

**Periodic Report on the Economic Situation
in Austria & the EU in light of COVID-19**



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I. Austria's economy and GDP in Q2 of 2020 in light of COVID-19 pandemic and the relevant measures

i) Austria's economy slumped by 12.1% in the 2nd quarter of 2020

According to preliminary calculations by Statistics Austria, the economy in Austria slumped by 12.1% in real terms (seasonally and working day adjusted) in the 2nd quarter of 2020 compared to the previous quarter. Compared to the 2nd quarter of 2019, a real decline in gross domestic product (GDP) of 14.3% was recorded. The measures to curb COVID -19 pandemic had an impact on almost all economic indicators.

In 2019, the Austrian economy grew by 1.4% (real). Compared to previous years (2017: + 2.4%; 2018: + 2.6%), the dynamic of growth had already weakened significantly. "The Austrian economy has slumped dramatically in the second quarter by 12.1%. This is the strongest decline since the Second World War. The COVID -19 pandemic hit the economy while experiencing a period of economic slowdown. Almost the entire EU area growth rates were already significantly weaker in 2019 than in previous years," says Tobias Thomas, General Director of Statistics Austria.

ii) GDP in the 2nd quarter of 2020: production, domestic demand and foreign trade equally affected

The real decline in private consumption of 12.6% compared to the previous quarter (-16.1% compared to the same quarter of the previous year) can mainly be attributed to the restrictions in the leisure sector, in particular catering, accommodation, cultural and sports services. In contrast, consumption in housing, especially rents, electricity and heating, and in the food / beverages sector shows increases as expected.

The investments recorded a real decline of 7.5% over the previous quarter (-12.3% on-year growth). Investments in means of transport were particularly affected (-14.8% compared to the previous quarter, -41% compared to the same quarter of the previous year) and in machines (-12.9% compared to the previous quarter, -19.7% compared to the same quarter of the previous year). Construction investments also fell sharply (-7.4% compared to the previous quarter, -8.1% compared to the same quarter of the previous year).

The foreign trade had begun to lose momentum in 2019. Imports were already declining from the 2nd quarter of 2019 and in the 2nd quarter of 2020 they once again recorded a strong real decline of -13.2% compared to the previous quarter (-17.4% compared to the same quarter of the previous year). Goods and services were equally affected. The export data provide a similar picture (-13.2% compared to the previous quarter, -18.1% compared to the same quarter of the previous year). The losses in tourism are clearly evident in the decline in service exports (-14.6% compared to the previous quarter, -20.9% compared to the same quarter of the previous year).

iii) The impact of COVID-19 measures on the various economic sectors and on employment

The measures to contain COVID -19 left clear marks in large parts of the service sector in the second quarter of 2020. The strongest real decline with -65.2% compared to the previous quarter (-61.1% compared to the same quarter of the previous year) is attributable to the area of accommodation and gastronomy, followed by the entertainment and cultural area with -27% compared to the previous quarter (-35.3% compared to the same quarter of the previous year).

Overall, almost all economic sectors witnessed a real decline in the 2nd quarter of 2020 compared to the 1st quarter of 2020, but the various areas have been affected to different extents. The lockdown had hardly any effect on the housing sector (-0.7% compared to the previous quarter, + 2.2% compared to the same quarter of the previous year), the health care system and public administration (-0.5% compared to the previous quarter, -0.6% compared to the same quarter of the previous year) as well as the information and communication sector (-1.3% compared to the previous quarter, + 1.1% compared to the same quarter of the previous year).

The manufacturing of goods was hit by the effects of the pandemic in a previously weak environment. Similar to foreign trade, the decline began at the end of 2019 and reached a provisional low in the 2nd quarter of 2020 at -15.6% in real terms compared to the previous quarter (-18.4% in real terms compared to the same quarter of the previous year).

The economic slump is also reflected in the employment figures. The short-time working regulation contributed to the decrease in total hours worked (-12.9% compared to the previous quarter, -16.6% compared to the same quarter of the previous year), but at the same time kept the decline in employment within limits (-4.5% compared to the previous quarter, -4.9% compared to the same quarter of the previous year). Compensation for employees fell by 7.2% (nominal, adjusted) in the 2nd quarter of 2020 compared to the 1st quarter of 2020 and by 6.2% compared to the 2nd quarter of 2019.

II. Public finances in the first half of 2020

In the first half of 2020, Austria recorded a public deficit of 9.4% of gross domestic product (GDP) or €16.8 billion. According to Statistics Austria, this means a deterioration of €17.3 billion compared to the first half of 2019 (first half of 2019: public surplus of €0.5 billion or 0.2% of GDP). The government revenues declined compared to the first half of last year by 6.4%, or €6 billion (H1 2020: €88 billion, H1 of 2019: €94 billion), while government spending rose by 12.0% or €11.3 billion to €104.8 billion (first half of 2019: €93.6 billion). The government debt increased in absolute numbers and amounted to €315.7 billion at the end of the 2nd quarter of 2020, that is €35.4 billion higher than at the end of the 4th quarter of 2019. The debt ratio - the ratio of government debt to GDP - rose to 82.6% (end of 2019: 70.5% of GDP or €280.3 billion).

"The Corona crisis ends the budget consolidation. The Austrian budget posted a budget deficit of 9.4% of gross domestic product in the first half of this year. The reason for this was a significant increase in crisis-related expenditure with a simultaneous decrease in tax revenue in particular. The debt ratio rose by 12.1% to 82.6%. In the years 2015 to 2019, Austria had reduced its government debt from 84.9% to 70.5% and thus approached the Maastricht criterion of 60%," clarified Tobias Thomas, Director General of Statistics Austria.

87.7% of government revenue in the first half of 2020 came from taxes and social contributions, which totaled €77.1 billion. That is a decrease of 5.9% or €4.9 billion compared to the previous year.

In terms of value, the greatest losses on the income side in the first half of 2020 compared to the same period in the previous year were recorded in taxes: in the case of income and wealth taxes (-9.9% or -2.4 billion euros), this mainly affects corporation tax (-33.4% or -1.3 billion euros) and income tax (-49.1% or -0.9 billion euros). The decrease in production and import taxes (-8.6% or -2.4 billion euros) is mainly due to sales tax (-9.5% or -1.4 billion euros) and the mineral oil tax (-22.8% or -0.5 billion euros).

In the first half of 2020, 43% of government spending went on social benefits, 20% on wages and salaries and 11% each on subsidies and intermediate payments.

The largest in terms of value increase on the expenditure side was in subsidies (estimated at + 356.8% or +9.2 billion euros); this includes expenses for short-time work and fixed costs subsidy. The monetary social benefits have also risen sharply (estimated at +6.5% or +2.3 billion euros) due to the increased expenditure for unemployment benefits and the hardship fund.

III. Aviation, Tourism and Hospitality Sectors highly impacted by COVID-19 restrictions

i) Almost 80% fewer passengers in July and August 2020

According to Statistics Austria, in July and August 2020 only a fifth of the passenger volume of the corresponding period of the previous year was achieved at the six Austrian airports, with a total of 1.5 million passengers (including transit). The flight movements in scheduled and occasional traffic at the airports in Vienna, Graz, Innsbruck, Klagenfurt, Linz and Salzburg decreased by 66.1% to 20,043 take-offs and landings.

"The global travel restrictions due to the corona pandemic have given passenger air traffic a hard landing. After a record winter, 2020 was followed by the weakest summer in more than 30 years. In the main holiday months of July and August, there were almost 80% fewer passengers than in the summer of the previous year. With the onset of the Corona crisis, the number of flights initially fell to half the number of flights from March 2019, while the number of passengers even fell by almost two thirds. In April and May 2020, not even 5% of the flights compared to the previous year were operated", explains Tobias Thomas, Director General of Statistics Austria.

ii) Massive drop in overnight stays in 2020 summer tourism season

According to preliminary statistics conducted by Statistics Austria, the number of overnight stays by guests in Austria in the current summer season (May to August 2020) totaled 39.51 million, 33% below the previous year's level. The number of arrivals was estimated at 10.51 million, 43.2% less than the same period in 2019. Due to the COVID-19 crisis, domestic guests travelled within their own country much more often in the main summer season 2020 than in 2019, particularly to destinations at lakes or in alpine regions.

According to the Austrian Institute for Economic Research (WIFO), severe restrictions on air travel and entry bans implemented due to COVID-19 pandemic had a drastic event on the Austrian capital's tourism. For the months May-August 2020, international overnight stays in Vienna dropped by 85.6% compared to 2019, and by more than three quarters in the peak season (July 77.8%, August 76.8%). In August, guests from Austria and Germany partially compensated for the massive drop in overnight stays by guests from other countries.

The federal states of Burgenland (+ 6.8% compared to August 2019), Styria (+ 4.1%) and Carinthia (+ 2.2%) were able to improve their overnight stays thanks to the strong growth in overnight stays by domestic guests in August. The other federal states recorded declines compared to the same month last year: Vorarlberg -0.5%, Tyrol -7.1%, Salzburg -10.6%, Upper Austria -11.4% and Lower Austria -18.4%.

iii) WKÖ President Mahrer calls for further relief measures for city hotels

Rising numbers of corona infections and travel restrictions cloud the prospects for the city hotel industry, which is already badly ailing. "The situation is more serious than many believe," commented Harald Mahrer, President of the Austrian Federal Economic Chamber (WKÖ), on the situation of the city hotel industry in Austria, which has been badly hit by Corona. Many small hotels are about to end, therefore measures are being worked on within the WKÖ to support the city hotel industry in particular. The Chamber is calling for an extension of short-time working, among other things, whereby Mahrer assumes that a further extension in spring will only be granted to a few sectors. In addition, it should be easier to reduce working hours to a minimum of 10% and to increase them again in order to be able to react flexibly to the booking situation.

Susanne Kraus-Winkler, chairwoman of the WKÖ's hotel industry, believes that the extension of the fixed cost subsidy is particularly important. "A lot of brainpower flowed into it," said WKÖ President Mahrer. "It must be implemented as quickly as possible, I mean immediately - otherwise many companies would have to close down. The EU has room for maneuver, which must be used to the maximum. I have absolutely no sympathy for discussions on the back of Austrian companies", added Mahrer.

IV. Unemployment and reduction of working hours in Austria in light of COVID-19

i) Slow reduction in unemployment poses a risk of solidification

"So far, only about one-third of the unemployment caused by the crisis has been redressed. As a result, it is consolidating, and long-term inoccupation has markedly increased since spring 2020. This development is alarming, especially as the number of long-term unoccupied persons registered as unemployed is already close to its peak of 2016 and the crisis has not yet been overcome", stated Stefan Schiman from the Austrian Institute of Economic Research (WIFO).

The reduction of unemployment continued in August. So far, a good third of the crisis-related surge has been made up for. In August 2020, 371,893 persons were registered as unemployed with the AMS, and a further 51,017 took part in training courses; in total 422,910 persons were unemployed in August 2020. Due to unemployment declining only slowly, there is a growing risk of solidification. Since spring, the number of long-term unoccupied persons registered as unemployed has been rising. In August, it was already a quarter higher than in the previous year and, at 121,100, almost reached its high from 2016.

ii) Fewer hours worked in trading and service companies in the first half of 2020

In the first half of 2020, the number of hours worked in retail fell by 11.5% compared to the same period in the previous year, and by 20.3% in service companies. As evaluations by Statistics Austria also show, gross wages and salaries fell both in retail (-0.4% compared to the first half of 2019) and in the service sector (-3.4%). The number of employees decreased in the same period by 2.2% and by 8.3% in trade and in services respectively. These declines compared to the same period of 2019 could be mainly attributed to the company closings in spring and to the short-time working regulations as part of the measures to contain the Corona pandemic.

V. Rebuilding Austria's Economy and encouraging investments

i) Austria is one of the top three countries in rebuilding the economy

According to the European Central Bank, Austria is ranked second in the Eurozone with respect to investments in relation to GDP to aid the Austrian economy.

In the meantime, a €50 billion package of measures has been put together. It is being continuously expanded and readjusted to promote investments and get the economy going again. Loss carrybacks comprise one of the measures designed to relieve the burden on companies. Loss carrybacks translate into a quick liquidity boost for Austrian companies, and this means for example deferred taxes due this year will not have to be completely paid. The fixed cost grant is another means being used to ensure a higher level of liquidity. Companies can receive reimbursement for up to 100% of their fixed costs with little effort. In particular, this aims at assisting companies suffering from long-term effects of the coronavirus crisis.

ii) Additional "motivation billion" for investments

In an attempt to stimulate investment activity in Austria, the federal government is allocating an additional billion euros for investment bonuses. This means that 2 billion euros are available to fund new business investments.

"These funds –paid out in the form of non-repayable grants - are intended to motivate companies to make new investments again and thus send a clear sign of confidence for the investment location", emphasizes Harald Mahrer, President of the Austrian Federal Economic Chamber (WKÖ). "This additional billion in motivation will make an important contribution to Austria's badly ailing economic engine. Because investments are the basis for prosperity and growth, they subsequently strengthen our operations, secure and create employment", says Karlheinz Kopf, Secretary General of WKÖ.

The bonus for new entrepreneurial investments, which can be applied for since the beginning of September is 7%, and even up to 14% for investments in the areas of health, digitization or sustainability. The investment bonus can also be applied for in addition to existing environmental and green electricity subsidies. "The stimulation of investments is therefore also an important contribution to climate protection," says Mahrer in conclusion.

VI. The EU's current economic situation and recovery plan

In the EU, all components of demand were impacted by the economic downturn in the second quarter; in the UK, France and Italy, private consumption was affected to an above-average extent. In Austria, the economic output was one eighth less in comparison with last year's level, the decline thus being less marked than the EU average. Private consumption and gross investments shrank at a slightly higher rate, exports contracted by almost one fifth, whereas public consumption had a stabilising effect. In Austria, tourism was affected less compared to Italy and Spain. Despite the improvement of the business climate that demonstrates expectations as well as the current situation, more companies reported a deterioration in credit conditions.

As GDP figures in August documented the severe economic slump in the EU countries in the second quarter, the details now show that it affected all demand components. Only in Germany and Spain the negative trend was moderated somewhat by public consumption demand. In Spain and Italy, exports of services suffered a particularly harsh slump due to the substantial importance of tourism, while private consumption fell disproportionately in the UK, France and Italy.

As infection rates in Austria and elsewhere are on the rise again, the outlook for all sectors over the next few months remains vague; a further tightening of measures on the supply side and a sharper drop of demand seem feasible.

With the aim of mending the social and economic damage caused by the COVID-19 pandemic and catalyzing Europe's recovery, the EU leaders agreed on July 21st on a major recovery plan for Europe of €750 billion and a multiannual financial framework for 2021-2027 (€ 1 100 billion), leading the way out of the crisis and laying foundations for a modern and

more sustainable Europe. Negotiations with the European Parliament will now follow with a view to urgently finalising the work on all legal acts. The Own Resources Decision, once adopted, should be approved by Member States as soon as possible, in accordance with their respective constitutional requirements.

VII. A ray of hope from Austria to the world: First case study shows effectiveness of Penninger's drug

It has long been known as the Penninger drug, the drug candidate actually bears the name APN01: One hope in the fight against the global coronavirus pandemic is the enzyme ACE2, which is currently being tested in a clinical study by Apeiron Biologics on Covid-19 patients. A current case study has now confirmed the effectiveness of the drug candidate from Vienna with new data and shows that the virus is specifically blocked by the administration of APN01.

The publication, which was published in the renowned journal *The Lancet Respiratory Medicine*, describes the first treatment of a Covid-19 patient with a severe course in Vienna who was treated with the active ingredient APN01. The published data show the expected signs of immune response, rapid reductions in viral load and inflammatory mediators, and the development of high levels of neutralizing antibodies. The treatment was associated with a significant clinical improvement in the patient.

The basis behind the mechanism of action was developed in 2005 at the Institute for Molecular Biotechnology (IMBA). At that time, ACE2 was described by Josef Penninger and colleagues as the essential entry point of a coronavirus, which caused a global outbreak of the lung disease SARS as early as 2003. It was possible to build on the research from then, because it was shown that SARS-CoV-2 uses the same mechanism to infect cells.

The typical "spikes" structures, surface proteins of the virus particles are even more strongly attached to the ACE2 receptors on human cells. At the same time, ACE2 has a second important function as a regulator: It reduces high blood pressure and protects organs such as the heart, blood vessels or the lungs from severe diseases. ACE2 docking points are not only located in the lungs, but also in the heart, in the blood vessels, in the intestines and the kidneys, which could explain the severe course of COVID-19 disease through organ failure and sepsis.

"With this case, we have now presented the first data on soluble ACE2 therapy in a patient with SARS-CoV-2 infection," comments Alexander Zoufaly, senior physician in the Department of Infectious Diseases / Clinic in Favoriten, Kaiser-Franz-Josef-Spital, and first author of the publication. "The results of this patient case study are encouraging and support the rationale for further exploring APN01 as a therapy for the treatment of COVID-19 in phase II clinical trials."

"The new patient records support APN01's ability to lock the door to the virus. In contrast to practically all other drug candidates, APN01 has a double effect: It blocks the virus and through its enzyme function, it can protect the lungs, blood vessels or heart from injury. The current results provide essential data that this important enzyme function of APN01 is retained in treated COVID-19 patients, "says Josef Penninger, co-inventor of APN01 and founder and board member of Apeiron Biologics.

Sources:

The information and preliminary statistics in the above report are based on a variety of studies, reports, and articles from the following: Statistik Austria, Austrian Institute of Economic Research (WIFO), the European Commission, Invest in Austria (ABA), The Federal Austrian Economic Chamber (WKÖ), technology networks and arbeit plus. Please note that all mentioned statistics are preliminary and are subject to change.