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■ AUSTRIAN ECONOMY PREPARED FOR EMU

MEDIUM-TERM PROJECTION FOR THE AUSTRIAN ECONOMY UNTIL 2002

The strong competitive position enjoyed by Austria's external sector combined with brisk domestic demand will have a positive impact on the Austrian economy over the next years. Assuming that the international financial crisis will be temporary in its detrimental effect and that the government's fiscal consolidation policy will be continued, Austrian GDP should grow by 2¾ percent p.a. in 1997 to 2002, which slightly surpasses the average EU rate.

Any attempt to develop a projection of economic developments until 2002 encounters solid obstacles formed by a number of factors. Current trends apart, we are faced with the numerous structural breaks emerging in the 1990s, especially in

POINTS OF DEPARTURE

Europe as a result of efforts towards integration and eastern opening. Accordingly the model parameters used for such a projection, which trace their experience base back to earlier times, need to be approached with considerable caution.

The main areas to affect a medium-term projection are:

- launch of Economic and Monetary Union in 1999,
- conflicts between stability and employment policies,
- the crisis in the emerging markets,
- continued brisk growth of the countries in transition,
- structural adjustments of the Austrian economy.

LAUNCH OF EMU IN 1999

In 1999, the euro has been introduced as the single currency of Economic and Monetary Union in Europe. Austria is participant from the very start. Preparations for

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the launch were more or less on schedule. Yet in view of the fact that EMU is an unprecedented project of historical dimensions, uncertainties about its workings and its status within the global economy are unavoidable.

Specific features such as the co-ordination of central monetary policy with economic activities that have remained (at least formally) under national autonomy (such as budgetary policy or income policy) may well require practical experience and perhaps even institutional reforms in order to be optimised.

Similarly, the euro's standing vis-à-vis the dollar, so far the world's only significant reserve currency, is difficult to forecast. The recent weakness suffered by the dollar provides an indication that investors and central banks in third countries are transferring their reserves towards the euro. According to a plausible hypothesis, neither the Federal Reserve nor the European Central Bank will be interested in any strong devaluation in the medium term.

CONFLICTS BETWEEN STABILITY AND EMPLOYMENT POLICIES

One problem which is likely to put its stamp on the initial phases of EMU may well be possible clashes between its monetary policy and the budget requirements deriving from employment policy. If the economy were to suffer a severe setback in the next years, observance of the deficit ceiling specified in the stability and growth pact would soon be jeopardised. In addition, the new ECB (European Central Bank) is not likely to bend automatically to any expansive budget or income policy. As a result, overall demand in Europe could suffer a sharp or persistent slowdown. In this projection, however, WIFO assumes that EMU co-ordination will work without any serious friction.

On the other hand, the stability and growth pact provides for the EMU countries to further consolidate their public households in the medium run until revenues and expenditures have been approximately balanced. Until 1997, budget consolidation in western Europe had made no serious inroads upon overall demand, partly because it was compensated by a lower propensity to save and partly because lower interest rates facilitated consolidation. Yet there were some cases (e.g., Sweden) where demand was also bolstered by devaluation. WIFO assumes that continued progress will be achieved in consolidating budgets without putting too great a damper on demand, primarily thanks to structural improvements on the supply side and in the public sector.

THE CRISIS IN THE EMERGING MARKETS

The crisis surfacing in Asia in 1997 has affected several emerging markets (Russia, Brazil) directly as well as the in-

dustrialised countries in North America and western Europe indirectly. Japan went into a sustained recession which has recently worsened. Although a start has been made in the most affected countries to overcome the crisis, it will probably take much time to remedy the structural failures. The consequences for Europe are difficult to assess at this point in time. WIFO assumes that slack demand will be compensated by 2000 at the latest and that growth in Europe will return to its medium-term rate.

CONTINUED BRISK GROWTH OF THE COUNTRIES IN TRANSITION

Two or three years ago, most of the transition countries in Central and Eastern Europe had finally overcome the severe setback in the wake of their change to a new system. They have since entered on a course of brisk growth which, however, appears to be rather wobbly in view of their insufficiently strong structures. The process would be greatly impaired if the European Union were to enter into a period of weak growth. Events in Russia had a negative impact on their financial capacity as well. Setbacks in the process of integration and in the negotiations for EU membership could similarly threaten their progress.

Analogously to its confidence in EU growth, WIFO does not follow the negative scenario but rather assumes that these countries will continue to achieve above-average growth rates.

STRUCTURAL ADJUSTMENTS OF THE AUSTRIAN ECONOMY

Membership in the internal market, the consistent competitive policy of the European Union and the opening up of Central and Eastern European countries have combined to expose large segments of the Austrian economy to the strong and in many instances unaccustomed pressure of international competition. Between 1995 and 1997, the Austrian economy experienced faltering growth relative to the European Union in general, the result, nevertheless, not just of the need to adjust but also of the previous devaluation of the dollar and of several European currencies.

The trend reversed between the spring of 1995 and the spring of 1998. The mark and schilling lost a quarter of their value against the dollar. This certainly promoted structural adjustment and would indeed allow us to make a very positive assessment of their international competitive position were it not for the fact that the dollar has since been weakening, affected by the financial crises and in the wake of the launch of EMU. The dollar has been drifting down since 1998 (by some 10 percent up to De-

ember). In addition, there was a dramatic devaluation of currencies of Asian countries which could be viewed as alternative production locations to Europe. In this medium-term projection, WIFO assumes that these trends will not prevail.

EMU will intensify competition in the internal market. Next to sectors which will be exposed to pressure to adjust there are sectors which will benefit: those that in the past were impaired in their medium-term development because of frequent devaluations by their main competitors (Italy, Spain, Sweden, etc.). The tourism industry will doubtlessly be among the winners. WIFO therefore assumes that stimulating and curbing effects will more or less offset each other.

MEDIUM-TERM PROJECTION FOR THE AUSTRIAN ECONOMY

WIFO's medium-term projection is based on the national accounts for 1976 to 1997 published by ÖSTAT (1998) in October 1998. For 1998, it draws on the October 1998 WIFO economic outlook (*Walterskirchen, 1998*), using this and the WIFO macromodel to project the development of the Austrian economy until 2002. Underlying the computations are the global business projection by *Schulmeister (1998)* and the above assumptions regarding economic and political terms of reference.

Since 1996, the Austrian economy has accelerated its growth, and will be undergoing a dynamic development that is temporarily stayed by the effects of turbulences in the financial markets. After a moderate slowdown in 1999, total economic production will once again expand strongly. Supported by its strengthened competitive position, Austria should see its real GDP grow by 2¾ percent p.a. in 1997-2002, slightly surpassing average of real GDP growth in the EU (+2½ percent).

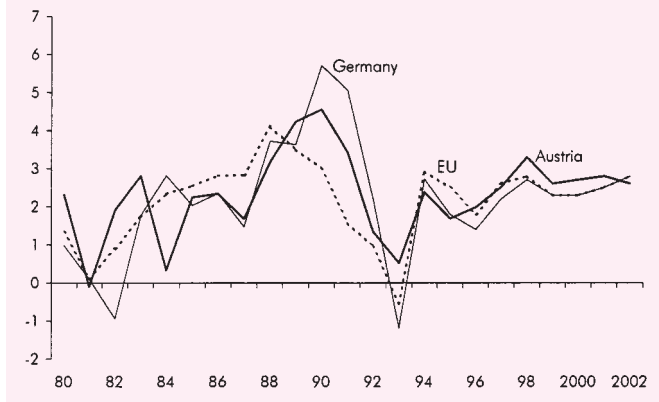
As a result of expanding production and measures under the National Action Plan for Employment, some 100,000 additional jobs could be created in this period. Up to 2002, unemployment should decline by about 1 percentage point to 6.2 percent of the dependent employment in line with the traditional definition.

Neither import prices nor unit labour costs are expected to make for any upward trend of prices domestically, and sustained competitive pressure will effectively restrict price increases, so that inflation will continue to be low (1¼ percent p.a. on average).

The positive contribution made by the external sector and slightly better terms of trade will provide for a noticeable reduction of the current account deficit over the next years.

Figure 1: Growth of real GDP

Percentage changes from previous year



According to the projection, budget consolidation will continue in 2000, after a hiatus up to 1999. The deficit in general government financial balance will approach 1 percent of GDP, and general government gross debt will edge down towards 60 percent of GDP. This projection does not take into account the effect of current plans for a tax reform.

EMU PARTICIPATION CHANGES MANOEUVRING ROOM FOR ECONOMIC POLICY

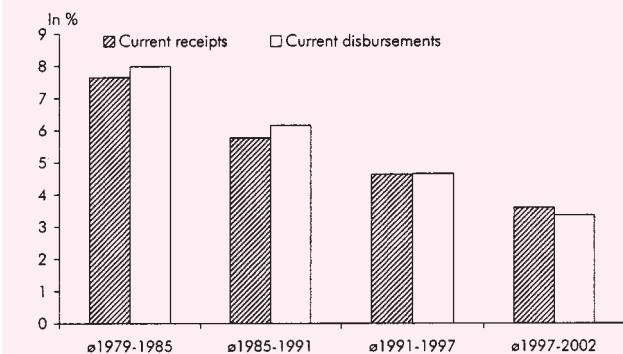
The international economic projection (*Schulmeister, 1998*) provides key elements on which to base the Austrian forecast. The accelerated pace of the international division of labour – marked by events like the opening up of Central and Eastern European countries, EU membership, preparations for EMU – has been imposing great pressure on the Austrian economy (the political players, businesses, workers and private households), which has so far been handled successfully, even though there were occasional shortcomings. New challenges and responses to them will continue to determine economic development in Austria.

EMU membership, which has entered its third stage on 1 January 1999, will make for a manifest change in the manoeuvring room available to economic policy. WIFO has studied the issue of EMU in detail (*Baumgartner et al., 1997, Kramer, 1998*) and has similarly reviewed the stability and growth pact (*Url, 1997*). Thanks to Austria's long and consistently pursued hard currency policy, its experience obtained in the wage determination process and the consolidation of its public budget, the country appears to be well prepared to hold its own in euro area.

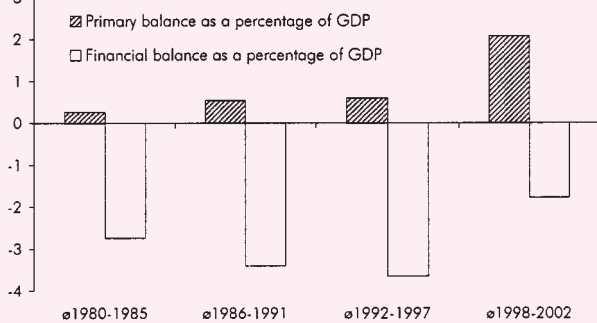
Another challenge facing Austria and the European Union is EU eastern enlargement. Bilateral negotiations with the

Figure 2: General government

Average year-to-year changes



Percentage points



candidates were started in November. Yet the first accessions will probably not happen within the period of this projection (for EU eastern enlargement see this issue of Austrian Economic Quarterly).

CONTINUED CONSOLIDATION GUARANTEES OBSERVANCE OF THE STABILITY PACT

The Structural Adjustment Act of 1996 ("austerity package") provided the basis for reducing the deficit on general government financial balance from 5.1 percent of GDP in 1995 to 1.9 percent of GDP in 1997, thus bettering the 3 percent criterion stipulated in the Maastricht Treaty.

The tax reform planned for the year 2000 was not considered in the projection up to 2002, as it was impossible to foresee its specific features at the time when this projection was developed. Once the relevant law has been passed, WIFO will make a quantitative evaluation of its effects based on this projection. The "family package" (under a ruling by the Constitutional Court, family taxation has been changed as of 1 January 1999) has been accounted for in the projection. It will raise disposable net incomes of private households by ATS 6 billion in 1999 and by ATS

Table 1: General government

	Ø 1979-1985	Ø 1985-1991	Ø 1991-1997	Ø 1997-2002
Year-to-year percentage changes				
Current receipts	+ 7.6	+ 5.8	+ 4.6	+ 3.6
Direct taxes	+ 8.6	+ 5.5	+ 6.3	+ 4.4
Social security contributions	+ 7.1	+ 6.4	+ 4.6	+ 3.5
Indirect taxes	+ 6.9	+ 5.2	+ 3.7	+ 3.6
Current disbursements	+ 8.0	+ 6.2	+ 4.7	+ 3.4
Public consumption	+ 7.5	+ 5.7	+ 4.5	+ 3.7
Interest payments	+14.4	+ 9.4	+ 3.5	+ 3.1
Social transfers	+ 7.6	+ 5.8	+ 5.5	+ 3.3
As a percentage of GDP				
Primary balance	0.3	0.5	0.6	2.1
Financial balance	- 2.7	- 3.4	- 3.6	- 1.8

12 billion p.a. as of 2000. The family package is widely seen as an advance on the tax reform scheduled for 2000.

Subject to currently applicable regulations and plans for public revenues and expenditures, the projected economic development would have the following implications for the public household (Table 1):

- While over the past six-year period revenues grew at a slower rate than expenditures, the trend will now be reversed: revenues will rise faster than expenditures; at the same time, both aggregates will expand at a slower pace.
- The surging interest burden has for some time been partly compensated by a constantly growing primary surplus (general government financial balance without interest payment) of the public household. The surplus on primary balance received a strong boost from the austerity package, and it should be about 2 percent of GDP on average in 1997-2002.
- Deficit in general government financial balance (within the meaning of the Maastricht Treaty) will initially (1998 and 1999) stay at 2 percent of GDP, before dropping below 1½ percent, provided that the consolidation policy is continued. At an average of -1.8 of GDP throughout the projection period, it will be only half of what it was in 1991-1997. General government gross debt will further decline, albeit not below 60 percent of GDP. It is expected that the tax reform will temporarily counteract any improvement in the deficit. Once the tax reform has been implemented, it will be necessary to examine whether the prerequisites for compliance with the stability pact (which provides for a balanced public budget in the long run) still apply and which measures (such as measures concerning the expenditure structure) will be necessary in the medium term in order to achieve the goal. For an analysis of the sustainability of the fiscal criteria in the third stage of EMU see Breuss (1998).

Table 2: Current balance

	Ø 1979-1985	Ø 1985-1991	Ø 1991-1997	Ø 1997-2002
Year-to-year percentage changes				
Exports				
Goods according to WIFO	+ 9.4	+ 4.9	+ 6.5	+ 8.7
Travel	+ 5.6	+ 7.1	- 0.4	+ 4.5
Imports				
Goods according to WIFO	+ 8.0	+ 5.4	+ 4.2	+ 8.0
Travel	+ 6.0	+ 6.4	+ 7.9	+ 2.7
Billion ATS				
Trade balance according to WIFO	-73.8	-78.7	-87.1	-44.1
Travel	43.9	51.2	40.4	32.0
Transfer balance according to foreign trade statistics	1.1	- 0.7	-18.2	-35.7
Current balance	- 6.3	2.6	-27.3	-27.4
as a percentage of GDP	- 0.6	0.1	- 1.1	- 1.0

EXCELLENT COMPETITIVE POSITION WITHIN EMU IMPROVES OPPORTUNITIES IN INTERNATIONAL TRADE

Globalisation and ongoing integration in Europe make for ever denser interlinkages of countries with regard to the movement of goods, services and capital. In order to keep pace with the dynamic development, it is necessary not only to maintain and strengthen competitiveness at the company level, but also to constantly change and adapt the political framework to safeguard and improve the business location at national level (*Federal Ministry of Economic Affairs, 1998*).

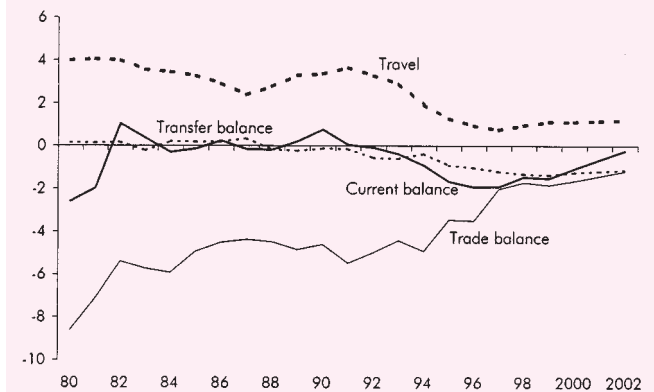
Owing to exchange rate crises, Austrian international trade suffered perceptibly in the first half of the 1990s. Between 1991 and 1995, the appreciation of the schilling made for an increase of its industrial unit labour costs by 5.7 percent on average over its trading partners. The disadvantage was then more than compensated in the next two years, by a relative decline of 7 percent (*Guger, 1998*).

As a member of EMU, Austria has all the prerequisites required to maintain its competitive position. According to Breuss (in *Baumgartner et al., 1997*, pp. 39-96), the former hard currency countries will enjoy an advantage vis-à-vis the former soft currency countries in EMU, because they will no longer suffer from the detrimental effects of exchange rate fluctuations and because they have more experience in competitive wage and price formation.

Next to intensifying its trade relations within the European Union (intra-industrial trade will further gain in importance), Austria expects to continue its successful exchange of goods with the eastern European countries. *Stankovsky (1998)* posits that their share of Austrian exports could rise from its current 15½ percent to just over 20 percent in 2005. Yet the positive evaluation should not obscure

Figure 3: External balance

As a percentage of GDP



some inherent structural weaknesses of Austria's international trade: compared to the other OECD countries, Austria has a "technology gap" in its goods exports (*Huttschenreiter – Peneder, 1997*).

Up to 2002, goods exports should grow by 7½ percent p.a. on average and in real terms (Table 2). Import demand, derived mainly from total domestic demand, could be lagging slightly behind the dynamism of export growth. Assuming that the terms of trade will experience a modest improvement, the trade deficit should continue to fall (to some ATS 40 billion).

After dropping, in 1997, to its lowest point since 1970, the surplus on travel appears once again to improve. The elimination of exchange rate fluctuations in Europe, recovery of consumer confidence and purchasing power, and the removal of structural deficits in the Austrian tourism industry should provide for an increase of travel receipts by 2.7 percent p.a. in real terms over the next years. Travel expenditures are not likely to rise before 2000 (by about 2½ percent p.a. on average; for the long-term development of the tourism industry see *Smeral et al., 1998*).

After its slightly negative contribution in 1991-1997, net exports will add an average of about ¼ percent to the growth of GDP in 1997-2002.

The net drain on the transfer balance makes up ATS 30 billion, half of which is net payments to the European Union. Developments of the trade balance and balance of services will drive a marked improvement of the balance on current account over the projection period: by 2002, the deficit could conceivably be reduced to about ¼ percent of GDP.

International interlinkages put increasing emphasis on foreign direct investment (establishment of new companies, takeovers, mergers, investments and relocation of produc-

Table 3: Aggregate demand

In real terms

	Ø 1979-1985	Ø 1985-1991	Ø 1991-1997	Ø 1997-2002
Year-to-year percentage changes				
Private consumption	+ 1.7	+ 3.1	+ 1.8	+ 2.0
Public consumption	+ 1.8	+ 1.3	+ 0.6	+ 1.4
Gross fixed investment	+ 0.4	+ 5.5	+ 2.1	+ 4.0
Private	+ 0.9	+ 6.2	+ 2.9	+ 4.3
Public sector	- 1.7	+ 1.5	- 6.2	+ 0.6
Final domestic demand	+ 1.4	+ 3.3	+ 1.7	+ 2.4
Change in stockbuilding	billion ATS 19.7	12.2	7.6	38.3
Total domestic demand	+ 1.2	+ 3.1	+ 1.9	+ 2.5
Exports, goods and services	+ 4.8	+ 5.9	+ 4.8	+ 6.2
Goods according to WIFO	+ 5.9	+ 5.6	+ 6.2	+ 7.4
Travel	+ 0.8	+ 4.9	- 3.6	+ 2.7
Imports, goods and services	+ 3.7	+ 5.8	+ 5.2	+ 5.8
Goods according to WIFO	+ 3.3	+ 6.1	+ 3.9	+ 6.9
Travel	+ 1.4	+ 3.8	+ 5.8	+ 0.7
Net exports				
Contribution to GDP growth	in percent + 0.4	+ 0.1	- 0.2	+ 0.3
GDP	+ 1.6	+ 3.2	+ 1.7	+ 2.8
In nominal terms	+ 6.4	+ 6.0	+ 4.4	+ 4.3

tion facilities). Austrian FDI soared as a result of the opening up of Central and Eastern European countries (about ATS 23 billion in 1997), whereas Austria itself became much more attractive to foreign investors with its accession to the European Union (it received ATS 30 billion in FDI in 1997).

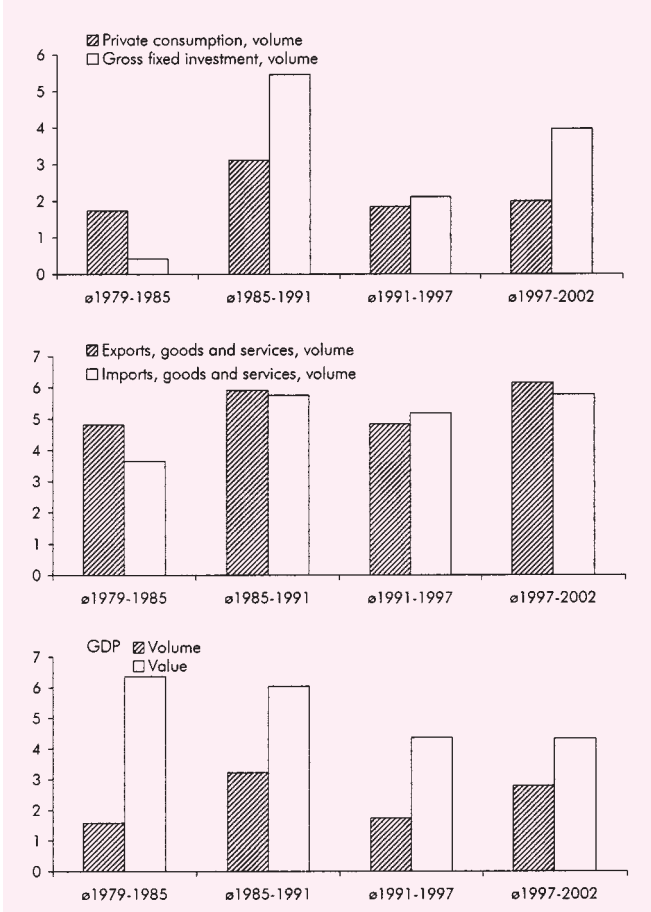
STRENGTHENING DOMESTIC DEMAND

Domestic demand over the projection period will be fuelled by strong and sustained private consumption. Consumer confidence has improved. Private households will have real disposable incomes of a scope that will gradually return the household saving ratio to its long-term equilibrium value in line with the econometric consumption function including an error correction mechanism. When public households were consolidated in 1996-97, real incomes stagnated and the private household saving ratio declined by 2.4 to 7.4 percent (in 1994 it had still been 10 percent). By 2000 it could be back to 9½ percent, assuming an average real consumption growth rate of 2 percent p.a. (Table 3).

Investment decisions will continue to be governed by rationalisation, implementation of new technologies and capacity expansion, favoured by sales expectations, profits and low interest rates which provide excellent prerequisites. International investors will contribute a positive momentum of their own. Growing at 4 percent p.a. on average, gross fixed capital formation will rise at double the speed of 1991-1997. Machinery and equipment investments will develop at a much more dynamic rate (+6 percent) than construction investments (+2 percent) where the

Figure 4: Demand and output

Year-to-year percentage changes



forecast is dampened by the excessive supply faced by residential housing construction over the next years. Rehabilitative construction, on the other hand, would appear to be flourishing until 1999 (the tax break for the retransfer of rental reserves has been extended).

In its study, the Advisory Board for Economic and Social Issues (*Beirat*, 1998) dealt with the concept of public private partnerships, i.e., types of co-operation of public institutions and private businesses aimed to develop, finance and establish infrastructural facilities based on the principle of risk sharing. Medium-term demand forecasts put the potential volume of infrastructural investments in Austria (rail, road, community utilities) for the next 10 to 15 years at about ATS 520 to 610 billion.

The demand components point at a real GDP growth of 2.8 percent p.a. on average throughout the projection period, or an acceleration by 1 percentage point over the previous six-year period. The highest growth rate to be achieved is in 1998, followed by a slowdown in 1999 and recovery thereafter. (The 0.3 percent lead over the EU-15 average will be obtained primarily in 1998.) The potential

Table 4: Labour market and incomes

	∅ 1979-1985	∅ 1985-1991	∅ 1991-1997	∅ 1997-2002
	Year-to-year percentage changes			
Dependent employment	- 0.0	+ 1.4	+ 0.3	+ 0.8
Excluding parental leave and military service	- 0.0	+ 1.4	+ 0.2	+ 0.9
Registered unemployed	+16.2	+ 4.8	+ 3.9	- 2.1
Unemployment rate				
According to Eurostat				
percent of total labour force	3.2	3.4	4.1	4.2
According to labour exchange statistics				
percent of dependent labour force	3.6	5.4	6.7	6.8
percent of total labour force	3.1	4.7	6.0	6.1
Productivity (GDP per employment)	+ 1.9	+ 2.2	+ 1.8	+ 2.0
Gross wages and salaries ¹	+ 6.0	+ 6.2	+ 3.4	+ 3.7
Per employee ²	+ 6.1	+ 4.8	+ 3.2	+ 2.8
Unit labour costs, total economy	+ 4.4	+ 2.9	+ 1.6	+ 0.9
Property and entrepreneurial income	+ 6.7	+ 7.4	+ 5.2	+ 4.8
Household disposable income	+ 6.2	+ 6.3	+ 3.6	+ 3.8
Household savings ratio	in percent	9.4	11.5	9.0

¹ Excluding employer contributions. – ² Excluding parental leave and military service.

output is expected to grow by 2½ percent p.a.; actual output will not exhaust the potential throughout the projection period, because real capital will be topped up continuously and adequate human resources are available.

LABOUR MARKET TO EASE UP AND UNEMPLOYMENT RATE TO DRIFT DOWNWARDS

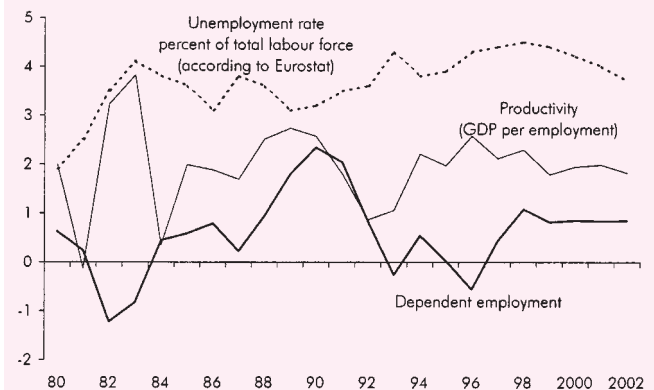
In line with the higher average economic growth, labour productivity and employment will grow more rapidly than in 1991-1997. The labour market has become more flexible in recent years; both part-time jobs and marginal part-time employment have shot up: on average in 1997 14 percent of the dependent employment held part-time jobs and 165,000 were marginal part-timers. New jobs (especially part-time jobs) were mostly filled with newcomers to the labour market rather than unemployed people so that unemployment showed hardly a dent in spite of the larger number of jobs available.

The measures within the National Action Plan for Employment (NAP) aim to reduce structural weaknesses of the labour market. They include the promotion of new opportunities in innovative services, more stress on education and training, an increase in the share of self-employed and an improvement of the technical infrastructure.

Assuming an average annual increase of employment by 0.9 percent and the requisite NAP support, it should be possible to step up integration of the unemployed. The growth in the number of dependent employment envisaged in the projection by 2002 (a plus of 100,000 jobs), and the reduction of the unemployment rate by 1 percentage point match the objectives stipulated in the NAP.

Figure 5: Labour market

Percentage changes from previous year



The assumption with regard to the figures for economically active persons is consistent with the long-term projection for the labour market supply developed by WIFO and ÖSTAT (Biffl – Hanika, 1998).

REAL WAGE INCREASES LAG BEHIND PRODUCTIVITY GROWTH

Austrian income policy has traditionally taken its bearings from macroeconomic considerations, although the emphasis has naturally shifted in the course of time. Wage policy aims to maintain the employees' purchasing power as much as the employers' competitive position. In view of rising unemployment and the resultant weakening of the employees' position, more regard is given to the situation on the labour market, so that real wage increases have been lagging behind productivity improvements for some time (Marterbauer, 1998, p. 14).

The trend is expected to continue throughout the projection period. Real wage increases will be 1½ percent p.a. on average, while productivity of the dependent employment will grow by 1.9 percent on average. Labour's adjusted share in national income will continue to shrink (by 1 percentage point between 1997 and 2002).

STABLE PRICES

Collapsing prices for crude oil and raw materials, stagnating unit labour costs and strong competitive pressure have combined to produce virtually stable prices. Inflation, as measured by the consumer price index, has fallen to a low point that was last reached in the mid 1950s. Rises in raw material prices and unit labour costs should be modest over the next years. With competitive pressure continuing, there is little manoeuvring room for price increases – per-

haps some 1¼ percent p.a. on average. The indicated inflation rate overstates actual price increases because it cannot take into account quality improvements.

UNCERTAINTIES AND RISKS OF THE PROJECTION¹

Drawing on the above assumptions, the projection arrives at a satisfactory perspective for the general economy in the medium term.

This perspective would, however, be impaired if the assumptions made with regard to international conditions should not hold. It should not be forgotten that overall

¹ According to OECD deliberations, the year 2000 could produce an additional uncertainty. The (potential) problems arising from the failure of computers to handle the millennium bug could disrupt economic processes considerably and – according to estimates – lead to losses of 0.3 to 1.1 percent of GDP between 2000 and 2001 (OECD, 1998).

Table 5: Deflators

	Ø 1979-1985	Ø 1985-1991	Ø 1991-1997	Ø 1997-2002
	Year-to-year percentage changes			
Private consumption	+ 5.3	+ 2.2	+ 2.8	+ 1.3
Public consumption	+ 5.5	+ 4.3	+ 3.8	+ 2.2
Gross fixed investment	+ 4.5	+ 2.4	+ 2.0	+ 1.7
Exports, goods and services	+ 3.8	+ 0.2	+ 0.6	+ 1.2
Goods	+ 3.3	- 0.6	+ 0.2	+ 1.3
Travel	+ 4.8	+ 2.1	+ 3.2	+ 1.8
Imports, goods and services	+ 4.6	+ 0.1	+ 0.8	+ 0.8
Goods	+ 4.5	- 0.6	+ 0.3	+ 1.0
Travel	+ 4.5	+ 2.5	+ 1.9	+ 1.9
GDP	+ 4.7	+ 2.7	+ 2.6	+ 1.5
Terms of trade				
Goods and services	- 0.8	+ 0.1	- 0.3	+ 0.4
Goods	- 1.2	- 0.0	- 0.1	+ 0.3

economic development is affected when structural improvements are neglected and the co-ordination of European economic policies is not improved. Thus, a reduction of public budget deficits should not be expected to be

Austrian Economy Prepared for EMU

Medium-term Projection for the Austrian Economy Until 2002 – Summary

A stronger international competitive position and brisk domestic demand will have a positive impact on the Austrian economy in the next years. Assuming that the international financial crisis will be temporary in its detrimental effect and that the public budget consolidation policy will continue, there are no obstacles to the achievement of stable growth. In 1997-2002, GDP will grow by 2¾ percent p.a. on average, which is slightly above the EU average rate.

Growth of the Austrian economy has accelerated since 1996. The dynamic development is likely to be temporarily stayed by the effects of turbulences on the international financial markets. After a slight slowdown in 1999, total output will once again expand strongly.

As a result of production expansion and measures under the National Action Plan for Employment, some 100,000 additional jobs could be created in the projection period. Unemployment should decline by about 1 percentage point (from 7.2 to 6.2 percent of the dependent employment in line with the traditional definition; from 4.4 to 3.7 percent in accordance with the EU definition).

Net exports will make a positive contribution to growth of ¼ percent of GDP on average. Improved terms of trade and an upswing of the domestic tourism industry will provide for a noticeable reduction of the current account deficit over the next years.

In the projection period domestic demand is supported by strong and steadily growing private consumption (+2 percent p.a. in real terms on average). Consumer confidence has improved. As a consequence of the growth of disposable real income of private households, the household saving ratio will gradually be returned to its long-term equilibrium value.

At an average growth of 4 percent p.a., gross fixed capital formation up to 2002 will rise at double the pace of 1991-1997. Machinery and equipment investment will develop more dynamically, while construction investments will grow moderately as a consequence of the re-dimensioning process in residential housing construction.

Neither import prices nor unit labor cost are expected to make for any upward trend of prices domestically, and sustained competitive pressure effectively restricts price increases, so that prices will remain stable. The average rate of inflation will be 1¼ percent p.a.

According to the projection (which does not consider the plans for tax reform), budget consolidation will continue in 2000, after a hiatus in 1999. The deficit in general government financial balance will be less than 1½ percent of GDP, general government gross debt, on the other hand, will not decline below 60 percent of GDP.

achieved automatically but requires considerable efforts towards structural improvements in the public sector. Similarly, labour market improvements cannot be expected unless targeted measures – especially active labour market policy measures – are taken in hand more vigorously and to better effect.

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