S&P Global Ratings

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Austria

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Austria

Key Rating Factors

Sovereign Credit Rating
AA+/Stable/A-1+

Institutional and economic profile	Flexibility and performance profile
Weaker growth rates ahead as global trade is slowing • S&P Global Ratings expects the Austrian economy to expand at significantly lower rates going forward, burdened by the unfavorable external economic outlook in the near term. • The new federal government plans to implement tax cuts over the next few years, but coalition partners' different political goals might lead to less predictable outcomes. • As a result, there is some lack of visibility regarding the government's budgetary plans.	Strong external performance outweighs relatively high, albeit declining, government debt to GDP • Austria's external financial position remains a rating strength, despite a decline in current account surpluses. • Net government debt is still relatively high, despite its declining trend, but benefits from a favorable debt profile with a long average maturity and low interest rates. • The European Central Bank's (ECB's) monetary policy remains expansionary, resulting in favorable domestic borrowing conditions.

Outlook

The stable outlook reflects our expectation that Austria will maintain a sound public finance position, despite the expected deterioration in economic growth.

We could raise the ratings if ongoing reforms result from more predictable policymaking, which we would see as confirmation of a stable and efficient institutional framework.

We could take a negative rating action if we observed a substantial deterioration in Austria's economic outlook, which could arise from a significant external shock to its open economy. We could also take a negative rating action if we observed a substantial deterioration in Austria's fiscal performance.

Rationale

The ratings on Austria are supported by our view of its strong political system and institutions, with generally effective checks and balances. The ratings also reflect our view of its prosperous, competitive, and export-oriented economy and strong external position, with sustained current account surpluses and contained fiscal deficits. As a eurozone member, Austria benefits from the ECB's monetary policy credibility 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: Slowing economic growth will test the new government's policy-making plans

After robust average annual GDP growth of 2.3% during 2016-2018, the economy lost momentum and decelerated to 1.6% growth in 2019. The slowdown resulted from slowing growth at major euro area trading partners, particularly Germany, which affected Austria's external performance. This was reflected in net exports, which increased 1.8% year on year in 2019, compared with 24.8% in 2018. The slower growth in goods exports was mainly seen for chemical products, machinery, transport equipment, and manufactured goods and had a negative effect on equipment investment. At the same time, domestic demand has been resilient, spurred by private consumption and residential investment, leading to overall economic growth above the eurozone average.

We forecast a further deceleration in growth during 2020-2023, given the current weakening of economic sentiment and purchasing managers' index indicators and intensifying external headwinds, specifically in 2020. Global trade tensions and shocks to major trading partners like China and Italy from the COVID-19 pandemic are expected to amplify weakness in the manufacturing sector, with the risk of a spill-over to other domestic sectors increasing. Private consumption is being supported by rising disposable incomes and a strong labor market performance, which is currently still underpinning growth. Indeed, unemployment fell to 4.5% in 2019, but we forecast it will slowly rise to 5.0% by 2023 as employment growth lessens to 0.9%-1.0% based on our reduced GDP forecast. We also note that the lion's share of jobs created have been filled by nonresident commuters from neighboring countries.

In light of increasing uncertainties regarding the severity of the COVID-19 pandemic worldwide, there could be a more severe negative effect on the Austrian economy's performance. This is because, as a small and open economy, Austria is largely synchronized with the monetary union and most trade is with eurozone member states.

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 new 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. The new government's agenda focusses on a more active climate policy measures, tax cuts, and includes a hardline policy stance on migration. We believe the coalition might face challenges given the limited ideological common ground between ÖVP and the Greens, which means tensions could arise. 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. Moreover, while the government's objective of a broadly balanced budgetary position remains intact, disagreements between the two parties cannot be excluded in light of the ongoing economic slowdown and its likely negative implications for budgetary resources.

This is especially the case given the government's program, which includes implementation of various tax-rate cuts and measures supporting environmentally friendly behavior, aimed at meeting the country's environmental goals. Given that 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: Strong external performance outweighs high public-sector debt

In our view Austria's external position is strong, with consistent current account surpluses since 2002. The sound surplus in the services balance and roughly stable trade balance are likely to continue, but at lower levels, contributing to Austria's net external asset position. Nevertheless, a sharper economic slowdown in international trade could dent the economy's export performance this year, leading to a significant deterioration of its current account balance.

Austria has found niche markets in the goods and services sector, and has identified differentiated offerings that are attracting new tourist groups, both for winter sports and city travel. The country's 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 COVID-19 pandemic. Notably, the net surplus in tourism roughly equals the country's current account surplus.

In our view, narrow net external debt will return to above 100% of current account receipts, since we do not expect external deleveraging will continue at the pace observed in recent years. At the same time, we expect current account receipts to be pressured, given the slowdown in external demand. Foreign exchange-related risks are negligible, with foreign-currency-denominated loans making up about 10% for nonfinancial corporations and less than 2% for private households.

In 2019, we estimate that Austria posted a small budget surplus, mainly spurred by solid economic growth, despite a deceleration. Strong labor market performance and related tax receipts, as well as other tax-rich components of domestic demand, supported the cyclical contribution to fiscal performance last year.

Absent further information on the 2020 budget, which the federal government is expected to present in mid-March, we do not expect these budgetary trends to continue this year. This is because of budgetary pressures given possible tax cuts, a planned increase in infrastructure investment, and, most importantly, less favorable economic conditions. As such, and recognizing the government's fiscal flexibility regarding the execution of infrastructure projects, we expect slightly weaker fiscal performance, and project a balanced budgetary position on average over the next four years. Nevertheless, a significant negative economic shock resulting from the COVID-19 pandemic would likely result in a budget deficit in the near term, absent any offsetting budgetary measures.

The government's planned medium-term budgetary trajectory will be presented in mid-2020, including information about the key drivers of budgetary strategy. In the longer term, public finances could be pressured by age-related expenditure, which is expected to 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.

On the basis of our current economic and budgetary forecast scenario, we expect Austria's general government debt to decline to 64.5% of GDP by 2022, helped by the ongoing reduction in bailed-out banks' balance sheets. In net terms--that is accounting for the government's liquid assets--government leverage should approach 61.4% of GDP in 2022. 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 with a 100-year issuance. As a result, we assume that the share of interest expenditure to general government revenue will stay well below 5%. This reflects--among other issues--that Austria's eurozone membership is a credit strength. Austria is guaranteeing and servicing a specific bond (XS0863484035) for subordinated debt issued by Heta Asset Resolution AG.

In our view, government contingent liabilities are considered to be low, because most government-related entities are already consolidated in the general government remit. Therefore, we assess the contingent liabilities from remaining government companies at less than 5% of GDP. We do not take into account export and export finance guarantees of €26 billion and €24 billion respectively, since we deem these guarantees as bearing low risk with very limited claims since 1950.

In our view, the performance of the Austrian banking system has improved on the back of several material developments in recent years, including reduced exposure to central, eastern, and southeastern Europe. Banks are also better capitalized, which, together with strong provisioning of about 60% of total loans on average, provides a buffer for unexpected losses and increases the system's stability. In our opinion, Austrian banks' risk appetite in the domestic market is restrained. This is reflected in low levels of complex and risky products and business activities, particularly in the context of a mature economy. Other forms of high-risk lending in the domestic market are also very limited. Growth of domestic banking assets began at a slow pace in 2018, mainly reflecting a moderate increase in loans to domestic nonbank customers and households. At year-end 2018, Austrian banks' aggregate net external position was in surplus, at about 7% of systemwide domestic loans. We regard such a high surplus as unsustainable over the longer term, and expect it to decrease. However, we don't expect it will turn to a net external debt position in the medium term.

Moderate overcapacity in the banking sector, resulting in low bank earnings, continues to pose some risk to Austrian banks. We believe the system needs further material and sustainable improvements in efficiency to achieve greater stability (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										
Balance Sheet Date Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Economic indicators (%)										
Nominal GDP (bil. LC)	333	344	357	370	386	399	408	421	434	448
Nominal GDP (bil. $)	443	382	395	418	456	446	456	482	514	531
GDP per capita (000s $)	52.0	44.5	45.5	47.7	51.6	50.4	51.2	53.9	57.3	58.9
Real GDP growth	0.7	1.0	2.1	2.5	2.4	1.6	0.6	1.5	1.4	1.5
Real GDP per capita growth	(0.0)	0.1	0.7	1.6	1.8	1.2	0.1	1.0	0.9	1.0
Real investment growth	(0.4)	2.3	4.1	4.0	3.9	2.9	1.1	1.5	1.6	1.4
Investment/GDP	23.5	23.8	24.2	25.0	25.2	25.5	25.2	25.4	25.3	25.5
Savings/GDP	26.0	25.5	26.9	26.5	27.5	27.3	27.2	27.3	27.1	27.4

Table 1

Austria Selected Indicators (cont.)										
Balance Sheet Date Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Exports/GDP	53.4	53.1	52.5	54.0	55.8	55.7	56.1	56.8	57.5	58.2
Real exports growth	2.9	3.0	3.1	5.0	5.9	2.7	1.5	2.6	2.6	2.6
Unemployment rate	5.6	5.7	6.0	5.5	4.9	4.5	4.7	4.8	4.8	5.0
External indicators (%)										
Current account balance/GDP	2.5	1.7	2.7	1.6	2.3	1.8	1.9	2.0	1.8	1.9
Current account balance/CARs	4.0	2.9	4.4	2.5	3.6	2.9	3.0	3.1	2.8	2.9
CARs/GDP	61.2	59.0	61.6	62.0	64.5	62.6	63.0	63.5	63.9	64.4
Trade balance/GDP	0.3	0.7	0.7	0.4	0.9	0.8	0.9	0.9	0.9	0.9
Net FDI/GDP	0.6	(1.5)	(0.5)	0.8	(0.7)	0.0	0.0	0.0	0.0	0.0
Net portfolio equity inflow/GDP	(0.9)	(1.1)	(2.0)	(1.8)	(1.5)	(1.2)	(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	179.9	176.6	172.7	168.8	166.5
Narrow net external debt/CARs	108.6	119.3	109.9	121.4	99.7	107.1	107.0	106.2	106.0	102.7
Narrow net external debt/CAPs	113.2	122.9	115.0	124.5	103.5	110.3	110.3	109.7	109.0	105.8
Net external liabilities/CARs	(8.8)	(8.4)	(10.8)	(7.3)	(8.6)	(11.7)	(14.0)	(15.9)	(17.3)	(19.2)
Net external liabilities/CAPs	(9.2)	(8.7)	(11.3)	(7.5)	(8.9)	(12.1)	(14.4)	(16.5)	(17.8)	(19.8)
Short-term external debt by remaining maturity/CARs	116.5	119.7	106.4	93.1	93.8	97.7	94.2	89.0	83.4	80.7
Usable reserves/CAPs (months)	1.1	1.4	1.1	1.1	0.9	1.0	1.0	0.9	0.9	0.8
Usable reserves (mil. $)	24,941	22,250	23,270	21,622	23,198	23,565	23,209	23,209	23,209	23,209
Fiscal indicators (general government; %)										
Balance/GDP	(2.7)	(1.0)	(1.5)	(0.7)	0.2	0.4	(0.4)	0.0	0.0	(0.1)
Change in net debt/GDP	3.0	3.0	(0.5)	(1.0)	(0.1)	(0.7)	0.4	0.2	0.2	0.3
Primary balance/GDP	(0.3)	1.3	0.5	1.1	1.8	1.8	0.9	1.3	1.2	1.1
Revenue/GDP	49.7	50.1	48.6	48.4	48.8	48.5	48.0	47.8	47.6	47.4
Expenditures/GDP	52.4	51.1	50.1	49.1	48.6	48.1	48.4	47.8	47.6	47.5
Interest/revenues	4.9	4.7	4.3	3.8	3.3	2.9	2.8	2.6	2.6	2.6
Debt/GDP	82.3	83.3	81.4	76.7	72.4	69.4	68.3	66.4	64.6	62.9
Debt/revenues	165.6	166.2	167.5	158.5	148.2	143.1	142.3	138.9	135.7	132.7
Net debt/GDP	78.4	78.8	75.5	71.8	68.9	66.0	65.0	63.2	61.5	59.9
Liquid assets/GDP	3.9	4.5	5.9	4.8	3.5	3.4	3.3	3.2	3.1	3.0
Monetary indicators (%)										
CPI growth	1.5	0.8	1.0	2.2	2.1	1.5	1.6	1.7	1.7	1.7
GDP deflator growth	2.2	2.3	1.7	1.1	1.7	1.7	1.7	1.7	1.7	1.7
Exchange rate, year-end (LC/$)	0.82	0.92	0.95	0.83	0.87	0.89	0.89	0.86	0.83	0.83
Banks' claims on resident non-gov't sector growth	(1.7)	0.3	5.9	(3.0)	2.4	4.6	2.0	2.0	2.0	2.0

Table 1

Austria Selected Indicators (cont.)										
Balance Sheet Date Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Banks' claims on resident non-gov't sector/GDP	116.5	113.0	115.4	108.0	106.2	107.4	107.1	105.8	104.7	103.4
Foreign currency share of claims by banks on residents	7.9	7.4	6.1	4.8	4.4	4.0	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
Real effective exchange rate growth	1.9	(4.8)	3.6	(0.5)	1.4	(3.1)	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 assets held by 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. e--Estimate. f--Forecast. 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	1	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.
		Austria is a member of the Economic and Monetary Union
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology."

Table 2

Austria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Notches of supplemental adjustments and flexibility	(1)	Constrained policy predictability, especially on medium-term financial policies, is not fully captured in the indicative rating.
Final 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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Economic Research: The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Sovereign Ratings Score Snapshot, March 3, 2020
- Sovereign Debt 2020: Global Borrowing To Increase To $8.1 Trillion Amid Favorable Financing Conditions, Feb. 20, 2020
- Sovereign Debt 2020: Commercial Borrowing By Developed Markets In EMEA Expected To Reach $1.2 Trillion, Feb. 20, 2020
- Economic Research: COVID-19 Will Hit Asia-Pacific Economies Hard, Feb. 19, 2020
- Sovereign Ratings History, Feb. 10, 2020
- Sovereign Ratings List, Feb. 10, 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
- Sovereign Risk Indicators, Dec. 12, 2019. An interactive version is also available at http://www.spratings.com/sri

- Banking Industry Country Risk Assessment: Austria, June 19, 2019
- Austrian Coalition Collapse: Implications For Sovereign Ratings, May 20, 2019
- Default, Transition, and Recovery: 2018 Annual Sovereign Default And Rating Transition Study, March 15, 2019
- Why Politics Matters To Sovereign Ratings, Nov. 6, 2015
- How Standard & Poor's Assesses The ECB's Monetary Flexibility When Rating Eurozone Sovereigns, Feb. 11, 2015

Ratings Detail (As Of March 13, 2020)*		
Austria		
Sovereign Credit Rating		AA+/Stable/A-1+
Transfer & Convertibility Assessment		AAA
Commercial Paper		
Local Currency		A-1+
Senior Unsecured		AA+
Short-Term Debt		A-1+
Sovereign Credit Ratings History		
29-Jan-2013	*Foreign Currency*	AA+/Stable/A-1+
13-Jan-2012		AA+/Negative/A-1+
05-Dec-2011		AAA/Watch Neg/A-1+
29-Jan-2013	*Local Currency*	AA+/Stable/A-1+
13-Jan-2012		AA+/Negative/A-1+
05-Dec-2011		AAA/Watch Neg/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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