FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms State of Rhineland-Palatinate at 'AAA'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 09 May 2025: Fitch Ratings has affirmed the State of Rhineland-Palatinate's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AAA' with Stable Outlooks. A full list of ratings is below.

The affirmation reflects Fitch's unchanged assumptions for the German Laender, under which the ratings are equalised with those of Germany (Bund; AAA/Stable/F1+).

KEY RATING DRIVERS

Risk Profile: 'Stronger'

Fitch assesses all of Rhineland-Palatinate's key risk factors at 'Stronger' The 'Stronger' 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.

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 2024, the share was 49.1% for the Laender, 48.1% for the Bund and 2.8% for the municipalities. In 2024, tax revenue was 75% of Rhineland-Palatinate 's total revenue, with PIT and VAT the largest contributors, at 35% and 32.4%, respectively. These taxes have shown stable growth.

Revenue Adjustability: 'Stronger'

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

The most recent reform of the financial equalisation system confirmed the stability of revenue equalisation. This is likely to increase transfers from the Bund to the financially weaker Laender and lower the burden of net donor states. Fitch views this as credit positive. In 2024, Rhineland-Palatinate was a net receiver of the financial equalisation system in 2024 and received EUR523.5 million, while it has been a net donor towards the system in 2023, contributing EUR320.4 million based on preliminary figures.

Expenditure Sustainability: 'Stronger'

The Laender have a prudent record of opex control. The main spending items consist of education and science, security and costs for infrastructure, which are counter-cyclical. In times of economic stress, the Bund carries out anti-cyclical measures. The Laender have been applying cost-consolidation measures since 2010 to comply with the debt-brake rule that started in 2020. They have shown strong spending restraint since 2010 to keep opex growth below operating revenue growth. Cost-consolidation measures are subject to supervision by the German Stability Board.

Like all Laender, Rhineland-Palatinate works closely 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 have been partly covered by specific grants from the Bund to the Laender. This means that even if expenditure suddenly increases due, the additional burden is usually met by an adequate revenue stream.

Expenditure Adjustability: 'Stronger'

Laender have been legally obliged to run their budgets without taking on new net debt from 2020, which Fitch views positively for expenditure adjustability. 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 capex, Rhineland-Palatinate has a good record of cost consolidation.

Rhineland-Palatinate's opex is rigid. and the largest single items are transfers and personnel costs with 51.5% and 39.6%, respectively, in 2024. There is some flexibility for capex, which accounted for a low of 5.7% of total spending. Operating revenue growth usually outpaces opex growth. However, during 2020-2024, Rhineland-Palatinate's operating revenue grew by 5.2% on average, while opex growth was 5.9% on average, due to growing spending needs during the pandemic in 2019-2021.

Liabilities & Liquidity Robustness: 'Stronger'

Laender operate in a solid national framework for debt and liquidity management and show strict market discipline, which Fitch views as credit positive. As one of the largest subnational and frequent issuers, Laender enjoy strong access to international capital markets, including Bund benchmark issues. However, following the ECB's most recent interest rate increases, Laender's interest burdens are likely to rise following a long period of reductions. This risk has been mitigated by Laender extending their maturity profiles in recent years, including up to 100-year bond issues, or due to forward-rate agreements.

In general, Laender also face large contingent liabilities in the form of debt guarantees on behalf of their development banks, as well as their largely unfunded pension liabilities. The risk from their commitments provided to banks is mitigated by adequate assets and the conservative business profiles of their development banks.

In line with other Fitch-rated Laender, Rhineland-Palatinate generally issues bonds to refinance its debt. Together with a group of four to six other German states, Rhineland-Palatinate is part of the joint bond Laender issue, a bond issue by a group of Laender two to three times a year for a minimum EUR1 billion. This is a well-established capital market instrument, supporting and diversifying its funding needs. The last was the 66th bond issue in February 2025. Rhineland-Palatinate has very good access to capital markets. There is no concentration risk due to the maturity profile. Floating interest-rate issues are hedged to a large extent and there is no foreign-currency debt.

Liabilities & Liquidity Flexibility: 'Stronger'

The German Laender operate in a strong framework for emergency liquidity support provided by government upper tiers with a counterparty risk of 'AAA'. This established and active liquidity management system, together with the 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 the 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 the Laender to support any single state in financial distress. This sub-factor is core to Fitch's rating approach for the German Laender.

Financial Profile: 'a category'

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

We assess Rhineland-Palatinate 's economic liability burden (ELB; primary metric) at 68.1% in our rating case for 2029 (2024: 65.3%), which corresponds to the 'aa' category. We assess the debt payback ratio at 11.1x ('a' category), the secondary metrics, the synthetic debt service coverage at 1.2x ('bb') and the fiscal debt burden at 101% ('a'). This leads to a financial profile assessed at 'a'. This considers the payback and the debt service coverage being below the 'aa' category.

DERIVATION SUMMARY

Rhineland-Palatinate 's IDRs are linked to the Bund's. No other factors affect the ratings. We assess its Standalone Credit Profile (SCP) at 'aa+', which results from a 'Stronger' risk profile and a financial profile that we assess at the upper end of the 'a' category under our rating case. The equalisation of 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 and financial profile assessment.

The solidarity system is enshrined in the German constitution and reflects the institutional framework of 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.

Rhineland-Palatinate compares well with other Fitch-rated German Laender with a 'aa+' SCP: Lower Saxony (AAA/Stable), Mecklenburg-Western Pomerania (AAA/Stable), North Rhine-Westphalia (AAA/Stable) and Thuringia (AAA/Stable). Its closest peers are Lower Saxony and North Rhine-Westphalia. This is driven by their ELBs, at 65% for

Rhineland-Palatinate in 2024 and 64% for Lower Saxony and 65% for North Rhine-Westphalia, together with payback ratios at 12.5% for Rhineland-Palatinate, 14.2% for Lower Saxony and 13.1% for North Rhine-Westphalia in 2024.

Short-Term Ratings

RP's Short-Term IDRs of 'F1+' are mapped to its Long-Term IDRs of 'AAA'.

Debt Ratings

Rhineland-Palatinate's senior unsecured debt of 'AAA' is in line with its Long-Term IDRs.

KEY ASSUMPTIONS

Quantitative Assumptions:

Risk Profile: 'Stronger'

Revenue Robustness: 'Stronger'

Revenue Adjustability: 'Stronger'

Expenditure Sustainability: 'Stronger'

Expenditure Adjustability: 'Stronger'

Liabilities and Liquidity Robustness: 'Stronger'

Liabilities and Liquidity Flexibility: 'Stronger'

Financial Profile: 'a'

Asymmetric Risk: 'N/A'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Rating Cap (LT IDR): 'N/A'

Rating Cap (LT LC IDR) 'N/A'

Rating Floor: 'AAA'

Quantitative assumptions - Issuer Specific

Fitch's rating-case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2020-2024 figures and 2025-2029 projected ratios. The key assumptions for the scenario include:

- Operating revenue to increase 2.6% yoy, including tax revenue growth of 2.6% yoy, largely reflecting the assumptions of the most recent tax estimate

- Current transfer received growth of 2.9% yoy, based on estimated GDP growth

- Opex to increase 2.9% yoy, based on estimated GDP growth

- A capital balance on average of -EUR1,394 million

-Apparent cost of debt of 1.6%

Quantitative assumptions - Sovereign Related

Figures as per Fitch's sovereign actual for 2024 and forecast for 2025-2026, respectively (no weights and changes since the last review are included as none of these assumptions was material to the rating action).

Issuer Profile

Rhineland-Palatinate's economy is driven by well-diversified SMEs and some industrial companies in the chemical and automotive sector. Its GDP per capita of EUR44,046 in 2024 was 13% below the German average. Rhineland-Palatinate had a population of about 4.2 million at end-2024.

RATING SENSITIVITIES

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

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

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

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

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.

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Rhineland-Palatinate's ratings are credit-linked to Germany's ratings.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Rhineland-Palatinate, State of	LT IDR	AAA	Affirmed	AAA
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AAA	Affirmed	AAA
	LC ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AAA	Affirmed	AAA

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

International Local and Regional Governments Rating Criteria (pub. 17 Aug 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Rhineland-Palatinate, State of	EU Issued, UK Endorsed

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