

## Triple A Ratings: Score is still 2:1 for Austria

**S&P downgrade follows Moody's and Fitch confirmation of Austria's top rating**

**Fundamentals remain healthy: well-diversified economy; competitive export sector**

**Austrian sovereign debt and budget deficit at lower levels than euro zone average**

**Government expected to take budget-consolidation measures to secure Austria's standing**

**"The triple A ratings for Austria currently stand at 2:1; there is no reason to panic,"**

**Friedrich Mostboeck, Head of Research at Erste Group.**

The rating agency Standard and Poor's (S&P) lowered Austria's top rating from triple A to AA+, whereas Moody's and Fitch confirmed Austria's top grade just a few days ago.



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**Austria's economic fundamentals are sound, but reforms are certainly needed**

"In a context of enormously high global sovereign debt, the government will not be spared the need to take budget consolidation measures in order to secure the economic standing as a good business location and the competitiveness and financing capacity of its economy. Something must change, this has become very clear now," said Mostboeck.

There are a number of facts that demonstrate Austria's comparably better economic situation. On the one hand, the economy is well diversified in terms of sectors and structure. The relative strength of the domestic economic development results from a competitive export sector and good industrial capacity utilization that is grounded in a highly skilled workforce and advanced technological standards. As a result, unemployment is relatively low and the average income and purchasing power are relatively high. Austria's overall debt and deficit are below the euro zone average.

**Yields not expected to rise**

As a consequence of the current rating situation, yields are not expected to rise significantly. There is no doubt that exceptional circumstances, such as the negative factors in Hungary, will cause irritation to yields in repeated short-lived phases. Overall, Austrian government bonds should continue to play the role of safe havens.

"If things are done correctly – based on a sober analysis of the fundamental data in relative comparison – there can be no doubt in expert opinion about Austria's excellent rating. We are experiencing a global debt crisis that will pose a challenge for years to come," said Mostboeck.

**Austria's ratings still in top notch range**

This downgrade is the opinion of just one rating agency and it first has to be proven right. S&P has been known in the past to be stricter when assigning ratings than the other two agencies. It is the only rating agency that lowered the rating of the United States to AA+. Overall, Austria's ratings are still in the top-notch range.

S&P has a 22-notch rating scale, running from AAA at the upper end, which is investment grade, to D at the lower end in the speculative range. Austria now ranks at the top, on notch 2 instead of 1. "It is as if we didn't get an "A+" according to the Austrian school grading system, but still made an "A" (very good)," explained Mostboeck.