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Economic Developments in Austria:
December 1964-May 1965

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Summary

With growing exports and higher capital outlays, economic activity in Austria advanced further from prevailing high levels in the period under review.^{1/} Industrial output, which had levelled off between early 1964 and year-end, registered a fairly sharp gain in January, as inventories were built up in anticipation of the spring upswing. For 1964 as a whole, real gross national product increased by 6 per cent, compared with 4.4 per cent in 1963.

Between November and March, consumer prices rose by almost 1 per cent, mainly because of the higher cost of services and some food items. Also, in the early months of 1965, wage demands that had been accumulating since late last summer exploded in a rash of wage hikes: between year-end and March (1965), the index of net hourly wage rates (including child allowances) in the Vienna region rose 4.1 per cent. During 1963 and 1964, price increases were more than offset by substantial productivity gains; but such large productivity increases are becoming increasingly difficult to realize. Much industrial investment seems now to be going into capacity expansion rather than into the rationalization of existing facilities.

On the monetary front, bank liquidity came under strain as the result of a large fourth quarter balance-of-payments deficit

^{1/} For a review of the preceding period, see "Economic Developments in Austria, July-November 1964," January 15, 1965.

produced by a larger trade deficit and the reversal from capital inflow to capital outflow. In addition, there was an unprecedented rate of credit expansion. The banking system accommodated the heavy demand for credit and met its liquidity needs by repatriating a sizable portion of assets held abroad. Even after completion of year-end, window-dressing operations, net foreign assets of the banking system at the end of March were less than one-half the level of October and November of last year.

It is expected that the reduction of capital inflow (as a result of a considerably expanded use of the domestic capital market) and the anticipated large trade deficit will produce in 1965 a balance-of-payments surplus closer to the \$60 million in 1964 than to the large surpluses of earlier years. In the first two months of this year, exports grew vigorously while imports dropped off somewhat; as a result, the trade deficit was substantially below the fourth-quarter levels. However, continued demand for capital equipment and for raw materials is expected to maintain import growth at levels at least comparable with last year's increase of 11 per cent.

Official reserves declined by \$49 million in January-April, reflecting the placement abroad of funds previously repatriated for year-end, window-dressing purposes. However, gold purchases of \$37 million raised the gold ratio to 53 per cent at the end of April, compared with 48 per cent at the end of 1964.

Economic activity continues very buoyant

The very high level of business activity in Austria continued to expand during the December-May period, although the spring upturn came later this year than normally. Expanding domestic demand for capital goods developed even more strongly as the mainspring of the current expansionary phase; at the same time, brisk export demand, particularly for consumer items, offset the generally slower growth in domestic consumption. In January and February, however, seasonally adjusted retail sales revived somewhat, rising by 3.6 per cent over fourth quarter 1964, compared with average quarter-to-quarter increases of less than 1 per cent during 1964.

In the final quarter of 1964, industrial production continued to reflect the levelling-off trend which has been under way since early 1964. But in January the seasonally adjusted index registered a sharp 4.8 per cent advance over December, as managers sought to compensate for production lost to the large number of Sundays and holidays and to rebuild inventories, especially for the construction sector, in anticipation of the spring upswing. (See Table 1.) Increased production of end-items (equally shared by both consumer and investment goods), more than offset the slack which developed in mining and basic materials output. However, the production of durable consumer goods for the domestic market continued to stagnate. The buoyancy in the consumer goods sector as a whole was due primarily to the output of export items.

Table 1. Austria: Industrial Production
(1960=100; seasonally adjusted)

<u>Period</u>	<u>Total</u>	<u>Final Manufactures</u>		<u>Intermediate Manufactures</u>
		<u>Consumer goods</u>	<u>Investment goods</u>	
<u>1963</u>				
I	108.0	111.8	104.6	96.3
II	111.2	115.9	106.8	96.7
III	112.2	117.9	106.2	98.5
IV	114.9	118.4	109.1	101.4
<u>1964</u>				
I	117.7	119.5	107.4	104.9
II	120.0	121.5	111.1	109.6
III	120.1	124.1	111.0	112.0
IV	122.0	123.7	116.4	111.8
October	123.3	124.7	115.9	113.0
November	120.8	121.5	119.0	109.2
December	122.0	124.8	114.3	113.2
<u>1965</u>				
January	127.9	133.2	119.5	112.7

Source: OECD, Main Economic Indicators.

The Austrian economy experienced an especially rapid rate of expansion during 1964. Recently, the Austrian Institute for Economic Research released data showing that gross national product rose in real terms by 6 per cent in 1964, compared with gains of 4.4 per cent in 1963 and 1.5 per cent in 1962. Moreover, growth in 1964 also compares favorably with the average long-term rate of expansion (1950-1963: plus 5.1 per cent) and is the best rate recorded since 1960. It was primarily due to strong growth in the manufacturing branches--particularly basic and investment goods industries--and in the agriculture and forestry, construction and utilities sectors. Consumer goods production, retail trade, and the transport and service sectors expanded more slowly than the economy as a whole.

Spending in 1964 was highest in the private investment and public sectors. Gross asset formation registered a 9 per cent gain in real terms--spurred mainly by construction activity--and public consumption increased 6 per cent over the previous year. However, private consumption registered the lowest annual increase since 1962, partly because price increases trimmed real purchasing power and partly because private savings increased.

Labor conditions tighten; industrial productivity shows sharp gain

The force with which the current expansion carried through the winter months is clearly reflected in labor statistics for the period. Increased demand for labor outstripped a slight increase in the total labor force and lowered the unemployment ratio significantly, compared with previous winters. For the January-March

period, unemployment averaged only 4.9 per cent of labor force against 5.8 per cent in 1963 and 5.2 per cent in 1964. Registered job vacancies were also at higher levels relative to unemployment. (See Table 2.)

Although a very strict quota system has kept the foreign labor contingent minimal in Austria (less than 1 per cent of the nonagricultural, forestry, and civil service labor force), greater strain on domestic resources caused some liberalization of foreign labor quotas in 1964. Non-Austrian labor averaged nearly 14,000 workers per month in 1964, more than 40 per cent above 1963 levels. A still larger increase may be realized in 1965 if pressures on the labor market continue to build up and union resistance lessens. More attractive wages and the release of some foreign labor from Switzerland will make it easier for Austrian firms to recruit in the very competitive European market.

In the industrial sector, improved utilization of personnel permitted sharply increased output even though the industrial labor force was somewhat smaller. Industrial productivity rose 7.8 per cent in 1964--up from 6.8 per cent in 1963--as a result of the higher level of production (which allows fuller utilization of "overhead" labor) and the inauguration of new, and more efficient, plant and equipment. (See Table 3.) Output per manhour was significantly higher in the oil, iron, steel, and metal products, and paper and paper products industries, where higher production levels were primarily

Table 2. Austria: Labor Market Data
(end-of-month figures)

	<u>1964</u>			<u>1965</u>			<u>Monthly Averages</u>		
	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>Jan. - March</u>		
							<u>1963</u>	<u>1964</u>	<u>1965</u>
Labor force (millions)	2.42	2.41	2.40	2.44	2.44	2.42	2.40	2.41	2.43
Employment (millions)	2.27	2.28	2.31	2.30	2.31	2.32	2.26	2.29	2.31
Unemployment (thousands)	145.8	132.9	93.83	134.4	130.8	92.8	139.0	124.2	119.3
Unemployment as per cent of labor force	6.0	5.5	3.9	5.5	5.4	3.8	5.8	5.2	4.9
Vacancies (thousands)	41.1	48.6	59.1	47.1	52.2	64.2	41.0	49.6	54.5
Vacancies as per cent of unemployed	28.2	36.6	63.0	35.0	40.0	67.2	31.0	39.9	45.7

Source: Oesterreichische Nationalbank, Mitteilungen.

Table 3. Austria: Industrial Production, Employment and Productivity
(percentage change from previous year)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Production	+4.6	+2.2	+4.2	+7.6
Employment	+2.7	+1.1	-1.4	-0.3
Productivity ^{1/}	+3.1	+3.5	+6.8	+7.8

^{1/} per hour worked.

Source: OECD, Main Economic Indicators and
Oesterreichische Nationalbank, Mitteilungen.

responsible for the increase. However, with output nearing its most efficient levels in many industries, it is unlikely that productivity gains this year can outstrip last years' increases.

Price pressures stronger; wage hikes renewed

As a result of higher labor costs, further upward pressure on prices developed during January-March, following relative stability in the final half of 1964. Consumer prices (as reflected in the index published by the Austrian Institute for Economic Research) rose in March to a level about 0.9 per cent above the fourth quarter 1964, and 2.6 per cent above year-earlier figures. (See Table 4.) The rising trend in transport costs and residential operating expenses, as well as higher clothing prices, were primarily responsible for the rising index, although some seasonal price increases in food items contributed to the movement. Increases ranging roughly from 6-14 per cent in the price of milk and bread, which will affect a wide range of food products, and add further upward pressure on the price level were put into effect May 1.

By contrast, wholesale prices moved slightly below October-December 1964 levels in January-March, as quotations on industrial raw materials dropped. Wholesale food prices, however, continued their rising trend.

Consumer and wholesale prices rose more in 1964 than in 1963. Last year, consumer prices rose by 3.6 per cent, compared with 2.8 per cent in 1963; and wholesale prices increased by 5.7 per cent,

Table 4. Austria: Selected Wages and Price Indices
(1960=100, month or monthly average)

<u>Date</u>	<u>Consumer prices</u> ^{1/}			<u>Wholesale prices</u> ^{2/}	<u>Hourly wage rates</u> ^{3/}
	<u>Total</u>	<u>Non-food</u>	<u>Food</u>		
1962 Year	108	108	109	108	111.7
1963 Year	111	110	112	106	117.9
I	110	109	111	105	113.0
II	112	109	114	107	115.3
III	111	110	112	104	119.1
IV	112	112	112	108	124.2
1964 Year	115	114	117	112	123.9
I	114	113	114	109	123.9
II	116	114	117	111	123.9
III	116	114	118	113	123.9
IV	116	115	117	113	123.9
1965 January	117	116	117	113	129.0
February	116	116	117	113	129.0
March	117				

^{1/} Urban worker's family expenditure pattern.

^{2/} Crude food and raw materials.

^{3/} Vienna region minimum industrial rates net of tax and social insurance and excluding family allowances.

Source: OECD, Main Economic Indicators.

compared with a decline of 1.9 per cent in 1963. (See Table 4.) Both series rose most rapidly in the first six months of 1964 but, by the end of the year, both indexes had dropped below their yearly peaks because of seasonal changes. Among consumer items, the prices of meat and textiles posted the sharpest gains--9 to 15 per cent--and prices of services were universally higher. Increased food costs were also primarily responsible for higher prices at the wholesale level.

The swell in wage demands that developed in the final months of 1964 under the impact of earlier upward price movements resulted in a rash of wage increases in the January-May period, when between 1 and 1-1/2 million employed persons received wage or salary increases. By the end of March the index of net hourly wage rates (inclusive of child allowances) in the Vienna area had risen 4.1 per cent from December, and further wage increases are in the offering. (See Table 4.) Following a recent one-day strike, government workers were given a 7 per cent pay increase, effective June 1; this includes rail workers, post and communications workers, civil servants and municipal employees. One of the most important tasks confronting the authorities is to keep future wage rate increases within the limits of productivity gains, but the ability to resist wage demands is limited by tight labor market conditions.

Foreign balances drawn down to meet heavy credit demands

The very fast tempo of business activity produced a rising demand for new credit during the period under review. New bank lending expanded at an unprecedented rate despite the reduced credit

ceilings and higher minimum reserve ratios introduced on October 31. New credit extensions, stimulated by a spurt of inventory buying in the final quarter of 1964, increased by Sch 3.61 billion--80 per cent more than in the comparable 1963 period--for one of the highest quarterly increases on record. (See Table 5.) As a result, the volume of credit outstanding from financial institutions at the close of the year exceeded Sch 78 billion, 17 per cent above year earlier levels. In January-March Sch 3.21 billion of net new credit was extended, almost two-thirds greater than a year earlier.

To meet these heavy credit demands and to offset the drain on liquidity from the large fourth quarter payments deficit, the commercial banks repatriated the foreign balances built up since exchange liberalization in September 1963. By the end of the year, the banks' net foreign asset position of Sch 3.38 billion on September 30 was completely drawn down--in fact, went to a net liability position of Sch 30 million.^{2/}

Furthermore, the significantly lower level of foreign holdings in the first quarter of 1965 (see Table 5) may be explained by the need for higher reserve positions. Cash reserves of the banking system were 12.4 per cent of total deposits in January-March--up from 11.4 per cent at the peak of liquidity last fall--compared with 8.2 per cent during the 1959-60 boom.

^{2/} The agreement reached in early September, under which the larger Austrian banks pledged not to repatriate Sch 1.7 billion (\$65.4 million) of their foreign assets for a period of six months, was extended on March 1, 1965 for an additional three-month period.

Table 5. Austria: Selected Monetary Statistics
(billion Austrian schillings)

<u>End of period</u>	<u>Money supply</u> ^{1/}	<u>deposits of non-banks</u>	<u>Cash reserves of credit Insts.</u> ^{2/}	<u>Net fgn. assets of credit Insts.</u> ^{3/}	<u>Net official gold & fgn. exch. holdings</u> ^{4/}	<u>Loans out-standing</u>
<u>1964</u> I	45.0	81.92	8.39	1.20	29.82	69.00
II	46.4	83.41	9.54	1.51	30.03	71.95
III	48.4	88.41	10.64	3.38	30.99	74.79
October	47.1	88.34	10.32	3.22	30.51	75.58
November	47.8	88.46	10.41	2.22	30.92	77.23
December	47.7	90.59	12.32	-.03	31.90	78.40
<u>1965</u> January	46.1	91.40	11.33	1.40	30.29	79.31
February	46.8	92.82	11.64	1.41	30.25	80.23
March	47.5	94.24	11.49	1.31	30.48	81.61

^{1/} Notes and currency outside banks, commercial bank sight liabilities (excluding interbank deposits), and minor liabilities of the Austrian National Bank to the private sector.

^{2/} Cash plus deposits with the Austrian National Bank.

^{3/} Credit institutions' holdings of liquid foreign assets minus liquid foreign claims against them.

^{4/} Austrian National Bank holdings of gold, foreign exchange and foreign notes less liabilities to foreign credit institutions.

Source: Oesterreichische National Bank, Mitteilungen.

In spite of burgeoning credit, the supply of money (currency plus sight deposits) declined about Sch 900 million between the end of September (1964) and March (1965), almost entirely due to a drop in sight deposits. On the other hand, savings deposits increased their share of total deposits from 63.2 per cent to 65.7 per cent during the same period. (See Table 5.) As in the preceding period, the continued expansion of savings deposits partly reflected the slow-down in consumer spending. In part, however, it also reflected the fact that business funds are being increasingly kept in the form of savings deposits, a trend that has developed in Austria in recent years.

Government debt operations

During the final half of 1964, Federal authorities undertook several moves to consolidate the Federal debt and lengthen its maturity. The total volume of Federal Treasury bills in circulation was reduced about a third by a combination of repayment of maturing issues and by conversion into longer maturity Treasury certificates and bonds. Although the service cost on the Federal debt was thereby reduced, the debt retirements did have the effect of increasing liquidity in the monetary system.

On February 17, the National Council approved a bill permitting the conversion of Sch 3 billion of the Sch 5.1 billion Federal debt held by the central bank into Treasury bills of

short- and medium-term maturities to be used in open market operations.^{3/} The Sch 780 million of Treasury bills that had been in circulation since a similar conversion in 1962 was not large enough to permit such operations. Distribution of the Sch 3 billion of new bills, which will be denominated in Sch 1 million amounts, will be in maturities fixed at 2 years for Sch 300 million; 6 months for Sch 500 million; and 3 months for Sch 2.2 billion. The bills will carry a 2 per cent coupon payable by the government, but their yield may be adjusted to market conditions--presumably by variations in the buying and selling price--by the National Bank, which will make up any difference between the market yield and the 2 per cent the Treasury will pay.

National Bank officials have indicated that offerings of these bills may be very small in the near future because the current downtrend in the balance of payments surplus, coupled with the need to meet continuing high credit demand, is currently exerting a restraining influence on bank liquidity. On a longer-term view, however, the basis for open market operations created by the funding operation will provide the monetary authorities with a policy instrument they have lacked in the past.

Increased flotations of capital issues projected

A considerably larger volume of new issues is expected on the Austrian capital market this year, in line with official policy

^{3/} See "Economic Developments in Austria, July-November, 1964," page 13.

encouraging the utilization of domestic rather than foreign capital.^{4/} This trend was already apparent in the first quarter, when issues totaling Sch 2.3 billion were offered and easily subscribed, although at prices slightly less favorable to the investor than previously. This compared with Sch 1.5 billion raised in the same period of 1964.

According to recent estimates, new funds to be raised in the domestic bond market should reach the Sch 6.5 billion level this year, compared with Sch 5.4 billion in 1964. The Federal Government plans to raise Sch 3.6 billion--Sch 800 million more than last year--and provincial and local governments Sch 150 million. The big increase will come from the nationalized power companies, which intend to place Sch 3.3 billion in bonds, compared to Sch 1 billion raised in 1964. However, the current downward trend in the foreign payments surplus, together with the continued high demand for bank credit and higher reserve requirements, could impair the market's receptiveness. In fact, some observers already foresee reduced offering prices in the near future.

The flotation last year of long-term bonds totaling Sch 5.3 billion set a postwar record, exceeding the previous high in 1959 by nearly one-fifth. Federal Government bonds, which were up 44 per cent over year earlier, accounted for nearly three-fourths of the issues placed, as in previous years. Due to ample liquidity, bond issues were easily absorbed by the market, even permitting some slight reduction in borrowing costs as the year progressed.

^{4/} To some extent this probably reflects the introduction of U.S. measures to restrain foreign lending.

Prices of stocks on the Vienna securities exchange have dropped slightly lower since the sharp rise registered in September, despite continued overall prosperity in the economy. Most experts trace the market's sluggishness to the failure to enact legislation to encourage investment in stocks and, to some extent, to continued uncertainty over the future chances of the Austrian economy within the larger European Economic Community (EEC) market.

Balance of payments surplus down sharply

Austria's balance of payments surplus, which was primarily responsible for the build-up in liquidity through the third quarter of 1964, dropped to only \$60.5 million for the year: this was substantially below the \$200-230 million forecast made at mid-year and over \$100 million less than in 1963. (See Table 6.) Until October, a surplus of \$164 million had been realized. However, higher payments abroad for trade and the development of a deficit in the capital account produced a \$103.4 million deficit in the fourth quarter.

The vigorous expansion of domestic business, tariff reductions and the elimination of trade restrictions produced a sharp rise in imports. Payments for imports rose significantly above year earlier levels in each quarter of 1964 and produced an annual deficit of \$419 million on trade account--23 per cent larger than in 1963. However, as usual, greater tourist income and increased net receipts from other services more than offset the trade deficit. (See Table 6.)

Table 6. Austria: Balance of Payments, 1963-64
(in millions of U.S. dollars)

	<u>1963</u>	<u>1964</u>	<u>1963</u>	<u>1964</u>		
	<u>Year</u>	<u>Year</u>	<u>IV</u>	<u>I</u>	<u>II-III</u>	<u>IV</u>
Goods and services						
Exports	1,334.8	1,444.4	362.3	324.9	724.9	394.6
Imports	<u>1,675.6</u>	<u>1,863.3</u>	<u>440.9</u>	<u>433.9</u>	<u>916.8</u>	<u>512.6</u>
Trade balance	-340.8	-418.9	-78.6	-109.0	-191.9	-118.0
Travel balance	313.7	385.2	34.5	67.2	272.0	46.0
Other services						
Balance	<u>32.8</u>	<u>37.2</u>	<u>2.9</u>	<u>15.8</u>	<u>16.3</u>	<u>5.1</u>
Total goods and service balance	<u>5.7</u>	<u>3.5</u>	<u>-41.2</u>	<u>-26.0</u>	<u>96.4</u>	<u>-66.9</u>
Unilateral payments (net)	<u>11.8</u>	<u>53.9</u>	<u>2.0</u>	<u>6.1</u>	<u>31.8</u>	<u>16.0</u>
Capital transactions balance	<u>129.1</u>	<u>24.3</u>	<u>11.2</u>	<u>32.9</u>	<u>32.3</u>	<u>-40.9</u>
Errors and Omissions	<u>22.2</u>	<u>-21.2</u>	<u>0.1</u>	<u>9.8</u>	<u>-19.4</u>	<u>-11.6</u>
Surplus (+) or Deficit (-)	<u>168.8</u>	<u>60.5</u>	<u>-27.9</u>	<u>22.8</u>	<u>141.1</u>	<u>-103.4</u>
Financed by:						
Drawing rights on IMF (increase-)	-11.0	-35.0	-11.0	-10.0	-5.0	-20.0
Miscellaneous capital (net) ^{1/}	-20.8	+28.5	48.1	-41.8	-85.1	+155.4
Austrian National Bank (increase-)						
Foreign exchange	-54.3	+10.0	23.2	62.0	-28.0	-24.0
Gold	<u>-82.7</u>	<u>-64.0</u>	<u>-32.4</u>	<u>-33.0</u>	<u>-23.0</u>	<u>-8.0</u>
Total	<u>-168.8</u>	<u>-60.5</u>	<u>+27.9</u>	<u>-22.8</u>	<u>-141.1</u>	<u>+103.4</u>

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

^{2/} Preliminary.

Source: Oesterrichische Nationalbank, Mitteilungen; IMF, International Financial Statistics.

Net unilateral receipts last year were \$40 million above 1963, owing primarily to an increase in payments from Germany under the Austriion-German financial agreement, to higher pension transfers from abroad, and to the cessation of reparation deliveries to the U.S.S.R.

However, the principal reason, for the substantially lower 1964 surplus was the development of the smallest surplus on capital account since 1955. The reversal of trends in this account became apparent in the third quarter when reduced official foreign borrowing, lower nonresident buying of local securities, the build-up of foreign exchange investments by the banking system, and the high number of export promotion credits granted produced a modest \$9 million deficit. The deficit increased sharply in the final quarter as the trend toward higher capital exports was intensified by the repayment of foreign credits, and by liquidation of nonresident direct investment and participation in Austrian firms. The third and fourth quarter deficits offset all but \$24 million accrued from capital transactions in the first six months of the year. (See Table 7.)

Among settlement items, the foreign exchange assets of the commercial banks reflected the fourth quarter deficit most sharply. In fact, net private foreign exchange balances were drawn down nearly 50 per cent more than the actual payments deficit, thus giving rise to an increase in official reserves. (See Table 6.) For the year as a whole, additions to gold holdings absorbed slightly more than

Table 7. Austria: Balance of Payments, 1963 - 1964

	<u>CAPITAL ACCOUNT</u>					
	<u>(in millions of U.S. dollars)</u>					
	<u>1 9 6 3</u>			<u>1 9 6 4</u>		
	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
Credits to Austria	135.8	75.6	+60.2	164.0	90.1	+73.9
Credits to non-residents	7.8	20.0	-12.2	5.3	57.6	-52.3
Non-resident transactions ^{1/}	92.2	41.3	+50.8	72.4	45.9	+26.5
Resident transactions ^{1/}	6.3	14.5	-8.3	13.7	30.1	-16.5
Other transactions	<u>42.0</u>	<u>2.4</u>	<u>+39.6</u>	<u>32.5</u>	<u>40.0</u>	<u>-7.4</u>
Total	284.1	153.8	+130.3	287.9	263.7	+24.2

^{1/} Direct investment, shares, bonds and real estate.
Source: Oesterreichische Nationalbank, Mitteilungen.

Table 8. Austria: Foreign Trade
(seasonally adjusted, in millions of U.S. dollars, month or monthly average)

	<u>1963</u>		<u>1964</u>				<u>1965</u>	
	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Jan.</u>	<u>Feb.</u>
Imports, c.i.f.	140	141	145	155	155	166	155	161
Exports, f.o.b.	<u>111</u>	<u>115</u>	<u>115</u>	<u>116</u>	<u>123</u>	<u>126</u>	<u>132</u>	<u>130</u>
Balance	-29	-26	-30	-39	-32	-40	-23	-31

a/ Preliminary figures.

Source: OECD, Main Economic Indicators;
Neue Zurcher Zeitung.

the surplus; the combined decrease in private and official foreign exchange holdings approximately equaled the rise in the National Bank's drawing rights on the International Monetary Fund.

Exports maintain vigorous growth rate

In the first two months of this year, seasonally adjusted exports continued the vigorous upward trend which developed in July-September 1964. Undoubtedly, export performance would have been even better had it not been for the effects of the British import surcharge. However, a tapering off of imports allowed the trade deficit to fall substantially below the fourth quarter levels. (See Table 8.) The level of exports in January-February rose 4 per cent above the fourth quarter monthly average and 14 per cent over year earlier levels. Export demand for semi-finished and finished goods--particularly nondurable consumer items--and machinery and equipment has been rising. Some Austrian firms have recently met with success in selling semi-completed and completed industrial installations and plants, especially to Eastern Europe, in joint undertakings with other Western European suppliers.

Although imports were 4.8 per cent below fourth quarter levels in January-February, continuing investment demand for capital equipment, together with raw material requirements, is expected to keep imports growing at a rate at least equal to last year's gain of 11 per cent--if not higher.

The very vigorous expansion in 1964 increased Austria's total imports 11.2 per cent over 1963. However, since exports rose only 8.9 per cent, the total trade deficit of \$418 million was 20 per cent more than in 1963.

Several factors contributed to this record trade deficit. The British imports surcharge caused a 6 to 10 per cent drop in hitherto steadily rising sales to the United Kingdom in November and December. According to a recent survey by the Austrian Federal Chamber of Economy, about 65 per cent of Austrian firms exporting to Britain suffered setbacks in the range of 20 to 90 per cent of their total exports because of the surcharge. In addition, the effects of EEC preference were more keenly felt in 1964. Austria's exports to EEC countries advanced only 3.7 per cent^{5/}-compared with an overall 8.9 per cent rise--while exports to her European Free Trade Association (EFTA) trading partners shot up by 26 per cent. Since Austrian trade with the EEC is such a large share of total trade, these adverse export developments with the EEC were almost entirely responsible for the deterioration in the trade balance in 1964.

Official reserves decline; gold holdings increase

The Austrian National Bank's holdings of gold and foreign exchange declined \$49 million in the January-April period, primarily due to the reversal of year-end commercial bank window-dressing

5/ This slow rate of growth was due in part to the Italian recession.

operations. (See Table 9.) However, gold purchases of \$37 million raised the gold ratio to 53 per cent, compared with 48 per cent at the end of 1964.

Between December 31, 1963 and December 31, 1964, the central bank's gold holdings rose by \$59 million. Total reserves, however, increased less--\$49 million--raising the gold ratio from 45 per cent to 48 per cent.

Table 9. Austria: Official Gold and Foreign Exchange Reserves
(end of month, million U.S. dollars)

	1963	1964			1965				
	<u>Dec.</u>	<u>March</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>
Gold	536	563	586	587	595	595	607	619	632
Foreign exchange	<u>655</u>	<u>593</u>	<u>576</u>	<u>621</u>	<u>645</u>	<u>581</u>	<u>565</u>	<u>564</u>	<u>559</u>
Total	1,191	1,156	1,162	1,208	1,240	1,176	1,172	1,183	1,191
Change (for yr.)	+136	-35	+6	+46	+32	-64	-4	+11	+8
Gold as % of reserves	45	49	50	49	48	51	52	52	53
Exchange rate (par value: U.S. 3.846 cent/ schilling)	3.869	3.868	3.869	3.871	3.871	3.870	3.868	3.869	3.870

Source: Oesterreichische Nationalbank, Wochenausweise.