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Recent Economic Developments in Austria 10 pages

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Recent Economic Developments in Austria

Summary

In 1962 the growth of the Austrian economy was noticeably restricted by labor shortages and increasingly cautious business investment policies. Demand for basic and capital goods has slackened while that for non-durable consumer goods has increased.

Until recently, hoarding of labor by industry had been increasing pressures on an already tight labor market but the demand for labor has recently eased, in part as the result of very high seasonal unemployment in the fourth quarter of 1962 and the first months of 1963 caused by the severe winter. In addition, there have also been signs of a more basic, if slight, easing in the labor market, apparently in response to a slowing down in the rate of economic advance.

Austria's principal economic problem remains the control of inflationary pressures resulting from a persistent balance of payments surplus. To this end, the Austrian authorities have put into effect a variety of new measures to supplement the credit actions taken early in 1962. In December 1962 the export of capital for direct investment and allowance for Austrian tourists traveling abroad were greatly liberalized. Tariffs and import quotas on goods coming from GATT and OECD countries were further relaxed. The effectiveness of the anti-inflationary measures is reflected in the fact that whereas in 1961 bank loans extended to the private sector grew by almost three times the size of the increase in the banks' foreign assets, the growth of loans was smaller than the increase in foreign assets in 1962.

Wages remained stable throughout the fourth quarter but, with the expiration in January 1963 of the July 1962 Wage Stand-Still Agreement, demands for wage and price increases were vigorously renewed.

Slower economic growth in 1962

The deceleration in the growth rate of the Austrian economy, which was apparent in the second half of 1961, continued in 1962. In 1962 the Austrian gross national product rose only 2.5 per cent (preliminary) or only about half of both the 4 per cent designated as the desirable long-term rate of economic growth and the 4.7 per cent achieved in 1961. This retardation which, it is assumed, will continue on into the first part of 1963, is the reflection of shifts of demand within the Austrian economy. Demand for consumer goods has been high but capacity shortages and a tight labor market hindered faster expansion of output to meet new demands. The tapering-off of the European boom and reduced profit margins resulting from increased costs and profit taxes in various sectors of Austrian industry have led to more cautious investment policies. The consequent slackening of foreign and domestic demand for basic and capital goods has resulted in the accumulation of unused capacities and shrinking profits in these industrial sectors.

Table 1. Austria: Gross National Product. Per Cent, Changes over Preceding Year Expressed in 1961 Prices.

	1960	1961	1962 ^{c/}	1962 ^{a/}			
				I	II	III	IV ^{c/}
Gross National Product	8.2	4.7	2.5	2.4	2.2	2.3	2.4
Private consumption	7.1	6.5	5.5	--	--	--	--
Public consumption	0.75	2.3	2.0	--	--	--	--
Gross investment ^{b/}							
Public	10.2	3.7	1.2	--	--	--	--
Private	13.9	6.3	-2.9	--	--	--	--

Source: Osterreichisches Institut fuer Wirtschaftsforschung.

^{a/} Preliminary.

^{b/} Excluding stocks.

^{c/} Estimated on the basis of incomplete data.

Even though it expanded less in 1962 than in either 1960 or 1961, private consumption was the greatest expansionary force in the economy during the past year. (See Table 1.) Public investment expenditures grew at only one-third of last year's rate and private investment actually fell 2.9 per cent. The results of these trends can be seen in industrial production figures. Total industrial production in the fourth quarter of 1962 was only 2.8 per cent higher than one year ago. (See Table 2.) The rate of increase of basic materials and capital goods increased more slowly during the fourth quarter but consumer goods production rose 4 per cent over the previous year. Further expansion was held back by capacity and manpower limitations.

Table 2. Austria: Index of Industrial Production
(1956 = 100)

	1961		1962		Percentage changes from 1961 to 1962	
	III	IV	III	IV ^{a/}	III	IV ^{a/}
Total	123	140	130	144	+5.6	+2.8
Basic materials	120	124	127	128	+5.8	+3.1
Capital goods	131	139	133	140	+1.5	+1.4
Consumer goods	121	148	126	154	+ .4	+ .4

Source: " Osterreichisches Institut fuer Wirtschaftsforschung.

a/ Preliminary.

Tightness in the labor market has been a major limitation on further expansion. There has been virtually no increase in the labor force since mid-1961. (See Table 3.) Allowing for seasonal factors, the number of vacancies has remained relatively constant. Hoarding of labor is common. Even with declining output, enterprises have sought to avoid lay-offs wherever possible for fear of not being able later to replace the dismissed workers.

The severe winter caused higher seasonal unemployment than usual. At the end of December, the rate of unemployment was 4.5 per cent of the total labor force

as compared with 4.2 per cent a year earlier. Unemployment temporarily hit 6.2 per cent in January, the highest level since the end of the war, reflecting the severe weather. Weaknesses in the basic and capital goods industry have so far contributed very little to the increase in unemployment.

Table 3. Austria: Labor Market
(end of period figures)

	1961		1962				1963
	III	IV	I	II	III	IV	Jan.
Labor force (in millions)	2.4	2.4	2.3	2.4	2.4	2.4	2.4
Unemployed as % of labor force	1.7	4.2	3.9	2.1	1.6	4.5	6.2
Vacancies (in thousands)	49	34	48	51	49	32	31

Source: Monatsberichte des Österreichischen Institutes fuer Wirtschaftsforschung.

In November, the Austrian Chamber of Commerce and the Trade Union Federation agreed on quotas for the facilitated admission of foreign workers into Austria. The basic quota provides for the entry of 36,000 people in 1963 as in 1962, but an additional 11,000 workers could gain admission under contingent quotas. In addition, the Ministry of Social Administration has developed a so-called "active labor market policy" which aims to increase vocational flexibility, create jobs in Austria's economically troubled areas, and to meliorate seasonal unemployment.

The wage stand-still agreement negotiated between employers and employees in July 1962 and which expired in January 1963 has proved effective: wages have remained fixed at the July level since that time. (See Table 4.) With the one major exception of the pay-raises won by workers in retail trade under threat of strike during the Christmas sales season, wage increases were limited to those approved by the Wage-Price Commission as being outside the Stabilization Agreement. Currently there are two important applications before the Commission: (a) the dairy industry is

demanding an 11.5 per cent increase in the producer price of milk (which could imply a 50 per cent increase in the retail price); and (b) Federal employees are seeking a 9 per cent increase to offset the rise in the cost of living, retroactive to January 1, 1963.

Table 4. Austria: Selected Price and Wage Indices
(1953 = 100)

	1961		1962				1963
	<u>July</u>	<u>Dec.</u>	<u>Mar.</u>	<u>July</u>	<u>Oct.</u>	<u>Dec.</u>	<u>Jan.</u>
Cost of living	120	120	122	127	123	123	125
Wholesale prices	117	118	120	126	120	119	118
Net hourly wage rate of blue- collar workers	148	148	149	154	154	154	154

Source: Oesterreichische Nationalbank, Mitteilungen.

Wholesale prices have declined steadily since the third quarter of 1962, reflecting primarily the return of food prices to more normal levels after the severe winter of 1961-62. The cost-of-living index dropped 3 per cent from July to October and held steady at the October level until the end of the year. The rise in the index since the turn of the year is once again the result of the severe winter 1962-63.

Balance of payments weakens, but gold purchases continue.

The Austrian schilling has remained at, or close to, the upper support level during the first quarter of 1963, despite a seasonal decline in reserves at the beginning of the year. (See Table 5.) Trade figures for January 1963 reveal a larger trade deficit than in December with imports higher and exports lower.

The ratio of gold to total official foreign exchange reserves has been increased from around 40 per cent in the years 1960-61 to 43 per cent at the end of 1962 and to 46 per cent as of March 23.

Table 5. Austrian National Bank: Gold & Foreign Exchange Assets
(in millions of U. S. dollars)

<u>RESERVE MOVEMENTS:</u>	1961	1962		1963		
	<u>Dec.</u>	<u>June</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar. 23</u>
Gold	303	363	454	454	469	479
Foreign Exchange	<u>524</u>	<u>556</u>	<u>601</u>	<u>584</u>	<u>579</u>	<u>561</u>
Total ^{a/}	826	918	1055	1037	1048	1040
Percentage of reserves held in gold	38	39	43	44	45	46
<u>EXCHANGE RATE:</u>						
par value: 3.846¢	3.867	3.870	3.869	3.869	3.868	3.868

Source: IMF, International Financial Statistics; Federal Reserve Bulletin

^{a/} Details may not add due to rounding.

The latest balance of payments data, which cover the fourth quarter of 1962, show a \$14 million surplus in spite of an \$87 million trade deficit--a deficit roughly 1/3 larger than in the fourth quarter of 1961. (See Table 7.) A 10.6 per cent upsurge in imports in that quarter over the year-ago level reflected heavier consumption and the liberalization of import controls. To relieve demand pressures within Austria, the authorities effected a number of import liberalization measures in 1962. Tariffs were lowered on 40 items in the iron and steel group in November; quotas on goods imported from GATT member countries were raised 20 per cent on July 1st, 30 per cent on October 1st and a further 10 per cent on January 1, 1963. On a seasonally adjusted basis, however, the trade balance did not deteriorate between the third and fourth quarters. (See Table 6.)

Table 6. Austria: Foreign Trade
(seasonally adjusted, in millions of U. S. dollars)
monthly averages

	1961	1962	1962			
			<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Exports, f.o.b.	100	105	102	107	105	109
Imports, c.i.f.	<u>124</u>	<u>130</u>	<u>124</u>	<u>127</u>	<u>132</u>	<u>137</u>
<u>Trade balance</u>	- 24	- 25	- 22	-20	-27	-26

Source: OECD

Table 7. Austria: Balance of Payments, Calendar Year
(in millions of U.S. dollars)

	<u>1960</u>	<u>1961</u>	<u>1962^{a/}</u>	<u>Fourth quarter</u>	
				<u>1961</u>	<u>1962^{a/}</u>
Goods and Services					
Merchandise imports	-1425.9	-1489.8	-1552.1	-382.7	-423.6
Merchandise exports	<u>1161.4</u>	<u>1230.5</u>	<u>1272.6</u>	<u>314.7</u>	<u>337.0</u>
Trade balance	-264.5	-259.3	-279.5	-68.0	-86.6
Travel (net)	170.7	216.8	280.4	26.6	29.4
Other services (net)	<u>10.0</u>	<u>11.1</u>	<u>18.8</u>	<u>.5</u>	<u>- 3.8</u>
Total--Goods & Services	-83.8	-31.4	+ 19.7	-40.9	-61.0
Transfer Payments (net)	- .9	- 1.3	63.5	9.4	39.2
Capital Transactions					
Receipts	139.7	240.9	246.6	116.0	83.7
Payments	<u>-116.6</u>	<u>-114.0</u>	<u>-135.0</u>	<u>- 35.0</u>	<u>- 60.5</u>
Total	23.1	126.9	111.6	81.0	23.2
Errors and Omissions	38.9	38.3	40.3	6.2	12.1
Monetary Movements (increase--)					
Drawing rights on IMF	--	--	- 7.5	--	--
Miscellaneous capital ^{b/}	+ 41.6	- 3.8	- .6	+ 16.2	+ 3.7
Austrian National Bank:					
Foreign exchange	- 18.0	-119.1	-77.6	- 66.9	+ 17.1
Gold	<u>- .9</u>	<u>- 9.6</u>	<u>-149.4</u>	<u>- 5.0</u>	<u>- 34.3</u>
Total	+ 22.7	- 132.5	- 235.1	- 55.7	- 13.5

a/ Preliminary.

b/ Includes sums in the process of clearing plus foreign exchange assets of Austrian credit institutions minus freely useable schilling assets of foreigners.

Source: Österreichische Nationalbank Mitteilungen, February 1963.

Table 8. Austria: Balance on Capital Account
(in millions of U.S. dollars)

	<u>1961</u>	<u>1962</u>	<u>Change</u> <u>1961 to 1962</u>
Loans			
Loans to Austria	+119.8	+84.9	-35.0
Austrian loans to foreigners (increase-)	- 3.8	-10.6	- 6.8
Direct Investment			
Foreign investment in Austria	+ 13.3	+18.4	+ 5.1
Austrian investment abroad (increase-)	- .7	<u>a/</u>	+ 0.7
Security Transactions			
Foreign purchases <u>1/</u>	+ 3.9	+23.2	+19.3
Austrian purchases <u>2/</u> (increase-)	- 1.1	- 8.1	- 7.0
Other Private Capital	- 4.5	+ 3.8	+ 8.3
Total Capital Transactions <u>3/</u>	+126.9	+111.6	-15.3

1/ Foreign purchases of Austrian securities.

2/ Austrian purchases of foreign securities.

3/ Figures may not add because of rounding.

a/ Less than one million dollars.

Source: Österreichische Nationalbank, Mitteilungen, February 1963.

Net transfer payment receipts totaling \$39 million contributed to the surplus, reflecting indemnification payments by Germany to the Austrian Government. This was the first installment of funds to be made available to the Austrian Government under the terms of the Kreuznach Treaty for the compensation of victims of Nazi persecution.

For 1962, as a whole, the goods and service account was in surplus, with a 9 per cent increase in the trade deficit over 1961 more than offset by increased tourism receipts. The inflow of foreign capital into Austria expanded in 1962, stimulated by the high interest rate of 6 to 7 per cent on bonds; the Austrian bond market offers the highest return available in Europe.

The Austrian National Bank has made available, for the first time, some broad estimates of several categories of private investment in Austria. (See Table 8.) Net purchases of Austrian securities by foreigners rose to over \$23 million in 1962 from only about \$4 million in 1961. Liberalization of controls on indirect Austrian investment abroad late in July 1962 resulted in purchases of foreign securities by Austrians of \$8 million as contrasted with slightly less than \$1 million in 1961.

Continued concern over inflationary pressures

Control of liquidity expansion growing out of foreign exchange earnings remains one of the governments' principal concerns. During the period under review, the authorities took additional restrictive steps to supplement the credit restraints introduced earlier in 1962: ^{1/}

(a.) November 1, 1962: Tariffs were lowered 10 per cent on 40 items in the iron and steel group and additional tariff cuts of 20 to 30 per cent were made on selected consumer goods and agricultural machinery.

^{1/} For a full description of these measures, see Recent Economic Developments in Austria, January 10, 1963.

(b.) December 19, 1962: Export of capital for direct investment abroad was unconditionally liberalized. Profits may now be re-invested abroad or used to extend loans to foreigners. Commercial loans of no more than 5 years may be extended to foreign residents to finance transactions in which the Austrian creditor takes part, provided the capital is meant for purchases abroad.

(c.) December 19, 1962: Austrian residents may take abroad AS 15,000 (\$577) per person per trip instead of per year.

(d.) January 1, 1963: Liberalized imports from GATT member countries were raised from 75 per cent to 93 per cent of total imports (based on trade in 1959).

(e.) January 1963: The "immobilization" of the AS 560 million (\$21 million) issue of Treasury Certificates taken up in February 1962 by commercial banks for one year was extended until July 1963.

The 1962 budget was neutral in its effect on the Austrian economy although the National Bank had urged a restrictive budget.

The 1963 budget is still not settled. Because of the prolonged failure of the Austrian Peoples Party and the Socialists to agree on a coalition government, Austria has been operating on a provisional budget since the beginning of the current fiscal year. The coalition government was finally established at the end of March but the Finance Minister, Dr. Klaus, refused to serve in the new Government because of the opposition directed against his austerity proposals for the 1963 budget by his own party (Peoples Party) as well as by the Socialists. These austerity measures would have involved various cuts in expenditures in order to avoid a budget deficit as AS 6 billion (\$231 million).