

# Covid-19's impact on the Austrian economy

The coronavirus continues to spread globally, now being officially recognized as a pandemic by the WHO. As of this week, the first death was reported in Vienna, while there are over 650 confirmed cases in total in Austria, most of them in Tirol. What impact might the virus have on the Austrian economy?



Source: Shutterstock

Due to the unknown development of the disease, it is not possible to predict the ultimate economic impact of the coronavirus on the Austrian economy. However, a look at the sectors affected and the measures adopted to date gives an indication of the potential the virus might have on the economy.

## What measures have been taken so far?

The government has taken a series of measures to reduce the spread of the virus, namely:

- Reduce social contacts, maintain only those which are absolutely necessary and use technical possibilities instead

- Restrictions of events:
  - Outdoor events with more than 500 participants and indoor events with more than 100 participants are prohibited until the beginning of April
  - Sports events are allowed without an audience
  - In recreational facilities such as spas, baths, museums, cinemas, theatres and in leisure establishments such as discotheques and bars, operation can be maintained as long as no more than 100 persons including staff are present in a closed room
- Restrictions on opening hours:
  - Restaurants, bars & cafés are only allowed to be open until 3pm
  - All other shops will remain closed except for grocery stores, pharmacies, banks, pet shops, drugstores, post offices and in general areas needed for supplies
- Postponement of the municipal elections in Styria & Vorarlberg
- Some communities are quarantined
- Entry bans from Italy:
  - Entry from Italy is no longer permitted unless a medical certificate of health can be presented
  - Transit through Austria from Italy is only permitted if no stopover is made in Austria
  - Austrians who currently stay in Italy will be brought back to Austria, but must remain in domestic quarantine for two weeks
- No flights to Spain, France and Switzerland as of Monday, 16 March
- Introduction of border controls with Switzerland
- Restrictions on visits to hospital, telephone contact recommended
- Universities will be closed, at the latest as of Monday, 16 March:
  - Teaching at all universities will be converted to distance learning or completely discontinued.
  - Examinations will continue to be held until further notice
- School operations will be ceased as of Monday, 16 March for pupils from the 9th year onwards
  - Teaching will be converted to distance learning
  - From Wednesday, March 18, pupils up to 8th grade shall remain at home

## Which sectors will be most affected?

**Tourism and leisure industry:** The tourism and leisure industry plays an important role for Austria's economy, contributing more than 15% to Austria's GDP (tourism: 8.4% in 2018, leisure: 7% in 2018).

By far the most arrivals and overnight stays are attributable to German tourists (share of overnight stays in 2019: 37.1%), followed by the Netherlands (6.7%), Switzerland and Liechtenstein (3.2%), the United Kingdom (2.4%), the Czech Republic (2.2%) and Italy (1.9%). Chinese guests share of overnight stays and arrivals was 1% and 2.2%, respectively, in 2019.

With Italy already being on a complete lockdown, and other countries stepping up their corona measures, the winter season ends early for Austrian tourism operators. Tirol, Vorarlberg and Salzburg have already announced an early end to the ski season. All ski resorts are closed as of Sunday, 15 March, with all accommodation facilities closed as of Monday, 16 March.

Yet, the first half of the current winter season (November 2019 to January 2020) yielded positive results with overnight stays increasing by 5.2% and arrivals by 5.6% compared to the same period

of the previous year, thanks to an increase in overnight stays by foreign (+5.9%) as well as domestic (+3.1%) guests, according to Statistik Austria.

The slump in the tourism sector is therefore only likely to become apparent in the second half of the winter season, but could stretch well into the summer season (May to October). Usually, slightly more turnover is generated in the winter than in the summer season (roughly 51% to 49%). Should the implications of the coronavirus be as severe as to result in a 50% drop in revenue in both seasons, this alone could mean a loss of approximately €14 billion in revenue, if we take the estimate of WIFO for 2019 as our calculation basis.

Total expenditure by holiday and business travellers, visits to relatives and acquaintances amounted to approximately €42.5 billion in 2018.

**Trade:** Austria's trading sector is likely to take a hit as well, seeing that Germany and Italy are its main trading partners. Germany is by far Austria's most important trading partner, making up more than 30% of Austria's exports and imports. Exports and imports with Italy amount to 10 billion euro each, equalling a share of slightly more than 6%. Currently, the transport of goods into the locked areas in Italy is still possible without restrictions, but ultimately the tightened conditions mean a weakening for businesses. The same applies to the Czech Republic, which closed its borders to travellers from Austria, where 4% of Austria's exports and 4% of its import volume go to. Exports in the amount of €4 billion go to China (2.6% of Austria's exports).

As regards possible supply chain disruptions, our colleagues have analysed in their note [Gauging possible supply chain disruptions from Covid-19](#) that the risks to the Eurozone mainly come from Italy and China. The same holds true for Austria. Although Austria's exposure to Covid-19 affected countries is less than 2% when measured as the value added of affected countries in country output, supply chain exposure in value terms is not linear, meaning that an essential input but low in value could still cause the shutdown of an entire supply chain if unavailable.

Last year, Austria's strong ties to CESEE helped to shield the Austrian economy from the troublesome external environment caused by the trade war and the slump in the manufacturing and export sectors. Now, with almost all countries reporting Covid-19 cases, this protection could crumble.

## Financial support for companies and employees

In order to prevent a threat to the existence of companies and the population in general, the government has announced a corona crisis management fund including various financial support measures:

- Ensure liquidity of companies through credit guarantees, bridging loans, tax deferrals, reduction of advance tax payments and strengthening & accelerating export promotion:
  - "Guarantees for bridge financing" in the amount of €10 million is being made available under the Austria Wirtschaftsservice (aws) guarantee programme
  - Reduced profit expectations due to the coronavirus are taken into account for tax purposes, e.g. taxpayers may apply for a reduction in advance income tax payments until September if the expected income for the year is lower
- Introduction of a new corona short-time work model with accelerated procedures, securing childcare for urgent needs
  - The budget for short-time work will be increased, but the exact amount is not yet

known

- Companies that release employees to care for their children will receive financial support from the government, covering one-third of the wage costs until Easter
- Support for one-person companies & family businesses

A support model with two concrete measures is currently being developed for the tourism industry:

- The Austrian Hotel and Tourism Bank will provide companies with guarantees so that they can take up bridge financing from their banks. A liability limit of €100 million will be made available for this.
- The Ministry of Agriculture, Regions and Tourism will bear the costs for the guarantees, e.g. the handling fee (1 percent) and the liability fee (0.8 percent), providing additional support to the enterprises affected.

So far, the direct measurable support would sum up to more than €4 billion, equalling 1% of GDP. However, the Austrian government stands ready to adjust financial support if necessary. Overall, the government has financial leeway with the government recording a budget surplus in 2019, amounting to €1.4 billion. Yet, it is far from certain how big the impact on each employee and company will ultimately be.

*""We are revising down our growth forecast for 2020 by 0.5 percentage points to a GDP growth rate in 2020 of 0.6% bearing in mind that in this rapidly changing situation another adjustment might be necessary""*

## What does Covid-19 mean for the Austrian economy and our growth projections?

Compared to the Eurozone's average growth in 2019, the Austrian economy did fairly well, recording GDP growth of 1.6%. Also the start into the new year promised a moderate growth path for 2020 with the manufacturing sector recovering, incoming export orders and production expectations signalling that the industrial sector had reached its bottom and the PMI back in positive territory, jumping to 50.2 in February from 49.2 the month before. Especially private consumption was expected to remain a key driver of economic activity in 2020 with household income being supported by tax relief measures.

Now, with consumption being in jeopardy, the tourism and leisure industry is likely to take a hit from quarantine measures and with exports and imports unlikely to accelerate in the first half of the year, we are revising down our growth forecast for 2020 by 0.5 percentage points to a GDP growth rate in 2020 of 0.6% bearing in mind that in this rapidly changing situation another adjustment might be necessary. The full impact of the coronavirus should be felt in the second quarter, with especially recreation, hotels & restaurants, but also the industry and trade sector feeling the blow from this unprecedented crisis.

## Author

### Inga Fechner

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).