

■ AUSTRIAN ECONOMY LARGELY UNAFFECTED BY CRISIS IN ASIA

The turmoil in Asia has barely affected the business climate in Austria. According to the business survey of January 1998, manufacturing firms have again turned more optimistic about the current upturn. The upward trend in export expectations has leveled off, however.

The economic recovery in Austria maintained its momentum right into 1998. The WIFO business survey of January 1998 reveals a further improvement in the business climate. Manufacturing firms were more optimistic about the order stock and production than in the previous survey, which was carried out in October 1997 before the onset of the crisis in Asia.

Recovery has spread to most of the industrial sectors. Expectations in the primary and chemical industries in particular are substantially more optimistic. Even producers of consumer goods, who had suffered from sluggish demand in Europe for a long time, are reporting an upward trend now that consumers' confidence in economic improvement in Europe has strengthened. But the utilization level is still quite low for the consumer goods industry and production expectations are subdued.

Some repercussions of the turmoil in Asia are being felt by the technical manufacturers whose judgment of their export orders and business climate has not changed from the previous survey. This seems to be merely a pause in the upward trend.

While basic goods, chemical and technical manufacturing industries expect to step up their production over the next three months, the construction supply industry is still in the grip of a recession that spans the entire construction industry in Europe. With domestic and foreign demand for construction materials in a slump, the sector is complaining about empty order books and bad business in general.

Accordingly, the Asian crash has so far had little impact on industrial production and exports in Austria – not least because the affected Asian countries receive a relatively small share of Austrian merchandise exports (some 1.5 percent).

The latest statistical figures on exports are from the fall of 1997. In the second and third quarter, Austrian exporters managed to boost deliveries by about a fifth over the previous year.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report.

Considering Austria's small exposure to the Asian economies, it appears unlikely that exports in general will suffer directly. The crisis has done some limited damage to the tourism industry in Austria. Negative indirect effects could result from a general slowdown of the pace of European recovery.

Economists in Germany have reduced the projections for economic growth in 1998 by about $\frac{1}{4}$ percentage point in the aftermath of the Asian crisis. The Ifo Institute of Munich is confident that the damage can be contained and that the German economy will grow by „well over 2½ percent“ in 1998. The European recovery will also be fueled by an improvement in domestic demand which is increasingly felt by the major continental countries.

The Asian shakedown has had more obvious reverberations in Japan and the USA: in Japan, hope for an improvement of the economy is once again delayed, and in the USA, the leading indicators have been stagnating since the onset of the crisis. The International Monetary Fund cut its 1998 global growth forecast from +4.3 percent to +3.5 percent.

There is little danger that the Asian crisis might bring about deflation: decelerating inflation in Europe is due not so much to cheap imports from devaluating countries but to the pressure exerted by high unemployment on wage increases and to cost cuts from rationalization. But it would be unwise to belittle the potential risks in the financial markets.

EAST ASIAN CRASH CAUSES GLOBAL UPSET

In recent months, several Asian countries have been going through a crisis that affected their currencies as much as confidence in their economic performance. At the same time, share prices in the USA and Europe plunged so precipitously that they might well affect the economic climate. Stock exchange losses diminish the market value of equities and make it more expensive to invest by issuing shares.

Economies in East Asia grew rapidly while maintaining huge current account deficits for years, which they financed by foreign (usually dollar) loans. Large deficits of this type are not uncommon in emerging economies (cf. CEE countries), since domestic demand – and in particular fixed investment – grows much more rapidly than in mature industrialized countries.

But when the dollar exchange rate climbed, the East Asian countries found themselves stuck with a much greater external debt, and, after a period of high-speed economic growth, it was suddenly an attractive proposition to attack their currencies. One factor of the crash appears to have been a rather careless attitude towards loans by banks trusting that the boom would last. The currencies of Thailand, the Philippines, Indonesia, Malaysia and South Korea collapsed. The hefty increase in interest rates as a defense against devaluation put the squeeze on the economy in general. The situation could be contained only with the help of the International Monetary Fund.

Cut-off date: February 5, 1998.