Research Update:

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

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Overview

- We believe that the Austrian state of Burgenland will contain expenditure growth and increase debt only moderately.
- The state will continue to cover its funding needs almost exclusively with federal treasury loans.
- We therefore affirmed our 'AA/A-1+' ratings on Burgenland and maintained the stable outlook.

Rating Action

On Oct. 22, 2021, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on Austria's State of Burgenland. The outlook is stable.

Outlook

The stable outlook reflects our view that recovering tax revenue and Burgenland's strict control of expenditure will translate into shrinking deficits after capital accounts after 2022. We believe Burgenland's debt burden will remain below a moderate 60% of operating revenue over the period to 2024.

Downside scenario

We would consider lowering our ratings on Burgenland if the management doesn't succeed in adjusting spending to the revenue base, which might increase more slowly than our assumptions suggest. This would likely result in a pronounced depletion of the state's currently ample liquidity and debt accumulation well beyond our current expectation.

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

Our ratings on Burgenland are supported by the mature institutional framework, which provides a base for reliable financial planning, and availability of funding from the Austrian federal debt management agency, OeBFA.

In addition, we believe that Burgenland will record small deficits after capital accounts, contain its expenditure, and increase its modest debt burden in a national and international comparison only moderately over the next three years. However, we take into account Burgenland's lower economic wealth compared with other Austrian states and sizable unfunded pension liabilities.

Tighter control on expenditure improved Burgenland's budgetary performance

Despite the volatility in tax revenue proceeds, Burgenland's operating margin remains solid due to strict expenditure controls. We anticipate that financial discipline in the coming years will allow Burgenland to gradually reduce its deficits after capital accounts. Regardless of good controls over spending and general conservativism in budgeting, management has been slow in implementing a new basis of accounting and Burgenland's 2020 results are expected to be released in December 2021, far behind its Austrian peers.

At the same time Burgenland's revenue is directly affected by the national developments, since the Austrian fiscal system collects taxes nationally and distributes revenue to the states according to their relative population. We currently anticipate Austria's national GDP will increase by 3.3% in 2021, a rebound from the 6.3% decline in 2020, with the regional economy to follow national trends. The predicted national GDP per capita value of about €44,500 (equivalent to almost $54,000) for 2021 documents a very strong economy in an international comparison. Although the state's per capita GDP level is below the national average, we expect the dynamics of the economic recovery to be similar in Burgenland as in Austria generally.

We generally regard the legal framework in which Austrian states operate as predictable and supportive. The national fiscal equalization mechanism (Finanzausgleich), which determines the allocation of shared taxes between the federal, state, and local levels, will most likely be renegotiated in 2023. Given limited resources for renegotiations, we believe that the existing formula might be extended for two additional years.

Declining deficits should enable Burgenland to maintain a moderate debt burden

According to preliminary results for 2020, Burgenland posted a moderate deficit after capital accounts and we expect that final figures will not significantly alter the preliminary results. Going forward, we believe that the state will achieve a weaker result in 2021, based on lagging tax revenue and currently planned capital expenditure.

Our assessment of budgetary performance reflects 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 €900 million, and believe that yearly payments of about 3% of operating revenue to retired special status civil servants will continue to burden the state's finances for years to come.

Even though we project an increase in debt until 2024 at least, Burgenland's direct debt burden will remain low, both in a national and international comparison. All direct debt is in domestic currency at fixed interest rates with the federal treasury, which limits risks considerably. In our calculation of tax-supported debt we include the debt of BELIG, the state's real estate company, and KRAGES, the state's hospital institution, as well as our projections for the cost of a hospital currently under construction.

We assess the state's contingent liability risk as limited in size compared with 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, Burgenland is facing a currently negative market revaluation of derivatives, which the state is trying to negotiate with banks. Unlike most rated Austrian peers, Burgenland bears no contingent risk from guarantees or ownership of a public sector bank.

We consider Burgenland's liquidity as exceptional, based on cash, liquid assets, and committed credit lines well in excess of 100% of debt service over the coming 12 months. The state has signed two liquidity lines totaling €80 million with banks. It only rarely utilizes commercial banks for short-term credit in limited amounts. We also believe that Burgenland benefits from established access to funding from OeBFA and the Austrian capital market.

Key Statistics

Table 1

State of Burgenland Selected Indicators

	2018	2019	2020bc	2021bc	2022bc	2023bc
(Mil. €)						
Operating revenues	1,146	1,212	1,144	1,178	1,278	1,305
Operating expenditures	1,018	1,156	1,094	1,089	1,190	1,219
Operating balance	128	56	50	89	88	86
Operating balance (% of operating revenues)	11.2	4.6	4.3	7.5	6.9	6.6
Capital revenues	30	37	48	23	23	33
Capital expenditures	101	120	120	151	154	136
Balance after capital accounts	57	(27)	(22)	(39)	(42)	(18)
Balance after capital accounts (% of total revenues)	4.8	(2.2)	(1.9)	(3.2)	(3.2)	(1.3)
Debt repaid	31	81	83	54	89	106
Gross borrowings	73	77	166	90	105	130
Balance after borrowings	99	(30)	61	(3)	(26)	6
Direct debt (outstanding at year-end)	272	269	352	388	404	428
Direct debt (% of operating revenues)	23.7	22.2	30.8	32.9	31.6	32.8
Tax-supported debt (outstanding at year-end)	422	508	629	690	731	780
Tax-supported debt (% of consolidated operating revenues)	31.9	36.5	47.5	50.2	49.5	51.9

Table 1

State of Burgenland Selected Indicators (cont.)

	2018	2019	2020bc	2021bc	2022bc	2023bc
Interest (% of operating revenues)	1.3	1.3	1.6	2.3	2.0	2.1
Local GDP per capita (single units)	30,700	31,600	29,875	31,350	33,053	34,064
National GDP per capita (single units)	43,681	44,879	42,388	44,459	46,865	48,380

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.

Ratings Score Snapshot

Table 2

State of Burgenland Rating 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

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. 12, 2021; a free 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 Assessments For International Local And Regional Governments, Oct. 6, 2021
- Local Government Debt 2021: COVID Aftershocks Push German And Austrian LRGs Into Heavy Borrowing, March 25, 2021,
- Local Government Debt 2021: The Pandemic Takes More Of The Shine Off Large Developed Regions' Credit Quality, March 25, 2021
- Local Government Debt 2021: Global Borrowing To Hit $2.25 Trillion, March 25, 2021
- Local And Regional Governments Outlook 2021: Gradual Recovery Will Test Rating Resilience, Dec. 10, 2020
- Default, Transition, and Recovery: 2019 Annual International Public Finance Default And Rating Transition Study, Dec. 8, 2020
- Institutional Framework Assessment: Austrian States , Oct. 13, 2020

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+

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