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Recent Economic Developments in Austria,
August-November 1963 13 pages

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Recent Economic Developments in Austria, August-November 1963

Summary

The modest upward trend in Austrian economic activity which became evident during the early summer apparently continued into the fall.^{1/} Industrial output, still spurred primarily by buoyant consumer demand, is rising at an annual rate of 4 per cent. Recently, moreover, export demand seems to have revived, and it also appears that investment demand is no longer exerting a contractive influence. The slightly more optimistic outlook is reflected in an official forecast of a growth of 4 per cent in real gross national product in 1964, as compared with the estimated increase of 3-4 per cent for this year.

With a continuing active demand for labor, wage pressures are the dominant problem for the Austrian authorities. While increasing international competition makes it imperative to control cost and price increases, competition for skilled labor from other countries, e.g., Germany and Switzerland, limits Austrian efforts to stabilize wage levels. Faced with these problems, the authorities recently created an Economic and Social Council which will work within the framework of existing agencies on the development of a national incomes policy as well as on other long-term problems such as the further development of the Austrian capital market. In November, the authorities took a step in this direction by completing measures liberalizing capital movements which are designed to bring the high Austrian interest rate structure more into line with levels prevailing elsewhere.

^{1/} See "Economic Developments in Austria, May-August 1963," October 22, 1963.

Austria's external position improved significantly in the period under review because of a third quarter balance of payments surplus, reflecting primarily capital inflows. As a result, Austria's balance of payments surplus for the first nine months, at \$197 million, was only moderately lower than the surplus of \$214 million for this period in 1962, marking a considerable improvement over the position at mid-year, when the surplus had been more than halved. About two-thirds of the third quarter surplus went into official foreign exchange reserves, which increased by \$103 in July-September and totalled \$1,164 million at the end of October.

Output and employment continue modest rise

The modest rise in economic activity noticeable since the early summer appears to have continued into the fall. In August, seasonally adjusted industrial production was slightly higher than in July, and 4.5 per cent above the August 1962 level. (See Table 1.) The authorities expect that this year-to-year growth rate will be sustained in coming months, and that the projected increase of 3 to 4 per cent in real gross national product for 1963 will be realized.

As in preceding months, the main expansionary factor was the output of consumer goods, which rose at a year-to-year rate of approximately 8 per cent. The fall in investment goods production appears to have been stemmed: in August, investment goods output rose by 2 per cent above August 1962. Although investment demand still remains weak, the 1964 budget estimates assume that its influence in coming months will be neutral rather than retarding, as in the past. Demand for Austrian exports also has been expanding again; this revival of demand apparently benefits mainly the consumer goods sector.

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

1962	I	192	1963	March	196
	II	189		April	196
	III	193		May	196
	IV	193		June	206
1963	I	195		July	198
	II	199		Aug.	199

Source: OECD

After allowance for seasonal influences, employment trends showed little change. The labor market was strained during the summer, despite an influx of foreign labor that was larger than in the preceding year, but it eased somewhat with the end of the tourist season. Employment in manufacturing industries continued to decline. Output, however, was up by 4.5 per cent; the improvement in labor productivity was in part due to the fact that industries with decreasing output trends ceased to hoard labor. Manpower released in this way was readily absorbed in the service sector; and for the ten-month period January-October 1963, total employment was unchanged from the corresponding 1962 level. (See Table 2.) In October, both employment and the unemployment rate were fractionally higher than in October 1962; unfilled vacancies also were somewhat higher than a year ago.

Wage and Prices

With demand for labor remaining high, wage pressures continued to accelerate. The wage rate index rose by 3.2 per cent in the third quarter and

Table 2. Austria: Labor Market, 1962-Oct. 1963

	1 9 6 2		1 9 6 3			Averages Jan.-Oct.	
	Jan.	Oct.	Jan.	May	Oct.	1962	1963
Labor force (millions)	2.40	2.43	2.41	2.39	2.44	2.41	2.42
Employment (millions)	2.27	2.38	2.26	2.35	2.39	2.34	2.34
Unemployment (thousands)	136	46	151	43	48	69	78
Unemployment as per cent of labor force	5.6	1.9	6.2	1.8	2.0	2.9	3.2
Vacancies (thousands)	50	57	46	71	66	67	67
Vacancies as per cent of unemployed	37	124	30	165	138	97	86

Sources: Oesterreichische Nationalbank, Mitteilungen.

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

	1 9 6 2		1 9 6 3				
	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Sept.</u>	<u>Oct.</u>
Consumer prices	127	125	128	130	128	128	127
Wholesale prices	124	119	118	121	117	116	120
New wage rates <u>1/</u>	154	154	154	157	162	163	169

1/ Male workers, industry and handicraft in Viennese region only.

Source: Oesterreichische Nationalbank, Mitteilungen.

by a further 4.3 per cent in October. (See Table 3.) Since the end of the wage freeze early in 1963, net wage rates have risen by 9.7 per cent.

The major wage settlement in October, for metal workers, provided for an increase in minimum wages ranging from 8.4 to 12 per cent, while above-minimum wages were increased by 5.5 per cent. If this settlement sets the pace for other pending negotiations, further sizeable wage increases can be expected. On the other hand, the metal workers' contract was written for a twenty-month period; and if these longer contracts become standard, some degree of wage stability could be expected in 1964. Austria, however, is faced with the same problem that brought about the recent crisis in Netherlands wage policy: under the current condition of universal labor shortage in continental Europe, efforts to stabilize internal wages are hampered by the need to keep wages generally in line with those of neighbouring countries. Apparently, skilled labor has already started to migrate from Austria to Germany and Switzerland.

Price pressures have so far been moderate. (See Table 3.) Consumer prices in the third quarter were less than 1 per cent above the corresponding 1962 level--despite the active demand for consumption goods--while wholesale prices actually were 6 per cent lower. In October, consumer prices rose by 3 per cent because of higher food prices, but industrial prices remained unchanged. The Austrian Institute for Economic Research expects that consumer prices will remain stable for the remainder of this year, except for some price increases already announced, i.e., for bread and for metal products with a high labor content. At the beginning of 1964 the Government will raise postal and rail

rates in order to cut the deficit of these government enterprises, but the increases will be smaller than those which became effective at the beginning of 1963.

Although price developments have not been alarming, there is a general awareness that wage-price pressures must be kept under control. Competition in Austria's main export markets is increasing in the wake of the recent reduction of internal tariffs in the Common Market, which absorbs one-half of Austria's exports; and tougher domestic competition with imports may be expected with the elimination during 1964 of all remaining quantitative import restrictions. Austrian exports to the Common Market have apparently been maintained despite the tariff discrimination resulting from the internal reduction of EEC tariffs on July 1 but, according to press reports, at the cost of price concessions by Austrian exporters.

In recognition of the growing urgency of these problems, the authorities established an Economic and Social Council at the end of October 1963. The Council, which will function as a subcommittee of the Price-Wage Commission, consists of eight permanent members, two each from the Federation of Trade Unions, and the Chambers of Commerce and Industry, of Labor, and of Agriculture. The members will be assisted by experts from the National Bank, the Central Office of Statistics, and the Institute for Economic Research. The Council is to develop an over-all incomes policy; its immediate tasks are the preparation of analytical studies regarding a longer-term budget concept, prerequisites of an efficient capital market, the relationship between price-wage developments and internal and external stability, and the prospective growth of the economy. The results of the Council's studies are to form the basis for Price-Wage Commission

recommendations to the Federal Government. Since these recommendations are not legally binding, the success of the Council's work will depend upon the receptiveness of the Government to its proposals. Current strains in the Government coalition, however, may limit both the Government's receptiveness to these proposals, and its ability to put recommendations into effect.

Financial markets remain easy

The banking system remained highly liquid during the fall months, as the influx of foreign exchange from tourist receipts during the summer and the proceeds of an AS 500 million Federal Government loan floated abroad added to domestic monetary resources. As in preceding months, bank credit continued to grow only slowly, and banks employed increasing amounts abroad. Between June and October, foreign exchange assets of Austrian credit institutions rose by AS 1.4 billion (\$53.8 million) to a total of AS 3.8 billion, (\$146 million) as compared with AS 1.0 billion (\$38.5 million) in October 1962. The excess reserves of the credit institutions remained high, amounting to AS 2.6 billion in October 1963--AS 0.4 billion above October 1962--despite the fact that reserves were drawn down in order to make payment on an AS 1 billion Federal Government loan floated at the end of September.

The bond market continued to be dominated by Government issues. The trend to lower long-term interest rates which followed the reduction in short-term rates in June also continued. The Federal Government loan floated at the end of September carried a 6.5 per cent coupon, in contrast to a 6.75 per cent coupon on earlier issues. In October, an AS 500 million Electric Power loan carrying a 6.25 per cent coupon and issued at a price of 97 per cent was immediately oversubscribed.

In November the authorities completed a program, announced in June, which is designed primarily to lower the high Austrian interest structure and to bring it more in line with other industrial countries. Five measures are to promote the inflow of capital: Austrian residents will now be permitted (1) to take up long-term loans (with a maturity of five years or more) abroad for investment purposes, with the option of spending the proceeds either in Austria or for imports; (2) to borrow abroad from foreign partners or associates; (3) to refinance existing export credits; (4) to borrow abroad for up to five years for specific merchandise imports; and (5) to write life insurance for foreigners.

Budget deficit to increase in 1964

The lowering of long-term interest rates in Austria, combined with the current high rate of liquidity of the banking system, may help to alleviate the problem of financing domestically the increased Government deficit budgeted for 1964. The budget, submitted to Parliament on October 22, foresees a rise in expenditures of 7 per cent above 1963, while revenues are to increase by only 6 per cent. As a result, the budget deficit is to increase by AS 0.5 billion to AS 3.9 billion. The main increase in expenditures stems from raises for government employees granted in 1963 and from the need to expand government investment in order to offset lagging private investment. The budget estimates are based on an anticipated growth in real gross national product of 4 per cent.

Trade deficit remains at first half level

With the fall pick-up in general business activity exports resumed their growth: September exports, after seasonal adjustment, were 5 per cent above June. (See Table 4.) But imports also expanded considerably, partly in response to the import liberalization measures which became effective July 1. Consequently, the

Table 4. Austria: Foreign Trade, 1962 - September 1963
 (Seasonally adjusted, in millions of U.S. dollars, month or monthly average)

	<u>Exports,</u> <u>f.o.b.</u>	<u>Imports,</u> <u>c.i.f.</u>	<u>Balance</u>	<u>Exports as</u> <u>% of imports</u>
<u>1962</u>				
I	102	124	-22	82.3
II	107	127	-20	84.3
III	105	132	-27	79.5
IV	109	137	-28	79.6
July	106	130	-24	81.5
August	99	133	-34	74.4
September	108	132	-24	81.8
<u>1963</u>				
I	105	135	-31	77.8
II	111	141	-30	78.7
III	111	140	-29	78.7
June	111	136	-25	81.6
July	106	136	-30	77.9
August	112	137	-25	81.8
September	<u>e/</u> 116	<u>e/</u> 149	<u>e/</u> -33	<u>e/</u> 77.8

e/ Estimate.
 Source: OECD.

third quarter trade deficit remained at approximately the same level as in the preceding two quarters.

Third quarter balance of payments surplus substantial

Although the trade deficit continued large, the favorable results of the tourist season and a large inflow on capital account raised the payments surplus for the third quarter to \$156 million, almost \$40 million more than the surplus for the third quarter 1962. (See Table 5.) The payments surplus for the first nine months of 1963, at \$197 million, almost reached the \$214 million surplus registered in the corresponding period of 1962.

Net receipts from tourists travel, which are seasonally large in the third quarter, totalled \$158 million, exceeding the 1962 results by 18 per cent. Capital inflows, at \$102 million, were almost twice as large as in the third quarter of 1962. This increase was almost entirely due to a rise in foreign credit extension to Austria, and in part reflected the proceeds of an AS 500 million Federal Government loan floated abroad in September.

Official reserves increase ten per cent

About two-thirds of the third quarter payments surplus was reflected in an increase of \$103 million in the foreign exchange holdings of the Austrian National Bank; gold holdings remained unchanged. As a result, the ratio of gold to total reserve holdings fell from 47 per cent at the end of June to 43 per cent at the end of September. In October, foreign exchange holdings decreased by \$30 million but gold holdings rose \$11 million. In November, there was a further decline in foreign exchange holdings, while the National Bank continued to purchase gold. Consequently, the gold ratio in November was back up to 47 per cent, close to the 50 per cent level which the central bank prefers to maintain.

Table 5. Austria: Balance of Payments,
1962 - Third Quarter 1963
(in millions of U.S. dollars)

	January - September		1962 <u>III</u>	1963		
	<u>1962</u>	<u>1963</u>		<u>I</u>	<u>II</u>	<u>III</u>
Goods and Services						
Exports	935.7	972.5	317.2	300.8	336.2	335.5
Imports	<u>1,128.5</u>	<u>1,234.8</u>	<u>382.1</u>	<u>404.0</u>	<u>420.2</u>	<u>410.5</u>
Trade Balance	-192.8	-262.3	-64.9	-103.2	-84.0	-75.0
Travel Balance	251.0	279.1	133.8	52.8	68.4	157.9
Other Services Balance	<u>22.5</u>	<u>29.9</u>	<u>10.2</u>	<u>8.6</u>	<u>12.3</u>	<u>9.0</u>
Total Goods and Service Balance	<u>80.7</u>	<u>46.7</u>	<u>58.7</u>	<u>-41.8</u>	<u>-3.3</u>	<u>91.9</u>
Unilateral payments (net)	<u>24.3</u>	<u>9.7</u>	<u>4.1</u>	<u>2.5</u>	<u>4.4</u>	<u>2.9</u>
Capital Transactions						
Receipts	162.9	224.9	56.2	57.3	65.3	102.3
Payments	<u>82.0</u>	<u>107.0</u>	<u>27.0</u>	<u>38.8</u>	<u>30.5</u>	<u>37.7</u>
Capital transactions Balance	<u>80.9</u>	<u>117.9</u>	<u>29.2</u>	<u>18.5</u>	<u>34.8</u>	<u>64.6</u>
Errors and Omissions	<u>28.2</u>	<u>22.2</u>	<u>5.1</u>	<u>28.4</u>	<u>-2.7</u>	<u>-3.6</u>
Surplus (+) or Deficit (-)	<u>214.1</u>	<u>196.5</u>	<u>117.5</u>	<u>7.6</u>	<u>33.2</u>	<u>155.8</u>
Financed by:						
Drawing rights on IMF (increase -)	- 7.0	--	- 7.0	--	--	--
Miscellaneous Capital (net) ^{1/}	2.1	- 68.7	7.8	-17.8	1.6	-52.7
Austrian National Bank (increase -)						
Foreign Exchange	- 94.0	- 77.5	-62.0	-40.3	-14.8	-103.0
Gold	<u>- 115.2</u>	<u>- 50.3</u>	<u>-56.3</u>	<u>-30.1</u>	<u>-20.1</u>	<u>- 0.1</u>
Total	<u>- 214.1</u>	<u>- 196.5</u>	<u>-117.5</u>	<u>- 7.6</u>	<u>-33.2</u>	<u>-155.8</u>

^{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: Gold and Foreign Exchange Reserves, 1962-October 1963
(end of period, in millions of U.S. dollars)

	Gold	Foreign Exchange	Total	Change	Gold as % of Reserves	Exchange rate Par value: 3.846
1962 I	344	493	837	+ 10	41	3.867
II	363	556	919	+ 82	39	3,868
III	419	618	1,037	+118	40	3,868
IV	454	601	1,055	+ 18	43	3,865
1963 I	484	561	1,045	- 10	46	3.864
II	504	576	1,080	+ 35	47	3.868
III	504	679	1,183	+103	43	3.867
July	504	638	1,142	+ 62	44	3,868
August	504	673	1,177	+ 35	43	3,868
September	504	679	1,183	+ 6	43	3,867
October	515	649	1,164	- 19	44	3,861

Source: International Financial Statistics.

Table 7. Austria: Long-term Dollar Indebtedness
(in millions of U.S. dollars)

	1 9 6 2				1 9 6 3			Outstanding Sept. 30, 1963
	I	II	III	IV	I	II	III	
IBRD loans <u>a/</u>	-0.7	-0.7	4.3	-0.7	-0.8	-0.8	-0.7	95.0
Export-Import Bank loans <u>b/</u>								
By Export-Import bank <u>1/</u>	-0.9	0.3	-0.5	-8.9	-0.2	-0.4	-0.8	17.2
By Participants	0.9	0.2	--	8.9	-1.1	-0.2	-0.4	10.0
Government dollar securities <u>c/</u>	--	12.0	--	--	--	--	+5.0	56.4
Long-term debt to U.S.								
Commercial banks <u>d/</u>	<u>7.0</u>	<u>11.0</u>	<u>2.0</u>	<u>8.0</u>	<u>1.0</u>	<u>-1.0</u>	<u>+28.4</u>	<u>93.4</u>
Total	6.3	22.8	5.8	7.3	-1.1	-2.4	+31.5	272.0

1/ Including loans outstanding to Export-Import Bank agents from June 1962.
Sources: a/ IBRD, Statement of Loans;
b/ Export-Import Bank, Statement of Loans;
c/ U.S. Department of Commerce, Office of Business Economics;
d/ Federal Reserve Board.

The influx of funds into Austria during the third quarter was not reflected in the exchange rate, which remained quite stable throughout the period. In October, there was a slight decline in the schilling/dollar rate, but the schilling still traded well above par. (See Table 6.)

Austrian dollar indebtedness increases

During the third quarter Austrian long-term dollar indebtedness rose by \$32 million; long-term debt to U. S. commercial banks increased \$28 million and \$5 million worth of government dollar bonds were privately placed. (See Table 7.)

Whether the recently announced liberalization of capital imports will result in a further increase in Austrian dollar indebtedness may depend in part on the effects of the interest equalization tax imposed on foreign borrowing here.

In December, the U. S. Treasury issued a \$25 million equivalent 18-month bond, denominated in Austrian schillings, to the Austrian National Bank, to absorb part of the Bank's increased dollar holdings.