MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the Aa1 ratings of Austria; maintains stable outlook

13 Nov 2020

Frankfurt am Main, November 13, 2020 -- Moody's Investors Service ("Moody's") has today affirmed Austria's Aa1 long-term issuer ratings. Concurrently, the government's senior unsecured and senior unsecured medium-term note (MTN) programme ratings have also been affirmed at Aa1 and (P)Aa1, respectively. Austria's commercial paper ratings and the other short-term ratings have been affirmed at Prime-1 and (P)Prime-1, respectively. The outlook remains stable.

The key drivers for affirming the Aa1 ratings of Austria are the following:

(1) Despite a sharp contraction in 2020, limited lasting impact of the pandemic shock on Austria's underlying economic strength which continues to be supported by very high wealth levels and a competitive economy.

(2) As for other highly rated peers of Austria, the COVID-19 shock will result in a significant increase of public debt levels in 2020 but very low costs of funding mitigate the impact of a higher debt burden on Austria's fiscal strength.

(3) Very strong institutions and governance, as illustrated by the effective implementation of economic and fiscal reforms in recent years and, more recently, by the government's swift response to soften the COVID-19 shock on the economy. This rating driver is considered a governance factor under Moody's ESG framework.

The stable outlook reflects Moody's view that the COVID-19 contraction impact will have only a very limited impact on Moody's medium-term growth outlook and that the current rise in debt-levels will be gradually reversed after peaking in 2021.

Austria's long-term and short-term foreign currency bond and deposit ceilings remain unchanged at Aaa and P-1, respectively. Austria's long-term local currency bond and deposit ceilings also remain unchanged at Aaa.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE Aa1 RATINGS

FRIST DRIVER: LIMITED LASTING IMPACT OF THE COVID-19 SHOCK ON AUSTRIA'S ECONOMIC STRENGTH WHICH IS SUPPORTED BY VERY HIGH WEALTH LEVELS AND A COMPETITIVE ECONOMY

Moody's expects that the COVID-19 pandemic will have only a limited effect on the economic strength of Austria. The support measures of the government will keep the supply-side of the economy mostly intact. As a result, the pandemic shock is not expected to have a lasting impact on the country's medium-term growth prospects. That said, Moody's forecasts real GDP to contract by 6.9% in 2020 and to rebound by 4.2% in 2021. The pre-crisis GDP level of 2019 will be reached again in the second half of 2022, in line with the majority of highly-rated peers. Downside risk to Moody's forecasts in the near term are nonetheless material given the high uncertainty around the speed, scale and persistence of the recent, renewed increase of coronavirus cases and restrictions put in place by the government.

Austria's fundamental economic strength remains strong and supports the country's Aa1 ratings. This is because of Austria's relatively large and very wealthy economy and moderate leverage of the private sector. With a nominal GDP of $445 billion, the size of Austrian economy is in the top 20% among all sovereigns rated by Moody's. With respect to wealth, Austria ranks in the top 10% globally with a GDP per capita in purchasing power parity (PPP) terms of $58,850. The Austrian economy benefits from a significant, high-value-added industrial base being located at the heart of Europe and highly integrated into the German and Central European supply chains. The Austrian economy is also highly competitive. The country performs favorably with respect to indicators measuring productivity as highlighted by high scores of Austria in the WEF Infrastructure, Innovation and Higher Education and Training Indexes. In addition, the Austrian economy is characterized by a very high diversity as highlighted by the country's favorable scores in the United Nations Conference on Trade and Development Products Exports Diversification Index and the Economic Complexity Index produced by the

Observatory of Economic Complexity.

SECOND DRIVER: IMPACT OF THE SHARP RISE IN GOVERNMENT DEBT ON FISCAL STRENGTH MITIGATED BY VERY LOW COSTS OF FUNDING

Moody's expects debt of the general government to increase significantly in the near term peaking at 84.9% of GDP in 2021 which is about 14 percentage points above the 2019 level, an increase that is slightly above the median of Aaa- and Aa1-rated sovereigns. The rise in indebtedness stems from large fiscal deficits which Moody's estimates at 9.5% of GDP in 2020 and 5.7% of GDP in 2021, due to the cost of the support measures aimed at containing the impact of the shock, combined with weaker revenues and higher expenditures arising from the recession. These deficits will fully reverse the credit-positive and material decline in Austria's debt-to-GDP ratio observed in the four years' preceding the pandemic.

Moody's expects however that the debt-to-GDP ratio will return to a downward trajectory starting 2022, falling to 82% of GDP by the end of 2024. The elevated debt-to-GDP ratio compared to highly rated peers will remain a weakness of Austria's credit profile. The debt-to-GDP ratio of Austria surpassed the median of Aaa- and Aa1-rated sovereigns by 29 percentage points in 2019. However, the debt-to-GDP ratio of Austria will remain significantly below the levels of Western European peers such as France (Aa2 stable), Belgium (Aa3 stable) or the United Kingdom (Aa3 stable).

Moody's notes that very high debt affordability will continue to mitigate the negative impact of the significant increase of government debt on fiscal strength. The yields of Austrian government bonds are on historically low levels because of the very expansionary monetary policy of the European Central Bank and safe haven flows as highlighted by Austria's government bond yields closely tracking those of Germany (Aaa stable). Moody's expects Austria's funding costs to remain very favorable and support strong debt affordability metrics with interest-to-budgetary revenue averaging less than 2% over 2020 to 2022 compared to an average 4.6% during the previous 10 years. Moreover, the average term to maturity of Austrian government bonds is with 10.6 years at end-October 2020 one of the longest among European countries only behind the United Kingdom limiting the exposure to an increase in interest rates.

THIRD DRIVER: A VERY HIGH STRENGTH OF THE COUNTRY'S INSTITUTIONS AND GOVERNANCE

Moody's views fiscal policy effectiveness as well as monetary and macroeconomic policy effectiveness as very high. Austria's fiscal policy effectiveness is underpinned by a strong fiscal framework which is supported by the Austrian Fiscal Advisory Council being tasked with monitoring the government's budgetary targets and submitting recommendations to the government if necessary. Prudent fiscal policy in combination with strong growth in recent years resulted in fiscal surpluses in 2018 and 2019. Supply-side reforms initiated in recent years are also illustrative of institutional strength so are recent measures aimed at containing the impact of an ageing population on growth and the country's public finances in the coming decades.

Moody's assesses the quality of Austria's legislative and executive institutions as well as the strength of civil society and the judiciary as very strong. This reflects Austria's very effective public administration, strong rule of law and other institutional attributes as indicated by the country's strong scores on several dimensions of the Worldwide Governance Indicators (WGI). The high quality of Austria's legislative and executive institutions was also highlighted by the quick actions and well-designed support measures of the government aimed at limiting the impact of the COVID-19 pandemic on medium-term growth.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's view that the COVID-19 contraction impact will have only a very limited impact on the country's medium-term growth outlook and that the debt burden will resume its downward trajectory after peaking in 2021. This is in line with the fiscal policy objective of the Austrian government to have balanced budgets, depending on the cyclical position. In the long term, the authorities also aim to reduce the debt-to-GDP ratio toward the 60% threshold of the Maastricht Treaty restoring the fiscal space lost because of the COVID-19 shock. Moody's currently expects debt-to-GDP to drop to 81.9% by 2024.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Moody's takes account of the impact of environmental (E), social (S), and governance (G) factors when assessing sovereign issuers' economic, institutional, and fiscal strength and their susceptibility to event risk. In the case of Austria, the materiality of ESG to the credit profile is as follows.

Environmental considerations currently exert limited influence on Austria's credit profile. This is highlighted by

Austria being among the list of sovereigns that Moody's identifies as least susceptible to physical climate change risk according to Moody's assessment of the susceptibility of sovereigns' credit quality to climate change risk. Moreover, in line with other advanced economies, Moody's scores overall environmental risks for Austria's credit profile as low. In addition, the share of energy from renewable sources in gross final energy consumption was 33.4% in 2018, which is significantly above the European Union (EU, Aaa stable) average of 18.9%.

Social risks are a factor affecting Austria's credit profile over the long-term given that its ageing population and low birth rate pose risks to the country's growth potential, and therefore also to its fiscal flexibility and the sustainability of its social security systems. Austria benefits from very low inequality of disposable income, which is conducive to social cohesion. Moreover, Austria's fiscal system of taxes and transfers significantly reduce income inequality to relatively low levels, as reflected by Austria's Gini coefficient of 27.5 for equivalized disposable income in 2019 compared with a Gini coefficient of equivalized disposable income before social transfers (with pensions included in social transfers) of 47.6.

Moody's regards the coronavirus outbreak as a social risk under Moody's ESG framework, given substantial implications for public health and safety. The spread of the coronavirus and a deteriorating global economic outlook are creating a severe and extensive credit shock across many sectors, regions and markets. Moody's believes that the combined negative effect of these developments will lead to an at least temporary reversal of Austria's otherwise improving credit metrics.

Austria's very sound framework of governance and its strong fiscal framework are key factors underpinning the Austrian government's high levels of investor confidence and very low funding costs. Moody's assesses Austria's institutions and governance as very strong. Moody's views the quality of Austria's legislative and executive institutions as well as the strength of civil society and the judiciary to be very strong. In addition, Moody's assesses fiscal policy effectiveness as well as monetary and macroeconomic policy effectiveness also as very high.

GDP per capita (PPP basis, US$): 58,850 (2019 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.4% (2019 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.8% (2019 Actual)

Gen. Gov. Financial Balance/GDP: 0.7% (2019 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 2.8% (2019 Actual) (also known as External Balance)

External debt/GDP: [not available]

Economic resiliency: aa3

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 10 November 2020, a rating committee was called to discuss the ratings of Austria. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely in the near term because of the significant impact of the COVID-19 shock on Austria's economy and public finances, the country's Aa1 ratings could come under upward pressure in case of a successful implementation of economic reforms that would increase potential growth via addressing the structural constraints such as a high tax burden on labor and an ageing population. Fiscal measures that would increase the prospects of a significant decline in Austria's elevated debt burden compared to peers over the medium-term would also be positive for the rating.

Conversely, the ratings would come under downward pressure if the medium-term growth prospects would weaken materially and particularly if this would also translate in significantly weaker fiscal metrics with an uninterrupted increase of the government's debt burden over the medium-term.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November

2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1158631 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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