Research Update:

Austria Ratings Affirmed At 'AA+/A-1+'; Outlook Stable

March 12, 2021

S&PGR Affirms Austria At 'AA+/A-1+'; Outlook Stable

PRIMARY CREDIT ANALYST

Michelle Bozem
Frankfurt
michelle.bozem@spglobal.com

SECONDARY CONTACT

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

ADDITIONAL CONTACT

EMEA Sovereign and IPF
SovereignIPF@spglobal.com

Overview

- We expect a modest recovery in Austria from 2021 onward after a sharp decline in economic activity in 2020, with 2019's real GDP levels being reached only in 2023.
- We do not expect public debt to return to the pre-pandemic declining path through 2024.
- However, we believe that Austria's otherwise solid macroeconomic fundamentals, coupled with strong monetary support from the European Central Bank, should allow the economy to navigate through the pandemic.
- We are therefore affirming our 'AA+/A-1+' ratings on Austria, and the outlook remains stable.

Rating Action

On March 12, 2021, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Austria. The outlook remains stable.

At the same time, we affirmed our 'AA+' long-term and 'A-1+' short-term issue ratings on the country's senior unsecured debt. We also affirmed our 'AA+' local currency issue rating on the sovereign-guaranteed bond (XS0863484035) of subordinated debt issued by Heta Asset Resolution AG.

Outlook

The stable outlook balances risks from the pandemic's protracted adverse impact on economic growth and fiscal outlooks over the next two years against the continued monetary accommodation of the European Central Bank (ECB).

Downside scenario

We could lower the ratings if fiscal consolidation efforts significantly prove weaker than we anticipate, resulting in a more pronounced upward government debt path.

Upside scenario

We could consider a positive rating action if Austria's government debt returns to a pronounced downward trend. This could stem, for example, from stronger economic growth on accelerated reform momentum.

Rationale

The second and third lockdowns domestically and similar measures abroad have clouded Austria's growth outlook this year. We now expect real GDP growth to only moderately recover to 2.5% in 2021 from a decline of 6.6% in 2020. The strict measures since November 2020 will affect 2021 performance given the almost-complete loss of the winter tourism season. The corresponding extension of fiscal support to the economy could hinder the current medium-term fiscal consolidation plans and keep public debt at elevated levels, in our view.

At the same time, our ratings on Austria continue to be supported by the country's strong institutional settings, with generally effective checks and balances, a wealthy and diversified economy, as well as the strong external balance sheet. Austria's membership in the euro area is also a credit strength, allowing it to benefit from the ECB's extraordinary policy response and the eurozone's deep capital markets.

Institutional and economic profile: Growth recovery in 2021 will be moderate

- We now expect real GDP to recover by 2.5% in 2021, aided by easing restrictions and a recovery in Europe.
- Strong policy support will limit long-term scarring, but the pandemic's fiscal cost will be significant.
- The government's response to the pandemic has been largely adequate, but its long-term reform commitment is still not tested.

In our view, Austria's GDP contraction in 2020 turned out to be deeper than that of many other European economies. The series of lockdown measures have significantly weighed on private consumption and exports, hitting especially the tourism sector, which accounts for about 7% of Austria's GDP. The recession's depth was broadly in line with our expectations, with the hospitality and accommodation sector affected the most, while the property and housing, IT and communication, and public sectors mitigated the fallout to some extent. Still, the absence of winter tourists in first-quarter 2021 will continue to constrain economic performance in the first half of the year, before more pronounced signs of recovery emerge as restrictions are eased and mass vaccination gathers pace.

We expect the economy to rebound by 2.5% in 2021 supported by pent-up domestic demand and recovery of exports as Europe opens up. We expect GDP to expand by over 3% in 2022 and 2% in 2023, by which time the economy should reach its pre-pandemic levels.

The second wave of COVID-19 infections led to a partial lockdown from Nov. 17, 2020, to Feb. 7, 2021, involving laws on staying at home; the closure of schools, restaurants, and most shops; and a ban on large public gatherings. Travel restrictions within the country and of its neighboring countries also weighed on Austria's labor demand. We think that the short-term work scheme has cushioned the effect and will continue to support labor market recovery, but unemployment will remain elevated, at 5.2% in 2021, and won't return to its pre-pandemic levels over our forecast horizon.

We acknowledge the high degree of uncertainty over our projections because the pace of recovery will be contingent on the evolution of the pandemic and the effectiveness and pace of the mass vaccination efforts, both of which are difficult to predict. The government targets to vaccinate the entire population by summer and so far has vaccinated 6.5% of its population. Progress is also supported by the country-wide strategy of free COVID-19 tests. Vaccination progress is broadly in line with the EU average, but we consider the target very ambitious given production and logistical issues.

The government's immediate health and fiscal policy response has been adequate, in our view. At the same time, medium-term policy plans on fiscal consolidation, climate policy, and pension reform remain vague while the federal government focuses on tackling the adverse effects of the pandemic. We believe the government's reform commitment remains to be tested and might face challenges, given the limited ideological common ground between the coalition of the ÖVP and the Green Party. More broadly, however, Austria benefits from a strong institutional framework, with generally effective check and balances, as well as predictable and effective policy-making including in episodes of stress.

Flexibility and performance profile: Extension of fiscal support will further weigh on public finances

- The pandemic's adverse effects will keep fiscal deficits wide in 2021, and weigh on fiscal accounts over our forecast horizon.
- The current account will remain in surplus through 2024, based on economic recovery of key trading partners.
- As a eurozone member, Austria continues to benefit from access to deep eurozone capital markets and the ECB's credible and effective monetary policy.

We now expect the fiscal deficit to reach 6.3% in 2021, after widening to 9.8% in 2020--the highest since 1995. It reflects the operation of automatic stabilizers but also a sizable fiscal stimulus package of about €50 billion (or about 11% of 2020 GDP) that was passed in March and extended with various measures throughout the year. The comprehensive measures predominantly support employment and businesses through the short-term work scheme (€12.5 billion in total). Moreover, the government introduced tax deferrals and state guarantees (€10.4 billion). In line with our previous forecast, the actual use was lower than budgeted and varied widely across the instruments offered.

We believe the consolidation path implied by the current budget and medium-term framework adopted in November, with a general government budget deficit reduction to 1.5% from 7.1% over 2021-2024, might be difficult to achieve. This is because we believe that fiscal support measures could be extended to aid the economic recovery. In addition, the government's plans on the tax reform and accelerated infrastructure investments could also create additional budgetary pressures. Factoring in our relatively conservative growth projections, we therefore expect general government fiscal deficits to remain above 2.5% of GDP by 2024. So far, parts of the tax reform have already been implemented retrospectively, while further steps have been announced, which might weigh on the tax revenue base and therefore on overall fiscal performance.

We expect Austria's economy to continue running a current account surplus through our forecast horizon. The current account proved resilient to the sudden stop of tourism in 2020 on the back of the strong export-oriented manufacturing sector, amid the recovery of external demand in Europe, including Germany, in second-half 2020. We expect the external surplus to shrink somewhat to 1.8% of GDP by 2024 from an estimated 2.5% in 2020 as stronger domestic demand pulls in more imports while the tourism sector recovers only partially. This scenario rests on the assumption of the recovery of Austria's key trading partners. The tourism sector's relatively large share make Austria vulnerable to renewed lockdown measures and mobility restriction in countries that account for the majority of holidaymakers: Germany (45.0%), Switzerland (7.0%), and the Netherlands (6.6%).

Austria's net external asset position remains the key underpinning factor to its creditworthiness. Although our preferred external indebtedness measure--narrow net external debt--remains elevated at 120% of current account receipts (CARs), Austria's overall net international investment position is strongly backed by the country's substantial outward stock of foreign direct investment.

We forecast general government debt to remain persistently higher than pre-COVID-19 levels, with substantial fiscal deficits in 2020-2021 resulting in general government debt net of liquid assets staying above 80% through 2024.

In our view, government contingent liabilities are low. Most government-related entities are already consolidated in the general government remit, and additional guarantee schemes following the pandemic should contain minor risks given the low intake (€6.7 million as of mid-February 2021). Therefore, we estimate the size of fiscal contingent liabilities at less than 5% of GDP. We do not take into account export and export-finance guarantees of about €32 billion at year-end 2019, because we deem these low risk, with very limited claims since 1950.

As a eurozone member, Austria benefits from the monetary union's highly developed capital markets and the ECB's credible monetary policy. The ECB has announced, among other measures, additional quantitative easing of nearly €1.5 trillion, mainly through the €1.85 trillion Pandemic Emergency Purchase Program. The planned expansion of the ECB's balance sheet is oriented toward absorbing the increase in eurozone governments' financing needs at low borrowing costs. In 2020, Austria even borrowed on average at negative rates, allowing the government to reduce the average cost of debt and extend its average maturity to about 10 years.

Assuming a moderate economic rebound in 2021, we expect the subdued banking sector performance to persist in 2021-2022. This is based on our assumption that risk costs are likely to remain high. We still expect that the overall damage will remain contained and that Austrian banks will absorb the downturn without material depletion of their capital bases. The post-pandemic landscape will focus on improving efficiency and profitability, which will contribute to banking system stability over the cycle. We view that cost efficiency of domestic operations remains a weakness for most Austrian banks compared with many of their European peers. This is notably due to still-dense branch networks, legacy IT systems, and decentralized structures.

The banking sector will have to improve at balancing digital innovation with physical proximity to its customer base: If legacy IT or organizational structures prevent the efficient roll-out of new technology, the potential for cost savings and additional revenue will be lost, hurting profitability expectations. (For more information see "Banking Industry Country Risk Assessment: Austria," published June 17, 2020, on RatingsDirect.)

Key Statistics

Table 1

Austria--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic indicators (%)										
Nominal GDP (bil. €)	344	358	369	385	398	376	392	412	427	440
Nominal GDP (bil. $)	382	396	417	455	445	429	470	495	512	528
GDP per capita (000s $)	44.5	45.5	47.6	51.6	50.2	48.2	52.6	55.1	56.8	58.3
Real GDP growth	1.0	2.0	2.4	2.6	1.4	(6.6)	2.5	3.2	2.0	1.4
Real GDP per capita growth	0.1	0.6	1.6	2.0	1.0	(7.0)	2.0	2.7	1.5	0.9
Real investment growth	2.3	4.3	4.1	3.9	4.0	(4.9)	2.9	2.2	1.8	1.5
Investment/GDP	23.8	24.3	24.8	25.5	25.5	24.9	25.4	25.2	25.2	25.2
Savings/GDP	25.5	27.0	26.2	26.7	28.3	27.4	28.0	27.2	27.0	27.0
Exports/GDP	53.1	52.4	54.1	55.7	55.6	52.6	53.6	53.5	53.9	54.2
Real exports growth	3.0	3.0	4.9	5.5	2.9	(10.4)	4.9	3.1	2.4	2.0
Unemployment rate	5.7	6.0	5.5	4.9	4.5	5.3	5.2	5.0	4.9	4.8
External indicators (%)										
Current account balance/GDP	1.7	2.7	1.4	1.3	2.8	2.5	2.6	1.9	1.8	1.8
Current account balance/CARs	2.9	4.4	2.2	2.0	4.4	4.2	4.2	3.2	3.0	2.9
CARs/GDP	59.0	61.6	62.1	63.6	64.5	60.9	61.6	61.2	61.5	61.8
Trade balance/GDP	0.7	0.7	0.3	0.5	0.8	1.1	0.9	0.6	0.6	0.5
Net FDI/GDP	(1.5)	(0.5)	0.8	(0.5)	(1.7)	(1.8)	(1.3)	(1.0)	(1.0)	(1.0)
Net portfolio equity inflow/GDP	(1.1)	(2.0)	(1.8)	(1.5)	(1.1)	(1.3)	(1.4)	(1.3)	(1.2)	(1.2)
Gross external financing needs/CARs plus usable reserves	195.2	185.1	175.3	179.9	176.7	186.5	187.9	186.4	184.7	182.9
Narrow net external debt/CARs	119.3	109.9	121.9	102.4	102.3	130.3	120.4	120.0	118.3	117.3
Narrow net external debt/CAPs	122.9	115.0	124.6	104.5	107.0	136.0	125.7	124.0	121.9	120.8
Net external liabilities/CARs	(8.4)	(10.8)	(9.7)	(11.2)	(21.8)	(24.4)	(25.5)	(25.7)	(26.9)	(28.3)
Net external liabilities/CAPs	(8.7)	(11.3)	(10.0)	(11.4)	(22.8)	(25.4)	(26.7)	(26.6)	(27.7)	(29.1)
Short-term external debt by remaining maturity/CARs	119.7	106.4	93.2	95.3	95.4	107.5	111.9	109.0	106.7	104.7
Usable reserves/CAPs (months)	1.4	1.1	1.1	0.9	1.0	1.1	1.3	1.3	1.3	1.3

Table 1

Austria--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Usable reserves (mil. $)	22,250	23,270	21,622	23,198	23,565	30,505	31,526	32,515	33,540	34,597
Fiscal indicators (general government; %)										
Balance/GDP	(1.0)	(1.5)	(0.8)	0.2	0.7	(9.8)	(6.3)	(4.0)	(3.5)	(2.5)
Change in net debt/GDP	3.0	(0.5)	(1.0)	(0.1)	(1.2)	10.0	5.7	4.2	3.7	2.7
Primary balance/GDP	1.3	0.5	1.0	1.8	2.1	(8.7)	(5.2)	(2.9)	(2.4)	(1.4)
Revenue/GDP	50.1	48.5	48.5	48.9	49.1	48.2	47.8	47.7	48.3	48.5
Expenditures/GDP	51.1	50.1	49.3	48.7	48.4	58.0	54.1	51.7	51.8	51.0
Interest/revenues	4.7	4.3	3.8	3.3	2.9	2.2	2.3	2.2	2.2	2.2
Debt/GDP	83.3	81.3	76.9	72.5	69.0	85.5	86.0	85.2	86.0	86.1
Debt/revenues	166.2	167.5	158.5	148.3	140.6	177.4	179.9	178.7	178.0	177.6
Net debt/GDP	78.8	75.4	72.0	69.0	65.6	79.5	81.8	82.0	82.9	83.1
Liquid assets/GDP	4.5	5.9	4.8	3.5	3.4	6.0	4.2	3.2	3.1	3.0
Monetary indicators (%)										
CPI growth	0.8	1.0	2.2	2.1	1.5	1.4	1.4	1.4	1.7	1.7
GDP deflator growth	2.3	1.8	0.9	1.7	1.7	1.1	1.9	1.8	1.6	1.7
Exchange rate, year-end (€/$)	0.92	0.95	0.83	0.87	0.89	0.81	0.83	0.83	0.83	0.83
Banks' claims on resident non-gov't sector growth	0.3	5.9	(3.0)	2.5	4.9	3.5	4.5	5.1	3.6	3.1
Banks' claims on resident non-gov't sector/GDP	113.0	115.3	108.3	106.4	108.2	118.6	118.6	118.6	118.6	118.6
Foreign currency share of claims by banks on residents	7.4	6.1	4.8	4.4	3.8	3.1	3.0	3.0	3.0	3.0
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	(4.5)	3.6	(0.5)	0.5	(1.8)	(9.2)	N/A	N/A	N/A	N/A

Sources: Eurostat (economic indicators), the Oesterreichische Nationalbank (external indicators), Statistics Austria (fiscal indicators), and the Oesterreichische Nationalbank and IMF (monetary indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by the European Financial Stability Facility.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result 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.

Ratings Score Snapshot

Table 2

Austria--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	2	Strong, but short track record of policies. Generally effective checks and balances with free flow of information throughout society and unbiased enforcement of contracts, strong legal system, and rule of law. In addition, coordination requirements at the eurozone level might hinder timely policy response.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators in Table 1
External assessment	2	Based on narrow net external debt as per Selected Indicators in Table 1. In the context of our external assessment, we consider Austria, a member of the Economic and Monetary Union, as if the currency was actively traded.
		The sovereign is displaying current account surpluses, on average, from 2021-2024 (as per Selected Indicators in Table1).
		The sovereign has external short-term debt by remaining maturity that generally exceeds 100% of current account receipts (CARs), as per Selected Indicators in Table 1.
		The sovereign’s net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1.
		Nonresidents hold over 60% of government commercial debt.
Monetary assessment	2	In the context of our monetary assessment, we consider the euro to be a reserve currency.
		The European Central Bank has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. The consumer price index is low and in line with that of its trading partners.
		Austria is a member of the Economic and Monetary Union.
Indicative rating	aa+	As per Table 1 of "Sovereign Rating Methodology”
Notches of supplemental adjustments and flexibility	0	None.
Final rating		
Foreign currency	AA+	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt.
Local currency	AA+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, March 10, 2021
- Sovereign Ratings History, March 10, 2021
- Sovereign Ratings Score Snapshot, March 2, 2021
- Sovereign Debt 2021: Global Borrowing Will Stay High To Spur Economic Recovery, March 1, 2021
- Sovereign Debt 2021: Developed EMEA's Commercial Borrowing Could Reach $1.4 Trillion, March 1, 2021
- Sizing Sovereign Debt And The Great Fiscal Unwind, Feb. 2, 2021
- Global Sovereign Rating Trends 2021: Mounting Debt And Uncertainty Underpin A Negative Outlook Bias, Jan. 27, 2021
- Sovereign Risk Indicators, Dec. 14, 2020. A free interactive version is available at http://www.spratings.com/sri.
- Banking Industry Country Risk Assessment: Austria, June 17, 2020

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	
Austria	
Sovereign Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+
Short-Term Debt	A-1+
Commercial Paper	A-1+
Heta Asset Resolution AG	
Subordinated	AA+