

RATING ACTION COMMENTARY

Fitch Downgrades Austria to 'AA'; Outlook Stable

Fri 06 Jun, 2025 - 5:01 PM ET

Related Content:

[Austria - Rating Action Report](#)

Fitch Ratings - Frankfurt am Main - 06 Jun 2025: Fitch Ratings has downgraded Austria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA+'. The Outlook is Stable.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

The downgrade reflects the following key rating drivers and their relative weights:

High

Continued Fiscal and Macro Challenges: Austria's fiscal and macroeconomic outlook has further worsened since our previous review. The 2024 fiscal deficit was 4.7% of GDP, significantly exceeding our forecast of 3.7% of GDP, driven by a worse economic environment and overspending at the local government and municipality level. We expect government debt/GDP to continue rising in the medium term given this new starting point, despite the new government's sizable fiscal consolidation programme.

Wide Fiscal Deficits: We forecast general government deficits will narrow gradually, to 4.3% of GDP in 2025 and 3.9% in 2026. Our forecasts are slightly more optimistic than the government's projections, but they are larger than the deficits of 4.0% in 2025 and 3.6% in 2026 that we expected during our previous review in January 2025. The figures also lag the peer median for 'AA' rated sovereigns, projected at 2.5% and 1.9% of GDP, respectively.

The government's consolidation programme reverses some of the fiscal loosening measures introduced in recent years, including the compensation for CO2 pricing

("Klimabonus") and inflation adjustments of tax brackets, while also identifying new revenue and expenditure measures. The programme is clearly specified and designed to minimise its effect on the broader economy, reducing some implementation risks. However, sustained economic weakness poses a significant threat to revenue growth and could undermine these consolidation efforts.

Rising Government Debt Burden: General government debt was 81.8% of GDP at end-2024, significantly higher than the 76.6% of GDP we expected a year ago. Our forecasts indicate the debt-to-GDP ratio will continue increasing in the medium term and stabilise only between 2027 and 2029 at 86% of GDP, significantly higher than the 71.0% of GDP before the pandemic and the 48.8% of GDP median for 'AA' rated sovereigns.

Medium

Prolonged Economic Weakness: Austria's economy contracted for a second consecutive year in 2024, shrinking by 1.2%, compared with our forecast of -0.9% in January. This leaves its economic output 3.3% below before the Ukraine war, the weakest in the EU.

We expect the economy to stagnate in 2025, before GDP growth recovers to 1.2% in 2026, driven by a rebound in consumer spending, a revitalised real estate market and potential positive spill-over effects from fiscal loosening in Germany. However, downside risks remain prominent due to uncertainties surrounding US tariffs and weakening competitiveness, which might pose structural challenges to Austria's economic recovery. Unit labour costs in Austria surged by about 20% over the last two years, twice the pace observed in the eurozone.

Long-Term Fiscal Pressures: Beyond our forecast horizon, Austria will face increasing fiscal pressure from an aging population and climate-related expenditure. The Fiscal Council projects that from 2029, the primary balance will deteriorate by 0.7pp of GDP over the following five years due to these challenges. The evolving geopolitical landscape is also contributing to increased spending pressures on defence. Austria is not a NATO member but it plans to double its military expenditure to 2% of GDP by 2032, a significant increase from 0.8% in 2024 and 1% by 2029 currently included in the government's spending plans.

Austria's 'AA' IDRs also reflect the following key rating drivers:

Strong Credit Fundamentals: The rating is supported by a diversified and wealthy economy, the reserve currency status of the euro as well as strong political and social

institutions, as reflected by the World Bank Governance Indicators (WBG I) that are above the 'AA' median.

Long Average Debt Maturity: Austria maintains the longest average maturity of marketable general government debt in the EU, at 11.4 years, which mitigates the effect of rising interest rates on debt servicing costs. We project interest payments/revenue to increase to 3.6% in 2026 from 2.9% in 2024, in line with the 'AA' median, despite a higher debt burden.

Strong Private External Position: Austria's external private sector balance sheets are strong and in a net creditor position compared with the rest of the world, relative to a net debtor position for the public sector. Austria's sovereign net foreign assets were -42.1% of GDP at end-2024 (significantly worse than the -8.6% for the 'AA' median), but public external indebtedness is inflated by TARGET2 net liabilities, which were 16.7% of GDP at the end of 2024.

Resilient Banking Sector: The Austrian banking sector remains robust despite increased non-performing loans and challenges from commercial real estate. Strong capitalisation and profitability support its resilience. Falling interest rates since mid-2024 have improved financing conditions, boosting housing loan demand. Banks maintain solid liquidity, with a coverage ratio of 168% at end-2024, using government and covered bonds to mitigate risks. Fitch's Macro-Prudential Indicator for Austria is '2', indicating moderate vulnerability from credit growth and asset prices.

ESG - Governance: Austria has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the WBG I have in our proprietary Sovereign Rating Model (SRM). Austria has a high WBG I ranking at 87.6, reflecting its long record of stable and peaceful political transitions, well established rights for participation in the political process, strong institutional capacity, effective rule of law and a low level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** A further substantial increase of government debt-to-GDP ratio beyond our current forecasts, for example due to failure to implement fiscal consolidation measures or weak revenue dynamics.

- **Macro:** A persistent weak growth outlook, for example, due to weaker potential growth and/or an erosion of external competitiveness.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** General government debt/GDP on a clear downward path over the medium term to significantly lower levels, due to stronger economic growth or fiscal consolidation.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Austria a score equivalent to a rating of 'AA-' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- **Macro:** +1 notch to offset the deterioration in the SRM output driven by volatility from the pandemic and subsequent inflation shock. The deterioration of the GDP growth volatility variable reflects very substantial and unprecedented exogenous shocks that have hit the majority of sovereigns, and Fitch believes that Austria has the capacity to absorb them without lasting effects on its long-term macroeconomic stability.

We have removed the +1 notch for public finances as we no longer expect government debt-to-GDP to decrease beyond the forecast period.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

COUNTRY CEILING

The Country Ceiling for Austria is 'AAA', two notches above the LT FC IDR. This reflects very strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +3 notches above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Austria has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Austria has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Austria has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Austria has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Austria has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Austria, as for all sovereigns. As Austria has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

PRIOR ⚡

Austria	LT IDR	AA	Downgrade	AA+
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA	Downgrade	AA+
	LC ST IDR	F1+	Affirmed	F1+
	Country Ceiling	AAA	Affirmed	AAA
senior unsecured	LT	AA	Downgrade	AA+
Senior Unsecured- Local currency	LT	AA	Downgrade	AA+
senior unsecured	ST	F1+	Affirmed	F1+

PREVIOUS

Page

1

of

10 rows



NEXT

1

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Country Ceiling Criteria \(pub. 24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub. 24 Oct 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

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

Sovereign Rating Model, v3.14.3 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Austria EU Issued, UK Endorsed

UNSOLICITED ISSUERS

Austria (Unsolicited)

With Rated Entity or Related Third Party Participation	Yes
With Access to Internal Documents	Yes
With Access to Management	Yes

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating s

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Austria EUR 16.6 mln 5.125% bond/note 02-Jan-2034	XS0182592062	Long Term Rating	Unsolicited
Austria EUR 15.17 bln 4.15% bond/note 15-Mar-2037	AT0000A04967	Long Term Rating	Unsolicited
Austria EUR 8.51 bln 3.15% bond/note 20-Jun-2044	AT0000A0VRQ6	Long Term Rating	Unsolicited
Austria EUR 1.5 bln	AT0000A10683	Long Term Rating	Unsolicited

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.