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Recent Economic Developments in Austria:
July to November, 1962

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Recent Economic Developments in Austria: July to November, 1962

The Austrian balance of payments was in substantial surplus through the third quarter of 1962, and the Austrian schilling has remained strong on world foreign exchange markets. Between January and October of this year, reserves held by the Austrian National Bank increased by \$213 million. Of this, \$119 million was acquired during the third quarter owing to record tourist receipts and to a substantial inflow of foreign capital. Between January and November of this year, the Austrian National Bank has purchased \$136 million of gold in order to continue to maintain a fixed percentage of its reserves in gold. The gold portion of reserves in November was increased from 40 to 43 per cent.

In August, the monetary authorities, in an effort to prevent the rapid increase in foreign exchange from intensifying the inflationary pressures which have beset Austria since 1960, strengthened the credit controls imposed in February. However, since the summer, inflationary pressures have diminished, partly because of a decline in private domestic fixed capital formation, an apparent decline in inventory investment, and reduced purchases of consumer durables. However, unemployment is still low, and labor markets continue to be tight. Therefore, the government has not relaxed the monetary controls imposed this year. The wage-price freeze inaugurated in July was renewed in September. Import controls have been relaxed to relieve some of the excess demand.

On August 1, Austria announced that it has accepted the obligations of Article VIII of the IMF Articles of Agreement.

Background: The Austrian response to inflationary pressures

From 1960 through early summer of 1962, the Austrian economy has experienced full employment of the labor force and bouyant demand, both from

expanding exports and from rising domestic consumption and capital formation. In the first nine months, the Government sought to dampen private expenditure mainly by a series of monetary measures. On February 1, the following steps were taken:

1. Minimum reserve requirements were raised from 9 to $9\frac{1}{2}$ per cent on demand and from 7 to $7\frac{1}{2}$ per cent on time deposits.
2. The penalty rate for reserve deficiencies was raised from 2 to 3 per cent above the discount rate.
3. Some 560 million schillings of the Austrian National Bank's total claims on the Federal Government of 1,160 million schillings were converted into $3\frac{1}{2}$ per cent Treasury certificates which were taken up by the banks and immobilized for one year.
4. Only 50 per cent of new deposits (above the January 31 level) could be used for loans instead of 75 per cent as formerly.

On March 1, a new installment credit law went into effect.

Minimum down payments of 20 per cent were established for contracts valued between 3,000 schillings (\$115) and 50,000 schillings (\$1,923). Minimum down payments for contracts valued at less than 3,000 schillings were set at 10 per cent.

Bank liquidity was anticipated to increase during the tourist season, so the restrictive measures introduced in February were tightened, effective August 1:

1. Minimum reserve requirements of the credit institutions were raised by an additional $\frac{1}{2}$ per cent.
2. The credit ceilings were reduced so that only 40 per cent of new deposits can be used for new loans.
3. The credit institutions were asked to take over an additional 220 million schillings of one-year Treasury bills held by the Austrian National Bank.

The Government also attempted to repress inflation by strengthening the authority of the Price-Wage Commission. This Commission had been established in 1957 to examine demands for wage and price increases, but it had no authority to enforce its recommendations. However, on April 5, 1962, the Federal Minister of Interior was given authority to establish ceilings on key wages and prices for a period of six months, subject to the agreement of the Chambers of Commerce and the Federation of Trade Unions. An agreement was reached to freeze prices and wages between the end of July through the end of September and to rescind some price increases which had not been authorized by the Price-Wage Commission. Steel firms agreed to withdraw recent increases in steel prices.

Large balance of payments surplus in third quarter

The persistent Austrian balance of payments surplus continued through the third quarter, as measured by net monetary movements (see Table 1). The balance of payments had been in surplus even in the fourth quarter of 1961 and the first quarter of 1962, which are quarters when seasonal factors are generally not favorable. Exceptionally large expenditures in Austria by foreign tourists helped to create a surplus of \$125 million in the third quarter of 1962, as contrasted with a surplus of only \$92 million in the third quarter of 1961. The net receipts on travel account were roughly 25 per cent larger in 1962 than in 1961.

TABLE 1. Austria: Balance of Payments: July 1961 - September 1962

(In millions of U. S. dollars)

	1961		1962		
	July- Sept.	Oct.- Dec.	Jan.- Mar.	April- June	July- Sept.
Goods and services					
Exports, f.o.b.	312.9	314.7	297.2	321.4	317.0
Imports, c.i.f.	-367.1	-382.7	-374.6	-371.8	-382.0
Trade balance	-54.2	-68.0	-77.4	-50.4	-65.0
Travel (net)	108.1	26.6	50.3	66.8	133.8
Other	13.4	9.6	11.1	14.0	13.3
Total	67.3	-31.8	-16.0	30.4	82.1
Transfers to USSR (net)	-5.2	-2.5	-2.3	-2.3	-2.3
Capital Transactions					
Foreign loans to Austria (net)	23.4		27.6		23.6
Austrian loans to foreigners (net)	-1.3	83.7	-3.7		-3.4
Direct investment and other	-6.4		40.0		19.6
Total	15.7	83.7	7.4	56.5	39.8
Net errors and omissions	13.9	6.3	23.2	-0.2	5.4
Monetary Movements					
IMF position	--	--	--	--	-7.5
Miscellaneous capital	-8.7	16.3	-2.3	-2.4	0.5
Austrian National Bank:					
Foreign exchange (increase-)	-78.0	-67.0	-31.0	-63.0	-62.0
Monetary gold (increase-)	-5.0	-5.0	-41.0	-19.0	-56.0
Total	-91.7	-55.7	-12.3	-84.4	-125.0

Source: Oesterreichischen Nationalbank, Mitteilungen

Favorable developments on capital account also contributed to the Austrian surplus. Throughout the first three quarters of 1962, there was substantial direct investment by foreigners in Austria. Foreign lending to Austria in the third quarter was almost as large as the entire first half

figure. Also in the third quarter there was some foreign purchases of Austrian fixed-interest securities.

The favorable impact of tourism and of capital inflows offset a deteriorating balance of trade. Exports declined slightly in the third quarter, due to the slackening of the industrial boom in other European countries, However, imports continued to rise, owing to the continued high level of domestic demand. Recent trade figures, seasonally adjusted, are as follows (monthly averages, in millions of U. S. dollars):

	<u>1960</u>	<u>1961</u>	<u>Jan.- Mar.</u>	<u>1962 April- June</u>	<u>July- Sept.</u>
Exports, f.o.b.	90	100	102	107	105
Imports, c.i.f.	<u>118</u>	<u>124</u>	<u>124</u>	<u>127</u>	<u>132</u>
Trade balance	-28	-24	-22	-20	-27

Reserves declined in November by \$30 million. Part of this drop is accounted for by the purchase of IBRD bonds (\$10 million) and Export-Import Bank debentures (\$9 million). The remainder is due to seasonal decline on earnings from tourism.

As a consequence of the persistent balance of payments surplus, the Austrian National Bank's gold and foreign exchange reserves have grown rapidly. (See Table 2, below.) Between the end of December 1961 and the end of October 1962, reserves rose by \$212 million. Since the Austrian National Bank had been following the policy of maintaining approximately 40 per cent of its reserves in gold, the Austrian National Bank purchased \$136 million of gold in the first eleven months of 1962. Nearly all was purchased from the United States. Since foreign exchange holdings declined in November, the proportion of reserves held in gold rose in November to 43 per cent.

TABLE 2. Austrian National Bank: Gold and Foreign Exchange Assets

(In millions of U. S. dollars)

	<u>1960</u>	<u>1961</u>	<u>1962</u>				
			<u>Mar.</u>	<u>June</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>
Gold	293	303	344	363	419	429	439
Foreign Exchange	<u>404</u>	<u>524</u>	<u>493</u>	<u>556</u>	<u>618</u>	<u>610</u>	<u>570</u>
Total	<u>698</u>	<u>826</u>	<u>837</u>	<u>918</u>	<u>1,037</u>	<u>1,039</u>	<u>1,009</u>
Percentage of reserves held in gold	42	38	41	40	40	41	43

Source: I.M.F. International Financial Statistics

The increase in Austrian gold and foreign exchange reserves has permitted the Government to supply economic assistance to other countries, both through international organizations and unilaterally. The International Monetary Fund has commenced using Austrian schillings in exchange transactions. Turkey drew the equivalent of \$7.5 million of schillings in July. In November, Austria permitted the IBRD to float a \$10 million bond issue in Vienna. The Austrian National Bank took up \$5 million, and a group of commercial banks underwrote the remainder. These were offered to the public from November 12-14. Also in November, Austria purchased \$9 million of Export-Import Bank debentures. On November 20, the Austrian Cabinet approved a loan agreement between India and Austria, under which India will receive a loan of 130 million schillings (\$5 million) from ERP counterpart funds. This loan is tied to the purchase of Austrian products. It is made within the framework of the Indian consortium arrangements.

Easing of Inflationary pressures

The inflationary impact of the large accumulation of foreign exchange by the Austrian National Bank during the tourist season of July and August was controlled by the additional restrictive measures imposed upon the banking system as of August 1. The success of the credit controls can be seen in that the money supply did not expand as much as did the net foreign assets of the banking system. (See Table 3). The net lending to the private sector (shown as the claims on the private sector), which potentially could have risen by a multiple of the increase in foreign assets of the banking system, was virtually unchanged between June and October. The small expansionary impact on the money supply arising from the IMF utilization of Austrian schillings and from the expansion of other monetary assets was more than offset by increases in nonmonetary liabilities.

TABLE 3. Austria: Monetary Survey=1962

(In billions of schillings)

	1961	1962					
	Dec.	Mar.	June	July	Aug.	Sept.	Oct.
<u>Monetary Assets</u>							
Foreign assets (net) ^{a/}	20.6	21.4	23.5	25.2	26.4	26.6	n.a.
Claims on Government	17.2	16.6	16.8	17.1	17.1	17.1	17.7
Claims on Private Sector	58.8	60.5	62.1	62.9	62.5	62.8	62.9
Other	9.0	8.3	9.0	8.7	9.2	9.4	n.a.
Total	105.6	106.8	111.4	113.9	115.2	115.9	n.a.
<u>Less: Nonmonetary Liabilities and Capital Accounts</u>							
Quasi-Money	44.2	48.1	48.8	49.3	49.6	49.9	50.5
Government account	6.3	6.2	6.5	6.7	6.7	6.8	7.3
Capital accounts	7.2	7.6	7.9	8.8	8.8	8.8	n.a.
Other	10.8	8.8	9.6	9.4	9.7	10.0	n.a.
Total	68.5	70.7	72.8	74.2	74.8	75.5	n.a.
<u>Money</u>	37.1	36.1	38.6	39.7	40.4	40.4	39.9

Source: IMF, International Financial Statistics

^{a/} Net assets of the Austrian National Bank and of the commercial banks.

The job of monetary control was made easier because the rate of growth of industrial production slowed down, owing mainly to a reduction in inventories. This is indicated by the seasonally adjusted production index (1953 = 100):

<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>			
			<u>Jan.</u>	<u>April</u>	<u>July</u>	<u>Aug.</u>
163	180	187	192	<u>a/189</u>	192	190

a/ The decline in the second quarter was due to strikes in May.

Production of building materials has been low, because the 1962 building season had a late start and because contractors attempted to reduce their large inventories. In August, however, production of building materials began to recover. Output of consumer durables has declined. In late summer, production of furniture, electrical appliances, and vehicles has been substantially below the comparable periods of 1961. The decline in vehicle production is in part a consequence of the rising Austrian standard of living: Austrians have been purchasing foreign medium-priced automobiles in preference to domestic motorcycles and small cars. The decline in output of other consumer durables is attributed to wholesalers reducing inventories before placing new orders.

Prices and wages have been stable since June. (See Table 4, below). The cost of living index rose in the spring due to seasonal increases in food prices. However, the index declined gradually from July through October, as food prices declined. Wholesale prices have behaved in a

similar fashion. The index at the end of October was back at the end-March level. Wages rose in the second quarter,^{1/} but they have been steady since July, owing mainly to the success of the wage-price freeze.

TABLE 4. Austria: Selected Price and Wage Indices

(1958 = 100)

	<u>1961</u>		<u>1962</u>					
	<u>Sept.</u>	<u>Dec.</u>	<u>Mar.</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>
Cost of living	107	108	109	116	114	112	112	111
Wholesale prices	105	106	108	116	114	112	110	108
Net hourly wage rate of indus- trial workers	122	123	123	126	127	127	127	127

Source: Oesterreichischen Nationalbank, Mitteilungen

Pressure on the labor market has eased in 1962, relative to comparable periods in 1961, but the market conditions are still considered tight. A slightly larger percentage of the male labor force was unemployed in the second and third quarters of 1962 than in comparable periods of 1961, as can be seen from the following figures (unemployed male workers, expressed as a percentage of the male labor force):

<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>April-June</u>		<u>July-Sept.</u>	
			<u>1961</u>	<u>1962</u>	<u>1961</u>	<u>1962</u>
3.9	2.9	2.3	1.1	1.7	1.3	1.8

Measures to preserve price stability

Even though the pressure of excess demand has eased, the Government is continuing its efforts to restrain any remaining inflationary pressure.

^{1/} The one-point rise in the wage rate index from June to July is the consequence of raises granted under the threat of a strike to certain groups of civil servants (mainly the police and the postal workers). However, no action was taken on the wage demands of some major industrial workers (chemical and building materials and industrial white collar workers).

The strict monetary measures introduced in February and intensified in August have not been relaxed. The wage-price freeze was extended for an indefinite period instead of being allowed to end on September 30 as scheduled. However, applications for price and wage increases filed before September 17 are to be processed by the Wage-Price Commission, whereas applications filed after that date would not be acted upon for some time. The Commission will examine the effects on the economy of the wage-price freeze in January 1963.

Restrictions on imports have been eased, so as to relieve the pressure on Austrian prices of excess demand. As of September 1, duties on 49 items were reduced by 8 per cent on the average. A temporary elimination of tariffs (from November 1 through January 31, 1963) was announced for certain foodstuffs imported for the holiday season. Permanent reduction in duties on a wide range of consumer goods ranging from 10 to 40 per cent were made effective on November 1.

Austrian Dollar Indebtedness

Austrian gross official dollar indebtedness increased by some \$15.5 million in the first nine months of 1962, from \$165.9 million to \$181.4 million. Over half consisted of loans received from the International Bank for Reconstruction and Development. The remainder is divided roughly in the proportion of 2:1 between U. S. dollar securities outstanding and Export-Import Bank Loans. (See Table 5 below).

TABLE 5. Austrian Dollar Indebtedness

(In millions of U. S. dollars)

	<u>Outstanding</u>		Change Jan.- <u>Sept.</u>
	<u>Dec.</u> <u>1961</u>	<u>Sept.</u> <u>1962</u>	
IBRD loans outstanding ^{1/}	97,920	102,519	+ 4,599
Export-Import Bank loans outstanding ^{2/}	28,567	27,498	- 1,069
U. S. dollar securities ^{3/}	<u>39,372</u>	<u>51,372</u>	<u>+12,000</u>
Total	165,859	181,389	+15,530

^{1/} Statement of Loans (quarterly); ^{2/} Export-Import Bank, Statement of Loans (Monthly); ^{3/} U. S. Department of Commerce.