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DBRS Morningstar Confirms Republic of Austria at AAA, Stable Trend

Industry Group: Public Finance – Sovereigns
Region: Europe

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Republic of Austria's Long-Term Foreign and Local Currency – Issuer Ratings at AAA. At the same time, DBRS Morningstar confirmed the Republic of Austria's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trend on all ratings is Stable.

KEY RATING CONSIDERATIONS

The confirmation of the Stable trend reflects DBRS Morningstar's view that Austria will continue to rebalance the public finances in the medium term in spite of the economic consequences of the Russian invasion of Ukraine. In the absence of a sharp economic slowdown, dynamic fiscal revenues should mitigate pressure on the fiscal balances prompted by government support packages introduced in response to the increase in living costs. On the back of the economic rebound Austria's public debt-to-GDP ratio started to decline, easing to 82.8% last year from a peak of 83.3% in 2020 and a fall towards 77.5% is projected in 2023. However, while there is high uncertainty over the impact of the possible stoppage of Russian gas supplies, particularly in 2023, the recovery in tourism, as well as the implementation of the Austrian Recovery and Resilience Plan (ARRP) are expected to be supportive to growth. Latest projections from the European Commission (EC) point to GDP growth of 3.7% and 1.5% in 2022 and 2023, respectively.

The ratings are underpinned by Austria's prosperous, diversified, and stable economy, which benefits from a real GDP per capita in purchasing power parity terms that is about 21% higher than the European Union (EU) average, as well as the country's solid and credible institutions. Moreover, Austria's historical track record of conservative fiscal policy pre-pandemic should help it rebalance the public finances over the medium term even in a scenario of slower growth. This, along with moderate private sector debt levels despite the Coronavirus Disease (COVID-19) shock, offsets public finance pressures from the cost associated with an ageing population, rather elevated public debt, and some vulnerabilities in the housing market.

RATING DRIVERS

One or a combination of the following factors could lead to a downgrade: (1) Austria's government commitment to improve its public finances weakens significantly over the medium term; or (2) there is a material weakening in macroeconomic prospects, leading to a persistent and significant increase in the public debt ratio.

RATING RATIONALE

A Drop in Russian Gas Supplies and High Inflation Could Test Austria's Historical Strong Resilience

Austria's ratings benefit from its high GDP per capita level, relatively low output volatility, and high diversification. Despite its moderate size, the country enjoys a high level of integration in the EU bloc. The government's rapid implementation of the support programme has cushioned the negative effects of the pandemic-related restrictive measures, but Russia's invasion of Ukraine has clouded the prospects for a sustained economic growth performance post-covid. On the other hand, the important tourism sector is gradually recovering after being severely hit by the physical restrictions during the pandemic.

The sharp 1.5% quarter-on-quarter rebound in GDP in the first quarter this year along with the carryover from 2021 will aid economic growth in 2022. The latest estimates from Österreichisches Institut für Wirtschaftsforschung (WIFO) point to GDP growth of 4.3% in 2022, after a recovery of 4.8% last year, before decelerating to 1.6% next year. This reflects strong consumption supported by the lifting of the travel-related restrictions as well the impact of the "eco-social tax reform" and the energy-relief packages. Nevertheless, elevated inflation as well as a possible cut in gas supplies from Russia represent major risks to the economic outlook.

While the tight labour market might be conducive to strong wage growth, it may boost inflation. Second-round effects so far remain contained, but there is a high level of uncertainty over the next few years. Inflation achieved 8.7% in June and risks are tilted to the upside. On the other hand, aggregate demand should benefit from the recovery in total employment and, in tandem with the ARRP measures should help mitigate the economic headwinds caused by Russia's invasion of Ukraine. Risks of a complete halt of Russian gas supplies are important as Austria, which imported until recently about 80% of its total gas imports from Russia, could face a significant impact on economic performance, particularly in 2023, if supplies continue to dwindle or are completely halted. Gas storage levels at 51% as of end of July could cover around half of annual consumption but next winter could be challenging should Russian supply be halted. Some sectors are likely to shut down and higher energy prices will fuel inflation lowering real disposable income and in turn real consumption.

Medium-term economic prospects remain partly constrained by restrictive regulations in the services markets; a high part-time employment rate among women, and the high tax wedge, which—although expected to decline—constrains potential GDP. However, with the reforms included in the ARRP, the government aims to mitigate these constraints.

In the Absence of a Significant Economic Slowdown the Fiscal Trajectory Should Continue to Improve but Medium-Term Fiscal Pressures Are Rising

The economic rebound along with a gradual withdrawal of the support measures, is facilitating public finance repair after the sizeable deficit in 2020. The deficit peaked at a record level of 8.0% of GDP in 2020 but it declined substantially to 5.9% last year, reflecting strong economic performance and the gradual removal of the pandemic-related support measures. Sound nominal growth along with a further withdraw of COVID-19 support measures should contribute to a further improvement in public finance. Fiscal deficit should continue to decline this year and in the next two years despite the impact of the "eco-social" tax reform, more spending to shelter Ukrainian refugees, and the energy-relief packages introduced so far. Nevertheless, more government spending in response to the economic consequences of the conflict in Ukraine and high inflation could slow the improvement. Moreover, the third energy-relief package included some structural initiatives such as the abolition of the "cold progression", the indexation of social benefits, and the reduction of non-wage labour costs that could put pressure on fiscal accounts in the medium term if not compensated.

In the latest estimates before the recent third energy-relief package, the government projected the deficit to narrow further to 3.1% of GDP this year, before it eases to 1.5% and 0.7% in 2023 and 2024, respectively. In DBRS Morningstar's view, dynamic fiscal revenues along with sound nominal GDP growth should mitigate against the risk of a sizeable deviation from fiscal targets, particularly in the short term.

In DBRS Morningstar's view, Austria's additional fiscal vulnerabilities relate more to the long term because of the expected rise in the cost of age-related expenditures. In particular, according to the EC's 2021 Ageing Report, health and long-term care expenditure will increase to 8.1% and 3.4% of GDP in 2060 from 6.9% and 1.8% of GDP in 2019, respectively. These expenditures might increase further in light of the consequences of the pandemic. At the same time, the cost of gross public pensions at 13.3% of GDP in 2019 was one of the highest in the EU and is expected to continue to rise, peaking in 2040 at 15.1%, reflecting a declining working age population, and relatively low participation rates among older categories. However, some measures envisaged in ARRP should contribute to improving the fiscal sustainability of the pension system.

Prudent Fiscal Policy and Strong Debt Affordability Mitigate Against the Significant Rise in the Yields

The historical track record of prudent fiscal policy pre-pandemic supports the case for a steady decline in the public debt-to-GDP ratio after the stark increase due to the pandemic. The ratio dropped slightly to 82.8% of GDP last year from a peak of 83.3% in 2020, and it is expected to continue to fall, easing to about 77.5% next year in spite of the rise in the interest costs. Debt affordability is strong with total effective interest payments on the federal debt expected to further decline slightly this year to 0.78% of GDP after the 0.85% registered in 2021.

Yields have been increasing substantially this year but Austria's public debt benefits from one of the longest maturity profiles in the EU, at over eleven years. This, along with the fact that more than 90% of total outstanding federal government debt is at fixed rates reduces the risk of a rapid increase in the total cost of debt. Nevertheless, the stock of contingent liabilities, estimated at 17% of GDP in 2021, is not negligible but it is not expected to weigh significantly on public finances. All these factors contributed to DBRS Morningstar's positive qualitative assessment of the "Debt and Liquidity" building block.

Tourism Recovery Should Mitigate the Impact of the Russian Invasion of Ukraine on Austria's Current Account Position

Austria's external position is sound and benefits from a competitive service sector as well as a diversified manufacturing base well integrated into EU value chains. The pandemic-related restrictions have weighed on the tourism sector over the past two years, contributing to a decline in the surplus of the service balance. Nevertheless, as the impact of the pandemic gradually peters out the tourism sector is recovering quickly. The total number of spent nights by foreign tourists has been on average only around 24% lower than 2019 over first five months, compared with 95% lower in the same period of 2021, and it is projected to continue to recover rapidly during the summer. This will likely mitigate the negative impact of the Russian invasion of Ukraine together with likely lower external demand mainly from Germany, Austria's main trading partner. The country's exports to Russia and Ukraine are limited but costly imports are placing negative pressure on the trade balance. After a small deficit in the current account of 0.5% of GDP in 2021, latest estimates from the EC point to a further deterioration to 1.1% of GDP this year before narrowing slightly to 0.9% in 2023. DBRS Morningstar expects that once energy prices and tourism normalise, the country will return to a modest current account surplus position over the medium term. Austria's ratings benefit from a healthy positive net international investment position which at 17.9% of GDP in Q1 2022 is at a record level. Since Q1 2013 it has shifted to positive reflecting a growing stock of foreign direct investments as well as an improvement in the negative portfolio investment position over the last years.

New Macroprudential Policies in the Context of Low Household Debt Mitigate Risks to the Financial Stability

Vulnerabilities in the housing market are rising, as mortgage lending continues to remain strong, but new macroprudential measures should mitigate the build-up of imbalances and limit the risk to financial stability. Although declining gradually to 32% as of May 2022 from almost 90% in 2014 the share of mortgages at variable rate remains elevated making borrowers vulnerable to rising interest rates. Should a significant house price correction occur risks to financial stability remain contained as households tend to display high incomes and wealth by international standards. The direct exposure to Russia is elevated by international comparison but the impact on the profitability of Austrian banks is expected to be manageable. Nevertheless, there is a high uncertainty over second-round implications as well as indirect exposure even though the Austrian banking sector is solid, well capitalised and contingent liability risks for the sovereign appear contained.

For several years Austria has been experiencing a rise in property prices as a result of low interest rates, high competition among lenders, and sustained immigration. According to the Oesterreichische Nationalbank (OeNB), residential property prices were 34% and 40% higher than their estimated fundamental values both in Austria and in Vienna, respectively, in the first quarter of 2022 pointing to a substantial overvaluation. Moreover, recent data from the OeNB suggest lenders tolerating high loan-to-value (LTV) and debt service-to-income ratio (DSTI) last year, failing to comply to a sufficient degree with the Financial Market Stability Board's recommendation on sustainable mortgage lending issued in 2018. This reflects an increase in the systemic risk. Nevertheless, new legally binding borrower-based measures including limits to LTV, DSTI, and maturity will enter into force as of August 2022. This should limit the build-up of imbalances in the housing market and preserve the resilience of the banking system. Moreover, households' balance sheets are strong, reflecting both a moderate debt in aggregate as a share of net disposable income, at around 92% over the past five years. A relatively high net financial wealth estimated at approximately 141% of GDP as of Q1 2022 provides a buffer for households to absorb potential shocks.

The banking sector is in a substantially stronger position than it was entering the global financial crisis and it has improved its resilience despite the increase in systemic risk stemming from the real estate sector. An elevated level of capitalisation, a sound liquidity position, and high coverage ratios should also enable the banking system to cope with the consequences of the pandemic. Nevertheless, credit quality is expected to deteriorate, although moderately, after the phasing out of government support measures and because of the impact of high energy costs for firms. At around EUR 23 billion Austrian banks' on-balance exposure to Russia, Ukraine, and Belarus, which makes up around 8% of total assets of Austrian foreign subsidiaries in Central, Eastern, and Southeastern Europe (CESEE), is elevated by international comparison. Its direct impact on the banking system has been contained so far. Nevertheless, there is a high uncertainty over the second-round effects stemming from the Russian invasion in Ukraine in light of the high energy costs for non-financial corporations, lower trade and economic headwinds in case of a complete halt of Russian gas supplies. The sound level of capitalisation with a CET1 ratio of 15.7% as of Q4 2021 mitigates the risk to financial stability.

The Institutional Framework Remains Sound Despite the Frequent Changes in Leaderships Over the Past Few Years

In spite of an unusual period of political uncertainty over the past four years leading to changes in government leadership, the institutional framework in Austria is sound. This is reflected in very high scores in the World Bank governance indicators as well as in the intrinsic credibility of Austrian institutions. In DBRS Morningstar's view, the coalition government comprising the Österreichische

Volkspartei (ÖVP) party and the junior partner (Greens) will likely continue until the end of the legislative term in 2024, although some friction is possible.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental/ Social/ Governance factor(s) that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

EURO AREA RISK CATEGORY: LOW

Notes:
All figures are in euros unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments (July 9, 2021). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (May 17, 2022).

The sources of information used for this rating include Statistik Austria, OeNB (Financial Stability report – June 2022), Österreichische Bundesfinanzierungsagentur (OeBFA, Investor Presentation – July 2022), Austrian Ministry of Finance (BMF, Austrian Stability programme – April 2022), EC (2021 Ageing report – May 2021, Summer forecast 2022 – August 2022, the Digital Economy and Society Index – November 2021), Social Progress Imperative, Transparency International, European Central Bank, WIFO, Eurostat, International Monetary Fund (IMF WEO April 2022, IFS), Organisation for Economic Co-operation and Development (OECD), Weltrisikobericht, World Bank, Bank for International Settlements, Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: NO
With Access to Management: NO

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: https://www.fca.org.uk/firms/credit-rating-agencies.

The sensitivity analysis of the relevant key rating assumptions can be found at: https://www.dbrsmorningstar.com/research/400742.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Issuer	Debt Rated	Rating Action	Rating	Trend
Austria, Republic of	Long-Term Foreign Currency – Issuer Rating	Confirmed	AAA	Stable
Austria, Republic of	Long-Term Local Currency – Issuer Rating	Confirmed	AAA	Stable
Austria, Republic of	Short-Term Foreign Currency – Issuer Rating	Confirmed	R-1 (high)	Stable

Austria, Republic of	Short-Term Local Currency – Issuer Rating	Confirmed	R-1 (high)	Stable

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Austria

Scorecard Indicators

Fiscal Management and Policy	2016	2017	2018	2019	2020	2021	2022	2023	2024	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	-1.5%	-0.8%	0.2%	0.6%	-8.3%	-5.8%	-3.9%	-2.4%	-0.7%	IMF WEO	13 year average	-2.4%
Government Effectiveness (Percentile Rank)	91.8	91.8	91.8	92.3	94.7	-	-	-	-	World Bank	5 year average	92.5
Debt and Liquidity	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
General Government Gross Debt (% of GDP)	82.5%	78.6%	74.0%	70.6%	83.2%	83.1%	80.7%	76.6%	74.6%	IMF WEO	5 year projection	72.4%
Interest Costs (% of GDP)	1.7%	1.5%	1.2%	1.0%	0.9%	0.9%	0.6%	0.5%	0.5%	IMF WEO	5 year average	0.8%
Economic Structure and Performance	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
GDP per Capita (USD thousands)	45.3	47.3	51.3	50.2	48.6	53.4	53.4	57.4	60.6	IMF WEO	10 year average	49.2
Output Volatility (%)	1.6%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	IMF WEO	Latest	2.4%
Economic Size (USD billions)	396	417	455	445	433	477	480	519	551	IMF WEO	5 year average	446
Monetary Policy and Financial Stability	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Rate of Inflation (%, EOP)	1.5%	2.3%	1.7%	1.8%	1.0%	3.8%	4.3%	2.0%	2.0%	IMF WEO	13 year average	2.1%
Total Domestic Savings (% of GDP)	198%	203%	198%	204%	226%	225%	-	-	-	ECB/IMF	Latest[1]	225%
Change in Domestic Credit (% of GDP)	0.5%	-0.5%	0.2%	0.0%	10.6%	0.2%	-	-	-	BIS/IMF	7 year average[1]	1.5%
Net Non-Performing Loans (% of Capital)	11.2%	10.9%	8.0%	6.3%	4.6%	3.8%	-	-	-	IMF IFS	Latest[1]	3.8%
Change in Property Price/GDP Index (%)	3.3%	0.5%	2.4%	0.8%	12.2%	5.1%	-	-	-	OeNB/IMF	7 year average[1]	3.6%
Balance of Payments	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Current Account Balance (% of GDP)	2.7%	1.4%	0.9%	2.1%	1.9%	-0.6%	-0.6%	0.8%	1.4%	IMF WEO	8 year average	0.9%
International Investment Position (% of GDP)	4.1%	4.3%	6.0%	13.5%	9.3%	14.7%	-	-	-	IMF	5 year average[1]	9.6%
Share of Global Foreign Exchange Turnover (Ratio)	195.0%	200.8%	199.2%	206.5%	208.2%	212.1%	-	-	-	BIS/IMF	Latest	212.1%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Voice and Accountability (Percentile Rank)	93.6	95.1	94.2	95.2	95.7	-	-	-	-	World Bank	5 year average	94.7
Rule of Law (Percentile Rank)	95.7	97.1	98.6	98.6	97.1	-	-	-	-	World Bank	5 year average	97.4

See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

[1] Scores for 2021 have been computed using the most recent data when year-end data is not available.

Rating Committee Date: 26-Jul-2022

Austria

Building Block Assessments and Rating Committee Summary

26-Jul-2022

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.05	Strong	N/A	Strong
Debt and Liquidity	13.08	Good	+ 1 Category	Strong/Good
Economic Structure and Performance	14.53	Good	N/A	Good
Monetary Policy and Financial Stability	17.44	Strong	N/A	Strong
Balance of Payments	15.00	Strong/Good	N/A	Strong/Good
Political Environment	20.00	Very Strong	N/A	Very Strong

Overall Assessment	Composite Scorecard Result	Scorecard Rating Range	Composite Building Block Assessment	Indicative Rating Range
	80.9	AAA - AA	82.6	AAA - AA (high)

Austria's Long-Term Foreign Currency - Issuer Rating AAA

Main topics discussed in the Rating Committee include: Austria's economic and fiscal outlook, government's commitment to a prudent fiscal trajectory, vulnerabilities in the housing market, banking sector exposure to Russia, Austria's reliance on Russian gas and political outlook, Austrian public debt affordability. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

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Republic of Austria
ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis:	Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs:	**N**	**N**
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
		Resource and Energy Management:	**N**	**N**
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	**N**	**N**
	Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?	N	N
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights:	**N**	**N**
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	**N**	**N**
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency:	**N**	**N**
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security:	**N**	**N**
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	**N**	**N**

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Austria, Republic of: ESG Considerations

July 29, 2022

Environmental

This factor does not affect the ratings. Fiscal pressure arising from new investments to achieve green targets including the reduction of greenhouse gas (GHG) emissions, is not expected to weigh significantly on fiscal expenditures in the medium term. The government plans to gradually introduce a carbon tax in October 2022 which is expected to contribute to the national target of carbon neutrality by 2040. The country's exposure and vulnerability to disaster in consequences of extreme natural events is low, according to the World Risk Index in 2021.The government plans to dedicate around 59% of total resources of the National Recovery and Resilience Plan (NRRP) to achieve climate targets, which is one of the largest shares among all the EU members national plans.

Social

This factor does not affect the ratings assigned to Austria. The country's respect for human rights is high, and access to quality healthcare and other basic services is very sound. According to the 2021 Social Progress Index, Austria ranked 14th out of 163 countries. A productive workforce reflecting a high GDP per capita supports the country's competitiveness. Moreover, Austria's human capital score is above the EU average in all the EC Digital Economy and Society Index (DESI) indicators apart from the percentage of firms providing ICT training. The government plans to introduce measures to encourage female labour market participation, which is somewhat lower than the average among Austria's EU rating peers, according to the OECD.

Governance

This factor does not affect the ratings of Austria. The country benefits from a very high degree of independence and transparency of its institutions. The justice system is perceived as very independent and despite political uncertainty caused by a political scandal in 2019 and the resignation of Mr Kurz from the Chancellery in October last year, the perception of corruption in Austria is very low. According to the perception of corruption index of Transparency International, the country ranks favourably at the 13th place out of 180 countries in 2021. Very high institutional quality is reflected also in a strong performance in the World Bank's Worldwide Governance Indicators. As of 2020, Austria's percentile rank was 94.7 for Government Effectiveness, 95.7 for Voice and Accountability and 97.1 for Rule of Law, respectively.