S&P Global
Ratings

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Styria (State of)

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This report does not constitute a rating action.

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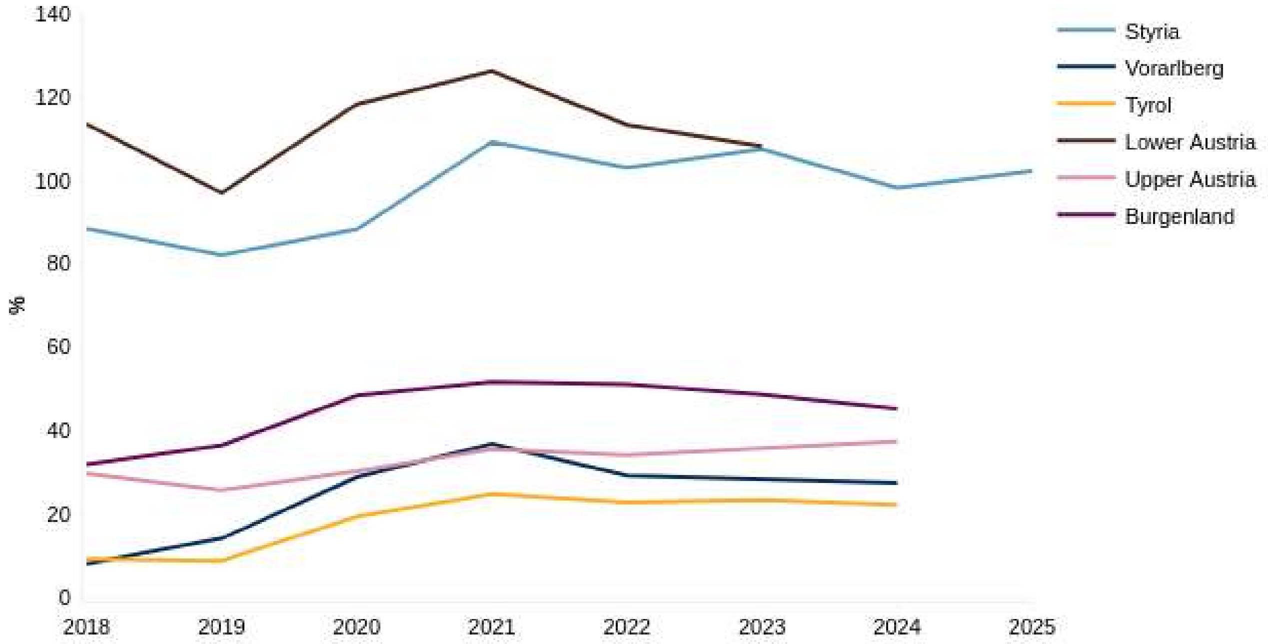
Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Inflation boosting tax revenue.	Low exposure to rising interest rates because most debt is at fixed rates and refinancing needs are low.
Subdued economic performance with Austrian real GDP stagnating in 2023 and 2.0% growth in 2024.	Ongoing deficits after capital spending in the next few years.
Only minor updates to the regular revision of the Austrian tax-sharing system from 2024 onward.	

S&P Global Ratings believes Styria will focus on controlling rising expenditures to limit deficits, especially after the upcoming state elections in 2024. The need to comply with the national stability pact from 2024 onward will reenforce Styria's consolidation needs, which should help keep the state's debt burden roughly stable.

Evolution Of Tax-Supported Debt Across Rated Austrian Entities



Source: S&P Global Ratings.

Outlook

The stable outlook reflects our view that Styria's budgetary performance will recover after 2023 on increasing tax revenue and management's commitment to contain spending increases. This will limit the need for additional debt over the next two years. Furthermore, we assume that access to the Austrian federal debt management agency will ensure the state's liquidity.

Downside scenario

We could lower our ratings if Styria's management loosens its grip on expenditure, in particular if that leads to deficits after capital accounts that approach 10% of total revenue. In addition, if changes to the institutional framework after the scheduled update on tax equalization lead to budget pressures for the state, for instance from additional spending responsibilities without corresponding compensation, this could put stress on the ratings.

Upside scenario

Any ratings upside would require a significant improvement in Styria's financial performance, with consistent surpluses after capital accounts and a pronounced deleveraging to bring the state's debt more in line with national peers.

Rationale

Ongoing deficits despite booming revenue

Austria's national GDP per capita is very high in an international comparison, and we expect it to reach €52,400 (about $54,100) in 2023. With sluggish economic prospects in Europe we expect the Austrian real GDP to stagnate in 2023, followed by a moderate 2% growth in 2024 (for more information, see Sovereign Risk Indicators, published Dec. 12, 2022, on RatingsDirect). Fueled by inflation, tax revenue continues to stay high, even after tax relief measures. We do not expect that Styria's prudent financial management will deviate from its cost control efforts, despite local elections in 2024. The Austrian fiscal system collects taxes nationally and distributes revenue to the states according to their population.

We do not expect major shifts in the states' revenue or responsibilities because technical and administrative obstacles impede major shifts in the legal setup of the Austrian governmental system. All the most lucrative taxes are raised centrally then distributed between the central government, the nine states, and municipalities. The central government regularly renegotiates every four-to-six years with local and regional governments how they will share tax revenue and their respective roles and responsibilities, with the current round aiming for financial effects from 2024 onward. 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, for which negotiations started in December 2022. We assess the intergovernmental system as very predictable and well balanced, because the consensus-based cooperation smoothens differences in interests.

We view the state's financial management as strong, focusing on expenditure control and improving operating budgetary performance. We believe management intends to focus on cost control, as indicated by the relatively weak appetite for additional spending during the COVID-19 pandemic. In addition, management seems to be less willing to implement fiscal stimulus measures to combat high energy prices compared with national and international peers.

Reducing deficits should stabilize debt ratio at moderate levels by 2024

After 2023, we expect Styria to achieve a budgetary performance until 2025 similar to the recent past, based on fewer expenditure needs like health care, and moderate GDP growth. Our assessment reflects ongoing payments for unfunded, pay-as-you-go pension liabilities that, although not excessively large, will continue to weigh on results for the foreseeable future.

The rising budget size due to the inclusion of other administrative layers into the state budget will stabilize direct debt ratio at about 100% of adjusted operating revenues in our base-case scenario, which we regard as moderate in an international comparison but high for an Austrian state. Styria predominantly borrows from the federal treasury (Oesterreichische Bundesfinanzierungsagentur [OeBFA]), which allows for fixed-rate, low-cost funding and offers ultra-long tenors of up to 100 years.

We regard Styria's contingent liabilities as low, particularly because the state--contrary to some national peers--does not own a financial institution. The remaining grandfathered guaranteed debt for a former state bank and housing loan receivables sold to various banks that Styria also guarantees nominally constitute its largest exposures but carry low risk in our view.

The state's exceptional access to external liquidity is a key rating strength. While cash holdings are usually very low and cover less than half of debt service over the next 12 months, Styria maintains €300 million of committed credit lines with four commercial banks, leading to a low debt service coverage ratio and effectively leaving the state dependent on access to external funds. 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, to a lesser extent, the capital market. The state is entitled to borrow from OeBFA and maintains a sizable credit facility with the agency for liquidity management purposes. In addition, Styria uses funds from its cash pooling with related third parties like the state hospital company or the state real estate company.

State of Styria--Selected Indicators

(Mil. €)	2019	2020	2021	2022bc	2023bc	2024bc	2025bc
Operating revenues	5,545	5,395	4,706	4,986	5,142	5,989	6,063
Operating expenditures	5,137	5,339	4,555	4,675	4,967	5,726	5,768
Operating balance	407	56	150	311	176	263	295
Operating balance (% of operating revenues)	7.3	1.0	3.2	6.2	3.4	4.4	4.9
Capital revenues	567	737	260	190	178	143	163
Capital expenditure	764	1,054	681	739	789	764	776
Balance after capital accounts	211	(261)	(271)	(238)	(435)	(358)	(319)
Balance after capital accounts (% of total revenues)	3.5	(4.3)	(5.5)	(4.6)	(8.2)	(5.8)	(5.1)
Debt repaid	1,220	250	255	240	285	289	283
Gross borrowings	1,083	485	619	240	670	647	601
Balance after borrowings	67	(26)	93	(238)	(50)	(0)	(0)
Direct debt (outstanding at year-end)	4,398	4,626	4,981	4,981	5,366	5,724	6,042
Direct debt (% of operating revenues)	79.3	85.7	105.8	99.9	104.3	95.6	99.7
Tax-supported debt (outstanding at year-end)	4,562	4,768	5,144	5,144	5,529	5,887	6,205
Tax-supported debt (% of consolidated operating revenues)	82.2	88.3	109.2	103.1	107.4	98.2	102.3
Interest (% of operating revenues)	1.9	1.8	2.2	2.0	2.0	1.9	2.0
Local GDP per capita (single units)	40,900	39,300	41,300	45,537	47,550	49,552	51,143
National GDP per capita (single units)	44,833	42,809	45,468	50,244	52,454	54,685	56,456

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, Dec. 12, 2022. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- International Public Finance: Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Dec. 1, 2022
- 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
- Bulletin: Graz's Financial Situation Is Unlikely To Burden Styria, Nov. 10, 2022
- Default, Transition, and Recovery: 2021 Annual International Public Finance Default And Rating Transition Study, Oct. 4, 2022
- Local And Regional Government Risk Indicators: European LRGs Stay Firm Amid Economic Slowdown And High Inflation, Sept. 22, 2022
- Research Update: Austria Outlook Revised To Stable From Positive On Rising Economic Risks; 'AA+/A-1+' Ratings Affirmed, Aug. 26, 2022
- Economic Research: European Economic Snapshots: From Fast-Paced Recovery To Robust Expansion, Dec. 6, 2021

Ratings Detail (as of January 26, 2023)*

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.