Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF AUSTRIA	Assigned Ratings/Outlook: **AA+ /stable**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	29-07-2016 24-04-2020 "Sovereign Ratings" "Rating Criteria and Definitions"

Contents

Rating Action 1
Key Rating Drivers 1
Reasons for the Rating Decision . 1
Macroeconomic Performance..........2
Institutional Structure 5
Fiscal Sustainability 6
Foreign Exposure............................9
Rating Outlook and Sensitivity ...10
Analysts 10
Ratings*......................................10
Economic Data 11
ESG Factors 11
Appendix 12

Rating Action

Neuss, 24 April 2020

Creditreform Rating has revised its outlook on the Republic of Austria from positive to stable, and affirmed the unsolicited long-term sovereign rating of "AA+". Creditreform Rating has also affirmed Austria's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AA+".

Key Rating Drivers

1. Fallout due to Covid-19 will very likely see the Austrian economy fall into recession in 2020 and labor market conditions deteriorate significantly; we expect that the impact will be hefty but short-lived, with the pandemic fading in the second half of this year and economic disruptions concentrated predominantly in Q2
2. Irrespective of the detrimental ramifications of the corona crisis, the sovereign displays a wealthy, well-diversified, and competitive economy, coupled with flexible labor markets and a high risk-bearing capacity of the non-financial private sector
3. Very strong institutional conditions, which are further buttressed by extensive political and economic benefits associated with Austria's integration in multi- and supranational structures; while policy-making should remain sound and predictable, we see challenges related to the slim majority of the new governing coalition and some programmatic incoherence
4. Elevated debt levels and fiscal sustainability risks stemming from public guarantees and demographics remain in place, somewhat balanced by high debt affordability and prudent debt management
5. Corona pandemic should curtail Austrian export performance, but sustained current account surplus should enable Austria to retain its net creditor position and provide some external buffers

Reasons for the Rating Decision

Creditreform Rating has revised its outlook on the Republic of Austria from positive to stable, reflecting our expectation that (i) economic growth will contract sharply this year,

thereby denting medium-term growth, and labor market indicators will deteriorate markedly; and (ii) the sovereign's further fiscal consolidation will likely be jeopardized by the corona aid package involving large financial assistance and credit guarantees.

Macroeconomic Performance

Austria's macroeconomic performance profile continues to back the sovereign's very high creditworthiness. Regardless of the ramifications of the corona crisis, which will most certainly have a serious impact on the economy's total output in the near term, Austria displays very sound fundamentals. Its wealthy, well-diversified, and competitive economy, coupled with a high degree of economic flexibility and resilience, thus remain key credit strengths.

After having shown real GDP growth rates of 2.5 and 2.4% in 2017/18, the Austrian economy shifted into a lower gear last year. Though again having grown faster than the euro area as a whole (EA-19: 1.2%), total output in Austria expanded by 1.6%, mainly due to the weaker external backdrop. While net external trade was one of the main pillars of economic growth in 2018, it turned broadly neutral in 2019 with a growth contribution of 0.1 p.p. as compared to 0.8 p.p. a year before. Dragged down by easing economic activity in the euro area and Germany (2019: 0.6%) in particular, export growth dropped from 5.9% to only 2.7% in 2018-19.

By contrast, domestic demand remained broadly stable, with private household spending and gross fixed capital formation (GFCF) each contributing 0.7 p.p. to real GDP growth, after 0.6 and 0.9 p.p. respectively in 2018. Investment activity decelerated throughout 2019 amidst the global manufacturing downturn and weak international trade, with growth in GFCF falling from a yearly rate of 5.4% in the first quarter to 1.2% at the end of the year. Momentum in machinery and equipment investment had weakened substantially (Q4-19: -0.6% y-o-y), whereas investment in residential property held up reasonably well. Overall investment rose by 2.9% in 2019, down from 3.9% a year before.

Private consumption came in stronger than in the previous year, increasing by 1.4% (2018: 1.1%), as households benefited from higher real disposable income which came on the back of rising wages, tax relief (family bonus plus), and moderate inflation. Tight labor markets also remained supportive, with total employment climbing to a new all-time high of 4.54m people in 2019, corresponding to an annual growth of 1.2%. At the same time, the unemployment rate continued to fall, posting at 4.2% in the fourth quarter of 2019 (LFS adjusted), the lowest reading since 2008, while the labor participation rate improved from 75.2% in Q3-18 to 75.6% in Q3-19.

Against this background, Austrian GDP per capita is estimated to have risen to USD 53,558 in 2019 (IMF data, PPP terms), equaling approx. 120% of the weighted EU-28 average, remaining on par with its key trading partner Germany (USD 53,567) and standing well above our AA median of USD 47,599. High per capita incomes are accompanied by a very high labor productivity per hour worked, which stood roughly 18% above the EU-28 (2013-20) total, and comparatively low inequality, as illustrated by the Gini coefficient of equivalized disposable income at 26.8, as compared to 30.6 in the EA-19 (Eurostat data for 2018).

Prospects for economic development are dim, as the economic fallout due to Covid-19 will very likely see the Austrian economy fall into recession in 2020. While no reliable hard economic data is yet available, our baseline scenario foresees real GDP to contract sharply by 4.8%, surpassing the outcome observed back in 2009 in the wake of the Global Financial Crisis (-3.8%). As of now, we expect that the impact will be hefty but short-lived, with the pandemic fading in the second half of this year and economic disruptions concentrated predominantly in Q2-20, and GDP growth presumably coming in at around 3.0% in 2021. Having said this, the further development is highly uncertain, as it is not yet possible to say how deep the impact of the novel coronavirus will be at this stage. Moreover, we would describe our baseline forecast as rather benign, as second and third round effects related to the corona pandemic cannot be ruled out.

The federal government took drastic measures to contain the coronavirus early on, and have gradually tightened the containment measures. On 11 March, it was decided that large gatherings in public places would be prohibited, schools and university classes replaced by home-schooling, and travel from Italy began to be heavily restricted. Measures soon progressed and were enforced by administrative and police measures, as leaving the home was prohibited by law with limited exceptions, and all retail stores except those supplying everyday products were closed.

Authorities eventually announced a phased plan for a gradual easing of the strict corona containment measures, gradually re-opening of the economy on 06 April. Accordingly, leaving home shall be restricted until the end of April, home-schooling should remain in place until mid-May, and events are prohibited until the end of June. While smaller retail stores were allowed to re-open, the closure of larger shops, shopping centers and hairdressers would be lifted from 01 May. All other services, hotels and restaurants will be able to open gradually and under special safety regulations from mid-May at the earliest.

We expect that the direct impact of the corona crisis and the indirect effects of the seized containment measures will heavily hit exports, in particular services exports related to the tourism industry, which is key to Austria's economic development. According to data provided by the Austrian government, direct and indirect value added of tourism is estimated to total roughly EUR 32.3bn and contribute about 8.4% to GDP (2018). Goods exports will also be adversely affected by direct supply disruptions and subsequent supply chain contagion via Asia and other key trading partners such as Germany, Italy, and the US.

In light of the significantly weaker external demand and very high uncertainty, fixed asset investment should plunge, mirroring companies' postponed investment decisions, as well as production declines due to downtime and disrupted international supply chains, causing shortages in intermediate products and components. To be sure, capacity utilization in the industrial sector had been on the retreat since even before the corona crisis hit. In this year's first quarter, capacity utilization dropped to 84.8%, a y-o-y decline of 2.2 p.p. and below its long-term average of 85.4% (2000-19). What is more, survey indicators such as new orders have clouded substantially and should deteriorate further in the near future.

Private consumption will obviously suffer from the serious economic disruption related to the economic shock entailed by the restrictions imposed by the government, which will

likely curb both the supply and demand side. We think that the increased demand for fast-moving consumer goods will not prevent household spending from contracting this year. Whilst modest inflation and policy measures (see below) will mitigate some of the negative effects on real incomes, income declines, contagion fears, extremely high uncertainty, and redundancies will induce households to spend less.

As regards the latter, we expect to see an adverse impact on Austria's labor market, particularly an ad hoc increase in the unemployment rate alongside a decline in employment, although short-time work is likely to cushion some of the negative effects. First signs, according to AMS (Arbeitsmarktservice) data, have already become visible: this March, the number of unemployed persons leapt by roughly 200,000, and the national unemployment rate shot up to 12.2%, a 4.7 p.p. increase as compared to March 2019, largely driven by the tourism industry which stands for approx. 13% of total employment in the business sector – the fifth highest reading in the EU-28 (Eurostat data, 2017).

With all that said, we believe that comprehensive measures by the federal government will help to limit the worst economic consequences of the corona crisis, albeit implying potentially detrimental effects on public finances (see below). Authorities have thus acted swiftly and implemented a policy package geared towards mitigating widespread lay-offs and saving businesses from insolvency. The package contains measures totaling EUR 38bn, or 9.54% of 2019 GDP. The measures consist of immediate assistance for health and long-term care, short-time work and the compensation of self-employed and micro entities, emergency aid for industries that have been particularly severely hit, credit guarantees, and tax deferrals.

Further policy support, already adopted last autumn, is provided via the Tax Reform 2020 (Steuerreformgesetz 2020), which includes an increase of disposable incomes for taxpayers with low incomes and pensioners through tax refunds, a reduction in health contributions for the self-employed and for farmers, an increase in the low-value fixed assets threshold, an increase of the small business limit, as well as a new lump sum tax for small businesses. By the same token, the 2020 Pension Adjustment Act (Pensionsanpassungsgesetz 2020) should prove beneficial in terms of boosting disposable incomes at the lower end of the income spectrum by introducing a staggered pension increase

While it remains to be seen whether the newly elected government will able to pursue their government program (see below) in light of the current economic crisis, it contains several aspects that may enhance the country's business environment and boost Austria's competitiveness, such as reducing the still high tax wedge on labor and lowering corporate income taxes.

In general, we believe that the well-diversified Austrian economy remains very competitive, which is indicated by the latest Doing Business Report (rank 27 out of 190 economies) as well as the Global Competitiveness Indicator compiled by the World Economic Forum. Based on the latest global competitiveness ranking, Austria was positioned at a respectable rank 21 (out of 141 economies worldwide), having edged up from rank 22 in the previous year. With a view to fellow AA-rated sovereigns, such as Finland (11), France (15), and Belgium (22), Austria thus achieves a comparable ranking. However, the country is still trailing

European top performers like Germany (7) and the Netherlands (4). In terms of the drivers of its high level of competitiveness, the Austrian economy scores reasonably well in multiple categories, being ranked 10th when it comes to infrastructure, 14th in innovation capability, 16th in skills, and 15th as regards the factor health. Referring to AMECO data, Austria's cost competitiveness seems to remain essentially unchanged, thus comparing relatively well with its main trading partners and the euro area as a whole. Last year, real unit labor costs increased by a mere 0.5% (2015-19: 0.6%) as compared to e.g. Germany (2019: 1.5%), Italy (1.0%), or the Czech Republic (1.1%). Modest real labor productivity (2019: 0.4%) was broadly aligned with real compensation per employee (0.9%). Accordingly, its global export market share has increased slightly over recent years, equating to 1.02% in 2018 (2013: 0.98%), although posting still well below pre-crisis levels.

We also deem non-financial private debt as rather moderate from a euro area perspective, catering for sufficient risk-bearing capacities of non-financial corporations and households, and consequently boding well for Austria's economic resilience alongside the flexible labor market and high competitiveness. Household debt has been more or less stable over the last two years, standing at 83.3% of disposable income in the last quarter of 2019 (Q4-18: 83.8%). Meanwhile, NFC debt continued to decline, falling from 75.0% of GDP in Q4-18 to 73.2% of GDP at the end of 2019.

Institutional Structure

Our credit assessment continues to reflect the sovereign's very strong institutional conditions, which are further buttressed by extensive political and economic benefits associated with Austria's integration in multi- and supranational structures. Being a small and export-oriented economy, Austria is highly integrated into European value chains, and thus benefits greatly from free movement of labor and capital, as well as broader and deeper capital markets, and advantages related to the euro as a reserve currency. In the third quarter of 2019, exports to other EU member states accounted for 73.8% (services) and 67.9% (goods) of total exports respectively. Also, institutional conditions continue to be underpinned by the European Central Bank's (ECB) highly credible and accountable monetary policy. Austrian HICP inflation, wages, and MFI interest rates have been largely synchronized with the euro area over the last decade.

The legislative term of the caretaker government came to an end in January 2020. The technocratic government under former Constitutional Court President Bierlein was appointed by Federal President Van der Bellen after the ÖVP-FPÖ government had broken up in May 2019 in the wake of a political events involving the vice chancellor (FPÖ), and the ousting of Chancellor Kurz and his cabinet after a no confidence vote.

The snap election that had taken place in September 2019 firmed the conservative ÖVP's position as the strongest party. Former Chancellor Kurz returned to power, as ÖVP formed a governing coalition with the Green Party. It has to be highlighted that this represents the first involvement of the Greens in a federal government, and we believe that the current constellation may prove challenging due to some programmatic incoherence, mainly in the fields of migration and environmental policies. While ÖVP and the Green party have already demonstrated constructive cooperation on the state level (Vorarlberg), further challenges

may be related to the slim majority of the new governing coalition which holds only 97 of the 188 seats in Parliament (Nationalrat).

Having said this, we think that policy-making will remain sound and predictable, as reflected by the long-standing track record of good governance. In this vein, our assessment of the very strong institutional quality continues to be backed by the World Bank's Worldwide Governance Indicators (WGI). The sovereign consistently ranks among the best-performing European countries, and surpasses not only the euro area median but also the respective AA median on all WGIs we consider.

The latest WGI vintage did not bring up any significant changes. An excellent rank 6 out of 209 economies on the WGI rule of law continues to stand out, attesting to an extraordinarily high quality of contract enforcement and property rights. Apart from that, the quality of public administration and policy implementation may be deemed as high, as the sovereign is ranked at 20 (AA median: rank 26, EA median: 35). Moreover, Austria's ranking was broadly unchanged as regards control of corruption (rank 19/209), as well as voice and accountability (rank 15/209), which measures freedom of expression and association as well as free media.

In terms of reform momentum, we saw promising first signs in the early phase of the new governing coalition. The coalition agreement indicates that the government is planning to put effort behind reducing the labor tax wedge by cutting taxes and increasing social benefits especially for families, strengthen Austria's competitiveness, and forge ahead with greening its economy and addressing the challenges posed by climate change, involving the ambitious commitment to net carbon neutrality by 2040.

While we remain wary of how authorities plan to refinance the eco-social revamp of the tax system, as many policies are yet to be detailed going forward, the government's plans may face some delays anyway, given the current extremely challenging environment. Indeed, the Ministry of Finance postponed the restructuring of the financial administration by six months to January 2021 in early April.

Finally, we note that the financial supervision reform, which had the stipulated aim to make financial supervision more efficient, has been cancelled. After years of political discussions, the system of financial market supervision should have been reformed, with the Ministry of Finance publishing a draft in April 2019 which foresaw that the Financial Market Authority (FMA) is to be made responsible for the areas of banking supervision, bank settlement and deposit insurance, whereas some responsibilities previously located at the Österreichische Nationalbank (OeNB) should have been transferred. The reform came to an abrupt end with the dissolution of the Federal Government (see above), and the caretaker government deciding not to pursue the reform. This February, FMA and OeNB eventually published an MOU in which the respective responsibilities are specified, interfaces optimized, and processes streamlined.

Fiscal Sustainability

Before the outbreak of the corona pandemic, fiscal risks had been increasingly less of a drag on the sovereign's credit assessment, mirroring sustained fiscal consolidation efforts

and improving affordability metrics. Our expectation of a continuously declining public debt ratio, as expressed in our last review, will very likely not be met. While the eventual fiscal impact is highly uncertain, we expect that further fiscal consolidation will be jeopardized by the corona aid package involving large financial assistance and credit guarantees so that elevated debt levels and fiscal sustainability risks stemming from public guarantees and demographics remain the sovereign's key weaknesses.

We have observed a steady improvement of Austria's budgetary position over recent years. After reaching its first surplus in decades, equating to 0.2% of GDP in 2018, the general government surplus improved further to 0.7% of GDP last year, thereby surpassing the government's expectations again (SP19: 0.3% of GDP). The fiscal outcome of 2019 marks the best result since 1954, and it is noteworthy that the sovereign achieved a surplus on the central government level (0.5% of GDP) for the first time on Eurostat records.

Despite softening economic growth, general government revenue evolved dynamically, growing by 3.6%, to 49.0% of GDP in 2019. Revenues were largely driven by robust labor market development which led to strong increases in net social contributions (+4.1%) and in taxes on income and wealth (+4.3%), with the latter coming mainly on the back of vividly rising income taxes (+4.5%). In addition, VAT revenues posted a solid growth rate of 3.8%, up from 3.6% in 2018. General government expenditure rose by only 2.4%. The increase was mainly due to Austria's biggest spending item, social benefits, which edged up by 3.3% (2018: 2.7%), whilst the public wage bill displayed weaker growth than in the years before (2.5%, 2015-18 average: 3.5%). Outlays were kept in check by diminishing interest payments that stood 9.7% below the previous year's level.

Looking forward, we expect that the improvement of public finances will experience a setback against the backdrop of extensive fiscal measures related to the corona crisis, resulting in a prospectively transitory weakening in the sovereign's fiscal metrics.

Previously, we assumed that Austria would run a broadly balanced budget in 2020, which would have resulted from personal and corporate income tax cuts, rising public investment (e.g. on climate-related issues), lower health contributions, and higher social spending (e.g. further increase of the family bonus plus), largely counter-financed by less robust tax and social contributions given easing economic activity.

As elaborated above, the Austrian government has set up a huge fiscal policy package. The declared aim of the measures is to shield the economy as far as possible from the negative consequences of the corona pandemic, maintaining the liquidity of businesses, securing employment, and avoiding insolvencies. Authorities announced to put in place EUR 4bn for immediate assistance in health and long-term care, short-time work, and the compensation of the self-employed and micro entities. The package also involves a EUR 15bn emergency aid fund, which comprises the (partial) compensation of the loss of revenue, in particular for those companies whose industries are particularly hard hit by the government's prohibitive measures. It consists of loans that can be partially converted into a grant, contingent on the decline in the respective companies' turnover. Furthermore, EUR 9bn is provided for credit guarantees to ensure sufficient corporate liquidity. In addition, another

EUR 10bn is available for the deferral of personal and corporate income taxes, VAT payments, and social security contributions.

While it remains to be seen to what extent the previously envisaged measures will be implemented in view of the prevailing conditions, the comprehensive fiscal policy response to Covid-19 will have a considerable adverse fiscal impact. We would tentatively assume a deficit of 5.1% of GDP in 2020 before posting a moderate surplus next year. We have to emphasize that our baseline forecast is heavily clouded by uncertainty, as it is highly reliant on assumptions regarding the uptake of the funds. At this stage, it is not clear to what extent the provided funds for cushioning the economic and social impact of the corona crisis will be employed and whether further aid packages may be necessary.

As a corollary, we expect that the public debt ratio will rise temporarily, albeit sharply. Last year, general government debt continued to decline, falling significantly from 74.0% of GDP in 2018 to 70.4% of GDP (Statistik Austria data), aided by solid economic growth, a widening primary surplus, and the continued wind-down of Austrian defeasance vehicles. Being pushed up by contracting economic growth and the fiscal aid package, the sovereign's debt level will inevitably increase, and we forecast debt-to-GDP to shoot up to some 77% before the ratio should resume its downward path beyond 2020.

Two risks which may potentially result in a deterioration of the public debt ratio over the medium-term are extensive public guarantees and age-related costs. Despite a substantial decline over the years, public guarantees remain high, totaling 16.0% of GDP in 2019 (DBP update 2020). Due to the comprehensive credit guarantees provided by the Austrian government, it seems reasonable to assume that guarantees will rise in the aftermath of the corona crisis. In addition, we reiterate our concern that age-related spending will put pressure on the sovereign's fiscal sustainability in the medium to long term. As suggested by the latest EU Ageing Report, Austria's ageing costs are among the highest in the EU-28 and are about to rise further over the next decade.

Due to the corona crisis, Austrian banks face a challenging environment in which we may see banking sector stability metrics deteriorate, but governmental support and the ECB's measure should somewhat balance related risks. Prior to the outbreak, the asset quality of Austrian banks had continuously improved, and the ratio of non-performing loans (NPL) fell from 2.8% in Q4-18 to 2.3% at the end of last year, slightly below the EU average (2.7%). The CET 1 ratio remained broadly stable and somewhat below the EU average of 15.0%, at 14.4% (Q4-18: 14.3%). We will also closely monitor Austria's residential property market, which currently poses no immediate risks to financial stability. According to Eurostat data, the 3-year house price growth rate amounted to a high 18.7% in Q4-19 (Q4-18: 19.5%). Affordability indicators continue to indicate misalignments, with the price-to-income ratio posting 31.1% above its long-term averages since 2000 (Q3-19, OECD data) and the OeNB fundamentals indicator lying 12.3% above its long-term trend (Q4-19).

We take the view that favorable affordability metrics and prudent debt management partly mitigate fiscal sustainability risks. In terms of debt affordability, we have seen durable im-

provements over the last ten years, since interest expenditure as a share of general government revenue has continued on its descending path. At the end of 2019, interest payments dropped to only 2.9% of government revenue, from 3.3% in Q4-18.

Authorities continued to engage in sound debt management. The debt portfolio carries no FX risk and the maturity profile is well-laddered. The average weighted maturity of the federal debt portfolio climbed to 9.9 years (end-2019, OeBFA data), whilst the average effective interest rate declined from 2.23% in 2018 to a new historical low of 1.99% at the end of 2019. In 2019, the sovereign was able to achieve a negative average yield on its annual funding yield for the first time (-0.12%).

Despite the fact that Covid-19 also had an impact on long-term government bond yields, we think that the sovereign will continue to be able to take advantage of historically low interest rates. Following the outbreak in mid-March and governmental policy action, 10-year bond yields spiked, rising into positive territory, but fell again shortly after (17-04-20: -0.014%) – mainly driven by the ECB's emergency measures. The ECB announced a Pandemic Emergency Purchase Program (PEPP) with an envelope of EUR 750bn, on top of increased net asset purchases to the tune of EUR 120bn under the existing asset purchase program (APP) until the end of the year.

Foreign Exposure

Although Covid-19 poses significant risks to Austria's highly export-oriented economy (trade-to-GDP 2019: 107.8%), we continue to see limited risks on the external front, as reflected by sustained current account surpluses and a positive net international investment position (NIIP).

The Austrian current account surplus thus widened further last year, from 2.3% of GDP in 2018 to 2.6% of GDP, mainly on the account of the primary income balance which moved to balance in 2019 (0.0% of GDP), up from -0.3% of GDP in the previous year. The country's current account surplus has averaged at 2.2% of GDP over the last five years, with its external strength mainly buttressed by the persistent surplus in the services balance, which came in at 2.6% of GDP last year (2018: 2.7% of GDP). The goods balance also remained stable at 0.9% of GDP. Overall, Austria's export performance benefited from the continued strong economic development of the Central and Eastern European economics, as Austria's CEE exports expanded by 4.4% last year as compared to a 1.4% euro area export growth.

As we expect that the sharp economic contraction related to the corona pandemic seriously curtails Austrian export performance, with a heavy hit dealt to Austria's tourism industry (see above), the current account surplus is likely to decline significantly to the tune of 2.0% of GDP and stabilize at that level thereafter. The sustained current account surplus should enable Austria to retain its net creditor position. In 2019, its NIIP rose from 3.7% of GDP in Q4-18 to 9.6% of GDP in at the end of last year (2014-18 average: 3.2% of GDP).

Rating Outlook and Sensitivity

Our rating outlook for Austria's long-term credit ratings is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged over the next twelve months. However, the assessment and interpretation of economic developments in the near future is much more challenging than under normal circumstances, as is the case for other indicators, given the current considerable uncertainty in the economy and financial markets, and the very dynamic development of Covid-19.

We could raise Austria's credit ratings if medium-term growth come in higher than expected, and/or if we observe a significant and persistent decline in the sovereign's debt-to-GDP ratio. Furthermore, we could prompt a positive rating action if we see the newly-elected government reinvigorating the structural reform momentum over the medium term.

Conversely, we could lower the ratings if Austrian medium-term growth weakens substantially and the corona crisis has a lasting impact on its labor market. Such a scenario may materialize if the corona pandemic extends well into the second half of the year and beyond, and if policy-makers fail to minimize the economic fallout. We could also consider a negative rating action if fiscal metrics fail to improve and it turns out that the deterioration in the public debt ratio is not transitory.

Analysts

Primary Analyst
Wolfgang Lauer
Sovereign Credit Analyst
w.lauer@creditreform-rating.de
+49 2131 109 3865

Chair Person
Benjamin Mohr
Head of Sovereign Ratings
b.mohr@creditreform-rating.de
+49 2131 109 5172

Ratings*

Long-term sovereign rating	AA+ /stable
Foreign currency senior unsecured long-term debt	AA+ /stable
Local currency senior unsecured long-term debt	AA+ /stable

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e
Real GDP growth	0.7	1.0	2.1	2.5	2.4	1.6	-4.8
GDP per capita (PPP, USD)	46,826	47,379	48,23	49,964	52,172	53,558	n.a.
HICP inflation rate, y-o-y change	1.5	0.8	1.0	2.2	2.1	1.5	0.7
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.6	81.3	81.8	81.7	81.8	n.a.	n.a.
Fiscal balance/GDP	-2,7	-1	-1,5	-0,7	0,2	0.7	-5.1
Current account balance/GDP	2.5	1.7	2.7	1.6	2.3	2.6	n.a.
External debt/GDP	182.8	171.9	164.7	154.4	148.4	152.8	n.a.

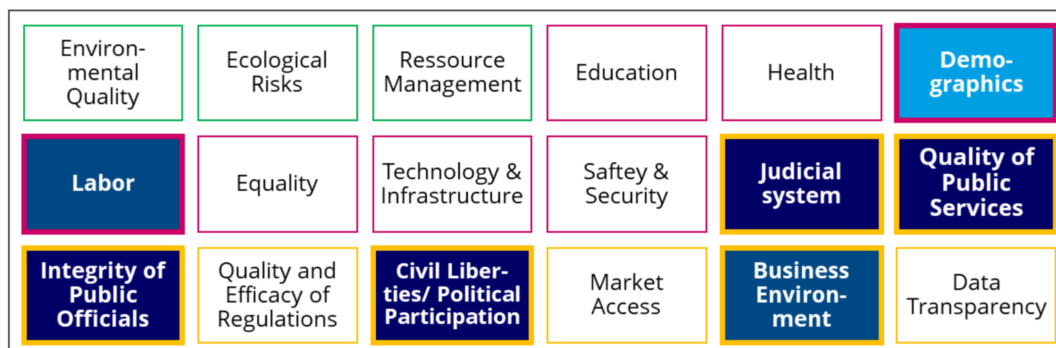
Source: International Monetary Fund, Eurostat, Statistik Austria, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box



The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact

on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof. Indicators or projections providing insight into likely demographic developments and related cost represent a social component affecting our rating or adjustments thereof. We regard the ESG factor 'Demographics' as less significant.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	29.07.2016	AA+ /stable
Monitoring	30.06.2017	AA+ /stable
Monitoring	27.04.2018	AA+ /stable
Monitoring	26.04.2019	AA+ /positive
Monitoring	24.04.2020	AA+ /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on the following internet page: www.creditreform-rating.de/en/regulatory-requirements/

The rating was conducted on the basis of CRAG´s "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, Österreichische Nationalbank, Statistik Austria, OeBFA, Republik Österreich – Bundesministerium für Finanzen, Bundesministerium für Nachhaltigkeit und Tourismus

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Creditreform Rating AG
Hellersbergstrasse 11
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Prof. Dr. Helmut Rödl
HRB 10522, Amtsgericht Neuss