovery Continues Despite Consumer Hesitancy](#), Sept. 23, 2025
- [Global LRGs Rating History List](#), June 24, 2025
- [Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable](#), June 13, 2025
- [Institutional Framework Assessment: German States' Budget Rules Relax Amid Muted Economic Growth](#), June 5, 2025
- [Sovereign Brief: What The End Of The Debt Brake Means For Germany's 'AAA' Rating](#), March 6, 2025
- [Bulletin: Proposed Easing Of The Debt Brake Leaves German States To Chart Their Own Fiscal Paths](#), March 6, 2025
- [Credit FAQ: Implications Of The Debt Brake And Its Potential Loosening For Our Ratings On German States](#), Feb. 17, 2025
- [Subnational Government Outlook 2025: Borrowings Are Still On The Rise](#), Jan. 16, 2025
- [Local And Regional Government Outlook 2025: Weak German Growth Will Require New Borrowing](#), Jan. 16, 2025

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings Detail (as of October 08, 2025)*

Hesse (State of)	
Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+
Issuer Credit Ratings History	
22-Oct-2021	AA+/Stable/A-1+
23-Oct-2020	AA+/Negative/A-1+
02-Mar-2018	AA+/Stable/A-1+

Ratings Detail (as of October 08, 2025)*

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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