AUSTRIA

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Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	228,668.6	206,303.3	212,395.2
Real GDP Growth (pct)	1.6	2.5	3.3
GDP by Sector:			
Agriculture	3,276.7	2,909.8	N/A
Manufacturing	52,540.1	47,926.2	N/A
Services	126,345.6	101,729.5	N/A
Government	30,028.3	26,377.0	N/A
Per Capita GDP (US$)	28,373	25,547	26,251
Labor Force (1,000s)	3,646	3,657	3,687
Unemployment Rate (pct) 3/	4.3	4.4	4.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	2.8	1.0	N/A
Consumer Price Inflation	1.9	1.3	1.0
Exchange Rate (AS/US$ annual average) 4/	10.59	12.20	12.40
Balance of Payments and Trade:			
Total Exports FOB	57,808.3	58,607.9	63,193.5
Exports to U.S.	1,840.2	2,148.4	2,430.8
Total imports CIF	67,305.0	64,774.7	69,016.1
Imports from U.S.	3,000.9	3,467.9	3,553.4
Trade Balance	-9,496.7	-6,166.8	-5,822.6
Balance with U.S.	-1,160.7	-1,319.5	-1,122.6
External Public Debt	27,995.7	24,993.9	24,543.4
Fiscal Deficit/GDP (pct)	3.7	2.7	2.6
Current Account Deficit/GDP (pct)	2.2	2.2	1.8
Debt Service Payments/GDP (pct) 5/	1.8	1.5	2.5
Gold and Foreign Exchange Reserves (Year-End)	25,482.2	21,710.5	N/A

Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 1998 figures are all estimates based on latest available data and economic forecasts in October 1998.

2/ GDP at market prices, converted at average annual exchange rate.

3/ Unemployment rate according to EU method.

4/ There is only an official rate, no parallel rates.

5/ Debt service payments on external public debt.

1. General Policy Framework

Based on per capita GDP, Austria is the fourth richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for two thirds of employment followed by the manufacturing sectors. Small and medium-sized companies are predominant. By 1997, the government completed a 10-year privatization program. Most of the formerly state-owned industries are now in private hands. Further privatizations are underway, including in the telecommunications and energy sectors.

Exports of Austrian goods and services account for over 40 percent of GDP. Austria's major export market is the EU, accounting for 60 percent of Austrian exports (35 percent to Germany, 8 percent to Italy). However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 17 percent of Austrian exports by 1997. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets. This year, Hungary surpassed Switzerland as Austria's third largest export market.

The government sets economic policy in consultation with the so-called "Social Partnership," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms, particularly in inflexible labor and product markets.

In order to meet the Maastricht criteria for economic and monetary union, in 1996-97, the government introduced an austerity program, under which it reduced its federal budget deficit from 5.1 percent (1995) to 2.6 percent of GDP (1997). This was achieved mainly by reducing civil service and social expenditures, the two major contributors to the government deficit. Some 14 percent of the workforce are federal employees, and social expenditure amounts to approximately 30 percent of GDP. The austerity program also included tax increases, which brought the share of total taxes in GDP to an all-time high of 44.8 percent.

Another focus of economic policy is employment creation. Austria has been one of the foremost supporters of the EU-wide national employment plans. Its plan places strong emphasis on training and education, removal of bureaucratic hurdles, more labor flexibility and a more favorable climate for business start-ups. The 2000-2001 tax reform is expected to reduce wage and non-wage costs.

2. Exchange Rate Policies

Since 1981, the Austrian National Bank (ANB) has formally pursued a "hard schilling" policy, adjusting interest rates to peg the Austrian Schilling (AS) to the German Mark (DM), at an exchange rate of AS 7 to DM 1, in lieu of setting money supply and other monetary targets.

This policy has been relatively successful in keeping inflation under control and promoting stable economic growth. Austria's EU accession on January 1, 1995 left this policy unchanged. As one of the eleven EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996-97, and is pursuing a policy of further reducing the fiscal deficit and the public debt.

In 1997, the Austrian Schilling (and the German Mark) lost ground against the dollar and some European currencies. This trend continued in the first half of 1998 as the dollar continued to rise against the schilling and the mark, but reversed sharply in the fall of 1998, when, in response to lower U.S. interest rates, the dollar dropped sharply against major European currencies.

3. Structural Policies

Austria's accession to the EU forced the government to accelerate structural reforms and to liberalize its economy. Most nontariff barriers to merchandise trade have been removed and cross-border capital movements have been fully liberalized.

While the government continues to be a major player in the economy, the scope of government intervention -- a traditional feature of the Austrian economy -- has been significantly reduced in recent years. The government no longer has majority ownership in formerly state-controlled companies such as OMV (oil and gas), VOEST (steel, plant engineering) or ELIN (electrical machinery and equipment). Subsidy programs have also been scaled back to conform to EU regulations.

After the passage of a more liberal business code in 1997, plans are underway for making Austria more attractive for investors by implementing "one-stop-shopping" for necessary permits and other approvals. Proposals are also under consideration to simplify administrative procedures and limit time for approvals to an average of three months, though approval times for larger projects could take up to nine months.

As a result of EU liberalization directives, the government has also moved ahead with liberalization legislation in the telecom and energy sectors. The opening of the market for conventional telephones on January 1, 1998, represented the final phase of Austria's telecom liberalization. The Austrian telecom services sector now exhibits a high degree of liberalization. For decades, telecom was a monopoly in Austria, with the state-owned Post and Telecom Austria Company (PTA) being the only national supplier of networks and telecom services. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. A relevant Austrian law was adopted in 1998, providing for a progressive opening of the market by the year 2003. Preparations are also under way to liberalize the natural gas market.

The governing parties are now discussing plans for the tax reform they promised to implement in 2000-2001 with the goal of reducing wage and non-wage costs. However, due to the slowdown of the economy in reaction to continuing international financial turmoil, the government has less budgetary latitude to implement such reforms without significant cuts in expenditure.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1997, the Austrian federal government's external debt amounted to $25.0 billion (20 percent of the government's overall debt) and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $3.0 billion in 1997, or 1.5 percent of GDP and 3.5 percent of total exports of goods and services. In 1997, total public sector external debt amounted to $27.7 billion or 13.4 percent of GDP. Total gross public debt was 66 percent of GDP at the end of 1997. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

With the U.S. being Austria’s largest non-European trading partner (3.8 percent of Austria’s total 1998 exports), the Austrian government has a clear interest in maintaining close and smooth trade ties. However, a number of obstacles to U.S. exports to Austria exist:

Pharmaceuticals: Access of U.S. pharmaceutical products to the Austrian market has been restricted by the Austrian social insurance holding organization (Hauptverband der Sozialversicherungsträger). The non-transparent procedures by which the Hauptverband approves drugs for reimbursement under Austrian health insurance regulations has, according to critics, perpetuated a closed market system favoring established suppliers. Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for Austrian patients and therefore suffer a competitive disadvantage vis-à-vis approved products. One U.S. firm has raised Austria’s practices with the European Commission as a possible violation of the EU Transparency Directive.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; however, there is evidence of a strong pro-EU bias in awarding government tenders. In the recent past, U.S. firms (the most prominent example being Boeing, which lost the sale of a helicopter to the Austrian Interior Ministry after the purchase had already been approved) have lost out to European competitors due to massive political pressure and biased government middle-management officials. In defense contracts, offset agreements are common practice. This pro-European bias also appears to play a role in privatization decisions, although in some cases the bias is even more narrowly defined with politicians calling for “Austrian solutions.”

Beef Hormones: The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. According to a WTO decision, Brussels is to lift the ban in the spring of 1999. However, it is expected that the EU will not be in compliance with the WTO ruling by the WTO’s stipulated deadline.

Poultry: The dispute between the U.S. and the EU on sanitary matters concerning poultry and poultry products makes the import of U.S. poultry, or products containing poultry, impossible.

GMOs: As the EU has not approved all genetically modified plants available in the U.S., imports of these plants or products containing these plants are not permitted. Austria has gone even further than its EU partners: Novartis corn, approved by the European Commission, is not permitted in Austria. The ban of this corn type is contrary to EU regulations.

Banking: Austria's 1993 Banking Act presents a number of obstacles to entry by U.S. banks. Branches of non-EU banks must be licensed, while EU banks may operate branches on the basis of their home country licenses. For bank branches or subsidiaries from a non-EU member country, the limits for single large loan exposures and open foreign exchange positions will shrink considerably on December 31, 1998, when the endowment capital from their parent companies may no longer be included in the capital base used for calculating these limits.

Other Financial Services: Providers of financial services, such as accountants, tax consultants, and property consultants, must submit specific proof of their qualifications, such as university education or number of years of practice. Other service activities also require a business license, for which one of the preconditions is legal residence. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with an Austrian firm to get around these restrictions.

Foreign Direct Investment: The government welcomes foreign investment, particularly in the high technology and automotive sectors, and imposes no formal sectoral or geographic restrictions. In most business activities, 100 percent ownership is permitted. Investment incentives are abundant, including EU structural subsidies in some locations.

A 1997 U.S. Investor Confidence Survey compiled by the American Chamber of Commerce cites high labor, telecommunications and energy costs, the complex Austrian legal situation, and difficulties in obtaining work permits for key personnel as major obstacles. A 1998 follow-up survey noted improvements in the regulatory process, a proposed “one-stop” permit agency and faster permit processing. The reform of the Residence Law and the Foreign

Workers Employment Law enacted in mid-1997 exempts skilled U.S. labor (e.g. managers and their dependents) from an increasingly restrictive quota system for residence permits.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, offers export financing programs for small and medium-sized companies with annual export sales of up to $8.2 million. Following Austria's accession to the EU, the AKB stopped providing economic risk guarantees for short term financing of exports to OECD countries. A 1995 amendment to Austria's Export Guarantees Act (AFG) enables the AKB to guarantee untied credits. In 1996, the AKB made its export guarantee system more transparent by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

Austria is a member of all major multilateral intellectual property agreements and organizations, including the World Intellectual Property Organization (WIPO). Austrian laws are largely consistent with international standards. However, Austrian copyright law (as amended in 1996) allows “tourist establishments” (such as hotels, inns, etc.) to show cinematographic works (or other audiovisual works, including videos) for their guests provided they pay a compulsory license fee to the copyright holders, even though the copyright holder may not have authorized showing of the work. The United States has urged the Austrian Government to rescind this provision of the law, which is inconsistent with Austria’s international obligations.

A levy on imports of home videocassettes and a compulsory license for cable transmission are required under Austrian Copyright Law. Of total revenues, 51 percent currently goes to a special fund for social and cultural projects, rather than to the copyright holders. It is expected that as of 1998, cable transmission rights will be exclusive to the legal owner. Austrian Copyright Law requires that the owner of intellectual property prove the entire chain of rights up to the producer. In the case of films, this requirement has made prosecution of cases of video piracy difficult. The United States government continues to consult with Austria on this issue.

8. Worker Rights

a. The Right of Association: Workers in Austria have the constitutional right to associate freely and the de facto right to strike. Guarantees in the Austrian Constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly develop draft legislation on social and economic issues, thereby influencing the country’s overall economic policy.

b. The Right to Organize and Bargain Collectively: Austrian unions enjoy the right to organize and bargain collectively. Some 50 percent of Austria's 3.1 million-strong labor force is unionized. The Austrian Trade Union Federation (OGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and the Chamber of Labor are democratically elected. Workers are legally entitled to elect one-third of the board of major companies.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law.

d. Minimum Age for Employment of Children: The minimum legal working age is 15. The law is effectively enforced by the labor inspectorate of the Ministry for Social Affairs.

e. Acceptable Conditions of Work: There is no legally-mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. Rights in Sectors With U.S. Investment: Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		946
Food & Kindred Products	30	
Chemicals & Allied Products	45	
Primary & Fabricated Metals	1	
Industrial Machinery and Equipment	92	
Electric & Electronic Equipment	(1)	
Transportation Equipment	349	
Other Manufacturing	(1)	
Wholesale Trade		398
Banking		(1)
Finance/Insurance/Real Estate		1,009
Services		144
Other Industries		-14
TOTAL ALL INDUSTRIES		2,621

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.