

## ECONOMIC RECOVERY EASES BUDGET PROBLEMS AND ACCELERATES EMPLOYMENT GROWTH

### ECONOMIC OUTLOOK FOR 1998 AND 1999

*The economic recovery in Austria is projected to gain momentum in 1998 and 1999. With economic activity in Austria again expanding at the same rate as in the EU, growth is expected to accelerate to 2¾ percent and 3 percent in real terms. The gradual strengthening of domestic demand will relieve the labor market as well as the budgets of the public sector, but inflation will remain subdued.*

During the period from 1990 and 1996, economic growth in Austria was slightly less than 2 percent per year in real terms, about as high as in Germany and ½ percentage point higher than in the EU. Thus, Austria's economy managed to cope relatively well with various challenges, such as the opening of the East and accession to the EU. According to preliminary estimates, demand and production expanded by 1¾ percent during the first three quarters of 1997. The whole year of 1997 is likely to see a real growth rate of at least 2 percent. Merchandise exports, the main force of this expansion, soared by about 10 percent on a year-on-year basis.

The export-led recovery is likely to continue into 1998 and 1999. The recovery, which is spreading from the export sector to other sectors of the economy, will be weakened only slightly by the crisis in Asia. Demand from the trading partners in East-Central Europe is likely to remain strong, that from Western Europe will even gain momentum. Under the assumption of stable foreign exchange rates within the EMS and an easy transition to the Monetary Union, Austria's exporters will maintain their competitive position in international trade, and the volume of merchandise exports will expand by 9 percent each year. Import growth will be sluggish in 1997, but will accelerate in the following years as domestic demand strengthens. The deficit in the trade account will decline to ATS 90 billion, while the current account deficit will stabilize at the level of ATS 45 billion (1¾ percent of GDP). A substantial part of the deficit is due to net payments to the EU and to deficits in the balance of factor income; the imbalance therefore reflects only partially a weakness in the competitive position.

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

With exports soaring, manufacturing output expanded strongly (+4½ percent); further impulses will stem from consumer demand in 1998 and 1999. Employment will record hefty gains over the next two years. Fiscal policy is becoming less restrictive and real disposable income will increase for the first time in two years, providing some leeway for growth in private consumption (1998 +1½ percent, 1999 +1¾ percent). The construction industry will emerge only gradually from the current slack, but new financing models and outsourcing of activities previously performed by the municipalities could stimulate the civil engineering sector. The construction of new dwellings will decline, while renovation and modernization activity will continue to be brisk. Nonresidential construction (such as in tourism) might benefit from the economic upturn.

The acceleration of economic growth has a positive impact on the labor market. Demand for labor (excluding persons in military service and on parental leave) will rise by 18,000 persons in 1998 and by 27,000 persons in 1999 (+0.6 percent and +0.9 percent). The trend toward working time flexibility will continue; women will benefit disproportionately from the employment expansion in the service sectors. The growth in labor demand will be matched almost completely by an expansion in labor supply for the „hidden labor reserve“. Thus, unemployment will decline only slightly. In 1999, there will be 229,000 persons without a job; this implies an unemployment rate of 6.9 percent of the dependent labor force according to the traditional Austrian method of calculation and a rate of 4.2 percent of the total labor force according to Eurostat. 63 percent of the Austrian working-age population participate in economic activity. In a comparison among European countries, Austria exhibits not only one of the lowest unemployment rates but also one of the highest labor force participation rates (which counts as employed also the growing number of persons in precarious employment).

Inflation remains subdued. As in previous years, the effects of Austria's accession to the EU continue to dampen inflation, with the effects being increasingly felt in the service sector. The rising supply of new housing has tended to lower rents charged for newly let apartments. The effects of increases in raw materials prices and in exchange rates are fading. The rise in public charges will,

### Main results

	1995	1996	1997	1998	1999
	Percentage changes from previous year				
GDP					
Volume	+ 2.1	+ 1.6	+ 2.0	+ 2.7	+ 3.0
Value	+ 4.2	+ 3.7	+ 3.2	+ 4.0	+ 4.5
Manufacturing <sup>1)</sup> , volume	+ 1.0	+ 1.2	+ 4.0	+ 4.5	+ 4.5
Private consumption, volume	+ 2.9	+ 2.4	+ 0.5	+ 1.5	+ 1.8
Gross fixed investment, volume	+ 1.9	+ 2.4	+ 2.8	+ 3.6	+ 4.6
Machinery and equipment	+ 3.1	+ 3.7	+ 5.0	+ 6.0	+ 7.0
Construction	+ 0.6	+ 2.8	+ 1.0	+ 1.5	+ 2.5
Exports of goods <sup>2)</sup>					
Volume	+12.1	+ 5.3	+10.0	+ 9.0	+ 9.0
Value	+13.2	+ 5.5	+11.1	+10.6	+10.6
Imports of goods <sup>2)</sup>					
Volume	+ 5.7	+ 6.1	+ 6.5	+ 7.5	+ 8.0
Value	+ 6.2	+ 6.7	+ 8.1	+ 9.4	+ 9.6
Trade balance <sup>2)</sup> (billion ATS)	-88.0	-100.6	-90.3	-90.7	-91.8
Current balance (billion ATS)	-47.0	- 43.4	-45.5	-45.4	-43.3
As a percentage of GDP (%)	- 2.0	- 1.8	- 1.8	- 1.7	- 1.6
Yield of long-term government bonds <sup>3)</sup> (%)	7.1	6.3	5.7	5.7	5.9
Consumer prices	+ 2.2	+ 1.9	+ 1.4	+ 1.5	+ 1.5
Unemployment rate					
Percent of dependent labor force <sup>4)</sup>	3.9	4.4	4.4	4.3	4.2
Percent of total labor force <sup>2)</sup> (%)	6.6	7.0	7.1	7.1	6.9
Dependent employment <sup>4)</sup>	+ 0.0	- 0.6	+ 0.4	+ 0.6	+ 0.9

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

however, fuel inflation in 1998. In 1998 as well as in 1999, consumer prices will rise by around 1½ percent. Nominal wage gains will remain small in 1997 and 1998, but accelerate to 2¾ percent in 1999. Nevertheless, net real income gains per employee will stagnate in 1999, after two years of substantial decline.

The financial situation of the public sector continues to be determined by broad-based efforts to consolidate the budgets. Austria easily meets the fiscal criteria for membership in the Monetary Union; the deficit of the general government financial balance in 1997 is forecast to decline to 2.6 percent of GDP. In the subsequent years, the economic recovery will boost tax revenues, particularly those from income taxes on salaries and wages. The financial balance is likely to decline to -2.1 percent by 1999; this development is in accordance with the path agreed upon in the „EU Stability Pact“, but leaves little maneuvering room on the revenue and expenditure side.

Cut-off date: December 17, 1997.