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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 is 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) pandemic 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, enabling the government to provide a comprehensive support package which, however, translated into a material deterioration in public finances. Nevertheless, on the back of the economic rebound, the public debt-to-GDP ratio is estimated to have started to decline in 2021, slightly decreasing to 82.8% after peaking at 83.2% in 2020. Disruptions from the implemented mobility restrictions are likely to shift the recovery but not to alter growth perspectives. Assuming the economy continues to adapt to the pandemic, DBRS Morningstar expects that Austria will return to sound GDP growth rates, which would help to repair public finances. This would also lead to a rapid debt-to-GDP ratio decline, likely to a level close to 75% in 2024.

The ratings are underpinned by Austria's prosperous, diversified, and stable economy, which benefits from a real GDP per capita that is about 24% 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 pandemic shock, offsets public finance pressures from the cost associated with an ageing population, rather elevated public debt, and some vulnerabilities in the housing market.

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 material weakening in macroeconomic prospects, leading to a persistent increase in the public debt ratio.

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RATING RATIONALE

Change in Government Leadership Not Expected to Materially Affect the Political Agenda

Austria has experienced an unusual period of political uncertainty over the last four years. First, a political scandal led to snap elections in 2019, and then Mr Kurz, the Chancellor, resigned amid corruption allegations in October 2021. DBRS Morningstar views this period of uncommon uncertainty as temporary and not reflecting the overall institutional strength of the country. Mr Kurz's resignation led to the appointment of Alexander Schallenberg as Prime Minister ad interim, who in December left this role in favour of Karl Nehammer when the latter assumed the leadership of the centre-right Österreichische Volkspartei (ÖVP) party. The governing agenda is not projected to be materially affected after the change in the leadership, which also saw a reshuffle in the ÖVP ministerial team. In DBRS Morningstar's view, the coalition government comprising the ÖVP party and the junior partner (Greens) will likely continue until the end of the legislative term in 2024, although some friction is possible.

The Eco-Social Tax Reform Not Expected to Derail the Conservative Fiscal Trajectory

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 together with the sharp recession caused a significant deterioration in public finances. However, the economic rebound, along with a gradual withdrawal of the support measures, is already facilitating public finance repair. Austria's fiscal position is likely to continue to benefit from the government's conservative budgetary policy demonstrated by its good track record.

On the back of the strong economic rebound and higher-than-expected fiscal revenues, the budget deficit is projected to have declined to 5.9% of GDP in 2021 after peaking at a record level of 8.3% of GDP in 2020. By gradually phasing in a carbon tax (EUR 30 per tonne rising to EUR 55 per tonne by 2025) beginning in July 2022, the government intends to use these proceeds to provide a cumulative tax relief for employees amounting to around EUR 19.6 billion (until 2025) and for businesses totalling EUR 3.1 billion. This measure called "Eco-Social Tax reform" includes also an investment allowance and the so-called regional climate bonus to compensate households living in more rural areas because of the carbon tax burden. The growing cost on a cash basis of the social tax reform—which is estimated at 0.7% of GDP this year and to reach 1.2% of GDP in 2025—is not projected to materially constrain the improvement in public finances in the coming years. The latest estimates from the European Commission (EC) which include the recent policy announcements point to the deficit declining to 2.3% of GDP in 2022 before further falling to 1.3% next year.

In DBRS Morningstar's view, Austria's additional fiscal vulnerabilities relate more to the long term because of the expected rise in the cost of age-related expenditures. In particular, according to the EC, in its 2021 Ageing Report, health and long-term care expenditure will increase from 6.9% and 1.8% of GDP in 2019 to 8.1% and 3.4% of GDP 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%, reflecting a declining working age population, and relatively low participation rates among older categories. However, some measures envisaged in the Austrian recovery and resilience plan (ARRP) should contribute to improve the fiscal sustainability of the pension system.

The Unprecedented COVID-19 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 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 70.6% 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 government's latest estimates point to the public debt peaking in 2020 at 83.2% of GDP before slightly declining to 82.8% in 2021, reflecting largely a strong rebound in nominal GDP. Provided the gradual withdrawal of pandemic support along with the historical track record of a conservative fiscal policy, the public debt ratio is set on a downward trajectory, decreasing close to the level of 75% by the end of 2024.

Austria's public debt profile is very sound and despite the increase in the debt stock its affordability keeps improving. In response to the expectation of a monetary policy somewhat less accommodative from the European Central Bank (ECB) in coming months, yields have started to rise but remain very low in Austria with still a large share of debt trading at negative rates. Total effective interest payments on the Federal debt fell to 0.9% of GDP last year and might further decline to 0.7% in 2022. Austria's public debt benefits also from a solid average debt maturity profile which at approximately eleven years is one of the longest maturities in the EU. Risks of an abrupt rise in interest costs remain contained as more than 90% of total outstanding federal government debt is at fixed rates. All these factors contributed to DBRS Morningstar's positive qualitative assessment of the "Debt and Liquidity" building block.

Austria's Strong Resilience Bodes Well Against Economic Scarring Despite the Vulnerability in the Tourism Sector

Austria's ratings benefit from its high GDP per capita level, low output volatility, and high diversification. Despite its moderate size, the country enjoys a high integration in the EU bloc. 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. Nevertheless, GDP is not expected to return to the pre-pandemic trend level soon, reflecting weaker consumption amid health concerns and constraints in the service sector as well as the challenges of the tourist sector, which accounted for around 7.5% of the country's GDP in 2019. This sector, particularly with the ski season and city tourism, remains highly dependent on the evolution of the pandemic. Assuming the healthcare situation around the Omicron variant is under control, other potential variants pose downside risks to the full recovery of tourism during the winter months. The compulsory vaccination policy since February 2022 should mitigate this risk.

The significant surge in COVID-19 cases in November led the government to reimpose restrictive measures, including a generalised lockdown for three weeks in December 2021. The strong economic rebound registered in the second and third quarters of last year likely softened the possible contraction in economic activity in the last quarter of 2021. Austria's economy seems to be improving its capacity to adapt to the pandemic with softer negative economic impacts caused by the mobility restrictions. The latest estimates from Österreichisches Institut für Wirtschaftsforschung Wien (WIFO) point to a rebound of 4.1% in economic growth in 2021 after the contraction of 6.7% in 2020, before growth accelerating to 5.2% this year. This reflects stronger consumption supported by the lifting in the restrictions as well the impact of the eco-social tax reform. Moreover, industry perspectives should continue to be sustained by a gradual easing of the supply-side disruptions. The strong improvement in the labour market reflecting salaried employment exceeding the pre-crisis level and unemployment at the pre-COVID level, might however generate some capacity challenges leading to some labour shortages. While inflation is high it should not significantly hamper the strong consumption momentum and so far, a second round effect on wages appears rather contained.

Medium-term economic prospects remain in part constrained by restrictive regulations 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. However, with the reforms included in the ARRP, the government aims to mitigate these constraints.

Goods Exports Projected to Continue to Recover but Tourism Still Dependent on The Pandemic Evolution

Austria's external position remains sound despite the impact of the pandemic restrictions on tourism. The country has historically benefitted from a competitive service sector as well as a diversified manufacturing base well integrated into EU value chains. Yet, over the last few months, the current account surplus has deteriorated materially amid less dynamic goods exports after their peak in mid-2021 and the prolonged impact of the restrictions on the tourism sector. The latest estimates from the EC point to a slightly negative current account balance last year after the 1.9% of GDP surplus registered in 2020 and a negative position of around 0.2% of GDP and 0.5%, in 2022 and in 2023 respectively. This reflects the expectation of high pent-up demand leading to stronger imports in the coming years along with only a gradual recovery in the travel balance. Austria's ratings benefit nevertheless from a healthy positive net international investment position (NIIP). At 12.2% of GDP in Q3 2021 it declined from a peak of 15.3% in Q2 2020 but it remains higher than the five-year average of 8.4% of GDP, reflecting a solid stock of foreign direct investment and other investments as well as an improvement in the negative portfolio investment position over the last years.

New Macroprudential Policies Along With Low Household Debt Mitigate Risks to The Housing Market

Vulnerabilities in the housing market are rising, as mortgage lending continues to remain strong, although from a low level, along with house prices having outpaced fundamentals for several years. While households are vulnerable to a rise in interest rates because of the large share of mortgages at variable rates, the risk of house price corrections remains contained as borrowers tend to show high incomes and wealth by international standards. However, for several years Austria has been experiencing a rise in property prices as a result of low interest rates, high competition among lenders and sustained immigration. According to the Oesterreichische Nationalbank (OeNB), residential property prices were 23% and 31% higher than their estimated fundamental values both in Austria and in Vienna, respectively, in July 2021. Moreover, recent data from the OeNB point to lenders tolerating high loan-to-value and debt service-to-income ratios last year, failing to comply to a sufficient degree with the Financial Market Stability Board (FMSB)'s recommendation on sustainable mortgage lending issued in 2018. In addition, the share of variable rate new lending for mortgages remains high at around 38%, despite the significant decline over the years making household exposed to a rise in interest rates.

In response to the rise of the systemic risk in the housing sector the FSMB asked the OeNB in December last year to prepare an FMSB recommendation to the Financial Market Authority (FMA) to impose legally binding measures by mid-2022. In DBRS Morningstar's view, although drivers for the rise in housing prices may remain in place because of still low interest rates, new macroprudential policies could mitigate the risk of further material overheating in the housing market. DBRS Morningstar views risks to financial stability as contained. Households' resilience is strong, reflecting both a moderate and broadly stable debt in aggregate as a share of net disposable income, at around 92% over the last five years. A relatively high net financial wealth estimated at approximately 145% of GDP as of Q3 2021 provides a buffer for households to absorb potential shocks.

The banking sector is in a substantially stronger position compared with the one it had when entering the global financial crisis and it has improved its resilience despite the increase in systemic risk stemming from the real estate sector. An elevated level of capitalisation, a sound liquidity position, and high coverage ratios should also enable the banking system to cope with the consequences of the pandemic. Government support has provided an important relief to the private sector with insolvencies remaining well below 2019 and nonperforming loans continuing to decline. Once the consequences of the crisis unfold and the government support measures are fully phased out, however, credit quality is expected to deteriorate, although moderately, but frontloaded provisions and the high level of capitalisation with a CET1 ratio of 16.1% as of Q2 2021 mitigate the risk to financial 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:

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 (Press release on tourism: 12.571-162/21), OeNB (Financial Stability report – November 2021, Monetary policy & the economy – October 2021), Österreichische Bundesfinanzierungsagentur (OeBFA, Investor Presentation – January 2022), Austrian Ministry of Finance (BMF, Austrian Draft Budgetary Plan 2022 – October 2021), EC (2021 Ageing report – May 2021, Autumn forecast 2021 – November 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 – November 2021), Social Progress Imperative, Transparency International, ECB, WIFO (Economic Outlook for 2021 to 2023: New Lockdown Delays Economic Recovery in Austria – December 2021), Eurostat, International Monetary Fund (IMF WEO October 2021, IFS), FMSB (30th meeting of Austria's Financial Market Stability Board – December 13, 2021), Organisation for Economic Co-operation and Development (OECD), World Bank, 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/391361.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.
Lead Analyst: Carlo Capuano, Vice President, Global Sovereign Ratings
Rating Committee Chair: Nichola James, Managing Director, Co-head of Sovereign Ratings, Global Sovereign Ratings
Initial Rating Date: June 21, 2011
Last Rating Date: July 30, 2021

DBRS Ratings GmbH, Sucursal en España
Paseo de la Castellana 81
Plantas 26 & 27
28046 Madrid, Spain
Tel. +34 (91) 903 6500

DBRS Ratings GmbH
Neue Mainzer Straße 75
60311 Frankfurt am Main Deutschland
Tel. +49 (69) 8088 3500
Geschäftsführer: Detlef Scholz
Amtsgericht Frankfurt am Main, HRB 110259

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

Carlo Capuano
Vice President
Global Sovereign Ratings
+34 91 903 6510
carlo.capuano@dbrsmorningstar.com

Nichola James
Managing Director, Co-Head of Sovereign Ratings
Global Sovereign Ratings
+49 69 8088 3689
nichola.james@dbrsmorningstar.com

Austria

Scorecard Indicators

										Source	Current Scorecard Input	
Fiscal Management and Policy	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Overall Fiscal Balance (% of GDP)	-1.5%	-0.8%	0.2%	0.6%	-8.8%	-5.8%	-2.9%	-1.8%	-0.9%	IMF WEO	13 year average	-2.3%
Government Effectiveness (Percentile Rank)	91.8	91.8	91.8	92.3	94.7	-	-	-	-	World Bank	5 year average	92.5
Debt and Liquidity	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
General Government Gross Debt (% of GDP)	82.5%	78.6%	74.0%	70.5%	83.2%	84.2%	81.1%	79.8%	78.0%	IMF WEO	5 year projection	72.2%
Interest Costs (% of GDP)	1.7%	1.5%	1.2%	1.0%	0.9%	0.5%	0.7%	0.6%	0.5%	IMF WEO	5 year average	0.7%
Economic Structure and Performance	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
GDP per Capita (USD thousands)	45.3	47.3	51.2	50.2	48.6	53.8	57.9	60.4	63.3	IMF WEO	10 year average	49.2
Output Volatility (%)	1.6%	2.3%	2.3%	2.4%	2.3%	2.3%	2.4%	2.3%	-	IMF WEO	Latest	2.3%
Economic Size (USD billions)	396	417	455	445	433	481	520	546	575	IMF WEO	5 year average	446
Monetary Policy and Financial Stability	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Rate of Inflation (%, EOP)	1.5%	2.3%	1.7%	1.8%	1.0%	2.9%	2.2%	2.0%	2.0%	IMF WEO	13 year average	1.8%
Total Domestic Savings (% of GDP)	198%	203%	198%	203%	226%	223%	-	-	-	ECB/IMF	Latest[1]	223%
Change in Domestic Credit (% of GDP)	0.5%	-0.5%	0.2%	0.0%	10.7%	0.0%	-	-	-	BIS/IMF	7 year average[1]	1.5%
Net Non-Performing Loans (% of Capital)	11.2%	10.9%	8.0%	6.3%	4.6%	3.8%	-	-	-	IMF IFS	Latest[1]	3.8%
Change in Property Price/GDP Index (%)	3.3%	0.5%	2.5%	0.7%	12.3%	7.7%	-	-	-	OeNB/IMF	7 year average[1]	4.0%
Balance of Payments	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Current Account Balance (% of GDP)	2.7%	1.4%	1.3%	2.8%	2.5%	1.6%	2.0%	1.8%	1.8%	IMF WEO	8 year average	1.9%
International Investment Position (% of GDP)	4.1%	4.3%	6.0%	13.5%	9.3%	13.4%	-	-	-	IMF	5 year average[1]	9.3%
Share of Global Foreign Exchange Turnover (Ratio)	194.8%	200.5%	198.9%	206.1%	207.8%	210.8%	-	-	-	BIS/IMF	Latest	210.8%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**			
Voice and Accountability (Percentile Rank)	93.6	95.1	94.2	95.2	95.7	-	-	-	-	World Bank	5 year average	94.7
Rule of Law (Percentile Rank)	95.7	97.1	98.6	98.6	97.1	-	-	-	-	World Bank	5 year average	97.4

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 2021 have been computed using the most recent data when year-end data is not available.

Rating Committee Date: 25-Jan-2022

Austria

Building Block Assessments and Rating Committee Summary

25-Jan-2022

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.15	Strong	N/A	Strong
Debt and Liquidity	13.10	Good	+ 1 Category	Strong/Good
Economic Structure and Performance	14.60	Good	N/A	Good
Monetary Policy and Financial Stability	17.25	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**
	80.9	AAA - AA	82.6	AAA - AA (high)

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

Main topics discussed in the Rating Committee include: Fiscal and economic outlook, public debt profile, vulnerabilities in the housing market, the eco-social tax reform, the recovery in the toursim sector, COVID-19 impact on Austria and political environment. 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

Republic of Austria
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.

<u>Austria, Republic of: ESG Considerations</u>

January 28, 2022

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, is not expected to weigh significantly on fiscal expenditures in the medium term. The government plans to gradually introduce a carbon tax in July 2022 which will not be budgetary neutral, but its impact on public finance is expected to be moderate and to contribute to the national target of carbon neutrality by 2040. 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 members 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 2021 Social Progress Index, Austria ranked 14th out of 163 countries. A productive workforce reflecting a high GDP per capita supports the country's competitiveness. Moreover, Austria's human capital score is above the EU average in all the EC Digital Economy and Society Index (DESI) indicators apart from the percentage of firms providing ICT training. The government plans to introduce measures to encourage female labour market participation, which is somewhat lower than the average among Austria's EU rating peers, according to the OECD.

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 political uncertainty caused by a political scandal in 2019 and the resignation of Mr Kurz from the Chancellery in October last year, the perception of corruption in Austria is very low. According to the perception of corruption index of Transparency International, the country ranks favourably at the 13th place out of 180 countries in 2021 and further progress is expected with the implementation of the National Anti-Corruption Strategy that 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 2020, Austria's percentile rank was 94.7 for Government Effectiveness, 95.7 for Voice and Accountability and 97.1 for Rule of Law, respectively.