



Fitch Affirms Austria at 'AA+'; Outlook Positive

Fitch Ratings - Frankfurt am Main - 22 November 2019:

Fitch Ratings has affirmed Austria's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'AA+' with a Positive Outlook.

Key Rating Drivers

Austria's 'AA+' rating is supported by a rich, diversified, open, high-value-added economy with strong political and social institutions. It benefits from low private-sector indebtedness and a high household savings rate. These strengths are balanced by Austria's high level of gross general government debt (GGGD/GDP) compared with peers' and an ageing population, which is set to put pressure on already high pension spending. The recent rise in political volatility raises uncertainty around the fiscal outlook and could delay reform implementation. The Positive Outlook reflects favourable fiscal developments and our expectations of a firm downward trajectory for GGGD/GDP.

The Austrian People's Party (OVP) won the 29 September elections, albeit short of a majority. The snap election was called after Sebastian Kurz's previous government collapsed due to the scandal engulfing its coalition partner, the Freedom Party (FPO). The FPO suffered severe losses in the recent elections, winning only 16.2% of the votes, a loss of almost 10pp from the 2017 election.

The OVP and the Green Party (fourth-largest force in the National Council) decided to create a negotiating team on 15 November, marking the formal beginning of coalition talks. While unprecedented at the federal level, a workable OVP-Greens coalition has been in place in the state of Vorarlberg since 2014. Such a coalition could bring some changes to the previous government's fiscal and tax policy. Nevertheless, Fitch believes Austria will maintain its sound fiscal policies and keep public debt on a downward path.

Fitch expects economic growth to reach 1.6% in 2019, down from 2.4% in 2018 but slightly higher than the 'AA' forecast median (1.4%), propelled by strong investment and a tight labour market supporting household consumption. Foreign demand will contribute negatively as continued trade tensions and a marked slowdown in Austria's trading partners continue exerting pressure on exports. GDP growth is forecast to edge down further to 1.5% in 2020 amid a eurozone and global trade slowdown, before accelerating to 1.7% in 2021 ('AA' forecast median of 1.9% p.a. for 2020-2021).

The unemployment rate has continued falling, averaging 4.6% up to October, slightly below 2018's average of 4.9%, and in line with our expectations for 2019's average. Fitch expects the unemployment rate to rise to 4.8% in 2020-2021 ('AA' historical median of 5.0%), owing to a slowing economy. Nominal wage growth eased to 2.2% in 1H19 (2.6% in 1H18), helping to keep

inflation to a 12-month average of 1.6% in October. Fitch projects inflation to ease to 1.5% in 2019, from 2.1% in 2018, before rising to an average of 1.9% in 2020-2021.

Fitch expects the general government budget to end 2019 with a surplus of 0.4% of GDP (larger than the 'AA' forecast median of 0.1%). The government ran a small deficit in 1H19 (-0.1%), with expenditure growth (3.9%) surpassing revenue growth (2.9%), but preliminary cash-basis data for 3Q19 points to better-than-expected tax collection. We project the surplus to decrease to 0.1% in 2020, owing to a projected fiscal loosening worth EUR2 billion (0.5% of GDP), before recovering to 0.3% by 2021.

Austria's debt structure and dynamics remain quite favourable and Fitch expects general government debt to reach 70.1% of GDP at end-2019, and to edge down to 64.3% at end-2021. Public debt (71.8% of GDP at end-2Q19) is considerably higher than the forecast 'AA' median for end-2019 of 39.3%, but it is on a firm downward trend. Faster disposal of the state-owned bad banks' assets would allow accelerated debt reduction. The average debt maturity is currently the highest in the EU (excluding UK) at 10.3 years (end-October) and the average effective interest rate of the portfolio is close to 2%.

Austria's net external debt is projected to improve to 9.6% of GDP at end-2019 ('AA' forecast median of -16.5%), reflecting a projected current account surplus of 2.1% of GDP ('AA' forecast median of 2.7%) and a high structural savings rate of 29.2% of GDP. Consistent current account surpluses (average of 2.5% since 2005), compare favourably with the historical 'AA' median of 1.6% of GDP and contribute to Austria's net creditor international investment position of 6.8% of GDP in 2Q19. Weaker export demand is projected to slightly narrow the current account surplus to 1.9% by 2021, but it will keep the net creditor position on an upward trend.

Despite a slight slowdown in 3Q19 (7.6% yoy) against 2Q19 (9.8%), Vienna's residential property prices continue growing above the long-run average (6.5%), pushing national house prices to grow at 5.2% in the same period. However, due to low home-ownership (48% in the country) and low household debt (49.2% in 1Q19), we do not expect the housing market to pose any sizeable downside risks in the immediate future. Mortgages grew 5.4% yoy in September 2019, a significant drop from October 2018's peak of 8.1%.

Financial soundness indicators are strong and improving. Return on equity (9.6% annualised rate in 2Q19) and return on assets (0.7%) remain at high levels. The non-performing loan (NPL) ratio continues on a firm downward trend, edging down to 1.7% at end-2Q19 from 2.1% at end-2Q18. Exposure to central and eastern European markets, the share of outstanding foreign-currency loans (12.0%) and loans to non-residents (25.6%) remain high and a risk factor, but they remain on a decreasing trend. We expect banks to retain strong CET1 buffers (15.9% in 2Q19) and cautious capital distribution policies ahead of the likely increase in risk-weighted assets under updated regulations. Austria's banking system scores 'bbb' on Fitch's Banking System Indicator (BSI) and '1' on Fitch's Macro-Prudential Risk Monitor (MPI).

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Austria a score equivalent to a rating of 'AA+' on the LTFC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to rated peers, as follows:

- Public Finances: +1 notch, to reflect our expectation that the downward path of Austria's GGGD will continue beyond the SRM forecast horizon supported by strong fiscal policy predictability, and improvements in government debt composition in terms of lower costs and longer maturities.
- Structural Features: -1 notch, to reflect the still ongoing coalition talks since the September elections, after a recent spike in political volatility, which increases uncertainty around the outlook for fiscal and economic policy.

RATING SENSITIVITIES

Future developments that could, individually or collectively, result in positive rating action include:

- Confidence that the new post-elections government will continue with prudent fiscal policy.
- A continued decline in GGGD/GDP.
- Sustained economic growth and greater confidence in medium-term prospects, particularly if supported by the effective implementation of structural reforms.

Future developments that could, individually or collectively, result in the Outlook being revised to Stable include:

- Political developments negatively affecting economic and fiscal policies and/or outturns.
- 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

- Fitch's long-term debt sustainability analysis baseline scenario assumes a primary surplus averaging 1.0% of GDP from 2019-2028, a steady increase in marginal interest rates starting in 2020, trend real GDP growth of 1.6%, and a GDP deflator converging to 2.0%.
- The global economy performs in line with Fitch's September 2019 Global Economic Outlook.

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.
- 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 recent corruption-related political scandals led to a spike in political uncertainty and snap elections; this is highly relevant to the rating and a key rating driver with a high weight.

- Austria has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore relevant to the rating and a rating driver.

- Austria has an ESG Relevance Score of 4 for Creditors Rights as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Austria	LT IDR AA+ Affirmed	AA+
	ST IDR F1+ Affirmed	F1+
	LC LT IDR AA+ Affirmed	AA+
	LC ST IDR F1+ Affirmed	F1+
	Country Ceiling AAA Affirmed	AAA
senior unsecured	LT AA+ Affirmed	AA+
senior unsecured	ST F1+ Affirmed	F1+

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Applicable Criteria

Sovereign Rating Criteria (pub. 26 May 2019)
Country Ceilings Criteria (pub. 05 Jul 2019)

Additional Disclosures

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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
Austria	-	Country Ceiling	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
	AT0000386115	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria EUR 3.9% Gov Bonds 15 Jul 2020			
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
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 21 mln 2.452% Gov Bonds 19 Oct 2029	XS0749005343	Long Term Rating	Unsolicited
Austria EUR 109 mln 3.56% Gov Bonds 19 Oct 2029	XS0749005186	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
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
	AT0000A0U299	Long Term Rating	Unsolicited

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Austria EUR 2 bln 3.8% Gov Bonds 26 Jan 2062			
Austria ECP D	-	Short Term Rating	Unsolicited
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