S&P Global
Ratings

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Research Update:

Austrian State of Styria Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed

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Overview

- We now project Styria will record wider deficits in both the operating and capital accounts, reflecting weaker revenue growth and higher expenditure than previously assumed.
- We expect these shortfalls to increase Styria's borrowing needs through 2027, but we anticipate that forthcoming consolidation measures will support a gradual budgetary improvement.
- As a result, we revised our outlook on Styria to negative from stable and affirmed our 'AA/A-1+' long-term and short-term ratings.
- The negative outlook reflects the risk that Styria may not fully implement a consolidation plan, potentially signaling challenges in financial management.

Rating Action

On Sept. 5, 2025, S&P Global Ratings revised its outlook on the Austrian state of Styria to negative from stable. At the same time, we affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on the state.

Outlook

The negative outlook on the 'AA' rating reflects the risk that Styria will be unable to reduce deficits in line with our base-case assumptions. This could be due to either insufficient consolidation measures or weaker-than-expected revenue recovery within Austria's ongoing recessionary environment.

Downside scenario

We could lower the rating if Styria fails to contain expenditure growth despite sluggish revenue performance. This would prevent deficits from gradually reducing as projected in our base-case scenario and could indicate a deterioration in financial management beyond our current assessment.

Upside scenario

We could revise the outlook back to stable within the next 24 months if Styria successfully implements its consolidation plan, leading to structurally lower deficits and improved budgetary performance, even within the challenging macroeconomic environment.

Rationale

Styria benefits from Austria's highly predictable and balanced institutional framework, which underpins all states and cushions the direct fiscal effects of regional downturns. However, the prolonged recession is constraining shared tax revenue growth, while delayed inflation has increased mandatory expenditure.

These pressures, compounded by cost overruns, elevated investment levels, and one-off spending related to weather events, have led to our projection of wider deficits and increased borrowing needs compared with previous forecasts.

We anticipate that forthcoming consolidation measures will gradually tighten fiscal policy and moderate expenditure growth, facilitating a return to more balanced operating results and narrower deficits after capital accounts over the medium term.

Liquidity remains a key credit strength. Styria continues to benefit from exceptional access to funding via the Federal Debt Management Agency (Oesterreichische Bundesfinanzierungsagentur, OeBFA), which supports our overall rating assessment.

Muted economic recovery prompts weak shared tax receipts and rising budgetary pressure

S&P Global Ratings expects Austria's real GDP to contract by 0.25% in 2025, with recovery delayed until 2026 (+0.9%) and 2027 (+1.2%). Potential for downside remains material, including weaker external demand from key trading partners and the potential escalation of protectionist measures. Given Austria's highly predictable and balanced institutional framework, we expect Styria's economic performance will broadly mirror the national trend.

Styria's manufacturing sector accounts for about 15% of Austria's total exports. While the fiscal equalization system partially shields the state from localized trade disruptions by redistributing centrally collected taxes in proportion to population, it also transmits the impact of the nationwide slowdown through weaker shared tax receipts.

In response to weaker-than-expected revenue recovery, rising operating expenditure, and widening capital deficits, Styria's newly elected government has presented consolidation guidelines targeting up to €500 million in annual savings in preparation for the 2026 budget and medium-term financial plan. Planned measures include zero-based budgeting, cuts in discretionary spending, and the postponement of selected investments, with the stated aim of rebalancing budgets by 2030.

While the state has successfully implemented structural reforms in the past--such as dissolving municipal-level social welfare associations and integrating the social care sector into the state budget--we believe structural challenges will limit the pace and scope of current consolidation. Consequently, we project only gradual and modest savings, insufficient to fully restore balanced operating accounts within our forecast horizon through 2027.

Higher financing needs are expected to be largely met via the OeBFA

Styria posted negative operating and capital results in 2024. Lower shared tax revenue were not compensated by additional fiscal equalization transfers, while spending pressures mounted from rising mandatory social and health care costs, wage increases, one-off expenses related to the mid-2024 floods, and cost overruns including ad hoc municipal transfers.

We expect 2025 to show even deeper deficits, reflecting sluggish revenue growth and the absence of significant countermeasures. The fiscal position was further constrained by the delayed adoption of the 2025 budget, following state elections in late 2024 and a change in government, which limited the timely implementation of further savings measures.

We forecast subdued revenue growth throughout the projection period. Shared tax revenue will only recover slowly, while the federal government's own consolidation needs make additional ad hoc transfers improbable until the current fiscal equalization agreement expires in 2027. We anticipate the sharp rise in operating costs will moderate as inflation effects fade, but expenditure levels will remain high. We expect consolidation measures to be included in the 2026 budget will help contain further expenditure growth, supporting a gradual improvement toward an almost balanced operating budget by 2027.

Nevertheless, persistent capital deficits will keep financing needs elevated. We now project Styria's direct debt will increase to about 97.7% of operating revenues by 2027, from 81% in 2024. We expect the state to continue to rely primarily on the OeBFA for its borrowing requirements, benefiting from stable access to long-term, fixed rate, and comparatively low-cost funding.

Styria manages a pool of roughly €3 billion in housing loans financed directly from the state budget. A smaller portion of this portfolio, valued at about €270 million, has been sold to financial institutions. The state remains the ultimate guarantor of repayments, which continue to flow through the budget until final settlement in 2036. We now include this amount in Styria's tax-supported debt, rather than treating it as a contingent liability as in previous years. This leads to a non-material increase of 3 percentage points of the tax-supported debt ratio.

We continue to view Styria's contingent liabilities as low. The largest exposure remains €340 million of "grandfathered" guarantees on debt issued by its former state bank, alongside smaller items including the debt of the now 100% state-owned utility company Energie Steiermark. The debt at Energie Steiermark is not explicitly guaranteed by Styria, but we consider it to have an elevated likelihood of support in case of need.

We assess Styria's liquidity as exceptional, supported by its flexible access to OeBFA for both short- and long-term funding. Although cash holdings are modest, the state maintains €300 million of committed credit lines with four commercial banks and benefits from cash pooling arrangements with related entities, such as the state hospital company and state real estate company.

State of Styria Selected Indicators

Mil. EUR	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	6,619	7,004	7,838	8,057	8,341	8,676
Operating expenditure	6,115	6,563	7,881	8,338	8,528	8,682
Operating balance	504	441	(43)	(281)	(187)	(6)
Operating balance (% of operating revenue)	7.6	6.3	(0.6)	(3.5)	(2.2)	(0.1)
Capital revenue	233	203	176	195	215	225
Capital expenditure	754	1,442	855	793	680	640

State of Styria Selected Indicators

Balance after capital accounts	(17)	(798)	(723)	(879)	(652)	(421)
Balance after capital accounts (% of total revenue)	(0.3)	(11.1)	(9.0)	(10.7)	(7.6)	(4.7)
Debt repaid	240	285	289	283	289	190
Gross borrowings	0	1,176	940	1,225	900	700
Balance after borrowings	(257)	94	(73)	63	(41)	89
Direct debt (outstanding at year-end)	4,723	5,698	6,413	7,355	7,966	8,476
Direct debt (% of operating revenue)	71.4	81.4	81.8	91.3	95.5	97.7
Tax-supported debt (outstanding at year-end)	4,886	6,058	6,711	7,604	8,172	8,645
Tax-supported debt (% of consolidated operating revenue)	73.8	86.4	85.6	94.3	97.9	99.6
Interest (% of operating revenue)	1.3	1.2	1.4	1.7	2.1	2.1
Local GDP per capita ($)	48,122.1	52,226.8	53,210.5	55,002.9	57,547.2	61,275.8
National GDP per capita ($)	52,539.9	56,201.3	57,226.5	59,497.6	62,193.7	66,134.0

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.

State of Styria Rating Component Scores

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, July 7, 2025. Interactive version 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, Nov. 14, 2024
- Credit Conditions Europe Q3 2025: Credit Rides The Storms, June 25, 2025
- German and Austrian LRGs: Local Trade Exposure Won't Dictate Tariffs' Effects On Regional Budgets, July 7, 2025
- Austrian States Brief: Tax Shortfalls Increase Budgetary Pressures, March 3, 2025
- Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed, Feb. 14, 2025

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').

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Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
Styria (State of)		
Issuer Credit Rating	AA/Negative/A-1+	AA/Stable/A-1+