S&P Global Ratings

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Research Update:

Austria 'AA+/A-1+' Ratings Affirmed ; Outlook Stable

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PRIMARY CREDIT ANALYST

Michelle Keferstein
Frankfurt
(49) 69-33-999-104
michelle.keferstein@spglobal.com

SECONDARY CONTACT

Ludwig Heinz
Frankfurt
+ 49 693 399 9246
ludwig.heinz@spglobal.com

RESEARCH CONTRIBUTOR

Meghna Ashtekar
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF@spglobal.com

Overview

- Austria's economy will broadly stagnate this year, before recovering to 1.5% growth on average over 2024-2026.
- During this period, authorities will execute an extensive tax and energy relief plan with measures totaling €31.2 billion until 2026, or roughly 6.6% of 2023 GDP, to cushion the related adverse economic impact.
- This will, in our view, delay budgetary consolidation through 2026, with the general government deficit declining to 2.0% of GDP in 2026 from an estimated deficit of 2.9% in 2023.
- We affirmed our 'AA+/A-1+' ratings on Austria. The outlook remains stable.

Rating Action

On Aug. 25, 2023, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Austria. The outlook remains stable.

Outlook

The stable outlook reflects our view that Austria will remain resilient to the adverse economic consequences of the war in Ukraine and monetary tightening, thanks to its solid economy and credit metrics. We also expect the country will continue efforts to reduce its dependence on Russia for energy supplies.

Upside scenario

We could raise our ratings on Austria if the current risks to energy supplies significantly decline, while the economy remains robust and budgetary consolidation is kept on track, with further declines in budget deficit and government debt as a share of GDP on a clearly discernible downward trajectory.

Downside scenario

We could lower the ratings if the economic growth outlook materially weakens, for example due to adverse economic effects from the war such as a material disruption of energy supply, or if budgetary and current account outcomes are significantly worse than our current projections.

Rationale

Austria has so far remained resilient to the economic fallout from the war in Ukraine, and we expect the export-oriented economy will continue its efforts to diversify gas supplies away from Russia. The government introduced various schemes, such as the expansion of photovoltaics and wind energy, to fully replace its exposure to Russian gas supplies by 2027 at the latest. Austria's still high, albeit declining, dependency on Russian gas remains an important economic vulnerability. A significant disruption of Russian gas supplies ahead of the upcoming winter should be manageable for the Austrian economy, in our view, since gas reserves are currently at about 90% of storage capacity and are further backed up by additionally secured pipeline capacity. That said, the gas transit contract between Russia's Gazprom and Ukraine's Naftogaz, which transfers gas to Austria, ends in December 2024. In the absence of a new agreement, this will require the Austrian economy to be ready to decouple entirely from Russian gas supplies at that time.

The government's extensive energy and other relief support measures, totaling roughly 6.6% of 2023 GDP, will reduce the pace of budgetary consolidation over 2024-2026. We expect the government to post a general government deficit of 2.9% of GDP this year, before reaching a deficit of 2.0% by 2026. Austria's current account position will remain in a small surplus this year thanks to strong tourism, despite the slowdown in global demand. This will also support real economic growth, which we expect to reach 0.3% in 2023 before recovering to 1.6% next year.

Our ratings on Austria are supported by its competitive and diversified economy, and its effective and stable institutions. Further rating strengths include Austria's membership in the euro area, allowing the country to benefit from the eurozone's deep capital markets and the European Central Bank's (ECB's) policy responses to financial stress.

Institutional and economic profile: Strong tourism performance will cushion the adverse impact of weaker global demand

- We expect the Austrian economy will slow to 0.3% growth in real terms this year before expanding 1.6% in 2024.
- Austria's still relatively high exposure to gas supplies from Russia is mitigated by continuous diversification efforts toward alternative energy sources.
- We expect broad economic policy continuity with energy diversification as a key policy focus.

We expect the Austrian economy to broadly stagnate in 2023. Like other European economies, Austria is facing a decline in global demand, elevated inflation, and higher borrowing costs due to monetary tightening. This has hit consumption and clouded economic performance, especially in the first half of the year. Leading indicators such as the WIFO business climate index suggest that sentiment deteriorated by 5.7 points in June compared with the previous month as the mood clouded across all sectors except retail. At the same time, estimates suggest that growth dropped by 0.3% year on year in the second quarter as industry and construction activities declined while some service sectors expanded. The latter is mainly driven by Austria's tourism sector, which we expect to somewhat mitigate the negative consequences of the current global slowdown. According to preliminary data from Austria's statistical office (Statistik Austria), overnight stays increased by 4.4% year on year in June. With part of the summer and next winter tourism season still ahead, we expect tourism and tourist-related services to continue contributing to economic growth and ease consumption concerns for the remainder of the year.

Austria's labor market continues to outperform our expectations. We estimate the unemployment rate at 5.0% by year-end 2023, well below the current EU average of 6.4% (June 2023). We note that the labor market remains tight and there is some risk of capacity constraints, especially in the services sector, which might lead to additional inflationary pressures.

With respect to energy security, we note that Austria's exposure to Russian gas decreased to 60% in June this year from 80% before the outbreak of the war. This is still high in a European comparison because Austria's biggest energy supplier, OMV, has a long-standing take-or-pay contract with Russian gas supplier Gazprom until 2040. The gas transit contract between Ukrainian energy provider Naftogaz and Russia's Gazprom, on the basis of which gas is transported to Austria, will end in December 2024. It is highly unlikely to be extended, in our view. We understand that Austria continues its efforts to diversify gas supply and prepare for this scenario. For example, OMV secured additional liquefied natural gas (LNG) capacity of 40 terawatt hours (TWh) annually from October 2023 to September 2026 and more recently 20 TWh annually between October 2026 and September 2028 from its own production site in Norway to Oberkappel or Arnoldstein in Austria. In addition, the Austrian producer recently announced large recoverable gas capacity in Wittau, in Lower Austria. A preliminary evaluation indicates potential recoverable resources of approximately 48 TWh (28 million barrels of oil equivalent), according to the company.

The Austrian authorities continue implementing their reform agenda, with the focus on energy relief measures and energy diversification. The eco-social tax reform, totaling roughly €19 billion, was passed in February 2022 and aims to strengthen Austria's global competitiveness. Austria's €4.5 billion Recovery and Resilience Program, mostly funded via EU grants, should also help through various measures, such as increasing digitalization.

The ratings on Austria continue to benefit from its track record of predictable and effective policy making. We believe that the implemented economic and budgetary policy measures, including the significant energy-cost-relief measures, will prevent economic scarring. The longer-term policy agenda remains less predictable, however, given the limited ideological common ground in the governing coalition composed of the Austrian People's Party (ÖVP) and the Green Party. In our view, medium-term fiscal policy plans remain vague on important topics such as the pension reform. It is also unlikely that the latter will be introduced soon, considering elections are scheduled for September 2024. Until then, we expect broad policy continuity, without major economic or budgetary reforms being passed.

Flexibility and performance profile: Budgetary consolidation to slow over 2024-2026

- The government's tax and energy relief support measures, totaling 6.6% of GDP, will keep the budget deficit at 2.9% of GDP this year, before declining to 2.0% in 2026.
- Inflation remains on a downward path, reaching 7.0% in July, but remains elevated compared with other EU sovereigns.
- Small but persistent current account surpluses, despite current headwinds, continue to reflect

Austria's external strength.

We expect Austria's general government deficit will decline to 2.9% of GDP in 2023 from 3.2% in 2022. The government's deficit-increasing and extensive relief support measures, totaling €31.2 billion or 6.6% of GDP over 2023-2026, will partly offset pandemic-related budgetary support measures. The main energy support measures are an electricity price cap (until end-June 2024) and transfers to vulnerable households. The figures above exclude the not-yet-budgeted support measures, for example, the energy cost subsidy II (mainly targeting companies), which provides up to €7 billion until 2024. Beyond 2023, we still expect a slower budgetary consolidation path than planned by the government, with the general government deficit reaching 2.2% on average over 2024-2026. This is based on the abovementioned not-yet-budgeted energy measures and our expectation of additional government spending ahead of elections.

Despite slow budgetary consolidation, we expect net general government debt to be kept on a downward path, reaching roughly 71.3% of GDP in 2026 from 75.4% in 2020. The government debt profile benefits from a long average maturity of about 12 years and low average interest rate. Monetary policy tightening will lead to an increase in interest payments, however. We project interest payments will increase to 3.9% of government revenue in 2026 from 1.9% in 2022.

We consider government contingent liabilities to be low, estimated at about 19% of GDP. This also incorporates export and export-finance guarantees totaling €32 billion (7% of GDP) as of March 2023. We consider these to have an especially low risk of materialization on the government's balance sheet, since there have been very limited calls on these guarantees since 1950.

The sovereign rating on Austria benefits from the country's strong external profile. Its current account position has been relatively resilient to economic downturns in the past and in positive territory since 2022. The slowdown in external demand this year will especially hit the Austrian manufacturing sector, but the strong 2023 tourism season will cushion this adverse impact. Overall, this will result in a small current account surplus of 0.9% of GDP in 2023, before rising to 1.8% of GDP in 2026.

Austria's relatively high external indebtedness and external financing needs are somewhat mitigated by its eurozone membership. We expect Austria's gross external financing needs will average about 177% of current account receipts (CARs) plus usable reserves over 2023-2026 and its external debt will exceed liquid external assets by about 101% 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. Over the forecast horizon, we project short-term external debt will remain below 100% of current account receipts. This is primarily because we expect the banking sector's share of short-term loans to have decreased while current account receipts recover.

We consider Austria's eurozone membership beneficial for its economy. The country profits from the eurozone's highly developed capital markets and the ECB's credible monetary policy. The ECB's monetary tightening has increased Austria's funding costs, but we expect these to remain low in an international comparison.

In our view, it seems unlikely that inflation will decline to 2% over our forecast horizon. In July, Austria's inflation rate dropped by 0.8% compared with the previous month, to 7.0%, and remains above the EU average of 6.1%. Although we expect inflation to continue its downward path this year, we anticipate it will remain higher than that of other European sovereigns, reaching an average of 7.4% for 2023 before decelerating to 2.3% by 2026. The major drivers of these elevated levels are inflation-indexed rents, no gas price subsidies, persisting pent-up demand in tourism, and labor shortages.

We expect the banking sector to remain stable and benefit from rising interest rates, reflecting a relatively high share of variable interest rate lending, which allows for a quick repricing on the asset side. This, together with some cost optimization, has somewhat eased profitability pressures on the Austrian banking sector. Despite the economic headwinds, we think the private sector will remain sufficiently resilient, given its financial strength and governmental support, which should limit the negative consequences for the banking sector. Nevertheless, we continue to believe that the cost efficiency of domestic operations will remain a weakness for most Austrian banks compared with many of their European peers (see "Banking Industry Country Risk Assessment: Austria," published Aug. 1, 2023, on RatingsDirect).

Key Statistics

Table 1

Austria Selected Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic indicators (%)										
Nominal GDP (bil. LC)	369	385	397	381	406	447	472	493	512	529
Nominal GDP (bil. $)	417	455	445	435	480	471	507	546	593	621
GDP per capita (000s $)	47.6	51.6	50.2	48.9	53.8	52.4	56.2	60.3	65.2	68.0
Real GDP growth	2.3	2.4	1.5	(6.5)	4.6	4.9	0.3	1.6	1.5	1.4
Real GDP per capita growth	1.4	1.9	1.1	(6.9)	4.2	4.4	(0.2)	1.2	1.1	1.0
Real investment growth	4.2	4.4	4.5	(5.3)	8.7	0.3	(0.3)	2.0	2.0	2.0
Investment/GDP	24.8	25.7	25.4	25.8	27.9	27.1	26.1	25.7	25.3	24.6
Savings/GDP	26.2	26.6	27.7	28.7	28.2	27.8	27.0	26.8	26.7	26.5
Exports/GDP	54.1	55.5	55.8	51.6	55.9	61.7	61.8	62.7	62.7	63.1
Real exports growth	4.9	5.2	4.0	(10.7)	9.6	12.6	2.2	2.6	2.0	2.0
Unemployment rate	5.9	5.2	4.8	6.0	6.2	4.8	5.0	4.7	4.5	4.4
External indicators (%)										
Current account balance/GDP	1.4	0.9	2.4	3.0	0.4	0.7	0.9	1.1	1.4	1.8
Current account balance/CARs	2.2	1.4	3.7	4.9	0.5	1.0	1.3	1.5	2.0	2.6
CARs/GDP	62.1	63.3	64.4	60.2	65.2	69.0	69.0	69.8	69.5	69.9
Trade balance/GDP	0.3	0.3	1.1	0.9	(0.1)	(0.1)	0.1	0.2	0.4	0.7
Net FDI/GDP	0.8	(0.4)	(1.2)	(2.8)	(1.8)	0.2	(1.7)	(1.7)	(1.7)	(1.7)
Net portfolio equity inflow/GDP	(1.8)	(1.5)	(1.3)	(0.9)	(2.3)	(1.2)	(2)	(2.0)	(2)	(2.0)
Gross external financing needs/CARs plus usable reserves	175.2	180.8	178.2	185.7	182.5	179.8	176.9	179.3	176.7	176.2
Narrow net external debt/CARs	121.9	104.3	103.2	131.5	109.4	94.1	99.6	99.7	101.0	104.1
Narrow net external debt/CAPs	124.6	105.8	107.2	138.3	110.0	95.0	100.9	101.2	103.0	106.9

Table 1

Austria Selected Indicators (cont.)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Net external liabilities/CARs	(9.7)	(12.3)	(25.4)	(24.9)	(26.7)	(26.2)	(22.5)	(19.2)	(16.2)	(13.4)
Net external liabilities/CAPs	(9.9)	(12.5)	(26.4)	(26.2)	(26.9)	(26.4)	(22.8)	(19.5)	(16.6)	(13.8)
Short-term external debt by remaining maturity/CARs	93.2	95.8	96.3	107.3	100.8	99.6	95.0	96.4	93.0	92.4
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 (mil. $)	21,575	23,209	23,609	30,486	33,984	33,173	33,173	33,173	33,173	33,173
Fiscal indicators (general government; %)										
Balance/GDP	(0.8)	0.2	0.6	(8.0)	(5.8)	(3.2)	(2.9)	(2.4)	(2.1)	(2.0)
Change in net debt/GDP	(0.9)	(0.1)	(1.2)	6.9	5.1	5.0	2.7	2.5	2.2	2.1
Primary balance/GDP	1.0	1.8	2.0	(6.6)	(4.7)	(2.2)	(1.4)	(0.6)	(0.3)	(0.1)
Revenue/GDP	48.5	48.9	49.2	48.8	50.3	49.6	49.5	48.7	48.5	48.5
Expenditures/GDP	49.3	48.8	48.7	56.8	56.1	52.8	52.4	51.1	50.6	50.5
Interest/revenues	3.8	3.3	2.9	2.8	2.2	1.9	3.1	3.6	3.8	3.9
Debt/GDP	76.9	72.5	69.1	81.4	80.9	77.2	77.1	75.7	74.8	74.4
Debt/revenues	158.6	148.2	140.4	166.8	160.9	155.6	155.7	155.5	154.1	153.5
Net debt/GDP	72.1	69.0	65.7	75.4	75.9	73.9	72.7	72.1	71.5	71.3
Liquid assets/GDP	4.8	3.5	3.4	5.9	5.0	3.3	4.3	3.6	3.2	3.1
Monetary indicators (%)										
CPI growth	2.2	2.1	1.5	1.4	2.8	8.6	7.4	4.3	2.9	2.3
GDP deflator growth	1.0	1.8	1.5	2.6	1.9	4.9	5.2	2.8	2.5	1.9
Exchange rate, year-end (LC/$)	0.83	0.87	0.89	0.81	0.88	0.94	0.93	0.89	0.86	0.85
Banks' claims on resident non-gov't sector growth	(2.8)	2.6	4.8	3.7	4.3	8.9	2.2	2.4	2.3	2.3
Banks' claims on resident non-gov't sector/GDP	108.4	106.6	108.4	117.1	114.6	113.4	109.7	107.6	105.8	104.8
Foreign currency share of claims by banks on residents	4.8	4.4	3.8	3.1	2.6	2.1	1.8	1.6	1.4	1.4
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

Table 1

Austria Selected Indicators (cont.)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real effective exchange rate growth	(0.3)	0.5	(1.0)	(7.0)	9.1	3.3	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. LC--Local currency. 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

Table 2

Austria 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	1	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 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	aaa	As per Table 1 of "Sovereign Rating Methodology”

Table 2

Austria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Notches of supplemental adjustments and flexibility	-1	Uncertainties regarding energy supply due to still high reliance on Russian gas supplies despite ongoing diversification efforts are not fully captured in the indicative rating. The gas transit contract between Russia's Gazprom and Ukraine's Naftogaz, which transfers gas to Austria, ends in December 2024. In the absence of a new agreement, this will require the Austrian economy to be ready to decouple entirely from Russian gas supplies at that time.
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

- Sovereign Ratings History, Aug. 16, 2023
- Sovereign Ratings List, Aug. 16, 2023
- Banking Industry Country Risk Assessment: Austria, Aug. 1, 2023
- Sovereign Risk Indicators, July 10, 2023. An interactive version is also available at www.spratings.com/sri

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Austria	
Sovereign Credit Rating	AA+/Stable/A-1+
Transfer & Convertibility Assessment	AAA
Senior Unsecured	AA+
Short-Term Debt	A-1+
Commercial Paper	A-1+