S&P Global
Ratings

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Research Update:

State of Upper Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable

May 16, 2025

Overview

- Subdued tax revenue growth, continuing cost inflation, capital expenditure, and cash outflows related to legacy asset-backed funding will likely keep the State of Upper Austria under fiscal pressure.
- This was already apparent in 2024, and we observe that the state's financial management is responding with savings initiatives and expenditure control efforts.
- Although we anticipate modest deficits after capital accounts and pressure to increase direct debt outstanding over our forecast horizon until 2028, since this partially funds debt service under past loan receivable sales now consolidated as borrowing, Upper Austria's revised tax-supported debt burden should remain broadly stable.
- We therefore affirmed our 'AA+/A-1+' long- and short-term ratings on Upper Austria and maintained our stable outlook.

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Rating Action

On May 16, 2025, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the State of Upper Austria. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, amid macroeconomic and budgetary challenges, Upper Austria's management will make prudent fiscal decisions that keep deficits after capital accounts contained. We anticipate the tax-supported debt burden will remain broadly stable, since an increase in direct debt outstanding is partly used to reduce the existing balance of past loan receivables sales--now consolidated as borrowing--and is further offset by revenue growth.

Downside scenario

We could consider a negative rating action if Upper Austria's budgetary performance falls materially short of our base-case projections. This could stem from prolonged adverse macroeconomic conditions that further constrain tax revenue, or insufficient control over expenditure growth and cash outflows. Elevated spending amid weak revenues could indicate a less prudent financial management stance and give way to a more material increase of the state's debt burden over time than currently anticipated.

Upside scenario

A positive rating action would depend on Upper Austria's budgetary performance exceeding our current projections for a sustained period, while the state keeps its debt burden low and bolsters liquidity.

Additionally, any positive rating action would be contingent upon a positive rating action on Austria (AA+/Stable/A-1+). We currently rate both Austria and Upper Austria at the same level, and we believe the state does not meet the conditions that would allow us to rate it higher than the sovereign.

Rationale

Our current ratings on Upper Austria are underpinned by the well-balanced institutional framework the state operates under, its wealthy national and highly industrialized local economy, and conservative management practices. Upper Austria displays, compared with peers, sound budgetary performance and a low debt burden. That said, the state's fiscal position will remain under pressure from the impact of macroeconomic challenges on tax collection, strain on operating cost, sizable infrastructure projects, and a need to support debt service on legacy financings based on loan receivables sales with budgetary funds.

Legally defined access to funding from Austria's national debt management office OeBFA underpins a strong liquidity position. This is the case even though the state's holding of cash in accounts has reduced and it does not maintain any committed credit lines with commercial banks.

Upper Austria's management is countering macroeconomic headwinds and budgetary pressure with expenditure restraint

Upper Austria's fiscal position faces strong headwinds from the currently weak Austrian economy, particularly via sluggish tax collection. Like its national peers, Upper Austria derives almost 40% of revenue from shared Austrian taxes, with value-added and payroll tax being the most relevant. Almost all taxes in Austria are collected nationally, then the states' share is distributed according to relative population. Taxes are highly correlated with nominal economic growth. As such, the persisting recessionary conditions in Austria over the past two years markedly curbed state revenue expansion. However, in late 2024, Upper Austria incorporated these setbacks into its budgetary planning through a material revision of its forecasts. S&P Global Ratings currently projects annual real economic growth in Austria to slowly pick up to 1.1% in 2026 and 1.4% in 2027, from an estimate 0.4% 2025. Despite risks associated with geopolitical volatility, the anticipated recovery should eventually improve revenue dynamics for Upper Austria. In any case, with an anticipated local and Austrian national GDP per capita of almost €55,000 (about $56,600) and €53,800 (roughly $55,000), respectively, in 2025, Upper Austria benefits from a very wealthy local and national economy in an international comparison.

We regard as fiscally neutral the recent changes to the institutional framework under which Upper Austria and the other Austrian federal states operate, once all factors are considered, and we don't anticipate material amendments in the near term. The recalibration of the national fiscal equalization scheme, which became effective last year, annually provides Upper Austria with about €350 million of additional funds, earmarked for spending on health, long-term care, and childcare, next to climate-related investments. However, we understand that these receipts largely finance correspondingly higher expenditure in the specified areas, and thus have only a very limited net performance impact. At present, we don't see the newly formed national Austrian government directing materially higher transfers to the states, given that it faces its own budgetary issues and a looming EU excessive deficit procedure. Conversely, Austrian state representatives have already ruled out that they could support budgetary consolidation at the federal level by sacrificing receipts from the national fiscal equalization system.

Upper Austria's financial management is reacting to the current external challenges with expenditure restraint. For 2025, the state management imposed a budget freeze on 1% of compulsory and 10% of voluntary expenditure. Similarly, although Upper Austria's various government departments still administer more than €1 billion of previously approved expenditure that have yet to be executed, their disbursement is now subject to a veto right of the finance department. We understand it will handle such requests rather restrictively. Despite these efforts, we think the state's capital expenditure will remain relatively high due to the continuing implementation of several, multi-year infrastructure initiatives. The largest of them has recently commenced--the construction of a new light rail system in and around the state capital, the City of Linz, with total estimated cost of more than €900 million. The project will be implemented over several years via a debt-funded subsidiary, but 50% of the cost will be borne by the Republic of Austria and Linz, rather than Upper Austria.

We anticipate modest deficits after capital accounts and a broadly stable tax-supported debt ratio

Preliminary numbers for 2024 suggest Upper Austria posted softer operating margins than in the recent past and experienced modest deficits after capital accounts, and we assume this will remain broadly the same over our forecast horizon until 2028. Next to currently subdued tax revenue growth, ongoing pressure on staff cost, healthcare expenditure, and social transfers will remain key drivers, in our view. We understand that Upper Austria's management agreed to raise the salary of civil servants by 3.5% in 2025 and slightly above inflation in 2026. Although the state's plans to continue executing its multi-period investment frameworks "Upper Austria Plan" and "Future Fund," will likely keep capital expenditure volumes elevated but, in our view, under control of financial management.

Shortfalls in a series of legacy financing transactions, namely the sale of housing loan receivables prior to 2018, are increasingly weighing on Upper Austria's cash flow. During the recent years' record low interest rates, borrowers under these loans often refinanced elsewhere and then prepaid their obligations; while Upper Austria guarantees the originally agreed debt service schedule to banks that purchased the loan receivables from the state. Accordingly, it now needs to top up insufficient cash flows from the surviving loans with budgetary funds. At the end of 2024, €1.75 billion of sold receivables were still outstanding, and we understand that, over the past year, actual debt service receipts under these loans fell €170 million short of what had to be passed on to purchasing banks. This increased Upper Austria's current net borrowing needs. Because these transactions now consume material budgetary resources, we now reflect their residual balance in our wider tax-supported debt figure, versus only in contingent liabilities previously. That said, a part of Upper Austria's future issuance of direct debt will then simply redeem sold housing loans, but not have any further upward net impact on our consolidated debt figure.

Upper Austria's overall tax-supported debt remains comparatively low, even after including sold housing loan receivables into our calculation and adjusting the ratio upward. At the end of 2024, directly issued budgetary debt of Upper Austria consisted of €988 million of long-term and €204 million of short-term borrowings. All budgetary debt has been sourced from Austria's national debt management office OeBFA, is denominated in euros only, and carries a fixed interest rate. The debt portfolio's weighted-average life is almost nine years, the average interest cost amounted to 0.6%. To calculate our wider tax-supported debt figure for 2024, we add the aforementioned €1.75 billion sold housing loan receivables, an estimated €653 million of guaranteed debt owed by budget-dependent entities and projects, and €150 million present value of long-term leases to Upper Austria's directly issued budgetary debt.

We no longer reflect contingent liability risk through an additional, qualitative adjustment to Upper Austria's initial debt burden assessment. The transfer of the sold and guaranteed housing loan receivables from the contingent liabilities category into actual tax-supported debt logically reduces our calculated exposure significantly. We still identify majority-owned local lender Oberoesterreichische Landesbank AG (A+/Stable/A-1) and utility company Energie AG Oberoesterreich (A/Stable/--) as remaining risk items, even though both are profitable and have not required state support in the recent past. Furthermore, we estimate that there are close to €1.5 billion of state guarantees for loans borrowed by entities focused on social housing and similar activities. For all three identified contingent liability risk elements we view the likelihood of materialization as low.

Upper Austria's liquidity position is primarily determined by its access to financing from Austria's national debt management office OeBFA and, in our view, remains strong as a result. Our revised assessment reflects that, compared to the more cash-rich recent years, the state has reduced the amount of money held in its accounts at end-2024, does not maintain any committed credit lines with commercial banks due to associated cost, but will face higher financing needs going forward. That said, the resulting, now low initial debt coverage ratio is largely compensated by Upper Austria's ability to source refinancing for all maturing debt, deficits in line with the inner-Austrian stability pact, and short-term cash needs from OeBFA. Access to commercial bank funding, for instance via Oberoesterreichische Landesbank, and to the open capital market remain currently unused but, in our view, realistic alternatives.

Key Statistics

Table 1

State of Upper Austria--Selected indicators

Mil. €	2023	2024	2025bc	2026bc	2027bc	2028bc
Operating revenues	8,538	8,898	9,093	9,331	9,612	9,895
Operating expenditures	7,701	8,289	8,539	8,764	9,016	9,267
Operating balance	837	609	554	566	596	628
Operating balance (% of operating revenues)	9.8	6.8	6.1	6.1	6.2	6.3
Capital revenues	28	30	26	26	27	27
Capital expenditures	781	805	830	828	844	861
Balance after capital accounts	84	(166)	(251)	(235)	(222)	(205)

Table 1

State of Upper Austria--Selected indicators (cont.)

Mil. €	2023	2024	2025bc	2026bc	2027bc	2028bc
Balance after capital accounts (% of total revenues)	1.0	(1.9)	(2.8)	(2.5)	(2.3)	(2.1)
Debt repaid	260	639	251	322	399	307
Gross borrowings	260	639	552	608	671	502
Balance after borrowings	84	(166)	51	50	50	50
Direct debt (outstanding at year-end)	1,328	1,339	1,640	1,926	2,198	2,392
Direct debt (% of operating revenues)	15.6	15.0	18.0	20.6	22.9	24.2
Tax-supported debt (outstanding at year-end)	3,918	3,742	3,843	3,979	4,151	4,245
Tax-supported debt (% of consolidated operating revenues)	45.0	41.4	41.6	42.1	42.7	42.4
Interest (% of operating revenues)	0.1	0.1	0.1	0.1	0.1	0.2
Local GDP per capita (single units)	53,600	54,291	55,470	57,023	58,676	N/A
National GDP per capita (single units)	51,976	52,621	53,762	55,273	56,883	58,396

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.

Ratings Score Snapshot

Table 2

State of Upper Austria--Ratings score snapshot

Key rating factors	
Institutional framework	2
Economy	1
Financial management	1
Budgetary perfomance	2
Liquidity	2
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, April 10, 2025. An 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- Economic Outlook Eurozone Q2 2025: A World In Limbo, March 25, 2025
- Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed, Feb. 14, 2025
- Institutional Framework Assessment: Austrian States, Nov. 14, 2024
- Oberoesterreichische Landesbank AG, June 13, 2024
- Energie AG Oberoesterreich's Ratings Affirmed At 'A' Ahead Of Capex Increase; Outlook Stable, March 21, 2024

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	
Upper Austria (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 criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.