

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 equalized disposable income in 2019 compared with a Gini coefficient of equalized 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Heiko Peters
VP-Senior Analyst
Sovereign Risk Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Yves Lemay
MD-Sovereign/Sub Sovereign

Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of

MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.