

■ BUSINESS CYCLE RECOVERY DELAYED

ECONOMIC OUTLOOK FOR 2002 AND 2003

The Austrian economy is set to grow by slightly less than 1 percent this year and by over 2 percent in 2003. The risks surrounding the recovery of the business cycle, to which WIFO had pointed in its forecast of last June, have materialised. The slide in stock market values has undermined consumer and business confidence world-wide. Given the degree of uncertainty and the weaker sentiment, growth prospects have to be revised downwards. Sluggish activity is being reflected in a marked rise in unemployment and in budget deficits exceeding initial targets.

Since last July, the business outlook for the USA and for Europe has deteriorated¹⁾). The sharp fall on stock markets has negative repercussions also on the real economy via financial wealth losses and growing market pessimism. According to business survey results and forward-looking indicators, demand and output will move at a slower pace than expected. Projections for Europe are more in need of correction than those for the USA, given the particularly disappointing recent performance of the EU economy. This has implications not only for Austrian export prospects, but also for companies' investment plans.

Until mid-year, the recovery in Austria proceeded as expected. Real GDP gained about ½ percent from quarter to quarter. Then, in summer, business confidence weakened. Expectations for the coming months were revised, reflecting doubts about the robustness of activity in the USA as well as the slump on stock markets. Not yet included in the survey results were the consequences of the floods; the associated shortfalls in production came as an additional negative, albeit short-lived, factor.

Because of the delay in the recovery, the WIFO growth projection for 2002 that had been kept unchanged since last December, has to be taken down by ¼ percentage point to a rate of 0.9 percent. This has implications also for next year, as the pace of the recovery will be slower than expected so far. GDP growth in 2003 is revised down by ½ percentage point to a rate of 2.2 percent.

All staff members of the Austrian
Institute of Economic Research
contribute to the Economic Outlook.

¹⁾ See Kramer, H., Budgetpolitik und wirtschaftspolitische Strategie, WIFO, Vienna, August 2002, http://titan.wsr.ac.at/wifosite/wifosite.get_abstract_type?p_language=2&pubid=22581&pub_language=-1&p_type=0.

Main results

	1999	2000	2001	2002	2003
	Percentage changes from previous year				
GDP					
Volume	+2.8	+ 3.0	+1.0	+0.9	+2.2
Value	+3.5	+ 4.2	+2.7	+2.1	+3.6
Manufacturing ¹⁾ , volume	+3.4	+ 7.3	+0.9	+1.0	+3.5
Private consumption expenditure, volume	+2.7	+ 2.5	+1.4	+1.0	+1.8
Gross fixed investment, volume	+1.5	+ 5.1	-3.4	-2.8	+2.8
Machinery and equipment ²⁾	+4.3	+11.1	-5.2	-5.0	+4.5
Construction	-0.7	+ 0.3	-1.7	-1.0	+1.5
Exports of goods ³⁾					
Volume	+7.7	+13.1	+5.4	+3.0	+6.0
Value	+7.0	+15.6	+6.5	+3.2	+7.1
Imports of goods ³⁾					
Volume	+6.9	+10.9	+2.8	-3.0	+6.5
Value	+6.7	+14.7	+5.0	-2.8	+7.6
Current balance (billion Euro)	-6.33	- 5.35	-4.65	-1.83	-1.67
As a percentage of GDP (%)	-3.2	- 2.6	-2.2	-0.9	-0.7
Long-term interest rate ⁴⁾ (%)	4.7	5.6	5.1	5.0	4.7
Consumer prices	+0.6	+ 2.3	+2.7	+1.8	+1.4
Unemployment rate					
Percent of total labour force ⁵⁾ (%)	3.9	3.7	3.6	4.1	4.1
Percent of dependent labour force ⁶⁾ (%)	6.7	5.8	6.1	6.9	6.9
Dependent employment ⁷⁾	+1.2	+ 1.0	+0.4	-0.4	+0.4
General government financial balance					
As a percentage of GDP (%)	- 2.3	-1.5	+0.2	-1.5	-1.0

¹⁾ Value added, including mining and quarrying. - ²⁾ Including other products. - ³⁾ According to Statistics Austria. - ⁴⁾ 10-year central government bonds (benchmark). - ⁵⁾ According to Eurostat. - ⁶⁾ According to Labour Market Service. - ⁷⁾ Excluding parental leave and military service.

This scenario assumes that the standstill of the recovery will be overcome and the upward trend will resume next year. It is supported by the argument that confidence in stock-exchange listed companies should gradually return and that the backlog in deferred investment will unwind, if only to meet the need for replacement. The persistent low level of interest rates and the fiscal investment premium offer incentives in this regard.

The recovery nevertheless remains subject to considerable risks. In the USA, business activity still has to pass the test of robustness. A war against Iraq would send oil prices to new highs and drive stock markets down even further. In the EU, some larger countries are faced with the need to take restrictive fiscal policy action in the current period of sluggishness, in order to comply with the obligations of the Stability and Growth Pact.

In Austria, growth has been supported largely by the foreign contribution. Because of weak domestic demand, notably for investment goods, merchandise imports will fall by 3 percent in volume. The current account deficit will thereby be cut in half.

The sharp fall in investment, with an annual decline of 5 percent now lasting for two years, together with a steep rise in unemployment, has prompted the federal

government to present a „package“ to stimulate growth and employment. A 10 percent investment premium granted up to the end of 2003 shall encourage firms to carry investment plans forward.

The measures taken so far by the federal and the state governments to stimulate the economy, as well as repair works after the floods, will help sustain construction activity, particularly in civil engineering. The projection for construction output is adjusted from -2 to -1 percent. In 2003, construction output should edge up as renovation of structures damaged by the floods continues. Private consumption, adjusted for inflation, has so far maintained the year-earlier level. However, car purchases and private residential investment have taken a steep fall.

The cyclical weakness has led to shortfalls in tax revenues of about € 2 billion this year. To this should be added the budgetary burden of € 1 billion induced by the flood damages. The general government household for 2002 will thereby exhibit a deficit of around 1½ percent of GDP. Government expenditure (excluding flood aid and unemployment benefits) hardly deviates from budgetary targets. For 2003, the deficit is projected at slightly above 1 percent of GDP, provided the recovery proceeds as expected.

The slowdown of economic growth is causing an unusually sharp increase in unemployment (+31,000), one of the highest among EU countries in 2002. As expected, demand for labour slackened, but at the same time labour supply was boosted by the raise in the early retirement age and by the generous granting of work permits for foreign seasonal workers. The rate of unemployment will therefore go up from 6.1 percent (2001) to 6.9 percent this year, staying at a high level in 2003. The Federal government's cyclical stimulus „package“ comes rather late in preventing the deterioration of job opportunities for the young. The measures in the context of the „youth safety net“ (Jugendauffangnetz) have been extended, the apprenticeship promotion reinforced.

Overall inflation is projected to decelerate. Consumer prices are set to rise by 1.8 percent on annual average 2002, 1 percentage point less than in 2001 owing to a stabilisation of energy prices. A further decline to a rate of 1.4 percent may be expected for 2003, as the next wage round in the private sector should result in lower settlements than the previous one and a number of irregular factors such as price hikes for seasonal goods, will wear off.

Cut-off date: 25 September 2002.

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■ DER ÖSTERREICHISCHE MARKT FÜR PRIVATE EQUITY UND VENTURE CAPITAL

Da die Deckung des besonderen Kapitalbedarfs bei Neugründung, Expansion oder Umstrukturierung eines Unternehmens über die traditionellen Kapitalmärkte häufig schwierig ist, hat Private Equity – und im Besonderen Venture Capital, das in Gründungs- und Wachstumsphasen benötigt wird – gerade an der kritischen Schnittstelle von Innovation, Finanzierung und Marktsteuerung erhebliche Bedeutung für die Beschleunigung des Strukturwandels in Österreich. Die Studie analysiert die Struktur des Marktes für Private Equity und Venture Capital in Österreich und skizziert, welche Anreize gesetzt werden können, um die Verfügbarkeit von Risikokapital speziell für Klein- und Mittelbetriebe zu erhöhen.

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- *Theoretische Grundlagen*

Marktversagen durch asymmetrische Information – Die Rolle von Private Equity im Finanzierungssystem

- *Institutionelle und regulatorische Rahmenbedingungen*

Europäische Rahmenbedingungen für Private Equity – Österreichische Rahmenbedingungen für Private Equity

- *Umfang und Struktur des österreichischen Private-Equity-Marktes*

Kapitalangebot: Motive und Strukturen – Beteiligungsgesellschaften: Größe, Struktur und Bewertungsmethoden – Kapitalverwendung: Struktur und Umfang der Investitionen

- *Fazit*

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