Federal Ministry
Economy, Energy
and Tourism
Republic of Austria

FIW
Research Centre
International Economics

Policy Brief No. 71, December 2025

Exchange rate effects on Austrian exports

Martin Ertl and Adrian Wende
(Institute for Advanced Studies)

This policy brief examines the extent to which Austrian exports are exposed to exchange rate risk and how exchange rate fluctuations affect exports to countries outside the euro area. As exchange rates are largely disconnected from macroeconomic fundamentals, they are likely driven to some extent by financial shocks, resulting in significant volatility and exchange rate risk. Nevertheless, Austria's overall exposure to such risk is relatively limited. Most exports go to countries with comparatively stable currencies, while highly volatile currencies account for only a small share of both total exports and exporting firms. Survey evidence indicates that many Austrian exporters manage exchange rate risk by invoicing in euros, which substantially reduces short-term risk, especially for small and medium-sized firms. In addition, a considerable number of firms use trade insurance. Empirical studies show that Austrian exports react only moderately to exchange rate movements, although the degree of sensitivity varies significantly across sectors and products.

1. Introduction

While trade within the euro area is not affected by exchange rate fluctuations, exports to third countries and to EU Member States that neither use the euro nor participate in the Exchange Rate Mechanism II are inherently exposed to currency risk. In international trade theory, exchange rates are a key determinant of equilibrium because they influence relative prices and, in turn, countries' competitiveness. In light of increasing geopolitical tensions and global trade conflicts, the question of how movements in the euro exchange rate affect Austrian foreign trade, particularly with non-EU countries, has gained renewed importance.

This policy brief addresses this question by combining theoretical insights, empirical evidence, Austrian export data from the AMDC database and survey-based firm-level data.

First, we provide an overview of how recent literature explains exchange rate fluctuations and, in particular, how it accounts for the exchange rate disconnect from real economic fundamentals. Selected euro exchange rates serve to illustrate these developments. Second, we show how many Austrian firms export to countries outside the euro area and the value of these exports. Denmark and Bulgaria are excluded from the dataset because both participate in the Exchange Rate Mechanism II, which keeps their currencies tightly aligned with the euro and results in minimal exchange rate fluctuations. Third, we analyse to what extent Austrian exporters are exposed to exchange rate risk by examining exports to countries with both high and low exchange rate volatility. Fourth, we discuss how Austrian firms manage this risk, whether they hedge or invoice in euros, and how their practices compare with those in other EU countries, drawing on firm-level survey data. Fifth, we summarise the most recent empirical evidence on the aggregate effects of exchange rate fluctuations on Austrian exports. Finally, based on the empirical results and firm-level evidence presented in this report, the final section discusses what these findings imply for Austrian economic policy. It argues that Austria's exchange rate risk exposure is limited overall, largely due to euro area membership and firms' pricing and risk management strategies

2. What Drives Exchange Rates and Their Volatility?

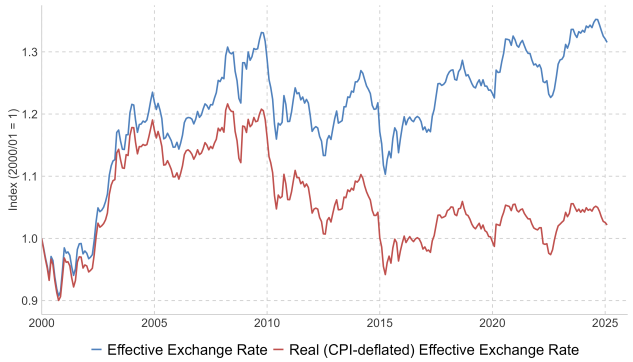
Exchange rates describe the value of one currency in terms of another. They can be quoted in direct or indirect terms. In direct quotation, the exchange rate shows how many units of domestic currency (Euro) are needed to buy one unit of foreign currency (for example, 1 USD = 0.91 EUR). In indirect quotation, it indicates how many units of foreign currency are

required for one unit of domestic currency (for example, 1 EUR = 1.10 USD).

The nominal exchange rate measures how much foreign currency can be purchased with one euro. The real exchange rate additionally adjusts for inflation differentials between countries and therefore provides a more accurate measure of price competitiveness.

The ECB's effective exchange rates aggregate the bilateral exchange rates of the euro against a basket of currencies of major trading partners, weighted by their share in euro area trade. In real terms, they also incorporate relative price developments. In what follows, all exchange rates are quoted indirectly against the euro (i.e. as units of foreign currency per euro). Thus, an increase in the exchange rate implies an appreciation of the euro (or, equivalently, a depreciation of the foreign currency). Figure 1 shows the euro's nominal and real effective exchange rates, indexed to 2000/01 = 1. As can be seen, the euro has appreciated by just over 30% in nominal terms against the basket of foreign currencies since 2000. In real terms, however, the euro appreciated during the 2000s and then depreciated in the following years, leaving the real exchange rate roughly unchanged compared to its level in 2000.

Figure 1: ECB's Nominal and Real Effective Euro Exchange Rates (indexed to 2000/01 = 1)



Source: ECB.

From a theoretical perspective, two key parity conditions are often used to explain how exchange rates are determined: Purchasing Power Parity (PPP) and Uncovered Interest Rate Parity (UIP).

Purchasing Power Parity (PPP) is based on the idea of *goods market arbitrage*. In theory, identical goods should sell for the same price across countries once prices are expressed in a common currency. If a good is cheaper abroad, firms could engage in arbitrage by purchasing it there and selling it domestically, increasing demand for the foreign good and also for the foreign currency and causing its price in domestic currency to rise until prices equalize. In this way, exchange rates should adjust so that one unit of currency has the same purchasing power everywhere. In practice, factors such as transport costs, trade barriers, and price rigidities often prevent arbitrage, causing persistent deviations from PPP.

Uncovered Interest Rate Parity (UIP) relies on *financial market arbitrage*. Investors can choose to hold domestic or foreign assets. If domestic interest rates fall, investors will seek higher returns abroad, selling the domestic currency and buying foreign currency to invest overseas. This capital outflow causes the domestic currency to depreciate until the expected change in the exchange rate offsets the interest rate differential. Once expected exchange rate changes have been taken into account, the return on domestic and foreign investments should be equal in equilibrium. UIP therefore links exchange rate movements to international capital flows and expectations about monetary policy and risk.

However, in practice, exchange rates often behave quite differently from what these parity conditions predict. This empirical gap is known as the exchange rate disconnect. According to Itskhoki & Mukhin (2021), the exchange rate disconnect encompasses several related puzzles:

1. The Meese and Rogoff (1983) puzzle shows that nominal exchange rates follow an almost random walk and are largely uncorrelated with macroeconomic fundamentals, while being far more volatile than aggregate variables such as GDP or prices. In practice, and especially for exporters, this means a high risk when they conclude contracts in a foreign currency.
2. The Purchasing Power Parity (PPP) puzzle as termed by Rogoff (1996) highlights that real exchange rates behave similarly to nominal ones, showing high persistence and volatility, with very slow mean reversion that cannot be explained by conventional durations of price stickiness. Figure 1 illustrates this close correlation between the nominal and real effective exchange rate, especially in the short and medium term.
3. The Terms-of-Trade puzzle (Atkeson and Burstein 2008) notes that terms of trade, that is relative producer and consumer prices of tradeable goods, are only weakly correlated with real exchange rates and are much less volatile, contrary to the prediction of the PPP.
4. The Backus and Smith (1993) puzzle finds that relative consumption across countries is weakly or even negatively correlated with real exchange rates, despite theory predicting a strong positive relationship under international risk sharing.
5. The Forward Premium puzzle (Fama 1984) represents a clear violation of UIP: interest rate differentials do not offset expected currency movements. Instead, currencies with higher interest rates tend to appreciate rather than depreciate, allowing for profitable carry trades.

Together, these findings suggest that while PPP and UIP provide useful theoretical benchmarks, they fail to explain the observed short- and medium-term dynamics of exchange rates.

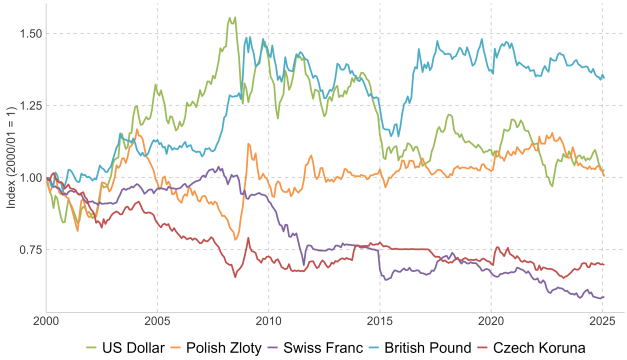
Recent research, including Gabaix and Maggiori (2015) and Itskhoki and Mukhin (2021, 2025), has marked a paradigm shift in our understanding of what drives exchange rates. Rather than being primarily determined by traditional macroeconomic factors such as productivity, monetary policy, or fiscal conditions, exchange rates appear to be largely driven by financial shocks, at least in the short run. These shocks originate from changes in foreign investors' demand for domestic assets and are amplified by the limited risk-bearing capacity of financial intermediaries, which constrains the ability of markets to absorb capital flows smoothly.

Building on these insights, this literature also has implications for current policy debates, such as the impact of economic sanctions, which can affect exchange rates in complex and sometimes counterintuitive ways. The overall effect depends on the balance between forces shaping currency supply and demand. Exports and official reserves contribute to currency supply, while imports and precautionary household demand for foreign currency contribute to currency demand. Sanctions that restrict imports therefore tend to strengthen the domestic currency by reducing the need for foreign exchange, whereas those that target exports or freeze foreign assets typically weaken it. Moreover, increased household demand for foreign currency may lead to depreciation, depending not only on the sanctions themselves but also on expectations of inflation, fiscal policy, and possible further sanctions (Itskhoki and Mukhin, forthcoming).

For Austrian firms, this implies that the exchange rate effects of sanctions imposed on trading partners, such as those on Russia, are difficult to predict. Depending on the specific mix of measures and market reactions, foreign currencies may move in either direction, making exchange rate risk management more challenging and more important for exporters.

However, the paradigm shift does not mean that concepts such as UIP or PPP are irrelevant. The slow divergence of the time series shown in Figure 1 is unlikely to be driven by financial shocks. Instead, it may reflect gradual price adjustments consistent with PPP holding in the long run. Nevertheless, financial shocks still play a crucial role by substantially increasing exchange rate risk for Austrian exporters. Figure 2 illustrates this by showing the bilateral exchange rate developments between the euro and the currencies of Austria's five most important non-euro trading partners. The five non-euro trading partners considered are those with the highest number of Austrian exporters (Switzerland, the United Kingdom, and Czechia) and the highest total export values (the United States, Switzerland, and Poland), see also section 3.1. The short-term fluctuations in these exchange rates cannot be attributed to monetary policy, which remains relatively stable with regard to interest rate changes and inflation targets. The long-term divergence reflects differing economic developments across countries, to which exporters should be able to adjust over time.

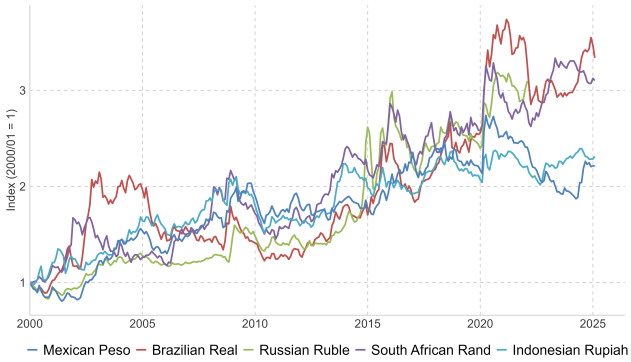
Figure 2: Bilateral nominal euro exchange rates vis-à-vis Austria's five largest non-euro export destinations (indexed to 2000/01 = 1)



Source: ECB.

Figure 3 shows the exchange rates of five out of the six most volatile currencies in our dataset. All of these currencies have depreciated against the euro. These depreciations are largely policy driven. High inflation rates, which are often the result of limited central bank independence and large fiscal deficits, are closely associated with high exchange rate volatility. This creates additional risks for exporters selling to these countries.

Figure 3: Bilateral nominal euro exchange rates vis-à-vis five highly volatile trading partner currencies (indexed to 2000/01 = 1)



Source: ECB.

The Turkish lira has been omitted, as it has lost over 6,700% of its value against the euro since 2000, making it difficult to compare with the other currencies. It is also the most volatile and depreciating currency in our dataset.

3. Austria's Exchange Rate Risk Exposure

The higher Austria's exchange rate exposure, the greater the risk arising from currency fluctuations. This matters because firms are affected through several economic channels. When the euro depreciates, Austrian goods become cheaper in foreign currency, which can increase demand abroad. However, many Austrian exporters rely on imported intermediate goods, so a weaker euro also makes production more expensive. If the euro appreciates, the opposite occurs: export prices become more expensive for foreign buyers, which can reduce demand, while imported inputs become cheaper.

How strongly these movements affect firms depends on exchange rate pass-through, meaning whether exchange rate changes are reflected in export prices or absorbed through profit margins. Expectations and hedging are also relevant. Firms that price their products in euros or use financial instruments to hedge currency risk can reduce short-term effects, although longer-lasting exchange rate movements still influence competitiveness and profitability.

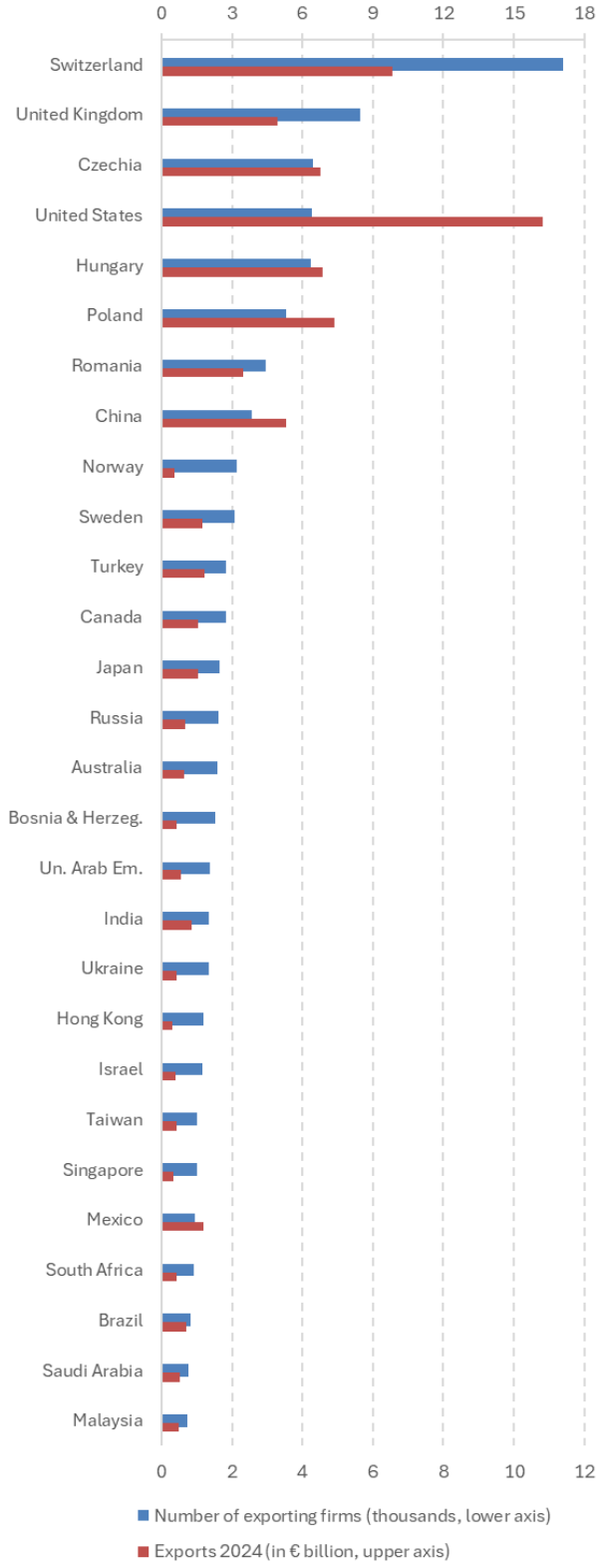
3.1 Trade with countries outside the eurozone

Figure 4 shows the number of Austrian firms that exported to non-euro area countries in 2021, alongside the latest export volumes for these firms in 2024. Using export volumes from 2021 would not alter the general patterns displayed in the figure. The figure shows all the non-euro area countries to which Austria exported more than €440 million in 2024.

Switzerland stands out clearly. More than 11,000 Austrian firms export there, the highest number in the sample, while total exports amount to around €9.8 billion. This pattern is consistent with many small or medium-sized firms exporting relatively small amounts. It may also reflect the relatively small size of the Swiss market, which limits average export volumes per firm, as well as factors such as geographic proximity and cultural and institutional similarity that can lower entry costs and encourage participation by a broad set of firms. A similar, although less pronounced, pattern appears for the United Kingdom, which has over 5,600 exporting firms and total exports of just around €4.9 billion.

The United States shows the opposite structure. Although only around 4,300 firms export there, which is fewer than to Switzerland, the United Kingdom or the Czech Republic, the United States records by far the highest export volume, exceeding €16 billion. This may indicate that exports to the United States are dominated by large firms and high-value goods, although it may also reflect the substantial size of the US market, which allows individual firms to export large volumes.

Figure 4: Austria's most important export markets outside the eurozone (exports of more than €440 million)



Source: AMDC, Statistik Austria, WTS.

Poland, Hungary and the Czech Republic combine a large number of exporting firms, between roughly 3,500

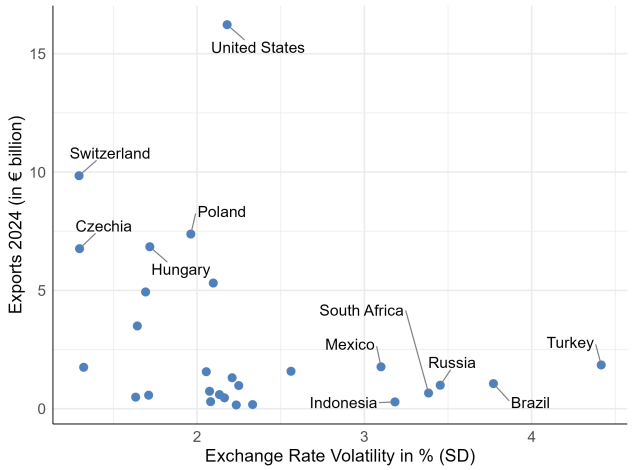
and 4,200, with substantial export volumes, between €6.8 billion and €7.4 billion, which makes them important non-euro trading partners. China similarly records high export volumes of approximately €5.3 billion but with only around 2,600 exporting firms. This may point to a higher concentration among larger exporters, although market size effects could also play a role. Conversely, relatively many Austrian firms export to destinations such as Norway, Singapore or Hong Kong, yet aggregate export values remain low. This suggests a high share of smaller exporters, although limited market size or demand may also help explain the pattern.

Figure 4 therefore reveals three broad export structures. Some countries have many exporters and comparatively low aggregate export values, for example Switzerland and the United Kingdom. Others have fewer exporters but high total export volumes, for example the United States and China. A third group combines a broad exporter base with high trade volumes, for example Poland, Hungary and the Czech Republic. Both firm-size composition and market size may contribute to these patterns, and the two explanations are not mutually exclusive.

3.2 Exposure of Austrian firms to foreign currency risk

All subsequent figures are scatter plots, with exchange-rate volatility plotted on the horizontal axis. Volatility is calculated as the standard deviation of the monthly log-differences of the respective bilateral exchange rate.

Figure 5: Exports and exchange rate volatility



Note: Includes Australia, Brazil, Canada, Switzerland, China, Czechia, United Kingdom, Hong Kong SAR China, Hungary, Indonesia, Israel, India, Japan, Mexico, Malaysia, Norway, New Zealand, Philippines, Poland, Romania, Russia, Sweden, Singapore, Thailand, Türkiye, United States, South Africa.

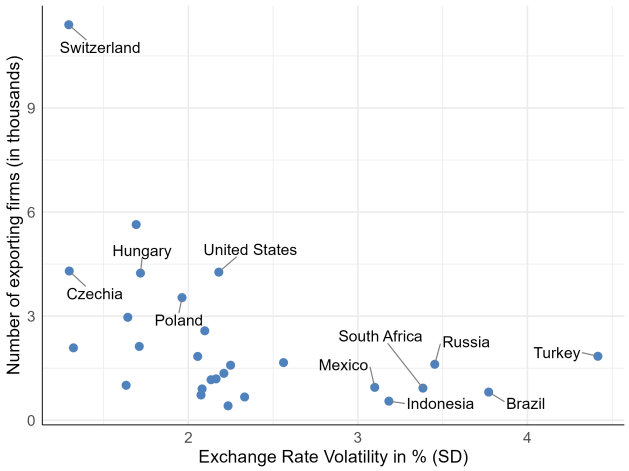
Source: ECB; AMDC (Intrastat and Extrastat); Statistics Austria; own calculations.

Figure 5 shows Austrian exports to each non-euro country in 2024 on the vertical axis. A clear pattern emerges: all countries to which Austrian firms export goods worth more than approximately €2.5 billion exhibit exchange-rate volatility of under 2.5%.

While the Turkish lira has the highest volatility in our dataset, at almost 4.5%, exports to Türkiye remain comparatively small. Other currencies with high exchange rate volatility include those of Brazil, Russia, South Africa, Indonesia and Mexico. Austrian exports to these six high-volatility markets amount to a combined total of €5.6 billion, which is less than exports to Hungary alone (€6.8 billion). This suggests that, although Austrian firms operate in more volatile currency environments, the majority of their exports are concentrated in regions with relatively stable exchange rates.

However, the case of the Swiss franc (CHF) shows that monthly volatility alone can be a misleading measure of exchange-rate risk. In January 2015, the Swiss National Bank abruptly abandoned its minimum exchange rate of CHF 1.20 per euro (see also Figure 2), triggering an immediate franc appreciation of around 15%. Although the CHF typically exhibits low monthly volatility, this one-off policy shock caused a sharp increase in risk for exporters. This illustrates that even currencies with historically low volatility can entail structural risk due to policy changes. Furthermore, the majority of currency crises in the 1980s and 1990s occurred in countries with fixed exchange rates and limited foreign exchange markets (Alfaro, Calani & Varela, 2024). Today, however, fixed exchange rate regimes are much less common.

Figure 6: Number of Austrian exporting firms and exchange rate volatility



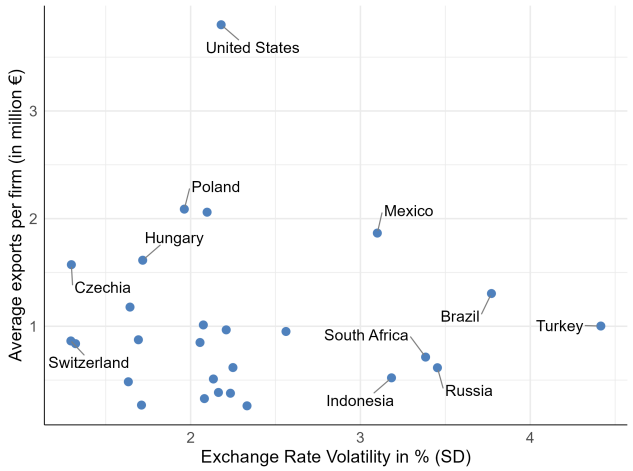
Source: ECB; AMDC (Intrastat and Extrastat); Statistics Austria; own calculations.

A very similar picture emerges in Figure 6, where the number of Austrian exporting firms is plotted against exchange rate volatility. Again, countries with high exchange rate volatility attract comparatively few Austrian exporters. Among this group, Türkiye has the

highest number of Austrian exporters, with 1,844 firms exporting there in 2021. However, even this figure remains low compared to the number of firms exporting to more stable currency areas. This confirms that both export volumes and the number of Austrian exporters are concentrated in markets with relatively low exchange rate risk.

These patterns should not be interpreted as causal. Figures 5 and 6 only include non-eurozone countries, yet many of Austria's main export destinations are geographically close, economically integrated, and culturally similar. These countries also tend to have relatively stable currencies. This likely explains the negative correlation between exchange rate volatility and export volumes and the number of Austrian exporting firms. Nevertheless, the data make it clear that Austrian exporters' overall exposure to foreign exchange risk is comparatively low, since the majority of exports and exporting firms are concentrated in markets with relatively low currency volatility.

Figure 7: Average exports per firm and exchange rate volatility



Source: ECB; AMDC (Intrastat and Extrastat); Statistics Austria; own calculations.

Finally, Figure 7 shows that average exports per firm are not correlated with the exchange rate volatility of destination countries. This suggests that large and small Austrian firms are similarly exposed to exchange rate risk.

3.3 Do Austrian firms hedge against foreign currency risk, and if so, how?

Above, we have assessed the extent of currency risk faced by Austrian exporters by reporting their trade with non-euro countries and by looking at the volatility of these currencies' exchange rates vis-à-vis the euro. However, Austrian producers are often able to set their prices in euros even when exporting to non-euro countries. In such cases, they do not face currency risk for contracts that have already been concluded, but they remain exposed to the risk of price and demand fluctuations for future exports.

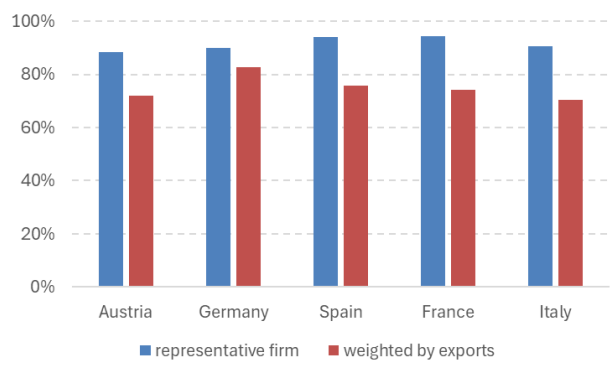
Even if companies set their prices in a foreign currency, they are not defenceless against exchange rate risks. Firms exposed to foreign currency movements can employ several instruments to hedge against potential losses. Derivatives, such as forward contracts, futures, options, and swaps, enable firms to lock in exchange rates or insure against adverse movements, thereby stabilizing future cash flows. Trade credit can also serve as a natural hedge when firms and their trading partners agree to invoice in the same currency or when payment terms are adjusted to mitigate currency risks, for example by postponing payments when the domestic currency is expected to depreciate. In addition, trade insurance protects firms against potential losses arising from exchange rate volatility or foreign buyers' payment defaults. By using these tools, firms can reduce financial risk and safeguard their profitability in international markets. But to what extent do Austrian firms actually set their prices in euros or hedge against currency risk exposure, and how do they compare to firms in other European countries?

In general, the introduction of the euro has been accompanied by a marked increase in the share of trade invoiced in euros, suggesting that the common currency has expanded the conditions under which firms can price in euro. A growing body of empirical work documents this rise. Benguria and Wagner (2024), using detailed Chilean transaction-level data and treating the euro's introduction as a natural experiment, show that euro-area exporters shifted substantially toward euro invoicing, including in trade with non-euro countries, which is consistent with reduced currency risk and greater international acceptance of the euro. Micro-level evidence from Ligthart and Werner (2012) reinforces this pattern. Using Norwegian import data, they find that only exporters from eurozone countries increased their use of euro invoicing after the currency's introduction, while firms from countries with their own currency did not. This indicates that the institutional environment of the monetary union supports euro pricing. At a global level, Boz et al. (2022) show that the euro has emerged as a regional anchor currency, with countries economically integrated with the euro area systematically raising their share of euro-denominated trade. Similarly, Georgiadis et al. (2021) document that not only euro-area firms but also non-euro European and several African countries use the euro disproportionately often for invoicing. Taken together, these findings show that the euro is widely adopted as an invoicing currency and that the monetary union creates an environment in which more firms can and do set prices in euros, thereby strengthening their pricing power and reducing exposure to exchange-rate volatility.

Unfortunately, there is little data available on Austrian companies' currency risk hedging. One exception is the study by Lyonnet et al. (2022) using data from the 2010 European Firms in a Global Economy (EFIGE) survey. This survey covered a representative sample of

firms employing more than ten people in seven European countries, primarily in the manufacturing sector. Focusing on risk management, the authors analyse responses to questions about how firms handle exchange rate risk. After excluding firms that were not exposed to such risk according to self-assessment, the final sample comprises 3,013 euro area firms exporting outside the euro area. Of these, 99 were Austrian, 770 were French, 630 were German, 844 were Italian and 670 were Spanish.

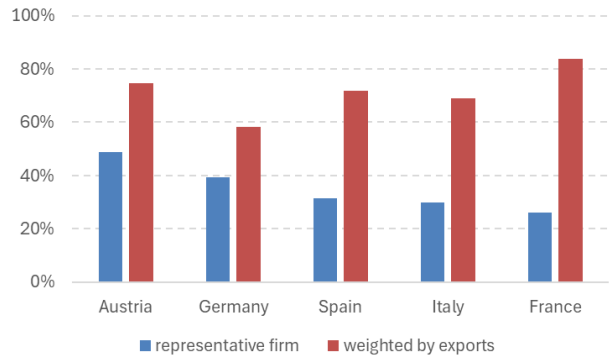
Figure 8: Share of firms pricing in Euros



Source: Lyonnet et al (2022).

This data shows that 88% of Austrian companies that export to non-euro countries set their prices in euros. Weighted by exports, around 72% of Austrian exports to these countries are invoiced in euros, which indicates that large companies are more likely to price in foreign currencies than small companies. As can be seen in Figure 8, Austria is no exception here; producers in other eurozone countries also set their prices primarily in Euro.

Figure 9: Share of firms hedging against currency risks

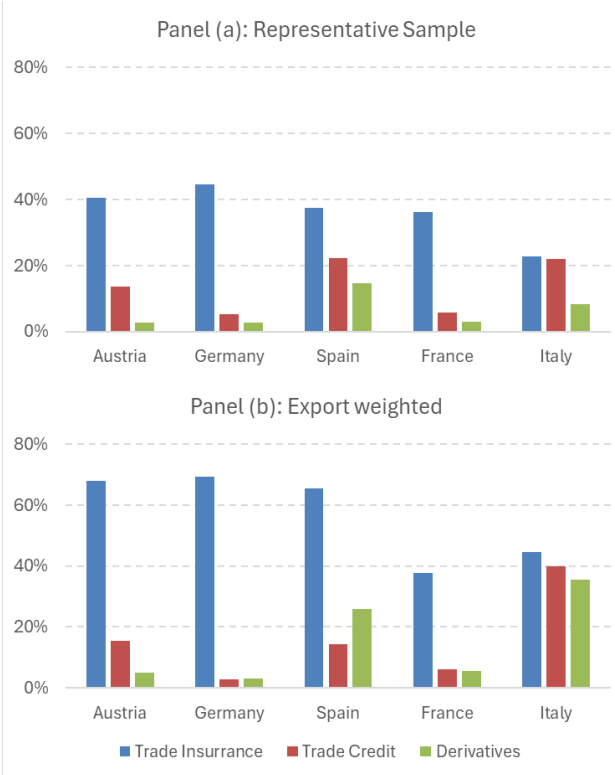


Source: Lyonnet et al (2022).

As shown in Figure 9, Austrian firms exporting to non-euro countries make comparatively extensive use of currency hedging instruments. According to the figure, 49% of Austrian firms hedge against currency risk, compared to 39% in Germany and only 26% in France. However, the picture changes when firms are weighted by their export shares: 75% of Austrian exports originate from companies that use hedging instruments, compared to 58% in Germany and as much as 84% in France. Overall, Austrian companies appear to be relatively well positioned in terms of currency hedging compared to their European peers.

The difference between the representative and export-weighted data suggests that larger firms are more likely to hedge against currency risk than smaller firms. This pattern is also confirmed by the turnover-weighted data in Lyonnet et al. (2022). One explanation is provided by Rampini and Viswanathan (2010), who argue that both financing and risk management require collateralizable net worth, implying that financially constrained firms face a higher opportunity cost of hedging. A simpler explanation is the presence of fixed costs of hedging, which disproportionately affect smaller exporters because of their lower export values, as proposed by Lyonnet et al. (2022). Lyonnet et al. (2022) also point out that the greater ability of large firms to hedge helps explain why foreign-currency pricing is more common among larger firms, since these firms can rely on hedging rather than pricing in their own currency.

Figure 10: Use of hedging instruments



Source: Lyonnet et al (2022).

Figure 10 illustrates the proportion of firms that use various instruments to hedge against exchange rate risk. Panel (a) presents data for representative firms, while Panel (b) weights firms according to their export shares. In Panel (a), 41% of Austrian firms report using

trade insurance, 14% use trade credit, and only 3% rely on derivatives. When weighted by exports (Panel (b)), these figures increase to 68%, 15%, and 5%, respectively.

Trade insurance is by far the most commonly used hedging instrument across all countries. In the representative data, between 23% (Italy) and 44% (Germany) of firms report using it, with Austria and Germany among the countries with the highest usage rates. Trade credit and derivatives are used much less frequently, although Spain and Italy show relatively high levels of use (both 22% for trade credit, and 15% and 8% for derivatives, respectively).

Overall, the data reveal two clear patterns: trade insurance is the dominant form of currency risk management across Europe, and larger exporters are considerably more likely to hedge than smaller firms. Austria fits this broader trend, standing out as a country where both representative and export-weighted data indicate relatively strong use of hedging instruments, particularly trade insurance.

3.4 Are Austrian exports sensitive to exchange rate movements?

Recent empirical evidence at firm and product level suggests that Austrian exports are moderately sensitive to exchange rate movements, although the degree of sensitivity varies considerably across sectors and products. Glocker et al. (2025) estimate that a 10 percent real appreciation of the bilateral exchange rate reduces Austrian exports by around 2.7 percent when using CPI-deflated real exchange rates, and by up to 4.6 percent when using producer price deflators. Since real exchange rates can also change between euro area members, these estimates apply to Austria's full set of trading partners. According to their results, Austrian exporters outside the euro area generally do not adjust export prices in euros in response to exchange rate changes but instead respond by lowering quantities. Following a 10 percent euro appreciation, export prices in euros remain nearly unchanged, while export volumes decline by roughly 3 percent. This suggests a high, possibly complete, exchange rate pass-through to prices in the destination country's currency. The most likely explanation is that Austrian exporters are able to set their prices in euros, as already discussed in section 3.3.

Further evidence from Weyerstraß et al. (2025) indicates that exchange rate sensitivity differs markedly across exported products. Based on their model-based cluster analysis, a 10 percent bilateral nominal appreciation is estimated to reduce export values within one year by between 0.8 percent for the least sensitive product cluster and up to 5 percent for the most sensitive cluster. Exports of machinery are particularly exposed, whereas consumer goods are less affected. In addition, firms that are highly export-oriented and productive tend to export products that react more strongly to exchange rate movements. This may reflect the ability of internationally diversified firms to cushion exchange rate shocks by redirecting trade across markets, but it may also indicate that firms most integrated into global value chains are inherently more exposed to currency risk.

International evidence offers a possible interpretation. Using French firm-level data, Berman et al. (2012) found that high-performance firms respond to a depreciation by significantly increasing their markups while expanding export volumes to a lesser extent. Since aggregate exports are concentrated among high-productivity firms, precisely those that absorb a larger share of exchange rate movements through their markups, heterogeneous pricing to market behaviour may partly explain the weak overall impact of exchange rate movements on aggregate exports, as well as the sectoral differences observed by Weyerstraß et al. (2025) in Austria. However, this explanation would not be consistent with the complete pass-through found by Glocker et al. (2025).

4. Conclusions and policy recommendations

The exchange rate disconnect, defined by the weak relationship between exchange rates and economic fundamentals such as inflation, productivity or interest rate differentials, entails significant risk for exporters. When exchange rates are driven primarily by financial markets rather than fundamentals, currency movements become difficult to predict. Although the academic debate increasingly examines the implications of such financial shocks for monetary policy (see, e.g., Fanelli & Straub, 2021), this is of limited relevance for Austria, as it does not conduct an independent monetary policy.

What is crucial, however, is that Austria's exposure to highly volatile currencies is relatively limited. Most exports go to countries with stable currencies, which already reduces overall exchange rate risk. More importantly, membership in the euro area provides a structural advantage: Austrian firms can price their exports in euros even when selling to non-euro countries. This significantly reduces short-term exchange rate exposure, particularly for small and medium-sized enterprises, which often lack the financial capacity to engage in sophisticated hedging strategies. In this sense, the euro not only facilitates trade within the monetary union but also acts as a protective shield for exporters operating in global markets.

Survey-based evidence indicates that many Austrian exporters already use instruments to manage exchange rate risk, most commonly by invoicing in euros or through trade insurance. This may explain why nominal exchange rate fluctuations appear to have only limited aggregate effects on Austria's export performance in the available data. However, while this

reduces short-term exposure, it does not imply that exchange rate developments are irrelevant altogether.

Looking ahead, the real challenge for Austrian competitiveness lies less in nominal exchange rate volatility and more in the development of the real exchange rate within the euro area. The recent period of high inflation has led to a real appreciation of the Austrian economy, putting pressure on exporters through rising production costs and eroding price competitiveness. Sustaining Austria's external competitiveness will therefore depend on maintaining price stability, supporting productivity growth and ensuring that firms remain able to compete in international markets even without the option of nominal currency adjustment.

From a policy perspective, the findings suggest that safeguarding Austria's competitiveness in the presence of exchange rate risk requires a focus on structural rather than monetary instruments. Since Austria cannot influence the euro exchange rate directly, economic policy should strengthen the factors that reduce firms' vulnerability to currency fluctuations. This includes maintaining a stable fiscal and inflation environment, supporting productivity growth and innovation, and ensuring access to financial instruments that allow especially small and medium-sized firms to hedge foreign currency risks at reasonable cost. The euro already provides a natural hedge by allowing firms to invoice in a stable currency even in non-euro markets; preserving confidence in the common currency should therefore remain a core policy priority. In addition, policies that support diversification of export markets and supply chains can help firms absorb exchange rate shocks.

5. References

Alfaro, L., Calani, M., & Varela, L. (2024). Firms, currency hedging, and financial derivatives. In Handbook of Financial Integration (pp. 340-370). Edward Elgar Publishing.

Atkeson, A., & Burstein, A. (2008). Trade costs, pricing to market, and international relative prices. American Economic Review, 98(5), 1998-2031.

Backus, D. K., & Smith, G. W. (1993). Consumption and real exchange rates in dynamic economies with non-traded goods. Journal of International Economics, 35(3-4), 297-316.

Benguria, F., & Wagner, R. (2024). Trade invoicing currencies and exchange rate pass-through: The introduction of the euro as a natural experiment. Journal of International Economics, 150, 103937.

Berman, N., Martin, P., & Mayer, T. (2012). How do different exporters react to exchange rate changes?. The Quarterly Journal of Economics, 127(1), 437-492.

Boz, E., Casas, C., Georgiadis, G., Gopinath, G., Le Mezo, H., Mehl, A., & Nguyen, T. (2022). Patterns of invoicing currency in global trade: New evidence. Journal of International Economics, 136, 103604.

Fama, E. F. (1984). Forward and spot exchange rates. Journal of monetary economics, 14(3), 319-338.

Fanelli, S., & Straub, L. (2021). A theory of foreign exchange interventions. The Review of Economic Studies, 88(6), 2857-2885.

Gabaix, X., & Maggiori, M. (2015). International liquidity and exchange rate dynamics. The Quarterly Journal of Economics, 130(3), 1369-1420.

Georgiadis, G., Le Mezo, H., & Mehl, A. (2021). The euro as an invoicing currency for global trade. The international role of the euro - Special feature, June 2021, 64-68.

Glocker, C., Meyer, B., Oberhofer, H., Schiman-Vukan, S., Url, T., & Wolfmayr, Y. (2025). Inflation und Außenwirtschaft. FIW- Research Report N° 03/25.

Itskhoki, O., & Mukhin, D. (2021). Exchange rate disconnect in general equilibrium. Journal of Political Economy, 129(8), 2183-2232.

Itskhoki, O., & Mukhin, D. (2025). What drives the exchange rate?. IMF Economic Review, 73(1), 86-117.

Itskhoki, O., & Mukhin, D. (forthcoming). Sanctions and the Exchange Rate, Review of Economic Studies, https://doi.org/10.1093/restud/rdaf085.

Ligthart, J. E., & Werner, S. E. (2012). Has the euro affected the choice of invoicing currency?. Journal of International Money and Finance, 31(6), 1551-1573.

Lyonnet, V., Martin, J., & Mejean, I. (2022). Invoicing currency and financial hedging. Journal of Money, Credit and Banking, 54(8), 2411-2444.

Meese, R. A., & Rogoff, K. (1983). Empirical exchange rate models of the seventies: Do they fit out of sample?. Journal of International Economics, 14(1-2), 3-24.

Rampini, A. A., & Viswanathan, S. (2010). Collateral, risk management, and the distribution of debt capacity. The Journal of Finance, 65(6), 2293-2322.

Rogoff, K. (1996). The purchasing power parity puzzle. Journal of Economic literature, 34(2), 647-668.

Weyerstraß, K., Ertl, M., Schmidtner, D., Wende, A., & Zenz, H. (2025). Die Einbettung des österreichischen Außenhandels in die globale Arbeitsteilung. FIW Research Reports, FIW- Research Report N° 04/25.

Author:

Martin Ertl
IHS
E-mail: martin.ertl@ihs.ac.at

Adrian Wende
IHS
E-mail: adrian.wende@ihs.ac.at

Imprint:

FIW Policy Briefs are published at irregular intervals on current foreign trade topics. Publisher is the FIW - Research Centre International Economics. The authors are responsible for the content of the Policy Briefs.
FIW offers a research platform, information on topics relevant to foreign trade and access to economic databases. It is a cooperative project of the Vienna University of Economics and Business, the University of Vienna, the Johannes Kepler University Linz, the University of Innsbruck, the Austrian Institute of Economic Research, the Vienna Institute for International Economic Studies and the Institute of Advanced Studies.

FIW is funded by the Federal Ministry of Women, Science and Research as well as the Federal Ministry for Economy, Energy and Tourism

Contact:
FIW project office
c/o WIFO
Arsenal, Object 20
1030 Vienna
Phone: +43 1 728 26 01 / 335
E-mail: fiw-pb@fiw.ac.at
Website: https://www.fiw.ac.at