

Research Update:

# German State of North Rhine-Westphalia Outlook Revised To Stable From Negative

April 24, 2026

## Overview

- We expect the German State of North Rhine-Westphalia's (NRW's) increase in capital expenditure will be largely funded by additional transfers from the central government under its new spending program.
- We think NRW will gradually reduce its fiscal deficits in the next few years, navigating pressures from muted economic growth within the limits of the updated debt rules without resorting to off-budget spending.
- We expect the debt burden to increase to 172% of operating revenue in 2026, as the state assumes the short-term debt of particularly burdened municipalities, then fall slowly from 2027.
- We therefore revised our outlook on the NRW to stable from negative and affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on the state.

## Rating Action

On April 24, 2026, S&P Global Ratings revised its outlook on the German State of North Rhine-Westphalia (NRW) to stable from negative. At the same time, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings and 'AA' issue ratings on the state and its senior unsecured debt.

## Outlook

The stable outlook reflects our assumption that the government's cost-containment measures and solid revenue growth allows for strong operating margins and deficits after capital accounts well inside the limits implied by Germany's debt rules. We also expect a gradual decline in NRW's debt burden as of next year following an exceptional debt increase in 2026, as the state is assuming the short-term debt of overindebted municipalities.

## Downside scenario

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We could lower the rating on NRW if the state's government let operating margins deteriorate structurally, for example due to insufficient consolidation efforts. We could reassess our view of NRW's financial management if, to ensure compliance with fiscal rules, the state resorted to off-budget or accounting measures again that, in our view, hamper transparency of fiscal accounts.

### Upside scenario

We could raise our rating on NRW if budgetary performance improved significantly on strong economic growth, while the state maintains expenditure restraint. This could lead to a faster reduction in NRW's debt burden. Positive rating momentum could also arise if the state's contingent liabilities declined faster than anticipated, for example if it brought the wind-down entities relating to its former Landesbank to an end.

## Rationale

**NRW outperformed our expectations in 2025, and we think the state government will uphold strong fiscal discipline.** Federal funding from the German infrastructure package will help finance capital expenditure both at the state and municipal level. We expect gradual deficit reduction after 2026. Additionally, the looser national debt brake removes the need for NRW to compensate budgetary shortfalls with off-budget and accounting-only transactions it used recently. However, Germany's growth is driven by the fiscal impulse from its spending program, while external risks--such as the Middle East war--could impair the fragile recovery, leading to increased uncertainty regarding tax revenue growth.

**NRW benefits from its large and diversified economy, sophisticated debt management, and an exceptionally strong liquidity position.** The state's debt burden is still very high in an international comparison, but we expect this ratio will gradually decline thanks to fiscal revenue expansion outpacing debt growth. Combined with contingent liability risks--although these are decreasing slowly--debt levels are the biggest constraint on the ratings.

### Relaxed debt rules allows for increased infrastructure investments

**The institutional framework that NRW and other German regional governments operate under underwent adjustments recently but remains extremely predictable and supportive, in our view.** The system substantially augments locally collected taxes. States with per capita tax revenue below the German average, such as NRW, receive tax transfers that bring them up nearly to the average. The most relevant recent change to the institutional framework has been the loosening of the debt brake's former zero deficit target and the central government's €100 billion special funding envelope for state and municipal infrastructure investment over the next 12 years. For NRW, the new permitted structural deficit of 0.35% of GDP would translate into permitted annual deficits of €3.2 billion, or 3.1% of its operating revenue. The state can incur higher deficits in case of a cyclical economic downturn. NRW stands to receive €21.1 billion from Germany's €100 billion spending program, "Fund for Infrastructure and Climate Neutrality," and plans to pass 60% of this to its municipalities. The exact timing of these flows is difficult to pinpoint, but they will be distributed over several years. The funds will increase both capital revenue and expenditure volumes in NRW's budget without any significant net impact on fiscal performance.

**NRW's fiscal trajectory is closely linked to Germany's economic developments.** This relationship introduces an element of uncertainty because external risks such as the Middle East conflict could weigh on Germany's fragile recovery. The state finances about 80% of its budget

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through taxes, of which value-added tax, corporate income tax, and (to a lesser degree) payroll tax have tended to be highly correlated with nominal economic growth. We expect Germany to post real economic growth of 0.8% for 2026 and 1.4% for 2027 and 2028, respectively, reflecting geopolitical volatility and uncertainty over the supply and cost of energy. We expect German consumer price inflation of 2.3% for this year, followed by 2.1% in both 2027 and 2028. While lower real growth weighs on tax revenue, stronger inflation can support tax collection in the near term. However, it could eventually burden expenditure, as demonstrated by recent wage bargaining with state employees.

**NRW exhibits a strong and diversified economy.** The state accounts for about 20% of Germany's GDP and population, and it is home to several of the country's most important companies, including Deutsche Telekom and Deutsche Post (DHL Group); utilities E.ON, RWE, and Uniper; retail heavyweights Aldi and Rewe Group; steel producer Thyssen Krupp; and chemical giant Bayer. We project a local GDP per capita of almost €50,300 for 2026, at 90% of the German national average of about €55,300.

**The state government responded to budgetary pressures with consolidation measures, while continuing its investments in public infrastructure and taking steps to address financial strain at its municipalities.** We understand savings targets for various departments achieved an approximately 3% expenditure reduction in the current budget compared to the financial plan, for example by limiting spending on goods and services, and reducing personnel. The recent collective bargaining agreements remained within anticipated levels, not exacerbating budgetary pressure. We think this will allow the state's government to limit use of its structurally permitted deficit to about 80% of the maximum. Also, the government is taking some municipal short-term debt onto its own books and increasing funding for municipal investment spending. It furthermore is proceeding with the resolution of the wind-down units related to its former Landesbank.

## Contained deficit after capital accounts reflect federal funding and the state's fiscal discipline

**Our base-case scenario assumes a gradual recovery of NRW's operating margins to above 5% of operating revenue in the next few years.** This reflects a moderate uptick in Germany's economic growth after 2026 resulting from the government's stimulus and infrastructure spending package. Our projection incorporates continued expenditure restraint, includes the most recent public sector wage agreement, and assumes annual wage increases of about 3% thereafter. The revised deficit ceiling gives NRW more leeway for capital spending and permits the modest deficits that we project over our 2026-2028 forecast horizon. Still, Germany's infrastructure package is funding the majority of the estimated increases in infrastructure spending. Similar to 2025, NRW can in 2026 again use the business cycle-based exemption from the debt brake's ordinary deficit limit to justify temporary deficits after capital accounts.

**Pension and related payments under the state's pay-as-you-go system for civil servants continue to reduce budgetary leeway for NRW.** While the state's dedicated pension reserve account amounted to almost €16.5 billion as of year-end 2025, these funds cover less than 18 months of pension cost. Therefore, they can only mitigate, but not fully finance, NRW's pension burden. The state further adapted its policy, allowing annual withdrawals from the pension account, not only corresponding to the profits made two years prior but also of additional funds, so that the capital base of €13.1 billion is retained. It is not using this additional leeway at the moment, however, while the profit extraction takes place. With that NRW does not put money aside for its current employees anymore.

**We consider NRW's tax-supported debt burden of about 173.5% of consolidated operating revenue very high in an international comparison, especially when considering contingent liability risk.**

However, the state benefits from sophisticated debt management. It is an established capital market issuer and active in various funding currencies, although always on a fully euro-hedged basis. NRW maintains a predominantly fixed-rate debt portfolio, with residual variable-rate exposure largely matched by short-term assets. The portfolio has an average maturity of above 19 years. To calculate our tax-supported debt metric, we add the financial liabilities of the state's real estate manager Bau- und Liegenschaftsbetrieb NRW and a school investment program prefinanced by state-owned NRW.BANK to the core budget's direct debt. The decline in debt in 2025, despite deficits, reflects the use of existing liquidity largely to redeem pandemic- and energy crisis-related borrowings. For 2026, the state will assume €8.9 billion of short-term loans from fiscally weaker municipalities. Debt intake thereafter will be contained and remain well within the limits of the debt brake.

**We think that contingent liability risk arises primarily from active and legacy financial institutions, along with the municipal sector.**

Still, Erste Abwicklungsantalt and Portigon, which both manage the orderly wind-down of former state bank WestLB, have decreased materially in size. This prompted NRW's government to initiate early resolution discussions with all relevant parties. No details are available, but we think the discussions could further reduce contingency risks. This leaves state promotional lender NRW.BANK as a very large, albeit well-capitalized, state-owned bank.

**NRW's cash balance of almost €7 billion held at the beginning of 2026 and securities worth €16.5 billion at year-end 2025 in its pension reserve account fully cover this year's debt service.**

Together with the state's proven borrowing ability in the capital market and its access to liquidity from other levels of government, we assess NRW's liquidity position as exceptionally strong. The state does not maintain any committed bank credit facilities.

**State of North Rhine-Westphalia Selected Indicators**

| Mil. EUR   | 2023    | 2024    | 2025    | 2026bc  | 2027bc  | 2028bc  | 2029bc  |
|--|---------|---------|---------|---------|---------|---------|---------|
| Operating revenue  | 92,934  | 95,084  | 99,922  | 101,938 | 105,007 | 108,512 | 112,067 |
| Operating expenditure                                    | 87,945  | 90,612  | 94,111  | 97,465  | 100,000 | 102,220 | 104,949 |
| Operating balance  | 4,989   | 4,472   | 5,811   | 4,473   | 5,007   | 6,292   | 7,118   |
| Operating balance (% of operating revenue)               | 5.4     | 4.7     | 5.8     | 4.4     | 4.8     | 5.8     | 6.35    |
| Capital revenue  | 2,013   | 2,948   | 2,177   | 5,269   | 4,885   | 4,942   | 5,202   |
| Capital expenditure                                      | 10,404  | 9,973   | 10,054  | 13,581  | 13,605  | 14,286  | 14,783  |
| Balance after capital accounts                           | (3,402) | (2,553) | (2,066) | (3,839) | (3,713) | (3,052) | (2,463) |
| Balance after capital accounts (% of total revenue)      | (3.6)   | (2.6)   | (2.0)   | (3.6)   | (3.4)   | (2.7)   | (2.1)   |
| Debt repaid  | 15,142  | 14,435  | 14,864  | 16,195  | 11,462  | 12,570  | 10,453  |
| Gross borrowings   | 15,782  | 12,462  | 14,066  | 19,595  | 14,862  | 16,040  | 14,423  |
| Balance after borrowings                                 | (2,536) | (4,725) | (3,050) | (718)   | (400)   | 139     | 1,228   |
| Direct debt (outstanding at year-end)                    | 166,135 | 164,162 | 163,765 | 175,664 | 179,064 | 182,534 | 186,504 |
| Direct debt (% of operating revenue)                     | 178.8   | 172.7   | 163.9   | 172.3   | 170.5   | 168.2   | 166.4   |
| Tax-supported debt (outstanding at year-end)             | 172,565 | 170,465 | 169,755 | 181,554 | 184,854 | 188,224 | 192,194 |
| Tax-supported debt (% of consolidated operating revenue) | 185.7   | 179.3   | 169.9   | 178.1   | 176.0   | 173.5   | 171.5   |
| Interest (% of operating revenue)                        | 3.2     | 3.7     | 3.4     | 3.7     | 3.8     | 3.8     | 3.9     |

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### State of North Rhine-Westphalia Selected Indicators

|                              |        |        |        |        |        |        |        |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Local GDP per capita (\$)    | 50,660 | 51,860 | 55,340 | 57,810 | 61,970 | 64,910 | 66,290 |
| National GDP per capita (\$) | 54,890 | 56,145 | 60,435 | 63,545 | 68,100 | 71,320 | 73,660 |

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 North Rhine-Westphalia Rating Component Scores

| Key rating factors         | Scores |
|----------------------------|--------|
| Institutional framework    | 1      |
| Economy                    | 1      |
| Financial management       | 2      |
| Budgetary performance      | 3      |
| Liquidity                  | 1      |
| Debt burden                | 5      |
| 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), April 13, 2026. An interactive version is 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 Europe Q2 2026: Global Shock Leaves Recovery Uncertain](#), March 25, 2026
- [NRW.BANK](#), Feb. 5, 2026
- [Subnational Government Outlook 2026: Resilient, But Signs Of Stress Emerge](#), Jan. 20, 2026

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- [Subnational Government Outlook 2026: Limited Upside Potential In Developed Markets](#), Jan. 19, 2026
- [Erste Abwicklungsanstalt](#), Oct. 1, 2025
- [Institutional Framework Assessment: German States' Budget Rules Relax Amid Muted Economic Growth](#), June 5, 2025
- [Proposed Easing Of The Debt Brake Leaves German States To Chart Their Own Fiscal Paths](#), March 6, 2025
- [Sovereign Brief: What The End Of The Debt Brake Means For Germany's 'AAA' Rating](#), March 6, 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; Outlook Action

|   | To             | From             |
|---|----------------|------------------|
| <a href="#">North Rhine-Westphalia (State of)</a> |                |                  |
| Issuer Credit Rating                              | AA/Stable/A-1+ | AA/Negative/A-1+ |

#### Ratings Affirmed

#### [North Rhine-Westphalia \(State of\)](#)

|                  |    |
|------------------|----|
| 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](http://www.capitaliq.com). All ratings referenced herein can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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