



INSTITUT FÜR HÖHERE STUDIEN
INSTITUTE FOR ADVANCED STUDIES
Vienna

Brexit and possible consequences for Austria

Dr. Klaus Weyerstrass

Group “Macroeconomics & Public Finance“

Brussels, 7 February 2017

Outline

- How is Brexit perceived in Austria?
- Trade between Austria and UK
- Possible impacts on the Austrian economy
- Conclusions



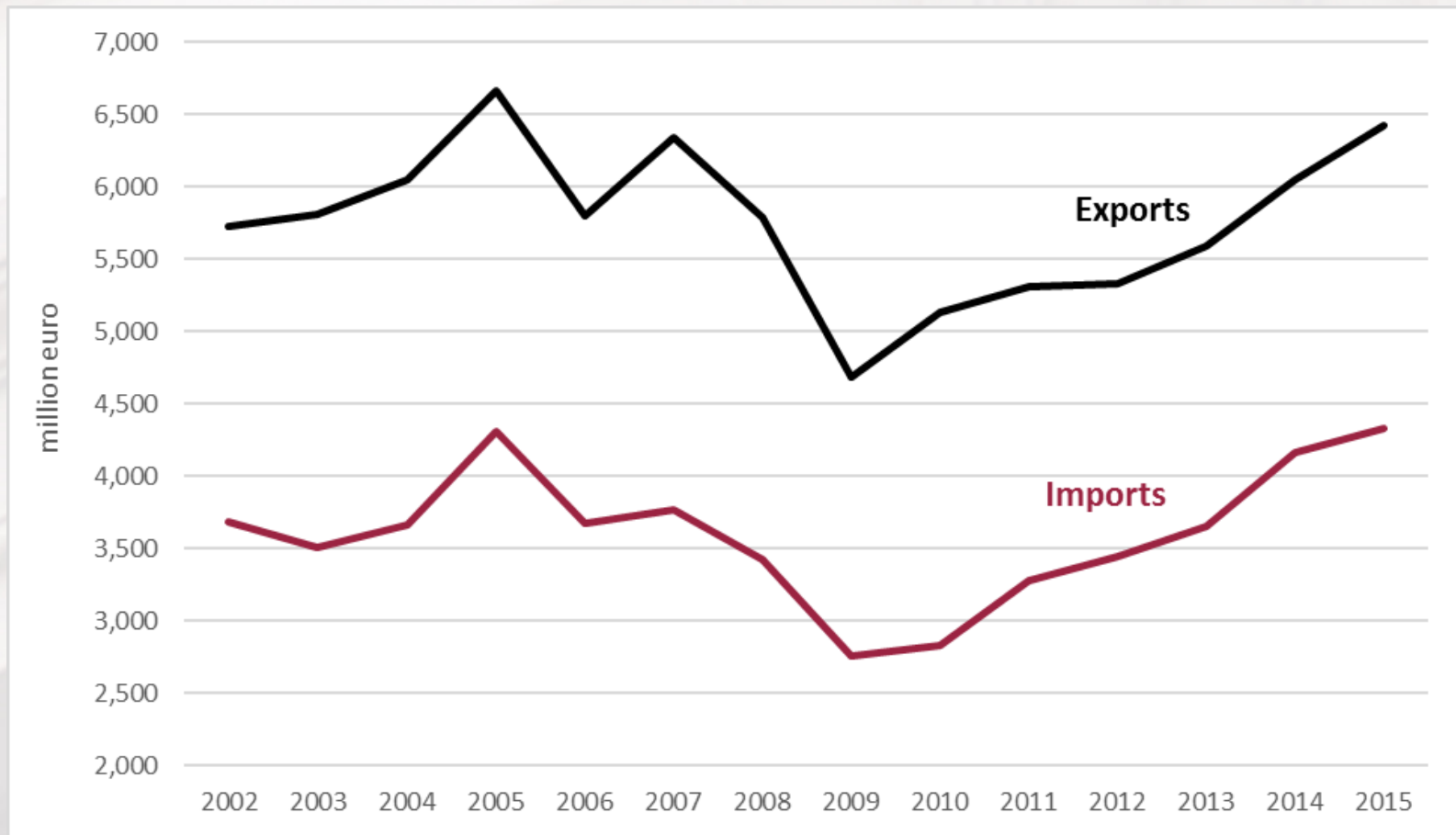
How is Brexit perceived in Austria?

- Business confederations regret Brexit and fear negative, albeit limited, economic consequences for Austria
- After the Brexit vote, desire to leave the EU has declined in Austria (23% in July 2016, down from 31% in April 2016; January 2017: slight increase to 25%);
Stay: 60% in April 2016, 61% in July 2016, 67% in January 2017
Österreichische Gesellschaft für Europapolitik: ÖGfE-Survey: After the Brexit-vote – Desire to leave the EU is decreasing in Austria
- All relevant political parties are in favour of staying in EU, but claim reforms

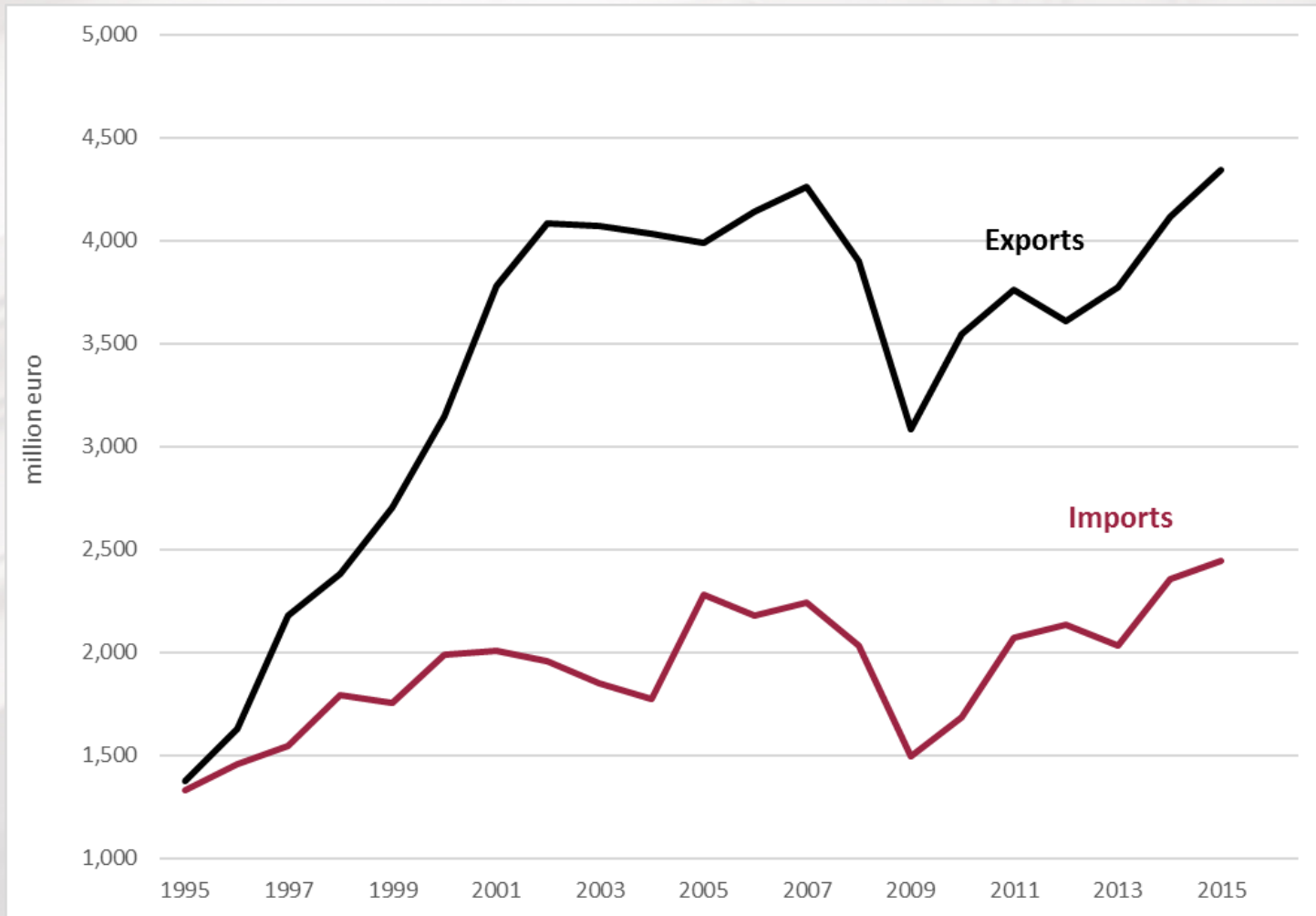


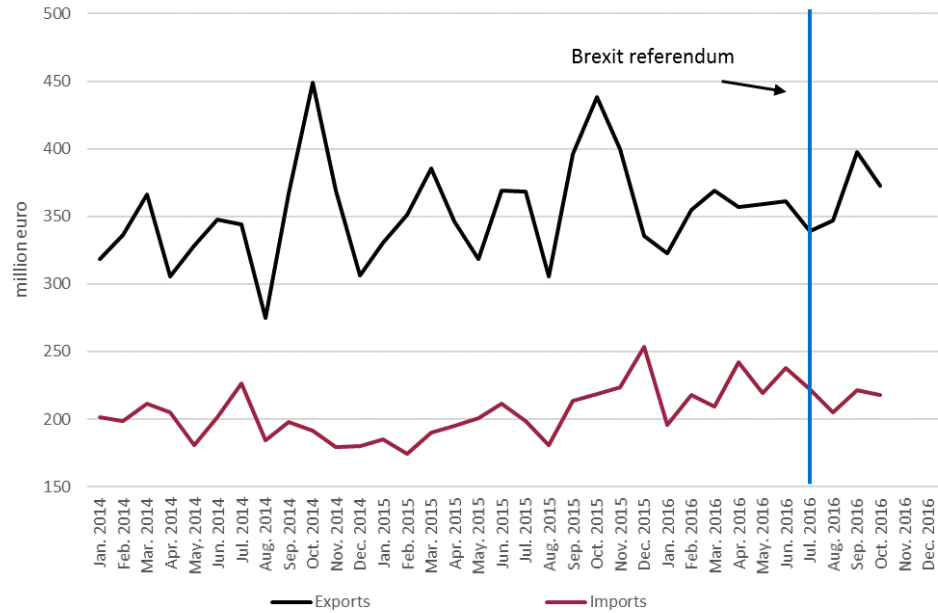
Trade between Austria and UK

Austrian trade (goods + services) with UK

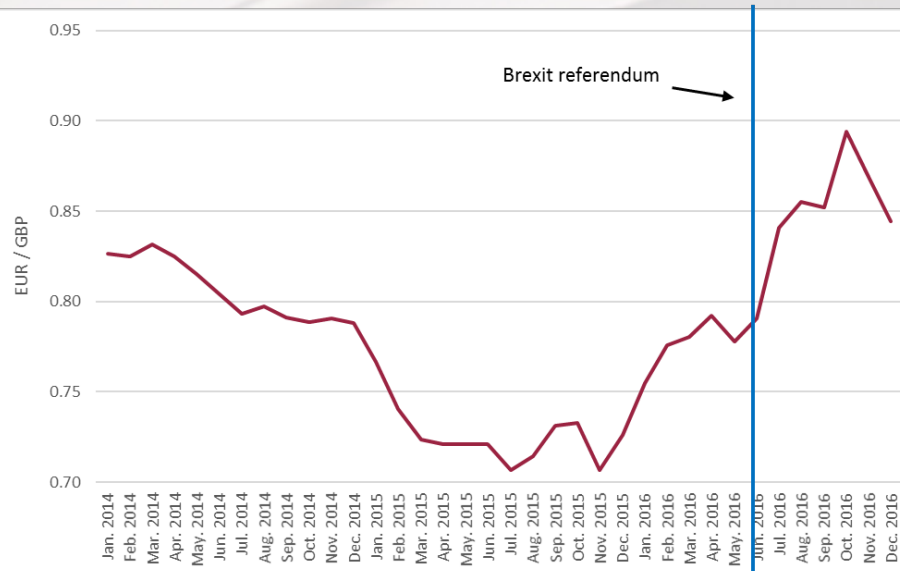


Development of Austrian trade in goods with UK





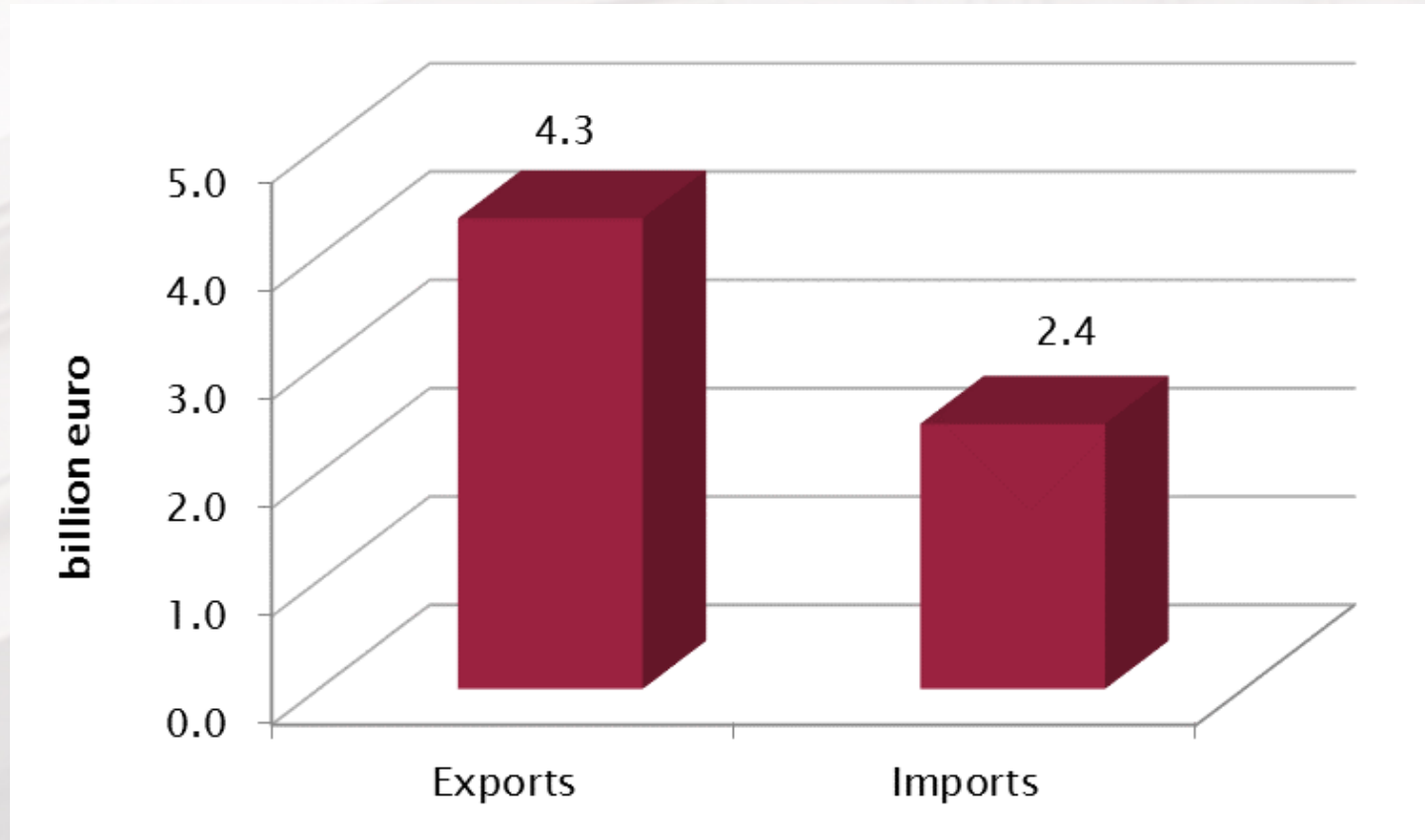
Monthly trade in goods between Austria and UK since 2014



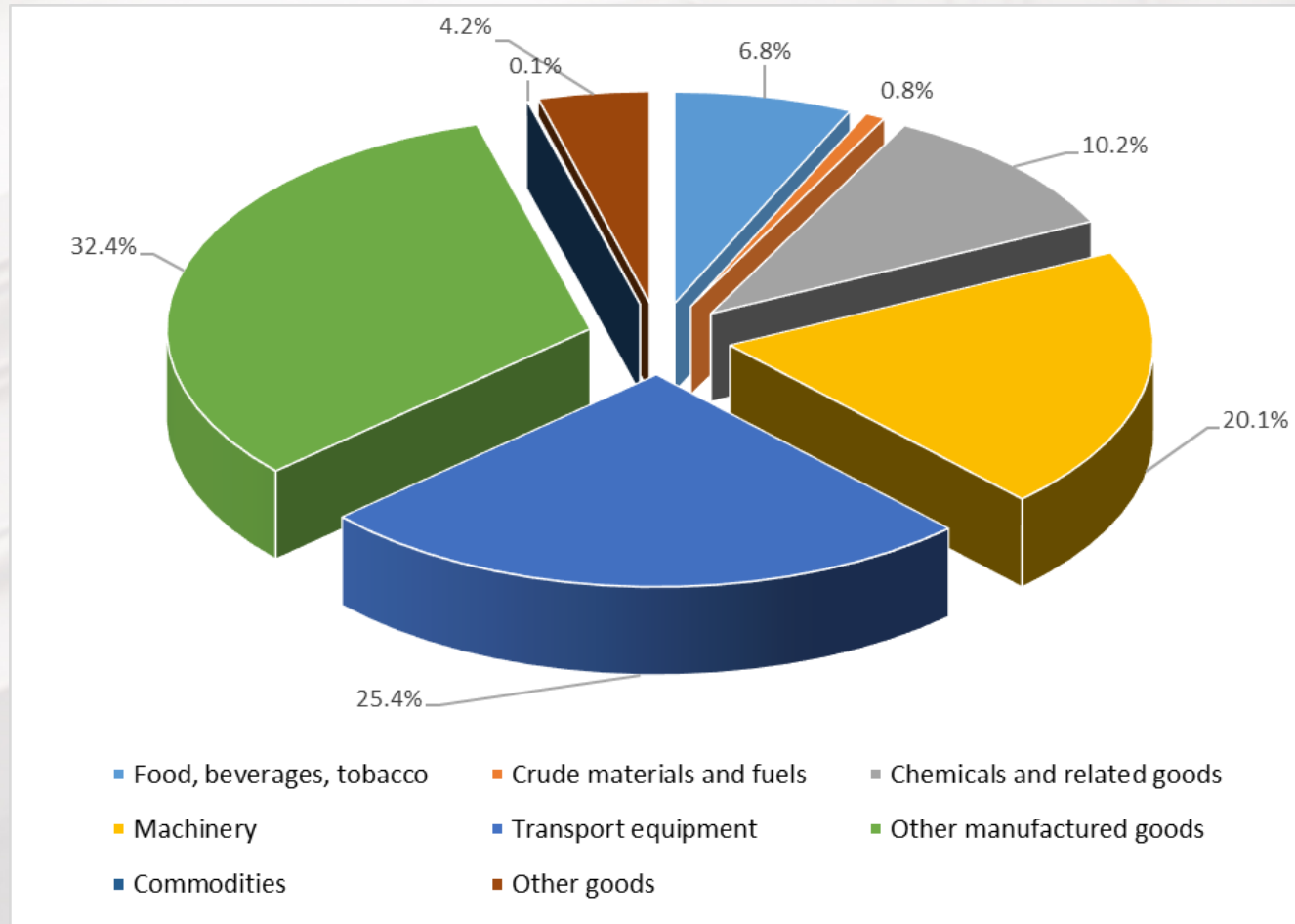
Euro / Pound Sterling exchange rate

Source: Eurostat; own calculations and illustration

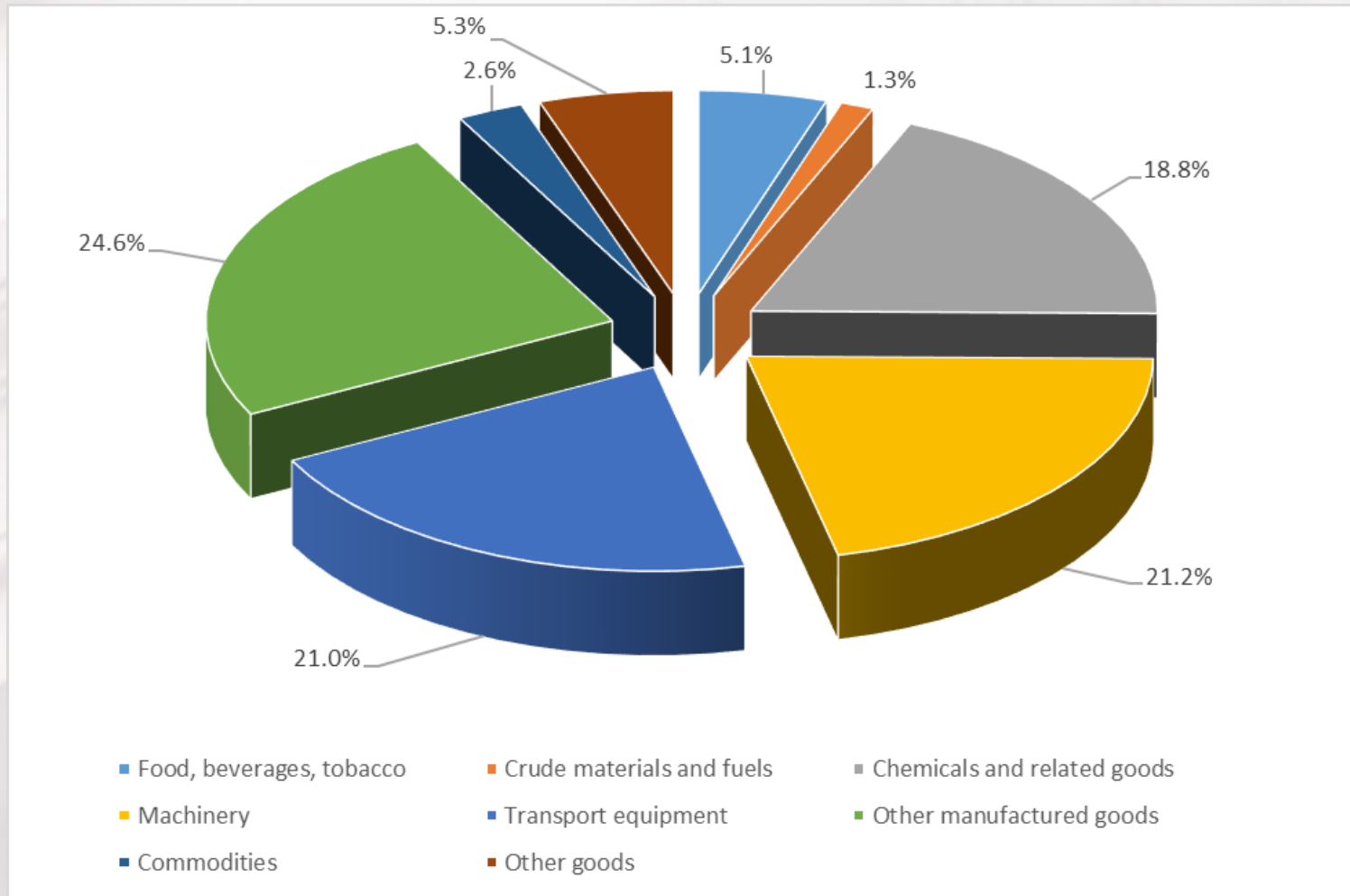
Austrian trade in goods with UK in 2015



Austrian exports to UK by product group (2015)

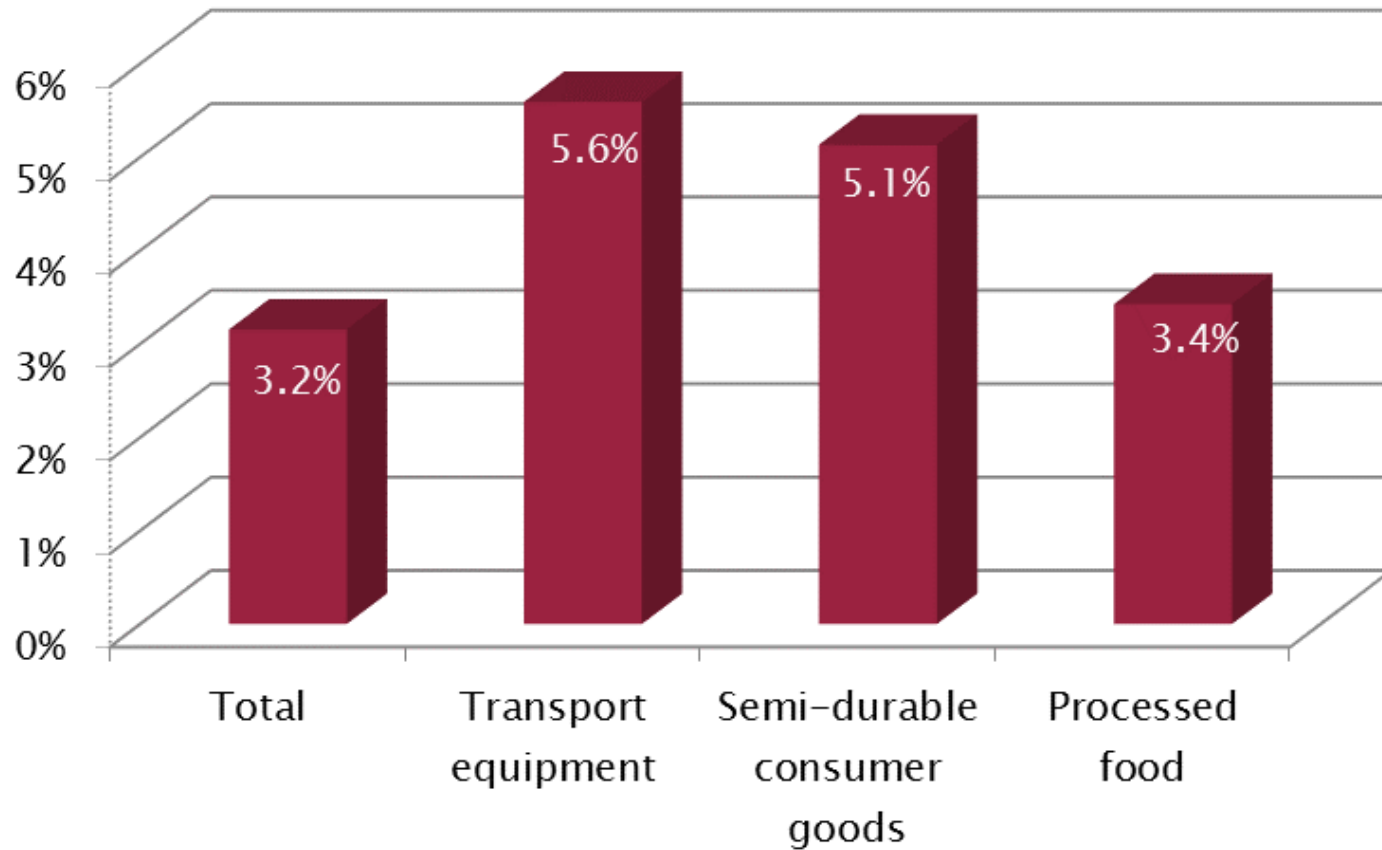


Austrian imports from UK by product group (2015)

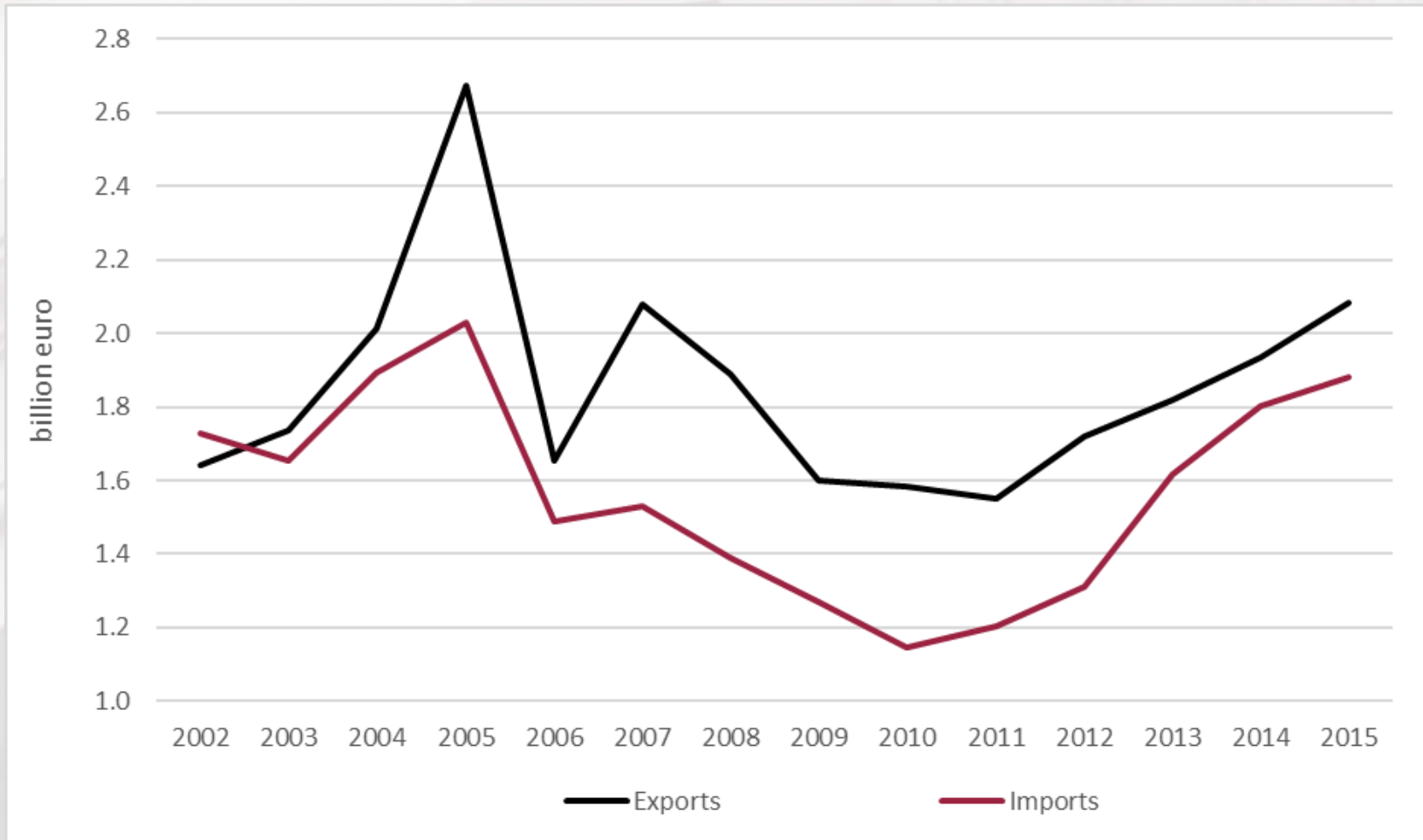


Source: Eurostat; own calculations and illustration

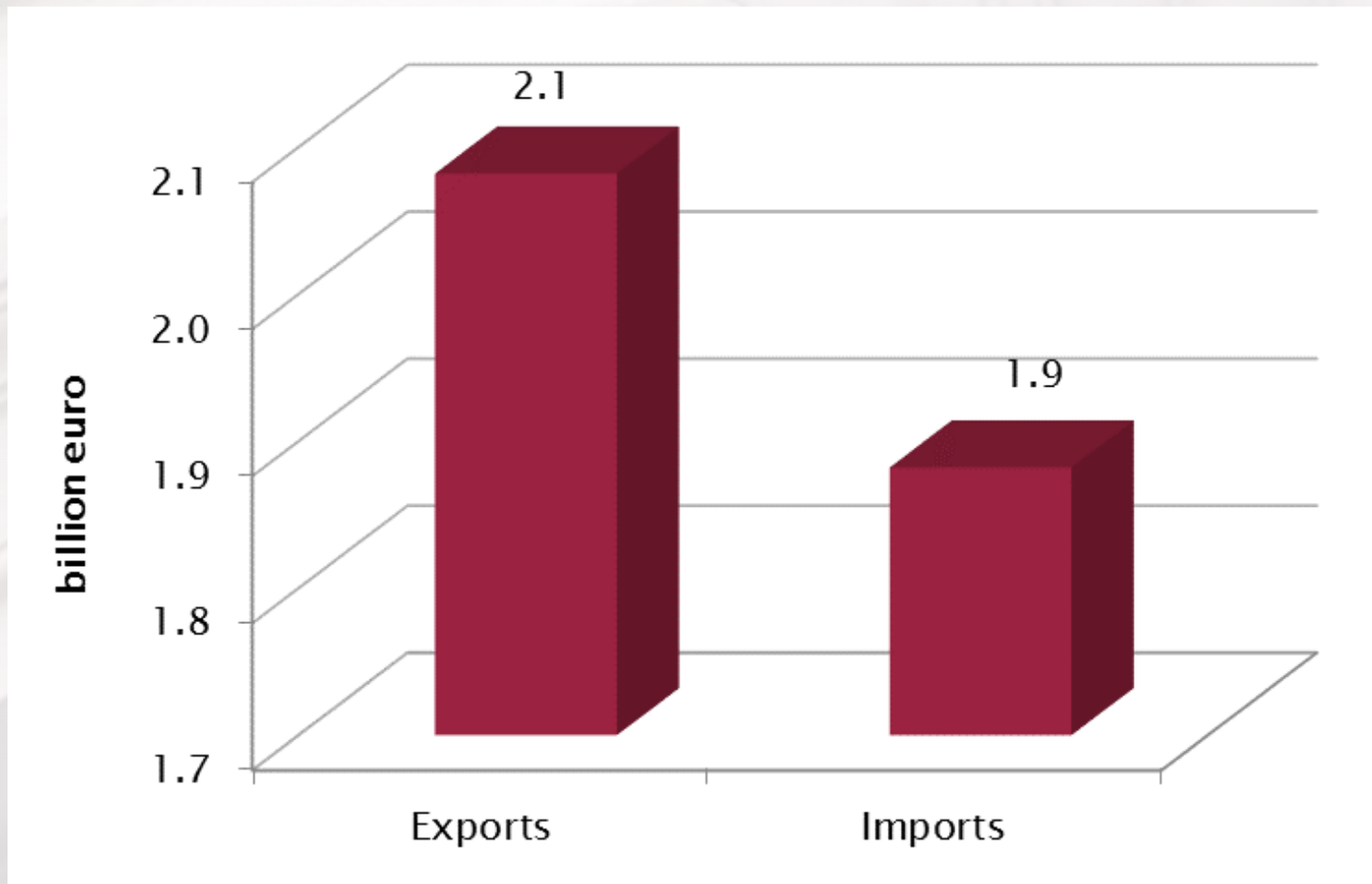
Share of UK in total Austrian goods exports (2015)



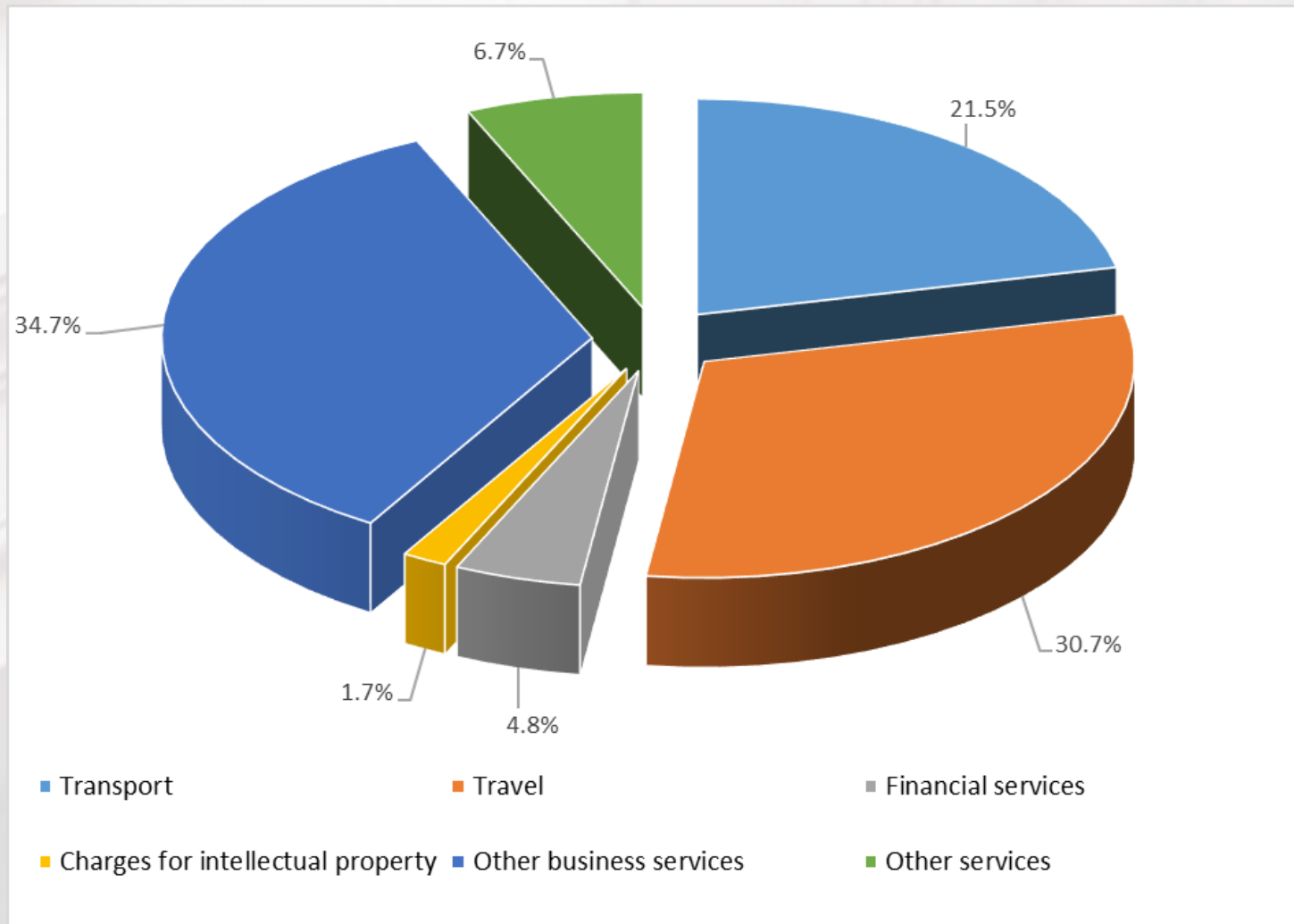
Trade in services Austria – UK over time



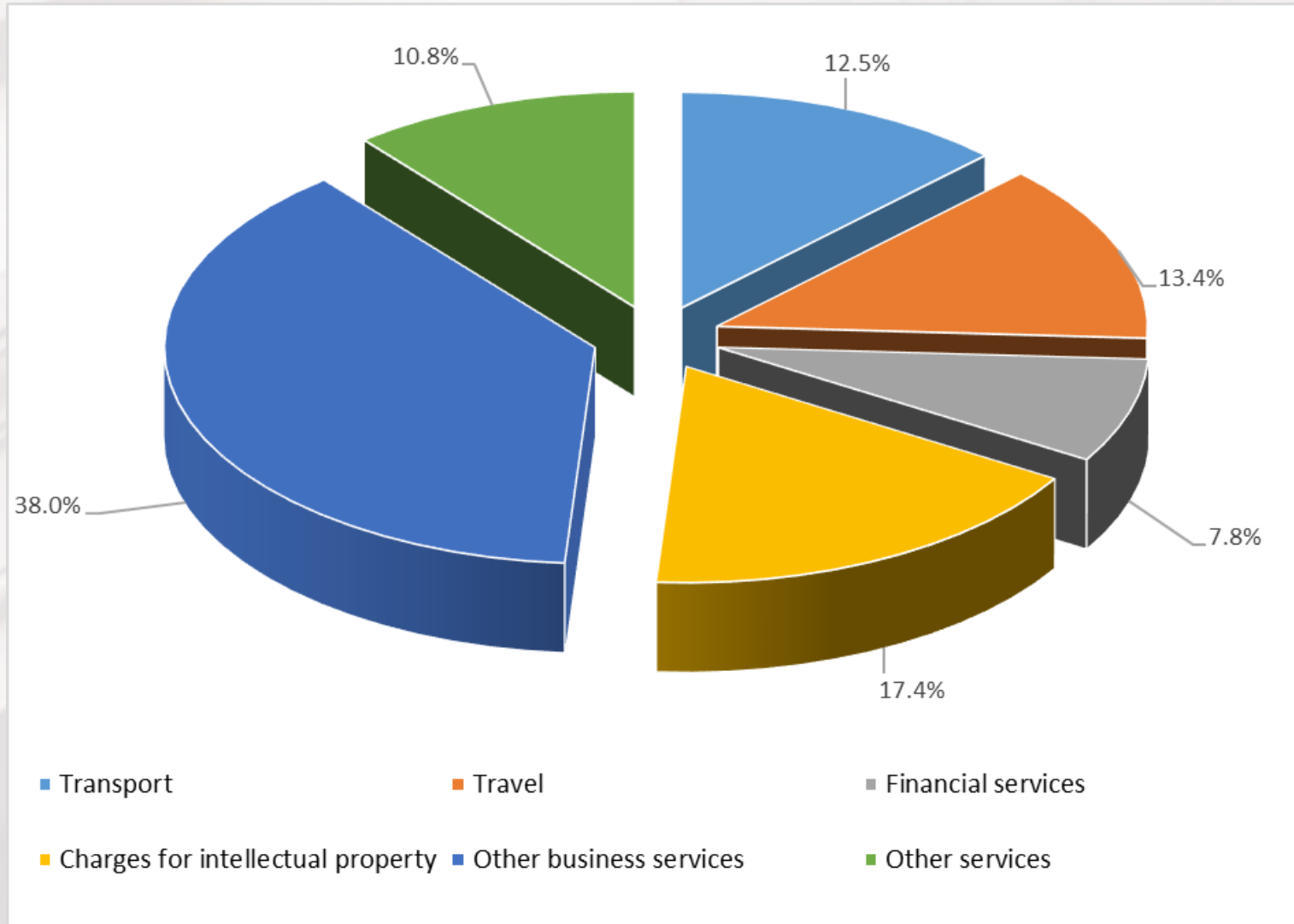
Services trade Austria – UK (2015)



Breakdown of Austria's services exports to UK (2015)



Breakdown of Austria's services imports from UK (2015)



Source: Eurostat; own calculations and illustration



Possible impacts on the Austrian economy

Possible impacts on the Austrian economy /1

Possible channels through which Austria might be affected:

- Trade (direct / indirect via value chains)
- Uncertainty, impairing business confidence
- Contributions to and receipts from EU budget: UK is net contributor; hence possibly higher contributions by Austria or less receipts (CAP, EU Research funds)

Possible impacts on the Austrian economy /2

- Any effects at present impossible to quantify exactly
- Dependent on new trade relations and future UK migration regulation
- Trade effects might be limited since other countries may replace parts of declining UK demand

Possible impacts on the Austrian economy /3

- During exit negotiations: elevated uncertainty which possibly impairs investment (but also other sources of uncertainty, e.g. future US policy (protectionism), global terrorism, political turmoil in the Middle East,...)
- Negative trade effects probably contained, but might be substantial in certain industries (particularly transport equipment via value chains with German car manufacturers)
- On the other hand, trade is additionally affected by Euro appreciation vis-à-vis Pound Sterling

Possible impacts on the Austrian economy /4

- Possibly more migration to Austria (from UK and diversion effects)
- Vienna intends to apply for European Banking Authority (EBA) and European Medicines Agency (EMA), both currently located in London
- London banks will probably lose “EU passport” and hence have to move to EU; here also Vienna may be attractive
- Austria might also get headquarters of insurance and other companies
- Possible side effect: additional property price increases in certain segments

Possible impacts on the Austrian economy /5

- *ifo Institute of Economic Research:*
Austrian net contributions to EU budget + 2777 million euro
- Any ex-ante (model-based) quantifications suffer from very limited information
- Simulations have to be based on more or less plausible scenarios regarding future relations between UK and EU (access or not to Internal Market,....)

Possible impacts on the Austrian economy /6

- *Ifo Institute of Economic Research & Bertelsmann Stiftung (PolicyBrief 2015/05):*
Austrian real GDP per capita in 2030 lower
by 0.05% (“soft Brexit”) to 0.18% (“UK isolation”)
for comparison: Germany: -0.08% / -0.33%, UK: -0.67% / -2.98%
- OECD: real GDP in EU27 could be 1% lower in 2020 (UK: -3%)
Kierzenkowski, R., Pain, N., Rusticelli, E., Zwart, S. (2016), The Economic Consequences of Brexit: A Taxing Decision, OECD Economic Policy Paper 16, April 2016
- Based on this OECD estimation, real GDP loss in Austria might reach 0.5% by 2020



Summary and conclusions

- (At least direct) impacts on Austrian economy probably limited, acting via trade channel and elevated uncertainty, impairing investment
- Not yet clear how missing UK (net) contributions to EU budget will be compensated
- Political economy: with UK, a strong opponent of too much regulation and interventionism will be missing, raising the weight of countries more inclined to government interventions
- Quantification of economic impacts surrounded with high uncertainty



Thank you for your attention