

Research Update:

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

October 21, 2022

## Overview

- We project the State of Burgenland will record deficits after capital accounts over our forecast horizon through 2024 as inflation is adding pressure on costs.
- After a peak in 2023, we estimate deficits will decrease slowly, due to projected economic recovery.
- Burgenland will finance budgetary deficits using its ample liquidity reserves and, to a limited extent, increase its borrowing.
- We affirmed our 'AA/A-1+' ratings on Burgenland and maintained the stable outlook.

## Rating Action

On Oct. 21, 2022, 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 Burgenland's budgetary performance won't weaken significantly despite the economic pressure stemming from current geopolitical tensions. We project Burgenland's debt burden will remain below a moderate 60% of operating revenue through 2024 and its liquidity will remain strong.

## Downside scenario

We would consider lowering our ratings on Burgenland if management's response to further external challenges, such as the economy weakening or higher inflation pressures, led to a significant deterioration in its budgetary performance compared with our base case. As well as material deficits, such a deterioration would also result in markedly higher-than-expected funding needs and, consequently, produce much higher debt than we currently predict. Additionally, a lack

### PRIMARY CREDIT ANALYST

**Didre Schneider**  
Frankfurt  
+49 69 33 999 244  
didre.schneider  
@spglobal.com

### SECONDARY CONTACT

**Thomas F Fischinger**  
Frankfurt  
+ 49 693 399 9243  
thomas.fischinger  
@spglobal.com

### ADDITIONAL CONTACT

**Sovereign and IPF EMEA**  
SOVIPF  
@spglobal.com

of credible plan to return to structurally balanced budgets could add pressure to the ratings.

## **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 Austria's mature institutional framework for states, which provides a base for reliable financial planning, and availability of funding from the Austrian federal debt management agency, OeBFA. Negative factors are Burgenland's lower economic wealth than other Austrian states and sizable unfunded pension liabilities.

Increasing geopolitical risks and slower economic growth may reduce revenue and increase costs, although we project that the state's budgetary trajectory will result in stable debt, though combined with some depletion of its cash reserves. The state's tax-supported debt will hence remain low in an international comparison.

## **Weaker economic growth in Austria will dampen Burgenland's budgetary performance**

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 tax revenue growth in the first half of 2022 has outpaced its prior expectations by 10%, primarily because inflation is currently more than compensating for slower economic growth. However, prospects for the Austrian economy have deteriorated. We therefore note a rising risk of a recession on a quarterly basis. At the same time, with energy prices and other cost inflation weighing negatively on the state's budgetary performance, we project small deficits after capital accounts until 2025.

Austria's extensive tax-sharing regime has sheltered Burgenland from revenue-base volatility but also limited 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 capita at 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. We understand negotiations will start in the coming weeks to modify the national fiscal equalization mechanism, "Finanzausgleich," which determines the allocation of shared taxes between the federal, state, and local levels. We do not anticipate these negotiations will lead to any adverse outcomes for Austrian states, including Burgenland, but also do not include any additional funds in our base case as the possible outcome is too vague.

## **Declining deficits, strong liquidity, and a stable debt forecast for Burgenland**

We predict minor deficits after capital expenditure for Burgenland over our 2022-2024 forecast

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horizon, but with positive operating accounts. Our forecast is based on rising economic challenges on the back of the Russia-Ukraine conflict, and to a lesser extent the aftermath of the pandemic. Our assessment of budgetary performance views positively the state's high level of cash reserves, but also takes 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 to come.

The ratio of tax-supported debt to consolidated operating revenue remains below 60% over our 2022-2024 forecast horizon. Predicted deficits will be funded mostly with cash reserves. 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. Direct debt at the end of 2021 was only €388 million, and all direct debt is in domestic currency at fixed interest rates with the federal treasury, which limits risks considerably in an environment of tightening financial conditions.

We assess Burgenland's liquidity position as exceptionally strong, with additional agreed credit lines, proven borrowing ability in the capital market, and access to liquidity from other levels of government. Burgenland's cash holdings stood at €304 million at year-end 2021. We expect its debt service coverage ratio will remain clearly in excess of 100%, which will not change over our forecast horizon. Burgenland benefits from established access to funding from OeBFA and the Austrian capital markets, in our view.

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 negative market values 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.

## Key Statistics

Table 1

### State of Burgenland Selected Indicators

(Mil. €)	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenues	1,212	1,102	1,154	1,237	1,267	1,329
Operating expenditures	1,156	1,052	1,163	1,205	1,249	1,286
Operating balance	56	50	(8)	32	18	43
Operating balance (% of operating revenues)	4.6	4.6	(0.7)	2.6	1.4	3.2
Capital revenues	37	86	95	90	92	97
Capital expenditures	120	106	142	145	149	153
Balance after capital accounts	(27)	30	(55)	(22)	(38)	(14)
Balance after capital accounts (% of total revenues)	(2.2)	2.5	(4.4)	(1.7)	(2.8)	(0.9)
Debt repaid	81	119	54	66	43	45
Gross borrowings	77	221	90	76	0	N/A
Balance after borrowings	(30)	132	(19)	(12)	(81)	(59)

Table 1

### State of Burgenland Selected Indicators (cont.)

(Mil. €)	2019	2020	2021	2022bc	2023bc	2024bc
Direct debt (outstanding at year-end)	269	352	388	399	355	310
Direct debt (% of operating revenues)	22.2	32.0	33.6	32.2	28.1	23.3
Tax-supported debt (outstanding at year-end)	508	629	719	755	736	716
Tax-supported debt (% of consolidated operating revenues)	36.5	48.4	51.7	51.1	48.7	45.3
Interest (% of operating revenues)	1.3	2.4	2.3	2.2	2.3	2.2
Local GDP per capita (single units)	31,500	30,200	31,840	34,435	36,349	37,516
National GDP per capita (single units)	44,873	42,615	45,127	49,395	51,246	53,449

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 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, Oct. 10, 2022; a free interactive version is available at <http://www.spratratings.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**

- Global Credit Conditions Downside Scenario: Recession Risks Deepen, Oct. 12, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Russia-Ukraine Military Conflict: Key Takeaways From Our Articles, Sept. 8, 2022
- Austria Outlook Revised To Stable From Positive On Rising Economic Risks; 'AA+/A-1+' Ratings Affirmed, Aug 26, 2022
- Global Credit Conditions Q3 2022: Resurfacing Credit Headwinds, June 30, 2022
- Research Update: Austrian State Of Burgenland 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 22, 2021

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

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#### Burgenland (State of)

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Issuer Credit Rating AA/Stable/A-1+

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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 [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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