S&P Global
Ratings

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Styria (State of)

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PRIMARY CONTACT

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

SECONDARY CONTACT

Stefan Keitel
Frankfurt
49-693-399-9254
stefan.keitel
@spglobal.com

ANALYTICAL GROUP CONTACT

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview	
Credit context and assumptions	**Base-case expectations**
--Increasing tax revenue as pandemic-related impacts diminish.	--Sound economic performance with real GDP expanding by 4.2% in 2022 and 2.0% in 2023.
-- Management's continued focus on budgetary consolidation.	--Styria will outperform its current financial planning.
--Low financing costs by debt raising via the federal government.	--Ongoing financing of deficits with ultra-long maturities.

S&P Global Ratings expects Styria's debt burden to stabilize. COVID-19 fallout led Styria to have a relatively high debt burden for an Austrian state, and we forecast budgetary deficits in the aftermath of the pandemic. Positively, projected economic recovery should support an increase in tax revenue, which should contain debt accumulation. Furthermore, the federal debt management agency will continue to absorb any financial needs.

Styria will continuously improve its budgetary performance from its pandemic-related lows in 2020-2021. Our ratings on Styria are supported by the general strength of the Austrian national economy, despite the effects of the COVID-19 pandemic, and our view that the state maintains a certain degree of cost control. Styria further benefits from low contingent liabilities and exceptional access to liquidity via the Austrian federal the Austrian federal debt management agency, OeBFA, and commercial banks.

Outlook

The stable outlook reflects our view that Styria's budgetary performance will recover from 2021's lows, on the back of increasing tax revenue and the management's firm commitment to reducing deficits. We expect that anticipated economic recovery in Austria will fuel an increase in tax revenue by 2022, limiting the need for additional debt intake. Furthermore, we assume that access to the Austrian federal debt management agency will ensure the state's liquidity at all times.

Downside scenario

We could lower our ratings over the next two years if Styria's consolidation efforts paused due to a looser grip on expenditure, which we would regard as a management failure. In addition, continued adverse macroeconomic conditions or negative changes to the institutional framework because of the scheduled update on tax equalization could constrain the ratings.

Upside scenario

Any ratings upside would require a significant improvement in Styria's financial performance, which we currently consider highly unlikely.

Rationale

Improving economic conditions should boost tax revenue

We estimate that economic activity in Austria bounced back from the pandemic-induced shock in 2021. We estimate that real GDP growth in Austria exceeded 3% last year, and it should pick up to 4% in 2022 thanks to fading COVID-19-related effects, including our assumption of no further lockdowns. Austria's national GDP per capita is very high in an international comparison, expected to reach €47,300 (equivalent to about $54,500) in 2022. This is a key rating strength, in our view. The Austrian fiscal system collects taxes nationally and distributes revenue to the states according to their population. Therefore, the Austrian states shared the burden of the tax shortfalls with the central government over the past two years but should also benefit from increased tax collection thanks to the economic recovery.

The national tax equalization system gets reviewed regularly. The states and the federal government will likely start negotiations for the update in the second half of 2022, with financial implications from 2024 onward, potentially with additional support from the federal government. We assess the intergovernmental system as very predictable and well balanced, as the consensus-based cooperation smoothens differences in interests. Although implemented unilaterally by federal law, all reforms are usually coordinated between the states and the federal government.

We view as strong the state's financial management, focusing on expenditure controls and continuously improving budgetary performance. Compared with national and international peers', Styria's appetite for additional spending, for example during the pandemic, has seemed contained. We believe this signals that cost control remains an important target for Styria's financial management. We also note that Styria has implemented strict risk-reducing financial rules, including abandoning foreign exchange debt and the abolition of derivatives.

Reducing deficits should stabilize debt at moderate levels by 2024

We believe that the financial impact of the pandemic, namely tax shortfalls and increased expenditure, will weigh on the state's accounts mostly in 2020 and 2021. Given that the pandemic fades these effects should fall away from 2022 onwards, leading to a significant improvement in Styria's budgetary performance. In our base-case assumptions, we include the effects from the national tax rate reductions, mitigated by the profound economic expansion in Austria in 2022-2023. We currently do not factor any additional transfers from the federal government into our calculations, as the update of the national equalization system (FAG; Finanzausgleichsgesetz) is delayed and negotiations haven't started yet.

We expect Styria to improve its deficits after capital accounts to 2%-3% of total revenue in 2022-24, significantly better than the estimated deficit of more than 8% in 2021. Last year we started to deduct reimbursed personnel costs from the state's cash revenue and expenditure, reducing budget size significantly compared with previous years. 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.

The forecast deficits in our base-case scenario lead to stable direct debt ratio of about 110% of adjusted operating revenue. Despite this increase, we anticipate Styria's debt burden will remain average in an international context. Styria predominantly borrows from OeBFA, which allows for low-cost funding and offers ultra-long tenors of up to 100 years at preferential rates. The state's long-term annual debt maturities generally remain below €300 million for the next few years, further reducing budgetary pressures from the state's debt.

We regards Styria's contingent liabilities as low, particularly because the state completed the sale of its stake in the former state bank in 2021. The remaining grandfathered guaranteed debt (less than €400 million as of year-end 2021) and housing loan receivables sold to various banks (slightly more than €500 million) that Styria also guarantees nominally constitute its largest exposures, but carry low economic risk in our view. We also include in our assessment the possibility of Styria being called to support its various participations. For example, the utility company Energie Steiermark, in which the state holds a majority stake, represents a low risk.

Styria's exceptional access to external liquidity is a key rating strength. While cash holdings are usually very low and cover less than half of the state's debt service over the next 12 months, Styria maintains €300 million of committed credit lines with three different commercial banks, leading to a more profound debt service coverage ratio. However, similar to that of most other Austrian states, Styria's liquidity position is predominantly characterized by its exceptional access to external liquidity via OeBFA and, with decreasing importance, the capital market. The state is entitled to borrow from OeBFA for planned drawings of funds and maintains a sizable credit facility with the agency for liquidity management purposes.

State of Styria--Selected Indicators

(Mil. €)	2018	2019	2020	2021e	2022bc	2023bc	2024bc
Operating revenues	5,358	5,545	5,395	5,489	4,979	5,067	5,185
Operating expenditures	5,018	5,137	5,339	5,437	4,962	5,027	5,164
Operating balance	340	407	56	52	16	40	21
Operating balance (% of operating revenues)	6	7	1	1	0	1	0
Capital revenues	255	567	251	168	2	2	2
Capital expenditure	836	764	804	706	153	152	150
Balance after capital accounts	(241)	211	(496)	(486)	(135)	(110)	(127)
Balance after capital accounts (% of total revenues)	(4)	3	(9)	(9)	(3)	(2)	(2)
Debt repaid	468	1,220	250	255	240	285	289
Gross borrowings	770	1,083	485	741	375	395	416
Balance after borrowings	31	67	(261)	(0)	0	0	(0)
Direct debt (outstanding at year-end)	4,547	4,398	4,626	5,367	5,502	5,612	5,739
Direct debt (% of operating revenues)	85	79	86	98	111	111	111
Tax-supported debt (outstanding at year-end)	4,742	4,562	4,768	5,509	5,644	5,754	5,881
Tax-supported debt (% of consolidated operating revenues)	88	82	88	100	113	113	113
Interest (% of operating revenues)	2	2	2	2	2	2	2
Local GDP per capita (single units)	39,400	40,800	38,572	40,435	42,599	43,966	45,131
National GDP per capita (single units)	43,688	44,873	42,615	44,740	47,252	48,804	50,134

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. e--S&P Global Ratings' estimates. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

State of Styria--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	4
Liquidity	1
Debt burden	3
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, Published Dec. 13, 2021. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., Published July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Published April 7, 2017
- General Criteria: Principles Of Credit Ratings, Published Feb. 16, 2011
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Published Oct. 10, 2021

Related Research

- COVID-19 Impact: Key Takeaways From Our Articles, Published Jan. 26, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Published Jan. 18, 2022
- Comparative Statistics: European Local And Regional Government Risk Indicators, Published Sept. 1, 2021
- Latest European Economic Snapshots Highlight The Continent's Faster-Than-Expected Restart, Published Sept. 29, 2021
- Default Transition, Published Sept. 14, 2021
- Comparative Statistics: European Local And Regional Government Risk Indicators, Published Sept. 1, 2021
- Research Update: Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, Published Sept. 10, 2021

- Institutional Framework Assessment: Austrian States, Published Oct. 13, 2020

Ratings Detail (as of January 31, 2022)*

Styria (State of)	
Issuer Credit Rating	AA/Stable/A-1+
Issuer Credit Ratings History	
01-Feb-2019	AA/Stable/A-1+
03-Feb-2017	AA/Negative/A-1+
11-Aug-2014	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.