



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

# ANNUAL REPORT 2003







REPORT  
ON THE FINANCIAL YEAR 2003  
WITH FINANCIAL STATEMENTS  
FOR THE YEAR 2003

*Submitted to the General Meeting on May 13, 2004*



Five years after the start of Stage Three of Economic and Monetary Union (EMU), the euro has become well established as our common currency. In the process, the Oesterreichische Nationalbank (OeNB) faced considerable challenges, with which it has successfully coped. Consequently, the OeNB enjoys a high degree of trust and great credibility as a monetary institution among the general public.

The economic conditions under which the national central banks (NCBs) of the Eurosystem had to perform in the financial year 2003 were not easy. The historically low interest rate levels and the strong appreciation of the euro against the U.S. dollar limited the potential for interest income and income from foreign currency assets. Despite these adverse market conditions, the OeNB's operating profit, while falling short of the record profits of the most recent years, nevertheless corresponds to the long-term average and is in fact very good compared with the pronounced profit setbacks suffered by other Eurosystem NCBs. The OeNB's investment strategy and its active management of reserve assets have obviously paid off.

At the same time, the developments of recent years have patently shown that adverse external conditions may quickly put NCBs in a situation where substantial amounts of reserves are needed to offset losses. This is why the NCBs, including the OeNB, must hold adequate reserves to stay protected against those risks.

As a partner in the Eurosystem, the OeNB's top priority is to contribute to the tasks of the European System of Central Banks (ESCB), whose prime responsibility is to maintain price stability and to secure the stability of financial markets. Customer orientation and operational efficiency are crucial prerequisites for carrying out these tasks. Consequently, the OeNB must continually seek to enhance customer orientation and to optimize work processes in all its business areas.

The OeNB will continue to face major challenges, especially against the background of the enlargement of the European Union (EU). In this context, the

OeNB will benefit from the experience it has gained in decades of cooperating with Central and Eastern European countries and will reap the fruits of its strong commitment to such cooperation to the Eurosystem's advantage. Being one of the smaller Eurosystem NCBs, the OeNB will, above all, need to operate efficiently and to be very open in its communications policy to ensure the ongoing acceptance of the euro and public confidence in the OeNB.

Herbert Schimetschek  
President

The global economic outlook brightened considerably in 2003, but euphoria is unwarranted. The U.S. twin deficit as well as sudden and sharp exchange rate movements corroborate the existence of international macroeconomic imbalances and may affect the sustainability of the upswing. While the outlook for the euro area has also improved since mid-2003, the major European economies remain in weak shape.

Against the background of waning inflation pressures, in the first half of 2003 the Eurosystem cut its key interest rates in two moves to a historically low level. Financing conditions in the euro area are thus very favorable. In spring 2003 the Governing Council of the ECB confirmed its monetary policy strategy and adjusted some aspects in the light of the experience gained so far. The Eurosystem met its monetary policy objective of keeping the inflation rate below but close to 2% on average over the medium term between 1999 and 2003. With low inflation expectations mirroring the continued credibility of this target, the Eurosystem's monetary policy thus optimally supports sustained growth.

Yet, other areas of economic policy are also called on to generate confidence and provide appropriate incentives for dynamic growth. In 2003, several euro area countries missed the targets specified in the Stability and Growth Pact. It is vital that the Member States concerned return to a sustained path of sound budgetary policies without delay to bolster the credibility of the EU's economic policy framework. More than in the past, the Member States should take advantage of periods of upswings to lay the foundation for continued sound public finances. Furthermore, they should swiftly implement the structural reforms agreed in Lisbon in 2000 to unlock the as yet untapped growth potential.

A small and open economy, Austria is heavily influenced by international economic developments. In terms of real GDP growth, Austria in 2003 slightly outperformed its main trading partners and the euro area as a whole, which was attributable, among other things, to the

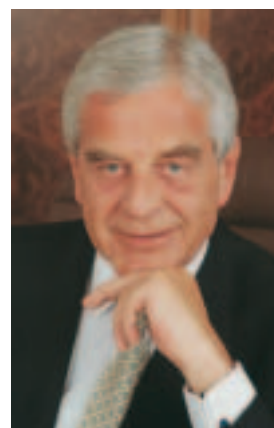
economic stimulus and location development packages launched by the federal government. In terms of price stability, Austria ranks among the leading euro area countries. The IMF, in its Financial Sector Assessment Program (FSAP) mission conducted in Austria in 2003, gave a very positive evaluation of the domestic financial market.

The two parts of the tax reform adopted last year have made Austrians more attractive for businesses. However, the target of a balanced budget should be kept in focus and should be reattained by spending cuts. International institutions, too, acknowledged that the government had undertaken a range of key structural reforms, including the reform of the statutory pension scheme, the reduction of the role of the state, administrative reform as well as the promotion of R&D and entrepreneurship. Resolutely continuing the path of reform is crucial to maintaining Austria's competitiveness and prosperity.

The accession of ten new Member States to the European Union on May 1, 2004, marks another milestone in European integration. Austria can continue to benefit from the economic potential of the new Member States and its geographical location in the center of an enlarged EU by embracing this historic opportunity with even greater enthusiasm and determination.

The OeNB's cooperation with the new Financial Market Authority developed smoothly in 2003. The OeNB enhanced the range of analyses and statistics it makes available in the public interest by introducing the OeNB Economic Indicator, conducting the regular bank lending surveys and providing new interest rate statistics; furthermore, it strengthened its research focus on Eastern Europe. In order to fulfill its manifold tasks within the European System of Central Banks, the OeNB will continue to refine its role as an economic policy think tank and specialized service provider.

Klaus Liebscher  
Governor



## Conventions used in the tables

- = The numerical value is zero
- .. = Data not available at the reporting date
- x = For technical reasons no data can be indicated
- 0 = A quantity which is smaller than half of the unit indicated

Note: Apparent arithmetical discrepancies in the tables are due to rounding.

## Abbreviations

ACH	automated clearing house	IMBA	Institut für Molekulare Biotechnologie GmbH (Institute for Molecular Biotechnology)
AG	Aktiengesellschaft (roughly: stock corporation)	IRB	internal ratings-based
APRC	annual percentage rate of charge	IT	information technology
APSS	Austrian Payment Systems Services GmbH	JVI	Joint Vienna Institute
ARTIS	Austrian Real Time Interbank Settlement (the Austrian RTGS system)	MFI	monetary financial institution
ATM	automated teller machine	MRO	main refinancing operation
BCBS	Basel Committee on Banking Supervision (BIS)	NCB	national central bank
BIC	Bank Identifier Code	ÖBB	Österreichische Bundesbahnen – Austrian Federal Railways
BIS	Bank for International Settlements	OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH – Austrian Banknote and Security Printing Works
BOP	balance of payments	OECD	Organisation for Economic Co-operation and Development
CDG	Christian-Doppler-Forschungsgesellschaft – Christian Doppler Research Society	OeKB	Oesterreichische Kontrollbank (Austria's main financial and information service provider for the export industry and the capital market)
CEBS	Committee of European Banking Supervisors (EU)	OeNB	Oesterreichische Nationalbank (Austria's central bank)
CEE	Central and Eastern Europe	ORF	Österreichischer Rundfunk – Austrian Broadcasting Corporation
CEECs	Central and Eastern European countries	PE-ACH	pan-European automated clearing house
EBA	Euro Banking Association	PISA	Programme for International Student Assessment (OECD)
ECB	European Central Bank	POS	point of sale
Ecofin	Council of Economics and Finance Ministers (EU)	PPP	public private partnership
EFC	Economic and Financial Committee (EU)	PRGF	Poverty Reduction and Growth Facility (IMF)
EMAS	Eco-Management and Audit Scheme	RTGS	real-time gross settlement
EMU	Economic and Monetary Union	SDR	Special Drawing Right (IMF)
ERM II	Exchange Rate Mechanism II (EU)	SEPA	Single Euro Payments Area
ERP	European Recovery Program	SPF	Survey of Professional Forecasters
ESCB	European System of Central Banks	STEP	Straight-Through Euro Processing system offered by the Euro Banking Association
EU	European Union	STP	straight-through processing
EURIBOR	Euro Interbank Offered Rate	STUZZA	Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr – Austrian Research Association for Payment Cooperation
Eurostat	Statistical Office of the European Communities	SWIFT	Society for Worldwide Interbank Financial Telecommunication
FDI	foreign direct investment	TARGET	Trans-European Automated Real-time Gross settlement Express Transfer
FFF	Forschungsförderungsfonds für die Gewerbliche Wirtschaft – Austrian Industrial Research Promotion Fund	Treaty	refers to the Treaty establishing the European Community
FMA	Financial Market Authority (for Austria)	VaR	Value at Risk
FSAP	Financial Sector Assessment Program	WIFO	Österreichisches Institut für Wirtschaftsforschung – Austrian Institute of Economic Research
FWF	Fonds zur Förderung der wirtschaftlichen Forschung – Austrian Science Fund	WIIW	Wiener Institut für internationale Wirtschaftsvergleiche – The Vienna Institute for International Economic Studies
GDP	gross domestic product		
GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH (Austrian cash services company)		
HICP	Harmonized Index of Consumer Prices		
IBAN	International Bank Account Number		
IFES	Institut für empirische Sozialforschung GesmbH (Institute for Empirical Social Research, Vienna)		
Ifo	Ifo Institute for Economic Research, Munich		
IGC	Intergovernmental Conference (EU)		
IHS	Institut für Höhere Studien und Wissenschaftliche Forschung – Institute for Advanced Studies, Vienna		

GENERAL COUNCIL (GENERALRAT), STATE COMMISSIONER,  
GOVERNING BOARD (DIREKTORIUM) AND PERSONNEL CHANGES,  
ORGANIZATIONAL STRUCTURE OF THE BANK

General Council (Generalrat), State Commissioner	10
Governing Board (Direktorium), Personnel Changes	11
Organization Chart	12

REPORT OF THE GOVERNING BOARD (DIREKTORIUM) ON THE FINANCIAL YEAR 2003

Prices Stable as the Cyclical Upswing Got under Way	17
<i>Forward-Looking Monetary Policy Kept Inflation Low</i>	17
<i>Subdued Euro Area Economic Activity Rebounded toward the End of 2003</i>	21
<i>New Challenges for European Budgetary and Structural Policy</i>	24
<i>Institutional Challenges in the ESCB/Eurosystem</i>	26
Economic Recovery Gained a Foothold in Austria	28
<i>Domestic Demand Bolstered Upturn against the Background of Stable Prices</i>	28
<i>Marginal Deficit on Current Account</i>	31
<i>Record High for Austrian Households' Financial Assets – Demand for Funding Subdued despite Low Interest Rates</i>	33
<i>Austria's Budget Deficit below the Euro Area Average</i>	36
<i>Significant Structural Reforms Launched</i>	38
<i>EU Enlargement to Provide Austria with a Significant Economic Impetus</i>	40
EU Enlargement Approved	42
<i>EU Accepts Ten New Member States</i>	42
<i>Preparations of the ESCB for EU Enlargement</i>	44
<i>Progress of European Integration</i>	45
<i>The OeNB Plays an Important Role in Integrating the New Member States</i>	46
Monetary Policy Implementation and Foreign Reserve Management Ensure Market Proximity	48
<i>The OeNB and Austrian Banks – Effective Partners in Monetary Policy Operations</i>	48
<i>Efficient Reserve Management despite Difficult Market Conditions</i>	50
The OeNB's Proactive Role in Maintaining Financial Stability	53
<i>IMF Gives Positive Assessment of Austrian Financial Market</i>	53
<i>Initiatives to Strengthen the Financial System</i>	54
<i>Austrian Financial Sector Posts Improved Results</i>	56
<i>The OeNB's Active Contribution to Supervision</i>	58
<i>The OeNB as an Acknowledged Dialogue Partner in the Basel II Process</i>	61
Dynamic Developments in Payment Systems, Austrians Have Become Experienced Euro Cash Users	63
<i>The OeNB Plays Leading Role in Cashless Payments</i>	63
<i>Ensuring Banknote Integrity</i>	68
Building Confidence through Transparency and Dialogue	72
<i>The Media – Partners in the OeNB's External Communications</i>	72
<i>Versatile Communication Policy Tools Foster Public Dialogue</i>	73
Efficient Customer-Oriented Corporate Governance	75
<i>The OeNB's Tasks and Strategic Development</i>	75
<i>Continued Optimization of Organizational Processes</i>	77
<i>Reorganization of OeNB Branch Offices</i>	78
<i>The OeNB's Subsidiaries in Payment Systems Services</i>	79
<i>The OeNB Promotes Science, Research and Culture</i>	80

FINANCIAL STATEMENTS OF THE OESTERREICHISCHE NATIONALBANK FOR THE YEAR 2003

Balance Sheet as at December 31, 2003	84
Profit and Loss Account for the Year 2003	86
Notes to the Financial Statements 2003	87
<i>General Notes to the Financial Statements</i>	87
<i>Realized Gains and Losses and Revaluation Differences and their Treatment in the Financial Statements of December 31, 2003</i>	91
<i>Key for Subscription to the ECB's Capital</i>	91
<i>Capital Movements</i>	92
<i>Development of the OeNB's Currency Positions in the Business Year 2003</i>	93
<i>Notes to the Balance Sheet</i>	93
<i>Notes to the Profit and Loss Account</i>	110
<i>Governing Board (Direktorium), General Council (Generalrat)</i>	115
<i>Report of the Auditors</i>	116
<i>Profit for the Year and Proposed Profit Appropriation</i>	117

REPORT OF THE GENERAL COUNCIL (GENERALRAT)  
ON THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS FOR 2003

119

PUBLICATIONS

Periodical Publications	122
Selected Publications of the OeNB in 2002 and 2003	123

Editorial close:  
April 19, 2004







General Council (Generalrat),  
State Commissioner,  
Governing Board (Direktorium)  
and Personnel Changes,  
Organizational Structure of the Bank

## General Council (Generalrat), State Commissioner

on December 31, 2003

### Herbert Schimetschek

President  
Chairman of the Board  
of Austria Versicherungsverein  
auf Gegenseitigkeit

### Manfred Frey

Vice President  
retired President of the regional  
finance authority of Vienna,  
Lower Austria and Burgenland

### August Astl

Secretary General of the Board of Presidents  
of the Austrian Chamber of Agriculture

### Richard Leutner

Managing Secretary  
of the Austrian Trade Union Federation

### Walter Rothensteiner

Chief Executive Director  
of Raiffeisen Zentralbank Österreich AG

### Bernhard Felderer

Director  
of the Institute for Advanced Studies (IHS)

### Johann Marihart

Chief Executive Director  
of Agrana Beteiligungs-AG

### Karl Werner Rüsich

Former Member of the Government  
of Vorarlberg  
Former Second Vice President of the OeNB

### Lorenz R. Fritz

Secretary General  
of the Federation of Austrian Industry

### Werner Muhm

Chief of the Chamber  
of Labor of Vienna

### R. Engelbert Wenckheim

Board Member  
of Getränkeindustrie Holding AG

### Herbert Kofler

Independent accountant  
and tax consultant  
Head of the Section  
Financial Accounting and the Tax System  
of the University of Klagenfurt

### Gerhard Randa

Chairman of the Supervision Board  
of Bank Austria Creditanstalt AG  
and Member of the Board of  
Managing Directors of Bayerische  
Hypo- und Vereinsbank AG

### Johann Zwettler

Chief Executive Director  
of Bank für Arbeit und Wirtschaft AG

Representatives delegated by the Staff Council to attend proceedings  
that deal with personnel matters pursuant to Article 22 paragraph 5 of the  
Oesterreichische Nationalbank Act:

### Thomas Reindl

Staff Council Chair

### Martina Gerharter

Staff Council Deputy Chair

---

### State Commissioner

#### Thomas Wieser

Director General at the Austrian Federal  
Ministry of Finance

---

### Deputy State Commissioner

#### Heinz Handler

Austrian Institute  
of Economic Research (WIFO)

## Governing Board (Direktorium)

on December 31, 2003



Klaus Liebscher  
Governor

Wolfgang Duchatzek  
Vice Governor

Peter Zöllner  
Executive Director

Josef Christl  
Executive Director

## Personnel Changes

between April 10, 2003, and April 19, 2004

The ordinary General Meeting of May 15, 2003, marked the end of the term of office of General Council member Helmut *Frisch*. Gerhard *Randa*, Chairman of the Supervisory Board of Bank Austria Creditanstalt AG, was appointed as his successor. Moreover, Johann *Zwettler*, Chief Executive Director of Bank für Arbeit und Wirtschaft AG, was appointed to the General Council by the General Meeting as the successor to Helmut *Elsner*, who resigned his seat on the General Council at the ordinary General Meeting.

At its session of July 1, 2003, the federal government decided to appoint Herbert *Schimetschek*, Vice President of the Oesterreichische Nationalbank, as President of the Oesterreichische Nationalbank with effect from September 1, 2003. Herbert *Schimetschek* succeeded Adolf *Wala*, whose term as President ended on August 31, 2003.

Furthermore, at its session of July 1, 2003, the federal government decided to appoint Manfred *Frey*, State Commissioner of the Oesterreichische Nationalbank, as Vice President of the Oesterreichische Nationalbank with effect from September 1, 2003, and to reappoint August *Astl* as a member of the General Council with effect from September 8, 2003.

The President and the Vice President as well as the members of the General Council serve five-year terms.

Thomas *Wieser*, Director General at the Austrian Ministry of Finance, was appointed to the office of State Commissioner with effect from September 1, 2003, replacing Manfred *Frey* in this position.

Gertrude *Tumpel-Gugerell*, Vice Governor of the Oesterreichische Nationalbank, was appointed to the Executive Board of the ECB on May 23, 2003, with effect from June 1, 2003.

In the resolution of July 11, 2003, the Austrian Federal President reappointed Klaus *Liebscher* as Governor with effect from September 1, 2003, appointed Wolfgang *Duchatzek* as Vice Governor with immediate effect, reappointed Peter *Zöllner* as a member of the Governing Board with effect from July 15, 2003, and appointed Josef *Christl* as a member of the Governing Board with effect from September 1, 2003, each for a five-year term.

Klaus *Liebscher* heads the Central Bank Policy Department, Wolfgang *Duchatzek* is in charge of the Money, Payment Systems, Accounting and IT Department, Peter *Zöllner* is responsible for the Investment Policy, Internal Services and Statistics Department, and Josef *Christl* runs the Economics and Financial Markets Department.

## ORGANIZATION CHART

**President**  
Herbert Schimetschek

Office of the General Council  
Richard Mader, Head

**Vice President**  
Manfred Frey

### Governing Board (Direktorium)

**Central Bank Policy Department**  
Klaus Liebscher, Governor

Office of the Governor  
Wolfgang Ippisch, Head

**Internal Audit Division**  
Wolfgang Winter, Head

**Secretariat of the Governing Board and Public Relations**  
Günther Thonabauer, Head

**Planning and Controlling Division**  
Gerhard Hohäuser, Head

**Anniversary Fund**  
Wolfgang Höritsch, Head

**Personnel Division**  
Maria Zojer, Head

#### Unit

**Future Unit**  
Peter Achleitner, Director

**Money, Payment Systems, Accounting  
and IT Department**  
Wolfgang Duchatzek, Vice Governor

#### Unit

**Legal Affairs Unit**  
Bruno Gruber, Director

**Legal Division**  
Hubert Mölzer, Head

#### Section

**Payment Systems and Information Technology**  
Wolfgang Pernkopf, Director

**Information Technology and Payment Systems Strategy Division**  
Walter Hoffenberg, Head

**IT Development Division**  
Reinhard Auer, Head

**IT Operations Division**  
Erich Schütz, Head

**Payment Systems Division**  
Andreas Dostal, Head

#### Section

**Cashier's Division and Branch Offices**  
Stefan Augustin, Director

**Cashier's Division**  
N. N.

**Printing Office**  
Gerhard Habitzi, Technical Manager

**St. Pölten**  
Roland Müllner, Branch Manager

**Bregenz**  
Armin Schneider, Branch Manager

**Eisenstadt**  
Friedrich Fasching, Branch Manager

**Graz**  
Gerhard Schulz, Branch Manager

**Innsbruck**  
Günther Federer, Branch Manager

**Klagenfurt**  
Günter Willegger, Branch Manager

**Linz**  
Axel Aspetsberger, Branch Manager

**Salzburg**  
Elisabeth Kollarz, Branch Manager

#### Section

**Accounting**  
Michael Wolf, Director

**Financial Statements Division**  
Friedrich Karrer, Head

**Accounts Division**  
Herbert Domes, Head

**Economics and Financial Markets Department**  
Josef Christl, Executive Director

**Section**

Economic Analysis and Research  
Peter Mooslechner, Director

Economic Analysis Division  
Ernest Gnan, Head

Economic Studies Division  
Eduard Hochreiter, Head

European Affairs and International Financial Organizations Division  
Franz Nauschnigg, Head

Foreign Research Division  
Doris Ritzberger-Grünwald, Head

Brussels Representative Office  
Reinhard Petschnigg, Chief Representative

Paris Representative Office  
Andreas Breitenfellner, Chief Representative

**Section**

Financial Institutions and Markets  
Andreas Ittner, Director

Financial Markets Analysis and Surveillance Division  
Michael Würz, Head

Banking Analysis and Inspections Division  
Helmut Ettl, Head

Credit Division  
Franz Richter, Head

**Investment Policy, Internal Services and Statistics Department**  
Peter Zöllner, Executive Director

Equity Interest Management Division  
Franz Partsch, Head

**Section**

Treasury  
Rudolf Trink, Director

Treasury – Strategy Division  
Walter Sevcik, Head

Treasury – Front Office  
Rudolf Kreuz, Head

Treasury – Back Office  
Gerhard Bertagnoli, Head

London Representative Office  
Doris Kutalek, Chief Representative

New York Representative Office  
Gerald Fiala, Chief Representative

**Section**

Organization and Internal Services  
Albert Slavik, Director

Organization Division<sup>1</sup>  
Wolfgang Ruland, Head

Administration Division  
Roland Kontrus, Head

Security Division  
Gerhard Valenta, Head

Documentation Management and Communications Services  
Alfred Tomek, Head

**Section**

Statistics  
Aurel Schubert, Director

Banking Statistics and Minimum Reserve Division  
Gerhard Kaltenbeck, Head

Balance of Payments Division  
Eva-Maria Nesvadba, Head

<sup>1</sup> Environmental Officer Johann Jachs.





Report of the  
Governing Board (Direktorium)  
on the Financial Year 2003





# Prices Stable as the Cyclical Upswing Got under Way

## Forward-Looking Monetary Policy Kept Inflation Low

### Euro Area Inflation Remained on the Decline

The Eurosystem's primary objective is to maintain price stability, enabling it to make a significant contribution to sustaining economic growth in the euro area. In 2003, the forward-looking monetary policy helped further reduce the rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) to 2.1% from 2.3% in 2002. At the beginning of 2003, the energy component of the HICP caused a short-term blip in inflation. Moreover, the pronounced heat wave in the south of Europe in the summer of 2003 triggered a rise in the cost of unprocessed food. A longer-term perspective indicates, however, that euro area inflation averaged 1.8% over the period from 1998 to 2003, which demonstrates that the objective of price stability was reached over that period.

The increase in the HICP excluding the volatile components *energy*

and *unprocessed food* came to 2% in 2003, clearly below the figure for 2002 (2.5%). Above all service price inflation subsided noticeably in the second half of 2003.

### Credible Monetary Policy Stabilized Inflationary Expectations

Consumers and investors base their decisions not just on information about current price levels, but also on expectations about the future development of inflation. Once inflation expectations have become firmly established, they will influence actual price changes. Hence, a forward-looking monetary policy takes account of and influences economic agents' inflation expectations.

The European Central Bank (ECB) assesses expectations about future rates of inflation by conducting the quarterly *Survey of Professional Forecasters* (SPF) among euro area experts. The SPF demonstrates that long-term inflation expectations were stable at 1.9% in 2003 and thus consistent with the Eurosystem's price stability objective. Consequently, market participants confirmed the

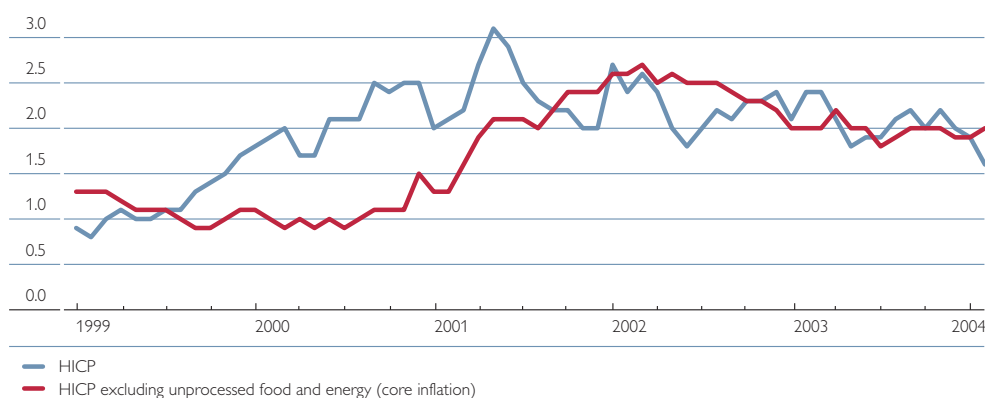
Eurosystem main-  
tained price stability  
in the euro area

Stable and low  
inflation expectations  
in the euro area ...

... signal sustained  
price stability

## Price Developments and Core Inflation in the Euro Area

Change on the same month of the previous year in %



Source: Eurostat

credibility of the clarification made by the Governing Council of the ECB that it aims at inflation rates of below but close to 2%.

### Inflation Differentials in the Euro Area Narrowed

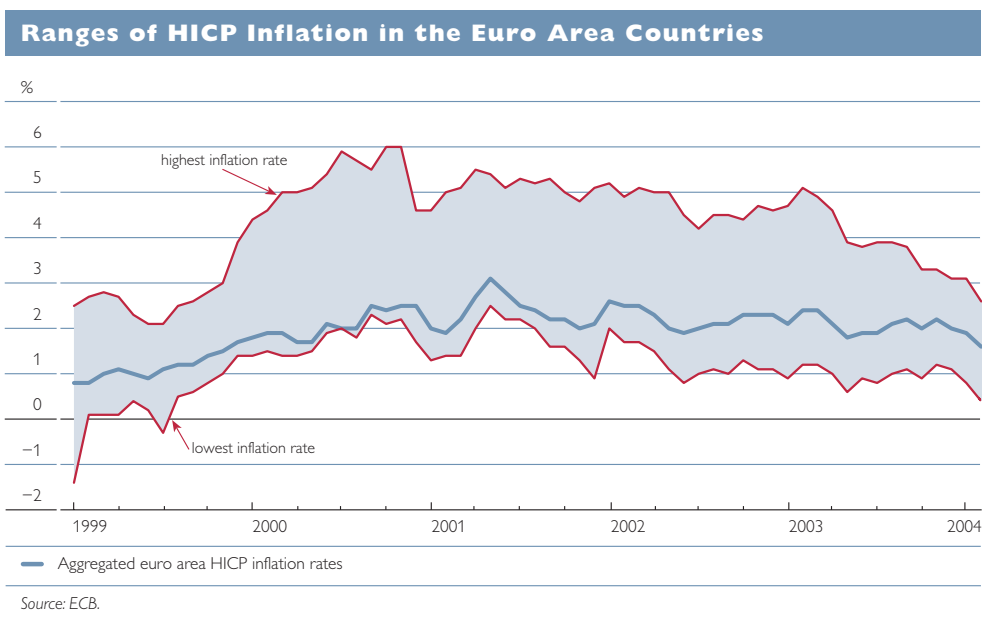
Apart from HICP inflation in the euro area, differences in inflation rates across countries also diminished. In the course of 2003 the gap between the highest and lowest price increases among euro area countries contracted, and the standard deviation declined continuously. In principle, inflation differentials may have several origins, including divergent cyclical developments, differences between consumer preferences, dissimilar impacts of external shocks (such as oil price shocks or exchange rate fluctuations) and adjustments of indirect taxes.

HICP inflation is instrumental for the Eurosystem's monetary policy decisions, whereas the inflation differentials among countries play a subordinate role.

### High M3 Growth Did not Jeopardize Price Stability

The growth of the monetary aggregate M3, which is important for assessing the medium- to long-term risks to price stability, came in at 8.0% in 2003. Monetary growth was especially strong in the first half of 2003, chiefly as a result of uncertainty in financial markets about the onset and the duration of the war in Iraq. Insecurity led market participants to reallocate financial assets and to opt for more liquid assets, such as money market fund shares/units, which are included in M3. The surge in these M3 components began to ease in May 2003. Toward the end of 2003, demand for longer-term assets picked up, reflecting improved investor confidence. The high pace of M1 growth is largely attributable to the low level of interest rates and the resulting low opportunity cost of holding money. In view of these special factors, the excess liquidity in the euro area associated with the strong monetary expansion does not represent any danger to price stability, one important reason

Inflation sank despite monetary expansion



### Components of M3

	2002	2003	Sep. 03	Oct. 03	Nov. 03	Dec. 03	Jan. 04	Feb. 04
Annual growth rate in %								
Three-month moving average (centered) M3	x	x	8.0	7.7	7.5	7.0	6.6	..
Currency in circulation	7.2	8.0	7.6	8.1	7.4	7.0	6.5	6.3
Overnight deposits M1	-7.2	31.9	27.4	26.7	26.4	25.0	24.9	23.5
Deposits with agreed maturity of up to two years	10.7	8.2	8.8	9.6	8.9	8.0	9.6	9.2
Deposits redeemable at notice of up to three months	7.7	11.1	14.4	15.0	10.7	11.6	8.9	7.8
Repurchase agreements	2.1	-1.1	5.2	4.6	4.5	4.7	3.6	3.1
Money market fund shares/units	8.5	10.0	-2.5	-3.4	-3.1	-2.4	-4.1	-4.7
Debt securities up to two years	2.7	1.5	11.4	11.1	10.6	10.1	9.6	9.0
	23.5	15.7	4.5	7.7	6.1	4.2	1.5	2.9
	-7.2	-8.5	-6.7	0.3	1.7	-4.4	-7.3	-1.3

Source: ECB.

being that the recovery was slow to get under way.

The pace of euro area credit growth picked up to 5.1% in 2003 (2002: 4.4%). This acceleration is traceable to the rise in lending to general government in the wake of higher budget deficits. Loans to the private sector augmented by 5% in 2003, which is below the value of the previous year (5.3%); however, a trend change has been discernible since mid-2003, which may be regarded as a sign of a gradual rebound in euro area business activity. Apart from more favorable corporate profit expectations, the low level of euro interest rates plays a role.

### The Governing Council of the ECB Lowered Key Interest Rates by 75 Basis Points in 2003

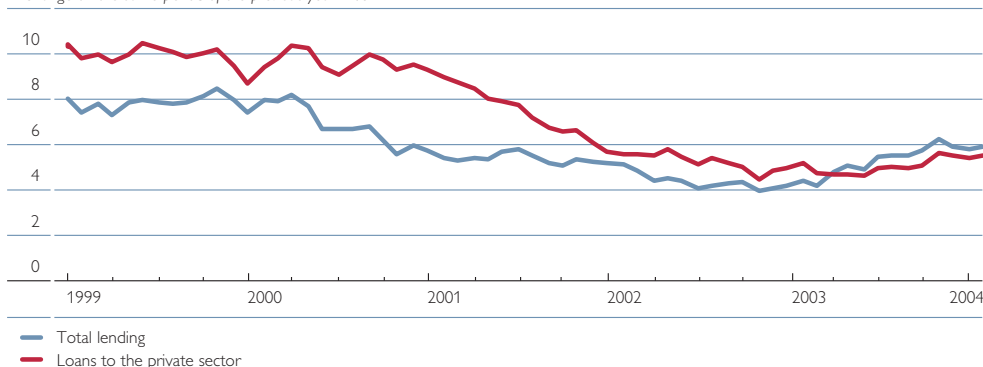
In 2003, the Governing Council of the ECB decided to reduce interest rates twice. On March 6, 2003, the minimum bid rate on the main refinancing operation, the interest rate on the marginal lending facility and the interest rate on the deposit facility were reduced by 25 basis points each to 2.5%, 3.5% and 1.5%, respectively. The Governing Council concluded that the outlook for price stability over the medium term had improved in recent months, owing in particular to the subdued pace of

Credit growth quickened

Interest rates cut twice

### Euro Area Credit Growth

Change on the same period of the previous year in %



Source: ECB.

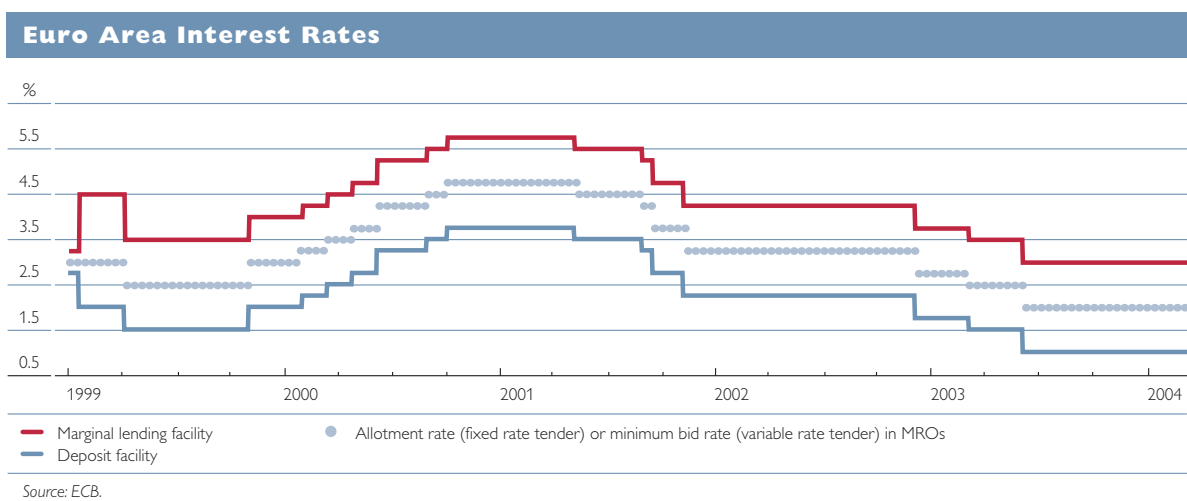
economic growth and the appreciation of the nominal effective exchange rate of the euro. The growth of M3 in excess of the reference value of 4½% was not considered to represent a risk to price stability over the medium term.

On June 5, 2003, the Governing Council reduced the minimum bid rate on the main refinancing operation, the interest rate on the marginal lending facility and the interest rate on the deposit facility by an additional 50 basis points to 2.0%, 3.0% and 1.0% respectively.

As a rationale for the second interest rate cut, the Governing Council noted that the outlook for price stability over the medium term had continued to become more favorable. Inflation rates were expected to stay close to 2% for the remainder of 2003 and to fall significantly after that. This assessment was based on the assumption of more favorable import prices, reflecting sinking oil prices and the higher exchange rate of the euro against the U.S. dollar as well as a sluggish economic recovery. Information collected in the context of economic analysis, in particular the latest macroeconomic projections at the time, suggested

that expectations for economic growth for the remainder of 2003 and for 2004 would have to be scaled down. Existing macroeconomic imbalances outside the euro area as well as a rise in unemployment were pinpointed as additional risks to economic growth.

In the context of its monetary analysis, the Governing Council of the ECB noted that the persistent strong growth in the broad monetary aggregate M3 was supported by the low level of interest rates and a high degree of uncertainty on the stock markets and thus represented no risk to price stability.



### Evaluation of the Monetary Policy Strategy

At the beginning of 2003, the Governing Council of the ECB evaluated the monetary policy strategy of the Eurosystem. Independently of whether a strategy is delivering, it makes sense to periodically subject it to a critical review and to take into account the most recent academic findings and analyses in the process. The strategy, which had originally been announced in 1998 and which consists of a quantitative definition of price stability, a prominent role for money in the assessment of risks to price stability, and a broadly based assessment of the outlook for price developments, was confirmed and its implementation deemed satisfactory.

Since 1998 price stability has been defined as a year-on-year increase in the HICP for the euro area of below 2%, and it is to be maintained over the medium term. Within the framework of the 2003 evaluation, the Governing Council clarified that it aims to maintain inflation rates below but close to 2% over the medium term, underlining its commitment to maintain a sufficient safety margin to guard against deflation. This safety margin also addresses the issue of the possible presence of a measurement bias in the HICP and the implications of larger inflation differentials within the euro area. In the presence of downward nominal rigidities, a moderate positive rate of inflation facilitates the adjustment of prices in the case of shocks.

The risks to price stability will continue to be based on two complementary analytical perspectives. These two pillars of the monetary policy strategy represent both a framework for the preparation and evaluation of economic data by the Governing Council and a fixed structure for a transparent communication to the general public. The economic analysis identifies the short- to medium-term risks to price stability. For the economic analysis, information on developments in overall output, aggregate demand and its components, the formation and cost of capital, labor market conditions and exchange rate developments is processed. Furthermore, the impact of unexpected developments (such as oil price shocks) are analyzed within the first pillar. The Eurosystem's staff macroeconomic projections, for which experts from the OeNB also provide input, play an important role in the economic analysis. These projections provide an assessment of the short- to medium-term outlook for economic growth and inflation.

The monetary analysis assesses the medium- to long-term trends in inflation in view of the close relationship between money and prices over extended horizons. The monetary analysis assesses indicators such as the growth of the components and counterparts of M3, in particular loans to the private sector, and excess liquidity. In order to stress the longer-term nature of the reference value for monetary growth, the Governing Council of the ECB decided in its evaluation of the monetary policy strategy to no longer review this value on an annual basis.

### Subdued Euro Area Economic Activity Rebounded toward the End of 2003

#### World Economy Expanded

The U.S. economic upturn broadened in 2003. Following a rather modest initial performance reflecting uncertainty surrounding the imminent war in Iraq, real GDP surged by an unexpectedly powerful 3.1% in the second quarter (quarter on quarter, annualized). This boost in GDP growth was fueled above all by dynamic consumer spending and a massive rise in military spending. In the third quarter, the U.S. economy posted an annualized GDP growth rate of 8.2%, the strongest increase in nearly two decades. The pace of economic activity was propelled mainly by the substantial fiscal im-

pulses and a highly expansionary monetary policy. In the fourth quarter of 2003, U.S. GDP came in below expectations (+4.1% annualized on the previous quarter) because consumer spending lost momentum. The substantial widening of the budget deficit and the ongoing rise in the current account shortfall cast doubt on the sustainability of the U.S. upswing.

In Japan, the cyclical recovery which began in 2002 continued throughout the year 2003. Industrial production flagged in the first half, but began to pick up again in September 2003, signaling an export-led recovery. Japan's stock market bottomed out in April 2003, finally recovering from a 20-year low to recover thanks to inflows of capital from abroad. The Bank of Japan stayed its monetary policy course

Powerful upswing  
in the U.S.A.

Japanese economy  
recovered as well

with interest rates near 0% since 2001. Although the Bank of Japan intervened in the market repeatedly, the Japanese yen appreciated by more than 12% against the U.S. dollar in the second half of 2003, the highest level since September 2000. Japan's budget deficit augmented to a record 7.4% of GDP in 2003. Although Japan envisages eliminating the primary deficit by 2010, the government debt ratio will continue to climb to 180% of GDP.

### Sluggish Domestic Demand Dampened Euro Area Growth

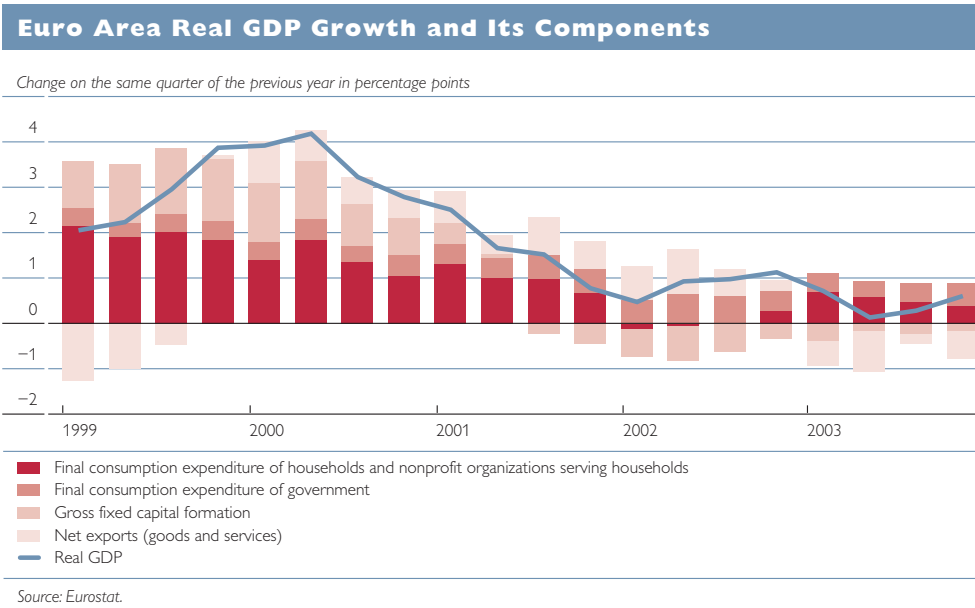
Euro area GDP growth closed the year at 0.4%, less than in 2002. The repercussions of the war in Iraq put a damper on growth at the beginning of 2003. Key factors implicated in this development were sharply higher oil prices and market participants' uncertainty about the duration of the conflict in Iraq. The European Commission's economic sentiment indicator, which bottomed out in March 2003, also reflected the low degree of confidence in economic developments. In the first half of 2003

GDP growth in the euro area stagnated, with both household and public spending making positive contributions to growth. Consumer outlays advanced at a somewhat slower pace in the second quarter of 2003, which was linked to the moderate additions to disposable incomes and reduced consumer confidence. Euro area government spending was fairly animated in the second quarter. Moreover, gross fixed investment continued to contract in the first six months of 2003, and the contribution of net exports to growth was negative again.

In the second half of the year, GDP growth picked up; compared to the previous quarters, net exports made a considerable positive contribution to growth especially in the third quarter. Stagnating consumer spending and declining investment were instrumental for the negative contribution of domestic demand to growth in the second half of 2003. The listless rise in disposable income and persistently high unemployment also kept household outlays down. The seasonally adjusted unemploy-

Uncertainty depressed growth in the first half of 2003 ...

... but toward the end of the year trade provided a vigorous impetus



ment rate stayed unchanged at 8.8% from March 2003 through February 2004. Investment in the euro area diminished in 2003 despite historically low interest rates, and capacity utilization stagnated at a low level.

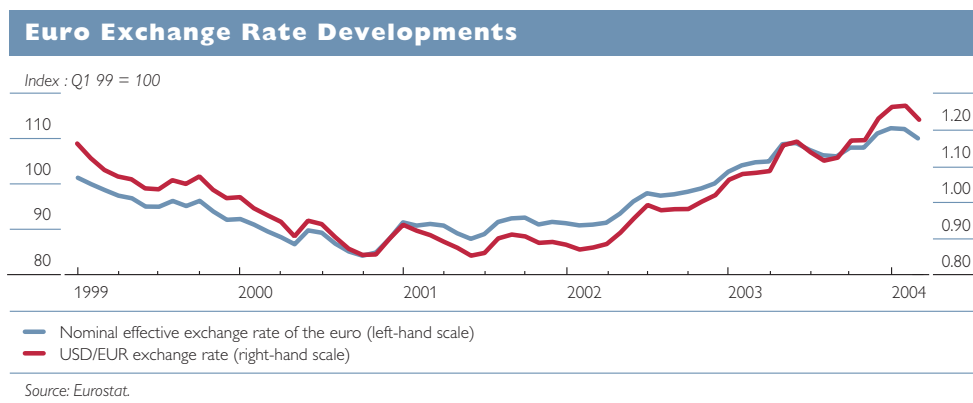
The easing of market participants' uncertainty helped stock prices recover. In the first quarter of 2003, prices on international exchanges had still been falling, but since the end of the war in Iraq prices have by and large been on the rise again. This trend also mirrors progressively more optimistic expectations about corporate profits. The brighter outlook for corporate profits is not merely the result of an economic revival, but also of restructuring measures taken in the corporate sector in the past few years.

### Euro Exchange Rate Rose further in 2003

The exchange rate of the euro appreciated sharply in 2003, specifically against the U.S. dollar (+20.4%). This sharp increase is put into the proper perspective by the less pronounced rise of the nominal effective exchange rate of the euro (i.e. the exchange rate weighted by each country's share of manufacturing trade with non-euro area countries) by just 8.3% during the same period. During the first half of the year, the depreci-

ation of the U.S. dollar was explained by the uncertainty associated with the war in Iraq and the deterioration of the U.S.A.'s budget. During the summer of 2003, the U.S. currency managed to recover slightly in view of the more favorable growth prospects for the U.S. economy. U.S. long-term interest rates were occasionally higher than their euro area counterparts during this period as well. Toward the end of 2003, the euro appreciated markedly against the U.S. dollar again, which is ascribable to doubts about the sustained nature of the upturn in the U.S.A. and its twin (budget and current account) deficits. On February 17, 2004, the U.S. dollar's exchange rate against the euro topped out at an absolute record of 1.29 USD/EUR. The rise in the external value of the euro acted as a damper on export demand for euro area goods, but also had an impact on euro area price developments. However, total euro area exports accounted for only 15.3% of GDP in 2002, and only 17% of these exports went to the U.S.A.

Euro reached new high



### Impact of the Appreciation of the Euro on the Euro Area and Austria

An appreciation of the euro has a dampening effect on the rate of inflation via lower import prices. At the same time, it causes demand for goods from the euro area to diminish because their price competitiveness declines. Exchange rate changes are transmitted to prices directly and indirectly. Direct effects occur if imported goods contained in the basket of goods used to calculate the consumer price index have become relatively cheaper because the domestic currency has appreciated. Indirect effects occur when domestic producers change prices in reaction to exchange rate changes. In more detail, indirect effects occur if intermediate goods imported for domestic production become cheaper and these cost reductions are passed on to consumers or if prices of domestic goods are cut to keep them competitive in the face of cheaper imported goods.

Calculations of the International Monetary Fund (IMF)<sup>1</sup> indicate that a 10% appreciation of the nominal effective exchange rate of the euro against the currencies of the twelve main trading partners<sup>2</sup> dampens euro area prices by only 0.2% even 18 months later, although import prices decline by somewhat more than the 10% appreciation.

An OECD study<sup>3</sup> describes the impact of a depreciation of the U.S. dollar by 10% against all world currencies including the euro. The study shows that the dampening effects on euro area GDP will have largely dissipated after three years, but that the impact on consumer prices continues to rise after that period.

A simulation with the OeNB's macromodel for Austria concludes that the nominal effective appreciation of the euro by 3.3% in 2003 reduced GDP growth by 0.2 percentage point; the dampening effect for 2004 is 0.4 percentage point. The effects on HICP inflation are quantified at 0.1 percentage point for 2003 and 0.2 percentage point for 2004. The impact of the appreciation on prices in Austria is small by comparison to the effect on the euro area. As in the case of the OECD calculations for the euro area, the impact on inflation increases in time. The dampening effect on investment is especially pronounced. The drop in export demand in the wake of the appreciation causes a deterioration of the trade performance over the entire simulation period.

<sup>1</sup> IMF. 2003. Euro Area Policies: Selected Issues. IMF Country Report 03/298. September.

<sup>2</sup> The U.S.A., Japan, the United Kingdom, Switzerland, Sweden, Denmark, Norway, Canada, Australia, Hong Kong, South Korea and Singapore.

<sup>3</sup> Dalsgaard, T., C. André and P. Richardson. 2001. Standard Shocks in the OECD Interlink Model. OECD Economics Department Working Paper 306. September.

### Impact of the Appreciation of the Euro in 2003 on Austria

	2003	2004	2005	2006
Deviation from the baseline result in %				
GDP	-0.23	-0.42	-0.52	-0.57
Consumer spending	-0.02	-0.01	-0.03	-0.08
Investment	-0.28	-0.70	-1.23	-1.67
HICP	-0.09	-0.30	-0.52	-0.82
Balance of trade	-0.14	-0.21	-0.19	-0.12

Source: Statistics Austria, OeNB.

## New Challenges for European Budgetary and Structural Policy

### Euro Area Budget Deficit Widened to 2.7% in 2003

The Stability and Growth Pact obligates the EU Member States to achieve budget positions close to balance or in surplus over the medium term.

Weak business activity caused euro area public finances to deteriorate considerably. The aggregate budget deficit of all euro area countries climbed to 2.7% of GDP in 2003

(2002: 2.3%). GDP growth in many countries came in below the estimates on which the budgets were based. As a result, tax revenues were lower and expenditure for unemployment and other social benefits higher than originally assumed. In terms of the change in the cyclically adjusted primary balance, fiscal policy was largely neutral, i.e. the automatic stabilizers operated freely on the euro area average. The general government debt ratio rose further, with over half the euro area countries posting a ratio above the reference value of 60% of GDP stipulated in the Treaty.

Some countries do not fulfill Stability and Growth Pact requirements



The rise of the German and French deficits resulted in renewed breaches of the deficit ceiling of 3% of GDP: Germany ran a deficit of 3.9% in 2003 and France posted a deficit of 4.1%. Italy, Portugal and the Netherlands came quite close to the 3% level in 2003. In its meeting of November 25, 2003, the Ecofin Council decided not to act on the basis of the European Commission's recommendation to give France and Germany notice to take additional deficit reduction measures but to suspend the excessive deficit procedure for Germany. In return, both countries committed themselves publicly to bring their budget deficits to below 3% by 2005. In January 2004 the European Commission decided to seek a ruling of the European Court of Justice of the European Communities on certain elements of the Council conclusions in order to reestablish legal certainty about the fiscal policy rules in Economic and Monetary Union (EMU).

The OeNB emphasizes that the provisions of the Stability and Growth Pact must be fully respected and that there are no grounds for any change. Sound public finances and a credible set of rules are a key element in securing the stability policy of the monetary union. Ensuring the sustainability of public finance positions is especially important in the light of the near-term fiscal impact of the growing segment of older persons. EU Member States are well advised to use above all periods of booming economic activity to lay the groundwork for lasting compliance with budgetary discipline.

### **Structural Reform Promotes Long-Term Growth**

The Lisbon European Council of March 2000 set the objective of

transforming the EU into the most competitive and dynamic knowledge-based economy in the world by 2010. The Lisbon strategy defined to implement this objective focuses above all on dismantling regulations and on enhancing innovation by promoting education and training as well as research to a greater extent. Most euro area countries made progress in implementing the Lisbon strategy in 2003, but the pace of reforms will have to be stepped up if the ambitious goals established at the Lisbon European Council are to be achieved in full. At its Brussels spring meeting on March 25 and 26, 2004, the European Council noted that there was a need for better implementation of the Lisbon strategy. In its Presidency Conclusions, the European Council pinpointed solid macroeconomic policies, more and better jobs as well as more investment in research and development, especially in the corporate sector, as the prime factors to realize the full growth potential of the EU. The reform proposals which have already been made should be rapidly implemented, and a binding agreement on their accomplishment concluded with every single Member State. Moreover, formal agreements and accords with the Member States on each of the steps to be taken should be established. Citizens should be actively informed about the reform process to raise the level of acceptance among the population. In this connection, the European Council called on the Member States to build reform partnerships involving the social partners, civil society and the public authorities.

The reforms on the labor market aim at increasing labor supply. With this purpose in mind, some countries have strengthened the incentive

Clarity about fiscal rules essential

Attainment of Lisbon objectives uncertain in some Member States

effect of the wage system, for example by cutting social benefits. Some countries also introduced more flexible forms of work organization. Competition policy, too, has made strides, with independent competition-monitoring agencies being granted greater powers. The opening of industries in the utilities sector, such as gas or power supply providers, made progress. In view of some euro area countries' declining research and development expenditure, the goal of boosting research and development expenditure to 3% of GDP by the year 2010 has become more difficult to reach.

### **Institutional Changes in the ESCB/Eurosystem**

#### **Change at the Helm of the ECB**

Jean-Claude Trichet, the former Governor of the Banque de France, succeeded Willem F. Duisenberg as President of the ECB on November 1, 2003, for an eight-year term.

The heads of state or government of the euro area countries unanimously appointed Gertrude Tumpel-Gugerell to the Executive Board of the ECB from the beginning of June 2003 for a term of office of eight years. The OeNB's former Vice Governor succeeds Sirkka Hämäläinen from Finland, whose term of office ended at the end of May 2003. At the ECB, Gertrude Tumpel-Gugerell is in charge of the Directorates General *Payment Systems* and *Operations*.

After the signing of the Accession Treaty at the European Council meeting in Athens on April 16, 2003, the presidents and governors of the central banks of the ten new Member States were accorded observer status

at the meetings of the General Council of the ECB. Moreover, delegates from the ten new Member States were invited to attend committee meetings as observers from then on.

#### **Changes to the ECB's Capital Key**

On January 1, 2004, the key for the NCB subscriptions of the ECB's capital was adjusted as provided for by the Statute of the ESCB to take into account population and GDP developments. This adjustment resulted in a reduction of the OeNB's capital key share from 2.3594% to 2.3019%. The membership of the acceding countries to the EU on May 1, 2004, will entail a further adjustment of the subscribed capital key.

#### **On the Way to a European Constitution**

The European Convention on the future of Europe was mandated by the European Council meeting of Nice in 2000 and by the Declaration of Laeken in December 2001 to prepare a draft for a European Constitution. The President of the European Convention presented the draft to the European Council meeting at Thessaloniki on June 19 and 20, 2003.

Title III of the Draft Treaty establishing a Constitution for Europe contains the provisions on EMU. The transfer from the Treaty establishing the European Community of the provisions applicable to the ECB and the ESCB did not require any changes to the substance. The mandate, status and legal framework of the ECB remain substantially unchanged.

In mid-October, 2003, the Intergovernmental Conference (IGC) began to discuss and reach agreement on the draft, which was considered

Trichet became  
President of the ECB

Tumpel-Gugerell  
appointed to the  
Executive Board  
of the ECB

Draft Constitutional  
Treaty discussed at  
the Thessaloniki  
European Council  
meeting

“a good basis for starting the IGC.” At the Brussels summit of the heads of state or government on December 12 and 13, 2003, no agreement on the future constitution could be obtained yet. The conference reached an impasse on the issue of voting rights.

The ECB and the ESCB had set up an Ad Hoc Task Force on the Future Constitutional Treaty to examine the passages pertaining to EMU in line with the right to be consulted under Article 48 of the Treaty in the case of institutional changes in the monetary area. The official opinion of the ECB was submitted to the Italian EU Presidency on September 22, 2003. The ECB proposed to mention noninflationary growth or price stability in the draft constitu-

tion to retain the current prominent positioning of the guiding principle of stable prices at the beginning of the Treaty. Moreover, the ECB proposed a change in headings that would explicitly define that the ECB was part of the institutional framework of the Union without being mentioned in the list of the Union’s institutions. Additionally, given that only the ECB is mentioned in the current draft, the ECB suggested that it be amended to include a reference to the generally recognized term Eurosystem and to add a passage pointing out the competences of the ESCB. Finally, the current and continued independence of the national central banks should also be recognized.

The Eurosystem’s  
contribution to the  
draft Constitutional  
Treaty

# Economic Recovery Gained a Foothold in Austria

## Domestic Demand Bolstered Upturn against the Background of Stable Prices

The OeNB –  
an economic  
competence center

Rate of inflation  
stable at a low level

The OeNB is an economic and financial policy competence center and serves as an information exchange between the Eurosystem and Austrian economic policymakers. It identifies and analyzes topics of relevance to monetary policy and points out areas in which economic policy reforms are in order. Another of its key tasks is to make regular assessments of cyclical conditions and of the outlook for price developments and, in this context, to provide economic forecasts for Austria as a contribution to the Eurosystem's projections for the euro area. The OeNB has also developed a great deal of expertise on Central and Eastern Europe (see "EU Enlargement Is Adopted").

To support its public relations activities, the OeNB publishes a broad range of reports, analyses and other material. The *Statistisches Monatsheft* (available in English as *Focus on Statistics* at [www.oenb.at](http://www.oenb.at)) and *Berichte und Studien* (available in English as *Focus on Austria* both online and in hard copy) are in the process of being redesigned. From mid-2004 the *Statistisches Monatsheft* will be replaced by the quarterly publication *Statistiken – Daten und Analysen* (containing executive summaries in German and English; the tables will be available online in English as well). *Berichte und Studien* will be superseded by *Geldpolitik & Wirtschaft – Quartalshefte zur Geld- und Wirtschaftspolitik*, published in English as *Monetary Policy & the Economy – Quarterly Review of Economic Policy*.

Economic growth  
above euro area  
average

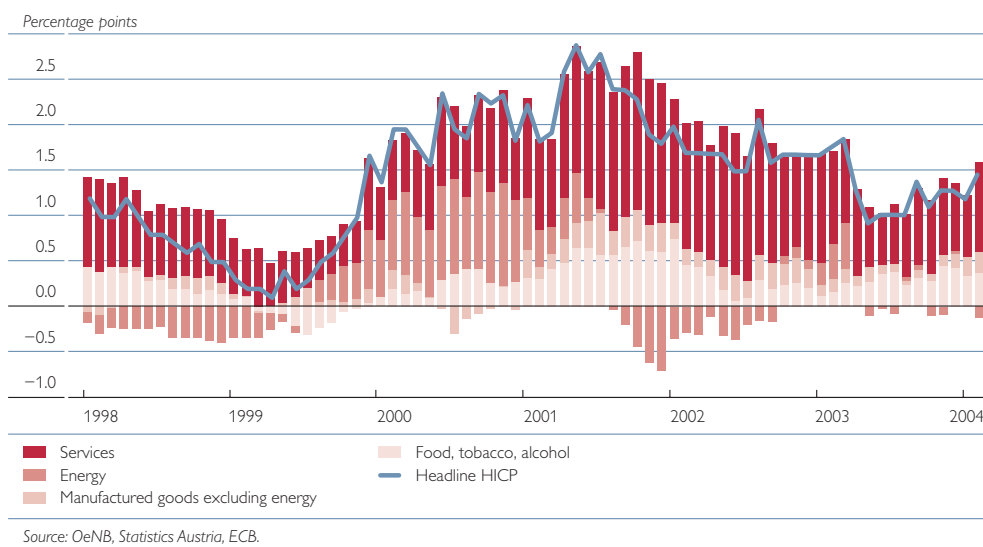
The rate of price increase slowed down noticeably in the first half of 2003. Inflation as measured by the HICP declined to only 1.0% at mid-year. Not until the last four months of 2003 did inflation begin to rise again, but only marginally. The December rate of inflation of 1.3% corresponded exactly to the annual average for 2003 (2002: 1.7%). Hence, Austria once again figured among the euro area countries with the lowest inflation rates. Perceived inflation as determined by means of consumer surveys, which had been markedly higher than actual inflation since the changeover to the euro, diminished slightly in 2003 as well, but the gap between perceived and actual inflation remained.<sup>1</sup>

By categories, food (including alcoholic beverages and tobacco) and services posted the highest price increases in 2003. Industrial goods and energy prices rose at below-average rates. Wage moderation – negotiated wages climbed by 2.2% on average in 2003 – was a key factor in securing price stability. At the beginning of 2004 government action – such as the boost in the energy tax or the introduction of the truck toll – spurred inflation (January: +1.2%; February: +1.5%). The energy tax alone will add 0.2 percentage point to inflation in 2004, which is expected to be somewhat higher than in 2003, but still far below the 2% mark.

As in the two previous years, Austria posted moderate economic growth in 2003. According to preliminary calculations in the economic forecast published by the Austrian Institute of Economic Research (WIFO), GDP growth came to 0.7%, which outpaced the figures of

<sup>1</sup> For more details see OeNB. 2003. *Annual Report 2002*. 37–38.

### HICP Inflation and Contributions to Inflation in Austria



Austria's two main trading partners, Germany and Italy, and surpassed the euro area average (0.4%).

The motor of growth was domestic demand, which was robust despite the adverse labor market conditions and only marginal increases in incomes. The low rate of inflation, which was partly the result of the euro appreciation, strengthened households' purchasing power and thus helped to stabilize consumer spending. The retail sector did quite well in the first half of 2003, but had to contend with declining sales in the second half of the year. However, confidence in this sector picked

up markedly again toward the end of 2003, and retailers appear to be optimistic about further developments in 2004.

After contracting for two years, gross fixed capital formation went up again, bolstered by high demand for replacement investment and favorable financing conditions. Economic policymakers extended the investment allowance and hiked expenditure on infrastructure to boost the economy, which also helped the construction sector recover.

Exports were still quite sluggish in the first half of 2003, but rallied steadily despite the deteriorating

### Real GDP and its Composition in Austria

	2001	2002	2003	2002		2003			
				Q3	Q4	Q1	Q2	Q3	Q4
	Annual change in %			Change on previous quarter in % (seasonally adjusted)					
Real GDP	+0.8	+1.4	+0.7	-0.4	+0.3	+0.5	+0.0	+0.1	+0.1
	Contribution to GDP growth in percentage points								
Consumer spending	+0.77	+0.45	+0.71	+0.40	+0.69	+0.04	+0.25	-0.18	-0.08
Government spending	-0.26	+0.01	+0.13	+0.02	+0.13	+0.00	+0.01	+0.02	+0.05
Gross capital formation	-0.62	-0.79	+1.04	-0.29	-0.45	+1.47	+0.06	+0.01	-0.02
Net exports	+0.90	+1.36	-1.02	-1.09	+0.77	-1.13	-0.71	+1.15	+0.29
Errors and omissions	-0.05	+0.33	-0.11	+0.61	-0.89	+0.13	+0.41	-0.85	-0.15

Source: OeNB, Statistics Austria (annual figures), WIFO (quarterly figures).

price competitiveness in the wake of the euro's appreciation. Overall, however, real exports of goods and services expanded marginally, inching up by just under 1% in 2003.

With domestic economic activity gaining momentum, imports mounted faster than exports (by +3.0%), so that net exports made a negative contribution to GDP growth.

### The OeNB's New Economic Indicator

The OeNB introduced a new economic indicator in the first quarter of 2003. This indicator enables the OeNB to estimate short-term developments in the Austrian economy by forecasting real GDP growth. The forecast has been designed to encompass both the current and the upcoming quarter, as the preliminary results of the quarterly national accounts are published with a time lag of three months. The forecast results are meant to give decision makers in the economics, politics and public administration domains a point of reference to gauge imminent cyclical developments. The OeNB's economic indicator is calculated on the basis of two complementary econometric models (a state space model and a dynamic factor model).

The state space model uses monthly indicators to estimate an unobserved monthly GDP data series which is aggregated to quarterly values. In addition to an autoregressive portion, this model currently employs four monthly indicators as exogenous variables, namely the Ifo business climate index, the loan volume, the number of vacancies and the effective exchange rate. Ifo's business climate index for Germany represents a good proxy for confidence in Austria and has the additional advantage of reflecting the sentiment of Austria's premier export market. The rise or fall in lending to Austrian nonbanks captures the financing and lending conditions of the banking sector. Vacancies are a reliable indicator of labor market developments and allow inferences about income developments and household spending to be made. Finally, the development of international price competitiveness as measured by the effective exchange rate plays a central role in a small, open economy like Austria.

### Real GDP from 2002 to 2003 and Forecast

#### for the First and Second Quarters of 2004 (seasonally adjusted)

2002				2003				2004	
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Change on the same quarter of the previous year in %									
+0.5	+2.0	+1.3	+1.5	+1.4	+0.4	+0.9	+0.8	+0.6	+1.0
Change on previous quarter in %									
+0.6	+1.0	-0.4	+0.3	+0.5	+0.0	+0.1	+0.1	+0.4	+0.4
Change on previous year in %									
	+1.3	(+1.4) <sup>1</sup>			+0.9	(+0.7) <sup>1</sup>			

Source: OeNB, WIFO, Statistics Austria.

<sup>1</sup> Nationally adjusted data.

Factor models represent a method to analyze very large sets of data by condensing data down to a handful of factors. The idea at the heart of factor models is that a few factors suffice to describe the main features of an economic cycle. The data set used comprises 143 variables derived from the national accounts, the quarterly survey of the Austrian Institute of Economic Research, monthly survey data, prices, foreign trade, the labor market and financial variables. As short-term economic developments are frequently influenced by factors that cannot be captured by econometric models given the way such models are constructed (structural breaks, institutional factors), adequate account is taken of expert opinions to put the results in perspective.

The latest results of the OeNB's economic indicator at the time of writing date from the beginning of April 2004. At the time, real GDP growth was forecast to come to 0.4% in the first and second quarters of 2004, respectively (seasonally adjusted, quarter-on-quarter growth). This implies a rise by 0.6% and 1.0% against the respective quarters of the preceding year.

Registered employment advanced by 0.9% in 2003. However, adjustment for persons on parental leave, in compulsory military training or registered in a training program of the Austrian Public Employment Service yields an effective employment increase by 0.3%. After rallying in the second half, employment growth declined in December 2003 compared to the same month of the previous year and turned negative in January 2004. As the labor supply increased fairly sharply for a period of slow cyclical growth, unemployment was not reduced: At 4.4% the unemployment rate according to Eurostat was marginally above the rate for 2002.

### Marginal Deficit on Current Account

Austria's current account closed with a deficit of EUR 2 billion or 0.9% of GDP in 2003, i.e. it was broadly balanced (defined by the OeNB as being within a margin of  $\pm 1\%$ ).

The fall in the surplus on goods by EUR 2 billion to EUR 1.7 billion was the main factor that caused the current account to slip into deficit. Exports edged up by 1.0%, the smallest increase since 1995, as the weak German economy and the euro's strength against the U.S. dollar weighed on exports in 2003. On the other hand, the expectation that the recovery would get under way in Austria entailed a rise in investment in plant and equipment, resulting in import growth of 3.9%.

Rise in employment and unemployment figures

Current account shortfall of roughly EUR 2 billion in 2003

### The Austrian Labor Market

	2002	2003	2003				2004	
			Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
%								
Unemployment rate								
Eurostat definition	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.4
National definition	6.9	7.0	6.1	6.5	7.2	8.7	9.1	8.8
Change on previous year in %								
Paid employment	+0.2	+0.9	+1.0	+0.9	+0.9	+0.5	+0.1	+0.1
Unemployment	+14.0	+3.3	+4.4	+4.7	+4.7	+5.0	+2.9	+2.5
Vacancies	-21.8	-6.4	-5.9	-7.8	-7.9	-13.0	-7.2	+2.7

Source: Eurostat, Austrian Public Employment Service, Main Association of Austrian Social Security Institutions, WIFO.

Services improved slightly and closed with a surplus of EUR 820 million. Bucking the global trend in tourism, the number of guests from abroad in Austria augmented by 2.5%, and travel receipts climbed by 3.1% to EUR 12.3 billion. As travel expenditures came to EUR 10.2 billion, net travel was nearly unchanged from 2002.

At –EUR 2.5 billion, the largest outflows in the current account were again recorded in the income subaccount. Banks' lower net income from their business abroad in the wake of the general decline in interest rates and the persistent weakening of the U.S. dollar were the main reasons for this development of the income balance in 2003.

The shortfall on current transfers widened somewhat to EUR 2.1 billion in 2003, chiefly as a result of lower public sector transfer income.

The financial account shifted from net outflows of EUR 3.4 billion in 2002 to nearly the same level of net capital inflows (EUR 3.1 billion) in 2003.

Running to EUR 6.3 billion in 2003, Austria's outward foreign direct investment (FDI) topped the 2000 record high by a narrow mar-

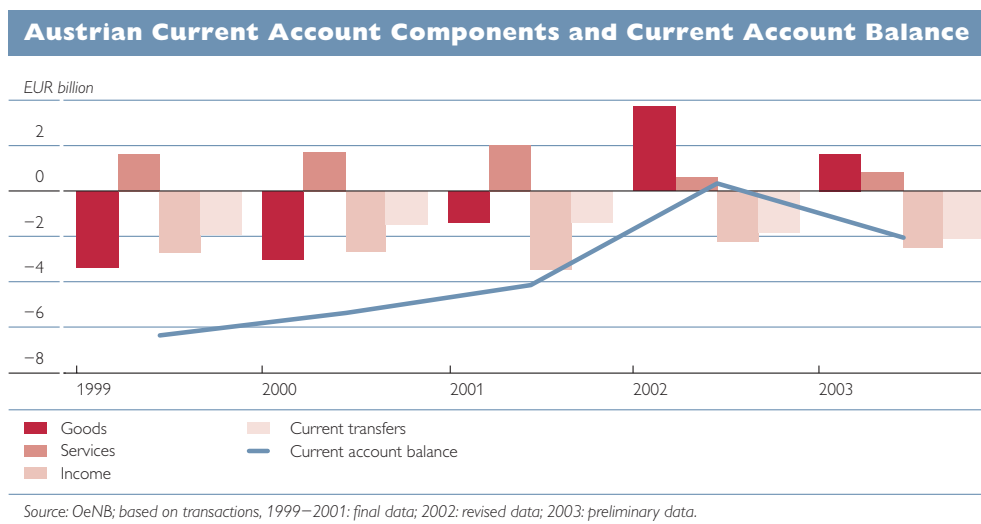
gin. Inward FDI recovered markedly after plummeting in 2002 and came to EUR 6.1 billion in 2003.

Portfolio investment posted net capital imports of EUR 5 billion in 2003. Debt securities (bonds and notes) continued to predominate portfolio investment developments: On the assets side, outflows came to EUR 17.2 billion, whereas the liabilities side was marked by capital imports of EUR 18.1 billion. Cross-border sales and purchases of equity securities both closed with lower net investment than in 2002.

Other investment, mainly deposits and loans, posted net capital outflows of EUR 2.8 billion in 2003, following net capital inflows in 2002. The development of this subaccount was influenced most strongly by Austrian banks' cross-border transactions, such as the expansion of their lines of credit to foreign borrowers from EUR 2.5 billion to EUR 11 billion. Moreover, cross-border interbank assets and liabilities that had been liquidated a year earlier were reestablished in 2003.

The stock of Austrian reserve assets closed with a transaction-related decline of EUR 1.8 billion in 2003.

Outward foreign  
direct investment  
at a record high





## Record High for Austrian Households' Financial Assets – Demand for Funding Subdued despite Low Interest Rates

### Austrian Retail Interest Rates

Like all other euro area NCBs, the OeNB has compiled data for new harmonized interest rate statistics on the basis of the relevant regulation

of the ECB, referred to the MIR Regulation (ECB/2001/18), since January 2003. These statistics cover the retail interest rates applied by banks to deposits and loans vis-à-vis households and nonfinancial corporations. The harmonization has ensured that the ECB and the NCBs have a methodically consistent data base of retail deposit and loan interest rates.

#### Methodology of the New Harmonized

##### MFI Interest Rate Statistics for Austria

*The Austrian data for the new harmonized MFI interest rate statistics are currently compiled from a sample of 88 credit institutions. The institutions report 53 capital-weighted average interest rates on a monthly basis (49 of these rates are for euro-denominated business) covering instrument categories for deposits and loans. 39 interest rates are reported for new business contracted in a given month, the volume of which must also be specified; 14 interest rates refer to outstanding amounts. New business comprises new agreements as well as all renegotiations of terms and conditions (e.g. maturity extensions, interest rate changes). The interest rate reported is the rate for a deposit or loan agreed between a customer and an MFI converted to an annual basis and quoted in percentages per annum. It covers all intrayear interest payments on deposits and loans, but no other charges that may apply (fees, commissions). In addition to annualized agreed rates, for new business, reporting agents must provide the annual percentage rate of charge (APRC) applied to consumer credit and loans to households for house purchases. The APRC is the effective interest rate which reflects the total costs of the credit to the customer, containing all related charges such as commissions, fees and the like.*

The first data reported for the new MFI interest rate statistics for Austria indicate that Austrian banks' loan and deposit rates developed largely in parallel to the ECB's key interest rates in 2003.

The decline in the average minimum bid rate (interest rate tender) for the main refinancing operations between January and December 2003 (by 0.81 percentage point to 2.01%) was passed through to borrowers: the capital-weighted average rate for euro-denominated loans (all maturities) fell by 0.87 percentage point to 3.49%. The customers that benefited most from the drop in interest rates were the large non-financial corporations. The average interest rate on loans with a volume

in excess of EUR 1 million sank by an average of 0.89 percentage point to 3.09% from January to December 2003. The drop in interest rates was less pronounced for interest rates on loans with a volume of less than EUR 1 million to companies (interest rates decreased by only 0.60 percentage point to 3.97%) and for rates on loans to households (interest rates on housing and consumer credit dipped by 0.69 percentage point each). Housing loans carried an average rate of 4.27% (effective rate: 4.55%), consumer credit was extended at an average rate of 5.16% (effective rate: 5.92%).

Foreign currency loans became less attractive as the year went on because their interest rate advan-

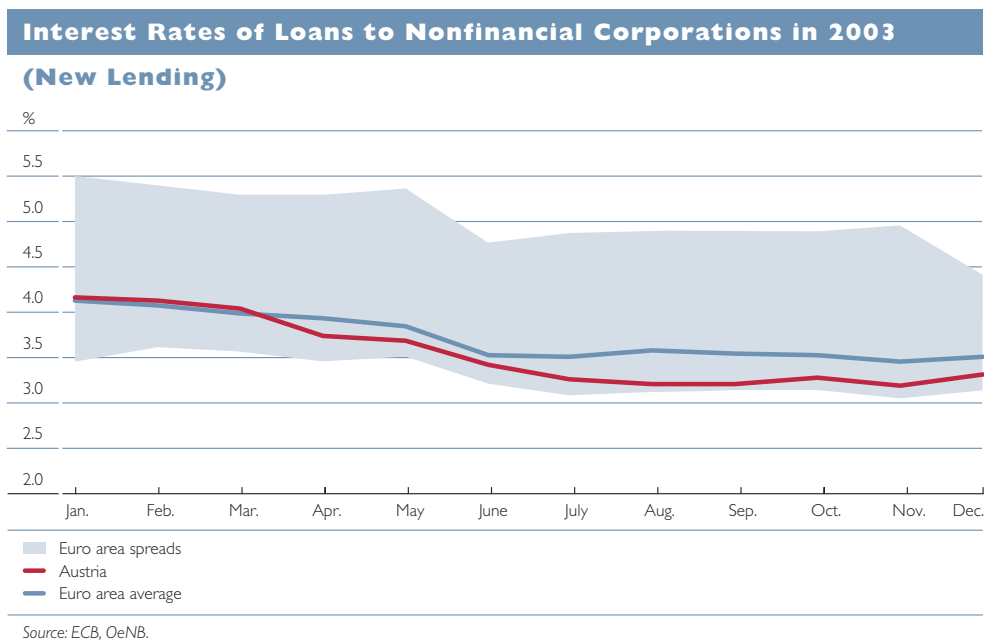
**Banks passed key interest rate cuts on to customers**

tage over average euro-denominated loans diminished steadily. Whereas at 4.36% the average interest rate on euro-denominated loans had still been 3.16 percentage points above that for Japanese yen-denominated loans and 2.34 percentage points higher than the rate on Swiss franc-denominated loans in January 2003, this gap shrank to 2.28 percentage points for Japanese yen-denominated loans and to 1.94 percentage points for Swiss franc-denominated loans in December 2003.

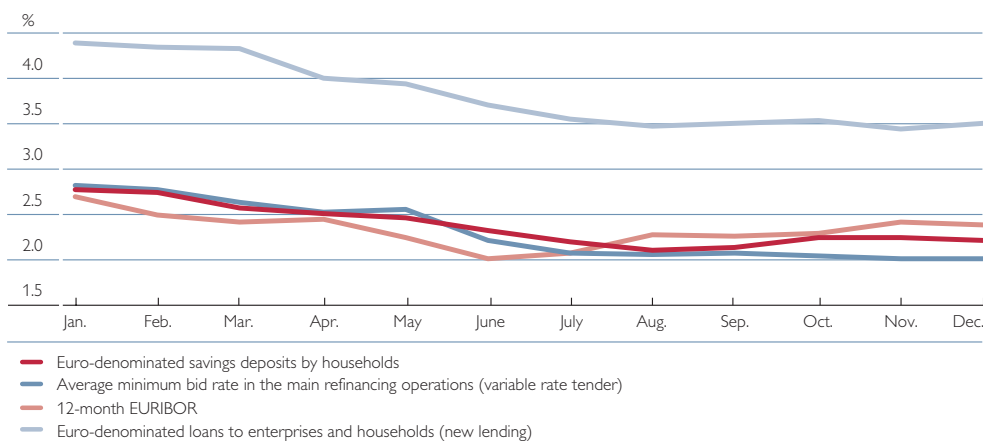
Austrian deposit interest rates were somewhat above the euro area average, reflecting the fact that savings deposits are highly sought after in Austria, which yielded higher interest rates than comparable euro area savings deposits. As a result of sharp competition for deposits, deposit interest rates did not diminish as much as interest rates on loans. The average interest rate on all products slipped by 0.58 percentage point to 2.07% between January and December 2003. Unlike the gap between corporate and household

lending rates, in the deposits category, the decline in interest on nonfinancial corporations' deposits (by 0.60 percentage point to 2.04%) was very similar to the decline in the rate applicable to household savings deposits (by 0.55 percentage point to 2.22%).

Lending as well as deposit interest rates diminished in the first half of 2003 and remained nearly unchanged or even went up slightly in parallel to interbank interest rates in the second half of the year.

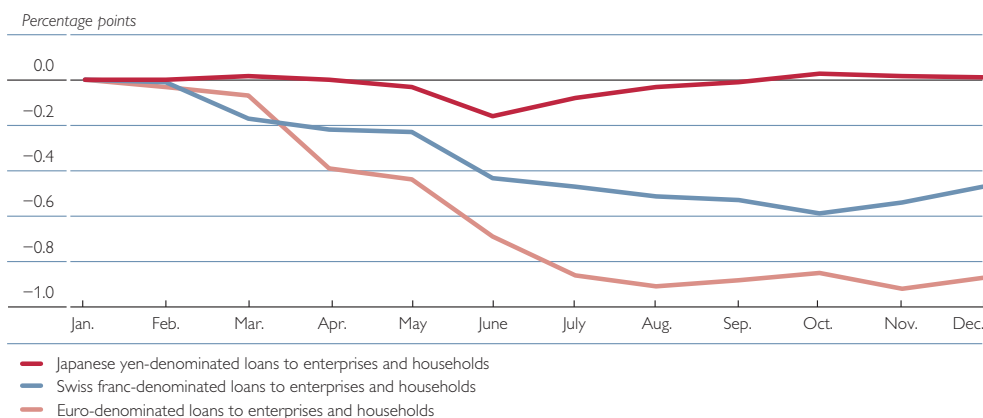


### Retail Interest Rates in Austria Compared to Money Market Rates and the ECB's Key Interest Rate in 2003



Source: ECB, OeNB.

### Cumulative Change of Interest Rates on Foreign Currency and Euro Loans in Austria in 2003



Source: ECB, OeNB.

### Austrian Households' Financial Assets Expanded

According to national accounts data, Austrian households' financial investment<sup>2</sup> (financial assets) totaled EUR 14 billion in the 2003, a rise by 4.9% from the beginning of the year. The market value of households' financial investment came to EUR 303.9 billion on December 31, 2003.

Private investors did not change their investment habits in spite of stock price gains in 2003. The enlargement of deposits and cash holdings accounted for 58% of the rise in financial investment in 2003; investment in securities made up only 7%.

Private households' interest in products offered by insurance compa-

Financial investment  
at EUR 14 billion  
in 2003

<sup>2</sup> In the empirical analysis, it is currently the convention in EU Member States to classify nonprofit institutions serving households (such as trade unions, political parties, churches and private foundations) among households. This should be born in mind when assessing data on the assets of households. The cutoff date for financial accounts data was March 31, 2004.

nies and pension funds remained very lively and was further reinforced by the introduction of a special state-subsidized individual retirement savings product in 2003. In 2003 private households' claims augmented by EUR 3.1 billion, by the same amount as in 2002. New investment in life insurance products progressed by roughly EUR 2.2 billion in 2003.

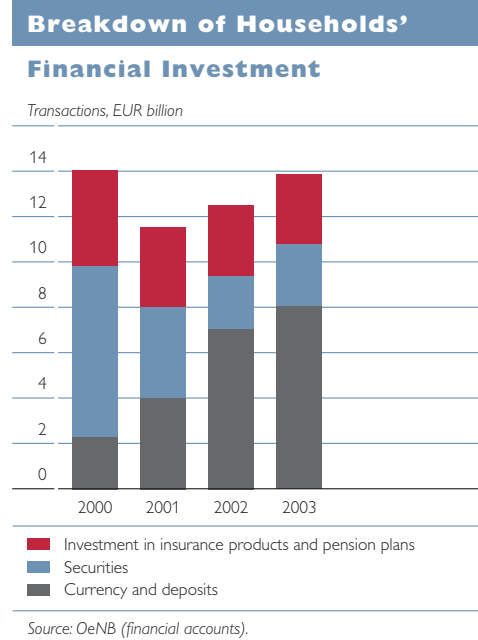
Private household borrowing came to roughly 4.3 billion in 2003, the same as in 2002, which brought debt to a 4.8% higher level than at the end of 2002. As at December 31, 2003, borrowing by this sector amounted to EUR 91.7 billion.

The corporate sector's financial liabilities (on a transaction basis) rose in the course of 2003, advancing by EUR 18.2 billion (6.8% higher than at the end of 2002). The market value of the corporate sector's liabilities amounted to EUR 289.5 billion at yearend 2003.

Equity financing accounted for more than a third of the additional financial liabilities incurred in 2003, the bulk of which, some EUR 4.4 billion, consisted of outward foreign direct investment. Securities issues and loans accounted for roughly a quarter each of the additions to financial liabilities.

During the same period, the corporate sector boosted its financial investment by EUR 10.2 billion, bringing its net financial liabilities to EUR 8 billion.

The private sector (embracing households and the corporate sector) closed the year 2003 with net financial assets of EUR 1.7 billion, whereas the public sector<sup>3</sup> incurred



net financial liabilities of EUR 3.1 billion. Most of the resulting financing gap was closed with inflows of capital from abroad.

### Austria's Budget Deficit below the Euro Area Average

After the general government budget had been nearly in equilibrium in 2001 and 2002, the result for 2003<sup>4</sup> was a deficit of 1.3% of GDP (including the net effect of cross-currency swaps). The deterioration by 1.1 percentage points against 2002 is partly attributable to cyclical influences, but also – apart from higher outlays in the wake of the flood in 2002 and the impact of measures to stimulate the economy – to structural family benefit measures and measures promoting phased retirement. In 2003 the total expenditure ratio decreased by 0.1 percentage point

Net lending by the private sector, net borrowing by the government sector

Nonfinancial corporations exhibited a financing gap

Preliminary budget deficit for 2003: 1.3% of GDP

<sup>3</sup> The ESA95 definition of net lending/net borrowing prescribes that interest rate swaps be shown as financial transactions, which have no impact on the fiscal balance. Thus ESA-based figures do not match the deficit levels reported in the budgetary notification.

<sup>4</sup> According to the budgetary notification of February 27, 2004: 1.1% of GDP.

### Fiscal Convergence Criteria

	2002	2003	2004		2005	2006	2007
	Outturn	Outturn	Budget notification <sup>1</sup>	Stability program <sup>2</sup>	Stability program <sup>2</sup>		
	% of GDP						
Revenues <sup>3</sup>	51.1	49.9	..	50.0	48.5	48.3	48.0
Expenditures <sup>3</sup>	51.3	51.2	..	50.7	50.0	49.4	48.4
Budget balance	-0.2	-1.3	-1.1	-0.7	-1.5	-1.1	-0.4
Interest expenditure	3.4	3.1	3.1	3.5	3.4	3.3	3.2
Primary balance	3.1	1.9	2.0	2.8	1.9	2.2	2.8
Cyclically adjusted budget balance	-0.2	-1.0	..	-0.4	-1.3	-1.1	-0.5
Government debt	66.6	65.0	64.5	65.8	64.1	62.3	59.9
Tax burden <sup>4</sup>	44.3	43.3	..	43.4	42.3	42.1	41.9

Source: Federal Ministry of Finance, Statistics Austria.

<sup>1</sup> February 27, 2004.

<sup>2</sup> November 18, 2003.

<sup>3</sup> Net figures given for swaps.

<sup>4</sup> Direct and indirect taxes, social security contributions excluding imputed contributions, inheritance tax.

of GDP compared to the previous year. The total revenue ratio declined by 1.2 percentage points of GDP compared to 2002. As a result of cyclical developments and of tax relief granted within the framework of flood aid and measures to stimulate the economy, the tax-to-GDP ratio edged down by 1.0 percentage point compared to the previous year to 43.3% of GDP in 2003.

According to the Austrian Federal Ministry of Finance, the budget consolidation volume totaled EUR 2.6 billion or 1.2% of GDP in 2003 and stemmed mainly from the 2000 pension reform measures and the administrative reform coupled with personnel reduction measures. The Austrian Federal Ministry of Finance reports a consolidation volume of EUR 6.4 billion or 2.9% of GDP for the period from 2000 to 2003. Of this amount, EUR 2.5 billion are attributable to the administrative reform including personnel cuts, EUR 2.7 billion are due to pension insurance reform measures and EUR 1.0 billion are ascribable to the curtailment of discretionary expenditure.

The most recent update of the Austrian Stability Program of November 18, 2003, foresees a temporary rise in deficit ratios on account of the tax reform (2004: -0.7%,<sup>5</sup> 2005: -1.5%, 2006: -1.1%). Not until 2007 is the deficit ratio projected to drop to 0.4% of GDP (on the underlying assumption of GDP growth of 2.5% per annum). The deficit-increasing effects of the tax reform will be cushioned by a rise in health insurance contributions and the economic revival expected from 2004 onward. The implementation of the tax measures without sufficient offsetting expenditure restraint will result in a temporary deviation from the goal of the Stability and Growth Pact of reaching budgetary positions "close to balance or in surplus." The reform will not jeopardize compliance with the deficit limit of 3% of GDP specified in the Maastricht Treaty.

The first stage of the tax reform (net tax relief volume of about EUR 500 million or 0.2% of GDP), which was adopted in 2003, was designed to reduce the tax burden for low-in-

Despite tax reform Austria will continue to meet 3% deficit target

Tax reform entailed temporary rise in deficit

<sup>5</sup> According to the budgetary notification of February 27, 2004: -1.1% of GDP.

come households, support the provision of equity financing for small businesses (partnerships or freelancers), strengthen the ecological components of the tax system (increase of energy and petroleum taxes) and cut nonwage labor costs from 2004.

The envisaged second stage of the tax reform (net tax relief volume of about EUR 2.5 billion or 1.1% of GDP), most of which will become effective in 2005, is aimed at reforming the personal income tax regime, slashing corporate income tax rates from 34% to 25% and introducing group taxation. With effect from January 1, 2004, the government has, among other things, introduced additional tax allowances for single-income families and single-parent households and increased commuting allowances as well as the second-income threshold for single-income households. Apart from the redistribution effect the tax relief measures generate for businesses, the government expects the measures to raise Austria's attractiveness as a business location and to boost growth in the medium run. The budgetary effects of the tax reform are not expected to materialize in full until 2006; by then tax revenues should have dropped 1.3% of GDP below the baseline scenario without the reform.

Austria's debt ratio<sup>6</sup> came to 65.0% of GDP (2002: 66.6%). In the coming years, the debt ratio will remain on a downtrend, which will be reinforced further by the repayment of debt issued for public enterprises.<sup>7</sup> At the end of 2007 public

debt is anticipated to drop below the 60% mark at 59.9% of GDP.

### Significant Structural Reforms Launched

The government plans to implement structural reforms with the aim of making Austria one of the three top business and working locations in the enlarged EU by the year 2010. A number of measures were taken to this end in 2003.

The Austrian government established the National Foundation for Research, Technology and Development with funds provided by the OeNB and the ERP Fund (see "Efficient Customer-Oriented Management"). This measure will create a steady flow of research funds and enable research projects to be planned over longer horizons. The tax credit for research expenditure as defined by the Frascati Manual was hiked from 15% to 25%, and the research premium granted as an alternative was raised from 5% to 8%. The research tax credit of 35% for economically significant inventions remained unchanged. The purpose of these provisions is to boost research and development expenditure to 2.5% of GDP by 2005 (2003: 1.96%).

The government plans to tackle reforms in a number of areas, above all pension and health care reform, labor market policy, the restructuring of the Austrian Federal Railways and administrative reform. In 2003 it adopted the pension reform (including some steps that aim to support the labor market), the har-

Research promotion  
and administration  
reformed

<sup>6</sup> According to the budgetary notification of February 27, 2004: 65.0% of GDP as well.

<sup>7</sup> Eurostat decided in February 2003 that strict gross accounting principles have to be applied to debt issued for public enterprises in Austria since 1998, so that public debt increased by the amount of debt issued. The (preliminary) debt ratio of 65.0% for 2003 includes, according to the budgetary notification of February 27, 2004, funds on lent to public entities of an order of roughly 4.8% of GDP.

monization of health insurance contributions for blue and white collar workers, the increase of health insurance contributions by the retired, the increase of general health insurance contributions for nonwork-related accidents and finally the restructuring of the Austrian Federal Railways.

Further steps to privatize partly state-owned companies comprised the sale of Voestalpine AG and Böh-

ler-Uddeholm AG stock on the Vienna stock exchange in fall 2003. More flexible shop opening hours were legislated, but the provinces have hardly taken advantage of their greater scope for implementing the more liberal provisions. The government's Administrative Reform Program entered its third stage in summer 2003, and the new public procurement provisions went into effect.

### Findings of the IMF, the OECD and the European Commission

#### on the Austrian Reform Process

*The IMF, the OECD and the European Commission confirm that Austria has undertaken numerous reforms.<sup>1</sup> The IMF, for instance, commends Austria on the implemented pension reform and on the planned tax reform. The challenge is to strike the right balance between tax cuts aimed at easing the burden on factors of production and strengthening incentives to work on the one hand and balanced budgets on the other hand. The reduction of the role of the state, securing healthy public finances, liberalization and more entrepreneurship are suited to enhancing stability in the short and medium term and to stimulating growth in the long run. However, an urgent need for economic policy action to raise the employment ratio, above all of older cohorts, was identified. The OECD proposes making public sector employment rules more flexible so that personnel reduction is achieved not through early retirement but through reassignment of staff. Moreover, the authorities are encouraged to review the child-care benefit regime and to allocate more money to child-care facilities. The IMF sees savings potentials in the areas of housing subsidies and family benefits; these benefits should focus on the lower-income segments.*

*The European Commission and the OECD call on Austria to enhance the inadequate capacity of the independent competition authority founded in 2002, as its staffing is lower than that of comparable institutions in other EU Member States. For example, competition in the service sectors should be promoted, given the weak productivity performance of this sector compared with that of the manufacturing sector. Product market rules, shop opening hours and the regulations governing trades and professions should be liberalized further. Finally, the education and lifelong learning system requires reforms. According to the OECD's PISA study<sup>2</sup>, for example, there is considerable scope for efficiency improvements in the education system in Austria and for the implementation of the principle of lifelong learning.*

<sup>1</sup> See the results of the IMF's Article IV consultations; OECD. 2003. *Economic Survey – Austria 2003*. October; European Commission. 2004. *Communication from the Commission on the Implementation of the 2003–2005 Broad Economic Guidelines*. European Economy 1. Brussels.

<sup>2</sup> OECD. 2001. *Knowledge and Skills for Life. First Results for the OECD Programme for International Student Assessment (PISA) 2000*. Paris.

The issues on the government's agenda which have not been implemented yet are health reform (so far, only health insurance contributions have been raised), the harmonization of the pension systems, and achieving results from the Austrian Convention, which aims at defining a more efficient relation and division of responsibilities between the different levels of government.

The uptrend of Wiener Börse AG signals the growing strength of the capital market, e.g. within the framework of capital market promotion activities. The liberalization of network industries has been largely concluded. Moreover, the new University Organization Act went into effect; it will be possible to evaluate its effects in a few years.

### EU Enlargement to Provide Austria with a Significant Economic Impetus

Positive effects prevail

Austria's geographical location and its close economic ties to the Central and Eastern European countries (CEECs) predispose it to benefiting more from enlargement than other EU regions. Most of the trade and investment barriers restricting access to the new Member States were abolished many years before the enlarge-

ment date May 1, 2004, as Austria's quite intensive trade and business integration especially with its four neighbors Hungary, Slovenia, the Czech Republic and Slovakia as well as with Poland demonstrates. These countries account for some 12% of Austria's exports. In 2003, the CEECs were the destination of 45% of Austria's outward direct investment, with Austrian banks remaining a key force in the internationalization of Austrian business. Central and Eastern Europe has evolved into a prime destination for Austrian companies' investment.

The data on banking links between the new Member States and Austria also reflect direct investment developments. Through their subsidiaries, Austrian banks not only have a large market share in these countries, these subsidiaries also represent a third of the consolidated assets of the three banks with the largest holdings in the region.

The enlargement round on May 1, 2004, is expected to trigger further impulses in the wake of the elimination of the last remaining trade barriers, for example. Above all, though, stepped-up economic growth in the new Member States will have positive repercussions for Austria's economy (on the demand for capital and consumer goods, tourism and

#### Austria's Share of Total Foreign Direct Investment in Selected New Member States in 2002

	Share in %	Rank <sup>1</sup>
Slovenia	29.9	1
Slovakia	14.6	3
Hungary	11.1	3
Czech Republic	10.0	3
Poland	3.6	6
Estonia	0.4	10
Latvia	0.9	11
Lithuania	0.3	11

Source: OeNB, WIIW, WIFO.

<sup>1</sup> Austria's rank as an investor in selected new Member States in terms of its share of total outward FDI.



**Austrian Banks' Market Shares in Selected New Member States**

as at December 31, 2003

	Unweighted market share	Weighted market share <sup>1</sup>
	%	
Slovakia	44	33
Czech Republic	30	28
Hungary	19	14
Slovenia	10	10
Poland	11	7

Source: OeNB.

<sup>1</sup> Weighted by the holding of the respective Austrian parent bank.

the like). Studies place the long-term growth effect for Austrian GDP at 1 percentage point, which is twice as high as in the euro area as a whole. Income gains will outpace costs in the short run as well. Some studies presage a further doubling of trade following the introduction of the euro in the new Member States. However, these additional positive effects will not just happen automati-

cally, they will to some extent be contingent on a structural change that will equip Austria's economy to benefit from the integration potential with the new Member States. For Austrian companies to evolve from being users of technology to becoming initiators of technological innovation, they must adapt their innovation strategy and increase the knowledge content of their products.

# EU Enlargement Approved

## EU Accepts Ten New Member States

On May 1, 2004,  
the EU increases  
to 454 million  
inhabitants

Growth accelerates  
as inflation declines  
in the new  
Member States

On May 1, 2004, ten new Member States – eight CEECs, Malta and Cyprus – join the EU. This enlargement raises the EU population by 74 million inhabitants to 454 million. The large number of countries and the size of the population involved (20% of the EU-15) makes this the EU's biggest enlargement ever. However, the nominal GDP of the new Member States is only about 5% of the GDP of the EU-15.

Compared with 2002, overall GDP growth increased again in the new Member States despite persistently sluggish economic activity in the EU. This is mainly traceable to the rise in GDP in Poland. Apart from consumer spending as the main pillar of economic growth in most of the new Member States, export increases in Poland and Slovakia contributed considerably to growth.

The process of disinflation has continued unabatedly in most of the new Member States. Lithuania and throughout most of 2003 the Czech Republic even showed negative inflation rates. By contrast, Slovakia

posted an average rate of inflation of approximately 8.5% in 2003.

Budget deficits continue to pose formidable challenges for most of the new Member States. The budget deficit of the ten new Member States averaged approximately 5% of GDP in 2003.

Apart from a few exceptions, the currencies of the new Member States depreciated against the euro in 2003. At the same time, several of the new Member States still face high current account deficits. However, in most of these countries foreign direct investment partly offset these deficits.

Hungary's monetary policy was closely watched in 2003. Magyar Nemzeti Bank almost doubled the key interest rate in only two steps from 6.5% in June to 12.5% in November. Conversely, most of the new Member States lowered their key interest rates in 2003. Countries which already had low key interest rates left them unchanged.

In September 2003, the last of the EU accession referendums took place in the new Member States. In all countries, the majority of the population clearly voted for accession. Malta was the only country where

### Indicators of Economic Developments in the New Member States

	Real GDP growth			HICP inflation rate			Unemployment rate <sup>1</sup>			Budget balance		
	2001	2002	2003 <sup>2</sup>	2001	2002	2003	2001	2002	2003 <sup>2</sup>	2001	2002	2003 <sup>2</sup>
Poland	1.0	1.4	3.7	5.3	1.9	0.7	18.5	19.8	19.8	-3.5	-3.6	-4.1
Slovakia	3.8	4.4	4.2	7.0	3.3	8.5	19.4	18.7	17.1	-6.0	-5.7	-3.6
Slovenia	2.9	2.9	2.3	8.6	7.5	5.7	5.8	6.1	6.5	-2.7	-1.9	-1.8
Czech Republic	3.1	2.0	2.9	4.5	1.4	-0.1	8.0	7.3	7.8	-6.4	-6.4	-12.9
Hungary	3.8	3.5	2.9	9.1	5.2	4.7	5.6	5.6	5.8	-4.4	-9.3	-5.9
Estonia	6.5	6.0	4.8	5.6	3.6	1.4	11.8	10.5	10.0	0.3	1.8	2.6
Latvia	7.9	6.1	7.5	2.5	2.0	2.9	12.9	12.6	10.5	-1.6	-2.7	-1.8
Lithuania	6.5	6.8	8.9	1.3	0.4	-1.1	16.1	13.6	12.7	-2.1	-1.4	-1.7
Malta	-1.2	1.7	0.4	2.9	2.2	1.3	6.7	7.5	8.2	-6.4	-5.7	-9.7
Cyprus	4.0	2.0	2.0	2.0	2.8	4.0	4.5	3.9	4.4	-2.4	-4.6	-6.3
Total of new Member States	2.5	2.4	3.6	5.7	2.7	2.1	14.5	14.8	14.3	-4.1	-4.9	-5.7
EU-12	1.6	0.9	0.4	2.4	2.3	2.1	8.0	8.4	8.8	-1.6	-2.3	-2.7
EU-15	1.7	1.0	0.8	2.2	2.1	2.0	7.4	7.7	8.0	-1.0	-1.9	-2.6

Source: Eurostat, OeNB.

<sup>1</sup> Eurostat definition.

<sup>2</sup> Spring 2004 forecast of the European Commission.

### Results of EU Accession Referendums for May 1, 2004<sup>1</sup>

Date	Country	Approval %	Voter turnout
March 8, 2003	Malta	53.6	91.0
March 23, 2003	Slovenia	89.6	60.3
April 12, 2003	Hungary	83.8	45.6
May 10–11, 2003	Lithuania	91.0	63.3
May 16–17, 2003	Slovakia	92.5	52.2
June 7–8, 2003	Poland	77.5	58.8
June 13–14, 2003	Czech Republic	77.3	55.2
Sept 14, 2003	Estonia	64.0	66.8
Sept 20, 2003	Latvia	72.0	67.0

Source: European Commission.

<sup>1</sup> No referendum in Cyprus.

only a narrow majority of the public (53.6%) was in favor of accession. Voter turnout ranged between a low of 45.6% in Hungary and a high of 91.0% in Malta.

In early November 2003, the European Commission published its Monitoring Report on the implementation of the acceding countries' commitments (made in the accession negotiations) regarding the *acquis communautaire*. The report notes that the acceding countries made considerable progress in adopting the EU's *acquis communautaire*. However, it also lists a number of issues which still have to be resolved by the new Member States.

Poland has to ensure the independence of its central bank and accelerate the harmonization of the legal framework for the financial sector. The same holds for the insurance sector of Latvia, Lithuania, Slovakia and the Czech Republic as well as for investment services and securities markets in Estonia, Latvia, Lithuania and Cyprus. The independence of financial market supervision has to be strengthened. In addition, Latvia will have to further liberalize capital movements and Lithuania will have to introduce appropriate payment systems. Furthermore, efforts to combat fraud, corruption and money laundering must be strengthened.

Widespread endorsement at EU accession referendums

Monitoring reports: significant progress made but important issues still unresolved

### EU Accession and the Three Pillars of Monetary Integration

*EU accession on May 1, 2004, is the starting point of the monetary integration process of the new Member States. These countries are basically obligated to strive for the adoption of the euro. First, however, they must complete a multi-step process that starts with EU accession, progresses to participation in the Exchange Rate Mechanism II (ERM II) and ends with the compliance with all Maastricht convergence criteria.*

#### Step One: EU Accession

*Upon EU accession, the new Member States will participate in Economic and Monetary Union, even though they cannot introduce the euro yet. Thus, the new Member States are involved in the coordination of economic policy; they are committed to drawing up convergence programs; they are obligated to adhering to the Stability and Growth Pact; and their central banks will participate in the ESCB.*

*The new Member States are required to consider their exchange rate policy a "matter of common interest," i.e. to avoid excessive nominal fluctuations and distortions of the real exchange rate. Apart from this obligation, the respective Member State is free to choose its monetary policy strategy and its exchange rate regime.*

### Step Two: Exchange Rate Mechanism II

ERM II is a regulated system of fixed exchange rates between non-euro area Member States' currencies and the euro. ERM II aims at supporting a stability-oriented economic policy, promoting convergence and protecting against unjustified pressure on foreign exchange markets.

The main characteristics of ERM II are the fixed exchange rate vis-à-vis the euro, a standard fluctuation band of  $\pm 15\%$ , the possibility of intervention within the band as well as the mutual commitment to intervene at the upper and lower limit of the band provided that in doing so the goal of price stability not be jeopardized. Moreover, the new Member States may choose when to join ERM II.

### Step Three: Introduction of the Euro

Prior to the introduction of the euro, compliance with all convergence criteria, such as those regarding inflation, fiscal performance, interest rates and exchange rates has to be sustainable. The fulfillment of the exchange rate criterion requires compliance with the normal bandwidths of the exchange rate mechanism of the European Monetary System without severe tensions and without devaluation of the central rate at least for the last two years before the convergence assessment.

### Challenges for Monetary Integration

The new Member States still have to finalize their transition process and are in the midst of a long-term catching-up process. The challenge is twofold: First, to maintain the adjustability of the exchange rate and second, to avoid excessive appreciations and fluctuations of the exchange rate that are not justified by real economic conditions. The right date for joining ERM II has to be evaluated on a case-to-case basis and in the light of the respective macroeconomic situation and will most probably vary widely from country to country. Generally, a cautious approach is recommended. For some countries it might even be better if they joined ERM II a few years later.

## Preparations of the ESCB for EU Enlargement

As from May 1, 2004, the ESCB includes the 12 NCBs of the euro area as well as the 13 NCBs that do not participate in the Eurosystem. The governors of all 25 NCBs are members of the General Council of the ECB, whereas the Governing Council still comprises only the governors of the central banks of the euro area.

Like other EU decision-making bodies, the Governing Council of the ECB made preparations for EU enlargement and subsequently for the new Member States' euro area membership. After the Treaty of Nice entered into force on February 1, 2003, the Governing Council, in accordance with the enabling clause contained in the Treaty of Nice, issued a recommendation on February 3, 2003, under which it proposed a rotation model for an adjustment of the ECB Governing Council's voting

modalities. On March 13, 2003, the EU Council adopted the recommendation of the ECB's Governing Council. This Council decision has to be ratified by all Member States in accordance with their respective constitutional requirements.

The Master Plan of the ECB represents a comprehensive list of activities that are necessary for the enlargement process. This Master Plan is targeted at the ECB Governing Council, the General Council and the Executive Board of the ECB as well as the NCBs of the new Member States. The plan contains a list of more than 100 projects which have to be realized in the course of the enlargement process. The list of projects ranges from IT infrastructure projects to organizational measures that are necessary, for example, to hold meetings with a greater number of participants.

The share of the ten new Member States' NCBs in the capital of the ECB amounts to approximately EUR 565

ECB Master Plan  
for the enlargement  
of the ESCB

Rotation model for  
the Governing  
Council of the ECB

million. As long as the new Member States have not yet introduced the euro, the new central banks as members of the ESCB will actually pay EUR 40 million as a contribution to the ECB's operating costs, which corresponds to a 7% share.

## Progress of European Integration

### Progress Reports: Bulgaria, Romania and Turkey

In early November 2003, the European Commission published Progress Reports for the accession countries Bulgaria and Romania and the candidate country Turkey. So far only Bulgaria has been recognized as a functioning market economy. Romania, by contrast, needs to take more resolute action in expediting progress already achieved to date.

Turkey, too, still has some way to becoming a functioning market economy. For the first time the European Commission established a link between overcoming the problems in Cyprus and Turkey's EU accession. Before the end of October 2004, the European Commission will issue an assessment on whether Turkey fulfills the political criteria of Copenhagen. Turkey has been assured the opening of accession negotiations in the case of a positive statement.

### Preparations for EU Enlargement

The target date 2007 for Romania's and Bulgaria's EU accession sets a precise timetable. The completion of negotiations is scheduled for 2004.

On the occasion of the Thessaloniki European Council of June 19 and 20, 2003, the EU gave all the countries of the western Balkans (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Repub-

lic of Macedonia as well as Serbia and Montenegro) the prospect of EU membership; however, it did not mention a precise timetable. A stabilization and association process under the prospect of EU accession is being coordinated by the EU and is already providing for closer cooperation with the countries of this region. Croatia has established itself as the most advanced of these countries and has already applied for accession.

The EU is considering how to shape relations with its new neighbors in Eastern Europe and in the Mediterranean. As the EU is intent on offering its citizens security, stability and sustainable development, it is very much interested in close cooperation with and in the political and economic stability of its direct neighbors.

Against this background, the European Union has launched a new initiative called "Wider Europe – Neighbourhood: A New Framework for Relations with Our Eastern and Southern Neighbours." This policy targets those countries which are not being offered EU membership either now or in the long term. The idea is that the EU is to be surrounded by a "ring of friends." In the east this "zone of prosperity and friendly neighborhood" comprises Russia, Ukraine, Moldova and Belarus and in the south the countries of the Mediterranean. The EU is endeavoring to intensify its relations with these countries in order to create sustainable economic growth as well as regional and subregional cooperation among these countries. In a first step (until 2006), the coordination of already existing cross-border financing instruments is scheduled to be improved by the implementation of special neighborhood programs. The second step

EU strategy for a "Wider Europe"

(after 2006) provides for the implementation of a new neighborhood instrument. In return for reform progress, the Union offers these countries the prospect of participation in the Internal Market together with further integration and liberalization with respect to the four freedoms.

### **The OeNB Plays an Important Role in Integrating the New Member States**

#### **Research and Analysis Contributions to the Enlargement Process**

With its Central and Eastern European (CEE) analysis activities, the OeNB covers a special area of economic research within the ESCB. It also issues a regular publication, the *Focus on Transition*, which is dedicated to CEE topics. In addition, the OeNB publishes a number of scientific contributions and analyses on the enlargement process. Furthermore, the OeNB actively shares its expertise with CEE central banks.

In the fall of 2003, the OeNB launched a website at [ceec.oenb.at](http://ceec.oenb.at) that provides comprehensive information on economic developments in CEE and on a number of aspects relevant to EU enlargement.

#### **OeNB Events Serve as Discussion Platform**

Every November, the OeNB organizes an East-West Conference in Vienna. This conference gathers international political and economics experts as well as researchers and offers a useful platform for an exchange of views and expertise on various topics. The focus of the conference changes from year to year to take into account topical economic policy is-

ues. In 2003, the East-West Conference centered on the topic “The Economic Potential of a Larger Europe – Keys to Success.” Apart from EU enlargement, the monetary integration of the new Member States and their participation in ERM II were the key themes of the conference.

The East-West Conference 2003, already the tenth of its kind, was special in that it celebrated the upcoming EU enlargement. While the first conference at the beginning of the 1990s had been much smaller and had been primarily targeted at exchanging expertise, in 2003 the conference attracted more than 250 participants. Today the East-West Conference is an event with a high international reputation.

Several times a year, the OeNB organizes special lectures known as the East Jour Fixe at which experts present and discuss the latest research findings on economic issues in CEE. This series of meetings, too, was marked by a jubilee in 2003. The 50<sup>th</sup> East Jour Fixe “Transition: Past, Present, Future” was held on December 15, 2003.

#### **Cooperation Activities and the Joint Vienna Institute**

The particular importance the OeNB attaches to the CEECs is also reflected in its involvement in the Joint Vienna Institute (JVI). The Joint Vienna Institute, which was established in Vienna in 1994, is a multi-lateral training center that supports transition countries, in particular in Central and Eastern Europe and the former Soviet Union, on their way to becoming market-oriented economies.

A Memorandum of Understanding signed in March 2002 secures the existence of the JVI, confirms its location in Vienna and provides

East-West  
Conference  
well attended

for new funding arrangements. In this Memorandum the Austrian Federal Ministry of Finance and the OeNB committed themselves to providing a modern facility designed for approximately 70 people. The IMF, the Federal Ministry of Finance and the OeNB share the costs of regular training. The agreement on establishing the JVI, signed by the Managing Director of the IMF, Horst Köhler, the Austrian Federal Minister of Finance, Karl-Heinz Grasser, and the Governor of the OeNB, Klaus Liebscher, entered into force on May 1, 2003. The official inauguration of the new JVI facilities on Mariahilfer Straße in Vienna took place on November 2, 2003.

The OeNB not only grants financial support but also organizes seminars and study visits, offers technical support and provides human capital

by sharing its expertise, *inter alia* through lectures. In 2003, the OeNB organized a series of seminars at the JVI on Economic and Monetary Union, means of payment, central bank management and banking supervision. At the bilateral level, the OeNB organized information visits and study visits for employees of CEE central banks.

The OeNB actively participates in coordinating technical support as a member of international bodies within the Eurosystem and the Bank for International Settlements (BIS). Thus, the OeNB, together with eight other NCBs, contributes to the training of the Russian central bank's supervisors within the framework of the Tacis Program<sup>1</sup> financed by the EU and coordinated by the ECB.

Inauguration of the  
new Joint Vienna  
Institute center

<sup>1</sup> *Tacis: Technical Assistance to the Commonwealth of Independent States.*

# Monetary Policy Implementation and Foreign Reserve Management Ensure Market Proximity

## The OeNB and Austrian Banks – Effective Partners in Monetary Policy Operations

The OeNB serves  
as an intermediary  
between banks  
and the ECB

The implementation of the Eurosystem's single monetary policy continued to work efficiently, smoothly and without technical glitches in 2003, largely thanks to the NCBs, which serve as an operational link between commercial banks and the ECB – a role that they continued to reinforce in the reporting period.

The OeNB's success as an intermediary between Austrian banks and the ECB depends above all on the following activities:

- Through its participation in individual ESCB working groups, the OeNB can share its expertise, and it can influence the design of procedures and framework conditions to the benefit of the Austrian economy and the Austrian banking system.
- The OeNB offers banks guidance on issues specifically related to the Austrian financial market and will in turn promote Austrian suggestions for the further development of Europe's financial systems. Given its specific knowledge of the evolution of domestic financial market structures and of the functioning of ECB mechanisms, the OeNB is ideally placed to act as an intermediary. The OeNB also ensures that Eurosystem decisions are communicated effectively to Austrian banks.

With a view to meeting counterparty demands and best complying with the requirements of the Eurosystem procedures for monetary policy operations, the OeNB added new features to its electronic tender (*eTender*) system in 2003.

The *eTender* system, which provides for the Internet-based collection of tender bids and started live operation in September 2002, has met with a very positive response from both the ECB and counterparties. The system measures up to international standards by offering, in particular, a high degree of security, saving handling time and simplifying the administrative workload.

In 2003 the OeNB improved the service quality of this application, based on requests raised by and discussed with counterparties. Since late 2003 counterparties have had direct password-protected access to the pool of assets they put forward as collateral. Thus they may retrieve information any time on the assets they have supplied, on the amount thereof that is currently used as collateral and on the balance that is available for further operations. The documentation of exact amounts allocated and of the average interest rate applied has added further value to the application.

Austrian banks continued to take limited recourse to the standing facilities (the marginal refinancing facility and the deposit facility). The bidding behavior of domestic banks was efficient and professional, and the regular tender operations typically provided adequate refinancing for covering banks' liquidity needs. The very limited recourse to the standing facilities also indicates the high efficiency of the interbank market in accommodating liquidity differences. The accuracy of information on the prevailing liquidity conditions with which the Eurosystem provides the banking system is another important contribution to efficiency.

The following decisions taken by the Eurosystem to improve the efficiency of the operational framework

New features added  
to tender framework

Low use of  
standing facilities



### Eurosystem Monetary Policy Operations

Monetary policy operations	Types of transactions		Maturity	Frequency	Procedure
	Provision of liquidity	Absorption of liquidity			
<b>Open market operations</b>					
Main refinancing operations	Reverse transactions	–	One week	Weekly	Standard tenders
Longer-term refinancing operations	Reverse transactions	–	Three months	Monthly	Standard tenders
Fine-tuning operations	Reverse transactions	Reverse transactions	Non-standardized	Nonregular	Quick tenders Bilateral procedures
	Foreign exchange swaps	Collection of fixed-term deposits Foreign exchange swaps			
Structural operations	Outright purchases	Outright sales	–	Nonregular	Bilateral procedures
	Reverse transactions	Issuance of debt certificates	Standardized/ non-standardized	Regular and nonregular	Standard tenders
	Outright purchases	Outright sales	–	Nonregular	Bilateral procedures
<b>Standing facilities</b>					
Marginal lending facility	Reverse transactions	–	Overnight	Access at the discretion of counterparties	
Deposit facility	–	Deposits	Overnight	Access at the discretion of counterparties	

Source: ECB, 2004. *The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures.* See [www.ecb.int](http://www.ecb.int).

of monetary policy instruments and procedures took effect in the first quarter of 2004:

- The schedule of the maintenance period for minimum reserves was modified. Under the new schedule, the maintenance period always starts on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. Furthermore, as a rule, the implementation of changes to the standing facility rates will henceforth be aligned with the start of the new reserve maintenance period.

- The maturity of the MROs was shortened from two weeks to one week.

The combination of the two measures helps to eliminate market expectations of interest rate changes during any given reserve maintenance period. Thus, these measures contribute to stabilizing the conditions under which counterparties submit bids for MROs.

These measures reflect the outcome of the public consultation procedure launched by the Eurosystem on October 7, 2002, inviting market participants to submit their views on a number of technical measures envisaged to improve the efficiency of the operational framework of mone-

**Amendment  
of the operational  
framework**

tary policy instruments and procedures. Market participants widely supported the consultation procedure, which provided valuable input for the adjustments in the pipeline at the time.

Furthermore, following an assessment of the risk control framework applicable to eligible assets used as collateral in Eurosystem credit operations (i.e. intraday liquidity and monetary policy operations), the Governing Council of the ECB endorsed the following changes to this framework:

- Tier 1 assets are to be classified in four liquidity categories and each category is assigned a specific haircut schedule.
- The maturity sectors of the haircut schedules are to be chosen in such a way as to achieve an even distribution of outstanding volumes across maturity sectors.
- The application of initial margins in reverse transactions has been discontinued and trigger levels used in margin calls have been reduced.
- In order to guarantee coherence between the new valuation haircut schedules for tier 1 eligible assets and those for tier 2 eligible assets, the provisions for the latter have also been modified to take into account both the discontinuation of initial margins and the new maturity sectors.

The idea behind these measures was to make the valuation of eligible assets even more accurate and transparent.

## **Efficient Reserve Management despite Difficult Market Conditions**

As in previous years, safety continued to be the basic requirement for the investment of foreign reserves, followed by liquidity and profitability. The importance of the liquidity aspect has, however, diminished somewhat as a result of the OeNB's participation in the Eurosystem. Notwithstanding the ensuing commitment to cautious asset allocation strategies, the OeNB takes an active interest in the string of instruments and techniques the market comes up with at a dynamic pace. The OeNB continually evaluates such innovations and, if they are deemed adequate for improving risk and return ratios or enhancing flexibility in response to market developments, tests and actually uses them in practice. It has thus gradually and systematically diversified its asset allocation in recent years, for instance by using currency options, forward rate agreements, futures, interest rate swaps and various other tailor-made financial products in a controlled manner for the purpose of minimizing risk.

Moreover, in 2003 the OeNB increasingly opted for ISDA master agreements<sup>1</sup> with counterparties, which basically enhance the legal certainty of, and reduce the risks involved in, the operations mentioned above.

Furthermore, the OeNB increasingly concluded agreements that are designed to hedge long-term investments. Such transactions – particularly gold transactions – allow the OeNB to benefit from the steepness of the yield curve without incurring an

**Security is the top investment priority, followed by liquidity and profitability**

<sup>1</sup> ISDA: International Swaps and Derivatives Association.

additional counterparty risk (credit risk) by locking in an investment for a longer period.

Financial market conditions were particularly adverse in 2003 as interest rates hit historically low levels while yield curves were relatively steep. This implied that the return to be achieved with traditional investment schemes was comparatively low. Low money market rates prompt investors to increasingly seek higher-yield investment options, as offered *inter alia* by longer-term maturities. However, the volume of such transactions must not exceed certain limits, because if interest rate levels were to rise, such longer-term investments would produce losses on account of falling security prices.

The second big challenge with regard to financial market operations in 2003 was the weakness of the U.S. dollar against the euro as the accounting currency. No central bank can completely eliminate the exchange rate risk involved in investing in foreign currencies. Within the ESCB every NCB must, moreover, stand ready to meet further calls for the transfer of foreign reserves to the ECB. Subject to these constraints and in line with a multiyear strategy applied since the beginning of 1999, the OeNB has considerably reduced its U.S. dollar holdings or hedged parts thereof, thus eliminating risk from the portfolio correspondingly. With a view to diversifying risks and maximizing return, the OeNB, moreover, does not hold U.S. dollar assets alone but a multicurrency portfolio.

Since January 1, 1999, the OeNB has also been responsible for managing the reserves that it transferred to the ECB. These funds are available immediately for interventions, should the need arise. The invest-

ment of this portfolio, which is shown as a claim on the ECB in the OeNB's balance sheet, is subject to strategic and risk management benchmarks provided by the ECB. Otherwise, the management of these portfolios is at the discretion of the Eurosystem NCBs, which benefit from their proximity to the markets and their experience and also compete with each other in this process. The investment performance of the individual NCBs is reported and analyzed monthly. The OeNB has continually scored well in these comparisons.

Developments in international gold markets were characterized by rising gold prices in U.S. dollar terms and by a marked drop in the return on gold, basically reflecting the fact that gold mining companies made fewer hedging transactions. In anticipation of falling gold prices, the latter typically sell forward future production volumes to banks, which in turn lend corresponding volumes of gold to offset their risks. Given reduced demand for such operations, gold interest rates dropped markedly in 2003, especially at the short end. Despite these difficult market conditions, the OeNB managed to make substantial gains even in the gold business. The establishment of a legal framework for collateralizing gold deposits made it possible for the OeNB to attain quite attractive returns with longer-term investments.

The OeNB's gold holdings as such remained unchanged at 317 tons *vis-à-vis* 2002, as any sales allowed under the Central Bank Gold Agreement (90 tons in total) had already been made. From the OeNB's point of view, this agreement has fulfilled its purpose, *inter alia* because it contributed to market stabilization and transparency. The OeNB thus

Adverse market  
conditions  
for investment

Rising gold prices and  
falling returns on gold

welcomes the conclusion of a follow-up agreement announced in March 2004, which is basically patterned on the current agreement. The volume of sales allowed in the five-year time span covered by the agreement

has been increased from 2,000 tons to 2,500 tons. Furthermore, the United Kingdom is no longer a party to the agreement, as it does not intend to sell any gold for the time being.

# The OeNB's Proactive Role in Maintaining Financial Stability

## IMF Gives Positive Assessment of Austrian Financial Market

The IMF conducted a comprehensive assessment of the Austrian financial market under its Financial Sector Assessment Program (FSAP). The IMF and the World Bank launched the FSAP as a joint pilot project in May 1999; while initially covering 12 countries, it has been expanded gradually since then. FSAP missions are carried out by IMF and World Bank experts, supported by representatives of national and international institutions as well as authorities and other experts. A large number of countries have so far participated in this voluntary examination.

The FSAP is geared towards identifying the vulnerabilities of a country's financial system to prevent crises and to determine the priorities for developing the financial sector as well as to enhance financial system efficiency. The comprehensive assessment of the strengths and vulnerabilities of a country's financial system helps identify potential issues of concern early and gives guidance in the timely implementation of corrective measures. Fostering the dialogue with national authorities is another aim of the FSAP.

The FSAP mission in Austria focused on several core issues. Among the items on the agenda was a review of national legislation in the banking, insurance and securities sectors and, on an international scale, of legal provisions to fight terrorism and money laundering as well as to enhance transparency. The evaluation was based, inter alia, on the Core Principles for Effective Banking Supervision of the Basel Committee

on Banking Supervision (BCBS), the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS), the Objectives and Principles of Securities Regulation of the International Organization of Securities Commissions (IOSCO) and the recommendations of the Financial Action Task Force (FATF). In this context, the IMF also reviewed the financial market reforms implemented in recent years as well as the appropriateness, efficiency and effectiveness of the national supervisory regime.

To assess the resilience of the Austrian financial system to crises, the IMF, in close collaboration with the OeNB, devised and conducted a number of stress tests with the aim of assessing the systemic risk of the financial system as a whole in the case of external shocks. This assessment involved the simulation of numerous shocks, including pronounced exchange rate swings of the Japanese yen and the Swiss franc, reduced profitability of Austrian banks in the wake of an economic slowdown in Central and Eastern Europe as well as various interest rate shocks.

To facilitate the preparation and implementation of the FSAP mission in Austria, the Financial Market Committee, an interinstitutional group charged with promoting financial market cooperation in Austria, in spring 2003 established a joint FSAP secretariat,<sup>1</sup> in which one representative each of the Federal Ministry of Finance, the Financial Market Authority (FMA) and the OeNB work on an equal footing as coordinators and contact persons for all Austrian and foreign institutions involved.

IMF conducts  
FSAP mission

Analyzing the  
strengths and  
weaknesses of the  
Austrian financial  
market

<sup>1</sup> FSAP-Austria@fma.gv.at.

Preparatory work was started as early as in summer 2003 to ensure the availability of relevant data and information. Two 14-day working visits of IMF delegates to Vienna, which included many meetings with experts from the Federal Ministry of Finance, the FMA and the OeNB as well as from Austrian banks, insurance companies, interest groups and external auditors, took place in October and December 2003. At the end of the second working visit, the IMF presented a preliminary assessment report.

Preliminary FSAP  
results confirm  
stability of the  
Austrian banking  
sector

Based on their analyses, the IMF experts made several recommendations. They advocated improving the sustainability of Austrian banks' profitability, which currently largely depends on income on investment in CEE, and taking further measures

to strengthen profitability in the home market. Furthermore, the IMF recommended changes to the structure of the deposit insurance system as well as improvements in the field of corporate governance. It proposed that both banks' and borrowers' risks associated with foreign currency loans be subjected to regular monitoring also in the future. Finally, the report expressly commended the Austrian government's measures to strengthen the third pillar of retirement provision and to promote the capital market.

The FSAP mission will be concluded in the course of the IMF's annual Article IV Consultation scheduled for early May 2004. The final report including the main conclusions is due to be published in summer 2004.

#### Results of the FSAP Mission

*The preliminary results show that*

- compliance with international supervisory standards in the banking, insurance and securities sectors as well as with the standards relating to money laundering is generally very high;
- the integrated approach to financial supervision is in line with international trends and that cooperation between the FMA and the OeNB has been smooth;
- the banking sector is stable and resilient to shocks, as also confirmed by the stress tests conducted by the OeNB in collaboration with the IMF;
- the financial sector has been faring well despite the difficult economic environment; and
- the early expansion of Austrian credit institutions into Central and Eastern Europe has significantly contributed to offsetting weak profitability in the home market.

#### Initiatives to Strengthen the Financial System

The European Commission in November 2003 submitted a set of seven measures – one draft directive and six decisions – directed at extending the Lamfalussy process (originally designed for the securities sector) to the entire financial services sector, thus taking account of the Ecofin Council decision of December 2002. Based on a specific committee structure and a four-level approach, the

Restructuring  
the European financial  
architecture

Lamfalussy framework aims to reform the legislative process to facilitate swift and appropriate action in response to financial sector developments. It is envisaged that to this end the application of the codecision procedure, involving the European Council and the European Parliament, will be limited to landmark decisions. By contrast, technical implementation measures will be adopted by the European Commission and a regulatory committee (the European Banking Committee for the banking

sector) consisting of representatives of the Member States (comitology procedure).

Supervisors, including central banks, essentially fulfill an advisory function in this context, in particular through the Committee of European Banking Supervisors (CEBS). Furthermore, they are to contribute to the consistent implementation of EU directives and to the convergence of supervisory practices in the Member States as well as to foster supervisory cooperation.

The EU's Financial Services Action Plan, launched in 1999 with the aim of improving the functioning of pan-European financial markets, expired in October 2003. In the reporting period, the European Council and the European Parliament adopted five directives.<sup>2</sup> Thus, 36 of the Action Plan's 42 legislative measures were implemented on schedule. Currently under negotiation are the securities services directive, the transparency directive, the takeover directive and the 10<sup>th</sup> company law directive. In addition, the European Commission is expected to put forward draft directives on capital requirements for financial institutions (in connection with the New Basel Capital Accord – Basel II) and on the cross-border transfer of companies' registered offices (14<sup>th</sup> company law directive).

In November 2003, the European Commission established four expert groups, made up of practitioners from the banking, insurance, securities and asset management indus-

tries, to test the effectiveness and usefulness of the legislative measures implemented under the Action Plan. Their final report is scheduled to be presented in fall 2004 and will serve as a basis for further discussion.

August 2003 saw the publication of Austria's 2003–04 action plan by the Special Government Representative for the Austrian Capital Market. The objectives of this action plan – to increase both the volume traded and confidence in the Austrian capital market – are to be achieved primarily by encouraging a more highly developed capital market culture, implementing supply- and demand-side measures as well as enhancing the market infrastructure. Substantial measures to promote quality (such as the introduction of the Code of Corporate Governance), information (e.g. the establishment of the Committee for the Austrian Capital Market) and demand (like the launch of the state-subsidized personal pension plan) have already been put into effect; to create attractive investment opportunities in the home market, the focus of action envisaged for 2003–04 is on the supply side, i.e. on issues like privatization, securitization, tax incentives to strengthen the capital base of companies and to encourage public offerings as well as promoting the venture capital market.

Despite the restructuring process currently under way in financial market supervision at the national and the European level, central banks are still acknowledged to play a major role in

New Commission directives within the Financial Services Action Plan

Improving capital market culture

Central banks crucial as ever to maintaining financial stability

<sup>2</sup> Directive 2003/6/EC on insider dealing and market manipulation (market abuse); Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision; Directive 2003/48/EC on taxation of savings income in the form of interest payments; Directive 2003/51/EC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings; and Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading.

maintaining financial stability. The OeNB carries out a range of financial stability-related tasks both at the ESCB and at the national level. Apart from collecting, compiling and making available relevant data, the OeNB publishes the semiannual *Financial Stability Report* and copublishes the brochure *Austrian Financial Markets*, which provides interested readers, above all potential investors, with a concise overview of updated capital market data. Furthermore, the OeNB contributes to financial stability by organizing workshops and panel discussions on topical financial market issues (e.g. the implications of securitization on financial stability).

### **Austrian Financial Sector Posts Improved Results**

Following the difficult year 2002, the Austrian banking sector saw a recovery in 2003, which was supported by the improved economic outlook and the stock market revival in the U.S.A, Japan and the euro area.

While at the end of 2002 and in the first quarter of 2003 total assets on an unconsolidated basis had declined slightly year on year, total asset growth turned strongly positive in December 2003, reaching 5.5% year on year. Total assets on an unconsolidated basis recorded by all Austrian banks for the first time passed the EUR 600 billion mark in the third

quarter of 2003, coming to EUR 605 billion in December 2003. External business grew particularly strongly. While external liabilities increased 8.4% year on year in 2003, external assets surged 12.2% year on year. External business thus contributed almost 30% to Austrian banks' total assets.

Despite favorable financing conditions, loan growth remained subdued in late 2003. The annual growth of loans to households has stabilized at around 4% since mid-2003, which is low compared to recent years. Households seem to have adjusted their borrowing behavior to the difficult economic conditions of the past three years.

The annual growth of corporate borrowing has been negative since September 2002, but the trend has eased considerably, with the annual growth rate in December 2003 at -0.2%, compared with -2.7% in April and May 2003. This development is attributable to moderate demand by enterprises, which managed to reduce their debt and increasingly rely on internal financing. At the same time, the harmonized bank lending survey for the euro area shows that Austrian banks have remained hesitant to approve new loans. Banks expect corporate loan demand to pick up somewhat in early 2004 amid largely unchanged credit standards.

**Banks' total assets  
increase while  
loan growth  
remains subdued**



### Bank Lending Survey

In order to enhance the knowledge of financing conditions for enterprises and households, the euro area NCBs – and thus the OeNB in Austria – together with the ECB started to conduct quarterly surveys on euro area lending policies in January 2003. In this survey, 86 major banks from all euro area countries – 5 of which are from Austria – are asked to complete questionnaires. Participation is voluntary.

The questionnaire contains 18 qualitative questions on past and expected future developments regarding lending policies, including credit standards or the terms and conditions applied to approving loans to enterprises and households.

The bank lending survey thus provides a substantial, forward-looking enhancement to banks' regular reports on credit developments. Also, the survey is to facilitate a differentiated analysis of supply and demand conditions in credit markets.

The bank lending surveys conducted so far have provided some interesting findings on credit market trends. For Austria, survey results indicate that banks slightly tightened lending in the fourth quarter of 2002 and in the course of 2003. The credit institutions surveyed were particularly cautious in corporate lending, while the tightening of lending to households appeared to be somewhat less pronounced. These changes were reflected first and foremost in credit margins, especially on riskier loans, and in a slightly more circumspect credit policy as regards collateral and covenants.

The most important factor adding to caution in lending was risk assessment. The banks surveyed said that expectations regarding general economic activity, the industry or firm-specific outlook and the risk on the collateral demanded mainly impacted on their decisions.

In 2003, demand for loans to enterprises contracted less than supply. Small and medium-sized enterprises had slightly higher, large enterprises slightly lower financing needs. Demand for house purchase loans increased, whereas demand for consumer credit and other loans contracted somewhat in the last quarter of 2003.

All told, the Austrian results more or less match those for the euro area. Compared with the euro area average, the lending policy of Austrian banks was generally somewhat less restrictive. As regards corporate loans, demand was waning in the euro area, too. In retail lending, the results for Austria hardly differed from those for the euro area either.

The high volumes of foreign currency loans were the subject of an intense debate in 2003. In the first half of 2003 the OeNB published a paper on the evolution of foreign currency loans and possible risk potentials in Austria.<sup>3</sup> In collaboration with the FMA, the OeNB conducted a survey among Austrian credit institutions. In the fall of 2003, the FMA published minimum standards for approving and managing foreign currency loans and loans with repayment vehicles.

Foreign currency borrowing had declined somewhat from March 2003 in absolute euro terms and stagnated

at slightly less than EUR 44 billion at end-2003. However, since in 2003 the Swiss franc and the Japanese yen depreciated against the euro by 8% and 7% respectively, net foreign currency loans continued to expand. At the same time, the share of foreign currency loans in total loans slipped marginally to 18.4% by end-2003. As from early 2003 the volume of Japanese yen-denominated loans contracted from almost EUR 16 billion to EUR 5.3 billion, whereas Swiss franc-denominated loans expanded notably from EUR 25.6 billion to EUR 35.8 billion.

Shift in foreign  
currency loans  
towards Swiss franc

<sup>3</sup> Boss, M. 2003. *Struktur und Risiken von Fremdwährungskrediten in Österreich*. Vienna: OeNB.  
[http://www2.oenb.at/download/pdf/fremdwaehrungskredite\\_2003.pdf](http://www2.oenb.at/download/pdf/fremdwaehrungskredite_2003.pdf) (available in German only).

Rising use of  
innovative  
instruments to  
transfer credit risk

Banks in Austria have increasingly been using innovative instruments, such as credit derivatives and securitization, to transfer credit risk. A credit derivative is used to pass on credit risk without transferring ownership of the underlying assets. Securitization is the packaging of assets into tradable securities. Even though trading in these instruments is modest in terms of volume and mostly instruments with good ratings are traded, the FMA and the OeNB decided to conduct a survey among major Austrian banks.

Other financial  
intermediaries also  
benefit from stock  
market recovery

The survey showed that Austrian banks mainly buy credit risk. The credit risk instruments purchased generally have good ratings; they provide banks with the opportunity to generate additional income and to diversify their loan portfolios. The sale of credit risk continues to play a subordinate role in Austria. This is mainly due to small transaction volumes and high transaction costs as well as the specific structure of Austrian banks' loan portfolios, which is dominated by small and medium-sized borrowers, for whom the liquidity of the credit derivatives market is too low. For now, the increasing use of credit derivatives and securitization does not generate additional risks to financial stability, but the OeNB and the FMA will continue to closely monitor developments in this area.

Austrian banks'  
profitability improves

Austrian banks' unconsolidated income picked up in 2003. Operating income growth (+1.1% compared with 2002) and moderately declining operating expenses (-0.4%) drove up unconsolidated operating profits by 4.5%. The rise in operating income was primarily attributable to financial operations, i.e. proprietary trading in securities and fee-based income. Lower loan loss provisions and higher

transfers from provisions had a positive impact on Austrian banks' profitability in 2003.

The performance of subsidiaries in 13 CEECs considerably supported Austrian parent banks' business and profitability in the reporting year. The total assets of these subsidiaries rose to more than EUR 74 billion by September 2003, which equals somewhat more than 11% of Austrian banks' overall total assets. The CEE subsidiaries contributed a disproportionately high share to Austrian banks' total results, which stems mainly from higher spreads, fees, commissions and trading margins as well as the more favorable cost structure in these countries.

By the end of 2003, Austrian pension funds' assets had augmented 15.7% to EUR 9.1 billion year on year. Domestic mutual funds show a development pattern similar to that of pension funds. In 2003, the stock of assets managed by 24 Austrian investment companies increased 8.1% to EUR 111 billion; overall capital-weighted performance in this period averaged 5.5%.

Austrian insurance companies fared better in 2003, as did insurers in other European countries. Austrian insurers' assets (excluding reinsurance transactions) augmented 4.6% in the first nine months of 2003.

### **The OeNB's Active Contribution to Supervision**

The Financial Market Supervision Act adopted in 2002 not only transferred the responsibility for banking, insurance, pension fund and securities supervision from the Federal Ministry of Finance and the Austrian Securities Authority to the newly established, independent Financial Market Authority, but also enhanced the

OeNB's role in prudential supervision. Since then, the Austrian Banking Act has stipulated that it is the OeNB's responsibility to carry out on-site inspections at credit institutions with regard to market and credit risk. In 2003 the FMA regularly made use of the newly created opportunity for mutual participation in the inspections carried out by either institution. This mutual involvement reflects the good working relations between the two institutions. In fall 2003, the FMA and the OeNB adopted a joint position paper stating that based on the legal framework and fully exploiting potential synergies, avoiding overlaps and complying with the principle of transparency between the two institutions and vis-à-vis the general public, the FMA and the OeNB aim to further enhance the efficiency of their cooperation. In line with this position, the FMA and the OeNB maintain a regular and intense exchange of information within bilaterally established bodies. In addition, the Financial Market Committee, established at the Federal Ministry of Finance and made up of representatives of the three institutions jointly responsible for financial stability in Austria (Federal Ministry of Finance, FMA, OeNB), provides a forum to foster cooperation and the exchange of views.

In 2003, the OeNB was assigned to conduct on-site inspections to an increasing extent in CEECs. These inspections were carried out in accordance with the memorandums of understanding concluded with the supervisory authorities in the countries concerned. This approach accounts for Austrian banks' extensive involvement in Central and Eastern Europe. Given its legal obligations, the OeNB also handled the computer-assisted recording and process-

ing of reports for supervisory review purposes submitted by credit institutions. On the basis of these data the OeNB prepares standardized and ad hoc analyses, which it makes available to the FMA. In 2003, one of the focuses was on foreign currency risk.

The currently nine severance funds, which, according to Article 1 of the Banking Act, are credit institutions and are thus subject to reporting requirements once granted their license, also reported to the OeNB, which passed these data on to the FMA. Since March 2003 severance funds have also provided quarterly data on their compliance with the capital requirement and investment rules specified in the Company Pension Fund Act.

In particular thanks to its close operational involvement in banking and financial market supervision (e.g. through its right to be heard and expert evaluations), the OeNB was able to successfully carry out its tasks also at the Eurosystem and EU levels and deepen its international cooperation with other central banks and supervisors. The OeNB participated in the EU's Banking Advisory Committee, which had been chaired by OeNB Vice Governor Gertrude Tumpel-Gugerell until she was appointed to the Executive Board of the ECB. It also became a member of the EU's Groupe de Contact and took part in various EU working groups on preparing the implementation of the New Basel Capital Accord. The OeNB's international involvement is not only crucial for keeping up an exchange of information, analyzing international trends and further developing the supervisory framework, but also helps represent and guard Austria's interests at the international level.

Good cooperation  
between FMA  
and OeNB

Active participation  
in supervision

OeNB provides  
essential information

The OeNB continued to make available essential supervisory and financial market-related information in 2003. Among other things, it published two handbooks providing an overview and an analysis of structured financial products issued in Austria. Also, the OeNB took up work on a series of guidelines on various aspects of risk management. These guidelines are designed to support banks in implementing the New Basel Capital Accord. Furthermore, the Basel II information platform on the OeNB's website has been continually expanded and has established itself as a high-quality source of information on Basel II for the general public both in Austria and in other countries.

Basel II and the  
requirements for  
state-of-the-art  
supervision

In view of the ongoing changes in the banking sector (like the emergence of new financial products or risk management techniques) and the new challenges arising from Basel II, the OeNB launched a modernization project aimed at moving towards a more risk-sensitive supervisory approach, increasing effectiveness and efficiency, adapting to the inevitable internationalization trend and, finally, enhancing financial stability. Apart from developing processes which will be required in the future (e.g. system-supported on-site inspections, participation in IRB (internal ratings-based) approval procedures), the OeNB is bringing up to date its off-site analytical procedures (model calculations), including the necessary IT infrastructure, and providing staff training.

OeNB responsible  
for payment  
systems oversight

The OeNB was entrusted with payment systems oversight in April 2002. Article 44a of the Federal Act on the Oesterreichische National-

bank (Nationalbank Act) specifies the OeNB's mandate to oversee the systemic stability of payment systems as well as the secure participation in payment systems, and, in particular, the reporting obligations of payment systems operators and participants with regard to the measures in place to ensure legal, financial, organizational and technical systemic security.

The requirements the OeNB deems essential to ensure systemic stability are spelled out in the oversight principles. In its inspections the OeNB relies on published guidelines for obtaining information on the maintenance of secure system operation and secure participation.<sup>4</sup> The Secure Information Technology Center – Austria (A-SIT) regularly supports the OeNB by providing assistance on oversight issues in connection with organizational and technical system security.

In line with its legal mandate stipulated in Article 44a of the Nationalbank Act, the OeNB conducted a thorough review of its own payment system, ARTIS. This assessment was concluded in mid-2003 and confirmed that ARTIS complied with the highest security standards. A second payment system was also examined in 2003.

Payment system statistics are a key instrument for the OeNB to ensure the regular monitoring of developments in this area and the availability of relevant data. After a thorough consultation exercise with market participants, the OeNB concluded work on this reporting system for payment system statistics in 2003. From 2004 the OeNB has at its disposal quarterly (and, in the case

<sup>4</sup> These documents are available in German on the Internet at [http://www2.oenb.at/rel/zsa\\_p.htm](http://www2.oenb.at/rel/zsa_p.htm).

of systemically important systems, monthly) data on payment system infrastructure (including availability) and turnover.

From a central bank perspective, secure and efficient securities settlement systems are an essential prerequisite for the effective implementation of monetary policy and the smooth functioning of payment systems. A joint working group of the ESCB and the Committee of European Securities Regulators (CESR), in which the OeNB and the FMA participate, aims to establish European standards for securities clearing and settlement.

As stipulated by Article 2 paragraph 2 of the Settlement Finality Act, the OeNB is responsible for recognizing systems in accordance with the Settlement Finality Act. In carrying out this function, the OeNB on request of the Oesterreichische Kontrollbank (OeKB), verified compliance with all relevant legal requirements and recognized by notification the OeKB-operated central securities depository as well as the arrangement with Wiener Börse AG, which is operated by and established at the OeKB, with effect from December 9, 2003.

### **The OeNB as an Acknowledged Dialogue Partner in the Basel II Process**

The BCBS and the European Commission in 2003 each launched a third round of consultation on the latest proposals for a new capital adequacy framework. In cooperation with the FMA and the Federal Ministry of Finance, the OeNB initiated a broadly-based consultation with the financial industry. This exercise involved not only discussing the third

consultative papers with credit institutions but also preparing specific proposals for improvement.

In the first half of 2003, 18 Austrian credit institutions, together accounting for 37% of the Austrian banking sector's total assets, took part in the third Quantitative Impact Study (QIS 3). In close cooperation with the FMA, the OeNB supported the banks in this challenging study and discussed the key innovations incorporated in the proposals. The broad participation of Austrian banks in the QIS 3 contributed to greatly enhancing expertise in the field and provided the necessary impetus for implementing the new rules.

The QIS 3 results show that the application of advanced risk management systems pays; in other words, an effective incentive system has been created to increase the use of IRB approaches. Under the new framework, banks applying the standardized approach will have to expect an increase of the minimum regulatory capital by 6.6% (including a newly introduced capital requirement for operational risk). Under the IRB foundation approach, the minimum regulatory capital, which also covers operational risk, will be reduced by 1.8%.

The proposed rules, in particular the 75% weight for retail exposures, thus seem to take into account the business conditions of medium-sized enterprises and small and medium-sized banks much better than earlier proposals. This ensures that the new framework will not put the Austrian corporate sector with its predominance of small and medium-sized enterprises at a disadvantage.

After the conclusion of the consultation, the BCBS incorporated more than 200 submitted comments into the proposals for Basel II and, in a press release of October 11,

Contributing to enhancing securities settlement

Results of the third Quantitative Impact Study

Pushing ahead  
with the finalization  
of the new capital  
adequacy framework

2003, identified four areas of focus work which need to be finalized before adopting the New Basel Capital Accord. The new treatment of unexpected losses represents the biggest change compared with earlier proposals. The old draft had stipulated that banks were required to hold enough capital to absorb both expected and unexpected losses. The BCBS and the European Commission published a short consultative document and until the end of December 2003 collected a total of 52 comments on the updated proposals from industry representatives. Another outcome of the third consultation was that the treatment of asset securitization, which had turned out to be too complex, had to be simplified. Finally, the treatment of credit cards and the treatment of certain risk-mitigating techniques also would be revisited.

On October 13, 2003, immediately after the Basel meetings, the OeNB and the Austrian Federal Economic Chamber organized a round

table to inform high-level representatives from politics, business and finance about the new developments.

Also, the OeNB further stepped up its dialogue with banks and continued its information initiatives for borrowers, in particular small and medium-sized enterprises. In addition, to ensure that bank customers prepare for Basel II on time, the OeNB in cooperation with the Austrian Federal Economic Chamber organized a series of information events for the business community in the Austrian provinces.

The working groups of the BCBS are now incorporating the changes into the proposals and will present an updated version of the new accord at the BCBS meeting in May 2004. Thus, it is highly likely that the New Basel Capital Accord will be finalized as envisaged by mid-2004 and that the required steps for implementation at the national level, which is to be concluded by end-2006, can be taken.

# Dynamic Developments in Payment Systems, Austrians Have Become Experienced Euro Cash Users

## The OeNB Plays Leading Role in Cashless Payments

Fostering the smooth functioning of payment systems is a statutory task of the ESCB laid down in the Treaty on European Union. The OeNB provides efficient and reliable payment and settlement systems for inter-EU payments and for transactions with non-EU countries in line with the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB) and the Federal Act on the Oesterreichische Nationalbank (Nationalbank Act). Article 105 paragraph 2 of the Treaty establishing the European Community, the Statute of the ESCB and Articles 4 and 50 of the Nationalbank Act govern the core tasks of the OeNB in this area.

In March 2003, the BIS published the outcome of consultations with internationally renowned payment system experts on measures central banks could take to maintain and promote efficiency and safety in retail payments. In particular, the BIS identified four policy goals for central banks. They should:

- address legal and regulatory impediments to market development and innovation;
- foster competitive market conditions and behaviors;
- support the development of effective standards and infrastructure arrangements;
- provide central bank services in the manner most effective for the particular market.

To further these objectives, certain minimum actions are recommended as appropriate for all central banks,

e.g. that they continuously review existing processes and improve their service level. The BIS encourages central banks to step up their involvement, also as payment system operators, in cooperation with other institutions and under certain market conditions, and thus to contribute to enhancing the efficiency of payment systems.

The progress report<sup>1</sup> the ECB published in June 2003 emphasizes the role of the ESCB in paving the way for the changes required in the banking sector to create a Single Euro Payments Area (SEPA). This notwithstanding, the ESCB currently sees itself rather as an active observer and prefers to let the market forces work. If the market fails to make headway, however, the Eurosystem could assume a more active role and increase its regulatory and operational activities.

## Current Challenges for Payment Systems in Europe

The EU has stepped up its involvement in payment issues, as is reflected by a number of directives and regulations. Already in 2002, the charges levied on cash withdrawals from automated teller machines (ATMs) or credit card payments in the euro area had to be aligned with the fees charged for the same transactions within a Member State, as set forth in Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro. On July 1, 2003, the European Commission's provisions for cross-border credit transfers went into effect, stipulating that the fees charged for cross-border credit transfers not exceed those for na-

OeNB fulfills statutory task in the area of payment systems

BIS and ECB call on central banks to take an active role in retail payments

EU regulation entails reduced charges on cross-border credit transfers

<sup>1</sup> ECB. 2003. *Towards a Single Euro Payments Area – Progress Report*. Frankfurt/M.: ECB. June.

tional credit transfers, provided the value of the transfer is not in excess of EUR 12,500 (as from 2006: EUR 50,000) and the originator indicated the International Bank Account Number (IBAN) and the Bank Identifier Code (BIC). This regulation marks a milestone on the way to a SEPA. Austrian banks have implemented the provisions in a timely fashion by levying the same charges on national and cross-border credit transfers. An information campaign about the new EU regulation, one key accompanying measure, has enabled bank customers to comply with the specific requirements and thus to benefit from the reduced charges.

European banks  
support creation  
of Single Euro  
Payments Area

The structure of an efficient SEPA in the future should leave no leeway for excessively high entry and transportation costs, impediments to innovation or arbitrary technical barriers. In promoting the speedy implementation of the single market principle in respect of payments, the NCBs, in close cooperation with the commercial banks and the European Commission, took an active role in creating competitive and EU-compliant payment infrastructures. Maintaining a continuous dialogue with Austrian financial service providers and its partners within the ESCB, the OeNB has been setting the stage for moving payment systems toward a SEPA.

ARTIS cross-border  
transactions  
continue to increase

Establishing a new legal framework for payments is the next step in achieving a uniform payment area in Europe. This new framework for payments in the internal market, which was published as a consultative document, is set to become an important instrument for the integration of retail payments. The framework addresses the following objectives:

EU initiates new  
legal framework for  
payments in the  
internal market

- removing technical and legal barriers with a view to ensuring efficient and secure payment services and an adequate level of consumer protection;
- eliminating legal differences at the national level to make the internal market as efficient as the national markets;
- simplifying and standardizing the pertinent EU legislation, not least with a view to EU enlargement;
- implementing the new anti-money laundering requirements;
- strengthening the global competitiveness of the European financial market and taking account of new technological developments.

The draft of the new legal framework refers to national and cross-border retail payments that do not exceed the equivalent of EUR 50,000. The provisions are scheduled to become effective in 2004.

### **OeNB Broadens the Range of Payment Services Offered**

The Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system consists of the 15 national real-time gross settlement (RTGS) systems of the EU Member States, the ECB payment mechanism (EPM) and the Interlinking system connecting the individual TARGET components.

Both the transaction volume and the transaction value of the OeNB's RTGS system, ARTIS,<sup>2</sup> have been on a steady rise since the system went into operation. In 2003, a total of some 3.3 million payments worth about EUR 7,934 billion was processed via ARTIS. National payments accounted for about 1.9 million transactions with a value of approximately EUR 2,329 billion. Year on

<sup>2</sup> ARTIS: Austrian Real Time Interbank Settlement.



year, cross-border payments processed in ARTIS mounted by 7.7% in terms of volume and by 11.4% in terms of value.

As in previous years, the TARGET User Group served as a platform for users to communicate requirements and to familiarize themselves with the latest ARTIS developments. Providing for settlement in central bank money, TARGET has contributed significantly to reducing systemic risk and to ensuring financial stability. TARGET risk management procedures were improved and brought in line with international standards in 2003.

As the large-value payment system of the ESCB, TARGET has played a key role in furthering the integration of the euro area. To foster this integration process even more and to better meet participants' needs, on October 24, 2002, the Governing Council of the ECB took a strategic decision on the long-term strategy for a successor to TARGET. TARGET2 will provide an extensively harmonized level of services. A single TARGET-wide price structure will apply to the core service based on a benchmark RTGS system, namely the one with the lowest average cost per transaction. Besides, subsidies going beyond an acceptable public good factor will have to be phased out by the end of a four-year period after the start of TARGET2. A separate ECB task force is in charge of quantifying this public good factor. For the first three years, TARGET2 may consist of several RTGS systems and/or a single shared platform. The latter will be owned by those NCBs participating in TARGET2 that choose to discontinue operating their own RTGS system. After this three-

year period the NCBs may decide to continue operating their own system, join the single shared platform or establish a new platform with other NCBs.

On April 25, 2003, the public consultation procedure on TARGET2 came to an end. Europe's financial sector had been invited to submit opinions on the changes envisaged for TARGET2 and to propose requirements for the new system. A summary of all replies was made available on the ECB's website in July 2003. The banking industry welcomed the initiative to improve the functionality and performance of TARGET with the aim of establishing a single platform. In addition, it stressed that it wishes to be actively involved in the TARGET2 project also in the future.

The TARGET2 project consists of three phases: the preproject phase, the project phase and the testing phase. 2003 was dedicated to the preproject phase. A draft of the core features and functions offered by TARGET2 was drawn up in which the results of the public consultation were already taken into account. A common cost methodology to identify the most efficient RTGS system was developed and refined. The focus of the main project phase, which is scheduled to start in mid-2004 and to end in 2005, will be on the definition of the specifications and on the technical development work. Finally, testing and trialing, which are to take place in 2006, will be dedicated to verifying smooth communications among all components of TARGET2 and all the services as agreed with the respective service providers, including SWIFT.<sup>3</sup> To ensure that TARGET2 is also available to the new

Banking industry  
calls for a  
centralized platform  
for TARGET2

TARGET2 to offer  
harmonized  
core service

TARGET2 project  
likely to be completed  
by early 2007

<sup>3</sup> SWIFT: Society for Worldwide Interbank Financial Telecommunication.

OeNB supports  
the plans for a  
common platform  
for TARGET2

Member States, its start should coincide with the earliest possible date at which any of the new Member States can join EMU. Furthermore, following their accession to the EU, the new Member States may choose to participate in TARGET already in 2004. The OeNB is preparing for a possible start of TARGET2 at the beginning of 2007. TARGET2 will, however, only go into operation when all the platforms participating in TARGET2 offer the same core services at the same prices and when the single shared platform is available. The NCBs will remain responsible for the business relations with the credit institutions in their own country irrespective of the future structure of TARGET2 and of whether an NCB participates in the single shared platform.

In the light of the decision of October 24, 2002, of the Governing Council of the ECB on the strategy of TARGET and of the developments in the year under review, the OeNB resolved to participate in the shared platform for TARGET2. Chances are that the single shared platform will process the bulk of the TARGET2 transaction volume. For one thing, designing a centralized system for TARGET2 ties in with the requirements banks communicated in the public consultation procedure on TARGET2; for another, this move is tantamount to a clear commitment on the part of the ESCB to establishing common standards for large-value payments in euro. With its early decision to participate in the common platform, the OeNB strives to facili-

tate the ESCB's TARGET2 work streams.

The ECB and the European Commission are resolved to establish a Single Euro Payments Area. In such a SEPA, the processing of inter-Member State retail payments is to be as efficient as that of intra-Member State transactions. The European Commission's regulation on cross-border payments in euro is a first crucial step on the way towards a single payment area. As market requirements and legal framework conditions have changed, the European banking industry seeks to implement as efficient and cost-effective an infrastructure for cross-border credit transfers as national automated clearing houses (ACHs) already provide for national credit transfers. Such a system for intra-EU payments is referred to as a pan-European automated clearing house (PE-ACH). To facilitate cost-effective, efficient and secure settlement services, a PE-ACH must support straight-through processing (STP). Accordingly, payments fed into the PE-ACH must lend themselves to automated processing, i.e. they must contain all the data necessary for automated clearing to function smoothly.

With its STEP2<sup>4</sup> system, the Euro Banking Association (EBA)<sup>5</sup> provides credit institutions with the technical infrastructure for cost-effective and speedy processing of credit transfers meeting the requirements put forth in the regulation. STEP2 is the first pan-European clearing infrastructure for intra-EU payments.<sup>6</sup> Following a

<sup>4</sup> STEP: Straight-Through Euro Processing.

<sup>5</sup> In 1985, 18 commercial banks and the European Investment Bank founded the EBA, which is based in Paris. The initiative to develop and establish a pan-European payment infrastructure came from this association. As at February 2004, more than 190 institutions were registered members of the EBA. It operates the following payment systems: EURO1, STEP1 and STEP2.

<sup>6</sup> In line with Resolution 135/03 of the European Payments Council of January 10, 2003.

three-month testing period, the system went live in July 2003, coincidentally with the coming into effect of the EU regulation on cross-border payments in euro.

In line with this regulation, STEP2 processes credit transfers of up to EUR 12,500 and, as from January 2006, of up to EUR 50,000. Customers effecting intra-EU payments must indicate the beneficiary's IBAN and the BIC of the beneficiary's bank on their payment instructions to profit from the same low fees as those charged on national credit transfers. Credit institutions started to indicate the IBAN and BIC on the statements of account or in an annex thereof on July 1, 2003, thus providing customers with the IBAN and BIC information required for intra-EU payments. In addition, entrepreneurs invoicing goods and services within the EU are obliged to indicate their IBAN and their institute's BIC to foreign customers.<sup>7</sup> To date, STEP2 has processed credit transfers only. The system is scheduled to offer clearing and settlement services for additional payment instruments, such as direct debits, in the future. As at February 2004, 48 banks were direct STEP2 participants. Via these direct participants, more than 1,000 banks have access to STEP2 as indirect participants. Among the NCBs, the OeNB and the Deutsche Bundesbank play a pioneering role as direct participants of STEP2.

From the very outset, the OeNB was committed to offering all Austrian credit institutions nondiscriminatory access to STEP2. For this reason, the OeNB sought to swiftly establish itself as a payment hub for

intra-EU payments. On November 3, 2003, the OeNB's connection to STEP2 went live following a preproduction phase of a mere ten months. As a neutral partner, the OeNB now also acts as an interface for retail payments in the euro area and processes incoming and outgoing STEP2 payment orders for the participating commercial banks. More than 85% of Austria's banks make use of the STEP2 access point provided by the OeNB for their intra-EU credit transfers. In fact, the OeNB is the direct STEP2 participant serving the second largest number of indirect STEP2 participants in Europe. Furthermore, as the national entry point for Austria, the OeNB guarantees that all resident banks can be addressed via STEP2.

The Austrian financial market benefits from the OeNB's participation in STEP2 in a number of ways:

- lower costs for banks;
- improved competitiveness of the Austrian financial market via the establishment of an efficient retail payment infrastructure;
- open and fair access to STEP2 via a neutral partner that is cost-effective for all Austrian banks and that enables them to compete effectively on a global scale;
- synergy effects through the avoidance of parallel structures.

Creating such a centralized access point to the STEP2 system via the OeNB is a typical case of a public-private partnership (PPP), made possible only through the close cooperation among the OeNB, the commercial banks and the Austrian Payment Systems Services (APSS) GmbH.<sup>8</sup> Like the OeNB's cash logis-

STEP2 about to become a pan-European clearing house

Advantages of the OeNB's participation in STEP2

OeNB helps connect the Austrian financial market to STEP2

<sup>7</sup> See Article 5 paragraph 4 of EU Regulation No 2560/2001.

<sup>8</sup> APSS is operated jointly by the Austrian banks and the OeNB. Its core competence is the processing of cashless, card-based transactions.

OeNB supports  
payment orders  
with secure  
digital signature

Currency in circula-  
tion in the euro area  
expands markedly

tics arm GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA), the above-mentioned PPP bears testimony to promising collaborative models in providing an efficient Austrian payment infrastructure.

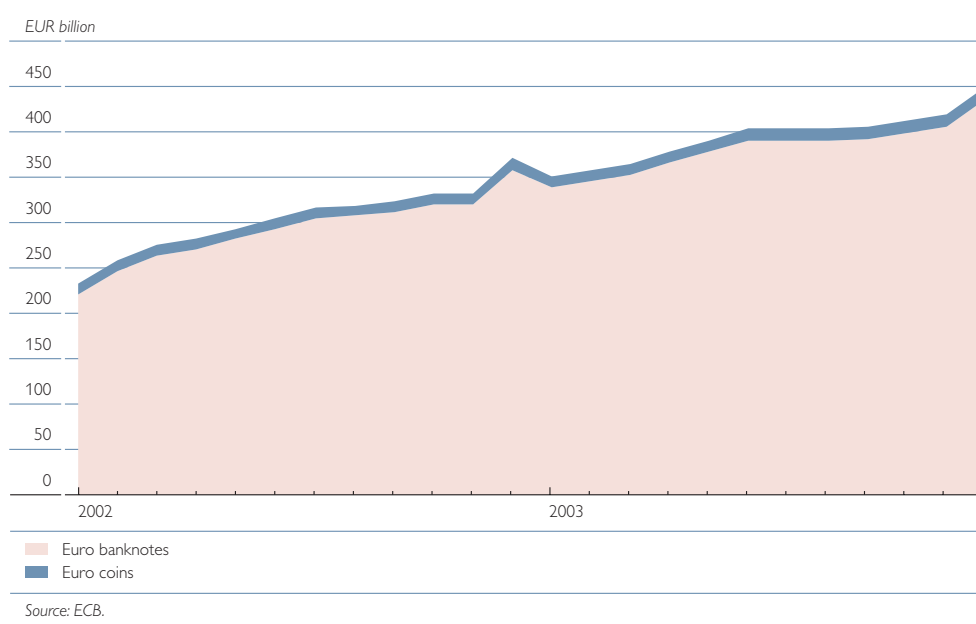
The OeNB was the first NCB within the ESCB to enable its customers to make online account inquiries and send service messages via the Internet by introducing the electronic account access feature *eKonto* in 2002, which replaced *ARTIS Online Internet*. In 2003, the OeNB added functionality for effecting payment orders online, thus introducing a genuine e-business account management solution. Holders of OeNB accounts effecting payments via the Internet use a highly secure public key infrastructure. This reference solution, applying the secure electronic signature in line with the Austrian Signature Act, is of great importance for two reasons. First, it guarantees the highest possible security standard from the current technical perspec-

tive, and, second, owing to the stringent provisions laid down in the Austrian Signature Act, it provides for a very high degree of legal certainty. The discontinuation of the Austrian Electronic Banking Communication system in 2003, which numerous financial service providers used to manage their central bank accounts, underlines the need for electronic account access. The latter may also serve as a fallback solution to SWIFT. With *eKonto*, the OeNB not only fulfills its statutory mandate, i.e. to ensure the smooth and secure functioning of payment systems, but also bears out its commitment to acting as a customer-oriented payment service provider and competent partner in payment issues.

### Ensuring Banknote Integrity

At end-2003, currency in circulation in the euro area for the first time exceeded EUR 450 billion, which corresponds to a 21.4% rise year on year.

#### Currency in Circulation in the Euro Area



### Currency in Circulation in the Euro Area -

#### Banknote Migration as a Key Characteristic

*In the past, a country's currency in circulation was an important benchmark for other indicators. Against the backdrop of the continuous increase in currency in circulation, it was, for instance, possible to properly assess growth rates for electronic payment systems or to compare the number of counterfeits detected in various countries. Determining currency in circulation was straightforward. A country's currency was calculated by subtracting the banknotes and coins returned to the central bank from those it had originally issued. The migration of currency into other countries was not substantial and thus negligible, since sooner or later most of it came back anyway. The introduction of euro banknotes and coins caused a sea change in this respect, however. The euro cash spent in Austria by tourists from other euro area countries is no longer repatriated, feeding into Austria's cash cycle instead. Studies show that already 26% of the coins and 52% of the banknotes in Austrians' pockets were originally issued in another euro area country. In particular, the number of EUR 50 and EUR 20 banknotes returned to the OeNB has already exceeded the total number of these denominations issued by the OeNB. In other words, the difference between the cash issued by and the cash returned to a central bank is no longer an appropriate indicator of the currency in circulation in the respective country. For this reason, today only the aggregate currency in circulation in the euro area is released.*

The EUR 50 banknote represents the most important denomination in Europe in terms of both volume and value, accounting for about one third of banknotes in circulation. In Austria, the situation is somewhat different. During the euro cash changeover banks decided to stock ATMs with EUR 10 and EUR 100 banknotes, by analogy to ATS 100 and ATS 1,000 notes. It became clear, however, that both consumers and retailers would appreciate if ATMs

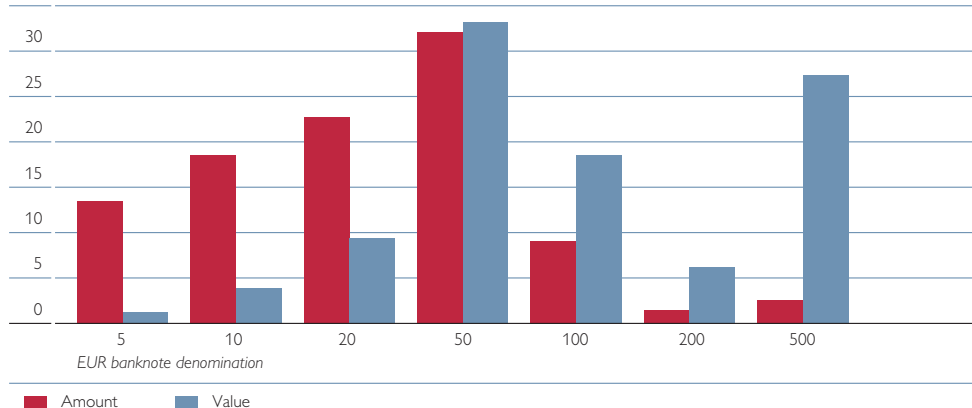
dispensed a greater diversity of banknote denominations. The OeNB responded to this request by commissioning the company operating ATMs, APSS, to reprogram the software accordingly. In the summer of 2003, the new software was tested in the ATMs operated by the OeNB, which have since then also dispensed EUR 50 banknotes. Following these successful tests, the software became available for implementation in all other ATMs, and since the fall of

More and more  
ATMs issue  
EUR 50 banknotes

### Composition of Currency in Circulation in the Euro Area

As of December 31, 2003

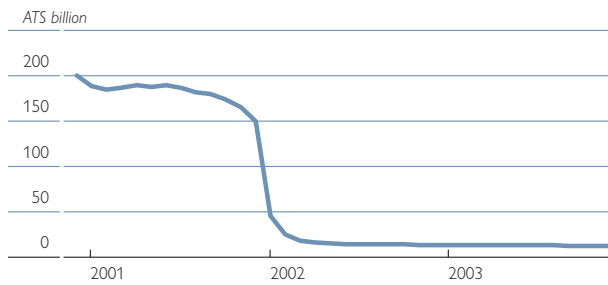
Share in %



Source: ECB.

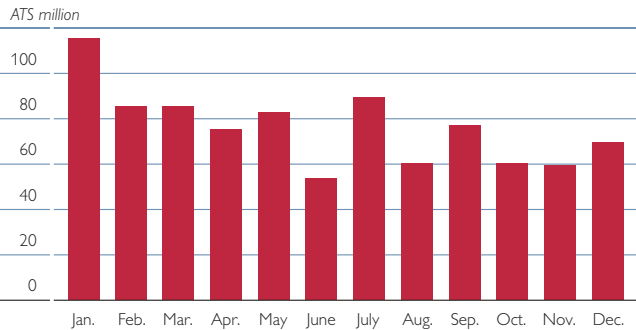
### Outstanding ATS Amounts

December 2000 to December 2003



Source: OeNB.

### Schilling Cash Return in 2003



Return of schilling banknotes continues more slowly, but steadily

Training sessions to combat counterfeiting

2003 any bank operating ATMs has been able to fill them with EUR 10, EUR 50 and EUR 100 denominations.

Many customers are still changing schilling cash free of charge into euro at the OeNB's head office and branch offices. The return of schilling banknotes was most dynamic in the months around the turn of 2001–02. Nevertheless, in 2003, ATS 910 million were changed into euro. Since the schilling banknotes and coins exchanged at the OeNB increasingly represented very low amounts, the run for the OeNB exchange counters was still strong.

The OeNB has had a keen interest in training cash handlers, including cashiers in banks and supermarkets and retailers, to familiarize them with euro cash. To this end, OeNB experts provided special training for some 5,000 external moderators under a targeted partnership program, who in turn informed another 120,000 cash handlers about the euro. The OeNB continues to offer these training sessions, in particular to retailers, to keep cash handlers current on counterfeits.

In the fall of 2003, the OeNB complemented the euro information

it offers on its website by a dedicated site for experts.<sup>9</sup> This new site, which revolves around euro banknotes and coins and targets cash handlers in banks, tax and revenue offices, in the police force and in business establishments as well as customs officers, is meant to make euro transactions even more secure. This expert site provides an already large user base with detailed information about the security features of the euro and recent counterfeits, and it also offers statistics.

While the total number of counterfeits detected in Europe rose further in 2003, the number of counterfeits identified in Austria stabilized at about the level recorded for the second half of 2002. It became evident that in 2002, Austria was the primary destination for many forgers from Eastern Europe; in the meantime, their activity has spread all over the euro area. Of all euro counterfeits, a mere 1.3% was identified in Austria in 2003.

Austria benefited considerably from the outstanding cooperation among all the institutions and individuals involved in banknote production and distribution as well as counterfeit prevention and monitoring. Owing to

<sup>9</sup> <http://bargeld.oenb.at>.

the efficient counterfeit deterrence system, which evolved from an extensive information campaign in cooperation with the Federal Ministry of the Interior and the media, 80% of the Austrian population has rated

their level of information about the security features of the euro banknotes as high or quite high. For this reason, Austria is not attractive to professional counterfeiters.

# Building Confidence through Transparency and Dialogue

## The Media – Partners in the OeNB’s External Communications

Communication is the major prerequisite for innovative action. Studies have shown that intensive external communication is a hallmark of innovative and modern enterprises. In today’s world, economic policymakers likewise need to establish and maintain good public relations to prevent the risk of isolation. Public relations require a constant flow of information and open internal and external communication channels. Transparency is, therefore, the key to success. Under this motto, the OeNB intensified its public relations activities in 2003, thus aiming to strengthen the public’s confidence in the Eurosystem’s successful monetary policy and in the single currency. In this context, the OeNB acts as the communication interface between monetary policymakers at the Eurosystem/ESCB level and Austrian policymakers, economic agents and the general public.

In the age of information, smooth cooperation with the media plays an essential role in communication policies. The OeNB has therefore drawn up a comprehensive seminar series for Austrian financial and economic journalists, inviting them to learn more about the functioning of a central bank in the course of four modules.

In many other settings, such seminars for journalists have meanwhile become common practice for successful communication policies. Moreover, they provide a perfect opportunity to explain and illustrate in greater detail the complexities of central banking and the scope of activities of a central bank – off the record and off the beaten track of

headline-hunting. The different modules, which deal with specific tasks and business areas of the OeNB, shall be offered at regular intervals to provide a growing number of financial and economic journalists with deeper insights into central banking.

In direct cooperation with the Austrian Broadcasting Corporation (ORF) and a number of print media, the OeNB specifically informed the public about the security features of the euro and worked toward raising euro value awareness. For example, the OeNB initiated a *New Year’s Eve Quiz (Silvesterquiz)* in cooperation with the ORF that enabled it to reach around 20 million people over the period from December 20 to 31, 2003. Even though the euro cash changeover took place some time ago, some Austrians have still not become fully accustomed to the single currency. The process of becoming used to the euro is likely to take longer than expected. For this reason, the OeNB continued its *Eurotour* in 2003 to keep in touch with Austrian citizens, offering them a convenient additional opportunity to exchange their schilling cash holdings directly at the *Eurotour* bus instead of having to visit the OeNB head or branch offices, and continuously providing information on the security features of the euro. The 2003 *Eurotour* through Austria was a success, meeting with great public interest at each of the 62 locations at which the OeNB’s *Eurotour* bus stopped. While around 30,000 Austrians participated in the anti-counterfeiting training sessions provided during the *Eurotour*, close to 20,000 seized the opportunity to exchange their remaining schilling stocks into euro.

Openness as the basis for confidence

Information programs for journalists as a step toward increasing transparency

Targeted information about the euro supports anti-counterfeiting measures



## Versatile Communication Policy Tools Foster Public Dialogue

By making use of a wide range of communication tools, the OeNB specifically aimed at further strengthening its public relations activities in 2003. Apart from the above-mentioned information programs for financial and economic journalists, the OeNB hosted numerous other events, such as conferences, meetings and workshops. All in all, 281 events were organized in 2003, drawing approximately 15,000 participants. With its high-level meetings, the OeNB provides a platform for the dialogue between policymakers and economic agents, thus promoting and supporting the continued exchange of opinions and research results. On the occasion of the first anniversary of the end of the dual circulation period, on February 28, 2003, the OeNB and its branch offices organized an open house, entitled Euro Day, dedicated explicitly to euro safety features and euro value awareness. This event attracted 3,000 participants to the OeNB head office in Vienna alone, while an additional 7,000 visitors stopped by at the OeNB branch offices. At the same time, the broad and diversified program offered at this open house also provided detailed information on the New Basel Capital Accord (Basel II) and on the new data collection method for balance of payments statistics (*Zahlungsbilanz Neu*).

Apart from restructuring a number of communication tools – such as the school information kit or the quarterly publication *Focus on Austria*, which is to be reissued as *Monetary Policy & the Economy* – the OeNB published more than 160 press re-

leases on various institutional, economics and statistics topics in 2003. Moreover, the OeNB held a total of 26 press conferences, attracting about 700 representatives of both the Austrian and international media.

At the regional level, the OeNB's public relations activities were supported by its regional branch offices, which represented the OeNB at fairs and exhibitions and organized lectures, cash handling training courses, press interviews and information events.

Of course, domestic policymakers are also important partners in the OeNB's dialogue with the public. At regular intervals, the Governor and Vice Governor of the OeNB report to the finance committee of the lower chamber of the Austrian parliament on the Eurosystem's current economic and, in particular, monetary policy situation.

In the run-up to the euro cash changeover, the OeNB established a call center to handle general questions falling under the scope of the OeNB's activities. In 2003, the call center answered more than 27,000 questions (around 5,000 of which by e-mail); a trend toward more complex questions was identified.

Given the strong demand of the expert public, a statistics hotline was established to deal specifically with statistical inquiries of all kinds. Questions in this area focused in particular on interest rates, banking and the balance of payments. Altogether, the statistics hotline answered over 1,500 questions in 2003.

Moreover, information provided on the OeNB's website at [www.oenb.at](http://www.oenb.at) was accessed or downloaded around 61 million times in 2003.

The survey results presented in a study by an opinion research institute confirm the effectiveness of these

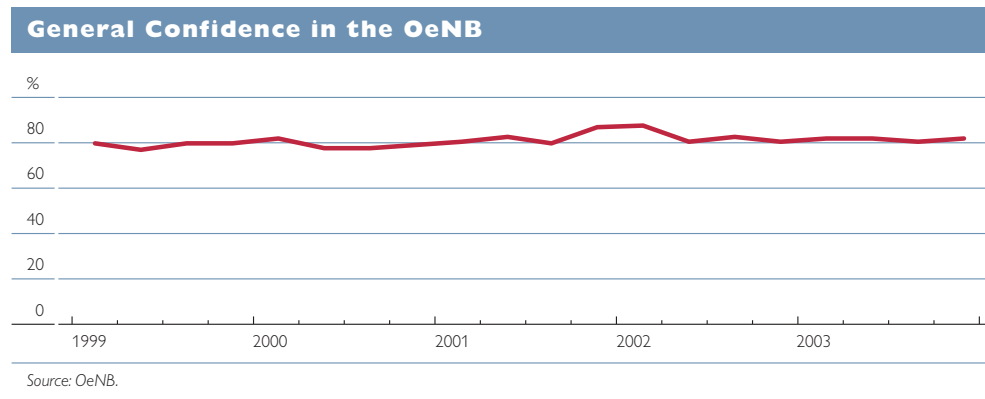
A variety of  
communication tools  
helps guarantee  
dialogue and the  
exchange of opinions

Branch offices  
serve as regional  
information centers

Dialogue with  
policymakers

OeNB hotlines –  
keeping the Austrians  
well informed

information tools: the Austrians' general confidence in the OeNB continues to remain at a high level.



# Efficient Customer-Oriented Corporate Governance

## The OeNB's Tasks and Strategic Development

As a national central bank participating in the ESCB and the Eurosystem, the OeNB plays an active role in designing and implementing the single

monetary policy in the euro area. Moreover, the OeNB performs numerous other functions which are, in particular, aimed at securing financial stability and strengthening Austria as a financial market.

### The OeNB's Tasks: An Overview

- Participation of the OeNB's governor in the Governing Council and in the General Council of the ECB;
- Representation in a wide range of Eurosystem, ESCB and EU bodies;
- Macroeconomic research and analysis, especially as input for the monetary policy decisions of the Governing Council of the ECB;
- Interface between the Eurosystem, Austrian economic policymakers and the general public;
- Provision of meaningful, high-quality statistics (above all monetary, balance of payments, interest rate and prudential statistics);
- Conduct of monetary policy operations with Austrian banks;
- Participation in Eurosystem foreign exchange interventions;
- Management of the OeNB's own reserve assets and of the reserves transferred to the ECB;
- Conduct of minimum reserve operations and monitoring of minimum reserve holdings of Austrian banks;
- Operation and promotion of reliable domestic and cross-border payment systems (ARTIS, TARGET);
- Provision of cash to Austrian businesses and consumers;
- Risk analysis of financial markets and banks;
- Participation in the prudential supervision of Austrian banks and payment system oversight to secure financial stability;
- International monetary policy cooperation and participation in international financial institutions.

With a view to being better positioned to assume a formative role in the Eurosystem, the OeNB has defined key activities in line with the objectives arising from its mission statement and its strategic orientation.

The use of modern strategic management tools has contributed fundamentally to the fulfillment of the OeNB's mandate, which focuses in

particular on maintaining stability and on further improving customer orientation, for example by structuring the OeNB's range of services around defined products and by implementing the necessary framework for managing the product portfolio.

Representing the OeNB in international organizations and bodies, OeNB staff members contribute valuable technical expertise.

Purpose-oriented  
strategic process

International  
cooperation

## **The OeNB as a Member of International Organizations and as a Partner in International Dialogue**

### **European System of Central Banks and Eurosystem**

The OeNB is an integral part of the ESCB and the Eurosystem. In his capacity as a member of the Governing Council of the ECB, the governor of the OeNB actively takes part in the monetary policy and technical decision-making process in this forum. Representing the OeNB in the committees of the Eurosystem and in numerous working groups, OeNB staff is involved in the preparation of Governing Council decisions; furthermore, OeNB experts provide position papers on, and analyses of, macroeconomic, international and institutional issues.

### **European Union**

Together with the governors of the other EU central banks, the governor of the OeNB takes part in the informal meetings of the EU finance ministers to discuss strategically important EU financial and economic policy issues.

Following the reform of the working methods of the Economic and Financial Committee (EFC), which aimed at maintaining the EFC's functionality in an enlarged EU, the OeNB now participates in six EFC meetings per year. Moreover, the OeNB is involved in the work of the EFC Working Group on IMF and Related Matters and in the Economic Policy Committee. These EU bodies are, in particular, responsible for the preparation of the Council meetings of the EU economic and finance ministers. The OeNB's representative office in Brussels considerably facilitates and accelerates the exchange of information between the EU and the OeNB as well as the coordination of positions on economic policy issues.

Within the new committee structure according to the Lamfalussy model, the OeNB is now represented in the newly established Committee of European Banking Supervisors (CEBS). This committee is the most important advisory body of the European Commission in banking supervision.

In the run-up to EU enlargement, OeNB representatives participated in the macroeconomic dialogue with the new Member States, which addressed above all economic and fiscal policy issues.

### **Bank for International Settlements**

The governor of the OeNB takes part in the meetings of central bank governors at the BIS, which serve as a forum for the exchange of information and views on monetary, exchange rate and financial policy issues.

OeNB representatives contribute to various BIS working groups (e.g. on technical cooperation with the transition economies and on statistics).

### **Organisation for Economic Co-operation and Development**

OeNB staff is actively involved in the work of various OECD committees, including the Economic Policy Committee, the Committee on Financial Markets and the country review committees. In this context, the OeNB's representative office in Paris has a particularly important role to play. Since 2002, the OeNB has chaired the Committee on Capital Movements and Invisible Transactions. Moreover, the OeNB participates in the meetings of the country review committees and thus supports the OECD in its important function of giving economic policy advice to its member countries.

### **International Monetary Fund**

The governor of the OeNB represents Austria on the IMF Board of Governors. In this capacity, he takes part in the Spring and Annual Meetings of the IMF, which are dedicated, above all, to a review of global economic developments as well as of measures and instruments to enhance the prevention and management of international financial crises.

### **The OeNB as a Platform for an International Exchange of Views**

The OeNB also acts as a platform for the international exchange of views and information on economic, monetary and financial policy issues between central bankers, economic policymakers, financial market players and university researchers, with a special focus on EU enlargement.

In this capacity, the OeNB organized several conferences and seminars in 2003, e.g. the Economics Conference on "Fostering Economic Growth in Europe," the East-West Conference entitled "The Economic Potential of a Larger Europe – Keys to Success" and a seminar on "The European Convention on the Future of Europe – Implications for Economic and Monetary Union."

## Continued Optimization of Organizational Processes

By continuously refining its business management tools and initiating innovative projects, the OeNB is able to fulfill its tasks in a professional manner while using its resources sparingly. As a case in point, activity-based costing was further expanded with a view to raising cost consciousness and transparency.

A series of projects provided a response to changing framework conditions. The project *Zahlungsbilanz Neu*, for example, which led to a new approach to balance of payments (BOP) statistics for Austria, set the legal and technical framework for replacing the existing data collection system underlying the Austrian BOP (based on banks' regular reports) by a direct reporting system (based on reports by enterprises themselves). The new approach takes into account both existing and foreseeable legal and content requirements defined at the international level by the ECB and Eurostat with regard to BOP statistics and the international investment position. To utilize synergies in data collection, the OeNB intends to expand the existing cooperation agreement with Statistics Austria.

The project *Elektronischer Akt*, which promoted the introduction of an electronic filing system, is intended to further improve efficiency, while the implementation of a number of new e-business applications is expected to improve communication with the public in specific areas of interest.

In the field of accounting, further measures were taken to optimize the workflow, comprising, inter alia, the implementation of a database for controlling and benchmarking, an integrated planning tool and a procurement information system.

The OeNB employs a network-oriented, flexible and easily adaptable infrastructure designed to meet the requirements of the financial services sector, which – given its strong reliance on technology – is subject to ongoing technical adjustments. Continued revision and refinement of security features help maintain a reliable and flexible infrastructure which is open for innovative future solutions arising from the OeNB's cooperation with its customers and partners.

For example, the OeNB was the first central bank in the world to successfully complete the transition to the new SWIFT technology (SWIFT-Net FIN migration),<sup>1</sup> which facilitates a highly secure, interactive – and thus faster – settlement of e-business payment transactions.

The OeNB is working on a relaunch of its website on the basis of a state-of-the-art content management system. The web application *eKonto*, which replaced *ARTIS Online Internet*, already provides banks with easy access to the ARTIS payment and settlement system, while the product *eTender* was implemented to offer commercial banks an Internet-based solution for the electronic handling of tender operations.

The OeNB's staff may choose between various working time arrangements. In 2003, further progress was

Further strategic  
IT developments

Optimizing internal  
processes and  
organization

More flexible working  
time arrangements

<sup>1</sup> Migration via SIPN (SWIFT Secure Internet Protocol Network) from the outdated X.25 technology to SWIFTNet services (also referred to as the single window concept) became inevitable to cope with more demanding requirements and rising transaction volumes.

Economically sound  
high-level services

made in enhancing the flexibility of these arrangements. Thus, a part-time scheme was designed for staff members on leave, giving them the opportunity to remain integrated in the active working process by performing 20% or 30%, respectively, of full-time working hours. In addition, the OeNB devised a teleworking scheme, which was tested in 2003, and introduced a sabbatical scheme, which made the OeNB a pioneer among central banks.

Eco-Management  
and Audit Scheme

In 2003, the OeNB's branch offices also reached compliance with the European environmental standards according to the Eco-Management and Audit Scheme (EMAS). The OeNB has thus successfully secured its top position among European central banks in terms of environmental protection.

### Reorganization of OeNB Branch Offices

Support of central  
banking functions at  
the regional level

At the regional level, the OeNB's branch offices are in charge of numerous tasks and central banking functions, ranging from public relations, holding cash reserves, handling cash, providing information on payment instruments, supporting financial market supervision activities and providing business analyses to carrying out payment transactions, observing the local economy and statistical reporting.

Moreover, the branch offices played a crucial role during the euro cash changeover. The positive public response to the OeNB's performance in the cash changeover was essentially attributable to the public relations activities of its branches. Following the period from 2000 to 2002, which was characterized by major adjustments – in particular the large-scale transfer of cash processing activities

to the cash services company GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA) and the euro cash changeover – the OeNB's branch offices gradually returned to regular business in the course of 2003.

Given the currently strong tendencies toward centralization in cash handling, the OeNB decided – in line with its corporate strategy, which is geared toward higher efficiency and effectiveness – to restructure its branch offices as of March 2004. In the future, the OeNB will fulfill its responsibilities on the basis of a decentralized, transregional approach comprising four larger geographical areas (northern, eastern, southern and western Austria). The definition of these areas does not follow the political borders between the individual Austrian provinces, but takes market concentration requirements and specific catchment areas into account. While providing for greater economic efficiency by pooling individual functions, the new transregional model will help maintain the high level of services rendered at the regional level. At some locations, the GSA will take over cash handling functions.

The new structure entails organizational changes for the current eight branch offices, which are to be implemented gradually.

In this process, all branch offices will be dissolved, reorganized and re-established as follows:

- *Southern Austria* branch office, located in Graz, with a representative office in Klagenfurt;
- *Northern Austria* branch office, located in Linz, with a representative office in Salzburg;
- *Western Austria* branch office, located in Innsbruck;

- The OeNB head office in Vienna will provide services for *eastern Austria*.

With a view to maintaining high-quality customer services, the scope of the *Eurotour* bus, which was first employed during the euro cash changeover, is to be expanded to create a mobile branch office that will reach out to the Austrian citizens. While up to now, the major functions of the *Eurotour* bus comprised the exchange of schilling cash into euro and providing information on the euro's security features, the new concept includes public relations and information activities with regard to other key issues of central banking; it will be implemented step by step and is to be completed by end-2005.

## The OeNB's Subsidiaries in Payment Systems Services

The OeNB relies substantially on subsidiaries and different types of cooperation to fulfill its tasks in the segment of payment instruments (cash and cashless payments) efficiently and in a manner close to the market.

In the cash segment, Münze Österreich AG (the Austrian Mint) and Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS, the Austrian Banknote and Security Printing Works) are primarily in charge of cash production, while cash processing and the logistics of cash supply are the responsibilities of the cash services company GSA.

The OeNB's Eurotour bus – keeping in touch with citizens

Efficient handling of OeNB responsibilities via subsidiaries

### The OeNB's Payment Instruments Cluster

#### Cash

##### Cash production

###### Münze Österreich AG

- minting, distribution and withdrawal of divisional and negotiable coins
- production and sale of items made of noble and other metals
- engineering and consulting services

###### Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS)

- banknote and security printing
- print product business
- research and development services



##### Cash processing

###### GELDSERVICE AUSTRIA

###### Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA)

- cash processing
- supply of banknotes and coins
- logistics

#### Cashless payments

##### Production of payment instruments

###### AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m. b. H.

- production and sale of credit cards, card systems and relating forms as well as of machinery for the production and use of card systems
- production and sale of ID systems



##### Provision of infrastructure and reliable services

###### Austrian Payment Systems Services (APSS) GmbH

- establishment and development of ATM and POS terminal services
- IT services

###### A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH

- certification services in the area of electronic signatures

###### Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H.

- research association for the development of concepts and measures to reduce credit institutions' payment transaction costs

Research promotion

In the cashless payments segment, AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H. is the premier manufacturer of high-security chip cards. The key tasks of the Austrian Payment Systems Services (APSS) GmbH, of the A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH and the Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H., in which the OeNB has minority holdings, comprise providing a secure payment system infrastructure and reliable financial services. The OeNB holds shares in these future-oriented enterprises as a neutral partner of the Austrian banking system.

By increasing the security of payment systems, improving product quality and reducing the overall costs of the Austrian financial market, these enterprises make a major contribution to economic performance in Austria. The overall benefit for both the OeNB and its subsidiaries is further enhanced by synergy effects. Against this background, the intercompany transfer pricing system in place within the OeNB group was refined in the 2003 financial year.

OeNB subsidiaries  
adjust to meet  
new range of tasks

The OeNB's subsidiaries had been integrated to a large extent in the overall framework of the euro cash changeover and successfully performed their respective tasks. The 2003 financial year was the first standard financial year since the cash changeover. Taking this fact into account, Münze Österreich AG, the OeBS and the GSA adjusted their capacities and strategies and reoriented their business activities accordingly. At the same time, the trend toward increasing internationalization, in particular EU enlargement, presents the OeNB's subsidiaries with both a new

challenge and a chance to succeed in an enlarged market.

**The OeNB Promotes  
Science, Research and  
Culture**

Since its foundation in 1966, the OeNB's *Anniversary Fund for the Promotion of Scientific Research and Teaching* has provided EUR 636 million for scientific projects in basic and applied research. The OeNB Anniversary Fund has thus become an indispensable source of funding for Austrian science and research. In 2003 the OeNB again earmarked the lion's share of its net profit, EUR 70 million, for research promotion.

Thereof, about EUR 62 million were allocated to economics-oriented research projects in 2003, including above all 120 projects funded via the Austrian Industrial Research Promotion Fund (Forschungsförderungsfonds für die gewerbliche Wirtschaft – FFF) and the Austrian Science Fund (Fonds zur Förderung der wirtschaftlichen Forschung – FWF). In addition, the OeNB's Anniversary Fund provided funding for six laboratories of the Christian Doppler Research Society (Christian-Doppler-Forschungsgesellschaft – CDG), six payment systems and instruments research projects and the research center for integrated sensor systems. In addition, it covered the costs of the second research year of the Austrian Academy of Sciences' Institute of Molecular Biotechnology (Institut für Molekulare Biotechnologie GmbH – IMBA). All in all, the fund served to finance 134 economics-oriented research projects. Furthermore, three economic research institutes (IHS, WIFO and WIIW) rely on the OeNB for basic funding.



The OeNB directly granted funds to the tune of some EUR 12.6 billion for 219 research projects in economics, medicine, social sciences and the humanities, with an emphasis on reinforcing the promotion of economic science projects. At regular intervals, selected project results are presented to an expert public via the platform *Forum Jubiläumsfonds*.

With these funding activities, the OeNB has contributed significantly to the promotion of innovation and technological development as well as the improvement of Austria's appeal as a business location and the international competitiveness of the Austrian economy.

Under the Austrian federal government's plan to reorganize research promotion, the National Foundation for Research, Technology and Development (Nationalstiftung für Forschung, Technologie und Entwicklung) was established through the adoption of a federal act on December 30, 2003.<sup>2</sup> The National Foundation aims at promoting research, technology and development in Austria, in particular interdisciplinary research activities that generate long-term benefits.

In implementing the provisions of the Act on the Establishment of the National Foundation, the extraordinary General Meeting of December 11, 2003, decided to release EUR 955 million from the *general reserve fund* and EUR 545 million from the *freely disposable reserve fund* and to transfer these amounts retroactively as of January 1, 2003, to the OeNB *Anniversary Fund for the Promotion of Scientific Research and Teaching*, which is shown among the OeNB's reserves on its balance sheet. The OeNB has earmarked the total of

EUR 1.5 billion as a separate account of the OeNB Anniversary Fund investments and will henceforth transfer the annual income from investing this sum up to an amount of EUR 75 million to the National Foundation for Research, Technology and Development. The law establishing the National Foundation gives the OeNB a say in the allocation of the grants by making the OeNB's governor a member of the National Foundation board.

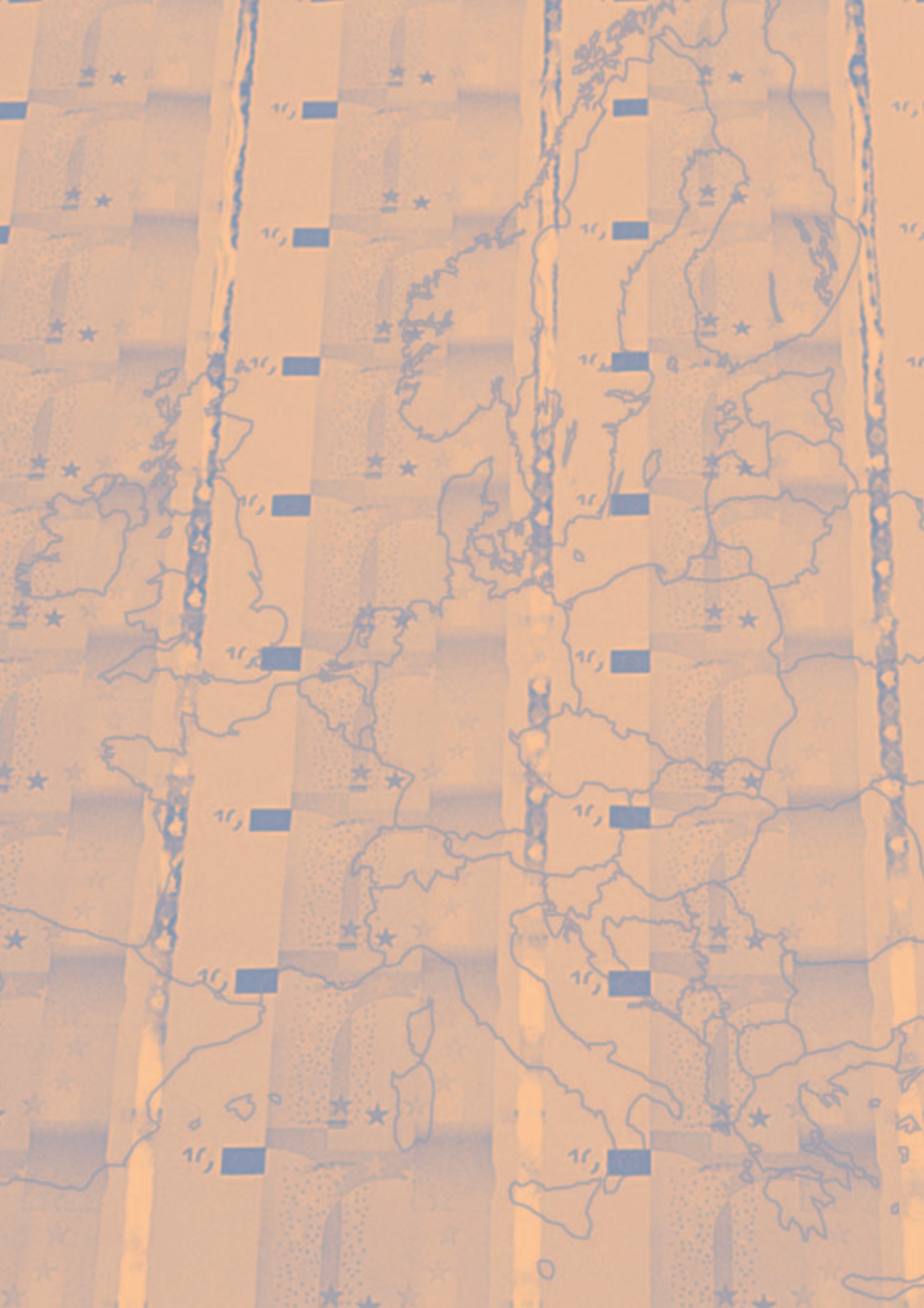
The avenue through which the OeNB has promoted economics-oriented research since 1982 (totaling approximately EUR 476 million) was closed with the establishment of the National Foundation for Research, Technology and Development. Yet the recently established structure opened a new avenue through which the OeNB may significantly contribute to the promotion of research, technology and development. As the funding of the OeNB Anniversary Fund does not depend on the OeNB's net profit, the new model ensures a steady flow of research funds.

Like many other Austrian companies, the OeNB puts a particular emphasis on promoting *cultural activities*. Its collection of valuable old string instruments currently comprises 29 instruments, which are on loan to rising Austrian violin stars and Austrian chamber music ensembles and orchestras. The OeNB has a mission to make this collection accessible to the public. To this end, the OeNB organized the second "Stradivari & Co" concert cycle at RadioKulturhaus in cooperation with the Austrian Broadcasting Corporation. The website <http://geldkunstraum.oenb.at> provides a comprehensive description of the OeNB's art collection.

National Foundation  
for Research,  
Technology and  
Development

Promotion of  
cultural activities

<sup>2</sup> Federal Law Gazette I No. 133/2003.





Financial Statements  
of the Oesterreichische Nationalbank  
for the Year 2003

# Balance Sheet

## as at December 31, 2003

### Assets

	December 31, 2003		December 31, 2002
	EUR		EUR
<b>1 Gold and gold receivables</b>	3,372,242,953.48		3,336,169,087.69
<b>2 Claims on non-euro area residents denominated in foreign currency</b>	6,535,718,790.90		8,964,563,163.—
2.1 Receivables from the IMF	1,003,176,673.28	998,506,293.06	
2.2 Balances with banks and security investments, external loans and other external assets	5,532,542,117.62	7,966,056,869.94	
<b>3 Claims on euro area residents denominated in foreign currency</b>	876,766,003.17		788,121,132.87
<b>4 Claims on non-euro area residents denominated in euro</b>	827,413,460.35		1,268,490,067.32
4.1 Balances with banks, security investments and loans	827,413,460.35	1,268,490,067.32	
4.2 Claims arising from the credit facility under ERM II	—	—	
<b>5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	2,896,906,773.—		2,851,119,297.—
5.1 Main refinancing operations	2,414,278,263.—	2,679,245,467.—	
5.2 Longer-term refinancing operations	482,628,510.—	171,873,830.—	
5.3 Fine-tuning reverse operations	—	—	
5.4 Structural reverse operations	—	—	
5.5 Marginal lending facility	—	—	
5.6 Credits related to margin calls	—	—	
<b>6 Other claims on euro area credit institutions denominated in euro</b>	108,785.47		81,554.11
<b>7 Securities of euro area residents denominated in euro</b>	1,862,961,571.09		2,015,082,547.10
<b>8 General government debt denominated in euro</b>	368,843,680.31		351,366,342.42
<b>9 Intra-Eurosystem claims</b>	2,829,032,357.67		4,175,873,646.22
9.1 Participating interest in ECB	117,970,000.—	117,970,000.—	
9.2 Claims equivalent to the transfer of foreign reserves	1,179,700,000.—	1,179,700,000.—	
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates <sup>1</sup>	×	×	
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	—	—	
9.5 Other claims within the Eurosystem (net)	1,531,362,357.67	2,878,203,646.22	
<b>10 Items in course of settlement</b>	88,458,230.92		86,106,011.07
<b>11 Other assets</b>	9,614,454,782.05		9,836,252,296.47
11.1 Coins of euro area	265,217,658.85	345,879,860.37	
11.2 Tangible and intangible fixed assets	158,410,572.90	146,872,313.85	
11.3 Other financial assets	7,843,816,244.29	7,316,249,229.68	
11.4 Off-balance-sheet instruments' revaluation differences	9,282,874.57	12,065,471.25	
11.5 Accruals and prepaid expenditure	300,090,443.66	325,957,680.22	
11.6 Sundry	1,037,636,987.78	1,689,227,741.10	
	<u>29,272,907,388.41</u>		<u>33,673,225,145.27</u>

<sup>1</sup> Only an ECB balance sheet item.

## Liabilities

	December 31, 2003 EUR	December 31, 2002 EUR
<b>1 Banknotes in circulation</b>	11,691,232,000.—	10,237,504,457.54
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	4,255,393,088.81	3,541,818,388.57
2.1 Current accounts (covering the minimum reserve system)	4,254,943,088.81	3,541,468,388.57
2.2 Deposit facility	450,000.—	350,000.—
2.3 Fixed-term deposits	—	—
2.4 Fine-tuning reverse operations	—	—
2.5 Deposits related to margin calls	—	—
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>	—	—
<b>4 Debt certificates issued<sup>1</sup></b>	x	x
<b>5 Liabilities to other euro area residents denominated in euro</b>	18,485,317.36	32,894,322.56
5.1 General government	16,669,332.60	10,666,110.91
5.2 Other liabilities	1,815,984.76	22,228,211.65
<b>6 Liabilities to non-euro area residents denominated in euro</b>	2,377,747.85	1,731,293.20
<b>7 Liabilities to euro area residents denominated in foreign currency</b>	76,491,601.88	92,137,718.11
<b>8 Liabilities to non-euro area residents denominated in foreign currency</b>	372,099,005.07	583,590,178.92
8.1 Deposits, balances and other liabilities	372,099,005.07	583,590,178.92
8.2 Liabilities arising from the credit facility under ERM II	—	—
<b>9 Counterpart of Special Drawing Rights allocated by the IMF</b>	210,915,010.—	232,096,033.50
<b>10 Intra-Eurosystem liabilities</b>	3,063,716,155.—	7,403,756,720.—
10.1 Liabilities equivalent to the transfer of foreign reserves <sup>1</sup>	x	x
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	—	—
10.3 Net liabilities related to allocation of euro banknotes within the Eurosystem	3,063,716,155.—	7,403,756,720.—
10.4 Other liabilities within the Eurosystem (net)	—	—
<b>11 Items in course of settlement</b>	7,326,392.62	85,345,638.01
<b>12 Other liabilities</b>	785,886,706.52	1,405,665,367.63
12.1 Off-balance-sheet instruments' revaluation differences	4,108,930.56	13,921,305.80
12.2 Accruals and income collected in advance	33,281,888.71	206,904,633.25
12.3 Sundry	748,495,887.25	1,184,839,428.58
<b>13 Provisions</b>	2,159,747,078.41	2,295,146,397.91
<b>14 Revaluation accounts</b>	2,369,447,875.54	3,448,891,071.01
<b>15 Capital and reserves</b>	4,212,581,524.28	4,212,554,582.22
15.1 Capital	12,000,000.—	12,000,000.—
15.2 Reserves	4,200,581,524.28	4,200,554,582.22
<b>16 Profit for the year</b> (of which profit brought forward in 2003: EUR 177,761.25 ) (of which profit brought forward in 2002: EUR 118,388.57)	47,207,885.07	100,092,976.09
	<u>29,272,907,388.41</u>	<u>33,673,225,145.27</u>

<sup>1</sup> Only an ECB balance sheet item.

# Profit and Loss Account for the Year 2003

	Financial year 2003 EUR	Financial year 2002 EUR
1.1 Interest income	737,663,078.36	1,024,920,983.44
1.2 Interest expense	-270,576,156.83	-430,736,433.01
<b>1 Net interest income</b>	<b>467,086,921.53</b>	<b>594,184,550.43</b>
2.1 Realized gains/losses arising from financial operations	317,282,184.04	863,199,704.61
2.2 Writedowns on financial assets and positions	-698,963,294.91	-139,989,135.82
2.3 Transfer to/from provisions for foreign exchange and price risks	726,445,196.43	125,471,349.28
<b>2 Net result of financial operations, writedowns and risk provisions</b>	<b>344,764,085.56</b>	<b>848,681,918.07</b>
3.1 Fees and commissions income	2,398,562.96	1,713,055.22
3.2 Fees and commissions expense	-2,148,589.65	-2,097,981.23
<b>3 Net income from fees and commissions</b>	<b>249,973.31</b>	<b>-384,926.01</b>
4 Income from equity shares and participating interests	100,663,842.13	242,848,036.33
5 Net result of pooling of monetary income	11,119,729.18	199,010.51
6.1 Income from the release of reserves		
General reserve fund	955,000,000.—	
Freely disposable reserve fund	545,000,000.—	
	1,500,000,000.—	
Expense in connection with the appropriation to the OeNB Anniversary Fund for the endowment of the National Foundation for Research, Technology and Development	-1,500,000,000.—	
6.2 Other income – other	8,120,102.87	84,483,298.22
<b>6 Other income</b>	<b>8,120,102.87</b>	<b>84,483,298.22</b>
<b>Total net income</b>	<b>932,004,654.58</b>	<b>1,770,011,887.55</b>
7 Staff cost	-98,084,228.08	-98,103,441.50
8 Administrative expenses	-94,048,735.46	-100,158,690.79
9 Depreciation of tangible and intangible fixed assets	-13,902,434.67	-21,882,518.83
10 Banknote production services	-11,314,432.50	-33,042,822.48
11 Other expenses	-2,077,190.19	-2,057,936.33
<b>Total expenses</b>	<b>-219,427,020.90</b>	<b>-255,245,409.93</b>
	712,577,633.68	1,514,766,477.62
12 Corporate income tax	-242,276,395.45	-515,020,602.39
	470,301,238.23	999,745,875.23
13 Central government's share of profit	-423,271,114.41	-899,771,287.71
14.1 Net income	47,030,123.82	99,974,587.52
14.2 Profit brought forward	177,761.25	118,388.57
<b>14 Profit for the year</b>	<b>47,207,885.07</b>	<b>100,092,976.09</b>

# Notes to the Financial Statements 2003

## General Notes to the Financial Statements

### Accounting Fundamentals and Legal Framework

The OeNB is committed (pursuant to Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 60/1998 – Nationalbank Act) to prepare its balance sheet and its profit and loss account in conformity with the policies established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB). These policies are laid down in the Guideline of the European Central Bank of 5 December 2002 (the Accounting Guideline).<sup>1</sup> The OeNB's financial statements for the year 2003 were prepared fully in line with the provisions set forth in the Accounting Guideline. In cases not covered by this guideline, the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence of the Nationalbank Act were applied.

The other Nationalbank Act provisions that govern the OeNB's financial statements (Articles 67 through 69 and Article 72 paragraph 1 of the Nationalbank Act) as well as the relevant provisions of the Commercial Code as amended remained unchanged from the previous year. In

accordance with Article 67 paragraph 3 of the Nationalbank Act, the OeNB continued to be exempt in 2003 from preparing consolidated financial statements as required under Article 244 et seq. of the Commercial Code.

To enable the OeNB to provide a steady stream of funding for Austrian research, the extraordinary General Meeting of December 11, 2003, voted to appropriate OeNB funds to the National Foundation for Research, Technology and Development (National Foundation) established by the Austrian government.<sup>2</sup>

On the basis of the legal powers inherent in Article 4 paragraph 5 of the Act on the Establishment of the National Foundation for Research, Technology and Development, a total of EUR 1.5 billion was released from the *general reserve fund* (EUR 955 million) and from the *freely disposable reserve fund* (EUR 545 million) and was transferred to the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (OeNB Anniversary Fund reserve) retroactively to January 1, 2003.<sup>3</sup>

The OeNB has earmarked the transferred total of EUR 1.5 billion as part of the OeNB Anniversary Fund reserve and has invested it separately on behalf of the National Foundation. In addition, the OeNB was vested with the power (according to Article 4 paragraph 5 of the Act on

<sup>1</sup> Guideline of the European Central Bank of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).

<sup>2</sup> The National Foundation for Research, Technology and Development (Nationalstiftung für Forschung, Technologie und Entwicklung – FTE-Nationalstiftung) was established on the basis of Federal Law Gazette I No. 133/2003.

<sup>3</sup> The ECB did not object to the provisions of the Act on the Establishment of the National Foundation for Research, Technology and Development applicable to the OeNB (Opinion of the European Central Bank of 2 December 2003 at the request of the Austrian Federal Ministry of Finance on a draft Federal law on the National Foundation for Research, Technology and Development (CON/2003/27)).

the Establishment of the Foundation on Research, Technology and Development) to disburse EUR 75 million a year to the National Foundation. The distribution to the National Foundation shall take place once a year after the OeNB's financial statements have been approved by the General Meeting.

The release of part of the *general reserve fund* and of part of the *freely disposable reserve fund* and the transfer to the OeNB Anniversary Fund are also recognized in the profit and loss account under item 6 *Other income*, subitem 6.1.

The earmarking of the *reserve for nondomestic and price risks* (contained in liabilities item 15.2 *Reserves*) was expanded to include exchange rate risk when the financial statements for 2003 were drawn up.<sup>4</sup>

The financial statements for the year 2003 were prepared in the format laid down by the Governing Council of the ECB.

The ECB and the 12 participating national central banks (NCBs), which together comprise the Eurosystem, have issued euro banknotes as from January 1, 2002.<sup>5</sup> The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.<sup>6</sup> The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% have been allocated to the NCBs. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item 1 *Banknotes in circulation*.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. In the OeNB's financial statements, the difference is disclosed under liabilities item 10 *Intra-Eurosystem liabilities*, subitem 10.3 *Net liabilities related to the allocation of euro banknotes within the Eurosystem*.

From 2002 to 2007 the intrasystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the period from July 1999 to June 2001 and the average value of the banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the end of 2007, after which income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. The interest income and expense on these balances is cleared through the accounts of the ECB and disclosed under item 1 *Net interest income* of the profit and loss account.

The Governing Council has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be distributed sepa-

<sup>4</sup> Decision of the Governing Board of November 5, 2003, and of the General Council of December 11, 2003.

<sup>5</sup> Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

<sup>6</sup> The banknote allocation key designates the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in such total.



rately to the NCBs in the form of an interim distribution of profit.<sup>7</sup> It shall be so distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. With respect to 2003, the Governing Council decided on December 18, 2003, in the light of their estimate that the full amount of such income should be retained by the ECB.

### Accounting Policies

The financial statements of the OeNB are prepared in conformity with the policies governing the accounting and reporting operations of the Eurosystem, which follow accounting principles harmonized by Community law and generally accepted international standards. The key policy provisions are summarized below:

- economic reality and transparency
- prudence
- recognition of post-balance sheet events
- materiality
- going-concern basis
- accruals principle
- consistency and comparability

Transactions in financial assets and liabilities are reflected in the accounts on the basis of the date on which they were settled.

Foreign currency transactions whose exchange rate is not fixed against the accounting currency were recorded at the euro exchange rate

prevailing on the day of the transaction.

At year-end, both financial assets and liabilities were revalued at current market prices/rates. This applies equally to on-balance sheet and off-balance sheet transactions. The revaluation took place on a currency-by-currency basis for foreign exchange positions and on a code-by-code basis for securities. Securities held as permanent investment (financial fixed assets) which are shown under *other financial assets* were valued at cost.

Gains and losses realized in the course of transactions were taken to the profit and loss account. For gold, foreign currency instruments and securities, the average cost method was used in accordance with the daily netting procedure for purchases and sales. As a rule, the realized gain or loss was calculated by juxtaposing the sales price of each transaction with the average acquisition cost of all purchases made during the day.

In the case of net sales, the calculation of the realized gain or loss was based on the average cost of the respective holding for the preceding day.

Unrealized revaluation gains were not taken to the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses were recognized in the profit and loss account when they exceeded previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against new unrealized gains in subsequent years. Furthermore, the OeNB's management<sup>8</sup> determined

<sup>7</sup> Decision of the European Central Bank of 21 November 2002 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2002/9).

<sup>8</sup> Decision of the Governing Board of November 10, 1999, and of the General Council of November 25, 1999.

that unrealized foreign currency losses that must be expensed were to be covered by the release of an off-setting amount from the *reserve fund for exchange risks* accumulated in the run-up to 1999. Unrealized losses in any one security, currency or in gold holdings were not netted with unrealized gains in other securities, currencies or gold, since netting is prohibited under the Accounting Guideline.

The average acquisition cost and the value of each currency position were calculated on the basis of the sum total of the holdings in any one currency or gold, including both asset and liability positions and both on-balance sheet and off-balance sheet positions. Own funds invested in foreign exchange assets are recorded in a separate currency position.

In compliance with Article 69 paragraph 4 of the Nationalbank Act, which stipulates that the *reserve fund for exchange risks* be set up or released on the basis of the risk assessment of the nondomestic assets, the value-at-risk (VaR) method was used to calculate the currency risk. VaR is defined as the maximum loss of a gold or foreign currency portfolio with a given currency diversification at a certain level of confidence (97.5%) and for a given holding period (one year). The potential loss calculated under this approach is to be offset against the *reserve fund for exchange risks*, the *revaluation accounts* and the *reserve for nondomestic and price risks*.

Future market developments, especially interest and exchange rate movements, may entail considerable fluctuations of the income accruing to the OeNB, the other Eurosystem NCBs and the ECB as a result of the harmonized accounting rules with

which they have had to comply since January 1, 1999.

Premiums or discounts arising on securities issued or purchased were calculated and presented as part of interest income and amortized over the remaining life of the securities.

Participating interests were valued on the basis of the net asset value of the respective company (equity method).

Tangible and intangible fixed assets were valued at cost less depreciation. Depreciation was calculated on a straight-line basis, from the quarter after acquisition throughout the expected economic lifetime of the assets according to the following formula:

- computers, related hardware and software, and motor vehicles (4 years)
- equipment, furniture and plant in building (10 years)
- buildings (25 years)

Fixed assets costing less than EUR 10,000 were written off in the year of purchase.

## Realized Gains and Losses and Revaluation Differences and their Treatment in the Financial Statements of December 31, 2003

	Realized gains (posted to the profit and loss account) EUR million	Realized losses (posted to the profit and loss account)	Unrealized losses (posted to the profit and loss account)	Change in revaluation accounts
Gold	–	–	–	+36.074
Foreign currency holdings for own account	84.873	25.818	683.607 <sup>1</sup>	–236.206
own funds	0.794	0	–	–6.309
Securities				
holdings for own account	93.525	24.806	10.672 <sup>2</sup>	–50.761
own funds	12.520	14.566	2.826 <sup>2</sup>	–15.711
IMF euro holdings	192.423	–	–	–
Participating interests	–	–	1.333	–77.316
Off-balance sheet instruments	11.546	13.209	0.525	–2.783
<b>Total</b>	<b>395.681</b>	<b>78.399</b>	<b>698.963</b>	<b>–353.012</b>

<sup>1</sup> This amount did not have an impact on profit because the loss was offset against the reserve fund for exchange risks.

<sup>2</sup> This amount did not have an impact on profit because the loss was offset against the reserve for nondomestic and price risks.

### Post-Balance Sheet Events

In accordance with Article 29.3 of the Statute of the ESCB, the key of NCBs for subscription of the ECB's capital shall be adjusted every five

years. The first quinquennial change took effect on January 1, 2004.<sup>9</sup> Based on the Council Decision of 15 July 2003,<sup>10</sup> the capital keys of the NCBs were adjusted as follows on January 1, 2004:

### Key for Subscription to the ECB's Capital

	Jan. 1, 1999, to Dec. 31, 2003 %	Jan. 1, 2004, to Apr. 30, 2004
Deutsche Bundesbank	24.4935	23.4040
Banque de France	16.8337	16.5175
Banca d'Italia	14.8950	14.5726
Banco de España	8.8935	8.7801
De Nederlandsche Bank	4.2780	4.4323
Nationale Bank van België/Banque Nationale de Belgique	2.8658	2.8297
Oesterreichische Nationalbank	2.3594	2.3019
Bank of Greece	2.0564	2.1614
Banco de Portugal	1.9232	2.0129
Suomen Pankki – Finlands Bank	1.3970	1.4298
Central Bank and Financial Services Authority of Ireland	0.8496	1.0254
Banque centrale du Luxembourg	0.1492	0.1708
<b>Share of the Eurosystem NCBs</b>	<b>80.9943</b>	<b>79.6384</b>
Bank of England	14.6811	15.9764
Sveriges Riksbank	2.6537	2.6636
Danmarks Nationalbank	1.6709	1.7216
<b>Share of the non-Eurosystem NCBs</b>	<b>19.0057</b>	<b>20.3616</b>
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>

<sup>9</sup> The capital key was adjusted again on May 1, 2004, upon accession of new EU Member States.

<sup>10</sup> Council Decision of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank (2003/517/EC).

On January 1, 2004, the capital key share of the OeNB<sup>11</sup> decreased from 2.3594% to 2.3019%. Consequently, assets item 9.1 *Participating interest in the ECB* decreased by EUR 2.875 million to EUR 115.095 million<sup>12</sup> as a result of the repayment of part of the capital contribution.

The adjustments to the capital key weightings and the resulting changes in the euro area NCBs' shares in the ECB's subscribed capital also make it necessary to adjust the claims which the ECB has credited to the euro area NCBs and which are equiv-

alent to those NCBs' respective contributions of foreign reserve assets to the ECB. In order to reflect its reduced capital key share, the euro-denominated claim of the OeNB with respect to the foreign reserve assets transferred to the ECB (assets item 9.2) decreased by EUR 28.750 million to EUR 1,150.950 million on January 1, 2004.<sup>13</sup>

The changes entered into force on January 1, 2004. The required transfers were effected on January 2, 2004, via TARGET.<sup>14</sup>

## Capital Movements

Movements in Capital Accounts in 2003

	Dec. 31, 2002	Increase	Decrease	Dec. 31, 2003
	EUR million			
<b>Capital</b>	12.000	–	–	12.000
<b>Reserves</b>	4,200.555	2,093.179	2,093.152	4,200.582
General reserve fund	1,611.952	–	1,134.269	477.683
Freely disposable reserve fund	917.719	–	917.719	–
Reserve for nondomestic and price risks	1,111.176	551.988	41.164	1,622.000
Earmarked capital funded with net interest income from ERP loans	552.441	16.958	–	569.399
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
OeNB Anniversary Fund exclusive of the National Foundation endowment	7.267	24.233	–	31.500
OeNB Anniversary Fund endowment for the National Foundation for Research, Technology and Development	–	1,500.000	–	1,500.000
<b>Revaluation accounts</b>	3,448.891	73.497	1,152.940	2,369.448
Reserve fund for exchange risks	1,536.430	–	685.240	851.190
Initial valuation reserve	281.510	–	0.069	281.441
Eurosystem revaluation accounts	1,630.951	73.497	467.631	1,236.817
<b>Total</b>	7,661.446	2,166.676	3,246.092	6,582.030

For details of the various changes, please refer to the notes to the respective balance sheet items.

<sup>11</sup> Decision of the European Central Bank of 18 December 2003 on the national central banks' percentage shares in the key for subscription to the European Central Bank's capital (ECB/2003/17).

<sup>12</sup> Decision of the European Central Bank of 18 December 2003 laying down the measures necessary for the paying-up of the European Central Bank's capital by the participating national central banks (ECB/2003/18).

<sup>13</sup> Decision of the European Central Bank of 18 December 2003 laying down the measures necessary for the contribution to the European Central Bank's reserves and provisions and for adjusting the national central banks' claims equivalent to the transferred foreign reserve assets (ECB/2003/21).

<sup>14</sup> Decision of the European Central Bank of 18 December 2003 laying down the terms and conditions for transfers of the European Central Bank's capital shares between the national central banks and adjustment of the paid-up capital (ECB/2003/20).

## Development of the OeNB's Currency Positions in the Business Year 2003

Net Currency Position (including gold)

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Gold and gold receivables	3,336.169	3,372.243	+36.074	+1.1
Claims on non-euro area residents denominated in foreign currency <sup>1</sup>	10,608.376	7,905.320	-2,703.056	-25.5
Claims on euro area residents denominated in foreign currency	788.121	876.766	+88.645	+11.2
Other assets	65.653	20.309	-45.344	-69.1
less:				
Liabilities to euro area residents denominated in foreign currency	92.138	76.492	-15.646	-17.0
Liabilities to non-euro area residents denominated in foreign currency	583.590	372.099	-211.491	-36.2
Counterpart of Special Drawing Rights allocated by the IMF	232.096	210.915	-21.181	-9.1
Revaluation accounts <sup>2</sup>	110.065	74.912	-35.153	-31.9
Other liabilities	4.316	4.172	-0.144	-3.3
	13,776.114	11,436.048	-2,340.066	-17.0
Off-balance sheet forward assets/liabilities (net)	-256.385	-	+256.385	+100.0
<b>Total</b>	<b>13,519.729</b>	<b>11,436.048</b>	<b>-2,083.681</b>	<b>-15.4</b>

<sup>1</sup> Excluding the share of the IMF quota which was not drawn, expressed in euro (2002: EUR 1,643.812 million, 2003: EUR 1,369.601 million).

<sup>2</sup> Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities on December 31, 2002, and December 31, 2003.

## Notes to the Balance Sheet

### Assets

#### 1 Gold and gold receivables

Closing balance Dec. 31, 2003	EUR 3,372.243 million
Closing balance Dec. 31, 2002	EUR 3,336.169 million
Change	+EUR 36.074 million +1.1%

This item comprises the OeNB's holdings of physical and nonphysical gold, which amounted to approximately 317 tons on December 31, 2003, unchanged from December 31, 2002. At a market value of EUR 330.364 per fine ounce (i.e. EUR 10,621.45 per kg of fine gold), the OeNB's gold holdings were worth EUR 3,372.243 million at the balance sheet date.

#### 2 Claims on non-euro area residents denominated in foreign currency

Closing balance Dec. 31, 2003	EUR 6,535.719 million
Closing balance Dec. 31, 2002	EUR 8,964.563 million
Change	-EUR 2,428.844 million -27.1%

These claims consist of receivables from the International Monetary Fund (IMF) and claims denominated in foreign currency against non-euro area countries, i.e. counterparties resident outside the euro area.

Subitem 2.1 *Receivables from the IMF* comprises the following accounts:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Total claims (Austrian quota) equivalent to SDR 1,872.3 million <sup>1</sup>	2,427.062	2,205.569	-221.493	-9.1
less:				
Balances at the disposal of the IMF	1,643.812	1,369.601	-274.211	-16.7
<b>Receivables from the IMF</b>	783.250	835.968	+52.718	+6.7
Holdings of SDRs	176.367	143.649	-32.718	-18.6
Other claims against the IMF	38.889	23.560	-15.329	-39.4
<b>Total</b>	998.506	1,003.177	+4.671	+0.5

<sup>1</sup> Pursuant to federal law as promulgated in Federal Law Gazette No. 309/1971, the OeNB assumed the entire Austrian quota at the IMF on its own account on behalf of the Republic of Austria.

Drawings of Special Drawing Rights (SDRs) on behalf of IMF members and the revaluation of euro holdings by the IMF as well as transfers by the IMF boosted the *receivables from the IMF* by a total of EUR 382.756 million. Conversely, repayments by members reduced the receivables from the IMF by a total of EUR 108.545 million. Revaluation losses (-EUR 221.540 million) reduced these claims, whereas realized exchange rate gains and book value reconciliation (+EUR 0.047 million) enlarged them.

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2003, this rate hovered between 1.49% and 1.91% per annum, mirroring the prevailing SDR rate.

The *holdings of Special Drawing Rights*<sup>15</sup> were recognized in the balance sheet at EUR 143.649 million on December 31, 2003, which is equivalent to SDR 122 million. The reduction in 2003 of holdings by EUR 32.718 million on balance re-

sulted from the sale of SDRs equivalent to EUR 29.841 million. Interest credited, above all remunerations of the participation in the IMF, boosted holdings by EUR 12.275 million.

No purchases arising from designations by the IMF were effected in 2003. Principally the OeNB continues to be obliged under the IMF's statutes to provide currency on demand in exchange for SDRs. Members designated by the IMF may use SDRs up to the point at which the OeNB's holdings of SDRs are three times as high as its net cumulative allocation. The OeNB's current net cumulative allocation is SDR 179.045 million.

*Other claims against the IMF* comprise the OeNB's other contributions to loans under special borrowing arrangements. In the financial statements for 2003, this item relates exclusively to claims arising from contributions (SDR 20 million) to the Poverty Reduction and Growth Facility (PRGF). The PRGF is a special initiative designed to support

<sup>15</sup> Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account on behalf of the Republic of Austria and to enter the SDRs purchased or allocated gratuitously on the assets side of the balance sheet as cover for the total circulation.

the IMF's objectives by granting the poorest countries credits at highly concessional terms in order to finance economic programs targeted at fostering economic growth

and ensuring a strong, sustainable recovery of the balance of payments.

Subitem 2.2 *Balances with banks and security investments, external loans and other external assets* covers the following accounts:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Balances with banks	2,274.884	1,212.263	-1,062.621	-46.7
Securities	5,684.975	4,315.000	-1,369.975	-24.1
Other external assets	6.198	5.279	-0.919	-14.8
<b>Total</b>	<b>7,966.057</b>	<b>5,532.542</b>	<b>-2,433.515</b>	<b>-30.5</b>

*Balances with banks* outside the euro area include foreign currency deposits on correspondent accounts, deposits with agreed maturity and overnight funds. *Securities* relate to instruments issued by non-euro area residents. As a rule, operations are carried out only with financially sound counterparties.

*Other external assets* comprise only non-euro area banknotes.

The change in this item reflects above all government transactions and valuation effects.

### 3 Claims on euro area residents denominated in foreign currency

*Claims on euro area residents denominated in foreign currency* are as follows:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Balances with banks	324.720	365.854	+41.134	+12.7
Securities	463.401	510.912	+47.511	+10.3
<b>Total</b>	<b>788.121</b>	<b>876.766</b>	<b>+88.645</b>	<b>+11.2</b>

### 4 Claims on non-euro area residents denominated in euro

This item includes all euro-denominated investments and accounts with

counterparties which are not euro area residents.

On December 31, 2002, and December 31, 2003, the subitems of this balance sheet item closed as follows:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Securities	780.679	764.209	-16.470	-2.1
Other investments	487.811	63.204	-424.607	-87.0
<b>Total</b>	<b>1,268.490</b>	<b>827.413</b>	<b>-441.077</b>	<b>-34.8</b>

## 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro

This balance sheet item represents the liquidity-providing transactions executed by the OeNB.

The principal components of this item are:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
5.1 Main refinancing operations	2,679.245	2,414.278	-264.967	-9.9
5.2 Longer-term refinancing operations	171.875	482.629	+310.754	+180.8
5.3 Fine-tuning reverse operations	-	-	-	-
5.4 Structural reverse operations	-	-	-	-
5.5 Marginal lending facility	-	-	-	-
5.6 Credits related to margin calls	-	-	-	-
<b>Total</b>	<b>2,851.120</b>	<b>2,896.907</b>	<b>+45.787</b>	<b>+1.6</b>

### 5.1 Main refinancing operations

*Main refinancing operations* are regular liquidity-providing reverse transactions executed by the NCBs with a weekly frequency and a maturity of two weeks in the form of standard (variable rate) tender operations. All counterparties which fulfill the general eligibility criteria may submit bids within a timeframe of 24 hours from the tender announcement.

The *main refinancing operations* are the most important open market operations conducted by the Eurosystem, playing a pivotal role in signaling the stance of monetary policy. They provide the bulk of liquidity to the financial sector.

### 5.2 Longer-term refinancing operations

*Longer-term refinancing operations* are regular liquidity-providing reverse transactions with a monthly frequency and a maturity of three months. They are aimed at providing counterparties with additional longer-term refinancing and are executed through standard tenders by the NCBs. All longer-term refinancing operations conducted in 2003 were carried out in the form of variable rate tenders.

### 5.3 Fine-tuning reverse operations

*Fine-tuning reverse operations* are executed on an ad hoc basis with a view to managing the liquidity situation in the market and steering interest rates, in particular to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the market. The choice of instruments and procedures depends on the type of transaction and the underlying motives. Fine-tuning operations are normally executed by the NCBs through quick tenders or through bilateral procedures. It is up to the Governing Council of the ECB to empower the ECB to conduct fine-tuning operations itself under exceptional circumstances.

In 2003, no such operations were conducted.

### 5.4 Structural reverse operations

The ECB may use *structural reverse operations* to adjust the structural position of the Eurosystem vis-à-vis the financial sector. In 2003, no such operations were carried out.



### 5.5 Marginal lending facility

Counterparties may use the *marginal lending facility* to obtain overnight liquidity from NCBs at a prespecified interest rate against eligible assets. The facility is intended to satisfy counterparties' temporary liquidity needs. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight interest rate. The *marginal lending facility* was accessed repeatedly in 2003.

### 5.6 Credits related to margin calls

*Credits related to margin calls* arise when the value of underlying assets regarding credit extended to credit institutions increases beyond collateral requirements, obligating the central bank to provide counterparties with additional credit to offset the value in excess of requirements. If such credit is provided not by the return of securities but rather by an entry on an account, a claim on the counterparty is recorded in this sub-item. No claims were recorded under this item in 2003.

## 6 Other claims on euro area credit institutions denominated in euro

Closing balance Dec. 31, 2003	EUR 0.109 million
Closing balance Dec. 31, 2002	EUR 0.082 million
Change	+EUR 0.027 million +33.4%

This item comprises claims on euro area credit institutions not related to monetary policy operations.

## 7 Securities of euro area residents denominated in euro

Closing balance Dec. 31, 2003	EUR 1,862.962 million
Closing balance Dec. 31, 2002	EUR 2,015.083 million
Change	-EUR 152.121 million -7.5%

This item covers all marketable securities (including government securities stemming from before EMU) denominated in constituent currencies of the euro that are not used in monetary policy operations and that are not part of investment portfolios that have been earmarked for specific purposes.

The annual change is mainly due to net sales.

## 8 General government debt denominated in euro

Closing balance Dec. 31, 2003	EUR 368.844 million
Closing balance Dec. 31, 2002	EUR 351.367 million
Change	+EUR 17.477 million +5.0%

This balance sheet item subsumes the claim on the Austrian Federal Treasury from silver commemorative coins issued before 1989, based on the 1988 Coinage Act as promulgated in Federal Law Gazette No. 425/1996.

In theory, the maximum federal liability is the sum total of all silver commemorative coins issued before 1989, minus any coins returned to and paid for by the central government, minus any coins directly withdrawn by Münze Österreich AG. Repayment of the maximum federal liability of EUR 1,248.269 million is effected by annual installments of EUR 5.814 million out of the central government's share of the OeNB's profit. The proceeds from metal recovery, including the interest on the investment of these proceeds by Münze Österreich AG, are designated for repayment by the contractual deadline (every year on December 15). Any amount outstanding on December 31, 2040, will have to be repaid in the five following years (2041 to 2045) in five equal installments.

The net increase in this claim resulted from returns of silver commemorative coins to the central government in the course of 2003 with a total face value of EUR 39.339 million less redemptions made out of the central government's share of the OeNB's profit for the year 2002 plus the proceeds from metal recovery, which together totaled EUR 21.862 million.

## 9 Intra-Eurosystem claims

Closing balance Dec. 31, 2003	EUR 2,829.032 million
Closing balance Dec. 31, 2002	EUR 4,175.873 million
Change	-EUR 1,346.841 million -32.3%

This balance sheet item consists of the claims arising from the OeNB's share of the ECB's capital and the claims equivalent to the transfer of foreign reserves to the ECB. Furthermore, this item shows TARGET balances and other (net) claims within the Eurosystem.

Subitem 9.3 *Claims related to promissory notes backing the issuance of ECB debt certificates* in this accounting scheme does not apply to the OeNB; it is exclusively an ECB balance sheet item.

*Intra-Eurosystem claims* consisted of the following subitems on December 31, 2002, and December 31, 2003:

	Dec. 31, 2002 EUR million	Dec. 31, 2003	Change EUR million	%
9.1 Participating interest in ECB	117.970	117.970	-	-
9.2 Claims equivalent to the transfer of foreign reserves	1,179.700	1,179.700	-	-
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates	x	x	x	x
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	-	-	-	-
9.5 Other claims within the Eurosystem (net)	2,878.203	1,531.362	-1,346.841	-46.8
<b>Total</b>	<b>4,175.873</b>	<b>2,829.032</b>	<b>-1,346.841</b>	<b>-32.3</b>

### 9.1 Participating interest in ECB

The share that the OeNB holds in the capital of the ECB totaling EUR 5 billion corresponded to 2.3594% at the balance sheet date, unchanged from December 31, 2002.

The following table contains a breakdown of the various NCBs' shares in the capital of the ECB:

The 15 EU NCB's Shares in the Capital of the ECB as at December 31, 2003

	subscribed capital key		of which paid up	Eurosystem capital
	%	EUR		key share
				%
Deutsche Bundesbank	24.4935	1,224,675,000	1,224,675,000	30.2410
Banque de France	16.8337	841,685,000	841,685,000	20.7838
Banca d'Italia	14.8950	744,750,000	744,750,000	18.3902
Banco de España	8.8935	444,675,000	444,675,000	10.9804
De Nederlandsche Bank	4.2780	213,900,000	213,900,000	5.2819
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	143,290,000	143,290,000	3.5383
Oesterreichische Nationalbank	2.3594	117,970,000	117,970,000	2.9130
Bank of Greece	2.0564	102,820,000	102,820,000	2.5389
Banco de Portugal	1.9232	96,160,000	96,160,000	2.3745
Suomen Pankki – Finlands Bank	1.3970	69,850,000	69,850,000	1.7248
Central Bank and Financial Services Authority of Ireland	0.8496	42,480,000	42,480,000	1.0490
Banque centrale du Luxembourg	0.1492	7,460,000	7,460,000	0.1842
	80.9943	4,049,715,000	4,049,715,000	100.0
Bank of England	14.6811	734,055,000	36,702,750 <sup>1</sup>	
Sveriges Riksbank	2.6537	132,685,000	6,634,250 <sup>1</sup>	
Danmarks Nationalbank	1.6709	83,545,000	4,177,250 <sup>1</sup>	
	19.0057	950,285,000	47,514,250	
<b>Total</b>	100.0000	5,000,000,000	4,097,229,250	

<sup>1</sup> Corresponds to 5% of the subscribed capital key share to cover the ECB's costs (ECB/1998/14).

### 9.2 Claims equivalent to the transfer of foreign reserves

The transfer of foreign reserves from the Eurosystem NCBs to the ECB is based on the provisions of Article 30 of the Statute of the ESCB. The euro-denominated claims on the ECB in respect of those transfers are shown under this item.

The reserves that the OeNB has transferred are managed on behalf and for the account of the ECB separately from the OeNB's own reserves and therefore do not show up in its balance sheet.

The ECB remunerates the non-redeemable euro-denominated claims with which it has credited the NCBs in return for the transfer at 85% of

the current interest rate on the main refinancing operations on a daily basis.

### 9.5 Other claims within the Eurosystem (net)

Other claims within the Eurosystem (net) largely represent net claims arising from balances of TARGET accounts with the other 14 NCBs (i.e. including nonparticipating NCBs) and the ECB. Moreover, this item covers net claims arising at year-end from the difference between monetary income to be pooled and distributed, the claim arising from the redistribution of the ECB's income on its 8% share of euro banknotes in circulation as well as net claims

arising from the correspondent accounts<sup>16</sup> of individual NCBs.

The individual bilateral end-of-day balances of the OeNB with the other NCBs are netted by novating them to the ECB.

The ECB remunerates the net balance on a daily basis, settling payment at the end of the month. The ECB calculates this remuneration centrally, using the prevailing interest rate for main refinancing operations. The corresponding payments

are settled ex post monthly via the TARGET system.

## 10 Items in course of settlement

This claim results from 2003 net float items settled at the beginning of January 2004.

## 11 Other assets

*Other assets* comprise the following subitems:

	Dec. 31, 2002 EUR million	Dec. 31, 2003	Change EUR million	%
11.1 Coins of euro area	345.880	265.218	-80.662	-23.3
11.2 Tangible and intangible fixed assets	146.873	158.411	+11.538	+7.9
11.3 Other financial assets	7,316.249	7,843.816	+527.567	+7.2
11.4 Off-balance sheet instruments' revaluation differences	12.066	9.283	-2.783	-23.1
11.5 Accruals and prepaid expenditure	325.957	300.090	-25.867	-7.9
11.6 Sundry	1,689.228	1,037.637	-651.591	-38.6
<b>Total</b>	<b>9,836.252</b>	<b>9,614.455</b>	<b>-221.798</b>	<b>-2.3</b>

### 11.1 Coins of euro area

This item represents the OeNB's stock of fit coins of the euro area countries.

### 11.2 Tangible and intangible fixed assets

*Tangible and intangible fixed assets* comprise OeNB premises and equipment (including machinery, computer hardware and software, motor vehicles) and intangible fixed assets.

*Premises* developed as follows:

Cost incurred until Dec. 31, 2002 EUR million	Purchases in 2003	Sales in 2003	Accumulated depreciation	Book value on Dec. 31, 2003	Book value on Dec. 31, 2002	Annual depreciation in 2003
101.675 <sup>1</sup>	15.055	0.169 <sup>2</sup>	19.809	96.752	85.094	3.397

<sup>1</sup> Premises acquired prior to December 31, 1956, were booked at the cost recorded in the schilling opening balance sheet (Federal Law Gazette No. 190/1954)

<sup>2</sup> The balance between the book value of the sales and the underlying historical costs is EUR 0.169 million.

<sup>16</sup> These correspondent accounts may be used for a limited amount of transactions, e.g. when a temporary disruption of the TARGET system occurs.

Purchases in 2003 mainly relate to capitalized costs of work in the main building and the OeNB's northern office building.

*Equipment* developed as follows:

Cost incurred until Dec. 31, 2002	Purchases in 2003	Sales in 2003	Accumulated depreciation	Book value on Dec. 31, 2003	Book value on Dec. 31, 2002	Annual depreciation in 2003
EUR million						
91.250	10.469	5.122 <sup>1</sup>	68.516	28.081	28.184	10.490

<sup>1</sup> The balance between the book value of the sales and the underlying historical costs is EUR 5.040 million.

*Movable real assets* worth EUR 32.920 million represent the OeNB's collection of antique string instruments, which it started to acquire in 1989. As in the previous year, on December 31, 2003, the OeNB's collection of valuable instruments

encompassed 23 violins, 4 violoncellos and 2 violas. These instruments are on loan to musicians deemed worthy of special support.

*Intangible fixed assets* (residence rights) developed as follows:

Cost incurred until Dec. 31, 2002	Purchases in 2003	Sales in 2003	Accumulated depreciation	Book value on Dec. 31, 2003	Book value on Dec. 31, 2002	Annual depreciation in 2003
EUR million						
0.720	–	–	0.062	0.658	0.674	0.015

### 11.3 Other financial assets

*Other financial assets* comprise the following accounts:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
Securities	6,063.592	6,557.816	+494.224	+8.2
Participating interests	1,017.558	818.481	–199.077	–19.6
Other investments	235.099	467.519	+232.420	+98.9
<b>Total</b>	<b>7,316.249</b>	<b>7,843.816</b>	<b>+527.567</b>	<b>+7.2</b>

Of the OeNB's securities portfolio, EUR 1,440.381 million represented investments of pension reserve assets, another EUR 1,339.234 million reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (of which EUR

1,300.392 million were earmarked as an endowment for the National Foundation for Research, Technology and Development). Moreover, the securities portfolio related to capital and reserves, i.e. the OeNB's own funds management, came to EUR 3,778.201 million.<sup>17</sup> Revaluations of

<sup>17</sup> The own funds of the OeNB shown under liabilities include the capital, the general reserve fund, the freely disposable reserve fund, the reserve for nondomestic and price risks, earmarked ERP capital funded with net interest income from loans, the reserve fund for exchange risks and general provisions, above all provisions for exchange rate risks and provisions for general banking risks.

the portfolios resulted in unrealized valuation gains of EUR 46.718 million and unrealized price losses of EUR 11.701 million as well as unrealized foreign currency gains of EUR 0.808 million.

Of the participating interests, EUR 517.113 million formed part of the own funds portfolio and EUR 301.368 million formed part of the investment portfolio relating to investments of the pension reserve.

*Other investments* include investments of pension reserve assets (EUR 251.575 million) and investments to promote the National Foundation for Research, Technology and Development (EUR 199.608 million) and consisted mainly of demand deposits.

*Participating interests* developed as follows:

Net asset value on Dec. 31, 2002	Purchases in 2003	Sales in 2003	Net asset value on Dec. 31, 2003	Net asset value on Dec. 31, 2002	Annual depreciation in 2003	Revaluation in 2003
EUR million						
897.558 <sup>1</sup>	1.654	0.038 <sup>2</sup>	818.481	897.558 <sup>1</sup>	1.333	-79.398

<sup>1</sup> Including the dividend of EUR 120 million that was already recognized in the profit and loss account in 2002.

<sup>2</sup> The balance between the book value of the sales and the underlying historical costs is EUR 0.038 million.

The *participating interests* were valued at their net asset value in the annual accounts for 2003 and developed as follows:

Subsidiaries (participating interest in %)	Net asset value EUR million
Münze Österreich AG (100%)	324.452
Oesterreichische Banknoten- und Sicherheitsdruck GmbH (100%)	101.762
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (91.6%)	0.035
AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H. (100%)	28.811
Austrian Payment Systems Services (APSS) GmbH (38%)	8.527
A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH (9.1%)	0.103
Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H. (25%)	0.037
BLM Betriebs-Liegenschafts-Management GmbH (100%)	51.934
Other	1.452
IG Immobilien GmbH <sup>1</sup> (100%)	301.368
<b>Total</b>	<b>818.481</b>

<sup>1</sup> Allocated to the pension reserve.

## 11.6 Sundry

Sundry assets comprise the following accounts:

	Dec. 31, 2002	Dec. 31, 2003	Change
	EUR million		EUR million
Claims arising from ERP loans to companies	709.928	645.023	-64.905
OeKB overnight account for ERP lending	184.467	266.068	+81.601
<b>ERP loan portfolio managed by the OeNB</b>	<b>894.395</b>	<b>911.091</b>	<b>+16.696</b>
Interim account for schilling banknotes in circulation	629.195	–	-629.195
Schilling coins	119.761	86.805	-32.956
Advances on salaries	5.612	6.459	+0.847
Other claims	40.265	33.282	-6.983
<b>Total</b>	<b>1,689.228</b>	<b>1,037.637</b>	<b>-651.591</b>

According to Article 3.2 of the ERP Fund Act, the ceiling of the OeNB's financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued (EUR 569.398 million on December 31, 2003). The ERP loan portfolio managed by the OeNB thus totaled EUR 911.353 million on December 31, 2003. The provisions governing the extension of loans from this portfolio are laid down in Article 83 of the Nationalbank Act.

The residual terms of advances on salaries are generally more than one

year. All advance payments are secured by life insurance plans.

*Other claims* came to EUR 33.282 million at December 31, 2003, and mainly comprised advances, accounts receivable and claims arising from day-to-day business.

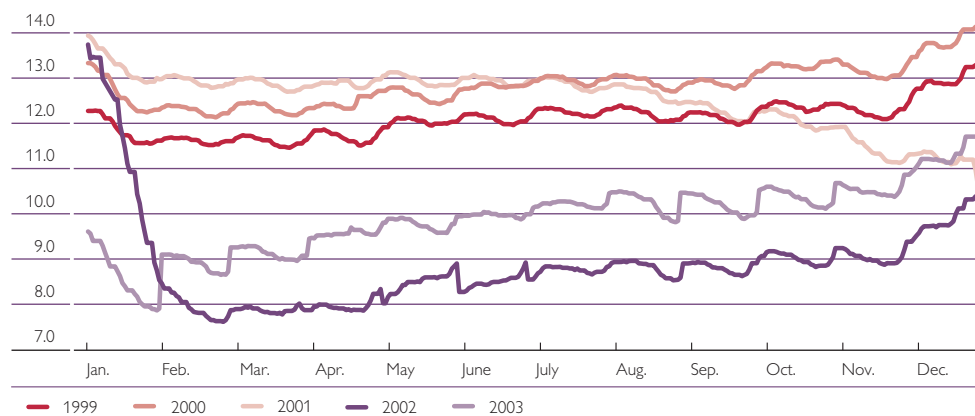
## Liabilities

### 1 Banknotes in circulation

Closing balance Dec. 31, 2003	EUR 11,691.232 million
Closing balance Dec. 31, 2002	EUR 10,237.504 million
Change	+EUR 1,453.728 million +14.2%

### Banknotes in Circulation<sup>1</sup>

Calendar-day volumes, EUR billion



Source: OeNB.

<sup>1</sup> In the financial year 2002 OeNB's banknotes in circulation included two components:

1. euro banknote liabilities (the 2.68% share of total banknotes in circulation allocated to the OeNB as at January 1, 2002, and subsequently as at the end of the month plus cumulative transactions made by the OeNB between cutoff dates);
2. schilling banknotes in circulation (only until December 31, 2002).

This item comprises the OeNB's share of the euro banknotes in circulation calculated by applying the banknote allocation key (see page 88). This item for the last time included schilling banknotes in circulation on December 31, 2002; it exclusively comprised euro banknotes in circulation in 2003.

The table below shows the annual average banknotes in circulation figures since entry into Stage Three of EMU:

	Banknotes in circulation, annual average	Annual change	
	EUR million	EUR million	%
1999	12,095	+407	+3.5
2000	12,851	+756	+6.3
2001	12,519	-332	-2.6
2002	8,887	-3,632	-29.0
2003	9,913	+1,026	+11.5

		Dec. 31, 2002	Dec. 31, 2003	Change	
		EUR million		EUR million	%
2.1	Current accounts (covering the minimum reserve system)	3,541.468	4,254.943	+713.475	+20.1
2.2	Deposit facility	0.350	0.450	+0.100	+28.6
2.3	Fixed-term deposits	–	–	–	–
2.4	Fine-tuning reverse operations	–	–	–	–
2.5	Deposits related to margin calls	–	–	–	–
<b>Total</b>		<b>3,541.818</b>	<b>4,255.393</b>	<b>+713.575</b>	<b>+20.1</b>

### 2.1 Current accounts

(covering the minimum reserve system)

This subitem contains primarily credit institutions' accounts used to hold minimum reserves.

Banks' minimum reserve balances have been remunerated on a daily basis since January 1, 1999, at the prevailing interest rate for the Eurosystem's main refinancing operations.

### 2.2 Deposit facility

The *deposit facility* refers to overnight deposits placed with the OeNB by Austrian banks that access the Eurosystem's liquidity-absorbing standing facility at the prespecified rate. In

## 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item consists of the following subitems:

2003, the volume of such transactions averaged EUR 3.370 million.

## 5 Liabilities to other euro area residents denominated in euro

Closing balance Dec. 31, 2003	EUR	18.485 million
Closing balance Dec. 31, 2002	EUR	32.894 million
Change	–EUR	14.409 million
		–43.8%

This item comprises general government deposits of EUR 16.669 million and current account deposits of credit institutions that are not subject to minimum reserve requirements and of nonbanks.



## 6 Liabilities to non-euro area residents denominated in euro

Closing balance Dec. 31, 2003	EUR 2.378 million
Closing balance Dec. 31, 2002	EUR 1.732 million
Change	+EUR 0.646 million +37.3%

This item contains euro-denominated liabilities to non-Eurosystem central banks and monetary institutions.

## 7 Liabilities to euro area residents denominated in foreign currency

Closing balance Dec. 31, 2003	EUR 76.492 million
Closing balance Dec. 31, 2002	EUR 92.138 million
Change	-EUR 15.646 million -17.0%

## 8 Liabilities to non-euro area residents denominated in foreign currency

Closing balance Dec. 31, 2003	EUR 372.099 million
Closing balance Dec. 31, 2002	EUR 583.590 million
Change	-EUR 211.491 million -36.2%

Swap transactions with the financial sector represent the bulk of items 7 and 8.

## 9 Counterpart of Special Drawing Rights allocated by the IMF

Closing balance Dec. 31, 2003	EUR 210.915 million
Closing balance Dec. 31, 2002	EUR 232.096 million
Change	-EUR 21.181 million -9.1%

This item represents the counterpart of the Special Drawing Rights allocated gratuitously to the OeNB. Measured at current market values

on the balance sheet date, the counterpart was worth SDR 179 million. The OeNB was allocated SDRs in six installments from 1970 to 1972 and from 1979 to 1981, always on January 1.

## 10 Intra-Eurosystem liabilities

Closing balance Dec. 31, 2003	EUR 3,063.716 million
Closing balance Dec. 31, 2002	EUR 7,403.757 million
Change	-EUR 4,340.041 million -58.6%

This item includes net liabilities related to the allocation of euro banknotes within the Eurosystem (see page 88) as stipulated in Decisions ECB/2001/15 and ECB/2001/16.

## 11 Items in course of settlement

Closing balance Dec. 31, 2003	EUR 7.326 million
Closing balance Dec. 31, 2002	EUR 85.345 million
Change	-EUR 78.019 million -91.4%

This item comprises float amounts pending settlement after the accounts have been closed for the year.

## 12 Other liabilities

*Other liabilities* are broken down as follows:

	Dec. 31, 2002 EUR million	Dec. 31, 2003	Change EUR million	%
12.1 Off-balance sheet instruments' revaluation differences	13.921	4.109	-9.812	-70.5
12.2 Accruals and income collected in advance	206.905	33.282	-173.623	-83.9
12.3 Sundry	1,184.840	748.496	-436.344	-36.8
<b>Total</b>	1,405.666	785.887	-619.799	-44.1

### 12.1 Off-balance sheet instruments' revaluation differences

The *off-balance sheet instruments' revaluation differences* subsume the revaluation losses arising on off-balance sheet positions, which are posted to the profit and loss account.

### 12.3 Sundry

This subitem is composed of the following accounts:

	Dec. 31, 2002 EUR million	Dec. 31, 2003	Change EUR million	%
Central government's share of profit (without dividends)	899.771	423.271	-476.500	-53.0
Liability from schilling banknotes in circulation with an exchange deadline	250.251	239.296	-10.955	-4.4
Earmarked funds of the OeNB Anniversary Fund OeNB Anniversary Fund exclusive of the National Foundation endowment	20.116	23.631	+3.515	+17.5
OeNB Anniversary Fund endowment for the National Foundation for Research, Technology and Development	-	48.073	+48.073	x
Other	14.702	14.225	-0.477	-3.2
<b>Total</b>	1,184.840	748.496	-436.344	-36.8

Pursuant to Article 69 paragraph 3 of the Nationalbank Act, the *central government's share of profit* corresponds to 90% of the profit for the year after tax.

The amount of EUR 23.631 million shown as earmarked funds of the *OeNB Anniversary Fund exclusive of the National Foundation endowment* consisted of pledged funds not used up by December 31, 2003. According to the General Meeting's decision, EUR 70.250 million of the *profit for the year 2002* were appor-

tioned to the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* to support research projects, with EUR 59.294 million apportioned to projects with a highly practical thrust. In 2003, the General Council decided to allocate an additional EUR 71.656 million to fund 353 projects and to fund three institutes with a total of EUR 2.742 million; on balance EUR 69.331 million were paid out. This means that since funds were first pledged as financial assistance in 1966, a total

EUR 636.090 million have been paid out. The EUR 48.073 million the OeNB Anniversary Fund pledged for the National Foundation are pro rata income from earmarked assets;

payment to the National Foundation is made the day after the General Meeting.

### 13 Provisions

	Dec. 31, 2002	Transfer from	Transfer to	Dec. 31, 2003
	<i>EUR million</i>			
<b>Pension reserve</b>	1,801.700	88.458	115.408	1,828.650
<b>Personnel provisions</b>				
Severance payments	46.172	4.315	3.729	45.586
Anniversary bonuses	10.202	1.039	1.184	10.347
Residual leave entitlements	9.442	0.012	0	9.430
<b>Provisions for</b>				
Schilling banknotes without an exchange deadline	306.944	47.115	–	259.829
Corporate income tax	105.967	105.967	–	–
Exchange rate risks	9.000	9.000	–	–
Accounts payable	1.384	1.333	1.834	1.885
Premises management	2.163	0.702	–	1.461
Accounts payable to subsidiaries	0.590	0.590	1.330	1.330
Other	1.582	1.397	1.044	1.229
<b>Total</b>	2,295.146	259.928	124.529	2,159.747

Under the OeNB's initial retirement plan, the OeNB assumes full liability to provide retirement benefits to the employees covered by this plan. The members of this scheme are contracted out of the state pension system. To cover this liability, the OeNB is obligated by law to establish a pension reserve corresponding to the actuarial present value of its pension liabilities.

Following a change in the retirement plan, staff recruited after May 1, 1998, stands to receive a state pension supplemented by an occupational pension from an externally managed pension fund. For this supplementary pension, the OeNB took out a contract effective May 1, 1999, which also applies retroactively to employees taken on in the 12 months from May 1, 1998. With the OeNB's direct liability to pay retirement benefits now limited to staff recruited before May 1, 1998,

the pension reserve set up to secure this liability has become a closed system. The OeNB taps this pension reserve to pay out retirement benefits.

Pension benefits as covered by the pension reserve augmented by EUR 2.352 million or 2.7% to EUR 88.458 million in 2003. This includes the remuneration of 15 retired board members or their dependents (totaling EUR 3.966 million; 2002: EUR 3.987 million).

The income of EUR 115.408 million on investment relating to the pension reserve was transferred to the pension reserve when the financial statements for 2003 were prepared. The pension reserve is shown at its actuarial present value. The pension reserve on December 31, 2003, was calculated according to actuarial principles; the discount rate of 3.50% per annum is the same as that applied in 2002.

Provisions for severance payments and anniversary bonuses are calculated according to actuarial principles; again, the discount rate of 3.50% per annum is the same as that applied in 2002.

No provisions for pending lawsuits were made, as the latter are

not expected to have a material impact.

#### 14 Revaluation accounts

This item consists of the following accounts:

	Dec. 31, 2002 EUR million	Dec. 31, 2003	Change EUR million
<b>Eurosystem revaluation accounts</b>			
Gold	821.328	857.402	+36.074
Foreign currency	284.205	41.690	-242.515
Securities	254.602	149.090	-105.512
Participating interests	258.750	179.352	-79.398
Off-balance sheet instruments	12.066	9.283	-2.783
Subtotal	1,630.951	1,236.817	-394.134
<b>Unrealized valuation gains from January 1, 1999 (initial valuation)</b>			
Securities	1.782	1.713	-0.069
Participating interests	279.728	279.728	-
Subtotal	281.510	281.441	-0.069
<b>Reserve fund for exchange risks (funded up to the end of 1998)</b>			
	1,536.430	851.190	-685.240
<b>Total</b>	<b>3,448.891</b>	<b>2,369.448</b>	<b>-1,079.443</b>

Revaluation on the *revaluation accounts* is effected on a currency-by-currency and code-by-code basis. The above amounts reflect the valuation gains established in the valuation of assets as at December 31, 2003. Those gains are realizable only in the context of future transactions in the respective category or used to reverse revaluation losses that may arise in future years. The revaluation gains in each currency, moreover, cover the risks that the nondomestic assets carry (as established with the VaR method).

In line with requirements, the initial valuation gains recorded in the opening balance sheet of January 1, 1999, were partly realized during 2003 in the course of sales of underlying assets.

Article 69 paragraph 1 of the Nationalbank Act obliges the OeNB to maintain a reserve covering exchange risks which may arise on nondomestic assets. The *reserve fund for exchange risks* posted in the financial statements 2003 contains exchange gains accrued in the run-up to 1999 totaling EUR 851.190 million. On the one hand, the annual change reflects the realization of exchange rate gains resulting from the sale of underlying assets. On the other hand, the fund is used to cover unrealized exchange losses that must be expensed, as well as any exchange risks (as calculated with the VaR approach) that are not offset by the balances on the revaluation accounts. As from January 1, 1999, no further allocations to this fund have been permitted.

## 15 Capital and reserves

A summary of the OeNB's reserves shows the following developments:

	Dec. 31, 2002	Dec. 31, 2003	Change	
	EUR million		EUR million	%
General reserve fund	1,611.952	477.683	-1,134.269	-70.4
Freely disposable reserve fund	917.719	–	-917.719	-100.0
Reserve for nondomestic and price risks	1,111.176	1,622.000	+510.824	+46.0
Earmarked capital funded with net interest income from ERP loans	552.441	569.399	+16.958	+3.1
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching	7.267	1,531.500	+1,524.233	
<b>Total</b>	4,200.555	4,200.582	+0.027	+0

The *general reserve fund* and the *freely disposable reserve fund* posted a total decline of EUR 2,051.988 million. Of this amount, EUR 1,500.000 million were reallocated to the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* as an endowment for the National Foundation for Research, Technology and Development. An additional EUR 551.988 million were transferred to the *reserve for nondomestic and price risks* in recognition of the risen risk ascertained by means of risk assessment. The *reserve for nondomestic and price risks* serves to offset any ECB losses which the OeNB may have to cover according to its share in the ECB's capital as well as any unrealized losses resulting from a fall in the price of securities or exchange rate losses. The total risk to be covered (including the pro rata risk of the ECB that is not covered by the ECB's own risk provisions) is calculated by applying recognized risk assessment models (VaR methods). When the financial statements for 2003 were drawn up, EUR 20.340 million of this reserve were used to cover the loss resulting from the nondistribution by the ECB of income on euro banknotes in circulation and EUR 20.824 million were used to cover a fall in the price of

securities reflected in the OeNB's portfolios.

The EUR 31.500 million earmarked for the OeNB's Anniversary Fund exclusive of the National Foundation endowment consist of EUR 7.267 million allocated out of the Net income for the year 1965 in April 1966 and EUR 24.233 million allocated from the *profit for the year* 2002 in May 2003.

Earmarked ERP capital funded with net interest income from loans serves to cover losses on the ERP loan portfolio managed by the OeNB.

### Other financial liabilities (off-balance sheet positions)

Apart from the items recognized in the balance sheet, the following financial liabilities and financial derivatives were stated off the balance sheet on December 31, 2003:

- Contingent liabilities to the IMF under the New Arrangements to Borrow totaling EUR 485.336 million.
- Obligation under the IMF's statutes to provide currency on demand to participants using SDRs up to the point at which the OeNB's holdings of SDRs are three times as high as its net cumulative allocation of EUR 489.096 million.

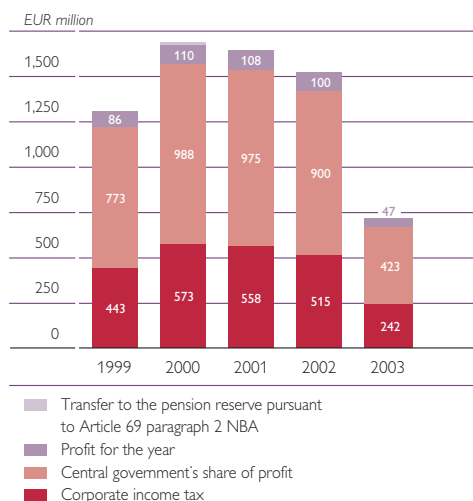
- The obligation to make a supplementary contribution of EUR 35.340 million (equivalent to SDR 30 million) to the OeNB's stake in the capital of the Bank for International Settlements (BIS) in Basel consisting of 8,000 shares of SDR 5,000 each.
  - Liabilities of EUR 23.808 million from foreign currency investments effected in the OeNB's name for third account.
  - Repayment obligations to the amount of EUR 13.583 million arising from pension contributions paid by OeNB staff members payable on termination of employment contracts.
  - Contingent liability equivalent to the OeNB's share of EUR 1,179.700 million of the maximum of EUR 50 billion of additional foreign reserve assets of the euro area NCBs on which the ECB is entitled to call.
  - Contingent liability equivalent to the OeNB's share of EUR 117.970 million of the EUR 5 billion by which the ECB may increase its paid-up capital.
- Moreover, the OeNB reports liabilities outstanding on forward rate agreements and unmatured gold/interest rate swaps.

## Notes to the Profit and Loss Account

		2002	2003	Change <sup>1</sup>	
		<i>EUR million</i>		<i>EUR million</i>	%
1	Net interest income	594.185	467.087	-127.098	-21.4
2	Net result of financial operations, writedowns and risk provisions	848.682	344.764	-503.918	-59.4
3	Net expense/income from fees and commissions	-0.385	0.250	+0.635	+164.9
4	Income from equity shares and participating interests	242.848	100.664	-142.184	-58.5
5	Net result of pooling of monetary income	0.199	11.120	+10.921	
6	Other income	84.483	8.120	-76.363	-90.4
<b>Total net income</b>		<b>1,770.012</b>	<b>932.005</b>	<b>-838.007</b>	<b>-47.3</b>
7	Staff costs	-98.103	-98.084	-0.019	-0
8	Administrative expenses	-100.159	-94.049	-6.110	-6.1
9	Depreciation of tangible and intangible fixed assets	-21.882	-13.902	-7.980	-36.5
10	Banknote production services	-33.042	-11.314	-21.728	-65.8
11	Other expenses	-2.059	-2.078	+0.019	+0.9
<b>Total expenses</b>		<b>-255.245</b>	<b>-219.427</b>	<b>-35.818</b>	<b>-14.0</b>
<b>Operating profit</b>		<b>1,514.767</b>	<b>712.578</b>	<b>-802.189</b>	<b>-53.0</b>
12	Corporate income tax	-515.021	-242.276	-272.745	-53.0
		999.746	470.302	-529.444	-53.0
13	Central government's share of profit	-899.771	-423.271	-476.500	-53.0
14.1	Net income	99.975	47.031	-52.944	-53.0
14.2	Profit brought forward	0.118	0.177	+0.059	+50.0
<b>14</b>	<b>Profit for the year</b>	<b>100.093</b>	<b>47.208</b>	<b>-52.885</b>	<b>-52.8</b>

<sup>1</sup> Absolute increase (+) or decrease (-) in the respective income or expense item.

## Operating Profit



Source: OeNB.

## 1 Net interest income

*Net interest income* represents the balance of interest income and interest expense. The reduction in interest income (net of interest expense) in 2003 resulted mainly from the marked decline in interest rates for euro and foreign currency investment from 2002 alongside the decrease of foreign exchange holdings.

Net interest income from assets and liabilities denominated in foreign currency totaled EUR 324.710 million (–EUR 195.682 million), that from euro-denominated assets and liabilities came to EUR 141.196 million (–EUR 13.161 million). Monetary policy refinancing operations yielded EUR 94.023 million (+EUR 13.368 million), and the ECB remunerated the transfer of foreign reserves with EUR 23.528 million (–EUR 9.708 million). Moreover, interest income of EUR 8.310 million (–EUR 76.341 million) accrued from TARGET balances, whereas EUR 96.243 million (–EUR 39.965 million) were required to remunerate minimum reserves. Interest expenses of EUR 74.476 million

(–EUR 102.213 million) resulted from liabilities within the Eurosystem stemming from the allocation of euro banknotes in circulation.

## 2 Net result of financial operations, writedowns and risk provisions

Realized gains or losses from day-to-day financial operations resulted from – receivable or payable – differences between the acquisition cost and the market value of gold, foreign currency, securities or other transactions.

Net realized gains contracted by EUR 545.918 million (–63.2%) to EUR 317.282 million. EUR 252.272 million (–EUR 487.027 million) stem from gold and foreign currency operations, EUR 66.673 million (–EUR 57.359 million) from securities transactions. Among other things, the reduction of realized gains from gold and foreign currency operations reflected the fact that the financial statements for 2002 showed price gains from the sale of 30 tons of gold in 2002 and that these gains no longer had an impact in 2003.

The *writedowns on financial assets and positions* largely reflect the decline in market prices of balance sheet items as at December 31, 2003, below the average cost of the respective currencies or securities. Foreign currency writedowns came to EUR 683.607 million (+EUR 549.614 million), securities writedowns to EUR 13.498 million (+EUR 13.020 million).

The item *Transfer to/from provisions for foreign exchange rate and price risks* resulted from transfers from the *reserve fund for exchange risks* that the OeNB funded up to the end of 1998 with a view to covering unrealized foreign currency losses of EUR 683.607 million. Thus, in compli-

ance with Article 69 paragraph 1 of the Nationalbank Act, these losses did not have an impact on profit. Moreover, this item reflects the offsetting of unrealized losses on security price losses of EUR 13.498 million and of the loss resulting from the nondistribution by the ECB of income on euro banknotes in circulation of EUR 20.340 million against the reserve for nondomestic and price risks.

#### **4 Income from equity shares and participating interests**

This item contains income from the distributions of profit for 2002 made by the ECB (EUR 17.899 million), by Oesterreichische Banknoten- und Sicherheitsdruck GmbH (EUR 0.650 million) and by AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H. (EUR 0.050 million). Also, it records dividend payments by the BIS in Basel (EUR 2.065 million) and by Münze Österreich AG (EUR 80.000 million). Additionally, this item contains the distribution of the profit arising from the ECB's income on its 8% share of euro banknotes in circulation according to the banknote allocation key.<sup>18</sup> In 2003, the ECB's income on euro banknotes in circulation was fully retained by the ECB in accordance with a decision of the Governing Council on December 18, 2003, and in view of the result of the ECB for 2003.

#### **5 Net result of pooling of monetary income**

The amount of each Eurosystem NCB's monetary income is deter-

mined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists of the following items: banknotes in circulation, liabilities to euro area credit institutions related to monetary policy operations denominated in euro, net intra-Eurosystem liabilities resulting from TARGET transactions and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro, intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB, net intra-Eurosystem claims resulting from TARGET transactions, net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem and a limited amount of each NCB's gold holdings in proportion to each NCB's capital key. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the average rate of return on the earmarkable assets of all NCBs taken together. The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key. The difference between the monetary income pooled by the OeNB amounting to EUR 214.950 million and reallocated

<sup>18</sup> Decision of the European Central Bank of 21 November 2002 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2002/9).



to the OeNB amounting to EUR 226.069 million is the net result arising from the calculation of monetary income.

## 7 Staff costs

Salaries, severance payments and the employer's social security contributions and other statutory or contractual social charges fall under the heading *Staff costs*. These costs were reduced by recoveries of salaries and employees' pension contributions.

As of January 1, 1997, the pension contributions of employees who had joined the OeNB after March 31, 1993, and who qualify for an OeNB pension were raised from 5% of their total basic pay to 10.25% of their basic salaries up to the earnings cap on social security. A rate of 2% applies to income above the earnings cap.

Comparison figures for salaries and severance payments were adjusted to reflect a change in the accounting of severance payments and anniversary bonuses. Salaries net of pension contributions collected from staff members grew by EUR 0.213 million or 0.3% to EUR 82.817 million. This increase is attributable primarily to the salary increase negotiated for the banking sector. The OeNB's outlays were reduced by recoveries of salaries totaling EUR 9.541 million for staff members on secondment to subsidiaries and foreign institutions.

Staff capacity fell from 963.93 on December 31, 2002, to 947.30 on December 31, 2003. The average number of staff employed by the OeNB (excluding the members of the Governing Board and including part-time employees on a pro rata basis) widened from 1,176 employees in 2002 to 1,182 in 2003, a rise by 0.5% or 6 persons. Adjusted for

employees on secondment or leave (including maternity and parental leave), 951 persons were employed on average (2002: 943 persons).

The four members of the Governing Board received emoluments (including remuneration in kind, such as private use of company cars, subsidies to health and accident insurance) pursuant to Article 33 paragraph 1 of the Nationalbank Act of a total of EUR 0.957 million (2002: EUR 1.008 million).

The emoluments of the President and Vice President of the Oesterreichische Nationalbank amounted to EUR 0.031 million (2002: EUR 0.046 million).

Outlays for *severance payments* went up by EUR 0.564 million to EUR 0.564 million in 2003 following technical adjustments of the 2002 figure.

*Statutory or contractual social charges* totaling EUR 12.398 million (+EUR 0.275 million) contain municipal tax payments of EUR 2.510 million, social security contributions of EUR 5.981 million and contributions of EUR 3.811 million to the Family Burden Equalization Fund.

## 10 Banknote production services

Expenses for banknote production services resulted from the purchase of euro banknotes.

## 12 Corporate income tax

A corporate income tax rate of 34% was applied to the taxable income according to Article 72 of the Nationalbank Act and in line with Article 22 paragraph 1 of the Corporate Income Tax Act.

**13 Central government's  
share of profit**

Under Article 69 paragraph 3 of the Nationalbank Act, the *central government's share of profit* is 90% of the

net income for the year after tax, as in the previous years, and amounted to EUR 423.271 million for 2003 (2002: EUR 899.771 million).

### Governing Board (Direktorium)

Governor Klaus Liebscher  
 Vice Governor Wolfgang Duchatzek (from July 11, 2003)  
 Vice Governor Gertrude Tumpel-Gugerell (until May 31, 2003)  
 Executive Director Peter Zöllner  
 Executive Director Josef Christl (from September 1, 2003)

### General Council (Generalrat)

President Herbert Schimetschek (from September 1, 2003)  
 President Adolf Wala (until August 31, 2003)  
 Vice President Manfred Frey (from September 1, 2003)  
 Vice President Herbert Schimetschek (until August 31, 2003)  
 August Astl  
 Helmut Elsner (until May 15, 2003)  
 Bernhard Felderer  
 Helmut Frisch (until May 15, 2003)  
 Lorenz R. Fritz  
 Herbert Kofler  
 Richard Leutner  
 Johann Marihart  
 Werner Muhm  
 Gerhard Randa (from May 15, 2003)  
 Walter Rothensteiner  
 Karl Werner Rüschi  
 R. Engelbert Wenckheim  
 Johann Zwettler (from May 15, 2003)

In accordance with Article 22 paragraph 5 of the Nationalbank Act, the following representatives of the Staff Council participated in discussions on personnel, social and welfare matters: Thomas Reindl and Martina Gerharter.

Vienna, March 30, 2004

**Report of the Auditors**

We have audited the accounting records and the financial statements of the Oesterreichische Nationalbank for the year ending December 31, 2003, and have found that they are presented in accordance with the provisions of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 60/1998. The financial statements were prepared in conformity with the accounting policies defined by the Governing Council of the European Central Bank, as set forth in the Guideline of the European Central Bank of 5 December 2002 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2002/10), in conformity with Article 26.4 of the Protocol on the Statute of the European System of Central Banks and the European Central Bank. In our opinion the accounts provide a true and fair picture of the OeNB's financial position and the results of its operations. The annual report complies with the provisions of Article 68 paragraph 1 and paragraph 3 of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 60/1998 and corresponds with the financial statements.

Vienna, March 30, 2004

Pipin Henzl  
Certified Public Accountant

Peter Wolf  
Certified Public Accountant

## Profit for the Year and Proposed Profit Appropriation

With the statutory allocation of EUR 423.271 million (2002: EUR 899.771 million) of the OeNB's profit to the central government having been made in conformity with Article 69 paragraph 3 of the Nationalbank Act (item 13 of the profit and loss account), the balance sheet and the profit and loss account show a

Profit for the year 2003 of		EUR 47,207,885.07.
On April 7, 2004, the Governing Board endorsed the following profit appropriation proposal to the General Council:		
to pay a 10% dividend on the OeNB's capital stock of EUR 12 million		EUR 1,200,000.—
to allocate to the Leopold Museum Private Foundation		EUR 4,275,893.67
to allocate to the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching:		
funds earmarked for promotion by the OeNB	EUR 12,579,460.15	
funds earmarked for promotion by the National Foundation for Research, Technology and Development	EUR 26,926,937.55	EUR 39,506,397.70
to allocate to the reserve for retained earnings		EUR 2,225,593.70
		EUR 47,207,885.07



# Report of the General Council (Generalrat) on the Annual Report and the Financial Statements for 2003

The General Council (Generalrat) fulfilled the duties incumbent on it pursuant to the Nationalbank Act 1984 by holding its regular meetings, by convening its subcommittees and by obtaining the information required.

The Governing Board (Direktorium) periodically reported to the General Council on the Bank's operations and their current state, on the conditions on the money, capital and foreign exchange markets, on important matters which arose in the course of business, on all developments of importance for an appraisal of the monetary situation, on the arrangements made for supervising the OeNB's financial conduct and on any other significant dispositions and events affecting its operations.

The Financial Statements for the year 2003 were given an unqualified auditors' opinion after examination by the auditors elected by the General Meeting of May 15, 2003,

the certified public accounts Pipin Henzl and Peter Wolf, on the basis of the books and records of the Oesterreichische Nationalbank as well as the information and evidence provided by the Governing Board.

In its meeting of April 19, 2004, the General Council approved the Annual Report of the Governing Board and the Financial Statements for the business year 2003. The General Council submits the Annual Report and moves that the General Meeting approve the Financial Statements of the Oesterreichische Nationalbank for the year 2003 and discharge the General Council and the Governing Board from responsibility for management during the preceding business year. Moreover, the General Council requests that the General Meeting approve the allocation of the profit for the year in accordance with the proposal made in the notes to the Financial Statements 2003 (page 117).



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20 EUR





Publications,  
Imprint

# Periodical Publications

	<i>Published</i>
Statistisches Monatsheft	<i>monthly</i>
Focus on Statistics <i>English translation of "Statistisches Monatsheft"</i>	<i>monthly</i> <a href="http://www.oenb.at">http://www.oenb.at</a>
Leistungsbilanz Österreichs, revidierte Jahresdaten gegliedert nach Regionen und Währungen	<i>annually</i>
Berichte und Studien <sup>1</sup>	<i>quarterly</i>
Focus on Austria <sup>2</sup> <i>Selected chapters from "Berichte und Studien"</i> <sup>1</sup>	<i>quarterly</i>
Finanzmarktstabilitätsbericht	<i>semiannually</i>
Financial Stability Report <i>English translation of "Finanzmarktstabilitätsbericht"</i>	<i>semiannually</i>
Focus on Transition	<i>semiannually</i>
Geschäftsbericht	<i>annually</i>
Annual Report <i>English translation of "Geschäftsbericht"</i>	<i>annually</i>
Volkswirtschaftliche Tagung	<i>annually</i>
The Austrian Financial Markets – A Survey of Austria's Capital Markets – Facts and Figures	<i>annually</i>

<sup>1</sup> This Publication was replaced by "Geldpolitik & Wirtschaft – Quartalshefte zur Geld- und Wirtschaftspolitik" in 2004.

<sup>2</sup> This Publication was replaced by "Monetary Policy & the Economy – Quarterly Review of Economic Policy" in 2004.

# Selected Publications of the OeNB in 2002 and 2003

For a comprehensive overview of the OeNB's publications, please refer to issue 12/2003 of the monthly statistical bulletin *Statistisches Monatsheft*, or issue 4/2003 of *Berichte und Studien*, or issue 4/2003 of *Focus on Austria*.

This list is designed to inform readers about selected documents published by the OeNB. The publications are available to interested parties free of charge from the Secretariat of the Governing Board and Public Relations. Please submit orders in writing to the postal address given in the imprint. You may also order copies of publications by phone.

For a complete list of the documents published by the OeNB, please visit the OeNB's website (<http://www.oenb.at>).

## Focus on Austria (published quarterly)

### Economic and Monetary Union

Central Banks and the Challenges of the  
Information Economy – Are We on the Road to e-CBs? 1/2002

### Oesterreichische Nationalbank and Selected Monetary Aggregates

Official Announcements Regarding the Foreign Exchange  
Law and Minimum Reserve Requirements periodically  
Calendar of Monetary and Economic Highlights quarterly

### Austrian Financial Market

EURIBOR Interest Rate Instruments as Indicators  
of Financial Market Expectations 2/2002  
The Bank Lending Survey for the Euro Area –  
Background, Objectives and Results for Austria 3/2003  
Money and Credit quarterly  
Banking Holidays in Austria annually

### Austrian Real Economy

The Payment Habits of Austrian Households –  
Results of a Study on the Use of Payment Cards  
and the Structure of Payment Transactions in 2000 1/2002  
Economic Outlook for Austria  
from 2002 to 2004 (Spring 2002) 2/2002  
Identification of Wage Rigidities in Microdata –  
a Critical Literature Review 3/2002  
Financial Accounts in Accordance with ESA 95 –  
Financial Assets and Liabilities of the Sectors  
of the Austrian Economy; Results for 2001 3/2002  
Economic Outlook for Austria  
from 2002 to 2004 (Fall 2002) 4/2002

Austria's Financial Accounts: Financial Investment and Financing Transactions of the Sectors of the Austrian Economy – Results for 2001	4/2002
Economic Outlook for Austria from 2003 to 2005 (Spring 2003)	2/2003
Financial Investment and Financing of the Nonfinancial Sectors of the Austrian Economy in 2002 – Analysis of Financial Accounts Data	2/2003
Financial Investment and Financing of Households in the First Quarter of 2003	3/2003
Austria's External Debt – A New Indicator of the SDDS	3/2003
Structural Factors in the Austrian Housing and Real Estate Market	3/2003
Economic Outlook for Austria from 2003 to 2005 (Fall 2003)	4/2003
Financial Investment and Financing of Households and Nonfinancial Corporations in Austria in the First Half of 2003 – Analysis of Financial Accounts Data	4/2003
Economic Background	quarterly
<b>External Sector</b>	
Distinguishing Current Account Transactions from Financial Flows – An Analysis of Austria's Current and Financial Transactions with Countries and Regions	4/2002
Austria's Portfolio Investment Position – The Globalization of Securities Investment and its Impact on Austria	4/2002
Austria's Portfolio Investment Position in the First Quarter of 2003	3/2003
Understanding the Impact of External Trade and International Capital Flows on Euro Area Monetary Growth and Austria's Contribution from 1999 to 2002: The Monetary Presentation of the Balance of Payments	3/2003
Austrian Outward and Inward Direct Investment – Results of the 2001 Survey and Development of Selected Indicators	4/2003
Austria's International Investment Position	annually
Austrian Outward and Inward Direct Investment	annually
Balance of Payments	quarterly

## Overview of Studies Published in Focus Issues

### Focus on Austria (issue 2/2002)

EU Enlargement to the East: Effects on the EU-15 in General and on Austria in Particular

The Impact of EU Eastward Enlargement on Wages  
in the Current Member States with Special Reference to Austria

Institutional Implications of EU Enlargement  
in the Area of Economic and Monetary Policies

The Banking System in the Accession Countries on the Eve of EU Entry

The Integration of Eastern Europe – Effects on Stocks and Bond Markets

Exchange Rate Strategies of the EU Accession Countries  
on the Road to EMU: Impact on the Euro Area

### Focus on Austria (issue 3/2002)

Wage Formation in the Euro Area

EMU and European Wage Coordination

Employment and Wage Adjustment in the Euro Area's Labor Market –  
a Bird's Eye View

Wage Setting and Strategic Interaction With and Without a Monetary Union

The Role of Wage Policies in a Monetary Union

### Focus on Austria (issue 1/2003)

Finance for Growth

Finance for Growth, Finance and Growth, Finance or Growth...? Three  
Perspectives on the Interaction of Financial Markets and the Real Economy

Stock Markets, Shareholder Value and Investment

Financial Development and Macroeconomic Volatility:  
Evidence from OECD Countries

A Financial Decelerator in Europe? Evidence from Austria

Banking Structure and Investment in Austria: Some Empirical Evidence

Corporate Governance, Investment, and the Implications for Growth

Panel Discussion: What Kind of Financial System Works Best for Europe?

### Focus on Austria (issue 2/2003)

Pension Finance Reform: From Public to Financial Economics

Welfare Effects of Pension Finance Reform

Varieties of Capitalism and Pension Reform: Will the  
“Riester-Rente” Transform the German Coordinated Market Economy?

Pension Finance Reform, Tax Incentives for Life Annuities  
and the Problem of Adverse Selection

Pension Funds and European Financial Markets  
 Investment-Based Pension Reform as a Solution to the Old-Age Crisis?  
 Risk Issues in the Pension Reform Debate  
 Investment-Based Pension Reform for Austria –  
 Or Boosting Employment and Growth?  
 Tax Incentives in Investment-Based Pension Reform and Fiscal Sustainability

**Focus on Transition (published semiannually)**

EU Enlargement to the East: Effects on the EU-15  
 in General and on Austria in Particular. An Overview  
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Austria's Direct Investment and EU Enlargement 1/2002

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 Europe: How Do Monetary and Fiscal Policy Affect Them? 2/2002

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 and Fiscal Imbalances for the Accession Countries 2/2002

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 Latvia and Lithuania since Independence:  
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Banking in the Baltics –  
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 Accession Countries – An Overview One-and-a-Half Years  
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Vom klassizistischen Palais zum zeitgenössischen Geldzentrum  
The Architecture of Money – From the Classicistic Bank Palace  
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- The Austrian Financial Markets –  
A Survey of Austria's Capital Markets – Facts and Figures
- Guidelines on Market Risk (six volumes)
- Competition of Regions and Integration in EMU –  
Results of the 30<sup>th</sup> OeNB's Economics Conference
- Fostering Economic Growth in Europe –  
Results of the 31<sup>st</sup> OeNB's Economics Conference



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