Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF AUSTRIA	Assigned Ratings/Outlook: **AA+ /positive**	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 26-04-2019 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 26 April 2019

Creditreform Rating has revised its outlook on the Republic of Austria to positive from 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+".

Contents

Key Rating Drivers

1. Austria continues to display a prosperous, productive, and well-diversified economy which is characterized by solid and stable growth and a strong labor market; economic expansion is set to ease but remain resilient, as robust investment and brisk consumption should cushion weaker export growth
2. Very strong institutional set-up, governing coalition proceeding in implementing measures envisaged in its comprehensive and arguably challenging structural reform program
3. Debt levels remain elevated and affordability high; strong revenue intake and low interest rates resulted in first surplus since 1974, and public debt ratio improved further, supported by progress in winding down defeasance vehicles
4. Comprehensive fiscal reform measures should not derail fiscal consolidation path; we expect favorable debt trend to remain in place, while public guarantees and demographics continue to represent fiscal sustainability risks
5. Competitive services exports, notably tourism, translating into persistent current account surpluses; positive NIIP should be sustained given our expectation of broadly stable current account going forward, low expected hard Brexit-fallout

Reasons for the Rating Decision

Creditreform Rating has revised its outlook on the Republic of Austria to positive from stable. The positive outlook reflects our expectation that (i) the sovereign's public debt ratio will continue on its downward trajectory, aided by solid tax revenues and low interest outlays; (ii) economic growth will remain robust, accompanied by a benign labor market development; and (iii) the extensive package of fiscal measures is not likely to jeopardize fiscal consolidation.

Macroeconomic Performance

We affirm Austria's credit ratings, which continue to be underpinned by a very strong macroeconomic performance profile featuring a very high per capita income, solid and stable growth, as well as a high degree of economic resilience and flexibility.

First and foremost, Austria remains a very wealthy and productive economy, characterized by a very high degree of diversification. The Republic of Austria not only displays one of the most productive economies in Europe with its nominal labor productivity per person standing some 16% above the EU-28 total in 2017, representing the fourth highest reading among the EU members (Eurostat data). Its GDP per capita can also be reckoned extraordinarily high by global standards, being estimated to have totaled USD 52,137 in 2018, equaling 121% of the weighted EU-28 average. Austria's per capita income thus outstrips that of other fellow AA-rated sovereigns by a wide margin, with Belgium's GDP per capita of USD 48,245 coming closest. What is more, Austrian GDP p.c. is comparable to that of AAA-rated Denmark (USD 52,121) and its main trading partner Germany (USD 52,559).

Moreover, the Austrian economy is highly diversified with a strong export base and a high value-added industry sector. As of last year's fourth quarter, industry accounted for 19.6% of GDP, well above the 17.8% of GDP in the euro area. Also, we observe a steadily-growing importance of Austria's tourism industry. According to Statistics Austria, arrivals hit a new all-time high in 2018, climbing to 44.8m tourists. The same applies to the number of overnight stays, which rose by 3.7% y-o-y to 149.8m (26% residents). Overall, accommodation and food service activities made up for roughly 5% of GDP. Including indirect effects, e.g. from investment spending as well as induced income effects, the impact may be regarded as even higher. In 2018, the World Travel & Tourism Council gauges travel and tourism to have contributed approx. EUR 54.9bn or 14.2% of 2018 GDP. Despite the pivotal role of Germany, which stands for roughly a third of Austria's exports, we view Austria's exports as diversified across regions and products. As measured by the UNCTAD's product concentration index the economy is the second most diversified worldwide, with exports being distributed in a very homogeneous manner across several products.

Thanks to the broad geographical and product-specific diversification and strong tourism outcomes, and in contrast to most of the other European economies, Austria's export growth remained relatively stable at 4.4% in 2018, after 4.7% a year before. Weaker exports of goods and services to EMU members (+1.7%) was offset by export growth in non-EMU economies (+15.9%). As import growth almost halved from 5.1 to 2.8% in 2017-18, net external trade contributed significantly to real GDP growth (+1.0 p.p.). Buttressed by robust export growth and strong domestic demand, total output expanded at its highest rate since 2011, expanding by 2.7% in 2018 on the heels of 2.6% in 2017 – growing faster than the euro area as a whole (1.8%).

Against the backdrop of softer but robust external demand and favorable financing conditions, investment activity moderated somewhat but grew at a still solid 3.3% (2017: 3.9%, 2016: 4.3%), remaining an important support to Austria's economic expansion (+0.8 p.p.). Investment in machinery and equipment expanded by 3.3% after averaging at 6.4% p.a. in 2014-17, whereas total construction investment (+2.8%) edged up from 10.6 to 10.9% of GDP in 2017-18. We assess it as positive that ICT investment growth surged to 7.1%, while investment in intellectual property rose to a high 5.1% of GDP. Furthermore, the recovery in private consumption endured. Benefiting from employment and wage growth alongside the 2016 tax reform, household spending rose by 1.6% in 2018, slightly higher than the 1.4% seen in 2016 and 2017 respectively, and well above the 2007-15 average of 0.7%.

We continue to hold the strong labor market to be a key support to Austria's economy and to its credit assessment. The favorable labor market development is reflected by the harmonized annual unemployment rate, which fell from 5.5% in 2017 to 4.9% last year, the lowest level since 2011 and the fourth-lowest jobless rate in the euro area. The declining unemployment rate came on the back of vivid employment growth that has climbed from one all-time high to the next over the last quarters. The fourth quarter of 2018 saw 4.52m people employed, after expanding by yearly rates of 1.5% or more for nine consecutive quarters. In addition, Austria's participation rate is upward trending and equates to an above EA-19 average 76.8% (Q3-18). However, it thus remained well below the levels observed in top performer economies such as Sweden (83.0%) and the Netherlands (80.4%).

We expect labor demand to remain high, while intensifying labor shortages - in particular in construction - and high and rising vacancy rates point to tightening labor market conditions, pushing up wages. The share of construction enterprises citing labor as a factor limiting production stood at 38.0% this March (industry, Q1: 15.8%), and the vacancy rate leapt from 2.6% in Q4-17 to 3.4% in Q4-18 (industry, construction, services) – one of the highest readings in the EU-28.

Looking forward, we believe that the Austrian economy is well-positioned to withstand external crosscurrents, as healthy domestic fundamentals should broadly shield its economy from the adverse impact caused by slowing global trade and weakening industrial production. By and large, robust investment and brisk consumption should cushion weaker export growth. That said, economic expansion should decelerate, with real GDP growth easing to 1.8% in 2019 and 1.7% in 2020.

We expect that gross fixed capital formation will remain robust and spur economic growth, although investment activity is likely to level off gradually. Weaker external demand and decelerating industrial production should curb equipment investment. Indeed, weakening surveys on industrial sector sentiment, new orders, and export expectations are harbingers of a slowing momentum in equipment investment activity. Capacity utilization has edged down from 88.8% in Q1-18 to 87.0% in this year's first quarter, but posts at levels well above the long-term average (85.3% since 1996). By contrast, we think that the outlook for residential investment is for continued growth, also mirrored by still upbeat sentiment in the construction sector. While residential investment is likely to tail off in the outer years, the strong development of permits for buildings and dwellings suggests solid investment activity.

Private household spending is likely to take over the growth baton, mainly facilitated by the favorable labor market situation and higher wage growth. Austria's labor market looks set to remain in good shape going forward, and employment growth is likely to remain in place, albeit gradually losing some steam as the economic cycle matures. Contained inflation (2019e: 1.9%) and rising negotiated wages bode well for households' disposable incomes. Negotiated wages (Tariflohnindex) increased by 3.0% y-o-y in Feb-19, after having risen by 2.6% in 2018. Additionally, consumption in 2019/20 should be fostered by the government's fiscal measures (see also below), in particular the 'Family Bonus Plus' program.

At the same time, prospects for export growth have become dimmer amid intensifying global headwinds and high political uncertainty, whilst global cyclical forces appear to be waning. To be sure, we assume that external demand for Austrian products will gradually weaken. Still, export growth should remain solid, bolstered by the economy's diversification and sustained competitiveness. Whereas Austrian exports will prospectively benefit from the benign outlook in the CEE economies and the German recovery from its transitory setback, cost competitiveness remains in place, as real ULC growth (2018: 0.0%, AMECO data) compares favorably with Austria's main trading partners and the euro area as a whole. The World Economic Forum's Global Competitiveness Indicator also illustrates a relatively high degree of competitiveness, with Austria achieving a decent rank 22 out of 140 economies (2017: 21), although somewhat lagging AA peers such as Finland (11) and the UK (8). However, we assess a strong performance with regard to sub-indices infrastructure (rank 12), health (15), skills (5), and innovation capability (15). Overall, net trade should contribute positively to growth in the near term, as import growth is likely to subside alongside gradually diminishing investment in machinery and equipment.

Institutional Structure

Our credit assessment also reflects the sovereign's very strong institutional set-up. Most importantly, Austria compares well to other AA-rated sovereigns when pertaining to the World Bank's Worldwide Governance Indicators (WGIs), outperforming the AA median on all WGIs we consider. Thus, the quality of policy formulation and implementation can be deemed as persistently high, with Austria marking the 18th rank out of 209 economies worldwide on the WGI government effectiveness. Moreover, the sovereign also fares very well as regards the WGI voice and accountability (rank 14/209), measuring the perception of freedom of association, expression, and a free media. Corruption appears not to be very widespread, judging by a rank 20 on WGI control of corruption. Despite being broadly on par with AAA peers when it comes to WGI rule of law (rank 9), considerable gaps towards the Nordic economies and the Netherlands remain.

We continue to view the sovereigns' effectiveness in policy formulation and implementation as further backed by government authorities who facilitate a sound and prudent fiscal and supervisory framework, in particular the National Fiscal Advisory Council and the Financial Market Authority (FMA). Last November, policy-makers adopted a reform of banking supervision, according to which this task is to be carried out solely by the FMA. OeNB shall remain responsible for financial market stability and could issue audit mandates to the FMA in the event of impending crises. The government wants to legislate the reform by mid-2019, and the implementation of the organizational changes in the FMA, OeNB and the Ministry of Finance is scheduled for end of this year.

Meanwhile, monetary policy is conducted by the highly credible and accountable ECB. Austria's HICP inflation rate is broadly aligned with the euro area average and tends to be less volatile than in other EA-19 economies. We also observe broadly synchronized movements concerning MFI interest rates and wages as measured by Eurostat's labor cost index (wages and salaries, total for the business economy). In general, we believe that the Austrian economy continues to benefit from euro area membership, which entails broader and deeper capital markets as well as advantages associated with the euro as a reserve currency.

As evidenced by recent polls, the coalition has enjoyed high levels of popular support since the parliamentary election in October 2017. Programmatic overlaps of the center-right alliance appear to translate into a marked reform delivery, as the governing coalition between the ÖVP and the FPÖ is forging ahead in implementing measures envisaged in its comprehensive and arguably challenging structural reform program.

Since our last review, authorities have thus carried forward reforms to enhance the Austrian business environment and cut red tape. In July 2018 policymakers enacted a new law intended to repeal legal provisions that have become obsolete, in order to create legal certainty and the basis for further reform projects (Zweites Bundesrechtsbereinigungsgesetz). A total of 5,000 legal provisions fall within the scope of the act, approx. half of which will prospectively cease to apply. Furthermore, a new Public Procurement Act eventually entered into force in August 2018, transposing EU directives passed in 2014 – forming the basis for e-procurement and a more SME-friendly design and implementation of award procedures. The revised trade regulations (Gewerbeordnung) came into effect in May 2018. While still being relatively restrictive, it now includes expanded and specified subsidiary rights for entrepreneurs, changes in the classification of trades, and eased restrictions for several trades. Also, a constitutional reform to unbundle competences across different layers of government (Kompetenzbereinigungsgesetz) was endorsed by parliament at the end of last year, which transfers legislative powers between the federal and state (Länder) level. While only few policy domains such as maternity, infant, and youth care are being covered at this stage, further competence adjustments shall be prepared. In addition, the government passed a new law intended to lay the foundation for promoting large-scale investments and speeding up the respective procedures (Standortentwicklungsgesetz).

While we view these initiatives as positive in principle, we will closely follow the eventual impact on Austria's business environment. Indeed, Austria appears to have some room to improve, having slipped four places to rank 26 (out of 190 economies) in the World Bank's 2018 Ease of Doing Business ranking, with the main weakness still relating to starting a new business (rank 118). The OECD services trade restrictiveness index attests the Austrian economy to be heavily hampered by red tape in the service sector.

The government also pursued several reforms aimed at reducing bureaucracy and administrative costs, which have a bearing on the sustainability of public finances. The reform of the Austrian social security system decided on last year will see the launch of the organizational restructuring of social insurance in 2019, leading to a reduction of 21 social insurance funds down to five and a merger of the nine regional health insurance funds into one Austrian Health Insurance Fund (ÖKG). Whereas system efficiency is likely to improve, it has to be seen to what extent favorable effects on administrative costs will materialize going forward. The primary health care reform and the implementation of the Electronic Health Record system are underway.

The Ministry of Finance also wants to restructure and consolidate the financial and customs administrations, bundling similar tasks and competences to raise efficiency gains. A total of 40 authorities shall merge into a single authority with 33 offices, whilst a tax authority for large enterprises is planned. What is more, the government is pushing ahead with its digital agenda, implementing a new digital platform providing virtually all public services to its citizens.

Moreover, to incentivize longer working lives, the compensatory allowance will be raised for workers contributing for over 40 years to the pension system, while age restrictions for accessing part-time retirement will increase by two years. Also, the government has envisaged presenting a road map to reform long-term care by the end of this year.

Fiscal Sustainability

Regardless of these significant reform efforts on the fiscal front, we still hold the sovereign's fiscal performance to be its main credit weakness, in particular due to still elevated debt levels and contingent liability risks related to high public guarantees and challenges stemming from ageing costs in the medium to long term.

That being said, Austria has made huge strides in fiscal consolidation over the last three years, as the sovereign has achieved its first headline surplus since 1974, at 0.1% of GDP in 2018, after posting deficits of 0.8 and 1.6% of GDP in 2017 and 2016 respectively. Having projected a minor deficit of 0.3% of GDP, last updated in its 2019 draft budgetary plan, the government thus surpassed its fiscal target, with the headline balance moving into surplus one year ahead of schedule. This better-than-expected outcome was largely driven by stronger revenue growth, coming in at 4.8%, significantly exceeding expenditure growth (+2.9%). As a result of vivid economic activity coupled with the well-performing labor market, the revenue intake from personal and corporate income taxes exceeded the previous year's level by 7.1 and 14.7% respectively. On the spending side, moderate increases in social benefits (2.9%) and the public wage bill (2.7%) were compensated by a further considerable decline in interest outlays (-6.2%).

With a view to 2019 and 2020, we expect public finances to remain in good shape, remaining broadly balanced at 0.2% of GDP this year and 0.0% of GDP in 2020, as robust economic growth and the benign labor market performance should cater for solid PIT and VAT revenues, and interest expenditure should remain low. However, we think that maintaining a surplus will become more challenging, mainly due to the government's fiscal policy measures targeted towards the corporate sector, families, and low income-earners.

Thus, in 2019 the Family Bonus Plus program enters into force, providing a tax relief of up to EUR 1,500 per child per year and EUR 500 per year after a child's 18th birthday if the family receives an allowance for that child. Low-income single-earner parents receive a tax refund of EUR 250. While the overall budgetary effect may add up to EUR 1.5bn, the net effect is expected to total EUR 1.2bn, as the child allowance and the deductibility of child-care costs are abolished. Furthermore, 2019 will see lower unemployment contributions for low-income earners, a reduction of the accident insurance contribution, and lower VAT for overnight stays.

The government is pushing ahead with its encompassing package of fiscal relief measures (Entlastung Österreich), which aims at reducing the tax rate towards 40% of GDP by 2022, posting at 42.8% of GDP in 2018 (EU average 2017: 40.2% of GDP). Policy-makers announced the provision of an extensive relief of EUR 6.3bn in three stages, including the Family Bonus Plus measure.

In an initial step, the Austrian fiscal program foresees relief for roughly EUR 1bn in 2020, involving a reduction in health insurance contributions for low-income workers (approx. EUR 700m), lower tax rates for certain products, as well as a lifted flat rate for SME's income-related expenses (Kleinstunternehmergrenze). In 2021/22 the second stage commences, with the aim of significantly increasing the purchasing power of employees and the self-employed by cutting tax rates in the lower tax brackets, and of enhancing the business environment by simplifying tax laws. In a final step, cold progression shall be virtually abolished and corporate income tax rates are planned to be lowered.

Plans on how to generate cost savings to counter-finance the above mentioned measures comprise a 1% cut in departmental budgets across all ministries, savings in the insolvency remuneration fund (Insolvenz-Entgelt-Fonds, IEF) and the public insurance agency (Versicherungsanstalt öffentlich Bediensteter, BVA), as well as the above mentioned organizational restructuring of social insurance. Also, the government has recently adopted a new digitalization tax (Digitalsteuer). Accordingly, corporates with a global turnover of EUR 750m and domestic sales amounting to at least EUR 10m are to pay a tax of 5% on their online revenues from 2020 onwards, and parcel deliveries from third countries shall be generally subject to VAT. On a side note, the government envisaged creating a new agency under which all anti-fraud units shall be bundled and which is to commence with its work at the beginning of next year.

We believe that the envisaged fiscal reforms will not derail Austria's fiscal consolidation path, and we expect its favorable debt trend to remain in place – supported by resilient growth and sustained primary surpluses. It has to be stressed that the sovereign's public debt ratio remains elevated, but has steadily followed its downward trajectory after peaking in 2015 (84.7% of GDP). Last year, gross debt at the general government level amounted to 73.8% of GDP, down from 78.2% of GDP in 2017. The significant decline of 4.4 p.p. came on the back of healthy GDP growth, an improved primary balance, and progress in winding down the defeasance vehicles (HETA, KA Finanz, Immigon), the latter contributing 1.8 p.p. GDP to debt reduction. The winding down of assets process advanced further in 2018, with the selloff resulting in a marked decline in these entities' debt from EUR 14.5bn to 8.2bn in 2017-18.

We note that affordability remains high and has improved over time. According to Statistik Austria's latest Maastricht notification, interest expenditure fell from 3.8% of general government revenue in 2017 to 3.4% last year (2013: 5.2%). Moreover, the sovereign continues to display a well-balanced maturity profile with no FX risks. The average maturity of its debt portfolio stood at a high 9.8y in 2018, while the average effective interest rate dwindled to a low 2.2% (OeBFA data, Mar-19). Meanwhile, the sovereign is benefiting from historically low and stable long-term government bond yields, oscillating around 0.5% since 2017. Since the turn of the year yields have declined, and 10y bond yields amounted to 0.238% at 29-Mar-19, down from 0.697% a year before; the Bund spread remained very tight (approx. 30bp).

Public guarantees and age-related costs continue to represent fiscal sustainability risks in our view. Although having more than halved since 2012 (38.2% of GDP), public guarantees are still among the highest in the EU-28, totaling 15.4% of GDP in 2018, and are projected to edge down to 15.0% in 2019 (Stability Program 2019). Demographic challenges related to Austria's ageing population are looming, however appear to be rather moderate with a view to EU average readings (EU Ageing Report 2018). Working-age population is projected to decline by 4.6 p.p. of Austria's total population by 2030, up to 62.6% and somewhat more pronounced than in the EU (-4.2 p.p. to 61.0%). The country's old-age dependency ratio should not deteriorate as much as in the EU as a whole, rising by 8.2 p.p. to 36.1% (EU 9.9 p.p. to 39.5%). It is noteworthy that the Austrian population is forecast to rise by 12.8% by 2030, an increase four times as high as in the EU (3.0%). Notwithstanding, the EU Commission estimates age-related spending to increase by 0.9 p.p. of GDP by 2030, starting from of one of the highest initial positions, at 28.5% of GDP (3rd highest in EU-28). Significant increases in spending can be particularly expected with regard to pensions (0.6 p.p.), health care (0.4 p.p.), and long-term care (0.4 p.p.).

At this stage, we consider the probability of resurfacing banking sector problems as low, as banking sector soundness has further improved since our last assessment. Although standing somewhat below the EU average (14.7%), capitalization of the banking sector as a whole was broadly stable, with the CET 1 ratio equating to 14.2% in last year's fourth quarter, after 14.5% in Q4-17 (EBA data). Asset quality has been steadily improving over the years, with the NPL-ratio dropping from 3.7% in Q4-17 to 2.8% at the end of 2018 (EU avg. 3.2%). Foreign exchange risks continue to diminish, as the share of FX loans in total loans granted to Austrian households fell to 9.0% in Feb-19, down from 10.5% a year before (Feb-14: 20.4%).

As illustrated in the latest OeNB Financial Stability Report, Austrian banks continue to have a dominant position in Central, Eastern, and South-Eastern European (CESEE) economies, with their subsidiaries commanding over total assets in the amount of EUR 212bn (55% of 2018 GDP). Capital buffers of CESEE subsidiaries also remained stable up to the first half of 2018, while asset quality of CESEE loans improved, mirrored by a decline in the NPL ratio to 3.9%.

Despite implying no financial stability risks at present, housing developments warrant close attention. House prices at the national level are growing at a strong pace, with 3-year house price growth posting at 15% or higher since Q2-15, standing at 19.5% in the fourth quarter of 2018, down from 21.3% in Q4-17. This is all the more important, as the OeNB fundamentals indicator signals an increasing overvaluation, with prices deviating 14.3% from fundamentally justified levels in Q3-18 (Q3-17: 9.6%), while affordability ratios still point to misalignments, standing 13.6% (price-to-rent ratio) and 27.6% (price-to-income ratio) above their long-term average since the year 2000. At the same time, we observe steady, albeit no excessive, mortgage lending growth, which decelerated somewhat at the turn of the year (Feb-19: 4.9% y-o-y). Equally important, household debt has been stable, hovering at around 85% of disposable income over the last five years (Q4-18: 84.3%).

Foreign Exposure

Despite a still high share of general government gross debt in the hands of non-residents (Q4-18: 75.1%), Austria's external position remains solid and has improved over the years. Net external debt has been dwindling since Q2-16, having fallen to 14.5% of GDP in the fourth quarter of 2018 (Q4-17: 18.2% of GDP). Deposit-takers deleveraged notably, with the banks' share in Austria's external debt remaining stable at 28.3% in Q3-18 (Q3-18: 28.4%; Q3-10: 48.3%).

Austria is running a sustained current account surplus which has averaged at 2.2% of GDP over the last ten years, underpinned by competitive services exports, notably tourism, translating into a persistent surplus in its trade in services balance (2009-18 avg. 3.2% of GDP). Last year, Austria's current account was up to 2.3% of GDP, slightly higher than the 2.0% of GDP seen in 2017, mainly due to a trade in goods surplus, which widened from 0.2 to 1.2% of GDP in 2017-18, more than outweighing the slight deterioration of 0.2 p.p. GDP in the primary and secondary income balances respectively. Export performance was particularly aided by exports to CEE economies, which increased by 7.6% on the year. We note that the Austrian economy has a relative high exposure towards Germany and the CESEE economies, which account for 30.2 and 18.9% of merchandise exports respectively (2018).

Going forward, we expect the Austrian current account surplus to come in a touch lower in 2019/20, but remain broadly stable as exports to its main trading partners should soften somewhat. At the same time, investment activity is likely to ease, curbing on import growth and cushioning the negative effects from softer export growth. Given our expectation of a broadly stable current account surplus, Austria should remain in a net creditor position as reflected in its positive net international investment position (NIIP). Robust current account surpluses have resulted in a slightly positive and stable NIIP over the last five years. In 2017-18, its NIIP increased from 3.7 to 3.8% of GDP (2014-18 avg. 3.4%).

Rating Outlook and Sensitivity

Our Rating outlook on Austria's ratings is positive, 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 improve over the next 12-24 months.

We could raise Austria's credit ratings if we observe robust economic activity, coupled with general government debt continuing on its downward trajectory. In the same vein, a coherent and successful implementation of the envisaged structural reform plans could result in an uplift.

While the positive outlook indicates that a downgrade is rather unlikely, downward pressure on the outlook or ratings could arise if fiscal consolidation came to a halt or the favorable debt trend reversed. By the same token, weaker-than-expected medium-term growth may not only adversely impact the macroeconomic performance profile, but also feed into a slower reduction of public debt via the denominator effect. We could also consider a downgrade or revise the outlook if contingent liability risks were to materialize. By contrast, we believe that Brexit-related risks are rather limited, as illustrated by one of the lowest readings in the Creditreform Brexit Risk Indicator (BRI: 1.4, EU-27 median 2.0; see "What if… Consequences of a hard Brexit for the EU-27 states").

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Ratings*

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

*) Unsolicited

Economic Data

	2013	2014	2015	2016	2017	2018	2019e
Real GDP growth	0.0	0.7	1.1	2.0	2.6	2.7	1.8
GDP per capita (PPP, USD)	46,032	46,845	47,412	48,290	50,035	52,137	53,716
HICP inflation rate, y-o-y change	2.1	1.5	0.8	1.0	2.2	2.1	1.9
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.3	81.6	81.3	81.8	81.7	n.a.	n.a.
Fiscal balance/GDP	-2.0	-2.7	-1.0	-1.6	-0.8	0.1	0.2
Current account balance/GDP	1.9	2.5	1.7	2.5	2.0	2.3	n.a.
External debt/GDP	185.1	182.8	171.9	164.6	154.3	146.4	n.a.

Source: International Monetary Fund, Eurostat, own estimates

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

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.

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, World Travel and Tourism Council, Österreichische Nationalbank, Statistik Austria, Republik Österreich – Bundesministerium für Finanzen.

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.

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