

Austria

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Short-Term Foreign-Currency IDR	Stable

Financial Data

Austria

(USDbn)	2010
GDP	376.7
GDP per head (USD 000)	44.7
Population (m)	8.4
International reserves	22.4
Net external debt (% GDP)	29.6
Central government total debt (% GDP)	63.1
CG foreign-currency debt	5.1
CG domestically issued debt (EURbn)	181.2

Key Rating Drivers

Economic Recovery: After shrinking 3.9% in 2009 more or less in line with the 'AAA' median (3.8%), the Austrian economy has recovered well, with growth at 2.1% in 2010 and forecast at 3% in 2011. This is partly thanks to sound underlying domestic fundamentals – with no property boom or excess lending – stable consumption growth and the lowest unemployment in the euro area, limiting deleveraging adjustment. Growth has been driven by a resurgence in demand from Germany and central, eastern and southeast Europe (CESEE).

Fiscal Consolidation: The authorities have acted decisively on fiscal consolidation. Austria starts a multi-year consolidation package in 2011, aimed at lowering debt/GDP to 60% by 2020. In addition to the successful legally binding expenditure ceiling, fiscal federalism reforms aimed at improving coordination and discipline were introduced. These have support across all three government tiers, increasing their chances of implementation.

Faster growth in 2010 and 2011 also means lower-than-planned deficits will help speed up consolidation. Although these developments are positive, public debt remains high and Fitch believes a more aggressive programme of consolidation would allow the government more headroom to counter future shocks.

High Debt: Eurostat revisions and financial support to Greece and to a much lesser extent Ireland have added to Austria's debt, and the government projects that the public debt/GDP ratio will peak at 75% of GDP in 2013-2014. This is far higher than the 'AAA' median of 55% of GDP in 2010, but will still be well below the euro area median of 88.5% and less than in the larger euro area 'AAA' countries – France (81.7%) and Germany (83.2%).

Diminishing Bank Exposure Concerns: With the recovery in CESEE countries, concerns about banks' exposure – around 74% of GDP – to these countries is receding. Banks are starting to repay government financial support worth EUR6bn, less than half of what had been set aside. In addition, liquidity support for banks ended in December 2010, and the banks now have improved access to capital markets and reduced risk premiums.

Austrian banks will continue to invest in CESEE countries where credit penetration is low, growth is faster and profitability is relatively high. Nonetheless, the severe economic and financial stress in some CESEE countries during the global financial crisis of 2008-2009 highlighted the risks of this relatively high and concentrated exposure. Therefore, managing the expansion will be the key challenge.

Euro Membership: Austria's 'AAA' rating is supported by euro area membership, which shields it from balance-of-payments and exchange-rate risk, and allows its financial system access to European Central Bank (ECB) credit facilities, high GDP per capita (the third highest in the EU), a flexible and diversified economy, strong international competitiveness and efficient civil institutions.

What Could Trigger a Rating Action

Exposure to CESEE: As a small open economy, Austria's growth depends on the international environment. In light of Austria's additional links to CESEE, a generalised slowdown in global growth could result in a slip back into recession.

Risks from Increased Debt: Rising public debt through a derailing of the fiscal consolidation programme due to external or internal factors could put downward pressure on the ratings.

Related Research

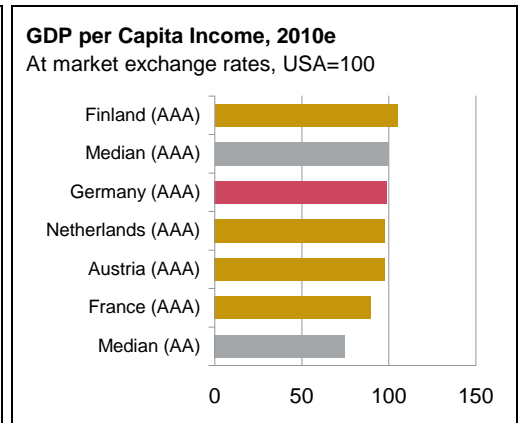
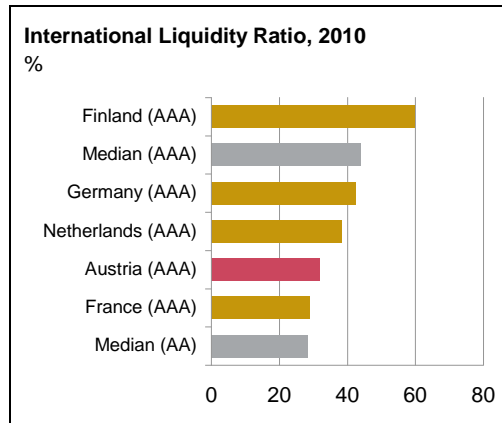
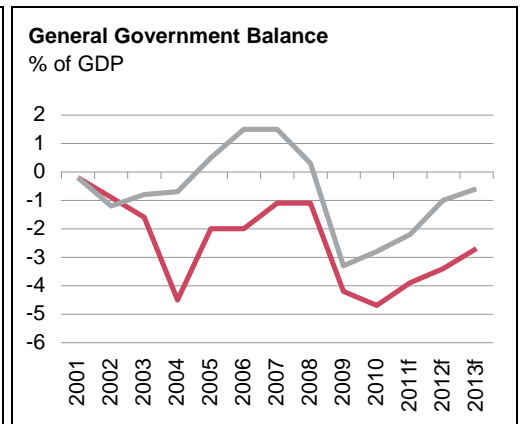
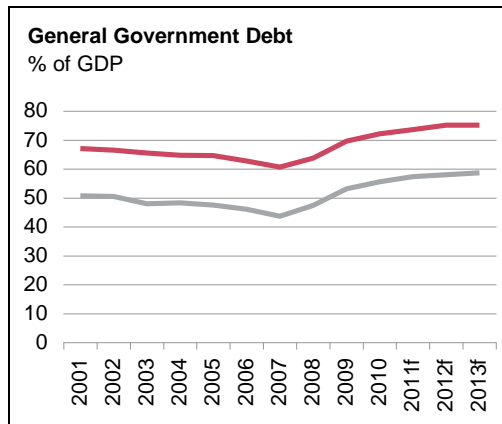
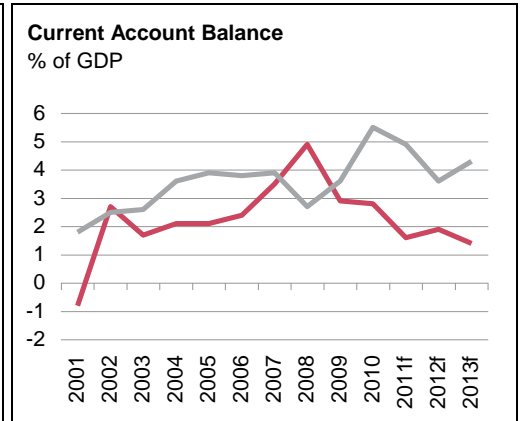
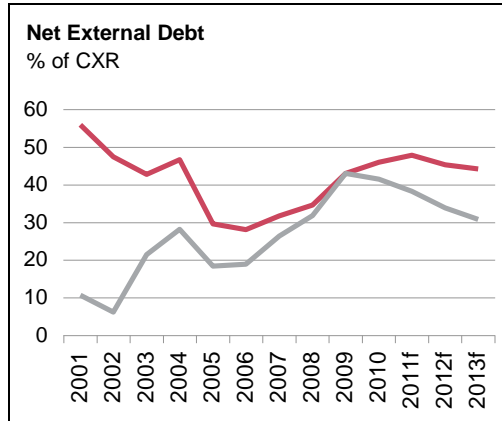
- [Sovereign Review and Outlook \(June 2011\)](#)
- [Global Economic Outlook \(June 2011\)](#)
- [Sovereign Data Comparator \(June 2011\)](#)
- [Euro Area Sovereign Debt Crisis \(February 2011\)](#)

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Peer Comparison



— Austria

— Medians

Related Criteria

[Sovereign Rating Methodology \(August 2010\)](#)

Rating Factors

Peer Group

Rating	Country
AAA	Austria
	Canada
	Denmark
	Finland
	France
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United Kingdom
United States of America	
AA+	Australia
	Belgium
	Bermuda
	Hong Kong
	New Zealand
	Spain

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
26 Oct 95	AAA	AAA
10 Aug 94	AAA	

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Strength	Neutral	Neutral	Neutral
Trend	Stable	Stable	Stable	Stable

Note: Relative to 'AAA' category
Source: Fitch

Strengths

- Austria has a rich, diversified, high-value added economy with strong political and social institutions.
- Strong international competitiveness reflects sustained control of unit-labour costs since euro adoption in 1999; euro area membership has also helped increase the export share.
- Unemployment is low at around half the euro area average.
- Euro area membership lowers FX risk, virtually eliminates the risk of a balance of payments crisis and has given the sovereign access to a broader investor base.
- Pension reform has continued as part of the multi-year consolidation programme through the reduction of transfers and civil service pensions, holding back long-term costs. In 2009 the EU Commission projected an increase by 3% of GDP in 2007-2060 compared with 5% for the euro area.

Weaknesses

- The public debt ratio is high relative to the peer group. It has deteriorated since 2008 owing to the recession, banking sector and euro area support and Eurostat revisions. Government projections have the public debt ratio declining from a peak of around 75% of GDP from 2014.
- Banks' very large exposure to CESEE relative to Austrian GDP is a vulnerability; it caused a sharp deterioration in banks' asset quality in 2008-2009. Banks' continued expansion in CESEE will need to be managed prudently.
- Gross and net external debt ratios are higher than for rating peers, reflecting high public debt/GDP and a high proportion of foreign investment – 75% – in the government debt market.

Local Currency Rating

The Local- and Foreign-Currency IDRs of euro area sovereigns are the same, reflecting the limited ability of euro area countries to monetise their domestic debt stock and lack of preferential access to domestic capital markets. In 2010, 98.4% of Austria's public debt in 2010 was in euros or hedged into euros.

Country Ceiling

The Country Ceiling for all 15 euro area countries is 'AAA', reflecting the fact that they do not have preferential access to foreign exchange and cannot impose exchange controls. This means that transfer and currency risk is minimal.

Outlook and Key Issues

An economic recovery is under way, with real GDP growth recovering to 2.1% in 2010 and expected to reach at least 3% in 2011. This followed one of the deepest recessions for decades in 2009, when the economy contracted by 3.9%. The recovery in Germany (Austria's main exports destination) has led to a resurgence in demand for the country's exports and tourism. Capacity utilisation and exports are almost back to pre-crisis levels. The unemployment rate will stabilise in 2012 at a low 4%. Growth will slow to 2% in 2012 due to base effects.

In addition, fiscal consolidation is set to begin in 2011, reflecting faster growth, a withdrawal of the fiscal stimulus and the start of the multi-year fiscal consolidation plan. Fitch expects debt ratios to start to decline in 2014 and possibly as early as 2013 if, following current trends, fiscal consolidation continues to move faster than planned. Reflecting sounder underlying domestic fundamentals, Austria's economic performance in terms of growth, budget deficits and public debt, unemployment and the current account balance, has been better than that of other euro area countries during both the downturn and the recovery. Inflation is slightly higher than in other euro area economies due to food and energy prices and increases in consumption taxes, but not wage developments. Real wages are falling in 2011. Fitch expects them to stabilise in 2012, while inflation moderates due to base effects.

Figure 2

Austria: Outperforming the Euro Area

	2010	Austria 2011	2012	2010	Euro Area 2011	2012
Real GDP growth	2.1	3	2	1.8	1.6	1.8
Inflation	1.7	2.8	2.4	1.6	2.6	1.8
Unemployment	4.4	4.1	4.0	10.1	10	9.7
Current account balance	2.8	3.2	3.6	1.6	2.6	1.8
Budget deficit	-4.6	-3.9	-3.3	-6.0	-4.3	-3.5
Debt to GDP	72.3	73.6	75.1	85.4	87.7	88.5

Source: European Economic Forecast – Spring 2011, Austria Federal Ministry of Finance, Fitch forecasts

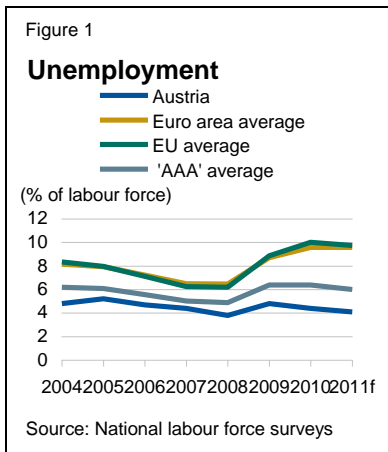
With a return to growth in CESEE countries, the risk emanating from banks' large exposure to this area is receding, and the banks are regaining profitability. The authorities' quick response – financial sector guarantees and financial support packages – alleviated banks' liquidity issues during the global financial crisis. Banks' exposure to Greek debt is low and Austria's share of EU support measures for the Greece bail-out has also been low so far.

Nevertheless, there are downside risks, emanating primarily from the euro area sovereign debt crisis. These could have an indirect impact through increased Europe-wide funding costs for banks, affecting overall euro area growth. This would have a negative impact on Austria's growth, and banks' exposure to CESEE countries could once again become a potential contingent liability.

Public Finances

Austria's public finances were weakened in 2009-2010 by the effects of automatic stabilisers and fiscal stimulus measures to alleviate the effects of the global economic crisis. Consequently, Austria's budget deficit rose to 4.1% of GDP and 4.6%, respectively, from 0.9% in 2008. Changes by Eurostat (spring 2011)¹, which mainly affected the treatment of some forms of infrastructure spending, added about 0.5% of GDP to 2010 budget spending. Excluding the Eurostat revisions the general government deficit in 2010 would have been 3.5%

¹ Statistical revisions were made on Austria's public finances from 1995 involving reclassifications and affecting deficit and public debt figures. The revisions mainly stemmed from the costs of the railway company, financing of regional public hospitals and assumption of some of the liabilities of "bad bank" KA Finanz. The latter two are one-offs.



of GDP, much lower than the original budget deficit of 4.7% of GDP (which had not anticipated the Eurostat changes).

Budget outperformance in 2010 resulted from a stronger-than-expected economic recovery resulting in higher tax revenue and social security contributions, and lower unemployment benefits. It also represented lower interest costs due to lower market interest rates. Reforms introduced at end-2009 that set expenditure ceilings four years in advance and give more flexibility within expenditure ceilings – where money can be carried forward at the end of the fiscal year and spent on other items – improved budget execution.

From 2011 Austria is implementing a comprehensive multi-annual consolidation plan aimed at stabilising and then lowering the debt ratio and allowing the country to regain fiscal space. The Stability Programme 2011-2014 should bring the budget deficit down to 2.4% of GDP in 2014 and reduce the public debt/GDP ratio from in 2014. The consolidation measures mainly involve expenditure cuts to welfare, pension transfers and long-term care, and to various subsidies (1% of GDP in total for 2011-2014). The main revenue-raising measures are a new bank levy, which will force banks to contribute to the cost of stabilising the financial system – EUR500m each year or around 0.2% of GDP – and an increase in a number of consumption taxes. Revenue-raising measures total 0.4% of GDP in 2011, rising to 0.7% of GDP in 2014. However, expenditure on research and development and education will rise by 0.2% of GDP.

Consolidation will be supported by the Internal Stability Pact introduced in October 2010 and updated in April 2011, which aims to improve budgetary discipline across all levels of government by introducing new deficit limits in 2011-2014, tighter sanctions for non-compliance, greater transparency and better coordination among the three tiers. Local governments will have balanced budgets throughout the period, deficits of state budgets will not exceed 0.5% of GDP by 2014 and the federal government deficit is to fall to 1.9% of GDP by 2014. Support for this reform from all tiers of government improves the chances that it will be implementable.

In Fitch's view, although well specified, Austria's current plans for deficit reduction are relatively unambitious; the general government debt ratio only fell to the Maastricht level of 60% of GDP once in 1997-2007, showing that Austria has no real track record of fiscal consolidation.

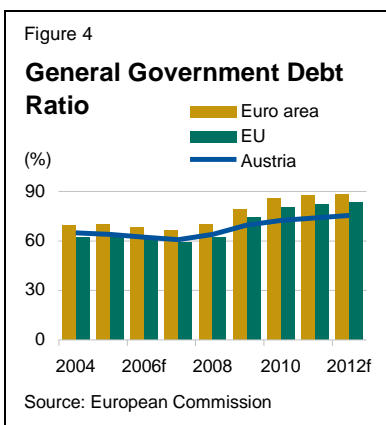


Figure 3

New Deficit Limits; Internal Stability Pact 2011-2014

	2011	2012	2013	2014
Federal government	-3.1	-2.7	-2.4	-1.9
States (incl. Vienna)	-0.75	-0.6	-0.5	-0.5
Local governments	0.0	0.0	0.0	0.0
General government	-3.9	-3.3	-2.9	-2.4

Source: Federal Ministry of Finance

The projected budget deficit for 2011 is 3.9% of GDP. However, owing to faster growth and improved fiscal discipline, budget execution for the first five months was better than expected and the government now forecasts a lower deficit of 3.3% of GDP. However, the government does not intend to implement any change to the budget consolidation plan. Instead, higher revenue from business cycles will be saved to provide a cushion for when the business cycle turns. Fitch regards this positively in light of uncertainties about the global recovery emanating from the euro area sovereign debt crisis, and its potential consequences, and/or a slowing of growth in the major emerging markets.

Public debt rose to 72.3% in 2010 from 69.6% in 2009. Part of this was due to Eurostat revisions that added 1.6 percentage points to the debt. Under the 2011-2014 Stability Programme, the government expects debt to start to decline in 2014 and fall to 74.4% by 2015.

Due to the smaller deficit in 2011, the debt to GDP ratio should peak more quickly.

By 2011 gross long-term borrowing by the Austrian Federal Financing Agency had normalised at EUR22bn-25bn, down from a peak of EUR32bn in 2009 (ie, by 23%) owing to smaller redemptions. Spreads over the German 10-year benchmark had fallen to 35-45bp from post-global financial crisis highs of more than 130bp. Austria has one of the lowest rollover ratios in the euro area, at 4.9% of GDP, and negligible FX risk, with 98.4% of debt denominated in euros. The country has a large savings pool; it is a net capital exporter. Funding problems for the government have therefore eased considerably.

Other Actual and Potential Liabilities to Budget
European Financial Stability Support

The EU has established financial stability support measures for euro area countries. Austria's share of support to the euro periphery and other euro area countries that may run into funding problems consists of a contingent contribution to the European Financial Stabilisation Mechanism of EUR1.3bn (0.5% of GDP), maximum guarantees of EUR12.24bn (4.3% of GDP) to the European Financial Stability Facility (EFSF) and EUR2.29bn (0.8% of GDP) bilateral loans to Greece. Borrowing for support for Greece (current programme) and Ireland² is spread over 2010 and 2014 and is reflected in public debt projections. Austria will be required to participate in a new financial support programme for Greece, but its share will be limited to just 2%-3% of the total.

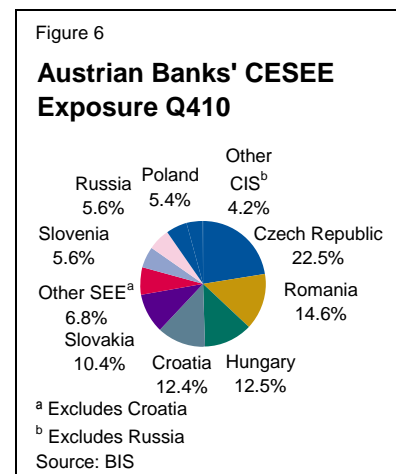
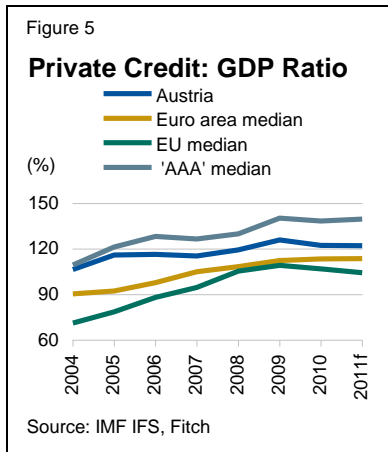
Austrian Banking and Corporate Sector Support

Liquidity support to the banks and corporate sector has consisted of maximum EUR50bn guarantees on bank bonds and EUR10bn on corporate bonds issued with a maximum tenor of five years for sound banks and corporates only; there is a fee for the guarantee. The government does not expect to be called upon to pay under the guarantees. It also made available a maximum EUR15bn of capital injections into financial institutions. Around EUR6bn (2% of GDP) of participation capital has been needed. The bigger banks have already started to buy back state capital. Two banks were nationalised and restructured with bad debts hived out into "bad bank" KA Finanz.

Altogether, financial sector support increased public debt by EUR7.2bn (2.4% of GDP). These actions managed to stabilise and alleviate a liquidity crisis in the banking sector. Banks (excluding restructured banks) now have improved access to capital markets and reduced risk premiums compared with 2009, although there are still some problems for some smaller banks with the unsecured interbank market.

With the recovery in higher-growth CESEE countries, banks' risks associated with their large exposure to these economies are also receding. Banks remained profitable during the crisis, with high provisioning losses counterbalanced by good operational profitability. Capitalisation has strengthened since the crisis, although this is partly due to the government's capital injections, which have to be paid back. The NPL ratio at end-2010 was 13.4% with an expected peak in H211.

OeNB (the central bank) expects non-performing loans to have peaked in the first half of 2011 in most CESEE countries; even with the reduction of FX lending, loan growth has generally started to recover. Due to higher economic growth and lower credit penetration in this region, Austrian banks will continue to invest in CESEE countries where profitability is relatively high. The challenge will be managing the CESEE expansion. By contrast, the Austrian domestic market is overbanked and has low profitability. Fitch considers that the high portion of retail mortgages (30%-40%) in the domestic market denominated in Swiss francs is a risk that has



² The Irish bail out is financed via the EFSF and therefore covered by the EUR12.24bn of guarantees. Due to Eurostat's accounting method, Austria's share of EFSF loans actually disbursed to Ireland increased Austria's public debt, but this is less than EUR550m or 0.15% of GDP.

increased due to the strength of the franc, which has appreciated by 16% against the euro since the beginning of the year.

Banks' exposure to Greek sovereign debt is also low, around EUR2.2bn (0.8% of GDP). However, there is significant Greek bank involvement in CESEE, especially Romania, which accounts for 14.3% of Austrian banks' exposure. Consequently, the indirect effects may be much greater.

Austrian banks subscribed to the Vienna initiative, which prevented the outflow of liquidity from their CESEE subsidiaries and played an important role in stabilising the region, to the benefit of Austria.

Forecast Summary

	2007	2008	2009	2010	2011f	2012f	2013f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.5	2.5	-3.9	2.1	3.0	2.0	2.3
Unemployment (%)	4.4	3.8	4.8	4.4	4.1	4.0	4.0
Consumer prices (annual average % change)	2.2	3.2	0.4	1.7	2.8	2.4	2.2
Short-term interest rate (%) ^a	3.8	3.9	1.3	1.0	1.4	1.9	2.0
General government balance (% of GDP)	-0.9	-0.9	-4.1	-4.6	-3.9	-3.4	-2.7
General government debt (% of GDP)	60.7	63.8	69.6	72.2	73.6	75.1	75.1
EUR per USD (annual average)	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Real effective exchange rate (2,000 = 100)	98.3	96.6	97.3	98.3	98.7	99.1	99.6
External finance							
Current account balance (USDbn)	13.2	20.1	11.0	10.6	13.3	16.0	17.2
Current account balance (% of GDP)	3.5	4.9	2.9	2.8	3.2	3.6	3.7
Current account balance plus net FDI (% of GDP)	1.5	-0.7	3.7	1.4	0.1	0.7	0.9
Net external debt (USDbn)	84.1	101.2	99.0	136.6	149.5	152.0	155.6
Net external debt (% of GDP)	22.6	24.4	26.0	36.3	35.6	34.5	33.6
Net external debt (% of CXR)	31.7	34.6	43.0	56.4	57.4	54.8	52.6
Official international reserves including gold (USDbn)	18.2	16.7	18.0	22.4	22.2	18.5	14.6
Official international reserves (months of CXP cover)	0.9	0.7	1.0	1.2	1.1	0.8	0.6
External interest service (% of CXR)	11.3	11.9	11.3	9.9	12.5	11.5	10.4
Gross external financing requirement (% int. reserves)	539.4	460.5	572.6	572.6	442.8	463.1	557.5
Memo: Global forecast summary							
Real GDP growth (%)							
US	1.9	0.0	-2.6	2.9	2.6	2.8	2.9
Japan	2.4	-1.2	-6.3	4.0	0.5	2.7	1.3
Euro area	2.7	0.4	-4.1	0.9	1.5	2.0	-
World	3.7	1.4	-2.5	3.1	2.9	2.7	-
Commodities							
Oil (USD/barrel)	72.7	97.7	61.9	79.6	110.0	100.0	100.0

^a ECB refinancing rate (annual average)

Source: Fitch

Comparative Analysis: Macroeconomic Performance and Policies

Austria

	2010							
	Austria 'AAA'	Finland 'AAA'	France 'AAA'	Germany 'AAA'	Netherlands 'AAA'	'AAA' median	'AA' median	
Real GDP (5yr average % change)	1.5	1.2	0.8	1.2	1.4	1.3	1.1	
Volatility of GDP (10yr rolling SD)	2.2	3.8	1.5	2.4	2.1	2.3	2.5	
Consumer prices (5yr average)	1.8	2.1	1.7	1.6	1.5	2.1	2.8	
Volatility of CPI (10yr rolling SD)	0.7	1.1	0.7	0.7	1.3	0.8	1.1	
Years since double-digit inflation	36.0	29.0	28.0	-	29.0	n.a.	n.a.	
Unemployment rate	4.4	8.4	9.3	7.4	4.5	7.4	6.5	
Type of exchange rate regime	euro area	euro area	euro area	euro area	euro area	n.a.	n.a.	
Dollarisation ratio	0.0	0.0	0.0	0.0	0.0	25.0	10.6	
REER volatility (10yr rolling SD)	1.3	1.8	1.5	2.4	1.6	2.8	2.8	

Source: Fitch

Strengths

- Austria has a higher five-year growth average and lower GDP volatility than its peer group. Its performance during both the downturn and the upturn has been slightly better than that of other euro area economies, due to fewer imbalances in the domestic economy.
- Unemployment is the lowest in the EU. During the global financial crisis labourers worked shorter hours, reducing the rise in unemployment. Fitch projects unemployment to stabilise in 2012, but at above pre-crisis levels. The opening up of the labour market to eastern European countries in May will have some effects on labour supply.
- The five-year inflation average is slightly below the 'AAA' median, but inflation rose above the euro area average to 3.3% in June 2011, due to global food and fuel price rises and the increase in excise and some administrative prices. Wage negotiations are generally prudent and were below inflation in 2011. Inflation should fall in 2012 due to base effects.

Weaknesses

- Austria is highly dependent on Germany for exports and tourism. Its longer-term strategy is to reduce dependence on manufacturing by raising research and development spending (already occurring, although still below target) and to reform the university system so as to improve human capital and innovation.

Commentary

Austria's real GDP growth projections for 2011 have been revised upwards in line with consensus to 3%. Growth of 2.1% in 2010 was higher than originally forecast (1.5%). Austria's domestic fundamentals have helped in this regard. Private credit to GDP is relatively low, there has been no real estate bubble, consumption growth has been low and remained stable during the recession, and unemployment will stabilise in 2012 at around just 4%, although this will be above the pre-crisis level.

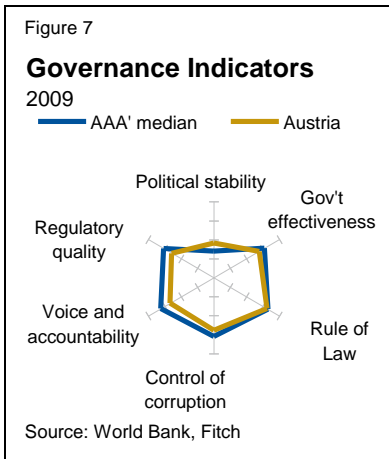
Moreover, the banking sector had no exposure to subprime toxic assets and has low exposure to peripheral Europe. Concerns about banks' exposure to CESEE have receded with the bounce-back in these economies as the global environment improved. Exports and tourism in Austria's open, diversified and competitive economy have been able to recover quite quickly, taking advantage of the recovery in world trade and growth and the weaker euro.

Comparative Analysis: Structural Features

Austria

	2010						
	Austria 'AAA'	Finland 'AAA'	France 'AAA'	Germany 'AAA'	Netherlands 'AAA'	'AAA' median	'AA' median
GNI per capita PPP (USD, latest)	37,960	34,730	33,930	36,780	39,780	38,275	32,675
GDP per capita (USD, mkt exchange rates)	44,671	44,747	41,171	40,320	46,894	46,285	34,170
Human Development Index (percentile, latest)	85.7	91.0	91.6	94.6	96.4	92.2	88.3
Ease of Doing Business (percentile, latest)	83.0	93.5	86.3	88.5	84.1	93.2	88.8
Trade openness (CXR and CXP % GDP)	62.9	45.6	35.1	51.4	84.8	54.4	49.6
Gross domestic savings (% GDP)	25.5	21.0	16.5	23.1	26.2	23.7	24.6
Gross national savings (% GNP)	25.2	22.6	16.3	21.6	23.7	23.1	22.6
Gross domestic investment (% GDP)	22.3	19.6	18.7	16.2	16.2	18.6	21.1
Private credit (% GDP)	122.3	94.9	113.5	106.8	198.9	138.5	125.4
BSR indicators							
Bank system CAR	13.3	13.5	12.4	15.2	13.9	14.1	16.7
Foreign bank ownership (% assets)	24.0	50.0	-	16.5	5.3	23.9	37.1
Public bank ownership (% assets)	11.0	0.0	-	36.1	35.0	19.6	20.1
Default record (year cured) ^a	none	none	none	none	None	n.a.	n.a.

Source: Fitch and World Bank



Strengths

- Austria's World Bank governance indicators are more or less in line with the 'AAA' rating median, reflecting the strength of its political, civil and social institutions.
- Austria has a diversified and competitive economy, placed second out of 27 EU countries by the Centre for European Reform (February 2010) and 13th out of 187 countries by the Euromoney Country Risk Survey (March 2011) on international competitiveness.
- The private sector credit to GDP ratio is lower than for other 'AAA' countries and has increased only moderately since euro area adoption. Consequently, the domestic economy is less exposed to deleveraging.

Weaknesses

- Banks' exposure to CESEE is high relative to Austrian GDP. Credit risk associated with foreign loan exposure of Austrian banks to the CESEE is also high, at around EUR120bn (42% of GDP) in H210; this is being reduced due to tighter regulation. Although concerns have eased, severe economic and financial stress in some CESEE countries during the global financial crisis highlighted the risks of this relatively high and concentrated exposure.

Commentary

Austrian banks' exposure to the CESEE at end-2010 was EUR210bn or 74% of GDP, of which 72% is within the EU (Czech Republic, Romania, Hungary and Slovakia each have exposures of over 10%), 19% in south eastern Europe (over 10% in Croatia) and 10% in the Commonwealth of Independent States. With CESEE growth likely to exceed the euro area and the "catch-up" scenario intact, the region has positive prospects, and Austrian banks are committed to it for the long term. The challenge is to manage the expansion.

Oesterreichische Volksbanken AG (OeVAG), was one of eight EU banks to fail the European Banking Authority (EBA) stress test published on 15 July 2011, with its core Tier 1 capital ratio declining from 6.4% to 4.5% under the stress test, below the EBA minimum requirement. The bank is already taking measures to remedy the situation – including the sale of its subsidiary, Volksbank International AG (VBI)³, the sale of shares in Raiffeisen Zentralbank Oesterreich AG (RZB AG) and a reverse merger with its corporate lending subsidiary, Investkredit AG. In addition, privately held core capital worth EUR500m was not recognised under the EBA stress test. In OeNB's view, taking into account the restructuring measures and core capital, the resulting core capital under the EBA stress scenario would rise to 9.8% and the bank does not need government support.

³ Except for the Romanian bank.

Comparative Analysis: External Finances

Austria

	2010					Last 10 years	
	Austria 'AAA'	Finland 'AAA'	France 'AAA'	Germany 'AAA'	Netherlands 'AAA'	'AAA' median	'AA' median
GXD (% CXR)	329.6	359.5	627.6	334.5	339.4	309.0	268.2
GXD (% GDP)	212.0	169.8	213.7	181.4	301.0	174.8	125.3
NXD (% CXR)	56.4	68.4	61.9	-22.0	32.0	28.1	4.6
NXD (% GDP)	36.3	32.3	21.1	-12.0	28.4	16.5	3.3
GSXD (% GXD)	33.3	12.2	28.7	24.5	13.8	17.9	11.1
NSXD (% CXR)	99.1	-34.7	132.6	25.7	22.2	16.1	-6.5
NSXD (% GDP)	63.8	-16.4	45.2	13.9	19.7	9.3	-2.9
SNFA (USDbn)	-240.1	67.9	-1.1	-461.6	-152.0	-0.2	0.5
SNFA (% GDP)	-63.8	28.4	-44.4	-13.9	-19.5	-8.6	2.1
Ext. debt service ratio (% CXR)	56.7	45.0	94.1	44.2	51.3	38.3	24.7
Ext. interest service ratio (% CXR)	9.9	8.7	23.1	8.2	11.3	10.4	8.5
Liquidity ratio (latest)	32.0	60.0	28.8	42.4	38.3	44.2	42.2
Current account balance (% GDP)	2.8	3.2	-2.1	5.7	7.7	3.2	1.5
CAB plus net FDI (% GDP)	1.4	1.3	-4.6	3.9	1.5	1.4	0.8
Commodity dependence (% CXR, latest)	11.5	13.9	12.0	12.9	29.0	12.0	13.5
Sovereign net FX debt (% GDP)	-1.7	3.7	-6.5	-6.0	-5.9	-2.9	-5.3

Source: Fitch

Strengths

- Euro area membership shields Austria from balance-of-payments and exchange-rate risk, and allows its financial system access to ECB credit facilities.
- Average exports growth of 15% in 2002-2008 reflects Austria's improved competitiveness since adopting the euro in 1999. Exports fell by 25% in 2009 but recovered by 9% in 2010.
- Current account surpluses since 2002 have reduced the need for private external debt and the gross external debt ratio is falling.

Weaknesses

- The sovereign has a high proportion of external debt – 33% of GDP compared with 18% for the 'AAA' median – reflecting enhanced capital market access due to euro area membership and a high public debt ratio.
- Austria has a negative international investment position, although due to the moderation of bank borrowing over the last two years, this is reducing. Banks' external portfolio borrowing doubled between 2004 and 2009. Banks want to reduce capital markets dependence by increasing the loans to deposits ratio.

Commentary

The trade balance deterioration in 2010 and 2011 reflects oil import prices. Exports growth was a fairly robust 9% in 2010, and this performance should be repeated in 2011. Tourism is important for the services account. Tourism declined by only 2% in 2009 and there has been a robust recovery since 2010 due to tourists from neighbouring Germany choosing a closer destination, and visitors from eastern Europe attracted by the weaker euro. The services balance therefore kept the current account balance firmly in surplus during 2009-2010.

Comparative Analysis: Public Finances

Austria

	2010					Last 10 years	
	Austria 'AAA'	Finland 'AAA'	France 'AAA'	Germany 'AAA'	Netherlands 'AAA'	'AAA' median	'AA' median
Budget balance (% GDP)	-4.7	-2.5	-7.0	-3.3	-5.3	-0.2	-0.4
Primary balance (% GDP)	-2.1	-1.0	-4.5	-0.9	-3.4	1.6	1.3
Revenue and grants (% GDP)	48.3	52.3	49.2	43.3	46.1	43.7	40.8
Volatility of revenue/GDP ratio	2.4	0.9	1.1	1.1	2.1	2.7	3.8
Interest payments (% revenue)	5.5	2.7	5.1	5.6	4.1	4.8	4.7
Debt (% revenue)	149.5	92.4	166.1	192.1	136.6	118.3	89.9
Debt (% GDP)	72.2	48.4	81.7	83.2	62.9	47.2	30.6
Net debt (% GDP)	67.3	46.7	80.2	81.7	61.6	42.4	26.7
FC debt (% total debt)	5.9	16.0	0.0	0.6	0.1	1.7	4.2
CG debt maturities (% GDP)	7.0	12.7	10.4	7.5	17.7	9.6	10.2
Average duration of CG debt (years)	6.5	-	-	4.5	4.0	4.7	4.2

^a GG if not otherwise specified
Source: Fitch

Strengths

- The revenue to GDP ratio is higher and revenue volatility lower than the peer group, reflecting a high GDP-per-capita, high-value-added economy, and a diversified and stable tax base. Although the high revenue to GDP ratio limits room for revenue consolidation on the revenue side, the government has been able to implement tax measures – a levy on banks and various consumption taxes – worth 0.4% of GDP in 2011, which the government projects to rise to 0.7% of GDP in 2014.
- Debt management is sound. Very low short-term debt reduces refinancing risks. Spreads have fallen to 35-45bp from 130bp during the crisis.

Weaknesses

- Austria had a lacklustre record of fiscal consolidation before the global financial crisis: general government debt approached 60% of GDP only once in 1997-2007.
- The debt to GDP ratio was much higher than the 'AAA' median of 55% in 2010 and was up sharply from 60% in 2007 to 72.3% in 2010.

Commentary

Control over the lower tiers of government has been problematic in the past. For example, targets (albeit under looser rules) had to be suspended in 2008 and 2009 due to the crisis, and the federal government had to take over a guarantee from the State of Carinthia to Hypo Alpe-Adria-Bank AG (HGAA) bank before the latter's nationalisation in 2009. However, support from all tiers of government for fiscal federalism reform aimed at improving discipline and coordination improves the chances of better implementation this time round.

Fitch does not expect the government to pay out on liquidity support to banks and non-financial public sector companies. The guarantee on their bonds will end in December 2011. The bigger banks have started to pay back capital injections made to them in 2008 and 2009. This will leave the cost of the nationalised banks as the main financial cost in the short term, at 1% of GDP. In the medium term they too may be privatised, allowing the government to recoup some of the cost.

Figure 8
Fiscal Accounts Summary

(% of GDP)	2008	2009	2010	2011f	2012f	2013f
General government						
Revenue	48.3	48.8	48.3	48.3	48.2	48.2
Expenditure	49.4	53.1	53.0	52.2	51.6	51.0
O/w interest payments	2.7	2.8	2.7	2.8	2.9	3.0
Primary balance	1.6	-1.4	-2.1	-1.1	-0.5	0.0
Overall balance	-0.9	-4.1	-4.6	-3.9	-3.4	-2.7
General government debt	63.8	69.6	72.2	73.6	75.1	75.1
% of general government revenue	132.0	142.6	149.5	152.4	155.8	155.8
General government deposits	4.5	4.8	4.9	4.4	4.1	3.9
Net general government debt	59.1	65.0	67.3	69.2	71.0	71.2
Central government						
Revenue	25.1	23.9	23.7	23.7	23.6	23.6
O/w grants	0.0	0.0	0.0	0.3	0.3	0.3
Expenditure and net lending	25.9	26.7	26.2	25.7	25.6	25.5
O/w current expenditure and transfers	26.1	26.9	26.4	25.3	25.3	24.7
- Interest	2.7	2.8	2.7	2.8	2.9	3.0
O/w capital expenditure	-0.2	-0.2	-0.2	0.4	0.3	0.8
Current balance	-0.9	-3.0	-2.7	-1.6	-1.7	-1.1
Primary balance	1.9	0.0	0.1	0.8	0.9	1.1
Overall balance	-0.7	-2.8	-2.5	-2.0	-2.0	-1.9
Central government debt	58.1	62.5	63.7	65.0	66.3	66.3
% of central government revenues	231.1	261.1	269.2	274.4	280.5	280.6
Central government debt (EURbn)	164.5	171.5	181.2	192.5	203.9	214.6
By residency of holder						
Domestic	41.1	42.9	45.3	48.1	51.0	53.7
Foreign	123.4	128.6	135.9	144.4	152.9	161.0
By place of issue						
Domestic	164.5	171.5	181.2	192.5	203.9	214.6
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
By currency denomination						
Local currency	157.3	166.4	177.4	188.6	200.0	210.8
Foreign currency	7.2	5.1	3.9	3.9	3.9	3.9
In USD equivalent (eop exchange rate)	10.0	7.3	5.1	5.5	5.5	5.5
By maturity						
Less than 12 months (residual maturity)	19.2	22.8	20.0	25.0	22.0	20.0
Average maturity (years)	8.5	8.4	8.4	-	-	-
Average duration (years)	5.8	5.9	6.5	-	-	-
Memo						
Non-financial public-sector balance (% GDP)	-	-	-	-	-	-
Net non-financial public-sector debt (% GDP)	-	-	-	-	-	-
Nominal GDP (EURbn)	283.1	274.3	284.4	296.2	307.5	323.6

Source: Ministry of Finance and Fitch estimates and forecasts

Figure 9

External Debt and Assets

(USDbn)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross external debt	268.4	321.0	404.5	506.2	504.5	649.7	810.9	831.1	819.3	798.5
% of GDP	141.2	155.9	160.5	175.1	166.5	201.6	217.8	200.4	215.0	212.0
% of CXR	254.9	276.6	288.9	295.3	263.2	306.1	305.9	283.8	356.3	329.6
By maturity										
Medium- and long-term	168.1	234.7	296.8	348.6	326.4	413.9	520.1	532.3	567.5	561.1
Short-term	100.4	86.3	107.7	157.7	178.1	235.8	290.9	298.8	251.7	237.4
% of total debt	37.4	26.9	26.6	31.1	35.3	36.3	35.9	35.9	30.7	29.7
By debtor										
Monetary authorities	-0.6	-2.3	-1.4	12.3	18.5	28.5	38.4	49.7	31.0	42.3
General government	78.0	103.3	133.8	170.3	168.7	201.3	241.3	264.0	255.4	266.1
O/w central government	-	-	129.7	143.9	128.4	146.2	166.3	171.7	185.3	181.6
Banks	157.0	172.6	209.8	263.8	276.3	356.7	440.7	433.4	416.1	384.6
Other sectors	33.4	45.2	60.9	72.1	59.5	91.7	128.9	133.7	147.8	147.9
Gross external assets (non-equity)	209.6	266.0	344.6	426.1	447.7	590.1	726.9	729.9	720.3	661.9
International reserves, incl. gold	15.6	13.2	12.7	12.2	11.8	12.9	18.2	16.7	18.0	22.4
Other sovereign assets nes	8.5	15.2	16.4	17.5	14.6	14.8	24.4	30.8	26.9	3.6
Deposit money banks' foreign assets	119.1	144.7	191.3	244.4	265.3	357.5	469.7	483.3	462.6	419.0
Other sector foreign assets	66.4	93.0	124.1	152.0	156.0	204.9	214.6	199.2	212.9	217.0
Net external debt	58.9	55.0	59.9	80.2	56.8	59.6	84.1	101.2	99.0	136.6
% of GDP	31.0	26.7	23.8	27.7	18.8	18.5	22.6	24.4	26.0	36.3
% of CXR	55.9	47.4	42.8	46.7	29.6	28.1	31.7	34.6	43.0	56.4
Net sovereign external debt	53.9	74.9	104.6	140.6	142.3	173.6	198.8	216.5	210.5	240.1
% of GDP	28.3	36.4	41.5	48.6	47.0	53.9	53.4	52.2	55.2	63.8
Net bank external debt	38.0	27.9	18.5	19.4	11.0	-0.7	-29.0	-49.8	-46.5	-34.4
Net other external debt	33.4	45.2	60.9	72.1	59.5	91.7	128.9	133.7	147.8	147.9
Net international investment position	-89.9	-89.9	-93.8	-177.6	-185.2	-225.2	-273.3	-276.0	-196.3	-
% of GDP	-47.3	-43.7	-37.2	-61.5	-61.1	-69.9	-73.4	-66.6	-51.5	-
Sovereign net foreign assets	-53.9	-74.9	-104.6	-140.6	-142.3	-173.6	-198.8	-216.5	-210.5	-240.1
% of GDP	-28.3	-36.4	-41.5	-48.6	-47.0	-53.9	-53.4	-52.2	-55.2	-63.8
Debt service (principal & interest)	41.4	44.7	59.6	74.1	86.4	87.4	112.8	138.8	132.4	137.4
Debt service (% of CXR)	39.3	38.5	42.6	43.2	45.1	41.2	42.6	47.4	57.6	56.7
Interest (% of CXR)	11.1	9.6	9.1	8.6	8.7	10.4	11.3	11.9	11.3	9.9
Liquidity ratio (%)	34.7	33.7	33.6	34.7	34.8	35.9	36.3	38.2	39.1	32.0
Net sovereign FX debt (% of GDP)	-0.7	1.6	1.9	2.0	0.8	0.9	-0.1	0.0	-0.2	-1.7
Memo										
Nominal GDP	190.2	206.0	252.0	289.0	302.9	322.3	372.3	414.7	381.1	376.7
Gross sovereign external debt										
Inter-company loans	3.3	3.8	6.6	7.0	9.0	11.4	37.6	35.6	42.1	-

Sources: NBP, IMF, World Bank and Fitch estimates and forecasts

Figure 11
Balance of Payments

(USDbn)

	2008	2009	2010	2011f	2012f	2013f
Current account balance	20.1	11.0	10.6	13.3	16.0	17.2
% of GDP	4.9	2.9	2.8	3.2	3.6	3.7
% of CXR	6.9	4.8	4.4	5.1	5.8	5.8
Trade balance	-0.6	-3.3	-4.3	-2.2	0.1	2.0
Exports, fob	179.2	135.3	147.5	161.2	175.8	192.4
Imports, fob	179.8	138.5	151.8	163.5	175.7	190.4
Services, net	20.8	17.7	18.0	22.0	22.5	22.0
Services, credit	63.7	54.7	54.7	61.6	62.5	62.8
Services, debit	42.9	37.0	36.8	39.7	40.1	40.8
Income, net	2.4	-1.1	-0.4	-3.0	-3.1	-3.2
Income, credit	44.5	35.0	35.5	32.6	33.8	35.6
Income, debit	42.1	36.1	35.9	35.5	36.9	38.8
O/w: Interest payments	34.8	25.9	23.9	32.7	32.1	31.1
Current transfers, net	-2.5	-2.3	-2.7	-3.5	-3.5	-3.5
Memo						
Non-debt-creating inflows (net)	-16.4	-11.8	-14.3	-22.0	-22.2	-22.2
O/w equity FDI	-17.7	-6.2	-4.3	-12.0	-12.2	-12.2
O/w portfolio equity	1.3	-5.7	-10.0	-10.0	-10.0	-10.0
O/w other	-0.1	0.3	0.5	0.0	1.4	1.4
Change in reserves (- = Increase)	-0.8	-1.1	1.4	-1.3	-2.4	-2.1
Gross external financing requirement	83.9	95.5	103.0	99.8	103.9	104.1
Stock of international reserves, incl. gold	16.7	18.0	22.4	22.2	18.5	14.6

Sources: IMF and Fitch estimates and forecasts

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