Research Update:

Austria Outlook Revised To Positive On Budgetary Consolidation Prospects; 'AA+/A-1+' Ratings Affirmed

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Overview

- We expect Austria's economy will rebound to 4.1% growth in 2022, before moderating to 1.7% on average during 2023-2025 on the back of robust domestic demand.
- The solid economic backdrop will in our view support a faster budgetary consolidation over 2022-2025, with the budget deficit at about 0.8% of GDP by 2025, and a corresponding improvement in the general government debt-to-GDP ratio.
- We therefore revised our outlook on Austria to positive from stable and affirmed our 'AA+/A-1+' ratings.

Rating Action

On Feb. 25, 2022, S&P Global Ratings revised its outlook on Austria to positive from stable. At the same time, we affirmed our 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Austria.

We also affirmed our 'AA+' long-term and 'A-1+' short-term issue ratings on the country's senior unsecured debt and the 'AA+' local currency issue rating on the sovereign-guaranteed bond (XS0863484035) of subordinated debt issued by Heta Asset Resolution AG.

Outlook

The positive outlook signifies that we could raise our rating on Austria within the next 24 months if its budgetary performance improves beyond our current expectations, resulting in a declining net government debt-to-GDP ratio.

Upside scenario

We could raise our ratings on Austria if fiscal results outperform our current expectations, putting the government debt burden as a share of GDP on a clearly discernible downward trajectory.

Downside scenario

We could revise the outlook to stable if the economy weakens more than we expect, or makes large and negative deviations from our current budgetary projections.

Rationale

We revised the outlook to positive from stable to reflect our view that Austria's economic growth outlook should remain broadly resilient over 2022-2025, benefitting the country's budgetary performance. We expect solid economic results over our forecast horizon, reaching 4.1% growth in 2022 following an estimated 4.7% real growth rate in 2021, together with the phasing out of the temporary pandemic-related budgetary measures will enable the government to accelerate its budgetary consolidation. At the same time, we expect the economy to maintain a strong external account position.

The country's strong institutional settings continue to support our rating on Austria, with generally effective checks and balances, and a wealthy and diversified economy. We also consider Austria's membership in the euro area as a credit strength, allowing it to benefit from the European Central Bank's (ECB's) extraordinary policy response to the pandemic and the eurozone's deep capital markets.

Institutional and economic profile: Strong economic growth momentum will continue in 2022, before moderating over 2023-2025

- We expect real GDP to continue its strong recovery in 2022, averaging about 2.3% growth over 2022-2025.
- Austria's recovery and resilience package, totaling €4.5 billion, is primarily backed by EU funds and will support economic performance.
- We expect the current governing coalition to hold, despite recent turmoil, and proceed with its economic and budgetary policy agenda.

We expect Austria's economic recovery to continue this year with real GDP growth of 4.1% after a strong estimated rebound of 4.7% in 2021. The economic recovery accelerated until the last quarter of 2021 as mobility restrictions were put in place between November 2021 and February 2022.

Estimates suggest that consumer-related services were hit particularly hard, leading to a drop in real GDP growth of 2.2% in the last quarter of 2021 versus the previous quarter. That said, we note that the negative impact on growth is estimated to be smaller than that of previous lockdowns, because households and companies have adapted to such constraints. The series of lockdown measures last year significantly weighed on private consumption and exports, hitting tourism in particular. We expect this sector, which generally accounts for about 7.5% of Austrian GDP, will recover more slowly than others, such as manufacturing, construction, and information technology (IT). Despite the strong rebound in tourism over 2021, estimated overnight stays were still only about half of 2019 levels. In light of the mobility restrictions between November 2021 and February 2022 and the related adverse impact on the winter season, the sector is unlikely to fully recover in 2022.

Nevertheless, rising domestic demand, supported by a release of pent-up demand and household savings, a gradual pick-up in tourism, and Europewide economic growth, will underpin economic expansion over 2022-2025. Private consumption will also be supported by the ongoing eco-social tax reform that aims to reduce the tax burden in the economy and could therefore accelerate the release of excess savings accumulated since the beginning of the pandemic. The main downside risks to Austria's economic outlook in the near term include the evolution of the pandemic, with respect to potential emergence of new COVID-19 variants and the dissipation of supply side constraints, which we assume will resolve in the second half of 2022. Moreover, we also note that the currently heightened regional geopolitical risks could lead to higher energy prices and hence inflation levels beyond what we currently expect.

The labor market's performance has, in our view, benefitted from the government's short-time work scheme, which will continue to support labor market recovery in the most vulnerable sectors at least until June 2022. Labor market pressures have been intensifying in recent months, leading the unemployment rate to drop to an estimated 4.9% in December 2021 from 6.0% at year-end 2020. Given the recent positive economic environment, we now expect unemployment to reach the pre-pandemic level of 4.8% in 2022. We believe that measures included in the government's eco-social tax reform with respect to the reduction of the tax burden on employees and employers could favor further increases in the employment rate toward the outer years of our forecast horizon.

The eco-social tax reform was passed in February and entails about €18 billion in measures to strengthen Austria's global competitiveness over 2022-2025. It primarily targets the Austrian tax structure by gradually easing the burden on companies and their employees, while greening the tax system through the introduction of carbon dioxide pricing. The main measures include tax reduction for low- and middle-income households, families, pensioners, and enterprises. As an example, starting July 2022, the wage tax will be gradually reduced to 30% from 35% and the income tax to 40% from 42%.

We consider the government's economic and budgetary policy measures, including the extension of selected fiscal support and targeted containment measures, to be effective, highlighting Austria's track record of predictable and effective policymaking and its mature institutional framework. However, the longer-term policy agenda is less certain, given the limited ideological common ground between the recently tested governing coalition of the ÖVP (Austrian People's Party) and the Green Party. Medium-term policy plans on fiscal consolidation have improved in substance; however, concrete action points, such as the pension reform, remain vague.

At the same time, we believe that Austria's €4.5 billion recovery and resilience package co-financed by the EU could support reform momentum, since it includes, for example, eco-social tax reforms and measures to increase digitalization of the economy. Indeed, our analysis suggests that the full deployment of the EU Recovery and Resilience grants could lift economic growth in Austria by 0.1%-0.4% during 2021-2026 (see "Next Generation EU Will Shift European Growth Into A Higher Gear," published April 27, 2021, on RatingsDirect)

Flexibility and performance profile: Austria's deficit will decline significantly in 2022 thanks to strong economic recovery and the withdrawal of pandemic-related budgetary support measures

- Strong economic recovery and the government's deficit-reducing measures will improve the government's budgetary position over 2022-2025.
- The external financial position remains a rating strength, despite a decline in current account surpluses.
- Austria continues to benefit from access to deep eurozone capital markets and the ECB's accommodative monetary policy stance, which has pushed interest rates to very low levels.

We expect the budget deficit to narrow further this year as the government's discretionary budgetary support measures, worth about 3.6% of 2021 GDP, are discontinued during 2022. In our view this should help to reduce the general government deficit to 2.5% of GDP in 2022, from 5.4% in 2021.

Our forecast assumes a slower fiscal consolidation path, as implied by the government, with the general government deficit falling to 0.8% by 2025, versus 0.4% projected in the government's strategy program 2022-2025. This is because of our lower economic growth assumption and some additional budgetary spending, for example stemming from the recently announced discretionary measures (including hospital financing) totaling about €2.2 billion (0.5% of GDP), which we understand were not factored into the 2022 budget. Still, we believe that the favorable economic performance--in particular nominal GDP growth--will support government revenue growth and that the government will keep spending broadly under control.

Despite the declining deficits over 2022-2025, we expect net general government debt to remain above pre-pandemic levels at 72% of GDP on average through 2025. Government debt benefits from a long average maturity of between 10 and 11 years and low interest rates. For example, we expect interest payments over the period 2022-2025 to represent only 1.8% of government revenue.

In our view, government contingent liabilities are low. We estimate government guarantees, not included in general government debt, at about 21% of GDP. This includes export and export-finance guarantees of about €31 billion (8% of GDP) as of September 2021, which we deem as having a particularly low risk of materializing on the government's balance sheet, since there have been very limited calls on these guarantees since 1950.

Austria's external profile remains a credit strength, although we estimate a small current account deficit in 2021, mostly attributed to the lost winter tourism season in the first quarter and supply side bottlenecks in the second half of the year. The supply chain disruption, especially associated with Germany, Austria's main trading partner, is expected to have a delayed impact on Austria's manufacturing sector. We assume supply bottlenecks and high energy prices will dissipate in the second half of 2022, however, boosting production and export growth. This, combined with rising domestic demand and increasing tourism sector receipts, should improve the services balance and lead to current account surpluses of 0.7% in 2022 and an average of about 1.3% over 2022-2025. The tourism sector's relatively large share makes Austria vulnerable to new waves of the pandemic and renewed lockdown measures. Estimates suggest that Austria's current winter tourism season will remain below pre-pandemic levels with overnight stays of foreign guests at levels approximately half of those before the pandemic.

Austria's relatively high external indebtedness and external financing needs are somewhat mitigated by its eurozone membership. We expect Austria's gross external financing needs will average about 182% of current account receipts (CARs) plus usable reserves over 2022-2025 and its external debt will exceed liquid external assets by about 122% of CARs over the same period. However, we note that Austria's overall net international investment position is much stronger, partly thanks to the country's substantial outward stock of foreign direct investment.

Austria continues to benefit from its eurozone membership through the monetary union's highly developed capital markets and the ECB's credible monetary policy, including the extraordinary quantitative easing measures currently still in place. Although we expect the ECB to start normalizing its monetary policy in the course of 2022, the process will be gradual (see "The ECB Opens The Door To A Rate Liftoff," published Feb. 8, 2022). As a result, we expect monetary policy to allow the Austrian government to keep funding costs low.

In line with global trends, inflationary pressures have risen since the beginning of 2021 alongside the global economy's rebound. Inflation rose to about 5.0% year on year in January 2022, the highest number since November 1984, mostly of which can be attributed to higher commodity prices. Besides that, supply side constraints also weigh on inflation. We expect inflation in Austria to remain high in the first half of 2022, before moderating to 3.2% in 2022, and gradually decreasing to 1.8% by 2025 based on a reversal of high commodity prices and supply side constraints.

We expect the banking sector's financial stability risks related to the pandemic to ease as the Austrian economy continues its recovery path. We consider the cost efficiency of domestic operations to remain a weakness for most Austrian banks compared with many of their European peers.

Key Statistics

Table 1

Austria--Selected Indicators

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic indicators (%)										
Nominal GDP (bil. LC)	358	369	385	398	379	405	431	448	464	480
Nominal GDP (bil. $)	396	417	455	445	433	479	497	522	546	564
GDP per capita (000s $)	45.5	47.6	51.6	50.2	48.7	53.6	55.4	58.0	60.4	62.1
Real GDP growth	2.0	2.3	2.5	1.5	(6.7)	4.7	4.1	2.0	1.6	1.4
Real GDP per capita growth	0.6	1.4	1.9	1.1	(7.2)	4.3	3.6	1.6	1.2	1.0
Real investment growth	4.3	4.2	4.4	4.8	(5.2)	4.5	2.9	2.6	2.1	2.2
Investment/GDP	24.3	24.8	25.8	25.6	25.8	25.8	25.4	25.3	25.1	25.2
Savings/GDP	27.0	26.2	26.7	27.7	27.7	25.7	26.0	26.4	26.6	26.9
Exports/GDP	52.4	54.1	55.4	55.4	51.4	54.7	54.6	55.6	56.2	56.7
Real exports growth	3.0	4.9	5.1	3.4	(10.8)	10.0	3.5	3.7	2.6	2.2
Unemployment rate	6.5	5.9	5.2	4.8	6.0	4.9	4.8	4.7	4.6	4.6
External indicators (%)										
Current account balance/GDP	2.7	1.4	0.9	2.1	1.9	(0.1)	0.7	1.2	1.5	1.8
Current account balance/CARs	4.4	2.2	1.4	3.3	3.3	(0.2)	1.1	1.9	2.4	2.8
CARs/GDP	61.6	62.1	63.3	64.1	58.0	61.5	61.0	62.4	62.9	63.5
Trade balance/GDP	0.7	0.3	0.3	1.0	0.8	(0.2)	(0.0)	0.2	0.4	0.5
Net FDI/GDP	(0.5)	0.8	(0.4)	(1.4)	(2.3)	(1.5)	(1.3)	(1.0)	(1.0)	(1.0)

Table 1

Austria--Selected Indicators (cont.)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net portfolio equity inflow/GDP	(2.0)	(1.8)	(1.5)	(1.3)	(0.9)	(2.0)	(1.8)	(1.5)	(1.3)	(1.3)
Gross external financing needs/CARs plus usable reserves	185.1	175.3	180.8	178.3	191.0	188.2	187.8	183.1	179.4	177.0
Narrow net external debt/CARs	109.9	121.9	102.8	104.0	137.2	129.4	127.8	120.9	116.7	112.8
Narrow net external debt/CAPs	115.0	124.6	104.3	107.5	141.9	129.1	129.2	123.2	119.5	116.1
Net external liabilities/CARs	(10.8)	(9.7)	(13.3)	(24.1)	(21.9)	(12.6)	(16.6)	(18.6)	(21.6)	(25.7)
Net external liabilities/CAPs	(11.3)	(10.0)	(13.5)	(24.9)	(22.7)	(12.5)	(16.7)	(18.9)	(22.1)	(26.5)
Short-term external debt by remaining maturity/CARs	106.4	93.2	95.8	96.0	112.2	107.5	110.0	104.0	99.5	96.6
Usable reserves/CAPs (months)	1.1	1.1	0.9	1.0	1.2	1.2	1.4	1.3	1.2	1.2
Usable reserves (mil. $)	23,270	21,622	23,198	23,565	30,505	34,039	33,984	33,984	33,984	33,984
Fiscal indicators (general government; %)										
Balance/GDP	(1.5)	(0.8)	0.2	0.6	(8.3)	(5.4)	(2.5)	(2.0)	(1.5)	(0.8)
Change in net debt/GDP	(0.5)	(0.9)	(0.1)	(1.2)	6.9	4.3	2.5	2.1	1.7	1.0
Primary balance/GDP	0.5	1.0	1.8	2.0	(7.0)	(4.2)	(1.6)	(1.2)	(0.7)	0.1
Revenue/GDP	48.5	48.5	48.9	49.2	48.7	48.8	48.3	48.1	48.3	48.3
Expenditures/GDP	50.1	49.3	48.7	48.6	57.1	54.2	50.8	50.1	49.8	49.1
Interest/revenues	4.3	3.8	3.3	2.9	2.7	2.4	1.9	1.7	1.7	2.0
Debt/GDP	81.3	76.9	72.5	69.1	81.7	80.2	77.5	76.1	75.2	73.7
Debt/revenues	167.5	158.6	148.2	140.4	167.5	164.3	160.5	158.3	155.6	152.7
Net debt/GDP	75.4	72.1	69.0	65.6	75.7	75.2	73.1	72.4	71.5	70.2
Liquid assets/GDP	5.9	4.8	3.5	3.4	5.9	4.9	4.4	3.8	3.6	3.5
Monetary indicators (%)										
CPI growth	1.0	2.2	2.1	1.5	1.4	2.8	3.2	2.3	2.0	1.8
GDP deflator growth	1.8	1.0	1.8	1.6	2.3	1.9	2.3	2.0	1.9	1.9
Exchange rate, year-end (LC/$)	0.95	0.83	0.87	0.89	0.81	0.88	0.87	0.85	0.85	0.85
Banks' claims on resident non-gov't sector growth	5.9	(3.0)	2.5	4.9	3.5	4.3	4.0	4.0	3.6	3.3
Banks' claims on resident non-gov't sector/GDP	115.3	108.2	106.3	108.2	117.4	114.8	112.1	112.1	112.1	112.1

Table 1

Austria--Selected Indicators (cont.)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Foreign currency share of claims by banks on residents	6.1	4.8	4.4	3.8	3.1	2.0	3.0	3.0	3.0	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	3.6	(0.4)	1.4	(1.0)	(8.3)	9.3	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	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 might hinder timely policy response.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators in Table 1.
External assessment	2	Based on narrow net external debt 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 is displaying current account surpluses, on average, from 2022-2025 (as per Selected Indicators in Table 1). The sovereign has external short-term debt by remaining maturity that generally exceeds 100% of current account receipts (CARs), 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 CARs, as per Selected Indicators in Table 1.
Fiscal assessment: flexibility and performance	3	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 generally hold over 60% of government commercial debt.

Table 2

Austria--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
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	aa+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	None.
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

- 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, Feb. 7, 2022
- Sovereign Ratings List, Feb. 7, 2022
- Banking Industry Country Risk Assessment Update: January 2022, Jan. 28, 2022
- Sovereign Risk Indicators, Dec. 13, 2021. An interactive version is also available at www.spratings.com/sri
- Banking Industry Country Risk Assessment: Austria, July 13, 2021

- Default, Transition, and Recovery: 2020 Annual Sovereign Default And Rating Transition Study, April 12, 2021

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; Outlook Action

	To	From
Austria		
Sovereign Credit Rating	AA+/Positive/A-1+	AA+/Stable/A-1+
Ratings Affirmed		
Austria		
Transfer & Convertibility Assessment	AAA	
Senior Unsecured	AA+	
Short-Term Debt	A-1+	
Commercial Paper	A-1+	
Heta Asset Resolution AG		
Subordinated	AA+	