Republic of Austria
Rating Report

AAA STABLE OUTLOOK

Credit strengths

- Wealthy, resilient, and diversified economy
- Strong external position with low private-sector indebtedness
- Sound banking sector
- Favourable public debt profile and market access

Credit challenges

- High public debt stock relative to peers
- Adverse demographic trends weighing on growth prospects and public finances

Rating rationale:

Wealthy, resilient, and diversified economy: Austria's rating benefits from its highly diversified, wealthy economy, with a strong recovery from the Covid-19 crisis underway.

Strong external position: Austria holds a robust net international investment position with low private sector debt and favourable external liability structure, providing the country with a resilient external position.

Sound banking sector: The resilience of Austria's banking sector has increased in recent years, allowing it to weather the Covid-19 crisis well. Capitalisation and asset quality remain on a steady improving trend, and profitability rebounded strongly with the economic recovery.

Debt profile and market access: Austria benefits from a favourable debt profile, with very long average maturity and low interest rates. Its funding strategy is supported by the ECB's accommodative monetary policy, including its asset purchases.

Rating challenges include: i) a high public debt stock relative to peer levels; and ii) long-term spending pressures arising from high pension and healthcare costs and an ageing society that also weighs on growth prospects in the absence of structural reforms.

Austria's sovereign rating drivers

Risk pillars		Quantitative scorecard		Reserve currency adjustment (notches)	Qualitative scorecard	Final rating
		Weight	Indicative rating		Notches	
Domestic Economic Risk		35%	aaa		0	AAA
Public Finance Risk		25%	a+		0	
External Economic Risk		10%	a		+1/3	
Financial Stability Risk		10%	aaa		+1/3	
ESG Risk	Environmental Risk	5%	aaa		0	
	Social Risk	5%	bbb+		0	
	Governance Risk	10%	aaa		0	
Overall outcome		**aa+**		**+1**	**+1**	

Note: The sum of the qualitative adjustments, capped at 1 notch per rating pillar, is weighted equally and rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings GmbH

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced over the next 12 to 18 months.

Positive rating-change drivers

- N/A

Negative rating-change drivers

- Growth outlook weakens
- Fiscal outlook deteriorates, resulting in an increase of public debt
- Risks in the banking sector re-emerge

Ratings and Outlook

Foreign and local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: RESP SCOP

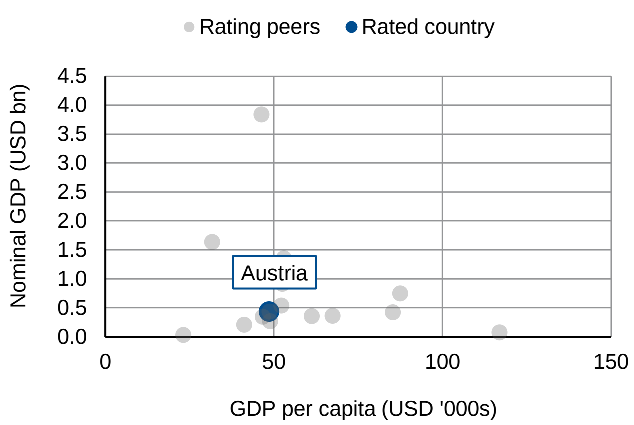
Domestic Economic Risks

- **Growth outlook:** Austria suffered one of the deepest economic contractions among AAA-rated peers in 2020 (-6.7% real GDP growth), worse than Germany (-4.6%) or Switzerland (-2.5%), largely due to a higher reliance on tourism (accounting for more than 7% of national GDP). The lifting of Covid-19 restrictions and continued government support allowed economic activity to recover, edging above its pre-pandemic level in the second quarter of 2021. The tourism sector benefitted from the return of foreign entrants, while manufacturing exports improved, boosted by the recovery in global demand. The late-2021 uptick in Covid-19 cases led the government to enforce a fourth national lockdown in November, causing GDP to fall by 2.2% QoQ in Q4 2021 due to a dip in consumer spending and tourism exports. Looking ahead, we expect the recent lifting of restrictions to allow for the recovery to resume. After an estimated 4.7% real growth rate in 2021, we expect GDP growth to moderate to 4.2% in 2022 and 2.3% in 2023. The growth outlook should be supported by long-term measures taken during the crisis, including lowered personal and corporate tax rates, as well as by the roll-out of Austria's Recovery and Resilience Plan (EUR 4.5bn, 1.2% of 2020 GDP).
- **Inflation and monetary policy:** Similarly to peers, inflation (HCPI) increased to 2.8% in 2021, and should accelerate further to 3.2% in 2022 before moderating to 2.3% in 2023, according to the Austrian central bank (OeNB). Year-on-year inflation was estimated at +5.1% in January 2022, driven predominantly by rising energy and commodity prices.
- **Labour market:** The monthly unemployment rate, as defined by Eurostat, averaged 6.2% in 2021, up from 4.6% in December 2019. The government's labour market support measures, including generalised short-time work schemes, cushioned much of the impact of the crisis. At the end of 2021, the unemployment rate had decreased to 4.9%. After falling drastically in the summer of 2021, the number of employees applying for short-time work increased again to about 170,000 in January 2022, albeit remaining well below its January 2021 level (-63%). The job vacancy rate rose to 3.5% in 2021 (+.5pps from 2019), reflecting increasing recruitment difficulties and skill shortages and representing a challenge for the long-term growth outlook.

Overview of Scope's qualitative assessments for Austria's *Domestic Economic Risks*

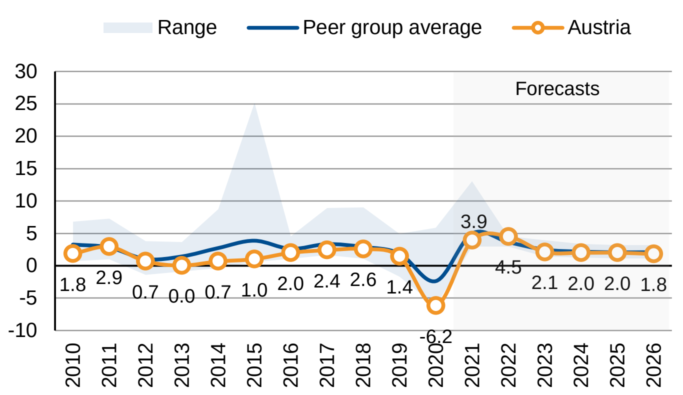
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential, in line with peers
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Competitive and well-diversified economy; limited structural labour-market rigidities

Nominal GDP and GDP per capita, USD '000s



Source: IMF, Scope Ratings GmbH

Real GDP growth, %



Source: IMF, Scope Ratings GmbH

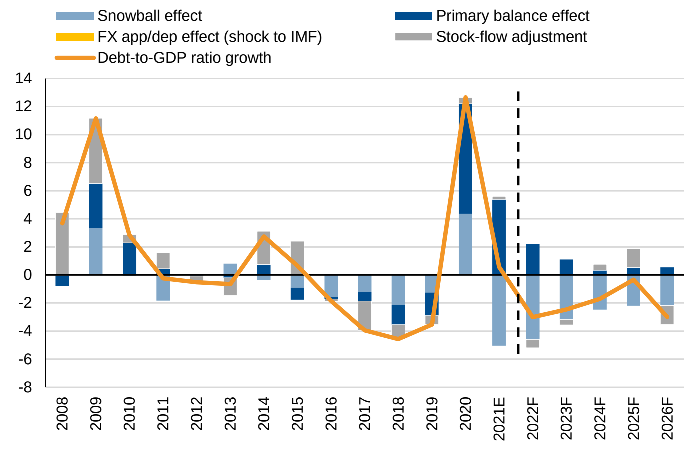
Public Finance Risks

- **Fiscal outlook:** Austria generated steady primary surpluses before the Covid-19 crisis, averaging close to 1% per year over 2015-19. The crisis pushed the headline government deficit to 8.3% of GDP in 2020 and an expected 5.9% in 2021, driven by automatic stabilisers and extensive discretionary support measures (with an estimated budget cost of about EUR 33.4bn for 2020/21). We expect the headline deficit to moderate to about 2.8% of GDP in 2022, as pandemic-related measures are phased out and fiscal revenue recovers. The recently adopted 'eco-social tax reform', which includes a decrease in corporate and income tax, the introduction of a CO_2 tax and new cash transfers to households ('climate bonus') is expected to have a total cost of EUR 18.6bn by 2025 (about 4% of GDP).
- **Debt trajectory:** After a period of steady decline, the government debt-to-GDP ratio increased by almost 13pp from 70.6% in 2019 to 83.2% in 2020 and is estimated to have further increased to 83.7% in 2021. The economic recovery in 2022, followed by a progressive return to a growth potential of around 1.6%, and a gradual return to primary balance, should lead the debt ratio to decline to around 73% in 2026, thus remaining above its pre-crisis level. Population ageing will weigh on budgetary outcomes and the country's long term growth outlook. Austria's pension spendings are among the highest in the OECD, representing 13.3% of GDP in 2019. Under a no policy-change scenario, the European Commission expects the total cost of ageing to rise from 26.7% of GDP in 2019 to 29.1% in 2030.
- **Market access:** Gross financing needs are expected to remain stable at an elevated level of about EUR 60-65bn in 2022. Austria benefits from low, declining interest rates (average effective interest rate of 1.17% of the federal debt portfolio in 2021) which have pushed its interest payments down to 0.93% of GDP in 2021, from about 2.17% in 2012. The maturity of government debt increased to about 10.6 years 2021.

Overview of Scope's qualitative assessments for Austria's *Public Finance Risks*

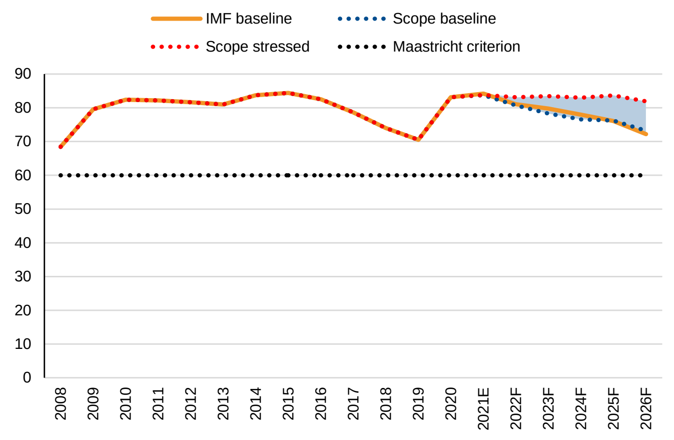
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Fiscal policy framework	Neutral	0	Appropriate budgetary response to Covid-19 crisis; pre-crisis budget surpluses; elevated need for medium-term fiscal consolidation
	Debt sustainability	Neutral	0	Elevated public debt level relative to peers, declining projected debt trajectory
	Debt profile and market access	Neutral	0	Excellent government market access, low government financing costs, long public debt maturity

Contributions to changes in debt levels, pps of GDP



Source: Scope Ratings GmbH

Debt-to-GDP forecasts, % of GDP



Source: Scope Ratings GmbH

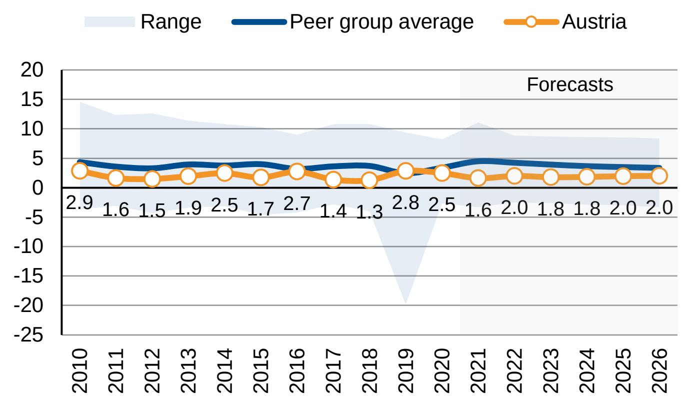
External Economic Risks

- **Current account:** Austria has generated steady current account surpluses in recent years, averaging around 2% per year over 2010-19. The slump in international trade caused by the pandemic hurt Austria's manufacturing exports while travel restrictions caused services exports, dominated by winter sports, to fall. These headwinds, combined with a boost to imports following the release of pent-up demand, caused the current account balance to turn negative in the year to 2021 Q3 with a deficit of around EUR 1.6bn. High frequency indicators point to weak performance of the tourism sector over the 2021/22 winter season, with spending by foreign tourists remaining below their pre-crisis level. Looking forward, we expect the current account balance to recover back to its pre-crisis level, supported by the progressive normalisation of tourism flows and the economic recovery of Austria's main trading partners.
- **External position:** Austria benefits from a comfortable, positive net international investment position, albeit more modest than peers, at 12.2% of four-quarter GDP in the third quarter of 2021. The level of external debt is moderate, at about 163% of GDP in the year to 2021 Q3. Its composition has improved significantly, especially with regards to the external indebtedness of the banking sector, which more than halved over 2010-20 as a share of GDP. Its maturity structure is favorable, with only around 25% of liabilities falling due within one year.
- **Resilience to shocks:** Austria, along with all euro area members, benefits from the euro's status as a global reserve currency, significantly mitigating risks to external shocks.

Overview of Scope's qualitative assessments for Austria's *External Economic Risks*

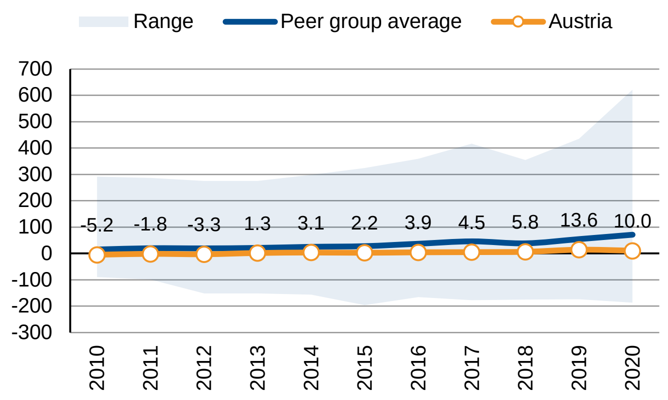
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Current account resilience	Neutral	0	Diversified and competitive export sector; recurrent current-account surpluses
	External debt structure	Strong	+1/3	Low gross and short-term external debt
	Resilience to short-term shocks	Neutral	0	Highly open economy; benefits from euro-area membership

Current account balance, % of GDP



Source: IMF, Scope Ratings GmbH

NIIP, % of GDP



Source: IMF, Scope Ratings GmbH

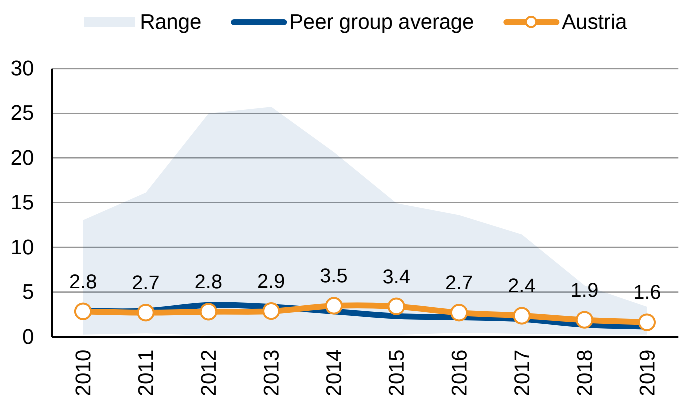
Financial Stability Risks

- **Banking sector:** Austrian banks weathered the pandemic crisis well. Public support measures kept credit defaults contained and supported the sector's liquidity position. The NPL ratio remained low, at 1.9% as of 2021 H1 and the common equity tier 1 ratio improved to 16.1% in June 2021, up from 15.9% in December 2019. Profitability recovered strongly in 2021, driven by the economic recovery and the decline in the cost of risk. Stress tests conducted by OeNB in 2021 H1 pointed to increasing resilience of the banking sector, with all participating institutions maintaining the required capital coverage in adverse scenarios. Tail risks relate to the large exposure of Raiffeisen Bank International, the country's second biggest banking group with subsidiaries in Russia (BBB+/Stable) and Ukraine (B/Negative), to the Russian market (EUR 18.7bn in total assets at end-2021, 20% of 2021 operating income, 33% of 2021 pre-tax profits), in a context of rising geopolitical tensions.
- **Private debt:** Private sector debt increased moderately over the crisis to about 152% of GDP as of Q2 2021 (+11pp from end-2019) but remains below levels observed for most peers. Lending to nonfinancial corporates had started to decelerate by 2021 H1 as the recourse to Covid-19-related moratoria declined. Loans to household have accelerated since the beginning of the crisis, largely driven by housing loans (6.8% YoY growth rate in August 2021). While average interest rates declined, a large share of new mortgages do not comply with the Austrian Financial Market Stability's recommended standards. Debt-to-income ratios are on the uptick and nearly 40% of new housing loans were variable rate, exposing households to a degree of interest rate risk.
- **Financial imbalances:** Property prices have risen rapidly on the back of the growth in mortgage loans, in a context of low interest rates. House prices stood 13% higher than a year earlier at the end of September 2021, an increase well above the EU average but broadly in line with other highly rated European peers. The Austrian government has stated its intention to introduce legally binding lending standards to address the related risks, including maximum loan duration and minimum down payments.

Overview of Scope's qualitative assessments for Austria's *Financial Stability Risks*

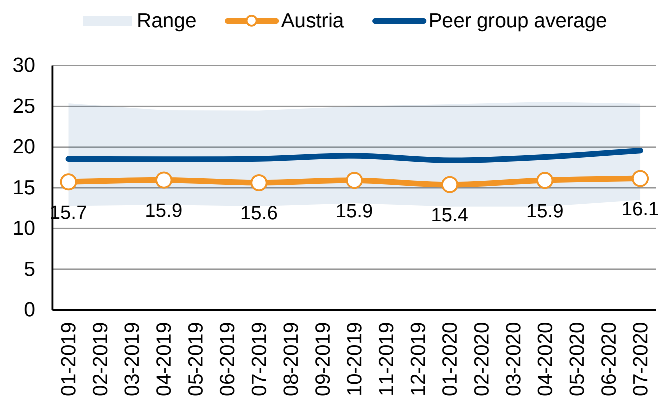
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Adequate banking-system capitalisation, comfortable liquidity, low NPLs, significantly lowered exposure to foreign currency denominated loans in CESEE countries
	Banking sector oversight	Neutral	0	Effective oversight under the national competent authority and the ECB as part of Banking Union
	Financial imbalances	Strong	+1/3	Relatively low household- and non-financial-corporate-sector indebtedness

NPLs, % of total loans



Source: IMF, Scope Ratings GmbH

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

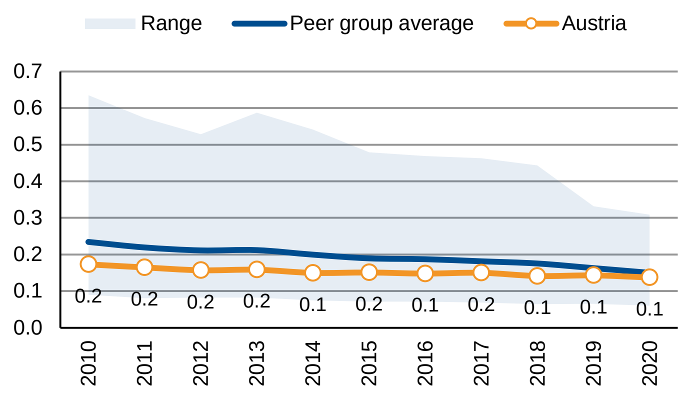
ESG Risks

- **Environment:** Austria aims to reach carbon neutrality by 2040, ten years ahead of the goal set by the European Union, and to produce 100% of its electricity from renewable sources by 2030. Despite an already high share of renewables in its total energy mix (above 34% in 2020), significant policy action will be needed for Austria to reach its 2030 carbon intensity reduction targets. As part of its eco-social tax reform, the taxation of carbon emissions will rise to EUR 55 per ton by 2025. A national emissions trading system is then planned to be rolled out, covering sectors which do not already fall under the current EU system.
- **Social:** Austria scores highly on the European Union's social scoreboard indicators, with relatively low-income inequality and a lower share of people at risk of poverty or social exclusion (17.5% as of 2020, vs the euro zone average of 21.9%). Despite overall strong performance, the Austrian labor market is characterised by significant employment gaps for certain groups, comparing poorly to other highly rated peers with regards to participation rates for women and elderly workers. Increased capacity in the areas of childcare infrastructures and lifelong learning are needed to bridge these gaps.
- **Governance:** Austria has a robust track record of stable political environment, despite recent increased political turnover. Karl Nehammer became Austria's fifth chancellor in four years in December 2021, following the resignation of Sebastian Kurz amid a corruption probe. The ruling coalition currently comprises chancellor Nehammer's conservative ÖVP and the Green party as a junior partner. Next elections are scheduled for 2024.

Overview of Scope's qualitative assessments for Austria's *ESG Risks*

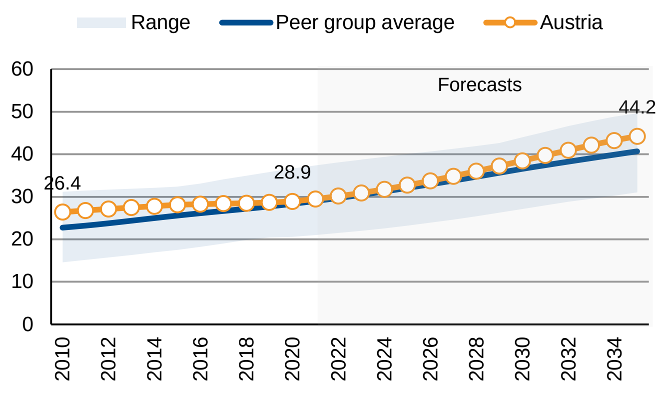
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental risks	Neutral	0	Ambitious decarbonisation targets by 2030, however significant gap remains under a no-policy-change scenario, and high share of renewables
	Social risks	Neutral	0	Strong social safety net, positive social outcomes – in line with peers
	Institutional and political risks	Neutral	0	High-quality institutions and stable political environment, in line with peers

CO2 emissions per GDP, mtCO2e



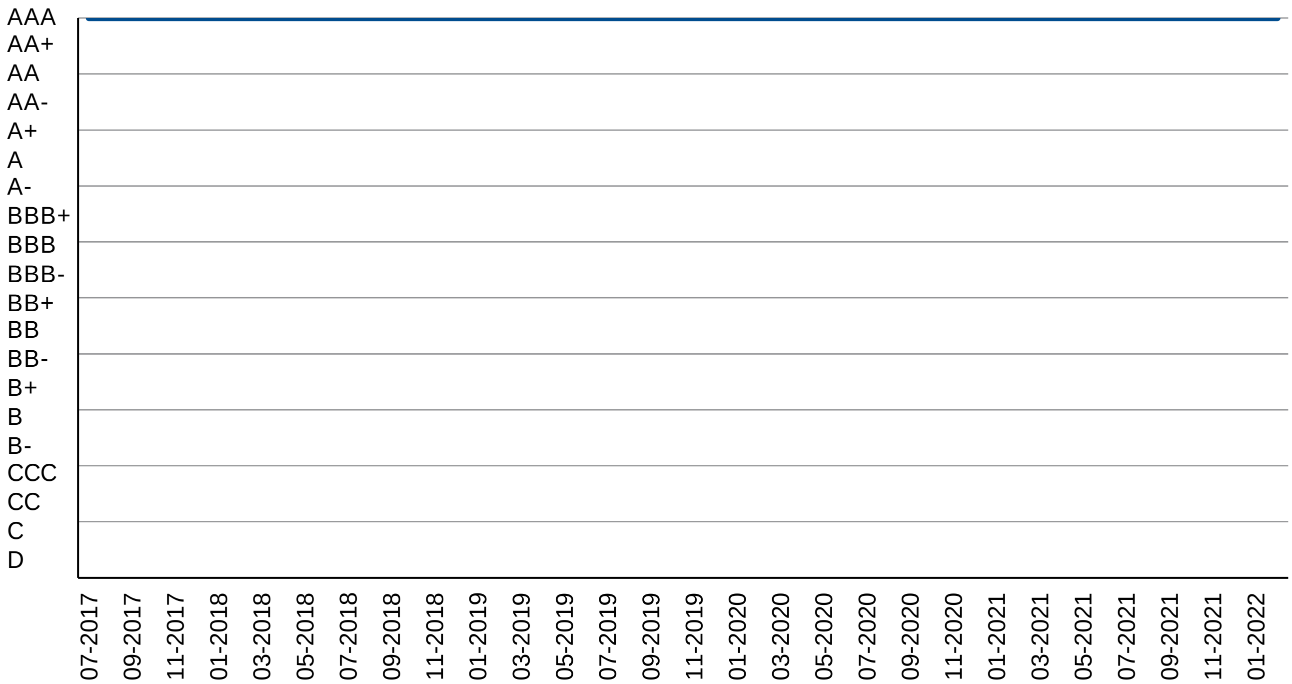
Source: European Commission, Scope Ratings GmbH

Old age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Rating history



Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard.

Peer group
Denmark
Estonia
Finland
Germany
Ireland
Luxembourg
Netherlands
Norway
Sweden
Switzerland

Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 29) used in Scope's quantitative model, the Core Variable Scorecard.

	2016	2017	2018	2019	2020	2021E	2022F	2023F
Domestic Economic Risk								
GDP per capita, USD 000s'	45.3	47.3	51.2	50.2	48.6	53.8	57.9	60.4
Nominal GDP, USD bn	395.7	417.1	455.3	445.1	432.5	481.2	520.3	545.8
Real growth, %[1]	2.0	2.4	2.6	1.4	-6.2	4.7	4.2	2.3
CPI inflation, %	1.0	2.2	2.1	1.5	1.4	2.5	2.4	2.0
Unemployment rate, %[1]	6.5	5.9	5.2	4.8	5.4	6.4	6.0	5.5
Public Finance Risk								
Public debt, % of GDP[1]	82.5	78.6	74.0	70.5	83.2	83.7	80.7	78.3
Interest payment, % of government revenue	3.4	3.0	2.5	2.1	1.9	1.1	1.4	1.2
Primary balance, % of GDP[1]	0.1	0.6	1.4	1.6	-7.8	-5.4	-2.2	-1.1
External Economic Risk								
Current account balance, % of GDP	2.7	1.4	1.3	2.8	2.5	1.6	2.0	1.8
Total reserves, months of imports	1.2	1.1	1.0	1.1	1.6	-	-	-
NIIP, % of GDP	3.9	4.5	5.8	13.6	10.0	-	-	-
Financial Stability Risk								
NPL ratio, % of total loans	2.7	2.4	1.9	1.6	-	-	-	-
Tier 1 ratio, % of risk weighted assets	14.5	15.6	15.6	15.9	16.8	16.6	-	-
Credit to private sector, % of GDP	83.2	84.1	84.3	85.8	93.3	-	-	-
ESG Risk								
CO^2 per EUR 1,000 of GDP, $mtCO^2e$	148.2	150.3	141.5	143.2	137.5	-	-	-
Income quintile share ratio (S80/S20), x	5.0	4.7	4.9	-	-	-	-	-
Labour force participation rate, %	76.2	76.3	76.6	76.9	-	-	-	-
Old age dependency ratio, %	28.3	28.4	28.5	28.7	28.9	29.5	30.1	30.9
Composite governance indicator[2]	1.4	1.5	1.5	1.5	1.4	-	-	-

[1] Forecasted values are produced by Scope and may differ from those presented in the charts of the previous sections
[2] Average of the six World Bank Governance Indicators
Source: European Commission, IMF, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 23 February 2022	9

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