



SIX YEARS AFTER EU ENLARGEMENT – AUSTRIA AND ITS EASTERN NEIGHBOURS

Comments on Competitiveness
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Is Austria always better off? Felix Austria?

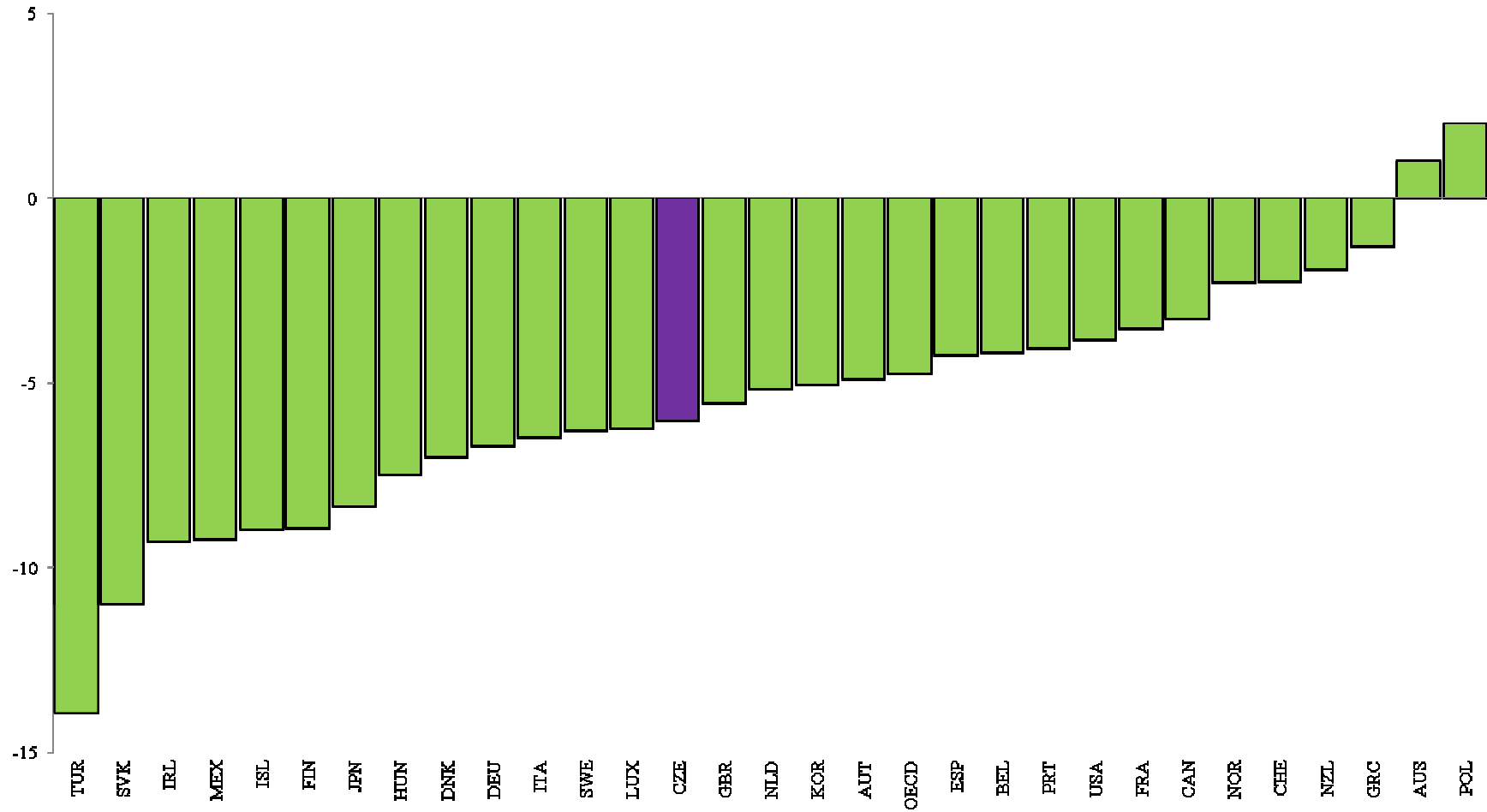
- Excellent economic performance (gdp/per capita in PPPs), steady catching up, now behind Netherlands, ahead of Denmark, Sweden, Finland, Belgium
- Is this good performance a consequence of good policies?
a sequence of positive shocks?

GDP per Capita/OECD

| Land | 2005 | 2006 | 2007 | 2008 |
|-------------|------|------|------|------|
| OECD | 100 | 100 | 100 | 100 |
| Austria | 112 | 112 | 111 | 112 |
| Belgium | 108 | 106 | 105 | 105 |
| Denmark | 111 | 112 | 110 | 109 |
| Finland | 103 | 104 | 107 | 107 |
| Germany | 105 | 105 | 105 | 105 |
| Netherlands | 118 | 118 | 120 | 122 |
| Sweden | 108 | 109 | 111 | 109 |
| Switzerland | 119 | 121 | 126 | 127 |



Even the crisis has hit Austria only average (% of GDP from peak to trough)





What to learn from the studies?

- Austria (after Germany) has the lowest real exchange rate of the euro zone
- Structural break in export/import trends around mid 90ies
- Greece and Austria benefited in similar way from eastern opening
- Most important structural shift in favour of real estate dwelling and business services
- Positive gdp effects only if crisis year is excluded

Open questions

- Why are enlargement effects for Austria so small/invisible? Potential growth has even fallen after EU Enlargement. Has EU enlargement just compensated for other deficiencies of the Austrian economy?
- How to explain the increase of real estate/business services? Is it sustainable?
- What are the consequences of the boom/bust cycles in which Austria participated as creditor for the Austrian economy? In variable rate foreign currency loans?

An unproven hypothesis

- Austria has used the benefits from Eastern Enlargement to substitute for necessary reforms of its economy:

Fiscal Federalism remains excessively expensive

Product market regulation remains heavy

Government services are expensive and inefficient

Banks are heavily invested in an unsustainable business model (at home and abroad)