S&P Global Ratings

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State of Burgenland

April 24, 2023

This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Steady tax revenue growth amid mounting expenditure pressures.	Steady improvement in budgetary performance, with balanced accounts after investments expected in 2025.
High GDP per capita in an international context, albeit less wealthy than Austrian peers.	Slow economic recovery and persisting inflation pressures will weigh on budgetary consolidation.
Strong liquidity characterized by high cash reserves.	Stable debt position as budget deficits can be financed from sizable cash holdings.

S&P Global Ratings believes the Austrian state of Burgenland will steadily improve its financial performance over our forecast horizon through 2025. Despite persisting expenditure pressures, we anticipate the state will achieve a balanced budget after investments in 2025. Increased spending--exacerbated by comparatively generous deficit-increasing support measures to cushion the adverse economic impact of the pandemic and high inflation--have exceeded revenue growth performance amid subdued economic growth since 2019. We forecast a gradual improvement in budgetary performance and a stable debt ratio, as the state slowly depletes some of its large cash reserves. The state's tax-supported debt will hence remain low in an international comparison.

We think the currently negotiated update of the fiscal equalization mechanism in Austria will only gradually alter the tax-sharing formula, with financial effects from 2024. As a result, we do not expect a significant change in overall transfers to Burgenland after the ongoing update, but estimate some changes related to health and elderly care, given the country's aging population and increasing treatment costs. Our ratings on Burgenland are supported by Austria's mature institutional framework, which provides a base for reliable financial planning.

In our view, Burgenland will retain its excellent liquidity position. Seamless availability of funding from the Austrian federal debt management agency, OeBFA, and high cash reserves, combined with a spread-out maturity profile of its bullet debt ensure high debt service coverage ratios. Financial management regularly renews the state’s credit lines, thus providing an additional cushion in this context.

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 ratings on Burgenland if management's response to further challenges, such as the weakening economy or inflationary pressures, led to a significant deterioration in its budgetary performance compared to 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

Subdued economic growth and elevated inflation will weigh on Burgenland's budgetary performance

Considering the current economic backdrop due to higher inflation and the war in Ukraine, we expect stagnant real economic growth in Austria in 2023 after robust 4.7% real growth in 2022, with a gradual recovery in 2024 (+1.8%) and 2025 (+1.6%). Unemployment in Burgenland as of February 2023 stood unchanged from 2022, slightly above the Austrian average of 7%, with an overall favorable employment trend. Burgenland’s economic structure is mainly composed of small and midsized enterprises. It heavily relies on agriculture and tourism, with the latter recovering from the pandemic-induced demand shock. Nonetheless, a subdued outlook on household consumption may reduce momentum in achieving pre-pandemic overnight stays.

Burgenland's revenue is directly affected by national developments, since the Austrian fiscal system collects taxes nationally and distributes revenue to the states according to their relative population. Burgenland's estimated tax revenue growth in 2022 has outpaced our prior projections due to higher-than-expected inflation and solid 2022 economic growth. At the same time, high inflation has pushed up the wage bill and resulted in management decisions to further public support programs to cushion the adverse impact on households’ and companies’ energy bills and purchasing power. We expect this to weigh on the state's budgetary performance over our projection horizon, although it should gradually improve with declining deficits after capital accounts and a balanced budget by 2025.

Austria's extensive tax-sharing regime shelters Burgenland from idiosyncratic revenue-base volatility but also limits the state's budgetary flexibility. The state benefits from central government transfers to a greater extent than its Austrian peers, partially owing to its weaker economic profile. Although we view Burgenland's economy as strong in a global comparison, it is weaker than the national average. We estimate the state’s GDP per capital at about €36,800 in 2023, or about 70% of the national average, and the proportion of Burgenland's dependent population is slightly higher than in most other Austrian states.

We generally regard the legal framework in which Austrian states operate as predictable and supportive, with consensus-based cooperation between Austria's federal and state governments. The fiscal equalization mechanism is currently being negotiated and its update will yield financial effects from 2024. Given that Austria has historically allowed its tax-sharing formula to evolve only gradually, we do not expect a significant change after the upcoming update. We think some changes related to health and elderly care might be implemented, given the country's aging population and increasing treatment costs. We do not anticipate the negotiations will lead to any adverse outcomes for Austrian states, including Burgenland. We do not include any additional transfers of funds to the state in our forecast either, since we view a scenario of broadly unchanged funds allocated to the sector, with some modification to distribution components, as most likely. The state will−−as all Austrian peers−−be bound by the limits of the national fiscal rules reimposed in 2024, which should support prospects for budgetary consolidation.

Declining deficits, strong liquidity, and stable debt levels

We expect deficits after capital expenditure for Burgenland over our 2023-2025 forecast horizon to be on a declining trend, helped by persistently positive operating accounts, though very slim for 2023. Various spending decisions--among them higher salaries for state personnel and the health care sector, as well as subsidies to curb the impact of energy costs and support affordable living conditions--have resulted in a marked increase in spending. Notably, we think the state's personnel costs could rise 7% in 2024, following ongoing wage negotiations and intensified recruiting effort, after moderate 3% growth in 2023. The latter is slightly below the state's own estimates, since we believe it will take time for the state to fill open positions. We also think that the state will not need to spend the full amount of its 2023 additional budget of €53 million for heating and housing support. The state's forecasts--outside of extraordinary spending measures--follow trends similar to our projections given that underlying economic assumptions are very similar. We note favorably that the state's investment spending for the construction of its flagship hospital Oberwart has remained within its initial cost estimates.

In our assessment of budgetary performance, we view positively the state's high level of cash reserves, but also take into account ongoing payments for unfunded, pay-as-you-go pension liabilities that, although not excessively large, will also weigh on results for the foreseeable future. We estimate the net present value of pensions at about €1.4 billion and believe that yearly payments of about 7% of operating revenue to retired special-status civil servants will continue to burden the state's finances for years.

The ratio of tax-supported debt to consolidated operating revenue remains below 60% over our 2023-2025 forecast horizon, indicating a moderate level of indebtedness. We expect the projected deficits will be funded mostly with cash reserves. In our calculation of tax-supported debt, we include the debt of LIB, the state's real estate company, and KRAGES, the state's hospital institution. Direct debt at the end of 2022 was €388 million (28.7% of adjusted operating revenue). Direct debt is mainly owed to the federal treasury and all in local currency at fixed interest rates, which considerably limits Burgenland's refinancing risk given its access to the federal treasury.

We assess Burgenland's liquidity as exceptionally strong, with cash holdings at €242 million at year-end 2022 (more than 400% of debt service coverage). In addition, Burgenland benefits from established credit lines, a proven borrowing ability in the capital market, and access to liquidity from other levels of government (OeBFA). We expect its debt service coverage ratio will remain clearly in excess of 100% throughout the forecast horizon.

We assess the state's contingent liability risk as limited in relation to the size of the state's budget. For the assessment, we consider various companies that represent the state's largest contingency risks, most importantly the state holding company Landesholding Burgenland GmbH. In addition, we understand that Burgenland is attempting to resolve the outstanding position related to derivatives contracted in early 2000s to improve its financing costs. Open fix-to-floating interest hedges at the payer's fixed rates of about 5% mean still relatively high interest payments for the state in the current interest rate environment, while shielding Burgenland from further rate hikes. Unlike most rated Austrian peers, Burgenland bears no contingent risk from guarantees or ownership of a public sector bank.

State of Burgenland Selected Indicators

Mil. EUR	2020	2021	2022e	2023bc	2024bc	2025bc
Operating revenue	1,102	1,154	1,324	1,359	1,406	1,453
Operating expenditure	1,052	1,163	1,299	1,349	1,371	1,403
Operating balance	50	(8)	25	9	36	50
Operating balance (% of operating revenue)	4.6	(0.7)	1.9	0.7	2.5	3.4
Capital revenue	86	95	90	84	97	98
Capital expenditure	106	142	144	131	136	143
Balance after capital accounts	30	(55)	(28)	(38)	(3)	5

State of Burgenland Selected Indicators

Balance after capital accounts (% of total revenue)	2.5	(4.4)	(2.0)	(2.6)	(0.2)	0.3
Debt repaid	119	54	25	32	35	0
Gross borrowings	221	90	24	50	35	0
Balance after borrowings	132	(19)	(29)	(19)	(3)	5
Direct debt (outstanding at year-end)	352	388	387	406	406	406
Direct debt (% of operating revenue)	32.0	33.6	29.3	29.9	28.9	27.9
Tax-supported debt (outstanding at year-end)	629	719	743	787	787	787
Tax-supported debt (% of consolidated operating revenue)	48.4	51.7	47.5	48.2	46.6	45.2
Interest (% of operating revenue)	2.4	2.3	2.1	1.7	1.8	1.7
Local GDP per capita ($)	34,722.9	37,846.4	37,153.2	39,530.8	43,175.5	46,170.4
National GDP per capita ($)	48,896.0	53,774.8	52,498.3	56,003.0	61,120.6	65,366.0

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.

Ratings Score Snapshot

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 10, 2023. 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

- Institutional Framework Assessment: Austrian States, Dec. 30, 2022
- Subnational Debt 2023: Global Capital Expenditure To Moderate, March 2, 2023

- Subnational Debt 2023: Developed Markets Display Different Fiscal Policies, Divergent Borrowings, March 2, 2023
- Subnational Debt 2023: An Easing Burden In Germany, Austria, And Switzerland, March 2, 2023
- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- European Developed Markets Sovereign Rating Trends 2023: Soft Landing, Hard Constraints, Jan. 30, 2023
- Economic Outlook Eurozone Q2 2023: Rate Rises Weigh On Return To Growth , March 27, 2023

Ratings Detail (as of April 20, 2023)*

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.