Austria

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This report does not constitute a rating action.

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Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Austria is a wealthy, open, and diversified economy, displaying resilience in the face of adverse effects from the Russia-Ukraine war.	Extensive fiscal support measures will help prevent long-term economic scarring and a full-year recession in 2023.
--The labor market remains robust, with vacancies close to a record high, which will keep unemployment low despite slowing domestic demand in 2023.	--This will leave the general government balance in deficit over the forecast horizon and delay budgetary consolidation.
--Economic risks are contained since dependency on Russian gas is decreasing and being mitigated by continuous diversification toward alternative energy sources and green investments.	--Austria's external position remains a rating strength and current account surpluses will endure throughout our forecast horizon.
--In our view, the ruling coalition will uphold Austria's track record of prudent policymaking and spending control, despite the fragmented political landscape.	--The European Central Bank (ECB's) monetary policy tightening will put the interest bill on an upward path, but it will remain relatively low in an international comparison.

Austria's economy will slow in first-half 2023, however, it should start picking up in the second half as energy rationing concerns ease and global demand improves. The current account balance will remain in surplus through the forecast horizon thanks to the contribution of the tourism sector and competitiveness of Austrian exports.

Extensive energy-cost-relief measures will slow budgetary consolidation compared to S&P Global Ratings' previous publication. We now expect the general government deficit to average 2.3% of GDP over 2023-2026 as the government's energy support measures and structural investments increase, amounting to a combined 11% of 2022 GDP.

We don't expect any significant changes in the overall fiscal policy following the 2024 general elections. In our view, officials have a long track record of prudent policymaking and setting aside differences between parties. However, the longer-term policy agenda remains less certain.

Outlook

The stable outlook reflects our view that Austria's economy will remain resilient to the indirect consequences of the Russia-Ukraine war thanks to its solid macroeconomic and credit metrics, which will allow the country to absorb extensive energy-relief measures and continue its efforts to reduce dependence on Russia for energy supplies.

Downside scenario

We could lower the ratings if the consequences of the war materially weaken the economic growth outlook, or if budgetary and current account outcomes are significantly worse than our current projections.

Upside scenario

We could raise our ratings on Austria if energy supply concerns fade and budgetary consolidation accelerates, with the government's debt burden as a share of GDP remaining on a clearly discernible downward trajectory.

Rationale

Institutional and economic profile: Slowdown expected in the first half, but risks to the economic outlook have eased

We expect Austria's economic growth to stagnate in real terms this year, after an estimated strong rebound of 4.7% in 2022, as the adverse effects of the Russia-Ukraine war continue to weigh on the open and export-oriented economy. The slowdown in global demand, high, albeit decelerating, inflation, and higher borrowing costs have hit private consumption and are clouding the economic outlook for first-half 2023, but we expect a strong bounce-back, especially in the second half as these pressures fade. Austria's output growth remained solid in full-year 2022, although it was estimated to be negative 0.7% quarter-on-quarter in the fourth quarter as the service sector and private consumption slowed, while industrial production and trade remained solid. At the same time, concerns about a major global economic fallout and energy rationing have eased for 2023. This is reflected in leading economic and confidence indicators such as the WIFO business climate index, which have stabilized or even slightly improved in recent months, suggesting that initial concerns about a full-blown recession have subsided.

Austria's gas exposure to Russia has decreased but will remain high in a European comparison given the country's biggest energy supplier, OMV, has a long-standing take-or-pay contract with Russian gas supplier Gazprom until 2040. We understand the contract is for 6 billion cubic meters (bcm) per year or roughly two-thirds of Austria's annual gas consumption, with a penalty estimated at €6 billion annually in case of contract breach.

Nevertheless, we positively note that imminent pressures on energy supply in Austria have eased over the past 12 months and even though monthly net gas flows from Russia continue (down to roughly 20%-50% in 2022 from 80% prior to the conflict), there has been progress in diversifying gas supply. We expect these efforts to continue. For example, during 2022 authorities acquired additional pipeline capacity of 40 terawatt hours until October 2023 to transport gas from OMV's own production site in Norway and other liquefied natural gas (LNG) volumes to Austria. Gas storage is currently high--at about 70% capacity--and we expect it will stand at 50%-60% at the end of the first quarter versus roughly 10% in the same period last year.

In our view, the government's economic and budgetary policy measures, including significant energy-cost-relief support measures, will help to preserve Austria's track record of predictable and effective policymaking and its mature institutional framework. However, the longer-term policy agenda remains less visible, given the limited ideological common ground in the governing coalition composed of the Austrian People's Party (ÖVP) and the Green Party. We note that the authorities were more specific about their medium-term fiscal policy plans last year. However, concrete action points, such as the implementation of a pension reform, remain vague and are unlikely to be implemented before the elections in 2024.

The government's reform agenda is on track. The eco-social tax reform was passed in February 2022 and entails about €19 billion in measures to strengthen Austria's global competitiveness over 2022-2026. It primarily targets the tax structure by gradually easing the burden on companies and employees, while greening the tax system through the introduction of carbon dioxide pricing as of October 2022. Besides that, the government's green agenda has gained importance, considering its previously high gas dependency and the economic support provided. Austria's €4.5 billion Recovery Program, mostly funded via EU grants, should help reform momentum, which includes, for example, eco-social tax reforms and measures to increase digitalization of the economy.

Austria's labor market continues to outperform our expectations. We estimate unemployment will reach 4.9% by year-end 2023, well below the current EU average of 6.1% (December 2022). We note that the labor market has further tightened and there is some risk of capacity constraints, especially in the tourism sector. At the same time, integrating refugees from Ukraine into the labor market could help alleviate some labor shortages.

Flexibility and performance profile: Budgetary consolidation to slow over 2023-2026

We now project Austria's general government deficit will narrow to 2.8% of GDP in 2023 from an estimated 3.4% in 2022, following higher than initially planned energy-cost-relief spending and public investments totaling roughly €48 billion, or 11% of 2022 GDP combined over 2022-2026. We believe that solid nominal GDP growth will keep government revenue growth high, especially this year, despite likely slowing value-added tax performance, and that the government will keep spending broadly under control. Overall, we expect higher budget deficits over our projection horizon than we previously projected, declining to 2.0% of GDP by 2026 from 2.8% in 2023.

Considering our fiscal projections, we expect net general government debt to remain on a downward path, declining to just under 70% of GDP in 2026 from about 71% in 2023. The government debt profile benefits from a long average maturity of about 11 years and low interest costs in an international context. We project interest payments will increase to 3.8% of government revenue by 2026 from 2.2% in 2021.

In our view, government contingent liabilities are low. We estimate government guarantees, not included in general government debt, at about 17% of GDP. This includes export and export-finance guarantees of about €31 billion (7% of GDP) as of September 2022, which we deem as having a particularly low risk of materializing on the government's balance sheet, since there have been very limited calls on them since 1950.

Austria's external profile remains a credit strength. Persistent inflation and subdued economic growth at key trading partners, especially in first-half 2023, will pressure the current account, before increasing to about 1.9% of GDP by 2026 as trade pressures ease and prices decrease. We expect the current account to improve in 2024, mainly due to moderation in commodity prices and a pick-up in economic activity. In our view, strong performance in tourism-related sectors, which generally contribute about 7.5% of GDP, will especially support Austria's current account position throughout the forecast horizon.

Austria's relatively high external indebtedness and external financing needs are somewhat mitigated by its eurozone membership. We expect the country's gross external financing needs will average about 183% of current account receipts (CARs) plus usable reserves over 2023-2026 and its external debt will exceed liquid external assets by about 100% of CARs over the same period. However, we note that Austria's overall net international investment position is much stronger, partly thanks to the country's substantial outward stock of foreign direct investment.

Austria continues to benefit from its eurozone membership through the monetary union's highly developed capital markets and the ECB's credible monetary policy. We expect the ECB to gradually continue its policy tightening to address inflationary pressures. After a few months of cooling, Austrian inflation slightly picked up to 11.2% in January. Similar to other countries, most headline inflation can be attributed to imported price pressures through higher energy and food price inflation. We expect average inflation of 6.8% in 2023, before gradually decreasing to 1.9% by 2026 based on the abovementioned moderation in energy prices and monetary policy tightening.

Austrian banks' pre-COVID-19 path of improvements in efficiency was temporarily interrupted during the pandemic, but banks are now back on track, supported by the higher interest rate environment. Although the economy is facing the headwinds of the secondary effects of the Russia-Ukraine war, we think the private sector will remain sufficiently resilient thanks to governmental support that we view as likely to limit the negative consequences for the banking sector. Trending at about 65%, the consolidated sector's cost-to-income ratio remains mediocre in a broader international context but represents an improvement over time, backed by Austrian banks' increased focus on efficiency and digitalization. At the same time, one of the main reasons for the development are rising interest rates, which have improved operating margins. In this context, we highlight that it remains crucial that banks continue to tackle inefficiencies to remain competitive throughout the cycle. (see " Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance," published February 24, 2023, on RatingsDirect).

Austria--Selected Indicators

	2017	2018	2019	2020	2021	2022	2023bc	2024bc	2025bc	2026bc
Economic indicators (%)										
Nominal GDP (bil. EUR)	369.4	385.3	397.2	381.0	406.2	452.9	476.5	498.2	516.3	534.5
Nominal GDP (bil. $)	417.3	455.0	444.6	435.2	480.4	476.9	493.2	550.5	589.8	610.7
GDP per capita (000s $)	47.6	51.6	50.2	48.9	53.8	53.0	54.5	60.6	64.7	66.7
Real GDP growth	2.3	2.4	1.5	(6.5)	4.6	4.7	0.3	1.8	1.6	1.5
Real GDP per capita growth	1.4	1.9	1.1	(6.9)	4.2	3.9	(0.2)	1.4	1.2	1.1
Real investment growth	4.2	4.4	4.5	(5.3)	8.7	(1.2)	0.8	2.0	2.0	2.0
Investment/GDP	24.8	25.7	25.4	25.8	27.9	26.4	26.7	26.8	26.9	26.9
Savings/GDP	26.2	26.6	27.7	28.7	28.2	27.2	27.6	28.3	28.6	28.8
Exports/GDP	54.1	55.5	55.8	51.6	55.9	60.5	60.4	61.2	61.4	61.6
Real exports growth	4.9	5.2	4.0	(10.7)	9.6	13.0	1.5	2.8	2.0	2.0
Unemployment rate	5.9	5.2	4.8	6.0	6.2	4.8	4.9	4.7	4.5	4.4
External indicators (%)										
Current account balance/GDP	1.4	0.9	2.4	3.0	0.4	0.9	1.0	1.4	1.7	1.9
Current account balance/CARs	2.2	1.4	3.7	4.9	0.5	1.3	1.4	2.1	2.5	2.8
CARs/GDP	62.1	63.3	64.4	60.2	65.3	68.0	68.3	68.7	68.6	68.8
Trade balance/GDP	0.3	0.3	1.1	0.9	(0.1)	1.5	1.4	1.6	1.7	1.8
Net FDI/GDP	0.8	(0.4)	(1.2)	(2.8)	(1.8)	(1.2)	(1.0)	(1.0)	(1.0)	(1.0)
Net portfolio equity inflow/GDP	(1.8)	(1.5)	(1.3)	(0.9)	(2.3)	(1.8)	(1.5)	(1.3)	(1.3)	(1.3)
Gross external financing needs/CARs plus usable reserves	175.3	180.8	178.2	185.7	182.5	179.5	189.4	182.1	179.3	179.0
Narrow net external debt/CARs	121.9	104.3	103.2	131.5	109.4	110.8	109.8	101.1	98.0	100.3
Narrow net external debt/CAPs	124.6	105.8	107.2	138.3	110.0	112.2	111.3	103.2	100.5	103.2
Net external liabilities/CARs	(9.7)	(12.3)	(25.4)	(25.0)	(26.7)	(26.9)	(27.8)	(26.6)	(27.2)	(28.7)
Net external liabilities/CAPs	(10.0)	(12.5)	(26.3)	(26.3)	(26.9)	(27.2)	(28.2)	(27.2)	(27.9)	(29.5)
Short-term external debt by remaining maturity/CARs	93.2	95.8	96.3	107.3	100.8	99.6	109.5	100.0	96.0	95.2
Usable reserves/CAPs (months)	1.1	0.9	1.0	1.1	1.2	1.3	1.2	1.1	1.0	0.9
Usable reserves (bil. $)	21.6	23.2	23.6	30.5	34.0	33.2	32.7	32.1	31.5	30.9
Fiscal indicators (general government %)										

Austria--Selected Indicators

Balance/GDP	(0.8)	0.2	0.6	(8.0)	(5.9)	(3.4)	(2.8)	(2.4)	(2.1)	(2.0)
Change in net debt/GDP	(1.0)	(0.1)	(1.2)	6.9	5.1	4.1	2.6	2.5	2.2	2.1
Primary balance/GDP	1.0	1.8	2.0	(6.7)	(4.8)	(2.5)	(1.3)	(0.7)	(0.3)	(0.2)
Revenue/GDP	48.5	48.9	49.2	48.7	50.0	49.9	49.5	48.7	48.8	48.8
Expenditures/GDP	49.3	48.8	48.6	56.7	56.0	53.3	52.3	51.1	50.9	50.8
Interest/revenues	3.8	3.3	2.9	2.7	2.2	1.7	3.0	3.5	3.6	3.8
Debt/GDP	76.9	72.5	69.1	81.4	80.9	75.2	73.9	73.2	72.8	72.4
Debt/revenues	158.6	148.2	140.4	167.0	161.7	150.7	149.3	150.2	149.2	148.4
Net debt/GDP	72.1	69.0	65.7	75.4	75.8	72.1	71.1	70.5	70.2	69.9
Liquid assets/GDP	4.8	3.5	3.4	5.9	5.1	3.1	2.8	2.7	2.6	2.5
Monetary indicators (%)										
CPI growth	2.2	2.1	1.5	1.4	2.8	8.6	6.8	3.5	2.9	1.9
GDP deflator growth	1.0	1.8	1.6	2.6	1.9	6.5	4.9	2.7	2.0	2.0
Exchange rate, year-end (EUR/$)	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Banks' claims on resident non-gov't sector growth	(2.8)	2.6	4.8	3.7	4.3	5.8	3.3	3.5	3.6	3.5
Banks' claims on resident non-gov't sector/GDP	108.4	106.6	108.4	117.1	114.6	108.7	106.7	105.7	105.7	105.7
Foreign currency share of claims by banks on residents	4.8	4.4	3.8	3.1	2.6	0.6	2.29	1.6	2.00	2.00
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	(0.4)	1.2	(1.0)	(7.6)	8.9	N/A	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. EUR--euro. 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

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 2022- 2026 (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	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1.
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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance, Feb. 24, 2023
- Sovereign Ratings History, Feb. 16, 2023
- Sovereign Ratings List, Feb. 16, 2023
- Banking Industry Country Risk Assessment: Austria, July 13, 2022
- Sovereign Risk Indicators, Dec. 12, 2022. An interactive version is also available at www.spratings.com/sri

Ratings Detail (as of February 24, 2023)*

Austria		
Sovereign Credit Rating		AA+/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Commercial Paper		
Local Currency		A-1+
Senior Unsecured		AA+
Short-Term Debt		A-1+
Sovereign Credit Ratings History		
26-Aug-2022	*Foreign Currency*	AA+/Stable/A-1+
25-Feb-2022		AA+/Positive/A-1+
29-Jan-2013		AA+/Stable/A-1+
26-Aug-2022	*Local Currency*	AA+/Stable/A-1+
25-Feb-2022		AA+/Positive/A-1+
29-Jan-2013		AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.