S&P Global Ratings

RatingsDirect®

Research Update:

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

September 11, 2020

Overview

- We expect Austria's GDP to contract significantly in 2020 due to COVID-19, and to recover in 2021 before returning to its long-term growth trend.
- Revenue losses and measures to fight the pandemic will lead to a material one-off fiscal deficit in 2020, but we expect debt to GDP to start declining again from 2021.
- We are therefore affirming our 'AA+/A-1+' ratings on Austria.
- The outlook remains stable.

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Rating Action

On Sept. 11, 2020, 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.

At the same time, we affirmed our 'AA+' long-term and 'A-1+' short-term issue ratings on Austria's senior unsecured debt.

Outlook

The stable outlook reflects our assumption of a relatively swift economic recovery following the deep recession in 2020, partly supported by the rebound in key trading partners. We assume that Austria will contain fiscal deficits by 2022 at latest, after it has withdrawn policy measures to fight the economic and social effects of the pandemic.

Downside scenario

Pressure on the ratings could build should the economic downturn prove deeper and longer than our projections, leading to a multiyear deterioration of Austria's public finances and its external position.

Upside scenario

We could raise the ratings if effective deficit containment measures put government debt on a clear downward trend. This, in tandem with progress on structural reforms, would be a result of more predictable policymaking, which we would see as confirmation of Austria's stable and efficient institutional framework.

Rationale

Austria is facing a severe economic downturn in 2020 as a result of the containment measures to fight COVID-19. However, in the absence of a second wave of lockdown measures, we believe that Austria's wealthy and competitive economy will weather the current challenge, posting a swift recovery from 2021 and continuing to operate current account surpluses, further adding to the country's international net asset position. The ratings on Austria are also supported by our view of its strong political system and institutions, with generally effective checks and balances. As a eurozone member, Austria benefits from the monetary policy credibility of the European Central Bank (ECB) and access to deep capital markets. The ratings are constrained by Austria's relatively high public debt and currently limited predictability on upcoming reforms and fiscal plans.

Institutional and economic profile: The sizable policy stimulus should enable growth recovery in 2021

- We estimate Austria's economy will decline by 6.7% in 2020, followed by a rebound of 4.1% in 2021.
- The number of reported COVID-19 infections is low, but the economic, social, and financial costs of the pandemic will be significant.
- The tourism industry will take a large hit this year due to reduced travel opportunities.

We believe the economic effects of the pandemic are less pronounced in Austria than in other European countries, and we forecast GDP will decline by 6.7% in 2020, which is a smaller decline than we expect for the eurozone average (-7.8%). Austria implemented a lockdown in March 2020 to fight the spread of the pandemic. Given Austria's economic structure and the length and magnitude of restrictions implemented, we think it likely that Austria's relative success in containing the spread of the virus will help economic activity to bounce back in the second half of 2020. We also note that travel restrictions to and from Germany, Austria's main trading partner, have practically been lifted. Early indicators like electricity consumption and truck traffic are also picking up.

We expect real GDP growth per capita to decline by 0.4% during 2020-2023, as the sharp decline in 2020 will be largely offset in 2021 and we expect a return to Austria's trend growth thereafter. An intensified trade war with the U.S. is a considerable downside risk to the forecast, besides COVID-19.

Austria so far has reached a count of nearly 30,000 cases of COVID-19, with about 750 deaths. Containment measures were in place from March 16 to mid-April, involving strict laws on staying at home, closure of restaurants and most shops, and a ban on large public gatherings. The government also imposed border controls on a number of countries during this time, which are partly still in place. The social and economic costs of these measures are rising, since the number of visitors, predominately from overseas, has fallen considerably, delivering a large hit to Austria's services-based economy and reducing demand for employees. We expect short-term work schemes will benefit companies and employees, but we expect the unemployment rate to rise to 5.5% in 2020, since businesses might lay off employees due to unexpected losses stemming from reduced demand.

As a small, very wealthy, and open economy, Austria is largely synchronized with the European monetary union and most trade is with eurozone member states. Our base-case expectation remains that the Austrian economy will rebound by slightly over 4% in 2021, also helped by recovery in Europe.

Total exports and imports will shrink in 2020, due to the decline in international trade. We therefore expect Austria's current account surplus will shrink to 1.1% of GDP during 2020-2023, lower than in the past owing to a lower surplus in services.

We acknowledge the high degree of uncertainty over our forecast period through 2023 because the pace of recovery will be contingent on the evolution of the pandemic and the effectiveness of policy measures to contain it, both of which are difficult to predict.

In early 2020, a new federal government took over from the caretaker government, which was in office for eight months following the break-up of the former coalition. The government consists of two parties--the People's Party (ÖVP) and the Greens, with the latter taking part in a federal government for the first time. We haven't observed many disagreements between the new coalition partners in the measures implemented, but also notice that no new financial plans have been published so far. It remains to be seen how the two partners in government will address the agenda to consolidate budgets, focus on more active climate policy measures, and deliver on promised tax cuts. We believe the coalition might face challenges, given the limited ideological common ground between ÖVP and the Green Party. This could lead to dissidence over some issues in parliament, particularly those related to environmental or migration policies, given the small majority the coalition holds, and the upcoming need to consolidate following lower tax receipts.

Since the details of various measures are yet to be decided, their budgetary effect remains unclear. We also see risks to the long-term sustainability of public finances emanating from the aging population, with measures such as adjusting the pension system to take into consideration increasing life expectancy unlikely to be tackled for now. Although we don't expect this to significantly affect Austria's otherwise sound public finance position in the medium term, we see these developments as risks to its currently strong and predictable policy-setting process.

Flexibility and performance profile: A record fiscal deficit in 2020 will further increase already high general government debt

- Despite a significant hit to the tourism sector, we expect the current account will stay in surplus.
- Fiscal support measures will weigh on the state's budgets predominantly in 2020, but might also affect fiscal accounts in the years to come.
- As a eurozone member, Austria benefits from access to deep eurozone capital markets and the ECB's monetary policy stance.

Austria is in a net external asset position, which we view as a key supporting factor to its creditworthiness. The country has continuously achieved current account surpluses since 2002, predominantly supported by a sound surplus in services and improving trade balances. Its high level of trade openness and the relative importance of tourism to the economy (estimated to contribute about 16% of GDP directly and indirectly) makes it vulnerable to the negative economic implications of the pandemic. Notably, the net surplus in tourism roughly equals the country's current account surplus. For 2020, we expect that the sharp economic slowdown in external demand will lead to a significant reduction of its current account balance in 2020 and 2021, with an average surplus of about 1% of GDP, down from 2.5% achieved in 2018-2019.

Narrow net external debt is consistently above 100% of current account receipts, as the pace of external deleveraging, predominately from Austrian banks, has reduced considerably. Foreign exchange-related risks are negligible, with foreign-currency-denominated loans making up about 10% of total loans for nonfinancial corporations and less than 2% for private households.

Fiscal accounts are running into deficit over the next few years, following increased expenditure and sluggish tax revenue. We therefore do not expect a repeat of 2018 and 2019 when Austria posted small budget surpluses because solid economic growth boosted tax revenue. Besides one-off measures like guarantees and one-off transfers to fight the pandemic in 2020, the government intends to implement tax rate cuts. Parts of the tax reform have already been implemented retrospectively, while further steps have been announced for 2021 and thereafter.

In October 2020, the government will present its medium-term budgetary trajectory, together with the federal budget for 2021, including information about the key drivers of budgetary strategy. In the absence of further information on the 2021 budget and the medium-term financial planning, we think it likely that the average change in net government debt (our preferred fiscal flow metric) from 2021 to 2023 will be about 1.8% of GDP, compared with an average annual reduction of 0.7% of GDP in the last four years. Further budgetary pressures could arise from the uncertainties around the shape of the economic recovery, additional pandemic-related expenditure, the planned tax reform, and planned increase in infrastructure investment. In the longer term, public finances could be pressured by age-related expenditure, which we expect will gradually increase to 5.3% of GDP in 2023 from 4.9% in 2018. If unaddressed, this could have long-lasting structural repercussions on the long-term sustainability of public finances.

Austria's general government debt is higher than that of peers like the Netherlands or Germany. Including the debt hike in 2020 following the largest fiscal deficit in years, we expect Austria's net general government debt will reach 75% of GDP in 2023, about 10 percentage points higher than in 2019. Austria has taken advantage of loose monetary conditions spurred by the ECB to improve its debt profile, reduce its interest bill, and extend its debt maturities, including 100-year issuances in 2017 and 2019. As a result, we assume that the share of interest expenditure to general government revenue will stay well below 5%. This reflects--among other factors--that Austria's eurozone membership is a credit strength.

In our view, government contingent liabilities are low. Most government-related entities are already consolidated in the general government remit, and additional guarantee schemes following the pandemic should contain minor risks. Therefore, we estimate the size of fiscal contingent liabilities at less than 5% of GDP. We do not take into account export and export-finance guarantees of about €30 billion at year-end 2019, since we deem these guarantees as bearing low risk with very limited claims since 1950.

Assuming an economic rebound during 2021, we expect a subdued banking sector performance to persist in 2021-2022, since risk costs are likely to remain high. However, we anticipate that the overall damage will remain contained and banks will be able to absorb the downturn without material depletion of their capital bases. This is due to high wealth levels, low household indebtedness, and a relatively strong and diverse corporate sector. Government programs, large-scale subsidies for temporarily shortened working hours, and the strength of the social benefits system are likely to absorb or prevent material adverse effects on the banking system. Looking beyond the pandemic, we believe an enhanced focus on efficiency and profitability will contribute to banking system stability over the cycle. Despite material progress, cost efficiency of domestic operations remains a weakness for most Austrian banks compared with many of their European peers. This is notably due to still-dense branch networks, legacy information technology (IT) systems, and decentralized structures.

The banking sector will have to improve at balancing digital innovation with physical proximity to its customer base. If legacy IT or organizational structures prevent the efficient roll-out of new technology, we see risks that the potential for cost savings and additional revenue will be lost, hurting future profitability expectations. (For more information see "Tech Disruption In Retail Banking: Austrian Banks' Bricks And Clicks Model Still Does The Trick," published Jan. 29, 2020, on RatingsDirect.)

Key Statistics

Table 1

Austria Selected Indicators

Mil. €	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. LC)	333	344	357	370	386	399	377	399	411	425
Nominal GDP (bil. $)	443	382	395	418	456	446	422	459	464	472
GDP per capita (000s $)	52.0	44.5	45.5	47.7	51.6	50.4	47.4	51.4	51.7	52.3
Real GDP growth	0.7	1.0	2.1	2.5	2.4	1.6	(6.7)	4.1	1.4	1.5
Real GDP per capita growth	0	0.1	0.7	1.6	1.8	1.2	(7.1)	3.6	0.9	1.0
Real investment growth	(0.4)	2.3	4.1	4.0	3.9	2.7	(6)	2.0	1.6	1.4
Investment/GDP	23.5	23.8	24.2	25.0	25.2	25.4	26.4	24.9	24.9	25.1
Savings/GDP	26.0	25.5	26.9	26.5	27.5	28.1	26.8	26.4	26.1	26.3
Exports/GDP	53.4	53.1	52.5	54.0	55.8	55.7	46.9	52.3	52.9	53.6
Real exports growth	2.9	3.0	3.1	5.0	5.9	2.9	(18)	14.0	2.6	2.6
Unemployment rate	5.6	5.7	6.0	5.5	4.9	4.5	5.5	5.3	5.0	5.0
External indicators (%)										
Current account balance/GDP	2.5	1.7	2.7	1.6	2.3	2.6	0.4	1.5	1.2	1.3
Current account balance/CARs	4.0	2.9	4.4	2.5	3.6	4.1	0.8	2.5	2.0	2.1
CARs/GDP	61.2	59.0	61.6	62.0	64.5	63.7	54.1	59.1	59.7	60.4
Trade balance/GDP	0.3	0.7	0.7	0.4	0.9	0.9	(0.0)	0.6	0.6	0.6
Net FDI/GDP	0.6	(1.5)	(0.5)	0.8	(0.7)	(1.4)	0	0	0	0
Net portfolio equity inflow/GDP	(0.9)	(1.1)	(2.0)	(1.8)	(1.5)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Gross external financing needs/CARs plus usable reserves	195.6	195.2	185.1	174.9	177.2	177.4	201.2	183.3	182.4	180.7
Narrow net external debt/CARs	108.6	119.3	109.9	121.4	99.7	102.8	128.7	109.4	108.0	106.2

Table 1

Austria Selected Indicators (cont.)

Mil. €	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Narrow net external debt/CAPs	113.2	122.9	115.0	124.5	103.5	107.2	129.7	112.2	110.2	108.4
Net external liabilities/CARs	(8.8)	(8.4)	(10.8)	(7.3)	(8.6)	(18.1)	(22.9)	(21.5)	(22.6)	(23.8)
Net external liabilities/CAPs	(9.2)	(8.7)	(11.3)	(7.5)	(8.9)	(18.9)	(23.1)	(22.0)	(23.1)	(24.3)
Short-term external debt by remaining maturity/CARs	116.5	119.7	106.4	93.1	93.8	96.0	122.7	101.7	99.9	97.8
Usable reserves/CAPs (months)	1.1	1.4	1.1	1.1	0.9	1.0	1.2	1.1	1.0	1.0
Usable reserves (mil. $)	24,941	22,250	23,270	21,622	23,198	23,565	23,609	23,609	23,609	23,609
Fiscal indicators (general government; %)										
Balance/GDP	(2.7)	(1.0)	(1.5)	(0.7)	0.2	0.7	(10)	(3.5)	(0.5)	(0.1)
Change in net debt/GDP	3.0	3.0	(0.5)	(1.0)	(0.1)	(1.2)	10.1	3.7	0.7	0.3
Primary balance/GDP	(0.3)	1.3	0.5	1.1	1.8	2.2	(8.6)	(2.0)	1.0	1.4
Revenue/GDP	49.7	50.1	48.6	48.4	48.8	48.9	49.0	47.8	47.6	47.4
Expenditures/GDP	52.4	51.1	50.1	49.1	48.7	48.2	59.0	51.3	48.1	47.5
Interest/revenues	4.9	4.7	4.3	3.8	3.3	2.9	2.8	3.1	3.2	3.2
Debt/GDP	82.3	83.3	81.4	76.7	72.4	68.8	82.9	82.0	80.3	78.1
Debt/revenues	165.6	166.2	167.5	158.5	148.2	140.7	169.1	171.6	168.6	164.8
Net debt/GDP	78.4	78.8	75.5	71.9	68.9	65.4	79.3	78.6	77.0	74.9
Liquid assets/GDP	3.9	4.5	5.9	4.8	3.5	3.4	3.6	3.4	3.3	3.2
Monetary indicators (%)										
CPI growth	1.5	0.8	1.0	2.2	2.1	1.5	0.8	0.9	1.7	1.7
GDP deflator growth	2.2	2.3	1.7	1.1	1.7	1.7	1.3	1.7	1.7	1.7
Exchange rate, year-end (LC/$)	0.82	0.92	0.95	0.83	0.87	0.89	0.87	0.88	0.89	0.91
Banks' claims on resident non-gov't sector growth	(1.7)	0.3	5.9	(3.0)	2.5	4.9	(2)	4.0	2.0	2.0
Banks' claims on resident non-gov't sector/GDP	116.5	113.0	115.4	108.0	106.3	107.9	111.9	109.9	108.7	107.4
Foreign currency share of claims by banks on residents	7.9	7.4	6.1	4.8	4.4	3.8	3.8	3.5	3.3	3.0
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.)

Mil. €	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real effective exchange rate growth	1.8	(4.6)	3.5	(0.4)	1.4	(2.8)	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	Generally 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 may hinder timely policy response.
Economic assessment	1	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
External assessment	1	Based on narrow net external debt /(current account receipts + useable reserves) 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 has displayed current account surpluses, on average, from 2019-2022 (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 current account receipts, as per Selected Indicators in Table 1
Fiscal assessment: flexibility and performance	2	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.
		Nonresidents hold over 60% of government commercial debt.
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.

Table 2

Austria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		Austria is a member of the Economic and Monetary Union
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	Constrained policy predictability, especially on medium-term financial policies, is not fully captured in the indicative rating.
Sovereign credit rating		
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

- 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 List, Sept. 3, 2020
- Sovereign Ratings History, Sept. 3, 2020
- Sovereign Ratings Score Snapshot, Sept. 2, 2020
- Global Sovereign Rating Trends Midyear 2020: Outlook Bias Turns Negative As Governments Pile On Debt To Face COVID-19, July 30, 2020
- Economic Research: European Economic Snapshots: The Eurozone Will Recover Only Gradually, July 24, 2020
- Economic Research: Nowcasting In Times Of Crisis: How We Are Tracking The COVID-19 Recovery, July 23, 2020
- Sovereign Risk Indicators, July 14, 2020; a free interactive version is available at http://www.spratings.com/sri
- Economic Research: The Global Economy Begins A Slow Mend As COVID-19 Eases Unevenly,

July 1, 2020

- Economic Research: Eurozone Economy: The Balancing Act To Recovery, June 25, 2020
- Banking Industry Country Risk Assessment: Austria, June 17, 2020
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020
- Sovereign Debt 2020: Commercial Borrowing By Developed Markets In EMEA Expected To Reach $1.2 Trillion, Feb. 20, 2020
- Global Sovereign Rating Trends 2020: Sovereign Debt Buildup Continues, Jan. 29, 2020
- European Developed Sovereign Rating Trends 2020, Jan. 29, 2020
- Tech Disruption In Retail Banking: Austrian Banks' Bricks And Clicks Model Still Does The Trick, Jan. 29, 2020
- Austrian Coalition Collapse: Implications For Sovereign Ratings, May 20, 2019
- How Standard & Poor's Assesses The ECB's Monetary Flexibility When Rating Eurozone Sovereigns, Feb. 11, 2015

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+