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EXPORT RECOVERY AND TAX REFORM ACCELERATING THE PACE OF GROWTH

ECONOMIC OUTLOOK FOR 1999 AND 2000

WIFO is upholding its forecast for real GDP growth in 1999 at 2.2 percent, unchanged since last March. Next year, growth is projected to accelerate to a rate of 2¾ percent. Exports and industrial activity have turned around at the beginning of the year and are now heading upward, confirming earlier expectations. Continued strength of domestic demand and reinforced labour market policy action will make for a noticeable decline in unemployment. Inflation should remain subdued, despite rising oil prices. The tax reform and higher family benefits, while adding to private disposable income next year, will drive up the general government deficit to 2½ percent of GDP.

The first half of 1999 was marked in Austria by weakness of exports and manufacturing output. Domestic demand, on the other hand, developed more favourably. Overall GDP in the second quarter rose by 1.7 percent from the year-earlier level (first quarter +1.2 percent) and nearly 1 percent from the previous period.

The cyclical trend in Europe and business expectations in Austria suggest for the second half of this year stronger momentum of both exports and industrial production. In the crisis areas of the world economy the situation is stabilising, and activity in the USA remains strong. The European economy is recovering under the impact of both a weaker euro and robust domestic demand in major EU member states. Demand and output are relatively lively in particular in France, Spain and a number of smaller EU countries, while Germany and Italy are lagging behind.

Conditions for exports are improving in two regards: on the one hand, growth of Austrian export markets is picking up – estimated at 3½ percent in 1999 and 5½ percent in 2000; and, on the other, productivity increases in manufacturing should lead to gains in market shares. While on average 1999, merchandise exports may still rise moderately (+4½ percent in volume), they should gain strong momentum next year (+7 percent). Production in manufacturing is likely to follow a sim-

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Table 1: Main results

		1996	1997	1998	1999	2000
		Percentage changes from previous year				
GDP						
Volume		+ 2.0	+ 2.5	+ 3.3	+ 2.2	+ 2.8
Value		+ 3.7	+ 4.1	+ 4.3	+ 3.1	+ 3.9
Manufacturing[1], volume		+ 1.2	+ 5.0	+ 4.4	+ 2.0	+ 4.0
Private consumption, volume		+ 2.0	+ 0.7	+ 1.7	+ 2.0	+ 2.5
Gross fixed investment, volume		+ 2.5	+ 2.8	+ 4.7	+ 3.7	+ 3.9
Machinery and equipment		+ 3.3	+ 5.0	+ 7.8	+ 6.5	+ 6.5
Construction		+ 2.4	+ 1.3	+ 2.6	+ 1.3	+ 1.5
Exports of goods[2]						
Volume		+ 5.4	+15.6	+ 8.4	+ 4.5	+ 7.0
Value		+ 5.5	+ 16.8	+ 8.4	+ 4.8	+ 8.1
Imports of goods[2]						
Volume		+ 6.1	+ 9.4	+ 8.2	+ 5.2	+ 6.5
Value		+ 6.7	+10.9	+ 6.6	+ 5.7	+ 8.1
Trade balance[2]	billion ATS	–100.6	–75.2	–67.4	–78.3	–84.9
	billion euro				– 5.7	– 6.2
Current balance	billion ATS	– 50.8	–64.1	–56.8	–60.8	–59.7
	billion euro				– 4.4	– 4.3
	as a percentage of GDP	– 2.1	– 2.6	– 2.2	– 2.2	– 2.1
Long-term interest rate[3]	in percent	6.3	5.7	4.7	4.6	5.1
Consumer prices		+ 1.9	+ 1.3	+ 0.9	+ 0.6	+ 1.2
Unemployment rate						
percent of total labour force[4]		4.3	4.4	4.7	4.4	4.2
percent of dependent labour force[5]		7.0	7.1	7.2	6.8	6.6
Dependent employment[6]		– 0.6	+ 0.4	+ 1.0	+ 1.2	+ 1.0

[1] Value added, including mining and quarrying. – [2] According to Austrian Central Statistical Office. – [3] 10-year central government bonds (benchmark). – [4] According to Eurostat. – [5] According to Labour Market Service. – [6] Excluding parental leave and military service.

ilar trend: with the regular WIFO business survey showing a marked rise in industrial confidence, real output growth is expected to accelerate from 2 percent this year to 4 percent in 2000.

Lively investment and consumer demand drove up imports in the first six months of this year. In the second half and in 2000, higher oil prices will add to the upward drift, pushing the trade deficit to around ATS 80 billion. While part of the widening gap will be covered by a higher surplus on tourism and other services, the strongly negative balances on factor incomes and transfers will nevertheless make for a current account deficit of some ATS 60 billion, equivalent to 2 percent of GDP.

Oil prices have increased substantially since early 1999, weakening the terms of trade of the industrialised countries, thereby exerting inflationary pressure on the producer and the consumer level, and potentially constraining output growth. Nevertheless, price stability in Austria is set to remain high. For 1999, the rate of inflation is projected at a low 0.6 percent, as the effect of higher fuel prices will be offset by a fall in food prices and a levelling-off of rising housing costs. In 2000, consumer prices are projected to edge up by 1.2 percent on average, due to increases in both fuel and food prices.

Domestic demand is offering a solid base to business activity. Net disposable income from earnings and social transfers is growing markedly, due to strong employment gains, contractual wage increases, continued price stability and in the coming year also due to an expansionary fiscal policy. This provides scope for an advance in private consumption by 2 percent in 1999 and 2½ percent in 2000, assuming a slight increase in the savings ratio. In spite of export sluggishness in the first half of 1999, many companies see a need to renew and expand their capital stock: hence their ambitious investment plans, as reflected in the latest WIFO survey. Construction activity, however, can expect only slow overall growth, given a marked decline in the building of new homes.

Developments on the labour market appear even better than projected last June. Employment (excluding military service and parental leave) is set to expand by 36,000 (+1.2 percent) in 1999; however, the bulk of this gain are part-time workers in service jobs. The number of unemployed may average 225,000, lower by 12,000 than in 1998. The decline is due not only to stronger labour demand, but also to the reinforcement of labour market programmes in the context of the National Action Plan for employment. The unemployment rate (on Eurostat definitions) will decline to 4.4 percent in 1999 and 4.2 percent in 2000. Yet, the objective of bringing it down to 3.5 percent by 2002 would still appear to be ambitious.

General government net borrowing has been reduced significantly since 1995; in the current year, it is projected at a ratio of 2 percent of GDP. In 2000, the tax reform and new family benefits will put a new burden on public finances. Adding substantially to private households' disposable income, both measures will support business activity and employment growth; at the same time, however, they will make for an increase in the general government deficit to 2½ percent of GDP, even assuming expenditure to remain firmly under control.

In October, the Austrian Statistical Office (ÖSTAT) will submit National Accounts for the years 1995 to 1998 which follow the classification system ESA 1995. The change-over to the new system implies considerable modifications in concepts and will affect both the level and rates of increase of overall GDP and its components. WIFO will adjust to the new data base at the next revision of projections in December.

WORLD ECONOMY RECOVERING, BUT RISKS REMAIN

Strong growth of internal demand in the USA over the last years has not only led to a substantial fall in unemployment and to consolidation in government budgets, but has provided key stimulus to world economic growth. At pre-

Figure 1: Indicators of economic performance

[1] Vis-à-vis the euro zone. – [2] Manufacturing; in a common currency vis-à-vis trading partners. – [3] 10-year central government bonds (benchmark). – [4] Excluding parental leave and military service.

sent, there are still no clear signs for either an acceleration of inflation or an abrupt slowdown of growth. GDP in 1999 is expected to expand by 3½ percent in volume, before decelerating somewhat in 2000. However, a possible correction of the exaggerated stock market values constitutes an important risk for further cyclical developments, since it may induce consumers to spend less and save more.

World economic activity has strengthened in the first half of 1999. A major contribution has come from lively domestic demand in the USA. In Asia, the situation has stabilised. Nevertheless, major risks and uncertainties surround further developments on financial markets in Russia and Latin America.

In some countries of South-East Asia, output is rebounding more quickly than expected by many international observers, even though it is driven mainly by exports. In Japan, the negative cyclical trend has come to a halt in the first semester, primarily due to strong public spending. Consumer confidence remains shaky, given the rise in unemployment. Japanese exports, while benefiting from strengthening demand in Asian trading partner countries, are threatened by the upward drift of the Yen which may delay the recovery. Also in Russia, the economic situation has calmed somewhat following last year's severe recession,

Table 2: World economy

	1996	1997	1998	1999	2000
	Percentage changes from previous year				
Real GDP					
Total OECD	+ 3.0	+ 3.0	+ 2.2	+ 2.3	+ 2.3
USA	+ 3.4	+ 3.9	+ 3.9	+ 3.5	+ 2.5
Japan	+ 5.1	+ 1.4	– 2.8	+ 0.5	+ 0.5
EU	+ 1.6	+ 2.4	+ 2.7	+ 2.0	+ 2.5
Euro area	+ 1.4	+ 2.2	+ 2.7	+ 2.3	+ 2.8
Germany	+ 0.8	+ 1.5	+ 2.2	+ 1.5	+ 2.3
Central Eastern Europe[1]	+ 4.7	+ 5.1	+ 3.3	+ 2.0	+ 3.0
World trade, volume	+ 6.8	+10.0	+ 4.5	+ 4.0	+ 6.0
OECD exports	+ 6.3	+11.3	+ 4.5	+ 3.5	+ 5.8
Intra-OECD trade	+ 6.0	+11.3	+ 7.3	+ 4.8	+ 5.5
Market growth[2]	+ 6.4	+ 8.3	+ 7.8	+ 3.5	+ 5.5
Primary commodity prices, in USD					
HWWA index, total, 1990 = 100	+ 4.0	– 1.0	–23.0	+13.0	+13.0
Excluding energy	– 9.0	± 0.0	–13.0	– 7.0	+ 6.0
Crude oil prices					
Average import price (cif) for OECD countries USD per barrel	20.6	19.1	12.7	17.0	20.0
Exchange rate USD per ECU or euro	1.270	1.134	1.121	1.07	1.12

[1] Poland, Slovakia, Slovenia, Czech Republic, Hungary. – [2] Real import growth of trading partners weighted by Austrian export shares.

with GDP in 1999 expected to remain flat. The rise in oil prices provides welcome relief for the current account and for government finances; on the other hand, political uncertainties are increasing again, in view of the upcoming parliamentary and presidential elections. Latin America is in recession, following the financial crisis in Brazil and the move towards monetary and fiscal restriction; the situation of the real economy and on financial markets is highly fragile.

GROWTH PICKING UP IN EUROPE, WITH GERMANY STILL LAGGING BEHIND

Demand and output in the EU have expanded by 1½ percent in the first half of 1999, according to preliminary figures. Surveys carried out by the EU Commission show a clear improvement of business confidence and of production expectations in industry for the third quarter. Consumer confidence weakened somewhat from the record level early this year, but remains high. While in all EU countries exports were still sluggish in the first six months, strength of domestic demand was different across countries. Notably in France and Spain, consumption and investment gave firm support, whereas activity remained feeble in Germany and Italy.

With an explicit strategy of stimulating domestic demand, France has succeeded in shielding the economy from the repercussions of international turbulence. Employment and incomes are rising strongly, and unemployment has declined significantly since mid-1997, thereby fostering optimism among consumers. Favourable demand prospects are in turn conducive to higher investment. The French economy is set to expand by nearly 3 percent this year and next, which is above the European average by some margin.

Since the 1993 recession, economic growth in Germany has lagged behind the EU average by almost ¾ percentage point per year. Now also, the recovery is slow, with domestic demand hardly able to compensate for the weakness of exports. Foreign orders have picked up with the international cyclical rebound, the rise in domestic orders has so far been confined to semi-manufactures and investment goods. The next months should see a further pickup in exports, which ought to give further incentives for higher investment. However, the crucial component of a substantial revival of consumer demand is still missing. In the face of a weakening labour market – with employment stagnating and the tentative decline in unemployment having come to a halt since last spring – and the fiscal consolidation measures announced for next year, consumer confidence has visibly deteriorated in recent months. Italy is suffering from export slack, and the markedly restrictive stance of fiscal policy is impeding a recovery of internal demand. GDP growth will barely exceed 1 percent in 1999 and may not even in 2000 gain enough momentum to enable the labour market to improve significantly.

In the five most advanced transition countries in Central and Eastern Europe, activity has sharply decelerated since 1998. The average rate of GDP growth projected for 1999 will not exceed that for the EU for the first time since 1990. Demand for investment as well as consumer goods is still high in the region, but high external imbalances often act as a constraint to growth. The Czech Republic remains caught in a recession induced by severe restriction of monetary policy. GDP is expected to decline further in 1999, although the fall in demand and output came to a halt in the second quarter. In the Slovak Republic, the new government has implemented policy restrictions in order to stabilise the current account, which may keep GDP flat in 1999. Developments in Hungary, Poland and Slovenia, on the other hand, do not foreshadow a cyclical downturn.

INFLATIONARY EFFECT OF HIGHER OIL PRICES TO REMAIN LIMITED

Oil prices have oscillated strongly in the last years. Having fallen below 10 $ per barrel towards end-1998, in the wake of the Asian economic and financial crisis, they have climbed since to a current level of 23 $. The major reason for the rebound are supply restrictions agreed upon by

OPEC last March, which have been adhered to by members and extended to producers outside the cartel. On the demand side, stabilisation in Asia and strong growth in the USA are exerting upward pressure on prices. Discipline among suppliers may be difficult to sustain, the longer prices remain high. Underlying the projections is the assumption that prices will remain near their current level over the next months, before moving onto a downward trend during next year. A rise in oil prices implies in the first round a change in the terms of trade and a redistribution of income from industrial towards oil producing countries. The former will see an acceleration of inflation and, potentially, some slowdown in economic growth. Both effects should, however, prove a good deal weaker than in the 1970s, when oil consumption per unit of GDP was considerably higher than nowadays.

The doubling of crude oil prices since the beginning of the year implies for the industrialised countries a deterioration in their terms of trade, an edging-up of inflation and a slight dampening effect on economic growth. Current assumptions on the further course of oil prices do not, however, suggest there will be real danger for price stability in Europe.

By lowering the key interest rate by ½ percentage point last April, the European Central Bank (ECB) has given support to the cyclical recovery. WIFO assumes that the monetary authority will not, in reaction to the supply shock of rising oil prices, move towards restriction over the next quarters. Price stability is being maintained. The Harmonised Consumer Price Index increased by just over 1 percent over the previous year in the euro zone, with core inflation (excluding energy) remaining flat. Long-term interest rates have moved up since the beginning of the year, by ¾ percentage point in the USA and by 1¼ percentage points in Europe. This reflects expectations of accelerating inflation and higher interest rates in the USA, as well as of capital outflows from the "safe havens" in the course of stabilisation in Asia. The exchange rate of the euro has strengthened towards 1.05 $ per euro. Growth and interest rate differentials between the USA and Europe have been the major factors behind the slide in the euro since the beginning of the year. A weaker euro is supportive to export recovery in the euro zone and should contribute to stronger growth in Europe in the second half of 1999. With the USA heading for a "soft landing", the euro may rise somewhat against the dollar.

Table 3: Productivity

	1996	1997	1998	1999	2000
	Percentage changes from previous year				
Total economy					
Real GDP	+2.0	+2.5	+3.3	+2.2	+2.8
Employment[1]	–0.6	+0.1	+0.9	+1.1	+1.0
Productivity (GDP per employment)	+2.6	+2.4	+2.3	+1.1	+1.8
Manufacturing					
Production[2]	+1.3	+5.3	+4.4	+2.0	+4.0
Employees	–3.0	–1.4	+0.1	–0.6	–0.1
Productivity per hour	+3.6	+6.9	+4.2	+2.9	+3.8
Working hours per day for employees	+0.8	–0.1	+0.1	–0.3	+0.3

[1] Dependent and self-employed according to National Accounts. – [2] Value added.

RECOVERY OF EXPORTS AND INDUSTRIAL ACTIVITY

At the beginning of 1999, exports and manufacturing output were slightly below the year-earlier level. Since then, a recovery has become apparent, which is confirmed by positive survey results. By next year, both goods exports (+7 percent in volume) and manufacturing output (+4 percent) should have regained their earlier strength.

In the second half of 1998 and in early 1999, Austrian merchandise exports were negatively affected by the repercussions of financial and economic crisis in several world regions, and by sluggish demand from key European trading partners (Germany, Italy, Czech Republic, Slovakia). This setback in demand is now being corrected. Exports, having further receded (on a seasonally adjusted basis) around the turn of the year, rebounded significantly in the second quarter. Strong advances of deliveries of machinery and vehicle components not only point to the industry's strong competitive position in price as well as quality terms, but also to a revival of investment activity in Europe. Other factors confirm the improvement in Austria's export outlook: climate surveys among business and consumers as well as order book statistics suggest a strengthening of demand in major trading partner countries including Germany. Growth of Austrian export markets is projected at 3½ and 5½ percent this year and next. Moreover, taking into account productivity advances and assuming moderate wage settlements, exporters should be able to gain market shares. Relative unit labour costs in manufacturing have fallen by 6 percent on aggregate since 1995 and are set to continue declining into next year. In all, volume exports may gain an average 4½ percent in 1999, accelerating to a rate of 7 percent in 2000.

The upturn in exports will pull manufacturing industry out of stagnation. (According to not entirely reliable data,

Table 4: Private consumption

	1996	1997	1998	1999	2000
	Percentage changes from previous year, volume				
Private consumption	+2.0	+0.7	+1.7	+2.0	+2.5
Durables	+8.1	–3.5	+0.9	+4.8	+4.5
Non-durables and services	+1.1	+1.4	+1.8	+1.6	+2.2
Net wages and salaries	–1.9	–3.1	+1.9	+2.8	+3.0
Household disposable income	–0.2	+0.2	+2.7	+2.3	+3.1
	As a percentage of disposable income				
Household saving ratio	7.8	7.4	8.3	8.5	9.0

manufacturing output has not exceeded the year-earlier level in the first semester.) The quarterly WIFO business survey shows a considerable improvement in the industrial climate since the beginning of the year, extending to production expectations, order inflow and sales prices. Given such optimism and strengthening exports, manufacturing output may grow by 4 percent or more (year-on-year, in volume) as from mid-1999 to the end of the projection period.

CURRENT ACCOUNT DEFICIT REMAINS HIGH

For 1999, the projections show a current account deficit of around ATS 60 billion. Higher imports resulting from buoyant domestic demand will lead to a marked deterioration of the trade balance. The negative trend is reinforced by the rise in oil prices which, in itself, will push up the trade deficit by an estimated ATS 10 billion in 1999 and maybe ATS 4 billion in 2000. The surplus on tourism services will increase notably, reaching nearly ATS 40 billion in 1999, due to continued growth of receipts and a fall in spending by Austrians abroad. With the component of "other services" also in surplus, the net total of cross-border service transactions will nearly cover the deficit from trade flows. However, what has weakened considerably in the last years is the balance of factor income and of transfers (the latter since Austria's accession to the EU).

Persistent high current account deficits – since 1995 they have regularly exceeded 2 percent of GDP – may reflect problems in various ways. Since it is mainly the balances on factor income and transfers which have deteriorated, the current account deficit does not signal plain deficiencies in structural competitiveness. Both the deficit on current account and in the trade balance is confined to transactions within the EU (in particular with Germany), while Austria accumulates surpluses outside the Single Market. Regular external deficits imply, however, ongoing changes in asset positions: to a rising extent, foreign investors have, in the past years, acquired not only financial assets, but also (parts of) domestic companies, Austria being an attractive investment location. This is now being mirrored by growing outflows in the form of interests, dividends or retained business profits, which show up in the balance on factor income.

STRONG CYCLICAL SUPPORT FROM DOMESTIC DEMAND

Growth of private consumption is lending firm support to the business cycle. Underpinned by higher employment, higher wages and stable prices, consumer spending is expected to rise by 2 percent in volume in 1999. Next year, further boost is provided by the tax reform and higher family allowances. At the same time, the savings ratio is likely to edge up.

In the first half of 1999, domestic demand has provided cyclical support. Private households' purchasing power is being corroborated this year by strong employment gains, higher incomes and continued price stability. Net disposable income from employment and social transfers will post hefty increases – of 3 percent each year in real terms. Moreover, consumer confidence, which is strongly correlated with developments on the labour market, remains very high. Domestic consumers will spend some 2 percent more in 1999. Next year, another increase in family allowances and income tax cuts will give additional stimulus to disposable income and consumer spending, which is projected to increase by a price-adjusted 2½ percent. Demand for durables will be particularly strong (+4½ to +5 percent per year). The savings ratio of private households went down by 2½ percentage points during the fiscal consolidation period of 1996-97. With income growth resuming, it should now gradually revert to its long-term average. The analysis of retail sales data currently suffers from statistical problems: nevertheless, the positive trend in consumption as well as in tourism suggests sizeable gains in sales volumes. Wholesale trade is likely to recover pari passu with merchandise exports.

Investment in machinery and equipment is also developing in a positive way. The latest WIFO investment survey confirms the favourable climate. In manufacturing industry, severe import competition and the need to seize new opportunities offered by the Single Market call for timely renewal of the capital stock. Therefore, the slackening of exports has had surprisingly little effect on private investment. Small-scale manufacturers and service companies take the opportunity of lively demand for pressing ahead with structural adjustment, notably by modernising com-

Table 5: Earnings and international competitiveness

	1996	1997	1998	1999	2000
	Percentage changes from previous year				
Gross earnings per employee	+1.9	+0.7	+2.6	+2.3	+2.3
Gross real earnings per employee	–1.0	–1.3	+1.7	+1.7	+1.1
Net real earnings per employee	–2.3	–3.8	+1.2	+1.1	+2.0
Net wages and salaries	+0.9	–1.1	+2.9	+3.4	+4.2
Unit labour costs					
Total economy	–0.7	–1.3	+0.3	+1.3	+0.5
Manufacturing	–0.1	–5.3	–1.7	+0.1	–1.0
Relative unit labour costs[1]					
Vis-à-vis trading partners	–0.6	–4.8	–0.6	–1.4	–1.0
Vis-à-vis Germany	+1.9	–0.2	+0.4	–1.1	–1.6
Effective exchange rate – manufactures					
Nominal	–1.2	–1.8	+0.6	–0.5	+0.5
Real	–1.5	–2.5	±0.0	–1.2	±0.0

[1] Manufacturing, in a common currency; minus sign indicates improvement of competitiveness.

puter facilities. The tourism sector also has speeded up adjustment in recent years. In all, machinery and equipment investment is expected to expand by 6½ percent in volume, both this year and next.

Activity is less strong in the construction sector. Residential building is on a downward trend which is to extend into 2000. The number of new homes completed is falling to some 50,000 per year. Renovation works should keep a high level: the phasing-out of tax incentives next year may be offset by a re-targeting of housing subsidy schemes towards renovation activities. Civil engineering will benefit from strong public investment in road and rail infrastructure. Construction of commercial and administrative buildings will also expand, several large-scale projects being under way in the Vienna area. Total construction output is likely to grow by 1½ percent per year.

INFLATION TO ACCELERATE ONLY SLIGHTLY

The price level has remained broadly stable since early 1998. From January to August 1999 the rate of inflation averaged 0.4 percent. Calmness is mainly due to moderate increases in unit labour costs and a weakening of import prices. International price developments are better reflected by the wholesale price index, which in the first quarter was 2¼ percent below the year-earlier level. This reflects sharp price cuts for items directly or indirectly affected by the crisis in Asia (steel, metals, electronics, oil).

The swift rise in oil prices is now translating into a modest increase in the general price level. The weight of fuel prices in the consumer basket of around 3 percent is distinctly lower than in the past. Moreover, prices for other sources of energy, notably electricity, are under downward pressure. The projection for the inflation rate in 1999 of 0.6 percent remains unchanged.

Next year, the effect of higher oil prices will be felt more markedly: it will push up the inflation rate by roughly ¼ percentage point. Import prices will rise somewhat more strongly. Unit labour costs are unlikely to add to inflation, while the liberalisation of electricity networks and subdued rent increases should contribute towards preserving overall price stability. Prices for food and manufactures may pick up somewhat from their recent slow pace. The overall inflation rate is expected to move up gently in 2000 to 1.2 percent.

LABOUR MARKET INDICATORS FIRMLY UPWARD BOUND

Strong gains in employment and reinforced training measures in the context of the National Action Plan will make for a noticeable decline in unemployment. The jobless rate (according to Eurostat) stands at 4.4 percent and will fall to 4.2 percent next year.

The situation on the labour market has visibly improved in recent months. Strong domestic demand has led to higher employment, notably in the service sector. However, many of the newly created jobs are part-time and carrying below-average income. Moreover, part of the employment increase is explained by generous wage subsidies granted for the hiring of long-term unemployed. On average 1999, dependent employment (excluding people on military service and maternity leave) is expected to increase by 36,000 or 1.2 percent year-on-year. Around one-half of the increase may be accounted for by part-time workers, another quarter by beneficiaries of a "special job insertion subsidy". Under the present assumptions of favourable cyclical developments, employment may rise by a further 1 percent next year.

Demand for labour is highest in the service sector. In the business-related commercial services this is due to outsourcing of activities from manufacturing and other services, to the booming of computer services, consulting and research and development activities. Employment in trade is stimulated by lively consumer demand and the rising demand for travel, which also creates new job opportunities in the tourism industry itself. The boom in telecommunication is accompanied by a net increase in employment in the related technical and service branches. More jobs are also being created in health services and adult education. The manufacturing sector is on the whole reducing personnel, with

Table 6: Labour market

	1996	1997	1998	1999	2000
	Changes from previous year, in 1,000				
Demand for labour					
Civilian employment	–23.8	+ 8.8	+ 22.1	+31.0	+28.4
Dependent employment[1]	–20.9	+ 8.3	+21.1	+30.0	+26.5
Excluding parental leave and military service	–16.5	+12.8	+29.8	+35.7	+31.0
Percentage changes from previous year	– 0.6	+ 0.4	+ 1.0	+ 1.2	+ 1.0
Parental leave and military service[1]	– 4.4	– 4.4	– 8.7	– 5.7	– 4.5
Foreign workers	+ 0.0	– 1.6	– 0.2	+ 6.8	+ 5.5
Self-employed[2]	– 2.9	+ 0.5	+ 1.0	+ 1.0	+ 1.9
Labour supply					
Total labour force	– 9.0	+11.7	+26.5	+18.5	+24.2
Foreign	+ 2.8	– 1.7	+ 0.7	+ 5.6	+ 4.6
Migration of nationals	+ 4.9	+ 5.4	+ 3.9	+ 3.5	+ 2.0
Indigenous	–16.7	+ 8.0	+21.9	+ 9.4	+17.6
Surplus of labour					
Registered unemployed[3]	+14.8	+ 2.8	+ 4.4	–12.5	– 4.2
In 1,000	230.5	233.3	237.8	225.3	221.1
Unemployment rate					
percent of total labour force[4]	4.3	4.4	4.7	4.4	4.2
percent of total labour force[3]	6.3	6.4	6.5	6.1	5.9
percent of dependent labour force[3]	7.0	7.1	7.2	6.8	6.6
Participation rate[5]	67.2	67.2	67.6	67.7	68.0
Employment rate[6]	62.9	62.9	63.2	63.6	63.9

[1] According to Association of Austrian Social Security Bodies. – [2] According to WIFO. – [3] According to Labour Market Service. – [4] According to Eurostat. – [5] Total labour force as a percentage of active population (aged 15 to 64). – [6] Employment as a percentage of active population (aged 15 to 64).

some exceptions, e.g., motor vehicles, machine tools, etc. In the construction sector, the slow growth of output is unlikely to induce firms to hire more workers.

The positive trend is confirmed by the statistics on job vacancies. Latest figures show an increase by 8,000 year-on-year. Yet, an important overhang of jobseekers over vacancies persists.

Unlike in 1998, employment growth is being accompanied by a marked fall in unemployment. Strong domestic demand has made growth more employment-intensive, temporary factors (cut in the entitlement period for maternity benefits, etc.) have faded, and spending on "active labour market policy" has been raised by more than one-third (from ATS 8 to 11 billion). The number of people in training courses has thereby increased by around 8,000.

On average 1999, registered unemployment is projected at 225,000, lower by 12,000 than a year ago. The rate of unemployment should fall to 4.4 percent of the total labour force (according to the EU Labour Force Survey), or 6.8 percent of the dependent labour force following national definition. Developments in 2000 will depend on the cyclical profile and on labour supply, in particular the scope of training activities being offered. Assuming that active labour market policy will continue to enjoy high priority, a further reduction in unemployment to a total of 221,000, corresponding to rates of 4.2 or 6.6 percent, respectively, may be achieved.

Table 7: Key policy indicators

	1996	1997	1998	1999	2000
	Billion ATS				
Fiscal policy					
Central government net balance	–89.4	–67.2	–66.0	–70.0	–81.0
	As a percentage of GDP				
Central government net balance	– 3.7	– 2.7	– 2.5	– 2.6	– 2.9
General government financial balance	– 3.7	– 1.8	– 2.2	– 2.0	– 2.5
	In percent				
Monetary policy					
3-month interest rate	3.4	3.5	3.6	2.8	3.0
Long-term interest rate[1]	6.3	5.7	4.7	4.6	5.1
Bond yield, average	5.3	4.8	4.4	4.1	4.7
	Percentage changes from previous year				
Effective exchange rate					
Nominal	– 1.5	– 2.3	+ 0.6	– 0.4	+ 0.7
Real	– 2.1	– 3.3	– 0.2	– 1.3	± 0.0

[1] 10-year central government bonds (benchmark).

When deciding on the National Action Plan for employment in 1997, the Federal government has fixed itself two targets: until 2002, employment should rise by 100,000, and unemployment should recede to a rate of 3½ percent. Under present assumptions, the employment target may be almost attained by 2000, if only due to the spreading of part-time work and favourable cyclical development. The base level of the unemployment rate has been corrected upwards by 0.2 percentage point by Eurostat. Together with the strong increase in labour supply this implies that the unemployment target will not be easy to achieve.

TAX REFORM WILL RAISE BUDGET DEFICIT FOR 2000

Following comprehensive measures of fiscal consolidation, general government net borrowing has been cut by 3 percentage points of GDP since 1995. In 1999, it will fall to a ratio of 2 percent, despite the first part of the "family package" becoming effective. Wage tax revenues are heading firmly upwards, driven by rising employment and earnings. V.A.T. receipts, while benefiting from domestic demand strength, are falling short of the target laid down in the budget draft.

Sizeable cuts in income and company tax rates enacted in the Tax Reform 2000 are making for a considerably tighter budget situation. A reliable assessment will only be possible when the new Federal government presents the draft Federal budget for 2000. Under given circumstances, and assuming firm control being exerted over expenditure, the general government deficit may rise to some 2½ percent of GDP next year. This would be significantly above the target fixed in the Federal government's Stability Programme.

Cut-off date: 5 October 1999.