S&P Global Ratings

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State of Burgenland

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This report does not constitute a rating action.

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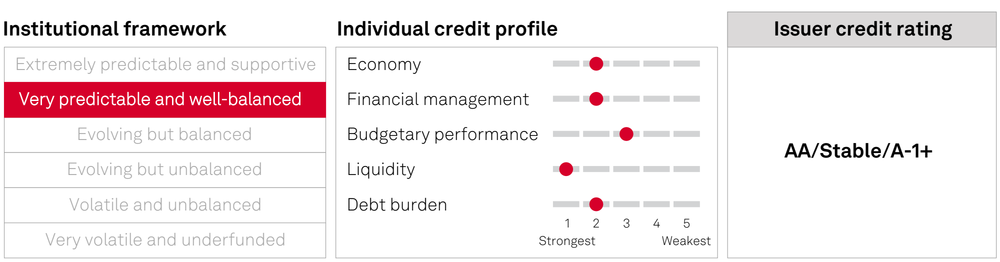
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Burgenland is set to receive substantial additional revenue as part of the negotiated new fiscal equalization mechanism.	We expect improving budgetary performance, helped by easing inflationary pressures and strengthening economic activity.
High cash reserves and broad access to funding via the federal debt management agency OeBFA ensure excellent liquidity.	Ongoing efforts to streamline operating costs, after the pandemic-induced peak, should support the stabilization of operating costs.
Local population growth below Austrian average poses a source of risk to tax revenue development.	Investments in green energy, tourism, and high-speed internet infrastructure will likely be financed without substantial increase in borrowing.

The new fiscal equalization agreement endows Burgenland with revenue to support investments in health care infrastructure, elementary education, and housing. Although some of this revenue is tied to certain quantitative and qualitative goals, it effectively allows some degree of flexibility and substitution, thereby supporting our expectation of steady improvements in budgetary performance over S&P Global Ratings' forecast period through 2026.

We see improving macroeconomic environment, combined with Burgenland's efforts to streamline its budgeting process, as a positive strategy to reduce operating cost pressures. High debt service coverage ratios should continue to be ensured by cash positions along with excellent access to financing of the Austrian federal debt management agency (OeBFA).

The state seeks to increase its attractiveness as a place of business and residence so as to draw talent and companies to the region and counteract the risks related to demographic dynamics. To that effect, Burgenland is pursuing investments in green energy transition, tourism infrastructure, and affordable housing. The small and declining deficits after capital accounts are expected to be financed with the use of the state's high cash reserves.

Outlook

The stable outlook reflects our view that Burgenland's budgetary performance will gradually improve, despite the adverse economic impact from current geopolitical tensions. We project Burgenland's debt burden will remain moderate, below 60% of operating revenue through 2025 and its liquidity will remain strong.

Downside scenario

We would consider lowering our rating on Burgenland if management's response to further challenges, such as the lingering economy or inflationary pressures, led to a significant deterioration in its budgetary performance versus our current forecast. As well as materially higher deficits, such a deterioration would also result in markedly higher-than-expected funding needs and debt than we currently project.

Upside scenario

Ratings uplift would stem from an improvement of Burgenland's economic profile that aligned it with the national average, or a more supportive and predictable institutional framework for all Austrian states.

Rationale

Upturn in growth and additional revenue from the new fiscal equalization agreement support improvements in budgetary performance

We expect real GDP growth in Austria to recover gradually in 2024 (+0.85%) and 2025 (+1.7%) after a technical recession in 2023 (-0.7%). Inflationary pressure is also expected to slowly decline with consumer price index inflation falling to 4.1% in 2024 and 2.9% in 2025, from 7.7% in 2023.

The revision of the Austrian fiscal equalization system, along with the revamped "Future Funds" (Zukunftsfonds), will be a significant source of additional revenue for Burgenland because the state benefits from central government transfers to a greater extent than its Austrian peers do. Part of the increase in federal transfers and subsidies is earmarked for the pursuit of federal government-prescribed qualitative and quantitative goals in the areas of elementary education, housing, health care, and climate adaptation. However, they do allow for a certain degree of flexibility, given that Burgenland has already achieved some of the targets set. Elementary education, for instance, is one of the fields in which the state already fulfills the criteria set for all Austrian states.

Burgenland's local GDP per capita is only around 70% of the Austrian average, and the proportion of Burgenland's dependent population is slightly higher than in most other Austrian states. It also has an overall lower population growth than the national average, which is currently compensated in part by net migration from other Austrian regions and abroad. Individuals born abroad made up approximately 13.5% of the total population in 2023.

The weak natural population growth poses a risk for future revenue growth, as Austria's tax-sharing system equalizes tax revenue between states on a per capita basis. This means that Burgenland would potentially receive a gradually decreasing share of the total shared tax revenue if its share of the Austrian population were to considerably shrink in the coming years. Moreover, a relatively large and growing share of elderly population (23% of total population aged 65 years or older) will likely increase spending needs in the future. In the medium term we see health care and social spending as possible drivers of increased pressures on the expenditure side.

The challenging macroeconomic environment in previous years caused the state's financial management to rationalize its budgeting process, with the aim of dampening inflationary pressure on operating costs. The combination of increased operating revenue and better cost control drives our expectation of a stable operating balance and a consistent improvement in budgetary performance during the forecast period.

The construction of a new hospital and the expansion of the public transportation network are among Burgenland's most relevant infrastructure projects in recent years. We expect the state to continue to make the necessary investments to enhance its attractiveness as a business location.

We anticipate sustained infrastructure investment, high liquidity, and stable debt levels

Investment levels will decline from the peak observed during the pandemic years, in our view, but will remain above recent historical figures. In our base case for2024-2026, we include further strategic spending on tourism-related infrastructure, high-speed internet connectivity and a green energy project to meet the state's goal of sourcing all its energy from renewable sources by 2050. The state's investment in the construction of its landmark hospital in Oberwart was completed ahead of schedule and at a total cost that was significantly below initial estimates, which reflects positively on the project management structure implemented by the state holding company.

We expect a higher deficit after capital expenditure in 2023 versus 2022. This can be explained by the frontloading of investments initially planned for 2024. Over our forecast horizon until 2026, however, we project deficits to decline again, with the state's balance after capital accounts reaching approximately -1% of total revenue. The trend is supported by the expectation of a positive and stable operating balance throughout the period.

Our budgetary performance assessment accounts for ongoing payments for unfunded, pay-as-you-go pension liabilities, because they will weigh on operating costs for the foreseeable future. We estimate the net present value of pensions to retired special-status civil servants in 2023 at around 65% of the total operating revenue.

We continue to view Burgenland's liquidity as exceptionally strong. We understand the state plans to use its high cash reserves to finance its projected small deficits without resorting to new net borrowing in 2024-2026. We therefore expect to see a reduction in liquidity, but it should nevertheless remain relatively high over our forecast period. Besides cash holdings of €218 million at year-end 2023 and largely unused credit lines of around €98 million, which are together equivalent to about 9.5x debt service during 2024, the state enjoys seamless access to liquidity via the OeBFA.

Burgenland's ratio of tax-supported debt to consolidated operating revenue should remain well below 60% over our forecast horizon, indicating a moderate level of indebtedness. The state's direct debt--primarily sourced from OeBFA, entirely denominated in euros, and at fixed interest rates only--stood at €437 million at the end of 2023, equivalent to 30% of the state's adjusted operating revenue. To arrive at our broader tax-supported debt measure, we additionally include the debt of Landesimmobilien Burgenland, the state's real estate company, and Burgenländische Krankenanstalten-Gesellschaft, the state's hospital institution.

We deem contingent liability risk as limited when compared against the overall budget. Burgenland's largest contingent liability is the holding company Landesholding Burgenland, for which it guarantees all debt. Different to several of its Austrian peers, the state does not own a public bank and therefore does not bear the material contingent risk usually associated with such activity.

State of Burgenland Selected Indicators

Mil. EUR	2021	2022	2023e	2024bc	2025bc	2026bc
Operating revenue	1,154	1,356	1,423	1,542	1,577	1,636
Operating expenditure	1,163	1,281	1,388	1,481	1,513	1,580
Operating balance	(8)	75	35	60	65	56
Operating balance (% of operating revenue)	(0.7)	5.5	2.5	3.9	4.1	3.4
Capital revenue	95	92	73	86	87	90
Capital expenditure	142	211	177	175	174	164
Balance after capital accounts	(55)	(43)	(69)	(29)	(22)	(18)
Balance after capital accounts (% of total revenue)	(4.4)	(3.0)	(4.6)	(1.8)	(1.4)	(1.0)
Debt repaid	54	25	32	35	0	38
Gross borrowings	90	24	82	35	0	0
Balance after borrowings	(19)	(44)	(19)	(29)	(22)	(56)
Direct debt (outstanding at year-end)	388	387	437	437	437	399
Direct debt (% of operating revenue)	33.6	28.6	30.7	28.3	27.7	24.4
Tax-supported debt (outstanding at year-end)	719	736	791	796	801	768
Tax-supported debt (% of consolidated operating revenue)	51.7	46.7	47.2	43.6	43.0	39.9
Interest (% of operating revenue)	2.3	1.7	1.7	2.1	2.0	2.0
Local GDP per capita ($)	37,846.4	36,749.7	39,167.9	41,021.9	44,189.7	46,675.2
National GDP per capita ($)	53,654.7	52,447.3	56,748.9	59,640.8	64,322.9	67,886.2

State of Burgenland Selected Indicators

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 Burgenland Rating Component Scores

Key rating factors	Scores
Institutional framework	2
Economy	2
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	2
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, April 8, 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

- Full Analysis: Austria, Feb. 26, 2024
- Institutional Framework Assessment: Austrian States, Dec. 30, 2022

Ratings Detail (as of April 17, 2024)*

Burgenland (State of)	
Issuer Credit Rating	AA/Stable/A-1+
Issuer Credit Ratings History	
11-Aug-2014	AA/Stable/A-1+
10-Jun-2014	AA+/Watch Neg/A-1+
30-Jan-2013	AA+/Stable/A-1+

*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.