Date of Release: July 30, 2021

DBRS Morningstar Confirms Republic of Austria at AAA, Stable Trend

Industry Group: Public Finance – Sovereigns

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Republic of Austria's Long-Term Foreign and Local Currency – Issuer Ratings at AAA. At the same time, DBRS Morningstar confirmed the Republic of Austria's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trend on all ratings remains Stable.

KEY RATING CONSIDERATIONS

The confirmation of the Stable trend reflects DBRS Morningstar's view that economic scarring will be contained despite the severe impact of the Coronavirus Disease (COVID-19) outbreak and that public finances will be re-balanced in the medium term. Past debt reduction left the country with sizeable fiscal room to support the economy. Nevertheless, the government's comprehensive support package along with the sharp fall in real GDP translated into a large rise in the public debt ratio, which will likely peak in 2021 at around 87.2% of GDP up from 70.5% in 2019, before gradually declining. Assuming further progress with the vaccine rollout as well as control of new COVID-19 variants, a rapid recovery will facilitate improvement in public finances. The latest projections from the Oesterreichische Nationalbank (OeNB) point to GDP increases of 3.9% and 4.2% in 2021 and 2022, respectively, before returning to 1.9% in 2023, which is close to the pre-pandemic four-year average (2.1%).

The ratings are underpinned by Austria's prosperous, diversified, and stable economy, reflecting a real GDP per capita that is about 25% higher than the European Union (EU) average, as well as the country's solid and credible institutions. Moreover, Austria's historical track record of conservative fiscal policy bodes well for a post-pandemic improvement in public finances in the medium term. This, along with still moderate private sector debt levels despite the shock, offsets some vulnerabilities stemming from the cost associated with an ageing population, rising public debt and a likely deterioration in banking system credit quality going forward.

RATING DRIVERS

One or a combination of the following factors could lead to a downgrade: (1) Austria's government fails to gradually improve its public finances over the medium term; or (2) there is a prolonged deterioration in macroeconomic prospects, leading to a persistent increase in the public debt ratio.

RATING RATIONALE

Substantial Government Support Provides Relief but at the Cost of a Record Deficit

Austria entered the pandemic with a sound fiscal position, but the comprehensive fiscal support package implemented to mitigate the negative effects of COVID-19 on the economy caused a significant deterioration. However, once the recovery is on a steady course, Austria's fiscal position is expected to continue to benefit from the government's conservative budgetary policy demonstrated by its good track record.

Budgetary measures, including the short-time labour scheme (Kurzarbeit), the COVID-19-crisis management fund and tax breaks, along with the economic recession led to the fiscal deficit rising sharply to 8.9% of GDP in 2020, which although very high, ended up lower than anticipated in January at 9.8%. As uncertainty remains elevated and the pandemic is not over, in line with other countries, the government has planned to extend further support this year to boost recovery. This, according to the government's latest estimates, based on a conservative scenario, should imply only a slight improvement in the deficit to 8.4% of GDP in 2021. However, as the recovery appears stronger than anticipated, and assuming that no additional severe restrictions are introduced going forward, public finances should improve faster. According to the OeNB, the budgetary deficit is forecast to improve to 6.9% this year before declining below 3.0% in 2022.

After the reduction in the first personal income tax bracket to 20% from 25% last year, the government aims to further lower taxation in coming years. This strategy, along with additional investments into digitalisation and green transition, might not be budget-neutral and could lengthen the period the deficit remains above 3%, particularly if the economic recovery softens. Austria's additional fiscal vulnerabilities relate more to the long term because of the rising cost of age-related expenditures. In particular, according to the European Commission (EC), in its 2021 Ageing Report scenario, health and long-term care expenditure will increase from 6.9% and 1.8% in 2019 to 8.1% and 3.4% in 2060, respectively. These expenditures might increase further in light of the consequences of the pandemic. At the same time, the cost of gross public pensions at 13.3% of GDP in 2019 was one of the highest in the EU and is expected to continue to rise peaking in 2040 at 15.1%. Nevertheless, on a net basis, Austria's public pension costs tend to be much more moderate at around 10.5% of GDP and the government has passed further measures to increase the effective retirement age.

The Unprecedented Shock Interrupts the Improvement in the Debt Trajectory but Debt Affordability Remains Strong

After years of a steady improvement in the debt trajectory, the unprecedented crisis related to the pandemic resulted in a stark rise in the public debt ratio in 2020. The shock was softened by the substantial fiscal support but interrupted the downward trend that had seen Austria reducing its public debt by around 14 percentage points in almost five years to 70.5% of GDP in 2019. This was achieved thanks to a conservative fiscal policy and sound nominal growth accompanied by efforts to wind-down nationalised banks. The extension of fiscal support, in spite of the economic rebound, will continue to weigh on the public debt trajectory this year. Latest projections from the EC point to a rise in the debt-to-GDP ratio to 87.2% in 2021, from 83.9% registered last year, before declining to 85.0% in 2022. In DBRS Morningstar's view, provided that the pandemic's economic effects remain temporary, once the recovery is firmly underway, the government's expected prudent fiscal strategy mitigates the risk of a more structural deterioration in the debt trajectory.

Austria's liquidity position is very sound. Around 75% of total outstanding government bonds are now trading at negative yields and total interest payments on the federal debt are expected to continue to decline to 0.9% of GDP this year and a further reduction is likely going forward. Moreover, Austria's average debt maturity profile is sound at approximately eleven years, one of the longest maturities in the EU and it is expected to further increase in coming years. Austria's debt structure consists of about 95% of total outstanding federal government debt at fixed rates, which reduces and mitigates the potential effect of abrupt interest rate increases. All these factors contributed to DBRS Morningstar's positive qualitative assessment of the "Debt and Liquidity" building block.

A Rapid Rollout of the Vaccine Should Limit Restrictions Facilitating the Recovery

The government's rapid implementation of the support programme has cushioned the negative effects of the pandemic-related restrictive measures and long-lasting scars are projected to be limited. The relatively high reliance on the tourism sector, accounting for 7.5% of the country's GDP in 2019, largely explains the severe GDP fall of 6.3% in 2020 and the weak start in this year.

Following a GDP drop during the first wave of the pandemic, economic activity recovered significantly during summer 2020, but the restrictions imposed during autumn and winter, as a result of a new surge in cases, weighed on the recovery. Nevertheless, both the construction and the manufacturing sectors have also showed resilience and the tourism sector is expected to go back to normal once the health situation improves and stabilises. Moreover, Austria's economic performance in the medium term is also expected to benefit from the resources of the National Recovery and Resilience Plan (NRRP), amounting to EUR 4.5 billion.

Following a GDP contraction of 1.1% quarter-on-quarter in Q1, caused by the mobility restrictions which affected severely the winter tourism season, Austria's economic performance is projected to improve substantially. Latest estimates from the Österreichisches Institut für Wirtschaftsforschung Wien (WIFO) point to a GDP growth rate of 4.3% quarter-on-quarter in Q2 2021. Since May, the government has started to lift restrictions that along with a recovery in global trade bode well for the country's economic outlook. At the same time, total employment at around 3.8 million as of June 2021 is gradually reverting back to the July 2019 peak level, supporting consumption growth. High-frequency indicators continue to improve, signalling a stronger recovery than anticipated. According to the latest OeNB's projections, Austria's GDP will expand by 3.9% and 4.2% in 2021 and 2022, respectively. However, the spread of the Delta variant is posing some concerns and the government could reimpose some restrictions and incentivise vaccination to mitigate the expected increase in intensive care cases in the coming months. So far, more than 48% percent of the Austrian population has been fully vaccinated and the campaign continues to progress well. In DBRS Morningstar's view, unless stronger COVID-19 variants emerge, the risk of severely tighter restrictions appears limited in the short term. Medium-term economic prospects remain, however, in part constrained by restrictive regulation in the services markets, a high part-time employment rate among women, relatively low labour market participation among foreign nationals, and the high tax wedge, which although expected to decline, constrains potential GDP.

Goods Exports Projected to Continue To Recover But Tourism Still Dependent on Pandemic Evolution

Austria's external position is sound and hinges on a competitive service sector as well as a diversified manufacturing base, well integrated into EU value chains. The track record of current account surpluses along with a positive net international investment position (NIIP) support the country's ratings. The country's tourist flows have been severely weakened by the pandemic-related restrictions, but as the situation improves these are expected to recover, albeit gradually. The healthy positive NIIP has declined to 13.4% of GDP in Q1 2021 from the peak of 16.2% in Q2 2020 but it remains higher than the five-year average of 7.1% of GDP, reflecting a solid stock of foreign direct investment as well as an improvement in the negative portfolio investment position.

Last year, despite a sharp contraction in exports of 7.1% as well as in the flow of foreign tourists during the last months of the year, the current account surplus only slightly declined to 2.5% of GDP from 2.8% in 2019. Goods exports, however, have been markedly benefitting from the recovery in global demand since the end of the initial lockdown in 2020, although the tourist season was severely affected by the restrictions imposed in the autumn and the winter. In the first five months of 2021 total arrivals remained around 83% lower than during the same period in 2020, largely reflecting lower foreign tourists. Going forward, as the health situation improves and stabilises, tourist inflows are expected to return to normal. Further progress with the rollout of the vaccine, assuming no resistant Covid-19 variants emerge, as well as an easing in the restrictions both in Austria and abroad, are key elements. The recovery in GDP this year should stimulate higher imports weighing on the trade balance surplus, which last year almost doubled to 1.4% of GDP from 0.75% in 2019. According to the EC, the current account surplus is expected to continue to decline this year to 2.0% of GDP before improving to 2.5% in 2022.

High Capital Ratios Mitigate Risks for Banks Stemming From The Expected Deterioration in Loan Quality Because of Coronavirus

The banking sector is in a substantially stronger position compared with the one it had when entering the Global Financial Crisis (GFC) and it has improved its resilience. An elevated level of capitalisation, a sound liquidity position, and high coverage ratios should enable the banking system to cope with the consequences of the pandemic. In addition, nonperforming loans (NPLs) are currently low thanks to a steady decline in the past as well as recent initiatives. From 2013 to 2020, NPL ratios of Austrian banks declined to 1.5% from 4.1% and to 2.4% from 14.0% in Austria and CESEE countries, respectively. Moreover, indirectly, government support to the real economy is easing the impact of the coronavirus on the banking system. Nevertheless, past improvements in loan quality are expected to be interrupted and loans classified at stage two (IFRS9) increased significantly last year. Once the consequences of the crisis unfold and the government support measures are fully phased out, credit quality is expected to deteriorate, but frontloaded provisions along with the high level of capitalisation with a CET1 of 16.1% as of end 2020, mitigate the risk to financial stability.

State guarantees and debt moratoria have supported credit lending and liquidity buffers particularly during the first half of 2020. Since the peak in June 2020 at around EUR 30 billion, loans under moratoria have been on a declining trend to about EUR 5 billion in May this year, while the stock of loans with public guarantees has been stabilising slightly above EUR 7 billion since March 2021. Nevertheless, exposure to sectors most affected by the lockdown measures remains limited at around 6% of total loans, and although the overall debt of nonfinancial corporations rose, higher deposits and low interest costs support debt affordability. A large share of loans at variable rates and elevated reliance on the CESEE market with regard to profits, remain vulnerabilities. The foreign currency mortgage portfolio continues to decline reducing the risk of losses generating from a depreciation of the exchange rate.

After a prolonged increase in residential property prices the risk of housing price correction is rising but it is mitigated by the good financial position of households. The increase has not been credit driven but years of low interest rates and steady levels of immigration have contributed to Austria's residential property prices being approximately 18.8% higher than their estimated fundamental values in Q1 2021, according to the OeNB. The effect of the pandemic seems to have provided an acceleration in house price growth. With more people working from home, demand increased and house price growth accelerated with a 12.3% year-on-year increase registered in Q1 2021 compared with 3.4% in Q1 2020. However, household resilience is supported by a moderate debt level overall that has remained broadly stable as a share of net disposable income, at around 91%, over the last five years. Moreover, a relatively high net financial wealth estimated at approximately 149% of GDP as of Q4 2020 provides a buffer for households to absorb the economic shock.

Ratings Are Supported by Credible Institutions

The country benefits from its good track record of consensus-oriented policies, strong and credible institutions, and a prudent fiscal framework. DBRS Morningstar projects the government coalition, comprising the centre-right party (Österreichische Volkspartei, ÖVP) and the junior partner (Greens) to serve until the end of its term in 2024. Recent investigations into the ÖVP leader and Prime Minister Sebastian Kurz on suspicion of false statements to a parliamentary commission are not expected to generate government instability and subsequently delay reforms. Once the pandemic eases, frictions might however arise between the two coalition partners. Environmental policies in the Greens' agenda as well as the impact of the EU green strategy could require additional fiscal resources, testing relations in the coalition but not to such a level that it would undermine government stability.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/373262.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

EURO AREA RISK CATEGORY: LOW

Notes:
For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883

All figures are in Euros (EUR) unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments (July 9, 2021). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (February 3, 2021).

The sources of information used for this rating include Statistik Austria, OeNB (Financial Stability report – June 2021, Monetary policy & the economy – July 2021), Österreichische Bundesfinanzierungsagentur (OeBFA, Investor Presentation – June 2021), Austrian Ministry of Finance (BMF, Integrated National Energy and Climate Plan for Austria – December 2019, Update to the Austrian Stability programme – April 2021), EC (2021 Ageing report, Summer forecast 2021 – July 2021, Analysis of the recovery and resilience plan for Austria – June 2021, 2021 Rule of Law Report. Country Chapter on the rule of law situation in Austria – July 2021, the Digital Economy and Society Index – January 2021), Social Progress Imperative, Trasnsparency International, World Economic Forum (WEF), European Central Bank (ECB), WIFO, Organisation for Economic Co-operation and Development (OECD), Our World In Data, Eurostat, International Monetary Fund (IMF), World Bank, UNDP, BIS, Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: NO
With Access to Management: NO

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: https://www.fca.org.uk/firms/credit-rating-agencies.

The sensitivity analysis of the relevant key rating assumptions can be found at:
https://www.dbrsmorningstar.com/research/382481.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Last Rating Date: January 29, 2021

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Issuer	Debt Rated	Rating Action	Rating	Trend
Austria, Republic of	Long-Term Foreign Currency – Issuer Rating	Confirmed	AAA	Stable
Austria, Republic of	Long-Term Local Currency – Issuer Rating	Confirmed	AAA	Stable
Austria, Republic of	Short-Term Foreign Currency – Issuer Rating	Confirmed	R-1 (high)	Stable
Austria, Republic of	Short-Term Local Currency – Issuer Rating	Confirmed	R-1 (high)	Stable

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Austria

Scorecard Indicators

Fiscal Management and Policy	2015	2016	2017	2018	2019	2020	2021	2022	2023	Source	Current Scorecard Input	
Overall Fiscal Balance (% of GDP)	-1.0%	-1.6%	-0.7%	0.2%	0.7%	-9.6%	-6.5%	-3.6%	-2.2%	IMF WEO	13 year average	-2.6%
Government Effectiveness (Percentile Rank)	90.4	91.8	91.8	90.9	91.8	-	-	-	-	World Bank	5 year average	91.3
Debt and Liquidity	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			
General Government Gross Debt (% of GDP)	84.4%	82.5%	78.6%	74.0%	70.5%	85.2%	87.2%	85.7%	84.6%	IMF WEO	5 year projection	80.1%
Interest Costs (% of GDP)	1.9%	1.7%	1.5%	1.2%	1.0%	1.1%	1.0%	0.9%	0.9%	IMF WEO	5 year average	1.1%
Economic Structure and Performance	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			
GDP per Capita (USD thousands)	44.3	45.3	47.3	51.2	50.2	48.2	53.9	57.3	59.5	IMF WEO	10 year average	48.9
Output Volatility (%)	1.6%	1.6%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	-	IMF WEO	Latest	2.4%
Economic Size (USD billions)	382	396	417	455	445	429	482	515	538	IMF WEO	5 year average	428
Monetary Policy and Financial Stability	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			
Rate of Inflation (%, EOP)	1.0%	1.5%	2.3%	1.7%	1.8%	1.0%	1.9%	1.8%	2.0%	IMF WEO	13 year average	1.8%
Total Domestic Savings (% of GDP)	195%	198%	202%	198%	203%	228%	-	-	-	ECB/IMF	Latest[1]	228%
Change in Domestic Credit (% of GDP)	-0.3%	0.5%	-0.1%	-1.1%	-1.4%	13.3%	-	-	-	BIS/IMF	7 year average[1]	1.0%
Net Non-Performing Loans (% of Capital)	13.2%	11.2%	10.9%	8.0%	6.3%	4.6%	-	-	-	IMF IFS	Latest[1]	4.6%
Change in Property Price/GDP Index (%)	0.8%	3.3%	0.5%	2.5%	0.7%	13.3%	-	-	-	OeNB/IMF	7 year average[1]	3.1%
Balance of Payments	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			
Current Account Balance (% of GDP)	1.7%	2.7%	1.4%	1.3%	2.8%	2.3%	2.4%	2.5%	2.4%	IMF WEO	8 year average	2.2%
International Investment Position (% of GDP)	2.2%	4.1%	4.3%	5.3%	12.1%	11.0%	-	-	-	IMF	5 year average[1]	7.4%
Share of Global Foreign Exchange Turnover (Ratio)	201.4%	194.7%	200.5%	199.0%	206.4%	208.2%	-	-	-	BIS/IMF	Latest	208.2%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			
Voice and Accountability (Percentile Rank)	94.1	93.6	93.6	93.1	93.6	-	-	-	-	World Bank	5 year average	93.6
Rule of Law (Percentile Rank)	96.2	95.7	96.2	97.6	97.1	-	-	-	-	World Bank	5 year average	96.5

See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

[1] *Scores for 2020 have been computed using the most recent data when year-end data is not available.*

Rating Committee Date: 27-Jul-2021

Austria

Building Block Assessments and Rating Committee Summary

27-Jul-2021

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	16.75	Strong/Good	N/A	Strong/Good
Debt and Liquidity	11.92	Good/Moderate	+ 1 Category	Good
Economic Structure and Performance	14.50	Good	N/A	Good
Monetary Policy and Financial Stability	17.97	Strong	N/A	Strong
Balance of Payments	15.00	Strong/Good	N/A	Strong/Good
Political Environment	20.00	Very Strong	N/A	Very Strong
Overall Assessment	**Composite Scorecard Result**	**Scorecard Rating Range**	**Composite Building Block Assessment**	**Indicative Rating Range**
	80.1	AAA - AA	81.8	AAA - AA (high)

Austria's Long-Term Foreign Currency - Issuer Rating AAA

Main topics discussed in the Rating Committee include: Austria's economic recovery and tourism reliance, latest political developments, Austria's Recovery and Resilience Plan, Austria's public debt profile and fiscal outlook, banking sector vulnerabilities. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories

Lower Bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper Bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/ Poor	Poor	Poor/ Moderate	Moderate	Good/ Moderate	Good	Strong/ Good	Strong	Very Strong

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Austria, Republic of
ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
	Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
	Carbon and GHG Costs:	**N**	**N**
Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
	Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
	Resource and Energy Management:	**N**	**N**
Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
Social	**Overall:**	**N**	**N**
Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?	N	N
	Are labour or social conflicts a key source of economic volatility?	N	N
	Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
	Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
	Human Capital and Human Rights:	**N**	**N**
Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
	Institutional Strength, Governance, and Transparency:	**N**	**N**
Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
	Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
	Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
	Peace and Security:	**N**	**N**
	Consolidated ESG Criteria Output:	**N**	**N**

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Austria, Republic of: ESG Considerations

July 30, 2021

Environmental

This factor does not affect the ratings. From a credit perspective, policies relating to each environmental subfactor are generally sound. Fiscal pressure arising from new investments to achieve green targets including the reduction of greenhouse gas (GHG) emissions are not expected to break expenditure framework limits in the medium-term. The government is committed to meet the CO2 target of the Paris agreement and included ambitious measures in the coalition government agenda such as carbon neutrality by 2040. In the latest Integrated National Energy and Climate Plan for Austria, the government aimed to reduce GHG emissions by 36% compared with the 2005 level (non-ETS) by 2030, but this is expected to require sizeable public and private investment. Nevertheless, the government plans to dedicate around 59% of total resources of the National Recovery and Resilience Plan (NRRP) to achieve climate targets, which is one of the largest shares among all the EU member national plans.

Social

This factor does not affect the ratings assigned to Austria. The country's respect for human rights is high, and access to quality healthcare and other basic services is very sound. According to the 2020 Social Progress Index, Austria ranked 15th among 163 countries ranked. The economy's competitiveness, reflecting a productive workforce, is sound and ranks 21st out of 141 countries in the 2019 Global Competitiveness Index of the World Economic Forum. Last year, Austria ranked 13th among EU Member States in the Digital Economy and Society Index, slightly above the EU average. The government plans to introduce measures to encourage female labour market participation, which is relatively lower than the average among Austria's EU rating peers.

Governance

This factor does not affect the ratings of Austria. The country benefits from a very high degree of independence and transparency of its institutions. The justice system is perceived as very independent and despite the political scandal leading to the collapse of the previous government, perception of corruption in Austria is very low. According to the perception corruption index of Transparency International, the country ranks favourably at 15 out of 180 countries in 2020 and further progress with implementation of the National Anti-Corruption Strategy is ongoing, although some delays occurred due to the pandemic. Very high institutional quality is reflected also in a strong performance in the World Bank's Worldwide Governance Indicators. As of 2019, Austria's percentile rank was 91.8 for Government Effectiveness, 93.6 for Voice and Accountability and 97.1 for Rule of Law, respectively.