Editorial

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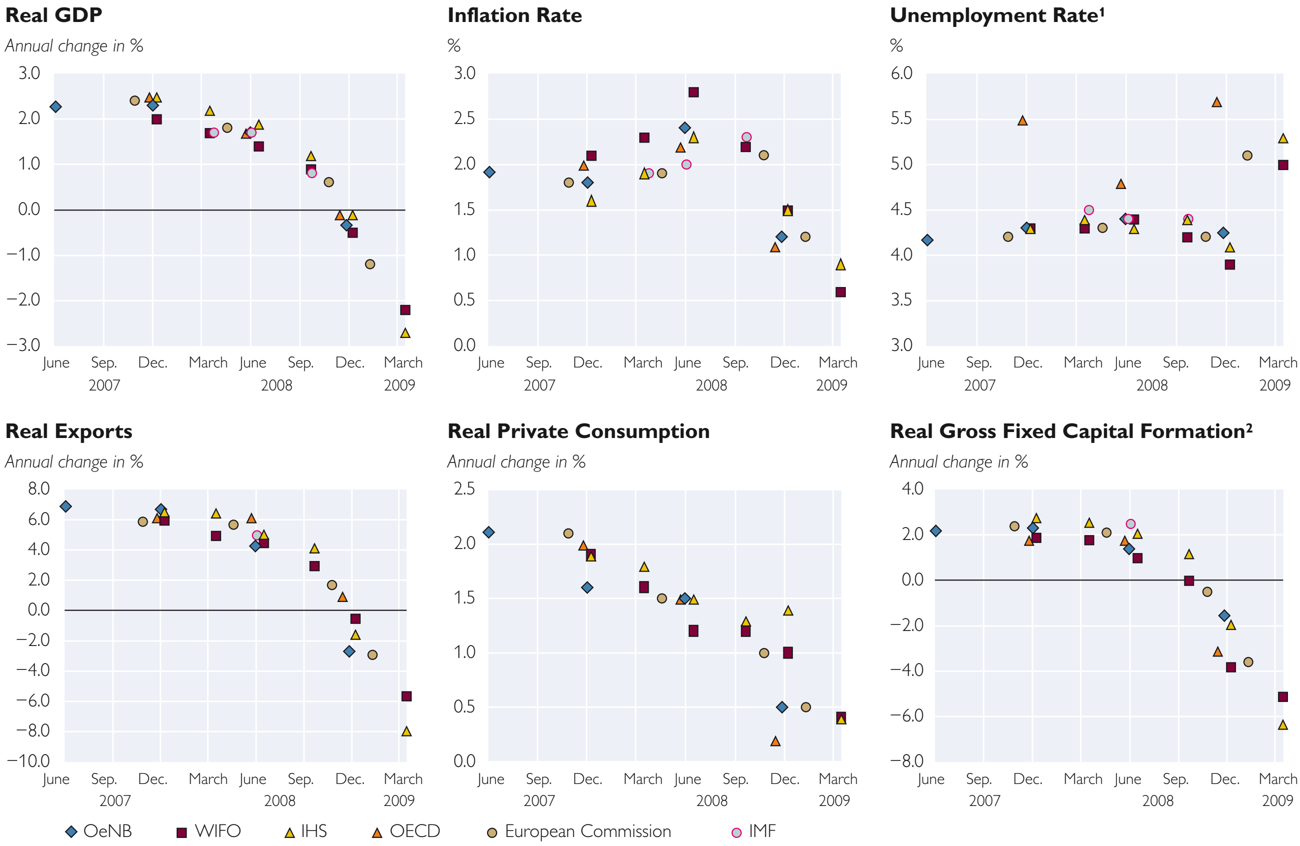
Driven by international developments, the current economic crisis has suddenly and strongly deteriorated the outlook also for the Austrian economy. Given the sharp drop in world trade in 2009, also Austrian exporters are going to suffer massive setbacks. In a small, open and strongly export-oriented economy like Austria, a slowdown in external demand immediately passes through to investment activity – judging from current developments, the decline in gross fixed capital formation anticipated for 2009 may be substantial.

While up to mid-2007 the consensus view was that Austrian real GDP would grow by between 2% and 2½% in 2009, growth forecasts were subsequently revised downward over the next 12 months, to a level of 1½%. Yet the latest downward revisions – following the intensification of the financial turmoil after the collapse of Lehman Brothers in September 2008 – reached new dimensions by historic standards. At the end of March 2009, the OECD already expected world trade to shrink by more than 13% in 2009, and real

Development of Forecasts for Austria for 2009



Source: OeNB, WIFO, IHS, OECD, European Commission, IMF.

[1] Eurostat definition; OECD figures as defined by the OECD.
[2] IHS: Gross capital formation.

[1] *The authors thank Beate Resch for compiling the charts.*

economic output in the euro area to contract by approximately 4%. Regarding Austria, the two major national forecasters thus revised their latest economic growth expectations downward to –2.2% (Austrian Institute of Economic Research – WIFO) and –2.7% (Institute for Advanced Studies – IHS).

These developments provide unprecedented challenges for economic and monetary policymakers. The exceptional character of the developments also calls for exceptional responses, flexible action and creative solutions beyond the "standard repertoire" of economic policymakers. This holds true for measures aimed at stabilizing the financial system as well as for measures in the realm of monetary and fiscal policies. Against the backdrop of a rapidly changing economic environment, the usual time lags of one to three months with which macroeconomic data typically become available are being felt particularly strongly by policymakers. Readily available leading indicators – which provide meaningful information even under the exceptional crisis conditions – are particularly important for accurate assessments of growth dynamics. This special issue discusses the problems touched upon above from a range of perspectives in an attempt to raise understanding of the challenges that are facing economic policymakers at present.

The first three contributions analyze the latest developments of the Austrian and the global economy. *Breitenfellner, Schneider and Schreiner* provide a current overview of the international and European economy and present the latest short-term projection for the Austrian economy for the first half of 2009. They expect the first half of the year to be characterized by a deep, global recession. At the same time, a number of confidence indicators have bottomed out at very low levels according to the latest observations, which nourishes hopes that the economy may likewise bottom out in the first half of 2009 and might even start to recover slowly in the second half – that is, provided the international environment will not deteriorate any further and provided we will not see any new shocks.

Based on the latest available export data of December 2008, *Ragacs and Vondra* explore the extent to which the global growth setback has already passed through to Austrian exports to Central, Eastern and Southeastern Europe (CESEE). In 2008, the CESEE countries that joined the EU in 2004 and 2007 accounted for 17.6% of all Austrian goods exports, and "Eastern Europe" at large (30 countries in CESEE and Central Asia) for as much as 24.6%. While the global crisis has cascaded through also to this region, the growth outlook continues to be brighter for many CESEE countries than for the euro area. Simulations with the OeNB's macro model indicate that a growth setback in the region as anticipated by the most recent forecasts would imply a deterioration by 0.7 percentage points for Austria compared with the OeNB's projections of December 2008.

Fenz and Schneider, finally, present a leading indicator for the Austrian economy that was newly developed by the OeNB and is based on freight performance. The underlying data are compiled by Austria's highway operator (ASFINAG) and become available with a lag of only five working days after the end of each month – i.e. a full two months earlier than other data that would allow an assessment of developments in goods exports and industrial production. The new indicator shows that Austria's exports continued to contract sharply in February and March 2009, which implies that real exports will drop by another sizeable chunk in the first quarter of 2009.

Two additional contributions deal with the two major branches of macroeconomic policy, namely monetary and fiscal policy: First, *Jobst* highlights the sweeping adjustments to the framework for implementing monetary policy with which the Eurosystem – but also many other central banks worldwide – have responded to challenges created by the financial and economic crisis. The monetary policy framework has proved highly effective in times of crisis. The Governing Council of the ECB was able to meet the new challenges in a remarkably flexible way, essentially by adjusting the allotment terms for the Eurosystem's main refinancing operations (by switching to fixed rate tenders with full allotment), by introducing supplementary longer-term refinancing operations, and by expanding the list of eligible collateral. In combination with a marked reduction in Eurosystem interest rates, these measures contributed to stabilizing the banking and financial system, and they helped sustain the flow of credit in the economy.

Second, *Köhler-Töglhofer and Reiss* discuss fiscal policy options in response to the economic contraction, i.e. essentially economic stimulus and growth packages, and assess the extent to which such measures may be reasonably expected to smooth the impact of the crisis on the real economy. As expected, decision-making and implementation lags as well as small fiscal multipliers limit the ability of discretionary fiscal policy to smooth economic developments in practice. Under the current circumstances, however, those constraints may be less relevant, given the large dimension and possible length as well as the globally synchronized nature of both the current recession and the related expansionary countercyclical policy measures. According to simulations with the OeNB's macro model, the stabilization measures adopted by the Austrian government so far – inflation package, two economic stimulus packages, personal income tax reform brought forward – are expected to increase GDP growth by ¾% in 2009 and by ½% in 2010 (i.e. the level of real GDP is raised by 1¼% in total) and to facilitate the creation of about 12,000 jobs each year (roughly 25,000 in total). At the same time, the authors advise the Austrian government to make a commitment to rapidly consolidate the budget once the crisis is over.

The two studies that round out this special issue, while not specifically dealing with crisis-related topics, focus on issues that are upon closer inspection also relevant in the current economic situation. On the one hand, *Fritzer* looks into the diverging inflation experience of different population groups and finds that households with lower spending levels have suffered slightly higher (roughly 0.1 percentage points) inflation of their consumer basket than the average household during the period from 2000 to October 2008. The diverging inflation experience across household groups results from different consumption patterns, different expenditure budgets and relative price changes, rather than from the size of the inflation rate itself.

On the other hand, *Prammer* looks into the effects of public sector outsourcing. While typically motivated by the prospect of efficiency gains and enhanced public finances, public sector outsourcing may also have distributional implications and implications for the state's conjunctural stabilization function. With two case studies for

Austria, the author provides evidence that outsourcing may indeed influence the perception of fiscal sustainability, while in reality such an effect is not be expected.

The editors and contributors of this issue hope to add to the understanding of the current economic situation and that the evidence compiled here may support decision-makers in this time of exceptional challenges.