FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Austria at 'AA+'; Outlook Stable

Fri 22 Oct, 2021 - 5:04 PM ET

Fitch Ratings - Frankfurt am Main - 22 Oct 2021: Fitch Ratings has affirmed Austria's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'AA+' with a Stable Outlook.

A full list of rating actions is provided below.

KEY RATING DRIVERS

Austria's 'AA+' rating is supported by a rich, diversified, open and high-value-added economy with strong political and social institutions. It benefits from low private-sector indebtedness and sound external finances but is weighed down by Austria's high level of public debt relative to peers'.

The Stable Outlook reflects our expectation that following last year's sharp rise, general government debt will resume a gradual downward trajectory this year. The government's debt structure is favourable, with an average debt maturity of around 11 years, low and declining borrowing costs, and strong financing flexibility underpinned by the ECB's ultra-loose monetary policy.

Following chancellor Sebastian Kurz's resignation amid corruption allegations, Alexander Schallenberg (a close ally of Mr. Kurz) became the new chancellor on 11 October. The swift appointment of Mr. Schallenberg as chancellor implies that the coalition between the Austrian People Party (OVP) and the Greens will remain in power for now. While this reduces the likelihood of a snap election, investigations by state prosecutors and recent shifts in popular support for the government have the potential to raise tensions within the coalition parties over time.

The next parliamentary elections are scheduled for 2024 but Austria has a record of frequent government changes following snap elections in 2019, 2017 and 2008. Early elections would raise uncertainty around the composition of a future coalition government and may pose risks to the fiscal- policy outlook and the implementation of the recently announced tax reform plan.

Overall, Fitch continues to assess the quality of Austria's institutions as strong, as evident in the sovereign's high Worldwide Governance Indicator (WGI) scores, which exceed the 'AA' category median. However, scores lag the 'AAA' peer median with a particular large gap on the score for control of corruption (90.9 vs. 96.9). WGI scores for political stability have deteriorated since 2016. Following the 'Ibiza-scandal, it fell an additional 5.2 points in 2020. Institutional weaknesses related to media financing and corruption have recently faced renewed criticism and been highlighted in the 2021 Council of Europe's GRECO and the European Commission's rule of law reports.

Our fiscal projections have improved significantly relative to the previous rating review in May 2021. Statistics Austria has revised downwards the 2020 general government deficit to 8.3% from 8.9% of GDP. The 2021 budget execution has also been much stronger than previously expected. We now anticipate the fiscal deficit to narrow to 6% in 2021, much better than both our previous forecast and the government's 2021 original budget target of 8.2% and 7.1%, respectively. The better-than-expected performance was driven by both buoyant revenues (gross revenues had surpassed their pre-pandemic levels by end-September) and the lower-than-anticipated utilisation of Covid-19 measures.

We forecast the fiscal deficit to narrow to 3.8% in 2022 and 2.3% in 2023, as extraordinary pandemic-related measures expire and revenue growth accelerates. The Austrian government recently presented a new 'eco-social tax reform', pending parliamentary approval. Plans include lower personal income tax rates for medium-income earners (tax rates had already been lowered for low-income earners last year), lower health insurance contributions, higher child allowances and a small cut in the corporate income tax rate to 23% from the current 25%. The reform plan also includes a CO_2 tax of EUR30 per tonne of carbon (rising to EUR55 by 2025). Most measures will come into force by mid-2022, resulting in total net fiscal cost of EUR6.1 billion annually by 2025 (1.3% of projected GDP), once measures are fully phased in.

Spending pressures from an ageing demographic are already evident and will further intensify as they have largely remained unaddressed. The European Commission estimates that ageing-related expenditures will further increase to 30.3% of GDP by 2050 from 26.7% in 2019, compared with an average increase to 26.5% from 24% for the EU27.

Fitch forecasts general government debt to have peaked at 83.2% of GDP at end-2020, more than 12pp above the 2019 level and significantly higher than the 'AA' median of 43.8%. Our deficit and growth projections imply a decline in general gross government debt to 80% by 2023. Austria's debt/GDP ratio will continue to decline over the medium term, supported by small fiscal deficits and low debt service costs. We expect that interest payments as a share of government revenue will fall to 1.6% in 2023, below the 'AA' projected median of 2.1%. At 11.4 years, the average maturity of general government market debt is currently the longest in the EU27 and compares with the eurozone average of 7.9 years (reported as of end-September).

Following a technical recession during the winter months, due to strict pandemic measures, Austria's economy rebounded quickly over the summer months. Real GDP growth in 2Q21 was very strong at 4% qoq, of which more than half was driven by the recovery of the tourism and hospitality sectors. Following the almost complete loss of the important winter-skiing season, overnight stays of tourists swiftly recovered during the summer months and had surpassed their 2019 levels by end-September. Prior to the pandemic, the tourism sector contributed 7.3% of Austrian GDP, with the winter tourism season being more important in terms of overnight stays as well as tourist's average expenditure.

We now project GDP growth to reach 4.5% this year, accounting for a more moderate growth in 3Q21 and stagnation during 4Q21, due to remaining uncertainties for Austria's winter-skiing season. In addition, supply-chain shortages represent a growing challenge to the manufacturing sector and have resulted in a recent drop in export orders. At end-September, 34.4% of firms reported supply shortages as a key issue limiting production (compared with a 10-year average of 7.6% prior to 2021).

Our GDP growth projection of 4.6% for 2022 will be driven by the continued economic recovery and a sizeable carry-over effect as a result of the uneven quarterly growth pattern observed throughout 2021. Corporate investment and private consumption will be key drivers of the economic recovery. Tax incentives introduced amid the pandemic will accelerate investment spending until 2023. We expect that the normalisation of Austria's high household savings rate (14.4% as of end-June 2021 versus 8.5% at end-2019) and recovery in the labour market will drive private consumption.

Austria's Macro-Prudential Risk Indicator (MPI) increased to 2 from 1, indicating that the vulnerability from rising real credit growth and asset-price growth has increased to moderate from low. While real credit growth in 2020 was only modest (2.3%), in conjunction with the sharp GDP contraction, this was enough to see credit-to-GDP rise nearly 10pp. This has in turn left a credit gap of 6pp, triggering MPI 2. House prices have risen and are also some way above trend. The Austrian central bank has warned that an increasing share of new mortgages does not comply with recommendations on sustainable lending standards and its fundamentals indicator shows that residential house prices were overvalued by 19% in Austria and 28% in Vienna as of 2Q21.

Vulnerabilities to Austria's financial system are mitigated by low private indebtedness and sound banking-sector metrics. Household and corporate debt has only marginally increased amid the pandemic from very low levels, reaching 53% and 103% of seasonally-adjusted GDP, respectively, as of 2Q21, well below the respective eurozone averages. Austrian banks reported continued strong capitalisation, leverage and funding ratios throughout the pandemic while non-performing loans further declined to 1.5% as of 2Q21, from 3.5% end-2014.

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. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model (SRM). Austria has a high WBGI ranking at 90.6, reflecting its long record of stable and peaceful political transitions, well-established rights for participation in the political process, strong institutional capacity, effective rule of law and a low level of corruption.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Persistent increase in general government debt, for example, due to a more prolonged period of fiscal loosening in response to sustained disruptions from the coronavirus pandemic, weaker medium-term growth prospects, or crystallisation of contingent liabilities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: General government debt/GDP continuing on a firm 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 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 SRM data and output, as follows:

- Macro: +1 notch reflecting macroeconomic performance, policies and prospects. The positive notch adjustment offsets the deterioration in the SRM output driven by volatility from the pandemic shock, including on GDP growth. The deterioration of the GDP growth and volatility variables reflects a very substantial and unprecedented exogenous shock that has hit the vast majority of sovereigns, and Fitch believes that Austria has the capacity to absorb it without lasting effects on its long-term macroeconomic stability.

- Public Finance: +1 notch to reflect our expectation that government debt/GDP ratio will decline beyond the SRM 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 LTFC 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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 WBGI 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 indicators, 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 WBGI 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 WBGI is relevant to the rating and a rating driver. 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 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 record of 20+ years without a restructuring of public debt, which is captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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

ENTITY/DEBT	RATING			PRIOR
•	LC ST IDR	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Hannah Dimpker
Associate 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

Michele Napolitano
Senior Director
Secondary Rating Analyst
+44 20 3530 1882
michele.napolitano@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

Country Ceilings Criteria (pub. 01 Jul 2020)

Sovereign Rating Criteria (pub. 26 Apr 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Country Ceiling Model, v1.7.2 (1)

Debt Dynamics Model, v1.2.1 (1)

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

Sovereign Rating Model, v3.12.2 (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

DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. 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 SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

 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.

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.

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 100 mln Inflation-Linked Notes 02 May 2023	XS0166935535	Long Term Rating	Unsolicited
Austria EUR 6.25% Gov Bonds 15 Jul	AT0000383864	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.

Sovereigns Europe Austria
