



“Inspiring success with integrity”

VIENNEAST INVESTOR OUTLOOK: ÖXIT REFERENDUM

Forecast: A referendum on EU membership is possible but would very likely fail; however, the political landscape is likely to become more eurosceptic.

On 27 June, the presidential candidate of the far-right Freedom Party (*Freiheitliche Partei Österreichs*: FPÖ), Norbert Hofer, suggested in the wake of the UK referendum on EU membership that **if the bloc did not reform itself within one year, a similar vote could be held in Austria**. On 8 July, he distanced himself from the comments, saying that he supported EU membership and that ‘Öxit’ would be highly damaging.

There are five judgements that investors can draw from the possibility of an Öxit referendum in Austria:

1. **Comprehensive changes to the Federal Constitution – such as the question of EU membership – legally require a referendum.** Such changes can only be demanded by the federal parliament, which must table legislation. In order for legislation to be tabled, it must have the support of one-third of the representatives in either chamber of parliament. In the case of comprehensive constitutional changes, the president must issue the approval for a referendum to proceed. Whether such approval is given is likely to depend on the individual holding office. Currently, the incumbent is Alexander van der Bellen, a staunchly pro-EU politician from the Green party. However, the presidential election is being rerun on 2 October 2016. **If Norbert Hofer wins, the likelihood of such a referendum being approved would increase;**
2. **Referenda are decided by a simple majority** and no minimum voter turnout is required. **The federal parliament must then approve the change with a two-thirds majority in both chambers.** In the event that the electorate voted in favour of Öxit, **parliamentary approval would likely hinge on the margin of victory.** If it is narrow, the pro-EU policy stance of the majority of the parties would likely prevent a two-thirds majority from being assembled;

3. There are six political parties currently sitting in parliament: the Social Democratic Party (*Sozialdemokratische Partei Österreichs: SPÖ*) and the People's Party (*Österreichische Volkspartei: ÖVP*), who form the grand coalition government; and in opposition, the FPÖ, the Greens, Team Stronach and the New Austria and Liberal Forum (*Das Neue Österreich und Liberales Forum: NEOS*). The FPÖ and Team Stronach are eurosceptic but nonetheless support EU membership. In the event that they requested a referendum, their current combined seat share would be insufficient to trigger a vote. **As such, an Öxit referendum is unlikely to take place before the next parliamentary election, which is scheduled to be held in autumn 2018;**
4. The FPÖ are currently leading in the opinion polls, which indicate that it would win between 30% and 34% of the vote, having capitalised on the refugee crisis and wider public disaffection with the policy paralysis within the grand coalition between the SPÖ and ÖVP. The status quo is unlikely to change significantly before 2018, making it very likely that the SPÖ and ÖVP will lose their combined majority, and that **the FPÖ will emerge either as the largest or second party;**
5. Any referendum campaign to leave the EU would face an uphill struggle. Two recent polls indicate that **Austrian public opinion is overwhelmingly opposed** to both an EU referendum (60:30) and Öxit (52:30). Unlike in the UK, the Austrian media – including the tabloids – are overwhelmingly in favour of EU membership. The SPÖ and ÖVP would campaign vigorously to remain. The policy stance of the FPÖ is likely to be primarily informed by what it perceives to be the most politically advantageous approach.

Although in any referendum the electorate would be likely to vote to remain in the EU, there is scope for the political landscape to become more eurosceptic. This is guaranteed if the FPÖ enter into government; however, given the proportional nature of the electoral system, it would need a coalition partner. The only mathematically viable partners would be the SPÖ or the ÖVP. **The SPÖ is the more likely partner** as it has lost many working class voters to the FPÖ, and would see a coalition as an opportunity for winning back voters while acting as a moderating influence. It is also more populist than the ÖVP, having pledged in 2008 a referendum on future EU treaty changes – a commitment that resulted in the collapse of the grand coalition at the time. However, if the SPÖ forms a coalition with the FPÖ, it is unlikely to threaten EU membership in an existential way.