



Summary

Overall, the difficulties that the government could face from an outright crisis in the CEE countries have abated. And the confirmation of the AAA status of the sovereign by the rating agencies on the back of a relatively strong fiscal position will give the government enough room to support the banks should the need arise. The country's fiscal position could come under pressure if the government watered down its proposed budgetary consolidation measures or loosened its commitment to implementing such measures, resulting in further increase in public debt levels.

Things to watch:

External demand dynamics (particularly Germany's economic performance)
Economic performance in the CEE economies

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| Austria | | | |
|-------------------------------------|--|--|--------------------------|
| National facts | | Social and governance indicators | |
| Type of government | Federal Republic | Human Development Index (rank) | rank / total 25 / 169 |
| Capital | Vienna | Ease of doing business (rank) | 32 / 183 |
| Surface area (thousand sq km) | 83 | Economic freedom index (rank) | 21 / 179 |
| Population (millions) | 8.4 | Corruption perceptions index (rank) | 15 / 178 |
| Main languages | German (88.6%) Turkish (2.3%) | Press freedom index (rank) | 7 / 178 |
| Main religions | Catholic (73.6%) Protestant (4.7%) Muslim (4.2%) | Gini index (income distribution) | 29.1 |
| Head of State (president) | Heinz Fischer | Population below \$1.25 per day (PPP) | N/A |
| Head of Government (prime-minister) | Werner Faymann | Foreign trade | |
| Monetary unit | Euro (EUR) | 2009 | |
| Economy | | 2010 | |
| Economic size | | <i>bn USD</i> | <i>% world total</i> |
| Nominal GDP | 379 | 0.61 | |
| Nominal GDP at PPP | 315 | 0.43 | |
| Export value of goods and services | 222 | 1.19 | |
| IMF quatum (in mln SDR) | 1872 | 0.86 | |
| Economic structure | | 2010 | 5-year av. |
| Real GDP growth | 1.8 | 1.6 | |
| Agriculture (% of GDP) | 2 | 2 | |
| Industry (% of GDP) | 29 | 30 | |
| Services (% of GDP) | 70 | 69 | |
| Standards of living | | <i>USD</i> | <i>% world av.</i> |
| Nominal GDP per head | 45052 | 458 | |
| Nominal GDP per head at PPP | 37436 | 321 | |
| Real GDP per head | 38565 | 482 | |
| | | Main export products (%) | |
| | | Germany | 33 |
| | | Italy | 9 |
| | | Switzerland | 5 |
| | | US | 4 |
| | | Main import partners (%) | |
| | | Germany | 48 |
| | | Switzerland | 7 |
| | | Italy | 7 |
| | | Netherlands | 4 |
| | | Main import products (%) | |
| | | Machinery and transport equipment | 39 |
| | | Chemicals and related products, n.e.s. | 13 |
| | | Food, drinks and tobacco | 8 |
| | | Mineral fuels, lubricants, and related materials | 3 |
| | | Openness of the economy | |
| | | Machinery and transport equipment | 34 |
| | | Chemicals and related products, n.e.s. | 13 |
| | | Mineral fuels, lubricants, and related materials | 10 |
| | | Food, drinks and tobacco | 8 |
| | | Export value of G&S (% of GDP) | 50 |
| | | Import value of G&S (% of GDP) | 46 |
| | | Inward FDI (% of GDP) | 2 |

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economy

Austria's export-led recovery strengthened in 2010 amid the strong rebound in world trade and robust economic growth in Germany, Austria's largest trading partner. GDP growth forecasts for 2011 and 2012 have generally been raised, based on robust growth until Q4 2010. Economic growth in 2010 is now estimated at 1.6% (IMF forecast) and around the same next year. Exports probably will continue to be the key driving force. Capacity utilisation has risen towards its long-term average level, which can push fixed investment higher. Improving labour market dynamics and households' healthy balance sheets (net financial assets of households amounted to 116% of GDP in 2009) will allow consumers to spend more going forward. As regards the former, the unemployment rate in 10Q4 dropped to 4.1% from 4.8% in 2009.

Austria's public finances have deteriorated, however, much like the rest of the advanced economies. The public debt-to-GDP ratio is expected to rise to around 77% in 2015 (according to the IMF) from a low of below 60% in 2007. That said, the country's repayment capacity – as indicated by its low interest payments-to-revenue ratio of below 6% – is high. And its favourable debt dynamics (i.e. growth/interest rate outlook) means that the government does not need to post a substantial primary budget surplus in the coming years to reduce the debt-to-GDP ratio to 60% over time. The country's sound track record of fiscal consolidation gives us the comfort that the authorities will achieve long-term fiscal sustainability.

Latest economic and financial developments already suggest a better-than-expected budgetary outturn. Given the more favourable economic conditions, the deficit is expected to decline in the coming years. The 2011 budget now targets a reduction in the general government deficit to 3.2% of GDP against earlier indications of a 4% deficit target. The OECD expects the deficit to drop to 3% in 2012 – in line with the Maastricht Criterion.

Banking Sector

Austria's banks have been in the spotlight since the inception of the crisis due to their massive exposure to the hard-hit Eastern European countries (the CEE region). The cross-border exposure of Austrian banks to CEE economies amounts to 66% of GDP. The CEE accounted for 30-40% of the Austrian banking sector's profits during 2005-07. The good news is that the financial market stability program and banks' success to date in managing their CEE balance sheets has reduced the risks to the sovereign from financial sector contingent liabilities. According to the S&P, only Hypo Group Alpe-Adria AG, which is still undergoing a review of its portfolio following nationalisation, might require additional funds. The fact that Austrian banks have themselves increased provisioning and have adequate capitalisation levels makes us less concerned about systemic risks. The banking system's Tier-1 capital ratio increased from around 8.5% in December 2007 to almost 11% in June 2010. This means that any losses incurred would likely happen at the bank level and not crystallise on the government balance sheet. That said, some banks have weaker capital positions and strong dependence on wholesale and market funding than others.

Austrian banks may face some headwinds going forward. Most importantly, the banking sector must roll-over a substantial amount of maturing bonds in the next few years (EUR 26bn will mature in 2011 alone). The sustainability of banks' earnings performance will also be challenged if the currently favourable environment (low funding costs, a steep yield curve, and a rebound in markets) subsides.

| Austria | | | | | | | |
|---|--------|---------|---------|---------|--------|--------|--------|
| Selection of economic indicators | 2006 | 2007 | 2008 | 2009 | 2010 | 2011e | 2012f |
| <i>Key country risk indicators</i> | | | | | | | |
| GDP (% real change pa) | 3.5 | 3.6 | 2.1 | -3.9 | 1.8 | 1.7 | 1.6 |
| Consumer prices (average % change pa) | 1.7 | 2.2 | 3.2 | 0.4 | 1.7 | 1.9 | 1.9 |
| Current account balance (% of GDP) | 2.4 | 3.5 | 4.9 | 2.9 | 2.6 | 1.9 | 1.3 |
| <i>Economic growth</i> | | | | | | | |
| GDP (% real change pa) | 3.5 | 3.6 | 2.1 | -3.9 | 1.8 | 1.7 | 1.6 |
| Gross fixed investment (% real change pa) | 0.7 | 3.2 | 2.9 | -8.5 | -3.0 | 2.1 | 2.2 |
| Private consumption (real % change pa) | 1.8 | 0.9 | 0.6 | 1.1 | 0.9 | 1.2 | 1.2 |
| Government consumption (% real change pa) | 2.5 | 2.4 | 3.8 | 0.4 | 0.2 | 0.6 | 1.0 |
| Exports of G&S (% real change pa) | 7.8 | 9.1 | 0.7 | -15.6 | 9.0 | 5.9 | 3.9 |
| Imports of G&S (% real change pa) | 5.5 | 6.5 | -1.8 | -12.4 | 5.6 | 5.0 | 3.9 |
| <i>Economic policy</i> | | | | | | | |
| Budget balance (% of GDP) | -1.6 | -0.6 | -0.5 | -3.1 | -4.4 | -3.7 | -3.3 |
| Public debt (% of GDP) | 62 | 59 | 63 | 68 | 71 | 73 | 74 |
| Money market interest rate (%) | 3.0 | 4.0 | 3.8 | 1.0 | 0.8 | 1.0 | 1.5 |
| M2 growth (% change pa) | 6 | 11 | 7 | 2 | 5 | 5 | 4 |
| Consumer prices (average % change pa) | 1.7 | 2.2 | 3.2 | 0.4 | 1.7 | 1.9 | 1.9 |
| Exchange rate LCU to USD (average) | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Recorded unemployment (%) | 4.8 | 4.4 | 3.8 | 4.8 | 4.8 | 4.8 | 4.6 |
| <i>Balance of payments (mln USD)</i> | | | | | | | |
| Current account balance | 7808 | 13190 | 20128 | 10995 | 9900 | 7200 | 5000 |
| Trade balance | 425 | 1811 | -592 | -3258 | -2000 | -2100 | 700 |
| Export value of goods | 133845 | 162900 | 179201 | 135289 | 166200 | 179200 | 184300 |
| Import value of goods | 133420 | 161090 | 179790 | 138550 | 168200 | 181300 | 183500 |
| Services balance | 12598 | 15179 | 20834 | 17698 | 17700 | 15300 | 14000 |
| Income balance | -3672 | -2197 | 2387 | -1148 | -2400 | -2600 | -5700 |
| Transfer balance | -1544 | -1599 | -2498 | -2296 | -3400 | -3400 | -4100 |
| Net direct investment flows | -3049 | -7611 | -22935 | 3281 | 6702 | -1950 | -3760 |
| <i>External position (mln USD)</i> | | | | | | | |
| Total foreign exchange reserves | 7010 | 10689 | 8912 | 8114 | 9700 | N/A | N/A |
| International investment position | -69867 | -73410 | -66570 | -51510 | N/A | N/A | N/A |
| Total assets | 853539 | 1089040 | 1044770 | 1072590 | N/A | N/A | N/A |
| Total liabilities | 923406 | 1162450 | 1111340 | 1124100 | N/A | N/A | N/A |
| <i>Key ratios for balance of payments, external solvency and external liquidity</i> | | | | | | | |
| Trade balance (% of GDP) | 0.1 | 0.5 | -0.1 | -0.9 | -0.5 | -0.6 | 0.2 |
| Current account balance (% of GDP) | 2.4 | 3.5 | 4.9 | 2.9 | 2.6 | 1.9 | 1.3 |
| Inward FDI (% of GDP) | 0.8 | 17.2 | 1.6 | 2.3 | 4.3 | 3.8 | 3.3 |
| International investment position (% of GDP) | -21.7 | -19.7 | -16.1 | -13.5 | N/A | N/A | N/A |

Source: EIU

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