Research Update:

Austria Outlook Revised To Positive On Improving Energy Supply Position; 'AA+/A-1+' Ratings Affirmed

August 23, 2024

PRIMARY CREDIT ANALYST

Michelle Keferstein
Frankfurt
(49) 69-33-999-104
michelle.keferstein
@spglobal.com

SECONDARY CONTACT

Niklas Steinert
Frankfurt
+ 49 693 399 9248
niklas.steinert
@spglobal.com

RESEARCH CONTRIBUTOR

Romain Naegelen
Frankfurt
1737021006
romain.naegelen
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Overview

- High levels of gas storage, additional gas supply capacity, and continuous energy diversification efforts will improve Austria's energy supply position beyond our previous expectation.
- As a result, we believe that Austria will be well equipped to handle any potential short-term disruptions and limit economic scarring caused by the end of the gas transit contract between the Ukrainian energy provider Naftogaz and Russia's Gazprom in December 2024, which is unlikely to be renewed.
- At the same time, we project Austria's economy will return to average real growth of 1.4% over 2025-2027, supported by a rebound in domestic and external demand, following the estimated 0.2% this year.
- We therefore revised our outlook on Austria to positive from stable and affirmed our 'AA+/A-1+' ratings.

Rating Action

On Aug. 23, 2024, S&P Global Ratings revised its outlook on Austria to positive from stable. At the same time, we affirmed our 'AA+/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Austria.

Outlook

The positive outlook reflects the potential that Austria's energy supply position improves further while its economy remains robust over the next 24 months. The positive outlook also reflects the possibility of clear and discernible budgetary consolidation, with declining budget deficits.

Upside scenario

We could raise our ratings on Austria if economic performance remains robust, even in case of energy supply disruptions, and if budgetary outcomes outperform our current expectations.

Downside scenario

We could revise the outlook to stable if the economic growth outlook materially weakens, for example due to a material disruption of Austria's energy supply, or if budgetary and current account outcomes are significantly worse than our current projections.

Rationale

The outlook revision reflects our view of Austria's improving economic growth outlook and strengthening resilience against any potential energy supply shocks over 2024-2027. We consider Austria's economy to be broadly resilient even if the longstanding take-or-pay contract between Austria's biggest energy supplier OMV and Russian gas supplier Gazprom ends abruptly at the end of this year, when the gas transit contract between Russia and Ukraine ends.

While Austria's exposure to Russian gas remains relatively high in a European comparison, at 83% of total gas imports (June 2024), the country has made significant progress in diversifying its energy supplies and advancing its green agenda.

We therefore consider Austria well equipped to handle potential short-term disruptions caused by the end of the gas transit contract between the Ukrainian energy provider Naftogaz and Russia's Gazprom. The contract, based on which gas is transported to Austria and passed on to other countries, will expire in December 2024. We expect the contract is very unlikely to be prolonged in its current form.

We expect the government to post a general government deficit of 3.0% of GDP this year, before reaching a deficit of 2.5% by 2027. We note that budgetary plans by the new government emerging from the September 2024 elections might differ from our current forecast and need to follow a stricter budgetary consolidation path to meet the new rules under the EU fiscal framework.

Our ratings on Austria are supported by the country's competitive and diversified economy, and its effective and stable institutions. Moreover, the ratings benefit from the country's very strong external profile, which remained relatively resilient during the recent economic downturns, with current account surpluses on average. Its relatively high external indebtedness and external financing needs are somewhat mitigated by its eurozone membership.

Institutional and economic profile: Strong tourism performance and a recovery in household consumption will support economic growth in 2024

- Austria's economy will broadly stagnate (0.2% in real terms) this year, with domestic and external demand returning in the second half of the year.
- We project continuous diversification efforts towards alternative energy sources will reduce the country's energy dependence on Russia.
- Following the upcoming September general elections, we expect the next government to pursue broad continuity of economic policies.

Austria's economic recovery has been delayed by more muted global export growth than previously expected. We now expect the Austrian economy to return to a moderate growth path for the remainder of the year, posting real GDP growth of 0.2% in 2024 as private consumption and exports slowly recover.

Leading economic indicators and flash estimates suggest a delayed economic recovery as industrial and construction performance remained weak in the second quarter. While the services sector also underperformed, we project it will rebound in the second half of the year thanks to real wage growth and good performance of summer tourism. According to preliminary data from Austria's statistical office, overnight stays increased by 1.6% year on year in the first half of 2024. With most of the summer and the next winter tourism season still ahead, we expect tourism and tourist-related services to pick up further, contributing to economic growth. At the same time, higher real wages will also support domestic consumption spending.

Austria's labor market remains strong. We project the unemployment rate will temporarily rise to 5.4% by year-end 2024 from 5.1% at year-end 2023 as wage growth peaked in early 2024 amid sluggish economic growth. Still, Austria's unemployment rate was 5.3% in June 2024, below the EU average of 6.0%. From 2025, we forecast unemployment will recede, reaching 4.4% by 2027.

Austria's gas reserves currently exceed annual gas consumption (88 terawatt hours [TWh] versus 76 TWh usage in 2023) and the strategic gas reserve (20 TWh) remains untapped. At the same time, OMV has secured additional liquefied natural gas (LNG) capacity for 40 TWh per year until September 2026. The Austrian natural gas producer also announced last year large recoverable gas capacity in Wittau, in Lower Austria, among others. A preliminary evaluation indicates potential recoverable resources of approximately 48 TWh (28 million barrels of oil equivalent), according to the company.

We expect the government will continue its energy diversification efforts by introducing various schemes, such as the expansion of photovoltaics and wind energy. The target is to fully replace Russian gas supplies by 2027 at the latest.

We don't expect any material changes in the overall fiscal policy stance following the September general elections. In our view, the authorities have a long track record of prudent policymaking. However, the longer-term policy agenda remains less certain, considering the limited ideological common ground among the key political parties. We note that the political landscape has become more fragmented over the recent years, and it could become difficult to form a majority government. We expect the reform implementation, aimed at increasing the economy's competitiveness and energy diversification, among others, will continue. Austria's €4.5 billion Recovery and Resilience Program, mostly funded via EU grants, should also help through various measures, such as increasing digitalization.

Flexibility and performance profile: Slow budgetary consolidation over 2024-2026

- Austria's budget deficits will continue to narrow to roughly 2.5% of GDP by 2027 from an estimated 3.0% in 2024.
- Consecutive current account surpluses, supported by strong tourism performance, reflect Austria's strong external position.
- Inflation continues its downward trajectory, reaching 2.9% in July, but will reach 2.0% only by 2027, because of a high service-related contribution.

We currently expect slower budgetary consolidation over our forecast horizon: We now forecast the deficit will narrow to 2.5% of GDP by 2027 compared with our previous estimate of 2.0%. For 2024, we have revised upward our forecast of the general government deficit to 3.0% of GDP (from 2.5% previously) as energy relief measures such as the electricity price subsidy have been extended until year-end 2024. At the same time, the government incurred higher social spending related to the lower-than-expected economic growth and introduced a housing package--effective from 2025--amounting to more than €2 billion. The stimulus package includes, for example, social housing construction, totaling €1 billion, and subsidies for thermal-energetic refurbishment.

We note, however, that in light of the upcoming general elections there could be additional pressure on the spending side. Nevertheless, if Austria complies with the new EU fiscal rules, we believe budgetary outcomes could be better than we currently expect.

We anticipate net general government debt will stand at about 74.0% of GDP in 2027, up from 69.3% in 2024. The government debt profile benefits from a long average maturity--of about 12 years--which keeps interest payments low in an international comparison. However, we forecast interest payments will rise to 3.0% of government revenue in 2027, from 2.4% in 2023.

We consider the government's contingent liabilities to be low, totaling roughly 16% of GDP. This also incorporates export and export-finance guarantees totaling €32 billion (7% of GDP) as of March 2024. We consider these to have an especially low risk of materialization on the government's balance sheet, since there have been very limited calls on these guarantees since 1950.

Austria's strong external profile is a key strength of the rating. The country's current account has been in consistent surplus over recent years, except for 2022, because of its diversified economy (including tourism). We project the country's current account will remain in surplus over the forecast horizon, averaging about 2.0% of GDP over 2024-2027.

In our view, Austria's relatively high external debt and external financing needs are somewhat mitigated by its eurozone membership. We expect Austria's gross external financing needs will average roughly 180% of current account receipts (CARs) plus usable reserves over 2024-2027 and its external debt will exceed liquid external assets by more than 100% of CARs over the same period.

We consider Austria's eurozone membership beneficial for its economy. The country profits from the eurozone's highly developed capital markets and the European Central Bank's (ECB's) credible monetary policy. The ECB's monetary tightening has increased Austria's funding costs, but we expect these to remain low in an international comparison.

Inflation will fall, but reaching 2% only in 2027, in our view. In July, Austria's inflation rate eased as energy prices fell, reaching 2.9%, slightly above the EU average of 2.8%. Although we expect inflation to continue its downward path this year, we anticipate it will remain higher than that of some European sovereigns because Austria faces inflation-indexed rents, a persisting pent-up demand in tourism, and labor shortages.

We expect the banking sector to remain stable and to profit from the current interest-rate environment. Austrian banks are among the largest beneficiaries of higher interest rates. This is a reflection of a relatively high share of variable interest rate lending, which allows quick repricing on the asset side. As a result, the return on assets has doubled since the ECB started increasing interest rates. This, combined with cost optimization measures, has eased the pressures on Austrian banks' profitability. In 2023, the cost-to-income ratio of the Austrian banking sector fell below 50% for the first time. However, in the medium term, we expect profitability and efficiency to normalize and return to pre-2023 levels. Trending at about 60%-65% on average, the consolidated sector's cost-to-income ratio remains mediocre in a broader international context.

Tackling inefficiencies is key to banks remaining competitive throughout the cycle. Structural sector impediments, such as still-dense branch networks, legacy IT systems, and decentralized structures, have so far prevented banks from achieving stronger improvements on the cost side. While some problem loans could emerge in 2024 and 2025, asset quality deterioration will likely stay contained. The current stress on European commercial real estate markets indicates particular asset quality risks to development companies and could mean higher credit losses for Austrian banks, which are particularly exposed to commercial real estate. However, while exposed banks may book higher provisions in 2024, we expect overall losses to remain limited with no systemic implications for the banking sector.

Key Statistics

Table 1

Austria--Selected indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Economic indicators (%)										
Nominal GDP (bil. LC)	385	397	381	405	447	478	499	518	536	552
Nominal GDP (bil. $)	455	445	435	479	471	517	536	564	620	648
GDP per capita (000s $)	51.6	50.2	48.9	53.7	52.4	56.8	58.7	61.6	67.3	70.1
Real GDP growth	2.4	1.5	(6.6)	4.2	4.8	(0.8)	0.2	1.6	1.3	1.3
Real GDP per capita growth	1.9	1.0	(7.1)	3.9	4.3	(2.2)	(0.1)	1.2	0.9	0.9
Real investment growth	4.4	4.5	(5.5)	6.1	0.1	(1.3)	(2.2)	1.8	2.0	2.0
Investment/GDP	25.7	25.4	25.6	27.5	27.7	24.9	24.6	24.5	25.1	25.2
Savings/GDP	26.6	27.7	29.1	29.2	27.4	27.5	27.0	26.5	26.9	26.8
Exports/GDP	55.5	55.8	51.6	56.0	62.1	59.2	59.3	59.2	58.8	58.8
Real exports growth	5.2	4.1	(10.6)	9.1	11.2	(0.2)	1.5	2.0	1.9	1.9
Unemployment rate	5.2	4.8	6.0	6.2	4.8	5.1	5.4	5.1	4.8	4.4
External indicators (%)										
Current account balance/GDP	0.9	2.4	3.4	1.6	(0.3)	2.7	2.4	2.0	1.9	1.6
Current account balance/CARs	1.4	3.7	5.7	2.5	(0.4)	3.9	3.6	3.1	2.8	2.5
CARs/GDP	63.3	64.4	60.1	67.0	70.6	68.6	66.7	66.4	65.6	65.4
Trade balance/GDP	0.3	1.1	1.2	(0.0)	(1.5)	1.9	1.9	1.7	1.5	1.3
Net FDI/GDP	(0.4)	(1.2)	(3.1)	(2.3)	0.4	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)
Net portfolio equity inflow/GDP	(1.5)	(1.3)	(0.9)	(2.3)	(1.5)	(0.9)	(1.3)	(1.3)	(1.3)	(1.3)
Gross external financing needs/CARs plus usable reserves	180.8	178.2	185.1	178.7	179.1	173.9	183.0	181.7	177.5	176.8
Narrow net external debt/CARs	104.3	103.2	131.8	104.6	88.8	92.9	94.3	93.6	89.8	88.7
Narrow net external debt/CAPs	105.8	107.2	139.8	107.3	88.5	96.7	97.8	96.6	92.4	90.9

Table 1

Austria--Selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net external liabilities/CARs	(12.3)	(25.4)	(26.1)	(22.2)	(29.7)	(28.0)	(27.6)	(26.9)	(26.0)	(25.1)
Net external liabilities/CAPs	(12.5)	(26.4)	(27.7)	(22.8)	(29.5)	(29.2)	(28.7)	(27.8)	(26.7)	(25.7)
Short-term external debt by remaining maturity/CARs	95.8	96.3	107.5	98.2	97.0	94.1	102.6	100.0	94.0	92.3
Usable reserves/CAPs (months)	0.9	1.0	1.1	1.2	1.2	1.2	1.1	1.0	0.9	0.9
Usable reserves (mil. $)	23,209	23,609	30,486	33,984	33,173	31,238	31,238	31,238	31,238	31,238
Fiscal indicators (general government; %)										
Balance/GDP	0.2	0.6	(8.0)	(5.8)	(3.3)	(2.6)	(3)	(2.8)	(2.8)	(2.5)
Change in net debt/GDP	0.2	(1.0)	7.1	5.2	4.9	2.9	4.1	4.2	3.8	3.3
Primary balance/GDP	1.8	2.0	(6.6)	(4.7)	(2.3)	(1.5)	(1.7)	(1.4)	(1.4)	(1.0)
Revenue/GDP	48.9	49.2	48.8	50.4	49.7	49.4	49.0	48.5	48.5	48.5
Expenditures/GDP	48.8	48.7	56.8	56.2	53.0	52.0	52.0	51.3	51.3	51.0
Interest/revenues	3.3	2.9	2.8	2.2	1.9	2.4	2.7	2.9	3.0	3.0
Debt/GDP	72.5	69.1	81.4	81.1	77.1	76.4	77.9	78.7	79.6	80.6
Debt/revenues	148.2	140.4	166.8	160.8	155.2	154.8	159.0	162.4	164.1	166.1
Net debt/GDP	63.8	60.9	70.6	71.6	69.8	68.1	69.3	71.0	72.4	73.5
Liquid assets/GDP	8.7	8.2	10.8	9.5	7.4	8.3	8.6	7.8	7.2	7.0
Monetary indicators (%)										
CPI growth	2.1	1.5	1.4	2.8	8.6	7.7	3.4	2.8	2.5	2.0
GDP deflator growth	1.8	1.6	2.7	2.1	5.3	7.8	4.1	2.2	2.2	1.7
Exchange rate, year-end (LC/$)	0.87	0.89	0.81	0.88	0.94	0.90	0.93	0.89	0.85	0.86
Banks' claims on resident non-gov't sector growth	2.6	4.8	3.7	4.3	8.9	(1.9)	2.0	2.3	2.3	2.3
Banks' claims on resident non-gov't sector/GDP	106.6	108.4	117.2	114.8	113.3	103.9	101.6	100.1	99.0	98.3
Foreign currency share of claims by banks on residents	4.4	3.8	3.1	2.6	2.1	2.0	1.9	1.8	1.8	1.8
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 1

Austria--Selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real effective exchange rate growth	0.5	(0.8)	(6.3)	12.3	1.7	3.8	N/A	N/A	N/A	N/A

Sources: Eurostat (economic indicators), the Oesterreichische Nationalbank (external indicators), Statistics Austria (fiscal indicators), and the Oesterreichische Nationalbank and IMF (monetary indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by the European Financial Stability Facility.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Austria--Ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	2	Strong, but short track record of policies. Generally effective checks and balances with free flow of information throughout society and unbiased enforcement of contracts, strong legal system, and rule of law. In addition, coordination requirements at the eurozone level might hinder timely policy responses.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators in Table 1.
External assessment	1	Based on narrow net external debt as per Selected Indicators in Table 1. In the context of our external assessment on Austria, an individual member of the Economic and Monetary Union, we treat the euro as actively traded.
		Austria is displaying consistent current account surpluses as per Selected Indicators in Table 1.
		The sovereign’s net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1
Monetary assessment	2	In the context of our monetary assessment, we consider the euro to be a reserve currency. The European Central Bank has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. The consumer price index is low and in line with that of its trading partners. Austria is a member of the Economic and Monetary Union.
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology”

Table 2

Austria--Ratings score snapshot (cont.)

Key rating factors	Score	Explanation
Notches of supplemental adjustments and flexibility	-1	Uncertainties regarding energy supply due to still high reliance on Russian gas supplies despite ongoing diversification efforts are not fully captured in the indicative rating. The gas transit contract between Russia’s Gazprom and Ukraine’s Naftogaz, which transfers gas to Austria, ends in December 2024. In the absence of a new agreement, this will require the Austrian economy to be ready to decouple entirely from Russian gas supplies at that time.
Final rating		
Foreign currency	AA+	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt
Local currency	AA+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, Aug. 15, 2024
- Sovereign Ratings List, Aug. 15, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 1, 2023
- Sovereign Risk Indicators, July 8, 2024. An interactive version is also available at www.spratings.com/sri

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action

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