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ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1972

BASIC STATISTICS OF AUSTRIA

THE LAND

Area (thousand km ²)	84	Major cities, May 1971	
Agricultural area (thousand km ²)	39	(thousands of inhabitants):	
Exploited forest area (thousand km ²)	32	Vienna	1 603
		Graz	249
		Linz	205
		Salzburg	127
		Innsbruck	115

THE PEOPLE

Population, May 1971	7 443 809	Net emigration, annual average	
per km ²	89	1968-1970	8 840
Net natural increase in population,		Total employment ¹ , monthly	
annual average 1968-1970	22 340	average 1971	2 454 900
per 1 000 inhabitants	3.0	in industry ²	648 000

PRODUCTION

Gross National Product, 1971		Industrial origin of GNP at market	
(Sch. billion)	416	prices, 1971 (per cent):	
per head (US \$)	2 250	Agriculture	6
Gross fixed investment,		Industry	36
average 1969-1971:		Construction	10
per cent of GNP	27	Other	48
per head (US \$)	550		

THE GOVERNMENT

Public consumption, 1971		Composition of Federal Parliament,	
(per cent of GNP)	15	October 1971:	
General Government current revenue,		Socialist Party	93
1970 (per cent of GNP)	36	Austrian People's Party	80
Federal Government debt, end 1971		Liberal Party	10
(per cent of Federal Government		Last election: 1971	
revenue)	45	Next election: 1975	

FOREIGN TRADE

Exports:		Imports:	
Exports of goods and services, 1969-1971		Imports of goods and services, 1969-1971	
(per cent of GNP) average	30	(per cent of GNP) average	30
Exports, 1971 (per cent of total		Imports, 1971 (per cent of total	
merchandise exports):		merchandise imports):	
Food, tobacco, beverages	5	Food, tobacco, beverages	9
Raw materials and energy	11	Raw materials and energy	17
Chemicals	6	Chemicals	9
Machinery and transport equipment	25	Machinery and transport equipment	34
Other finished		Other finished	
and semi-manufactured products	53	and semi-manufactured products	31

THE CURRENCY

Monetary unit: Schilling	Currency units per US dollar:	23.30
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1 Wage and salary earners.

2 Including administrative personnel.

NOTE An international comparison of certain basic economic and demographic statistics is given in an annex table.

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July 1972

CORRIGENDUM

Delete tables 1, page 8
17, page 30
22, page 36

and replace by the following tables.

Table 1 Growth and Price Performance in Austria
and Selected OECD Countries 1968-1971
Annual Rates of Change in Per Cent

	1968		1969		1970		1971	
	GNP deflator	Real GNP	GNP deflator	Real GNP	GNP deflator	Real GNP	GNP deflator	Real GNP
Austria	2.4	4.4	3.4	6.1	4.4	7.8	5.6	5.2
Belgium	2.7	3.5	3.9	6.7	5.1	6.1	5.1	4.2
Netherlands	3.6	6.6	5.6	5.7	4.7	5.6	7.8	4.0
Sweden	2.3	4.1	3.4	5.0	6.5	4.7	7.3	0.3
Switzerland	3.5	4.2	2.7	6.2	5.0	4.5	8.0	4.3
Germany	1.6	7.3	3.4	8.0	7.3	5.5	7.7	2.8
Italy	1.5	6.0	4.2	5.9	6.7	5.0	6.8	1.2
United Kingdom	4.0	2.8	5.0	2.1	7.1	2.2	9.0	1.7
OECD Europe	3.1	4.8	4.7	6.2	6.5	5.1	7.2	3.1

Source: OECD.

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Table 17 Long-Term Export Performance
Market gains (+) or losses (—)
In per cent

	1958 to 1961	1962 to 1966	1967 to 1971
Measured by ¹ :			
OECD imports	1.6	-2.8	1.8
Geographical method	-3.0	-2.9	0.1
Country/commodity method		-3.3 ²	-0.4

1 Annual average growth of Austrian exports (value, dollar basis), less growth of OECD imports (unweighted), OECD geographical export markets and OECD country/commodity markets respectively.
2 1963-1966.

Source: OECD.

Table 22 Key Growth Variables During Business Cycles in Industry
Average annual rates of change, in per cent

	1958 to 1961	1962 to 1966	1967 to 1971
Employment	1.1	-0.2	0.7
Hours worked per employed	-1.3	-0.5	-0.7
Total hours worked	-0.2	-0.7	0
Labour productivity ¹	6.1	5.2	7.0
Production	5.9	4.5	7.0
Gross fixed investment (volume)	9.5	-0.7	9.2
Capital stock	7.0	6.1	5.3
Capital intensity ²	7.2	6.8	5.3
Capital output ratio ³	2.1	2.2	2.1
Capacity utilisation (level) ⁴	84.3	85.6	86.8

- 1 Industrial production divided by total hours worked.
- 2 Capital stock divided by total hours worked.
- 3 Capital stock divided by industrial production (level).
- 4 According to the industry survey.

Source: Austrian Institute for Economic Research.

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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**

The annual review of Austria
by the OECD Economic and Development Review Committee
took place on 29th June 1972.

The present Survey has been updated subsequently.

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INTRODUCTION

The strong expansion of activity of recent years continued in 1971 and the early months of 1972, with domestic demand replacing exports as the main dynamic element. The rise in prices, although accelerating, has been less steep than in many other countries, thanks to a remarkably high degree of wage restraint. Nevertheless, the acceleration of price increases since the middle of last year is giving rise to concern. Following the adjustment of a wide range of administered prices, some easing of price pressure can be expected during the second half of the current year, but next year may see renewed acceleration because of stronger demand growth and the introduction of the TVA on 1st January. Exports may re-emerge as a strong source of buoyancy and private consumption will be stimulated by a reduction of the direct tax burden; the tax reform measures to take effect next year will lead to a substantial weakening of the federal government budget. Maintenance of a reasonably satisfactory price performance may require a limited period of cooling-off and stricter price controls and will in any case depend heavily on the attitudes of labour and management.

Part I of the present Survey reviews the final stage of the 1968-1971 business upswing which was remarkable both in its strength and duration. The analysis may throw some light on the question of why Austria has been spared the event of "stagflation" experienced by many other Member countries in recent years. Part II considers prospects for maintaining the economy on an even keel during the remainder of the current year and, notably, in 1973 when both demand management and institutional arrangements for price/income determination will be put to a critical test. Looking further ahead, Part III discusses the question whether the higher rate of productivity advance recorded during the last business cycle will be of a lasting nature or merely reflected a fortuitous combination of favourable factors. Part IV summarises the main conclusions and raises some points for policy.

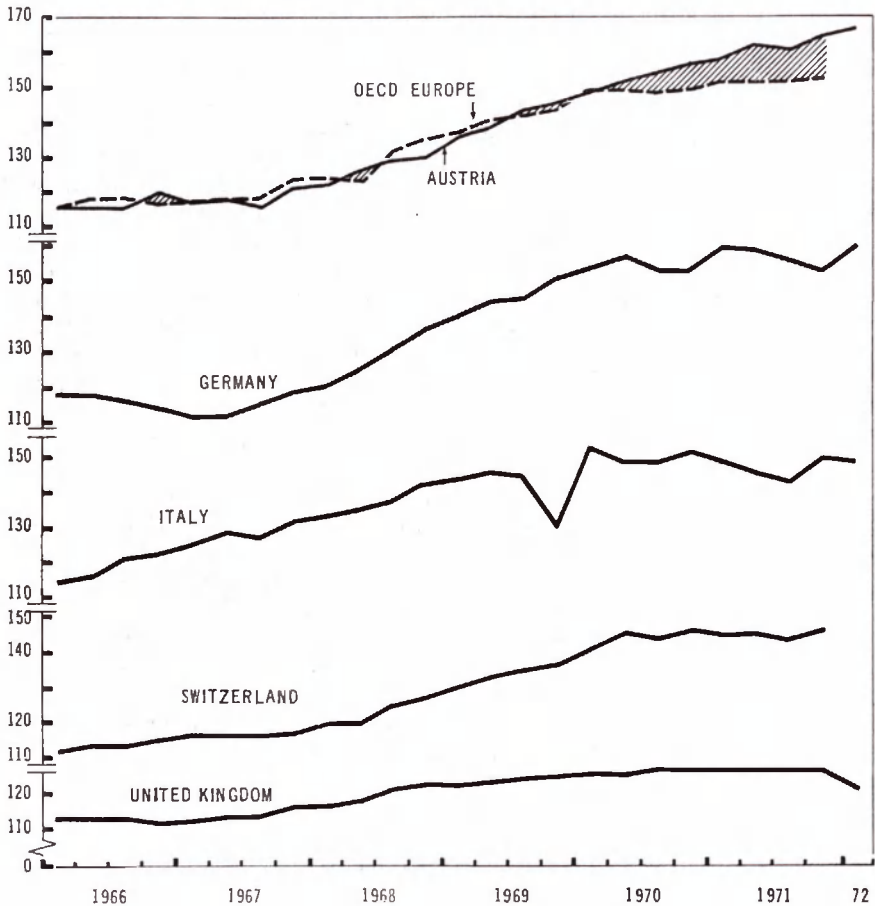
I SHORT-TERM TRENDS

(a) *The international and domestic cyclical background*

During the past two decades the Austrian economy has largely followed developments in its principal foreign markets, with peaks and troughs in the level of activity, however, generally much less pronounced. Since 1970 there has been a marked departure from this pattern (Diagram 1). The recessionary tendencies, which progressively affected domestic demand and output in most European economies, did not spread to Austria. The rate of expan-

sion of GNP accelerated sharply between 1969 and 1970 and remained above the long-term rate of capacity growth in 1971 and the first half of 1972. Nevertheless, the price level as measured by the GNP deflator rose less rapidly in Austria than generally elsewhere, confirming the relatively good price performance noted in last year's Annual Survey (Table 1).

Diagram 1 Relative Cyclical Position of Austrian Economy in International Comparison
Industrial production, seasonally adjusted, 1963 = 100



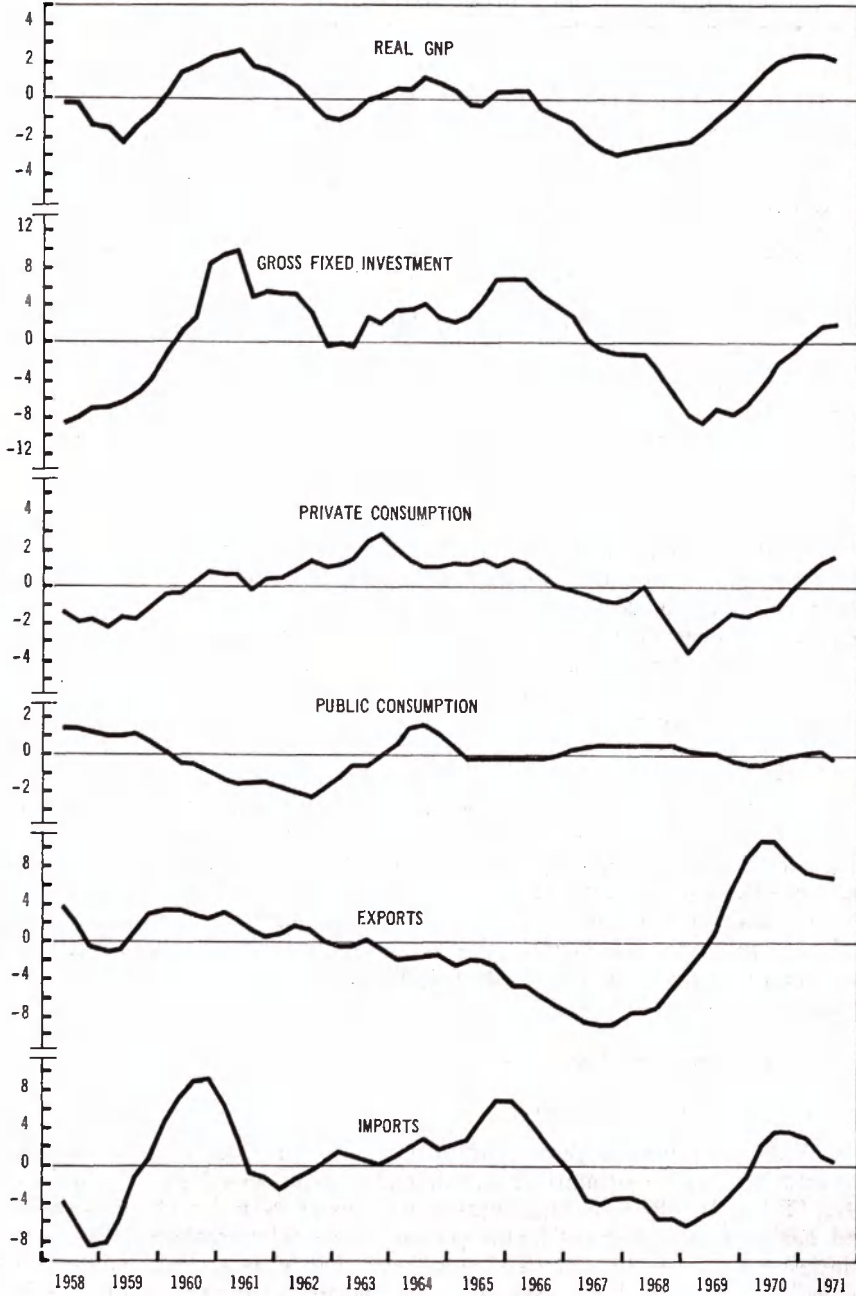
Source: OECD.

Recent developments also compare favourably with previous cyclical experience. The export-induced upswing which developed in 1968/69 was sustained by a strong recovery of important domestic demand components during 1970/71 (Diagram 2). The upswing was, thus, both stronger and longer than earlier boom periods. Due to large productivity gains, the growth of

Austria

Diagram 2 GNP and Main Components 1958-1971

Percentage deviation from linear logarithmic trend, 3 quarter moving averages



Sources: Austrian Institute for Economic Research; OECD.

Table 1 Growth and Price Performance in Austria
and Selected OECD Countries 1968-1971
Annual Rates of Change in Per Cent

	1968		1969		1970		1971	
	GNP deflator	Real GNP	GNP deflator	Real GNP	GNP deflator	Real GNP	GNP deflator	Real GNP
Austria	2.4	4.4	3.4	6.1	4.4	7.8	5.6	5.2
Belgium	2.7	3.5	3.9	6.7	5.2	6.1	5.1	4.2
Netherlands	3.6	6.6	5.6	5.7	4.7	5.6	7.8	4.0
Sweden	2.3	4.1	3.4	5.0	6.5	4.7	7.3	0.3
Switzerland	3.5	4.2	2.7	6.2	5.0	4.5	8.5	4.2
Germany	1.6	7.3	3.4	8.0	7.3	5.5	7.7	2.8
Italy	1.5	6.0	4.2	5.9	6.6	4.9	6.6	1.4
United Kingdom	4.0	2.8	5.0	2.1	7.1	2.0	9.0	1.6
OECD Europe	3.1	4.8	4.7	6.2	6.0	4.8	7.1	3.5

Source: OECD.

real GNP accelerated to an average annual rate of 5 per cent in 1967-71 against the $4\frac{1}{2}$ per cent recorded during the 1962-66 cycle. The GNP deflator and consumer prices rose on average only marginally faster although demand pressures were considerably stronger than in the earlier period. At the same time there has been a clear strengthening of the underlying balance-of-payments position. The current external deficit which in terms of GNP had increased from $\frac{1}{2}$ per cent to almost 2 per cent between 1961 and 1966, the two previous peak years, fell back to $\frac{1}{2}$ per cent in 1971. This is all the more remarkable as the *relative* cyclical position from the viewpoint of the balance of payments has been particularly unfavourable for Austria during the last two years.

The final stage of the last boom also saw some less favourable features. Unit labour costs rose sharply, and prices, especially the consumer price index, accelerated. Although the price rise was by no means dramatic—neither by international comparison nor relative to prevailing demand pressures—the increases in the GNP deflator (5.6 per cent) and consumer prices (4.7 per cent) were significantly higher in 1971 than in 1961 and 1966. The main factors determining these developments are discussed in the following sections.

(b) *Recent economic developments*

1 *Sustained pressure on resources*

With slackening exports and declining stockbuilding, final domestic demand became the primary source of real *demand growth* in 1971 and early 1972 (Table 2). Private consumption rose faster than for 15 years in 1971 and has remained buoyant in the present year. The acceleration of wages, salaries and transfer incomes has outstripped that of fiscal drag and consumer prices by a large margin. Spending was heavily concentrated on durables, notably purchases of motor cars which accounted for one percentage point

Austria

of the increase in private consumption. Public consumption also rose more rapidly in 1971 than in recent years, largely due to a further increase in public sector employment.

Table 2 Demand and Output
Percentage increase at constant prices

	1968	1969	1970	1971
Private consumption	3.9	3.3	6.0	7.2
Public consumption	2.9	2.6	2.3	3.5
Gross fixed investment	4.2	0.6	11.6	12.0
<i>of which:</i>				
machinery and equipment	1.7	6.4	11.7	12.6
construction	6.1	-3.7	11.5	11.5
Change in stockbuilding ¹	0.1	1.2	0.8	-1.9
Total domestic demand	3.9	3.7	7.7	5.9
Exports	10.1	16.9	18.5	4.7
Imports	7.7	7.7	18.6	6.9
Change in foreign balance ¹	0.5	2.4	0.2	-0.7
Total Demand (GNP plus imports)	5.2	6.5	10.3	5.6
GNP	4.4	6.1	7.8	5.2

¹ As a percentage of previous year's GNP.

Sources: Austrian Central Statistical Office, Austrian Institute for Economic Research.

The growth of business fixed investment slowed down in the course of 1971 and the first few months of 1972, and order backlogs in the investment goods industries contracted. But building investment pushed the rate of growth of total gross fixed asset formation in 1971 even slightly above the high rate experienced in 1970. Favoured by mild weather, construction activity remained strong well into the first half of the current year with house-building, public investment and the construction of hydro-electric power stations constituting the main sources of buoyancy.

1971 marked the third consecutive year of above capacity growth of non-agricultural output. *Supply conditions* have therefore until recently remained tight, although the investment boom has entailed a considerable widening of industrial capacity and the labour market has proved to be unexpectedly elastic (Table 3). The number of wage and salary earners rose by 65 700 or 2.7 per cent in 1971 reflecting mainly a decline in the number of self-employed persons and assisting family members in the agricultural sector (26 000) and an accelerating intake of foreign workers (24 000 net of emigration of Austrian workers). A further reduction of unemployment (6 400) and increased participation notably of female and higher age groups (about 5 000) also contributed to the growth of dependent employment. Nevertheless, unfilled vacancies continued to rise up to the first months of this year, albeit at decelerating rates. Labour shortages have remained a major bottleneck in the building industry where foreign workers now account for about one-fourth of total employment.

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Table 3 Labour Market and Productivity

	1968	1969	1970	1971
Wage and salary earners (in 1 000)	2 339.3	2 357.7	2 389.2	2 454.9
Percentage change from previous year	-0.1	0.8	1.3	2.7
Unemployed (in 1 000)	72.2	68.2	59.5	52.9
Percentage change from previous year	9.4	-5.7	-12.8	-11.0
Vacancies (in 1 000)	27.6	33.9	45.3	55.9
Percentage change from previous year	-14.7	22.6	33.6	23.5
Unemployment ratio ¹	2.9	2.8	2.4	2.1
Vacancies: unemployed	0.4	0.5	0.8	1.1
Increase in overall productivity (per cent) ²	4.7	5.3	6.4	2.4
Increase in productivity in industry	8.9	8.8	4.8	4.4

1 Unemployment in per cent of the dependent labour force. The ratio includes persons not immediately available for work (approximately 1 per cent of the labour force).

2 Real GNP: total employment.

Sources: Austrian Central Statistical Office, Austrian Institute for Economic Research.

Since imports (volume) rose faster in 1971 than total aggregate demand, the supply of goods and services from abroad helped, to an increasing extent, to alleviate the pressure on domestic resources. Reflecting the structure of demand growth, imports of raw material and semi-finished goods levelled off, while investment and consumption goods accounted for a rising share of total imports.

2 Accelerating cost and price rise

It was only as from the beginning of 1971 that the persistently tight labour market conditions began to be reflected in stronger pressures on costs (Table 4). The increases in collectively negotiated standard rates provided by the late 1970/early 1971 wage round (typically covering contract periods of 17-18 months) did not seem excessive, but actual hourly earnings tended

Table 4 Wages, Incomes, Unit Labour Costs
Percentage Changes

	1968	1969	1970	1971
Standard rates overall	6.6	5.8	6.0	10.2
Standard rates in industry	6.7	5.8	5.2	11.2
Total compensation of employees	6.1	8.8	9.2	15.3
Earnings in industry	4.8	9.5	13.2	17.0
Income from property and entrepreneurship	7.7	11.7	18.0	3.1
Unit labour costs overall ¹	1.5	2.4	1.3	9.6
Unit labour costs in industry	-2.1	-2.3	4.3	8.7

1 Compensation of employees: real GNP.

Source: Austrian Institute for Economic Research.

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to rise considerably faster than foreseen in collective settlements, and regular wage and salary payments were supplemented by sizeable additional pay benefits such as year-end and vacation bonuses. As a result wagedrift in 1971 was much stronger than earlier, amounting on average to 3 per cent in the private sector. Most contracts came up for renegotiation in the first half of the present year. The settlements suggest that increases in standard rates may be roughly one percentage point higher than provided for in the previous round with little tendency of the wagedrift to decline.¹

The prolonged strong demand pull and mounting cost pressures have led to an acceleration of the *rise in prices* (Table 5). As foreign demand has subsided and foreign trade prices (in Austrian schillings) have tended to increase significantly less than in 1970, inflationary pressures over the last 18 months have mainly been due to domestic factors. The earlier deterioration of the terms of trade has been sharply reversed since 1971. The steeper rise in the machinery and equipment price deflator is related to the continued high level of business fixed investment and the upturn in unit labour cost in industry, while the rapid advance in building prices clearly reflects unabated domestic demand pressures and severe capacity constraints. The faster increase in the consumer price index can partly be attributed to lagged upward adjustments in a wide range of publicly-controlled prices and housing rents which mainly occurred during the twelve-month period ending June 1972. It might be that recent prices revisions have already been affected by moves in response to the forthcoming introduction of TVA on 1st January, 1973. During the last four months covered by statistics (February-May) the consumer price index was running some 6 per cent above the corresponding level of the previous year, with some easing off during the period.

Table 5 Changes in Prices Deflators of GNP and Main Expenditure Components
In per cent

	1968	1969	1970	1971
Private consumption	2.5	3.2	3.5	4.0
Public consumption	6.2	7.8	7.9	7.3
Machinery and equipment	1.5	3.8	5.8	6.8
Construction	-3.4	4.5	7.8	9.6
Exports	1.7	2.6	4.9	4.1
Imports	1.1	5.0	7.2	3.5
Terms of trade	0.5	-2.2	-2.1	0.6
GNP	2.4	3.4	4.4	5.6
Total demand	2.1	3.7	4.9	5.1

Source: Austrian Institute for Economic Research.

¹ The main features of the recent metal workers' agreement concluded in June 1972 are (figures in brackets relate to the previous settlement of January 1971): currency period 17-18 months (17 months), increase in standard hourly rates 14 per cent (13 per cent), stipulated minimum increase in effective hourly earnings $9\frac{1}{2}$ per cent ($8\frac{1}{2}$ per cent). Recalculated on an annual basis the standard wage rate increase works out at 8 per cent (7 per cent).

3 Cyclical deterioration of the current balance

The economy's strong relative cyclical position has entailed a widening of the *trade deficit* (Table 9). Moreover, the appreciation of the Austrian schilling, which effectively amounted to about 1 ½ per cent for the year 1971 as a whole,¹ may have exerted a negative impact, although probably a small one, since short-run price elasticities in foreign trade are probably low, and the effective appreciation of the schilling was, at any rate, deliberately kept within a narrow margin.

The considerable slowdown in the growth of merchandise exports in 1971 was partly due to a loss in market shares (Table 6). This was however less pronounced than in earlier periods of strong demand pressures, reflecting the strength of the economy's present competitive position as well as a continued diversification of Austria's exports both by regions and commodities (Table 7).² The rise in merchandise imports, although still stronger than that of exports, may have passed its cyclical peak in 1971 as the import/expenditure elasticity was significantly lower than the preceding year's exceptionally high level (Table 8). Moreover, import prices which, under the impact

Table 6 Austrian Export Performance
Annual percentage changes (dollar basis)

	Growth of Austria's export markets ¹	Growth of Austria's exports	Gain (+) or loss (-) in market shares
1961	9.4	7.4	-2.0
1962	8.6	5.1	-3.5
1963	9.0	5.0	-4.0
1964	11.3	9.1	-2.2
1965	11.6	10.6	-1.0
1966	8.9	5.2	-3.7
1967	6.3	7.4	1.1
1968	11.1	9.9	-1.2
1969	18.4	21.3	2.9
1970	19.1	18.4	-0.7
1971	11.5	10.1	-1.4

¹ Growth which would occur in Austria's exports if it maintained its share in total OECD exports to each of 19 geographical markets.

Source: OECD.

¹ On 10th May, 1971, the schilling was revalued by 5.05 per cent against the US dollar, with the official support points fixed at ± 1 per cent from parity (against $\pm \frac{1}{2}$ per cent earlier). On 24th August the schilling was officially permitted to float, but the Central Bank aimed at keeping the effective schilling rate unchanged on average against Austria's main trading partners. Following the Smithsonian currency agreements, a central rate was established on 22nd December, 1971, implying a further schilling revaluation of 6.22 per cent against the US dollar, with the official band widened to $\pm 2 \frac{1}{2}$ per cent. Weighted with Austria's exports to its main trading partners, the appreciation of the schilling for 1971 as a whole did not on average exceed 1.5 per cent but works out at some $3 \frac{1}{2}$ per cent as compared with the rates existing on 1st May, 1971.

² For elaboration of this point see Chapter III.

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Table 7 Structure of Foreign Trade¹

	Total exports = 100			Total imports = 100		
	1969	1970	1971	1969	1970	1971
By commodity groups :						
Food, etc.	4.4	4.5	4.7	8.2	7.3	7.4
Raw materials	13.3	12.5	11.4	17.6	18.6	16.9
Semi-manufactures	23.8	22.9	21.6	20.9	20.2	18.0
Investment goods	22.0	22.7	23.3	17.6	18.7	20.4
Consumer goods	36.5	37.4	39.0	35.6	35.3	37.4
By country groups:						
EFTA ²	24.4	26.5	28.0	19.4	19.4	19.6
of which: Switzerland	9.5	10.4	11.2	7.6	7.4	7.4
U.K.	5.7	6.1	7.2	6.6	6.8	6.6
EEC	41.4	39.5	38.8	56.5	56.1	55.9
of which: Germany	24.2	23.4	23.0	41.3	41.2	41.0
Italy	10.1	9.7	9.3	6.6	6.5	6.7
Eastern Europe	13.6	12.9	12.1	9.7	9.4	9.1
Other	20.6	21.1	21.1	14.4	15.1	15.4

1 Excluding reimports of repaired aeroplanes and exports of aeroplanes in need of repair.

2 Including Finland.

Sources: Austrian Central Statistical Office, Austrian Institute for Economic Research.

of the 1969 revaluation of the Deutschemmark, had risen by 8 per cent in 1970, increased by only 3 per cent in 1971 reflecting, in particular, the decline of raw material prices as well as the favourable impact of the schilling revaluation.

Table 8 Import/Expenditure Elasticity¹

1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
1.7	0.5	0.7	1.0	1.1	1.3	1.2	-0.2	1.1	1.3	1.6	1.2

1 Percentage increase in merchandise imports (value). Percentage increase in total aggregate demand (value).

Sources: Austrian Central Statistical Office, Austrian Institute for Economic Research.

A further considerable increase in receipts from tourism and the growing surplus on transfer account helped to dampen the negative impact of the widening trade gap on the *current account* of the balance of payments. Net receipts from tourism rose by 25 per cent in 1971 following an increase of almost 40 per cent in 1970. This was largely due to the fast rise of German tourist expenditure which was stimulated by the upsurge in earnings in Germany and the revaluation of the Deutschemmark. Nevertheless, the current account swung from a roughly balanced position in 1970 to deficit in 1971. The deterioration can be wholly explained by the economy's relative cyclical

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position;¹ on a cyclically adjusted basis (assuming high employment both at home and abroad) the current account may have been in approximate equilibrium. Moreover, an important part of the large positive errors and omissions item may have represented unrecorded current transactions.

Net long- and short-term capital flows moved in different directions in 1971. The long-term capital account switched from surplus to deficit², influenced, *inter alia*, by a significant reduction of the Federal Government's foreign

Table 9 Balance of Payments
\$ million

	1968	1969	1970	1971
Trade balance	-538	-435	-722	-1 069
Exports	1 995	2 415	2 859	3 166
Imports	2 535	2 850	3 582	4 235
Services, net	415	489	678	930
Foreign travel	430	489	676	882
Receipts	687	785	999	1 271
Expenditure	-257	-296	-323	-389
Investment income, net	-56	-44	-48	-51
Other services, net	42	44	48	99
Transfers, net	40	46	35	49
Current balance	-83	100	-9	-90
Long-term capital, net	187	-25	15	-19
Official, net ¹	179	31	13	-54
Private, net	7	-56	2	35
Basic balance	104	75	6	-109
Non-monetary short-term capital	-20	-19	-36	17
Errors and omissions	34	52	97	120
Balance on non-monetary transactions	118	108	67	28
Private monetary institutions short-term capital	-84	-70	115	274
Balance on official settlements excl. allocation of SDRs	34	37	180	302
Allocation of SDRs	—	—	29	19
Change in reserves (+ = increase) incl. allocation of SDRs	34	37	209	321
Gold	13	—	-1	-20
IMF position and SDRs	43	7	28	-4
Other	-23	30	182	346

1 Excluding changes in IMF quota.

NOTE Differences dues to rounding. Dollar value figures for 1971 have been calculated with exchange rate index based on monthly average quotation of US dollar in Vienna during 1971.

Source: Austrian National Bank.

1 Expressed as a percentage of nominal GNP the current account developed as follows, with 1961, 1966 and 1971 representing years of highest pressure on resources during business cycles :

1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
-1.3	-0.5	1.1	0.1	0.5	-0.4	-1.8	-1.0	0.7	0.8	-0.1	-0.5

2 This excludes the transfer of Government claims against the IMF to the Central Bank.

indebtedness. Short-term capital flows, on the other hand, produced a surplus after leaving a sizeable deficit in 1970. This swing was largely due to a strong increase in net short-term foreign liabilities of the banking and company sectors associated with the international monetary crisis. The sharp rise in banks' net foreign liabilities inflated the Central Bank's reserve holdings while the improvement in Austria's total *reserve position* (i.e. official plus banks' net foreign assets) was less pronounced (Table 9).

(c) *Main features of economic policy*

1 *Active posture of monetary policy*

The excessive increase in domestic liquidities resulting from capital inflows during the international currency crisis and the decline in international interest rates in early 1972 prompted the monetary authorities to take a number of restrictive counter-measures. To shield the economy against speculative inflows of short-term capital the Central Bank concluded a gentlemen's agreement with domestic commercial banks in May 1971 according to which the banks refrained from improving their liquidity position by prematurely recalling foreign loans or outright sales of foreign exchange. At the same time, the banks undertook to place a fixed percentage of any increase in their schilling liabilities to non-residents as a special non-interest-bearing deposit with the Central Bank. A new agreement of the same type was concluded last August since the earlier one had proved to be quite effective in preventing an unwanted increase in banks' foreign schilling liabilities. However, short-term capital imports by the company sector and a rapid increase in banks' liabilities to non-residents denominated in foreign currencies provided a further easing of financial conditions. It is true that the increase in such liabilities represented the counterpart of foreign currency loans raised by Austrian companies from domestic banks for hedging purposes; but the domestic liquidity position of the banking system was nevertheless improved as a result of these transactions. Companies converted their loan proceeds into Austrian schillings, the bulk of which were supplied by the Central Bank, as commercial banks tended to avoid a build-up of short-term foreign assets. As a consequence the 'monetary base' automatically widened. To mop up the resulting excess liquidity the Central Bank sold Sch. 5 billion worth of special certificates of deposit to the banking system in the second half of 1971 which were repaid in mid-November.

The authorities hesitated in 1971 to take further steps of a more lasting nature because they expected an early outflow of short-term funds following the ending of the international currency crisis. In the event however, the early months of 1972 saw renewed inflows of foreign capital, probably influenced by the decline in international interest rates. In these circumstances the gentlemen's agreement pertaining to the banks' schilling liabilities to non-residents was extended to mid-1972. In February 1972, the banks' liquid reserves were reduced by about Sch. 4 billion through an increase in minimum reserve requirements, open market transactions and a special borrowing operation of the Treasury. Furthermore, it was agreed to lower credit ceilings under the existing Credit Control Agreements by two percentage points, and banks were requested to encourage their customers to take domestic rather than foreign credits. In June, further measures were taken to reduce

Table 10 Banks
Schilling

	Changes during			
	1970			Year
	Year	1st half	2nd half	
1 Notes and coin	+ 206	+ 254	— 48	+ 213
2 Excess reserves	— 550	— 1 194	+ 644	— 825
3 Unused unconditional refinancing facilities with Central Bank	— 120	+ 1 130	— 1 250	+ 368
4 Short-term foreign assets ¹	+ 6 943	+ 1 452	+ 5 491	+ 3 620
5 Gross "free reserves" (1—4)	+ 6 479	+ 1 642	+ 4 837	+ 3 376
6 Liabilities with Central Bank ²	— 876	+ 1 902	— 2 778	— 1 054
7 Sight deposits of foreign banks	+ 2 931	+ 2 867	+ 64	— 3 150
8 Money market liabilities (6 + 7)	+ 2 055	+ 4 769	— 2 714	— 4 204
9 Net "free reserves" (5 — 8)	+ 4 424	— 3 127	+ 7 551	+ 7 580
10 Total deposits				
11 Liquidity ratio (9/10)				

1 Sight and time deposits with foreign banks, incl. swaps and foreign exchange.
2 Bills discounted by and claims from secured loans of Central Bank.

domestic liquidity of the Banking system by another Sch. 2.5 billion. The banks agreed to invest Sch. 1 billion in six years' Treasury bonds (the proceeds to be deposited by the Treasury with the Central Bank until the end of the year, depending on the Government's cash position) and Sch. 1.5 billion in foreign assets at least for the period from 3rd July to 28th December, 1972¹. Cash certificates issued by the Central Bank amounting to Sch. 1 billion and falling due at the beginning of August will be followed by a new issue of an equal amount maturing at the beginning of November; and the gentlemen's agreement pertaining to the banks' schilling liabilities to non-residents and shorth-term foreign assets will be extended until the end of the year. Moreover, credit institutions have been requested to keep consumer credits and customers' unutilised credit lines within reasonable limits.

Despite these measures, monetary conditions have hardly tightened, demonstrating the limited effect of the Central Bank's measures in the face of the continuous inflow of capital. Long-term bond yields (the main officially published indicator of market interest rates) have declined since March 1971 (Diagram 3) despite the fact that new bond issues (gross) increased by almost 30 per cent in 1971. The fall in bond yields probably owed something to the continuing high rate of bank purchases of bonds which the banks managed to sustain, although they had to accommodate a rapidly rising demand for bank loans. Measured by the 'overall' ratio of reserves to depo-

1 In view of the most recent developments in the international market the Austrian credit institutions were offered, as an alternative, to acquire cash certificates bearing 3 per cent interest.

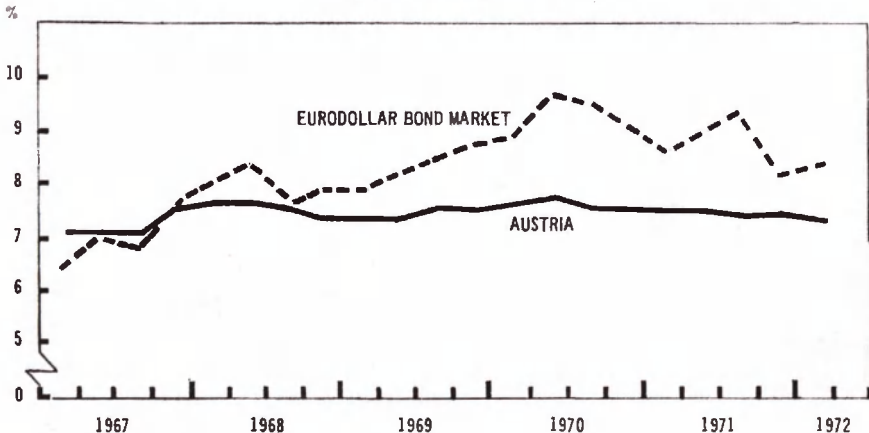
Austria

**Liquidity
Million**

period				Levels end-period			
1971		1971	1972	1970	1971	1971	1972
1st half	2nd half	Q1	Q2	Year	Year	Q1	Q2
+ 646	- 433	+ 125	+ 29	2 951	3 164	3 076	3 193
- 579	- 246	- 584	- 45	955	130	371	86
+ 2 870	- 2 502	+ 3 193	+ 2 529	1 525	1 893	4 718	4 422
- 2 107	+ 5 727	- 1 266	- 7 021	17 236	20 856	15 970	13 835
+ 830	+ 2 546	+ 1 468	- 4 508	22 667	26 043	24 135	21 536
+ 1 651	- 2 705	- 287	+ 2 917	1 800	746	1 513	3 663
- 2 798	- 352	- 2 297	+ 523	6 322	3 172	4 025	3 695
- 1 147	- 3 057	- 2 584	+ 3 440	8 122	3 918	5 538	7 358
+ 1 977	+ 5 603	+ 4 052	- 7 948	14 545	22 125	18 597	14 178
				203 000	238 230	212 500	245 200
				7.2	9.3	8.8	5.8

NOTE Data in lines 1 to 10 are not fully comparable due to differences in timing.
Source: Austrian National Bank.

Diagram 3 Bond Yields
End quarter average values



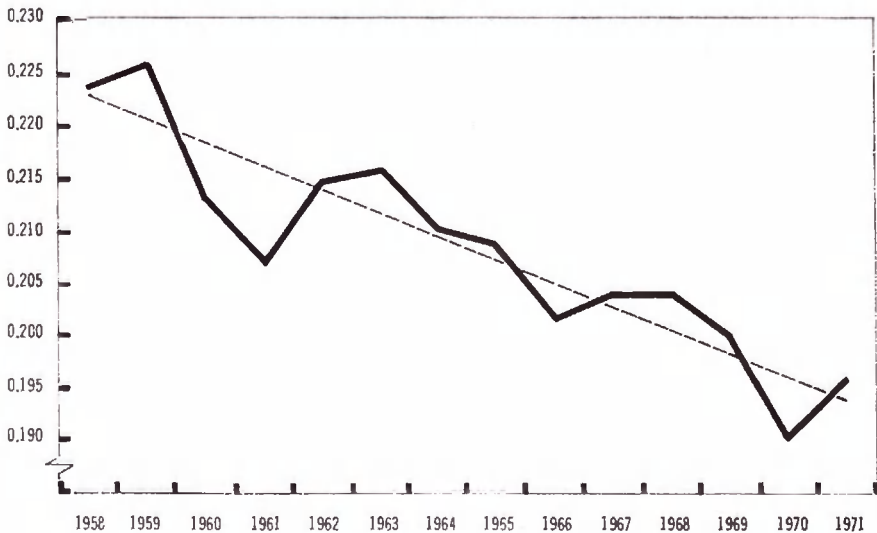
Sources: Austrian National Bank, OECD.

sits, in which banks' total short-term foreign liabilities are netted against their liquid assets, the liquidity ratio of the banking system fell from 25.6 to 22.1 per cent between end-1970 and end-1971. This measure, however, overlooks the fact that the banks may to some extent regard their short-term foreign liabilities as a more lasting source of liquidity. Deducting only

banks' sight liabilities to non-residents from their highly liquid assets, the resulting modified reserve ratio points to an improvement in the banks' liquidity position during 1971. This tendency was only reversed in the first months of this year when new restrictive policy measures were taken (Table 10).

Domestic credit expansion accelerated sharply in 1971 and remained strong in the first four months of this year (Table 11). Although the savings ratio of private households has remained high, monetary capital formation has not kept up with the monetary expansion. As a result, the money supply rose by almost 17 per cent in 1971, i.e. much faster than in any year during the 1960s. The ratio of money supply to nominal GNP ('liquidity ratio of the public'), which is usually at its lowest in the peak year of an economic upswing, showed a significant rise last year (Diagram 4).¹ It should be noted, however, that a number of special factors inflated monetary aggregates in 1971. Bank loans denominated in foreign currencies accounted for the unusually high share of 9 per cent of the domestic credit expansion. Such loan operations, as well as direct non-bank borrowing abroad, may have been undertaken mainly for hedging purposes during the international monetary crisis, raising simultaneously the banks' domestic liquidity position, the volume of domestic credit and money supply to abnormally high levels. Moreover, an estimated Sch. 3 ½ billion of the growth of money supply was accounted for by public sector deposits (almost one-third placed with the Central Bank)

Diagram 4 Liquidity Ratio of the Public¹
1958-1971



¹ Ratio of money supply to nominal GNP.

Source: Austrian Central Statistical Office.

¹ For a further discussion see Chapter III.

Table 11 Money Supply and Determinants
Changes in schilling billion

	1969	1970			1971			1970	1971	1972
		Total	1st half	2nd half	Total	1st half	2nd half	Q1	Q1	Q1
								Q1	Q1	Q1
A Main factors influencing total money supply										
1 Bank credit to domestic non-banks	22.8	27.0	15.8	11.2	37.9	21.3	16.6	7.9	10.5	10.1
2 Domestic formation of monetary capital of which:	21.1	25.9	12.6	13.2	30.6	12.8	17.8	8.6	8.3	8.7
savings deposits	15.2	18.0	6.5	11.6	20.7	6.7	14.0	4.0	4.3	3.8
time deposits	0.3	2.2	1.7	0.6	2.1	2.0	0.1	1.6	1.3	2.5
bank bonds	2.6	3.2	2.2	1.0	4.1	1.9	2.2	1.6	1.1	1.5
3 Excess of total bank lending over monetary capital formation (1—2)	1.7	1.2	3.2	-2.0	7.2	8.5	-1.3	-0.6	2.1	1.4
4 Credit institutions' net foreign position of which:	3.5	2.4	-0.4	2.8	3.7	0.6	3.1	-0.4	0.1	-0.1
Central Bank	1.0	4.7	-0.5	5.2	8.9	1.0	7.8	-1.5	-0.1	0.6
5 Other factors	-0.4	0.9	1.0	-0.1	1.0	1.0	0.1	1.8	1.7	1.4
B Change in total money (3 + 4 + 5)	4.8	4.5	3.7	0.7	11.9	10.1	1.8	0.7	3.9	2.8

1 Excluding banks' own holdings.

NOTE Differences due to rounding.

Source: Austrian National Bank.

reflecting, at least partly, an anticyclical accumulation of cash reserves. Excluding the increase in deposits held by the public sector, the money supply would risen by only about 11 per cent in 1971.

2 *Flexible stance of fiscal policy*

Budgetary developments and fiscal policy turned out to be less expansionary than envisaged during the preparation of the 1971 Federal Budget. With nominal GNP growing by more than 11 per cent (i.e. some 2 percentage points faster than anticipated), the Sch. 3.1 billion supplementary budget appropriations were not activated. Moreover, 15 per cent of budget expenditure not related to legal commitments were temporarily blocked and only partly released towards the end of the year. In the event, total domestic-demand effective expenditure¹ rose by Sch. 0.7 billion less than envisaged in the original 1971 Budget partly reflecting lower investment expenditure (Table 12). On the other hand, total revenue (excluding transfers from abroad and withdrawals from reserves) exceeded revenue estimates by Sch. 4 billion, largely due to automatic stabilizer effects resulting from the progressive tax system and the rise in social security contributions. This enabled the authorities to achieve a net transfer to budgetary reserves of Sch. 1.4 billion. According to preliminary outturns total domestic demand-effective transactions produced a budget surplus of Sch. 1.9 billion against a Sch. 2.7 billion deficit projected in the voted budget. This entailed a deflationary swing of Sch. 2.0 billion, equivalent to about $\frac{1}{2}$ per cent of nominal GNP, compared with the Sch. 0.1 billion deficit recorded in 1970. Debt management was also pursued in a restrictive manner. Including advance debt repayments of about Sch. 0.1 billion, total debt transactions with abroad resulted in net repayments of about Sch. 1.0 billion in 1971 reinforcing the restrictive measures taken by the Central Bank to mop up liquidity.

Applying appropriate weights to 1970/71 changes in the main revenue and expenditure items, the overall impact of the 1971 budget appears to have been less deflationary than suggested by the swing from deficit into surplus of the demand-effective financial balance. Almost 70 per cent of the Sch. 10.1 billion increase in demand-effective revenue (Table 12) was accounted for by income and wage taxes and social security contributions, and the 'first-round' impact of higher tax payments on domestic output may have been considerably reduced by saving and import 'leakages'². The Sch. 8.1 billion increase in total demand-effective expenditure, on the other hand, could have exerted a comparatively stronger impact on domestic activity. The rise in Federal spending on wages and salaries implies a corresponding growth of public consumption and a simultaneous increase in gross incomes of private households. Almost two-thirds of the increase in public investment was accounted for by construction where the implicit import component is relatively small.

1 Total expenditure minus repayment of debt, net payments to abroad, and additions to reserves.

2 With the private savings ratio assumed to have changed little, the marginal propensity to save, may be put at about $11\frac{1}{2}$ per cent for 1971. Consumers' marginal import propensities could lie between 20 to 25 per cent of increases in disposable income, i.e. may be close to the marginal ratio of imports to total aggregate demand.

Table 12 Development of Demand Effective Federal Budget Transactions
Schilling billion

	Year-on-year changes		
	1971 outturn against		1972 voted against 1971 Outturn
	1970 Outturn	1971 Voted	
Revenue			
1 Taxes and dues	7.0	2.5	6.2
2 Other similar levies	1.5	0.7	0.2
3 Income from Federal monopolies and enterprises	1.1	0.2	1.5
4 Other	0.5	0.6	0.4
5 Total revenue	10.1	4.0	8.3
Expenditure			
6 Wages and salaries	3.1	0.4	2.3
7 Subsidies and transfers	3.9	-0.5	3.9
8 Investment and maintenance	1.3	-0.1	1.5
9 Investment promotion	0.7	0.6	0.5
10 Other	-0.9	-1.1	4.0
11 Total expenditure	8.1	-0.7	12.2
12 Financial Balance	2.0	4.6	-3.8

Source: Federal Ministry of Finance.

Investment promotion, which rose significantly faster than originally planned, has probably induced complementary investment outlays by the recipients of low-interest Federal loans and capital grants.

The 1972 Federal Budget points to an expansionary swing of the domestic-demand effective financial balance equivalent to almost 1 per cent of nominal GNP (Table 12). The autumn budget estimates were based on the assumption that GNP might grow by 4 per cent in real terms, implying little easing of demand pressures. However, given the uncertainties created by the international monetary crisis, some stimulus to domestic activity seemed to be justified. To counteract any unexpected weakening of demand a supplementary "contingency" budget incorporating Sch. 2.8 billion worth of spending authorisations on public investment and investment promotion was also prepared.

With the monetary uncertainties largely removed and economic activity of late remaining strong, the expansionary fiscal policy stance has recently been somewhat reduced. In February 15 per cent of the Government's discretionary spending authorisations were temporarily blocked, and realisation of the supplementary budget has been suspended for the time being. Tax revenue could exceed budget estimates by, perhaps, some Sch. 2 to 3 billion and may not be fully absorbed by supplementary appropriations¹. Given

¹ So far only Sch. 0.7 worth of supplementary spending authorisations in excess of the regular Budget have been voted by Parliament, but further increases in expenditures are likely.

the increase and structure of public demand, the budget may still impart a stimulus to economic activity particularly to the building industry. Including federal assistance for housing and government loans and capital transfers for various important construction projects, total federal spending on construction is foreseen to rise by about 17 per cent against the actual 1971 level—much in line with the authorities' medium-term objectives to accelerate public spending on infrastructure investments. Debt management may exert a restrictive impact as the Treasury has undertaken to abstain from foreign borrowing this year.

Table 13 The Federal Budget
Administrative basis
Schilling billion

	1969	1970 Outturn	1971	1972 voted
Revenue:				
Taxes and dues:	49.1	55.1	62.1	68.3
Other similar levies incl, social securities	9.8	10.5	12.0	12.2
Income from Federal monopolies and enterprises	18.8	20.8	21.9	23.4
Transfers from abroad	0.1	0.1	0.1	0.1
Withdrawals from reserves set aside in previous years	0.3	0.4	0.7	1.0
Other	7.9	7.5	8.0	8.4
Total	86.0	94.4	104.8	113.4
Expenditure:				
Wages and salaries	24.6	26.6	29.7	32.0
Subsidies and transfers	32.0	34.5	38.4	42.3
Gross investment	10.2	10.9	12.2	13.7
Investment promotion	1.9	1.7	2.4	2.9
Debt repayment	5.1	5.1	6.2	5.8
Purchases in and payments to abroad	1.3	1.7	1.6	2.4
Transfers to reserves	0.6	1.0	2.7	0.4
Other	17.5	20.2	19.3	23.3
Total	93.2	101.6	112.6	122.8
Overall deficit	-7.2	-7.2	-7.8	-9.4
Deficit excluding debt repayment	-2.1	-2.1	-1.5	-3.6
Internal demand effective deficit	-0.6	-0.1	1.9	-1.9

Source: Ministry of Finance.

3 Price/incomes policies leaning against cost and demand pressures

Considering the strength and duration of the current boom, prices and incomes policies have been reasonably successful during the past 12 to 18 months. The rise in wages and prices has been rather lower than suggested by prevailing demand pressures and the extreme tightness of the labour market. Trade unions seem to have refrained from fully exploiting their bargaining power in the 1971 and 1972 wage rounds. This can partly be attributed to

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the continued smooth functioning of the Austrian 'Parity Commission' which essentially rests on voluntary co-operation of both sides of industry, and to direct government action against price inflation as well as reductions in income tax rates.

However, the prolonged boom inevitably took its toll. Wage developments in 1971 suggested that agreements in collective settlements between trade unions and employers' organisations were not fully observed at the regional and individual company levels. On a seasonally-adjusted basis, actual earnings in the private sector tended to rise as fast as standard rates already during the 1971 bargaining round, although collective settlements, as a rule, stipulated lower increases in actual hourly rates than in standard rates. Regulated prices, which constitute about one-fifth of the goods sample contained in the consumer price index, were allowed to rise considerably faster than in recent years (Table 14). The appreciation of the Austrian schilling undoubtedly reduced imported inflation, which had been a major problem in 1970, and helped to diminish the external 'wage pull' originating mainly from Germany. In the summer of last year temporary reductions of customs tariffs were prolonged, and further liberalisation measures were taken to facilitate imports from eastern European countries and Japan. The relative contribution of import prices to the overall increase in consumer prices was thus kept considerably smaller in 1971 than in 1970. However, the impact of external disinflationary measures was not strong enough to moderate significantly the pressure on prices originating from domestic sources.

**Table 14 Increases in Regulated
and Non-Regulated Consumer Prices**
Average percentage changes against previous year

	1967	1968	1969	1970	1971
Regulated prices	8.8	3.4	2.0	2.4	3.2
Non-regulated prices	2.5	2.2	3.1	4.5	4.5

Source: Austrian Institute for Economic Research.

II RECENT TRENDS AND PROSPECTS TO MID-1973

In the first three months of 1972 industrial production grew at close to capacity rate. Output of investment goods levelled off following the steep rise in the fourth quarter of 1971, but consumer goods emerged as a primary source of buoyancy. Given the exceptionally high order backlog, favourable weather conditions made possible a high level of activity in the building industry, preventing a marked rise in seasonal unemployment. As a consequence, the labour market has of late remained tight, with the number of foreign

workers continuing to rise; unfilled vacancies increased further, though at decelerating rates. Price developments may have passed their cyclical peak since the advance in wholesale prices eased off in the first few months of the year.

Pressures on resources are likely to subside somewhat during the coming twelve months as stockbuilding and private investment propensities are expected to weaken. But continued buoyancy of consumers' demand and construction activity as well as the expansionary posture of demand management policies may prevent the growth of output from falling significantly below the capacity rate. Fiscal stimuli could be strong next year. On a 'no-policy-change' hypothesis the demand-effective deficit would rise significantly above its 1972 level. The income tax reform and the reductions of customs tariffs in connection with Austria's EEC association will widen the normal deficit to about Sch. 10 to 12 billion. In addition, the introduction of the TVA on 1st January, 1973, will lead to a shortfall in tax revenue of some Sch. 7 to 9 billion in 1973. The financing of this large cash deficit, approximately twice as high as the gross deficits recorded in recent years, could entail an expansion of the 'monetary base'. With little restrictions on capital imports and monetary policy strongly influenced by the development of interest rates on foreign markets, Treasury borrowing operations may call either for accommodating measures of the Central Bank or capital imports in 1973.

With the growth of profits levelling off and relatively weak foreign markets, industrial fixed investment may show little, if any, rise from last year's high level. The April investment test of the Austrian Institute for Economic Research indicated some improvement in investment propensities since last autumn; but the interpretation is difficult since the autumn test was probably heavily affected by uncertainties connected with the international currency crisis. However, introduction of more favourable depreciation allowances in 1971 and possible net gains to company cash flows associated with the introduction of TVA in 1973¹ should help to prevent any significant deterioration of the investment climate during the next twelve months.

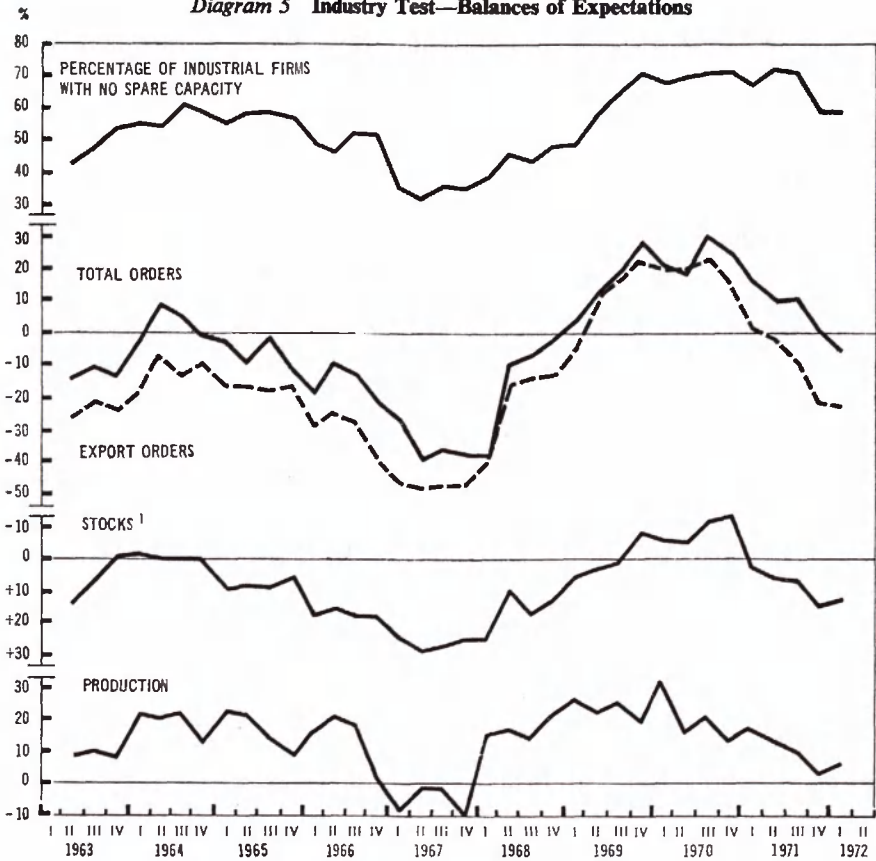
Despite some levelling off in business fixed investment, activity in the construction sector is likely to remain buoyant. Residential construction has begun to respond to the steep rise in building prices and will be further stimulated by a sharp increase in public housing assistance. Judging from this year's budget and the Federal Government's longer-term investment plans, public construction activity may continue to rise. The temporary blocking of 'discretionary' spending authorisations contained in the 1972 Federal Budget (see Chapter I) may delay the placing of certain federal orders, but it remains to be seen, whether the regional and communal governments will follow this suit. Moreover, the strongly expanding activities of government-assisted motorway financing companies and public utilities should underpin the buoyancy of construction activity.

Stockbuilding could show a further decline during the coming twelve months. After the inventory cycle passed its peak last year, stocks of both raw materials and manufactures have run down, and recent business intention

1 The refunding of turnover tax paid on stocks accumulated until the end of 1972 will be larger than the 1973 revenue from the introduction on 1st January 1973 from the 'investment tax' on new plant and equipment.

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Diagram 5 Industry Test—Balances of Expectations



1 Minus sign indicates "too low".

Source: Austrian Institute for Economic Research.

tests suggest that they are still considered to be excessive. But the fall may be rather gradual since the introduction of TVA at the beginning of next year will be accompanied by tax allowances on stocks carrying the previous turnover tax.

Private consumption is likely to remain a major source of demand growth well into next year. The prospective outcome of the 1972 bargaining round and persistence of a considerable, albeit somewhat reduced, wagedrift, are likely to result in increases in effective hourly rates this year which may come close to last year's rise in earnings. 1973 will probably see few increases in standard rates as present settlements generally cover periods of about 18 months. However, with little prospect of a quick easing of labour market conditions, wagedrift could widen again next year. Moreover, the 1973 income tax reform may reduce the direct tax burden of private households by some Sch. 2 billion, i.e. about 1 per cent of compensation of employees. The increase in the number of wage and salary earners may slow down in the

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next twelve months. But a drop in the savings ratio of private households is likely at this stage of the cycle; the movements of some recent monetary indicators point in that direction.

Export prospects for 1972 as a whole are not particularly bright, but a progressive economic upturn in Austria's markets should allow a recovery of exports by the first half of next year¹. The volume effects of the schilling revaluation and continued strong pressures on resources may result in a further loss of market shares in 1972. Following two consecutive years of rapid expansion, receipts from tourism may show another strong rise in 1972. But Austria should succeed in defending her strong market position since the repayment of the income tax surcharge in Germany and the Munich Summer Olympic Games may provide a prop to the Austrian tourist business. Imports may grow less rapidly than earlier as the stock cycle and the business fixed investment boom have passed their upper turning points. But imports of consumer goods and Austrian tourist expenditure abroad could see another sharp rise over the next 12 to 18 months, given the prospect of continued large increases in earnings.

On the above trends of demand, the rapid advance of industrial production recorded in the first few months of the year is unlikely to continue. Similarly, construction activity may rise at declining rates during the remainder of

Table 15 Trends and Prospects
GNP and main components
1964 prices

	Schilling Billion		Percentage changes over previous year	
	1971	1972	1971	1972
Private consumption	184.8	194.9	7.2	5½
Public consumption	36.2	37.3	3.5	3½
Gross fixed investment	91.2	96.7	12.0	7½
of which:				
Machinery and equipment	41.3	42.8	12.6	6
Construction	49.9	53.9	11.5	8½
Final domestic demand	312.2	328.9	8.3	5½
Stockbuilding	3.6	2.1	-1.9 ¹	-½ ¹
Total domestic demand	315.8	331.0	5.9	5½
Exports	104.8	109.5	4.7	5½
Imports	103.0	108.7	6.9	6½
Foreign balance	1.8	0.8	-0.6 ¹	-½ ¹
GNP at constant prices	317.6	331.8	5.2	5
GNP deflator	130.9	137.8	5.6	5½
GNP at current prices	415.7	457.2	11.2	11

¹ The rates of change refer to changes expressed as a percentage of GNP in the previous year.

Source: Austrian Institute for Economic Research; 1972 Institute estimates, June 1972.

¹ Austria's geographical markets which grew by 7.8 per cent in 1971 (dollar values at 1970 exchange rates) are expected to grow by 10.2 per cent in 1972 and by 12.8 per cent in the first half of 1973 (annual rate against previous half-year).

the year due to capacity constraints. But the growth of real GNP may still reach 5 per cent in 1972 and should, on a year-on-year comparison, be maintained at a somewhat lower rate in the first half of 1973. This would imply some easing of pressures on resources as the growth of capacity may be somewhat higher than during the last decade (see next Chapter).

As a result the cyclical component of the price rise may gradually lose importance. The advance in consumer prices seems to have already passed its cyclical peak and should in any case assume a flatter trend in the second half of 1972 as the bulk of the increases in regulated prices fell into the first half of the year. However, introduction of the TVA at the beginning of next year may involve additional price risks. Given the prospect of continued strong consumers' demand, it remains to be seen to what extent price decreases which ought to result from the new tax system for a number of goods and services will materialise, while any tax-induced cost-push is likely to be quickly passed on to prices. The authorities have taken a strong initiative in close co-operation with the 'Parity Commission' to prevent any unjustified increases in prices during the first stages of the new TVA system and ensure possible price decreases.

III MEDIUM-TERM TRENDS

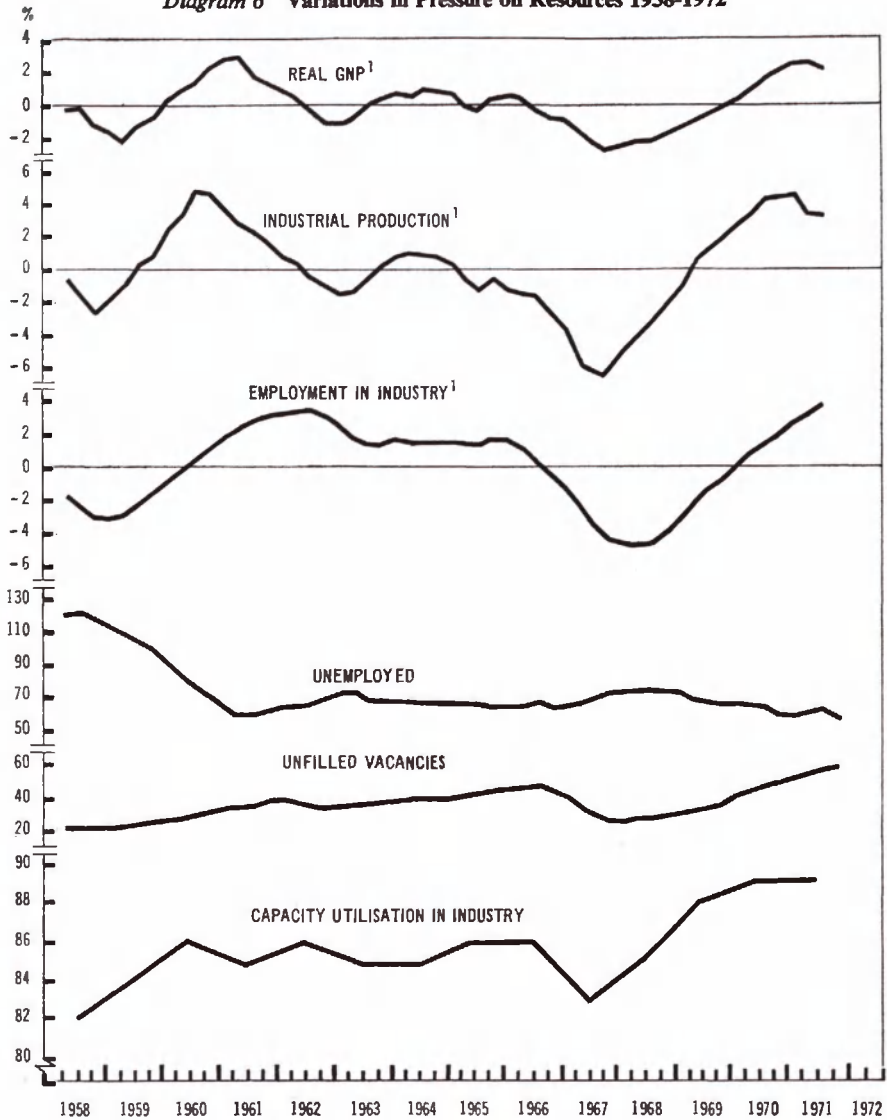
(a) *The last upswing in retrospect*

During the five to six years preceding the last business upswing the overall performance of the Austrian economy had been much less favourable than previously. The gap between actual and potential economic growth had tended to widen, the underlying position of the current account of the balance of payments weakened and the cost and price situation deteriorated. The weaker tendency in the economy was perhaps most clearly conveyed by the fact that the volume of industrial fixed investment declined almost without interruption between 1961 and 1968. Structural factors including the difficulties for Austrian exports resulting from the establishment of EEC were mainly held responsible for the apparent lack of dynamic forces in the economy. Restructuring of industry was therefore generally considered as a prerequisite to overcoming the various obstacles to faster growth and better overall balance of the economy¹.

As the growth performance of the Austrian economy during the recent four to five years has been unexpectedly strong, the question arises whether the latest boom period has carried the economy back to the steeper growth path of the latter half of the 1950s and early 1960s or whether the acceleration of growth has only been the result of a fortuitous coincidence of favourable influences. In order to identify the most important growth determinants of the latest upswing and to assess their durability it may be useful to compare demand behaviour and supply conditions as well as the course of demand management and stabilization policies during the last three business cycles. Taking 1971 as the peak and end of the last upswing, the last three full cycles

1 See Economic Survey of Austria, OECD, May 1967.

Diagram 6 Variations in Pressure on Resources 1958-1972



1 Deviations from trend, three quarters moving averages.

Sources: Austrian Institute for Economic Research, OECD.

cover the periods 1958 to 1961, 1962 to 1966, and 1967 to 1971, each measured from the first year of downswing to the last year of upswing¹.

1 For classification of Austrian business cycles and their main characteristics see G. Tichy, «Die Beschleunigung des Wirtschaftswachstums im Aufschwung 1967 bis 1971 », in: Austrian Institute for Economic Research, Monatsberichte 4/1972, pp. 148-160.

Austria

1 *The pull of demand*

The most salient feature of the last cycle has been the pronounced and sustained recovery of *exports* (Diagram 2). Following roughly a ten-year period of weakness, influenced by the progressive integration of the EEC economies, exports resumed a steep upward movement in 1969 and continued to growth at a comparatively high rate even after the domestic upswing had gained momentum. During the last cycle exports of goods and services in volume grew at an average annual rate of 10½ per cent (14 per cent in value). The preceding two cycles saw annual increases of 6½ per cent (8½ per cent) and 5½ per cent (7 per cent) respectively. The share of total exports in GNP at constant 1964 prices rose from 25.5 per cent in 1966 to as much as 33.0 per cent in 1971 whilst the increase during the previous two cycles was comparatively small. The difference is similarly striking if the development of the share of total export earnings in GNP at current prices is considered¹.

Table 16 Long-Term Development of Structure of Demand
GNP at current prices = 100

	1958 to 1961	1962 to 1966	1967	1968	1969	1970	1971	1967 to 1971
Private consumption	59.9	59.6	59.1	58.9	57.3	55.9	56.0	57.4
Public consumption	13.0	13.2	14.5	14.8	14.9	14.6	14.6	14.7
Fixed investment	24.3	26.7	26.9	25.9	24.7	26.2	28.6	26.5
<i>of which:</i>								
Equipment investment	11.5	11.9	11.4	11.0	11.1	11.6	12.6	11.5
Construction investment	12.7	14.8	15.5	14.9	13.7	14.6	16.0	14.9
Stocks	2.2	1.2	0.9	1.2	2.3	3.1	1.0	1.7
Exports	24.0	24.8	24.6	25.8	28.2	31.1	30.5	28.0
<i>of which:</i>								
Trade	18.3	16.9	16.7	17.1	18.9	19.9	19.1	18.3
Services	5.7	7.8	7.9	8.6	9.3	11.2	11.5	9.7
Imports	23.3	25.4	26.0	26.5	27.3	30.9	30.7	28.3
<i>of which:</i>								
Trade	21.5	22.1	21.9	21.9	22.4	25.0	25.6	23.3
Services	1.8	3.3	4.2	4.7	4.9	5.8	5.2	4.9
Foreign balance	0.7	-0.6	-1.4	-0.8	0.9	0.3	-0.2	-0.3

Source: Austrian Central Statistical Office; Austrian Institute for Economic Research.

1 Between 1958 and 1971 the percentage share of exports in GNP developed as follows:

	Values	Volumes		Values	Volumes
1958	23.7	21.6	1965	25.0	25.6
1959	23.5	22.1	1966	24.7	25.5
1960	24.5	22.8	1967	24.6	26.0
1961	24.3	22.9	1968	25.8	27.4
1962	24.7	24.1	1969	28.2	30.2
1963	24.7	24.6	1970	31.1	33.2
1964	24.7	24.7	1971	30.5	33.0

OECD Economic Surveys

The recovery of merchandise exports owed, of course, much to the pronounced and synchronised 1969/70 boom period in western industrialised countries. Between 1969 and 1970 OECD total imports rose at an annual rate of more than 15 per cent (Table 17), while Austria's geographical markets grew even faster (Table 6). Furthermore, Austria was able to improve her export performance in terms of market shares during the last cycle. Comparing Austrian exports with the growth of total OECD imports and Austria's geographical and country/commodity export markets¹, the economy did better on any of these conventional performance criteria in 1967-71 than during earlier cycles (Table 17). This can partly be attributed to a favourable diversification of the regional and commodity structure of Austrian foreign trade². Austria's dependence on the Common Market, which caused a heavy set-back to its exports in the 1960s, has been significantly reduced, and manufactured goods account for a strongly increasing share of total exports (Table 18). Austrian exports were, thus, less affected by the sluggishness in world steel markets which developed in 1970 than during similar periods in the past when export prospects were heavily dependent on steel supplies to neighbouring Common Market countries.

Table 17 Long-Term Export Performance
Market gains (+) or losses (—)
In per cent

	1958 to 1961	1962 to 1966	1967 to 1971
Measured by ¹ :			
OECD imports	1.6	-2.8	1.8
Geographical method	-3.0	-2.9	0.1
Country/commodity method		-3.3 ³	-0.3 ³

1 Annual average growth of Austrian exports (value, dollar basis), less growth of OECD imports (unweighted), OECD geographical export markets and OECD country/commodity markets respectively.

2 1963-1966.

3 Preliminary.

Source: OECD.

The improved export performance has not only been due to favourable changes in the composition of Austria's foreign trade but must also be ascribed to the moderate increase in unit labour costs (dollar basis) relative to that of Austria's main trading partners (Diagram 7). The competitive edge gained in recent years resulted from the comparatively favourable cost/price performance and the fact that the Austrian schilling has appreciated less against the US dollar since 1969 than the Deutschemmark, i.e. the currency of Austria's most important single trading partner. As capacity utilisation in industry was rather low at the beginning of the last upswing (Diagram 6), there may

1 For discussion of concepts see OECD Economic Survey Austria, June 1970, Annex II.

2 This is, among others, suggested by the fact that Austria's market gains in terms of unweighted OECD imports were greater in 1967-71 than the simultaneous gains achieved on the geographical and country/commodity concepts.

Austria

Table 18 Long-Term Trends in the Structure of Foreign Trade

	1958 to 1961	1962 to 1966	1967 to 1971	1958 to 1961	1962 to 1966	1967 to 1971
	<i>Total Exports = 100</i>			<i>Total Imports = 100</i>		
By commodity groups						
Food	4.6	4.9	4.8	13.7	12.0	8.4
Raw materials	21.8	16.6	13.0	23.3	19.7	17.5
Semi-manufactures	27.5	24.8	23.1	18.3	18.9	19.6
Manufactures	46.1	53.7	59.2	43.7	49.5	54.4
<i>of which:</i>						
Investment goods	..	..	21.9	..	..	18.6
Consumer goods	..	..	37.3	..	..	35.8
By country groups:						
EFTA	12.3	17.3	24.0	11.9	14.3	18.6
<i>of which:</i>						
Switzerland	4.9	7.5	9.8	4.4	5.4	7.4
UK	2.7	3.9	6.2	4.7	5.4	6.4
EEC	49.7	47.7	40.1	56.9	58.9	56.9
<i>of which:</i>						
Germany	26.6	27.5	23.2	40.6	41.9	41.3
Italy	16.3	13.2	10.3	7.9	7.8	7.0
Eastern Europe	13.5	15.1	14.0	10.9	10.8	9.4
Other	24.5	19.9	21.9	20.3	16.0	15.1

Source: Austrian Institute for Economic Research.

have been additional incentives for Austrian companies to compete for higher export market shares. Moreover, there are indications that Austrian industry, especially medium-sized ventures has developed a stronger export orientation than earlier. According to investigations by the Austrian Institute for Economic Research the number of companies engaged in industrial exports represented only about 50 per cent of the total number of firms in 1961; by 1969 the figure had risen to 66 per cent.

In contrast, the rapid expansion in exports of services can entirely be attributed to the growth of foreign demand. The dominant factor has been the fast rise in receipts from tourism. As German tourist expenditure accounts for about three-quarters of Austrian tourist earnings, the economy clearly benefited from the German wage 'explosion' and the appreciation of the Deutschemark. Austria's relative position in OECD tourist trade showed, however, little further improvement during the last cycle¹.

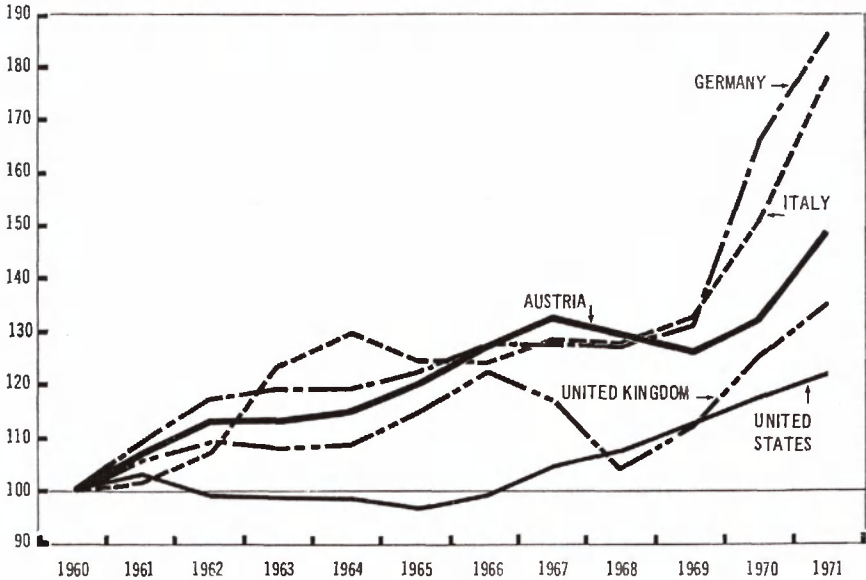
1 Austria's percentage share in total expenditure (dollar basis) by tourists in OECD countries amounted to 4.5 per cent in 1958-61, 6.0 per cent in 1962-66 and 6.5 per cent in 1967-71, while her share in total overnight stays (selected OECD countries) developed as follows:

1964	1965	1966	1967	1968	1969	1970	1971
12.6	12.5	12.3	11.8	12.6	12.1	12.7	13.6

Source: OECD.

OECD Economic Surveys

Diagram 7 Unit Wage Costs in Industry—Austria and Main Trading Partners
Dollar basis : 1960 = 100



Source: OECD.

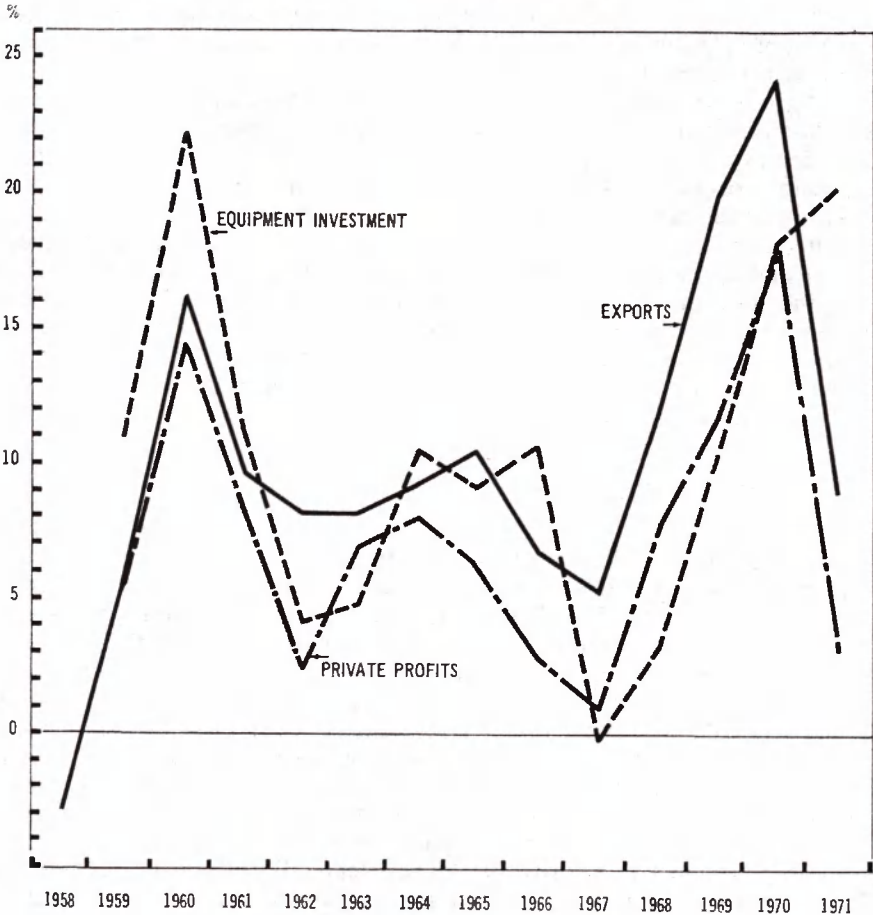
Table 19 Weight of Austrian Tourist Sector in International Comparison (1970)
Dollar basis

	Tourist receipts as percentage of:	
	Exports	GNP
Austria	23.3	7.0
BLEU	2.3	1.3
Denmark	7.0	2.0
Finland	4.5	1.3
France	5.5	0.8
Germany	2.5	0.5
Greece	15.9	2.1
Iceland	2.1	1.0
Ireland	11.9	4.8
Italy	8.7	1.8
Netherlands	2.8	1.3
Norway	3.3	1.4
Portugal	14.5	3.6
Spain	34.0	5.2
Sweden	1.7	0.5
Switzerland	11.3	4.5
Turkey	5.0	0.4
United Kingdom	3.4	0.9
Total OECD Europe	5.6	1.4
Total OECD Countries	4.9	0.7

Source: OECD.

Austria

Diagram 8 Variations in Exports, Profits, and Investment
Year-on-year percentage changes



Source: Austrian Institute for Economic Research.

A marked, albeit lagged response of *business fixed investment* to the boom in exports was another important source of buoyancy of demand growth during the last cycle. The persistent strength of the tourist boom which called for modernisation and extension of tourist accommodation facilities induced a high level of construction and equipment investment in the tourist sector, which weighs heavily in the Austrian economy (Table 19). At the same time fixed investment in industry showed a strong recovery¹ induced by

¹ Annual rates of change of real fixed investment in industry developed as follows during the last decade:

1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
12.0	-6.0	-5.3	-1.0	+7.5	+1.4	-5.5	-2.8	+18.4	+21.7	+14.0

Source: Austrian Institute for Economic Research.

improved capacity utilisation and company profits¹. This is likely to have owed much to the export boom since equipment investment and private incomes from entrepreneurship and property (which may be taken as a proxy for company profits) have tended to be closely related to the development of exports (Diagram 8).

Various *other factors* have imparted strength to domestic demand during the last boom period. Residential construction showed a delayed recovery as administrative and financing difficulties resulting from the transfer of housing assistance from the Federal to the Länder level had impeded new housing starts for some time. Execution of long-term investment plans resulted in some acceleration of investment expenditure in the electric energy sector and an unusually high level of public investment was sustained throughout the upswing (cf. section on demand management below). Private consumption responded only hesitantly to the cyclical upturn, influenced by a slow rise in earnings, an increase in the personal savings ratio, and the growing tax burden during the early part of the upswing, but showed a very pronounced revival during the latter part.

2 Elasticity of Supply

The exceptional strength of demand was accompanied by an unusual elasticity of supply. The behaviour of output during the last cycle is, however, not easy to explain as factor inputs have not increased faster than during the earlier cycles (Table 20). The *supply of labour* developed on average even less favourably than during the preceding two cycles although the number of foreign workers rose sharply. Demographic trends were weaker, emigration of Austrian workers to Germany was stronger and the reduction in average hours worked more pronounced than in previous cycles. Nevertheless, at the peak of the boom the labour market appears to have been less strained than during similar periods in the past, reflecting active manpower policies as well as liberal attitudes on the part of trade unions and the Government concerning the employment of foreign workers.

Judging from overall gross fixed investment indicators (Table 20), changes in the *input of capital* would, at first sight, offer only little explanation of the acceleration of economic growth over the last cycle except for the final stage of the upswing. The sustained marked upturn of business fixed investment since 1969 entailed a sharp increase of industrial capacities, permitting a remarkable expansion of production at the peak of the boom, when capacity constraints could normally have been expected to place severe limits on the growth of output. Over the period as a whole larger *gains in factor productivity* than during previous cycles appear to have been the most important factor behind the better growth performance reflecting higher capacity utilisation rates, inter-sector shifts, technical progress, economies of scale, and organisational and managerial improvements.

1 According to a recent econometric study on private fixed investment behaviour in Austria fluctuations in real fixed investment in industry are best explained by variations in industrial output (acceleration principle) and company profits. See A. Stanzel, "Investitionsfunktionen für Prognosezwecke", in: Austrian Institute for Economic Research, Monatsberichte, 1/1972, pp. 7-20.

Austria

Table 20 Development of Key Growth Variables During Business Cycles
Average annual rates of change, in per cent

	1958 to 1961	1962 to 1966	1967	1968	1969	1970	1971	1957 to 1971
Employment	3½	0	-1.2	-1.1	-0.1	0.2	1.1	-¼
Hours worked per employed	-1	-½	-1.6	1.5	-0.6	-2.7	-0.8	-¾
Total hours worked	-½	-½	-2.8	0.4	-0.7	-2.5	0.3	-1
Labour productivity ¹	5½	4½	5.2	4.0	6.8	10.3	4.9	6
Real GNP	5	4½	2.4	4.4	6.1	7.8	5.2	5
Gross fixed investment (volume)	9½	6½	0.3	4.2	0.7	11.5	12.0	5½
Investment ratio ²	23.5	26.6	27.6	27.5	26.1	27.0	28.7	27.4
Investment elasticity ³	2.0	1.4	0.1	1.0	0.1	1.5	2.3	1.1

1 Real GNP divided by total hours worked.

2 Gross fixed investment divided by real GNP (level).

3 Annual percentage change of gross fixed investment divided by annual percentage change of real GNP (level).

Source: Austrian Institute for Economic Research.

The strong advance in factor productivity was closely related to developments in the industrial sector. Industry accounted for a higher share of total output in 1967-71 than during previous cycles (Table 21). At the same time, productivity gains in industry were exceptionally high during 1967-71 (Table 22). There are a number of factors which have contributed to this development :

- (a) The broadly-based export boom and the subsequent strong recovery of private consumption and business fixed investment entailed a better match between the patterns of demand and supply than earlier, permitting higher and relatively even rates of capacity utilisation¹. This in turn allowed a more economical use of employed labour. During the period of slow growth around the mid-1960s, social considerations, institutional factors and the structure of the indus-

1 The capacity utilisation indices shown in Table 22 may underestimate the increase in utilisation rates between 1962-66 and 1967-71. If 'technical progress' is expressed as a function of changes in labour productivity and capital intensity:

$$R = (Y - L) + a(K - L)$$

where R = 'technical progress', Y = change in industrial output, L = change in labour input, K = change in capital input, a = output elasticity of capital, and if annual average rates of change are used of: contribution of industry to real GDP for Y, hours worked in industry for L, the industrial capital stock (adjusted for cyclical variations in utilisation) for K, and the value for 'a' is estimated at 0.2, 'technical progress' rates are 4.4 for 1958-61, 4.2 for 1962-66 and 5.8 for 1967-71. The high residual for 1967-71 is unlikely to represent the 'true' advance in 'technical progress'. It may also incorporate productivity gains due to higher utilisation rates. This would suggest that adjustment of the capital stock by the utilisation index as shown in Table 22 does not fully allow for the actual cyclical variations in the use of factor inputs.

trial sector (consisting mainly of big nationalised enterprises and small and medium-sized private firms) probably prevented a drastic shake-out of labour.

- (b) The strength of foreign demand, notably for manufactured goods, is likely to have favoured an expansion in those branches of industry where productivity gains are highest, e.g. in electrical engineering and the metal industry.
- (c) The coincidence in 1967-71 of a sharp rise in fixed investment (volume) and a decelerating growth of the capital stock as compared with earlier cycles points to high scrapping rates and quick moder-

Table 21 Long-Term Inter-Sector Shifts
Real GNP = 100

	1958 to 1961	1962 to 1966	1967 to 1971
Agriculture and Forestry	10.9	9.0	1.9
Construction	7.9	9.1	9.6
Industry	26.2	27.0	28.5
Other manufacturing	10.3	9.5	9.0
Electricity, gas, water	2.5	2.8	3.0
Government services	10.0	9.1	8.4
Other services	32.2	33.5	33.6

Source: Austrian Central Statistical Office, Austrian Institute for Economic Research.

Table 22 Key Growth Variables During Business Cycles in Industry
Average annual rates of change, in per cent

	1958 to 1961	1962 to 1966	1967 to 1971
Employment	1.1	-0.2	0.7
Hours worked per employed	-1.3	-0.5	-0.7
Total hours worked	-0.2	-0.7	0
Labour productivity ¹	6.1	5.2	7.0
Production	5.9	4.5	7.0
Gross fixed investment (volume)		-0.7	9.2
Capital stock	7.0	6.1	5.3
Capital intensity ²	7.2	6.8	5.3
Capital output ratio ³	2.1	2.2	2.1
Capacity utilisation (level) ⁴	84.3	85.6	86.8

1 Industrial production divided by total hours worked.

2 Capital stock divided by total hours worked.

3 Capital stock divided by industrial production (level).

Source: Austrian Institute for Economic Research.

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nisation of plant and equipment. This could have been a source of embodied technical progress reflecting a more widespread use of modern production techniques and advanced technology.

- (d) Greater co-operation, specialisation and export-orientation in recent years on the part of small firms could reflect more dynamic attitudes of a new generation of entrepreneurs and may have resulted in greater economies of scale.
- (e) The increasing volume of foreign direct investment in Austria could have been associated with importation of advanced technological and managerial 'know-how'.

3 Demand management conducive to faster growth

The orientation of monetary and fiscal policies appears to have been somewhat more expansionary during the last upswing than in earlier boom periods, reflecting the high priority the authorities attach to economic growth and rather successful operation of price/incomes policies within the framework of the 'Parity Commission' (Paritätische Kommission). During the 1969-71 period, when many other countries were characterised by "stagflation", Austria maintained full employment throughout and did not experience any dramatic acceleration of prices.

As in the past the official discount rate was raised relatively little during the last upswing and did not exceed the 5 per cent mark attained during the 1960-61 boom period. Effective minimum reserve ratios tended to decline and were lower than during the weak 1962-66 cycle reflecting structural shifts in the composition of deposits (Table 23). Bank liquidity remained high throughout the upswing. The overall liquidity ratio (money supply: nominal GNP), showed only a moderate fall below its gentle downward trend in 1970, but picked up again in 1971 (Diagram 4), influenced by special factors (see Chapter I). These developments reflected the authorities' intention to accommodate a continuation of the private fixed investment boom in 1970, while monetary control was severely hampered by capital inflows in 1971.

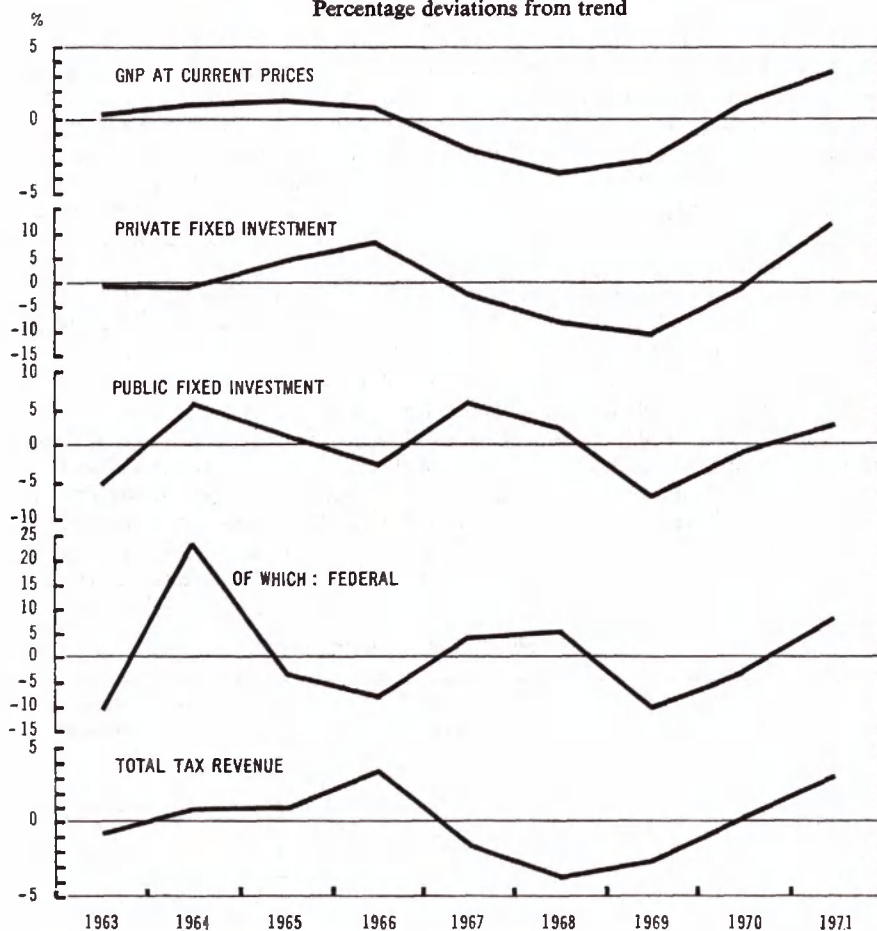
Table 23 Indicators of Monetary Policy

Effective as from	Official discount rate in per cent p.a.	End of period	Effective minimum reserve ratio ¹ in per cent
17-11-1955	5	1962	8.5
23- 4-1959	4.5	1963	8.5
17- 3-1960	5	1964	7.7
27- 6-1963	4.5	1965	10.4
18- 4-1967	4.25	1966	8.4
27-10-1967	3.75	1967	7.9
11- 9-1969	4.75	1968	7.9
22- 1-1970	5	1969	7.4
		1970	7.3
		1971	7.3

¹ Stipulated minimum reserve balances divided by deposits subject to minimum reserve requirements.
Source: Austrian National Bank.

Public investment, which had tended to move counter-cyclically in the 1960s, rose above its long-term trend in 1970/71, reinforcing the private fixed investment boom (Diagram 9). The Federal Budget produced domestic demand-effective deficits during 1967-71 which, on average, and relative to GNP, were of the same order of magnitude as in the weaker 1962-66 cycle. The restrictive swing of the budget balance was relatively moderate in 1971 ($\frac{1}{2}$ per cent of nominal GNP) compared with the $1\frac{1}{2}$ per cent deflationary swing achieved in 1961, i.e. the peak of the previous strong boom period.

Diagram 9 Cyclical Behaviour of Public Finance
Percentage deviations from trend



Sources: Austrian Institute for Economic Research, OECD.

The avoidance of wage and profit 'explosions' and, thus, unduly sharp fluctuations in income shares, may have been even more important to the achievement of faster economic growth than 'classical' demand management

which tends to be operated with caution in Austria. Credit has to given to the smooth functioning of the 'Parity Commission' which, despite the exceptionally strong growth of demand and the marked increase in wages and prices abroad, has been particularly successful during the 1967-71 cycle. Relatively high wage increases during the 1967/68 downswing helped to stabilize the growth of private consumption and to prevent pronounced recessionary developments. Trade unions, in turn, agreed to very moderate increases in earnings in the early stages of the upswing with a view to fostering private investment and strengthening the competitiveness of Austrian industry on world markets. At the peak of the boom cost/price pressures could be kept within reasonable limits, reducing the need for fiscal and monetary restraints. Wage and price restraint was greatly facilitated by government policy, notably reductions in tax rates and customs tariffs, careful timing of increases in publicly-controlled prices, trade liberalisation measures and the 1971 schilling revaluation.

(b) *Medium-term prospects*

There can be little doubt that the last cycle saw a number of structural improvements which are likely to bear on the future. The diversification of foreign trade may continue and should enable the economy to take greater advantage than previously from the expansion of world trade. If a reasonable degree of cost and price stability can be preserved during the crucial 1972-73 period, Austria's strong competitive position should remain intact; this should facilitate the maintenance of a high rate of investment and help to overcome initial difficulties arising from the enlargement, of and Austria's association with, the Common Market.

On the other hand, gains in output associated with higher rates of capacity utilisation represent a once-and-for-all effect. Similarly, the shift of resources to industry may be less rapid in the future as the recovery of industrial production started from a low level (Diagram 6). The favourable composition and time profile of demand growth during the 1969-71 boom may also have contained some non-recurrent elements. The expansion of Austria's main foreign markets may be less pronounced in the future and the tourist industry is unlikely to grow as rapidly as in recent years when it was heavily influenced by exceptional income and exchange-rate developments in Germany.

On balance, it would seem justified though, to put Austria's medium-term growth potential somewhat higher in the years ahead than in the mid-1960s. Given the favourable growth prospects for 1972/73, annual average growth of GNP could lie, perhaps, between 4 ½ and 5 per cent in the next four to five years. A rate closer to 5 per cent may require strong policy efforts to promote a favourable structure of demand and high elasticity of supply. The 1971 Income Tax Law provides for more favourable depreciation allowances; and government financing schemes and institutions for the promotion of business fixed investment are being extended and rendered more flexible through administrative reforms. Nationalised industries are being reorganised, allowing a fuller exploitation of rationalisation possibilities. At the same time future growth of exports is being supported through the

introduction of an official exchange-rate guarantee system, increased government assistance to the tourist industry and tax preferences for exporters within the framework of the forthcoming TVA system. The elasticity of labour supply should be affected by stronger demographic trends in the years to come; a continuation of active manpower policies and a further increase in the number of foreign workers would work in the same direction.

IV POLICY ISSUES AND CONCLUSIONS

Last year's Survey noted the impressive combination of rapid growth, improvement of the balance of payments and relative cost/price stability during the 1968-1970 upswing but concluded that it would become more difficult to maintain the good performance in the face of slowing export growth, receding productivity gains and pent-up price and wage increases. Reviewing the past twelve months, developments have been better than foreseen. Despite a slowing down of exports, the growth of output has continued to exceed the long-term capacity rate, with the labour market proving unexpectedly elastic. Given the high level of activity in Austria and the slowdown abroad, the current external balance has moved into deficit. Prices have risen faster than earlier but the acceleration, to a large extent reflecting an adjustment of publicly-controlled prices, has not been dramatic either by Austrian standards or by international comparison.

Following the exceptionally strong revival during the past three years, business investment activity may flatten out over the next twelve months. The reduction of customs duties in connection with Austria's expected EEC association should exert some dampening influence on prices and provide a stimulus to imports. Nevertheless, the rise in costs and prices represents a major problem. There is a clear risk that the present price rise will not decelerate much before a new upswing comes under way unless measures are taken at an early date.

- (a) With real GNP growth in 1972 expected to outstrip the long-term capacity rate, the labour market is likely to remain extremely tight. And 1973 may see a renewed strengthening rather than an easing of demand pressures. Exports seem likely to grow faster than earlier and the implementation of fiscal decisions already taken—introduction of TVA, the income tax reform and the reduction of customs duties in connection with Austria's association with the EEC—will entail a major relaxation of fiscal restraint.
- (b) Experience from other countries suggests that the rise in prices associated with the introduction of TVA tends to exceed the 'mechanical' effects, especially if pressures on resources are strong.
- (c) The essentially demand-induced continued rapid rise of building prices could well add a speculative element to the present house-building boom, strengthening price pressures in the building sector and raising the costs of public infrastructure programmes.

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Continuation of the good performance in terms of growth and internal and external stability of recent years may therefore depend heavily on policies and attitudes over the next twelve months. To contain the risks of renewed price/cost pressures, action may be needed in the fields of both demand management and prices.

With regard to demand management, it would seem appropriate to allow the economy a limited period of cooling-off. As the efficiency of monetary policy from the point of view of demand management may be limited by inflows of capital, fiscal policy and debt management may have to carry the main burden.

- (a) As regards 1972, the Government should refrain from activating the Sch. 2.8 billion 'contingency' budget. In addition, it is desirable that the blocking of 15 per cent of discretionary spending authorisations should be maintained and that increases in tax revenue in excess of 1972 budget estimates should, as far as possible, be used to reduce the Treasury's borrowing requirements.
- (b) In view of the expansionary impact of the tax measures to become effective in 1973, it will be important to keep the growth of expenditure directly affecting domestic demand within reasonable limits. Present plans to refund in full the previous turnover tax paid on stocks accumulated up to the end of 1972 during the first year of the new TVA system might be reconsidered since this measure is likely to result in considerable additions to companies' cash-flows. Even if the refunding operation is phased out over a number of years the liquidity position of the company sector is likely to improve, possibly entailing a reduction of private credit demand. The Treasury should therefore be able to cover a substantial part of next year's large cash deficit in the domestic credit market without widening the 'monetary base' provided that appropriate financing techniques—avoiding the creation of highly liquid money market papers—are developed in time.

To avoid unjustified upward adjustments of prices in connection with the adoption of the TVA system, fiscal restraint may have to be accompanied by an early reinforcement of price controls since enterprises may tend to anticipate the introduction of the new tax in their pricing policies. However, government action and administrative controls should not by-pass existing institutions. Past experience in Austria as well as in other countries suggests that lasting success of price-incomes policies heavily depends on self-restraint and co-operation on the part of both sides of industry. The authorities should, therefore, be encouraged to continue their efforts to devise price-control measures in close contact with the 'Parity Commission'.

The large gains in productivity during the last upswing represented to some extent a catch-up from the period of weaker growth during most of the 1960s. And the fast rise in both merchandise exports and receipts from tourism owed much to the fortuitous coincidence of strong expansionary forces and favourable exchange rate developments abroad. But the better performance was also due to the diversification of the commodity and regional structure of Austrian exports which has taken place over the last decade. The restruc-

turing of industry represents lasting improvements, enabling the economy to take greater advantage than earlier from the expansion of world trade. This in turn should help to sustain higher investment propensities in industry.

In the past maintenance of reasonable cost and price stability and preservation of the favourable international competitive position have rested heavily on prices and incomes policies formulated in consultation with both sides of industry and carried out in the framework of the 'Parity Commission'. While action in the price/incomes field will have to remain a key element in stabilization policies, further efforts are needed to develop the public budget into a more flexible tool of demand management. Appreciable progress has already been made in recent years. Fiscal policy is no longer hampered by rigid rules concerning the balancing of the budget. New techniques, notably the preparation of supplementary anti-cyclical budgets and long-term investment planning, have been introduced. On the other hand, there has been a tendency for public-sector activity outside the Federal budget to assume greater proportions. Such developments have been most conspicuous in the construction sector where, in particular, motorway construction, public housing assistance, and the investment behaviour of public utilities constitute relatively autonomous elements, limiting the Federal Government's scope for determining spending priorities and anticyclical budget policies. Efficient policy-making would seem to require a reversal of these tendencies. At the same time the Government may wish to continue its attempt to co-ordinate regional policies of the various levels of government, notably in the field of public investment. Given the present strength of the Austrian economy, and assuming further improvements in policy-making, its performance should be better in the 1970s than in the 1960s.

STATISTICAL ANNEX

Table A National Product
Sch. billion

	1968	1969	1970	1971	1968	1969	1970	1971
	<i>Current prices</i>				<i>1964 prices</i>			
EXPENDITURE:								
Private consumption	178.3	190.2	208.8	232.8	157.4	162.6	172.4	184.8
Public consumption	44.8	49.5	54.7	60.7	33.3	34.1	34.9	36.2
<i>of which: Defence</i>	3.7	4.0	4.1	..	..	..	..	..
Gross domestic fixed capital formation	78.4	82.2	98.0	118.9	72.5	73.0	81.4	91.2
<i>of which: Construction</i>	45.1	45.4	54.5	66.6	41.7	40.1	44.8	49.9
Machinery and equipment	33.3	36.8	43.5	52.3	30.8	32.9	36.7	41.3
Change of stocks, incl. statistical errors	3.6	7.5	11.5	4.2	3.8	7.0	9.3	3.6
Exports of goods and services	78.0	93.5	116.3	126.8	72.3	84.5	100.1	104.8
<i>less: Imports of goods and services</i>	80.3	90.7	115.4	127.7	75.4	81.2	96.3	103.0
GROSS NATIONAL PRODUCT AT MARKET PRICES	302.8	332.1	373.9	415.7	263.8	279.9	301.8	317.6
ORIGIN BY SECTOR:								
Agriculture, forestry and fishing	21.9	23.5	25.8	24.9	22.2	22.3	23.2	21.5
Manufacturing and mining	104.8	118.9	134.1	150.2	95.6	106.9	115.5	123.3
Construction	28.6	29.2	35.2	43.2	26.2	25.3	28.1	31.3
Other	147.5	160.5	178.8	197.4	119.8	125.4	135.0	141.5
	<i>Current prices</i>				<i>Current price percentage distribution</i>			
DISTRIBUTION OF THE NATIONAL INCOME:								
Compensation of employees	150.2	163.4	178.4	205.8	66.2	65.6	63.6	66.4
Income from property and entrepreneurship	63.3	67.9	76.7	107.6	27.9	27.2	27.3	34.7
Savings of corporations	16.0	20.6	27.8		7.0	8.3	9.9	
Direct taxes on corporations					0.5	0.8	1.9		1.1	0.2	0.3
Government income from property and entrepreneurship	0.5	0.8	1.9	1.1	0.2	0.3	0.7	0.3
<i>less: Income on public debt</i>	3.1	3.5	4.0	4.4	1.3	1.4	1.5	1.4
NATIONAL INCOME	226.9	249.2	280.8	310.1	100.0	100.0	100.0	100.0

Source: Austrian Central Statistical Office, Austrian Institute for Economic Research.

Table B Output, Employment, Wages and Productivity in Industry

	1968	1969	1970	1971	1970		1971				1972
					III	IV	I	II	III	IV	I
OUTPUT IN INDUSTRY, seasonally adjusted (1963 = 100) :											
Total industry	126.4	140.7	153.1	161.4	153.8	157.4	158.4	161.0	160.3	164.4	167.0
Mining	78.2	80.1	80.1	82.0	79.3	78.5	81.5	83.0	83.3	84.4	80.9
Manufacturing	126.5	142.2	154.3	164.0	154.6	158.4	160.2	163.8	163.7	166.9	170.5
Base metals	115.6	132.1	140.2	140.1	138.2	141.6	140.0	139.6	144.1	139.2	140.0
Metals products	124.6	147.3	164.6	177.7	164.3	166.4	173.9	175.5	170.5	185.0	187.1
Food, beverages, tobacco	119.9	127.7	133.2	135.1	137.8	132.4	133.4	137.1	144.7	127.1	136.6
Textiles, clothing and footwear	117.4	132.0	133.9	139.7	134.0	136.6	132.8	141.1	139.7	144.9	145.7
Chemicals and petroleum products	143.0	157.4	177.9	194.8	179.4	186.0	188.3	195.7	197.2	198.5	201.4
EMPLOYMENT:											
Not seasonally adjusted ('000) ¹	573.2	591.1	611.4	648.0	615.0	621.3	639.6	643.0	652.3	657.0	653.0
WAGES AND PRODUCTIVITY:											
Gross hourly earnings per wage earner (1965 = 100)	124.4	132.3	148.6	168.1	150.3	152.7	163.7	167.8	169.5	171.4	
Gross monthly earnings per employee (1963 = 100)	152.8	162.4	177.7	206.2	176.9	200.6	176.1	211.2	200.2	236.4	
Output per employee (1964 = 100)	124.1	135.1	140.7	146.7	133.2	149.7	139.5	153.5	138.6	155.3	
Wages and salaries per unit of output (1964 = 100)	112.9	110.1	115.2	126.8	121.0	122.3	114.2	124.5	130.4	137.8	

¹ From 1971, coverage includes administrative personnel.

Sources : Main Economic Indicators, OECD, and Austrian Institute for Economic Research.

Table C Retail Sales and Prices

	1968	1969	1970	1971	1970		1971				1972
					III	IV	I	II	III	IV	I
RETAIL SALES (1958 = 100):											
Total	195.8	205.2	222.5	244.5	222.9	273.4	202.9	228.4	246.9	299.7	228.8
Non-durables	193.5	202.3	219.3	240.0	220.1	265.2	202.1	225.9	243.0	289.1	227.1
<i>of which: Food and drinks</i>	198.4	206.3	222.6	243.4	228.8	252.5	211.4	234.0	251.5	276.6	233.9
Clothing	167.6	173.0	188.6	210.7	171.4	267.7	159.5	197.2	194.6	291.3	190.3
Durables	210.2	222.9	241.7	272.1	241.1	321.3	207.8	245.1	272.5	362.9	239.2
<i>of which: Household goods and furniture</i>	202.8	214.5	232.1	261.5	228.5	315.8	196.1	235.2	258.9	356.0	224.6
PRICES:											
Consumer prices (1963 = 100), total	119.1	122.7	128.1	134.1	129.0	130.1	131.4	132.7	135.4	136.8	138.9
Food, drinks, tobacco	118.0	121.9	127.3	131.9	128.4	129.0	129.6	129.8	133.6	134.6	136.1
Other	119.7	123.2	128.5	135.4	129.3	130.9	132.4	134.5	136.5	138.1	140.7
Wholesale prices (1964 = 100)	108.1	110.7	116.0	122.0	116.7	117.5	120.2	122.4	122.7	122.7	123.9
Raw materials and semi-manufactures	105.9	109.4	117.4	127.4	119.1	120.4	126.3	127.8	127.7	127.7	129.8
Finished manufactures	107.7	110.2	115.2	121.8	115.7	116.6	118.9	121.8	122.9	123.5	125.3
Building prices in Vienna (1958 = 100)	168.2	176.0	195.3	209.8	199.3	199.9	200.7	212.3	212.7	213.2	218.2
Labour	209.8	222.3	256.9	277.6	262.9	263.7	263.7	281.7	282.1	282.8	290.8
Building materials	130.4	133.9	139.5	148.1	141.4	142.0	143.5	149.0	149.7	149.9	152.3

Source : Oesterreichisches Institut für Wirtschaftsforschung.

Table D Money and Banking¹

End of period

	1968	1969	1970		1971				1972
			III	IV	I	II	III	IV	I
INTEREST RATES (per cent):									
Discount rate	3.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Average bond yield ²	7.4	7.5	7.7	7.6	7.6	7.6	7.5	7.5	7.4
MONEY CIRCULATION AND EXTERNAL RESERVES (Sch. bill.):									
Notes and coin in circulation	35.3	37.1	39.4	39.0	38.0	42.4	42.7	42.8	42.5
Sight liabilities of the Central Bank	12.5	12.8	12.4	14.2	14.7	14.0	16.1	18.0	20.4
Gross external reserves of the Central Bank	35.0	35.5	38.2	40.5	41.2	42.0	50.3	48.9	48.8
of which: Gold	18.4	18.4	18.4	18.4	18.4	18.3	17.9	17.9	17.9
CREDIT INSTITUTIONS (Sch. bill.):									
Credits to domestic non-banks	125.7	146.8		171.6		187.0		205.8	
Short-term	43.1	50.3		57.4		63.4		68.2	
Medium-term (1 to 5 years)	26.8	30.8		35.5		38.6		43.0	
Long-term	55.9	65.7		78.7		84.9		94.6	
Deposits from domestic non-banks	140.2	158.8	175.1	181.7	189.1	196.0	202.0	211.8	218.0
Sight	28.4	31.5	35.9	34.2	35.9	39.8	41.3	41.5	41.4
Time	13.8	14.1	15.9	16.3	17.6	18.3	18.2	18.4	20.9
Savings	98.0	113.2	123.3	131.2	135.6	137.9	142.5	151.9	155.7
Holdings of domestic Treasury bills	4.5	6.0	9.1	7.5	11.8	12.2	15.2	9.1	13.2
Holdings of other domestic securities	24.5	25.8	27.3	27.7	29.0	29.2	29.6	30.8	32.2
Foreign assets	12.0	17.8	21.1	27.1	26.5	27.2	25.6	34.5	28.6
Foreign liabilities	10.1	13.4	14.5	25.0	24.1	25.5	26.8	37.5	32.3

1 Totals may not add due to rounding.

2 Average effective yields on circulating issues.

Sources: Oesterreichische Nationalbank; Oesterreichische Länderbank.

Table E The Federal Budget
National Accounts Basis
Sch. billion

	Outturn		Estimated Outturn 1971	Voted 1972
	1969	1970		
1 Current revenue	59.0	66.2	74.4	79.9
Direct taxes of households	19.5	21.2	24.6	26.6
Indirect taxes	35.1	39.2	43.9	47.0
Corporate taxes	4.8	5.4	5.9	6.2
Income from property and entrepreneurship	-0.5	0.3	-0.1	0.0
Current transfers from abroad	0.1	0.1	0.1	0.1
2 Current expenditure	53.2	59.4	66.0	72.5
Goods and services	22.7	25.4	28.2	30.4
Subsidies	3.1	3.3	3.3	3.2
Public debt	2.3	2.7	2.9	3.3
Transfers to abroad	0.2	0.2	0.2	0.3
Transfers to public authorities	10.8	12.6	14.4	16.1
Transfers to private households	14.1	15.2	17.0	19.2
3 Net public savings (1-2)	5.8	6.8	8.4	7.4
4 Depreciation	0.5	0.6	0.7	0.8
5 Gross savings (3 + 4)	6.3	7.4	9.1	8.2
6 Gross asset formation	4.6	5.3	6.2	7.3
7 Balance of income effective transactions (5-6)	1.7	2.1	2.9	0.9
8 Capital transfers (net)	2.5	2.3	2.3	2.2
9 Financial surplus (deficit) (7-8)	-0.8	-0.2	0.6	-1.3

Source: Bundesfinanzgesetz 1972.

Table F Merchandise Trade by Commodity Group and Area
Monthly averages, Sch. million

	Imports				Exports			
	1968	1969	1970	1971	1968	1969	1970	1971
Total	5 408	6 122	7 689	8 706	4 309	5 227	6 189	6 583
By Commodity Group:								
Food, drink, tobacco	557	571	653	746	198	233	283	312
Raw materials	528	621	771	744	472	564	624	617
Mineral fuels, energy	405	442	636	708	127	130	156	133
Chemicals	564	635	757	814	274	302	349	386
Machinery and transport equipment	1 612	1 804	2 397	2 979	931	1 173	1 491	1 642
Other	1 742	2 049	2 475	2 715	2 307	2 825	3 286	3 493
By Area:								
OECD countries	4 391	4 975	6 288	7 105	3 103	3 921	4 610	4 845
EEC countries	3 103	3 457	4 311	4 864	1 737	2 165	2 439	2 550
Germany	2 240	2 529	3 171	3 570	1 008	1 266	1 446	1 509
Italy	388	402	503	581	444	529	599	611
France	212	222	271	320	98	134	137	153
EFTA countries ¹	995	1 192	1 505	1 709	1 022	1 281	1 647	1 841
UK	333	405	521	576	273	297	379	472
Switzerland	405	467	568	645	396	496	642	735
USA	181	183	263	322	199	238	254	265
Other OECD countries	112	144	209	210	146	236	270	189
Non-OECD countries	1 019	1 147	1 401	1 601	1 206	1 306	1 579	1 738
Eastern Europe ²	528	591	721	795	638	708	800	806
Africa	114	127	171	165	98	118	153	166
Latin America	137	171	201	202	59	71	86	117
Far and Middle East	91	114	143	246	166	182	194	233
Other	149	144	165	193	245	227	346	416
Index of volume (1961 = 100)	185	206	235	255	180	218	241	257
Index of average value (1961 = 100)	168	190	239	271	165	201	238	253

1 Including Finland.

2 Excluding Yugoslavia.

Sources: Statistics of Foreign Trade, OECD; Austrian Institute for Economic Research.

Basic Statistics : International Comparisons

			Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembour	Nether-lands	Norway	Portugal	Spain	Sweden	Switzer-land	Turkey	United Kingdom	United States	Yugo-slavia ²⁸		
POPULATION	End of 1970		Thousands	7 398	9 691	21 561	4 951	4 603 ²	51 027	61 846	8 793 ³	205.1	2 955	54 683	103 990	339.8	13 119	3 892	9 701 ³	33 824	8 083	6 205	35 688	(55 930)	206 017	(20 540)	
	Net average annual increase		%	0.47	0.54	1.77	0.75	0.35	1.06	1.04	0.55 ⁴	1.46	0.44	0.82	1.06	0.76	1.28	0.80	0.91 ⁵	1.06	0.75	1.34	2.50	(0.59)	1.23	(1.05)	
EMPLOYMENT	1970		Thousands	3 142	3 747	7 879	2 325	2 142	20 410	26 705	(3 695)	79	1 058	18 774	50 940	144	4 567	1 497	3 030	12 372	3 854	2 900	(13 639)	24 709	78 627	3 765 ⁵	
	Total civilian	Agriculture	% of total	18.3	4.8	7.7	11.4	22.7	14.0	9.0	47.2	19.0	27.5	19.6	17.4	11.1	7.2	13.9	33.0	29.6	8.1	6.7	71.5	2.9	4.4	8.2	
		Industry ⁷	% of total	41.0	44.7	31.4	37.4	35.5	38.8	50.3	22.4	36.7	30.0	43.7	35.7	46.5	41.0	37.3	35.7	37.4	38.4	49.4	11.8	46.6	32.3	46.7	
		Other	% of total	40.7	50.4	60.9	51.2	41.8	47.1	40.7	30.5	44.3	42.5	36.7	46.9	42.4	51.8	48.8	31.2	33.0	53.5	43.9	16.8	50.6	63.3	45.1	
PRODUCTION	1970		\$ ⁸	1 940	2 670	3 550	3 160	2 220	2 920	3 040	1 060	2 340	1 320	1 700	1 910	2 940	2 400	2 940	640	960	3 840	3 240	360	2 170	4 840	561 ²	
	GDP by sector:	Agriculture	% of total	6.9	4.5	4.6 ^{2 11}	7.9	14.1	6.0 ^{2 11}	3.1 ¹¹	20.3 ²	..	17.8 ²	10.3	8.7 ^{2 12 13}	4.1	7.0 ²	6.3	17.3	13.3	3.7 ¹¹	6.4 ¹⁰	31.0 ¹¹	3.1 ¹⁴	3.0 ¹¹	19.3	
		Industry	% of total	48.5	42.6	32.1 ^{2 11}	40.1	42.4	48.1 ^{2 11}	54.2 ¹¹	28.2 ²	..	35.2 ²	40.5	39.1 ^{2 12 13}	56.9	41.6 ²	39.9	44.0	35.5	36.8 ¹¹	49.6 ¹⁰	27.0 ¹²	44.4 ¹⁴	34.9 ¹¹	41.1	
		Other	% of total	44.6	53.0	63.4 ^{2 11}	52.0	43.5	45.9 ^{2 11}	42.6 ¹¹	51.5 ²	..	47.0 ²	49.2	52.2 ^{2 12 13}	39.1	51.4 ²	53.7	38.7	51.2	59.4 ¹¹	44.0 ¹⁰	42.0 ¹²	52.5 ¹⁴	62.1 ¹¹	39.6	
GNP ²² annual volume growth		1970	%	7.1	6.1	3.2 ⁴	3.1	7.9	6.0	5.4	8.0	6.7	1.5	10.5	3.5	5.6	3.7	7.5	6.8	4.6 ⁴	4.4	5.5	2.0 ⁴	-0.6	..		
		1965 to 1970	%	5.1	4.6	4.6 ⁴	4.4	5.0	5.8	4.6	7.0	1.8	4.0	12.1	3.6	5.2	4.6	6.0	6.5	3.9 ⁴	3.8	7.0	2.4 ⁴	3.2	..		
INDICATORS OF LIVING STANDARDS																											
Private consumption per head	1970		\$	1 090	1 600	2 160	1 960	1 180	1 720	1 650	640 ²	1 520	830 ²	1 090	840 ²	1 660	1 360	1 560	480	650	2 220	1 750 ²	240	1 340	3 010	275 ¹⁸	
	1969		% of GNP	4.40	5.57	5.65 ¹⁷	6.00 ¹⁸	6.30	4.81	3.00 ¹⁹	2.40 ¹⁸	4.80	4.20	5.80 ¹⁸	4.54 ¹⁷	5.00	6.71	5.81	1.44 ¹⁷	2.14 ¹⁸	7.80 ¹⁸	6.30	3.70	4.15 ¹⁷	5.10	4.59	
	Dwellings completed, per 1 000 inhabitants			Number	6.6	5.6 ¹¹	9.3	10.1	7.9	8.5	8.2	14.7	7.2	4.3	5.2	..	8.6	8.6	4.3	8.2	13.7	9.5	3.3	6.9	7.7	6.4	
		Passenger cars ²³ , per 1 000 inhabitants		Number	152	205	311	210	137	231	215	15	185 ²³	130	166	68	250	179	183	42	61	277	209	4	207	426	28 ³
		Television sets, per 1 000 inhabitants		Number	154	196	294	249	198	184	246	5	160	155	150	208	154	207	194	29	162	296	164	1.3	279	409	64
		Telephones, per 1 000 inhabitants		Number	169	190	425	311	215	149	185	87	330	94	143	171	290	226	271	69	113	497	437	13	232	543	31
Doctors, per 1 000 inhabitants		Number	1.60	1.55	1.14 ¹⁸	1.41 ¹⁸	0.93	1.22 ¹⁸	1.50	1.49	..	1.09	1.79 ²³	1.09 ⁸	1.01	1.18	1.35	0.83 ¹⁸	1.30	1.24	1.31	0.36 ¹⁸	1.18 ¹⁸	1.64	1.10		
GROSS FIXED INVESTMENT ²⁵	1966-70 average		% of GNP	27.8	21.2	23.5 ²⁴	23.2	24.6	25.8	25.4	27.2	29.0	21.6	19.8	36.6	24.1	27.4	28.9	18.6	24.8	24.0	27.2	25.6	18.6	16.6 ²⁸	..	
	Machinery and equipment	% of GNP	12.0	9.1	9.5	11.8	8.8	11.4	11.4	11.0	8.0	10.5	7.9	30.1 ²⁷	7.0	12.9	14.7	7.6	13.0	8.2	9.5	..	9.2	7.1 ²⁸	..		
		Residential construction	% of GNP	15.8 ²⁸	5.1	3.6	4.4	5.6	6.6	5.5	6.7	6.0	3.9	6.2	6.5	4.9	5.3	4.8	3.4	4.2	6.1	6.9	5.3	3.5	3.3	..	
			Other construction	% of GNP	— ²⁸	7.0	10.4	7.0	10.2	7.9	8.5 ²⁸	9.9	15.0	7.3	5.6	— ²⁷	12.2	9.2	9.4	7.6	7.7	9.7	10.8	..	5.9	6.1	..
GROSS SAVING		1966-70 average	% of GNP	28.3	23.5	24.7	18.9	28.5	26.5	26.9	21.0 ⁴⁹	..	19.8 ⁴⁹	23.4	38.7	28.1 ²⁵	26.8	28.5	..	22.7	23.1	28.4 ⁴⁹	18.6 ⁴⁹	18.5	17.9	..	
PUBLIC SECTOR ³⁰		1970	% of GNP	35.9	34.7	35.5	37.5 ²	36.4	38.1 ³	37.6	26.9 ²	33.8 ¹⁸	31.4 ²	32.3	21.2 ²	34.8 ¹⁸	43.5	44.3	..	22.5	55.3 ³¹	28.0 ²	19.5 ²	39.0 ²	29.6	32.6 ¹⁸	
WAGES/PRICES	Annual increase 1965 to 70		%	8.2 ³²	8.2	7.3 ³⁴	10.9 ³⁴	8.4	9.2 ³⁸	7.4	9.5 ³⁴	13.5 ³⁷	10.8 ³⁴	8.2 ³⁸	14.7 ³⁹	..	8.9 ⁴⁰	8.8 ⁴¹	9.7 ³³	12.8 ⁴²	8.9 ⁴³	5.2 ⁴⁴	..	6.7 ⁴⁵	5.3 ³⁴	..	
	Consumer prices		%	3.2	3.5	3.9	6.4	4.7	4.3	2.7	2.5	12.9	5.3	2.9	5.5	3.0	4.9	4.9	6.4	5.1	4.4	3.5	8.1	4.6	4.2	10.6	
	GNP deflator		%	3.3	3.4	4.1	6.3	5.6	4.8	3.4	2.6	12.4	5.8	3.4	4.7	4.9	4.8	5.0	4.8	5.1	4.3	4.0	5.5	4.6	4.0	..	
FOREIGN TRADE	1970		\$ million ⁸	4 350	11 680	15 800 ¹⁸	5 000	3 130	24 580	40 270	1 930 ²	230	1 730	18 170	20 920	810	16 700	5 000	1 910	5 500	6 080 ¹⁸	6 280 ²	1 120	28 250	59 310	1 991 ⁸	
			% of GNP	30.3	45.1	25.3	32.1	30.6	16.6	21.5	23.0	48.3	44.5	19.6	10.6	81.1	53.4	43.9	30.6	17.1	23.8	33.4	8.9	23.3	6.0	21.0 ⁹	
			\$ million ⁸	4 390	12 470	15 490 ¹⁸	4 540	2 900	25 140	43 270	1 090 ²	240	1 530	18 790	23 110	880	16 310	4 830	1 540	4 940	5 920 ¹⁸	7 120 ²	940	30 520	62 900	1 875 ⁹	
			% of GNP	30.5	48.2	24.8	29.1	28.3	17.0	23.1	12.9	50.0	39.3	20.2	11.7	88.0	52.2	42.4	24.6	15.3	23.1	37.8	7.5	25.2	6.4	19.7 ⁹	
BALANCE OF PAYMENTS	1966-70 average		% of GNP	-0.5	1.7 ²¹	-0.3	-2.6	-1.2	-0.4	1.0	-3.6	-5.7	-2.9	2.5	0.9	—	-0.6	-0.5	2.5	-1.2	-0.6	1.6	-1.5	0.2	0.1	..	
	Official reserves ³⁷ , end-1970: per cent of a year's imports ⁴⁸		%	49.5	25.1 ²¹	35.2	11.1	18.2	26.0	45.6	19.9 ²	34.6	44.3	35.5	25.6	—	24.2	21.8	96.2	38.2	10.9	72.7	48.5	13.0	36.3	6.4	
	Change		\$ million	596	257 ²¹	1 169	393	324	2 825	866	380	8	260	603	8 916	—	760	288	..	..	423	1 257	..	4 387	-466	..
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES ⁵⁰		1971	% of GNP	0.56	1.03	0.82	0.80	— ⁵¹	1.02	0.88	— ⁵²	— ⁵¹	— ⁵¹	0.85	0.96	— ⁵¹	1.63	0.51	1.56	— ⁵²	0.69	[0.93]	— ⁵³	1.14	0.67	— ⁵²	
EXPORT PERFORMANCE ⁵⁵	Growth of markets ⁵⁴		%	10.7	12.2	16.5	10.9	10.1	10.6	11.4	11.1	..	14.6	12.4	..	11.9	10.8	7.8	11.9	10.6	10.9	11.6	11.5	11.5	..		
	1960 to 1970 (average)		%	11.1	11.2	13.4	9.9	10.2	9.1	10.5	11.2	..	7.5	10.5	..	10.7	9.8	10.7	10.2	10.1	10.8	4.7	9.5	9.5	..		
	Gains or losses		%	-0.8	-6.1 ²¹	-5.7	-1.0	-7.9	3.8	2.8	-8.0	..	11.9	2.3	10.5	..	7.2	-6.3	1.4	11.2	-0.9	1.3	3.3	3.0	-8.7	..	
	of market shares ⁵⁵		%	-1.6	1.0 ²¹	-2.0	-1.3	-1.6	0.8	0.9	0.9	..	0.9	..	..	..	0.5	1.3	1.0	2.7	-0.1	-0.2	1.3	-3.2	-1.8	..

1 Does not include total net migration between Finland and the other Nordic countries.
 2 1969.
 3 1965-1970.
 4 GDP in purchasers' values.
 5 Socialised sector.
 6 30-6-60 - 30-6-70.
 7 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 8 At current prices and exchange rates.
 9 1967.
 10 The estimates for GDP by sector for Switzerland have been published in "la Vie économique", November 1969.
 11 GDP at market prices.
 12 Net domestic product.
 13 Electricity, gas and water works included in "other activities".
 14 Including stock appreciation.
 15 National source.
 16 1962-1967.
 17 1965.
 18 1968.
 19 1966.
 20 1964.
 21 Including Luxembourg.
 22 1970.
 23 At constant (1963) prices.
 24 Excluding transfer costs of land and existing assets.
 25 1964-1968.
 26 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
 27 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
 28 "Other construction" included in "residential construction".
 29 Including transfer costs of land.
 30 General government.
 31 Including depreciation.
 32 Industry.
 33 Monthly.
 34 Manufacturing.
 35 Including bonuses.
 36 Hourly rates in manufacturing.
 37 Hourly wages rates, unskilled workers.
 38 Hourly rates in manufacturing, excluding family allowances.
 39 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
 40 Hourly rates in industry, males.
 41 Males.
 42 Excluding family allowances.
 43 Mining and manufacturing, males.
 44 Hourly rates.
 45 Hourly rates in manufacturing, males.
 46 Goods and services, including factor income.
 47 Including reserve position in the IMF and special drawing rights.
 48 Imports of goods in 1970.
 49 1965-1969.
 50 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
 51 Not Development Assistance Committee members.
 52 Considered as a developing country for purposes of DAC reporting.
 53 Values, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 6

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