

REPUBLIC OF AUSTRIA

Rating Analysis - 9/2/21

*EJR Sen Rating(Curr/Prj) A+/ A+

*EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.3%

The Austrian economy rebounded strongly in Q2, on a bounce-back in private consumption amid the relaxation of Covid-19 restrictions. Growth in capital expenditure remained healthy despite slowing, suggesting that firms retained a cautiously optimistic view, while softer restrictions abroad propelled exports of goods and services. Q3 trends remain positive as indicated by the manufacturing PMI remaining firmly in expansionary territory in July, with output and new orders growing healthily. That said, supply-side constraints will likely cap productivity in the quarter, particularly in the automotive sector. Meanwhile, consumer sentiment logged an over two-year high in July, which, coupled with the lowest unemployment rate since November last year, bodes well for household spending. Less positively, a recent rapid rise in Covid-19-related hospitalizations could lead to tighter restrictions ahead.

The recovery of the Austrian economy will gain pace with output expanding by 3.4% in 2021 and 4.2% in 2022, and to return to a normal growth rate of 1.9% in 2023, according to OECD. A rebound in global trade and generous government support underpin strong investment growth. The increase in commodity prices will result in a moderate and temporary uptick in consumer price inflation. The fiscal deficit is planned to decline in 2021 and 2022. Fiscal policy should remain supportive until the recovery is fully underway. The generous incentives for investment targeted at climate protection and digitalisation will ease the transition towards a greener economy and also boost potential growth. Affirming.

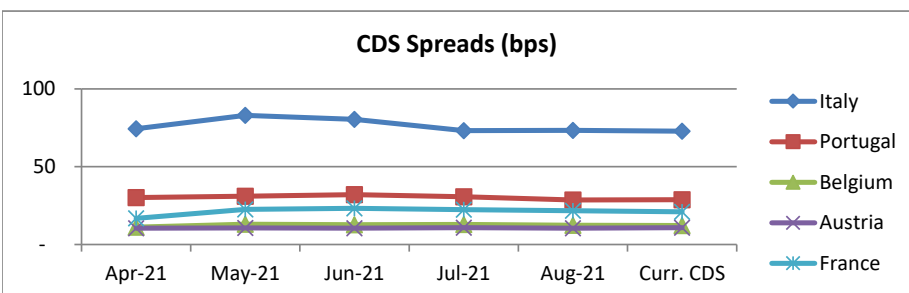
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	92.0	90.1	109.1	113.7	119.3	113.9
Govt. Sur/Def to GDP (%)	0.7	1.2	-8.2	-11.0	-12.9	-11.7
Adjusted Debt/GDP (%)	92.0	90.1	109.1	113.7	119.3	113.9
Interest Expense/ Taxes (%)	5.9	5.1	5.1	5.6	6.2	6.3
GDP Growth (%)	4.3	3.2	-5.1	4.5	4.0	4.0
Foreign Reserves/Debt (%)	2.0	1.6	2.0	1.4	1.5	1.1
Implied Sen. Rating	AA-	AA-	A-	A	A-	A

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

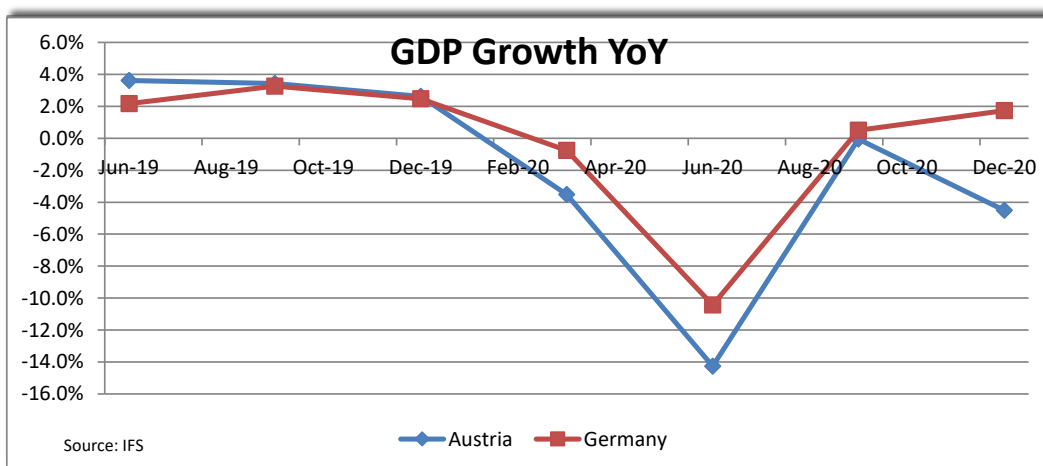
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BB-
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB
Republic Of Italy	BBB-	184.1	-9.7	184.1	11.9	-7.8	B-
Portugal Republic	BB+	155.1	-6.3	155.1	11.8	-5.4	BB-



Country	EJR Rtg.	CDS
Italy	BBB-	73
Portugal	BBB-	29
Belgium	BBB	12
Austria	A+	11
France	A+	21

Economic Growth

Economic activity in manufacturing sectors has benefited from the worldwide recovery in industrial production and a subsequent rebound in global trade. Business confidence has returned to the level observed at the onset of the crisis. Austria's GDP grew by 4.3% on quarter in Q2'21, recovering from two consecutive periods of contraction and easily beating market expectations of a 3.5% expansion. A sharp rebound in household consumption (3.8% vs -3.5% in Q1) following the easing of COVID-19 restrictions was offset by softer increases in fixed investment (2.1% vs 3.3%) and government spending (0.2% vs 1.0%). In addition, net trade contributed positively to the GDP growth as exports rose more than imports. On a yearly basis, Austria's economy rebounded 11.4% in the second quarter, following five straight quarters of contraction.



Fiscal Policy

The authorities have taken measures amounting to around EUR 50 billion (13% of GDP), including credit guarantees, since the onset of the pandemic. Available support includes subsidies for firms' fixed costs, short-time work schemes, temporary generalised and sector-specific tax reliefs and additional funds for small businesses. According to Oesterreichische Nationalbank (OeNB), the general government deficit is projected to improve to 6.9% of GDP (following 8.9% in 2020) and to drop to around 2% of GDP by 2023.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Austria	-8.17	109.12	10.75
Germany	-4.19	79.69	10.33
France	-8.79	145.87	21.00
Belgium	-8.97	142.45	12.23
Italy	-9.72	184.12	72.84
Portugal	-6.26	155.13	28.81

Sources: Thomson Reuters and IFS

Unemployment

While hours worked in payroll employment contracted by 9.4% in 2020, the rollout of short-time work was instrumental in preventing an even stronger decline of employment. The unemployment rate in Austria declined to 6.9% in August of 2021 from 8.9% in the corresponding month of the previous year, amid the ongoing economic recovery from the pandemic crisis, helped by the vaccination campaign and the lifting of restrictions.

	Unemployment (%)	
	2019	2020
Austria	4.51	5.35
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Italy	9.95	9.31
Portugal	6.46	7.20

Source: Intl. Finance Statistics

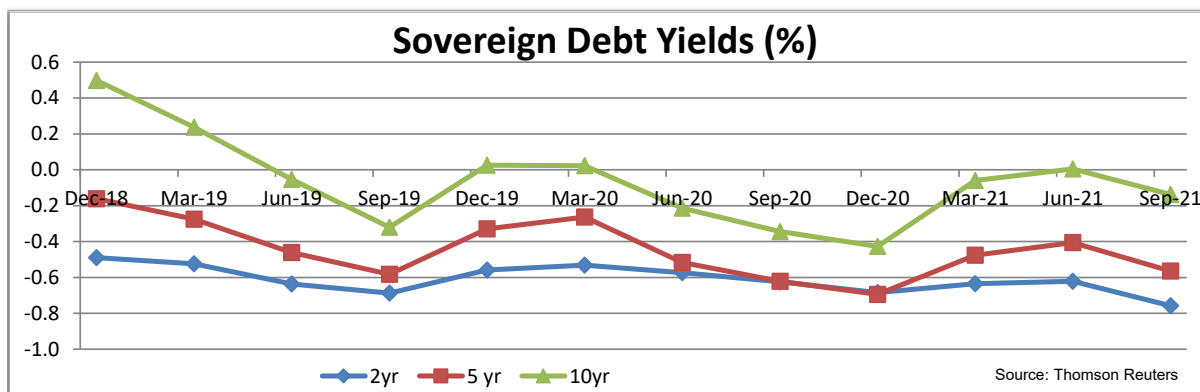
Banking Sector

The initial easing measures implemented in Austria in mid-May 2021 included the lifting of most supply-side restrictions on consumption. In 2020, the number of corporate bankruptcies fell by around 40%, and the insolvency ratio decreased from 0.9% to 0.5%. Calculations based on an OeNB insolvency model show that without government aid measures, the insolvency rate would have risen to 4.0%.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ERSTE GROUP BANK	277.4	5.37
RAIFFEISEN INTL	166.0	4.09
OEST VOLKSBANKEN	2.0	0.40
OBERBANK AG	24.4	13.09
Total	469.8	
EJR's est. of cap shortfall at 10% of assets less market cap		22.1
Austria's GDP		377.3

Funding Costs

The Austria 10Y Government Bond has a -0.153% yield and the 10 Years vs 2 Years bond spread is 62.1 bps. The Current 5-Years Credit Default Swap quotation is 9.64 and implied probability of default is 0.16%.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 27 (1 is best, 189 worst) is strong.

The World Bank's Doing Business*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	27	27	0
Scores:			
Starting a Business	127	127	0
Construction Permits	49	49	0
Getting Electricity	29	29	0
Registering Property	31	31	0
Getting Credit	94	94	0
Protecting Investors	37	37	0
Paying Taxes	44	44	0
Trading Across Borders	1	1	0
Enforcing Contracts	10	10	0
Resolving Insolvency	22	22	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Austria is above average in its overall rank of 73.9 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 73.9*				
	2021	2020	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	86.8	87.3	-0.5	53.6
Government Integrity	83.5	84.0	-0.5	45.9
Judicial Effectiveness	84.8	73.2	11.6	45.4
Tax Burden	45.7	51.3	-5.6	77.7
Gov't Spending	29.1	27.2	1.9	67.1
Fiscal Health	90.0	87.9	2.1	72.1
Business Freedom	72.6	73.0	-0.4	63.2
Labor Freedom	68.4	68.3	0.1	59.5
Monetary Freedom	81.7	81.0	0.7	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

REPUBLIC OF AUSTRIA has seen a decline in taxes of 8.9% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 8.9% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

REPUBLIC OF AUSTRIA's total revenue growth has been less than its peers and we assumed a 7.9% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(6.5)	(8.9)	(8.9)	0.5
Social Contributions Growth %	(1.2)	(0.2)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(6.1)	(6.1)	(6.1)
Total Revenue Growth%	(5.0)	(5.8)	(7.9)	(7.1)
Compensation of Employees Growth%	2.9	2.1	2.1	2.1
Use of Goods & Services Growth%	2.2	3.5	1.1	1.1
Social Benefits Growth%	8.0	7.5	7.5	7.5
Subsidies Growth%	28.1	240.8		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.2	1.2	
Currency and Deposits (asset) Growth%	22.9	0.0		
Securities other than Shares LT (asset) Growth%	2.2	0.0		
Loans (asset) Growth%	(108.8)	(76.6)	(8.9)	(8.9)
Shares and Other Equity (asset) Growth%	(30.6)	100.0	20.0	20.0
Insurance Technical Reserves (asset) Growth%	1.7	0.0		
Financial Derivatives (asset) Growth%	2.0	60.6	(8.9)	(8.9)
Other Accounts Receivable LT Growth%	2.6	5.3	5.3	5.3
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	2.9	26.0	3.0	3.0
Currency & Deposits (liability) Growth%	0.7	1.5	1.5	1.5
Securities Other than Shares (liability) Growth%	14.4	15.0	10.5	10.5
Loans (liability) Growth%	2.4	7.9	7.9	7.9
Insurance Technical Reserves (liability) Growth%	10.3	0.0		
Financial Derivatives (liability) Growth%	5.5	77.8	25.0	25.0
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are REPUBLIC OF AUSTRIA's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2017	2018	2019	2020	P2021	P2022
Taxes	100,273	105,696	109,688	99,978	91,080	82,974
Social Contributions	56,043	58,749	61,115	61,016	61,321	61,628
Grant Revenue						
Other Revenue						
Other Operating Income	22,761	24,060	24,679	23,171	23,171	23,171
Total Revenue	179,077	188,505	195,482	184,165	175,572	167,773
Compensation of Employees	39,109	40,364	41,857	42,748	43,658	44,587
Use of Goods & Services	22,967	23,824	24,866	25,724	26,007	26,293
Social Benefits	81,898	84,251	87,016	93,574	100,626	108,210
Subsidies	5,152	5,817	5,866	19,989	19,991	19,993
Other Expenses				17,415	17,415	17,415
Grant Expense						
Depreciation	9,390	9,752	10,155	10,472	10,472	10,472
Total Expenses excluding interest	173,210	179,571	185,048	209,922	218,169	226,970
Operating Surplus/Shortfall	5,867	8,934	10,434	-25,757	-42,597	-59,198
Interest Expense	<u>6,793</u>	<u>6,256</u>	<u>5,615</u>	<u>5,055</u>	<u>5,117</u>	<u>5,180</u>
Net Operating Balance	-926	2,678	4,822	-30,810	-47,714	-64,378

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF AUSTRIA's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	33,669	30,728	30,630	39,927	39,927	39,927
Securities other than Shares LT (asset)	6,763	6,103	5,650	4,782	4,782	4,782
Loans (asset)	-1,193	-1,615	-2,610	-610	-556	-506
Shares and Other Equity (asset)	-188	508	218	436	523	628
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	556	393	287	461	420	383
Other Accounts Receivable LT	25,680	26,439	27,108	28,552	30,073	31,675
Monetary Gold and SDR's						
Other Assets					121,008	121,008
Additional Assets	<u>110,358</u>	<u>110,756</u>	<u>118,642</u>	<u>121,008</u>		
Total Financial Assets	175,645	173,312	179,925	194,556	196,177	197,896
LIABILITIES						
Other Accounts Payable	30,065	31,197	30,306	38,179	39,324	40,504
Currency & Deposits (liability)	1,594	1,650	1,705	1,730	1,730	1,730
Securities Other than Shares (liability)	281,549	276,410	281,666	323,952	357,996	395,618
Loans (liability)	46,810	45,295	44,224	47,711	95,425	159,803
Insurance Technical Reserves (liability)	126	125	115	115	115	115
Financial Derivatives (liability)	834	463	536	953	1,191	1,489
Other Liabilities	<u>16,241</u>	<u>16,583</u>	<u>16,818</u>	<u>16,907</u>	<u>16,907</u>	<u>16,907</u>
Liabilities	377,219	371,723	375,370	429,547	478,883	544,979
Net Financial Worth	<u>-201,573</u>	<u>-198,411</u>	<u>-195,445</u>	<u>-234,991</u>	<u>-282,705</u>	<u>-347,083</u>
Total Liabilities & Equity	175,646	173,312	179,925	194,556	196,177	197,896

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period is "A-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF AUSTRIA with the ticker of 1480Z AV we have assigned the senior unsecured rating of A+. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	(8.9)	(4.9)	(12.9)	BBB	BBB	BBB
Social Contributions Growth %	0.5	3.5	(2.5)	BBB	BBB	BBB
Other Revenue Growth %		3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	(7.9)	0.1	(9.9)	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB	BBB	BBB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

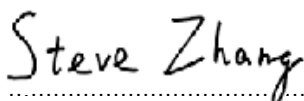


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Subramanian NG
Senior Rating Analyst

September 02, 2021
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Reviewer Signature:

Today's Date



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Steve Zhang
Senior Rating Analyst

September 02, 2021
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Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.