

German State Of Hesse 'AA+/A-1+' Ratings Affirmed; Outlook Stable

April 10, 2026

Overview

- Tax collection in the State of Hesse was stronger than expected in 2025, but various budgetary pressures, policy decisions, and the recent relaxation of Germany's debt brake imply moderate deficits after capital accounts over 2026-2028.
- Hesse's 2026 budgetary performance will be challenged by increasing staff costs, additional contributions to the inter-state fiscal equalization system, and still only muted German economic growth, potentially exacerbated by the fallout from the Middle East war.
- A material increase in capital expenditure (capex) in the coming years will be largely funded by additional federal transfers under Germany's Special Fund for Infrastructure and Climate Neutrality.
- We affirmed our 'AA+/A-1+' ratings on Hesse. The outlook is stable.

Rating Action

On April 10, 2026, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the German State of Hesse. The outlook is stable. We also affirmed the 'AA+' issue ratings on the state's senior unsecured debt.

Outlook

The stable outlook reflects our view that the State of Hesse will exercise budgetary discipline, particularly regarding expenditure on goods, services and operating transfers, to counteract ongoing budgetary pressures. We expect the state will post structural but limited deficits after capital accounts, which is now permissible under Germany's recently relaxed fiscal rules for regional states. Still, Hesse's debt burden relative to operating revenue will likely decline slowly, as net borrowing needs gradually shrink and are outweighed by revenue growth. The state's focus on maintaining and upgrading infrastructure implies higher capex, but this should be largely financed by federal transfers.

Downside scenario

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We could lower our ratings on Hesse if we reassess our view of the state's financial management. This could be the case if its political leadership fails to contain expenditure growth as needed, permits budgetary performance to deteriorate rather than gradually improve, and puts Hesse on a trajectory of an increasing the debt burden.

Upside scenario

We could raise our ratings on the state if more favorable macroeconomic developments and resulting tax revenue growth, along with budgetary discipline, produce a significant improvement in budgetary performance, including structural surpluses after capital accounts. At the same time, this would allow Hesse to reduce its debt burden faster than we currently expect.

Rationale

Our ratings on Hesse factor in various current budgetary challenges, the state's policy choices, and recent changes in Germany's institutional framework for regional governments. We note that the war in the Middle East could have implications for tax revenue growth. While we still expect structural improvements to budgetary performance, these may now be more limited or delayed. This holds despite a focus by Hesse's political leadership on maintaining budgetary discipline, particularly in its operating accounts. The state's aim to adequately invest in its public infrastructure implies that Hesse will make substantial use in 2026 of its newly granted ability to incur structural deficits of up to 0.35% of GDP under the recent reform of Germany's debt brake, although we expect the use to gradually decline thereafter.

Hesse's debt burden is still high in an international comparison but this ratio will likely decline gradually over the coming years thanks to fiscal revenue expansion outpacing net new borrowing. The state's liquidity position, with a recently increased target for cash holdings, is exceptionally strong once access to the capital market and bank funding are factored in. Hesse's very strong economic base reflects a modern economic structure and high local and national GDP, despite current growth challenges.

Federal funding and a relaxed debt brake allow for infrastructure investments despite pressure on Hesse's operating accounts

Hesse's fiscal trajectory is closely linked to German macroeconomic developments, and this relationship currently introduces an element of uncertainty. The state's budget is about 75% financed through taxes, of which value-added tax, corporate income tax, and, to a lesser degree, payroll tax have tended to be highly correlated with contemporary nominal economic growth. We lowered our projections for German real economic growth to 0.8% for 2026 and 1.4% for 2027 and 2028, reflecting geopolitical volatility and uncertainty over the supply and cost of energy. Conversely, our expectation for German consumer price inflation was lifted to 2.3% for this year, followed by 2.1% in 2027 and 2028. While lower real growth weighs on tax revenue, stronger inflation may support tax collection in the short run. However, it will eventually burden expenditure, as demonstrated by recent wage bargaining rounds for state employees.

Uncertainty about growth rates notwithstanding, Hesse exhibits a strong economic base. We estimate Germany's national GDP per capita will reach almost €55,000 (equivalent to \$64,400) in 2026 and calculate that Hesse reaches about 110% of this value. The state benefits from the vibrant Rhine-Main metropolitan area. It is, for example, home to Germany's largest airport and most of the country's financial services industry, and--thanks to hosting one of the world's busiest internet exchange points--has recently attracted substantial data center investments.

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The institutional framework that Hesse and the other German regional governments operate under has recently undergone some key adjustments but remains extremely predictable and supportive, in our view. The system substantially augments locally collected taxes, meaning states with per-capita tax revenue below the German average see this gap almost fully covered. Germany's four wealthier states, including Hesse, must fund large parts of this redistribution, which Hesse has criticized as too far-reaching. This is, however, a direct reflection of the state's fiscal strength. Hesse's implicit payment obligation to the system for 2025 has been calculated at €4 billion, or more than 10% of adjusted operating revenue. We understand that about €600 million of this results from the unforeseen outperformance of peers with respect to tax collection in 2025--they were therefore not pre-paid last year and will additionally burden Hesse's cash flow in 2026.

The most relevant recent change to the institutional framework for German states has been the loosening of the debt brake's former zero deficit target and the implementation of a €100 billion special funding envelope for state and municipal infrastructure investment over the next 12 years by Germany's federal government. For Hesse, the new structural deficit allowance of 0.35% of GDP translates into current permitted annual shortfalls of €1.1 billion, or almost 3% of its operating revenue. This is in addition to any deficits the state has always been able to incur under the national debt brake rules due to temporary economic weakness. Hesse stands to receive €7.4 billion from Germany's €100 billion "Fund for Infrastructure and Climate Neutrality," as long as it can document equivalent spending on eligible projects. We understand that the state plans to pass on €4.7 billion of this to its municipalities, transfer €950 million to hospitals, and spend €1.78 billion on capital projects within its own budget. The exact timing of such flows is difficult to predict and they will be distributed over several years, but the additional funds should simultaneously increase capital revenue and expenditure volumes in Hesse's budget over the coming periods, without any significant net impact on fiscal performance.

Hesse's financial leadership is responding to budgetary pressures in its operating accounts with consolidation measures, while also focusing on investments in public infrastructure. We understand that savings targets for various departments aim for practically zero growth in spending on goods, services, and operating transfers, except for transfers to municipalities, over the coming years. We anticipate, however, a significant increase in staff compensation in 2026. Hesse delayed a salary increase for special status civil servants to December 2025, recently agreed to increase ordinary status employees' salaries by 3% in July 2026, and needs to implement a recent German constitutional court verdict--albeit for a different state--that requires material adjustments to the overall pay structure. Hesse will, for the first time, take €180 million out of its pension reserve accounts in 2026 to reduce net pension costs. To execute its investment agenda despite current headwinds, we expect Hesse's political leadership to fully utilize the allocated 0.35%-of-GDP deficit allowance in the short run but to eventually reduce this to about two thirds of the permitted maximum in subsequent years.

Moderate deficits after capital accounts should not prevent a gradual decline in the state's debt burden relative to operating revenue

The state outperformed its budget in 2025 and only posted a small deficit after capital accounts, according to our cash-based calculations. The primary drivers behind this were unexpectedly higher payroll, corporate income, real estate transfer, and inheritance tax receipts toward the end of the year, as well as various nontax revenue.

We expect 2026 results to trail those of 2025 and to gradually strengthen thereafter. Our view sums up the impact of muted current growth in Germany, Hesse's additional payment obligations

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in 2026 for 2025 fiscal equalization, and the anticipated increase in staff compensation. While we think that budgeting has again been done very conservatively, we expect Hesse to implement a sizeable investment agenda that will result in full utilization of its structural deficit allowance in 2026. Thereafter, we expect operating margins to return gradually towards the 5% mark and net new borrowing to reduce in magnitude, but the consequences of current geopolitical events could weaken or delay this. We continue to reflect pension-related risks in our overall assessment of Hesse's budgetary performance since pension expenditure accounts for about 10% of Hesse's annual budget, with ongoing upward pressure.

We project Hesse's tax-supported debt burden will decrease gradually toward 135% of consolidated operating revenue by 2028, as revenue growth outpaces additional debt incurrence. Our calculation of the state's debt burden includes capitalized long-term rental obligations (stemming from public-private partnerships and three sizable sale-and-leaseback transactions) and commitments to repay certain municipal debts under the "Hessenkasse" debt absorption program. Hesse's regular budgetary borrowings almost exclusively carry a fixed rate of interest and have an average weighted life of about 11 years. The state maintains a legacy derivatives portfolio to partially hedge against potentially higher future interest rates. We understand that, in response to recent rate movements, this has now recovered earlier sizeable mark-to-market losses.

Hesse's contingent liabilities are limited, in our view. The state only owns 30% of financial institution Hessische Landesbank (Helaba), and we assume only a pro rata participation in a theoretical recapitalization exercise. We note various other state participations, with the stakes in airport manager Fraport and social housing company Nassauische Heimstätte being the largest, that we would expect the state to support if needed. Granular guarantees granted by Hesse amount to about €1 billion, with so far only negligible losses. The state also underwrites the liabilities of its promotional lender WI-Bank, but this entity is legally an integral part of Helaba and captured thereunder for our risk assessment.

Hesse's exceptional overall liquidity position is driven by direct liquidity holdings and its access to external funding. We understand that the state now aims to hold €4 billion minimum liquidity, which we calculate to cover about 60% of anticipated outflows over a 12-month period. This represents a policy change from previously rather minimal cash holdings. We still think that Hesse benefits from extremely robust access to capital markets and bank funding, even in times of market stress, and liquidity from German government-sector entities.

State of Hesse--Selected indicators

Mil. EUR	2024	2025e	2026bc	2027bc	2028bc	2029bc
Operating revenue	34,281	37,146	37,039	38,743	39,957	41,322
Operating expenditure	34,004	35,515	36,622	37,451	38,333	39,399
Operating balance	277	1,631	417	1,292	1,624	1,923
Operating balance (% of operating revenue)	0.8	4.4	1.1	3.3	4.1	4.7
Capital revenue	936	1,183	1,637	1,940	2,036	2,046
Capital expenditure	4,733	3,087	3,703	4,095	4,235	4,420
Balance after capital accounts	(3,520)	(274)	(1,649)	(863)	(575)	(451)
Balance after capital accounts (% of total revenue)	(10.0)	(0.7)	(4.3)	(2.1)	(1.4)	(1.0)
Debt repaid	7,424	6,613	5,091	6,157	5,561	4,484
Gross borrowings	10,788	8,651	6,371	7,152	6,268	5,067
Balance after borrowings	(250)	1,647	(500)	0	0	0

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State of Hesse--Selected indicators

Direct debt (outstanding at year-end)	51,742	53,577	54,275	54,629	54,637	54,404
Direct debt (% of operating revenue)	150.9	144.2	146.5	141.0	136.7	131.7
Tax-supported debt (outstanding at year-end)	51,742	53,577	54,275	54,629	54,637	54,404
Tax-supported debt (% of consolidated operating revenue)	150.9	144.2	146.5	141.0	136.7	131.7
Interest (% of operating revenue)	2.6	2.8	3.1	3.5	3.8	4.1
Local GDP per capita (EUR)	57,288	58,777	60,600	62,721	64,916	N/A
National GDP per capita (EUR)	51,871	53,221	54,881	56,816	58,820	N/A

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. e—Estimate. 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	4
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](https://www.spglobal.com/ratings/sri/), Dec. 11, 2025. An interactive version is available at <https://www.spglobal.com/ratings/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

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- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Economic Outlook Europe Q2 2026: Global Shock Leaves Recovery Uncertain](#), March 25, 2026
- [Subnational Government Outlook 2026: Further Deficits Ahead For German LRGs](#), Jan. 19, 2026
- [Germany](#), Dec. 8, 2025
- [German States Brief: New Tax Forecast Could Support Current Ratings](#), Oct. 30, 2025
- [Wirtschafts- und Infrastrukturbank Hesse](#), Oct. 24, 2025
- [State of Hesse's Public Housing Provider Nassauische Heimstaette 'A+/A-1' Ratings Affirmed: Outlook Stable](#), September 24, 2025
- [Institutional Framework Assessment: German States' Budget Rules Relax Amid Muted Economic Growth](#), June 5, 2025
- [Credit FAQ: Implications Of The Debt Brake And Its Potential Loosening For Our Ratings On German States](#), Feb. 17, 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"). 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 Rating Component Scores 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").

Ratings List

Ratings List

Ratings Affirmed

Hesse (State of)

Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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