Research Update:

Austrian State of Burgenland 'AA/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- Slower-than-expected growth combined with multiyear federal tax reforms will slow down tax operating revenues in 2024.
- From 2025, we expect a return to moderate economic growth along with additional transfer streams from the new fiscal equalization agreement, which will drive improvements in budgetary performance.
- The state plans high capital expenditure driven by a flagship green energy project, but without recourse to external financing.
- We affirmed our 'AA/A-1+' ratings on Burgenland and maintained our stable outlook.

Rating Action

On Oct. 18, 2024, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the state of Burgenland. The outlook is stable.

Outlook

The stable outlook reflects our view that Burgenland's financial performance will remain resilient despite a weaker macroeconomic environment. We believe that management will continue to implement measures to control expenditure dynamics while financing significant investments without resorting to net new borrowing.

Downside scenario

We would consider lowering our rating on Burgenland if management's response to further challenges, such as continued low economic growth, led to a significant deterioration in its fiscal performance relative to our current forecast. Such a scenario would result in significantly larger deficits and higher-than-expected financing needs, and thus higher debt levels than we currently project.

Upside scenario

An upgrade could stem from an improvement in Burgenland's level of financial planning, coupled with an uplift in its economic profile that brings it closer to the national average, or a more supportive and predictable institutional framework for Austrian states.

Rationale

Following two years of subdued economic performance, we anticipate that a return to moderate growth in Austria, along with additional transfer revenues from the new national fiscal equalization agreement, will enable Burgenland to finance its ambitious investment projects while gradually reducing its deficit after capital accounts after 2025.

We expect the financial management team will continue to implement and pursue further structural and administrative reforms to contain expenditure dynamics in healthcare, primary education, and social welfare. Burgenland's exceptional liquidity position remains supported by its continuing access to the Austrian federal debt management agency. In general, Burgenland benefits from Austria's highly predictable and well-balanced institutional framework for regional governments.

Delayed economic recovery and federal tax reforms will dampen revenue growth while slowing down improvements in budgetary performance

The performance of the Austrian economy has a direct impact on Burgenland's operating revenues, as nationally shared taxes account for more than 45% of adjusted operating revenues. We expect GDP growth in Austria to resume gradually in 2024 (+0.4%) and 2025 (+1.8%) after a technical recession in 2023 (-0.7%). The slower-than-expected recovery in economic growth in 2024, together with past federal tax reforms in Austria, suggest that the increase in shared tax revenues will be relatively modest. This should be offset to some extent by additional transfers under the new fiscal equalization system, which provides more funding for mandatory expenditure on health, social welfare, and primary education, for example. These are areas of particularly strong spending dynamics due to demographic trends and general cost inflation. The combination of dampened revenue growth and rising costs supports our current view of slower-than-expected but steady improvement in the operating balance over our forecast period through 2026.

Burgenland remains committed to a strong investment agenda in wind and photovoltaic power generation. The acquisition of a majority stake in a special-purpose venture from Energie Burgenland (EG) in 2024 for €65 million is the state's first step toward executing a pipeline of different projects comprising over 2,000 megawatts of wind and photovoltaic capacity. This investment was made with own funds and without recourse to external financing. The frontloading of these and other investments in 2024 and 2025 will lead to a small increase in the deficit on the capital account versus our previous projections. However, we expect deficits to follow a downward trend toward 2026.

In our view, the tension between revenue shortfalls and dynamic expenditure developments will require a continued commitment from the financial management to pursue further reform efforts to control costs throughout our forecast period. As growth slowly picks up and operating revenues grow, mitigating developments on the expenditure side, stable surpluses in the operating accounts should help Burgenland to gradually reduce its deficit after capital accounts by 2026. We do not expect the results of the Austrian general elections or the upcoming Burgenland State elections, which take place in early 2025, to lead to policy changes that could disrupt the current fiscal path. This expectation is also underpinned by the need to again comply with the deficit limits imposed by Austria's national stability pact rules, which are now back in force following the deactivation of the "general escape clause" of the EU's Stability and Growth Pact.

Moderate debt levels, low contingent liabilities, and exceptional access to liquidity

Burgenland's tax-supported debt ratio rose to 47.7% in 2023, but we expect it will decline and stabilize around 42% over the period to 2026. We view this as very moderate by national and international standards. For its budget, Burgenland borrows mainly from the Austrian Federal Debt Management Agency (Oesterreichische Bundesfinanzierungsagentur - OeBFA), which provides fixed-rate, comparatively low-cost and seamless funding with long tenures. We include €284 million of housing loans sold and guaranteed to financial institutions, €136 million of debt of the state hospital institution, and €271 million of debt at the state property management company in our tax-supported debt ratio.

Burgenland's most significant contingent liability is the holding company "Landesholding Burgenland" for which it guarantees all debt--totaling around €340 million at year-end 2023. Unlike Austrian peers, the state does not own a public bank and hence does not bear material contingent risk usually associated with such an activity.

We believe that the fiscal risk from Burgenland's unfunded, pay-as-you-go pension obligations to retired civil servants is now receding materially. Following changes in hiring practices in the early 2000s, most of Burgenland's current employees are now covered by the contributory Austrian national pension scheme rather than the state budget. For the remainder, state pension-entitled special-status civil servants--mainly teachers--Burgenland is largely reimbursed by the Austrian federal government. After deducting all reimbursements, we calculate that Burgenland's net pension expenditure is currently only about 3% of the state's annual operating revenue. Projections show that the number of pensioners has already peaked, so we do not expect the burden to increase significantly, even if higher per capita costs are considered.

We consider Burgenland's overall liquidity to be exceptional, as the state can flexibly finance intrayear liquidity needs and long-term debt with the Austrian Federal Financing Agency. Burgenland also has committed credit lines of around €98 million with two commercial banks and can draw on funds from its cash pooling with related third parties.

Key Statistics

Table 1

Burgenland (State of) selected indicators

	--Year ended Dec. 31--					
Mil. €	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	1,161	1,365	1,443	1,568	1,620	1,688
Operating expenditures	1,170	1,290	1,337	1,517	1,559	1,619
Operating balance	(8)	75	107	51	61	69
Operating balance (% of operating revenues)	(0.7)	5.5	7.4	3.3	3.8	4.1

Table 1

Burgenland (State of) selected indicators (cont.)

	--Year ended Dec. 31--					
Mil. €	2021	2022	2023	2024bc	2025bc	2026bc
Capital revenues	95	92	69	86	87	90
Capital expenditures	142	211	239	195	204	165
Balance after capital accounts	(55)	(43)	(63)	(58)	(56)	(6)
Balance after capital accounts (% of total revenues)	(4.4)	(3.0)	(4.2)	(3.5)	(3.3)	(0.3)
Debt repaid	54	25	32	35	0	38
Gross borrowings	90	24	81	35	0	38
Balance after borrowings	(19)	(44)	(14)	(58)	(56)	(6)
Direct debt (outstanding at year-end)	388	387	437	437	437	437
Direct debt (% of operating revenues)	33.4	28.4	30.3	27.9	27.0	25.9
Tax-supported debt (outstanding at year-end)	719	736	811	821	826	831
Tax-supported debt (% of consolidated operating revenues)	51.5	46.5	47.8	44.4	43.3	42.0
Interest (% of operating revenues)	2.3	1.7	1.8	2.1	2.0	1.9
Local GDP per capita (single units)	32,000	34,900	34,900	38,255	39,552	40,738
National GDP per capita (single units)	45,366	49,807	52,521	54,501	56,917	58,633

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.
Note: Adjusted operating revenue and operating expenditure figures revised upward by an equal amount to align with gross presentation of federally reimbursed salary and pension payments to (former) teachers under current Austrian public sector accounting standard VRV 2015. This leads to insignificantly different performance and debt ratios compared with our previous calculations.

Ratings Score Snapshot

Table 2

Burgenland (State of) ratings score snapshot

Key rating factors	
Institutional framework	2
Economy	2
Financial management	2
Budgetary perfomance	3
Liquidity	1
Debt burden	2
Stand-alone credit profile	aa
Issuer credit rating	AA

Table 2

Burgenland (State of) ratings score snapshot (cont.)

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, Oct. 7, 2024. 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

- Austria Outlook Revised To Positive On Improving Energy Supply Position; 'AA+/A-1+' Ratings Affirmed, Aug. 23, 2024
- Economic Outlook Eurozone Q3 2024: Growth Returns, Rates Fall, July 24, 2024
- Wohnbau Burgenland, May 28, 2024
- Subnational Debt 2024: Fiscal Policy Differences Influence Borrowing In Developed Markets, March 4, 2024
- Subnational Debt 2024: Focus on debt sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 2024
- Institutional Framework Assessment: Austrian States, Dec. 30, 2022

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 List

Ratings Affirmed	
Burgenland (State of)	
Issuer Credit Rating	AA/Stable/A-1+