FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Austria at 'AA+'; Outlook Stable

Fri 19 Jul, 2024 - 5:03 PM ET

Fitch Ratings - Frankfurt am Main - 19 Jul 2024: Fitch Ratings has affirmed Austria's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA+' with a Stable Outlook.

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

KEY RATING DRIVERS

Credit Fundamentals: Austria's rating is supported by a diversified and wealthy economy, the reserve currency status of the euro, strong political and social institutions, and sound external finances. This is balanced against Austria's high government debt relative to the median ratios of both 'AA' and 'AAA' category peers, although refinancing risks are mitigated by long maturities and low financing costs.

Moderate Fiscal Deficits: We anticipate that the government can meet its revised general government deficit target of 2.9% of GDP this year, which exceeds the 'AA' median of 2.3%. Our forecast incorporates weaker growth and higher spending due to the extension of the electricity price brake and the suspension of energy taxes until the end of 2024. The government also announced a new stimulus package to boost construction and support affordable housing that entails EUR2 billion new spending (0.4% of GDP) until 2028. We project the deficit to narrow to 2.7% in 2025 and 2.5% in 2026, as discretionary measures are phased out and economic growth picks up.

EU Fiscal Rules Require Consolidation: As part of the new EU fiscal framework, the European Commission has submitted a reference trajectory for the structural primary balance to bring down the public debt ratio beyond the adjustment period. The submitted trajectory shows that additional efforts relative to the government's current fiscal plans are needed, i.e. on average EUR2.5 billion (0.5% of GDP) of consolidation measures annually would be required from 2025 until 2028 under the four-year reference trajectory.

Government Debt Dynamics: We project that general government debt will fall to 76.6% of GDP at end-2024 (above the forecast 'AA' median of 50.4%), from 77.6% at end-2023, and decline gradually over the medium-term. We forecast a gradual rise in Austria's interest payments/revenue to 3.1% by 2026, above the historical low of 1.9% in 2022, but still well below the 'AA' median of 3.9%. The increase will be softened by discounted bond issuances and a long average maturity of general government debt. Austria's average maturity of market debt, at 13.0 years as of May 2024 (up from 7.3 in 2009), is the longest in the EU.

2024 Elections: Parliamentary elections are scheduled for 29 September. Leading the polls are the right-wing FPÖ party, which secured the largest share of votes in the June EU parliamentary elections, but would very likely need the support of other parties to form a government in national elections. We expect Austria to present its new medium-term fiscal structural plan (incorporating the reference trajectory) and the 2025 budget only after September's elections and under the new government, but we expect broad continuity on fiscal matters.

Strong but Declining Governance: Austria's institutional strength, measured by the World Bank Governance Indicators (WBGI), still ranks above the 'AA' median, but the gap has narrowed in previous years. WBGI scores have almost continuously fallen since the global financial crisis and are now almost 10 percentile ranks below their 2008 values, with sizeable drops in the indicators for Political Stability (-27.3) and Control of Corruption (-11.2).

Slow Economic Recovery: Austria's economy contracted by 0.8% in 2023 and we expect only a gradual economic recovery in 2024 at 0.4% (revised down from our February forecast of 0.7%). Private consumption will be the key driver of growth this year, supported by robust real wage growth and a continued strong labour market. The high-interest environment is negatively affecting investments, but recently announced measures to support housing construction should boost investments in 2025 and 2026. We forecast GDP growth to increase to 1.6% in 2025 and 1.5% in 2025. We estimate potential growth at 1.2%, weighed down by structural factors, including an ageing population.

Persistently High Wage Growth: Austria's international cost competitiveness could suffer over time due to continued strong wage growth. Unit labour costs have been increasing faster than in the eurozone (annual growth of 10.1% in 1Q24 vs. 5.7% in the eurozone and 6.1% in Germany). So far, (export-oriented) firms have been able to absorb wage increases relatively well following a previous boost to profitability. Historically, productivity and investment growth have also been stronger than in other eurozone economies.

Resilient Banking Sector: Very low household indebtedness mitigates risks to the financial system from a decline in house prices, while mortgage debt is primarily held by households with above-average incomes. The sector's capitalisation remains sound, with a common equity Tier 1 ratio of 16.3% in 1Q24, underpinned by rising operating income in 2023. Fitch's Macro-Prudential Indicator for Austria is '2', indicating a moderate vulnerability from real credit growth and asset price developments.

Banking assets located in Russia are mostly concentrated with a few larger Austrian banks and the risk appears manageable for the sector as a whole. The recent request from the European Central Bank to speed up de-risking and exiting the Russian market continues to be complicated by an inability to transfer assets and profits.

Strong Private External Position: Austria's external private sector balance sheets are strong and in a net creditor position compared with the rest of the world, relative to a net debtor position for the public sector. Austria's sovereign net foreign assets stood at -42.4% of GDP at end-2023 (significantly worse than the 33.0% for the 'AA' median), but public external indebtedness is inflated by TARGET2 net liabilities, which stood at 17.5% of GDP by end-2023.

ESG - Governance: Austria has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. Theses scores reflect the high weight that the WBGI have in our proprietary Sovereign Rating Model. Austria has a high WBGI ranking at 87.1, reflecting its long track record of stable and peaceful political transitions, well established rights for participation in the political process, strong institutional capacity and effective rule of law.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-**Public Finances:** Failure to reduce general government debt/GDP over the medium term, for example, due to insufficient progress on fiscal consolidation, weaker medium-term growth prospects, or the crystallisation of sizeable contingent liabilities.

-**Macro:** A large adverse macroeconomic shock, for example, due to adverse energy supply or price developments or other spillovers from the war in Ukraine, particularly if it leads to lower medium-term growth potential or has negative effects on the public finances and/or the banking sector

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-**Public Finances:** General government debt/GDP continuing on a downward path over the medium to long term to significantly lower levels, for example, due to sustained fiscal consolidation.

-**Structural:** An improvement in governance standards to a level that is more line with 'AAA' rated sovereigns'.

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 SRM data and output, as follows:

- **Macro:** +1 notch to offset the deterioration in the SRM output driven by volatility from the pandemic and subsequent inflation shock. The deterioration of the GDP growth volatility variable reflects very substantial and unprecedented exogenous shocks that have hit the vast majority of sovereigns, and Fitch believes that Austria has the capacity to absorb them without lasting effects on its long-term macroeconomic stability.

- **Public Finances:** +1 notch to reflect our expectation that government debt/GDP will decline beyond the forecast horizon, based on our fiscal and macroeconomic projections and the record of debt reduction prior to the pandemic. In addition, it reflects Austria's long average maturity of government debt.

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.

COUNTRY CEILING

The Country Ceiling for Austria is 'AAA', one notch above the LT FC IDR. This reflects very strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +3 notches above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Austria has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Austria has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Austria has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of ''4[+]'for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Austria has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Austria, as for all sovereigns. As Austria has track record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Austria	LT IDR AA+ Rating Outlook Stable Affirmed	AA+ Rating Outlook Stable
	ST IDR F1+ Affirmed	F1+
	LC LT IDR AA+ Rating Outlook Stable Affirmed	AA+ Rating Outlook Stable
	LC ST IDR F1+ Affirmed	F1+
	Country Ceiling AAA Affirmed	AAA
senior unsecured	LT AA+ Affirmed	AA+
Senior Unsecured-Local currency	LT AA+ Affirmed	AA+
senior unsecured	ST F1+ Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Hannah Dimpker
Director
Primary Rating Analyst
+49 69 768076 263
hannah.dimpker@fitchratings.com
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Kit Yeung
Director
Secondary Rating Analyst
+49 69 768076 129

kit.yeung@fitchratings.com

Ed Parker
Managing Director
Committee Chairperson
+44 20 3530 1176
ed.parker@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Sovereign Rating Criteria (pub. 06 Apr 2023) (including rating assumption sensitivity)

Country Ceiling Criteria (pub. 24 Jul 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.2 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.14.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Austria	EU Issued, UK Endorsed

UNSOLICITED ISSUERS

Austria (Unsolicited)

With Rated Entity or Related Third Party Participation	Yes
With Access to Internal Documents	Yes
With Access to Management	Yes

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Austria EUR 16.6 mln 5.125% bond/note 02-Jan-2034	XS0182592062	Long Term Rating	Unsolicited
Austria EUR 4.15% Gov Bonds 15 Mar 2037	AT0000A04967	Long Term Rating	Unsolicited
Austria EUR 8.51 bln 3.15% bond/note 20-Jun-2044	AT0000A0VRQ6	Long Term Rating	Unsolicited
Austria CAD 250 mln 5% Notes 20	US052591AT11	Long Term Rating	Unsolicited

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit

Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.