Austria (/gws/en/esp/issr/80442188)

FitchRatings

Fitch Revises Austria's Outlook to Positive; Affirms at 'AA+'

Link to Fitch Ratings' Report(s): Austria - Rating Action Report (https://www.fitchratings.com/site/re/10038873)

Fitch Ratings-London-20 July 2018: Fitch Ratings has revised the Outlook on Austria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Positive from Stable and affirmed the IDR at 'AA+'.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS
The revision of the Outlook on Austria's IDRs reflects the following key rating drivers and their relative weights:

High
Debt dynamics are very favourable as robust medium-term growth, ongoing primary balance surplus, low effective interest rates and long average debt maturity will maintain the gross general government debt/GDP ratio (GGGD/GDP) on a sustained downward path. Ongoing disposal of the state-owned bad banks' assets, including HETA, Immigon and KA Finanz, estimated at 2% of GDP over 2018-2020 by the Ministry of Finance, will accelerate the decline in public debt, which we forecast at 74.7% of GDP in 2018 and 68.3% in 2020, compared with a pre-crisis level of 68.7% in 2008.

Medium
Fitch forecasts Austria will reduce its fiscal deficit to 0.4% of GDP in 2018, after outperforming its fiscal target by 0.3pp in 2017 with a headline deficit of 0.7% of GDP. Strong nominal GDP growth, decreasing social transfers due to dynamic labour market and discontinuation of deficit-increasing measures taken by the previous government will support the consolidation.

The new Austrian coalition government remains strongly committed to the EU fiscal rules and targets a balanced budget by 2019 and a fiscal surplus in 2020 with the objective of frontloading the fiscal effort through a projected EUR2.5billion expenditure cuts (0.6% of GDP). Fitch expects the consolidation path to be slower than planned, as the cost-savings measures are not yet specified while personal income tax relief measures imply a fiscal revenue decline of EUR1.5 billion over 2019 and 2020 (0.4% of GDP).

The April Stability Programme Update (SPU) outlines a structural reform package which entails a rationalisation of the social security system, a gradual decline in the tax-to-GDP ratio, and improvement of fiscal federal relations. Further planned tax relief, through decreased employers' contribution to the family burden equalisation fund, lower unemployment contribution for low income earners and income tax credit for family, could prolong the current positive economic cycle.

Fitch forecasts the Austrian economy will grow by 2.8% in 2018, after a 3% expansion in 2017. We forecast domestic demand will remain the main driver of growth. Unemployment decreased to 4.6% in May 2018, from 5.4% at end-2017 and is likely to decline further against the backdrop of rising labour supply. Wage growth was 1.5% in 2017 and is set to reach 2.5% in 2018, supporting robust private consumption. Sustained external demand will boost Austrian exports and spur further investments. Net trade will still contribute positively to growth, although only slightly as imports surge, driven by the robust investment cycle.

A prolonged investment cycle, increased labour supply, and improved total factor productivity point to stronger potential growth. Fitch has revised its estimates for medium-term growth potential to 1.7% from 1.5%. This is more conservative than the European Commission's latest estimates in the 2.1% -2.3% range for 2020-22.

Austria's 'AA+' IDRs also reflect the following key rating drivers:

Austria has a rich, diversified, high value-added economy with strong political and social institutions. It benefits from low private-sector indebtedness and a high household savings rate. Fitch considers the government's debt structure is favourable, reflecting an average debt maturity of 10 years, low borrowing costs and strong financing flexibility.

Austria's external position keeps improving with net external debt set to decrease to 11.1% of GDP in 2018, from 14.7% in 2017, supported by ongoing consolidation of the banking sector and decreasing public debt. The current account surplus will rise to 2.4% of GDP in 2018, from 1.8% in 2017, supported by strong export performances and buoyant tourism sector.

Banking sector liabilities have crystallised on the sovereign balance sheet in the past, but the sector's health is improving. Banks restructuring, including that of Unicredit, and business model adjustment throughout 2016-2017 has led to a decreased exposure to CESEE countries with a re-profiling towards less risky markets such as Slovakia and Czech Republic from Russia or Ukraine. Capitalisation has improved and reached 18.4% in 2017, up 1pp since 2016, while profitability returned to the pre-crisis level, albeit helped by low loan loss provisions. Asset quality has improved further with non-performing loans at 3.8% and 4.8% of total loans for domestic banks and CESEE subsidiaries, respectively.

House prices rise slowed down in 2017 but accelerated again in 1Q18 with residential property prices increasing 7.3%, up from 3.8% in 2017. Pushed up by demographics dynamics, including strong net immigration, and low interest rates, house prices are 22% overvalued in Vienna and 11% above fundamentals in Austria as a whole, according to the Austrian Central Bank. However, we believe that mitigating factors against potential correction in house prices are strong. Household debt-to-income ratio stood at 90%, lower than the euro area average of 122%. Corporate debt-to-income ratio decreased substantially by 20pp in 2017 to 388%, supported by improved profitability and high recourse to internal financing.

SOVEREIGN RATING MODEL (SRM) and QUALITATIVE OVERLAY (QO)
Fitch's proprietary SRM assigns Austria a score equivalent to a rating of 'AA' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to rated peers, as follows:
- Public Finances: +1 notch, to reflect to reflect our expectation that the downward path of Austria's GGGD will continue beyond the SRM forecast horizon.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

RATING SENSITIVITIES
Future developments that could individually or collectively, result in positive rating action include:
-A continued decline in the GGGD/GDP ratio.
-Sustained economic growth and greater confidence in medium-term growth prospects, particularly if supported by the effective implementation of structural reforms.

Future developments that could individually or collectively, result in a stabilisation in the Outlook include:
-Weaker nominal GDP growth or failure to place public debt on a downward trajectory over the medium term, for example because of significant slippage from fiscal consolidation targets. - Crystallisation of contingent liabilities, for example from the banking sector, which worsens the government debt profile.

KEY ASSUMPTIONS
Our long-run debt sustainability calculations are based on assumptions of medium-term GDP growth of 1.7%, a GDP deflator converging towards 2% and an average primary fiscal surplus of 1% of GDP over the next 10 years. Under these assumptions, we forecast GGGD/GDP to decline to 56.5% by 2026.

The full list of rating actions is as follows:

Long-Term Foreign-Currency IDR affirmed at 'AA+'; Outlook revised to Positive from Stable
Long-Term Local-Currency IDR affirmed at 'AA+'; Outlook revised to Positive from Stable
Short-Term Foreign-Currency IDR affirmed at 'F1+'
Short-Term Local-Currency IDR affirmed at 'F1+'
Country Ceiling affirmed at 'AAA'
Issue ratings on long-term senior unsecured foreign-currency bonds affirmed at 'AA+'
Issue ratings on long-term senior unsecured local-currency bonds affirmed at 'AA+'
Issue ratings on short-term senior unsecured local-currency bonds affirmed at 'F1+'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Country Ceilings Criteria - Effective from 21 July 2017 to 19 July 2018 (pub. 21 Jul 2017) (https://www.fitchratings.com/site/re/901393)
Sovereign Rating Criteria - Effective from 23 March 2018 to 19 July 2018 (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10024428)

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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria	-	Long Term Issuer Default Rating	Unsolicited
Austria	-	Short Term Issuer Default Rating	Unsolicited
Austria	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Austria	-	Local Currency Short Term Issuer Default Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria	-	Country Ceiling	Unsolicited
Austria EUR 4 bln 1.15% Gov Bonds 18 Oct 2018	AT0000A12B06	Long Term Rating	Unsolicited
Austria EUR 4 bln 4.35% Gov Bonds 15 Mar 2019	AT0000A08968	Long Term Rating	Unsolicited
Austria EUR 3 bln 1.95% Gov Bonds 18 Jun 2019	AT0000A0VRF9	Long Term Rating	Unsolicited
Austria EUR 50 mln Variable Rate Notes 2 Dec 2019	XS0235645487	Long Term Rating	Unsolicited
Austria EUR 200 mln Variable Rate Notes 04 Mar 2020	XS0212688013	Long Term Rating	Unsolicited
Austria EUR 70 mln Variable Rate Notes 22 Apr 2020	XS0216258763	Long Term Rating	Unsolicited
Austria EUR 50 mln Variable Rate Notes 27 Apr 2020	XS0217517829	Long Term Rating	Unsolicited
Austria EUR 100 mln Floating Rate Notes 29 Jun 2020	XS0221500571	Long Term Rating	Unsolicited
Austria EUR 3.9% Gov Bonds 15 Jul 2020	AT0000386115	Long Term Rating	Unsolicited
Austria EUR 3.5% Gov Bonds 15 Sep 2021	AT0000A001X2	Long Term Rating	Unsolicited
Austria JPY 2 bln Fixed/Floating Rate Notes 09 Nov 2021	XS0138067995	Long Term Rating	Unsolicited
Austria JPY 1 bln Fixed/Floating Rate Notes 19 Nov 2021	XS0138429229	Long Term Rating	Unsolicited
Austria EUR 5.46 bln 3.65% local currency gov bonds 20 Apr 2022	AT0000A0N9A0	Long Term Rating	Unsolicited
Austria JPY 2.1 bln 3% Currency Linked Notes 5 Aug 2022	XS0151767687	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria EUR 3 bln 3.4% Gov Bonds 22 Nov 2022	AT0000A0U3T4	Long Term Rating	Unsolicited
Austria EUR 100 mln Inflation-Linked Notes 02 May 2023	XS0166935535	Long Term Rating	Unsolicited
Austria EUR 3 bln 1.75% Gov Bonds 20 Oct 2023	AT0000A105W3	Long Term Rating	Unsolicited
Austria DEM 2 bln 6.5% Notes 10 Jan 2024	DE0004123500	Long Term Rating	Unsolicited
Austria NLG 1 bln 6.25% Notes 28 Feb 2024	NL0000133924	Long Term Rating	Unsolicited
Austria CAD 250 mln 5% Notes 20 Dec 2024	US052591AT11	Long Term Rating	Unsolicited
Austria EUR 3.09 bln 4.85% Gov Bonds 15 Mar 2026	AT0000A0DXC2	Long Term Rating	Unsolicited
Austria EUR 6.25% Gov Bonds 15 Jul 2027	AT0000383864	Long Term Rating	Unsolicited
Austria EUR 109 mln 3.56% Gov Bonds 19 Oct 2029	XS0749005186	Long Term Rating	Unsolicited
Austria EUR 21 mln 2.452% Gov Bonds 19 Oct 2029	XS0749005343	Long Term Rating	Unsolicited
Austria GBP 200 mln Step-Up Notes 19 Oct 2029	XS0102835237	Long Term Rating	Unsolicited
Austria JPY 3 bln Fixed/Floating Rate Notes 26 Nov 2031	XS0138663173	Long Term Rating	Unsolicited
Austria JPY 1 bln 5% Currency Linked Notes 24 Sep 2032	XS0154915820	Long Term Rating	Unsolicited
Austria SKK 500 mln 5.125% Notes 2 Jan 2034	XS0182592062	Long Term Rating	Unsolicited
Austria EUR 1.5 bln 2.4% Gov Bonds 23 May 2034	AT0000A10683	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria CAD 300 mln 5.375% Notes 1 Dec 2034	US052591AS38	Long Term Rating	Unsolicited
Austria EUR 4.15% Gov Bonds 15 Mar 2037	AT0000A04967	Long Term Rating	Unsolicited
Austria EUR 2 bln 3.15% Gov Bonds 20 Jun 2044	AT0000A0VRQ6	Long Term Rating	Unsolicited
Austria EUR 2 bln 3.8% Gov Bonds 26 Jan 2062	AT0000A0U299	Long Term Rating	Unsolicited
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