REPUBLIC OF AUSTRIA
Rating Analysis - 12/30/10
Debt: EUR185.1B, Cash: EUR12.6B

EJR Sen Rating(Curr/Prj) A+/ A+
EJR CP Rating: A1
EJR's 1 yr. Default Probability: 1.3%

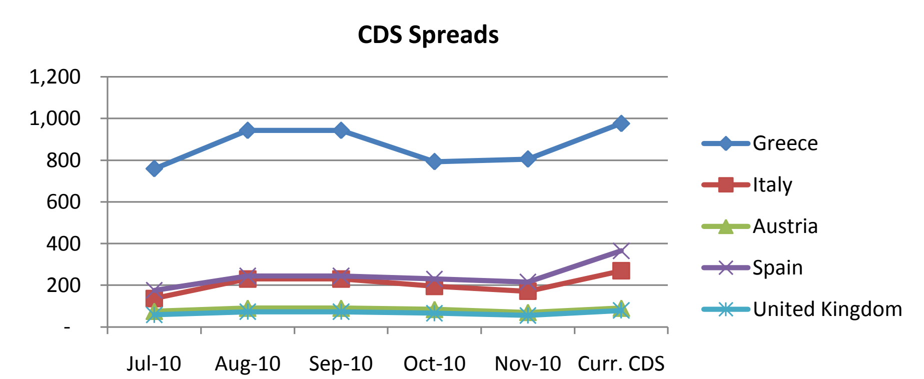
Austria's economy is expected to expand at a faster pace than previously forecast as a result of strong growth in Germany and a subsequent pickup in exports. GDP is expected to grow 2% this year and 2.2% in 2011, up from previous estimates of 1.2% and 1.6%, respectively. Unemployment rose 0.3% to 4.8% in October from the month prior. The rate remains among the lowest in the EU. Inflation is expected to rise from 1.7% in 2010 to 2.2% in 2011. Exports are expected to grow 10.4% this year before slowing to 7.3% in 2011 and 6.9% in 2012. The country has debt nearing 70% of GDP and a budget deficit of just over 3.5% of GDP. In October, the government implemented a series of tax increases and spending cuts in an effort to reduce debt levels to comply with EU guidelines. Austria expects to collect an extra €1.2B in tax revenues while cutting spending by €1.6B. The country's most recent bond auction was cancelled due to reduced borrowing requirements.

Trends in Austria's CDS spreads have strongly resembled those of German CDS spreads in recent months. Watch Austria's contributions to the EFSF (European Financial Stability Facility).

	Annual Ratios					
INDICATIVE CREDIT RATIOS	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Debt/ GDP (%)	56.7	64.6	64.3	64.1	63.4	62.7
Govt. Sur/Def to GDP (%)	-0.5	-3.5	0.2	0.6	0.6	0.6
Adjusted Debt/GDP (%)	60.5	68.7	68.4	68.1	67.2	66.4
Interest Expense/ Taxes %	9.3	10.0	9.0	9.0	9.0	9.1
GDP Growth (%)	-0.3	-0.9	2.2	2.2	3.0	3.0
Foreign Reserves/Debt (%)	3.9	3.2	3.2	3.2	3.2	3.2
Implied Sen. Rating	A-	BBB+	A-	BBB	BBB	BBB

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	40.0	50.0	60.0	80.0	120.0	150.0
Govt. Sur/Def to GDP (%)	5.0	3.0	0.5	-2.0	-5.0	-9.0
Adjusted Debt/GDP (%)	45.0	55.0	65.0	85.0	125.0	155.0
Interest Expense/ Taxes %	7.0	9.0	12.0	15.0	22.0	26.0
GDP Growth (%)	5.0	4.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	25.0	20.0	15.0	12.0	9.0	7.0

PEER RATIOS	S&P Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
United Kingdom	AAA	75.9	-11.4	95.3	6.9	-4.9	B+
Federal Republic Of Germany	AAA	70.3	-3.0	77.0	10.7	-2.0	BB
Kingdom Of Spain	AA	51.1	-11.1	56.2	9.6	-3.0	BB+
Italian Republic	A+	111.0	-5.3	117.4	15.9	-2.8	B
Hellenic Republic (Greece)	BB+	120.1	-15.4	123.4	25.8	-3.2	CCC+



Country (EJR Rtg*)	Current CDS	Targeted CDS
Greece(B+)	976	600
Italy(BBB+)	269	158
Austria(A-)	90	117
Spain(A-)	365	117
United Kingdom(AA)	79	30

* Projected Rating

Economic Overview

Austria's GDP of US$384.7B (US$305B in terms of purchasing power parity) accounted for 0.66% of the world economy in the most recent year. GDP per capita was US$45,979, the fifth highest in the EU-27. GDP is forecast at US$366.3B by year-end 2010.

As an open market economy, Austria was unable to avoid the recent global economic and financial market crisis, which hurt exports and industrial production exceptionally hard. The economy was hit by the recession in the second half of 2008 and, after four quarters of decreased growth, finally emerged with positive growth in the third quarter of 2009. Overall, Austria's economy decelerated to 2% in 2008 before contracting 3.9% in 2009, its most significant drawback in economic growth since World War II. In contrast, the average decrease in growth among EU and euro zone countries was -4.2% and -4.1%, respectively. As a result, the country's economic growth remained above the euro zone average throughout the crisis.

By 2010, Austria had expected a moderate recovery. However, a recent pickup in exports has prompted the country's statistical agencies to revise growth forecasts. Economic growth is now expected to reach 2% in 2010 and 2.2% in 2011, revised upward from previous forecasts of 1.2% and 1.6% growth in 2010 and 2011, respectively.

Fiscal

Austria's currently has debt of over €200B, or 69% of GDP. The country's budget deficit is 3.5% of GDP. The figures are well above the EU's debt and deficit ceilings of 60% and 3% of GDP, respectively. In its most recent effort to achieve fiscal consolidation, Austria announced plans to raise taxes and cut costs including some family and pension benefits. Among the proposals is a €500M bank levy, a €400M tax increase on gasoline and up to €1.6B in spending cuts. The measures will equate to an additional €1.2B in tax revenues in 2011. The country aims to cut its deficit by €2.8B (US$3.9B) to 3.2% of GDP in 2011 before reaching the EU's 3% deficit ceiling in 2012.

Relatively Low Unemployment

During the global crisis, Austria's labor market was impacted relatively moderately in relation to the extent of the downturn. To date, unemployment has not risen nearly as steeply in Austria as it has elsewhere in Europe. The harmonized unemployment rate rose 0.3% in October 2010 to 4.8% and remains the second lowest rate in the EU after only the Netherlands with 4.4% unemployment to date. Meanwhile, unemployment in the euro zone has reached 10.1%, its highest level since the introduction of the single currency.

Austria: Official Statistical Projections (% Change from Previous Year)

	2007	2008	2009	2010	2011	2012
Gross Domestic Product						
Volume	3.7	2.2	-3.9	2.0	2.2	2.0
Value	5.9	4.1	-3.1	3.2	3.8	3.8
Final Consumption Expenditure						
of Households	0.7	0.5	1.3	1.1	0.9	1.1
Gross Fixed Capital Formation	3.9	4.1	-8.8	-3.1	2.5	2.3
Machinery and Equipment	6.6	7.5	-14.5	-2.0	4.5	4.0
Construction	1.6	1.6	-6.0	-4.0	0.7	0.8
Long-term Interest Rates*	4.3	4.4	3.9	3.2	3.0	3.1
Consumer Prices	2.2	3.2	0.5	1.8	2.1	1.8
Unemployment Rate (Eurostat)	4.4	3.8	4.8	4.5	4.4	4.5

* 10-year central government bonds (benchmark)

Source: WIFO

Inflation: HICP and CPI

Austria's inflation rate (HICP) measured 3.2% in 2008, the highest rate in more than 15 years. In 2009, the level fell drastically to 0.4%, well below the roughly 2% target of the ECB, as prices for raw materials declined during the recession. The rate is forecast to rise to 1.7% in 2010. In the most recent month, inflation eased in terms of both the CPI and HICP. Consumer prices fell 0.2% in November to 1.9% growth YoY. The HICP rose 1.8% annually. Annual inflation is forecast to rise to nearly 2% in 2011 as a result of higher taxes on fuel, tobacco and airplane tickets, before easing slightly to an expected 1.8% in 2012.

Export-Driven Economy

Austria's geographic location has made the country an attractive center for regional trade and has allowed the country to become largely dependent on its exports for growth. Though the economy's contraction of growth during 2008 and 2009 was due in large part to the decrease in demand for Austrian exports, the country has managed to maintain its status as an export-driven economy in the wake of the global recession.

In 2009, Austria recorded a balance of trade deficit of €3.83B. Imports fell by 18.4% to €97.57B during the year while exports fell by 20.2% to €93.74B. Overall, trade with EU member states accounted for 73.1% of imports and 71.0% of exports. The net value of goods traded with *non*-EU states declined as the value of imports fell 16.7% to €26.28B and the value of exports declined 16.8% to €27.21B.

In recent quarters, exports have driven Austria's economic recovery. Exports are expected to sure this year before slowing in 2011 and 2012. Domestic demand, meanwhile, is expected to remain subdued. Austria's main trading partners remain EU member states with its most important being Germany and Italy.

Austria: Trade Projections (% Change from Previous Year)

	2007	2008	2009	2010	2011	2012
Exports of Goods						
Volume	9.0	0.3	-18.7	12.3	8.3	8.0
Value	10.5	2.5	-20.2	16.0	10.5	9.1
Imports of Goods						
Volume	7.6	0.2	-15.1	9.8	6.5	6.5
Value	9.6	4.7	-18.4	14.6	9.7	8.1
Current Balance						
Billions of Euros	9.6	13.8	8.0	10.5	12.3	14.2
% of GDP	3.5	4.9	2.9	3.7	4.2	4.6

Source: WIFO

Assumptions for Projections

	Peer	Issuer	Base Case	
Income Statement	**Median**	**Average**	**Yr 1&2**	**Yr 3,4,5**
Taxes Growth%	(4.8)	(4.9)	**2.5**	**1.0**
Social Contributions Growth %	(1.8)	1.7	**1.7**	**1.7**
Grant Revenue Growth %	0.0	0.0		
Other Revenue Growth %	0.1	3.1	**3.0**	**3.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(6.4)	(2.0)	**2**	**3.0**
Compensation of Employees Growth%	5.2	4.2	**3.0**	**3.0**
Use of Goods & Services Growth%	5.4	0.1	**0.1**	**0.1**
Social Benefits Growth%	8.7	5.7	**2.0**	**2.0**
Subsidies Growth%	2.3	3.2		
Other Expenses Growth%	(1.4)	(1.4)	**(1.0)**	**0.1**
Special Items (millions EUR)	0.0	0.0		
Balance Sheet				
Currency and Deposits Growth%	0.4	(40.0)	**2.0**	**1.0**
Securities other than Shares LT Growth%	7.8	3.3	**1.0**	**1.0**
Loans Growth%	2.4	0.6	**0.6**	**0.6**
Shares and Other Equity Growth%	14.8	14.2	**3.0**	**2.0**
Insurance Technical Reserves Growth%	2.8	0.0		
Financial Derivatives Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	8.0	5.6	**1.0**	**1.0**
Monetary Gold and SDR's Growth %	0.0	0.0	**3.0**	**2.0**
Other Accounts Payable Growth%	9.2	NMF		
Currency & Deposits Growth%	4.5	0.0		
Securities Other than Shares Growth%	16.3	4.6	**2.0**	**2.0**
Growth%	0.0	0.0		
Loans Growth%	0.8	5.2	**3.0**	**3.0**
Insurance Technical Reserves Growth%	0.0	0.0		
Financial Derivatives Growth%	0.0	0.0		
Addl debt. (1st Year) million EUR	0.0	0.0		

Base Case

ANNUAL REVENUE AND EXPENSE STATEMENT (MILLIONS EUR)

	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Taxes	74,855	79,563	75,694	77,587	79,526	80,322
Social Contributions	42,960	44,899	45,649	46,411	47,186	47,974
Grant Revenue	0	0	0	0	0	0
Other Revenue	12,517	12,093	12,464	12,838	13,223	13,620
Other Operating Income	0	0	0	0	0	0
Total Revenue	130,332	136,555	133,808	136,836	139,936	141,916
Compensation of Employees	24,783	25,963	27,056	27,868	28,704	29,565
Use of Goods & Services	11,590	12,840	12,855	12,870	12,885	12,900
Social Benefits	63,476	66,557	70,372	71,779	73,215	74,679
Subsidies	8,917	9,882	10,194	10,195	10,196	10,197
Other Expenses	12,384	12,505	12,328	-820	12,328	12,340
Grant Expense	0	0	0	0	0	0
Depreciation	3,151	3,263	3,335	3,335	3,335	3,335
Total Expenses	124,301	131,010	136,140	125,228	140,663	143,017
Operating Surplus/Shortfall	6,031	5,545	-2,332	11,608	-727	-1,101
Interest Expense	7,778	7,369	7,550	6,995	7,123	7,253
Net Operating Balance	-1,747	-1,823	-9,882	4,613	-7,850	-8,354

ANNUAL BALANCE SHEETS (MILLIONS EUR)

ASSETS	Dec-07	Dec-08	Dec-09	PDec-10	PDec-11	PDec-12
Currency and Deposits	11,700	20,941	12,570	18,767	19,142	19,334
Securities other than Shares LT	6,955	7,438	7,681	7,758	7,835	7,914
Loans	22,964	23,459	23,592	23,726	23,860	23,996
Shares and Other Equity	37,922	36,397	41,560	42,807	44,091	44,973
Insurance Technical Reserves				0	0	0
Financial Derivatives						
Other Accounts Receivable LT	5,737	6,126	6,469	6,534	6,599	6,665
Monetary Gold and SDR's						
Additional Assets	0	0	0	0	0	0
Total Financial Assets	85,278	94,361	91,872	99,591	101,528	102,881
LIABILITIES						
Other Accounts Payable	3,753	2,645	2,365	2,365	2,365	2,365
Currency & Deposits				0	0	0
Securities Other than Shares	141,039	161,804	169,277	172,663	176,116	179,638
Loans	23,585	22,138	23,294	23,294	29,628	35,812
Insurance Technical Reserves						
Financial Derivatives						
Other Liabilities				(280)	(280)	(280)
Liabilities	168,377	186,587	194,936	198,042	207,828	217,535
Net Financial Worth	(83,099)	(92,226)	(103,064)	(98,451)	(106,300)	(114,654)
Total Liabilities & Equity	85,278	94,361	91,872	99,591	101,528	102,881

Sovereign Rating Methodology

Egan-Jones takes the perspective of the investor as its primary point of view when developing the ratings it issues for sovereigns. Therefore, in the case of sovereign ratings, we attempt to take a more holistic view of credit quality to include not only analytic comparisons of various sovereign issuers but also the impact on our quantitative and qualitative analyses by current global, sovereign, governmental and market events, including the effects of government investments in speculative, volatile or other high risk investment products. For example, many sovereign issuers have taken on significant exposures of major financial institutions over the past several years. Hence, we calculate the under-funding of financial institutions and include this amount in the total indebtedness of sovereigns. (We use a base assumption that no country can afford to allow its major banks to fail and therefore we believe that there will almost always be an intervention by either a host or allied nation should financial institutions or markets require support at some measurable level.)

Generally we devise modeling calculators and do an analysis that examines the debt load of a country with respect to its GDP and other economic indicators. The analysis is then adjusted to reflect the outlook on a myriad of factors that reflect the firm's overall view of the sovereign debt and the quality of the country's ability to meet and thrive under such load. Some of the qualitative factors that impact our ultimate assessment of credit quality such as the flexibility, stability and overall strength of the economy, ease of tax collection, acceptance of contract law, ease of doing business, and prospects for future growth and health. The non quant issues are generally subjective and a moving target, so each rating of a sovereign may differ because of the non-quantitative nuances being addressed.

Nota Bene

History has proven that defaults on domestic public debt do occur. In fact, seventy out of three hundred twenty defaults since 1800 have been on domestic public debt (1). Egan-Jones does not view a country's ability to print its own currency as a guarantee against default. Additionally, Egan-Jones generally views cases of excessive currency devaluation as a de facto default.

1. "This Time Is Different: Eight Centuries of Financial Folly", Reinhart & Rogoff, p.111, 126