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To: Members of the Executive Board
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This paper provides background information to the staff report on the 1989 Article IV consultation discussions with Austria, which was circulated as SM/90/13 on January 11, 1990.

Mr. D. McDonald (ext. 8862), Mr. Thumann (ext. 8867), or Mr. Habermeier (ext. 8857) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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AUSTRIA

Recent Economic Developments

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January 19, 1990

	<u>Contents</u>	<u>Page</u>
	Basic Data	iv-v
I.	Introduction	1
II.	The Domestic Economy	3
	1. Overview	3
	2. Aggregate demand	3
	a. Real domestic demand	3
	b. The real foreign balance	5
	3. The current account	5
	a. Trade balance	6
	b. Services	8
	c. Unclassified items and transfers	10
	4. Production and employment	10
	a. Production	10
	b. The labor market	11
	5. Income and prices	12
	a. Wages, productivity, and unit labor costs	12
	b. Prices	13
III.	Public Finance	15
	1. Introduction	15
	2. Federal government	16
	a. The budget for 1987	17
	b. The budget for 1988	18
	c. The budget for 1989	21
	d. The budget for 1990	24
	e. The federal government on a national accounts basis	26
	3. The social security system	27
	4. General government	29

IV.	The Exchange Rate and the Financial Markets	30
	1. Introduction	30
	2. Exchange rate developments	30
	3. Developments in interest rates	31
	4. Developments in money and credit aggregates	32
	5. The capital market	33
	a. Yield developments	33
	b. Developments in market activity	34
V.	Structural Issues	35
	1. Introduction	35
	2. Developments in the trade and payments system	35
	a. Merchandise imports	35
	b. Service imports	36
	3. Sectoral issues	37
	a. Agriculture	37
	b. Industry	38
	c. Telecommunications	39
	d. Rail transport	40
	e. Trucking	41
	f. Insurance	41
	g. Banking	42
	h. Small business	44
	i. The professions	44
	j. Retail trade	45
	4. The labor market	45

Tables

1.	Aggregate Demand (Percentage changes, at 1983 prices)	47
2.	Aggregate Demand (In billions of schillings, at 1983 prices)	48
3.	National Income and Its Distribution	49
4.	Aggregate Demand (In billions of schillings, at current prices)	50
5.	Balance of Payments	51
6.	Merchandise Exports	52
7.	Indicators of Trade Competitiveness and Performance	53
8.	Geographic Distribution of Exports	54
9.	Merchandise Imports	55
10.	Geographic Distribution of Imports	56
11.	Balance of Service and Transfers	57
12.	Overnight Stays of Foreign Visitors	58
13.	Value Added by Sector (Percentage shares)	59
14.	Value Added by Sector (Percentage changes)	60
15.	Selected Indices of Industrial Production	61
16.	Labor Market Statistics	62
17.	Earnings and Productivity	63
18.	Price Developments	64
19.	Federal Budget	65

20.	Federal Government Assistance to Enterprises	66
21.	Financing of the Federal Government	67
22.	Debt and Debt Service of the Federal Government	68
23.	1989 Tax Reform--Major Changes in Standard Tax Expenditure Regulations	69
24.	1989 Tax Reform--Major Changes in Business Taxation	70
25.	Comparison of Different Measures of the Federal Budget Deficit	71
26.	Selected Social Insurance Funds	72
27.	General Government Finances	73
28.	Exchange Rate Developments	74
29.	Money Market Interest Rates and Capital Market Indicators in Austria and Germany	75
30.	Main Monetary Aggregates	76
31.	Monetary Capital Formation of the Domestic Nonbank Private Sector	77
32.	Direct Commercial Bank Credit by Sector of Borrower	78
33.	Long-Term Capital Movements	79
34.	Fixed-Interest Security Issues	80
35.	International Comparison of Bank Density, 1986-87	81
36.	International Comparison of Income Statements of Large Commercial Banks	82

Charts

1	International Comparisons	2a
2.	Public Consumption	4a
3.	The Current Account and Its Principal Components	6a
4.	Developments in External Services and Travel Transactions	8a
5.	Share of Wages in National Income	14a
6.	The Consumer Price Index in Austria and Germany	14b
7.	Selected Indicators of Fiscal Policy	16a
8.	General Government	30a
9.	Exchange Rates of the Schilling and the Deutsche Mark	30b
10.	Austrian and German Interest Rates	32a

Basic Data

Area	83,850 square kilometers
Population (1988)	7.6 million
GDP per capita (1988)	US\$16,750

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u> <u>1/</u>	<u>1989</u> <u>2/</u>
	<u>(Percent change)</u>				
<u>Real demand and supply</u>					
Private consumption	2.4	1.6	3.0	3.0	3.7
Public consumption	1.9	1.7	0.4	0.7	1.0
Gross fixed investment	5.0	3.4	2.9	5.8	6.5
Construction	1.3	3.0	4.9	5.9	3.0
Machinery & equipment	<u>10.1</u>	<u>3.9</u>	<u>0.9</u>	<u>5.6</u>	<u>10.0</u>
Final domestic demand	2.9	2.0	2.5	3.2	3.9
Stockbuilding <u>3/</u> <u>4/</u>	<u>-0.7</u>	<u>-0.2</u>	<u>0.4</u>	<u>1.5</u>	<u>-0.3</u>
Total domestic demand	2.2	1.8	2.8	4.7	3.5
Exports of goods and nonfactor services	6.9	-2.7	2.4	8.8	10.9
Imports of goods and nonfactor services	<u>6.2</u>	<u>-1.2</u>	<u>4.7</u>	<u>10.0</u>	<u>9.6</u>
Foreign balance <u>3/</u>	<u>0.3</u>	<u>-0.6</u>	<u>-0.9</u>	<u>-0.6</u>	<u>0.4</u>
GDP	2.5	1.1	1.9	4.2	4.0
Industrial production <u>5/</u>	4.4	1.4	-0.8	6.1	5.7
Unemployment rate (in percent of dependent labor force)	4.8	5.2	5.6	5.3	5.0
<u>Prices and incomes</u>					
GDP deflator	3.1	3.8	2.4	2.0	2.6
Consumer prices	3.2	1.7	1.4	2.0	2.6
Export prices <u>6/</u>	3.3	-2.1	-1.5	2.2	2.8
Import prices <u>6/</u>	3.9	-5.6	-2.6	1.8	3.5
Real disposable income <u>7/</u>	2.4	3.8	5.4	3.3	5.9
Personal savings ratio (in percent of disposable income)	8.3	10.3	12.3	12.6	14.4

Sources: Ministry of Finance; Austrian National Bank; Austrian Institute for Economic Research; and staff estimates.

1/ Provisional.

2/ Preliminary estimates.

3/ Changes as a percentage of previous year's GDP.

4/ Includes statistical discrepancies.

5/ Excluding electricity and gas.

6/ National accounts price deflator for goods and nonfactor services.

7/ Personal disposable income deflated by the implicit price index for private consumption.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	
	<u>(Percent change; period average)</u>					
<u>Money and Credit</u>						
Reserve money	1.7	5.6	3.2	6.2	5.4	<u>1/</u>
Money (M1)	0.5	4.1	8.6	8.8	6.8	<u>1/</u>
Money plus quasi-money (M3)	6.4	7.8	9.4	6.0	4.8	<u>2/</u>
Domestic credit	9.4	7.7	10.5	9.4	8.6	<u>1/</u>
Call money rate (annual average, in percent)	6.1	5.3	4.4	4.6	7.2	<u>1/</u>
	<u>(In percent of GDP)</u>					
<u>Federal Government finances</u>						
Revenue <u>3/</u>	27.5	27.3	26.6	28.7	27.9	<u>4/</u>
Expenditure <u>3/</u>	32.0	32.4	32.4	33.0	31.8	<u>4/</u>
Financial balance	-4.4	-5.2	-4.7	-4.2	-3.9	<u>4/</u>
Gross debt	38.9	43.6	47.2	47.5	48.2	<u>4/</u>
	<u>(In billions of schillings)</u>					
<u>Balance of payments and official reserves</u>						
Trade balance	-67.7	-62.2	-65.7	-70.4	-85.0	<u>4/</u>
Tourism balance	48.9	44.9	41.3	46.7	57.0	<u>4/</u>
Current account	-2.5	3.7	-2.7	-3.9	-2.0	<u>4/</u>
(In percent of GDP)	(-0.2)	(0.3)	(-0.2)	-(0.2)	(-0.1)	<u>4/</u>
Gross official reserves	122.4	124.0	123.7	132.9	139.0	<u>5/</u>
(In billions of SDR)	6.4	7.4	7.7	7.9	8.6	<u>5/</u>
	<u>(Percent change during the year) <u>6/</u></u>					
<u>Exchange rates</u>						
U.S. dollars per schilling	23.1	26.0	22.0	-6.8	0.6	
Deutsche mark per schilling	-0.1	-0.1	--	0.1	-0.2	
Nominal effective rate	3.1	4.5	1.7	-1.3	1.1	<u>7/</u>
Real effective rate <u>8/</u>	0.2	4.0	-0.2	-5.7	--	<u>9/</u>

1/ January-October, relative to the same period in 1988.

2/ January-July, relative to the same period in 1988.

3/ Because of accounting changes introduced with the 1988 budget, revenue and expenditure figures for 1988 and 1989 are not directly comparable with those for earlier years. The financial balance is, however, unaffected by these accounting changes.

4/ Staff estimates.

5/ End of November.

6/ December to December, except for real effective rate which is fourth quarter to fourth quarter.

7/ December 1988 to November 1989.

8/ Exchange rate adjusted relative unit labor costs in manufacturing.

9/ Fourth quarter 1988 to third quarter 1989.

I. Introduction

The Austrian economy is in the midst of its most vigorous expansion since the mid-1970s. In 1988-89, growth in Austria (4 percent per annum) was among the fastest in the industrial countries in Europe. This contrasted with the pattern of the early 1980s, when Austria's annual growth rate of 1 1/2 percent was below that in the rest of Europe (Chart I). Inflation has remained modest--consumer prices increased by 2 3/4 percent in the 12 months to October 1989--and the current account has been close to balance. Unemployment has fallen from 5 1/2 percent in 1987 to 5 percent in 1989; while it remains high by historical standards, it is significantly below the average of other European countries. The short- and medium-term outlook is for a continuation of steady and balanced growth with GDP projected to rise by 3 percent in 1990 and to grow at about potential (2 1/2 percent) in the early 1990s. Chapter II reviews recent developments in greater detail and the implications of different environmental assumptions and policy decisions for the medium-term outlook are examined in Appendix I.

The favorable external environment has been a significant factor behind the strong economic performance of the past two years, but a determined implementation of the government's medium-term adjustment program (initiated in 1987) has also made an important contribution. The key elements of the program are: (1) a restructuring of the operations of the ÖIAG, a holding company for the major public industrial enterprises; (2) a medium-term program to reduce the federal deficit from 5 percent of GDP in 1986 to 2 1/2 percent of GDP by 1992; (3) a tax reform with the objective of improving incentives, reducing distortions, broadening the tax base and simplifying the tax system; and (4) the maintenance of a hard-currency policy, in effect, a peg of the Austrian schilling to the deutsche mark.

In the ÖIAG, there has been a major reorganization and a large-scale reduction in employment (details are given in Appendix II); productivity has increased markedly and operating deficits have given way to surpluses. These developments have contributed to the vitality of the manufacturing sector over the past two years.

The medium-term program is also on track with respect to macroeconomic policies. On fiscal policy (discussed in Chapter III), the deficit of the federal government has been reduced by 1 1/4 percentage points to less than 4 percent of GDP, and a major tax reform and reduction was implemented as planned in 1989. On monetary and exchange rate policy (Chapter IV), the close link to the deutsche mark has continued to provide a stable environment for wage and price developments in Austria and has limited currency risk in international transactions. The general discussion in the paper is supplemented in Appendix III by a discussion of the monetary policy instruments of the Austrian National Bank.

While there has already been significant progress, the government's medium-term program is only at its half-way stage, and much remains to be done. The staff's "baseline" medium-term scenario, which assumes that implementation of the program will proceed as planned, presents a rather favorable outlook. The alternative scenarios, which examine the implications for Austria of a slowdown in the world economy in the early 1990s, illustrate the importance of pressing ahead with the government's program. Moreover, there are uncertainties which have not been addressed in the medium-term scenarios and new challenges have emerged since the formulation of the program in 1987; these additional considerations, a number of which are examined in the paper, underscore the need for continued adjustment.

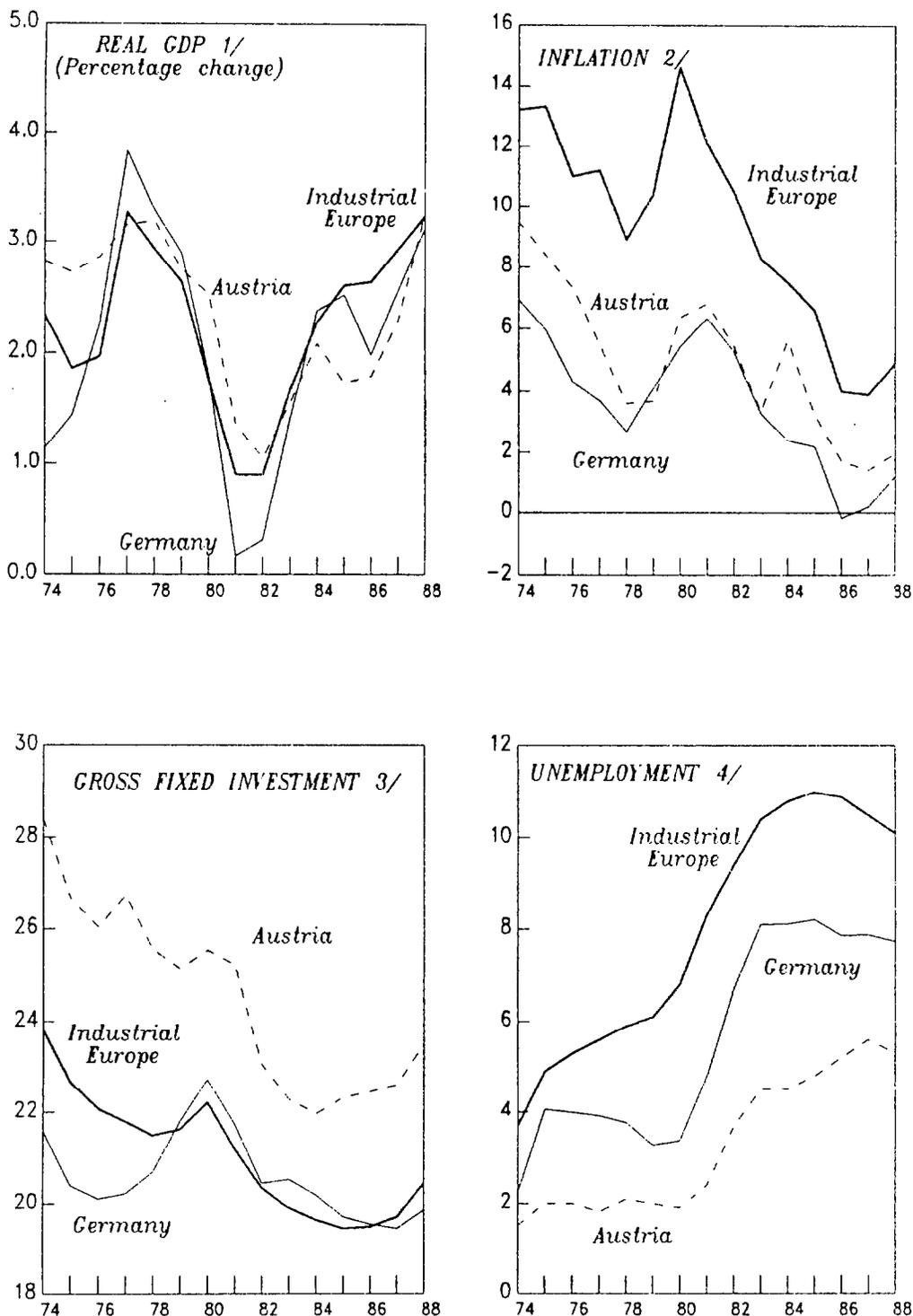
The staff's analysis of the domestic economy in Appendix IV points to the uncertainty surrounding household saving behavior. The household saving rate has risen from 8 1/4 percent in 1985 to 14 1/2 percent in 1989; this together with the smaller government deficit has financed the increase in investment without pressures emerging in the external accounts. While the saving rate is expected to drop in the coming years, the size and speed of this decline are difficult to predict. The "baseline" medium-term scenario assumes that the saving rate will fall gradually to its average level of the past 25 years; however, the possibility that the fall could be more rapid strengthens the case for keeping the fiscal adjustment program on track.

In the international environment, there are uncertainties that stem from the implications of recent developments in Eastern Europe for the budget, the labor market and the growth of export markets. As yet, however, there is little concrete that can be said about this. More clear are the challenges emanating from the growing momentum behind the EC's Single Market Program. The Austrian authorities have indicated their desire to participate to the fullest extent possible in market integration in Europe and have applied for membership in the EC. Chapter V discusses steps that have already been taken to prepare the economy for the competitive challenges ahead and analyzes the needs for structural reform on a sector by sector basis. A staff study (presented in Appendix V) underlines the pressures that hitherto sheltered sectors are likely to face in an integrated European market. While the competitive position of Austrian manufacturing has improved in the 1980s, productivity in other sectors of the economy has lagged behind that in some important trading partners. Appendix VI continues the European theme, discussing the background to Austria's application for EC membership and analyzing the implications for economic policy, including both the need for structural adjustment and the pressures on the budget that are likely to emerge.

The set of Appendices ends with a review (in Appendix VII) of Austria's official development assistance.

Chart 1
AUSTRIA

INTERNATIONAL COMPARISONS



Source: IMF Data Fund.

1/ Centered three-year moving average.

2/ Percent change in consumer price index.

3/ Ratio of gross fixed investment to GDP.

4/ In percent of dependent labor force for Austria and Germany; national definitions are used to compute the average for industrial Europe.



II. The Domestic Economy

1. Overview

The Austrian economy rebounded strongly in 1988-89: Real GDP grew by 4 percent per year after having expanded at an annual rate of 1 1/2 percent in 1986-87. In a statistical sense, the upsurge of demand was founded on domestic sources: the early impetus came from private consumption and, in 1988-89, a marked uptick in investment helped sustain the expansionary momentum. While net exports did not, on balance, contribute to the strength of demand in 1988-89, the role of foreign demand factors should not be underestimated. In particular, the pick-up of GDP growth in Austria's principal trading partners spurred exports and, while the influence of this on demand was offset by increased imports, it played an important role in underpinning investor confidence and the investment boom of 1988-89. The strong performance of the Austrian economy has been accompanied by a stable current account deficit, averaging less than 1/4 percent of GDP in 1987-89. Moreover, inflation, about 2 1/2 percent in 1989, has remained moderate and the unemployment rate, after peaking at 5.6 percent in 1987, declined to 5 percent in 1989.

2. Aggregate demand

a. Real domestic demand

After rising by only 2 1/4 percent in 1986-87, final domestic demand accelerated to an average growth rate of 3 1/2 percent in 1988-89 (Tables 1 and 2). The growth of total domestic demand, which was similar to that of final demand in 1986-87, picked up even more sharply to an average rate of over 4 percent in the past two years.

Austrian consumers were slow in responding to the boost to real disposable income resulting from the large terms-of-trade gain (2 percent of GDP) in 1986-87 and a tax cut (3/4 percent of GDP) in January 1987 (Table 3). In 1986, a sharp drop in import prices underpinned a sizeable increase in real household disposable income. Private consumption, however, grew by only 1 1/2 percent--as concerns mounted over the financial crisis in the nationalized industries and the rising unemployment rate--and the personal saving rate rose sharply. In 1987, although the growth of private consumption quickened (to 3 percent), it remained below that of real disposable income (5 1/2 percent) and the personal saving ratio rose a further 2 percentage points to 12 1/4 percent. In 1988, real consumption continued to increase at a 3 percent rate, against the background of a doubling of the GDP growth rate to over 4 percent. The government's fiscal adjustment program--especially restraint in public sector transfers to households--was instrumental in holding the growth of real disposable income below that of GDP and dampening consumption. In 1989, with disposable income boosted by a tax cut of 1/2 percent of GDP,

private consumption is estimated to have risen by 3 3/4 percent. However, this acceleration of consumption absorbed only part of the increase in disposable income and the personal saving rate rose to almost 14 1/2 percent. Having risen by 6 percentage points since 1985, the personal saving rate is now very high by historical standards. 1/

In contrast to private consumption, a slowing of the rate of growth of public consumption accompanied the economic upturn. After increasing at an annual average rate of 1 3/4 percent in 1985-86, public consumption rose at a rate of only 3/4 percent in 1987-89 as the authorities began to implement their medium-term fiscal consolidation program. As a result, despite a faster rise in the public consumption deflator than in the GDP deflator, the nominal share of public consumption in GDP declined from its peak of 19 percent in 1986 to about 18 in 1989 (Chart 2 and Table 4). 2/

Developments in business fixed investment have been greatly influenced by exports. With a weakening of external demand, investment in machinery and equipment slowed from a rate of increase of 7 percent in 1984-85 to only 1 percent in 1987. The rebound of machinery and equipment investment in 1988, to a growth rate of 5 1/2 percent, reflected a strengthening of investment in the services sector. But with exports continuing to grow strongly and capacity utilization rates rising, investment in the manufacturing sector rose sharply in 1989, and machinery and equipment investment is estimated to have risen by 10 percent.

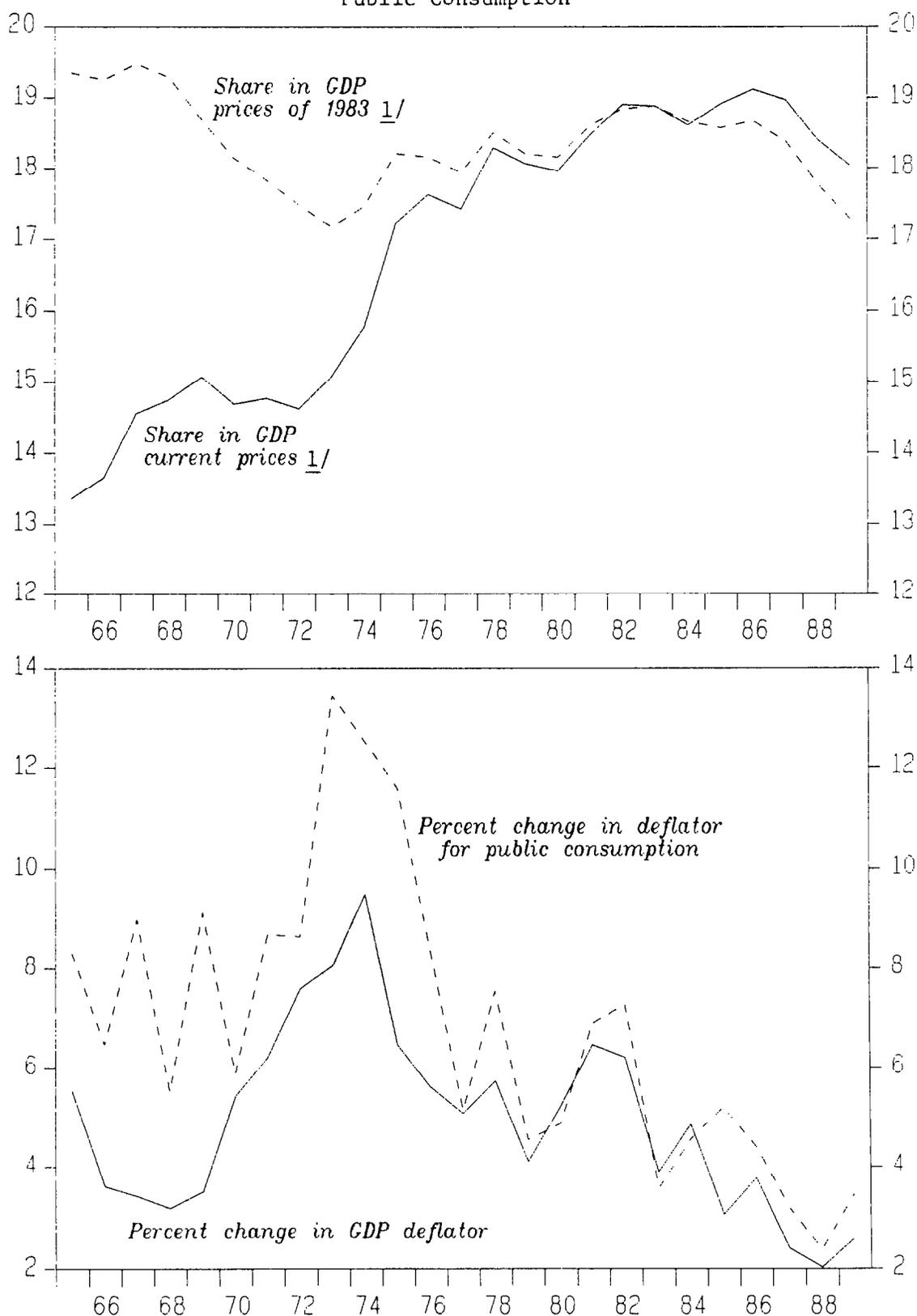
Construction investment has behaved somewhat differently from investment in machinery and equipment, reflecting the influence of residential building. Construction activity picked up in 1986-87 and strengthened further in 1988 (growing at a rate of 6 percent) before slowing to a 3 percent rate of expansion in 1989. Construction has been boosted by the sharp rise in real disposable incomes over the past four years and, for much of the period, by falling interest rates. Moreover, the response to these factors may have been intensified by shortages in certain areas of the housing market resulting from weak construction activity in the first half of the 1980s.

Investment in inventories also provided a significant impetus to demand in 1988, contributing about 1 1/2 percentage point to GDP growth. These data should be interpreted cautiously, however, as stockbuilding is a residual in the national accounts calculations. In

1/ Between 1965 and 1985, the rate averaged 9 1/2 percent. Recent developments in household saving behavior are analyzed in Appendix IV.

2/ The marked rise in the share of public consumption in GDP over the past 25 years has reflected a relatively fast growth of the public consumption deflator, particularly in the 1960s and 1970s. In constant prices, the share of public consumption has declined since the mid-1960s.

Chart 2
AUSTRIA
Public Consumption



Source: Austrian Institute for Economic Research.
1/ In percent.

particular, the large contribution of stockbuilding in 1988 may have reflected statistical difficulties associated with the new foreign trade reporting system. 1/

b. The real foreign balance

In 1986-87, the real foreign balance acted as a significant drag on the growth of GDP: in 1986, there was a slowdown in some important export markets and demand shifted away from Austrian products, both at home and abroad. 2/ While export markets recovered partly in 1987, there was a further loss of market shares. In 1988, market growth was strengthened by the upswing of economic activity in Europe and, with a sharp drop in unit labor costs in Austrian manufacturing boosting competitiveness, there was a rapid expansion of exports of goods and services. However, imports also accelerated markedly, reflecting the doubling of the rate of increase of total demand, and the real foreign balance declined by a further 1/2 percentage point of GDP. This picture changed in 1989 with net exports of goods and services making a positive contribution of almost 1/2 percentage point to GDP growth. While exports are estimated to have risen even faster than in 1988, the rate of expansion of imports slowed slightly, reflecting a moderation in the growth of expenditure on travel and other services.

3. The current account

Although the real foreign balance has seen a cumulative decline of about 1 1/2 percentage points of GDP over the past four years, the current account deficit in 1989, estimated at 0.1 percent of GDP, is similar in magnitude to that of 1985 (Chart 3 and Table 5). The drop in the real foreign balance was more than offset by the terms-of-trade gain of 1986-87 and the nominal foreign balance increased. 3/ A notable feature of recent developments has been that the upsurge in economic growth has not been accompanied by a deterioration in the external accounts. From a demand perspective this is perhaps not surprising given the strong recovery of exports. From a saving-investment perspective, it is striking that a sharp rise in the gross investment ratio--2 1/2 percentage points of GDP between 1986 and 1989--has been accompanied by an equally sharp rise in the saving ratio. In part, this has been due to the consolidation of government finances, but it has also reflected the marked rise in household saving.

1/ It is possible that statistical difficulties led to an underestimation of the contribution from the foreign balance in 1988, with a consequent overestimation of stock building.

2/ See discussion below in Section II.3.a.

3/ The foreign balance in the national accounts has a narrower coverage than the current account balance of the balance of payments; the former does not include factor services or transfers.

a. Trade balance

In 1986, under the influence of a 3 1/2 percent gain in the terms of trade, the trade deficit (4.4 percent of GDP) reached its lowest level in relation to GDP since 1969. It then rose slightly over the following two years. 1/ In 1989, the trade deficit is estimated to have increased to about 5 percent of GDP; export growth quickened, but import growth was even faster. 2/

(1) Merchandise exports

After a number of years of relatively rapid growth, the value of Austrian exports declined in 1986-87 (Table 6) as exporters faced a slowdown in export markets and a loss of market share; over the two year period the drop in the value of exports reflected a 7 percent decline in export prices and an increase of only 4 percent in volume, well below the rate of market growth (Table 7). 3/ The slowdown in market expansion was due in large part to lower growth in Western Europe and the effect of reduced energy prices on import capacity in OPEC and Eastern Europe. The loss of market share would appear to have been influenced by exchange rate movements, as the schilling appreciated with the deutsche mark; however, the signals from the various indicators of competitiveness are ambiguous. The real exchange rate, based on unit labor costs in manufacturing, suggests that there was a deterioration in Austria's competitive position but, when relative unit labor costs are examined in conjunction with relative value added prices, it is not clear that profitability was squeezed in the Austrian manufacturing sector, compared with developments in partner countries. 4/ However, it should be borne in mind that these aggregate indicators can be misleading in the face of divergent developments in different markets.

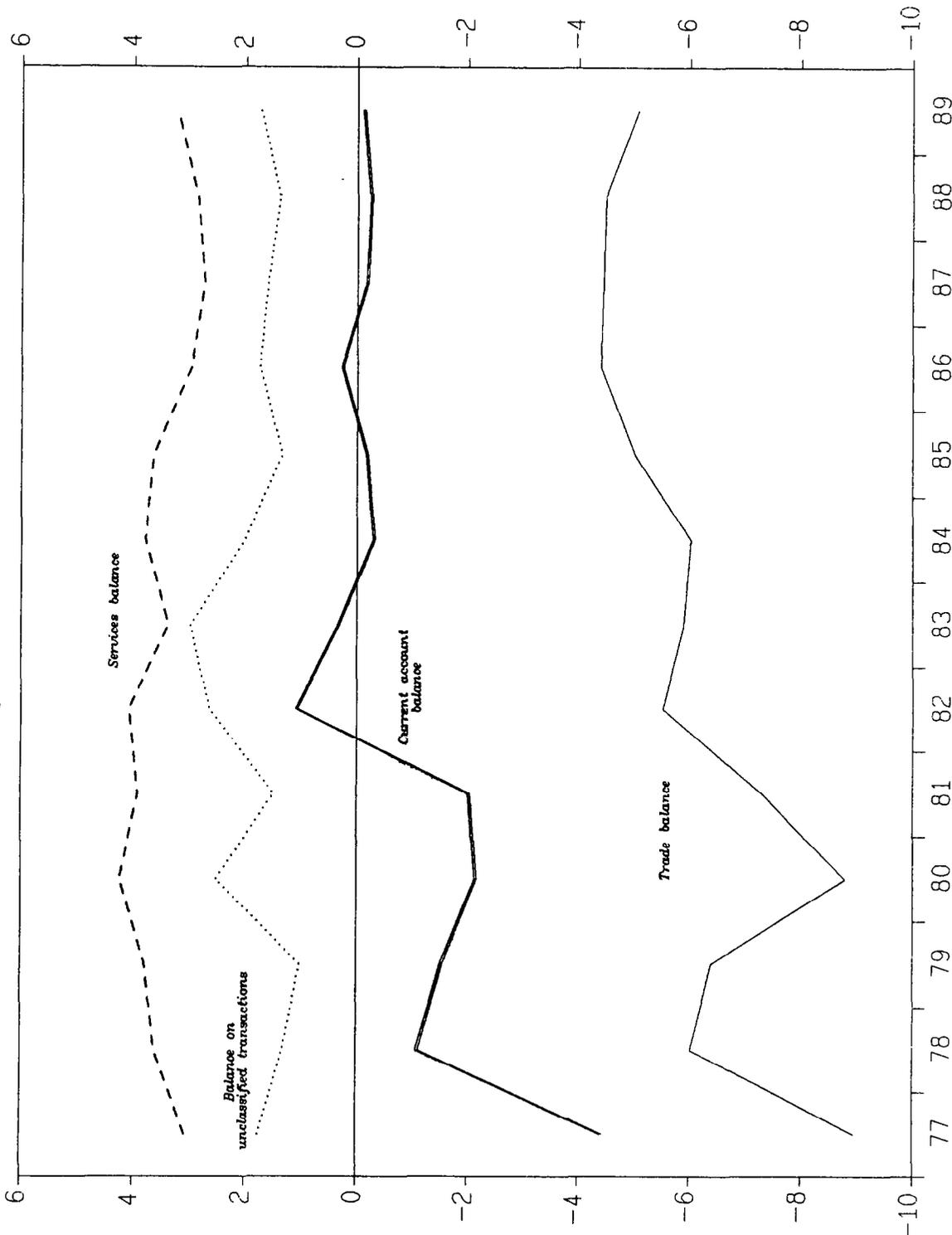
1/ In 1987, the widening of the deficit was influenced by the waning of J-curve effects resulting from the large terms-of-trade gain of 1986 (though offset in part by the further smaller terms-of-trade gain in 1987) and, in 1988, there was a widening of the deficit on supplementary trade items, in particular transit trade.

2/ Even if exports and imports had increased at similar rates, there would have been a marked widening of the trade deficit, reflecting rapid growth of trade relative to GDP and a high initial trade deficit. Indeed for the period 1988-89 as a whole, imports grew only slightly faster than exports and yet the deficit widened by over 1/2 percentage point of GDP.

3/ The drop in export prices should not be interpreted as profit squeeze. It reflected, in large part, the decline in the cost of intermediate inputs. A more accurate measure of profitability would be the price of value added in exporting industries. This is not available, however. In manufacturing as a whole, the price of value added rose by 3 percent per year in 1986-87.

4/ The measurement of competitiveness is taken up in greater detail in Appendix V.

Chart 3
AUSTRIA
The Current Account and Its Principal Components 1/
(In percent of GDP)



Sources: Austrian Institute for Economic Research; and Fund staff estimates.
1/ Data for 1989 are Fund staff estimates.

The influence of the above factors can be seen in the geographical distribution of Austrian merchandise exports (Table 8). The value of Austrian exports to the EC, where there was on balance no erosion of Austria's competitive position, increased at an annual average rate of 4 1/2 percent, while exports to the United States, OPEC and East European countries fell sharply. As a result, exports to the EC made up 63 percent of Austrian exports in 1987, compared with 56 percent in 1985.

In 1988-89, rapid export expansion resumed, with exports increasing by 12 percent in 1988 and 13 percent in 1989. This rebound of exports, which was broadly based both in terms of product composition and geographical distribution, was in part due to a recovery of export prices but also reflected a pick-up in the growth of export volume. The volume of imports by Austria's trading partners accelerated and, at the same time, a marked increase in Austria's market share was supported by much larger profit margins in the Austrian manufacturing sector. The acceleration of market growth has been principally due to the buoyant economies in Western Europe (which account for three-quarters of Austrian exports). However, there has also been a significant turnaround in exports to East European and developing countries, reflecting the recovery of import volumes in these countries. 1/

(2) Imports

The value of merchandise imports fell by more than that of exports in 1986-87 (Table 9). This was due solely to the sharp gain in the terms of trade as the volume of imports was less subdued than that of exports. 2/ In 1988-89, import prices recovered and, despite a sharp improvement in Austria's competitive position, the booming economy boosted the growth of import volume. In 1988, imports grew by 9 1/2 percent of which 8 percentage points reflected volume growth, and they rose at an even faster rate in 1989, 15 percent in value and some 11 percent in volume. The recovery of imports was less evenly distributed geographically than that of exports. In particular, in 1988-89, imports from OPEC and Eastern Europe rose by less than imports from other countries, reflecting a further decline in the value of energy imports.

1/ In Eastern Europe, the volume of imports from third countries is estimated to have grown by 8 percent per year in 1988-89 after falling by 16 percent and 4 percent in 1986 and 1987 (OECD, Economic Outlook, December 1989, Table 81). Import volume in the developing countries grew by 10 1/4 percent in 1988 and is projected to grow by 8 3/4 percent in 1989, compared with a 4 1/2 percent decline in 1986 and a 5 3/4 percent increase in 1987 (IMF, World Economic Outlook, October 1989).

2/ As was the case with exports, the value of imports from Western European countries was more resilient than imports in total, while there were sharp falls in imports from OPEC and East European countries, owing to the importance of these countries as energy suppliers (Table 10).

While relative cost developments and increased export market shares indicate an improvement in Austria's competitive position in 1988-89, the rapid import growth, particularly in 1989, raises questions about the interpretation of competitiveness indicators. Some of the factors behind the fast import growth can be readily identified. First, exports and machinery and equipment investment have a relatively high import content. Second, the level of imports in 1988-89 was boosted by the strong demand for consumer goods from Hungarian tourists. 1/ Third, the import of two aircraft (total value of S 3 billion) contributed to the fast import growth in 1989. Finally, statistical factors may have exaggerated import growth in 1989 with a corresponding underestimation in 1988. 2/ Nevertheless, there are grounds for believing that competitiveness developments have been different in exporting and import-competing industries--investment has been particularly strong in export-oriented industries, and production data indicate that the largely import-competing consumption goods sector has not been able to capitalize on the strength of the economic upswing.

b. Services

Austria has traditionally had a large surplus on services, reflecting the important contribution of travel and tourism earnings to the economy, with the balance on other items in the services account usually quite small (Chart 4 and Table 11).

(1) Travel and tourism

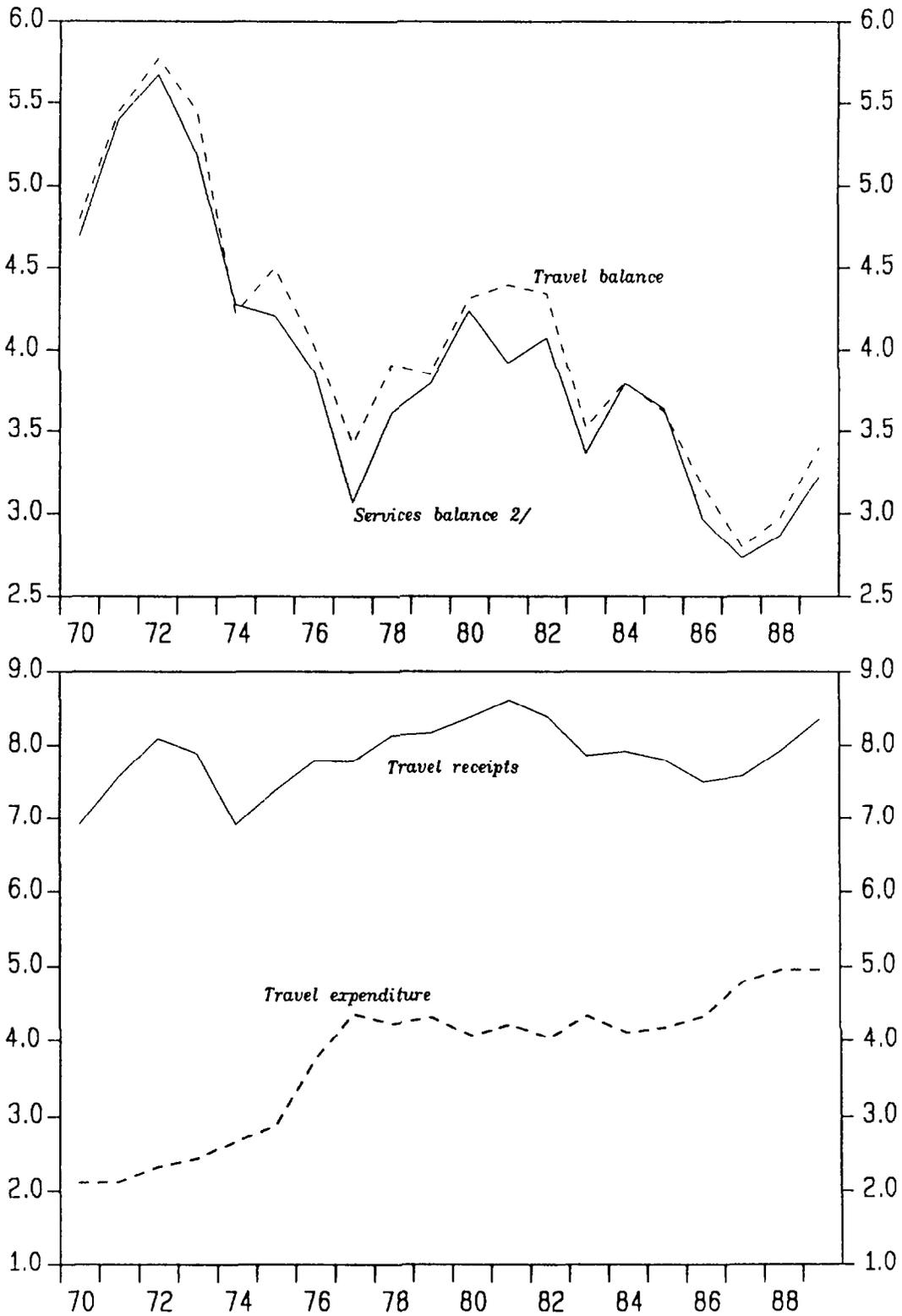
The surplus on tourism has, for some time, been on a downward trend relative to GDP. In the 1970s, this was due to a faster growth of tourist expenditures abroad by Austrian residents than of tourist receipts. Between 1981 and 1987, however, there was a marked decline in tourist receipts in relation to GDP while spending abroad by Austrian residents grew at a slower pace than in the 1970s. The poor earnings performance of the tourist sector in 1981-87 reflected a decline in the number of overnight stays by foreign visitors (Table 12); the number of stays peaked in 1981, declined by 8 percent over the following four years, and recovered only slightly in 1986-87.

In 1988 and 1989, however, there has been a recovery in net tourist earnings. Overnight stays of foreign visitors rose by 2 1/4 percent in 1988 and in the first nine months of 1989 were up by almost 7 3/4

1/ Purchases of imported consumer goods by Hungarian tourists is estimated at S 6 billion in each of 1988 and 1989. Thus, this factor offers some explanation of the increased pace of import expansion in 1988, but not for the further acceleration of imports in 1989.

2/ With a new trade reporting system being introduced at the beginning of 1988, some importers appear to have accelerated the import process at the end of 1987, lowering the base on which import growth for 1989 was calculated.

Chart 4
AUSTRIA
Developments in External Services and Travel Transactions 1/
(In percent of GDP)



Sources: Austrian Institute for Economic Research; and Fund staff estimates.

1/ Data for 1989 are staff estimates.

2/ Includes travel.

percent over the same period of 1988. The recovery in net tourist revenues has been even more striking, growing by 13 percent in 1988 and by an estimated 22 percent in 1989. 1/

The strong economic performance in Western Europe in 1988-89, with an associated rise in tourist activity, has been an important factor underlying the growth of earnings from tourism. In addition, two structural factors have been identified which could have longer-run beneficial effects on the Austrian tourist industry. First, in recent years the composition of tourist earnings has been shifting away from less expensive (and more price sensitive) accommodations which in the past have been particularly vulnerable to competition from resorts in the Mediterranean region. Second, it is argued that Austria has benefited from increasing concerns about pollution in some Mediterranean resorts. 2/ However, there have clearly also been temporary factors boosting tourist earnings. First, in most European ski resorts, the winter of 1988/89 was characterized by poor snowfalls, but some regions in Austria were less badly affected, enabling Austria to capture an increased share of the winter ski business. Second, in 1988 and 1989, there were large scale purchases of consumer goods by visitors from Hungary prior to the tightening of related import regulations in Hungary. 3/

(2) Other services

After tourism, the most important component in the services account is net investment income. The deficit on this component has stayed relatively stable in relation to GDP in the 1980s at 0.6-0.7 percent of GDP, which is not surprising given that the current account deficit has on average been small. Since 1986, receipts and payments

1/ The destination preferences of German tourists are of particular importance in understanding the recent development of tourist receipts, as German visitors account for about two-thirds of overnight stays by foreign visitors. Between 1981 and 1987 total overnight stays of German visitors in Austria declined by almost 17 percent, while stays by visitors of other nationalities actually increased by 16 percent. In 1988, however, stays by German visitors increased by 2 percent and in the first nine months of 1989, they rose by 6 1/2 percent relative to the same period in 1988.

2/ In the longer run, concern to protect the environment in Austria may constrain the expansion of the tourism industry in Austria, particularly in the winter resorts. However, this is not seen as a limiting factor in the immediate future.

3/ Since many of these consumer goods were imported into Austria, there was, as already discussed, a large offset to these tourist "earnings" in the trade account. Furthermore, since these expenditures appear to have been similar in scale in 1988 and 1989, they do not explain the rapid growth of tourist earnings in 1989.

have shown similar percentage increases, and the increase in the schilling value of the deficit on investment income has reflected the initial deficit position.

The surplus on the remaining components of the service account has shown a small rise in recent years in relation to GDP. Most of this reflected increased receipts on the transportation account and is essentially a statistical matter as expenditures on transportation related to imports is included in the trade account (imports are c.i.f.).

c. Unclassified items and transfers 1/

Unclassified transactions in goods and services have been a particularly volatile component of the current account in the 1980s; after reaching a peak in 1983, net receipts had halved in relation to GDP by 1988. In 1989, however, there was some recovery in net earnings on unclassified transactions.

The balance on transfers has been small in the 1980s (a deficit of about 0.1 percent of GDP). Net official transfers have been relatively stable. While earnings on workers' remittances have increased, these have been offset by a declining balance on other private transfers.

4. Production and employment

a. Production

Unlike most industrial countries, the share of manufacturing in GDP has not declined over time in Austria (Table 13). In the 1980s, however, significant problems became apparent in this sector. The ÖIAG ran losses from 1981 and, at the end of 1985, became embroiled in a

1/ The lack of information on unclassified transactions is a major gap in the current account statistics; not only is the sum of these transactions large but it has also fluctuated significantly. The sparse information on these transactions is due to the fact that they are calculated as a residual--the difference between overall data on payments and receipts from the banking system and primary source data on trade and service transactions. As exports and imports of merchandise are recorded by customs data, a reasonable inference is that these unclassified transactions comprise principally unrecorded service transactions. In this respect, services provided in connection with installation of complete plants (turn-key projects) are thought to be important. However, it should be borne in mind that data on unclassified transaction are calculated as a residual. Thus, statistical problems, related, for example, to the recording of trade credits, can distort the picture provided by these data.

financial crisis. 1/ The emergence of this crisis coincided with a slowdown in export demand in 1986-87 and real manufacturing value added stagnated over this period (Table 14). The weakness of the manufacturing sector in 1986-87 was most pronounced in iron and steel where production fell by over 10 percent (Table 15). The dominant producer of iron and steel, Voest, is part of the ÖIAG and was at the center of the financial crisis.

In 1986, the authorities embarked on a restructuring of the ÖIAG 2/ which included a large reduction in employment. The progress made in this restructuring program helped position the manufacturing sector to take advantage of the upswing in demand in 1988-89. The decline in manufacturing employment together with moderate wage agreements contributed to sharp increase in profitability which underpinned growing export market shares. The recovery has been particularly notable in iron and steel; other areas where there has been a strong rebound of production include paper, chemicals, and vehicles and vehicle parts. However, difficulties remain in a number of sectors--in particular, production of consumer goods has been slow to respond to the strengthening of demand.

The services sector has shown less sensitivity to cyclical influences than industry with real value added growing at an average rate of 1 3/4 percent in 1986-87 and accelerating to a 3 3/4 percent rate in 1988-89. Over this period, value added in trade, transport, and financial services has grown more quickly than the average; value added in public services has grown much more slowly owing to the fiscal consolidation program.

b. The labor market

Austria did not experience the sharp increase in unemployment that was observed in many other European countries after the oil price increase of 1973-74. This reflected active demand-management policies and the fact that much unemployment remained hidden, particularly in public sector enterprises. As in most other European countries, however, unemployment rose sharply in the early 1980s, from 2 percent in 1980 to 4 1/2 percent in 1983 (Table 16). It then increased more gradually in the following years to 5 1/2 percent in 1987, as the modest rate of output growth was not able to absorb a relatively rapid rise in the labor force. With the rebound in the economy, the situation in the labor market has improved. Between 1987 and 1989 the labor force rose by 2 percent, employment by 2 1/2 percent, and the unemployment rate fell by 1/2 percentage point to 5 percent.

1/ The ÖIAG is a holding company comprising most public sector industrial enterprises and, in the 1980s, it has accounted for some 20 percent of industrial production.

2/ The origins of the problems in the ÖIAG and progress to date in the rationalization program are discussed in Appendix II.

Sectoral employment developments have been particularly interesting. Since 1980, employment in industry has dropped by 15 percent while overall employment has increased by 2 1/2 percent. Over the same time, however, the share of industry in GDP has been stable, reflecting a much more rapid rate of productivity increase in the industrial sector. 1/ A comparison of the two phases of reduction in industrial employment is rather interesting. Between 1980 and 1983, industrial employment declined by some 10 percent. Although this occurred in an environment of relatively slow labor force growth, the unemployment rate increased markedly, reflecting the overall weakness of demand. The 5 percent reduction in industrial employment from 1985 to 1989 2/ occurred in an environment of relatively rapid labor force growth, but was not accompanied by a sharp rise in unemployment, as the strong economy increased labor absorption in other sectors.

While the Austrian unemployment rate remains high by historical standards, it is significantly lower than in other European countries. 3/ In the 1990s, labor force growth is expected to slow, and indeed cease by the mid-1990s; thus, in the medium- and longer-term, demographic factors are likely to put some downward pressure on unemployment. 4/

5. Income and prices

a. Wages, productivity, and unit labor costs

After rising by 5 3/4 percent in 1986 (4 percent in real terms based on the consumer price index), average earnings for the economy as a whole slowed in the following two years, growing by 4 percent (2 1/2 percent in real terms) in 1987 and 2 3/4 percent (3/4 percent real) in 1988 (Table 17). Minimum wage and salary rates rose by about 1/2 percentage point less in all three years. It is striking that minimum wage settlements in industry were higher than in the overall economy in 1986-88 despite the sharp drop in industrial employment. However, actual average earnings in industry did increase more slowly than in the overall economy in 1986-87. In 1988, the strength of

1/ This is taken up again in Appendix V.

2/ The reduction in employment in the ÖIAG of 22,000 between end 1985 and end 1989 accounted for the lion's share of the 28,000 reduction in overall industrial employment.

3/ Moreover, the annual unemployment rate is boosted by relatively high unemployment in the tourist industry in the off-season. Eliminating such seasonal workers from the unemployment figures, on the grounds that they do not form part of the labor force in the off-season, reduces the measured unemployment rate by as much as 1 percentage point.

4/ However, projections of labor force growth will need to be revised if immigration from Eastern Europe increases in importance.

industrial production and a surge in export orders helped boost the growth of average earnings in industry above the economy-wide average. In 1989, average earnings rose by 4 1/2 percent in industry and at a slightly faster pace in the economy as a whole.

The moderate wage increases in 1988-89 in the industrial sector combined with a sharp increase in productivity to produce a large fall in unit labor costs; labor costs per unit of value added fell by 4 percent in 1988 and a further decline of 1 percent is estimated for 1989. For the economy as a whole, unit labor costs also declined in 1988--by 1/2 percent--but are estimated to have risen by 2 3/4 percent in 1989. Reflecting these developments, the share of labor in national income dropped markedly in 1988, after remaining relatively stable in the period 1983-87. 1/ The labor share, which is now at a low level by historical standards 2/ (Chart 5), rose slightly in 1989 for the economy as a whole but continued to fall in the industrial sector.

In light of rapid productivity growth in industry, some trade unions have been demanding wage increases in the 7-8 percent range in the current round of negotiations, and wage settlements in the 5-6 percent range are widely expected. 3/ The agreement reached in the metals industries in October raised the minimum wage by 7 percent and the average contractual wage by 5 1/2 percent and other settlements in the industrial sector have been for similar increases. This is likely to set the pace for negotiations in other sectors of the economy. Public sector wages are scheduled to increase by about 3 percent in 1990, but there are pressures for a renegotiation of this rate of increase in light of the favorable economic conditions. 4/

b. Prices

Inflation in Austria in the 1980s has been low by international standards--the consumer price index increased at an annual average rate of 3 3/4 percent between 1980 and 1988, about 1 percentage point below the rate for the industrial countries as a group. The increase in the consumer price index in Austria has in general paralleled developments

1/ The labor share falls when unit labor costs rise more slowly than the value added deflator and conversely when the rate of increase of unit labor costs is more rapid than that of the value added deflator.

2/ This refers to the labor share adjusted for changes in the distribution of employment between self employment and dependent employment.

3/ Reductions in working hours are not an issue in the current wage round. Tariff working hours range from 36 hours per week in printing to 40 hours in many service activities, with a 38 1/2 hour week being the norm in manufacturing.

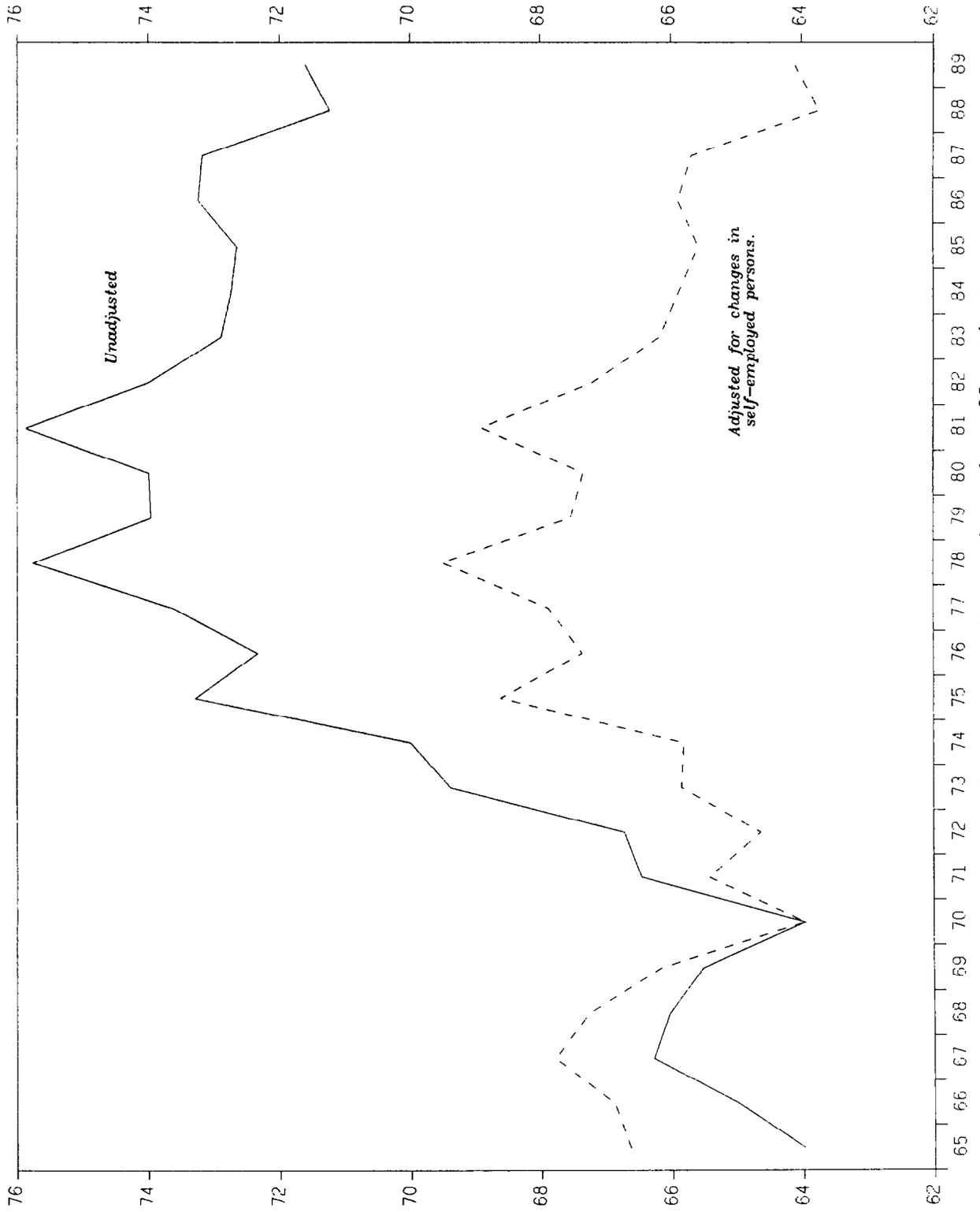
4/ The public sector wage agreement reached in 1988 covered a 2-year period, 1989 and 1990.

in Germany (Chart 6), although significant divergences between the Austrian and German inflation rates have not been uncommon. In part, these divergences may have been due to different definitions of the indices, but they also reflected structural differences between the two countries such as relatively lower productivity growth in the Austrian services sector. 1/

Consumer prices increased by 1 3/4 percent in 1986 and by 1 1/2 percent in 1987, as the decline in import prices exercised a marked moderating influence (Table 18). Reflecting the large terms-of-trade gains in 1986-87, the rate of increase in the GDP deflator was higher in both years--3 3/4 percent in 1986 and 2 1/2 percent in 1987. In 1988, consumer price inflation rose to 2 percent, as import prices recovered, and there was a similar increase in the GDP deflator. Estimates for 1989 show both consumer prices and the GDP deflator increasing by a little over 2 1/2 percent.

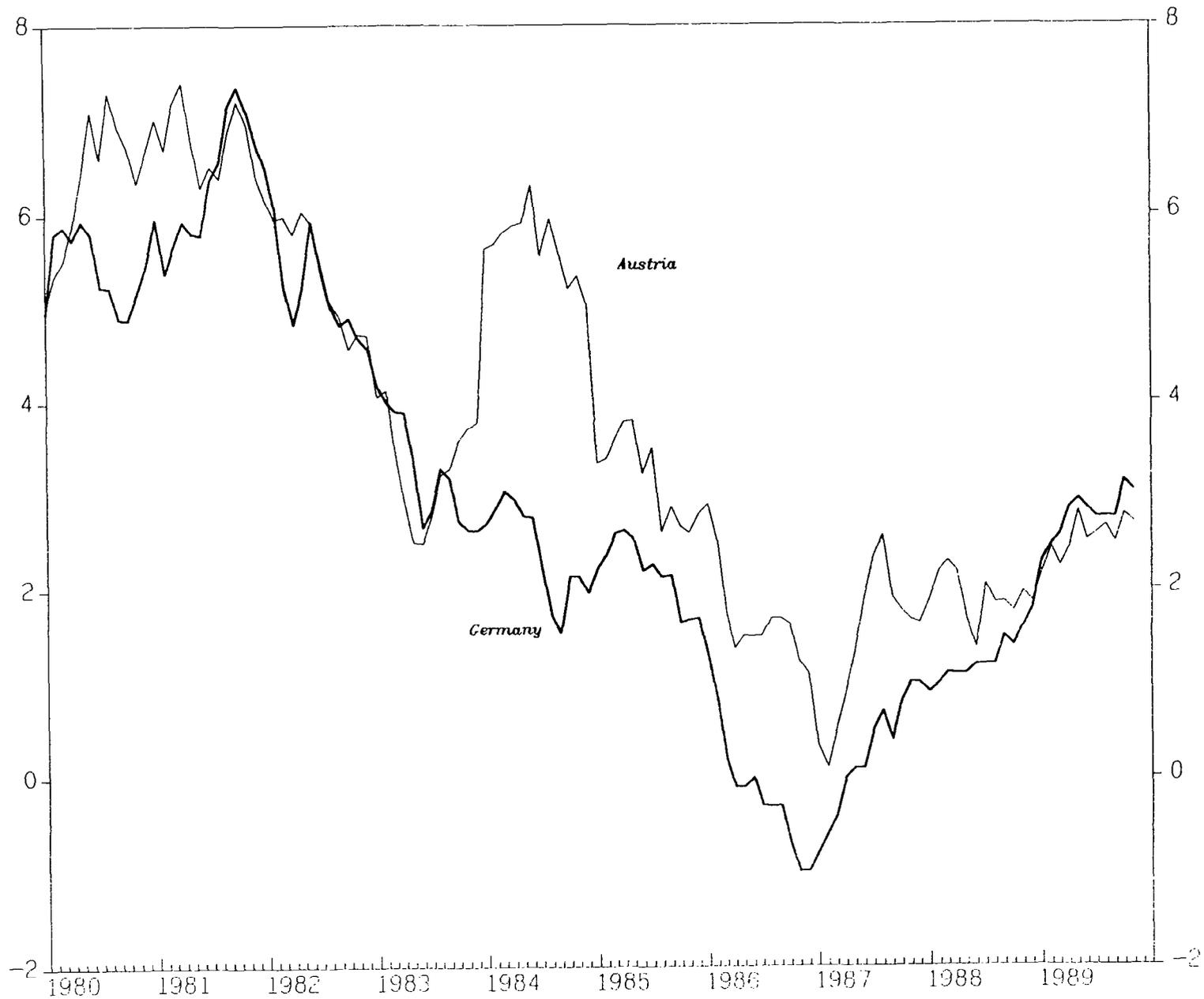
1/ See Appendix V.

Chart 5
AUSTRIA
Share of Wages in National Income
(In percent)



Source: Austrian Institute for Economic Research; and staff estimates.

Chart 6
AUSTRIA
The Consumer Price Index in Austria and Germany
(Percent changes) 1/



Source: IMF International Financial Statistics.
1/ Over the same month of previous year.

III. Public Finance

1. Introduction

The government sector in Austria comprises the federal government, the Länder governments (that is, the federal states), the municipalities and the social security system. 1/ Some public sector enterprises (for example, the Federal Railways, the Post Office, the Federal Theaters and the Federal Forests) and several major funds are included in the administrative federal budget, 2/ but most public commercial enterprises are outside the system of government accounts.

The federal government is the major player in the area of fiscal policy. The authority to tax rests largely at the federal level; consequently, the states and municipalities depend on federal government transfers as their major source of revenue. These transfers are based on a set of tax-sharing arrangements that are adjusted from time to time. In 1989, for instance, an estimated one third of total tax revenue was transferred from the federal government to other levels of government. On the expenditure side, the federal government accounts for more than half of general government outlays, though in some areas, e.g. investment, the role of the federal government is significantly smaller. 3/

Against this background, the analysis of fiscal developments at the federal government level is the principal focus of this chapter. This is followed by shorter discussions of the social security accounts and of developments at the general government level.

1/ The government sector also contains a large number of so-called chambers (Chambers of Commerce, Chambers of Labor, and Chambers of Professionals). These chambers are in some cases units with their own budgets, but, in most cases, they are included in the accounts of the state and local governments. Revenues and outlays of the chambers are relatively small and are not discussed here.

2/ Major funds in the administrative federal budget include the family burden sharing fund, the unemployment insurance fund, the innovation and technology fund, the catastrophe fund, and the hospital cooperation fund. Related to some of these funds, there exist reserve funds that are kept off-budget.

3/ Investment in the accounts of the federal government makes up close to 30 percent of general government investment, with most of the remainder being carried out by the municipalities. However, these data understate the importance of federal government investment expenditure, since part of it is carried out by extrabudgetary agencies and, therefore, not included in the federal budget. An important example is ASFINAG, which is responsible for certain public highways. The investment activities of ASFINAG, which amounted to S 4 1/2 billion in 1988, are financed through government guaranteed borrowing and the ensuing debt service is met from federal transfers and road tolls.

2. Federal government

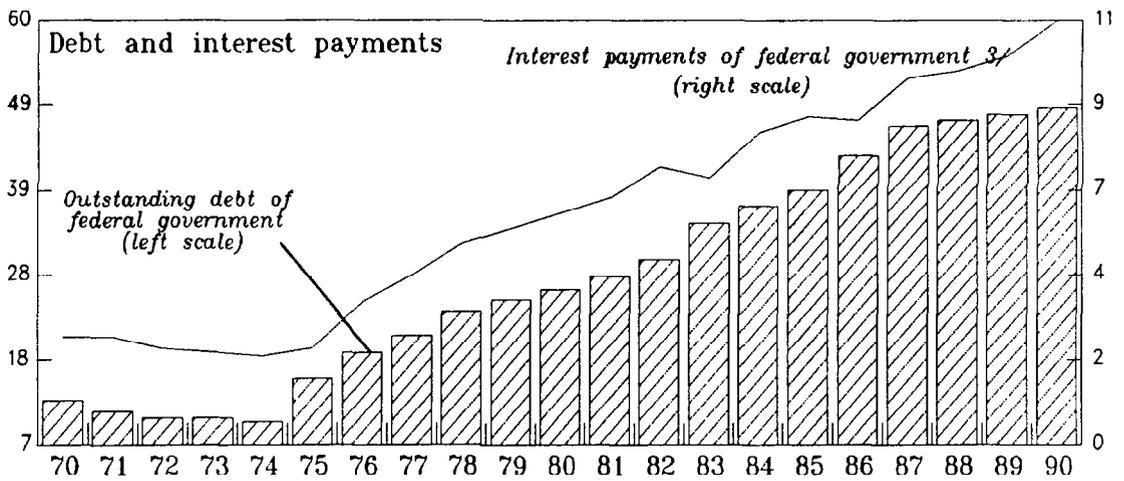
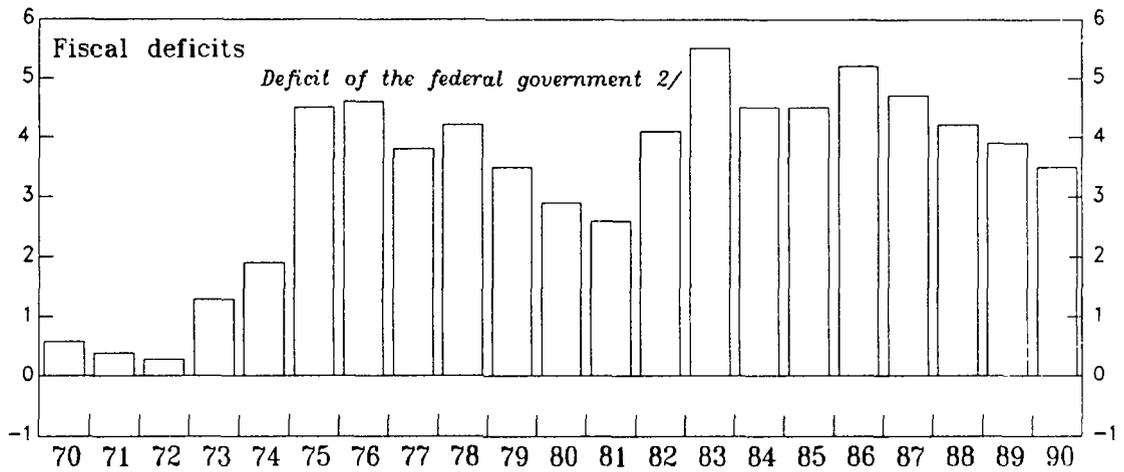
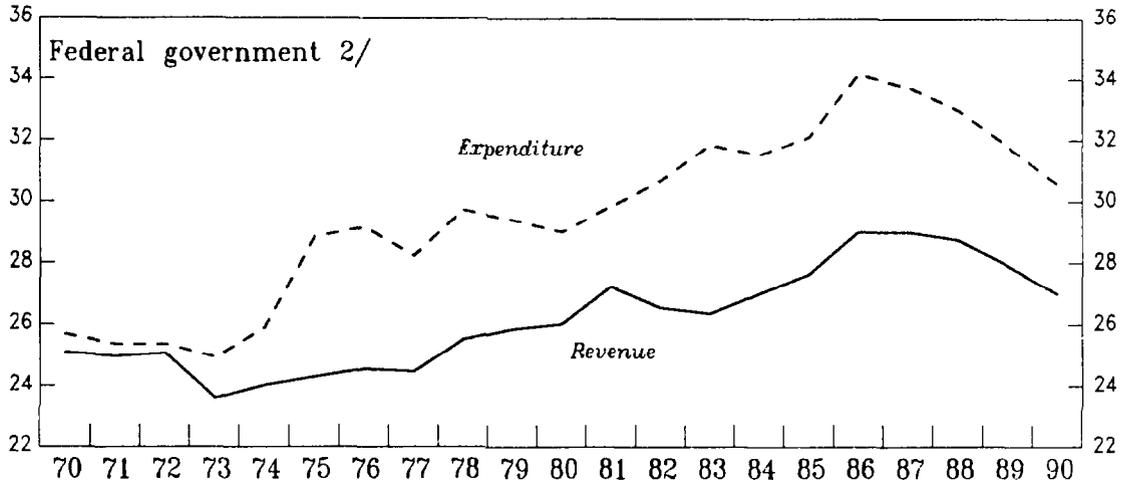
The fiscal position of the federal government deteriorated sharply after the first oil shock (Chart 7). It recovered to some extent between 1976 and 1981 but weakened markedly during the first half of the 1980s. The growing wedge between revenue and expenditure was related in part to structural weaknesses in the tax system but even more to the built-in dynamics--through legal and contractual commitments--of expenditure growth. In 1987 the Government acknowledged that past trends would not be sustainable in the longer-term: the debt to GDP ratio would continue to rise, implying rapidly increasing interest payments on the public debt; a growing share of domestic saving would be appropriated by the government; and the hard-currency policy would be at risk. ^{1/}

Starting in 1987, fiscal policy has been set in the context of a medium-term consolidation program (MTCP). Its core objective, as laid down in the government work accord, was to reduce the federal budget deficit from 5.2 percent of GDP in 1986 to 2.5 percent by 1992. Deficit reduction was primarily to be achieved through the containment of expenditure growth below 2 percent per annum. Specifically, the government work accord mentioned the need for modest public sector wage increases, a decline in the number of public sector jobs, a reduction in direct subsidies to industry, stabilization of agricultural transfers, containment of social transfers, adjustments in the health insurance system, and a cut-back in transfers to the federal railways. On the revenue side, a comprehensive tax reform was envisaged. Stage one, planned for 1989, aimed at major changes in direct taxation. Subsequent steps would focus on corporate and indirect taxation, including VAT. The basic idea behind these reforms was the creation of a simpler and more equitable tax system. In the short run, sales of public sector assets were to help raise extra revenue.

Since the initiation of the MTCP fiscal developments have been on track: the federal deficit declined to under 4 percent of GDP in 1989 and a further drop to 3 1/2 percent is budgeted for 1990 (Table 19). The process of deficit reduction has been helped by an unexpectedly strong upswing, but even adjusting for this there has been marked progress in the area of expenditure restraint. The government wage bill has grown at a slow pace and there has also been some success in

^{1/} In the "work accord" of the new government, projections for 1992, based on unchanged policies, put the net deficit at 9 percent of GDP (compared with an estimate of 5.4 percent for 1987 in the original 1987 budget), the debt to GDP ratio at almost 70 percent (45 percent in the original 1987 budget), and interest payments on this debt at close to 18 percent of total government revenue (12 percent in the original 1987 budget). See "Arbeitsübereinkommen zwischen der SPÖ und der ÖVP über die Bildung einer gemeinsamen Bundesregierung für die Dauer der XVII. Gesetzgebungsperiode des Nationalrates," Vienna, January 16, 1987.

Chart 7
AUSTRIA
Selected Indicators of Fiscal Policy 1/
(In percent of GDP)



Sources: Ministry of Finance, Bundesvoranschlag 1990; and Fund staff estimates.

1/ Staff estimates for 1989 and budget figures for 1990.

2/ Administrative basis.

3/ In percent of expenditure.

restraining social security transfers, although further measures will be needed to achieve a lasting stabilization of federal government transfers to the pension fund. In addition, government assistance to the private business sector has leveled off, although this has reflected, in part, favorable movements in world market prices for agricultural products. On the revenue side, a major reform of personal and corporate income taxation was carried out as planned in 1989.

The progress of the budget consolidation process is traced below through a year-by-year analysis of fiscal developments in 1987-89 and a discussion of the budget for 1990. This is followed by an assessment of the underlying change in the budgetary position, in which an attempt is made to separate out the effects of cyclical and other temporary influences on the budget.

a. The budget for 1987

The original 1987 budget, which had been proposed by the outgoing government in October 1986, projected a federal deficit of 5.4 percent of GDP. Following the general election (November 23, 1986), a revised budget was prepared and this was adopted by the National Assembly in April 1987. In accordance with the consolidation objective stated in the Government's "work accord," the revised budget for 1987 provided for a reduction in the deficit to 4.9 percent of GDP (from 5.2 percent in 1986). Both total revenue and total expenditure were to rise by about 2 percent.

Under the revised budget, revenue growth was affected by adjustments to a number of taxes. Personal income taxes were to fall, as individual and family deductions were increased to compensate for fiscal drag. The estimated revenue loss was S 12 billion in 1987, of which the cost to the federal budget was about S 6 billion. With effect from April 1, 1987, the rate of VAT on certain luxury items, including chinaware, consumer electronics, cameras, jewelry, furs, and carpets was reduced from 32 percent to the standard rate of 20 percent; the estimated revenue loss was S 1 billion. As a partial offset, the tax rates on mineral oil products were raised also effective April 1.

Budgeted growth in outlays varied substantially across the major categories of expenditure. Interest payments, a component of expenditure over which the government has little control in the short run, and transfers to the social security system, were among the fastest expanding items (17 1/4 percent and 13 3/4 percent, respectively). The increase in the government wage bill, which had been high in the recent past, was budgeted to slow from 7 1/4 percent in 1986 to 3 1/2 percent in 1987. The growth of federal assistance to enterprises (including agriculture) was also projected to slow, from 9 1/4 percent in 1986 (Table 20) to 2 3/4 percent, while federal government outlays on gross fixed investment and current goods were scheduled to decline by 8 1/2 percent and 2 1/2 percent, respectively.

In the event, economic performance in 1987 was slightly weaker than had been assumed in the budget. 1/ Accordingly, tax revenue and income from federal enterprises rose more slowly than budgeted. Overall however, revenue grew by 4 1/2 percent, 2 1/2 percentage points more than had been envisaged, owing chiefly to the S 6 billion sale of the federal share in eight local electricity generating companies to the "Verbund," a publicly owned corporation. 2/ Total expenditure rose by 3 percent, about one point faster than budgeted. A major overrun occurred in the category "other expenditure" 3/ but this was partially offset by larger than planned cuts in outlays for current goods and services and investment. The government wage bill expanded in line with projections, with the help of measures adopted in July 1987 which included a tightening of rules on hiring and overtime work.

Reflecting these developments, the deficit amounted to just under S 70 billion, equivalent to 4.7 percent of GDP and almost 1/4 percentage point of GDP lower than planned. 4/ The debt to GDP ratio rose from 43.6 percent of GDP in 1986 to 47.2 percent of GDP in 1987 (Table 22).

b. The budget for 1988 5/

The 1988 budget was widely perceived as the litmus test for the government's resolve to implement fiscal restraint. A budgeted deficit of S 71 billion (4.6 percent of projected GDP), based on assumptions of weak economic growth (3.4 percent nominal and 1.5 percent real) and an increase in the unemployment rate to 6.1 percent, was considered consistent with the MTCP.

1/ The economic assumptions behind the 1987 budget estimates included nominal GDP growth of 4.7 percent, real GDP growth of 2 percent, and a rise in the unemployment rate from 5.2 percent in 1986 to 5.5 percent in 1987. The outturn was that nominal GDP grew by 4.4 percent, real GDP by 1.9 percent, and that the unemployment rate rose to 5.6 percent.

2/ This sale had not been included in the budget.

3/ "Other expenditure" contains a heterogeneous group of items including payments on account of export guarantees, ASFINAG and the acquisition of assets. The overrun referred to above mainly reflected higher export guarantee payments.

4/ Information on financing of the deficit is presented in Table 21.

5/ Changes in bookkeeping practices introduced in the 1988 budget increased both the revenue and the expenditure side by S 29 billion. Hence, gross figures for 1988 are not directly comparable with those for earlier years. The most important accounting change related to the housing support program: it was previously classified as a tax sharing transfer to the Länder and recorded as a deduction from revenue in the federal accounts, whereas, from 1988 on, it was reported on a gross basis, i.e. as a transfer payment to the Länder with the corresponding revenue appearing in the federal accounts. Other changes included the introduction of gross budgeting for the innovation and technology fund, the catastrophe fund, and the federal mint.

(1) Budgeted revenue

In 1988, tax revenue before revenue sharing was projected to rise by a little over 3 1/2 percent. The high rate of growth (12 1/2 percent) of tax revenue accruing to the federal government was largely the result of the introduction of gross accounting of the \$ 16 billion housing support program. Nontax revenue was expected to rise 5 1/4 percent, owing to increases of 8 1/2 percent in gross receipts of federal enterprises and 6 1/2 percent in tax-like revenue (mostly contributions to the unemployment insurance fund and the fund for family assistance), while little change was projected for "other revenue." 1/

The small rise in the ratio of budgeted tax revenue to GDP reflected discretionary changes in wealth and income tax regulations. These changes, which have become known as "Vorleistungen," were the advanced part of a major tax reform package to be introduced in 1989; they included the cancellation of the investment premium and the marriage allowance, and the reduction of tax incentives for savings placed with building and loan societies. Together, the reduction in these tax expenditures was estimated to yield \$ 4 1/2 billion, about 1 percent of total tax revenue. In addition, exemptions from the corporation tax, the federal property tax, and the inheritance equivalence tax were abolished for several public enterprises yielding \$ 2 1/2 billion annually.

(2) Budgeted expenditure

After adjustment for the accounting changes introduced in the 1988 budget, total expenditure was projected to increase by 2 percent. 2/ Half of this growth reflected a rapid increase in interest expenditure; interest payments were expected to increase by 11 1/2 percent, with the effect of lower interest rates more than offset by the rise in the stock of federal government debt. 3/ Family allowances and unemployment benefits were also budgeted to grow rapidly and at a much faster pace than in the previous year. In all other major areas of expenditure, significant restraint was evident. 4/ Government wages and salaries were budgeted to decline by almost 1/2 percent, reflecting the postponement of pay adjustments from January to July, a 1 percent reduction in employment (to be achieved through attrition), and a 5 percent cut in appropriations for overtime payment. Transfers to the

1/ The "other revenue" component covers a heterogeneous group of items with asset sales having assumed a more important role since 1986. In 1988, asset sales were budgeted to amount to almost \$ 5 billion compared with \$ 6 1/2 billion realized in 1987.

2/ The unadjusted rise in expenditure was budgeted at 8 percent.

3/ Expenditure, excluding interest and adjusted for accounting changes, was budgeted to rise by only 1 percent.

4/ The rapid rise in "other transfers" and "other expenditure" reflected changes in accounting practice introduced in the 1988 budget.

social security system were expected to grow less rapidly than in the past, owing mainly to the second stage of a pension reform, which became effective on January 1, 1988. 1/ Net budgetary outlays on account of the federal enterprises were projected to decline by 11 percent and transfers to other enterprises were also expected to fall. While federal government outlays for gross fixed investment were budgeted at 5 1/4 percent above the outturn for 1987, this represented a decline of 16 1/2 percent from the level of 1986. 2/

(3) The 1988 Budget outturn

In the event the 1988 net federal deficit turned out S 4 1/2 billion lower than projected at S 66 1/2 billion (4.2 percent of GDP). Expenditure rose roughly in line with the budget. Revenue, however, was somewhat more buoyant; reflecting the unanticipated upswing in economic activity that began in the latter part of 1987, revenue grew by 5 1/2 percent compared with the projected rise of 4 1/2 percent. 3/ Federal government debt rose by 7 percent, or 1/4 percent of GDP; this represented the smallest increase in the federal debt (either in percentage terms or relative to GDP) since the first half of the 1970s.

Total tax revenue increased by 5 1/4 percent in 1988, markedly above the budgeted rise of 3 1/2 percent. Higher than expected proceeds stemmed mainly from the wage tax and the VAT, reflecting the unexpected strength in employment and private consumption growth. The buoyant economy also boosted tax-like revenue which includes, as a major item, contributions to the unemployment insurance fund. Receipts from federal enterprises turned out lower than budgeted as the impact of fare increases of the federal railways had been overestimated and revenue from public asset sales fell short of budget plans. 4/

1/ Stage one of the pension reform had been introduced in 1985. Of particular importance for the 1988 budget, this second stage included a postponement by six months of the standard annual adjustment of pensions. This was to result in budgetary savings of S 1 1/2 billion. Other elements of the reform (e.g., the tightening of qualifications for pension benefits) had little effect on the 1988 budget, but were expected to restrain expenditure growth in subsequent years.

2/ Actual investment expenditure in 1987 was considerably below the budgeted amount. Thus, the amount budgeted for investment in 1988 represented a further decline relative to the budget of 1987.

3/ Actual nominal GDP grew by 6.3 percent (projected 3.4 percent); real GDP grew by 4.2 percent (projected 1.5 percent); and the unemployment rate (projected to rise to 6.1 percent) fell to 5.3 percent.

4/ Budgeted asset sales amounted to S 4 3/4 billion; realized sales were S 1 1/4 billion lower, as one of the budgeted sales did not take place and revenues from another sale were not received until 1989.

Expenditure savings from budgeted amounts were made in a number of areas. Automatic stabilizers helped contain the rise in cyclically sensitive expenditure categories; for example, federal transfers to the unemployment insurance fund were lower than budgeted. In addition, the reduction in transfers to enterprises was larger than projected. There were also significant savings on goods expenditure, both current and capital, and interest payments were below budget by more than S 2 billion as part of the government debt was refinanced at lower interest rates. The above savings were offset by higher than expected expenditure in other areas. Government wages and salaries rose by 1 1/2 percent compared with the budgeted decline of 1/2 percent. 1/ Moreover, the federal budget transferred S 3 3/4 billion to the unemployment insurance reserve fund, representing the benefit accruing to the unemployment fund as a result of the more favorable economic conditions. 2/

c. The budget for 1989

The federal budget for 1989, which was adopted by the National Assembly in December 1988, envisaged expenditure growth of 2 1/2 percent, revenue growth of 3 percent and a resulting deficit of S 66 billion (4 percent of GDP). 3/ The focal point of the budget was a major income and corporate tax reform, initially announced in the 1987 government work accord. Higher asset sales--S 12 billion against a realized figure of S 3 1/2 billion in 1988--were planned, to compensate for the revenue loss from the tax reform.

(1) The 1989 tax reform

The tax reform, which was aimed at simplifying the tax system and improving work incentives, entailed a lowering of direct personal and corporate tax rates combined with a broadening of the tax base. The top marginal rate for personal income taxation was reduced from 62 percent to 50 percent, the bottom rate from 21 percent to 10 percent and the number of tax brackets was cut from 10 to 5. As a result, marginal and average tax rates were lowered at all levels of taxable income. For marginal tax rates, reductions varied between 5 percentage points for annual incomes between S 50,000 and S 100,000 and 19 percentage points for annual incomes between S 250,000 and S 300,000. For average tax rates, reductions ranged from 10 percentage

1/ The general pay increase of 2 percent, effective July, 1988, had not been part of the budget plan.

2/ This transfer did not represent expenditure in an economic sense. However, as this reserve fund is off-budget, the transfer boosted government expenditure as recorded in the administrative budget.

3/ The economic assumptions underlying the budget were: nominal GDP growth of 4.8 percent (similar to the 5 percent growth used for the MTCP projections), a 3 percent rise in real GDP, and a fall in the unemployment rate from 5.6 percent to 5.4 percent.

points for annual incomes of less than S 200,000 to 13 percentage points for annual incomes over S 700,000. The minimum income threshold, below which no income tax has to be paid, was raised 1/ removing about 220,000 people previously subject to income tax from the tax net.

A wide variety of measures was adopted to make the tax system more simple and equitable and to broaden the tax base (Table 23). 2/ These measures did not all increase revenue; together, however, according to estimates of the Austrian Institute for Economic Research (WIFO), they boosted the tax base by S 90 billion or 6 percent of taxable income. 3/ Once these changes are taken into account, the effective reduction in average tax rates was, of course, less than the nominal reduction.

In addition to the above measures, the withholding tax on dividend income was raised from 20 to 25 percent with an expected first year revenue gain of S 300 million, and a 10 percent withholding tax on interest income was introduced with an estimated yield of S 3 1/2 billion. In contrast to the interest withholding tax adopted in 1985 and subsequently ruled unconstitutional, amounts withheld under the new tax were to be deductible from income tax liability.

Corporate tax rates were reduced sharply and the tax base was enlarged (see Table 24). The statutory corporate tax rate, at 30 percent, is now lower than that in Germany 4/ and other important trading partner. 5/

Finally, a number of indirect taxes were adjusted as part of the tax reform. Together these changes were expected to raise S 1 1/4 billion in revenue.

(2) Budgeted revenue

Reflecting the tax reform, the cost of which was originally estimated at S 10 billion in the first year (half from the federal government budget), tax revenue was projected to grow at a rate of only 2 percent. The initial revenue effect was largest on personal income

1/ From S 6,770 per month to S 8,450 per month for employees, from S 6,280 to S 7,170 for retirees, and from S 43,800 per annum to S 56,800 per annum for employers.

2/ Nevertheless, sizable tax expenditures remain, including the favorable treatment of the so-called 13th and 14th month salaries which are traditionally paid as bonuses in Austria.

3/ Austrian Institute for Economic Research, Monatsberichte, 11/1988.

4/ In January 1990, the corporate tax rate in Germany was reduced from 56 to 50 percent.

5/ Some current rates are: Italy 46 percent; France 42 percent; the United Kingdom 35 percent; the United States 34 percent; and the Netherlands 35 percent.

tax receipts which were expected to drop by 7 3/4 percent. Direct business taxes, which comprise the corporate and the trade tax, were projected to rise by 8 percent; because of adjustment lags in the assessment of these taxes, the tax reform was expected to have a relatively minor influence in 1989. VAT proceeds were budgeted to increase by almost 7 percent, owing chiefly to the assumed strength of nominal consumption. 1/

Tax-like revenues were budgeted to increase by 2 1/4 percent in 1989 and revenues of federal enterprises by almost 4 percent, the latter largely on account of higher Post Office receipts. Other revenue was projected to grow by 7 percent, reflecting asset sales; of S 12 billion projected in asset sales, S 8 billion were to come from the sale of the mint to the Austrian National Bank. Government receipts from profits of the National Bank in 1989 were budgeted slightly below the level in the 1988 budget (S 3 3/4 billion in 1989 compared with S 4 1/4 billion in 1988).

(3) Budgeted expenditure

The process of consolidation through expenditure restraint was set to continue in the 1989 budget, with the share of total federal expenditure in GDP projected to fall by almost 1 percentage point to 32 percent. The federal government wage bill was budgeted to rise by 2 percent (including a small decline in employment) and transfers to enterprises were projected to fall, mainly reflecting a lower milk price subsidy and a freeze in overall support to industry. 2/ In certain important areas, however, expenditure restraint was less evident. In particular, social transfer payments were budgeted to rise by 6 1/2 percent, a faster rate than in 1988 (4 1/2 percent); transfers to the social security system were to grow particularly fast (9 3/4 percent).

(4) Estimated 1989 budget outturn

Preliminary estimates 3/ of the outturn of the 1989 budget are for a deficit of about S 65 billion (3.9 percent of GDP), a little lower than the budgeted S 66 billion--owing mainly to stronger revenue growth. Tax revenue and tax-like revenue grew faster than projected while revenue accruing to federal enterprises and other revenue turned out slightly weaker than expected. Although the wage tax recorded a S 5 billion shortfall, mainly on account of the unexpectedly heavy use

1/ Some minor adjustments to a number of VAT rates were expected to yield additional receipts of almost S 1/2 billion.

2/ A rise in transfers to enterprises is shown in Table 20, but this was accounted for entirely by an expected increase in payments related to labor market programs and accruing to individuals.

3/ Estimates provided to the mission dated from September 1989.

of tax allowances, 1/ the assessed income tax and the corporation tax rose sharply during 1989. With yields of most indirect taxes in line with the budget, tax revenue--before revenue sharing--is estimated to have grown by 3 percent compared with the budgeted rise of 2 percent.

Turning to nontax revenue, the family burden sharing fund recorded higher than budgeted receipts (in the amount of \$ 1 1/2 billion), but this surplus accrued to the family burden sharing reserve fund which is off-budget and hence it did not affect the administrative budget deficit. Unemployment insurance contributions were \$ 1/2 billion lower than budgeted mainly reflecting a reduction in the contribution rate (by 0.4 percentage point to 5.0 percent) effective August 1, 1989. Asset sales amounted to \$ 11 1/4 billion, compared with the expected \$ 12 billion.

Based on the administrative definition of the budget, there was a small expenditure overrun. The buoyant economy helped restrain expenditure growth; for example, the federal contribution to the pension system fell by almost \$ 4 billion. 2/ Offsetting these savings, payments related to export credit guarantees were higher than projected (by \$ 2 1/2 billion) and government wages and salaries turned out to be almost \$ 3 billion above budget. The latter overrun was partly offset in part by discretionary expenditure cuts elsewhere.

d. The budget for 1990

In the draft budget for 1990 expenditure is set to grow by only 1 3/4 percent 3/ compared with projected nominal GDP growth of 6 percent, revenue is budgeted to increase by 2 1/2 percent, and the deficit is expected to decline to \$ 63 billion, equivalent to 3 1/2 percent of GDP. By the end of 1990, the federal debt is projected to amount to 49 percent of GDP compared with 48 1/4 percent at the end of 1989.

1/ This should be offset by higher revenue in 1990 as lower tax reimbursements are granted--see discussion of the 1990 budget.

2/ Positive cyclical effects also reduced expenditures of the unemployment insurance fund; the benefit, however, accrued to the unemployment insurance reserve fund (off-budget) and not to the budget.

3/ Over the estimated 1989 outturn. For certain components of revenue and expenditure estimates for 1989 are not yet available. In these cases, which are indicated in the text, 1990 budget figures are compared with 1989 budget figures.

Expenditure growth in 1990 is to be dampened by personnel cuts, 1/ a moderate wage settlement, 2/ a further decline in overtime work, continued rationalization of the federal railways, and reductions in certain categories of investment spending. Although pension payments to civil servants will increase owing to legal commitments, other social security related transfers are budgeted below their respective levels in the 1989 budget, reflecting principally savings due to the continuation of the economic upswing. Unemployment benefits, for instance, are expected to decline in line with the decrease in the number of unemployed. 3/ A change in the formula for calculating the annual pension adjustment 4/ implies that pensions will rise by 3 percent in 1990, i.e., 1 percentage point faster than under the previous system, but this is projected to be matched by higher contributions resulting from the expected increase in employment. Similarly, reflecting continued favorable economic growth, outlays on account of the family burden sharing fund are budgeted to remain practically unchanged compared with the 1989 level, notwithstanding the increase in child benefits 5/ and additional assistance for low income families. 6/ Overall transfer payments to enterprises are budgeted to remain at their 1989 level. The item "other transfers" is budgeted to increase by 6 3/4 percent (compared with the 1989 budget): Outlays on account of government commitments to the ÖIAG will decline by almost S 1 billion, but other commitments, including those to the hospital fund (KRAZAF) and to support housing construction, are projected to increase by sizeable amounts. 7/ Interest payments (adjusted for changes in accounting practice) are budgeted to rise by about 11 percent.

Budget receipts are expected to grow by 2 1/2 percent in 1990, though a 7 3/4 percent rise is foreseen for total tax revenue. The latter reflects favorable developments of the various tax bases and

1/ About 1,200 civil service jobs are to be eliminated, mainly by filling only every second vacancy.

2/ The 1988 wage agreement covered a two-year period and provided for a 2.9 percent general increase, effective January 1, 1990.

3/ The unemployment rate is projected to fall from 5 percent in 1989 to 4 3/4 percent in 1990.

4/ A shortening of the reaction lags of pensions to wages and salaries by one year.

5/ By S 100 per month for all children and S 200 for handicapped children.

6/ By a total amount of S 750 million.

7/ Transfers to the Krankenanstalten - Zusammenarbeitsfonds (KRAZAF) are projected to rise from S 3 billion in the 1989 budget to S 3 1/4 billion in 1990 and transfers to support housing construction from S 15 1/2 billion in the 1989 budget to S 17 1/2 billion in 1990.

special effects from the 1989 tax reform. 1/ In addition, the taxation of the "fifteenth month" salary, a year-end bonus payment, will accrue to the 1990 tax take. 2/ In contrast to tax revenue, tax-like revenue is projected to increase by only 1/2 percent, mainly reflecting the lowering of the rate of contribution to the unemployment insurance fund by 0.4 percentage point to 4.6 percent. Finally, the "other revenue" component is projected to decline as asset sales are budgeted at only S 2 1/2 billion compared with the S 11 1/4 billion realized in 1989.

e. The federal government on a national accounts basis

The administrative definition of the budget is not well suited to an assessment of the underlying position of federal fiscal policy and its effects on the economy. At a minimum, the budget figures should be adjusted for asset sales, changes in the reserves of various off-budget funds, and other financing transactions. 3/ The budget on a national accounts basis takes these and other adjustments into account and provides data that fit consistently into the general framework of national accounts data. 4/ Table 25 compares the federal budget deficit (in percent of GDP) on an administrative and a national accounts basis. For the latter, it also presents the underlying fiscal position (the structural deficit) and reports the overall effect of the budget on the economy in the form of the fiscal impulse measure. 5/

1/ For instance, part of the loss in wage tax revenue in 1989 (due to the unexpected high use of tax allowances) will be recouped in 1990 in the form of lower repayments under the annual wage tax refund (Lohnsteuerjahresausgleich).

2/ This bonus became taxable under the tax reform and the first revenue will be received in early 1990.

3/ Asset sales which have been an important source of revenue for the Austrian federal budget in recent years do not reduce the underlying budget deficit. Moreover, the revenue raised probably has a very limited effect on demand in the economy, particularly when the sale is to another public sector agency, as in the case of the sale of the Austrian Mint. As noted in the text, fluctuations in off-budget reserve funds have also been significant in recent years; increases in such reserves are reflected in a larger deficit on an administrative basis, than when such reserve are consolidated with the federal budget. In effect such off-budget funds shift the timing of recording of budgetary outlays.

4/ However, net lending activities, which are classified as "expenditure" in an administrative presentation but not in the national accounts presentation, may in many cases have economic effect more akin to expenditure rather than financing transactions.

5/ The structural deficit and the fiscal impulse measure are calculated on the basis of the IMF World Economic Outlook methodology. For details, see Heller, Haas and Mansur (1986).

According to both the administrative and the national accounts measures, the federal budget deficit declined by about 1 1/4 percentage points of GDP between 1986 and 1989, implying that asset sales, fluctuations in off-budget reserves and other financing items were not, on balance, a significant factor in the reduction of the deficit over this period. 1/ The decline in the structural deficit was, however, somewhat smaller (about 3/4 percent of GDP); thus cyclical factors have contributed to the consolidation effort. In each of the last two years, the budget has imparted a negative impulse to the economy; reflecting the tax reform, however, the contractionary effect was smaller in 1989 than in 1988.

For 1990, the budgeted reduction in the deficit on a national accounts basis (3/4 percent of GDP) is twice that on an administrative basis, reflecting, inter alia, a decline in asset sales from over S 11 billion in 1989 to S 2 1/2 billion in the budget for 1990. The underlying fiscal position, as measured by the structural deficit, is expected to show a decline similar in magnitude to that of the national accounts based deficit and a contractionary impulse of about 3/4 percent of GDP is projected.

3. The social security system

The Austrian social security system, broadly defined, comprises the social security funds administered by the federal government--mainly unemployment insurance, family assistance, and pension payments to civil servants--and the autonomous social security funds which include pension, health, and accident insurance.

Federal government spending on social security 2/ grew at a much slower pace in 1988 than in 1987, with the deceleration visible in all major components. Outlays on unemployment insurance rose by 6 1/2 percent against almost 13 percent in 1987, mainly reflecting a drop in the number of unemployed. 3/ With little change in the number of children, expenditure of the family assistance fund increased only

1/ A comparison between 1987 and 1989 shows a much larger drop in the deficit on a national accounts basis than on an administrative basis. This is because net lending operations of the federal government were unusually low in 1987. As net lending recovered, expenditure on an administrative basis declined less rapidly in relation to GDP than expenditure on a national accounts basis.

2/ This includes spending on funds administered by the federal government as well as federal transfers to the autonomous funds, principally the pension fund.

3/ In addition, with the increase in long-term unemployment, the importance of assistance payments (which are lower than unemployment benefits) rose further. Persons covered under the unemployment insurance fund are entitled to the payment of unemployment benefits for the first 12 months of unemployment and to unemployment assistance after that.

slightly (1/2 percent as against 8 1/4 percent in 1987). Direct federal pension payments also grew more slowly (4 1/4 percent compared with 5 3/4 percent in 1987) reflecting the six-month postponement of the pension adjustment. Transfers from the federal government to the social security system rose by only 1 percent (after a 14 percent increase in 1987), owing to the postponement of pension adjustments.

In the 1989 budget, the growth of federal government social expenditure was expected to pick up again to a rate of 6 1/2 percent (4 1/2 percent in 1988). However, the actual rise is likely to be significantly smaller, owing principally to the buoyant economy; expenditure on family allowance and unemployment benefits is expected to be much the same as in 1988 while the federal contribution to the social security funds is likely to grow more slowly than budgeted.

Expenditure of the autonomous social security funds rose 4 1/2 percent in 1988 marking the lowest increase since the introduction of the social security law 30 years ago. To a large extent, this outcome reflected slower growth of expenditure of the autonomous pension funds, owing to the six-month postponement of the pension increase; as a result pension fund expenditure rose by 4 percent, compared with 6 3/4 percent in 1987 (Table 26). The growth of pension fund expenditure is estimated to have quickened again in 1989 to about 5 1/2 percent. Notwithstanding various measures to dampen the increase in pension payments and the boost to contributions from the buoyant economy, the deficit of the pension fund widened from S 50 3/4 billion in 1987 to a budgeted S 55 billion in 1989, and declined only slightly in relation to GDP (from 3.4 percent to 3.3 percent). ^{1/} In part, this reflected the continued rapid rise in the number of pensioners, including early retirement pensioners. The financial gap of the pension fund was automatically filled by transfers from the federal government.

^{1/} The 1985 pension reform entailed the following major changes: The legal federal liability with regard to its contribution to the pension fund was reduced by one percentage point; contribution rates were raised; the formula according to which the annual pension adjustment is calculated was adjusted to take into account the unemployment rate; and the base period for pension calculations was lengthened. In the 1988 pension reform, further measures were added, including: a reduction of the federal liability by a further 0.3 percentage point; a six-month delay in the adjustment of pensions; the exclusion of time spent at school or university from the period underlying the pension calculation, adjustments in survivors pension regulations; the reduction of the contribution from the pension fund to pensioners' health insurance payments; and a cut in fees paid to the health insurers in return for administering pension contributions. Savings due to the 1985 and 1988 pension reforms were estimated to be small initially but to increase over time, reaching S 13 billion and S 4 1/2 billion, respectively, by 1995.

Expenditure of the health insurance fund continued to grow rapidly; it expanded by about 8 percent in 1988 and an estimated 6 1/4 percent in 1989. In 1988, the health insurance fund benefited from a rise in the salary limit up to which contributions are mandatory but this was offset in part by a reduction in the contribution rate for pensioners. In the event, the health insurance fund is estimated to have recorded modest deficits in 1988-89, after a small surplus in 1987.

The financial position of the accident insurance fund has improved over the past two years, with a small deficit in 1987 being followed by small surpluses in 1988-89. In large part, however, this reflected the abolition of transfer payments from the accident insurance fund to the pension insurance fund.

4. General government ^{1/}

Developments in the general government accounts have broadly paralleled those for the central government. In the wake of the first oil shock, the financial balance of the general government shifted sharply into deficit, after being in surplus for the first half of the 1970s. The deficit declined between 1976 and 1980, but then began to widen again, reaching a peak of 4 3/4 percent of GDP in 1987 (Chart 8). The "revenue burden" rose sharply between the early 1970s and the mid-1980s, but expenditure increased even faster. The growth of interest expenditure was particularly rapid, reflecting the rising public debt. Indeed, the widening of the deficit in relation to GDP, in the 1980s, to a large extent reflected interest expenditures, with the primary balance showing no pronounced trend.

Reflecting the fiscal consolidation program of the central government, the general government deficit fell by about 2 percentage points of GDP between 1987 and 1989, to 2 3/4 percent of GDP (Table 27). While revenue fell by 2 percentage points of GDP, owing principally to the tax reform, the decline in the expenditure ratio was twice as large, at 4 percentage points. All major components of expenditure declined in relation to GDP, with subsidies and capital expenditure declining also in absolute terms.

Official projections for 1990 show a further reduction in the general government deficit by about 1 1/4 percentage points of GDP, with the federal government deficit falling by 3/4 percentage points of GDP and the surplus of the other levels of government rising by 1/2 point. The decline in the deficit principally reflects expenditure restraint, with the revenue ratio expected to rise only slightly.

^{1/} National accounts basis.

IV. The Exchange Rate and the Financial Markets

1. Introduction

The principal goal of Austrian monetary policy is to maintain a stable exchange rate between the schilling and the deutsche mark. ^{1/} This "hard currency" policy largely precludes independent Austrian targets for monetary aggregates or interest rates and the Austrian monetary authorities see monetary aggregates as demand determined rather than supply controlled. Thus, upward market pressure on the schilling exchange rate generally provides a signal to the monetary authorities to ease policy, while downward pressure signals the need for a tighter stance. ^{2/} After a brief discussion of exchange rate developments, the remainder of this chapter will focus on the financial markets, with particular emphasis on the links between the Austrian and German markets.

2. Exchange rate developments

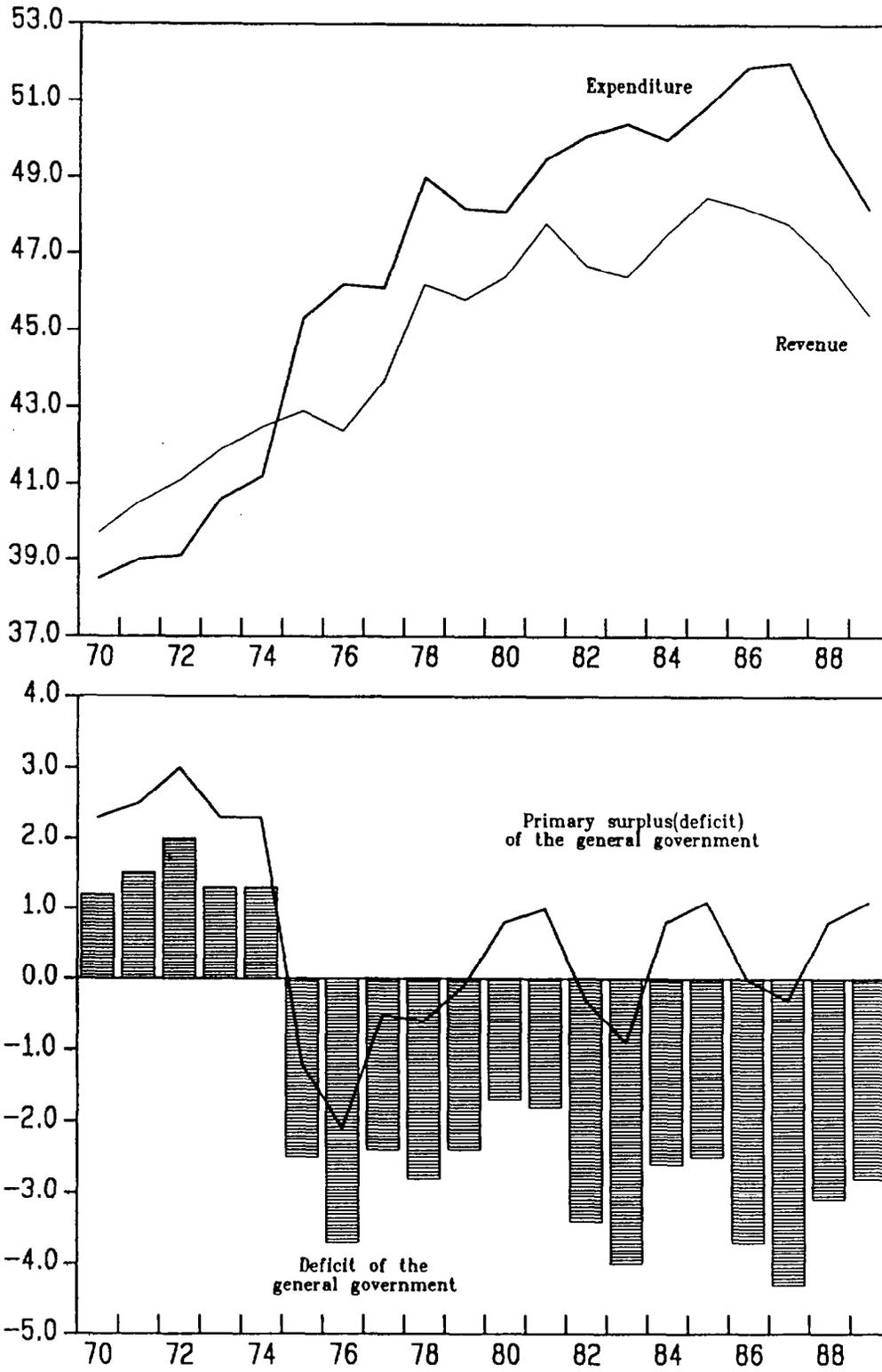
The exchange rate of the schilling against the deutsche mark has been virtually constant since 1981 (Table 28). ^{3/} With low inflation in Germany, this has helped discipline wage and price formation in Austria. Moreover, given the heavy weight of EC countries in Austria's international trade, and the exchange arrangement linking currencies participating in the exchange rate mechanism (ERM) of the European Monetary System, this policy has helped limit currency risk facing Austrian exporters and importers. It has not, however, been possible to fully insulate the economy from the turbulence in the exchange markets in the 1980s (Chart 9). For example, the marked weakness of the U.S. dollar from the spring of 1985 to early 1987 and the appreciation of the deutsche mark in the ERM (with realignments in April 1986 and January 1987) resulted in a nominal appreciation of 8 percent between 1985 and 1987 and a real appreciation of 5 1/2 percent (based on unit labor costs in manufacturing). Between the first quarter of 1987 and the third quarter of 1989, however, the nominal effective exchange rate was more stable, reflecting in particular the absence of tensions within the EMS. With strong productivity growth and moderate wage growth in the Austrian manufacturing sector in 1988 and 1989, there has been a significant depreciation of the real exchange rate, which is now below the level prevailing in 1985.

^{1/} Under the National Bank Law, the Austrian National Bank is obliged to follow monetary policies directed at maintaining the value of the schilling, both internally and vis-à-vis the stable currencies in the world economy.

^{2/} Appendix III contains a description of the principal monetary policy instruments used by the Austrian National Bank and how policy influences the distribution of the monetary base between foreign and domestic components.

^{3/} On a monthly average basis, the exchange rate has fluctuated between S 7.01 and S 7.05 per deutsche mark since the end of 1981. The variation in daily rates has been somewhat larger.

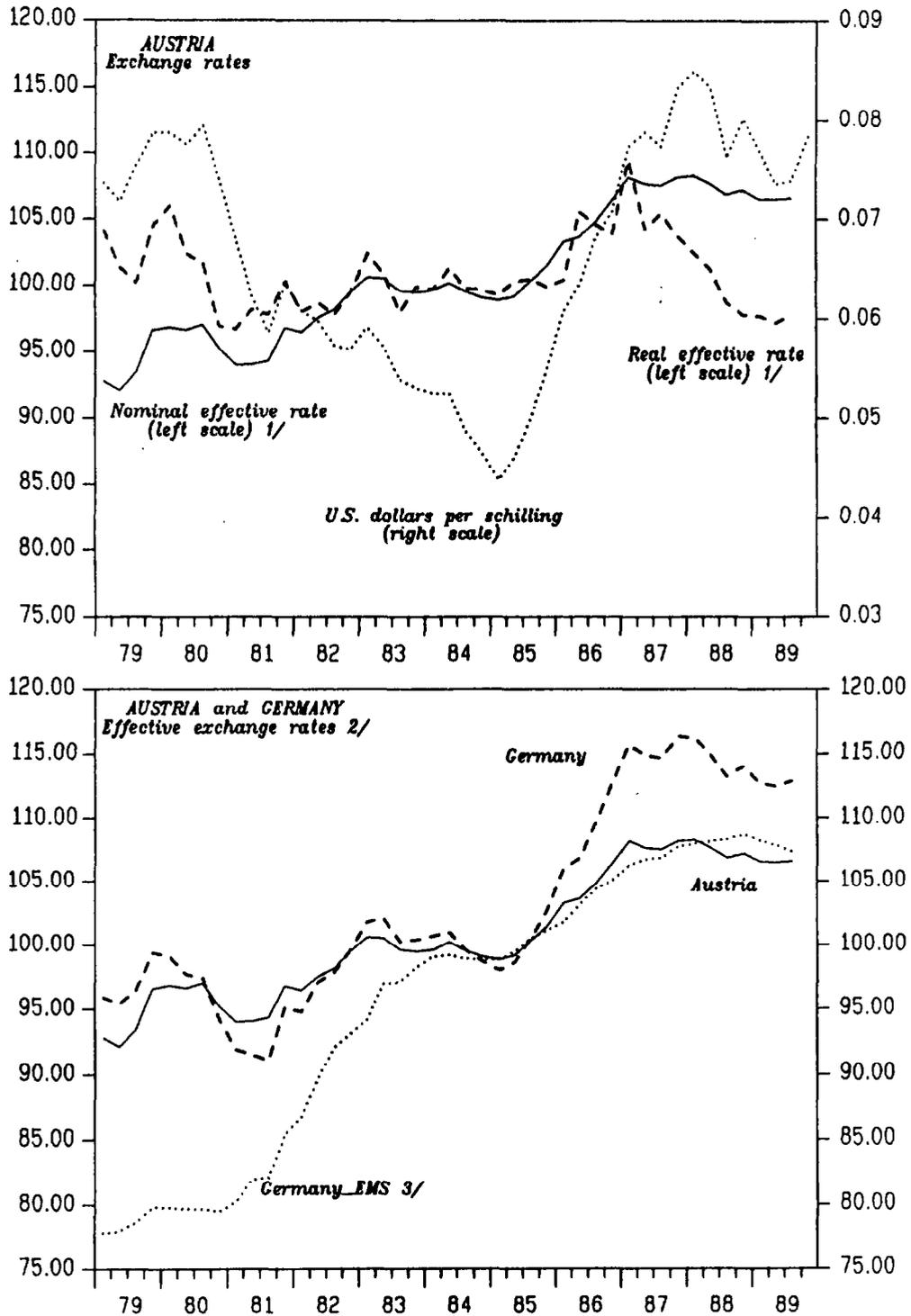
Chart 8
AUSTRIA
General Government ^{1/}
(In percent of GDP)



Source: Ministry of Finance, Bundesvoranschlag 1990; and Fund staff calculations.

^{1/} National accounts basis.

Chart 9
AUSTRIA
Exchange Rates of the Schilling and the Deutsche Mark



Source: IMF Data Fund.

1/ 1985 = 100. The nominal index is based on trade weights against 17 industrial countries. The real index adjusts the nominal index for relative unit labor costs in manufacturing.

2/ 1985 = 100. Nominal rates.

3/ Effective rate of the deutsche mark vis-à-vis currencies participating in the exchange rate mechanism of the EMS.

3. Developments in interest rates

Given the exchange rate policy, interest rate actions of the Austrian National Bank have closely followed those of the Deutsche Bundesbank. Between the end of 1986 and the spring of 1988, the discount rate in Austria was reduced by 1 percentage point to 3 percent (Table 29). 1/ From the summer of 1988, the Austrian National Bank has joined with other European central banks in raising official rates with adjustments to the discount rate in July and August of 1988 and January, April, June, and October of 1989. Following the most recent increase, in October 1989, the discount rate stood at 6 1/2, 3 1/2 percentage points above its level in the spring of 1988.

The decline in the cost of funds to banks, both from the monetary authorities and abroad, led to a significant drop in domestic money-market interest rates in 1987 and the first half of 1988. The call-money rate fell from 5.3 percent in 1986 to 4.4 percent in 1987 and bottomed out at 3.6 percent in March-April, 1988. The period of rising official interest rates since the summer of 1988 has been accompanied by sharp increases in money-market rates, with the call money rate reaching 8.4 percent in November, 1989.

Despite the commitment to the fixed exchange rate vis-à-vis the deutsche mark, there has been a persistent interest differential in favor of the schilling in the money markets; on call money this differential has tended to be in the range of 1/2 to 1 percentage point but sometimes as high as 2 percentage points (Chart 10). While the existence of large call money differentials on individual days might be easily explained, 2/ a significant persistent differential is less easy to rationalize. 3/ It is striking, moreover, that for longer money-market maturities, for example, three-month money, the differential has narrowed appreciably over the past few years.

A number of institutional factors would seem to have impeded arbitrage between the German and Austrian money markets. First, prudential limits on their open positions in foreign exchange restrict the degree to which commercial banks are able to narrow differences in money-market rates. Second, controls on the ability of nonbanks to borrow abroad directly and on the ability of banks to extend domestic credit in foreign currency have, in the past, limited the ability of

1/ Developments in the Lombard rate are not discussed as Lombard lending has become insignificant in the Austrian financial market.

2/ An annual rate of 2 percent is quite small when expressed as a daily rate, and one could easily imagine daily changes in the schilling-deutsche mark exchange rate that would offset such an interest advantage.

3/ It is noteworthy that, in the first three years of the de-facto link to the deutsche mark (1981-83), the differential was relatively insignificant.

nonbanks to arbitrage interest differentials. ^{1/} Moreover, smaller interest spreads in the Austrian banking industry than is typical in major financial markets and the existence of widespread subsidization of credit in Austria limit the incentive of the private sector to borrow abroad.

4. Developments in money and credit aggregates

Recent developments in the growth of monetary aggregates underline the sometimes loose nature of the link in Austria between these aggregates and demand developments. In 1987 when nominal GDP grew by only 4 1/2 percent, M3 rose by about 9 1/2 percent (Table 30). In the following year, however, despite faster growth of nominal GDP (6 1/4 percent), the rate of increase of M3 declined to 6 percent. In 1989, although there was a further small acceleration of nominal income, M3 growth slowed again.

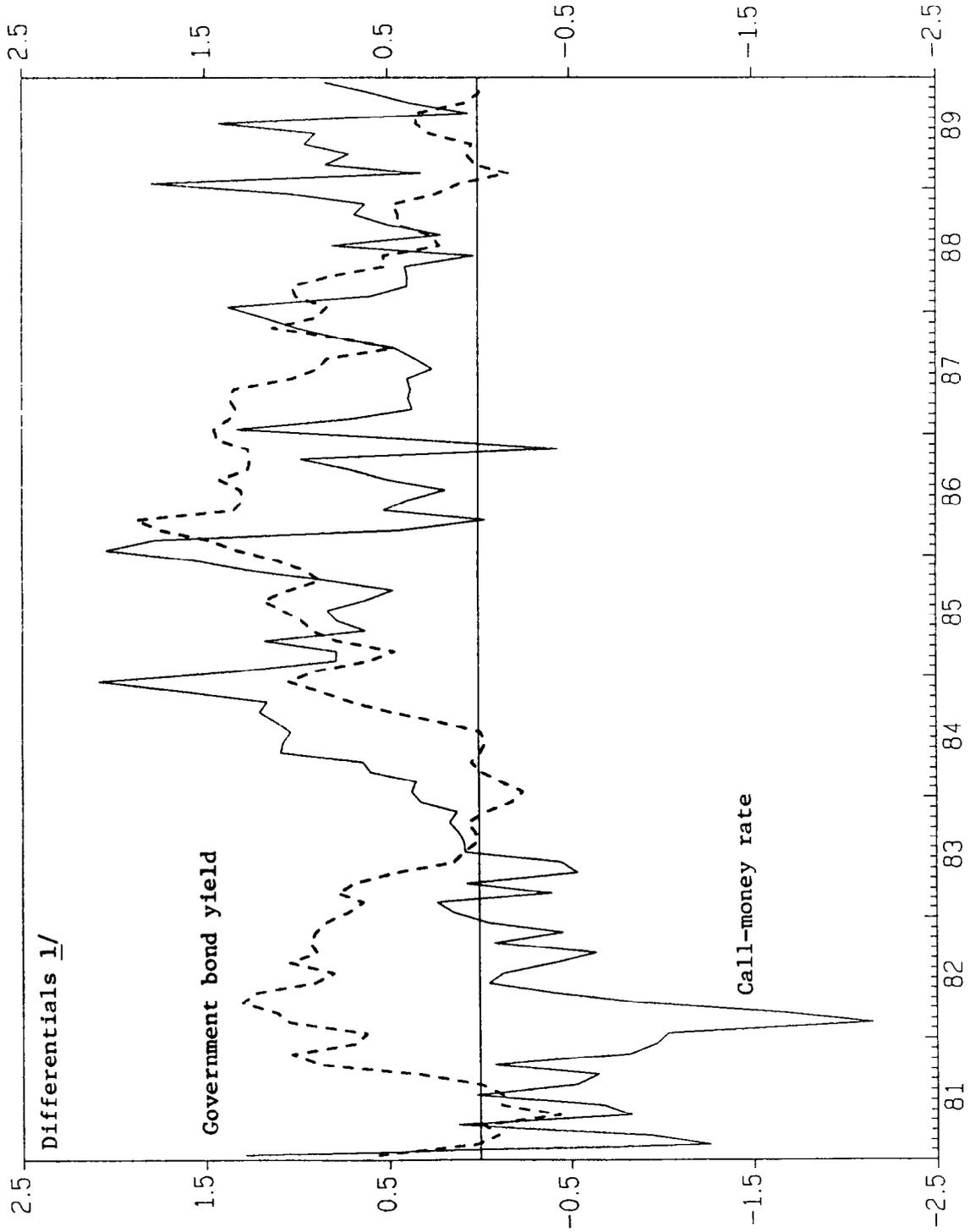
The relatively rapid growth of M3 in 1987 reflected the influence of falling interest rates on the demand for monetary assets as well as the extremely liquid position of households in the wake of the sharp terms-of-trade gain of 1986-87 and the tax cut of 1987. However, a sharp rise in federal government time deposits with the banking system also played an important role.

While the decline in money growth in 1988-89 is quite surprising in light of the acceleration in economic activity, on closer examination it proves not so puzzling. First, government deposits declined. Second, there was a shift toward the placement of financial resources in higher yielding nonmonetary assets (Table 31). In 1989, the growth of monetary assets has been restrained by a further decline of government deposits and there was a slower expansion of demand deposits, influenced by rising interest rates.

The upswing in economic activity has, however, been clearly reflected in the credit statistics. After growing at an average rate of just over 3 3/4 percent in 1986-87, bank claims on the private sector grew by 9 3/4 percent in 1988 and, in the first 3 quarters of 1989, they were some 13 percent above the level in the same period of 1988. The faster growth of credit has been particularly noticeable in the trade, transport and tourism sectors (Table 32). The growth of credit to industry has not, however, picked up particularly strongly, suggesting that the sharp increase in profitability in this sector has provided sufficient resources to finance higher levels of working capital and investment.

^{1/} Even after the liberalization of capital controls in January 1990, nonbanks are not allowed to conduct banking activities with banks abroad. All restriction on foreign currency accounts at domestic banks have, however, been liberalized.

Chart 10
AUSTRIA
Austrian and German Interest Rates



Source: IMF Data Fund.

1/ Austrian rate minus German rate.

5. The capital market

As in the case of the money markets, the link between capital market yields in Austria and Germany has not been as close as seems to be warranted by the hard-currency policy. In part, this has reflected restrictions on the degree to which Austrian residents have been able to participate in the international capital markets but also the limited development of the domestic markets. However, in recent years, there are signs that the so called "quality deficit" in the Austrian capital market has been narrowing; yield differentials between the Austrian and German capital markets have almost disappeared and there has been rapid growth in some areas of the Austrian market, particularly the stock market and the activities of investment funds.

a. Yield developments

During the period of falling short-term interest rates from 1985 to the spring of 1988, government bond yields in Austria fell by about 1 percentage point. This was significantly less than the fall in short-term rates, but similar to the fall in government bond yields in Germany; thus, the 1 percentage point differential between government bond yields in Germany and Austria in early 1988 was similar to the differential prevailing in 1985. During the period of rising interest rates since the spring of 1988, the evolution of yields in the two capital markets has diverged somewhat. In Austria, yields continued to fall during 1988, albeit very gradually, while, in Germany, yields rose moderately, and by the beginning of 1989, the yield differential between Austrian and German government bonds had virtually disappeared. The differential remained small in the course of 1989, with yields rising a little over 1 percentage point in each market between December 1988 and November 1989.

Two factors would seem to have contributed to the narrowing of the yield differential vis-à-vis Germany. First, the announcement in both Germany and Austria that interest withholding taxes would be introduced at the beginning of 1989 may well have had differential effects on yields in the two markets. ^{1/} First, it is likely that the opportunities for avoiding the tax were greater in Germany and this would have put upward pressure on yields in Germany; in Austria, individuals are required to have foreign securities on deposit with an Austrian bank which acts as withholding agent. Second Austrian bonds became an attractive proposition for German residents trying to avoid their own withholding tax, as foreign residents were not to be subject to withholding in Austria. While purchases of schilling bonds by foreign residents did not increase in 1988, their purchases of foreign currency bonds issued by Austrian residents jumped sharply (Table 33).

^{1/} The withholding tax was announced in Germany in October 1987 and in Austria it came under discussion soon after.

This would have helped to contain any yield increase for schilling bonds. 1/

However, the above can offer only a partial explanation for the decline in the capital-market yield differential. It was announced in April 1989 that the withholding tax in Germany would be abolished with effect from July, but the tax has been maintained in Austria; yet the yield differential has remained low and on average in the first 11 months of 1989 was only 0.1 percentage point, about 1/2 percentage point below the level of 1988. Thus, it appears that an increased integration of capital markets has also occurred. This, in part, can be attributed to the liberalization of capital controls that occurred in 1989 which has been reflected in an increased scale of capital flows. 2/ However, in 1988, prior to the recent liberalization measures, there had already been a significant increase in gross capital flows; particularly noteworthy was the large rise in international intermediation carried out by Austrian banks.

b. Developments in market activity

Paralleling the integration of Austrian markets with other European markets, there has also been significant growth in capital market activity in Austria. Developments have been particularly striking in the stock market. Turnover has increased from S 2 billion in 1984 to S 24 billion in 1988 and S 110 billion in the first 10 months of 1989. The stock market price index (1967 =100) has risen from an average of 113 in 1984 to over 500 in the early weeks of 1990. The increase in stock prices in 1989 was particularly striking--the index increased by 109 percent between December 1988 and October 1989. It then fell back by 15 percent in November, but with the growing bull sentiment accompanying political developments in Eastern Europe, it rose rapidly in the last few weeks of the year to surpass its earlier peak. Over the past five years, stock price have grown twice as fast as in Germany, with the relatively rapid growth being particularly evident during 1989.

The role of investment funds has also increased markedly. The assets of these funds increased from S 13 billion at the end of 1984 to S 67 billion at the end of 1987 and S 151 billion in October 1989, and the turnover in the market for investment certificates has grown from less than S 300 million in 1984 to S 1 billion in 1987 and S 10 billion in the first ten months of 1989.

In the bond market, growth has been less dramatic, reflecting a more difficult structural problem: the bond market has depended almost entirely on government and bank issues (Table 34). With the success of the budget consolidation program, issuing activity has actually declined in 1988 and 1989, and market turnover stagnated in the first ten months of 1989.

1/ In addition, domestic residents are exempt from withholding on foreign currency bonds issued before the end of 1988; this would also have served to contain upward pressure on yields in the shilling bond market.

2/ The liberalization measures are discussed in Section V.2.6.

V. Structural Issues

1. Introduction

Structural policies were at the heart of the medium-term economic program initiated by the Austrian government in 1987; these policies included a restructuring of the nationalized industries, a major tax reform, and the curtailing of government subsidies. As is discussed elsewhere in this paper, significant progress has been made with this agenda but the program has only reached its half-way stage and much remains to be accomplished. 1/ This chapter focuses on a different group of structural issues related to the need for a greater opening of the Austrian economy to the pressures of international competition. Such issues were not central to the government's medium-term program but they have assumed increasing importance over the past few years with the growing momentum behind the EC's single market program.

The Austrian authorities have indicated their resolve to benefit to the fullest extent possible from the process of market integration in Europe and this will require a major deregulation and liberalization effort, irrespective of whether Austria's application for EC membership is successful or not. 2/ Some important liberalization steps affecting Austria's trade and payments system have already been taken in the past year--tariff levels have been reduced on a wide range of products and restrictions on capital movements have been liberalized. These are discussed in the next section of this chapter. However, there are a number of areas, particularly in agriculture and nonfinancial services, where little has been accomplished. The third section of this chapter examines, on a sector-by-sector basis, the principal structural problems in the Austrian economy. In the final section, there is a discussion of structural issues in the labor market.

2. Developments in the trade and payments system 3/

a. Merchandise imports

Austria maintains a liberal regime for merchandise imports. Quantitative restrictions are few, the two principal exceptions lying in

1/ For a discussion of fiscal policy see Chapter III. The restructuring of the ÖIAG is covered in detail in Appendix II.

2/ The EFTA countries are presently discussing with the EC how to extend the EC's single market initiative to encompass the European Economic Space (EES). For further discussion, see Appendix VI.

3/ For a detailed discussion of Austria's trade and payments system as of December 31, 1988, see the 1989 Annual Report on Exchange Arrangements and Exchange Restrictions.

the areas of agriculture and clothing and textiles. ^{1/} Average tariff levels are also low--customs duties collected in 1988 represented less than 1 1/2 of the value of imports. In part this reflected the fact that all trade in manufactures with EC and EFTA countries is free from tariffs. However, the average tariff rate for 1988 was low--little more than 5 percent--even when duties collected are expressed in relation to imports from countries outside the EC and EFTA. ^{2/}

In 1989, Austria announced a further reduction in tariff rates. With effect from July 1, 1989, import duties on a range of tropical products were reduced and with effect from January 1, 1990, tariffs have been cut on about 2000, principally manufactured, goods. This was done on a unilateral basis. ^{3/} In part, the reason was to spur ongoing talks in the Uruguay Round of the GATT, but a second motivation was to begin adjusting Austria's tariff levels to the EC external tariff. ^{4/} The total import value affected by these tariff changes is S 27 billion ^{5/} and the loss in tariff revenue is likely to be of the order of S 1/2 billion, a little less than one tenth of import duty receipts.

b. Service imports

International competition in services is limited by domestic licensing regulations. In financial services, where physical presence of the service provider is not required, tax factors (the insurance industry) and capital controls have limited competition.

The principal recent development affecting service transactions has been the liberalization of capital controls in two stages, the first coming into effect on February 1, 1989 and the second on January 1, 1990. The effect of these changes has been to remove most remaining restrictions on long-term capital flows and to reduce restrictions on short-term flows. The Austrian authorities have indicated that remaining restrictions on capital flows will be eliminated in parallel

^{1/} These exceptions are considered in more detail in section 3 of this chapter.

^{2/} Moreover, this latter calculation does not take into account that part of the duties collected related to imports of nonmanufactures from the EC and EFTA.

^{3/} The tariff reductions are provisional and, in principle, could be revoked after two years, though this seems unlikely.

^{4/} Where the Austrian tariff exceeded the EC external tariff by more than 3 percentage points, the difference between EC and Austrian tariff levels was reduced by half.

^{5/} The small value of imports affected reflects the fact that three-quarters of Austrian imports come from the EC or EFTA and that, on a wide range of goods, particularly raw materials and semi-manufactured goods, Austria's import tariffs were already lower than those of the EC and, thus, not reduced.

with developments in EC countries and when a new reporting system is operating.

In the area of long-term capital, the principal remaining restrictions are as follows: (1) Issues of securities by nonresidents on the Austrian financial markets are subject to authorization as are issues of securities by Austrian residents on foreign markets; (2) While Austrian residents are free to purchase securities on foreign financial markets, these securities must be kept on deposit with an Austrian bank; and (3) Austrian residents require a license to make loans to nonresident banks, lest this be a means of circumventing rules against holding of foreign bank accounts. In the area of short-term capital transactions, banks now essentially face no restrictions. 1/ Nonbanks, however, must obtain a license to hold foreign bank accounts or to obtain loans from nonresident banks. Holding of foreign-currency bank accounts with domestic banks has, however, been completely liberalized.

3. Sectoral issues

a. Agriculture

Austrian farming is heavily protected. Quotas and high tariffs inhibit the importation of many foodstuffs. In addition, there are restrictions on areas under cultivation for some products, for example, sugar beet. The use of direct administrative intervention reduces the cost to the budget of agricultural protection; for 1990, federal government support for agriculture is budgeted at S 8 1/2 billion or 1/2 percent of GDP. 2/ The domestic producer price level for most products is, however, significantly above that in the EC, where prices are already higher than on the world market. Thus, consumers are taxed through the price system to support incomes of producers.

This system of agricultural protection has helped support an agricultural system where productivity is low by European standards. Farms are small and many operate in difficult, mountainous terrain. It is clear, therefore, that the pressure on Austrian farmers would be considerable if market conditions were brought into line with those in the EC. A preliminary study by WIFO concluded, on the basis of 1988 price differentials with the EC and without any volume adjustments, that Austrian farmers would lose about S 3 1/2 billion in net income. 3/

1/ Prudential regulations do, however, limit the open position of banks in foreign exchange.

2/ Most of this relates to the subsidization of exports. The cost of export subsidies is, in part, borne by the farmers themselves or their cooperative organizations. Subsidized credit is available to farmers, at interest rates as low as 2 percent; it is, however, difficult to estimate the value of the subsidies involved and these are not included in the budget estimate of assistance to agriculture.

3/ Schneider (1989).

It is likely, in addition, that the volume of domestic agricultural production would decline and, thus, the loss to farmers would be even greater, probably in the range S 4-8 billion per year. 1/ The threat to agricultural incomes, however, is not just related to pressures to align the agricultural support system with that of the EC. At the recent mid-term review of the Uruguay Round, it was agreed to freeze the level of agricultural supports and to work toward a reduction of these levels. 2/

The distribution and marketing of agricultural products is also inefficient as the Agrarmarktordnung (agricultural market law) has allowed a large number of small firms to partition the market. The problem is particularly pronounced in the dairy sector. A central dairy board sets exclusive buying and selling territories for the individual dairies, operates a freight equalization system, and licenses the introduction of new products.

In sum, protection of agricultural producers and an inefficient distribution and processing system have raised consumer prices of food products to a level estimated to be between 6 and 10 percent higher than in Germany.

b. Industry

The principal structural problems facing Austrian industry are being tackled within the reorganization of the ÖIAG. 3/ The problems of the ÖIAG stemmed largely from a management system that was not subject to market tests; while the ÖIAG was not, on the whole, sheltered from competition by regulations and trade restrictions, public ownership and the degree of political involvement meant that, in the past, the threat of bankruptcy was not an effective discipline on managers.

For the Austrian industrial sector, tariffs are, as outlined above, a limited source of protection, and nontariff barriers are important mainly in textiles and clothing. Austria's trade in textiles and clothing is covered under the Multi Fiber Arrangement (MFA) which expires in mid-1991. The Austrian authorities argue that Austria's bilateral agreements under the MFA are in general narrow in scope, in contrast with the rather comprehensive agreements maintained by many other industrial countries. Restraint agreements with quotas are in force with China, Hong Kong, India, Macao, South Korea, Thailand and

1/ Thus, if the Austrian government decided to compensate farmers for this loss, at least during a transitional period, the budgetary cost would be significant.

2/ Austria has argued that any final agreement in the Uruguay Round should take into account differences across countries in agricultural conditions. For example, Austria, with its high share of mountain farming, was a special case where nontrade concerns (social, geographic and environmental) played an important role.

3/ See Appendix II for more details.

Turkey, while surveillance arrangements have been arranged with Brazil and Singapore. Once the current MFA comes to an end, Austria is in principal in favor of clothing and textiles being brought back under general GATT rules, with a transition period allowing time for adjustment. Whereas the textile industry in Austria appears already to be quite competitive, the clothing industry still faces structural problems, related in part to its unfavorable location in the relatively less developed areas near the eastern border.

Two other areas where nontariff barriers are significant in the industrial countries are automobiles and steel. In the case of steel, there are no restrictions on imports into Austria. Concerning automobiles, Austria is not a significant producer of finished vehicles but it does produce automotive parts which are exported principally to Germany. There are no restrictions (tariff or other) on imports from EC and EFTA countries. However, a bilateral arrangement was negotiated with Japan in order to cut back Austria's large bilateral deficit with that country. Imports of Japanese cars are subject to the standard tariff of 20 percent applying to automotive imports from countries which have been granted most favored nation (MFN) status. However, where Japanese producers use Austrian made automobile parts, the tariff rate can be reduced on a sliding scale to a minimum of 4 percent, depending on the extent to which Austrian components are used by Japanese automobile producers. 1/ Practically all Japanese automobile imports are now subject to the 4 percent tariff rate.

c. Telecommunications

Telephone, telegraph, and data transmission networks are a state monopoly held by the PTV (Austrian Postal and Telegraph Administration). The PTV also provides mail and bus services.

The technical standard of the PTV's telecommunications facilities is generally considered to be high. 2/ The PTV also keeps telecommunications' rates artificially high, and telephone and data transmission fees in Austria are among the highest in Europe. Telephone rates are about 25 percent above those in Germany and almost 40 percent higher than in the United States. The telephone branch of the PTV earned a surplus of S 9 1/2 billion in 1988, on a turnover of about S 29

1/ This rule is applied on a firm by firm basis. The 4 percent rate comes into effect when use of Austrian parts by Japanese manufacturers is 18-24 percent (depending on the level of imports) of the value of automobile imports.

2/ However, it has been suggested that the standard may in some instances be too high and too costly; this is illustrated by the example of video-text, which found only a very limited market in Austria, in contrast to video-text systems in other countries.

billion. Half of this surplus was used to subsidize the mail and bus services, and the remainder was transferred to the budget.

Some deregulation has taken place. The markets for private branch exchanges, telephone receivers, and other terminal equipment have been substantially liberalized. However, under existing procurement regulations, the PTV buys telecommunications equipment from foreign producers only when there is no domestic alternative.

d. Rail transport

The ÖBB (Austrian Federal Railways) is a publicly-owned enterprise with a legal monopoly on rail rights of way and railway operations. Since 1984, it has been run on the principle of a strict accounting separation of its "social" and "commercial" functions; any departures from a market-oriented policy, such as lower tariffs for students and the elderly, must be explicitly requested and paid for by the government. Currently the ÖBB receives a federal subsidy of about S 25 billion or 1 1/2 percent of GDP. About one-half of the subsidy is used to finance the deficit of the railway workers' pension fund, another third to compensate the ÖBB for losses incurred as a result of "social" operations, and the remainder to cover general operating losses.

Productivity in the ÖBB is low and has grown slowly by international standards. While productivity in the German and Swiss railways increased by more than 50 percent between 1975 and 1987, it grew by only 25 percent in Austria. 1/ In 1987, output per employee in the ÖBB was 44 percent lower than in the German railways and 73 percent lower than in the Swiss railways, while labor costs per employee (including pensions) were only 10 percent lower than in Germany and 25 percent lower than in Switzerland. Thus, unit labor costs in the Austrian railways are significantly higher.

Recently employment in the ÖBB has been reduced by about 1 percent per year, mainly through attrition, but given the stagnation in the volume of transport services, this employment reduction has had a limited effect on reducing the productivity gap. The scope for productivity improvements may increase if environmental policies shift traffic from the roads to the railways. However, substantial new investment would also be necessary in this case, which would only be partly covered by the "Neue Bahn" project, which presently envisages expenditures on modernization and rationalization of S 31 billion between 1988 and 1998. The construction, for example, of a new tunnel under the Brenner Pass might require an additional S 30-50 billion. 2/

1/ Puwein (1989).

2/ Presumably, interested neighboring countries could be involved in financing such a project.

e. Trucking

Trucking is subject to numerous regulations in Austria. In order to enter the market, a certificate of competence is required, a "market-need test" must be passed and financial soundness and prior experience requirements are imposed. In addition, tariffs are subject to approval by the Ministry of Transport. Firms who use their own trucks to carry goods from one plant to another (Werkverkehr) are prohibited from using these trucks to transport goods for third parties; as a result, trucks often run empty on the return trip.

While integration in the EC transportation market would have implications for the regulation of trucking in Austria, the focus of policy at present is on environmental concerns. These have led to a variety of initiatives to limit the activities of the trucking industry. First, it has already been decided to prohibit all but low-noise trucks from driving at night on major routes transiting Austria. 1/ Second, a 40-ton weight limit on trucks, similar to that already adopted in Switzerland, has been proposed. Third, consideration is being given to a cap on the number of transport licenses for certain routes, with licenses being auctioned.

f. Insurance

Entry of new companies into the Austrian insurance market requires a license. However, licensing rules appear to be liberally enforced. Since 1945, the Insurance Supervisory Office has not openly turned down any requests for insurance licenses. Moreover, the market share in Austria of insurance companies under foreign majority ownership is high (almost 50 percent of premium income). Despite the apparent ease of market entry, the high capital and solvency requirements prevailing until recently, contributed to an oligopolistic market structure. 2/ For example, up to 1988, property insurers in Austria were required to have capital of S 100 million, compared to the equivalent of S 1 million in the United Kingdom. This made it very difficult for smaller firms to enter the market. In addition, market exit is difficult as insurers are not allowed to terminate insurance contracts unilaterally; exit can usually occur only if another insurance company is willing take over existing contracts.

Contract conditions are worked out by the insurance industry association and submitted to the Insurance Supervisory Office, which usually follows industry proposals. Nevertheless, terms and conditions

1/ This has had a particularly marked effect on trucks using Austrian roads to travel between Germany and Italy. Indeed, Germany has retaliated with a similar prohibition on Austrian trucks.

2/ In 1988, Austria brought solvency requirements into line with those prevailing in EC countries as part of the preparation for participation in the single market.

are very heterogeneous. ^{1/} The Ministry of Finance is empowered to regulate insurance tariffs. Since the abolition of a uniform rate structure for automobile insurance in 1988, however, almost all insurance rates in Austria have, in effect, been deregulated, although formal approval by the Insurance Supervisory Office is still required.

Given the present market structure, further deregulation in the Austrian insurance market would need to be accompanied by policies to elicit adequate competition. This underlines the importance of opening the Austrian market to foster competition. The strong presence of foreign-owned companies in the Austrian market does not ensure such competition as all companies operating in the domestic market are protected by tax regulations which discriminate against the purchase of insurance in foreign markets. ^{2/}

g. Banking

Austrian banks operate as universal banks and thus will be affected in many ways by the integration of financial markets in Europe. Already the process of adapting Austrian regulations to the new financial market environment has progressed significantly. As indicated in section 2, there has been a liberalization of foreign exchange controls and the remaining controls will be removed in parallel with developments in the EC. Moreover, licensing laws in Austria are already implemented liberally and, in practice, a judgment is no longer made on local market needs; this applies also to foreign banks and there are currently about 30 foreign banks operating in Austria. In addition, securities market legislation is being reviewed: a new stock market law (Börsegesetz), which became effective on December 1, 1989, was designed to bring Austrian legislation into line with EC practice, and a new securities issuance law (Wertpapieremissionsgesetz) is being considered which would liberalize regulations related to the issue of securities.

There are, however, a number of tax/subsidy factors which undermine the efficiency and international competitiveness of the Austrian financial markets. First subsidization of credit is pervasive; a recent study by the Austrian National Bank found that 42 percent of lending was

^{1/} Proposals for reform in this area center on requiring all insurance companies to offer standardized policies, without, however, curtailing the rights of insurers or policy-holders to seek amendments as they see fit.

^{2/} A 10 percent tax is levied on insurance premiums for policies purchased domestically, but the tax is 50 percent for policies purchased in foreign markets. An exception is only made when the required insurance is not available domestically.

at subsidized rates. 1/ Second, a tax on secondary market transactions in securities has impeded the development of domestic securities markets, particularly at the short end. Other taxes may also have deleterious effects on the competitive position of the Austrian financial markets as cross-border competition increases. In the absence of agreement between European countries on common withholding rates, the presence of an interest withholding tax in Austria is likely to divert financial investments into foreign markets. Second, unremunerated minimum reserves increase the cost of deposit taking relative to markets where minimum reserves do not exist, are less important, or are remunerated.

There are also structural problems in the banking sector. Austria is overbanked and banks are small by international standards (Table 35). Rivalry among Austrian banks seems to be intense, spreads between borrowing and lending rates are narrow by international standards and profit margins are slim (Table 36). As a result, the issue of financial soundness has been to the fore in the activities of policymakers. The Austrian authorities encouraged an interest rate cartel among Austrian banks, which operated from May, 1985 to June, 1989 and had the primary purpose of building up capital reserves in the banking system. 2/ In 1986, an amendment to the Banking Act set a minimum capital-asset ratio of 4.5 percent to be achieved by 1996. 3/

Some positive signs have been evident in the past few years. Profitability has risen and there has been increased international activity by the major Austrian banks. However, with greater openness of financial markets, competition is likely to intensify and a major focus of financial policy will need to be prudential supervision. In addition, the factors lying behind the "excessive" rivalry between banks need to be examined. In part, the ownership structure in Austrian banking would seem to be a factor--a large percentage of Austrian banks is publicly owned and it has been argued that this has allowed bank managers to pursue objectives other than profitability, such as size and market share. Thus thought needs to be given to means of encouraging greater emphasis on economic efficiency, including consideration of the role privatization might play in improving the operation of Austrian financial markets.

1/ However, given the very large number of different subsidy schemes, it was not possible to get a good measure of the size of the subsidies involved or trace their economic effects. See Austrian National Bank, *Mitteilungen*, August 1989.

2/ The cartel was facilitated by the fact that Austrian banks are not subject to the cartel law which regulates anti-competitive behavior.

3/ For asset levels at the end of 1986, the difference between the capital-asset ratio prevailing in 1986 and the 4.5 percent target was to be narrowed by one-tenth every year. Increases in asset levels from the 1986 level were to comply immediately with the 4.5 percent capital backing requirement.

h. Small business

Small businesses (Gewerbe) are probably the most heavily regulated area of economic activity in Austria. Legally, small business is distinguished from industry; the latter is characterized by more capital-intensive production, larger-scale operations, and professional management. The distinction between small business and industry is strictly enforced, as industry is subject to much less regulation.

Four types of small business are identified in Austria, three of which require licenses. In order of the extent of restrictions on entry these are: (i) 46 lines of business requiring a public concession, where the number of concessions is strictly controlled, for example, by geographic area; (ii) 90 lines of business classified as crafts, where skill and experience requirements are strict; and (iii) another 86 lines of business requiring a license and subject to varied rules and regulations. No important type of small business falls into category (iv), where no license is required.

Licensing requirements are often severe. Aside from tests of personal suitability, which leave a great deal of discretion in the hands of public officials, examinations, compulsory membership in trade associations, and other formal tests are intended to establish whether a candidate possesses the requisite "knowledge, skill, and experience." ^{1/} In many cases, administration of examinations is in the hands of associations representing established producers and there are market-need tests in a number of lines of business (e.g. undertakers, chimney-sweeps). The market conduct of small businesses is also in some cases controlled through the imposition of minimum and maximum prices and prohibitions of advertising. However, such rules do not appear to be as pervasive and burdensome as those governing market entry.

i. The professions

Much of what was said about the regulation of small business also applies to the professions. ^{2/} Licenses to enter a profession are often granted sparingly, and are denied in some professions even when an applicant is qualified. For example, Austria is divided into a fixed number of notarial districts. Professional associations have extensive powers to regulate the behavior of their members. Minimum or maximum prices are often prescribed by law, and advertising is severely

^{1/} The law requires an apprenticeship or prior experience even in businesses such as flower arrangement where reputational competition alone should be sufficient to maintain product quality.

^{2/} The sector comprises, inter alia, pharmacists, physicians, dentists, lawyers, notaries, patent attorneys, fiduciary administrators and civil engineers.

restricted. The effect of these regulations is to limit competition and to protect incumbents from market entry.

j. Retail trade

The main restrictions on retail trade are the law on shop closing hours and legal provisions limiting price competition. Although the law on shop closing hours was liberalized in 1989, after the old law had been found unconstitutional, it is still very restrictive. With a few minor exceptions, stores must be closed on weekdays by 6:30 PM, on Saturday afternoons, and on Sundays. The Nahversorgungsgesetz (local supply law) prohibits retailers from pricing below cost. The intention of the law is to prevent large retailing chains from using "predatory" pricing to eliminate smaller competitors. In practice, this law seems to have discouraged discount pricing and clearance sales.

4. The labor market

The overall approach to labor market policy in Austria is based on the "social partnership," which is a cooperative arrangement between business and labor aimed at resolving disagreements through consensus rather than conflict. The system appears to have worked well: strike activity has been minimal and wage settlements have been broadly consistent with low inflation and relatively low unemployment.

Critical to the smooth functioning of the social partnership are highly centralized professional organizations representing the interests of business and labor. The core organizations are the so-called chambers, the Employers' Chamber and the Workers' Chamber, in which membership is mandatory. ^{1/} In addition to the chambers, there are voluntary associations such as the Austrian Trade Union Federation. The activities of the various organizations are coordinated in the Equitable Commission on Prices and Wages, consisting of about 20 representatives of the chambers, the government, and the unions. While wage settlements are ultimately negotiated between the employers and the unions, the commission does provide a centralized forum for discussion of each side's proposals and their implications for economic performance.

While it is clear that this macro framework has worked well, it is also evident from the discussion in the previous section that, at a micro level, regulation is likely to be a significant source of economic inefficiency and that full participation in an integrated European market will require major changes in the legal framework affecting crafts and professions in Austria. Other labor market regulations do not, however, seem likely to raise problems in the context of market integration. Rules on hiring and firing in Austria are fairly liberal

^{1/} Aside from representing member interests, the chambers also have quasi-governmental functions such as helping to draft legislation.

by the standards of other small European countries. 1/ In hiring, the principle is that labor contracts are of indefinite duration, after a one-month probationary period has passed. 2/ Blue-collar employees may be fired with 14 days' notice, while white-collar employees must be given between 6 weeks and 5 months' notice depending on seniority. However, collective bargaining agreements have in many cases provided additional protection for blue-collar workers. For example, in the metal industries, workers are given up to 6 weeks notice depending on seniority. Moreover, different rules apply to mass dismissals; 3/ in such cases, the labor unions, the works council, and the labor market authorities must be notified and social criteria are to be considered in deciding which workers to dismiss.

The system of unemployment compensation in Austria is not unusual by European standards, although it appears to be less generous than in some other small European countries. The unemployment insurance scheme is operated by the government and participation is mandatory. Financing of benefits is divided equally between employers' and employees' contributions, while the government bears the administrative costs. First-time registered unemployed with at least 52 weeks of employment during the preceding 24 months are eligible for benefits, as are all other registered unemployed with at least 20 weeks of employment during the preceding 12 months. The replacement ratio is between 40 and 80 percent depending on earnings during the last 4 weeks of employment, and benefits are paid for up to 1 year depending on employment history. Once these benefits expire, emergency assistance equivalent to between 92 and 100 percent of unemployment benefits can be provided for an indefinite period, subject to means test.

1/ Allaart et al., (1985).

2/ Fixed-term contracts may be made only for specific reasons such as seasonal or project work.

3/ These are defined as dismissals of more than 5 percent of the labor force within 30 days in companies employing between 100 and 1000 persons, and as more than 50 employees within four weeks in companies employing more than 1000 persons.

Table 1. Austria: Aggregate Demand

(Percentage changes at 1983 prices) 1/

	1985	1986	1987	1988	1989 <u>2/</u>	1988				1989	
						1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Private consumption	2.4	1.6	3.0	3.0	3.7	5.5	4.1	2.6	0.2	2.7	2.3
Public consumption	1.9	1.7	0.4	0.7	1.0	0.7	0.6	0.6	0.8	0.5	0.5
Gross fixed investment	5.0	3.4	2.9	5.8	6.5	6.9	4.8	7.2	4.7	14.6	4.2
Construction	1.3	3.0	4.9	5.9	3.0	12.9	6.3	2.7	6.3	10.3	-0.0
Machinery and equipment	10.1	3.9	0.9	5.6	10.0	2.9	2.8	15.2	2.5	17.6	9.8
Final domestic demand	2.9	2.0	2.5	3.2	3.9	4.7	3.6	3.5	1.4	4.5	2.5
Stockbuilding <u>3/</u> <u>4/</u>	-0.7	-0.2	0.4	1.5	-0.3	2.0	1.9	0.3	2.0	-1.3	1.7
Total domestic demand	2.2	1.8	2.8	4.7	3.5	6.5	5.5	3.8	3.3	3.0	4.0
Exports of goods and nonfactor services <u>5/</u>	6.9	-2.7	2.4	8.8	10.9	11.0	7.2	8.4	8.7	12.7	14.0
Imports of goods and nonfactor services	6.2	-1.2	4.7	10.0	9.6	15.1	10.3	8.8	6.7	8.5	12.9
Foreign balance <u>3/</u>	0.3	-0.6	-0.9	-0.6	0.4	-1.5	-1.4	-0.1	0.5	1.9	-0.1
GDP	2.5	1.1	1.9	4.2	4.0	4.9	4.2	3.7	3.9	4.8	4.2

Source: Austrian Institute for Economic Research.

1/ For quarterly data, growth rates are with respect to the same quarter of the previous year.2/ Preliminary estimates.3/ Change as a percentage of GDP in the preceding year.4/ Including statistical discrepancies.5/ Including transit trade balance.

Table 2. Austria: Aggregate Demand
(In billions of schillings, at 1983 prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 <u>1/</u>
Private consumption	651.9	654.0	661.9	694.8	694.3	710.9	722.0	743.9	765.9	794.3
Public consumption	212.3	217.0	222.0	226.9	227.4	231.8	235.7	236.6	238.2	240.6
Gross fixed investment <u>2/</u>	299.3	295.2	271.1	269.5	275.2	289.0	298.9	307.4	325.3	346.5
Construction <u>2/</u>	161.2	159.0	144.0	145.0	146.1	148.0	152.5	159.9	169.3	174.4
Machinery and equipment <u>2/</u>	121.2	119.5	110.9	108.0	112.8	124.2	129.0	130.2	137.6	151.4
Final domestic demand	1,163.5	1,166.2	1,154.9	1,191.3	1,196.9	1,231.7	1,256.6	1,288.0	1,329.4	1,381.4
Stockbuilding <u>3/</u>	29.2	0.1	-1.8	-5.8	20.5	12.3	9.5	14.2	33.9	29.6
Total domestic demand	1,192.7	1,166.3	1,153.1	1,185.5	1,217.4	1,243.9	1,266.1	1,302.2	1,363.3	1,411.0
Exports of goods and nonfactor services <u>4/</u>	404.6	424.3	435.8	449.7	477.1	510.0	496.1	508.0	552.9	613.3
Imports of goods and nonfactor services	428.6	425.3	411.2	433.9	476.9	506.4	500.5	523.8	576.2	631.4
Foreign balance	-24.0	-1.0	24.6	15.8	0.2	3.6	-4.3	-15.8	-23.4	-18.1
GDP	1,168.7	1,165.3	1,177.8	1,201.2	1,217.6	1,247.5	1,261.8	1,286.4	1,339.9	1,392.9

Source: Austrian Institute for Economic Research.

1/ Preliminary estimates.

2/ Construction and machinery equipment investment do not sum to gross fixed investment (GFI) as they do not include value added tax (VAT) whereas GFI is inclusive of VAT.

3/ Including statistical discrepancy.

4/ Including transit trade balance.

Table 3. Austria: National Income and Its Distribution
(In current prices)

	1984	1985	1986	1987	1988	1989 1/	1984	1985	1986	1987	1988	1989 1/
	In billions of schillings						Percentage changes					
Gross domestic product	1,276.8	1,348.4	1,415.5	1,477.8	1,570.6	1,675.3	6.3	5.6	5.0	4.4	6.3	6.7
Plus: Net factor income from abroad	-8.6	-7.1	-12.0	-12.9	-13.8	-16.0	...	...	...	...	...	...
Gross national product	1,268.2	1,341.4	1,403.5	1,464.9	1,556.8	1,659.3	6.4	5.8	4.6	4.4	6.3	6.6
Less: Depreciation	-158.2	-167.5	-176.2	-183.9	-194.1	-205.7	6.0	5.9	5.2	4.4	5.6	6.0
Net national product	1,110.0	1,173.8	1,227.3	1,281.0	1,362.7	1,453.6	6.4	5.7	4.6	4.4	6.4	6.7
Less: Indirect taxes	-216.1	-225.9	-234.0	-245.2	-253.6	-270.9	9.6	4.6	3.6	4.7	3.4	6.8
Plus: Subsidies	35.9	39.2	46.0	47.4	44.8	44.0	1.5	9.1	17.5	2.9	-5.4	-1.8
National income	929.9	987.1	1,039.3	1,083.2	1,153.9	1,226.7	5.5	6.2	5.3	4.2	6.5	6.3
Total income from property and entreprsh.	310.6	332.1	345.8	366.2	412.7	435.1	7.2	6.9	4.1	5.9	12.7	5.4
Gross income from dependent employment	676.3	717.1	761.2	792.7	821.9	878.6	5.3	6.0	6.1	4.1	3.7	6.9
Interest on consumer debt	-13.9	-14.2	-15.7	-17.3	-19.3	-21.4	-0.5	2.1	10.5	9.8	11.5	10.9
Interest on public debt	-43.1	-47.8	-51.9	-58.4	-61.3	-65.6	17.7	11.0	8.4	12.5	5.1	7.0
Personal disposable income	798.8	845.3	894.9	952.0	1,000.4	1,087.6	5.4	5.8	5.9	6.4	5.1	8.7
Gross income from dependent employment	676.3	717.1	761.2	792.7	821.9	878.6	5.3	6.0	6.1	4.1	3.7	6.9
Personal income from property and entrepreneurship	219.3	237.2	247.1	262.8	296.4	314.2	8.8	8.2	4.2	6.4	12.8	6.0
Net transfers to households	255.4	274.8	291.4	311.9	319.3	334.3	6.1	7.6	6.1	7.0	2.4	4.7
Interest on consumer debt	-13.9	-14.2	-15.7	-17.3	-19.3	-21.4	-0.5	2.1	10.5	9.8	11.5	10.9
Direct taxes	-151.4	-167.9	-177.3	-177.2	-187.2	-169.5	10.7	10.8	5.6	-0.0	5.6	-9.5
Social security taxes	-155.5	-167.8	-176.0	-183.3	-191.9	-207.3	6.9	7.9	4.9	4.2	4.6	8.0
Imputed pensions	-31.4	-33.9	-35.7	-37.5	-38.9	-41.3	2.3	8.0	5.4	4.9	3.7	6.2
Consumption	733.2	775.5	803.2	835.1	874.8	930.8	5.5	5.8	3.6	4.0	4.8	6.4
Personal Saving	65.6	69.8	91.8	116.9	125.6	156.8	4.4	6.3	31.5	27.4	7.4	24.8
Memorandum items:												
Personal savings ratio	8.2	8.3	10.3	12.3	12.6	14.4	...	...	...	...	...	...
Wages and salaries	552.4	584.8	622.3	648.0	669.7	...	4.6	5.9	6.4	4.1	3.4	...
Public sector	113.0	120.4	128.6	133.9	136.0	...	5.3	6.5	6.8	4.2	1.6	...
Private sector	439.4	464.4	493.8	514.1	533.6	...	4.4	5.7	6.3	4.1	3.8	...
Net mass income	646.3	681.6	721.9	764.7	782.5	...	4.3	5.5	5.9	5.9	2.3	...
Real personal disposable income	756.4	774.8	804.5	848.1	875.9	927.8	-0.2	2.4	3.8	5.4	3.3	5.9

Sources: Austrian Institute for Economic Research; and staff estimates.

1/ Preliminary estimates.

Table 4. Austria: Aggregate Demand

(In billions of schillings, at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 <u>1/</u>
Private consumption	552.5	596.5	640.2	694.8	733.2	775.5	803.2	835.1	874.8	930.8
Public consumption	178.7	195.2	214.3	226.9	237.8	255.0	270.7	280.4	289.1	302.1
Gross fixed investment <u>2/</u>	255.5	267.9	262.9	269.5	282.9	304.4	323.2	340.8	369.1	404.3
Construction <u>2/</u>	135.0	142.0	139.8	145.0	148.6	153.3	162.7	175.5	191.0	203.5
Machinery and equipment <u>2/</u>	106.0	110.6	107.3	108.0	116.1	131.8	140.1	144.4	155.4	176.7
Final domestic demand	986.7	1,059.7	1,117.4	1,191.3	1,253.9	1,334.9	1,397.0	1,456.3	1,533.0	1,637.2
Stockbuilding <u>3/</u>	27.4	10.2	-2.6	-5.8	21.0	11.2	5.3	14.1	33.0	29.2
Total domestic demand	1,014.1	1,069.9	1,114.7	1,185.5	1,274.8	1,346.1	1,402.3	1,470.4	1,566.0	1,666.4
Exports of goods and nonfactor services <u>4/</u>	366.2	404.5	431.2	449.7	497.6	549.1	523.0	527.2	586.8	669.0
Imports of goods and nonfactor services	385.7	418.5	412.4	433.9	495.7	546.8	509.8	519.8	582.1	660.1
Foreign balance	-19.4	-14.0	18.8	15.8	1.9	2.3	13.2	7.4	4.6	8.9
GDP	994.7	1,056.0	1,133.5	1,201.2	1,276.8	1,348.4	1,415.5	1,477.8	1,570.6	1,675.3

Sources: Austrian Institute for Economic Research; and staff estimates.

1/ Preliminary estimates.2/ Construction and machinery equipment investment do not sum to gross fixed investment (GFI) as they do not include value added tax (VAT) whereas GFI is inclusive of VAT.3/ Including statistical discrepancy.4/ Including transit trade balance.

Table 5. Austria: Balance of Payments Summary
(In billions of schillings)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 ^{1/}
Exports, f.o.b.	251.8	266.9	277.1	314.5	354.0	342.5	342.4	383.2	434.0
Imports, c.i.f.	334.5	332.6	348.3	392.1	431.0	408.0	411.9	451.4	519.0
Supplementary trade items ^{2/}	5.6	3.1	0.4	0.8	9.3	3.2	3.7	-2.1	--
Trade balance	-77.1	-62.6	-70.8	-76.8	-67.7	-62.2	-65.7	-70.4	-85.0
Travel and tourism, net	46.4	49.2	42.3	48.5	48.9	44.9	41.3	46.7	57.0
Other services, net	-5.0	-3.1	-1.9	-0.1	0.2	-2.9	-1.0	-1.7	-3.0
Services balance	41.4	46.2	40.4	48.4	49.1	42.0	40.4	45.1	54.0
Unclassified goods and services, net	15.7	29.9	35.8	25.6	18.0	24.6	23.6	21.8	29.0
Net transfers	-1.4	-1.2	-1.5	-1.2	-1.9	-0.7	-1.0	-0.4	--
Current account	-21.4	12.2	4.0	-3.9	-2.5	3.7	-2.7	-3.9	-2.0
Long-term capital	15.0	-9.9	-24.1	-7.1	-3.7	9.9	23.0	6.1	...
Short-term capital	10.0	-9.2	19.2	14.7	-6.7	6.7	-18.4	7.1	...
Capital account	25.0	-19.1	-4.9	7.6	-10.3	16.6	4.7	13.2	...
Net errors and omissions	4.5	10.6	-7.0	-2.1	11.6	-11.9	2.8	-3.2	...
Balance on official settlements	8.1	3.7	-7.8	1.6	-1.2	8.5	4.7	6.1	...
Changes in reserves due to SDR allocations and valuation changes, including any revaluation of gold	4.0	0.8	6.5	4.7	-9.6	-7.0	-4.8	3.3	...
Official monetary movements (increase in assets +)	12.1	4.5	-1.3	6.3	-10.8	1.5	-0.1	9.3	...
Memorandum items (in percent of GDP):									
Current account	-2.0	1.1	0.3	-0.3	-0.2	0.3	-0.2	-0.2	-0.1
Trade balance	-7.3	-5.5	-5.9	-6.0	-5.0	-4.4	-4.4	-4.5	-5.1
Services balance	3.9	4.1	3.4	3.8	3.6	3.0	2.7	2.9	3.2
Unclassified items	1.5	2.6	3.0	2.0	1.3	1.7	1.6	1.4	1.7

Sources: Austrian Institute for Economic Research; Austrian National Bank; and Fund staff estimates.

^{1/} Staff estimates.

^{2/} Including gold transactions (except monetary gold), transit trade, and certain adjustment items.

Table 6. Austria: Merchandise Exports 1/

Product Category	1988	1980	1985	1988	1985	1986	1987	1988	Jan-Sep 1989 <u>2/</u>
	Value (S billion)		Percent of Total		(percent change from previous year)				
Food products	12.8	4	4	3	3.6	-12.0	-11.1	12.2	26.6
Raw materials	24.7	10	7	6	7.3	-16.7	8.5	4.5	13.8
Energy products	4.9	2	2	1	53.2	-41.9	45.5	-20.7	10.9
Other raw materials	19.8	9	5	5	-4.0	-6.9	-0.5	13.5	14.5
Semi-finished goods	77.4	23	22	20	5.6	-10.9	1.3	11.0	14.4
Finished goods	268.3	63	67	70	16.3	1.3	-0.6	12.9	12.5
Investment goods	92.4	23	23	24	17.5	-1.0	1.1	13.1	11.2
Consumer goods	175.9	40	44	46	15.7	2.5	-1.4	12.8	13.2
	383.2	100	100	100	12.5	-3.2	-0.0	11.9	13.4

Source: Austrian Institute for Economic Research.

1/ On a special trade basis.

2/ First nine months of 1989, relative to the corresponding period of 1988.

Table 7. Austria: Indicators of Trade Competitiveness and Performance

(Changes in percent)

	1983	1984	1985	1986	1987	1988	1989 <u>1/</u>
Terms of trade for merchandise	0.9	-0.2	-0.9	3.5	0.3	0.3	-0.9
Export prices <u>2/</u>	-0.1	3.6	3.1	-4.0	-3.0	2.1	2.6
Import prices <u>2/</u>	-1.0	3.8	4.0	-7.3	-3.3	1.8	3.5
Export performance							
Real share in partner imports	0.1	2.0	4.7	-2.5	-1.8	2.7	3.7
Volume of Austrian merchandise exports <u>3/</u>	3.9	9.5	9.2	0.8	3.1	9.3	10.4
Market growth <u>4/</u>	3.8	7.4	4.3	3.4	5.0	6.4	6.5
Cost and price indicators in manufacturing							
Unit labor costs in Austria <u>5/</u>	0.7	1.4	2.4	3.5	0.8	-3.9	-1.0
Unit labor costs in Germany <u>5/</u>	-0.6	1.1	2.0	5.0	6.2	-0.4	0.1
Relative value-added prices <u>6/</u>	2.1	-1.8	-0.5	3.6	2.5	-1.6	...
Relative unit labor costs <u>6/</u>	1.8	-0.1	-0.1	3.6	2.0	-5.4	...

Sources: Austrian Institute for Economic Research; IMF, Data Fund; and Fund staff estimates.

1/ Staff estimates.

2/ National accounts deflators for transactions in merchandise.

3/ Based on export prices reported above.

4/ Calculated by Fund staff, based on non-oil import volume of Austria's trading partners.

5/ For the manufacturing sector (manufacturing and energy in Austria), in national currency terms, based on national accounts data for real value added and employee compensation.

6/ Vis-à-vis trading partners, adjusted for exchange rate changes and based on total trade weights.

Table 8. Austria: Geographic Distribution of Exports

	1980	1985 Percent of total	1988	1984	1985	1986	1987	1988	Jan-Sep <u>1/</u> 1989
				Percentage changes					
Europe	84	81	87	12.9	12.1	1.0	2.3	12.2	...
EC countries <u>2/</u>	56	56	64	12.4	14.6	3.7	5.4	12.7	13.0
Of which:									
Belgium	2	2	2	11.7	40.0	11.8	-9.3	12.5	10.6
France	3	4	5	17.3	15.1	5.0	4.2	15.1	13.4
Germany	31	30	35	9.1	14.5	5.2	6.4	12.5	11.6
Italy	11	9	10	19.9	7.7	-0.0	11.7	12.4	13.8
Netherlands	3	2	3	13.5	9.7	5.7	4.5	7.9	30.6
United Kingdom	4	5	5	21.8	18.0	-6.0	2.3	15.7	8.8
EFTA countries <u>3/</u>	12	11	11	14.5	11.9	8.4	-5.4	8.1	11.4
Of which:									
Switzerland	8	7	7	14.9	9.9	12.4	-5.4	8.8	12.2
State trading countries <u>4/</u>	12	11	9	13.7	2.4	-15.6	-6.4	13.3	20.1
Of which:									
U.S.S.R.	3	4	3	30.5	-4.7	-21.8	-18.9	29.6	12.4
Hungary	2	3	2	13.9	31.6	-14.8	-15.1	3.0	38.2
Other European countries	4	3	3	12.0	7.4	-12.8	-2.4	14.8	...
Of which:									
Yugoslavia	3	2	2	6.5	7.6	-7.0	-11.6	14.8	19.2
Non European OECD countries	4	8	7	45.6	20.5	-12.8	-4.0	12.6	...
Of which:									
Japan	1	1	1	15.8	2.0	18.2	0.9	25.3	26.5
United States	2	5	4	57.3	27.8	-16.4	-11.7	10.8	11.0
Developing countries	11	12	7	4.1	11.6	-27.3	-16.5	6.9	8.1
Of which:									
Opec countries	6	6	3	-0.7	5.8	-38.6	-24.3	14.4	-2.5
Others	6	6	4	10.3	18.3	-15.7	-10.6	2.0	15.7
Total	100	100	100	13.5	12.5	-3.2	-0.0	11.9	13.4

Source: Austrian Institute for Economic Research.

1/ January-September 1989 relative to the same period of 1988.2/ EC 1986.3/ EFTA 1986.4/ European member countries of the Council for Mutual Economic Assistance (CMEA).

Table 9. Austria: Merchandise Imports

Product	1988	1980	1985	1988	1985	1986	1987	1988	Jan-Sep 1989 ^{2/}
	Value (S billion)		Percent of total				Value (percent changes)		
Food products	21.9	5	5	5	9.9	1.5	-4.8	3.1	12.0
Raw materials	49.5	22	21	11	6.8	-37.1	-11.5	-3.1	10.9
Energy product	25.5	15	15	6	8.2	-44.8	-15.7	-14.6	9.6
Other raw materials	24.0	7	6	5	3.6	-19.0	-4.9	13.1	12.2
Semi-finished goods	71.0	16	16	16	7.6	-6.9	-2.5	11.7	18.2
Finished goods	309.0	56	57	68	11.8	6.3	5.0	12.0	15.5
Investment goods	101.9	17	19	23	17.0	5.4	7.5	12.7	17.1
Consumer goods	207.1	39	39	46	9.5	6.7	3.9	11.7	14.7
	451.4	100	100	100	9.9	-5.3	1.0	9.6	14.9

Sources: Austrian Institute for Economic Research.

^{1/} On a special trade basis.

^{2/} First nine months of 1989 relative to the corresponding period of 1988.

Table 10. Austria: Geographic Distribution of Imports

	1980	1985 Percent of total	1988	1984	1985	1986	1987	1988	Jan-Sep ^{1/} 1989
				Percentage changes					
Europe	82	82	83	11.5	9.5	-2.5	0.6	8.7	...
EC countries ^{2/}	63	62	68	8.8	11.1	1.9	2.6	9.8	14.9
Of which:									
Belgium	2	2	3	16.1	9.0	7.6	1.4	21.2	11.8
France	4	4	4	1.8	7.6	2.3	4.4	6.4	31.1
Germany	41	41	45	8.3	12.7	1.7	1.4	10.4	13.4
Italy	9	8	9	9.1	5.0	2.9	6.0	4.2	15.2
Netherlands	3	3	3	6.6	11.7	-1.0	0.7	10.9	13.3
United Kingdom	3	2	2	12.2	17.0	-4.7	5.7	13.1	17.0
EFTA countries ^{3/}	8	8	7	13.7	10.0	-4.0	2.9	3.0	11.9
Of which:									
Switzerland	5	5	4	5.3	11.6	1.6	-1.8	2.5	6.3
State trading countries ^{4/}	10	11	6	24.9	0.4	-25.9	-17.7	2.7	10.1
Of which:									
U.S.S.R.	4	4	2	32.1	-2.4	-34.7	-32.0	1.6	-3.9
Hungary	1	2	1	36.8	4.8	-21.8	-7.1	3.1	28.9
Other European countries	1	1	1	25.3	10.4	-12.2	0.1	18.4	...
Of which:									
Yugoslavia	1	1	1	26.6	7.7	-16.3	-1.2	19.2	32.7
Non European OECD countries	7	8	9	13.1	13.4	0.6	4.1	19.5	...
Of which:									
Japan	2	3	5	4.9	10.6	26.4	0.4	28.9	10.2
United States	3	4	3	17.1	16.9	-18.3	8.6	7.5	18.6
Developing countries	12	10	7	21.0	10.0	-31.9	2.0	7.9	19.2
Of which:									
Opec countries	7	5	2	40.3	6.4	-52.9	-5.6	-18.9	12.9
Others	4	6	6	8.0	13.2	-14.6	5.5	18.8	21.0
Total	100	100	100	12.6	9.9	-5.3	1.0	9.6	14.9

Source: Austrian Institute for Economic Research.

^{1/} January-September 1989 relative to the same period of 1988.

^{2/} EC 1986.

^{3/} EFTA 1986.

^{4/} European member countries of the Council for Mutual Economic Assistance (CMEA).

Table 11. Austria: Balance of Services and Transfers ^{1/}
(In billions of schillings)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 ^{1/}
Tourism, net	46.4	49.2	42.3	48.5	48.9	44.9	41.3	46.7	57.0
Credit	91.0	95.0	94.4	101.0	105.2	106.2	112.0	124.6	140.0
Debit	44.6	45.8	52.1	52.5	56.3	61.3	70.7	77.9	83.0
Investment income, net	-7.4	-7.0	-6.7	-7.0	-5.3	-10.1	-10.9	-11.3	-12.5
Credit	50.5	53.6	46.7	57.7	65.9	57.8	56.6	65.7	82.5
Debit	57.9	60.6	53.3	64.8	71.2	67.9	67.5	77.0	95.0
Other services, net ^{2/}	2.4	3.9	4.8	6.9	5.6	7.2	9.9	9.6	9.5
Services, net ^{3/}	41.4	46.2	40.4	48.4	49.1	42.0	40.4	45.1	54.0
Estimated workers' remittances, net	-0.9	-0.4	-0.0	0.1	0.6	1.2	2.2	2.5	...
Other private transfers, net	-0.0	-0.2	-0.6	-0.6	-1.7	-1.2	-2.4	-2.0	...
Official transfers, net	-0.5	-0.6	-0.8	-0.8	-0.8	-0.7	-0.9	-0.9	...
Transfers, net	-1.4	-1.2	-1.5	-1.2	-1.9	-0.7	-1.0	-0.4	--
Services and transfers, net	40.0	44.9	39.0	47.2	47.1	41.3	39.3	44.6	54.0
Memorandum items (in percent of GDP):									
Tourism	4.4	4.3	3.5	3.8	3.6	3.2	2.8	3.0	3.4
Investment income	-0.7	-0.6	-0.6	-0.6	-0.4	-0.7	-0.7	-0.7	-0.7
Other services	0.2	0.3	0.4	0.5	0.4	0.5	0.7	0.6	0.6
Total services	3.9	4.1	3.4	3.8	3.6	3.0	2.7	2.9	3.2
Transfers	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0	-0.1	-0.0	--
Total services and transfers	3.8	4.0	3.2	3.7	3.5	2.9	2.7	2.8	3.2

Sources: Austrian National Bank; Austrian Institute for Economic Research; and Fund staff estimates.

^{1/} Staff estimates.

^{2/} Excluding services included in Table 5 as unclassified goods and service (e.g., in connection with deliveries and installation of capital equipment).

Table 12. Austria: Overnight stays of Foreign Visitors

	1980	1985	1988	1981	1982	1983	1984	1985	1986	1987	1988	Jan-Sep 1/ 1989
	Share of total			Percent changes								
Belgium	3	3	3	5.4	-13.2	-10.4	1.3	-4.3	-3.6	4.4	4.0	13.3
France	2	3	3	19.3	12.0	-14.7	28.7	4.9	9.0	-1.3	-0.6	9.5
Germany, Federal Republic of	73	65	64	0.6	-4.9	-3.6	-5.1	-3.4	1.1	-2.0	2.0	6.4
Italy	1	1	2	18.3	11.8	13.2	18.5	1.5	20.1	11.3	23.7	33.4
Netherlands	11	11	11	5.8	-5.9	-7.0	3.4	-1.9	-0.0	1.6	-0.6	3.0
Sweden	1	1	2	11.0	11.9	-12.0	0.8	8.3	8.5	7.6	-5.4	2.3
Switzerland	1	2	3	4.5	5.5	10.6	9.5	6.5	6.5	11.8	11.5	11.5
United Kingdom	2	5	5	21.5	32.7	14.1	6.9	-2.4	1.5	-1.1	-0.9	10.9
United States	1	3	2	-12.2	22.9	21.0	26.6	7.9	-40.7	22.1	-7.5	7.0
Other	4	6	6	6.8	0.4	2.2	8.7	4.5	-0.5	9.3	6.3	...
Total	100	100	100	2.6	-2.8	-2.8	-0.8	-1.9	0.4	0.3	2.2	7.7
Memorandum item:												
Total (excluding Germany)	27	35	36	7.7	2.6	-0.9	8.6	1.2	-1.0	4.8	2.5	10.1

Source: Austrian Institute for Economic Research.

1/ Relative to the same period of 1988.

Table 13. Austria: Value Added by Sector

(Percentage shares) ^{1/}

	1965	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ^{2/}
Agriculture and forestry	4.5	4.3	3.8	3.6	3.4	3.9	3.6	3.7	3.4	3.4	3.4	3.4	3.4
Mining and manufacturing	28.4	29.9	28.6	29.3	28.9	28.7	28.5	28.8	29.1	28.9	28.4	28.7	29.3
Mining	0.9	0.7	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	...
Manufacturing	27.5	29.2	28.0	28.8	28.4	28.2	28.1	28.3	28.7	28.5	28.0	28.4	...
Energy and water supply	2.8	3.0	3.2	3.5	3.4	3.4	3.4	3.4	3.4	3.5	3.8	3.7	3.6
Construction	9.6	9.6	10.1	8.8	8.5	7.8	7.6	7.4	7.2	7.2	7.2	7.2	7.2
Services	54.2	52.7	54.1	54.6	55.6	56.0	56.6	56.5	56.5	56.7	57.0	56.7	56.5
Trade	17.7	17.1	17.8	17.0	17.2	17.1	17.6	17.1	17.2	17.2	17.3	17.5	17.8
Transport and communications	4.5	4.7	5.2	5.8	5.9	5.9	5.9	6.1	6.2	6.2	6.3	6.3	6.3
Banking, insurance, finance	10.6	11.3	12.4	13.6	13.9	14.3	14.5	14.7	14.6	14.8	15.0	15.0	15.0
Public services	15.6	14.6	14.0	13.9	14.3	14.4	14.3	14.2	14.1	14.1	14.0	13.5	13.1
Non-profit private services	1.1	0.9	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	...
Household services	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	...
Other services	4.4	3.7	3.7	3.5	3.6	3.5	3.5	3.5	3.6	3.6	3.7	3.7	...
Total value added ^{3/}	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Austrian Institute for Economic Research.

^{1/} Based on data in terms of 1983 prices.^{2/} Preliminary estimates.^{3/} Before adjustment for imputed bank services;

Table 14. Austria: Value Added by Sector

(Percentage changes, in prices of 1983)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 <u>1/</u>
Agriculture and forestry	4.1	-3.5	13.7	-4.1	5.1	-4.8	1.7	0.9	4.0	—
Mining and manufacturing	2.4	-1.3	0.4	1.5	2.8	3.7	0.4	0.1	5.6	5.7
Mining	1.4	0.8	-0.1	-6.5	-1.4	-4.4	-11.3	4.7	-12.0	...
Manufacturing	2.4	-1.3	0.4	1.6	2.9	3.8	0.6	0.0	5.9	...
Energy and water supply	5.9	-1.1	0.0	2.2	1.5	4.4	4.0	8.7	1.3	1.5
Construction	-0.4	-4.0	-6.2	-1.1	-1.3	0.5	1.1	1.7	4.7	3.0
Services	3.8	1.3	1.7	2.7	1.6	2.7	1.3	2.3	4.0	3.6
Trade	2.3	0.9	1.1	4.5	-0.5	3.0	1.3	2.1	5.8	5.5
Transport and communication	5.9	0.6	1.1	2.8	5.6	4.0	0.5	4.5	4.0	4.0
Banking, insurance, finance	6.4	2.1	4.4	2.9	3.5	2.3	2.7	3.0	4.3	3.5
Public services	2.7	2.6	2.1	1.6	1.2	1.5	1.3	1.1	0.7	1.0
Non-profit private services	1.1	1.6	1.2	0.8	0.8	1.0	1.1	0.7	0.4	...
Household services	-7.4	7.9	-16.9	-5.8	-3.2	-10.0	2.6	-7.7	-7.5	...
Other services	5.2	2.6	0.1	2.3	1.4	3.9	2.7	4.0	4.6	...
Gross domestic product	2.9	-0.3	1.1	2.0	1.4	2.5	1.1	1.9	4.2	4.0

Source: Austrian Institute for Economic Research.

1/ Preliminary estimates.

Table 15. Austria: Selected Indices of Industrial Production ^{1/}

(Percentage changes)

	1985	1986	1987	1988	1988 ^{2/}				1989 ^{2/}	
					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Industry, total	4.8	1.2	1.0	4.5	3.4	3.4	6.2	4.4	5.9	5.5
Industry, total, excluding energy	4.4	1.4	-0.8	6.1	6.6	4.4	9.2	4.4	6.7	7.1
Intermediate goods ^{3/}	...	...	1.9	8.4	9.7	6.9	10.3	7.1	8.5	8.0
Investment goods ^{3/}	...	...	-8.1	6.2	3.9	3.2	15.5	2.3	7.5	5.8
Consumption goods ^{3/}	...	...	-1.0	-0.4	1.3	-0.8	1.6	-0.3	2.0	5.7
By branch of industry										
Iron and steel production	-1.6	-8.3	-2.1	8.0	19.6	0.8	12.2	1.5	-1.7	9.4
Petroleum	-2.5	-1.3	-0.4	6.5	0.8	2.6	11.1	11.6	-0.2	2.5
Chemicals	-4.1	-2.5	4.8	11.3	12.6	5.8	13.7	9.6	6.8	3.9
Papermaking	8.7	2.5	6.0	13.1	15.7	14.7	12.1	9.9	4.6	5.9
Paper products	5.9	1.2	7.3	6.9	5.8	4.5	5.9	11.1	12.1	15.5
Wood products	4.7	3.2	4.5	5.8	10.7	6.6	3.5	4.3	7.9	7.5
Food	3.2	2.7	0.4	2.2	-0.2	-0.1	6.4	4.4	1.8	6.1
Tobacco	7.2	-3.9	-2.3	-5.3	-2.7	-6.5	-11.7	1.1	-2.0	4.6
Vehicles ^{4/}	21.9	-3.9	-4.7	14.7	5.6	14.5	17.9	19.8	19.9	16.8
Electrical industry	8.9	11.5	-2.7	2.5	-0.6	1.7	6.5	1.5	9.0	7.8
Machinery	11.5	5.1	-6.6	5.1	4.9	0.1	16.6	0.0	11.2	12.7
Textiles	2.2	0.2	-4.8	3.5	3.6	2.3	6.3	1.9	1.9	0.2
Clothing	-1.4	0.8	-2.6	-5.9	-3.0	-9.4	-7.2	-4.5	-2.4	0.9

Source: Austrian Institute for Economic Research.

^{1/} Production adjusted for working-day variations.^{2/} Relative to same period of the preceeding year.^{3/} Series introduced in 1986.^{4/} Including vehicle parts.

Table 16. Austria: Labor Market Statistics

	1980	1983	1984	1985	1986	1987	1988	1989 ^{1/}
Population	7,549.4	7,551.8	7,552.6	7,557.7	7,565.6	7,575.7	7,596.1	7,609.1
percentage change	--	-0.3	0.0	0.1	0.1	0.1	0.3	0.2
Population of working age	4,676.5	4,785.2	4,816.5	4,840.5	4,859.6	4,877.8	4,897.1	4,908.3
percentage change	0.9	0.4	0.7	0.5	0.4	0.4	0.4	0.2
as percent of total	61.9	63.4	63.8	64.0	64.2	64.4	64.5	64.5
Dependent employment								
Labor force	2,841.9	2,862.1	2,875.0	2,899.1	2,932.2	2,949.8	2,969.1	3,009.6
percentage change	0.4	-0.3	0.4	0.8	1.1	0.6	0.7	1.4
Employment	2,788.7	2,734.7	2,744.5	2,759.7	2,780.2	2,785.4	2,810.5	2,860.5
percentage change	0.5	-1.1	0.4	0.6	0.7	0.2	0.9	1.8
Unemployed	53.2	127.4	130.5	139.4	152.0	164.5	158.6	149.1
percentage change	-6.3	20.9	2.4	6.9	9.0	8.2	-3.5	-6.0
Unemployment rate	1.9	4.4	4.5	4.8	5.2	5.6	5.4	5.0
Vacancies	36.5	15.2	17.2	22.3	24.7	26.8	31.2	45.6
percentage change	16.3	-12.1	13.1	29.8	10.9	8.7	16.2	46.2
Foreign workers	174.7	145.3	138.7	140.2	146.0	147.4	150.9	165.9
percentage change	2.4	-6.8	-4.6	1.1	4.1	1.0	2.4	9.9
Employment in industry	621.6	558.9	555.4	556.4	552.3	536.7	525.5	528.5
percentage change	1.1	-4.1	-0.6	0.2	-0.7	-2.8	-2.1	0.6
Memorandum items:								
Average working hours ^{2/}	37.2	37.0	37.4	37.3	37.2	36.7	36.8	...
Hours worked in industry ^{3/}	146.0	144.3	145.2	144.9	142.1	139.9	141.0	...
Vacancies								
in percent of unemployed	68.6	11.9	13.2	16.0	16.2	16.3	19.7	30.6
in percent of labor force	1.3	0.5	0.6	0.8	0.8	0.9	1.1	1.5
Foreign workers								
in percent of dependent employment	6.3	5.3	5.1	5.1	5.3	5.3	5.4	5.8

Source: Austrian Institute for Economic Research.

^{1/} Official projections.

^{2/} Per week.

^{3/} Per month.

Table 17. Austria: Earnings and Productivity
(Percentage changes)

	1985	1986	1987	1988	1989 <u>1/</u>
Overall economy					
Minimum wage and salary rates <u>2/</u>	5.3	5.1	3.5	2.2	3.8
Actual earnings <u>3/</u>	5.2	5.7	4.0	2.8	4.7
Productivity <u>4/</u>	2.0	0.6	1.3	3.3	2.1
Industry					
Minimum wage and salary rates <u>5/</u>	5.6	5.4	3.7	3.0	3.5
Actual earnings <u>3/</u>	6.1	4.8	3.8	3.9	4.5
Productivity <u>6/</u>	4.7	3.7	4.1	7.8	5.7

Source: Austrian Institute for Economic Research.

1/ Staff estimates.

2/ Negotiated minimum pay rates averaged across job categories.

3/ On a monthly basis.

4/ Real GDP per dependently employed.

5/ Industrial workers.

6/ Production per man-hour.

Table 18. Austria: Price Developments

(Percentage changes)

	1986	1987	1988	1989 <u>1/</u>	1988 <u>2/</u>				1989 <u>2/</u>		
					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
GDP deflator	3.8	2.4	2.0	2.6	1.3	1.9	2.4	2.5	2.3	2.7	...
Consumer prices	1.7	1.4	2.0	2.6	2.1	1.7	1.9	1.9	2.3	2.6	2.6
Wholesale prices, total <u>3/</u>	-5.3	-2.0	-0.2	1.1	-0.6	-1.0	0.4	0.2	1.1	1.6	1.8
Export prices <u>4/</u>	-2.1	-1.5	2.2	2.8	1.1	1.7	2.2	4.0	3.4	3.4	...
Import prices <u>4/</u>	-5.6	-2.6	1.8	3.5	0.9	1.0	1.8	3.3	3.9	4.6	...
Terms of trade <u>5/</u>	3.7	1.2	0.4	-0.7	0.2	0.6	0.4	0.7	-0.5	-1.1	...

Source: Austrian Institute for Economic Research.

1/ Staff estimates.2/ Relative to the same quarter of preceeding year.3/ Excluding value-added tax.4/ Implicit national accounts deflator for goods and nonfactor services.5/ Export prices divided by import prices.

Table 19. Austria: Federal Budget
(Administrative basis; in billions of schillings)

	1986 <u>1/</u>	1987 <u>1/</u>	1988 Budget	1988 Actual	1989 Budget	1989 Estimate <u>2/</u>	1990 Budget
Revenue	391.7	409.6	446.5	451.3	465.4	468.0	486.1 <u>3/</u>
Tax revenue, total	352.1	355.9	368.8	374.8	382.7	385.7	415.8
Wage tax	98.9	97.7	101.5	104.0	92.0	87.0	99.0
Assessed income tax	25.6	25.5	27.0	27.1	29.0	...	34.5
Corporate income tax	11.3	10.2	11.5	11.5	12.5	...	15.2
Business tax	11.3	11.4	11.9	11.9	12.8	...	14.3
Value added tax	126.2	130.8	133.0	135.6	145.0	145.0	153.5
Mineral oil tax	16.3	17.3	17.6	18.1	18.7	...	19.1
Tobacco and alcohol tax	13.6	13.8	14.4	13.4	13.7	...	13.7
Other taxes	48.9	49.2	51.9	53.2	59.0	62.3	66.5
Minus: Tax sharing transfers to other levels of government	-135.5	-138.7	-124.6	127.2	129.2	129.7	141.7
Tax revenue, Federal share	216.6	217.3	244.2	247.6	253.5	256.0	274.1
Tax-like revenue <u>4/</u>	62.2	63.1	67.3	68.2	69.7	70.8	71.2
Federal enterprises <u>5/</u>	70.9	71.5	77.5	76.8	79.8	79.3	82.9
Other revenue	42.0	57.3	57.5	58.4	62.5	61.9	57.9
Expenditure	464.8	479.0	517.6	517.8	531.5	533.1	549.1 <u>3/</u>
Wages and salaries <u>6/</u>	110.2	113.9	113.4	114.8	117.2	120.1	122.7
Current expenditure on goods	64.8	61.9	55.6	54.3	57.1	...	58.9
Gross investment	30.9	24.5	25.8	25.4	26.1	...	26.2
Transfer payments	200.6	211.9	239.7	239.5	252.9	...	251.9
Pensions <u>6/</u>	41.6	44.0	45.0	45.9	48.6	...	51.0
Family allowances	37.3	38.7	42.8	42.2	43.0	42.5	42.5
Unemployment benefits	14.0	15.8	18.1	16.8	18.4	16.6	16.3
Transfers to social security system <u>7/</u>	47.8	54.5	55.7	55.1	60.5	...	55.3
Transfers to enterprises <u>8/</u>	20.2	18.2	17.6	15.1	16.4	...	16.3
Other transfers	39.9	40.7	60.4	64.4	66.0	...	70.5
Interest <u>9/</u>	42.1	48.4	54.0	51.7	55.0	55.0	67.8 <u>3/</u>
Other expenditure	16.2	18.1	29.2	32.1	23.2	...	21.5
Net deficit	73.1	69.8	71.1	66.5	66.1	65.1	63.0
(In percent of GDP) <u>10/</u>	5.2	4.7	4.5	4.2	4.0	3.9	3.5
Redemption of debt	33.6	35.1	41.1	39.3	35.2	34.7	33.2
Gross deficit	106.7	104.9	112.2	105.7	101.3	99.8	96.2
(In percent of GDP) <u>10/</u>	7.5	7.1	7.1	6.7	6.0	6.0	5.4
Memorandum items:							
Asset sales	0.2	6.4	4.8	3.5	11.9	11.2	2.4
Net change in reserves	-0.4	-0.3	-5.4	-3.4	-6.3	4.9	-4.8
Net outlays on account of federal enterprises <u>5/</u>	27.8	22.9	20.4	...	19.4	...	18.5
Of which:							
Federal Railways	27.8	25.5	24.9	...	24.7	...	24.1

Sources: Ministry of Finance, Bundesfinanzgesetz (BFG), 1990 and Arbeitsbehelf zum BFG, 1990; and data provided by the Austrian authorities.

1/ From 1988 on, the presentation of the budget is on a "gross" basis, implying larger revenue and expenditure figures. Hence, figures for 1986 and 1987 are not directly comparable with those for later years. For example, beginning in 1988, tax sharing transfers to the Länder no longer include transfers to support housing programs. Housing subsidies, amounting to some S 15.7 billion in 1988, are now included under "Other transfers" on the expenditure side of the budget. In total, the change in accounting practice added S 29.1 billion to the revenue and expenditure sides of the 1988 budget.

2/ Official estimate, September 1989

3/ From 1990, interest revenue and interest expenditure related to swap transactions are budgeted gross. In the 1990 budget, this adds S 6.7 billion to revenue and to interest expenditure.

4/ Consisting mainly of employers' and employees' unemployment insurance contributions and employers' contributions to the fund for family allowances.

5/ The federal budget includes the gross receipts and expenditures of federal enterprises, mainly the Federal Railways and the Federal Postal Service. Gross outlays of these enterprises are spread over several expenditure items, but net outlays are identified as a memorandum item.

6/ Including expenditure related to teachers employed by the states.

7/ Mainly to the general pension system.

8/ Excluding outlays on account of federal enterprises.

9/ Including commission and management fees, and provision for interest on zero coupon bonds.

10/ For budget estimates, the ratio is based on actual GDP and not GDP as projected at the time of the budget.

Table 20. Austria: Federal Government Assistance to Enterprises 1/

(In billions of schillings)

	1983	1984	1985	1986	1987	1988	Budget	
							1989	1990
Assistance to industrial enterprises	7.7	7.2	8.8	9.5	9.3	8.3	10.4	10.5
(Percent change)	(22.7)	(-6.1)	(22.4)	(8.4)	(-2.7)	(-10.3)	(25.4)	(0.5)
For:								
Investment	2.8	2.8	2.9	2.9	3.0	3.1	2.9	2.8
Environmental protection	1.3	1.3	1.8	1.4	1.3	1.6	1.6	1.7
Research and developme	0.4	0.4	0.4	0.5	0.4	0.6	0.7	0.7
Implementation of labor market programs	2.9	2.6	3.6	4.8	4.5	3.0	5.2	5.3
Of which:								
Accruing to individuals <u>2/</u>	...	...	...	3.3	3.8	2.5	4.6	4.8
Other	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Assistance to agriculture	7.0	7.3	8.1	8.9	9.8	8.8	8.5	8.6
(Percent change)	(31.1)	(4.9)	(11.2)	(10.0)	(9.4)	(-9.9)	(-3.1)	(1.2)
For:								
Investment	1.8	1.7	1.8	1.8	1.9	1.9	1.9	2.0
Price support	5.2	5.5	6.3	7.1	7.9	6.9	6.6	6.7
Total	14.6	14.5	16.9	18.5	19.0	17.1	18.9	19.1
(Percent change)	(26.6)	(-0.8)	(16.8)	(9.2)	(3.1)	(-10.1)	(10.8)	(0.8)

Source: Ministry of Finance, Bundesvoranschlag, 1989.

1/ The coverage of this table differs from that of the item "transfers to enterprises" in Table 19.2/ For institutional reasons, these payments have been recorded under assistance to enterprises.

Table 21. Austria: Financing of the Federal Government

(In billions of schillings)

	1984	1985	1986	1987	1988	1989 <u>1/</u>
Gross deficit	90.1	91.9	106.7	104.9	105.7	101.3
Plus: Change in cash reserves (increase +)	-1.6	-2.3	18.5	24.3	11.8	35.0
Equals: Gross borrowing requirement	88.5	89.6	125.2	129.2	117.6	136.3
Domestic borrowing	73.2	77.4	105.9	113.4	96.0	...
Domestic bond issues	23.0	32.7	45.4	50.6	45.1	...
Treasury certificates	9.1	3.0	3.4	11.0	12.1	...
Other long-term loans <u>2/</u>	40.7	41.2	56.6	51.2	38.3	...
Borrowing from the National Bank <u>3/</u>	0.4	0.5	0.5	0.6	0.5	...
Foreign borrowing	15.3	12.2	19.3	15.8	21.6	...
Minus: Redemption of debt	32.8	31.7	33.6	35.1	39.3	35.2
Plus: Valuation changes on foreign debt	-2.0	-2.2	-0.3	2.7	0.2	...
Equals: Net borrowing requirement	53.7	55.7	91.3	96.8	78.5	...

Source: Ministry of Finance

1/ Budget 1989.2/ Mainly loans from banks and insurance companies.3/ Financing of contributions to multilateral financial institutions.

Table 22. Austria: Debt and Debt Service of the Federal Government

	Total Debt	Domestic Debt	Foreign Debt 1/	Total Debt in Percent of GDP	Foreign Debt in Percent of Total Debt	Debt Service			Interest Payments 2/ In percent of Federal tax revenue
						Interest 2/	Repayment	Total	
	In billions of schillings, at end of year					In billions of schillings			
1971	46.8	34.7	12.1	11.2	25.9	3.2	6.1	9.3	5.2
1972	49.9	39.6	10.3	10.5	20.7	3.3	6.2	9.6	4.6
1973	56.3	47.2	9.0	10.4	16.0	3.6	5.7	9.3	4.9
1974	61.4	47.9	13.5	9.9	22.1	3.8	6.9	10.7	4.3
1975	100.4	68.3	32.1	15.3	31.9	5.9	7.5	13.4	6.3
1976	133.8	98.8	35.0	18.5	26.1	9.0	10.7	19.8	8.8
1977	164.6	117.2	47.4	20.7	28.8	10.7	12.0	22.7	9.3
1978	199.2	139.1	60.0	23.6	30.1	13.8	15.8	29.6	11.3
1979	230.9	167.2	63.7	25.1	27.6	15.7	18.0	33.7	11.7
1980	261.2	188.5	72.6	26.3	27.8	17.8	18.2	36.0	12.4
1981	295.3	200.7	94.6	28.0	32.0	20.7	24.2	45.0	13.0
1982	341.6	233.2	108.4	30.1	31.7	25.7	25.2	50.9	15.7
1983	416.2	290.6	125.6	34.6	30.2	27.4	25.5	52.9	15.7
1984	469.8	350.8	119.0	36.7	25.3	33.8	32.8	66.6	17.5
1985	525.6	406.9	118.7	38.9	22.6	38.0	31.7	69.7	18.3
1986	616.9	492.3	124.6	43.6	20.2	42.1	33.6	75.7	19.4
1987	697.5	572.8	124.7	47.2	17.9	48.4	35.1	83.5	22.3
1988	746.7	615.9	130.8	47.5	17.5	51.7	39.3	91.0	20.9 <u>3/</u>
1989 <u>4/</u>	808.0	675.7	132.3	48.2	16.4	55.0	35.2	90.2	21.7 <u>3/</u>
1990 <u>4/</u>	871.0	728.4	142.6	49.0	16.4	61.1 <u>5/</u>	33.2	94.3	22.3 <u>3/</u>

Sources: Ministry of Finance, Bundesfinanzgesetz 1990; and data provided by the Austrian authorities.

1/ The value of foreign debt is adjusted for changes in exchange rates.

2/ Including commissions and management fees.

3/ For 1988 and after, this ratio is not comparable with previous years, owing to changes in accounting practice. These changes boosted tax revenue by S 15.7 billion in 1988.

4/ Official estimate, September 1989.

5/ Interest expenditure related to swaps is on a net basis, as in previous years. In the budget for 1990, there was a change in the accounting treatment of interest payments and receipts related to swap transactions.

Table 23. Austria: 1989 Tax Reform--Major Changes in Standard Tax Expenditure Regulations

	Previous Regulations	Present Regulations (effective Jan. 1, 1989)
General tax credit	S 6,460 - S 8,460	S 5,000
Employee tax credit	S 4,000	S 5,500
Lump sum employee allowance (<u>Werbungskostenpauschale</u>)	S 4,914	S 1,800
Lump sum special expenditure allowance (<u>Sonderausgabenpauschale</u>)	S 3,276	S 1,638
Single-earner's tax credit (subject to limit on spouse income of:)	S 3,900 S 10,000	S 4,000 S 20,000 <u>1/</u>
Child tax credit for single earners	S 600	S 1,800

Source: Income Tax Law 1988.

1/ S 40,000 for couples with children.

Table 24: Austria: 1989 Tax Reform--Major Changes in Business Taxation

	Previous law	Present law (effective Jan. 1, 1989)
Corporation tax	Four rates at 30, 40, 50, and 55 percent <u>1/</u>	Uniform 30 percent <u>2/</u>
Trade tax <u>3/</u> (Gewerbsteuer)	12.6 - 13.0	12.7 - 14.2
Tax-free allowance for trade tax (unincorporated businesses)	S 80,000	S 160,000
Investment reserve allowance <u>4/</u>	25 percent	10 percent <u>5/</u>
Accelerated depreciation allowance <u>6/</u>	40 percent (for equipment investment)	---

Source: Income Tax Law 1988.

1/ These rates applied to undistributed profits. Distributed profits were taxed at one-half the above rates.

2/ For both distributed and undistributed profits.

3/ Since 1986, the trade tax comprises a tax on business income only. The rates quoted include contributions to the Chamber of Industry and Trade. The trade tax is deductible from corporation/income tax liability.

4/ In years, when the accelerated depreciation allowance and the investment allowance are not taken advantage of, an amount of up to 10 percent (previously 25 percent) of net profit can be transferred as a tax-deductible item to an investment reserve. If the reserve is not used, it must be released to taxable income, together with a penalty of 5 percent for each year of the reserve's existence.

5/ Since 1988.

6/ Accelerated depreciation was a one-time allowance which could be claimed in the year of acquisition in addition to the nominal (straight-line) depreciation. For example, a machine with an estimated useful life of ten years purchased in 1985 could be depreciated by 50 percent (40 percent accelerated, 10 percent normal) in the initial year, with the balance (50 percent) written down over the following five years.

Table 25. Austria: Comparison of Different Measures of the Federal Budget Deficit

(In percent of GDP)

	1986	1987	1988	1989 <u>1/</u>	1990 <u>2/</u>
Administrative basis	-5.2	-4.7	-4.2	-3.9	-3.5
National accounts basis	-4.5	-5.0	-3.8	-3.2	-2.5
Structural deficit <u>3/</u>	-4.3	-4.6	-3.9	-3.6	-2.8
Cyclical deficit <u>3/</u>	-0.3	-0.4	--	0.3	0.3
Fiscal impulse <u>3/</u>	0.6	0.3	-0.7	-0.3	-0.8

Sources: Ministry of Finance, Arbeitsbehelf zum Bundesfinanzgesetz 1990; and Fund staff calculations.

1/ Preliminary estimates.

2/ 1990 budget.

3/ Figures may not add due to rounding. By definition, the cyclical deficit is the difference between the deficit on a national accounts basis and the structural deficit. The fiscal impulse is defined as the change in the structural deficit.

Table 26. Austria: Selected Social Insurance Funds

(in billions of schillings)

	1983	1984	1985	1986	1987	1988 Est.	1989 Budget
Pension insurance							
Revenue	91.4	101.1	108.2	114.6	117.9	123.1	130.1
Of which: Employers' and employees' contributions	90.5	99.1	107.3	112.7	117.0	121.7	124.5
Expenditure <u>1/</u>	128.9	139.1	148.3	158.0	168.6	175.3	185.1
Of which: Pension benefits <u>1/</u>	113.2	122.0	130.8	139.1	148.5	155.1	163.7
Balance	-37.5	-38.0	-40.1	-43.4	-50.7	-52.2	-55.0
Federal budget transfer <u>1/</u> (In percent of pension insurance expenditure)	38.2 (29.6)	40.2 (28.9)	41.1 (27.7)	44.0 (27.8)	50.9 (30.2)	52.2 (29.8)	55.1 (29.8)
Health insurance							
Revenue	48.6	51.4	53.3	56.4	60.4	64.4	68.8
Expenditure	48.1	50.7	53.4	56.7	60.2	64.9	69.0
Balance	0.5	0.7	-0.1	-0.3	0.2	-0.5	-0.2
Federal budget transfer	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Accident insurance							
Revenue	7.5	7.8	8.2	8.6	8.9	8.7	9.2
Expenditure	7.4	7.6	8.3	8.9	9.5	8.2	9.1
Balance	0.1	0.2	-0.1	-0.3	-0.6	0.5	0.1
Federal budget transfer	0.2	0.2	0.2	0.2	0.2	0.3	0.3

Sources: Ministry of Finance, Bundesvoranschlag 1989; and Handbuch der Österreichischen Sozialversicherung, various issues; and data provided by the Austrian authorities.

1/ Including supplementary pension payments from the Federal budget and administered by the pension insurance.

Table 27. Austria: General Government Finances

(National accounts basis; in billions of schillings)

	1983	1984	1985	1986	1987	1988	1989 Projections ^{1/}	1990 Projections ^{1/}
Current revenue	557.1	606.1	653.5	682.1	705.7	734.9	760.8	811.1
Indirect taxes	197.1	216.1	225.9	234.0	245.2	253.6	270.1	284.0
Direct taxes on households	136.8	151.4	167.9	177.3	177.2	187.2	180.0	197.7
Corporate direct taxes	19.8	22.3	25.8	26.5	26.1	27.4	32.1	34.1
Social security contributions	145.5	155.5	167.8	176.0	183.3	191.9	201.4	213.6
Imputed pension fund contributions for public employees	30.9	32.8	35.3	37.6	39.6	40.9	42.9	45.0
Income from property and entrepreneurship	22.4	23.1	26.2	25.9	29.4	29.0	29.1	31.4
Other current revenue	4.6	4.9	4.7	4.8	4.9	4.9	5.2	5.3
Current expenditure	542.9	575.8	620.7	664.1	702.2	718.8	745.4	774.1
Public consumption	226.9	237.8	225.0	270.7	280.4	289.1	300.7	309.7
Transfers to private households	240.6	255.4	274.8	291.4	311.9	319.3	331.5	346.0
Subsidies	35.4	35.9	39.2	46.0	47.4	44.8	43.8	43.3
Interest on public debt	36.6	43.1	47.8	51.9	58.4	61.3	65.1	70.8
Other current expenditures	3.4	3.6	33.9	4.1	4.1	4.3	4.3	4.3
Capital expenditure	62.2	63.1	66.2	70.5	66.5	64.8	61.5	62.1
Gross investment	46.9	48.0	49.8	54.3	51.3	51.2	53.5	55.2
Depreciation (-)	-9.6	-10.1	-10.7	-11.3	-11.6	-11.8	-13.0	-13.2
Capital transfers, net	24.8	25.2	27.1	27.5	26.8	25.4	21.0	20.1
Total expenditure	605.0	638.9	686.9	734.6	768.7	783.6	806.9	836.2
Financial balance	-47.9	-32.8	-33.4	-52.5	-63.1	-48.7	-46.1	-25.1
(In per cent of GDP)	-4.0	-2.6	-2.5	-3.5	-4.7	-3.1	-2.8	-1.4
Of which:								
Federal Government	-59.7	-48.3	-49.3	-64.1	-73.4	-60.3	-54.2	-45.1
Other public authorities	11.8	15.5	15.9	11.6	10.3	11.6	8.1	20.0

Source: Ministry of Finance, Bundesfinanzgesetz 1990.

^{1/} As provided in the 1990 budget (Bundesvoranschlag 1990).

Table 28. Austria: Exchange Rate Developments

	Schillings /SDRs	Schillings /U.S. dollars	Schillings/ deutsche mark	Effective Exchange Rate Indices 1/		SDRs/ Schilling	U.S.dollars/ Schilling	Deutsche mark/ Schilling	Effective Exchange Rate Indices 1/	
				Nominal	Real 2/				Nominal	Real 2/
	(Period averages)			(Percent changes from previous period) 3/						
1979	17.3	13.4	7.3	93.8	102.5	5.2	8.6	-0.9	1.9	-4.0
1980	16.8	12.9	7.1	96.4	101.7	2.6	3.3	2.4	2.9	-0.8
1981	18.8	15.9	7.0	94.8	98.2	-10.2	-18.6	1.0	-1.7	-3.4
1982	18.8	17.1	7.0	97.9	98.5	-0.5	-6.9	0.3	3.3	0.3
1983	19.2	18.0	7.0	100.1	100.2	-1.8	-4.9	-0.1	2.2	1.8
1984	20.5	20.0	7.0	99.6	100.1	-6.3	-10.1	0.1	-0.4	-0.1
1985	21.0	20.7	7.0	100.0	100.0	-1.9	-2.8	0.1	0.4	-0.1
1986	17.9	15.3	7.0	104.6	103.6	16.8	35.0	-0.1	4.6	3.9
1987	16.3	12.6	7.0	107.9	105.6	9.3	20.4	--	3.2	3.5
1988	16.6	12.3	7.0	107.5	100.0	-1.4	2.4	--	-0.4	-5.3
1989	17.0	13.2	7.0	...	...	-2.2	-6.7	--	...	...
1987										
I	16.3	12.9	7.0	108.2	109.4	4.5	9.3	--	1.6	5.9
II	16.4	12.7	7.0	107.7	104.2	-0.8	1.9	0.1	-0.5	-4.4
III	16.5	12.9	7.0	107.6	105.4	-0.5	-1.9	-0.1	-0.1	1.4
IV	16.1	12.0	7.0	108.2	103.7	2.6	7.8	-0.1	0.6	-1.6
1988										
I	16.1	11.8	7.0	108.3	102.4	-0.1	1.8	0.1	0.1	-1.3
II	16.4	12.0	7.0	107.7	101.1	-1.8	-1.8	--	-0.6	-1.3
III	17.0	13.1	7.0	106.9	98.7	-3.6	-8.6	--	-0.8	-2.4
IV	16.8	12.5	7.0	107.3	97.8	1.5	5.2	--	0.4	-1.0
1989										
I	17.1	13.0	7.0	106.5	97.7	-2.0	-4.1	--	-0.7	-0.1
II	17.3	13.6	7.0	106.5	97.2	-0.8	-4.4	-0.1	--	-0.5
III	17.1	13.5	7.0	106.6	97.8	1.1	0.4	--	0.1	0.6
IV	16.4	12.8	7.0	...	...	4.2	6.2	--	...	...

Sources: Austrian National Bank; and IMF DataFund.

1/ 1985 = 100, trade weighted, 17 countries.

2/ Relative unit labor costs in manufacturing, adjusted for exchange rate changes.

3/ Percent changes for bilateral rates are based on average exchange rates expressed in terms of units of foreign currency per schilling, and not those in the first three columns of this table which are average rates expressed in terms of schillings per unit of foreign currency. Percentage changes for effective exchange rate indices are based on the indices in columns 4-5 of the table.

Table 29. Austria: Money Market Interest Rates and Capital Market Indicators in Austria and Germany

(In percent per annum)

	Discount Rates 1/			Call Money Rates 2/			3-Month Money Rates 2/			Government Bond Yields 2/			Stock Market Indices		
	Austria 3/	Germany	Differ- ential	Austria	Germany	Differ- ential	Austria 4/	Germany	Differ- ential	Austria	Germany	Differ- ential	1967=100 Austria	end-1980=100 Germany	Ratio 5/ 1984=1.0
1981	6.75	7.5	-0.75	11.4	11.3	0.1	...	...	...	10.6	10.4	0.2	113.3	101.8	1.52
1982	4.75	5.0	-0.25	8.8	8.7	0.1	...	...	...	9.9	9.0	0.9	100.9	102.7	1.34
1983	3.75	4.0	-0.25	5.4	5.4	—	...	...	...	8.2	7.9	0.3	109.4	135.2	1.10
1984	4.50	4.5	—	6.5	5.5	1.0	...	...	...	8.0	7.8	0.2	112.8	153.6	1.00
1985	4.00	4.0	—	6.2	5.2	1.0	6.3	5.4	0.9	7.8	6.9	0.9	215.8	209.2	1.40
1986	4.00	3.5	0.50	5.3	4.6	0.7	5.5	4.6	0.9	7.3	5.9	1.4	269.1	295.7	1.24
1987	3.00	2.5	0.50	4.4	3.7	0.7	4.6	4.0	0.6	6.9	5.8	1.1	229.2	257.5	1.21
1988	4.00	3.5	0.50	4.6	4.0	0.6	4.7	4.3	0.4	6.7	6.1	0.6	217.4	217.9	1.36
1989 6/	6.50	6.0	0.50	7.3	6.5	0.8	7.2	7.0	0.2	7.1	7.0	0.1	367.2	275.3	1.33
1988															
January	3.00	2.5	0.50	4.5	3.1	1.4	4.3	3.4	0.9	6.8	6.0	0.8	200.8	187.5	1.46
February	3.00	2.5	0.50	3.9	3.3	0.6	4.2	3.3	0.8	6.8	5.8	1.0	197.0	195.3	1.37
March	3.00	2.5	0.50	3.6	3.2	0.4	3.8	3.4	0.4	6.7	5.7	1.0	201.9	208.6	1.32
April	3.00	2.5	0.50	3.6	3.3	0.3	3.9	3.4	0.5	6.6	5.8	0.8	205.7	208.3	1.35
May	3.00	2.5	0.50	3.7	3.3	0.4	3.9	3.5	0.4	6.6	6.1	0.5	205.3	202.7	1.38
June	3.00	2.5	0.50	3.8	3.7	0.1	4.0	3.9	0.1	6.6	6.1	0.5	207.4	213.8	1.32
July	3.50	3.0	0.50	5.2	4.4	0.8	5.0	4.9	0.1	6.6	6.4	0.2	215.5	221.9	1.32
August	4.00	3.5	0.50	5.0	4.7	0.3	5.4	5.3	0.1	6.8	6.5	0.3	222.7	222.0	1.37
September	4.00	3.5	0.50	5.2	4.7	0.5	5.5	5.0	0.5	6.7	6.3	0.4	226.5	230.1	1.34
October	4.00	3.5	0.50	5.4	4.7	0.7	5.7	5.1	0.6	6.6	6.2	0.4	237.9	241.0	1.34
November	4.00	3.5	0.50	5.2	4.6	0.6	5.5	4.9	0.6	6.6	6.1	0.5	245.8	239.9	1.40
December	4.00	3.5	0.50	5.9	4.9	1.0	5.4	5.3	0.1	6.5	6.3	0.2	242.9	243.8	1.36
1989															
January	4.50	4.0	0.50	7.0	5.2	1.8	6.0	5.7	0.3	6.6	6.5	0.1	251.4	253.3	1.35
February	4.50	4.0	0.50	6.3	5.9	0.4	6.4	6.4	—	6.7	6.9	-0.2	264.2	251.7	1.43
March	4.50	4.0	0.50	6.5	5.6	0.9	6.6	6.6	—	6.9	6.9	—	283.5	250.8	1.54
April	5.00	4.5	0.50	6.6	5.9	0.7	6.6	6.4	0.1	7.0	6.9	0.1	321.4	259.5	1.69
May	5.00	4.5	0.50	7.3	6.3	1.0	7.2	7.0	0.2	7.1	7.1	—	338.8	259.3	1.78
June	5.50	5.0	0.50	7.4	6.5	0.9	7.2	7.0	0.3	7.2	6.9	0.3	373.0	273.4	1.86
July	5.50	5.0	0.50	8.3	6.9	1.4	7.5	7.0	0.5	7.1	6.8	0.3	374.4	286.0	1.78
August	5.50	5.0	0.50	6.8	6.8	—	7.2	7.0	0.2	7.1	6.8	0.3	422.9	298.1	1.93
September	5.50	5.0	0.50	7.3	6.9	0.4	7.3	7.4	-0.1	7.2	7.1	0.1	469.6	307.0	2.08
October	6.50	6.0	0.50	8.5	7.9	0.6	8.4	8.1	0.3	7.3	7.3	—	507.7	298.5	2.32
November	6.50	6.0	0.50	8.4	7.5	0.9	8.5	8.2	0.3	7.6	7.6	—	432.8	290.5	2.03

Sources: Austrian National Bank, *Mitteilungen*; Austrian Institute for Economic Research, *Monatsberichte*; and Deutsche Bundesbank, *Monatsberichte*.

1/ End of period.

2/ Period averages.

3/ Not including the surcharge on credit use in excess of 70 percent of a bank's refinancing quota. The surcharge amounted to 1 percentage point between January 24, 1980 and December 3, 1987. Since the discount window could be used only up to 50 percent of a bank's refinancing quota, this surcharge did not in effect apply to discount window operations.

4/ No data are available for the years prior to 1985.

5/ Austrian index divided by the German index.

6/ January-November.

Table 30. Austria: Main Monetary Aggregates

	Stock at end	1985	1986	1987	1988	1988				1989		
	1988 (In billions of schillings)					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
						(Percentage changes) <u>1/</u>						
Reserve money <u>2/</u>	147.7	1.7	5.6	3.2	6.2	7.1	6.3	7.2	4.5	7.5	5.2	5.2
Net foreign assets <u>3/</u> <u>4/</u>	127.2	-1.6	4.7	6.8	8.6	10.2	9.1	7.8	7.2	-1.7	-4.0	0.6
Net domestic assets <u>4/</u>	20.5	3.3	0.8	-3.6	-2.3	-3.2	-2.8	-0.6	-2.7	9.2	9.1	4.6
Money (M1)	261.3	0.5	4.1	8.6	8.8	9.6	8.8	8.1	8.6	7.6	6.0	4.7
Currency outside banks	119.0	-0.8	2.6	4.0	5.0	5.7	4.8	4.9	4.7	4.9	5.4	4.2
Demand deposits	142.3	1.9	5.7	13.2	12.2	13.5	12.5	11.0	12.1	10.1	6.5	4.8
Money (M2)	435.7	4.4	7.4	13.0	8.1	13.1	8.2	6.3	5.3	6.4	4.7	4.6
Time deposits	174.4	11.6	12.9	19.7	7.2	18.1	7.5	4.0	0.9	4.8	2.9	4.4
Money (M3)	1296.1	6.4	7.8	9.4	6.0	7.9	6.0	5.4	4.7	4.9	4.5	4.6
Savings deposits <u>5/</u>	860.4	7.3	8.0	7.7	4.9	5.5	4.9	4.9	4.4	4.1	4.3	4.4
Domestic credit	1865.5	9.4	7.7	10.5	9.4	10.1	10.1	9.0	8.7	8.7	8.4	8.6
Net claims on government	847.1	12.8	13.9	18.8	9.2	14.7	10.6	6.6	5.5	4.9	3.0	2.6
Claims on private sector	1018.2	7.1	3.3	4.0	9.7	6.2	9.6	11.2	11.6	12.1	13.2	13.9

Sources: Austrian National Bank, *Mitteilungen*; and IMF, Data Fund.

1/ Based on averages of end-month data. For quarterly data, growth rates are with respect to the same quarter of the preceding year.

2/ Defined as currency in circulation (excluding commemorative gold and silver coins) and domestic banks' deposits with the National Bank.

3/ Defined as holdings of monetary gold, foreign exchange, claims on other monetary authorities, SDR holdings and Fund position (IMF definitions), less deposits by foreign banks and monetary authorities, valuation adjustments (since end-1979), and foreign currency swaps of the National Bank with deposit money banks.

4/ Contributions to growth of reserve money are given instead of percentage changes.

5/ Excludes subsidized savings deposits.

Table 31. Austria: Monetary Capital Formation of the Domestic Nonbank Private Sector

(In billions of schillings) 1/

	1987	1988
Notes and coins	5.7 (3.7)	5.8 (3.5)
Monetary capital formation with domestic banks	97.0 (63.7)	82.5 (49.8)
Monetary capital formation outside domestic banks	44.8 (29.4)	73.4 (44.3)
Savings with insurance companies	14.8 (9.7)	16.0 (9.7)
Bonds	16.7 (11.0)	44.7 (27.0)
Domestic	11.6 (7.6)	41.5 (25.1)
Foreign	5.1 (3.3)	3.1 (1.9)
Stocks	13.3 (8.8)	12.8 (7.7)
Domestic	10.6 (7.0)	8.5 (5.1)
Foreign	2.8 (1.8)	4.3 (2.6)
Other	4.8 (3.1)	3.9 (2.4)
Total monetary capital formation by the domestic nonbank private sector	152.2 (100.0)	165.6 (100.0)

Source: "Geldvermögensbildung der Inländischen Nichtbanken im Jahr 1988", in: Austrian National Bank, *Mitteilungen*, July 1989, pp. 12-13.

1/ Figures in parenthesis are shares of the corresponding assets in total monetary capital formation in percent.

Table 32. Austria: Direct Commercial Bank Credit by Sector of Borrower

	Credits Outstanding Sept 1989		1985	1986	1987	1988	1989 1/
	In billions of schillings	In percent of total						Change during year, in percent
Industry	343.8	21.1	5.3	2.0	3.2	6.2	5.4
Trade and transport	192.3	11.8	0.4	2.6	5.9	14.0	15.7
Tourism	74.6	4.6	9.7	6.1	6.9	10.4	11.9
Agriculture and forestry	56.4	3.5	5.1	0.8	-7.4	-2.8	1.1
Public authorities	357.8	21.9	15.6	20.8	11.0	1.8	1.8
Housing associations	63.9	3.9	-0.2	4.1	5.1	7.6	7.9
Private households	330.9	20.3	11.2	10.5	10.7	9.8	10.0
Other	<u>213.4</u>	<u>13.1</u>	<u>15.8</u>	<u>24.5</u>	<u>13.1</u>	<u>16.8</u>	<u>24.4</u>
Total credit extended	1,633.0	100.0	8.7	10.1	7.8	7.7	9.0
Of which:							
In domestic currency	1,553.1	95.1	9.6	10.8	7.7	7.4	8.9
In foreign currency	79.9	4.9	-5.3	-3.7	10.8	15.3	11.9

Source: Austrian National Bank, Mitteilungen.

1/ September 1989 relative to September 1988.

Table 33. Austria: Long-Term Capital Movements ^{1/}
(In billions of schillings)

	1983	1984	1985	1986	1987	1988	I 1988	II 1988	III 1988	IV 1988	I 1989	II 1989	III 1989
Total long-term capital (net)	-24.1	-7.1	-3.7	9.9	23.0	6.1	26.3	-4.9	-0.9	-13.0	5.3	-10.2	0.2
By sectors:													
Banks (net)	-27.7	4.0	-2.0	2.2	26.6	9.1	10.2	-0.1	2.4	-3.4	8.6	-9.3	6.1
Nonbank private sector (net)	-2.8	-12.6	-10.2	-6.0	-15.5	-20.9	-1.7	-7.3	-3.2	-7.3	-2.5	-7.3	-4.7
Public authorities (net)	7.3	2.3	8.6	12.5	11.8	17.8	17.8	2.5	-0.1	-2.4	-0.5	6.5	-1.4
Austrian National Bank (net)	-0.9	-0.8	0.0	1.2	0.2	0.1	0.1	-0.0	-0.1	0.1	-0.3	-0.1	0.2
Austrian claims abroad (increase -)	-48.8	-54.4	-26.0	-8.5	2.1	-39.5	3.3	-13.2	-11.1	-18.4	-9.6	-30.9	-2.2
Banks	-39.5	-43.3	-8.6	4.0	15.7	-18.2	4.1	-8.5	-5.7	-8.0	-1.4	-25.6	7.2
Nonbank private sector	-6.3	-9.0	-18.1	-11.4	-14.8	-19.3	-1.9	-3.9	-4.3	-9.1	-5.8	-9.1	-6.4
Public authorities	-2.0	-1.4	0.6	-2.2	1.0	-2.1	1.1	-0.9	-1.1	-1.3	-2.1	3.9	-3.2
Austrian National Bank	-0.9	-0.8	0.0	1.2	0.2	0.1	0.1	-0.0	-0.1	0.1	-0.3	-0.1	0.2
Foreign claims on Austria	24.7	47.3	22.3	18.4	20.9	45.6	23.0	8.3	10.2	5.3	14.9	20.7	2.4
Banks	11.8	47.3	6.5	-1.8	10.9	27.3	6.1	8.4	8.1	4.6	10.0	16.4	-1.1
Nonbank private sector	3.6	-3.6	7.8	5.4	-0.8	-1.6	0.2	-3.5	1.1	1.8	3.3	1.8	1.7
Public authorities	9.3	3.7	8.0	14.7	10.8	19.9	16.7	3.4	1.0	-1.1	1.6	2.6	1.8
Austrian National Bank	--	--	--	--	--	--	--	--	--	--	--	--	--
By transactions:													
Austrian claims abroad (increase -)	-48.8	-54.4	-26.0	-8.5	2.1	-39.5	3.3	-13.2	-11.1	-18.4	-9.6	-30.9	-2.2
Loans	-35.5	-35.6	-1.8	16.9	6.5	-16.2	1.4	-3.7	-4.6	-9.0	-1.0	-10.8	-3.1
Fixed-interest securities	-7.3	-12.4	-17.3	-4.1	-9.1	-13.0	-0.9	-3.5	-3.6	-5.2	-4.5	-2.5	-8.0
Shares	-1.0	-2.5	-1.3	-2.9	-3.0	-6.7	-1.7	-2.3	0.9	-3.7	0.6	-3.8	-1.3
Direct investment	-3.3	-1.3	-1.0	-4.5	-4.4	-3.5	-0.5	-1.6	-0.9	-0.7	-2.8	-2.4	-1.6
Investment certificates	0.0	-0.2	-0.1	-0.2	-0.4	-0.2	-0.1	0.0	-0.1	-0.0	-0.1	-0.3	--
Other ^{2/}	-1.6	-2.4	-4.5	-13.7	12.5	0.2	5.0	-2.2	-2.8	0.2	-1.8	-11.1	11.8
Foreign claims on Austria	24.7	47.3	22.3	18.4	20.9	45.6	23.0	8.3	10.2	5.3	14.9	20.7	2.4
Loans	-0.2	13.6	-3.0	-14.2	3.4	-7.8	-4.7	-1.9	-1.0	-0.2	-1.4	7.1	0.5
Fixed-interest securities	18.4	29.6	19.0	26.9	8.0	42.3	26.5	8.6	6.8	0.6	9.7	9.2	-0.6
Austrian schillings	0.9	-0.1	5.1	12.1	9.8	4.8	3.1	-0.7	1.0	1.7	-1.1	0.8	0.3
Foreign currency	17.4	29.7	13.9	14.7	-1.8	37.5	23.4	9.3	5.8	-1.1	10.8	8.4	-0.9
Shares	0.1	0.0	1.7	1.2	1.9	2.5	-0.2	-0.3	2.1	0.9	1.1	2.5	0.7
Direct investment	3.9	2.3	3.5	2.8	5.1	5.5	0.6	1.7	1.2	2.0	4.1	0.6	0.6
Investment certificates	0.0	0.0	0.4	0.3	1.1	2.5	0.5	0.4	0.6	0.9	0.8	0.6	0.2
Other	2.5	1.7	0.8	1.4	1.5	0.6	0.4	-0.2	0.5	1.2	0.7	0.7	1.0

Sources: Austrian National Bank, *Mitteilungen*; and data provided by the Austrian authorities.

^{1/} Quarterly data for 1988 and 1989 are preliminary.

^{2/} Including government participations in international financial organizations.

Table 34. Austria: Fixed-Interest Security Issues

(In billions of schillings)

	1984	1985	1986	1987	1988	1988				1989		
						1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
1. Bonds issued, by type of borrower												
Public authorities	26.0	38.5	50.9	57.3	48.4	17.6	16.4	7.7	6.8	14.0	9.0	10.5
Banks	5.4	19.2	25.5	25.7	36.0	9.7	10.7	2.9	12.8	9.5	7.7	4.6
Other borrowers	<u>2.9</u>	<u>1.8</u>	<u>5.3</u>	<u>6.5</u>	<u>4.7</u>	--	<u>2.5</u>	<u>0.4</u>	<u>1.8</u>	<u>0.1</u>	<u>0.5</u>	<u>3.1</u>
Total	34.3	59.4	81.7	89.5	89.1	27.3	29.6	10.9	21.4	23.6	17.2	18.2
2. Other fixed interest securities issued by banks												
Secured long-term notes	11.8	16.8	21.6	25.0	22.7	7.2	4.7	5.1	5.6	2.7	4.7	4.7
Other securities	<u>18.9</u>	<u>21.3</u>	<u>18.9</u>	<u>23.6</u>	<u>35.4</u>	<u>6.5</u>	<u>4.2</u>	<u>3.9</u>	<u>20.7</u>	<u>5.6</u>	<u>4.6</u>	<u>5.9</u>
Total	30.7	38.2	40.5	48.6	58.1	13.8	8.9	9.0	26.4	8.3	9.4	10.6
3. Gross issues (1+2)	65.0	97.6	122.1	138.2	147.1	41.0	38.5	19.9	47.7	31.9	26.6	28.8
4. Redemptions ^{1/}	<u>41.5</u>	<u>47.5</u>	<u>62.3</u>	<u>69.8</u>	<u>82.8</u>	<u>18.9</u>	<u>21.3</u>	<u>9.1</u>	<u>33.5</u>	<u>11.5</u>	<u>18.9</u>	<u>11.8</u>
5. Net sales	23.5	50.0	59.9	68.4	64.3	22.1	17.2	10.8	14.2	20.4	7.7	17.0
6. Bonds issued, by type of investor ^{2/}												
Institutional investors	4.5	6.8	9.3	11.8	18.5	5.6	5.2	2.2	5.5	6.5	3.7	...
Other nonbank domestic investors	5.5	8.9	11.5	13.7	13.5	5.4	3.9	1.0	3.2	2.9	3.3	...
Nonresidents	1.0	2.8	5.2	2.5	3.8	1.3	1.1	0.8	0.7	1.9	0.4	...
Banks' own subscriptions	13.3	26.2	35.5	31.5	32.1	8.5	13.0	3.2	7.4	12.3	9.9	...
Unidentified	<u>10.0</u>	<u>14.8</u>	<u>20.3</u>	<u>30.1</u>	<u>21.2</u>	<u>6.6</u>	<u>6.4</u>	<u>3.7</u>	<u>4.5</u>	--	--	...
Total (=Total 1)	34.3	59.4	81.7	89.5	89.1	27.3	29.6	10.9	21.4	23.6	17.2	...

Source: Austrian National Bank, *Mitteilungen*.^{1/} Including conversion of convertible bonds into shares.^{2/} These data show the initial placement of new bond issues.

Table 35. Austria: International Comparison of Bank Density, 1986-87

	Inhabitants per	
	Bank	Bank Branch
Austria	6,100	1,400
Germany	13,500	1,400
France	72,000 <u>1/</u>	2,100 <u>1/</u>
United Kingdom	83,800 <u>1/</u>	...
Italy	51,700	3,500
Belgium	84,300	1,800
Denmark	23,100	1,500
Switzerland	10,700	1,400
Greece	249,900	6,900

Source: Austrian Institute for Economic Research, Monatsberichte, February 1989, p. 92.

1/ Estimate.

Table 36. Austria: International Comparison of Income Statements
of Large Commercial Banks

(In percent of balance sheet totals) 1/

Country	Net Interest Income	Non- Interest Income	Gross Income	Operating Expenses	Net Income	Provisions (Net)	Income Tax	Profit After Tax
1	2	3	4= 2+3	5	6= 4-5	7	8	9= 6-7-8
Austria	1.20	0.25	1.45	1.10	0.35	0.20	0.10	0.05
France	2.65	0.46	3.11	2.14	0.97	0.70	0.14	0.13
Germany	2.69	1.12	3.81	2.59	1.22	0.51	0.43	0.28
Japan	1.14	0.31	1.45	0.99	0.46	0.03	0.23	0.20
Switzerland	1.27	1.23	2.50	1.45	1.05	0.40	0.21	0.44
United States	2.74	1.20	3.94	2.69	1.25	0.44	0.22	0.59

Source: Reproduced from Gancz (1988).

1/ Averages for 1980-85.

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