Brexit and possible consequences for Austria

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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?
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

Business confederations regret Brexit and fear negative, albeit limited, economic consequences for 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

Source: Eurostat; own calculations and illustration
Development of Austrian trade in goods with UK

Source: Eurostat; own calculations and illustration
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

Source: Eurostat; own calculations and illustration
Austrian exports to UK by product group (2015)

Source: Eurostat; own calculations and illustration
Austrian imports from UK by product group (2015)

Source: Eurostat; own calculations and illustration
Share of UK in total Austrian goods exports (2015)

Source: Eurostat; own calculations and illustration
Trade in services Austria – UK over time

Source: Eurostat; own calculations and illustration
Services trade Austria – UK (2015)

Source: Eurostat; own calculations and illustration
Breakdown of Austria’s services exports to UK (2015)

Source: Eurostat; own calculations and illustration
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

- 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%)*  

- 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