Importance of Quality of Business Location and Competitiveness for Ratings

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Agenda

Overview

Ratings Methodology and Process

Importance of Quality of Business Location and Competitiveness

Questions

Overview

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- **Sovereign ratings are determined based on the assessment of five scores.**

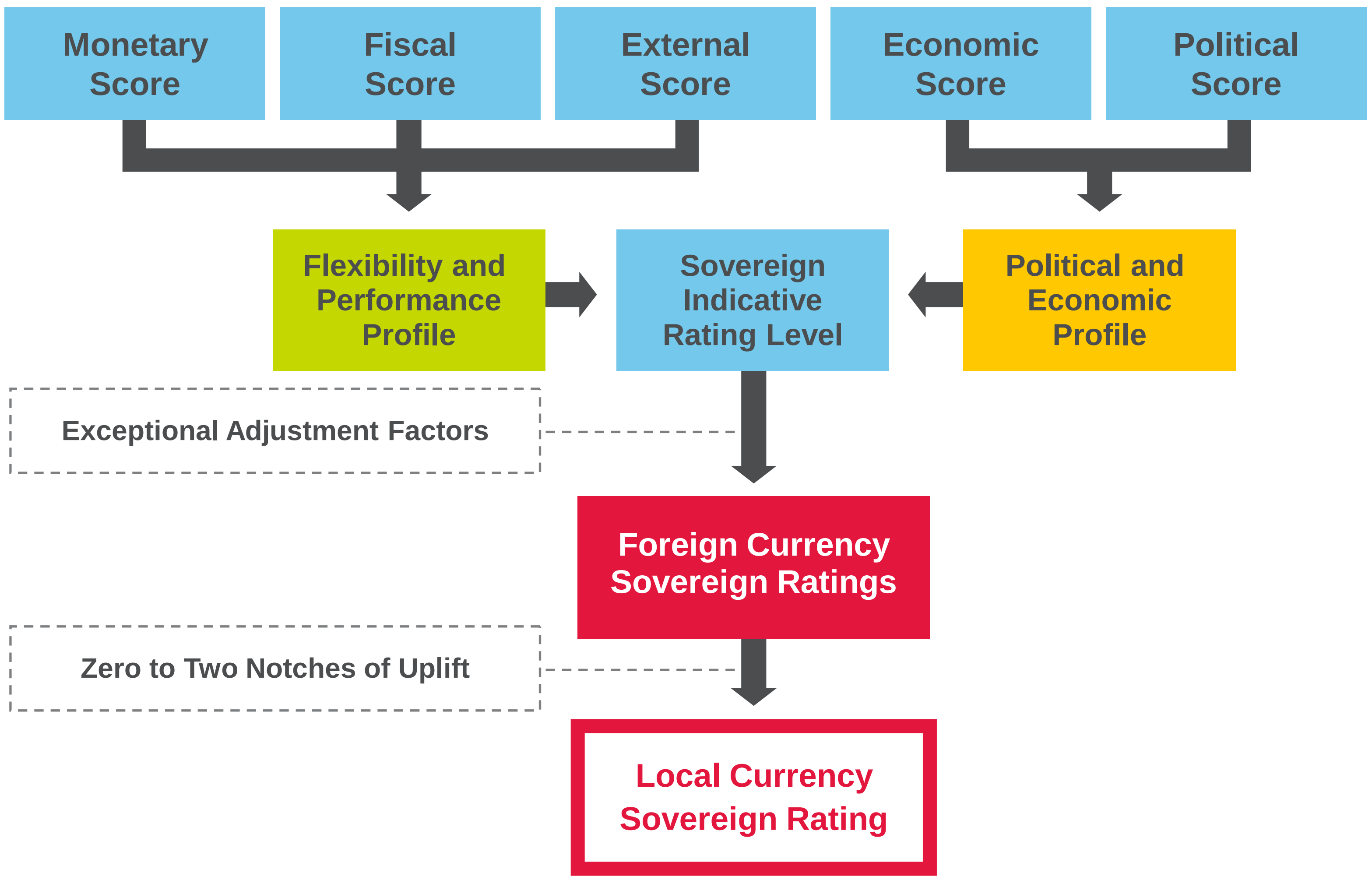
- **These scores cover our view on institutional and governance effectiveness, the economy, external accounts, public finances, and monetary policy.**

- **Quality of business location and international competitiveness are not explicit inputs into these scores.**

- **But: their DETERMINANTS feature in virtually ALL OF OUR SCORES.**

Ratings Methodology and Process

Sovereign Rating Framework: Five Key Areas To Determine A Sovereign's Creditworthiness



Importance of Quality of Business Location and Competitiveness in our Credit Assessment

Institutional and Governance Effectiveness

- **Assessment aims on “how a government’s institutions and policymaking affect a sovereign’s credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks.**

- **Austria: The ratings are supported by […] Austria’s stable governance and predictable economic policies. Austria’s political consensus focuses on stability-oriented economic growth.**

- **Austria: Despite some reforms, future pressures and a changing environment might require additional structural amendments to systems and organizational structure to preserve Austria’s competitiveness.**

Economic Score

- **A wealthy, diversified, resilient, market-oriented, and adaptable economy, coupled with a track record of sustained economic growth, provides a sovereign with a strong revenue base, enhances its fiscal and monetary policy flexibility, and ultimately boosts its debt-bearing capacity.**
- **Quality of business location and competitiveness have a bearing on the economic score in as far as they support economic growth and the creation of wealth and hence the key determinants of the economic score.**
- **Austria: Its economy is wealthy, diversified, and highly competitive**
- **Austria: After joining the EU in 1995, the Austrian economy quickly and successfully integrated into the common market, benefitting from its flexible and competitive economy. Austria also benefitted from the fall of the iron curtain and the resulting boost to its business location.**

External Score

- **The external score refers to the transactions and positions of all residents (public- and private-sector entities) vis-à-vis those of nonresidents because it is the totality of these flows and stocks that affects a country's competitiveness, exchange rate developments, foreign investor sentiment, and, ultimately, the country's international purchasing and repayment power .**

- **Austria has persistent current account surpluses which contribute to a good external position. Although the Austrian export industry is competitive in its niche markets, ….., steady service balance surpluses offset a slightly negative trade balance.**
- **Austria became a net external creditor in 2011.**

Fiscal Score

- **The fiscal score reflects the sustainability of a sovereign's deficits and debt burden. This measure considers fiscal flexibility, long-term fiscal trends and vulnerabilities, debt structure and funding access, and potential risks arising from contingent liabilities.**
- **Austria: puts priority on reducing fiscal deficits and containing debt increases.**
- **Austria's government puts focus on fiscal consolidation, and the deficit could therefore fall further to 0.7% of GDP in 2015.**
- **High general government debt burden could jump to some 80% of GDP in 2014.**
- **Moderate contingent liabilities on the potential recapitalization need of the banking sector in a stress scenario, plus the share of government guarantees that might be called and a provisional amount for Hypo Group Alpe-Adria (HGAA)**

Monetary Score

- **A sovereign's monetary score reflects the extent to which its monetary authority can fulfill its mandate while supporting sustainable economic growth and attenuating major economic or financial shocks.**
- **Important is the sovereign's ability to coordinate monetary policy with fiscal and other economic policies to support sustainable economic growth.**
- **Austria: As a Member Of The Eurozone, it benefited from the euro's status as a reserve currency, and from the credibility of the European Central Bank's monetary policy.**
- **But the flexibility afforded to it by its membership is less than if it had its own central bank.**

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Thank You

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