

## ■ GROWTH TO SLACKEN IN 1999 – TAX REFORM TO BOOST DOMESTIC DEMAND IN 2000

### ECONOMIC OUTLOOK FOR 1999 AND 2000

*Economic growth in Austria is expected to slip by 1 percentage point to 2.2 percent as a result of the sluggishness of the world economy. Private consumption, benefiting from the gains in purchasing power, will buoy economic activity in 1999 and, more strongly, in the year 2000.*

The year 1999 is likely to see a weakening of economic growth by 1 percentage point to 2.2 percent. The crises in Asia, Russia, and Latin America have dampened the expansion of the world economy and render the present forecasts highly uncertain.

Exports, which have long been the mainstay of the upswing, are expected to grow only modestly, given the adverse conditions in foreign markets. Particularly hard hit will be sales to emerging markets afflicted by the financial turmoil. In the current year, weak foreign demand will have a negative impact not only on Austrian exports but also on capital outlays of those enterprises operating in international markets.

Economic activity in Austria continues to be supported by strong consumer spending which benefits from high real income gains. Real net wages and salaries are forecast to expand by 2¾ percent in the current year and by 3¼ percent in the year 2000, with part of the gains due to the „family package“ and the tax reform 2000. The growth in real income will not only bolster consumer spending but also boost the savings ratio.

Thus, the effects of the sluggishness of the world economy are being partially offset by a revival of domestic demand. If, however, new crises were to develop or present risks to materialise, a new setback in the manufacturing sector would also shake consumer confidence.

On the downside, the costs of the tax reform and of the „family package“ will burden the federal budget in the year 2000. An increase in the general government deficit to 2½ percent of GDP seems likely, unless strict discipline is applied to government expenditures. The goal of reducing the deficit of the public households to 1.4 percent of GDP by the year 2002 is only feasible if this condition is met.

Main results

	1996	1997	1998	1999	2000	
	Percentage changes from previous year					
<b>GDP</b>						
Volume	+ 2.0	+ 2.5	+ 3.3	+ 2.2	+ 2.6	
Value	+ 3.7	+ 4.1	+ 4.3	+ 3.2	+ 3.9	
Manufacturing <sup>1)</sup> , volume	+ 1.2	+ 5.0	+ 5.0	+ 2.5	+ 3.8	
Private consumption, volume	+ 2.0	+ 0.7	+ 1.7	+ 2.0	+ 2.4	
Gross fixed investment, volume	+ 2.5	+ 2.8	+ 4.9	+ 3.1	+ 3.6	
Machinery and equipment	+ 3.3	+ 5.0	+ 7.7	+ 5.0	+ 6.5	
Construction	+ 2.4	+ 1.3	+ 3.0	+ 1.5	+ 1.0	
<b>Exports of goods<sup>2)3)</sup></b>						
Volume	+ 5.4	+15.6	+ 7.1	+ 4.5	+ 6.5	
Value	+ 5.5	+16.8	+ 7.1	+ 4.5	+ 7.4	
<b>Imports of goods<sup>2)3)</sup></b>						
Volume	+ 6.1	+ 9.4	+ 8.4	+ 5.0	+ 6.5	
Value	+ 6.7	+10.9	+ 6.8	+ 4.5	+ 7.4	
<b>Trade balance<sup>2)3)</sup></b>						
(billion ATS)	-100.6	-75.2	-78.4	-81.7	-87.8	
(billion Euro)				- 5.9	- 6.4	
<b>Current balance</b>						
(billion ATS)	- 52.3	-61.4	-51.6	-47.0	-46.6	
(billion Euro)				- 3.4	- 3.4	
As a percentage of GDP	(%)	- 2.2	- 2.4	- 2.0	- 1.7	- 1.7
<b>Yield of long-term government bonds<sup>4)</sup></b>						
(%)	6.3	5.7	4.7	4.2	4.5	
<b>Consumer prices</b>						
	+ 1.9	+ 1.3	+ 0.9	+ 0.7	+ 1.3	
<b>Unemployment rate</b>						
Percent of total labor force <sup>5)</sup>						
(%)	4.3	4.4	4.5	4.4	4.2	
Percent of dependent labor force <sup>6)</sup>						
(%)	7.0	7.1	7.2	7.1	6.9	
<b>Dependent employment<sup>7)</sup></b>						
	- 0.6	+ 0.4	+ 1.0	+ 0.6	+ 1.0	

<sup>1)</sup> Value added, including mining and quarrying. - <sup>2)</sup> According to Central Statistical Office. - <sup>3)</sup> 1998: WIFO estimate. - <sup>4)</sup> 10-year central government bonds (benchmark). - <sup>5)</sup> According to Eurostat. - <sup>6)</sup> According to labor exchange statistics. - <sup>7)</sup> Excluding parental leave and military service.

In accordance with most international forecasting institutions, WIFO expects an acceleration in economic growth to 2.6 percent in the year 2000. In this scenario, which at present is the most likely, the economic slump

which began in the middle of 1998 proves to be only temporary. This forecast is based on the expectation that the weakness in exports will be gradually overcome and that low interest rates will boost domestic demand. The international risks which might justify a more pessimistic scenario remain substantial, however.

Economic growth in Austria will probably not be strong enough to significantly reduce the unemployment rate. As the rise in the unemployment rate in 1998 was only due to special factors (parental leave regulations and the like), a slight decline from 4.5 percent in 1998 to 4.2 percent in 2000 can be expected; this moderation corresponds to a marked expansion in employment resulting from the advance in labour-intensive domestic demand.

The medium-term employment goal of the National Action Plan (1997-2002: +100,000 jobs) will be attained. The envisaged cut in the unemployment rate to 3.5 percent by the year 2002 seems only feasible if economic growth holds up, and if the high number of temporary lay-offs can be reduced.

Inflation does not present a problem for policy-makers for the foreseeable future. Thanks to lower prices of crude oil and the abolishment of monopolies in the public service sector, inflation is subdued and has reached a record low since 1955. This provides the European Central Bank enough leeway for easing monetary policy in the case of a serious economic setback.

Cut-off date: 24 March 1999.