S&P Global Ratings

RatingsDirect®

Summary:

Austria

Primary Credit Analyst:
Thomas F Fischinger, Frankfurt (49) 69-33-999-243; thomas.fischinger@spglobal.com

Secondary Contact:
Alois Strasser, Frankfurt (49) 69-33-999-240; alois.strasser@spglobal.com

Table Of Contents

Summary:
Austria

Issuer Credit Rating	AA+/Stable/A-1+

Key Rating Factors

Institutional and economic profile	Flexibility and performance profile
Despite recent turmoil at the federal government, Austria's institutional setup is stable. • Previously announced policy measures like the enhancement of banking supervision and the implementation of a tax reform are now on hold following the calling of snap elections. • The political stalemate may continue if negotiations to form a new majority government prove difficult, limiting the predictability of fiscal plans. • Austria's economic growth is likely to soften to 1.4% on average until 2022.	A strong external performance outweighs high public-sector debt. • Austria's external profile is a rating strength. • Net government debt is relatively high, but declining. • Austria's plan to run a fiscal surplus in the years to come might prove difficult to achieve.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Austria will maintain sound public finances, despite lower economic growth. We expect that the decline in public-sector debt will continue but slow down.

We could raise the ratings if ongoing reforms are put in place, as a result of more predictable policymaking, which we would see as confirmation of a stable and efficient institutional framework. A track record of more sustainable decision-making would give uplift to the ratings.

We could take a negative rating action if we observed a substantial deterioration in Austria's economic development prospects, which could arise from a significant external shock to Austria's open economy. We could also take a negative rating action if we observed a substantial deterioration in Austria's fiscal performance, particularly if we also concluded that an erosion of Austria's institutional strength and predictability of policymaking was the cause.

Rationale

The ratings on Austria are supported by its strong political system, with established checks and balances. We view Austria's policymaking as a credit strength, as highlighted by the smooth transition to a caretaker government following the breakup of the coalition government. The ratings also reflect our view of the country's prosperous, competitive, and export-oriented economy, its strong external position with sustained current account surpluses, and contained fiscal deficits. As a eurozone member, Austria benefits from the European Central Bank's (ECB's) monetary policy credibility and access to deep capital markets. The ratings are constrained by Austria's relatively high public debt.

Institutional and economic profile: Upcoming elections and subsequent coalition building might keep the policy outlook muted

Austria has a strong legal system, with unbiased enforcement of contracts and independent courts. The collapse of the previously ruling two-party coalition has led to the calling of snap elections, which are scheduled to take place two weeks after the publication of this report, on Sept. 29. We believe that negotiations necessary for the formation of a new majority federal government might be tricky, based on recent statements by leading party politicians regarding differences in policy content and personal dislikes.

The predictability of the medium-term policy outlook is currently limited in our view, since previously announced measures like the enhancement of banking supervision or the further implementation of a tax reform are on hold. Given recently published pre-election polls, we expect that negotiations to form a new government might last longer than previous discussions, which would lead to a prolonged political standstill and further opens the door for potentially costly decisions taken by shifting majorities in parliament. In addition, long-term challenges like the reform of the tax system and the adaptation of the pension system to an increasing life expectancy are unlikely to be tackled in the short term.

Although we don't expect this to significantly harm Austria's otherwise healthy public finances, we see these developments as continuing to highlight risks to Austria's currently strong policy-setting process.

Austria's GDP per capita is one of the highest in the EU, and GDP growth reached 2.7% in 2018, supported in particular by exports. That said, we believe GDP growth has peaked and will slow to about 1.4% over the next few years, with strong domestic demand mitigating dampening exports from a weaker external environment, possibly amplified by global trade tensions.

We expect real consumption growth will increase to 1.7% in 2019, since annual tax cuts of €1.5 billion starting in 2019 will boost disposable income. At the same time, we expect that investment growth will turn from replacement to expansion, supported by the pick-up in domestic credit. We assess Austria's potential GDP growth rate at 1.0%-1.5%, and believe it should be able to meet this level in the next few years. Generally, Austria's economy is largely synchronized with that of the monetary union, and most trade is with eurozone member states.

Austria's economic growth per capita is somewhat subdued, because the population is also increasing from net immigration inflows (workers and refugees). The unemployment rate reduced to 4.9% in 2018, and we forecast it will hover around this level through 2022. We estimate that employment growth will lessen to 0.9%-1.0% based on our reduced GDP forecast. The lion's share of the jobs created have been filled by nonresident commuters.

Flexibility and performance profile: Current account surplus to persist despite external headwinds; public debt to decline gradually

Austria's external indicators are highly favorable. The current account has been in surplus since 2002, supported by a sound surplus in the services balance and roughly balanced trade balance. We forecast that current account surpluses will hover around 2%-3% of GDP in 2019-2022. Export demand, including services and tourism, peaked in 2018, and we expect exports will continue to contribute to economic growth, although at considerably lower levels over our forecast horizon due to external headwinds. Austria has found niche markets in the goods and services sector, and has identified differentiated offerings that are attracting new tourist groups, both for winter sports and city travel. The current account has been primarily hampered by net transfer payments, implying that the country as a whole pays higher transfers than it receives.

Continuous current account surpluses helped Austria to move to a net external asset position in 2013. External assets exceed liabilities by over 10% of current account receipts (equivalent to about 4%-5% of GDP in 2018), and are set to increase on the back of continued current account surpluses.

We expect that narrow net external debt will return to levels above 100% of current account receipts, since we do not expect external deleveraging will continue at the pace observed in recent years. Foreign exchange-related risks are negligible, with foreign currency-denominated loans making up about 10% for nonfinancial corporations and less than 2% for private households.

Central government's accounts are roughly balanced, and the federal government plans to achieve the first fiscal surplus for years in 2019. We consider this may be difficult to achieve, given possible spending pressure from pre-election decisions taken in parliament and less favorable economic conditions. As such, we expect slightly weaker fiscal performance than the federal government targets, and project balanced accounts on average over the next four years.

We consider that there is still uncertainty with regard to Austria's future budgetary performance, and expect that the next government will need to decide how to continue fiscal consolidation. In the longer term, public finances could be pressured by age-related expenditure, which will gradually increase to 5.1% of GDP in 2021 from 4.9% in 2018. In our view, heightened fiscal pressures on age-related expenditure could emerge, with long-lasting structural repercussions.

We expect a reduction in Austria's general government debt to 64% by 2022, helped by the ongoing reduction in the balance sheet size of bailed-out banks and roughly balanced general government accounts. In net terms, that is accounting for the government's sizable liquid assets, government leverage should approach 61% of GDP. Austria has been taking advantage of loose monetary conditions to improve its debt profile, reduce its interest bill, and extend its debt maturities. According to our estimates, the share of interest expenditures to general government revenue will stay well below 5%.

Fiscal contingent liabilities are low, because most government-related entities are already included in general government debt. Therefore, we assess the contingent liabilities from remaining government companies at less than

5% of GDP. We do not take into account export and export-financing guarantees of €26 billion and €24 billion, respectively, since we have deemed these guarantees as bearing low risk with very limited claims since 1950.

Austria's eurozone membership is a credit strength, in our view, since it provides unfettered access to deep and liquid capital markets with minimal exchange rate risk. In addition, the euro is a reserve currency. The ECB maintains what we consider to be a highly credible and effective monetary policy, thanks to its operational independence, significant monetary flexibility, and overall longer-term track record on inflation compared with other monetary authorities. In our view, the Austrian banking system has improved on the back of several material developments in recent years, including the derisking in Central, Eastern, and southeastern Europe (CESEE). The composition of risks has particularly shifted toward countries with lower risks in CESEE. Another prominent improvement relates to better capitalization at Austrian banks. Together with strong provisioning of about 60% of total loans on average, this provides a buffer for unexpected losses and increases the banking system's stability.

In our opinion, Austrian banks' risk appetite in the domestic market is restrained. This is reflected in low levels of complex and risky products and business activities, particularly in the context of a mature economy. Other forms of high-risk lending in the domestic market are also very limited. Growth of domestic banking assets started picking up at a slow pace in 2018, mainly reflecting a moderate increase in both loans to domestic nonbank customers and households. At year-end 2018, Austrian banks' aggregate net external position was in surplus, at about 7% of systemwide domestic loans. We regard such a high surplus as unsustainable over the longer term, and expect it to decrease. However, we don't expect it will turn to a net external debt position in the medium term.

Moderate overcapacity in the banking sector, resulting in low bank earnings, continues to pose some risk to Austrian banks. We believe the system needs further material and sustainable improvements in efficiency to achieve greater stability.

Key Statistics

Table 1

Austria Selected Indicators

(Mil. €)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Economic indicators (%)										
Nominal GDP (bil. LC)	324	333	344	356	370	386	399	412	425	438
Nominal GDP (bil. $)	430	443	382	394	418	456	452	475	511	544
GDP per capita (000s $)	50.9	52.0	44.5	45.3	47.6	51.7	50.9	53.2	56.9	60.2
Real GDP growth	0.0	0.7	1.1	2.0	2.6	2.7	1.4	1.4	1.4	1.4
Real GDP per capita growth	(0.5)	(0.0)	0.2	0.7	1.7	2.2	0.8	0.8	0.8	0.8
Real investment growth	1.6	(0.4)	2.3	4.3	3.9	3.3	2.3	1.7	1.7	1.7
Investment/GDP	23.6	23.5	23.8	24.3	25.4	25.6	25.3	25.0	24.9	24.7
Savings/GDP	25.5	26.0	25.5	26.8	27.3	27.9	27.4	27.3	27.4	27.2
Exports/GDP	53.4	53.4	53.1	52.3	53.7	54.5	54.5	55.0	55.4	55.9
Real exports growth	0.6	2.9	3.5	2.7	4.7	4.4	2.0	2.0	2.0	2.0
Unemployment rate	5.4	5.6	5.7	6.0	5.5	4.9	4.7	4.8	4.8	4.9

Table 1

Austria Selected Indicators (cont.)										
(Mil. €)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
External indicators (%)										
Current account balance/GDP	1.9	2.5	1.7	2.5	2.0	2.3	2.1	2.3	2.5	2.4
Current account balance/CARs	3.2	4.0	2.9	4.0	3.1	3.6	3.3	3.7	4.0	3.9
CARs/GDP	60.5	61.2	59.0	61.5	62.7	64.0	62.5	62.7	62.9	63.1
Trade balance/GDP	(0.3)	0.3	0.7	0.5	0.2	1.2	1.1	1.2	1.4	1.5
Net FDI/GDP	(2.4)	0.6	(1.5)	(0.5)	(0.0)	2.2	0.0	0.0	0.0	0.0
Net portfolio equity inflow/GDP	(0.6)	(0.9)	(1.1)	(2.0)	(1.4)	(1.4)	(1.2)	(1.2)	(1.2)	(1.2)
Gross external financing needs/CARs plus usable reserves	199.7	195.6	195.2	185.8	173.1	177.3	178.4	172.0	166.9	163.3
Narrow net external debt/CARs	116.1	108.6	119.3	110.6	119.9	96.4	108.4	107.2	103.4	102.2
Narrow net external debt/CAPs	120.0	113.2	122.9	115.2	123.7	100.0	112.1	111.2	107.7	106.3
Net external liabilities/CARs	(6.0)	(8.8)	(8.4)	(10.2)	(9.0)	(8.9)	(12.1)	(14.9)	(17.5)	(19.9)
Net external liabilities/CAPs	(6.2)	(9.2)	(8.7)	(10.6)	(9.2)	(9.2)	(12.6)	(15.4)	(18.2)	(20.7)
Short-term external debt by remaining maturity/CARs	123.8	116.5	119.7	106.9	91.6	94.1	96.3	89.1	83.0	78.2
Usable reserves/CAPs (months)	1.3	1.1	1.4	1.1	1.1	0.9	1.0	1.0	0.9	0.8
Usable reserves (mil. $)	23,290	24,941	22,250	23,270	21,622	23,198	23,209	23,209	23,209	23,209
Fiscal indicators (general government; %)										
Balance/GDP	(1.9)	(2.7)	(1.0)	(1.6)	(0.8)	0.1	0.0	(0.1)	0.0	0.1
Change in net debt/GDP	0.1	3.0	2.8	(0.5)	(1.0)	(0.0)	(0.3)	0.1	0.2	0.1
Primary balance/GDP	0.7	(0.3)	1.3	0.5	1.1	1.8	1.5	1.3	1.3	1.4
Revenue/GDP	49.7	49.7	50.1	48.7	48.4	48.6	48.3	48.3	48.3	48.3
Expenditures/GDP	51.6	52.4	51.1	50.3	49.2	48.5	48.3	48.4	48.3	48.2
Interest/revenues	5.2	4.9	4.7	4.3	3.8	3.4	3.0	2.9	2.8	2.8
Debt/GDP	79.6	82.3	83.1	81.4	76.6	72.2	69.9	67.8	66.0	64.1
Debt/revenues	160.1	165.6	165.9	167.1	158.2	148.5	144.7	140.4	136.6	132.7
Net debt/GDP	77.5	78.4	78.6	75.5	71.8	68.7	66.2	64.3	62.6	60.8
Liquid assets/GDP	2.1	3.9	4.5	5.9	4.8	3.5	3.6	3.5	3.4	3.3
Monetary indicators (%)										
CPI growth	2.1	1.5	0.8	1.0	2.2	2.1	1.8	1.9	2.0	2.0
GDP deflator growth	1.6	2.2	2.2	1.4	1.3	1.6	1.9	1.8	1.7	1.7
Exchange rate, year-end (LC/$)	0.73	0.82	0.92	0.95	0.83	0.87	0.88	0.85	0.82	0.80
Banks' claims on resident non-gov't sector growth	(2.6)	(1.7)	0.3	5.9	(3.0)	2.6	2.5	2.0	2.0	2.0
Banks' claims on resident non-gov't sector/GDP	121.8	116.5	113.0	115.7	108.1	106.2	105.4	104.1	103.0	101.9
Foreign currency share of claims by banks on residents	8.6	7.9	7.4	6.1	4.8	4.4	3.8	3.5	3.5	3.0

Table 1

Austria Selected Indicators (cont.)										
(Mil. €)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Real effective exchange rate growth	0.9	2.2	(4.4)	3.8	(0.2)	0.3	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, International Monetary Fund (Monetary Indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by EFSF.
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 assets held by 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. e--Estimate. f--Forecast. 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	Generally 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 may hinder timely policy response.
Economic assessment	1	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
External assessment	1	Based on narrow net external debt /(CAR + useable reserves) 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 2019-2022 (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 CAR, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) 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. CPI is low and in line with that of its trading partners.
		Austria is a member of Economic and Monetary Union.
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	(1)	Constrained policy predictability, especially on medium-term financial policies, is not fully captured in the indicative rating.
Foreign currency	AA+	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt.

Table 2

Austria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Sept. 4, 2019
- Sovereign Ratings History, Sept. 4, 2019
- Sovereign Ratings Score Snapshot, Sept. 2, 2019
- European Developed Sovereign Rating Trends Midyear 2019, July 25, 2019
- Sovereign Risk Indicators, July 11, 2019. An interactive version is also available at http://www.spratings.com/sri
- Banking Industry Country Risk Assessment: Austria, June 19, 2019
- Bulletin: Austrian Coalition Collapse: Implications For Sovereign Ratings, May 20, 2019
- Sovereign Debt 2019: Eurozone Commercial Borrowing To Increase 1.6% In 2019, Feb. 22, 2019
- Default, Transition, and Recovery: 2018 Annual Sovereign Default And Rating Transition Study, March 15, 2019
- Why Politics Matters To Sovereign Ratings, Nov. 6, 2015
- How Standard & Poor's Assesses The ECB's Monetary Flexibility When Rating Eurozone Sovereigns, Feb. 11, 2015

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com