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RFD 428

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

June 28, 1963

Recent Economic Developments in Austria
January to April 1963 14 pages

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Recent Economic Developments in Austria, January to April 1963

The gradual slowdown in the growth of the Austrian economy which was apparent last year^{1/} continued into the first quarter of 1963 as the dampening effects of an extremely hard winter reinforced the existing tendency towards slower growth. The real rate of increase of the gross national product declined from 2.4 per cent in the first quarter of 1962 to an estimated 1 per cent this year. To counter the slowdown in activity, the central bank reduced discount rate from 5 to 4-1/2 per cent on June 27.

Industrial production was stable at a high level as output failed to rise above the level of the previous two quarters. Production of capital goods and consumer durables dropped by almost 7 per cent from first quarter 1962 levels and the expansion in the production of consumer goods slowed down with the reduced growth in private consumption expenditures.

However, returning spring weather led to a lively expansion of activity in all sectors of the economy. Building construction moved into full swing and unemployment dropped back to the level at which it had stood before the onset of winter. Foreign trade and retail sales improved seasonally. Increased activity and continued improvement can probably be expected as the warm weather advances.

The expansion of credit in the first quarter was very moderate. This was in part the result of the credit restraints introduced in the middle of 1962 and, in part, of the cautious investment attitude prevalent among Austrian businessmen. There is rising concern in Austria over the uncertain economic outlook. Investment activity has lagged for months and there are few prospects for a substantial

^{1/} See "Recent Economic Developments in Austria," April 9, 1963.

pick up of private investment during the coming year.

Wage and price indices moved up moderately during the first quarter, however, demands for wage and price increases were vigorously pushed, following the expiration of last year's standstill agreement. The cost of living is expected to rise as a result of recent increases in food prices. Labor unions have indicated that they will seek to offset reductions in disposable income due to newly-enacted increases in taxes by higher wages.

The Austrian balance of payments showed a small surplus for the first quarter as receipts from foreign tourists and a net inflow on capital account helped to offset an enlarged trade deficit. Gold and foreign exchange reserves of the Austrian National Bank were little changed from the end of 1962.

Industrial production stabilized

Austrian industrial production failed to expand during the first quarter of 1963 beyond the level maintained in the third and fourth quarters of 1962. (See Table 1.) This continued failure to grow is in good part attributable to the dampening effects of a severe and prolonged winter.

If the record output and consumption of electricity and fuel during the winter is excluded, industrial production was actually slightly lower in the first quarter of 1963 than in the same period of 1962. The pattern of industrial activity continued to reflect the strong demand for consumer goods; production of these products continued to grow, although at a more moderate rate than formerly, but output of capital goods and consumer durables actually declined.

Table 1. Austria: Industrial Production Index, 1962-Feb. 1963
(1953=100, seasonally adjusted, month...
or monthly averages)

1962:	I	192	1962:	Oct.	195
	II	189		Nov.	193
	III	193		Dec.	192
	IV	193	1963:	Jan.	192
				Feb.	194 ^{e/}

Source: OECD

e/ estimated

With the advent of spring weather in April and May, over-all economic activity picked up, especially in the areas of construction, transportation, retail sales and foreign trade. The Austrian Institute for Economic Research recently observed, however, that the economy lacked stimuli sufficient to insure a satisfactory rate of long-term economic growth. Continued lively demand for consumer goods and services would suffice temporarily to guarantee full employment, but only renewed investment activity could guarantee the satisfactory longer-term growth of the over-all economy.

The basic factor responsible for the slowdown in Austrian industrial production seems to be the recent lag in private investment activity over the past 18 months. A recent survey made by the Austrian Institute for Economic Research suggests that there will be only limited growth, if any, in industrial investment in 1963. Businessmen remain reluctant to commit new funds, given the gradual slowdown of over-all economic activity and the continuing uncertainty of Austria's future position in European economic integration.

Protracted seasonal unemployment in cold winter

Seasonal factors and the general slowdown of economic activity led to an unusually high level of unemployment which persisted through the entire first quarter. Job vacancies were higher with one vacancy to every 1.7 unemployed. (See Table 2.) Delays in the resumption of activity in the agricultural, construction and tourism sectors were largely responsible for the winter jobless totals. In April, however, unemployment fell substantially as economic activity moved ahead in response to the stimulus of warm weather.

The level of wage rates advanced slightly as the wage index rose 1 point in March. (See Table 3.) Thanks to the wage/price freeze agreement in effect from July 1962 until January, the level of wages in Austria remained stable during the last half of 1962. Demands for increases in wages and prices were renewed, however, when the agreement came to an end on January 24, 1963. The protracted attempts of the coalition parties to set up a new government delayed consideration of these demands but major wage demands are now being discussed. These negotiations may result in a 10 per cent raise for workers in construction and associated trades, and increased pay and benefits for medical doctors connected with provincial health insurance institutes. Civil employees in all levels of government won a 7 per cent wage increase effective, for all practical purposes, immediately. Until October when the wage bill is scheduled to take effect, employees will receive monthly payments of AS 150 to compensate them for the time Parliament needs to enact the legislation. Government pensions were also increased. Increases in minimum wages and fringe benefits were obtained also by workers in a number of industries.

Increases in the prices of seasonal products, especially food, caused the cost of living index to advance 2.4 per cent during the first quarter to a level 3.3 per cent above that of a year earlier. The slight upward tendency of the

Table 2. Austria: Labor Market 1961 - April 1963
(in thousands, month or monthly averages seasonally adjusted)

	<u>Unemployment</u>	<u>Vacancies</u>		<u>Unemployment</u>	<u>Vacancies</u>
1961 I	70	45	1962 Oct.	63	46
II	66	41	Nov.	68	47
III	66	44	Dec.	73	50
IV	69	51			
1962 I	67	52	1963 Jan.	76	50
II	61	43	Feb.	81	46
III	60	45	Mar.	79	45
IV	68	48	Apr. <u>e/67</u>		<u>e/40</u>
1963 I	78	47			

e/ Estimated.

Source: OECD

Table 3. Austria: Selected Price and Wage Indices 1962 - April 1963
(1953=100, month or monthly averages)

	<u>1962</u>				<u>1963</u>			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>
Cost of living	122	126	125	123	125	126	127	127
Wholesale prices	119	123	124	119	118	118	119	120
Net wage rates	148	152	154	154	154	154	155	155

Source: Oesterreichische Nationalbank, Mitteilungen.

wholesale index was also the result of seasonally higher food prices.

A number of recently enacted government measures will undoubtedly give added impetus to price/wage movements this year. Recently authorized increases in the prices of staple foods (milk and dairy products, bread and sugar) are expected to add more than 1 per cent to the cost of living. Additional burdens will be placed on consumer incomes by recent tax increases designed to help finance the federal budget. In view of these rises in prices and taxes, the trade unions have declared that future wage claims must be expected. It seems clear that the level of wages, which has been artificially stabilized during the past few months, will start moving upward again in the near future.

The Lowering of Interest Rate Levels

During the first four months of the year, the Austrian financial scene was characterized by a high degree of bank liquidity and a relatively modest credit expansion. Commercial loans extended by credit institutes rose only AS 2.1 billion from January through April, or AS 335 million less than during the comparable period of 1962.

The current lag in investment (and the longer-term growth problem which it poses for the Austrian economy) has focused attention on the inadequacies of the Austrian capital market and the high level of interest rates. Private investment is hindered by the fact that bonds of the government and public authorities almost completely monopolize the capital market. The high cost of long-term financing acts as a further restraining factor. Austrian bonds generally bear a 7 per cent coupon; bank advances cost 9 per cent.

On June 27, the Austrian National Bank lowered its discount rate from 5 per cent to 4-1/2 per cent. This action was aimed specifically at helping to reduce the high level of Austrian interest rates and to counter the slowdown in business activity. The discount rate had been 5 per cent since March 17, 1960.

The high level of the discount rate had been the subject of considerable discussion over the past year. Since 1961 the Austrians have considered their chief problem to be the controlling of inflationary pressure resulting from a large balance of payments surplus, reflecting in part expenditures of foreign tourists in Austria. The existing high level of interest rates seemed to be compatible with efforts of the central bank last year to curtail credit expansion. Since 1962, however, the growth rate of the Austrian economy has slowed down and investment has lagged. Although a lowering of the interest rate level was talked about in Austrian financial and commercial circles earlier, the Austrian National Bank declined to lower discount rate because it feared that such an action would give fresh impetus to the wage/price spiral. However, long-term considerations of economic growth, which is dependent upon renewed investment activity, seem to have convinced Bank officials that a reduction of the discount rate was desirable at this point.

Modest moves in the direction of lower interest rates had been made early in the year. A 10-year bond of the Flood Relief Fund totaling AS 300 million and carrying a coupon of 6.5 per cent was completely subscribed within a few days after the opening of the subscription period. Encouraged perhaps by the success of the Flood Relief Fund issue, the Austrian government is reportedly now planning to place a 6.5 per cent coupon on both tranches of a AS 1.5 billion loan. Furthermore the largest Austrian savings bank announced that it would lower its interest rates on new and current credits for residential building from 7 to 6.5 per cent as of July 1st.

Budget for 1963 somewhat expansionary

The annual budget for 1963 was finally passed by the Austrian Parliament and went into effect on May first, the day after the provisional budget (in effect since the beginning of 1963) expired. The budget will have a generally expansionary

effect on the Austrian economy. Total expenditures are to rise again this year by 10 per cent as they have in the two previous years. (See Table 4.) Heavier expenditures are expected for defense and education, for family allowances and social insurance, and for increased Federal subsidies on milk, other dairy products, sugar and bread. Total receipts, including estimated revenue from recent tax increases, are expected to rise by only 7 per cent.

The over-all deficit for 1963 is budgeted at AS 3.35 billion or twice the size of last year's deficit. The government expects AS 0.6 billion of the deficit to be covered by surplus revenue or savings in certain categories of expenditure. The remainder of the deficit will be financed by borrowing. AS 1.3 billion will probably be raised abroad, and AS 1.5 billion at home. The 1962 deficit was financed completely in Austria.

Table 4. Austria: Budget estimates, calendar year, 1962-1963

(billions of Austrian schillings)

	<u>1963</u>	<u>1962</u>
EXPENDITURES		
Ordinary account	56.45	52.54
Extraordinary	2.78	1.36
Total	<u>59.23</u>	<u>53.90</u>
TOTAL RECEIPTS	55.88	52.02
SURPLUS (+) or DEFICIT (-)	-3.35	-1.88

Source: Oesterreichische Nationalbank, Mitteilungen

Newly enacted tax measures designed to help finance the budget include: (1) an increase in the excise tax levied on beer and hard liquor, (2) an increase in the current property tax from 0.50 per cent to 0.75 per cent of the assessment basis effective through 1964, (3) an increase in the automobile tax, (4) an increase in the turnover equalization tax on imports, and (5) a two-stage increase

in compulsory pension insurance contributions payable by employers and employees in equal portions. Further, the Laender are making a voluntary contribution of AS 520 million additional to the share of common tax receipts due to the Federal Government. Together, these measures are expected to raise more than AS 1 billion in 1963.

The Austrian Institute for Economic Research considers the budget deficit justifiable in view of the slowdown in the growth of the Austrian economy. However, the Institute criticizes the budget on the grounds that the deficit did not arise from, and does not serve, any concept of contra-cyclical policy aimed at reviving the sluggish sectors of the economy. The deficit is, in fact, simply the result of the steady increases in statutory expenditures.

Austrian external surplus reduced in early 1963

The Austrian balance of payments continued to show a surplus during the first quarter of 1963 but the size of the surplus was appreciably below that registered in any of the four quarters of 1962

From a payments point of view, the reduction in the over-all surplus was entirely the result of a substantially larger trade deficit. (See Table 5.)

Imports were 8 per cent higher than they were one year ago but exports grew only 1.3 per cent. However, special factors contributed to the deterioration in the trade accounts. The hard winter (which virtually halted transport on the Danube) cut down exports (especially in January) and tended to stimulate imports. In addition, exporters tried to move goods scheduled for delivery in early 1963 back into 1962 because the rate of refund to exporters from the turnover tax was reduced on January 1. As may be seen in the trade returns in Table 6, exports improved substantially in February and March. (See Table 6.)

Table 5. Austria: Balance of Payments 1961-1963
(in millions of U.S. dollars)

	<u>1961</u>	<u>1962</u>	<u>First Quarter</u>		<u>Fourth Quarter</u>
			<u>1962</u>	<u>1963^{p/}</u>	<u>1962</u>
Goods & Services					
Imports	1489.8	1551.8	374.6	404.0	423.6
Exports	1230.5	1272.8	297.2	300.8	337.0
Trade Balance	-259.3	-279.0	-77.4	-103.2	-86.6
Travel (net)	216.8	280.3	50.3	52.8	29.4
Other services (net)	11.1	18.8	3.8	8.6	-3.8
Total goods & services	-31.4	20.1	-23.3	-41.8	-61.0
Transfer Payments (net)	-1.3	63.5	4.0	2.5	39.2
Capital Transactions					
Receipts	240.9	246.7	42.5	57.3	83.7
Payments	-114.0	-135.0	-34.0	-38.8	-60.5
Total	126.9	111.7	8.5	18.5	23.2
Errors & Omissions	38.3	39.8	23.1	28.4	12.1
Surplus (+) or Deficit (-)	<u>132.5</u>	<u>235.1</u>	<u>12.3</u>	<u>7.6</u>	<u>13.5</u>
Monetary Movements (increase-)					
Drawing rights on IMF	--	- 7.5	--	--	--
Miscellaneous capital ^{1/}	- 3.8	- .6	- 2.3	- 18.1	3.7
Austrian National Bank					
Foreign exchange	-119.1	- 77.6	30.3	40.3	17.1
Gold	- 9.6	-149.4	-40.3	- 29.8	-34.3
Total	-132.5	-235.1	-12.3	- 17.6	-13.5

^{p/} Preliminary

^{1/} Includes sums in the process of clearing plus foreign exchange assets of Austrian credit institutions minus freely useable shilling assets of foreigners.

Source: Oesterreichische Nationalbank, Mitteilungen; International Financial Statistics.

Table 6. Austria : Foreign Trade 1961 - March 1963
(seasonally adjusted, in millions of U.S. dollars month or monthly average)

	<u>1962</u>					<u>1963</u>			
	<u>1961</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>
Imports, c.i.f.	124	124	127	132	137	135	139	131	135
Exports, f.o.b.	<u>100</u>	<u>102</u>	<u>107</u>	<u>105</u>	<u>109</u>	<u>105</u>	<u>99</u>	<u>105</u>	<u>110</u>
Trade balance	-24	-22	-20	-27	-26	-30	-40	-26	-25
Exports as per cent of imports	81	82	84	80	80	77	71	80	81

Source: OECD

Table 7. Austria: Balance on Capital Account
(in millions of U.S. dollars)

	<u>1961</u>	<u>1962</u>	<u>First Quarter</u>	
			<u>1962</u>	<u>1963</u>
Loans				
Loans to Austria	+119.8	+84.9	-1.8	a/
Austrian loans to foreigners (increase-)	- 3.8	-10.6	-1.2	+2.1
Direct Investment				
Foreign investment in Austria	+13.3	+18.4	+2.7	+6.8
Austrian investment abroad (increase-)	a/	a/	a/	-1.0
Security Transactions				
Foreign purchases <u>1/</u>	+ 3.9	+23.2	+8.7	+8.4
Austrian purchases <u>2/</u> (increase-)	- 1.1	- 8.1	a/	a/
Other Private Capital	- 4.5	+ 3.8	a/	+1.9
Total Capital Transactions <u>3/</u>	+126.9	+111.6	+8.5	+18.5

- 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: Oesterreichische Nationalbank, Mitteilungen.

Effective May 1, the Austrian government raised equalization tax rates on imports of finished goods from 5.25 per cent to 6.75 and 8.25 per cent in response to industry pressures. This increase will have the effect of giving domestic producers added protection against foreign competition and will reduce the effects of last year's unilateral tariff cuts.

A net inflow on capital account and increased tourist receipts helped to offset the trade deficit. (See Table 5.) In the first quarter, however, net tourist receipts were only \$3 million higher than a year ago because travel expenditures of Austrians abroad rose sharply as a result of the liberalization of Austrian tourist allowances at the end of 1962.

Foreign capital continued to flow into Austria as foreigners increased their direct and indirect investment in the country. Direct investment rose \$6.8 million in the first quarter and portfolio investment rose \$8.4 million, in part in response to the high rates of interest on the Austrian capital market. (See Table 7.) Austrian investment abroad remained negligible.

The payments surplus produced further accruals to the foreign exchange holdings of Austrian credit institutions. Gold and foreign exchange assets of the Austrian National Bank declined \$10 million during the first quarter but rose thereafter to a total of \$1,051 million at the end of May. The central bank used part of its foreign exchange holdings to purchase additional gold in April and May, raising the portion of total foreign exchange reserves held in gold to 47 per cent from 43 per cent at the end of 1962. (See Table 8.) It would appear that the Austrian National Bank has decided to raise the ratio of gold to foreign exchange holdings from a 40 : 60 to a 50 : 50 ratio.

Table 3. Austrian National Bank: Gold and Foreign Exchange Reserves
(in millions of U.S. dollars, end of period figures)

	1961	1962		1 9 6 3		
		June	Dec.	March	April	May
Gold	303	363	454	484	494	499
Foreign Exchange	524	556	601	561	551	552
Total <u>1/</u>	826	918	1055	1045	1044	1051
Percentage of reserves held in gold	38	39	43	46	47	47
Exchange Rate par value: 3.8464	3.867	3.870	3.869	3.868	3.868	3.868

1/ Figures may not add due to rounding.

Source: International Financial Statistics.

Table 9. Austria: Long-Term Dollar Indebtedness
(in millions of U.S. dollars)

	1 9 6 2				1963	Outstanding March 31, 1963
	I	II	III	IV	I	
IBRD loans	-0.7	-0.7	4.3	-0.7	-0.8	96.5
Export-Import Bank loans						
By Export-Import Bank <u>1/</u>	-0.9	0.3	-0.5	-8.9	-0.2	18.4
By Participants	0.9	0.2	--	8.9	-1.1	10.6
Government dollar securities	--	12.0	--	--	--	51.4
Long-term debt to U.S. commercial banks	7.0	11.0	2.0	8.0	1.0	66.0
Total	6.3	22.8	5.8	7.3	-1.1	242.9

1/ Including loans outstanding to Export-Import Bank agents from June 1962.

Source: IBRD, Statement of Loans; Export-Import Bank, Statement of Loans; U.S. Department of Commerce, Balance of Payments Division; Federal Reserve Bulletin.

Austria's favorable external position has continued to hold the rate for the schilling close to the upper intervention level of 3.875.

Austrian dollar indebtedness. Austrian long-term dollar indebtedness declined slightly during the first quarter of 1963 by \$1.1 million following the repayment of loans to the Export-Import Bank and the IBRD. Austria increased its borrowing at U. S. commercial banks by \$1.0 million. (See Table 9.)