

■ STRONG CYCLICAL UPTURN MITIGATING THE SEVERE BUDGETARY PROBLEMS

ECONOMIC OUTLOOK FOR 2000 AND 2001

Business cycle indicators are pointing strongly upwards. WIFO therefore raises its growth projections to 3.5 percent for 2000 and 3.2 percent for 2001. Stronger activity will have a positive impact on the budgetary position and on the labour market, while adding to inflationary risks.

Economic activity in Austria is gaining considerable momentum. Demand and output are set to expand by 3.5 and 3.2 percent this year and next. Exports are benefiting from livelier demand in Europe and a low euro exchange rate. For foreign investors, Europe is becoming more and more attractive. In 2001, growth in the euro-zone is expected to outpace that in the USA.

Booming exports and the optimistic outlook are also stimulating investment in Austria. Industrial companies envisage increasing their capital spending by a double-digit rate this year. Likewise, private consumption is posting substantial gains, as disposable incomes are boosted by tax cuts and higher family benefits. New car registrations, however, have levelled off following last year's strong increase.

Buoyant economic growth is having a strong positive effect on the labour market in Austria and in the EU as a whole. This suggests that high unemployment has been primarily a result of slow economic growth over the last decade, and not so much of rigid labour market structures. Employment is projected to increase by 40,000 this year and next, along with some 10,000 new short-time work contracts per year. As is normally the case in a period of cyclical upswing, productivity per employee (full-time equivalents) will pick up notably, to an estimated 2½ percent gain in 2000.

Unemployment is falling even more strongly than what may be expected from the rise in the number of new jobs. The decline in the jobless figure broadly corresponds to the increase in domestic employment, implying that domestic labour supply receives little stimulus from strong activity. For the first time since 1992, total unemployment will dip below 200,000 this year, receding further to around 180,000 in 2001. The unemployment rate as measured by Eurostat will average 3.5 percent this year, two years ahead of the target set in the National

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

Main results

	1997	1998	1999	2000	2001
	Percentage changes from previous year				
GDP					
Volume	+ 1.2	+ 2.9	+ 2.1	+ 3.5	+ 3.2
Value	+ 2.8	+ 3.5	+ 3.0	+ 5.0	+ 4.7
Manufacturing ¹⁾ , volume	+ 3.8	+ 3.4	+ 2.3	+ 6.3	+ 5.0
Private consumption expenditure, volume	+ 0.1	+ 1.5	+ 2.7	+ 2.8	+ 2.6
Gross fixed investment, volume	+ 0.8	+ 6.8	+ 2.9	+ 4.3	+ 3.7
Machinery and equipment ²⁾	+ 4.6	+10.6	+ 5.5	+ 8.5	+ 7.0
Construction	- 1.6	+ 4.1	+ 1.0	+ 1.0	+ 1.0
Exports of goods ³⁾					
Volume	+16.5	+ 8.1	+ 6.9	+10.0	+ 8.8
Value	+16.8	+ 8.4	+ 7.0	+11.1	+ 9.9
Imports of goods ³⁾					
Volume	+ 9.4	+ 7.1	+ 5.4	+ 9.0	+ 7.0
Value	+10.9	+ 6.6	+ 6.7	+10.6	+ 8.6
Trade balance ³⁾	(billion ATS) -75.2	-67.4	-69.5	-73.0	-67.5
	(billion Euro)		- 5.0	- 5.3	- 4.9
Current balance	(billion ATS) -64.1	-59.7	-74.6	-77.9	-75.1
	(billion Euro)		- 5.4	- 5.7	- 5.5
As a percentage of GDP	(%) - 2.5	- 2.3	- 2.8	- 2.8	- 2.5
Long-term interest rate ⁴⁾	(%) 5.7	4.7	4.7	5.6	5.5
Consumer prices	+ 1.3	+ 0.9	+ 0.6	+ 2.0	+ 1.7
Unemployment rate					
Percent of total labour force ⁵⁾	(%) 4.4	4.5	3.7	3.5	3.4
Percent of dependent labour force ⁶⁾	(%) 7.1	7.2	6.7	5.9	5.3
Dependent employment ⁷⁾	+ 0.4	+ 1.0	+ 1.2	+ 1.4	+ 1.3
General government financial balance					
As a percentage of GDP	(%) - 1.9	- 2.5	- 2.0	- 1.8	- 1.4

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.

Action Plan. However, the Eurostat calculation method is subject to substantial revisions and therefore not entirely reliable.

The public sector deficit is no doubt the key economic policy problem in Austria. Strong business activity will mitigate somewhat the severe budgetary problems that have arisen this year from tax cuts along with higher expenditure on family benefits. The cyclical component may thus lower the general government deficit by ATS 5 to 6 billion from previous estimates. The deficit, as de-

finied by the Maastricht criterion, for 2000 is projected at 1¾ percent of GDP, whereby policy would broadly meet the target laid down in the Stability Programme, if only by resorting to a large extent to one-off measures.

Next year, the „growth dividend“ should be higher, the projection for nominal GDP growth having been revised upward by ½ percentage point. Additional revenues may be expected not only from wage tax, but also, given the usual time lag, from income tax of self-employed and from corporate tax. No projection can as yet be made for the budget 2001, work on the Federal budget draft still being in progress. For present purposes, a technical assumption has been made whereby, on the basis of announced intentions, public expenditure will be restrained markedly in order to comply with the deficit target of the Stability Programme.

Inflation risks, while mounting gradually as the upswing continues, are considered less acute than in previous boom periods, with the labour market still showing considerable slack and monetary policy ready to tighten in time. The rate of inflation may rise to an average 2 percent this year, before abating to 1½ to 1¾ percent in 2001, when no more hikes from energy prices are expected. Private households will continue to benefit from price cuts following the liberalisation of telecommunication and electricity markets, while excess supply of dwellings is putting a lid on rent increases. The decline in the overall rate expected for 2001 masks, however, a significant rise in „core“ inflation (excluding food and energy items), from 0.8 percent in 1999 to 2 percent.

For the further trend in the inflation rate it will also be crucial, to what extent higher energy prices as well as higher indirect taxes and public charges will feed into wages, possibly giving rise to subsequent new price increases. By the time of the next wage round, the current rise in inflation will probably have reached its peak.

Cut-off date: 30 June 2000.