

■ MAJOR RISKS FOR THE WORLD ECONOMY, SLUMP IN DOMESTIC CONSTRUCTION DEMAND

ECONOMIC OUTLOOK FOR 2001 AND 2002

Under benign assumptions concerning the international business cycle, the Austrian economy should grow by 1.3 percent in volume this year, and by 1.9 percent in 2002, provided that the U.S. economy recovers and policy in the EU takes action to stem the forces of recession. Along with weaker foreign demand, domestic factors are also dampening growth. In particular the construction sector is in a crisis, affecting building of new structures and civil engineering alike. Unemployment is set to rise significantly, exceeding 6 percent of the dependent labour force, while inflation should decelerate. Due to the effect of automatic budgetary stabilisers, the general government balance in 2002 may be in deficit of around ATS 10 billion (€ 0.74 billion), equivalent to 0.3 percent of GDP. The public sector should thereby contribute towards sustaining economic activity.

The terrorist attacks of 11 September have hit the economy in the USA and the world at large at a moment when the cyclical situation was already extremely fragile. Even before these events, the U.S. economy was on the verge of recession. Japan and some areas in Latin America and South East Asia were already in deep crisis, and in Europe economic growth almost came to a halt in the second quarter. At present, it is still too early to assess even the direct economic consequences of the tragic events to a reasonable degree of certainty. They depend on further international developments, the economic policy response in the industrialised countries, and the impact on business and consumer expectations.

For the purpose of the present short-term projections, WIFO has chosen cautiously optimistic assumptions. Thus, from a short recession, the U.S. economy should quickly recover as from next spring, driven mainly by monetary and fiscal expansion. GDP may increase by 1 percent in volume for the whole year 2001, and by 2 percent in 2002. In the EU, interest rate and budgetary policies should help sustain business activity. While due to the operation of automatic fiscal stabilisers several EU countries may miss their budgetary targets, a slump in invest-

Main results

	1998	1999	2000	2001	2002
	Percentage changes from previous year				
GDP					
Volume	+ 3.3	+ 2.8	+ 3.3	+ 1.3	+ 1.9
Value	+ 4.0	+ 3.7	+ 4.5	+ 2.7	+ 3.5
Manufacturing ¹⁾ , volume	+ 4.4	+ 2.4	+ 8.3	+ 2.3	+ 3.0
Private consumption expenditure, volume	+ 2.9	+ 2.3	+ 2.7	+ 1.5	+ 1.9
Gross fixed investment, volume	+ 2.7	+ 3.2	+ 3.4	- 0.9	+ 0.5
Machinery and equipment ²⁾	+ 5.2	+ 4.6	+ 6.0	+ 1.8	+ 3.5
Construction	+ 0.9	+ 2.2	+ 1.3	- 3.0	- 2.0
Exports of goods ³⁾					
Volume	+ 8.1	+ 7.7	+13.0	+ 4.5	+ 5.2
Value	+ 8.4	+ 7.0	+15.6	+ 7.3	+ 7.8
Imports of goods ³⁾					
Volume	+ 7.1	+ 6.9	+ 8.7	+ 4.5	+ 4.5
Value	+ 6.6	+ 6.7	+14.7	+ 7.8	+ 7.6
Current balance	(billion ATS) -64.5	-87.1	-78.6	-76.0	-74.1
	(billion Euro)	- 6.33	- 5.71	- 5.53	- 5.38
As a percentage of GDP	(%) - 2.5	- 3.2	- 2.8	- 2.6	- 2.5
Long-term interest rate ⁴⁾	(%) 4.7	4.7	5.6	5.0	4.7
Consumer prices	+ 0.9	+ 0.6	+ 2.3	+ 2.6	+ 1.9
Unemployment rate					
Percent of total labour force ⁵⁾	(%) 4.5	4.0	3.7	3.8	3.8
Percent of dependent labour force ⁶⁾	(%) 7.2	6.7	5.8	6.0	6.1
Dependent employment ⁷⁾	+ 1.0	+ 1.2	+ 1.0	+ 0.4	+ 0.4
General government financial balance					
As a percentage of GDP	(%) - 2.4	- 2.2	- 1.1	- 0.7	- 0.3

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.

ment and consumer demand should thereby be avoided. Under these assumptions, the European economy is expected to expand by 1½ percent in real terms in 2001 and, benefiting rather quickly from a rebound in the USA, by 2 percent in 2002.

Under the impact of the international slowdown, economic activity in Austria has lost momentum since the middle of 2000. Sectors highly depending on developments abroad, i.e., goods exports, manufacturing, investment in machinery and equipment, wholesale trade, have fared hardly worse than projected by WIFO three months ago. Tourism earnings and the output of corresponding services (hotels, restaurants, etc.) are growing even more than expected, although foreign and domestic spending on travel will likely be weak in 2002, given the fragile international situation.

Domestic demand is proving significantly weaker than assumed before mid-year. To a large part this is accounted for by construction activity which fell by 5½ percent in volume in the second quarter. Residential building is receding due to lack of demand. The boom in the creation of new office space over the past years has led to excess capacity, suggesting a decline in output in the near future also in this sector. Road construction is suffering from investment spending restraint of the Länder and municipalities. The decline is extending also

to railroad construction, although a number of projects should be ready for implementation and the need for such infrastructure is uncontested. For the construction sector as a whole, output is set to fall by an inflation-adjusted 3 percent in 2001, and probably by a further 2 percent in 2002.

While real disposable income of households is being eroded by inflation and sizeable tax increases, private consumption may still advance by around 1½ percent this year. This projection hinges on the (optimistic) assumption of a marked decline in household saving as a ratio of disposable income, from 8 percent in 2000 to 6.6 percent in 2001. With income growth picking up slightly, consumption may rise by 1.9 percent in volume in 2002. Inflation should further decelerate, provided energy prices remain stable. Headline inflation could then moderate from 2.6 percent in 2001 to 1.9 percent.

The marked business cycle downturn is weakening labour market conditions. While the overall number of employees may rise by a steady 12,000 or 0.4 percent p.a., the gains are almost entirely going to part-time jobs. Cuts in the workforce will mainly affect construction, public administration as well as transport and telecommunication services. Unemployment is rising to a total close to 200,000 on annual average 2001, corresponding to a jobless rate of 3.8 percent of the labour force (Eurostat definition) or 6.0 percent of the dependent labour force. In view of GDP growth remaining below trend in 2002, a further increase in unemployment should be expected.

Government budgets are also adversely affected by the cyclical slackening. Revenues from wage and sales taxes are rising more slowly, while claims for unemployment benefits go up. The general government balance will therefore be somewhat weaker than expected by WIFO three months ago (-0.7 percent of GDP). In 2002, the cyclical component may keep the balance in small deficit of 0.3 percent of GDP.

The present projections have been elaborated under an unusually large degree of uncertainty, with risks being clearly biased to the downside. If the recession in the USA were to be deepened by a sharper-than-anticipated fall in business and consumer sentiment, and if fiscal policy in the EU should not play its stabilising role to full extent, GDP growth in Austria may fall substantially below the path outlined in this scenario. A further somewhat optimistic element is implied by the assumed marked fall in the saving ratio, giving private consumption a key role in sustaining overall demand and output.

Cut-off date: 26 September 2001.

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■ STEUERLICHE ANREIZE FÜR FORSCHUNG UND ENTWICKLUNG

INTERNATIONALER VERGLEICH UND REFORM- VORSCHLÄGE FÜR ÖSTERREICH

Um die Ausgaben für Forschung und Entwicklung in Österreich bis zum Jahr 2005 auf 2,5% des BIP zu steigern, bedarf es zusätzlicher Anstrengungen aller Beteiligten. Die Studie analysiert die Vor- und Nachteile steuerlicher Anreize für F&E, deren Rolle im Fördersystem und deren Effektivität, gibt einen Überblick über die internationale Praxis in den OECD-Ländern und präsentiert internationale Best-Practice-Beispiele aus den Niederlanden und Großbritannien.

Im Anschluss daran wird die empirische Evidenz hinsichtlich des Umfangs sowie der effektiven Wirkung des Forschungsfreibetrags erörtert, Schwachstellen des gegenwärtigen Instrumentariums werden aufgezeigt. Auf Basis theoretischer Überlegungen, internationaler Erfahrungen und der empirischen Evidenz werden Vorschläge zur Reform des Systems steuerlicher Anreize für F&E in Österreich erarbeitet.

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