30 June 2017

Public Finance

Republic of Austria Rating Report

AAA STABLE OUTLOOK

Credit strengths

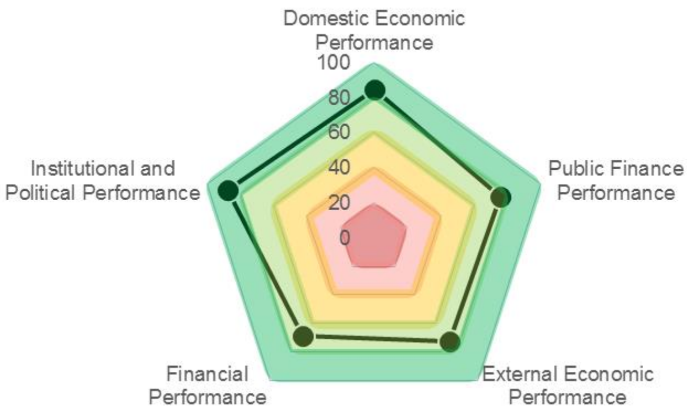
- High GDP per capita
- Strong budgetary performance
- Favourable public debt profile
- Low external risk

Credit weaknesses

- Banking sector vulnerabilities
- Elevated public debt
- Ageing population

Rating rationale and Outlook: Austria's AAA ratings are underpinned by its wealthy, well-diversified, service-oriented economy with no major macroeconomic imbalances. The government's consistent efforts to adhere to its fiscal consolidation path and strengthened fiscal framework also drive the ratings. Austria also benefits from a favourable public debt profile. At the same time Scope notes that risks associated with the banking sector, have receded but not disappeared. The Stable Outlook reflects Scope's expectation that the government will keep to its fiscal consolidation plans and continue to place the country's debt on a firm downward trajectory over the medium term.

Figure 1: Sovereign Rating Categories Summary



Source: Scope Ratings AG

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Sharp GDP deterioration
- Reversal of fiscal consolidation

Ratings & Outlook

Foreign Currency

Long-term issuer rating	AAA/Stable
Senior Unsecured Debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local Currency

Long-term issuer rating	AAA/Stable
Senior Unsecured Debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Lead analyst

Dr Ilona Dmitrieva
+44 203 4570445
i.dmitrieva@scoperatings.com

Team leader

Dr Giacomo Barisone
+49 69 6677389 22
g.barisone@scoperatings.com

Scope Ratings AG

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone + 49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Domestic economic risk

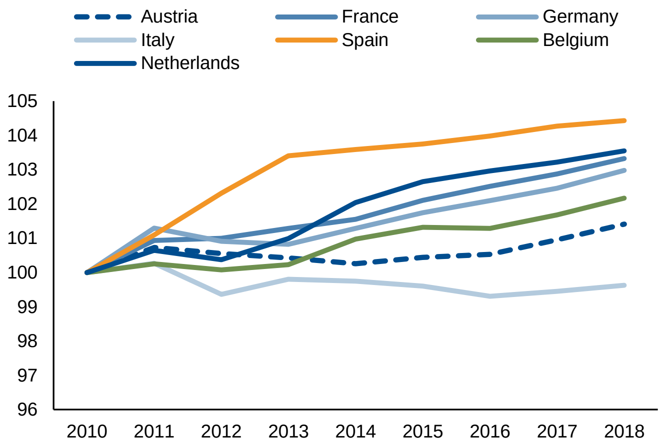
GDP growth rate is expected to strengthen…

According to the European Commission's Spring 2017 Forecast, Austria's GDP growth rate is expected to strengthen to 1.7% in 2017 and 2018 following a good performance of 1.5% in 2016 and an almost four-year period of economic stagnation from 2012 to 2015. This growth rate is in line with the eurozone average, but slightly below the EU average. The economic recovery will continue to be supported by strong domestic demand from the private sector, net exports benefiting from the economic rebound experienced by its main trade partners and a neutral fiscal stance. At 6% in 2016, Austria's unemployment rate is one of the lowest in the EU. At the same time, it is unlikely to improve along with the economic upturn due to the influx of refugees and older people increasingly willing to remain in employment due to pension reform, which reduces their opportunities to take early retirement.

Figure 2: Contribution to nominal GDP growth

Source: IMF, Scope Rating AG calculations

Figure 3: Labour productivity



Source: EC

Table of Content

Domestic economic risk 2
Public finance risk 4
External economic risk 7
Financial stability risk 8
Institutional and political risk 9
I. Appendix: CVS and QS Results .. 11
II. Appendix: CVS and QS Results .. 12
III. Appendix: Peer comparison (AAA group) 13
IV. Appendix: Statistical tables 14
V. Regulatory disclosures 15

Austria is one of the wealthiest countries in the euro area as measured by GDP per capita, which can mitigate shocks to a certain point by offering various options for generating tax revenue. Austria's service-oriented economy is well diversified and does not overly rely on any particular economic activity, which Scope views positively. A degree of openness which is higher than that of larger euro-area economies[1] – measured by the ratio of exports and imports to GDP – increases exposure to external markets. At the same time, Austria's narrow range of trading partners (in 2016, 41% of its exports[2] were to Germany, Italy and France) links it to the economic cycles of these countries. However, the relatively small size of the Austrian economy makes it vulnerable to both external and internal shocks – in Austria's case, the past crystallization of a sizable amount of contingent liabilities from the banking sector.

[1] In 2016 Austria's ratio stood at 100.6% as compared to 84.4% for Germany, 60.7% for France and 56.5% for Italy.
[2] Republic of Austria, Austrian Treasury, Investor presentation, May 2017

…but the potential rise in output is limited

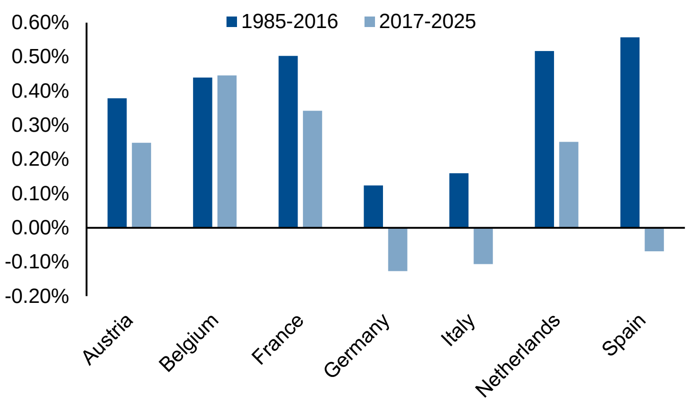
An absence of major economic imbalances allowed the country to weather the post-2008 crisis years relatively well and the economy grew largely in line with the euro-area average. At the same time, its potential output is unlikely to exceed 2% a year as a result of labour productivity lagging behind major euro-area countries (Figure 2). It should be noted that limited growth potential is a feature that Austria shares with the majority of developed countries and that it is not an outlier in this regard.

In our opinion, Austria's potential growth rate is constrained by a number of medium-term and long-term structural factors. For the medium term Scope highlights two factors. First, the high labour taxes in the country (Figure 4), which have remained elevated in comparison with other EU members despite the recent tax reform. Second, overregulation in professional services[3], which not only discourages investment in this sector but also hampers the competiveness of tradeable activities, an important factor for a small, open economy like Austria's. The significance of professional services to the economy should not be underestimated: according to a recent EU survey, 22% of the Austrian labour force can be considered as working in a regulated profession[4]. High prices for the services provided, coupled with steep labour costs, squeeze margins in tradable activities and undermine their competiveness. The long-term factors include challenging demographics, which could negatively affect both the economic growth rate and sustainability of public finance.

Austria's population growth depends on immigration

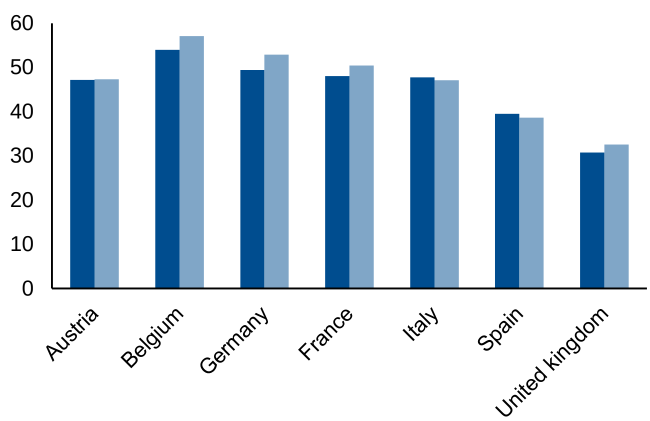
Although UN forecasts anticipate that Austria is unlikely to face gradual depopulation as in Germany or Italy, its population growth rate is projected to slow significantly in the next nine years (Figure 3). Significantly, population levels are likely to depend largely on immigration, which since 2000 has more than compensated the effect of demographic ageing. Though the country benefits from young, highly skilled immigrants, it takes time for the costs associated with their integration in the local labour market to be offset by their contribution to GDP and tax revenues. Challenges related to immigrants' adaptation manifest themselves in the unemployment rate for those born outside the EU, which make up about 9.3% of the Austrian population. In 2015 it was 12.6% compared to 4.6% for those born in Austria[5]. These challenges and their perception by the Austrian-born population have led to public support for parties with an anti-immigrant agenda.

Figure 4: Average annual population growth, %



Source: UN

Figure 5: Average tax wedge (based on single person at 100% of average earnings, no child)



Source: OECD

[3] Country report on Austria 2017, EC, p.29
[4] EC staff working document, country report Austria 2016, Brussels, 20.02.2016, p.66
[5] Country report on Austria 2017, EC, p.23

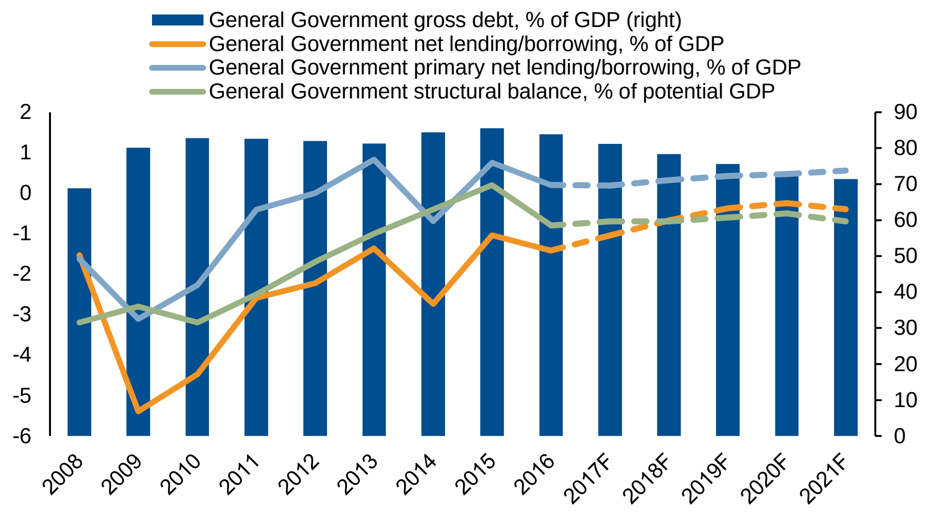
Public finance risk

Prudent fiscal policy is set to continue

According to the 2017 Stability Programme, which covers the period up to 2021, Austria intends to gradually decrease its budget deficit and keep it well within the 3% budget-deficit threshold, thus continuing a prudent fiscal policy which the country has been pursuing over the last ten years, with the exceptions of 2009 and 2010. This policy will help to reduce debt from around 84% at YE 2016 to around 73% of GDP at YE 2020, assuming that the GDP growth rate will outpace the budget deficit. Despite significant debt reduction, its level is still above the Maastricht debt threshold of 60%.

Scope expects that economic expansion, the continuation of the low interest rate environment and the ability to curb expenses related to medical care will allow the Austrian government to keep its budget deficit at 1% and below. This will allow the general government's revenue growth rate to outpace that of expenditure during 2017-2021. A rise in revenue will be largely driven by increasing proceeds from income and wealth taxes, linked closely to anticipated economic expansion; a reduction in expenditure could in future be achieved by a sharp decline in interest payments and the flattening of spending on drugs, medical care and refugees (which has been increasing rapidly since 2013).

Figure 6: Budget balances and gross government projections for 2008-2021



Source: IMF

Public sector deficits could be at a risk in the longer term

Scope notes that Austria's public finances are not at risk in the medium term. However, in the long term, the costs implied by the ageing population could pose a more serious fiscal risk.

Among the euro-area countries, Austria has one of the highest ratios of public pension cost to GDP and is well above euro-area average. According to the 2015 Ageing Report, compiled by the European Commission for period 2013-2060, Austria is predicted to be among those EU member states with the largest increase in pensions. The main drivers for elevated pension costs for Austria are its challenging demographics compounded by its generous pension replacement ratios[6] and the relatively low effective retirement ages for men and women.

[6] Pension replacement ratio compares the amount of pension with the average wages and salaries.

Healthcare spending, which was already above the EU average in 2014 (at 7.9% of GDP compared to the EU average of 7.2%) represents another long-term challenge. It is expected to grow above the EU average – by 1.3% compared to 0.9% of GDP – from 2013 to 2020, according to the 2015 Ageing Report. According to IMF, the expected decline in the gross public-debt trajectory could be reversed beyond the mid-2020s, driven by age-related and other health spending, such as long-term care[7].

Public debt level surged due to banking sector bailout

The Austrian government's direct debt surged from 64.8% at YE 2007 to 85.5% at YE 2015, mostly due to financial support provided by the government to troubled Austrian banks hit by the 2007-2008 crisis. Since 2015, government debt has declined and stood at 83.9% at YE 2016 (Figure 5). Budget deficits as well as slower GDP growth were secondary factors. According to the Austrian Treasury[8], by the end of 2016 Austria's public debt as a percentage of GDP would have been 6.6% lower without the support given to the banking sector.

Between 2008 and 2013 the government gave guarantees to seven credit institutions, three of which failed to overcome post-crisis problems. These three banks were fully or partly nationalised, with the government transferring non-marketable assets to defeasance structures for a gradual wind-down. The balance sheet of these structures is included in government debt, which should decline as the impaired assets are progressively divested. From 2009-2015 the net cost to the public sector, which arose exclusively from these three institutions, amounted to EUR 13.5bn (4% of 2015 GDP)[9].

Bad banks are expected to be wound down soon

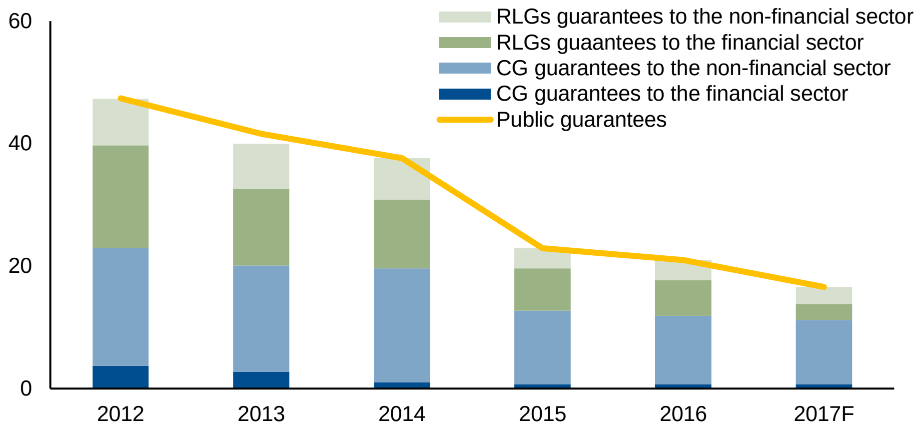
By the end of 2016 uncertainties over one of three defeasance structures, HETA (the defeasance structure of the former Hypo Alpe Adria, HAA), had been resolved. In September 2016, creditors representing 98.7% of HETA debt accepted the offer made by Carinthia, an Austrian region, which guaranteed most of HAA's debt. The offer involved a substantial financial contribution from the federal government, leaving a minor share to Carinthia, which is funded by a loan from the central government. There was no additional cost to the central government as all HETA liabilities are part of central government debt.

It is expected that impaired assets held by HETA of around EUR 14.3bn and Immigon (a wind-down entity created when the Österreichische Volksbanken were split) of EUR 3bn will be largely divested by 2020 and 2017, respectively. It will take longer to wind down KA Finanz AG with assets of EUR 12.9bn[10]. Divesture of those assets will allow the reduction of government debt. A conservative approach towards the valuation of these assets as well as good economic performance expected in the coming years allow the assumption to be made that government debt will decrease at the expected pace and risk associated with defeasance structures will recede.

---

[7] Austria, 2016 article IV consultation, IMF country report No.17/26, p.36.
[8] Republic of Austria, Austrian Treasury, Investor presentation, May 2017
[9] Country report Austria 2016, EC, p.31
[10] Country report Austria 2017, EC, p.22.

Figure 7: Guarantees, % of GDP



Source: Austrian Stability Programme 2014 & 2017

Austria's high level of public debt has a muted impact on its debt-affordability ratio. The share of interest payments to GDP was slightly above 2% in 2016[11]. This is due to two factors: the first is the very low funding cost for Austria's government debt – in May 2017 its 10-year bond yield was only slightly higher Germany's[12]. The second, as highlighted above, is the inclusion in government accounts of impaired assets from financial defeasance structures, which do not cause interest payments[13].

Austria's sovereign debt has a strong profile

The lion's share of Austrian general government debt is issued at federal level. The federal government's debt profile is sound. At YE 2016 the average maturity of the federal debt portfolio was 8.77 years and the rollover ratio was 6.2% in 2016[14]. At the same time, the share of non-residents holding Austrian public debt is one of the highest among euro-area economies, potentially exposing it to volatile market sentiment. This metric is, however, mitigated by the fact that the bulk of Austrian government debt is held by investors domiciled in Europe[15], who perceive it as a 'safe haven' investment.

Public sector guarantees remain high

By the end of 2016 the amount of guarantees issued by the Austrian general government, excluded from outstanding debt under the Maastricht definition, stood at 21% of GDP, down from 27.6% at the end of 2014 (Figure 6). Almost 11.9% of the total was issued by the central government, the rest was granted by sub-sovereign governments. Guarantees to non-financial companies dominate at the central government level, while regional and local governments issue their guarantees to financial institutions[16] leaving local governments exposed to the performance of their regional banks.

[11] Republic of Austria, Austrian Treasury, Investor presentation, May 2017
[12] Republic of Austria, Austrian Treasury, Investor presentation, May 2017, p.39
[13] Country report Austria, EC, 2017, p.29
[14] The rollover ratio is defined as outstanding short-term debt plus long-term debt maturing within a year, as % of GDP. Republic of Austria, Austrian Treasury, Investor presentation, May 2017, p.34
[15] Republic of Austria, Austrian Treasury, Investor presentation, May 2017, p.37
[16] Austrian stability programme, Federal ministry of Finance, April 2017,p.-47

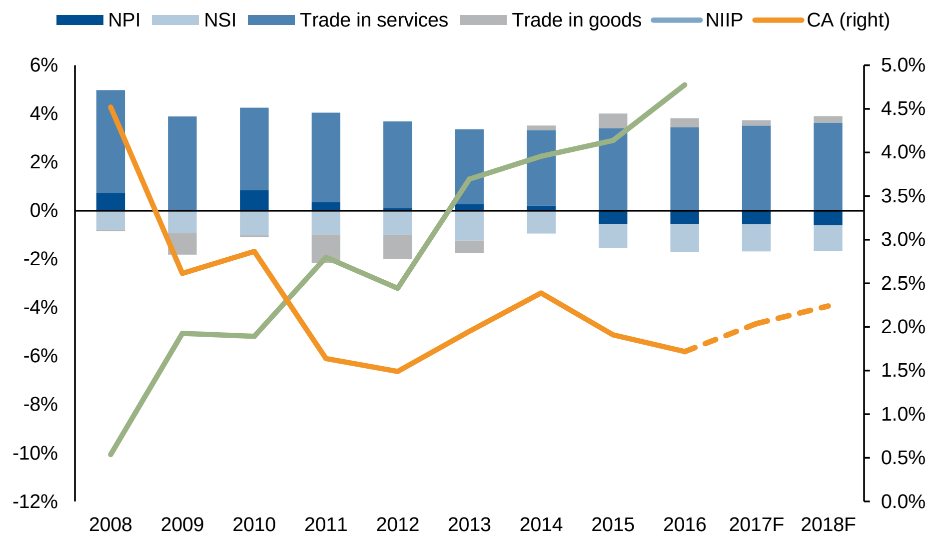
The euro-area related obligations include Austria's guarantees and callable capital in the European Stability Mechanism, European Financial Stability Facility and European Financial Stability Mechanism, which were set up to rescue troubled euro-area economies. Austria's total exposure to weaker euro-area economies through these three facilities, when measured by drawdown or disbursed loans, was at 2.1% of 2016 GDP. Greek exposure alone accounts for 1.1% of GDP (or 52% of the total), with the rest distributed among Spain, Cyprus, Portugal and Ireland. The economic rebound, especially strong in Spain and Ireland, has somewhat eased concerns over the countries rescued.

External economic risk

Low external risk is a credit-positive factor

Austria's exposure to external shocks appears to be limited: the country does not depend on external capital to support its current account. On the contrary, Austria's current account, consistently in surplus since 2002, has not only improved but has contributed to a positive balance for its net international investment position (Figure 7). In 2013 Austria became a net creditor.

Figure 8: Current account balance and net international position



Source: EC, Scope Ratings AG calculations
NPI: Net Primary income; NSI: Net Secondary Income

The current-account surplus has reached moderate levels since 2011, driven by the low growth of Austria's main export markets as well as a decline in cost competiveness, especially when compared with euro-area trading partners. Scope expects the current account to strengthen in the near future and to have positive implications on NIIP. Improvement is likely to be supported by low prices for imported fuel (fuel and mining products made up 10% of Austria's imports in 2014) and the economic recovery experienced by the country's main trading partners.

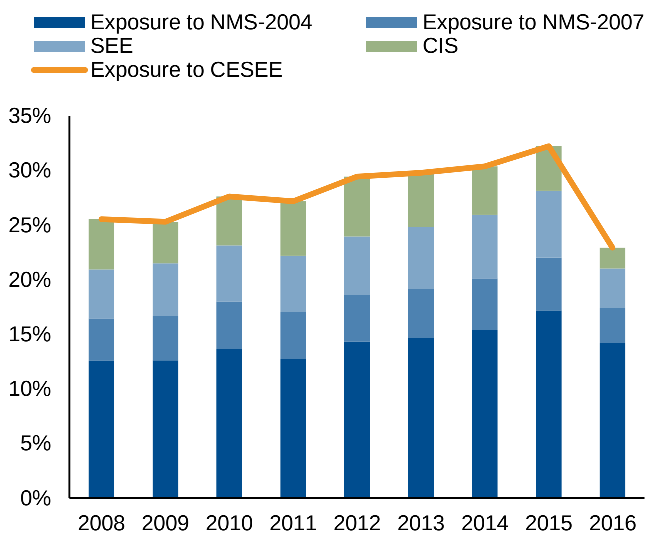
Financial stability risk

Though moderate, banking sector vulnerabilities persist

Scope highlights a moderate level of risk relating to the potential materialisation of contingent liabilities from the banking sector, as the EU Bank Recovery and Resolution Directive (BRRD) has been transposed into national law, limiting state involvement in bank bail-outs. We also note the fairly advanced stage of the restructuring and reorganisation of nationalised Austrian banks.

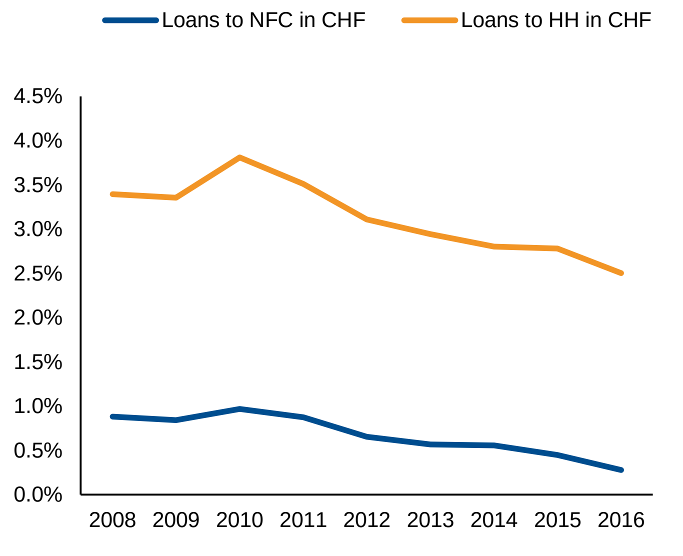
At the same time, risks to the financial stability of the sector persist. Firstly, while the capitalisation of Austrian banks continues to improve, profitability is strained by the low interest rate and growth environment, which significantly limits the generation of revenue for the banks heavily reliant on interest income. Secondly, although it is diminishing[17], Austrian banks have large exposure (Figure 8) to volatile markets in central and eastern Europe (CEE) as well as the economies of Russia and Ukraine both of which have an adverse economic and political environment. Scope notes that the outstanding stock of forex loans granted abroad by the Austrian banks remains high, which exposes the banks to CEE host government legislative initiatives aimed at converting forex loans into local currency. Thirdly, there is significant, though also diminishing, exposure to forex lending, especially in the Swiss franc (Figure 9). Moreover, about two-thirds of these loans are to be repaid at the end of the loan period[18]. Should this currency continue to appreciate, Austrian banks could suffer.

Figure 9: Austrian banks' exposure to the CESEE region, % of total assets



Source: FMA report

Figure 10: Share of CHF loans in Austrian banks' total assets



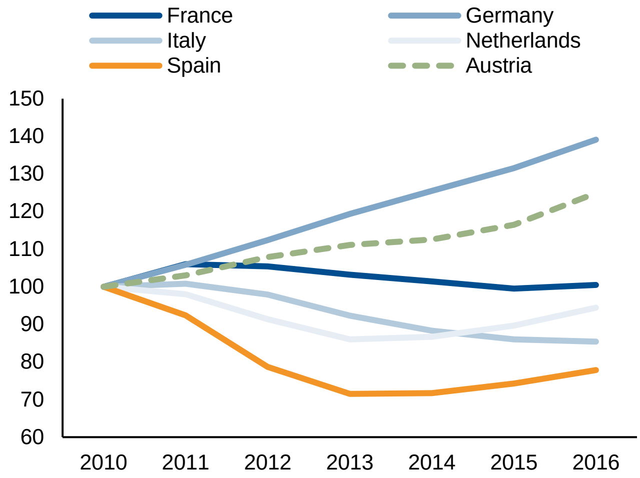
Source: OeNB

Real estate sector overheating could be a challenge

A further challenge which Scope believes could negatively affect banks in Austria is potential overheating in the real estate market, the likelihood of which we currently consider to be moderate. Since 2010, nominal residential housing prices have gone up by almost 25%, lagging only behind Germany (Figure 10) and coinciding with lower growth of households' income. Since 2010, the gap between house prices and income growth rates have been the most pronounced in comparison to other EU economies (Figure 11).

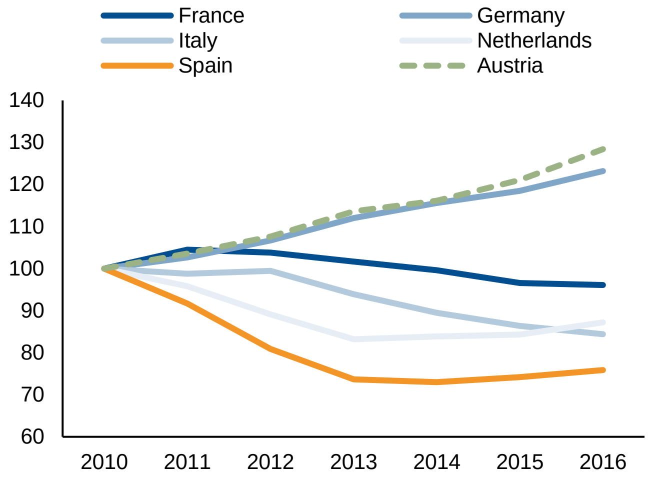
[17] A sharp decline in the CESEE exposure of Austrian banks in 2016 is due to the transfer in ownership of the CESEE subsidiaries of UniCredit Bank Austria to the UniCredit Group.
[18] Country report Austria, EC, 2017, p. 21

Figure 11: Housing prices



Source: OECD, index: 2010=100

Figure 12: Price-to-income ratios



Source: OECD, index: 2010=100

Though price-to-income ratio in Austria points to overvaluation, Scope sees some mitigating factors. Firstly, the overall mortgage-to-GDP ratio is relatively low, although the trend here is upwards[19]. Secondly, housing bubbles typically require both rising prices and a deterioration in lending standards, which is not currently the case in Austria[20]. Thirdly, the concentration of homeowners in the higher-income categories somewhat mitigates the risk of non-payment, as households endowed with more financial resources are better in a better position to deal with adverse changes in market conditions. Finally, the national authorities are committed to introducing additional macro-prudential measures aimed at the prevention of bubbles developing in the real estate sector.

Institutional and political risk

Snap elections are on the way

Recent political developments in Austria pose some concern. Parliamentary elections scheduled for 2018 were brought forward to autumn 2017 following the breakdown of the coalition between the centre-left Social Democratic Party of Austria (SPÖ) and the centre-right Austrian People's Party (ÖVP) in May 2017. The most recent polls suggest that the ring-wing, populist and anti-immigrant Freedom Party of Austria (FPÖ) is the third most popular party alongside the SPÖ and ÖVP, paving the way for the FPÖ to join the future government. The FPÖ is unlikely to demand an Austrian withdrawal from the EU or a euro exit – the party dropped plans for a referendum on EU/euro exit during the 2016 presidential campaign, permitting the mainstream parties to consider an alliance with the FPÖ. The FPÖ's strong anti-immigrant and euro-sceptic platform raises the possibility of Austria blocking potential eurozone reforms, should the party help form the government. This possibility is, however, far from certain, given the gradual decline in the FPÖ's poll lead following the ring-wing populist Norbert Hofer's defeat in the presidential election by a large margin in December 2016. Although the FPÖ's decline has so far been accompanied by an ÖVP's rise in polls, the coalition between the ÖVP and the SPÖ would be a last resort for both given the divergence of their views on some economic issues, including further fiscal reforms.

[19] Country report Austria, EC, 2017, p. 7
[20] According to the EA bank lending quarterly survey conducted by OeNB in Q1 2017, credit standards of approved loans and credit lines to enterprises and households have been largely unchanged in last two quarters of 2016 and first quarter of 2017. EA bank lending survey – Austrian results, Bank of Austria

Methodology

The methodology applicable for this rating and/or rating outlook "Public Finance Sovereign Ratings" is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public Credit Rating methodologies on www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Rating Committee 26.06.2017

The main points discussed during the rating committee were: (1) Austria's economic outlook, (2) fiscal performance, (3) external position developments, (4) financial sector performance and restructuring, (5) Austrian banks' exposure to central and eastern Europe and to other currencies, (6) impact of ageing population on public finance and growth potential, (7) political developments, (8) peers consideration.

Vote at 4:12pm: the Committee confirmed the recommendation.

I. Appendix: CVS and QS Results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on the relative rankings of key sovereign credit fundamentals, provides an indicative (aa) rating range on the long-term foreign-currency issuer rating scale for the Republic of Austria. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysis' qualitative analysis.

For Austria the QS signals relative strengths for the following analytical categories: 1) macroeconomic stability and low imbalances, 2) fiscal performance, 3) debt sustainability, 4) market access and funding sources, 5) current account, 6) external debt sustainability, 7) vulnerability to short-term external risks. Relative credit weakness is signalled for the financial sector performance.

Combined relative credit strengths and weaknesses generate an adjustment and signal a credit rating at AAA sovereign rating for Austria. A rating committee discussed and confirmed these results.

Rating overview

CVS category	aa
QS adjustment (notch)	AAA
Final rating	AAA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result is converted into an indicative rating range that is always presented in lower-case rating scores.

As part of QS assessment, the analyst conducts a comprehensive review of the qualitative factors. This includes but is not limited to an economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of fifteen. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment which forms the basis for the analyst's recommendation to the rating committee.

Foreign- versus local-currency ratings

Austria's debt is issued in euros. Because of its history of openness to trade and capital flows as well as the reserve currency status of the euro, Scope sees no reason to believe that Austria would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS Results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exch. rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**aa**
QS adjustment	**AAA**
Final rating	**AAA**

QS

Maximum adjustment = 3 notches

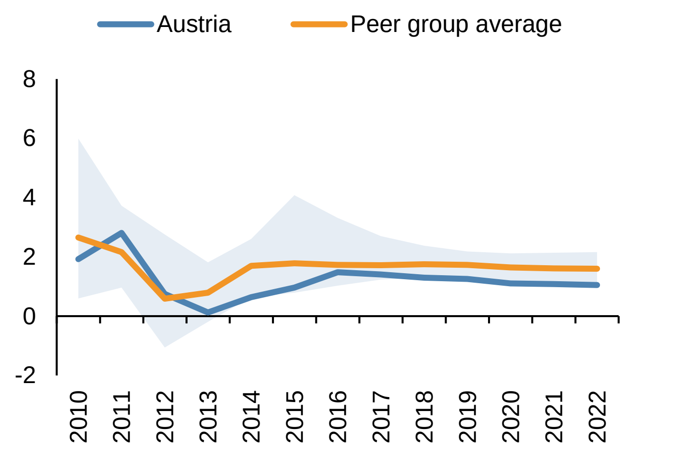
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential we under trend or negative
Economic policy framework	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	◉ Strong performance	○ Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	◉ Strong sustainability	○ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	◉ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current account vulnerabilities	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	◉ Good resilience	○ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for Domestic Economic Risk)*0.35 + (QS notch adjustment for Public Finance Risk)*0.30 + (QS notch adjustment for External Economic Risk)*0.15 + (QS notch adjustment for Institutional and Political Risk)*0.10 + (QS notch adjustment for Financial Stability Risk)*0.10**

Source: Scope Ratings AG

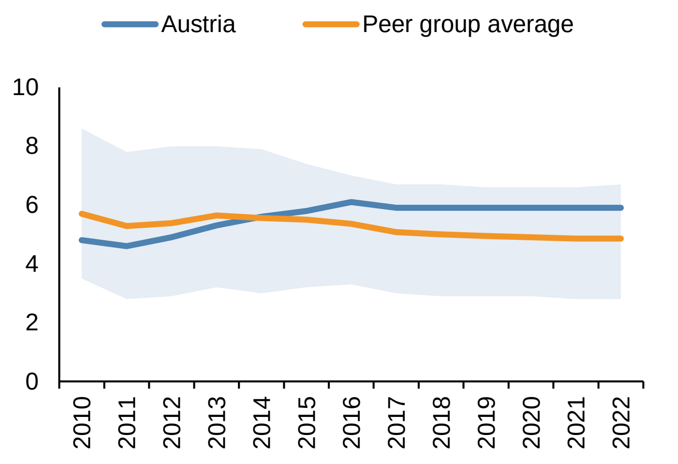
III. Appendix: Peer comparison (AAA group)

Figure 13: Real GDP growth



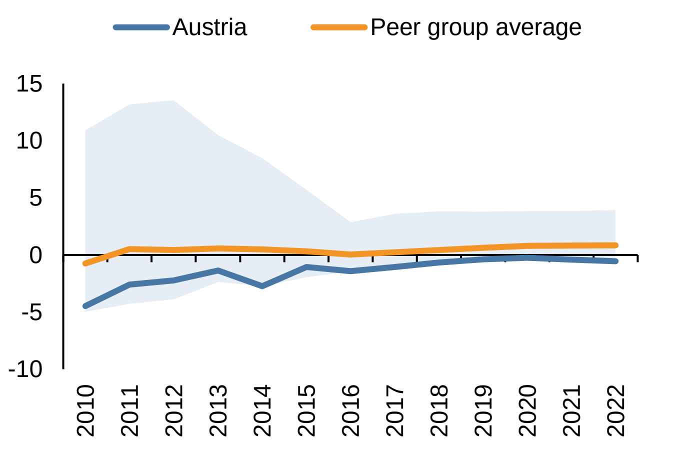
Source: IMF, Scope Ratings AG calculations

Figure 14: Unemployment rate, % total labour force



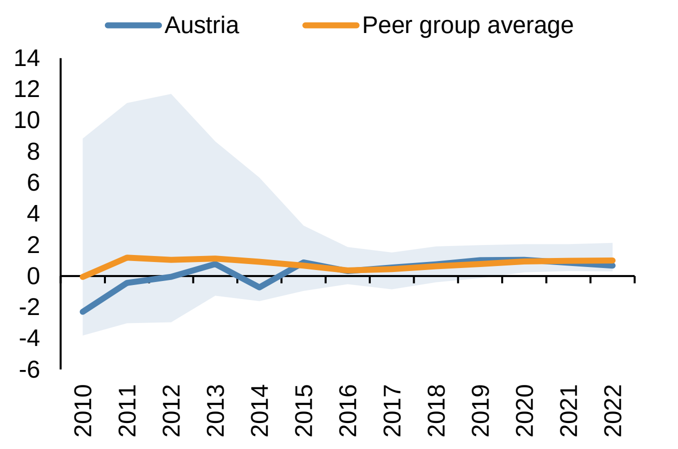
Source: IMF, Scope Ratings AG calculations

Figure 15: General government balance, % of GDP



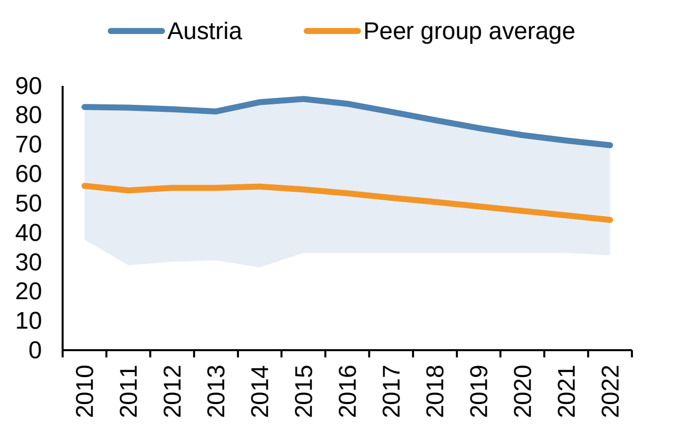
Source: IMF, Scope Ratings AG calculations

Figure 16: General government primary balance, % of GDP



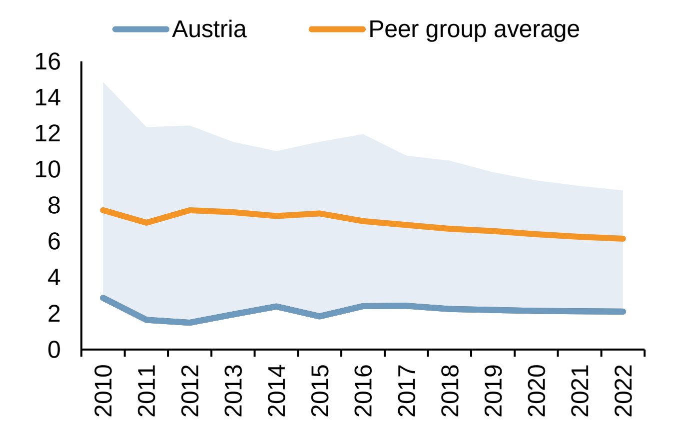
Source: IMF, Scope Ratings AG calculations

Figure 17: General government gross debt, % of GDP



Source: IMF, Scope Ratings AG calculations

Figure 18: Current account balance, % of GDP



Source: IMF, Scope Ratings AG calculations

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (EUR bn)	317.1	322.5	330.4	339.9	349.5	361.0	373.9
Population ('000s)	8,517.5	8,577.8	8,633.2	8,678.7	8,712.1	8,735.5	8,751.8
GDP per capita PPP (USD)	46,233.4	47,764.8	48,659.0	49,429.6	-	-	-
GDP per capita (EUR)	37,634.1	38,047.7	38,672.8	39,427.3	40,211.5	41,221.2	42,375.4
Real GDP growth, % change	0.75	0.12	0.65	0.96	1.48	1.73	1.66
GDP growth volatility (10-year rolling SD)	2.1	2.2	2.1	2.1	2.0	1.8	1.8
CPI, % change	2.57	2.12	1.47	0.81	0.97	2.11	1.78
Unemployment rate (%)	4.9	5.3	5.6	5.8	6.1	5.9	5.9
Investment (% of GDP)	24.0	23.8	23.7	23.5	23.7	24.0	24.1
Gross national savings (% of GDP)	25.5	25.8	26.0	25.4	26.1	26.4	26.3
Public finances							
Net lending/borrowing (% of GDP)	-2.2	-1.4	-2.7	-1.0	-1.4	-1.0	-0.7
Primary net lending/borrowing (% of GDP)	-0.1	0.8	-0.7	0.9	0.3	0.6	0.8
Revenue (% of GDP)	49.2	49.9	50.0	50.6	49.6	49.7	49.7
Expenditure (% of GDP)	51.5	51.2	52.8	51.6	51.0	50.7	50.4
Net interest payments (% of GDP)	2.2	2.1	2.0	1.9	1.7	1.6	1.4
Net interest payments (% of revenue)	4.4	4.3	4.0	3.8	3.5	3.2	2.9
Gross debt (% of GDP)	82.0	81.3	84.4	85.5	83.9	81.2	78.3
Net debt (% of GDP)	60.8	60.7	59.8	58.6	57.7	55.8	53.8
Gross debt (% of revenue)	166.6	163.1	168.8	169.2	169.0	163.4	157.5
External vulnerability							
Gross external debt (% of GDP)	196.0	185.8	184.7	174.3	167.3	-	-
Net external debt (% of GDP)	25.9	20.2	20.6	19.7	20.2	-	-
Current-account balance (% of GDP)	1.5	2.0	2.4	1.8	2.4	2.4	2.2
Trade balance [FOB] (% of GDP)	-	-0.5	0.2	0.6	0.4	0.2	0.3
Net direct investment (% of GDP)	3.2	2.4	-0.6	1.8	-0.3	-	-
Official forex reserves (EOP, USD m)	7,952.0	8,085.7	10,654.6	9,640.7	9,711.3	-	-
REER, % change	-1.8%	2.1%	1.7%	-1.9%	1.7%	-	-
Nominal exchange rate (EOP, USD/EUR)	1.3	1.4	1.2	1.1	1.1	-	-
Financial stability							
Non-performing loans (% of total loans)	2.8	2.9	3.5	3.4	2.7	-	-
Tier 1 ratio (%)	11.0	11.9	11.8	12.7	14.9	-	-
Consolidated private debt (% of GDP)	129.2	128.0	126.2	126.4	182.3	-	-
Domestic credit-to-GDP gap (%)	-5.3	-3.0	-8.8	-7.8	-6.4	-	-

Source: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by Dr Ilona Dmitrieva, Lead Analyst

Person responsible for approval of the rating Dr Stefan Bund, Chief Analytical Officer

The ratings /outlook was first assigned by Scope as subscription rating on January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Republic of Austria are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Sovereign Ratings Calendar of 2017" published on 30.06.2017 on www.scoperatings .com). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case the deviation was due to the recent revision of Scope's Sovereign Rating Methodology and the subsequent putting the ratings under review, in order to conclude the review and disclose these ratings in a timely manner, as required by the Article 10(1) of the CRA Regulation.

Rating Committee: The main points discussed were (1) Austria's economic outlook, (2) fiscal performance, (3) external position developments, (4) financial sector performance and restructuring, (5) Austrian banks' exposure to central and eastern Europe and to other currencies, (6) impact of ageing population on public finance and growth potential, (7) political developments, (8) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance, the Austrian Treasury (OeBFA), Oesterreichische Nationalbank (ONB), Statistics Austria, the IMF, the OECD, the European Commission, the European Central Bank and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Conditions of use / exclusion of liability

© 2017 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings AG, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings AG at Lennéstraße 5 D-10785 Berlin.

Scope Ratings AG, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 161306, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund; Chair of the supervisory board: Dr. Martha Boeckenfeld.