Research Update:

Austria Outlook Revised To Stable From Positive On Fiscal And Economic Challenges; 'AA+/A-1+' Ratings Affirmed

February 14, 2025

Overview

- Austria's economic outlook remains subdued following two consecutive years of recession. We now project economic growth of 0.4% in real terms this year amid elevated economic risks, including from international trade flows.
- We estimate Austria's budget deficit in 2024 will be about 4% of GDP, which is above our previous expectations. Despite an ambitious budgetary consolidation program, we do not anticipate deficits declining below 3% of GDP before 2026.
- Furthermore, the political outlook is uncertain and we believe any new government will face the challenging task of consolidating the budget without impairing economic growth.
- We therefore revised our outlook on Austria to stable from positive and affirmed our 'AA+/A-1+' ratings.

Rating Action

On Feb. 14, 2025, S&P Global Ratings revised its outlook on Austria to stable from positive. We also affirmed our 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings.

Outlook

The stable outlook reflects our view that Austria's economy will recover moderately over the next few years but that discernible risks to its economic growth prospects and public finances will persist.

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Downside scenario

We could lower our ratings if the country's economic growth outlook materially weakens or if budgetary and current account balances deteriorate substantially compared to our current projections.

Upside scenario

We could raise the ratings if economic growth and budgetary consolidation exceeded our expectations.

Rationale

Austria's economy has been in recession for over two years and its growth outlook remains fragile. Real GDP contracted by about 1% in 2024 amid sluggish private consumption--exemplified by high savings rates--as well as weak investment activity mainly mirroring the softened construction and manufacturing sectors. Currently, we expect only a moderate recovery in 2025, with real GDP growth of 0.4%. From 2026 we think growth will normalize, settling at slightly above 1% annually, but risks from adverse developments in international trade flows in the form of higher tariffs and other protectionist policies could quickly weigh on Austria's small and open economy.

Budgetary shortfalls have exceeded our previous expectations and we now estimate the 2024 deficit will be about 4% of GDP. While the authorities are aiming to narrow the deficit to below 3% in the near term through an ambitious consolidation program, we do not anticipate Austria reaching this target before 2026 given ongoing political uncertainty and the still-weak economic outlook. This implies that government debt net of liquid government assets will rise to 79% of GDP by 2028.

Our ratings on Austria remain supported by the country's wealthy and diversified economy and its generally effective and stable institutional setup. Moreover, the ratings benefit from the country's very strong external financial profile, which has remained resilient during recent economic downturns, with healthy current account surpluses on average. Austria's relatively high external indebtedness and external financing needs are somewhat mitigated by its eurozone membership.

Institutional and economic profile: Austria's economic growth outlook remains subdued amid prolonged political uncertainty

- In 2024 Austria saw its second consecutive year of economic recession, with real GDP contracting by about 1%.
- We expect a muted recovery this year, with real growth of just 0.4% of GDP before normalizing at slightly above 1.0% from 2026.
- Economic and fiscal policy prospects remain uncertain given the protracted absence of a federal government following the elections in September last year.

Austria's current recession has persisted for longer than we initially anticipated and real GDP has contracted for a second consecutive year, by about 1% in 2024. Overall, real GDP in 2024 only marginally exceeded the 2019 level. Although the current recession has dragged on since the second half of 2022, several adverse economic developments will likely continue to spill over into 2025--which is why we have lowered our projections for real growth to 0.4%, from 1.6% six months ago. Household consumption remains subdued despite a resilient labor market with employment at record highs and real wages growth of over 5% in 2024. Savings rates have increased substantially over the last few quarters and consumer sentiment remains subdued; we expect it to pick up during 2025.

Investment activity also contracted in 2024 and we see only tepid signs of normalization. Construction activity has contracted by 20% since the beginning of 2023 amid higher interest rates. At the same time, Austria's industrial production also remains subdued, mirroring similar developments in its main trading partner, Germany. The outlook for Austria's large tourism sector remains mixed, in our view. While overnight stays already exceed 2019 levels and prices have increased by 40%, real value added in the hospitality sector still remains below 2019 levels.

Although we think several of these factors will fade away this year, we still consider Austria's growth outlook to be fragile. We also believe that budgetary consolidation measures, depending on their composition, could further delay economic recovery. For now, however, we do not believe the proposed budget measures will materially impact Austria's economy. However, we foresee risks to Austria's exports if there is a more persistent economic slump in its main trading partner, Germany. From 2026, we consider growth will pick up, averaging over 1% annually, but we see heightened risks mainly from international trade flows in the form of tariffs and protectionist policies, which could weigh on Austria's small and open economy.

The political outlook remains uncertain given the prolonged absence of a government coalition since the general elections in September. This clouds the overall fiscal and economic policy stance for the next few years. It also highlights the general trend that Austria's political landscape has become more fragmented in recent years, making government formation more challenging. Nevertheless, the authorities have a long track record of prudent policymaking. We also expect reforms aimed at improving the economy's competitiveness and energy diversification, among others, will continue. Austria's €4.5 billion Recovery and Resilience Program (RRP), mostly funded via EU grants, should also help progress various measures such as increasing digitalization.

Flexibility and performance profile: We expect budgetary consolidation will remain sluggish and debt levels will rise through 2028

- In our view, the administration's current saving measures will likely reduce the budget deficit to around 3% of GDP by 2026.
- Accordingly, we expect general government net debt will rise to 79% of GDP, from 72%, between 2024 and 2028.
- Austria's current account has fully recovered after the terms-of-trade shock in 2022 and we expect surpluses exceeding 2% of GDP through 2028.

The budget deficit in 2024 widened substantially more than we initially expected, to about 4% of GDP, and we believe current consolidation measures will only reduce the deficit to around 3% of GDP by 2026. Reasons for the worsening budgetary shortfall include materially increasing public wages, pensions, and social transfers; prolonged support measures to contain high energy prices; additional flood relief spending; higher deficits at the subsovereign level despite higher federal transfers to the sector; and lower-than-expected revenue growth from value-added taxes, given sluggish consumption.

To put public finances on a more sustainable path and to comply with the EU fiscal rules (under which budget deficits need to decline to below 3% of GDP over the medium term) the authorities have proposed a series of fiscal measures, which could add up to about €6.4 billion. Among other steps these include: discontinuing specific lump-sum transfers (for example the regional climate bonus); cutting sector-specific bonus payments; and abolishing paid educational leave as well as some subsidies for corporates and sectors. We believe all these could be reasonably easily implemented. The measures also include less specific general cuts to ministerial budgets and some adjustments to the tax code, which we expect will be harder to achieve. Given the still-high political uncertainty, potential delays in the implementation of several of these measures this year, and the muted economic outlook, we do not expect the deficit will decrease below 3% of GDP this year and only marginally exceed this threshold in 2026.

These fiscal flows imply that net general government debt will stand at about 79% of GDP in 2028, up from an estimated 72% in 2024. The government debt profile benefits from a long average maturity--of over 11 years--which keeps interest payments low in an international comparison. However, we forecast interest payments will rise to 3.2% of government revenue in 2028, from 2.7% in 2024.

We also consider the government's contingent liabilities to be low, totaling roughly 19% of GDP. This also incorporates export and export-finance guarantees totaling €32 billion (7% of GDP) as of September 2024. We consider these carry an especially low risk of materializing on the government's balance sheet as there have been very limited calls on these guarantees since 1950.

Austria's strong external financial profile is a key rating strength. The country's current account has been in consistent surplus in recent years, except for 2022, because of its diversified economy (including a large tourism sector). We project the country's current account will remain in surplus over our forecast horizon, averaging about 2.4% of GDP over 2025-2028.

In our view, Austria's relatively high external debt and external financing needs are somewhat mitigated by its eurozone membership. We expect gross external financing needs will average 175%-180% of current account receipts (CARs) plus usable reserves over 2025-2028 and external debt will exceed liquid external assets by more than 100% of CARs over the same period.

Inflation continued to decrease through most of 2024 but has picked up again in recent months, mainly driven by services prices and a slight increase in food prices. This resulted in an average increase in prices of 2.9% throughout 2024 (measured by the Harmonized Index of Consumer Prices). We expect price increases over the next few months will only slightly exceed 2.0%, despite the discontinuation of support measures against rising electricity prices. Wage agreements are now much closer to current inflation levels, indicating reduced pressure on services prices. We also do not anticipate significant inflationary effects stemming from the proposed consolidation plans.

We expect the banking sector will remain stable and continue profiting from the positive interest-rate environment. Austrian banks are among the largest beneficiaries of higher interest rates. This reflects their relatively high share of variable-interest-rate lending, which allows quick repricing on the asset side. As a result, banks' return on assets ratio has doubled since the ECB started increasing interest rates. This, combined with cost optimization measures, has materially improved Austrian banks' profitability and efficiency metrics, allowing them to close the gap with the peer average. In the medium term, we expect banks' profitability and efficiency will decrease in line with decreasing interest rates, but remain solid.

Tackling inefficiencies will be key to banks remaining competitive throughout the cycle. Structural sector impediments, such as still-dense branch networks, legacy IT systems, and decentralized structures, have so far prevented banks from stronger improvements on the cost side. While problem loans surged in 2024 to materially higher than the peer average, further asset quality deterioration will likely stay contained, also reflecting an anticipated return to economic growth. While we expect that banks with high exposure to commercial real estate could still be subject to tail risks, we think that overall losses will remain limited with no systemic implications for the banking sector.

Key Statistics

Table 1

Austria Selected Indicators

Mil. €	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Economic indicators (%)										
Nominal GDP (bil. LC)	396	380	406	448	473	490	502	519	537	554
Nominal GDP (bil. $)	443	434	480	472	512	530	551	588	617	637
GDP per capita (000s $)	50.0	48.8	53.8	52.5	56.2	57.6	59.5	63.2	66.0	67.7
Real GDP growth	1.8	(6.3)	4.8	5.3	(1.0)	(1.0)	0.4	1.1	1.4	1.2
Real GDP per capita growth	1.3	(6.8)	4.4	4.7	(2.3)	(2.0)	(0.3)	0.6	0.9	0.7
Real investment growth	4.3	(5.3)	6.0	0.4	(3.2)	(2.5)	0.3	1.0	1.6	1.5
Investment/GDP	25.7	25.7	27.7	29.0	25.2	24.9	24.6	24.6	24.6	24.6
Savings/GDP	28.0	29.1	29.4	28.1	26.5	27.3	27.0	26.9	27.1	27.3
Exports/GDP	55.9	51.7	56.0	62.0	59.5	57.6	58.3	58.7	58.8	59.1
Real exports growth	4.0	(10.5)	9.5	10.0	(0.4)	(3.0)	1.4	2.1	1.9	1.9
Unemployment rate	4.8	6.0	6.2	4.8	5.1	5.2	5.5	5.3	5.1	5.0
External indicators (%)										
Current account balance/GDP	2.4	3.4	1.7	(0.9)	1.3	2.4	2.4	2.3	2.4	2.6
Current account balance/CARs	3.7	5.6	2.6	(1.2)	1.9	3.6	3.6	3.4	3.7	4.0
CARs/GDP	64.8	60.4	67.3	72.6	69.6	66.3	66.7	66.4	66.4	66.6
Trade balance/GDP	1.1	1.2	0.0	(2.0)	0.8	1.1	1.2	1.2	1.3	1.4
Net FDI/GDP	(1.0)	(3.2)	(2.1)	(0.0)	(1.1)	(1.0)	(1.3)	(1.3)	(1.3)	(1.3)
Net portfolio equity inflow/GDP	(1.4)	(0.9)	(2.5)	(1.7)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Gross external financing needs/CARs plus usable reserves	179.5	187.7	180.0	178.8	175.7	183.8	180.5	177.3	175.0	173.5
Narrow net external debt/CARs	106.1	134.0	107.4	85.5	92.4	95.3	94.7	91.8	89.5	88.3
Narrow net external debt/CAPs	110.2	141.9	110.3	84.5	94.3	98.9	98.2	95.0	92.9	91.9
Net external liabilities/CARs	(23.4)	(24.7)	(24.9)	(26.9)	(27.9)	(26.1)	(25.8)	(26.7)	(28.6)	(30.7)
Net external liabilities/CAPs	(24.3)	(26.2)	(25.6)	(26.6)	(28.4)	(27.1)	(26.8)	(27.7)	(29.7)	(31.9)

Table 1

Austria Selected Indicators (cont.)

Mil. €	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Short-term external debt by remaining maturity/CARs	97.7	110.2	99.5	95.3	94.0	103.8	99.7	95.1	92.2	90.5
Usable reserves/CAPs (months)	1.0	1.1	1.2	1.2	1.1	1.1	1.1	1.0	1.0	0.9
Usable reserves (mil. $)	23,609	30,486	33,984	33,173	31,238	31,768	31,768	31,768	31,768	31,768
Fiscal indicators (general government; %)										
Balance/GDP	0.5	(8.2)	(5.7)	(3.3)	(2.6)	(4.0)	(3.4)	(3.1)	(2.9)	(2.7)
Change in net debt/GDP	(1.0)	7.1	5.1	4.8	3.0	5.1	4.8	4.1	3.7	3.7
Primary balance/GDP	2.0	(6.9)	(4.6)	(2.4)	(1.4)	(2.7)	(1.9)	(1.6)	(1.3)	(1.1)
Revenue/GDP	49.6	49.1	50.3	49.7	50.1	49.7	49.5	49.5	49.5	49.5
Expenditures/GDP	49.1	57.3	56.0	53.0	52.7	53.7	52.9	52.6	52.4	52.2
Interest/revenues	2.9	2.7	2.2	1.9	2.4	2.7	3.1	3.1	3.1	3.2
Debt/GDP	69.5	81.6	81.0	77.1	77.3	81.6	83.7	84.8	85.7	86.8
Debt/revenues	140.1	166.2	160.9	155.1	154.5	164.1	169.1	171.3	173.1	175.3
Net debt/GDP	61.2	70.8	71.4	69.5	68.8	71.6	74.6	76.3	77.4	78.7
Liquid assets/GDP	8.3	10.9	9.6	7.6	8.6	10.1	9.2	8.6	8.3	8.0
Monetary indicators (%)										
CPI growth	1.5	1.4	2.8	8.6	7.7	2.9	2.3	2.0	2.0	1.9
GDP deflator growth	1.5	2.6	1.9	4.8	6.6	4.5	2.2	2.2	2.0	1.9
Exchange rate, year-end (LC/$)	0.89	0.81	0.88	0.94	0.90	0.96	0.89	0.87	0.87	0.87
Banks' claims on resident non-gov't sector growth	4.8	3.7	4.3	8.1	(1.1)	0.0	1.5	2.5	2.0	2.2
Banks' claims on resident non-gov't sector/GDP	108.8	117.3	114.6	112.3	105.2	101.7	100.6	99.8	98.4	97.5
Foreign currency share of claims by banks on residents	3.8	3.1	2.6	2.2	2.0	2.0	2.0	2.0	2.0	2.0
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. €	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real effective exchange rate growth	(0.8)	(6.6)	12.2	0.2	1.9	N/A	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 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 might hinder timely policy responses.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators in Table 1.
External assessment	1	Based on narrow net external debt as per Selected Indicators in Table 1. In the context of our external assessment, we treat the euro as actively traded.
		The sovereign's net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1
Fiscal assessment: flexibility and performance	4	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
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"
Notches of supplemental adjustments and flexibility	-1	Austria's fiscal and economic indicators--namely its net debt stock, projected deficits, and real GDP growth p.c.--remain more adverse than those of similarly rated sovereigns.
Final rating		
Foreign currency	AA+	

Table 2

Austria Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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 History, Jan. 13, 2025
- Sovereign Ratings List, Jan. 13, 2025
- Sovereign Ratings Score Snapshot, Feb. 6, 2025
- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024
- Sovereign Risk Indicators, Dec. 9, 2024. An interactive version is also available at www.spratings.com/sri
- Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024

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		
Transfer & Convertibility Assessment	**AAA**	
Austria		
Senior Unsecured	AA+	
Short-Term Debt	A-1+	
Commercial Paper	A-1+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Austria		
Sovereign Credit Rating	AA+/Stable/A-1+	AA+/Positive/A-1+