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■ EXPORT GUARANTEES IN AUSTRIA

The proportion of export guaranteed by the OeKB as compared to total exports is subject to considerable variations: the "coverage rate" rose from just under 15 percent in 1970 to almost 45 percent in 1981, and has since been continuously falling until, in 1997, it was only 8 percent. New guarantees are allocated mostly to exports to Eastern Europe and the less developed countries. Export guarantees are more effective in Austria than in Germany in their capacity to boost export volumes: ATS 1 billion in export guarantees on average generates ATS 1 billion in additional goods exports. The system is financially self-supporting, and export guarantees consequently yield a significant net benefit for Austria: their overall effect on employment, economic growth, foreign trade balance and the federal budget is positive.

Both directly and indirectly, exports act positively on the core objectives of economic policy: growth, employment and the achievement of balanced foreign trade. In Austria, export promotion has always been accorded great importance. In 1998, the Austrian Federal government, after extensive preparations, launched an "export offensive" which is a key element of Austria's National Action Plan for employment.

Exports would achieve its best effects in an environment of global free trade. In order to approach this goal, numerous agreements have been signed within the GATT/WTO framework, as well as at a regional level. At national level, exports can be encouraged by measures such as export guarantees and export financing (see box "Export Promotion").

WIFO was commissioned by the Oesterreichische Kontrollbank (OeKB) to investigate the relevance of export guarantees for the Austrian economy (*Stankovsky – Url,* 1998). This contribution draws on the study thus obtained.

INTERNATIONAL FRAMEWORK FOR EXPORT PROMOTION

National institutions that operate in the field of export promotion have long been co-operating in order to avoid undesirable international competition. Export guarantee facilities have been co-ordinating their work within the Berne Union, which

Export Promotion

"Export promotion" generally comprises all measures that are designed to boost exports. Direct subsidies are banned under international arrangements (with the exception of agriculture). Acceptable tools are of a financial, information provision, tax and technology promotion type (*Breuss,* 1983, pp. 46ff, pp. 71f, *Breuss – Stankovsky,* 1988, p. 289, *Stankovsky,* 1983A, *Lehner – Schebeck – Stankovsky,* 1996). In Austria, the Federal Economic Chamber has traditionally assumed the role of an information provider, while the financial side has always been handled by the Oesterreichische Kontrollbank.

Table 1: Export guarantees and export financing in Austria, 1997

Overview

	Export guarantees	Export financing[1]
		Billion ATS
Liability limit	420.0	–
Year-end stocks		
New commitments	–	271.0
Total guarantees	359.2	–
Utilisation	340.4	240.2
Turnovers		
New commitments	47.2[2]	44.1
Disbursements	–	35.6
Cumulated		
New commitments[3] and disbursement[4]	1,478.3	886.9

Source: OeKB. – [1] Excluding guarantee offers. – [2] Adjusted; non-adjusted: ATS 50.6 billion. – [3] Export guarantees, since 1950. – [4] Export financing disbursements, since 1960.

was founded in 1954[1]. Central to all such efforts is the "Arrangement on Guidelines for Officially Supported Export Credits", usually known as "Consensus", that has been agreed within the scope of OECD. This arrangement regulates the guarantee premiums as well as the terms and interest rates for export credits (*OeKB,* 1998)[2].

Ever since their foundation, the European Community regarded export policy a core element of its common trade policy, which is within the competence of the community bodies. Efforts to place export promotion at the community level proved to be unsuccessful; member states continued to guard their autonomy for a long time. No common institution could be established to promote exports, instead a close co-operation of the export promotion institutions has been agreed. OECD rules would be applied.

When Austria joined the European Union, it accepted its acquis communautaire, including its rules on export promotion. Public export guarantees have since been restricted to "non-marketable risks". As of the middle of 1995, the OeKB has been limited to providing new guarantees for exports to non-OECD countries (as well as Turkey and the new OECD members, i.e., Mexico, South Korea, the Czech Republic, Hungary and Poland). Deliveries to "core OECD countries" may be guaranteed only when the term exceeds two years or when the buyer is a non-private institution.

TOOLS AVAILABLE TO EXPORT GUARANTEES AND EXPORT FINANCING

In Austria, public export insurance (export guarantees and liabilities) and export financing are within the competence of the OeKB, which is supplemented in its task by a number of institutions[3]. *Export guarantees* are used to cover commercial and political risks. The OeKB awards them on the basis of the Export Promotion Act, on behalf and on account of the Republic of Austria.

Altogether eleven categories of guarantees (see box "Categories of Export Guarantees") have been developed to cover the wide range of requirements.

The "market development guarantee" was newly introduced in 1998 in order to cover the risk that sales targets are not achieved. A special case are guarantees by aval where the discounting proceeds are used to finance export transactions.

About half of the stock of export guarantees (49.9 percent) at the end of 1997 (ATS 359.2 billion) consisted of guarantees for transaction-linked loans (G3)[4], one fifth (20.8 percent) were guarantees by aval and 12 percent were reinsurance-guarantees (G8). Guarantees for direct deliveries (G1) accounted for 4.2 percent of the stock.

The OeKB charges a premium to companies for granting them an export guarantee. In the past, the premium was the same for all beneficiaries (differences in risks were balanced by a country-specific coverage policy and variations in the deductible), but on 1 July 1996 a system was introduced (based on an amendment to the Export Promotion Ordinance of November 1995) that provided for premiums differentiated by risk (see *OeKB,* 1997A).

In its provision of *export financing*, the OeKB aims primarily to support exports of investment goods by financing mid- and long-term payment periods, although it also pro-

[1] The 44 members of the Berne Union provided coverage for USD 409 billion in exports in 1997, or 13 percent of total exports of member states (Financial Times, 23 October 1998).

[2] Credits must be granted at market interest rates deemed to be subsidy-free or at the agreed reference interest rates (CIRR).

[3] For a detailed description of export promotion schemes in Austria (and in other OECD and non-OECD countries) see *OECD* (1995).

[4] This category also includes rescheduled loans.

Table 2: Export guarantees and export financing, a long-term comparison

	1970	1980	1990	1994 Million ATS	1995	1996	1997
Export guarantees: stocks							
Total guarantees	16,758	206,655	354,183	349,100	355,157	349,542	359,203
Utilisation	14,086	132,290	280,242	313,866	334,382	330,398	340,436
Export guarantees: new commitments (turnover)							
Adjusted	8,228	82,746	94,532	54,527	45,559	43,095	47,245
Not adjusted	–	–	–	–	–	44,894	50,593
Exports with guarantee[1]	11,100	89,800	105,600	83,000	74,000	53,000	58,000
As a percentage of exports	*14.9*	*39.7*	*22.7*	*16.2*	*13.2*	*8.7*	*8.1[2]*
Export financing: commitments							
Stocks (excluding guarantee offers)	8,766	120,487	254,187	267,560	268,134	267,547	270,995
New commitments (excluding guarantee offers)	–	–	80,863	53,348	52,645	40,275	44,111
Export financing: disbursement							
Stocks	5,490	91,055	194,295	222,280	230,615	233,811	240,208
New commitments	3,395	50,296	56,545	36,990	41,046	33,346	35,591
As a percentage of exports	*4.6*	*22.2*	*12.1*	*7.2*	*7.1*	*5.4*	*5.0*
Total exports	74,272	226,169	466,067	512,515	580,014	612,190	715,016

Source: OeKB. – [1] OeKB estimate. – [2] According to OeKB annual report, based on a lower estimate of exports in 1997: 9.0 percent.

vides financing for exports of other goods and services. In this field, the OeKB operates in its own name. Its export financing scheme refinances export credits (delivery, buyer, acquisition financing and guarantee by aval) by banks and covers direct financing by the OeKB (mostly rescheduling loans). An OeKB loan requires an OeKB guarantee as its prerequisite[5]. Exports guaranteed by another credit insurance institution (such as the FGG) may also be financed by the OeKB. The OeKB provides its financing at fixed as well as variable interest rates. In mid 1996, it introduced a foreign currency financing tool, which is governed by the rules of the OECD Consensus with regard to the reference interest rates.

Categories of Export Guarantees

G1   Guarantee for direct deliveries and services with special types of guarantee

G2   Guarantee for indirect deliveries and services

G3   Guarantee for tied financial credits, credit transactions/bond issues and debt rescheduling agreements

G4   Investment guarantee

G5   Turn-over guarantee (one foreign customer)

G6   Comprehensive guarantee (all customers in one country or in several countries)

G7   Guarantee for stock in commission, machinery deployment guarantee, advance guarantee

G8   Reinsurance of contract of an export credit or export credit insurance institution (reinsurance guarantee)

G9   Guarantee for the acquisition of accounts receivable from export transactions by domestic or foreign credit institutions

G10   Exchange risk guarantee (no longer available)

G11   Market development guarantee

WB   Guarantee by aval on bills of exchange

## RELEVANCE OF EXPORT PROMOTION

Allocation of *export guarantees* by the OeKB is subject to a liability limit which is defined by law and which has been ATS 420 billion since 1995. Their development can be judged on the basis of new commitments per year ("turnover") and stocks (at year end). New commitments in 1997 were ATS 51 billion in unadjusted terms, or ATS 47 billion when adjusted for rescheduling[6], which corresponded to 7.1 and 6.6 percent, respectively, of exports. However, the time between the date on which the export guarantee is granted and the date of the actual export makes for a gap between annual new commitments for export guarantees and the value of exports actually guaranteed in that year. The OeKB estimates the latter to be about ATS 58 billion for 1997, which provides for a guarantee ratio of 8.1 percent (Table 2). Of the liability limit, ATS 340 million, or 80 percent, were utilised by the end of 1997. The OeKB furthermore lists the total stock of guarantees, without accounting for the periods of the guarantees (ATS 359 billion in 1997).

[5] OeKB guarantees are guarantees by the Republic of Austria under the Ausfuhrförderungsgesetz (AFG, Export Promotion Act).
[6] Each excluding guarantee offers.

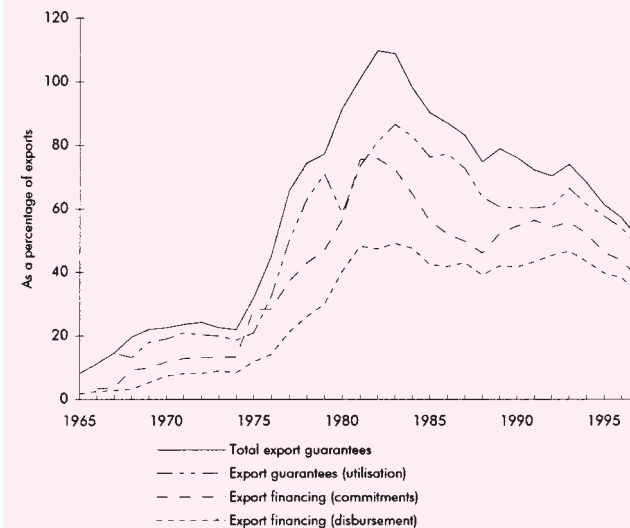Figure 1: Export guarantees and export financing

New commitments
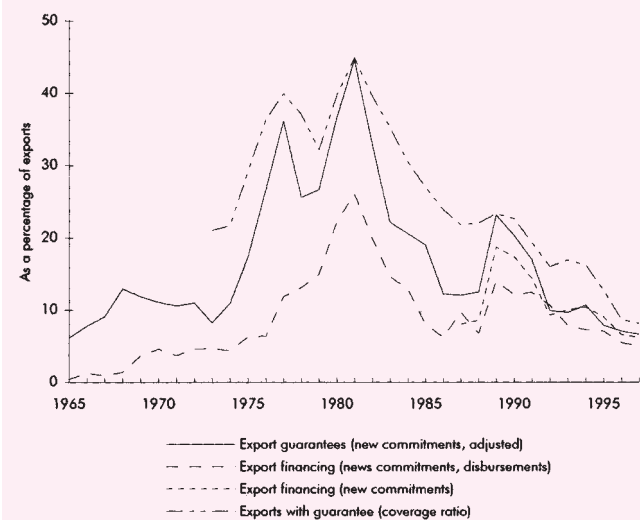
Source: OeKB.

Figure 2: Export guarantees and export financing

Year-end stocks

Source: OeKB.

As to *export financing*, the OeKB lists its commitments and their actual utilisation. By the end of 1997, the OeKB had allocated financing commitments (excluding guarantee offers) of ATS 271 billion, of which ATS 240 billion were utilised. New commitments in 1997 amounted to ATS 44 billion, payments made were ATS 36 billion, so that the financing rate was 5.0 percent in 1997.

Cumulative guarantee commitments between 1950 and 1997 ran to ATS 1,478 billion, while export financing payments made since 1960 totalled ATS 887 billion. The main figures for export guarantees and export financing for 1970 to 1997 are summarised in Table 2[7].

By relating these data to goods exports, we obtain a picture of how export promotion has developed against the background of international economic conditions (Figure 1): up to the mid 1960s, new commitments for export guarantees covered just about 5 percent of Austrian exports. In the second half of the 1960s, the rate – which can be viewed as an approximation of the "coverage rate" (ratio of guaranteed exports to total exports) – occasionally exceeded 10 percent. Some of this increase was due to a natural gas pipeline project which was the first agreement for the supply of Soviet natural gas to Western Europe (repayment of the loan from the proceeds of gas deliveries).

From 1974 on, the rise was extraordinarily steep, and it reached its peak in 1981, at almost 45 percent[8]. After the first oil price shock, which was followed by a global recession (1975), the Austrian government attempted to keep employment at a high level by encouraging exports to Eastern Europe and the LDCs, and export guarantees were an important tool of its policy. The resulting expansion was slightly dampened in 1978 and 1979. An excessive growth of OeKB loans at the time would have frustrated efforts by the Austrian National Bank to stay the growth of the current account deficit by introducing monetary restrictions.

In 1981, Eastern Europe and several developing countries experienced a serious debt crisis ("Poland crisis") which caused Austrian companies to draw on OeKB export guarantees to a greater extent than before. The OeKB reduced its provision of export insurance, and at the same time almost all the Eastern European countries curtailed their imports, especially imports of "guarantee-intensive" plants and investment products. After their political turnaround in the autumn of 1989, demand for Western goods exploded, but there were few imports of plants with long-term financing. The backslide in guarantees was interrupted in 1989 to 1991, i.a., because some countries

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[7] For a long-term overview of export guarantees as of 1950 and of the export financing scheme operated by the OeKB since 1960 see *OeKB* (1997A, pp. A6f).

[8] OeKB guarantees also cover some exports of services which are not included in export statistics. The actual coverage rate thus appears to be slightly lower. An estimate which takes into account exports of Austrian plants and equipment found a coverage rate in the early 1980s which was 3 or 4 percentage points lower (*Stankovsky,* 1983A).

Table 3: Regional structure of export guarantees and export financing, 1997

	Export	Export guarantees		Export financing: disbursement	
		New commitments	Stock	New commitments	Stock
		Percentage shares			
Europe	86.6	33.2	31.9	36.7	38.6
Eastern Europe	13.0	27.7	28.4	32.2	36.3
North America	4.4	0.4	0.1	0.3	0.1
LDCs	8.5	48.3	33.2	22.5	32.8
Latin America	1.3	3.6	2.2	0.8	2.0
Asia	6.2	38.5	19.6	14.0	16.5
Africa	1.0	6.3	11.5	7.8	14.3
Others	0.6	–	0.0	0.0	0.0
Subtotal		82.0	65.2	59.5	71.5
Comprehensive policies		2.3	14.0	13.2	5.0
Subtotal		84.3	79.2	72.8	76.5
Guarantees by aval		15.7	20.8	27.2	23.5
Total	100.0	100.0	100.0	100.0	100.0

Source: OeKB.

Table 4: Export guarantees and export financing for selected countries, 1997

	Export	Export guarantees		Export financing: disbursement	
		New commitments	Stock	New commitments	Stock
		Billion ATS			
Turkey	6.6	1.8	9.5	1.4	4.2
Eastern Europe	93.1	14.0	102.1	11.5	87.1
Bulgaria	1.8	0.0	2.3	0.1	1.8
Georgia	0.0	1.0	1.0	1.0	1.0
Croatia	10.2	1.3	2.4	0.5	1.3
Poland	11.8	1.7	40.9	0.8	39.7
Romania	3.8	0.3	1.6	–	–
Russia	10.0	6.0	34.9	6.7	32.8
Slovakia	9.6	0.6	1.9	0.3	0.8
Slovenia	12.9	0.3	1.1	0.2	0.5
Czech Republic	21.0	1.6	5.9	0.8	3.6
Hungary	35.0	1.0	6.8	1.1	4.7
Latin America	9.5	1.8	7.8	0.3	4.9
Argentina	1.4	0.1	1.2	0.0	1.1
Venezuela	0.8	1.0	1.7	0.1	0.2
Asia	44.3	19.5	70.4	5.0	39.5
China	4.2	4.3	17.1	1.2	10.4
India	1.5	0.8	2.3	0.1	0.2
Indonesia	3.1	2.0	17.6	2.5	13.8
Iraq	0.0	–	4.7	–	4.7
Iran	3.3	2.8	8.6	0.4	3.9
Saudi Arabia	2.1	4.0	4.0	0.1	0.1
Thailand	1.5	3.6	6.0	0.4	2.6
Vietnam	0.3	0.1	3.0	–	–
Africa	7.2	3.2	41.2	2.8	34.4
Egypt	1.4	0.4	8.9	0.2	8.1
Algeria	0.4	1.4	13.1	1.0	12.2
Cameroon	0.0	0.0	4.7	0.1	4.4
Madagascar	0.0	0.5	0.7	0.5	0.7
South Africa	2.2	0.1	2.9	0.0	0.4
Total	715.0	50.6	359.2	35.6	240.2

Source: OeKB.

took advantage of rescheduling guarantees. The decline in 1995 to 1996 was due mostly to the OeKB's gradual withdrawal from short-term insurance of exports to OECD countries. The "coverage rate" of exports (which was first published in 1973) is slightly higher than the guarantee rate, but shows a similar course.

The development of guarantee stocks (Figure 2) similarly reflects the economic trend outlined above, although its course is much smoother because of the – partly long –

As a rule, export credits guaranteed and financed by the OeKB have long payment terms. Of the stock of guarantees as of the end of 1997 (ATS 359.2 billion), 60.7 percent were for exports with payment periods of more than five years; 39 percent had payment periods of more than ten years. Two out of three export financing commitments (64.2 percent) made before the end of 1997 provided for a repayment period of more than five years; of these 52.1 percent had more than eight years (after 2004); the longest payment period ended in 2031.

payment terms. In 1982 and 1983, the stocks (including rescheduling) of export guarantees rose to almost 110 percent of the export value (the highest utilisation rate was 86.4 percent in 1983), only to decline over the next years and drop to 50 percent in 1997.

Export financing turn-overs (new commitments and claims paid) mirror the trend for export guarantees, except that they were always markedly lower. The OeKB's financing scheme was used for 50 to 60 percent of guaranteed exports. The export financing rate (export financing disbursements as a percentage of exports) reached its highest level in the early 1980s (26 percent in 1981). It then dwindled to 7 percent in 1988, and picked up again over the next year as a consequence of rescheduled loan financing (Figure 1). In 1997 it was just 5 percent[9].

EXPORT GUARANTEES AND EXPORT FINANCING USED MAINLY FOR LDCS AND EASTERN EUROPE

The export insurance and financing provided by the OeKB is used primarily for exports to less developed countries and Eastern European countries. One in five transactions concerns guarantees by aval, another 10 to 20 percent are comprehensive policies. Neither tool can be assigned to regions.

[9] With regard to the importance of "soft loans" for Austrian exports see *Bayer – Stankovsky – Url* (1992).

Almost one half (48.3 percent) of the *export guarantees* newly granted in 1997 (altogether ATS 50.6 billion) was dedicated to exports into LDCs (Tables 3 and 4). About a quarter (27.7 percent) of the new export guarantees in 1997 were for transactions with Eastern Europe. In 1996 this proportion had temporarily dropped to 12.2 percent. The greatest amount for a single country was given to Russia (ATS 6 billion, of which rescheduling for USSR debt made up ATS 5.5 billion).

Of the guarantee stocks at the end of 1997 (ATS 359 billion), 30 percent each were allocated to the LDCs and Eastern Europe, and 3 percent to Western Europe (including Turkey, Greece and Cyprus). Guarantees show a wide spread, exceeding ATS 10 billion in only five cases (Indonesia and China each at ATS 17 billion; Algeria at ATS 13 billion). In Eastern Europe, the list is topped by (mostly rescheduled) guarantees for deliveries to Poland (ATS 40.9 billion) and Russia (ATS 34.9 billion). Outstanding guarantee stocks for other countries in Eastern Europe are relatively low (ATS 6.8 billion in Hungary; ATS 5.9 billion in the Czech Republic).

In 1997, the OeKB paid altogether ATS 35.6 billion for *export financing* (including rescheduling); one third of which was taken up by exports to Eastern Europe. The largest amounts were required for Russia and Hungary. The OeKB allocated 22.5 percent to exports into developing countries, topped by Indonesia (6.9 percent) and China (3.5 percent). Western Europe's (including Turkey's) share was 4 percent.

By the end of 1997, businesses received ATS 240 billion in export credits financed by the OeKB. Of this, 36 percent were used for Eastern European exports, mostly to Poland (16.5 percent) and Russia (13.7 percent). Exports to the LDCs accounted for 32.8 percent of the funds.

By relating turn-overs for guarantees and financing to exports, we get information on their *regional intensity*. The guarantee rate for overall exports is 7.1 percent. For exports to Eastern Europe, we find a guarantee rate of 15 percent and a financing rate of 12 percent for 1997. The coverage rate for Eastern exports, however, appears to be higher because turnover and comprehensive policies (G5 and G6) can be used for exports to most of Eastern Europe, which permit several turn-overs per year. Nevertheless, the current coverage rate is lower than in the 1970s and 1980s. Exports to those countries of Eastern Europe that have since become OECD members are less likely to use OeKB tools than before the political turn-around; and some of the effect is also due to a change in the structure of imports by these countries.

New export guarantees for LDCs covered 40 percent, and export financing 13 percent of exports into the region in

Table 5: Guarantee and financing intensity for exports by regions, 1997

	Export guarantees		Export financing: disbursement	
	New commitments	Stock	New commitments	Stock
	As a percentage of exports			
Europe	2.7	18.5	2.1	15.0
Eastern Europe	15.0	109.6	12.3	93.5
North America	0.6	1.0	0.4	0.6
LDCs	40.1	195.7	13.1	129.1
Latin America	19.1	82.1	2.8	51.5
Asia	44.0	159.0	11.2	89.2
Africa	43.9	571.0	38.4	476.1
Total	7.1	50.2	5.0	33.6

Source: OeKB.

1997. The values vary considerably between regions: the rates for Latin America are 19.1 and 2.8 percent, respectively (Table 5).

EXPORT GUARANTEES USED MAINLY FOR EXPORTS OF MACHINERY

For 1994 and 1995, WIFO could draw on export guarantee data broken down by categories, countries, and goods. For the first time it was possible to calculate guarantee coverage rates in terms of countries and goods so as to obtain a detailed view of the relevance of the guarantee scheme[10].

Guaranteed exports accordingly accounted for ATS 86.3 billion in 1994 (ATS 81.4 billion of which were for goods), and for ATS 69.6 billion (and ATS 65.3 billion) in 1995[11]. The OeKB data were aggregated for twelve countries or groups of countries, seven groups of goods and three services. For the comprehensive policies (G6), a regional breakdown was available only with regard to OECD member and non-member countries. The G6 guarantee is used predominantly (90 percent) for exports to OECD member countries.

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[10] In order to calculate the coverage rates, both the time gaps between granting of guarantees and actual exports and multiple utilisation in the case of turnover and comprehensive policies had to be taken into account. The value of yearly exports insured by guarantees was computed as follows: new commitments for mostly short-term exports (G1 + G2) of the current year + 50 percent of new commitments for mostly long-term exports (G3) of the previous year + 50 percent of the new commitments for mostly long-term exports (G3) of the current year + 200 percent of the stock of turnover guarantees (G5) at the end of the current year + 200 percent of the stock of comprehensive policies (G6) at the end of the current year.

[11] These figures vary slightly from those given in Table 2 (ATS 83 billion and ATS 74 billion, respectively); these data, published in the OeKB's annual reports were computed on the basis of the same premises but with some differences in delimitations.

Table 6: Structure of OeKB export guarantees by regions, goods and services, 1994

	New commitments for single transactions, including revolving guarantees and comprehensive policies				New commitments for single transactions, including revolving guarantees				
	World		OECD	Non-OECD	World	OECD	Non-OECD		
							Total	Eastern Europe	LDCs
	Percentage shares	Estimated, Billion ATS	Percentage shares				Percentage shares		
Trade in products[1]	94.3	81.4	96.0	91.2	90.4	90.0	90.4	92.7	89.6
Primary products	18.8	16.2	20.2	16.3	14.6	11.7	15.5	12.0	16.8
Agricultural products	1.8	1.6	2.3	1.0	1.8	4.3	1.0	1.9	0.7
Raw materials and fuels	16.9	14.6	17.8	15.4	12.9	7.4	14.5	10.1	16.1
Chemical products	14.5	12.5	14.1	15.2	10.8	4.9	12.7	11.1	13.2
Manufactured goods	23.0	19.9	27.1	15.9	15.8	17.0	15.4	26.3	11.5
Machinery, transport equipment	29.8	25.8	22.9	41.9	45.8	48.2	45.1	39.2	47.3
Consumer products	8.1	7.0	11.7	1.8	3.1	7.8	1.7	4.0	0.9
Construction	3.8	3.3	1.4	8.1	8.8	7.8	9.1	7.3	9.7
Engineering	0.3	0.3	0.2	0.4	0.5	0.5	0.4	0.1	0.6
Forwarding services	0.9	0.8	1.3	0.3	0.1	0.2	0.0	0.0	0.0
Tourism	0.7	0.6	1.1	0.0	0.4	1.5	0.0	0.0	0.0
Total	100.0	86.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OeKB. – [1] Including office equipment.

The analysis outlined below refers to 1994, since 1995 was marked by a global recession in exports, and it was also the year in which the guarantee procedure was given an organisational overhaul; and, as the first year of Austria's membership in the European Union, its foreign trade statistics has been found to be highly unreliable.

In 1994, 94.3 percent of the total guarantees (ATS 86.3 billion) were used to insure exports of goods, and just 5.7 percent to cover services. Almost 30 percent of the guarantees referred to exports of Austrian machinery and transport equipment. Guarantees for services were obtained mainly for construction exports (3.8 percent). A regional breakdown shows that machinery and transport equipment dominated guaranteed exports to non-OECD states (41.9 percent), while manufactured goods (27.1 percent) topped the list of exports to OECD members (Table 6)[12].

Export guarantees were used in 1994 for 16 percent of the Austrian exports of goods: 13.3 percent of exports to OECD members and 25.9 percent of exports to other countries were thus insured. Exports of chemical products drew heavily on guarantees (26.7 percent), while the coverage rates for other manufactured goods were about 12 percent each, but showed a remarkable spread: of the machinery exported, almost 30 percent of exports to non-OECD members and just 8 percent of exports to OECD members were insured. The regional gap was much narrower for exports of manufactured goods (19 and 12 percent, respectively). Exporters of consumer goods, on the other hand, required guarantees much more frequently for OECD exports (12 percent) than for non-OECD exports (5 percent).

Excluding comprehensive policies, 22.9 percent of exports to non-OECD countries were insured in 1994. Of the exports to Eastern Europe, just 9.9 percent were guaranteed by the OeKB – a percentage that is even lower than that for exports to Western industrialised countries (OECD; including comprehensive policies: 13.3 percent). Coverage rates for various Eastern European regions are more or less similar, with the lowest for South-Eastern Europe (primarily Slovenia). For the CIS, the rate plummeted between 1994 and 1995. When looking at product categories, the guarantee intensity for exports to Eastern Europe approximated that for OECD exports[13] (Table 7). Almost half of exports to developing countries (44.5 percent) is based on a guarantee.

The Austrian balance of payments recorded ATS 9.4 billion in construction exports for 1994. The OeKB extended guarantees for construction exports amounting to ATS 3.3 billion, which corresponds to a coverage rate of 35 percent. Only 15 percent of construction exports to OECD members were insured, but 57.6 percent of those to non-OECD countries (Eastern Europe 15.4 percent, CIS 73.8 percent). Guarantees for exports to developing countries were more than double the value of earnings from construction exports recorded in the balance of payments – apparently a result of the fact that OeKB guarantees for construction exports also extended to deliveries of associated goods (construction materials, components, etc.; Table 8).

Earnings from exports of engineering and commercial consulting, and of patents and licences accounted for ATS

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[12] For more details see *Stankovsky – Url* (1998).

[13] For some items, the calculated values for export guarantees are greater than exports themselves (export guarantee coverage in excess of 100 percent). In most cases, this appears to be due to differences in delimitations of guarantees by time or by product categories.

Table 7: OeKB export guarantees by regions and product categories

Coverage ratios of guarantees

	Primary products	Agricultural products	Raw materials and fuels	Chemical products	Manufactured goods	Machinery and transport equipment	Consumer goods	Goods, total[1]
				Export guarantees as a percentage of goods exports				
1994								
New commitments for single transactions including revolving guarantees and comprehensive policies	34.1	8.4	51.1	26.7	13.4	12.9	10.5	16.0
OECD	31.9	11.1	42.3	23.2	12.3	8.1	11.8	13.3
Non-OECD	40.3	4.2	88.1	35.3	18.6	28.9	4.8	25.9
New commitments for single transactions including revolving guarantees	11.3	3.4	16.5	8.5	3.9	8.4	1.7	6.5
OECD	2.9	3.2	2.7	1.3	1.2	2.7	1.2	1.9
Turkey	27.1	12.3	29.2	12.5	6.4	80.4	8.6	35.5
Non-OECD	34.1	3.8	74.2	26.2	16.0	27.7	4.1	22.9
Eastern Europe	8.7	2.3	18.5	9.4	12.2	11.6	3.3	9.9
CEECs	15.1	4.8	25.1	13.1	12.9	11.2	2.7	11.1
South-Eastern Europe	3.8	1.0	8.5	3.1	5.8	13.9	0.7	6.8
Baltics	3.5	3.6	0.0	2.8	1.9	0.0	0.0	1.4
CIS	0.0	0.0	0.0	2.1	22.5	10.7	9.0	10.3
LDCs	144.2	13.9	232.6	57.2	21.4	47.5	6.6	44.5
OPEC	176.6	44.6	205.9	120.6	32.3	73.8	10.6	76.2
Dynamic countries[2]	7.3	3.4	12.9	9.7	8.2	14.7	5.0	11.3
Others	199.4	7.9	478.0	42.9	24.3	54.8	6.3	47.7
1995								
New commitments for single transactions including revolving guarantees	21.2	5.7	33.5	21.7	8.9	9.6	7.5	11.4
OECD	16.7	5.7	24.4	19.4	7.5	5.4	8.2	8.6
Non-OECD	35.6	5.9	69.9	27.3	14.9	23.6	4.1	21.0

Source: OeKB. – [1] Including office equipment. – [2] Singapore, Taiwan, Hong Kong, South Korea, Thailand, Malaysia.

9.7 billion in 1994, according to the balance of payments. There, export guarantees were utilised for just 3 percent of the overall volume.

CLAIMS INCURRED AND RESCHEDULING

If and when an Austrian exporter (or the bank financing the export) fails to receive the guaranteed payment from the foreign buyer at the agreed time, then the OeKB guarantee will enter into effect. The OeKB will pay the agreed amount (payment due, reduced by the deductible) to the creditor, by which it will also acquire the claim against the defaulting foreign debtor.

Altogether, the OeKB has been paying out ATS 59.5 billion (ATS 1.4 billion just in 1997) since the export guarantee scheme was first introduced in 1950. Two fifths (ATS 23.8 billion) of the export claims acquired by the OeKB have so far been recovered, not quite one fifth (ATS 11 billion) had to be written off. Two fifths (ATS 24.7 billion) were still outstanding at the end of 1997.

Almost 60 percent (ATS 35.2 billion) of the payments incurred by the OeKB derived from loans for exports to LDCs which were not serviced in good time, mostly in Asia (ATS 17.7 billion) and Africa; there were a few defaults on exports to Latin America. The damage was relatively extensive with regard to exports to OPEC countries (ATS 17.3 billion, of which Iraq defaulted on ATS 7.5 billion).

One quarter (ATS 14.5 billion) of the defaults resulted from exports to Eastern Europe (Poland ATS 5.4 billion, Russia ATS 3.9 billion, former Yugoslavia ATS 3.2 billion); not quite ATS 10 billion came from exports to industrialised countries (Western Europe ATS 5.2 billion, of which ATS 1 billion were for Germany) and financing tools that cannot be allocated to regions (comprehensive policies

Table 8: OeKB export guarantees by regions and selected services, 1994 and 1995

	Construction work		Engineering, patents and licences	
	1994	1995	1994	1995
	Export guarantees as a percentage of export revenues as of balance of payments			
New commitments for single transactions including revolving guarantees and comprehensive policies	34.9	46.2	2.7	2.3
OECD	14.8	33.1	1.8	1.0
Non-OECD	57.6	58.1	5.8	7.9
Export revenues as of balance of payments ATS billion	*9.44*	*7.73*	*9.69*	*10.06*
Export guarantees (estimated) ATS billion	*3.29*	*3.57*	*0.26*	*0.23*
New commitments for single transactions including revolving guarantees	34.1	46.2	1.7	2.1
OECD	13.3	33.1	0.6	0.8
Turkey	477.5	1,820.4	108.3	113.3
Non-OECD	57.6	58.2	5.8	7.9
Eastern Europe	15.4	17.2	0.3	0.0
CEECs	4.9	19.8	0.4	0.0
South-Eastern Europe	16.2	40.5	0.0	0.0
CIS	73.8	0.0	0.0	0.0
LDCs	225.5	168.4	13.4	25.3

Source: OeKB.

Table 9: Incurred claims and liabilities for export guarantees

Cumulated from the start of the scheme until 1997

	Claims paid	Recoveries	Outstanding claims	Written off[1]	Interest rate relief granted[2]	Claims paid	
			Billion ATS			Percentage shares	Rescheduling percentage shares
Eastern Europe	14.6	8.7	4.5	1.4	–	24.5	
LDCs	35.2	12.7	18.3	4.2	–	59.2	
Industrialised countries, others[3]	9.7	2.4	1.8	5.5	–	16.3	
Total	59.5	23.8	24.7	11.0	16.6	100.0	
Percentage shares	*100.0*	*40.0*	*41.5*	*18.5*	*–*		
Rescheduling	*28.5*	*14.6[4]*	*12.7[5]*	*1.3*	*16.6*	*100.0*	*47.9*
Eastern Europe	10.6	7.5	2.2	0.9	–	37.1	72.5
LDCs[6]	17.8	7.0	10.4	0.4	–	62.5	50.6
Industrialised countries	0.1	0.1	0.0	0.0	–	0.4	1.3

Source: OeKB. – [1] As final losses. – [2] Cumulated expenditure for debt remission by interest rate relief granted within the scope of rescheduling. – [3] Balances of comprehensive policies, exchange risk guarantees, guarantees by aval. – [4] Plus interest payments of ATS 24.3 billion. – [5] Of which ATS 8.6 billion for principal and ATS 4.1 billion for interest. – [6] Latin America, Asia, Africa.

ATS 0.5 billion, exchange risk guarantees ATS 1.8 billion, guarantees by aval ATS 1.6 billion; Table 9).

A special case within the export guarantee scheme is claim rescheduling, a device to extend the original payment period for a defaulting debtor country. Rescheduling is used by countries which are willing but unable to pay. It is agreed between international creditors and the debtor with a view to sharing the extension among all creditor countries. The debtor country promises to take all measures required to eliminate the cause of its payment difficulties.

In the recent past, there have been two methods of claim rescheduling: claims which are not covered by export guarantees extended by the creditor countries (mainly financial credits by banks) are handled by the "Club of London"; receivables from sales and services which are insured under export guarantee schemes operated by the creditor countries (and those from development aid) come under the aegis of the "Club of Paris". The multilateral arrangement between the creditor and debtor countries is then followed by bilateral agreements.

In Austria, claim rescheduling by the OeKB involves a new export guarantee[14] granted for a longer payment period. In parallel with this, the claim is refinanced by a rescheduling loan agreement, for which the debtor is, as a rule, charged market interest. Most rescheduling concerns overdue claims for which the OeKB has already made payments to the creditor (the exporter or its bank). After rescheduling, the amount of "incurred claims" (and the "stock of outstanding claims") is reduced accordingly, since the claims are no longer overdue. In 1978-1997, altogether ATS 66 billion (ATS 4.4 billion in 1997) were reclassified in this manner.

In the 1980s, many developing countries accumulated a level of foreign debt that exceeded their servicing capacity. As a consequence, some debt relief for the poorest countries was for the first time agreed in 1988, by which one third of their debt was forgiven (Toronto condition). The waiver was later raised to half and two thirds (Trinidad and Naples conditions)[15]. The Club of Paris granted extraordinary relief to Poland (1991) and Egypt (1992), by reducing their debt to half their cash value. Austria chose to apply a method by which the claim survives nominally while the interest payments to be made by the debtor are reduced against the market interest rate.

Up to the end of 1997, claims of altogether 45 countries, amounting to ATS 107.4 billion, were rescheduled. The guarantees for rescheduled claims made up almost one third (29.9 percent) of all export guarantes. Two thirds (ATS 71.1 billion or 66.2 percent) of all rescheduling involves countries in Eastern Europe, one third (33.8 percent) concerned developing countries, mainly those in Africa (Table 10). The ratio of rescheduled claims to total export guarantees was again about two thirds for Eastern Europe and almost one third for LDCs.

In 1997, Austria agreed to reschedule foreign debt to the tune of ATS 8.3 billion (as compared to ATS 4.9 billion in 1996), where the primary beneficiaries were Eastern Europe (ATS 6.5 billion) and Africa (ATS 1.6 billion). As of the end of 1997, the guaranteed rescheduled stock was just ATS 3.9 billion higher than in 1996 (ATS 107.4 billion versus ATS 103.5 billion). Of the rescheduled claims outstanding at the end of 1996, ATS 4.4 billion were thus paid back (Table 10).

[14] Usually a G3 guarantee (transaction-linked loans and rescheduling facilities) or G9 (purchase of receivables).

[15] The Brady plan, which also provides for forgiving part of the debt, concerns only bank loans that are not secured by government guarantees.

Table 10: Export guarantees and rescheduling in 1996 and 1997, by regions

	Eastern Europe	LDCs Total	Africa	Subtotal[1]	Comprehensive policies	Guarantees by aval	Total[1]
Number of countries, 1997	8	37	21	45	–	–	45
				Billion ATS			
Export guarantees							
Stocks end of 1997	102.1	119.4	41.2	234.2	50.2	74.8	359.2
Rescheduling	71.1	36.3	22.4	107.4	–	–	107.4
Stocks end of 1996	102.3	109.4	42.4	221.7	56.3	71.6	349.5
Rescheduling	65.9	37.7	22.0	103.5	–	–	103.5
New commitments 1997	14.0	24.5	3.2	41.4	1.2	8.0	50.6
Rescheduling	6.5	1.8	1.6	8.3	–	–	8.3
Change in guaranteed rescheduling stock	+ 5.2	– 1.4	+ 0.4	+ 3.8	–	–	+ 3.8
Change in reduction of rescheduling	– 1.3	– 3.2	– 1.2	– 4.4	–	–	– 4.4
				Percentage shares			
Export guarantees							
Stocks end of 1997	28.4	33.2	11.5	65.2	14.0	20.8	100.0
Rescheduling	66.2	33.8	20.9	100.0	–	–	100.0
As a percentage of stock	69.7	30.4	54.4	45.9	–	–	29.9
Stocks end of 1996	29.3	31.3	12.1	63.4	16.1	20.5	100.0
New commitments 1997	27.7	48.3	6.3	81.9	2.4	15.7	100.0
Rescheduling	78.6	21.4	19.7	100.0	–	–	100.0
As a percentage of new commitments	46.5	7.2	51.6	20.0	–	–	16.4

Source: OeKB. – [1] Including industrialised countries.

A breakdown by countries shows that most of the claims rescheduled in 1997 were accumulated by Poland (ATS 38.1 billion or 35.5 percent of all rescheduled claims) and Russia (ATS 29.5 billion)[16]. Claims from exports to Egypt, Algeria, Iraq, Cameroon and Iran also had to be rescheduled to a significant extent. Newly rescheduled claims in 1997 concerned mainly Russia, Georgia and Algeria (Table 11).

Not every rescheduling agreement is serviced in good time. At ATS 28.5 billion, claims paid to finance rescheduled claims account for almost half of all paid claims. Of this sum, ATS 17.8 billion were for LDCs and ATS 10.6 billion for Eastern Europe. Nevertheless by the end of 1997, half of the claims paid for rescheduled claims (ATS 14.6 billion) could be recovered, albeit with some delay.

COSTS AND BENEFITS OF EXPORT GUARANTEES

For a proper assessment of the benefits of export guarantees at macroeconomic level it is necessary to compare the costs of the scheme to the benefits reaped from additional exports that are generated by the guarantees. At company level, government export guarantees are important in that they reduce the payment risk for exporters. As a result, their transaction costs will decline, and additional productivity increases can thus be achieved in a small open economy from greater volumes and decreasing av-

erage costs (*Krugmann*, 1980). In an endogenous growth model, export guarantees can have dynamic effects when they generate additional expenditure for R&D by exporters (*Grossman – Helpman,* 1991).

For a quantitative assessment of the effects of guarantees we need to consider several factors. For one, commodity exports remain uninsured because of short payment periods. Secondly, the OeKB places limits on the maximum payment period, the amount insured, the choice of bank in the buyer's country and other credit criteria. Additional credit requirements may mean that export claims are insured only in part, so that the induced export volume is underestimated.

Another factor is the secondary inducement effect created by export guarantees. It occurs when an export would be made anyway, even if the exporter did not obtain an export guarantee, but the company nevertheless draws on a guarantee because of associated favourable conditions and/or concurrent refinancing transactions. This effect is becoming less important now that OeKB insurance premiums are more strongly based on the credit standing of buyer countries (*OeKB,* 1997B). In linking refinancing conditions to export guarantees, the guarantee-induced export volume again tends to be overestimated; yet at the same time, good risks with a low loss probability are included in the risk pool.

The guarantee-induced exports are estimated by using an export multiplier which combines all available information on the commodity and country structures of Austria's exports to non-OECD countries with data on new OeKB

[16] The entire sum concerns claims against the former USSR.

Table 11: Export guarantees and rescheduling, by countries, 1997

	Export guarantees: new commitments					Export guarantees: stock				
	Total		Rescheduling guarantees			Total		Rescheduling guarantees		
	Million ATS	Percentage shares	Million ATS	Percentage shares	As a percentage of new commitments	Million ATS	Percentage shares	Million ATS	Percentage shares	As a percentage of stock
Total	50,593	100.0	8,286	100.0	16.4	359,203	100.0	107,391	100.0	29.9
Eastern Europe	13,999	27.7	6,514	78.6	46.5	102,065	28.4	71,104	66.2	69.7
Georgia	1,047	2.1	1,047	12.6	100.0	1,047	0.3	1,047	1.0	100.0
Poland	1,695	3.4	–	–	–	40,931	11.4	38,098	35.5	93.1
Russia	6,037	11.9	5,467	66.0	90.6	34,870	9.7	29,499	27.5	84.6
LDCs	24,460	48.3	1,772	21.4	7.2	119,424	33.2	36,287	33.8	30.4
Latin America	1,816	3.6	84	1.0	4.6	7,821	2.2	4,076	3.8	52.1
Argentina	80	0.2	–	–	–	1,236	0.3	1,021	1.0	82.6
Peru	126	0.2	84	1.0	66.7	1,202	0.3	1,133	1.1	94.3
Asia	19,476	38.5	52	0.6	0.3	70,394	19.6	9,802	9.1	13.9
China	4,302	8.5	–	–	–	17,116	4.8	–	–	–
Iraq	–	–	–	–	–	4,742	1.3	4,742	4.4	100.0
Iran	2,819	5.6	–	–	–	8,594	2.4	1,991	1.9	23.2
Jordan	94	0.2	52	0.6	55.3	602	0.2	499	0.5	82.9
Philippines	224	0.4	–	–	–	1,502	0.4	1,107	1.0	73.7
Africa	3,168	6.3	1,636	19.7	51.6	41,209	11.5	22,409	20.9	54.4
Egypt	439	0.9	180	2.2	41.0	8,930	2.5	7,180	6.7	80.4
Algeria	1,384	2.7	882	10.6	63.7	13,088	3.6	5,583	5.2	42.7
Cameroon	4	0.0	–	–	–	4,674	1.3	3,583	3.3	76.7
Madagascar	469	0.9	469	5.7	100.0	681	0.2	681	0.6	100.0

Source: OeKB.

commitments in 1993-1995. In this way it is possible to distinguish 63 commodity categories and 136 buyer countries and one can obtain an almost complete picture of export effects. Estimates for the export multipliers are stable for all model specifications, ranging between 0.7 and 1.5. The statistically soundest model with the points at a multiplier of 1, i.e., ATS 1 billion in export guarantees generates ATS 1 billion in additional exports to non-OECD countries (*Stankovsky – Url,* 1998).

Among the respondents to a WIFO survey, active OeKB customers state that they insure about half their export volumes on average. After the OeKB's withdrawal from marketable risks, the companies replaced the state export guarantees entirely by private export insurance schemes. Their behaviour similarly points to the assumption that in drawing on export guarantees, secondary inducement effects are unimportant or non-existent.

OEKB EXPORT GUARANTEES MARKEDLY MORE EFFECTIVE THAN GERMAN HERMES GUARANTEES

A comparison with the findings for the German Hermes guarantees shows that inducement effects can be measured in the latter: some of the exports insured by guarantees would take place even without state guarantees. In Austria, both the estimate obtained from econometric models and the strategy pursued by the companies after the OeKB had changed its policy indicate that there are no such inducement effects in Austria, with one possible ex-

ception: the relatively great share of non-insured exports by companies whose key market is in Eastern Europe points at such an effect.

The best model in statistical terms for Austria provides for a multiplier of 1. Compared to the values for eight production sectors obtained by *Halfen* (1991), this is a very high value. Estimates for LDCs and state trading countries range from 0.41 for "chemical products, mineral oil, glass, plastic products" to 0.95 for "agricultural and fishery products, food, beverages, tobacco". *Halfen* (1991) estimates lower secondary inducement effects for exports to state trading countries and LDCs rather than industrialised countries. Part of the gap between Halfen's values and those of the WIFO study appear to be due to the methods chosen by either. The estimate for export multipliers in the Hermes study is based on a survey among companies, and it obtains the multiplier by posing trick questions. For several sectors, only four or five responses could be analysed, which greatly reduces the reliability of the findings.

In 1997, claims paid by the OeKB amounted to ATS 59.5 billion, after the sum was reduced by repostings. This sum, however, does not constitute "net costs" because the pay-out must be viewed against fees, interest income and claim recoveries. Up to 1997, cumulated recoveries on claims paid made up ATS 23.8 billion; net claims totalled ATS 35.7 billion, and total income amounted to ATS 40.7 billion. With this, the OeKB achieved a net surplus of ATS 5 billion for its insurance business since 1950. On average, the Federal government therefore does not have

any direct costs; the Austrian system of export guarantees is self-supporting.

Indirect costs accrue from the administration of claims. When making pay-outs, the OeKB receives an interest-bearing claim. In recent years, the average interest income was markedly below the secondary market yield because of the relief granted to debtors. Most of the reduction in

Actuarian calculations by the OeKB demonstrate that the export guarantee scheme does not generate direct costs for the Austrian Federal government. Actually, a slight surplus of ATS 5 billion was achieved between 1950 and 1997. Indirect fictitious costs accrue, however, from the below-average interest rate for the OeKB's stock of claims, which amounts to 0.19 percent of the guaranteed stock.

the interest income occurred after 1991, as a consequence of the Polish payment crisis. Since this claims stock could be sold on the capital market (securitisation), which would add money to the Federal budget or alternatively could be used to redeem government debt, fictitious interest income must be taken into account for the capital tied up in claims.

The secondary market yield for federal bonds is used as an index for comparisons; it also corresponds to the refinancing costs for the federal government. When assuming that 50 percent of the claims can be recovered and could thus be sold at par in theory, the fictitious interest cost for the OeKB's claims stock corresponds to 0.19 percent of the outstanding guarantees. The steep rise of the claims stock in the early 1990s meant an equally marked rise in the fictitious interest burden.

The total cost of export guarantees as a measure of foreign trade promotion is obtained by adding the net result to the interest cost for the tied-up capital. For the past ten years, a minor loss of, on average, ATS 166 million per year has been calculated, already taking into account fictitious capital costs. Accordingly, export promotion by export guarantees was almost balanced in monetary terms even in a period marked by considerable claims.

ASSUMPTIONS FOR THE COST/BENEFIT ANALYSIS OF EXPORT GUARANTEES

In assessing the costs and benefits of export guarantees the medium-term forecast made by WIFO for 1997-2001 (*Schebeck,* 1997) was used. The simulation of WIFO's

macroeconomic model is based on two scenarios: the basic scenario by way of the WIFO medium-term forecast is compared with an alternative scenario which assumes that the OeKB ceased to grant guarantees as of the start of 1997, i.e., as of 1997 the OeKB did not make any new commitments but only met existing obligations.

How goods exports would respond in the short run to the termination of the guarantee scheme is deduced by multiplying the new commitments for non-OECD countries with the estimated export multiplier. About 22.3 percent of Austrian goods exports would be affected by the new policy, while the remaining 77.7 percent of goods exports are shipped to OECD countries. Drawing on the experience made since the middle of 1996, no consequences are expected for the export performance of this group.

Based on the above assumptions, the termination of guarantees in 1997 would reduce nominal goods exports and accompanying services by 5.6 percent. The decline would continue almost unabated up to 2001. Since the assumptions do not provide for a response in terms of prices, there is no difference between the nominal and real decline in exports.

It is also assumed that one fifth of the claims stock is sold at the start of each year throughout the simulation period. The price obtained from this sale is just 50 percent of the book value, because of the high failure risk, so that the Federal government gets about ATS 2.3 billion to 2.6 billion per year from the sale. It is also assumed that the total costs of the export guarantees are, on average, 0.05 percent of outstanding guarantees, which also includes fictitious interest. As the claims are sold within a period of five years, the fictitious interest burden declines rapidly in the alternative scenario.

Such a radical and rapid change is neither feasible nor practical, but it nicely illustrates the overall effect achieved by export guarantees. An interpretation of events should always be based on the remark that fundamental reforms of this type are likely to induce a corresponding change in the behaviour of economic units.

HOW TERMINATION OF THE GUARANTEE SCHEME WOULD AFFECT EXPORTS

Export losses would not be equally distributed across all categories of goods, but would reflect the structure of export guarantees. An overview of the distribution can be obtained by aggregating the data by single-digit SITC categories (Table 12). Exporters of raw materials would be most affected by the change in relative terms. These, however, make up one of the few sectors where Austria has a comparative advantage over international competitors

Table 12: Effects on exports by goods categories if government ceases to grant guarantees, 1995

SITC		Goods exports	Expected loss of goods exports		Expected loss of services exports[1]		Total expected loss	
		Million ATS	Million ATS	Percentage shares of goods exports	Million ATS	Percentage shares of expected export loss	Million ATS	Percentage shares of goods exports
0	Food	19,187	260	1.4	16	6.0	275	1.4
1	Beverages, tobacco	3,961	221	5.6	14	6.5	235	5.9
2	Crude materials	24,060	4,079	17.0	233	5.7	4,311	17.9
3	Fuels	5,816	0	0.0	0	0.0	0	0.0
4	Animal and vegetable oils	488	3	0.5	0	4.0	3	0.5
5	Chemicals	53,345	4,085	7.7	560	13.7	4,645	8.7
6	Manufactured goods	168,720	4,908	2.9	295	6.0	5,203	3.1
7	Machinery and transport equipment	226,131	13,106	5.8	1,389	10.6	14,496	6.4
8	Consumer goods	73,983	529	0.7	24	4.6	553	0.7
	Directly insured services[2]				2,505		2,505	
0 to 8	Total	575,691	27,190	4.7	5,035	18.5	32,226	5.6

Source: WIFO, own calculations. – [1] Unclassified transactions associated with goods exports. – [2] Civil engineering, construction, patents, licences, forwarding services.

thanks to its geographical and geological conditions. On the other hand, effects would be especially negligible with regard to exports of fuels, animal and vegetable oils and consumer goods. As to export volume, the greatest shrinkage would occur in machinery and transport equipment, followed by manufactured goods and chemicals, all of them high value added products.

In line with assumptions, the regional export losses would affect only non-OECD countries. There goods exports would decline by one fifth or ATS 26.5 billion (Table 13). Accordingly, the simulation points to another effect in addition to that on the sectoral composition: if the OeKB's guarantees were discontinued, the regional diversification of Austrian goods exports would be further reduced. The greatest losses should be expected in developing countries, especially the OPEC members. In terms of volumes, exports to Central and Eastern European countries would suffer substantially. In this market, which has great potentials for Austria, the loss is calculated at 12.4 percent or ATS 6.3 billion. The dynamic Asian countries[17] are another key market where losses (ATS 2 billion or 15.1 percent) are likely to occur.

The OeKB's importance for exports is further underlined when we compare potential focal points for Austrian exports with the estimated losses. *Breuss - Egger - Stankovsky* (1997) have pinpointed some countries in South America, the North African region and South-East Asia excluding the "four tigers" as promising focal points for Austrian exports. It is especially in these regions that above-average or even total export losses must be expected if OeKB guarantees were terminated. This applies in particular to Indonesia, the Philippines, Thailand, Egypt, Algeria, Israel, Morocco and South Africa.

[17] South Korea, Hong Kong, Taiwan, Singapore, Thailand and Malaysia.

MACROECONOMIC EFFECTS OF EXPORT LOSSES

Reduced demand and thus reduced production by exporters would reflect on the overall economy. If demand for intermediary goods declines, the negative export shock is passed on to upstream production sectors, which in turn causes employment, wages, income and, eventually, the disposable income of private households to shrink. However, a macro-economic view also needs to consider feedbacks to import demand and second-round effects, as they alleviate the impact on the Austrian current account and on public households.

The alternative scenario foresees an almost unabated decline of nominal goods exports in the years to 2001, while export prices do not respond to the guarantee restrictions. The simulation provides for an income for the federal government from the sale of the OeKB's claims stock, which is indicated in the WIFO model by a rise in the government's

Table 13: Effects on goods exports by groups of countries if government ceased to grant guarantees, 1995

	Goods exports	Expected export losses	
	Million ATS		Percentage shares of goods exports
Total	575,691	27,190	4.7
OECD	449,177	739	0.2
Turkey	2,841	739	26.0
Non-OECD	126,513	26,452	20.9
Eastern Europe	82,461	8,014	9.7
CEECs	50,579	6,292	12.4
South-Eastern Europe	20,595	1,115	5.4
Baltics	604	14	2.2
CIS	10,683	593	5.6
LDCs	44,053	18,438	41.9
OPEC	9,253	6,489	70.1
6 dynamic countries[1]	13,171	1,985	15.1
Others	21,628	9,964	46.1

Source: WIFO, own calculations. – [1] Singapore, Taiwan, Hong Kong, South Korea, Thailand and Malaysia.

Table 14: Macroeconomic effects of expected export losses

		1997		1998		Simulation results 1999		2000		2001	
						Deviation from the base solution					
Main indicators											
GDP											
Real	in percent	–	1.1	–	1.6	–	1.8	–	1.8	–	1.8
Nominal	in percent	–	0.8	–	1.4	–	1.8	–	2.2	–	2.5
Employment (dependent)	persons	–11,920		–22,251		–30,490		–35,782		–38,759	
Unemployment rate	in percentage points	+	0.1	+	0.2	+	0.3	+	0.4	+	0.4
Real demand											
Private consumption	in percent	–	0.5	–	0.8	–	1.1	–	1.3	–	1.3
Public consumption	in percent	–	0.1	–	0.1	+	0.2	+	0.6	+	0.9
Gross fixed capital formation	in percent	–	2.1	–	3.1	–	3.3	–	3.1	–	2.9
Exports of goods and services	in percent	–	3.8	–	3.7	–	3.6	–	3.5	–	3.5
Imports of goods and services	in percent	–	3.2	–	3.2	–	3.2	–	3.1	–	3.1
Foreign trade											
Trade balance	billion ATS	–	4.3	–	6.0	–	9.2	–	13.2	–	17.0
Current account	billion ATS	–	3.7	–	4.5	–	6.4	–	8.8	–	11.2
	As a percentage of GDP[1]	–	0.2	–	0.2	–	0.3	–	0.4	–	0.4
National income											
Disposable personal income											
Nominal	in percent	–	0.8	–	1.3	–	1.7	–	2.0	–	2.3
Real	in percent	–	1.0	–	1.4	–	1.5	–	1.5	–	1.5
Household savings ratio	in percentage points	–	0.5	–	0.5	–	0.4	–	0.3	–	0.2
Public sector											
Current revenues	billion ATS	–	2.6	–	6.8	–	11.9	–	16.7	–	20.3
Direct taxes	billion ATS	–	2.4	–	4.1	–	5.9	–	7.6	–	8.9
Social security contributions	billion ATS	–	0.8	–	1.9	–	3.4	–	5.0	–	6.3
Indirect taxes	billion ATS	–	1.6	–	3.2	–	5.0	–	6.6	–	7.7
Current expenditure	billion ATS	+	0.7	+	1.0	+	0.5	–	0.4	–	1.2
Public consumption	billion ATS	+	0.1	–	0.0	–	0.3	–	0.6	–	0.9
Interest payments on government debt	billion ATS	+	0.0	+	0.2	+	0.7	+	1.6	+	2.6
Social transfers	billion ATS	+	0.6	+	0.9	+	0.1	–	1.4	–	2.9
Savings	billion ATS	–	3.3	–	7.9	–	12.4	–	16.2	–	19.1
Net lending	billion ATS	–	3.3	–	7.9	–	12.4	–	16.2	–	19.1
	as a percentage of GDP[1]	–	0.2	–	0.3	–	0.5	–	0.6	–	0.7
Government debt	billion ATS	+	3.2	+	11.0	+	23.4	+	39.5	+	58.4
	as a percentage of GDP[1]	+	0.7	+	1.4	+	2.1	+	2.9	+	3.6

Source: Own calculations. – [1] Deviation in percentage points.

receipts from profits. But the potential proceeds from the sale must be seen against the loss of tax receipts.

The difference between the basic scenario and the simulation is shown in Table 14 for the main macroeconomic aggregates. In 1997, the first year of the simulation, nominal GDP is lower by 0.8 percent. This gap will widen continuously to 2.5 percent or ATS 72 billion by 2001. Real GDP, on the other hand, responds more strongly in the first year (–1.1 percent in 1997), and will then stabilise at –1.8 percent over the next years. Based on 1983 prices, this provides for a loss of ATS 33 billion by 2001.

Employment responds quickly: labour market problems begin to appear already in the first year of the simulation. The decline continues over the next years and by 2001 slightly more than 39,000 employees will have lost their jobs. As the decline in the demand for employment occurs concurrently with a decline in the supply, the impact on the unemployment rate is relatively negligible: the rate rises by 0.1 percentage point in the first year of the simulation and by 0.4 percentage point in subsequent years.

The components that make up final demand are variously affected by the hypothetical loss of exports. Exports of goods and services are on average about 3.6 percent lower than the basic scenario between 1997 and 2001. As goods exports would suffer much greater losses, the difference can be explained by the less severe reaction of the services exports. The fact that Austria's economy is very open is indicated by the almost uniform decline of imports of goods and services. The trade balance and the current account balance nevertheless show a pronounced deterioration.

Gross fixed capital formation is lower in consequence to the export losses. Already in the first year of the simulation, it is ATS 9.3 billion less in real terms than in the basic scenario, and it reaches its lowest point in 1999 (ATS –15.5 billion). Interestingly, the investment volume declines at a much faster pace than employment. It appears from this observation that companies with a high amount of capital employed exploit returns to scale through their exports.

The income loss for private households (ATS –39.5 billion in 2001) produces a nominal decline in tax receipts of ATS 2.4 billion in the first year of the simulation, which increases to ATS 9 billion by 2001. Taking into account losses of indirect taxes and social security contributions from lagging economic activity, the loss of current revenues amounts to ATS 4.8 billion in 1997 and ATS 22.9 billion in 2001. Government receipts from profits are higher by ATS 2.3 billion from the sale of the OeKB claims stock than in the basic scenario. The negative multiplier effect from lower export earnings on tax receipts is nevertheless greater than the positive effect obtained from the sale. Abated economic activities over the next years will cut current state revenues by up to ATS 20.3 billion (in 2001).

At the expenditure side, there is little effect to be seen if export guarantees were discontinued. Just public interest payments respond to the greater net lending with a delay of one year. In the last year of the simulation, the public sector would need to finance ATS 2.6 billion more for interest payments.

Public saving would be affected mostly by the loss of tax receipts. The deficit ratio for the state would rise to 0.7 percent of GDP by 2001, which would exhaust about one quarter of the cap on new lending (3 percent) agreed in the Stability Pact.

CONCLUSIONS

State export guarantees are beneficial not only in that they help maintain international competitiveness. There is also a good theoretical case to be made in their favour. State export guarantees can reduce transaction costs of exports to high-risk foreign markets, which in turn boosts the trade volume. Nevertheless they are basically subsidies if and when a private insurance market is available for export claims. The growth of international financial and insurance markets improved their capacity to cover such risks, which ultimately led to the OECD Consensus excluding state guarantees for most export claims from deliveries to industrialised countries. For the remaining "non marketable" risks state export guarantees eliminate a market failure and provide for additional exports.

In a simulation of the WIFO Macro Model, the termination of state export guarantees shows consequences beyond the mere loss of demand. Austrian exports would concentrate more on the EU area. A regional breakdown of the simulation's results finds that deliveries to China would suffer the heaviest losses. Other prospective markets in South-East Asia may be expected to fail completely, and the same applies to Northern Africa. For both regions, a

WIFO study on focal points for Austrian exports found a good match between the Austrian export structure and the respective foreign import structure. Losses in exports to the neighbouring markets in Central and Eastern European countries are slightly relatively less pronounced, but nonetheless much more important in absolute terms.

Seen from today's perspective, the system of export guarantees generates macroeconomic net benefits for Austria, even when taking into account fictitious capital costs, which is underlined by the findings of the simulation. An analysis of a survey among firms using guarantees, however, found no dynamic growth effects such as they are envisaged by endogenous growth theory: export guarantees are not a suitable substitute for targeted technology policies. Other intangible benefits provided by export guarantees cannot be assessed: the greater regional spread of exports reduces Austria's dependence on the EU's business cycle, and a reduction of the costs for opening new, distant markets facilitates future exports. In the WIFO survey 83 percent of the respondents felt that past export success were "indispensible" or "important" for the acquisition of new orders in the same region. It is particularly companies that export mainly to Central and Eastern European countries and the Far East which depend on past exports. Export guarantees therefore help Austrian companies in accessing promising future markets.

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Export Guarantees in Austria – Summary

Austria transposed the "acquis communautaire" with re-spect to export guarantee schemes when joining the Eu-ropean Union in 1995. Public guarantees for outstand-ing claims from exports have since then been restricted to "non-marketable" risks. Therefore, the Oesterreichische Kontrollbank provides guarantees only for exports to non-OECD member countries (and for exports to the new OECD members, i.e., Mexico, South Korea, the Czech Republic, Hungary and Poland). Deliveries to "core-OECD" countries can only be guaranteed if the terms of guarantee are longer than two years or if the counterparty is a non-private institution.

The reorientation resulted in a decline in new allocations of guarantees from ATS 54.5 billion (1994) to 47.2 bil-lion (1997). The share of guaranteed exports in total ex-ports declined to 8.1 percent. Nevertheless, the export performance of Austrian firms was not negatively af-fected. A WIFO survey among active customers of the OeKB revealed that public guarantees have been almost completely replaced by private insurance.

The effects of public export guarantees can only be as-sessed by analysing "non-marketable" risks. Currently, these comprise mainly outstanding claims of developing and Central and Eastern European countries. In 1994 about 94 percent of outstanding guarantees (ATS 86.3 billion) referred to exports of goods and only 5.7 percent to exports of services. Roughly 30 percent of the guarantees were used to insure exports of Austrian machinery and cars, 23 percent for manufactured goods, 14.5 percent for chemical products, and 8.1 per-cent for consumer products.

For allocated public guarantees we can estimate an ex-port multiplier of 1, i.e., ATS 1 billion of export guaran-tees generate ATS 1 billion of additional exports. The ef-fectiveness of the Austrian export guarantee system is thus remarkably better than that of the German Hermes guarantees. The economic relevance of the guarantee system was assessed in a model simulation. Under the assumption of no private insurance system being estab-lished for "non-marketable" risks, exports of goods would decline by 5.6 percent and be more strongly con-centrated on the European Union market. Subsequently, 39,000 jobs would be lost and investment would go down by 2.9 percent, which would finally result in a de-cline of gross domestic product by 1.1 to 1.8 percent during the simulation period until 2001.