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This study investigates the potential link between goods and services transactions and financial transactions at a regional level. As expected, it shows that current account deficits are not offset by capital inflows from the same region. The liberalization of capital markets has made it possible to receive and distribute funds from and to all regions of the world. This contribution shows that over the entire observation period, this type of interrelation has only existed for Austria and the Central and Eastern European countries. Since 1995, the current account has recorded a surplus for this region, while the financial account has registered an outflow of funds.

The opinions expressed in the section *"Studies"* are those of the author and may differ from the views of the Oesterreichische Nationalbank.

REPORTS

Economic Outlook for Austria from 2002 to 2004 (Fall 2002)

Martin Schneider,
Thomas Steinberger

Editorial close:
December 12, 2002

1 Summary

According to the OeNB's fall 2002 economic outlook, economic activity is unlikely to pick up noticeably in Austria before mid-2003, given the sputtering recovery of the world economy and persistently weak domestic demand. Real GDP growth is expected to have reached 0.8% in 2002 and is projected to increase further to 1.6% in 2003 and 2.2% in 2004.

In the first half of 2002, economic developments in Austria reflected the continuing sluggishness of both the international and the national economy. Neither domestic nor export demand were strong enough to take up the economic slack. The modest real GDP growth rate of 0.4% year on year is basically due to the positive contribution of net exports on the back of sharply reduced imports. For the second half of 2002 and the first quarter of 2003, foreign trade and domestic demand are not expected to provide a noticeable impetus to growth.

Table 1

OeNB Fall 2002 Forecast for Austria – Key Results

	2001	2002	2003	2004
	Annual change in % (real)			
Economic activity				
Gross domestic product (GDP)	+0.7	+0.8	+1.6	+2.2
Imports of goods and services	+5.9	−1.9	+4.4	+6.8
Exports of goods and services	+7.4	−0.1	+4.6	+6.3
Private consumption	+1.5	+0.7	+1.3	+2.0
Government consumption	−0.5	+0.3	+0.8	+0.8
Gross fixed capital formation	−2.2	−3.3	+2.5	+4.2
	% of nominal GDP			
Current account balance	−2.2	−1.8	−1.9	−2.1
	Percentage points			
Contribution to real GDP				
Private consumption	+0.8	+0.4	+0.7	+1.1
Government consumption	−0.1	+0.1	+0.2	+0.1
Gross fixed capital formation	−0.5	−0.8	+0.5	+0.9
Domestic demand (excl. changes in inventories)	+0.2	−0.3	+1.4	+2.2
Net exports	+0.8	+0.9	+0.2	−0.1
Changes in inventories (incl. statistical discrepancy)	−0.3	+0.2	+0.0	+0.1
	Annual change in %			
Prices				
Harmonized Index of Consumer Prices	+2.3	+1.8	+1.8	+1.6
Private consumption expenditure (PCE) deflator	+2.0	+1.7	+1.5	+1.6
GDP deflator	+1.6	+0.8	+1.2	+1.4
Unit labor costs (whole economy)	+2.4	+0.8	+1.0	+1.3
Compensation per employee (at current prices)	+3.1	+2.1	+2.3	+2.7
Productivity (whole economy)	+0.5	+1.2	+1.3	+1.4
Compensation per employee (at 1995 prices)	+1.1	+0.4	+0.8	+1.1
Import prices	−0.2	+0.4	+0.6	+1.3
Export prices	−0.4	+0.0	−0.1	+1.4
Terms of trade	−0.2	−0.3	−0.7	+0.0
	%			
Labor market				
Unemployment rate (Eurostat definition)	3.6	4.1	4.1	4.0
	Annual change in %			
Payroll employment	+0.5	−0.2	+0.6	+1.0
	% of nominal GDP			
Budget				
Government debt	63.2	63.9	63.6	62.3
Budget balance	0.0	−1.7	−1.6	−0.8

Source: 2001: Statistics Austria (incl. SNA revision of October 2002), 2002 to 2004: OeNB (based on unrevised data).

By the second quarter of 2003, the international economy should, however, have regained enough momentum to markedly accelerate Austrian export growth. Real exports of goods and services, while anticipated to have stagnated in 2002, are estimated to expand by 4.6% in 2003 and 6.3% in 2004. Given moderate wage increases and declining employment, growth in nominal household incomes did not surpass inflation rates in 2002. The projected 0.7% increase in real private consumption requires a further reduction of the saving ratio contracts. Thanks to higher employment and, as inflation goes down, real wage growth, private consumption will pick up momentum again and probably rise by 1.3% in 2003 and accelerate to 2.0% in 2004.

Gross fixed capital formation contracted visibly in 2001 (–2.2%), a trend still going strong well into 2002. As investment activity appeared unlikely to surge toward the end of 2002, the OeNB expects the growth rate for the whole of 2002 to have again been negative (–3.3%). The results of business surveys, notably on order expectations, corroborate this estimate.

From mid-2003 the expected boost to exports is set to stimulate gross fixed capital formation. In addition, investment grants and necessary replacement investments in the wake of the floods are likely to fuel growth as well. Accordingly, investment is estimated to expand by 2.5% in 2003 and by 4.2% in 2004.

Developments in the labor market in 2002 can be summed up as follows: Total employment shrank by 0.4%, and the unemployment rate rose to 4.1% from 3.6% in 2001. Labor market conditions are not anticipated to brighten noticeably until the second half of 2003. The OeNB predicts total employment to rise by 0.3% in 2003 and by 0.8% in 2004. The expected simultaneous increase in labor supply implies a stagnation of the unemployment rate in 2003, though. Not until 2004 is the jobless rate projected to drop slightly to 4.0%.

The deficit on the current account narrowed to 1.8% of nominal GDP as imports slumped in 2002, having already improved significantly by 0.5 percentage point to 2.2% in 2001. However, since imports are anticipated to grow at an increasing pace as the economy revives (2002: –1.9%, 2003: 4.4%, 2004: 6.8%), the current account deficit is forecast to somewhat widen again to 2.1% of GDP by 2004.

Inflation decelerated in 2002. The increase in the Harmonized Index of Consumer Prices (HICP) is expected to have dropped to 1.8% from 2.3% in 2001, reflecting sinking energy prices and a slower uptick of food prices. Over the remainder of the forecast horizon, inflation is projected to keep gradually subsiding (2003: 1.8%, 2004: 1.6%).

While in 2001 the general government managed to balance the budget, in 2002, the deficit mounted automatically amid bleaker economic conditions. In addition, relief packages for flood victims and the costs of the two latest fiscal stimulus packages, among other things, weighed on the budget. Consequently, the OeNB expects the deficit[1]) to amount to 1.7% of GDP in 2002, and to drop to 1.6% in 2003 and to 0.8% in 2004.

1 *According to the Maastricht deficit measure, i.e. including swap operations.*

2 Conditioning Assumptions

The OeNB compiled this forecast as its input for the Eurosystem's fall 2002 staff projections for macroeconomic developments in the euro area. The euro area countries prepare individual country projections under the coordination of the European Central Bank (ECB), which are then aggregated to euro area totals. The individual forecasts are all conditioned on the same underlying assumptions about global economic developments over the forecast horizon and on uniform technical assumptions. In the case at hand, the forecast horizon ranges from the third quarter of 2002 to the fourth quarter of 2004. November 7, 2002 was the cut-off date for the underlying assumptions on global economic developments and for the technical assumptions on interest rates, raw material prices and exchange rates.

The OeNB used its new macroeconomic quarterly model to prepare the projections for Austria. The key data source were seasonally adjusted data from Eurostat's national accounts.

2.1 The World Economy Outside the Euro Area

In early 2002, the world economy began to rebound swiftly from the downturn suffered in 2001. The transition to recovery was led by the U.S. economy, which was in turn fueled by an expansionary monetary and fiscal policy and, most importantly, a speedy resurgence of confidence in the aftermath of the terrorist attacks of September 11, 2001. Furthermore, the economic revival gained momentum from the 2001 downtrend of oil prices. While the downturn thus appeared to have been shorter than previous economic setbacks, in the course of 2002, the economy was showing increasing signs that a full-fledged recovery might actually take longer than expected. Confidence indicators started to deteriorate again, reflecting the continued high uncertainty among consumers and businesses. This uncertainty had fed on the sustained downward spiral of stock prices that started two years ago, the geopolitical tensions surrounding the Iraq crisis and fears of the possible impact of a military conflict on the world economy and, last but not least, by the lack of signs of an imminent robust revival of the global economy. Stock markets continued to suffer amid repeated revisions of profit expectations, doubts about the sustainability of the recovery and accounting fraud in the United States. As a direct result of this climate of uncertainty, domestic demand weakened significantly in nearly all industrialized countries with the exception of the U.S.A. and the U.K. Virtually everywhere hopes of an economic revival hinge on export demand, and in due consequence on the development of U.S. imports. However, given the sluggish revival of the world's biggest economy, the outlook for the other economic areas has darkened as well.

In 2001, developments in the *U.S. economy* were rather turbulent, as the detection of large-scale accounting fraud together with the terrorist attacks of September 11, 2001, and the slump in equity prices shattered confidence. The swift reaction of monetary and fiscal policymakers contributed substantially to surprisingly strong economic growth in the first quarter of 2002 which was supported by robust productivity. While booming U.S. imports noticeably stimulated the world economy in the second quarter of 2002 they had a dampening effect on U.S. growth. After having posted remarkable results during the third quarter of 2002 (carried primarily by consumption), U.S. growth clearly embarked on a downward path. Given the lack of stimulus from the labor market as well as the wealth effects emanating from lower equity prices, consumption growth is likely to slow down somewhat around the turn of 2002/2003. At the current juncture, persistent excess investment continues to depress investment growth. Excess capacities, however, are expected to be reduced in the course of 2003, which should speed up investment. There are, however, substantial downside risks for the further economic development in the U.S.A., such as possibly restrained domestic consumption, uncertainties about the future path of corporate earnings, continuously fragile stock markets, mounting government debt, the current account deficit and the risk of a sudden depreciation of the U.S. dollar.

The *Japanese economy* currently experiences an export-driven recovery. While the strong export growth reported during the first half of 2002 will be dampened slightly in the near future by weak U.S. imports and the latest appreciation of the yen, exports will remain the major driving force of the economy. The domestic sector, by contrast, still faces considerable structural problems; the combined effects of the banking sector crisis, high unemployment, low equity prices and declining price levels depress capital investment and private consumption. In mid-2002, the Japanese government passed a reform program envisaging, inter alia, tax cuts, a reform of social security funds and a number of deregulation and consolidation measures. Against this background, fiscal policy will not fuel growth substantially in the medium term. The pace of the Japanese economy will thus be picking up only slowly. *Asia excluding Japan,* by contrast, has proved quite resistant to the sluggish U.S. economy and the meltdown in equity prices, with particularly China experiencing very dynamic growth at the moment.

To date, the economic situation in *Latin America* has clearly worsened. The Argentine crisis spilled over to Uruguay and Paraguay, both of which have close economic ties with Argentina. Throughout 2002, Latin America's GDP declined slightly. Given the region's unfavorable economic situation and the related risks (e.g. high debt levels, high demand for foreign capital, unstable banking systems), the Latin American ratings were downgraded on international financial markets.

The EU *accession countries,* by contrast, continue on a comparably high growth path, which is attributable to robust household demand and an expansive fiscal policy. In their recently presented preaccession programs, the applicant countries have committed themselves to consolidating their budgets. On the back of surging revenues from oil prices and continued structural reforms, developments in Russia were particularly dynamic. Consumer spending was equally dynamic owing to a robust rise in real wages.

Thanks to strong domestic demand, the *United Kingdom* has so far remained unaffected by the slowdown in international growth, but signs of a deceleration are beginning to show. Switzerland, by contrast, was also hit by the international economic slowdown. With the persistent economic and geopolitical uncertainties supporting the Swiss frank, Swiss export prices are becoming less competitive. Output declined during the first half of 2002 and is not expected to increase over the entire year either. The Swiss economy is forecast to return to the growth path in the course of 2003 and to accelerate further in 2004.

2.2 The Euro Area Economy

At the beginning of 2002, the euro area economy started to recover moderately following a downturn in the fourth quarter of 2001. As domestic demand stagnated, growth was supported mainly by the external sector. Domestic demand was particularly weak in Germany, Austria's main trading partner. In the second quarter of 2002, euro area exports gathered steam again, but they are expected to again slow down somewhat toward the end of the year owing to the fragile U.S. recovery. The growth stimulus arising from exports has so far failed to feed through to the domestic demand components.

During the year 2002, consumer spending in the euro area was subdued for a number of reasons. First, inflation went up – mainly driven by the oil price hike in 2000, which put a lid on purchasing power. Second, the introduction of euro banknotes and coins might have had a temporary negative impact on consumption, as consumers clearly overestimated the inflationary effects of the cash changeover. Third, the slump in equity prices and the overall uncertainty about future economic developments and the tense geopolitical situation have a dampening effect on consumer spending.

At present, investment continues on a downward path, with several factors putting a brake on investment activities. Weak investment demand, which is

Table 2

Underlying Global Economic Conditions

	2001	2002	2003	2004
	Annual change in % (real)			
Gross domestic product (GDP)				
World GDP growth outside the euro area	+ 2.3	+ 2.9	+ 3.7	+ 4.4
U.S.A.	+ 0.3	+ 2.4	+ 2.3	+ 3.0
Japan	− 0.3	− 0.6	+ 1.2	+ 1.6
Asia excluding Japan	+ 4.3	+ 5.9	+ 5.7	+ 6.2
Latin America	+ 0.8	− 0.3	+ 2.3	+ 4.0
EU accession countries	+ 2.8	+ 2.4	+ 3.5	+ 4.3
Switzerland	+ 0.8	− 0.1	+ 1.6	+ 2.5
Euro area	+ 1.5	–	–	–
Lower range[1])	–	+ 0.6	+ 1.1	+ 1.8
Upper range[1])	–	+ 1.0	+ 2.1	+ 2.9
World trade				
Imports of goods and services				
World economy	− 0.3	+ 1.1	+ 5.3	+ 6.6
Non-euro area countries	− 1.0	+ 2.1	+ 5.4	+ 6.9
Real growth of euro area export markets	+ 1.0	+ 2.2	+ 5.5	+ 7.2
Real growth of Austria's export markets	+ 2.4	− 0.2	+ 4.8	+ 6.5
Prices				
Oil price (in USD per barrel)	24.4	24.8	24.0	22.2
Three-month interest rate in %	4.3	3.4	3.2	3.2
Long-term interest rate in %	5.1	5.0	4.8	4.9
USD/EUR exchange rate	0.895	0.942	0.993	0.993
Nominal effective exchange rate (euro area index)	87.00	89.52	91.91	91.91

Source: ECB.

[1]) Results of the Eurosystem's autumn 2002 projections. The ECB presents the results in ranges based upon average differences between actual outcomes and previous projections.

reduced even further by declining capacity utilization, plays a major role in this scenario. Moreover, falling profit margins make it more difficult to fund investment projects. Although the ECB has markedly loosened its monetary policy since the beginning of 2001, in the near future, funding conditions are likely to take a rather unfavorable course despite the low interest rate level. The fall in equity prices (which is currently more pronounced in the euro area than in the U.S.), a widening of spreads on corporate bonds as well as banks' increasingly restrictive lending (currently in particular in Germany and Belgium) all point in this direction. In the course of the year, developments fell short of the inflated expectations for a forthcoming upswing. Hopes for a boost in investment rely on an accelerator effect to be generated by a rebound of exports in the course of 2003.

Following a period of inventory rebalancing, businesses began to build up stock again early in the year, which had a positive growth effect in the first half of 2002. Despite a marked slowdown of growth, the employment rate had taken a relatively positive course in 2001. Given that employment usually reacts to changes in the economic conditions with a certain time lag, the employment rate is expected to bottom out only toward the end of 2002.

Compared to the spring forecast, the Eurosystem's macroeconomic projection exercise (MPE) for the euro area resulted in a considerable downward revision. Real GDP growth is projected to come in at 0.6% to 1.0% in 2002 and at 1.1% to 2.1% in 2003. A further acceleration to between 1.8% and 2.9% is expected for 2004. The HICP is likely to climb to 2.2% to 2.3% in 2002, thus surpassing the 2% inflation ceiling laid down by the Governing Council of the ECB; it is expected to progress at a visibly slower pace over the next two years. The Eurosystem expects a growth rate of 1.4% to 2.3% for 2003 and of 1.0% to 2.3% for 2004. In the light of the current weakness of the domestic demand components, the economic recovery will now strongly depend on U.S. developments.

The growth prospects for *Germany,* Austria's major trading partner, have worsened substantially. With domestic demand pronouncedly weak, growth in 2002 is expected to be minor and to rely largely on net exports. In the course of 2003, household spending and investment should regain speed and promote growth. The subsequent rise in import demand, however, will dampen GDP growth and support expectations of a merely moderate growth performance for the entire year. The growth rate is likely to approach potential output growth only in 2004, and merely on condition that structural problems do not put too much strain on GDP growth.

2.3 World Trade

Aside from weaker U.S. growth, the latest depreciation of the U.S. dollar also has a downward effect on *world trade* developments. International demand for euro area exports, which took a remarkably favorable course in the first half of 2002, weakened substantially in the third quarter. Further developments are highly uncertain, however. This forecast assumes growth to accelerate continuously throughout 2003. The weakness of the German economy, among other factors, dampens demand for Austrian exports, which even translates into a slight slowdown over the entire year. While further export developments over the forecasting horizon will be in line with the overall euro area profile, growth rates will be perceivably lower.

2.4 Technical Assumptions

This forecast, which is based on the assumption that the monetary policy framework will remain unchanged, presupposes constant levels of both short-term interest rates and the exchange rate over the entire forecasting horizon. The underlying short-term interest rate is based on the three-month Euribor of November 7, 2002. Long-term interest rates, which are in tune with market expectations for government bonds with an agreed maturity of ten years, come to 5.0% (2002), 4.8% (2003) and 4.9% (2004). A constant rate of USD/EUR 0.993 for the exchange rate of the euro against the U.S. dollar is assumed. Taking previous exchange rate developments into account, we arrive at an average rate for 2002 of USD/EUR 0.942. The effective nominal exchange rate used for the euro area projection is higher than in 2001, reflecting the appreciation that has taken place in the course of 2002.

For the period from 2002 to 2004, we assume oil prices to come to USD 24.8, USD 24.0 and USD 22.2, respectively, per barrel (Brent). Based on forward rates, the assumed future development of crude oil prices is a significant risk factor in this forecast, given the highly uncertain global political and macroeconomic situation. Compared to the spring forecast, oil prices have remained largely unchanged.

3 External Sector

In the second half of the 1990s, Austrian exporters posted high growth rates and thus significantly improved their international market position. These gains are traceable both to a dynamic international environment and to a clear improvement of price competitiveness vis-à-vis the major trading partners, which resulted from moderate wage growth (by international standards) combined with high productivity gains across many economic sectors.

In mid-2000, the worldwide cyclical downturn set off a continuous slowdown in export growth, with growth rates halving from 13.4% (in real terms) in 2000 to 7.4% in 2001. In the first quarter of 2002, exports even declined on the previous quarter. For the remaining part of 2002, growth is expected to be only moderate.[1]) In this scenario, export prospects are mainly affected by the cyclical downturn in Germany. Temporary flood-related losses in tourism in individual regions did not entail any measurable effects on the export of services. For the entire year 2002, real exports are projected to decrease by 0.1%.

Demand for Austrian exports is made up of the import demand of other countries covered in the euro area forecast and from import demand from outside the euro area according to external assumptions. In line with the path

1 *Preliminary national accounts data for the first quarter of 2002 indicate a strong decline in exports and imports. Foreign trade data from both the OeNB's balance of payments statistics and Statistics Austria, however, rather suggest a stagnation of exports. Therefore, we expect an upward revision for the first quarter. To account for the effect of such a revision on the annual growth figures for 2002, this forecast assumes growth rates for the third quarter to be correspondingly higher.*

of export demand, we expect export growth to accelerate as of the second quarter of 2003 and to continue its uptrend until the end of the forecasting horizon, augmenting by 4.6% in 2003 and by 6.3% in 2004.

Following the pronounced improvement of price competitiveness in 2000, the year 2001 saw only a minor increase. In 2002, price competitiveness has again deteriorated slightly, which is attributable particularly to very moderate price developments in Germany and to the appreciation of the euro. The effective nominal exchange rates underlying this forecast were extrapolated consistently by assumption of the ten-day average as on November 7, 2002. Results obtained from this procedure imply a slight appreciation both for the entire year 2002 and for 2003, which is, however, unlikely to trigger significant losses in market shares for Austrian exporters.

Table 3

Growth and Price Developments in Austrian External Trade

	2000	2001	2002	2003	2004
	Annual change in %				
Exports					
Competitors' prices on Austria's export markets	+10.8	+0.9	–2.2	–1.3	+1.2
Export deflator	+ 2.3	–0.4	+0.0	–0.1	+1.4
Changes in price competitiveness	+ 7.6	+1.1	–2.5	–1.9	–0.2
Import demand on Austria's export markets (real)	+11.7	+2.4	–0.2	+4.8	+6.5
Austrian exports of goods and services (real)	+13.4	+7.4	–0.1	+4.6	+6.3
Market shares	+ 1.7	+5.0	+0.0	–0.2	–0.2
Imports					
International competitors' prices on the Austrian market	+ 7.9	+1.4	–1.1	–0.7	+1.1
Import deflator	+ 3.2	–0.2	+0.4	+0.6	+1.3
Austrian imports of goods and services (real)	+11.6	+5.9	–1.9	+4.4	+6.8
Terms of trade	– 0.9	–0.2	–0.3	–0.7	+0.0
Contribution of net exports to GDP growth[1])	+ 0.8	+0.8	+0.9	+0.2	–0.1

Source: OeNB, Eurosystem.
[1]) In % of real GDP.

Austrian imports mainly developed in sync with exports. This is attributable to the high share of imported intermediate goods in exports and to international transit trade, and also to the fact that economic activity in Austria depends largely on exports. With domestic demand declining in the first half of 2002 (–1.1% year on year), imports decreased as well. Thus, GDP growth mainly relied on net exports (exports minus imports) in this period. For the entire year 2002, real imports are projected to drop by 1.9%. As most of the components for domestic demand are expected to accelerate in the second quarter of 2003, imports will become more dynamic as well, coming to 4.4% in 2003 and 6.8% in 2004.

In 2002, net exports contributed 0.9 percentage point to GDP growth; this figure is projected to slide to 0.2 percentage point in 2003, given increasingly robust import growth. In 2004, the contribution of net exports to GDP growth is expected to be slightly negative at –0.1 percentage point.

The sharp rise in import prices, which was mainly attributable to oil price developments, caused the terms of trade to deteriorate over the past two years.

Although the pressure on import prices started to weaken by the end of 2001, the terms of trade continued to worsen in 2002 and are likely to maintain this trend throughout 2003. Given the sluggish international economy and, subsequently, increased competitive pressure on export markets, Austrian exporters will most likely have to cope with lower export revenues in the first half of 2003. The terms of trade are projected to stabilize again in 2004.

4 Current Account

Subdued import growth improved the trade balance from –0.6% of nominal GDP in the year 2000 to 0.0% in 2001. As imports went down as a result of the weak domestic economy, the trade balance – for the first time since the 1993 recession – posted a surplus of 0.5% of GDP. During the expected upswing, this surplus will drop slightly to 0.3% of GDP in 2003 and 2004.

This improvement of the trade balance is entirely attributable to an uptrend in the balance on goods accompanied by a decline in the services surplus. This trend has been observed for a decade and will basically continue over the forecasting horizon. A regional analysis shows that the improved trade balance can be traced to the vigorous growth of exports to countries outside the euro area, in particular to the Central and Eastern European countries (CEECs), while Austria's trade deficit with the euro area continues to augment.

Table 4

Austria's Current Account

	2000	2001	2002	2003	2004
	% of nominal GDP				
Balance of trade	–0.6	0.0	0.5	0.3	0.3
Goods balance	–1.4	–0.7	0.1	0.0	0.0
Services balance	0.8	0.7	0.4	0.3	0.3
Euro area	–4.6	–4.8	–4.3	–4.6	–4.7
Non-euro area countries	4.0	4.7	4.7	4.9	5.0
Income balance	–1.3	–1.6	–1.6	–1.7	–1.7
Current transfers balance	–0.8	–0.7	–0.6	–0.6	–0.6
Current account	–2.7	–2.2	–1.8	–1.9	–2.1

Source: OeNB.

Over the past few years, Austria's income balance was on a continuous downtrend, coming to –1.6% of GDP in 2001. During that time, high inward portfolio investment (in particular in long-term fixed-interest government bonds) markedly drove up the outflow of capital earnings. This trend seems to have come to an end in the first half of 2002, as indicated, inter alia, by an uptrend in the balance on portfolio investment over this period. As inward investment declined sharply in the first half of 2002 (mainly owing to Telecom Italia's retreat from the Austrian mobile phone market), we expect the balance on direct investment income to improve. The overall income balance will thus develop more or less in parallel to GDP over the next few years. Current transfers, dominated by contributions to the EU budget, will come to –0.6% of GDP over the forecasting horizon.

Thus, the overall current account clearly improved in the course of 2002 (to –1.8% of GDP, after –2.2% in 2001), which was primarily attributable to a slowdown in goods imports amid cyclical weaknesses. The expected economic upswing is set to boost imports, which will contribute to a slight increase in the current account deficit in the next two years (2003: –1.9%, 2004: –2.1%).

5 Prices, Wages and Costs

5.1 Prices

Consumer price inflation decelerated somewhat over the year and is expected to come to a mere 1.8% in 2002, after 2.3% in 2001. This slowdown is traceable to declining energy prices and the low inflation rates recorded for food prices. Having reached 1.8% year on year in the first quarter of 2002, inflation remained stable for the rest of the year. Over the short term, a base effect is expected to drive inflation slightly up in the first quarter of 2003, but this effect will peter out over the remaining nine months. According to recent findings, cash changeover-induced inflation was very low, equaling no more than approximately 0.1 percentage point in 2002.

In the first half of 2003, energy prices and prices in the services sector, in particular, will cause a slight rise in inflation. Inflation rates in the services sector, which were far above average at 3% per annum, proved particularly persistent in 2002. Annual inflation in this sector is projected to weaken in the course of 2003 and to come to a mere 1.8% by the end of the year. The uptick in unprocessed food prices drove the overall inflation rate up at the beginning of 2002. For 2003, with base effects petering out, we expect the inflation rate of unprocessed food to remain stable at around 1% per annum – a level the inflation rate for industrial goods has been holding for quite a while. In this sector, prices are expected to go up mainly as a consequence of second-round effects of energy price hikes and a slight rise in demand pressure over the forecasting horizon. Prices for processed food have been declining since early 2002. The OeNB forecasts inflation rates in this area to continue their downward movement also in the future. All in all, price developments are expected to be moderate in 2003 and 2004, with HICP inflation coming to 1.8% and 1.6%, respectively. Consumer prices in Austria are thus going to mount in line with the euro area average.

5.2 Wages and Profit Development

In 2001 and 2002, the nominal income of dependently employed persons climbed by 3.1% and 2.1%, respectively. Thus, actual wage growth remained somewhat below that of labor productivity. Decreasing inflation combined with sluggish productivity growth and an insubstantial decline of the unemployment rate suggest a moderate rise in the nominal compensation per employee by 2.3% and 2.7% for 2003 and 2004, respectively.

Labor productivity growth is expected to accelerate slightly to 1.2% in 2002 compared to the previous year. In accordance with the latest empirical studies[1]), the OeNB expects the employment intensity of growth to be slightly higher in 2003 and 2004 than in the past, which indicates only a moderate acceleration of productivity growth.

1 *Döpke, J. (2001). The Employment Intensity of Growth in Europe, Kiel Working Paper no. 1012.*

Unit labor costs are forecast to augment only slightly (+0.8%) in 2002 owing to higher productivity and moderate wage growth and will thus allow profit margins to stabilize – despite low inflation – after a slight decline in 2001. Against the backdrop of higher productivity growth, profit margins are projected to improve slightly over the forecasting horizon, an only marginal rise in inflation notwithstanding.

Table 5

Selected Price Indicators for Austria

	2001	2002	2003	2004
	Annual change in %			
Harmonized Index of Consumer Prices (HICP)	+2.3	+1.8	+1.8	+1.6
HICP energy	+0.3	–2.0	+3.9	–0.7
HICP excluding energy	+2.4	+2.0	+1.6	+1.8
Private consumption expenditure (PCE) deflator	+2.0	+1.7	+1.5	+1.6
Investment deflator	+1.7	+0.7	+1.3	+1.8
Import deflator	–0.2	+0.4	+0.6	+1.3
Export deflator	–0.4	+0.0	–0.1	+1.4
Terms of trade	–0.2	–0.3	–0.7	+0.0
GDP deflator	+1.6	+0.8	+1.2	+1.4
Unit labor costs	+2.6	+0.8	+1.0	+1.3
Compensation per employee	+3.1	+2.1	+2.3	+2.7
Labor productivity	+0.5	+1.2	+1.3	+1.4

Source: 2001: Statistics Austria (incl. SNA revision of October 2002), 2002 to 2004: OeNB (based on unrevised data).

5.3 Economic Deflators

With the exception of the private consumption deflator, economic deflators in general show a slight uptrend over the entire forecasting horizon. This uptrend is attributable, on the one hand, to a rise in the import deflator which, in turn, relies in particular on the projected price changes on the international raw material and product markets; on the other hand, it reflects an acceleration of domestic demand. At +1.6%, the GDP deflator had still reported relatively high growth in 2001. In 2002, this indicator of aggregate inflation went down noticeably (to no more than 0.8% per annum), in particular because of the weak cyclical situation. The main reason behind this development was a pronounced decline in investment deflator growth from 1.7% in 2001 to 0.7% in 2002. In 2003 and 2004, the growth rate of the GDP deflator is expected to accelerate to 1.2% and 1.4%, respectively. Throughout 2003, the declining inflation of services prices will more than offset the stronger inflation of goods and services imports; as a consequence, the consumption deflator will be relatively stable.

6 Domestic Economic Activity

6.1 Consumption

Consumer spending, which normally constitutes a reliable pillar of economic activity, only advanced at a very subdued pace in 2002, given households' weak income situation. The growth rate of nominal disposable household income is likely to come to no more than 1.7% in 2002, half the rate of previous years. The tightening of the labor market has a dampening effect on the compensation of employees owing to a drop in employment and marginal wage growth. Moreover, mixed income and investment income slumped in 2002 (–0.5%).

By contrast, higher transfer payments from the general government to households (child-rearing benefits, unemployment benefits) raised disposable household income by 0.2 percentage point and thus created a positive impulse.

Table 6

Determinants of Nominal Household Income in Austria

	2001	2002	2003	2004
	Annual change in %			
Compensation of employees	+3.6	+1.9	+2.9	+3.7
Payroll employment	+0.5	−0.2	+0.6	+1.0
Wages per employee	+3.1	+2.1	+2.3	+2.7
Net mixed income of the self-employed and investment income	+2.8	−0.5	+3.9	+5.6
Net transfers minus direct taxes[1])	−3.8	+1.5	−6.9	−6.5
	Contribution to disposable household income in percentage points			
Compensation of employees	+3.1	+1.6	+2.5	+3.2
Net mixed income of the self-employed and investment income	+0.8	−0.2	+1.1	+1.6
Net transfers minus direct taxes[1])	−0.6	+0.2	−1.1	−1.0
Disposable household income (nominal)	+3.3	+1.7	+2.6	+3.8

Source: OeNB, Statistics Austria.

[1]) *Negative values indicate an increase in (negative) net transfers minus direct taxes; positive values indicate a decrease.*

Real disposable household income stagnated in 2002. The 0.7% rise in real household expenditure was attributable primarily to the decline in the saving ratio. Apart from stagnating income, the general uncertainty – as well as the fact that inflation after the euro cash changeover was perceived to be higher than statistics indicate – may have played a role in keeping consumption growth subdued.

In the course of 2003, the situation on the labor market – and thus households' income situation – is expected to improve again. Moreover, declining inflation rates will strengthen consumers' purchasing power. At a projected 1.0% growth rate of real household income, however, the saving ratio is likely to continue on its slightly downward path. Consumers' rising confidence in the general economic development indicates a somewhat stronger uptrend in consumption for 2003 (+1.3%). For 2004, the OeNB expects a hefty growth of nominal income, accompanied by low inflation. Based on this assumption, household spending is likely to go up 2.0%.

Table 7

Private Consumption in Austria

	2001	2002	2003	2004
	Annual change in %			
Disposable household income (nominal)	+3.3	+1.7	+2.6	+3.8
PCE deflator	+2.0	+1.7	+1.5	+1.6
Disposable household income (real)	+1.3	+0.0	+1.0	+2.2
Private consumption (real)	+1.5	+0.7	+1.3	+2.0
	% of disposable household income			
Saving ratio	6.0	5.4	5.3	5.6

Source: OeNB, Statistics Austria.

The growth outlook for real government consumption remains subdued over the entire forecasting horizon, running at 0.3%, 0.8% and 0.8% for 2002, 2003 and 2004, respectively, according to OeNB estimations.

6.2 Investment

Corporate investment activities tend to fluctuate substantially over the business cycle. The current economic slowdown, for example, already put a brake on investment in the first half of 2001. Over the entire year 2001, gross fixed capital formation contracted by 2.2% (in real terms), with the downtrend in investment in plant and equipment particularly marked at –2.9%. At –11.4%, gross fixed capital formation bottomed out in the third quarter of 2001 compared to the previous quarter. During the first half of 2002, the decline was still relatively pronounced as exports, which normally spur investment activity, essentially failed to provide the necessary growth stimulus. Moreover, Austrian businesses have an extremely pessimistic view of cyclical developments, which exacerbates the situation. On a decline since fall 2000, expectations for future order book developments had collapsed at the end of 2001, yet still continue to fall short of the long-standing average. For 2002, we expect fixed gross capital formation to contract by 3.3%.

The Cyclical and Budgetary Impact of the Floods in Austria

The disastrous floods in August 2002 caused eight fatalities and entailed enormous financial damage. They damaged important infrastructural facilities, caused crop failures, destroyed production sites and interrupted production. Current calculations assume direct damage to total EUR 3 billion. Moreover, additional indirect damage stems from loss of output and consequential losses, such as the potential loss of jobs. While flood damages arose in 2002, investment in reconstruction began with a certain time lag and will therefore become effective mainly in 2003.

Direct and indirect flood damages, which became effective almost entirely in 2002, caused overall economic growth to slow down by 0.06 percentage point in the reporting year. In 2003, investment in reconstruction and replacements will contribute 0.2 percentage point to GDP growth. These estimates are based on a government relief package of EUR 1.6 billion. The most important contribution to growth comes from additional investment in construction. As this sector reports excess capacities, the flood will have only minor effects on inflation, if any. The burden of flood relief measures on the revenue and expenditure sides of public finances is anticipated to cause the forecast budgetary balance to deteriorate by 0.4% of GDP both in 2002 and 2003.

The OeNB expects investment to pick up substantially only toward mid-2003. This upswing will then primarily rely on the expected acceleration of export growth. A 10% investment allowance (granted until end-2003) and investment in reconstruction after the floods will provide an additional growth stimulus. Moreover, the continued contraction of investment volumes will prompt investors to catch up on investment. Even though the present financing conditions in Austria are favorable compared to the past, real interest rates are above the euro area average as inflation is low. Gross fixed capital formation is expected to augment by 2.5% in 2003 and 4.2% in 2004. Investment in plant and equipment in particular, which is projected to climb by 3.4% in 2003 and 5.8% in 2004, is the motor of this increase. Construction investment will also record a moderate uptrend. During the economic downturn, businesses had put a brake on stock-building. In 2002, changes in inventory reduced GDP growth by 0.2 percentage point. This item is expected to contribute 0.0 percentage point to GDP growth in 2003 and 0.1 percentage point in 2004.

7 Labor Market

The cyclical slowdown of 2001 fed through to the labor market with a certain time lag. This delayed reaction of employment to aggregate demand is a typical labor market phenomenon. The employment rate decreased in particular in the fourth quarter of 2001 and in the first quarter of 2002. Compared to the previous period, these two quarters recorded a decline both in total employment and in payroll employment. Compared to the previous year, the number of dependently employed persons reached a low in the first quarter of 2002. Year-on-year figures have been trending upward ever since. In the third quarter of 2002, total employment was still 0.4% below the comparable value of 2001.

Although the number of registered unemployed augmented markedly in the second half of 2001, unemployment figures went down slightly over the entire year 2001 (–1.6%). 2002 saw a rise in unemployment, however (+13.6%). Given the delayed reaction of employment to businesses' production and demand levels, a visible improvement is not expected before the second half of 2003. All in all, the OeNB expects total employment to climb by 0.3% in 2003 and by 0.8% in 2004. The rate of paid employment is likely to rise by 0.6% in 2003 and 1.0% in 2004.

Table 8

Labor Market Developments in Austria

	2001	2002	2003	2004
	Annual change in %			
Total employment	+0.2	– 0.4	+0.3	+0.8
thereof:				
Payroll employment	*+0.5*	*– 0.2*	*+0.6*	*+1.0*
Self-employed	*–1.0*	*– 1.4*	*–0.7*	*+0.0*
Public sector employees	*–3.2*	*– 0.7*	*–0.2*	*+0.0*
Registered unemployment	–1.6	+13.6	+2.2	–3.3
Labor supply	+0.4	+ 0.2	+0.4	+0.6
Unemployment rate (Eurostat definition) in %	3.6	4.1	4.1	4.0

Source: OeNB, Eurostat.

The number of self-employed has traditionally been on the decline. This trend is going to persist over the forecasting horizon, albeit at a slightly weaker pace. The number of civil servants plunged by 3.2% in 2001 as a consequence of the government's austerity package. In the course of 2002, public-sector employment decreased by no more than 0.7% and is expected to stabilize in the years to come (2003: –0.2%, 2004: +0.0%).

According to empirical estimates, the elasticity of labor supply is much higher in Austria than in other EU countries. On the one hand, this is traceable to the high flexibility of real wages within the overall wage setting process and, on the other hand, to the procyclical reaction of the participation rates of women and older age groups. For this reason, the unemployment rate normally does not fluctuate markedly over the course of the business cycle.

Over this short time horizon, demographic factors only play a subordinate role, but in the medium term, we expect demographic developments to cause a decline in labor supply. Migration effects also remain negligible. The uptrend in female participation rates that has been observed over the past few years is going to slow down slightly, while part-time employment will be trending upward. All in all, the OeNB forecasts labor supply to grow by 0.2%, 0.4% and 0.6% from 2002 to 2004.

The unemployment rate in Austria jumped in 2002, standing at 4.1% for the entire year (Eurostat definition). Forecasts of labor supply and employment developments imply a stagnation/slight reduction of the unemployment rate, which is expected to run to 4.1% in 2003 and 4.0% in 2004.

8 Risks to the Forecast, Alternative Scenarios, Comparison of Forecasts

8.1 Risks to the Forecast

Since the OeNB's 2002 spring outlook, economic conditions have clearly deteriorated both in Austria and in the euro area. The risks for the pace of economic recovery outlined in the spring outlook have largely materialized. The quick rebound of business and household confidence indicators at the beginning of 2002 failed to trigger the expected boom in consumption and investment.

At the current juncture, considerable downward risks persist regarding the growth of domestic demand and exports. Political developments in the Middle East also constitute a pronounced forecast risk. Experience from the 1990/91 Gulf War suggests that a military conflict in that region might have a substantial impact on oil prices, stock markets and the growth of household spending.

Furthermore, risks are on the downside for the realm of two private demand components, namely consumption and investment, as expressed in the consumer confidence index and the business climate index for 2002. The relevant indicators recorded a steep uptrend at the beginning of the year, thus signaling a quick recovery of consumption and investment demand. Over the rest of 2002, however, these indicators failed to improve any further, with some even deteriorating markedly. If this trend holds, demand growth might slow considerably in 2003.

8.2 Alternative Scenarios

To estimate the quantitative implications of the most important forecast risks, the OeNB calculated two alternative scenarios using its macroeconomic model. One scenario ("Crisis in the Middle East") analyzed the effects on the Austrian economy of a contained conflict in the first half of 2003. The other scenario ("Weaker Domestic Demand") assumed a further reduction of domestic demand owing to a continued decline in consumer and business confidence. Both scenarios start out in the first quarter of 2003.

Scenario I: Crisis in the Middle East

The Middle East crisis scenario assumes a contained conflict in Iraq in the first half of 2003. The economic consequences of such a conflict were inferred from the developments observed during the Gulf War period in 1990/91. To simulate changes in the global economic environment on the basis of the NIGEM[1]) model, a rise in oil prices to USD 40, a worldwide 10% fall in stock prices and an increase in U.S. public expenditure by 1% of nominal GDP were

1 *NIGEM (National Institute Global Econometric Model) is a global econometric model set up by the National Institute of Economic and Social Research (NIESR).*

assumed for the first half of 2003. Moreover, to take account of the negative effects on consumer behavior, we implemented a worldwide rise of the saving ratio by 0.5 percentage point for the same period. Exchange rate and interest rate assumptions remained unchanged over the forecasting horizon, however. As of the second half of 2003, both oil prices and stock prices will have returned to the level of the baseline scenario – which is consistent with the assumptions – while the saving ratios will only slowly approach this level, given the model's specific reaction behavior.

The cumulative effect of these shocks leads to a clear rise of the HICP and other deflators vis-à-vis the baseline solution in 2003. The inflationary effect of the energy price hike will weaken toward the end of the forecasting horizon, though. Real GDP growth will be dampened in the longer term, remaining below the baseline solution by –0.7 percentage point in 2003 and –0.6 percentage point in 2004. Real consumer demand and real investment demand will also feel a sustained negative impact. The strongest implications of a deteriorating global economy, in relative terms, will result for export and import growth; in this scenario, exports will be –1.4% below the basis solution in 2003 and –1.8% lower in 2004. Although a stronger increase in nominal wages will only partly offset the losses in real income caused by rising energy prices, in this scenario employment will fall below the baseline value in both 2003 and 2004. The unemployment rate will be 0.1 percentage point and 0.2 percentage point higher in 2003 and 2004, respectively.

Scenario II: Weaker Domestic Demand

The second scenario analyzed the effects of a clear reduction in domestic demand in Austria in 2003 and 2004. Following a quick recovery at the beginning of 2002, consumer confidence and the business climate index started to deteriorate again in the summer; at this writing, the indicators have returned to the level of early 2002. A further weakening of confidence would lead to higher precautionary saving and thus reduce consumer demand and investment spending. This scenario is based on the assumption that the saving ratio will climb by 0.3% over the entire forecasting horizon. In parallel, we assumed that businesses will be more cautious in realizing investment projects; to this effect, we implement a rise in the risk premium, which is used to calculate the profitability of investment projects. The risk premium was raised to the extent that the user cost of capital increased by 100 basis points.

Both prices and real growth rates are negatively affected in this scenario. The HICP will remain 0.1 percentage point below the baseline solution in 2003 and 0.3 percentage point in 2004. Over the medium term, weak demand will clearly reduce inflation. GDP will also fall short of the baseline solution. GDP will shrink by 0.3 percentage point, in relative terms, in 2003 and by 0.4 percentage point in 2004. Real investment spending will be hit hardest in this scenario, remaining 0.8 percentage point below the baseline solution in 2003 and recording a shortfall of 1.9 percentage point in 2004. Net exports' increasing contribution to growth (0.1 percentage point in 2003 and 0.3 percentage point in 2004) will save GDP from a sharper decline. This result clearly attests to the stabilizing effect of highly interlinked external trade relations.

Table 9

Key Results of the Alternative Scenarios

	Crisis in the Middle East		Weaker domestic demand	
	2003	2004	2003	2004
	Deviation from baseline scenario in %			
Real GDP	–0.7	–0.6	–0.3	–0.4
HICP	+0.9	+0.2	–0.1	–0.3
Private consumption (real)	–0.7	–0.6	–0.4	–0.4
Private investment (real)	–1.0	–0.6	–0.8	–1.9
Employment	–0.1	–0.3	–0.1	–0.1

Source: OeNB.

8.3 Comparison to Spring Outlook

The international environment has changed fundamentally since the OeNB's 2002 spring outlook. The global economic recovery, which had begun to show in spring 2002, proved to be only temporary. Confidence, in particular, has slumped dramatically since early 2002. As a consequence, the OeNB had to markedly revise its forecast of real GDP growth (2002: –0.3 percentage point, 2003: –0.8 percentage point; 2004: –0.5 percentage point). This downward revision of 2002 forecasts is attributable to the deteriorating international environment in the second half of the year as well as to a revision of data in 2001 and to macroeconomic developments in the first half of 2002. Demand for Austrian exports in 2002 had to be revised downward by 1.8 percentage points (2003: –1.7 percentage points) because of the lagged recovery of the international economy. Revisions for 2003 and 2004 result from the upswing in the global economy, which is expected to begin after spring. The inflation forecast only saw a minor revision (2002: +0.2 percentage point; 2003: +0.1 percentage point; 2004: –0.1 percentage point). The reasons for this revision are higher realized oil prices and persistently strong inflation in the services sector. Technical assumptions (oil prices, interest rates, exchange rates) remained largely unchanged.

8.4 Comparison of Forecasts

The forecast results of national and international institutions basically show the same cyclical pattern. GDP growth is forecast to accelerate in 2003 and 2004, while consumer price inflation (HICP and CPI) and the unemployment rate are expected to decrease. GDP growth projections range from 1.6% to 2.5% for 2003 and from 2.2% to 2.6% for 2004.

The OeNB's estimate of real GDP growth for 2003 remains behind that of other forecasts (1.8% to 2.5%), with in particular September 2002 forecasts of other institutions clearly more optimistic than the OeNB outlook. In comparison to the Austrian Institute of Economic Research (WIFO) and the Institute for Advanced Studies (IHS) at least, this discrepancy is basically attributable to a more cautious forecast of real household income and, as a consequence, household spending, but also to somewhat lower assumptions for export demand. The OeNB is also more cautious in its investment activity projections. By contrast, it takes a more optimistic view on government consumption growth than other forecasters.

Table 10 a

Comparison of Current Economic Forecasts for Austria

	OeNB November 2002			WIFO September 2002		IHS September 2002	
	2002	2003	2004	2002	2003	2002	2003
	Annual change in %						
Key results							
GDP, real	+0.8	+1.6	+2.2	+0.9	+2.2	+0.8	+2.5
Private consumption (real)	+0.7	+1.3	+2.0	+1.0	+1.8	+0.8	+2.3
Government consumption (real)	+0.3	+0.8	+0.8	−1.0	+0.0	+0.3	+0.3
Gross fixed capital formation (real)[1])	−3.3	+2.5	+4.2	−2.8	+2.8	−2.3	+3.2
Exports (real)	−0.1	+4.6	+6.3	+0.0	+6.1	+3.0	+5.3
Imports (real)	−1.9	+4.4	+6.8	−2.5	+5.3	+1.4	+4.7
GDP per employee	+1.2	+1.3	+1.4	+1.1	+1.5	+1.1	+1.9
GDP deflator	+0.8	+1.2	+1.4	+1.2	+1.4	+1.3	+1.4
CPI	×	×	×	+1.8	+1.4	+1.8	+1.6
HICP	+1.8	+1.8	+1.6	+1.8	+1.4	×	×
Unit labor costs	+0.8	+1.0	+1.3	+1.2	+0.7	×	×
Payroll employment	−0.4	+0.3	+0.8	+0.3	+1.0	−0.3	+0.6
	%						
Unemployment rate	4.1	4.1	4.0	4.1	4.1	4.1	4.0
	% of nominal GDP						
Current account	−1.8	−1.9	−2.1	−0.9	−0.7	−1.8	−1.4
Government surplus/deficit	−1.7	−1.6	−0.8	−1.5	−1.0	−1.5	−1.0
External assumptions							
Oil price (in USD per barrel)	24.8	24.0	22.2	24.5	25.0	24.0	26.0
Short-term interest rate in %	3.4	3.2	3.2	3.4	3.3	3.4	3.5
USD/EUR	0.94	0.99	0.99	0.94	1.00	0.94	0.99
	Annual change in %						
Euro area GDP (real)	0.6−1.0	1.1−2.1	1.8−2.9	+0.8	+2.2	×	×
U.S. GDP (real)	+2.4	+2.3	+3.0	+2.3	+2.6	+2.8	+3.0
World GDP (real)	+2.7	+3.4	+4.1	×	×	×	×
World trade	+1.1	+5.3	+6.6	+3.5	+7.0	+1.5	+10.8

Source: OeNB, WIFO, IHS.

[1]) For IHS: Gross capital formation.

Table 10 b

Comparison of Current Economic Forecasts for Austria

	OECD November 2002			IMF October 2002		European Commission November 2002		
	2002	2003	2004	2002	2003	2002	2003	2004
	Annual change in %							
Key results								
GDP, real	+0.7	+1.9	+2.6	+1.0	+2.4	+0.7	+1.8	+2.2
Private consumption (real)	+0.7	+1.6	+2.2	×	×	+0.8	+1.3	+2.0
Government consumption (real)	+0.1	+0.5	+0.9	×	×	+0.2	+0.3	+0.4
Gross fixed capital formation (real)	−2.8	+2.9	+4.2	×	×	−2.6	+3.8	+4.6
Exports (real)	−0.9	+6.1	+7.4	×	×	+0.1	+6.2	+7.6
Imports (real)	−2.7	+5.8	+7.2	×	×	−1.8	+6.4	+8.0
GDP per employee	×	×	×	×	×	×	×	×
GDP deflator	+1.2	+1.6	+1.7	+1.0	+1.6	+1.4	+1.0	+1.3
CPI	×	×	×	+1.8	+1.6	×	×	×
HICP	+1.7	+1.6	+1.7	×	×	+1.9	+1.6	+1.5
Unit labor costs	×	×	×	×	×	+1.6	+0.7	+0.8
Payroll employment	×	×	×	×	×	+0.1	+0.4	+0.6
	%							
Unemployment rate[1])	5.6	5.7	5.3	4.3	3.8	4.3	4.3	4.1
	% of nominal GDP							
Current account	−0.8	−0.7	−0.6	−2.3	−2.3	−0.7	−1.0	−1.3
Government surplus/deficit	−1.6	−1.4	−0.8	−0.5	−0.3	−1.8	−1.6	−1.5
External assumptions								
Oil price (in USD per barrel)	23.9	25.8	24.8	24.4	24.2	25.5	24.1	22.5
Short-term interest rate in %	3.3	3.0	3.6	×	×	×	×	×
USD/EUR	1.00	1.00	1.00	0.94	0.94	0.94	0.98	0.98
	Annual change in %							
Euro area GDP (real)	+0.8	+1.8	+2.7	+0.8	+2.0	+0.8	+1.8	+2.6
U.S. GDP (real)	+2.3	+2.6	+3.6	+2.2	+2.6	+2.3	+2.3	+2.8
World GDP (real)	×	×	×	+2.8	+3.7	+2.6	+3.6	+4.0
World trade	+2.6	+7.7	+8.8	+2.1	+6.1	+1.9	+6.3	+6.6

Source: European Commission, IMF, OECD.

[1]) Eurostat definition, for OECD forcasts: OECD definition.

Annex

Table 11

Demand Components (Real Prices)

at 1995 prices

	2001	2002	2003	2004	2001	2002	2003	2004
	EUR million				*Annual change in %*			
Private consumption	111,878	116,985	118,543	120,858	+1.5	+0.7	+1.3	+2.0
Government consumption	37,023	38,795	39,121	39,421	–0.5	+0.3	+0.8	+0.8
Gross fixed capital formation	45,971	45,056	46,186	48,130	–2.2	–3.3	+2.5	+4.2
Changes in inventories (incl. statistical discrepancy)	527	1,837	1,777	1,970	×	×	×	×
Domestic demand	195,399	202,672	205,627	210,377	–0.5	–0.1	+1.5	+2.3
Exports, total	107,039	108,559	113,561	120,723	+7.4	–0.1	+4.6	+6.3
Imports, total	103,764	103,099	107,658	114,967	+5.9	–1.9	+4.4	+6.8
Net exports	3,275	5,460	5,903	5,755	×	×	×	×
GDP	198,674	208,132	211,530	216,133	+0.7	+0.8	+1.6	+2.2

Source: 2001: Statistics Austria (incl. SNA revision of October 2002), 2002 to 2004: OeNB (based on unrevised quarterly data).

Table 12

Demand Components (Current Prices)

	2001	2002	2003	2004	2001	2002	2003	2004
	EUR million				*Annual change in %*			
Private consumption	121,580	124,020	127,579	132,140	+3.5	+2.4	+2.9	+3.6
Government consumption	40,544	41,012	41,957	42,939	+1.9	+1.3	+2.3	+2.3
Gross fixed capital formation	49,138	46,113	47,883	50,795	–0.5	–2.7	+3.8	+6.1
Changes in inventories (incl. statistical discrepancy)	657	1,524	1,767	1,628	×	×	×	×
Domestic demand	211,919	212,669	219,186	227,503	+1.8	+0.9	+3.1	+3.8
Exports, total	111,124	109,822	114,810	123,724	+6.9	–0.1	+4.5	+7.8
Imports, total	111,186	108,678	114,176	123,550	+5.7	–1.5	+5.1	+8.2
Net exports	–62	1,144	634	175	×	×	×	×
GDP	211,857	213,813	219,820	227,677	+2.3	+1.6	+2.8	+3.6

Source: 2001: Statistics Austria (incl. SNA revision of October 2002), 2002 to 2004: OeNB (based on unrevised quarterly data).

Table 13

Demand Components (Deflators)

	2001	2002	2003	2004	2001	2002	2003	2004
	1995 = 100				*Annual change in %*			
Private consumption	108.7	106.0	107.6	109.3	+2.0	+1.7	+1.5	+1.6
Government consumption	109.5	105.7	107.2	108.9	+2.4	+0.9	+1.5	+1.6
Gross fixed capital formation	106.9	102.3	103.7	105.5	+1.7	+0.7	+1.3	+1.8
Domestic demand (excl. changes in inventories)	108.4	105.1	106.7	108.4	+2.0	+1.3	+1.4	+1.6
Expors, total	103.8	101.2	101.1	102.5	–0.4	+0.0	–0.1	+1.4
Imports, total	107.2	105.4	106.0	107.5	–0.2	+0.4	+0.6	+1.3
Terms of trade	96.9	96.0	95.3	95.4	–0.2	–0.3	–0.7	+0.0
GDP	106.6	102.0	103.2	104.5	+1.6	+0.8	+1.2	+1.4

Source: 2001: Statistics Austria (incl. SNA revision of October 2002), 2002 to 2004: OeNB (based on unrevised quarterly data).

Table 14

Labor Market

	2001	2002	2003	2004	2001	2002	2003	2004
	1,000				*Annual change in %*			
Total employment	4,027.5	4,011.3	4,024.9	4,057.1	+0.2	−0.4	+0.3	+0.8
Private sector employment	3,514.1	3,501.6	3,516.1	3,548.4	+0.7	−0.4	+0.4	+0.9
Payroll employment (national accounts definition)	3,294.2	3,288.6	3,306.8	3,339.4	+0.5	−0.2	+0.6	+1.0
	%							
Unemployment rate (Eurostat definition)	3.6	4.1	4.1	4.0	×	×	×	×
Unit labor costs (whole economy)[1]	0.7	0.7	0.7	0.7	+2.4	+0.8	+1.0	+1.3
	at current 1995 prices, EUR 1,000							
Labor productivity (whole economy)	51.2	51.9	52.6	53.3	+0.6	+1.2	+1.3	+1.4
Real wages per employee[2]	32.3	32.4	32.7	33.0	+1.1	+0.4	+0.8	+1.1
	at current prices, EUR 1,000							
Gross wages per employee	33.7	34.4	35.2	36.1	+3.1	+2.1	+2.3	+2.7
	at current prices, EUR million							
Total gross wages	110,878	112,996	116,288	120,632	+3.6	+1.9	+2.9	+3.7

Source: 2001: Eurostat; 2002 to 2004: OeNB.
[1]) Gross wages as a ratio of real GDP.
[2]) Gross wages per employee divided by the private consumption deflator.

Table 15

Current Account

	2001	2002	2003	2004	2001	2002	2003	2004
	EUR million				*% of nominal GDP*			
Current account	−4,752'9	−3,742'2	−4,265'5	−4,703'3	−2.2	−1.8	−1.9	−2.1

Source: OeNB.

Table 16

Quarterly Forecast Results

	2002	2003	2004	2002				2003				2004			
				1st qu.	2nd qu.	3rd qu.	4th qu.	1st qu.	2nd qu.	3rd qu.	4th qu.	1st qu.	2nd qu.	3rd qu.	4th qu.
	Annual change in %														
Prices, wages and costs															
HICP	+1.8	+1.8	+1.6	+1.8	+1.6	+1.7	+1.9	+2.3	+1.8	+1.6	+1.4	+1.1	+1.5	+1.8	+1.9
HICP (excl. energy)	+2.0	+1.6	+1.8	+2.3	+2.0	+2.0	+1.8	+2.0	+1.6	+1.3	+1.3	+1.2	+1.7	+2.1	+2.1
PCE deflator	+1.7	+1.5	+1.6	+1.5	+1.2	+2.0	+2.0	+2.2	+2.2	+1.1	+0.6	+0.7	+1.3	+1.9	+2.4
Gross fixed capital formation deflator	+0.7	+1.3	+1.8	+0.6	+0.1	+0.5	+1.6	+1.2	+1.5	+1.2	+1.3	+1.4	+1.7	+1.9	+2.2
GDP deflator	+0.8	+1.2	+1.4	+0.5	+0.4	+0.6	+1.6	+1.6	+1.6	+1.0	+0.4	+0.7	+1.4	+1.6	+1.7
Unit labor costs	+0.8	+1.0	+1.3	+1.3	+0.7	+0.6	+0.7	+2.2	+1.5	+0.5	+0.0	+0.5	+1.2	+1.7	+1.9
Nominal wages per employee	+2.1	+2.3	+2.7	+1.9	+2.1	+2.3	+2.0	+3.3	+2.5	+1.9	+1.8	+2.1	+2.6	+3.0	+3.2
Productivity	+1.2	+1.3	+1.4	+0.5	+1.4	+1.7	+1.3	+1.1	+1.0	+1.4	+1.7	+1.6	+1.3	+1.3	+1.3
Real wages per employee	+0.4	+0.8	+1.1	+0.3	+0.9	+0.3	+0.1	+1.1	+0.2	+0.8	+1.2	+1.4	+1.3	+1.0	+0.8
Import deflator	+0.4	+0.6	+1.3	+0.2	−0.1	+0.3	+1.1	+1.1	−0.1	+0.5	+0.9	+1.1	+1.4	+1.4	+1.4
Export deflator	+0.0	−0.1	+1.4	+0.7	+0.7	−0.3	−0.8	−1.0	−1.0	+0.5	+1.2	+1.4	+1.4	+1.4	+1.4
Terms of trade	−0.3	−0.7	+0.0	+0.5	+0.7	−0.7	−1.9	−2.1	−1.0	+0.0	+0.4	+0.2	+0.0	+0.0	+0.0
	At 1995 prices, annual and/or quarterly changes in %														
Economic activity															
GDP	+0.8	+1.6	+2.2	+0.4	+0.7	+0.0	+0.1	+0.5	+0.7	+0.5	+0.5	+0.5	+0.5	+0.6	+0.6
Private consumption	+0.7	+1.3	+2.0	+0.1	+0.2	+0.3	+0.3	+0.3	+0.4	+0.4	+0.4	+0.5	+0.5	+0.6	+0.6
Government consumption	+0.3	+0.8	+0.8	−0.2	+0.2	+0.0	+0.0	+0.3	+0.3	+0.3	+0.3	+0.2	+0.1	+0.1	+0.0
Gross fixed capital formation	−3.3	+2.5	+4.2	−1.3	+0.1	+0.2	+0.0	+0.5	+1.2	+1.2	+1.2	+0.9	+0.9	+1.0	+1.0
Investment in plant and equipment	*−9.0*	*+3.4*	*+5.8*	*−3.3*	*−3.4*	*+0.9*	*+0.8*	*+0.6*	*+1.9*	*+1.6*	*+1.7*	*+1.4*	*+1.1*	*+1.1*	*+1.2*
Residential construction investment[1])	*+0.1*	*+0.7*	*+1.7*	*+0.8*	*+1.2*	*+0.3*	*−0.1*	*−0.3*	*+0.3*	*+0.4*	*+0.7*	*+0.5*	*+0.3*	*+0.1*	*+0.2*
Exports	−0.1	+4.6	+6.3	−4.0	+1.2	+3.8	−0.2	+0.6	+1.1	+1.3	+1.5	+1.5	+1.6	+1.7	+1.8
Imports	−1.9	+4.4	+6.8	−3.3	−0.7	+4.2	+0.0	+0.6	+1.0	+1.4	+1.7	+1.6	+1.8	+1.8	+1.9
	Contribution to real GDP growth in percentage points														
Domestic demand	−0.3	+1.4	+2.2	−0.3	+0.2	+0.2	+0.2	+0.3	+0.5	+0.5	+0.6	+0.5	+0.5	+0.6	+0.6
Net exports	+0.9	+0.2	−0.1	−0.5	+1.0	−0.1	−0.1	+0.0	+0.1	+0.0	+0.0	+0.0	−0.1	+0.0	+0.0
Changes in inventories	+0.2	+0.0	+0.1	+1.1	−0.5	−0.2	+0.0	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
	%														
Labor market															
Unemployment rate (Eurostat definition)	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0	4.0
	Annual and/or quarterly changes in %														
Total employment	−0.4	+0.3	+0.8	−0.3	+0.0	+0.1	+0.0	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2
thereof private sector	*−0.4*	*+0.4*	*+0.9*	*−0.4*	*+0.0*	*+0.1*	*+0.1*	*+0.1*	*+0.1*	*+0.2*	*+0.2*	*+0.2*	*+0.3*	*+0.3*	*+0.3*
Payroll employment	−0.2	+0.6	+1.0	−0.2	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3
	At 1995 prices, annual and/or quarterly changes in %														
Additional variables															
Disposable household income (real)	+0.0	+1.0	+2.2	−1.0	+0.9	−0.4	−0.2	+0.3	+0.6	+0.7	+0.6	+0.4	+0.5	+0.6	+0.8
	% of disposable real household income (saving ratio) and % of real GDP (output gap)														
Saving ratio of households	5.4	5.3	5.6	5.1	6.0	5.5	5.1	5.1	5.2	5.3	5.4	5.4	5.5	5.6	5.8
Output gap	−0.6	−0.8	−0.6	−0.3	−0.2	−0.8	−1.2	−1.1	−0.8	−0.7	−0.7	−0.6	−0.6	−0.6	−0.5

Source: OeNB. Quarterly data are seasonally adjusted.

[1]) Excluding other construction investment and other investment.

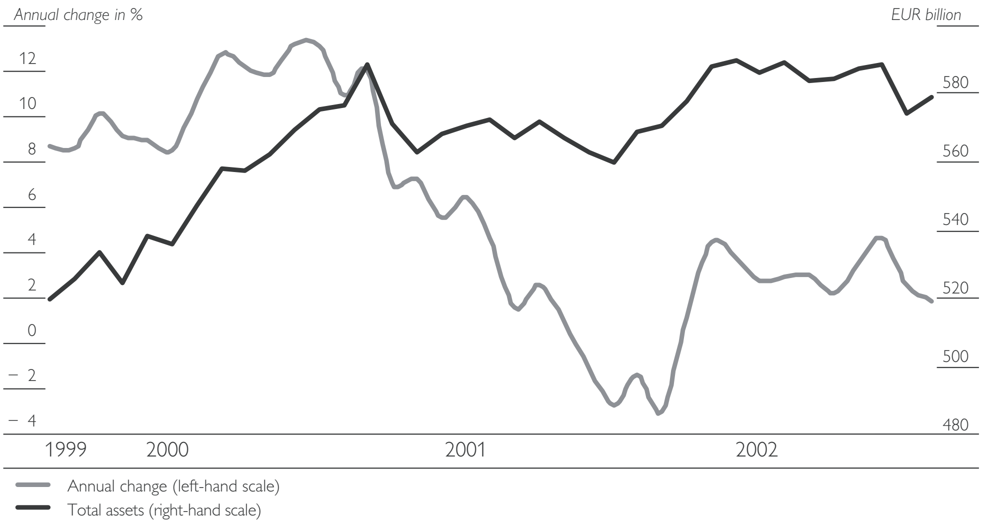
Money and Credit in the First Three Quarters of 2002

Ralf Dobringer,
Margarita
Schandl-Greyer

Decline in Total Assets

Total assets of banks operating in Austria decreased by EUR 8.47 billion or 1.4% in the first three quarters of 2002. This has been the sharpest decline in total assets since data were made available electronically (in 1978); it can be traced primarily to the merger between Bank Austria AG (BA) and Creditanstalt (CA) in August 2002. However, even without taking these two institutions into account, total assets would have climbed by no more than 2.8%, which corresponds to a drop by 3.8 percentage points year on year.[1]) While domestic interbank business slowed down markedly owing to the above-mentioned merger, banks posted fairly good results in external lending. On the liabilities side, banks mainly funded themselves by own issues to nonbanks.

Asset Growth of Domestic Banks



Source: OeNB.

Owing to the merger of BA and CA, it is difficult to make a comparison by sectors, since joint stock banks posted below-average and savings banks above-average total asset growth rates. Of the remaining sectors, state mortgage banks recorded by far the highest growth rate (+7.3%), followed by Volksbank credit cooperatives (+3.4%). By contrast, building and loan associations did worse than the average, posting a 1.1% drop in total assets, as both loans and deposits were on the decline in this specific sector. The chart "Market Shares of Banks Operating in Austria" illustrates the impact of banks' total asset growth on their market shares.

Since the beginning of 2002, the market share of the five largest banks as a percentage of total assets has increased by 1.7 percentage points to 47.2%.

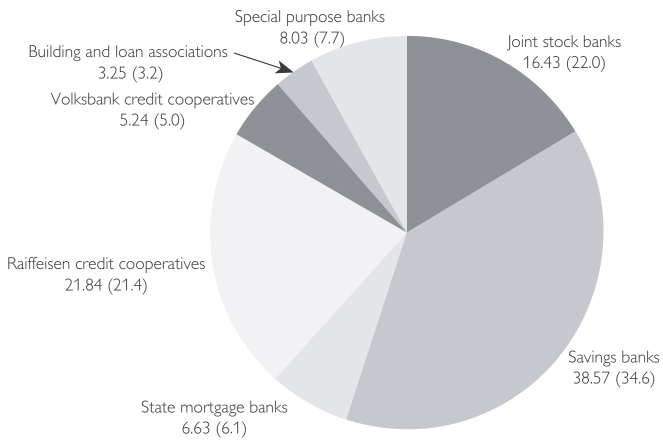
Number of Banks Continues to Fall

The number of banks operating in Austria continued to decline in the course of 2002. The number of head offices has gone down by 11 since December 2001, while the number of branches and bureaux de change has dropped by 22.

1 *The comparable figure for 2001 does not include the data for BA and CA, either.*

Market Shares of Banks Operating in Austria

as a percentage of total assets as of September 2002 (December 2001)



Source: OeNB.

Number of Banking Offices in Austria

	Joint-stock banks and private banks		Savings banks		State mortgage banks		Raiffeisen credit cooperatives		Volksbank credit cooperatives		Building and loan associations		Special purpose banks		Total		Sum of head and branch offices
	H	B	H	B	H	B	H	B	H	B	H	B	H	B	H	B	
December 31, 2001	61	738	67	1,380	9	164	617	1,725	70	475	5	59	78	5	907	4,546	5,453
September 30, 2002	60	533	65	1,559	9	166	610	1,724	70	479	5	59	77	4	896	4,524	5,420
Change[1])	–1	–205	–2	179	–	2	–7	–1	–	4	–	–	–1	–1	–11	–22	–33

Source: OeNB.
H = Head office.
B = Branch offices and bureaux de change.
[1]) Changes results from the establishment of new offices, the closing of offices and mergers.

Domestic Interbank Business Contracts Sharply

Compared with the first three quarters of 2001, domestic interbank business slowed down fairly markedly in the course of 2002 in the wake of the BA/CA merger. While between January and September 2001 banks recorded an increase by EUR 7.41 billion (+7.3%) on the assets side, the same period in 2002 saw a decline by EUR 7.85 billion (–6.9%). Including claims against foreign banks, the share of asset-side interbank transactions in total assets shrank from 33.1% in September 2001 to 32.8% in September 2002.

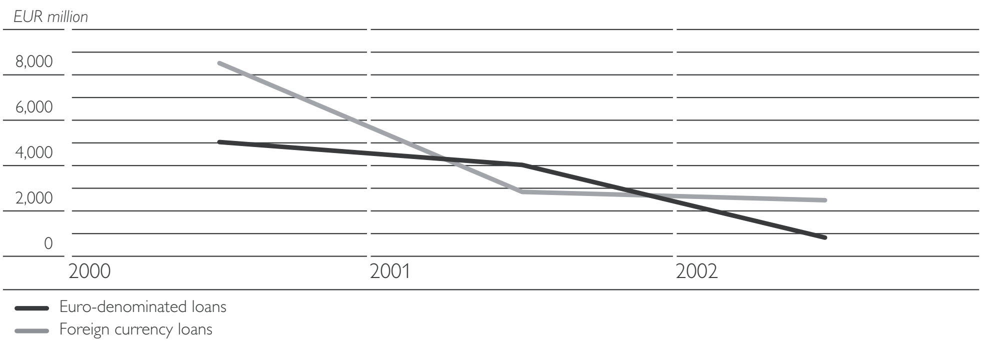
A similar picture emerges from the analysis of liabilities against domestic banks.

2001 saw an increase by EUR 0.69 billion (+0.6%), whereas 2002 recorded a fall by EUR 6.54 billion or 5.8%. Liabilities against foreign banks included, the share of liability-side interbank transactions contracted by 2.8 percentage points to 32.0% between September 2001 and September 2002.

Loan Growth Continues to Be Subdued

Having expanded by EUR 6.95 billion (+3.1%) in the January to September 2001 period, loan growth decelerated over the same period in 2002, reaching only EUR 3.45 billion or +1.5%. Some three quarters of the increase can be attributed to foreign currency loans, which have gone up by EUR 2.56 billion (+6.0%) since the beginning of 2002, while euro-denominated loans expanded by a mere EUR 0.89 billion (+0.5%). In the comparable period in 2001, foreign currency loans increased by EUR 2.89 billion (+7.3%) and euro-denominated loans by EUR 4.06 billion (+2.2%).

Loan Growth from the Beginning of 2002



Source: OeNB.

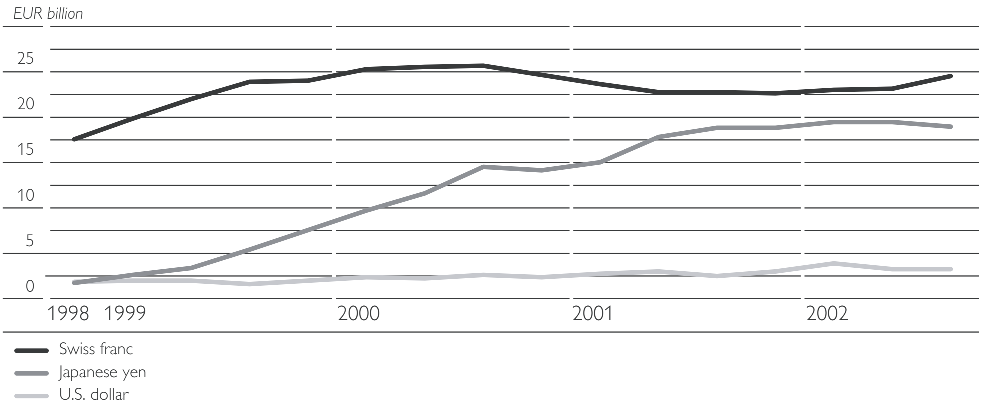
Thus, the share of foreign currency loans in total loans rose by 0.8 percentage point to 19.0% against December 2001. However, since building and loan associations do not extend loans denominated in foreign currencies and special purpose banks posted a far below-average share of foreign currency loans in total loans of 3.9%, the banks of the other sectors recorded foreign currency lending shares of – sometimes significantly – more than 20%; at 18.1%, the Raiffeisen sector was the only exception. The largest share of foreign currency loans in total loans was registered by Volksbank credit cooperatives (24.4%), followed by joint stock banks (21.7%) and savings banks (21.6%).

A regional breakdown shows that the share of loans denominated in foreign currencies in total loans in the western regions of Austria was almost double the share recorded in the east (32% against 17%). Foreign currency loan growth came to approximately 6% in the western provinces, compared to 13% in the east.

Loans Denominated in Swiss Francs Regain Popularity

After a temporary blip in 2001, lending in Swiss francs boomed in the reporting period of 2002; its share in total foreign currency loans increased from 50.4% to 51.9% in the first three quarters of the year. Cumulative growth thus came to EUR 1.8 billion or 8.1%. This expansion may be attributed chiefly to the currently favorable yield differential between the Swiss franc and the euro. Having expanded by EUR 4.6 billion (+32.8%) in the first three quarters of 2001, Japanese yen-denominated loans outstanding increased by no more than EUR 0.2 billion or 1.0% in the like 2002 period. Hence, the share of yen-denominated loans in total foreign currency lending in this period fell from 41.9% to 40.3%.

Foreign Currency Loans Outstanding to Non-MFIs in the Euro Area

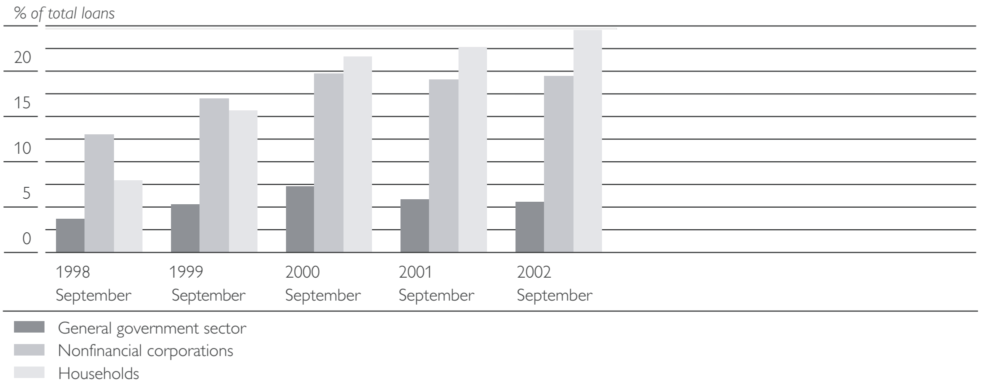


Source: OeNB.

A breakdown of euro-denominated loans by loan size reveals that some 71% of total loans in euro (including overdrafts on current accounts) were loans of up to EUR 10,000. By contrast, the majority of foreign currency loans (some 33%) amounted to between EUR 100,000 and EUR 500,000.

Across economic sectors, enterprises have cut back borrowing by EUR 1.95 billion or 1.5% (2001: +EUR 1.75 billion or +1.4%) since the beginning of 2002 as adverse economic conditions prevailed, whereas households continued to take out loans at almost the same pace like in 2001 (+EUR 3.44 billion or +5.5%). In the first three quarters of 2002, the general government – especially social insurance institutions – increased its liabilities by EUR 1.17 billion or 4.1% compared to +EUR 0.66 billion or +2.3% in the like 2001 period. 94% of general government borrowing is denominated in euro, followed by 80% of loans to enterprises and no more than 75% of loans to households. Since foreign currency loans accounted for only around 12% of total home and home improvement loans, the bulk of foreign currency loans were apparently consumer loans.

Share of Foreign Currency Loans



Source: OeNB.

Securitized Loans

Total securitized loans contracted by EUR 1.1 billion or 5.1% in the first three quarters of 2002 (compared to –EUR 1.56 billion or –6.4% in the like 2001 period), with other public sector debt instruments in particular posting the sharpest decline (–EUR 1.28 billion or –8.4%).

Savings Deposits Down by 0.9%

After having risen by EUR 3.92 billion (+2.2%) in the first three quarters of 2001, deposits shrank by EUR 1.94 billion or 1.0% in the comparable 2002 period. Owing to the merger of Bank Austria AG and Creditanstalt, joint stock banks recorded the most pronounced contraction of deposits (–EUR 11.76 billion or –23.5%), whereas savings banks posted the highest increase (+EUR 9.15 billion or +16.5%). Deposits at Volksbank and Raiffeisen credit cooperatives also went up (+EUR 0.34 billion or +2.9% and +EUR 0.55 billion or +1.2%, respectively), while special purpose banks and building and loan associations registered falling deposits (–EUR 0.12 billion or –9.5% and –EUR 0.15 billion or –0.9%, respectively).

A breakdown by deposit category reveals that only demand deposits expanded (+EUR 1.99 billion or +5.1% against +EUR 0.88 billion or +2.4% in the same period in 2001) in the first three quarters of 2002. By contrast, time deposits, which had posted a EUR 2.09 billion (or 10.3%) rise in 2001, shrank by EUR 2.77 billion or 11.0% in 2002. Savings deposits, at EUR 124.29 billion accounting for around two thirds of total deposits in September 2002, went down by EUR 1.15 billion or 0.9% in the first three quarters of 2002 against an increase by EUR 0.95 billion (+0.8%) in the corresponding 2001 period. However, thanks to the interest on deposits credited as at December 31, 2001 (to the tune of EUR 3.12 billion), deposits in fact increased year on year (September 2001 to September 2002) by EUR 3.63 billion (+3.0%) against EUR 2.13 billion (+1.8%). The average interest rate on savings deposits with an agreed maturity of over 12 months dropped by a slight 0.04 percentage point to 2.71% in the first nine months of 2002.

Cash and deposits still made up some 55% of households' total financial assets,[1]) however, this share has been trending downward. Stocks and mutual fund shares have been rising sharply over the past few years. However, owing to the adverse conditions in international capital markets, in the first three quarters of 2002, the gross growth rate of funds' assets of Austrian investment companies came to no more than 2.1%.[2])

In 2002, banks operating in Austria increasingly relied on issuing direct papers for refinancing purposes. The total amount of direct domestic issues thus expanded significantly more sharply (+EUR 1.26 billion or +2.3%) than the total amount of deposits. In the analogous 2001 period, however, the increase had been even more pronounced (+EUR 2.61 billion or +5.0%). The largest part of the expansion can be traced to the EUR 1.75 billion (+7.0%) rise in the amount of debt securities; other forms of securitized lending registered a decline by EUR 0.10 billion (–0.4%).

1 *Source: Financial accounts in December 2001.*
2 *Source: VÖIG (association of Austrian investment companies).*

External Business

On the assets side, external business posted the sharpest increase in the reporting period (+EUR 6.62 billion or +4.2%). In the comparable 2001 period, external assets had diminished by EUR 7.60 billion or 4.8%. Claims on foreign banks climbed by EUR 2.41 billion or 2.9%, thus accounting for a large part of the overall rise; as mentioned before, domestic interbank claims, on the other hand, fell rather sharply. Other claims on foreigners[1]) augmented notably (+EUR 3.84 billion or +41.8%).

At the same time, banks reduced their external liabilities by EUR 1.67 billion or 1.0% against EUR 6.06 billion (–3.5%) in the corresponding period in 2001. While foreign interbank liabilities dropped by EUR 5.57 billion or 6.6%, foreign securitized liabilities expanded almost by the same amount (+EUR 5.47 billion or +10.4%).

Sharp Increase in Derivatives Transactions

The volume of banks' derivatives transactions augmented by EUR 268.07 billion or 24.2% between January and September 2002. In the comparable period in 2001, derivatives transactions had increased by EUR 229.96 billion (+29.2%). The ratio of special off-balance-sheet financial operations to total assets climbed steeply, coming to 237.9% at the reporting date, against 178.9% in September 2001. Interest rate contracts, especially interest rate swaps with one single currency, made a significant contribution to growth in the derivatives business.

Special Off-Balance-Sheet Transactions

Source: OeNB.

Own Funds

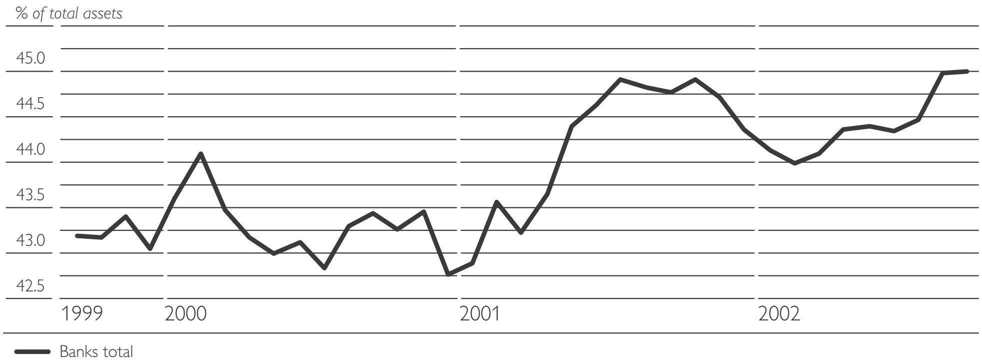
For the first time since the Basel Capital Accord entered into force, the capital base of Austrian banks shrank in the first nine months of 2002 (–EUR 0.84 billion or –2.0%); in the comparable 2001 period, the capital base had grown by EUR 2.58 billion or 6.9%. Accordingly, the (unconsolidated) capital ratio went down by 0.1 percentage point to 14.2% against September 2001.

1 *Other claims include, for instance, stakes in affiliated enterprises abroad.*

Some 65% of own funds reported were tier 1 capital. Eligible capital, comprising core capital and supplementary capital minus deductible items, came to EUR 38.82 billion. The remaining EUR 2.31 billion were tier 3 capital, which may only be used to hedge against market risk.

Banks' risk-weighted assets[1]) remained unchanged against December 2001. Since total assets went down by 1.4% during this period, however, the ratio of risk-weighted assets to total assets slipped by 0.6 percentage point to 45.0%.

Risk-Weighted Assets



Source: OeNB.

Operating Profit Down by 1.7%

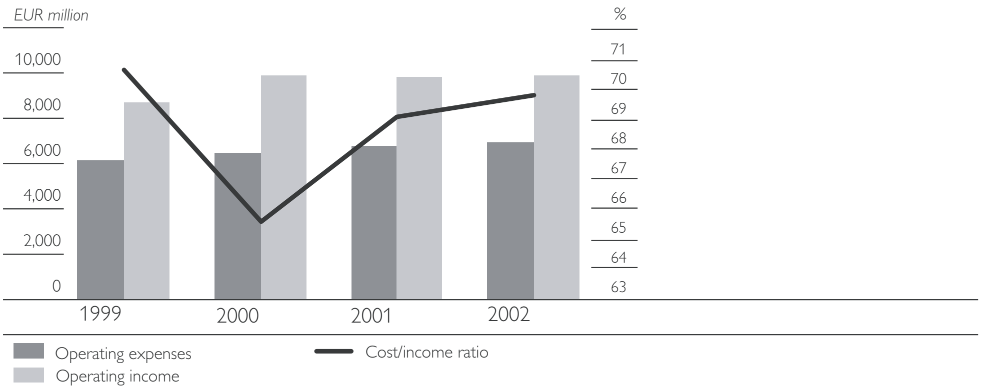
In the first three quarters of 2002, banks operating in Austria posted a EUR 0.05 billion or 1.7% decline in operating profit, which totaled EUR 3.01 billion. Thus, the downward trend recorded in the second half of 2002 continued in the third quarter. A sectoral breakdown reveals that operating profit went up for building and loan associations (+45.0%), special purpose banks (+16.0%), state mortgage banks (+11.7%), Raiffeisen credit cooperatives (+9.8%) and Volksbank credit cooperatives (+5.7%). The merger of BA and CA limits the conclusiveness of sectoral period-to-period comparisons of joint stock banks (–33.4%) and savings banks (+1.4%), since CA's income and expenses were transferred from the joint stock bank sector to the savings bank sector. The ratio of operating profit to average total assets came to 0.52% at the reporting date, having decreased by 0.02 percentage point compared to the same period in 2001. The ratio of operating profit to the assessment base as stipulated in Article 22 (2) of the Austrian Banking Act[2]) was 1.04% in the reporting period, down by 0.06 percentage point compared to the analogous 2001 period.

In the first nine months of 2002, operating income mounted by EUR 0.07 billion or 0.7% to EUR 10.0 billion. At +EUR 0.12 billion or +1.8%, operating expenses increased significantly more markedly (to EUR 6.98 billion).

1 *Risk-weighted assets are assets less risk provisions, which in accordance with Article 22 (3) of the Austrian Banking Act must be weighted by risk categories.*

2 *This ratio is calculated on the basis of operating income relative to the sum of weighted assets, weighted off-balance-sheet activities and weighted special off-balance-sheet financial operations […].*

Cost/Income Ratio

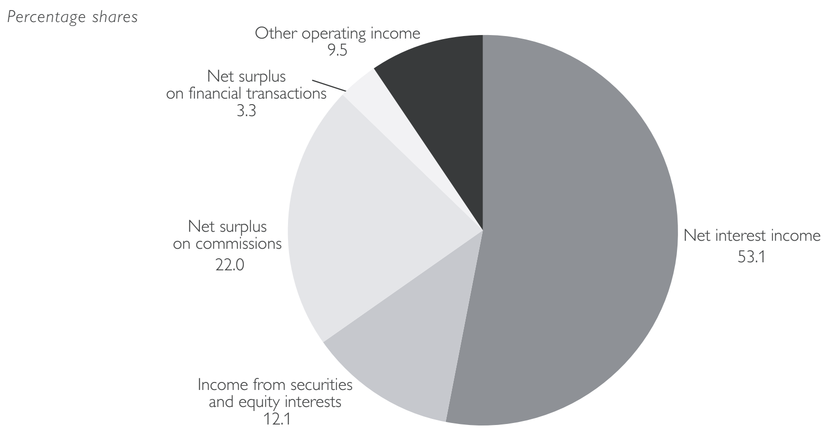


Source: OeNB.

Hence, the cost/income ratio deteriorated by 0.7 percentage point compared to September 2001, coming to 69.9% at the reporting date.

Set in relation to average total assets, operating income diminished by 0.03 percentage point and operating expenses by 0.01 percentage point. The ratio of operating income to the assessment base as stipulated in Article 22 (2) of the Austrian Banking Act[1]) amounted to 3.46%, down by 0.09 percentage point compared to the corresponding 2001 period.

Structure of Operating Income



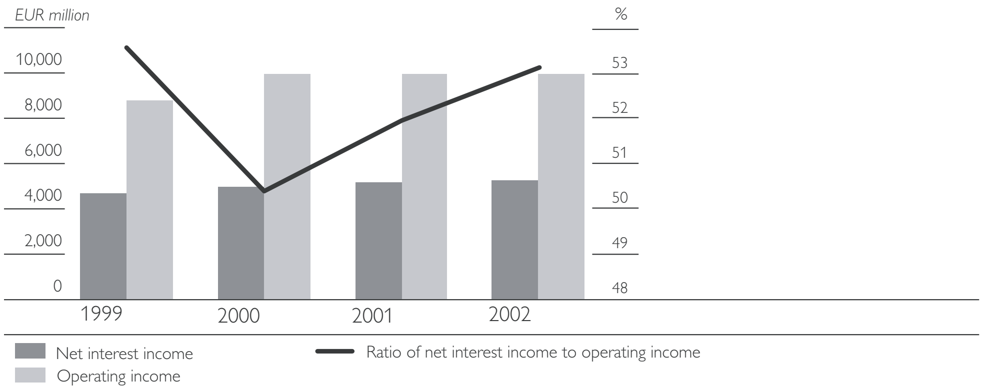
Source: OeNB.

Net Interest Income Is the Mainstay of Total Operating Income

In the first three quarters of 2002, net interest income ran to EUR 5.31 billion, EUR 0.15 billion or 3.0% above the figure recorded in the analogous 2001 period, thus clearly supporting the total operating income of banks operating in

1 *This ratio is calculated on the basis operating profits relative to the sum of weighted assets, weighted off-balance sheet activities and weighted special off-balance sheet financial operations [...].*

Ratio of Net Interest Income to Operating Income



Source: OeNB.

Austria. The ratio of net interest income to total operating income amounted to 53.1% at the reporting date, up by a remarkable 1.2 percentage points.

The ratio of net interest income to average total assets remained almost unchanged compared to the analogous period of 2001. At EUR 17.71 billion, interest receivable and similar income remained below the figure for the like 2001 period (EUR 20.65 billion or –0.4%) by EUR 2.93 billion or 14.2%. At the same time, interest payable and similar charges fell much more sharply (by –EUR 3.09 billion or –19.9% to EUR 12.40 billion) than the respective revenues (first to third quarter 2001: EUR 15.49 billion or –1.4%).

Income from Securities and Equity Interests on the Rise

Income from securities and participating interests increased markedly by EUR 0.10 billion or 8.7% to reach EUR 1.21 billion. Income from equity shares and participating interests rose most notably (+EUR 0.11 billion). Income on shares and other equity as well as variable rate securities decreased by EUR 0.02 billion.

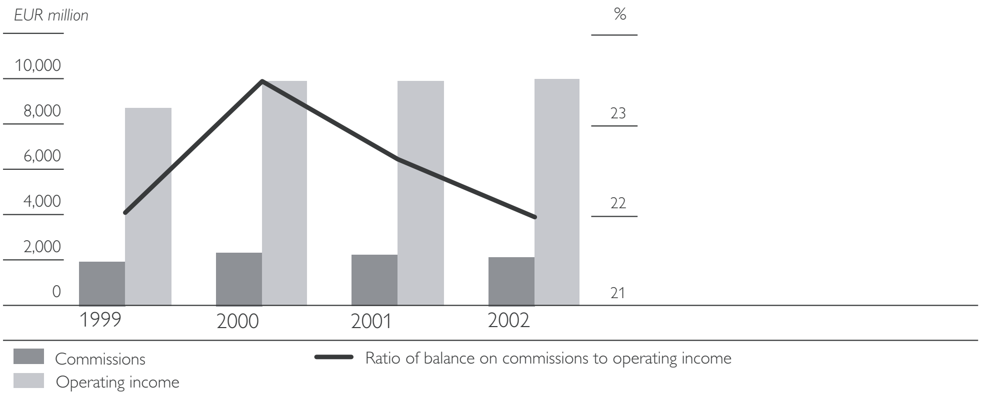
Balance on Commissions Continues Downward Slide

In the first three quarters of 2002, the balance on commissions came to EUR 2.20 billion, down by EUR 0.05 billion or 2.1% against the comparable period in 2001. The performance of the individual branches of fee-based services was varied: Fee-based income from lending (+EUR 0.04 billion), from payment systems (+EUR 0.04 billion) and from services (+EUR 0.03 billion) all posted increases. At the same time, fee income on securities portfolios (–EUR 0.10 billion) and from trading in foreign exchange, currency and precious metals (–EUR 0.06 billion) went down notably.

Fees payable on securities portfolios slipped notably by EUR 0.05 billion.

The ratio of fee-based income to total operating income was 22.0% at the reporting date, down by 0.6 percentage point year on year.

Ratio of Balance on Commissions to Operating Income



Source: OeNB.

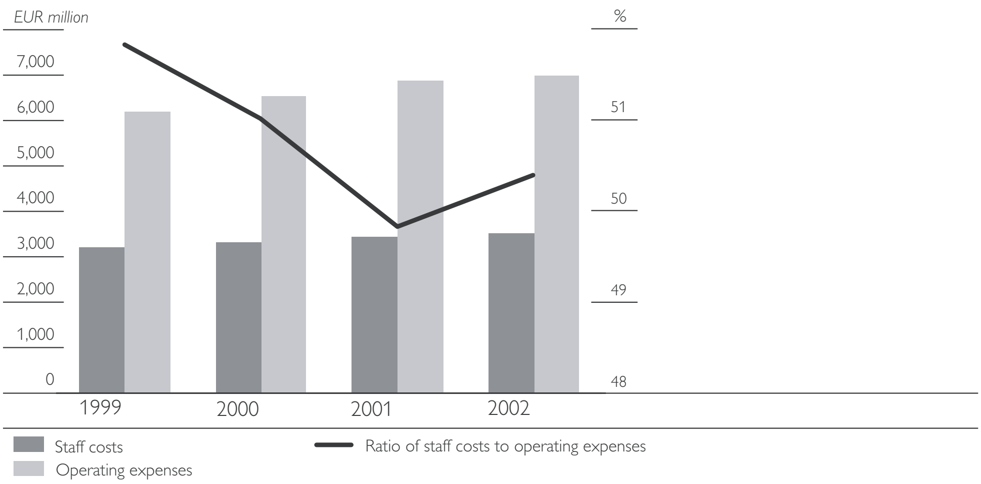
Net Income from Financial Transactions Drops by 17.6%

Net income from financial transactions came to EUR 0.33 billion in the reporting period of 2002, which marks a pronounced decline year on year (–EUR 0.07 billion or –17.6%). This development is chiefly attributable to the decrease in net income from trading in foreign exchange, currency and precious metals (–EUR 0.05 billion), but also to a drop in income on securities other than financial fixed assets (–EUR 0.03 billion). The share of the volatile area of own-account trading in total operating income amounted to 3.3% at the reporting date (against 4.0% one year earlier).

Other Operating Income

Other operating income was below the comparable 2001 figure by EUR 0.06 billion or 6.2%, coming to EUR 0.95 billion, which is traceable to the marked decline in other operating income other than income from the sale of tangible

Ratio of Staff Costs to Total Operating Expenses



Source: OeNB.

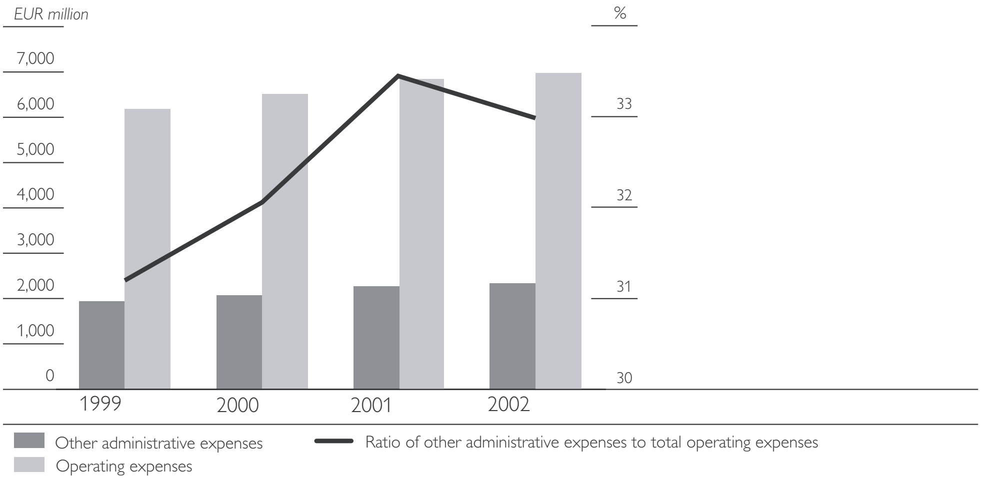
assets, consisting mainly of income on core activities and on products outside these core activities (–EUR 0.07 billion).

General Administrative Expenses Climb More Moderately

Turning to the expenses side, general administrative expenses edged up by EUR 0.11 billion or 1.9% to EUR 5.82 billion in the reporting period (against +EUR 0.29 billion or +5.3% in the analogous 2001 period). Staff costs climbed by EUR 0.10 billion or 2.9% to EUR 3.52 billion. The ratio of staff costs to total operating expenses ran to 50.4% at the reporting date, which equals an increase by 0.6 percentage point compared with the analogous 2001 period.

In the reporting period, the rise in other administrative expenses was considerably slower than in the same period of 2001 (+EUR 0.01 billion or +0.4% to EUR 2.30 billion against +EUR 0.20 billion or +9.7%). The ratio of other administrative expenses to total operating expenses came to 33.0%, down by 0.5 percentage point compared to the analogous 2001 period.

Ratio of Other Administrative Expenses to Total Operating Expenses

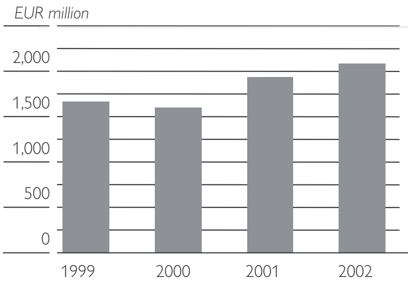


Source: OeNB.

Outlook for the Entire 2002 Financial Year

Credit institutions operating in Austria expect to close the 2002 business year with a final operating income of EUR 3.95 billion (2001: EUR 3.98 billion). At EUR 2.08 billion, loan loss provisions were expected to be EUR 0.15 billion or 8.0% above the analogous figure for 2001. Loan loss provisions basically include write-downs of claims on nonbanks (EUR 2.10 billion). The increase in loan loss provisions can be ascribed first and foremost to the rising number of corporate insolvencies and to larger provisions for potentially troubled credit exposures.

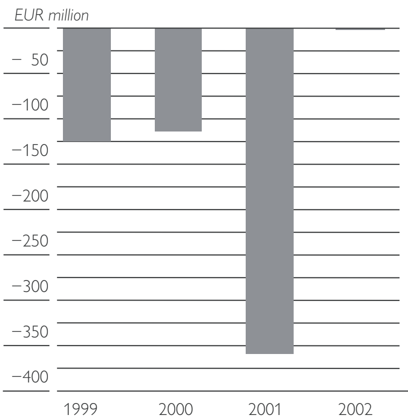
Loan Loss Provisions



Source: OeNB.

At the reporting date, securities and participations were projected to contribute a modest EUR 0.001 billion to operating income in the year 2002. This figure stands in contrast to the 2001 result, when this area had been expected to post an above-average contribution.

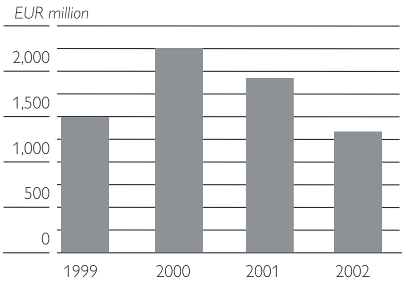
Transfer from/to Provisions for Securities and Participations



Source: OeNB.

With risk provisions and value adjustments accounted for, the projected income for 2002 has clearly been revised downwards. Income from ordinary business is expected to come to EUR 1.87 billion (against EUR 2.41 billion in the like 2001 period). Banks expect to have incurred EUR 0.17 billion in terms of extraordinary expenses (net) in 2002, which significantly exceeds the EUR 0.06 billion recorded in the corresponding period of 2001. Extraordinary expenses in the 2002 financial year will thus considerably affect banks' profitability. Expected tax liabilities come to EUR 0.37 billion (against EUR 0.43 billion in 2001). Hence, the annual surplus of banks operating in Austria is projected to amount to EUR 1.33 billion, falling below the expected 2001 figure by EUR 0.59 billion or 30.7% (first to third quarter 2001: EUR 1.92 billion).

Projected Annual Surplus



Source: OeNB.

Balance of Payments in the First Half of 2002[1])

René Dell'mour,
Patricia Fahrngruber,
Christine Stecyna,
Patricia Walter,
Isabel Winkler,
Robert Zorzi

– The Austrian current account closed with a small surplus, confirming the trend evident from the initial monthly data analyses.
– Imports dropped due to weak domestic demand, while exports expanded.
– Austrian direct investment abroad continued to thrive.
– Cross-border portfolio investment volumes increased.

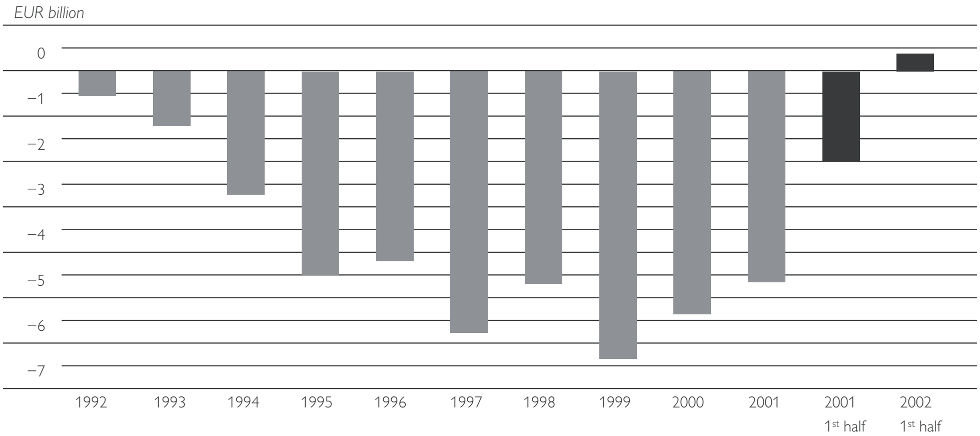
1 Current Account

The current assessment of the Austrian Institute of Economic Research, WIFO, is that the Austrian economy grew by 0.4% in the first half of 2002. The economic research institutes coincide in finding the revival of the domestic economy to have progressed as anticipated until mid-2002. At the same time, they have had to revise the full-year forecast for 2002 downward to almost 1% as a further economic recovery was delayed, given doubts about the robustness of the U.S. economy, signals of a slower revival in the EU countries and the continual decline in stock prices. Against this background the Austrian current account improved year on year as imports dropped due to weak domestic demand while exports continued to grow in the first six months of 2002.

In the first half of 2002, Austria recorded a current account surplus of approximately EUR 0.5 billion (based on transactions[2])), which is an improvement by some EUR 2.5 billion (see annex, table 1) that was driven by a higher surplus on the goods and services account and a lower deficit on the income account.

Chart 1

Austria's Current Account[1])



Source: OeNB.
[1]) Up to 2000: final data; 2001: revised data; 2002: provisional data.

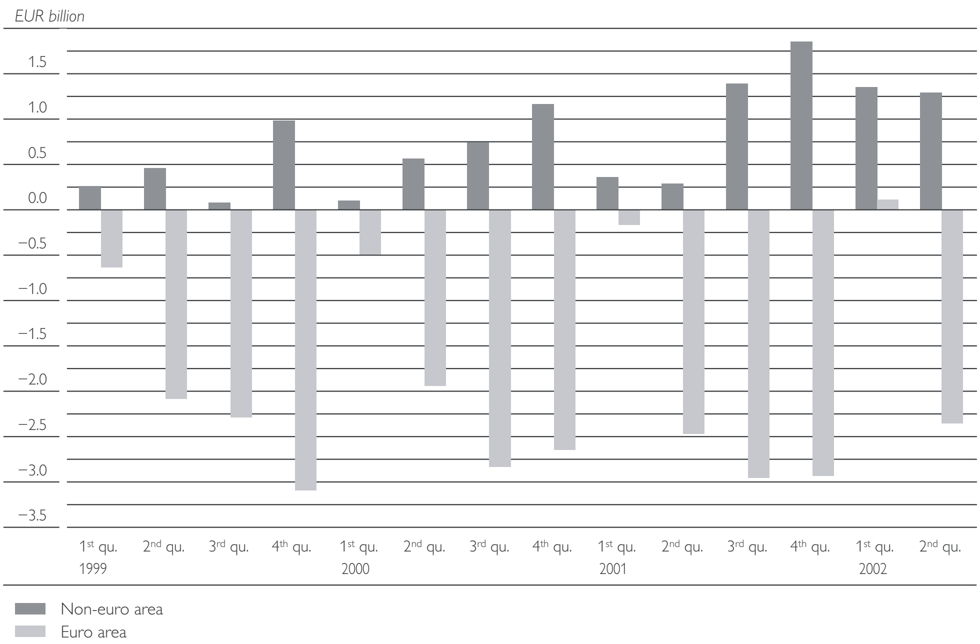
1 *Based on transactions. Cutoff date for data: November 15, 2002.*
2 *Contrary to the cash balance, whose purpose is to provide a quick overview, the transaction balance is based on a calculation model requiring period adjustments and other adjustments. The transaction balance confirms the improvement of results which the cash balance had already reflected for the first months of 2002.*

Austria's current account with other *euro area countries* closed with a deficit of EUR 2.2 billion in the first half of 2002 (see chart 2), compared with a deficit of EUR 2.6 billion registered in the first half of 2001. This improvement is basically attributable to the goods account.

In its external relations with *non-euro area countries,* Austria has in recent years typically reported a current account surplus. In the first half of 2002, this surplus even jumped to EUR 2.6 billion from EUR 600 million in the first half of 2001. Both the goods and services account and the income account were in surplus.

Chart 2

Austria's Current Account Broken Down by Regions[1])



Source: OeNB.
[1]) 2001: revised data; 2002: provisional data.

Thus, Austria contributed to the current account surplus of the *euro area as a whole.* According to data provided by the European Central Bank (ECB), the euro area current account turned from a deficit of EUR 20.4 billion in the first half of 2001 to a surplus of EUR 9.4 billion in the first half of 2002. One of the major factors in this development was a EUR 35.6 billion rise in the goods surplus, as imports declined faster (–7.8%) than exports (–0.6%).

1.1 Goods and Services

In the first half of 2002, the surplus on goods and services climbed by EUR 2.0 billion to EUR 2.6 billion. However, these data must be interpreted with caution because the amount by which the travel account surplus is shown to have increased (EUR 800 million) is statistically overstated (see section 1.1.2.1 Travel).

1.1.1 Goods

In the first half of 2002, Austria recorded an external trade deficit of approximately EUR 60 million, compared with a deficit of EUR 2.9 billion in the first half of 2001 (data provided by Statistics Austria).[1]) This improvement can be traced to a decline in imports (5%) and a slight increase in exports (2.4%). The reduction in gross volumes can be attributed chiefly to weak domestic demand and the lower oil price. The deficit in Austria's external trade within the *euro area* (see annex, table 2) contracted by EUR 870 million to EUR 2.6 billion in the first six months of 2002, with exports shrinking by 0.8% and imports falling by 4.3%. In absolute figures, merchandise exports to other euro area countries totaled EUR 20.6 billion, and merchandise imports from the euro area EUR 23.2 billion. The improvements in the Austrian trade balance were strongest vis-à-vis Germany, Italy and France, causing the deficit vis-à-vis Germany to contract and the surplus in trade with Italy and France to increase.

In the period under review, merchandise trade with *non-euro area countries* also recorded both a growth in exports and a decline in imports. Compared with 2001, merchandise exports climbed by 6.3%, while merchandise imports went down by 6%. Austria's exports to non-euro area countries came to EUR 17.4 billion, while non-euro area imports amounted to EUR 14.9 billion. The setback in imports was most distinct for developing countries, which include the oil-exporting countries (–EUR 700 million or –20.3%). At the same time, imports from Central and Eastern European countries slowed (–EUR 120 million or –2%) whereas exports to the region jumped by EUR 530 million or around 9%, with exports to Romania, Croatia and the CIS accounting for the relatively highest increases.

1.1.2 Services

The surplus in the services account shrank by EUR 960 million to EUR 1.1 billion in the first half of 2002. In this respect it must be noted that the deficit on unclassified transactions,[2]) which are included in the services account, expanded from EUR 1.6 billion to EUR 3.7 billion.

1.1.2.1 Travel

Following a good winter season, the number of overnight stays by tourists from abroad shrank visibly in the second quarter of 2002. This is chiefly a calendar effect: an early Easter boosted the March result but dampened the April result. The combined outcome of the first and second quarters was a slight rise by

1 *For conceptual reasons, the OeNB's balance of payments statistics deviate from the external trade data compiled by Statistics Austria. While it is customary for external trade statistics to present imports at their cif (cost, insurance, freight) value and exports at their fob (free on board) value, by balance of payments conventions both exports and imports are valued at fob while freight and insurance costs are reflected in the services account.*

2 *The unclassified transactions item derives from an imbalance between banks' reported import and export payments for goods and the sum of merchandise import and export payments according to the foreign trade statistics compiled by Statistics Austria, with the former exceeding the latter. In line with international practice, the goods item of the balance of payments is calculated from the foreign trade statistics provided by the national statistical offices. The unclassified transactions item thus corresponds to the difference between merchandise payments and foreign trade figures.*

2.6% (see annex, table 4). Visitors from Germany accounted for roughly one third of the increase in tourist overnight stays (totaling 1.1 million) from January to June 2002. Statistics Austria, moreover, reported increases for tourists from other traditional origin markets, including the Netherlands, the United Kingdom, Switzerland and Italy. Only overseas visitors, particularly U.S. tourists, were coming in markedly fewer numbers.

At the same time, growth in visitor spending slowed down visibly. Outlays by foreign travelers, while having grown by more than 10% in the first quarter of 2002, stagnated in the second quarter. In sum, travel receipts came to EUR 6.5 billion in the first six months of 2002, or EUR 400 million more than in the comparable period of the previous year (see annex, table 3). Income from international passenger transport dropped by 2.7% to EUR 950 million.

Since the introduction of euro banknotes and coins, the travel spending of Austrians has been determined on the basis of a survey among households.[1])

According to this survey, travel expenditure (excluding international passenger transport) came to EUR 4.0 billion and expenses for international passenger transport ran to EUR 360 million, which equals an 8.9% decline year on year in travel expenditure in the first half of 2002 compared with the first half of 2001. However, this comparison is misleading because the survey, while producing comparable annual results, shows different seasonal patterns that reflect the economic reality more accurately. While travel expenses have consistently been clearly lower in the first and fourth quarters in this survey than under the previous system, which was based on cash flows, the figures for July and August, i.e. the third quarter, are now significantly higher. Compared with last year's survey, travel expenditure (including international passenger transport) in fact increased by approximately 5% in the first six months of 2002. It follows that the improvement in the travel balance by EUR 800 million (and, as a consequence, the improvement in the current account) has also been distorted upward; based on comparable figures, the travel surplus expanded by just EUR 200 million.

1.1.2.2 Other Services

Excluding travel, the services account showed a deficit of EUR 1.4 billion in the first half of 2002, compared with a surplus of EUR 370 million in the first half of 2001, a deterioration that can be ascribed chiefly to unclassified transactions, as mentioned above. Conversely, we report improvements in the following services items: The surplus in the transportation item *(including passenger transport)* increased by EUR 410 million, and the EUR 50 million deficit on *financial services* registered in the first half of 2001 reversed to a surplus of EUR 80 million.

1 *The survey is a telephone poll covering 3,000 households per quarter and has been carried out at regular intervals since 1988. The original aim was to collect additional information on the purpose of individual travel and the type of spending. Since 2001, Statistics Austria and the Oesterreichische Nationalbank have commissioned this survey together.*

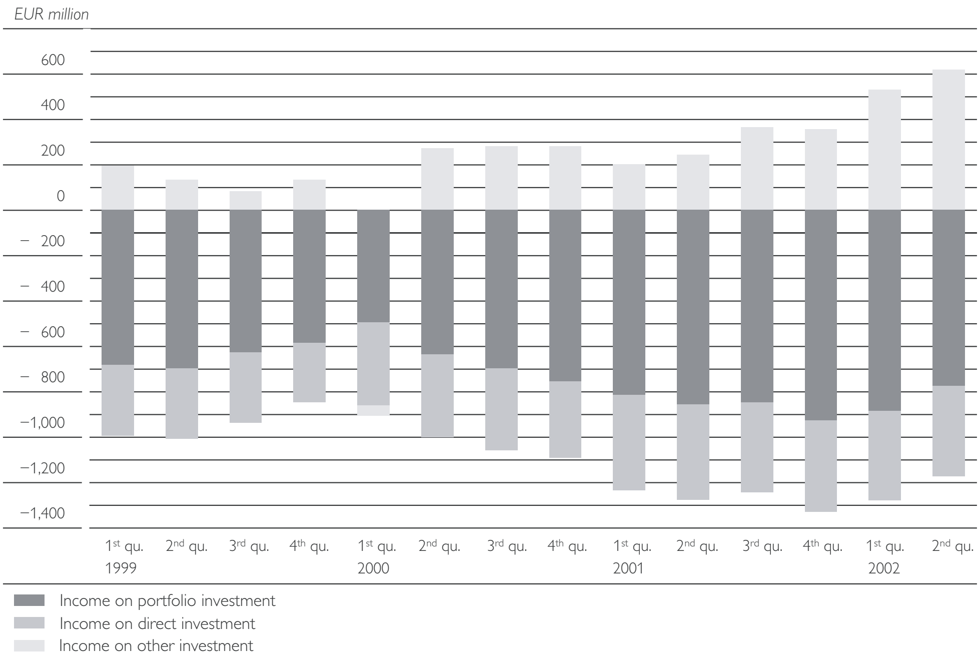
1.3 Income

At EUR 1.1 billion, the first-half 2002 deficit on the income subaccount remained EUR 770 million below the comparable result of 2001. Income related to the *compensation of employees,* as received by border workers and seasonal workers in particular, added up to a surplus of EUR 260 million, as much as in previous years. By contrast, the deficit on *investment income* was significantly lower than in the first half of 2001 (EUR 1.3 billion in 2002 compared with EUR 2.1 billion). This reduction is mostly traceable to income on other investment.

The regional breakdown of net investment income shows that the bulk of net outflows went to the euro area (mostly Luxembourg, Germany and Belgium), while the highest share of net capital income came from Eastern Europe. The EU accession countries[1]) (notably Hungary, Poland and the Czech Republic) account for an increasing share in net income from cross-border income.

Chart 3

Components of Austria's Investment Income[1])



Source: OeNB.
[1]) 1999 to 2000: final data; 2001 revised data; 2002: provisional data.

For the first half of 2002, a breakdown by the most important subaggregates (see annex, table 5) – as depicted in chart 3 – shows Austria to have incurred net deficits on income from both direct and portfolio investment (EUR 790 million and EUR 1.7 billion, respectively), and to have achieved a surplus on other investment income (EUR 1.1 billion). A sectoral allocation of net results shows the public sector to be a net payer and the OeNB, banks and other sectors to be net recipients.

1 *EU accession countries: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.*

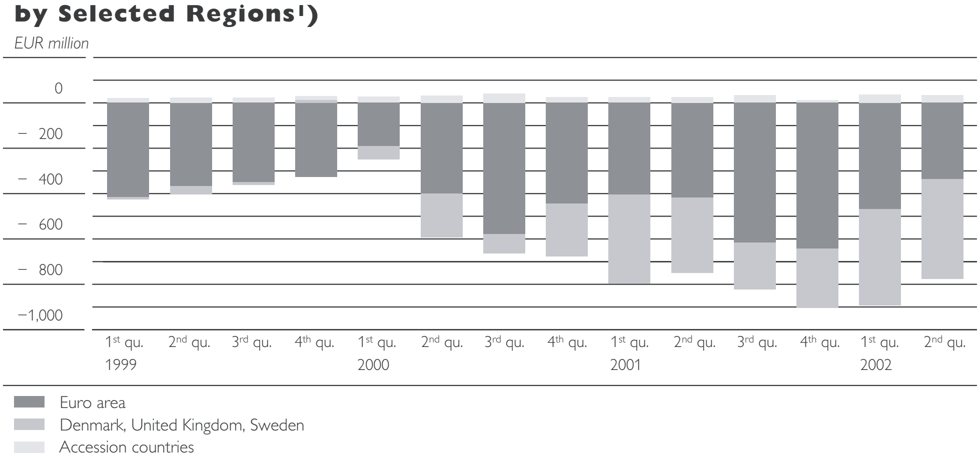
Since the stock of foreign direct investment (FDI) in Austria exceeds the stock of Austrian FDI abroad and since, in addition, inward investment projects are more profitable in a long-term comparison as they are more mature, the balance on direct investment income is always in deficit. The profits Austrian FDI investors estimate to have accrued in the first half of 2002 total EUR 1.0 billion, while foreign-owned Austrian companies post EUR 1.8 billion in profits, which results in a net outflow of EUR 790 million. Whereas the profits distributed by direct investment enterprises established abroad by Austrian parent companies have contracted significantly, the dividend payments of Austria-based direct investment enterprises to their foreign parent companies continued to be high. *The bottom line is reinvested earnings of EUR 630 million for outward FDI, and EUR 870 million for inward FDI.*

Income on portfolio investment remains the key component of investment income. Portfolio investment-related income receipts came to as much as EUR 2.8 billion in the first half of 2002 but fell clearly short of corresponding income payments made in the same period (EUR 4.4 billion). A regional allocation of net inflows and outflows in this income category shows that net outflows to the EU continue at a high level (EUR 1.7 billion). Within the EU, more than half of the outflows went to euro area countries, while the United Kingdom accounts for the biggest residual item. In terms of income on portfolio investment, the EU accession countries remain net payers to Austria.

Chart 4

Net Investment Income on Portfolio Investment

by Selected Regions[1])



Source: OeNB.
[1]) 1999 to 2000: final data; 2001: revised data; 2002: provisional data.

Income on bonds and notes accounted for 90% of the results on both sides of the balance sheet. In the first half of 2002, Austrian investors received EUR 2.5 billion in interest income, while Austrian borrowers had to pay EUR 4.2 billion in interest income. On the assets side, interest income went mainly to "other sectors" (62%), in particular institutional investors, and to banks (34%); the liabilities side records interest payments above all by the general government (53%) and also by banks (38%). In a comparison of net results, the general government and banks are net contributors, while the other sectors (mostly institutional investors) are net recipients. On both the assets and the liabilities side, the euro area accounted for 60% of the result, with Germany playing the key role within the euro area. The runners-up were the United States (11%) on the assets side and the United Kingdom (24%) on the liabilities side.

Income on other investment and reserve assets posted a surplus of EUR 1.1 billion in the review period. A sectoral breakdown of this item indicates that monetary financial institutions (MFIs, i.e. the OeNB and banks) are net recipients, while nonbanks (general government and other sectors) are net contributors.

1.4 Current Transfers

The shortfall of current transfers came to EUR 1.1 billion in the first half of 2002, which corresponds to an expansion by EUR 340 million. This increase in outflows was mainly attributable to the other sectors, which stepped up their net payments from EUR 170 million to EUR 460 million. Transactions with the EU dominated current transfers of –EUR 660 million net in the public sector. Austria's contributions to the EU amounted to EUR 1.1 billion during the reporting period, while its receipts (excluding EU contributions to infrastructure projects) came to EUR 670 million, resulting in a net payment of EUR 470 million compared with EUR 560 million in the first half of 2001.

2 Capital Account

The capital account closed the reporting period with outflows to the amount of EUR 50 million.

General government capital transfers in kind resulted in net outflows to the tune of EUR 110 million compared with net inflows of EUR 50 million in the first half of 2001. Since 2001, these outflows have comprised restitution payments by the general government sector.

The balance of other *sectors'* capital transfers in kind reversed from a deficit of EUR 130 million to a surplus of EUR 40 million, reflecting higher gross flows. The higher outflows can chiefly be attributed to debt relief effects, the higher inflows to immigration effects.

In terms of volume, capital transfers in cash only play a minor role in Austria's balance of payments statistics.

3 Financial Account

The Austrian financial account reversed from capital imports in the first half of 2001 to capital exports of EUR 3.9 billion in the first half of 2002 (see annex, table 6). While Austrians continued to expand their investments abroad in the period under review, investments made by nonresidents in Austria stagnated: Austrian investment abroad came to EUR 17.8 billion (+37%), foreign investment in Austria amounted to EUR 13.9 billion (+2%).

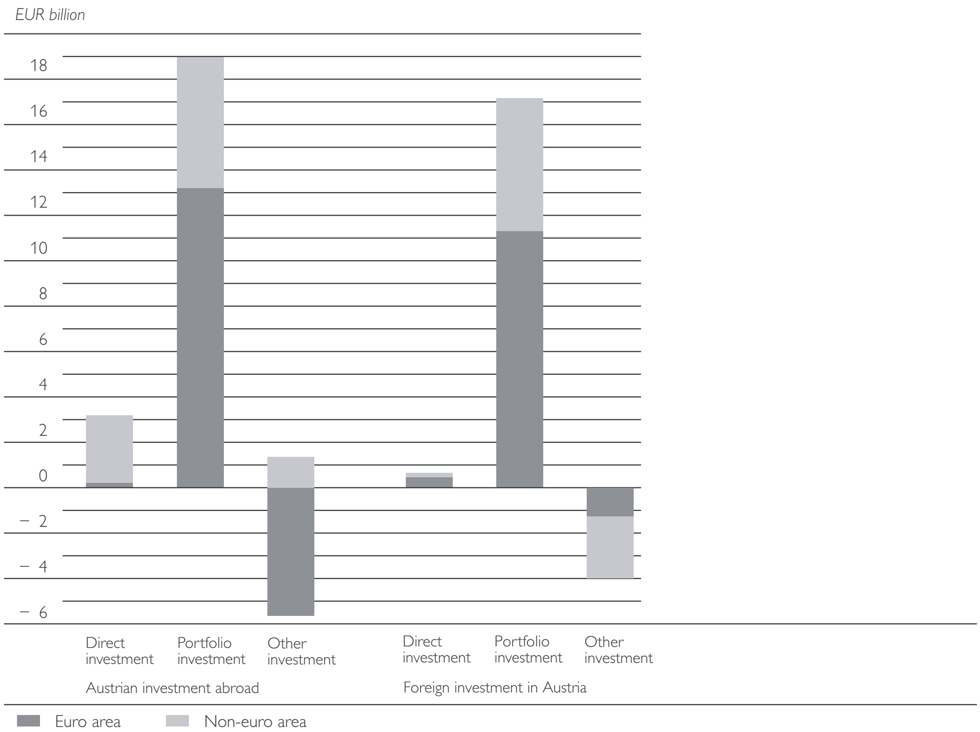
Foreign direct investment accounted for net capital outflows of EUR 2.5 billion in the first half of 2002, reflecting outward FDI flows of EUR 3.2 billion (which is more than twice as high as in the corresponding period of 2001) and inward FDI flows of EUR 640 million (which is significantly lower than in 2001). At the same time, net capital exports in the form of *portfolio investment* contracted from EUR 2.4 billion to EUR 1.8 billion. Compared with the first half of 2001, Austrians invested more heavily in foreign securities (EUR 19.0 billion compared with EUR 11.3 billion) and foreigners bought more domestic securities (EUR 17.2 billion compared with EUR 8.9 billion). Debt securities predominated both inflows and outflows. Finally, capital flows classified as other *investment* – basically the result of cross-border deposit and lending transactions by banks – resulted in net capital imports of EUR 280 million in the review period, compared with net capital exports a year earlier.

A regional allocation of cross-border capital flows shows that, in the first half of 2002, net capital inflows from other *euro area* countries dropped from EUR 4.0 billion to EUR 2.9 billion (see annex, table 7). Following a decrease by EUR 90 million in the first half of 2001, Austrian investors massively increased their holdings of euro area assets to EUR 7.8 billion. At the same time, Austrians' liabilities to the euro area soared to EUR 10.7 billion (first half of 2001: EUR 3.9 billion).

Turning to *non-euro area countries,* net capital outflows registered in the reporting period jumped from EUR 3.3 billion to EUR 6.8 billion. Austrians were less keen on investing in countries outside the euro area (purchases totaled EUR 9.9 billion, compared with EUR 13 billion in the comparable period of 2001). At the same time, cross-border capital inflows from non-euro area countries slumped from EUR 9.7 billion in the first half of 2001 to EUR 3.2 billion in the first half of 2002.

Chart 5

Austria's Financial Account (Selected Net Subaccounts) in the First Half of 2002



Source: OeNB.

A breakdown of the financial account by economic sectors shows that both MFIs (the OeNB and banks) and *nonbanks* (general government and other sectors) recorded capital outflows, EUR 1.4 billion and EUR 2.4 billion, respectively. In the process, MFIs raised their external assets by EUR 4.2 billion and its external liabilities by EUR 2.7 billion. The *general government* expanded its assets by EUR 2.2 billion and its external liabilities by EUR 8.4 billion, thus recording, on balance, capital imports of EUR 6.2 billion in the first half of 2002. The *other sectors*[1]*) reported net outflows of EUR 8.6 billion in the reporting period (first half of 2001: EUR 5.7 billion).*

When external assets and liabilities are broken down by *interest-bearing*[2]) and *venture capital-oriented*[3]*) investment,* it becomes evident that in the first half of 2002 domestic investors focused their investments of altogether EUR 11.9 billion mainly on interest-bearing financial assets, which thus accounted for a fair share in Austrian total outward investment (67%). Interest-bearing investments also dominated foreign investment in Austria, with nonresidents having invested EUR 7.6 billion (86% of total inward investment) in this type of financial asset.

3.1 Direct Investment

Global cross-border FDI flows halved in 2001, following exceptionally high growth in 2000. Against this background, and given the uncertainty shrouding the global economy and the continued weakness of stock exchanges, UNCTAD expected direct investment to remain slack also in 2002.[4]) In Austria, this effect has so far emerged in a very asymmetric fashion. Whereas inward FDI growth was significantly weaker than in previous years, outward FDI turned out to be highly robust. Thus, the gap by which outward FDI falls short of inward FDI might actually have narrowed in 2002.

Outward direct investment of Austrian business totaled EUR 3.2 billion net in the first half of 2002, which is the single biggest first-half result ever registered, equaling full-year results for 1999 or 2001. The total of EUR 3.2 billion comprises investment in equity amounting to EUR 2.4 billion, EUR 630 million of reinvested earnings and EUR 200 million extended in the form of intercompany loans. The given amount of equity capital includes gross new investment of some EUR 3.0 billion, compared with EUR 640 million in disinvestment.

Central and Eastern European countries (CEECs) attracted half (EUR 1.6 billion) of the FDI capital invested by Austrians from January to June 2002. The Czech Republic accounted for the lion's share (EUR 670 million), followed by Croatia (EUR 280 million) and Slovenia and Hungary (EUR 170 million each). Furthermore, major sums were invested in offshore financial centers in the Caribbean, which are, in fact, linked with activities in Central and Eastern Europe. Aside from Eastern Europe, only investments in Germany (amounting

1 *Including other financial institutions, insurance companies and pension funds as well as enterprises and households.*

2 *Investment in equity stakes and equity securities.*

3 *Fixed-income debt instruments, deposits and loans, notwithstanding whether they are included in the categories direct investment, portfolio investment, other investment, or reserve assets.*

4 *See UNCTAD: World Investment Report 2002.*

to EUR 220 million) were significant. The chief driving forces behind these activities were banks, which have been asserting themselves more strongly as financial intermediaries in the CEECs. Apart from banks, other service providers, such as retailing, telecommunications, insurance companies and real estate investors, were among the top investors. The manufacturing industry, finally, accounted for major investments as well.

Conversely, there was a steep falloff in *inward* direct investment, which registered the lowest first-half result (EUR 640 million) since 1995, on the back of a virtual standstill in net new investments. Gross investment in equity amounting to EUR 840 million fell short of disinvestment totaling EUR 930 million, which chiefly reflect Telecom Italia's pullout from the Austrian cell phone market. On the plus side, reinvested earnings improved the balance by EUR 870 million, while intercompany loans caused the balance to deteriorate by EUR 140 million.

Typically, most of the capital invested came from German investors (EUR 1.1 billion). Germany aside, only the inflows from the United States stand out at EUR 120 million.

3.2 Portfolio Investment

While in the first quarter of 2002 capital market investors were fairly upbeat about the economic outlook, in the second quarter expectations turned increasingly gloomier. Stock market prices spiraled downward again in the first half of 2002, with the pressure to sell even increasing markedly in the second quarter. The long list of problems weighing on the capital market covers a range from geopolitical issues such as terrorism and the Middle East conflict to lingering doubts about the integrity of U.S. corporate accounting and reporting. Moreover, numerous economic data releases gave cause for concern about the speed and sustainability of the economic revival. Finally, the depreciation of the U.S. dollar also reflects the dwindling confidence of investors in the U.S. economy. At the same time, bond markets, which basically benefited from the flight to quality, registered a decrease in bond yields in the second quarter, with the decreases being more pronounced in the United States than in the euro area.

On balance, cross-border transactions related to the acquisition and sale of securities resulted in capital exports of EUR 1.8 billion in the first half of 2002. The corresponding gross values indicate that both Austrian investment in foreign securities (assets side) and foreign investment in Austrian securities (liabilities side) are higher than the corresponding first-half results of 2001. A quarterly breakdown of the results reveals that more than half of acquisitions of foreign securities by Austrians were effected in the first quarter of 2002. These developments are mirrored on the liabilities side. Gross portfolio investment in shares, debt securities and money market instruments continued to dominate the financial account in the reporting period. Both on the assets and liabilities sides, debt securities accounted for more than 85% of portfolio investment transactions (in terms of volume).

A sectoral breakdown of portfolio investment abroad shows that other sectors – mainly institutional investors – made 51% of investments, followed by banks with 35% and general government entities with 14%. The majority of foreign investors were interested in securities issued by the Austrian government (49%) and banks (39%).

Both on the assets and the liabilities sides basically two thirds of all transactions were conducted with euro area counterparties (see annex, table 7). On the bottom line, the purchases of euro area securities by Austrian investors slightly surpassed purchases of Austrian securities by euro area investors, translating into capital exports of EUR 1.9 billion. At the same time, the portfolio investment position vis-à-vis the rest of the world was more or less balanced.

3.2.1 Portfolio Investment in Foreign Securities

In the first half of 2002, Austrian investors acquired foreign securities to the tune of EUR 19.0 billion, of which 66% were invested in bonds and notes, 19% in money market instruments, 12% in shares and 2% in mutual fund shares. Austrian investors' main focus was on securities issued in the euro area (70%) and the U.S.A. (11%).

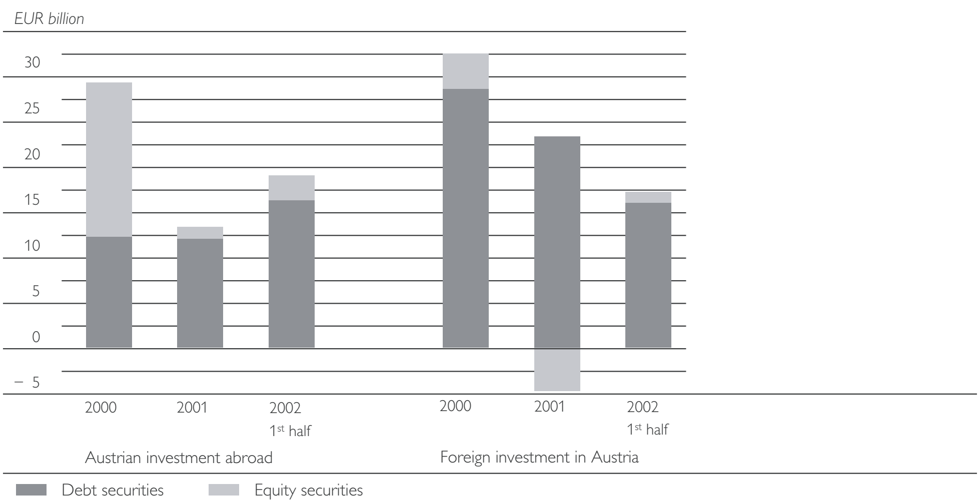
More specifically, domestic investors purchased *foreign equity securities* for EUR 2.4 billion, issued above all by businesses incorporated in the U.S.A (39%), the euro area (29%) and Central and Eastern Europe (17%; chiefly Poland). Investments in this area were predominantly made by institutional investors.

Investment in *foreign mutual fund shares* amounted to EUR 360 million in the first half of 2002 (compared with EUR 580 million in the first half of 2001). A breakdown by regions shows that German mutual fund shares were highest in demand with Austrians, whereas Luxembourg mutual fund shares accounted for the highest share of disinvestment. In the reporting period, domestic mutual funds, which constitute the largest group among investors in this field, preferred balanced funds.

When investing in foreign securities, Austrian investors typically go for debt securities, which were predominant also in the reporting period at EUR 16.2

Chart 6

Securities Transactions by Financial Instruments[1])



Source: OeNB.

[1]) 2000: final data; 2001: revised data; 2002: provisional data.

billion: 66% of all foreign securities purchased were *bonds and notes* (EUR 12.6 billion). By geographic allocation, 76% of debt securities purchased were euro area issues, with German, Italian and Greek issues being of particular interest to Austrians. Beyond the euro area, U.S. dollar-denominated issues accounted for a share of 9%. By investor category, the other sectors (mostly institutional investors) and Austrian banks were the key investors: debt securities accounted for approximately 57% of all securities purchased by the other sectors, and of 48% of all bank purchases. Turning to currency allocation, investments were almost exclusively made in euro-denominated securities and only to a smaller extent in U.S. dollar-denominated debt securities (11%).

Austrians purchased *foreign money market instruments,* mainly commercial paper and certificates of deposit, to the tune of EUR 3.6 billion. Investors concentrated mainly on euro area issues (the Netherlands, Germany, Ireland and Italy) and on paper issued by entities incorporated in Jersey and the United Kingdom. Investments focused almost exclusively on euro-denominated securities, with U.S. dollar-denominated debt securities accounting for no more than about 4% of investments. The major investor in foreign money market instruments was the Austrian government, which uses such instruments to invest short-term excess liquidity.

3.2.2 Portfolio Investment in Domestic Securities

In the first half of 2002, foreign investors acquired Austrian securities worth EUR 17.2 billion, i.e. just like external assets, external liabilities had augmented significantly faster than from January to June 2001. Debt securities accounted for the lion's share of investment in this category (89%); the remainder was invested in money market instruments and mutual fund shares (4% each) and shares (3%).

Of the EUR 1.2 million worth of *domestic equity securities* sold to foreign investors, domestic shares accounted for EUR 490 million. Most of the capital invested was in nonfinancial corporations.

Austrian mutual fund shares acquired by foreign investors in the reporting period totaled EUR 730 million. Investors were chiefly interested in domestic balanced funds (71%) and money market funds.

As in previous years, foreign investors showed a clear preference for Austrian *debt securities;* in this category, the transaction value was EUR 15.3 billion in the first half of 2002. Aside from euro-denominated issues (more than 64%), nonresidents mainly acquired U.S. dollar-denominated securities (18%) and

Government Bond Syndication and Tender Offers in the First Half of 2002[1])

	ISIN	External transactions EUR million
5.0% Federal government bond 2002–2012/1/144A	AT0000385356	5,191
5.875% Federal government bond 1996–2006/7	AT0000383518	831
5.5% Federal government bond 2000–2007/144A	AT0000384953	2,054
Total		8,077

Source: OeNB.
[1]) Transaction values: + = sale abroad.

securities issued in Swiss francs (15%). A breakdown of debt security investment by sectors indicates that investors showed an almost equal interest in issues by Austrian banks and the general government. In the first half of 2002, foreigners invested EUR 8.1 billion in new issues or reopened issues of the Republic of Austria, amounting to 80% of the overall total (EUR 10.2 billion).

Nonresidents spent EUR 700 million on *domestic money market instruments,* buying short-term bonds issued by the Austrian government while, at the same time, redeeming banking sector commercial paper and certificates of deposit. In this category, nonresidents concentrated on securities denominated in U.S. dollars; yen-denominated instruments were redeemed.

3.3 Other Investment

The *other investment* item of the Austrian financial account registered net capital inflows of EUR 280 million in the first half of 2002, which compares with net capital outflows of EUR 1.3 billion in 2001 and of EUR 3.0 billion in 2000.

Both sides of the balance sheet registered a slowdown in investment activities, recording capital inflows of EUR 4.3 billion on the assets side and capital outflows to the tune of EUR 4.0 billion on the liabilities side. These developments basically reflect banks' capital transactions.

3.4 Financial Derivatives

The financial derivatives position basically includes options, futures contracts and swaps, which are either based on capital products (e.g. foreign exchange assets, securities) or on interest rate products. On the one hand, transaction values refer to the buying and selling of securities-based financial derivatives and, on the other, to transactions resulting from option payments (including premiums) in the course of OTC deals and/or from variation margin payments for futures contracts and swap payments. The financial derivatives subaccount closed the first half of 2002 with net capital exports of EUR 380 million.

3.5 Reserve Assets

In the first half of 2002, reserve assets climbed by EUR 580 million through transactions.

This decline was mainly attributable to the reduction of securities under reserve assets by EUR 620 million and gold sales worth EUR 310 million. Deposits under reserve assets and Special Drawing Rights went up by EUR 240 million in the reporting period. Austria's reserve position in the IMF increased by EUR 110 million.

Annex

Table 1

Balance of Payments Summary

	1st half 2001[1]	1st half 2002[2]	Annual change
	EUR million		
Current account	−1,996	+ 390	+2,386
Goods, services and income	−1,221	+1,507	+2,728
Goods and services	+ 592	+2,554	+1,962
Goods	−1,440	+1,485	+2,925
Services	+2,033	+1,069	− 964
Travel	+1,665	+2,461	+ 796
Other services items	+ 368	−1,392	−1,760
Transportation	+ 802	+1,215	+ 413
thereof international passenger transport	*+ 493*	*+ 592*	+ 99
Construction services	+ 130	+ 45	− 85
Financial services	− 50	+ 82	+ 132
Royalties and license fees	− 265	− 323	− 58
Other business services	+1,100	+ 965	− 135
thereof merchanting	*+ 656*	*+ 683*	+ 27
Other services	+ 242	+ 351	+ 109
Unclassified transactions	−1,591	−3,727	−2,136
Income	−1,814	−1,048	+ 766
Compensation of employees	+ 258	+ 260	+ 2
Investment income	−2,072	−1,308	+ 764
Current transfers	− 775	−1,117	− 342
General government	− 610	− 658	− 48
Other sectors	− 165	− 459	− 294
Capital and financial account	+ 542	−3,899	−4,441
Capital account	− 131	− 49	+ 82
General government	+ 52	− 105	− 157
Other sectors	− 131	+ 38	+ 169
Acquisition/disposal of nonproduced, nonfinancial assets	− 53	+ 19	+ 72
Financial account	+ 673	−3,851	−4,524
Direct investment	+1,170	−2,529	−3,699
Portfolio investment	−2,439	−1,804	+ 635
Other investment	−1,330	+ 284	+1,614
Financial derivatives	+ 547	− 381	− 928
Reserve assets[3]	+2,725	+ 579	−2,146
Errors and omissions	+1,454	+3,510	+2,056

Source: OeNB.
[1]) Revised data.
[2]) Provisional data.
[3]) Oesterreichische Nationalbank: Gold and foreign exchange, reserve position in the Fund, SDRs, etc.; increase: − / decrease: +.

Table 2

Merchandise Exports and Imports as Recorded in the Foreign Trade Statistics

Goods by geographic area[1])

	1st half 2002					
	Exports		Imports		Balance	
	Annual change	Share of total exports	Annual change	Share of total imports		Annual change
	%				EUR million	
EU	–0.5	60.8	– 4.1	65.5	–1,824	+ 947
Euro area	–0.8	54.2	– 4.3	60.9	–2,572	+ 876
thereof:						
Germany	*–2.2*	*32.1*	*– 3.8*	*40.3*	*–3,144*	*+ 329*
Italy	*+2.1*	*8.7*	*– 8.0*	*7.1*	*+ 605*	*+ 305*
France	*–2.0*	*4.5*	*–17.0*	*3.6*	*+ 315*	*+ 250*
Non-euro area countries	+6.3	45.8	– 6.0	39.1	+2,510	+1,969
thereof:						
Switzerland and Liechtenstein	*+2.9*	*5.7*	*+ 5.1*	*3.6*	*+ 785*	*– 6*
Eastern Europe[2])	*+8.6*	*17.5*	*– 2.3*	*13.6*	*+1,482*	*+ 650*
U.S.A.	*+6.0*	*5.3*	*+ 0.8*	*5.7*	*– 142*	*+ 97*
Japan	*–6.2*	*1.1*	*–16.8*	*2.1*	*– 397*	*+ 138*
Total	+2.3	100.0	– 5.0	100.0	– 63	+2,845

Source: Statistics Austria.

1) Geographic areas as defined by WIFO.

2) Albania, Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovak Republic, Ukraine, countries of the former Yugoslavia.

Table 3

Travel and International Passenger Transport

	1st half 2001[1])	1st half 2002[2])	Annual change	
	EUR million			%
Travel				
Receipts	6,094	6,496	+ 402	+ 6.6
Expenditures	4,429	4,034	– 395	– 8.9
Balance	1,665	2,461	+ 796	+47.8
International passenger transport				
Receipts	978	951	– 27	– 2.8
Expenditures	484	359	– 125	–25.8
Balance	493	592	+ 99	+20.1
	1,000			%
Foreign tourist overnight stays	*43,569*	*44,689*	*+1,120*	*+ 2.6*

Source: OeNB, Statistics Austria.

1) Revised data.

2) Provisional data.

Table 4

Foreign Tourist Bednights by Country of Origin

	1st half 2002			
	Overnight stays	Annual change		Share
	1,000		%	
Germany	27,862	+ 398	+ 1.4	62.3
Netherlands	4,824	+ 256	+ 5.6	10.8
United Kingdom	1,840	+ 132	+ 7.7	4.1
Belgium, Luxembourg	1,173	+ 69	+ 6.2	2.6
Switzerland, Liechtenstein	1,543	+ 103	+ 7.2	3.5
Denmark	651	+ 21	+ 3.3	1.5
Italy	945	+ 96	+11.3	2.1
France	655	+ 48	+ 7.9	1.5
Sweden	413	+ 1	+ 0.3	0.9
Spain	152	+ 0	+ 0.0	0.3
Poland	621	+ 40	+ 6.9	1.4
Hungary	530	+ 49	+10.2	1.2
Czech Republic	506	+ 30	+ 6.2	1.1
Croatia	186	+ 3	+ 1.5	0.4
C.I.S.	309	+ 52	+20.1	0.7
Slovenia	132	+ 2	+ 1.3	0.3
Slovak Republic	108	+ 9	+ 9.1	0.2
U.S.A.	601	− 188	−23.8	1.3
Japan	196	− 42	−17.7	0.4
Other countries	1,442	+ 43	+ 3.1	3.2
Total	44,689	+1,120	+ 2.6	100.0
Memorandum item: Austrian tourists	*15,001*	*+ 172*	*+ 1.2*	*x*

Source: Statistics Austria.

Table 5

Investment Income

	1st half 2001[1])	1st half 2002[2])	Annual change
	EUR million		
Net investment income[3])	−2,072	−1,308	+ 764
Investment income receipts	6,696	6,528	− 168
Investment income payments	8,768	7,836	− 932
Net direct investment income[3])	− 840	− 793	+ 47
Income on direct investment abroad	802	1,038	+ 236
Income on direct investment in Austria	1,642	1,831	+ 189
Net portfolio investment income[3])	−1,671	−1,655	+ 16
Income on foreign equity securities	115	218	+ 103
Income on domestic equity securities	156	191	+ 35
Income on foreign bonds and notes	2,291	2,500	+ 209
Income on domestic bonds and notes	3,788	4,184	+ 396
Income on foreign money market instruments	56	72	+ 16
Income on domestic money market instruments	189	70	− 119
Net other investment income[3])	439	1,140	+ 701
Income on other investment, assets[4])	3,433	2,701	− 732
Income on other investment, liabilities	2,993	1,560	−1,433
Investment income on foreign interest-bearing investment[5])	5,799	5,295	− 504
Investment income on domestic interest-bearing investment[6])	6,974	5,815	−1,159
Investment income on foreign venture capital-oriented investment[7])	897	1,233	+ 336
Investment income on domestic venture capital-oriented investment[7])	1,794	2,021	+ 227
Memorandum item: Financial derivatives based on interest rate contracts[8])	*− 58*	*892*	*+ 950*

Source: OeNB.
1) Revised data.
2) Provisional data.
3) Income on outward foreign investment less income on inward foreign investment.
4) Income on deposits, loans and reserve assets.
5) Income on debt securities, deposits, loans and reserve assets.
6) Income on debt securities, deposits and loans.
7) Income on direct investment and equity securities.
8) Included in the financial account, financial derivatives.

Table 6

Financial Account

	2000[1])	2001[2])	1st half 2001[2])	1st half 2002[3])
	EUR million, net			
Financial account	4,679	4,194	673	– 3,851
Assets	–52,276	–21,762	–12,955	–17,761
Liabilities	56,955	25,957	13,628	13,911
Direct investment	3,365	3,195	1,170	– 2,529
Direct investment abroad	– 6,230	– 3,408	– 1,446	– 3,174
Equity capital	– 5,388	– 2,613	– 1,485	– 2,347
Reinvested earnings	– 129	– 705	– 44	– 626
Other capital	– 713	– 90	83	– 201
Direct investment in Austria	9,595	6,603	2,616	645
Equity capital	8,494	4,115	2,004	– 84
Reinvested earnings	944	1,562	747	872
Other capital	156	927	– 135	– 143
Portfolio investment	3,229	5,164	– 2,439	– 1,804
Portfolio investment in foreign securities	–29,167	–13,267	–11,300	–18,971
Equity securities	–16,959	– 1,277	1,130	– 2,744
thereof: mutual fund shares	– 5,745	– 1,365	– 582	– 362
Bonds and notes	–11,441	–12,403	–10,140	–12,586
Money market instruments	– 767	412	– 2,290	– 3,641
Portfolio investment in domestic securities	32,395	18,431	8,861	17,167
Equity securities	3,857	– 4,787	– 4,548	1,215
thereof: mutual fund shares	1,205	1,004	485	729
Bonds and notes	26,738	25,989	14,035	15,250
Money market instruments	1,801	– 2,771	– 626	702
Other investment	– 2,489	– 5,885	– 1,330	284
Assets	–17,187	– 6,699	– 3,276	4,281
Trade credits	– 2,234	308	339	– 81
Loans	– 9,948	– 6,808	– 7,442	– 5,252
Currency and deposits	– 4,994	562	4,188	9,560
Other assets	– 11	– 762	– 361	54
Liabilities	14,698	814	1,946	– 3,996
Trade credits	502	– 562	– 552	12
Loans	4,302	719	– 2,583	538
Currency and deposits	9,686	649	5,189	– 4,574
Other liabilities	208	9	– 108	27
Financial derivatives	– 263	– 347	547	– 381
Reserve assets[4])	838	2,067	2,725	579
Memorandum item: Interest-bearing investment	*13,760*	*8,262*	*2,999*	*– 14*
Assets	*–29,900*	*–16,804*	*–12,426*	*–11,922*
Liabilities	*43,660*	*25,067*	*15,425*	*11,908*
Sectoral breakdown:				
Banks (including the OeNB)	18,191	– 1,943	– 1,105	– 1,436
Assets	–17,532	–11,568	– 7,561	– 4,162
Liabilities	35,723	9,624	6,456	2,726
General government	8,465	9,781	7,466	6,151
Assets	– 2,948	– 361	– 2,412	– 2,236
Liabilities	11,413	10,143	9,878	8,387
Other sectors	–21,976	– 3,644	– 5,688	– 8,567
Assets	–31,796	– 9,834	– 2,982	–11,363
Liabilities	9,820	6,189	– 2,706	2,796

Source: OeNB.
1) Final data.
2) Revised data.
3) Provisional data.
4) Oesterreichische Nationalbank: Gold and foreign exchange, reserve position in the Fund, SDRs, etc.; increase: – / decrease: +.

Table 7

Financial Account by Region[1])

	Investment in/ from the euro area			Investment in/ from non-euro area countries		
	2001[2])	1st half 2001[2])	1st half 2002[3])	2001[2])	1st half 2001[2])	1st half 2002[3])
	EUR million, net					
Financial account	– 317	4,004	2,902	4,511	– 3,331	–6,753
Assets	– 6,942	91	– 7,841	–14,820	–13,046	–9,920
Liabilities	6,625	3,913	10,742	19,332	9,715	3,169
Direct investment	2,448	1,656	250	747	– 486	–2,779
Direct investment abroad	– 77	889	– 217	– 3,331	– 2,335	–2,957
Direct investment in Austria	2,525	767	467	4,078	1,849	178
Portfolio investment	6,638	2,349	– 1,895	– 1,474	– 4,788	91
Portfolio investment in foreign securities	– 5,144	–4,321	–13,212	– 8,123	– 6,979	–5,759
Portfolio investment in domestic securities	11,781	6,670	11,317	6,650	2,191	5,850
Other investment	–10,096	–1,627	4,369	4,211	297	–4,085
Assets	– 2,157	1,893	5,640	– 4,542	– 5,169	–1,359
Liabilities	– 7,939	–3,520	– 1,271	8,753	5,466	–2,725
Financial derivatives	426	1,366	177	– 773	– 819	– 558
Reserve assets[4])	×	×	×	2,067	2,725	579

Source: OeNB.

[1]) *While for foreign direct investment in Austria and other inward investment it is possible to establish the identity of the foreign investors, in the case of portfolio investment one can only determine the country via which the transaction has been effected. This means that it is not possible to provide a current and/or completely reliable classification of creditors. Ongoing studies, however, show that the largest volume of Austrian securities sold to the euro area are government bonds sold to foreign banks in the course of tender or syndication offers. Since, in this case, the secondary market generated only a relatively small volume of cross-border transactions, the regional structure of the basic data derived from the reporting system on foreign exchange statistics can be regarded as sufficiently conclusive.*

[2]) *Revised data.*

[3]) *Provisional data.*

[4]) *Oesterreichische Nationalbank: Gold and foreign exchange, reserve position in the Fund, SDRs, etc.; increase: – / decrease: +.*

Austrian Outward and Inward Direct Investment – Results of the 2000 Survey and Development of Selected Indicators

René Dell'mour

This report provides a brief overview of the main results of the survey of the stock of direct investment at the turn of 2000/2001 and an update of some of the indicators first presented in the OeNB's Reports and Summaries 4/1995. For detailed results broken down by regions and sectors, see the supplement to Focus on Austria 2/2002, which is also available on the OeNB website *(http://www2.oenb.at/english/engl_p.htm)*.

Review of 2000 Results and Outlook for 2001

The worldwide wave of mergers, takeovers and stepped-up forging of linkages with foreign firms reached a climax in 2000. The survey of Austrian direct investment abroad and foreign direct investment (FDI) in Austria recently conducted by the OeNB reflects this development. The increase both in inward direct investment (by EUR 9.3 billion or 40%) and in outward direct investment (by EUR 7.6 billion or 40%) marks historic highs.

According to the results of this survey, the total stock of inward FDI came to EUR 32.7 billion. Austrian direct investment abroad totaled EUR 26.7 billion at the end of 2000. Thus, the level of outward FDI remained unchanged at some four fifths of inward FDI; ten years ago, it had stood at less than one third.

Inward direct investment augmented slightly both in terms of the number of investors (by 57 to 3,049) and the number of affiliated enterprises (by 46 to 2,588). The number of Austrians working for foreign enterprises went up by 10% to 251,200.

The number of Austrian investors also increased somewhat – from 902 to 917 – between 1999 and 2000. At the reporting date of December 31, 2000, domestic investors held stakes in 2,227 (+132) foreign enterprises, employing a total of 248,600 staff (+25%). Thus the number of employees at subsidiaries of Austrian investors abroad almost equaled the number of employees at foreign subsidiaries in Austria.

As stock prices started to dive, direct investment flows diminished worldwide by up to 50% in 2001. According to balance of payments statistics, cross-border direct investment activities in Austria likewise expanded in a much more subdued manner. Given that outward direct investment came to EUR 3.5 billion, the total stock of outward FDI is expected to have augmented to close to EUR 30 billion by the beginning of 2002, and inward FDI by EUR 6.5 billion to EUR 39 billion.

Regional Breakdown

The merger of Bank Austria AG with Bayerische Hypo- und Vereinsbank AG (HypoVereinsbank) figured most prominently in the direct investment statistics in 2000. This merger marked a massive increase in inward FDI, but at the same time, Austrian direct investment in Germany also expanded notably, with stocks almost doubling. Overall, the EU accounted for a third of the EUR 7.6 billion increase in outward FDI, Central and Eastern Europe for another third, and all other regions combined for the remaining third. Among the Central and Eastern European countries (CEECs), the Czech and Slovak Republics recorded the largest increases in FDI. Apart from the established target markets of Poland and Hungary, Austrian outward direct investment increasingly went to Croatia, Slovenia, Romania and Russia. The OeNB survey showed that among non-

European countries, the U.S.A. and Caribbean offshore financial centers registered the biggest rises in FDI inflows. At end-2000, EU countries held more than 42% of Austria's stocks of outward FDI, the CEECs' share came to some 30%, the rest of Europe, especially Switzerland, accounted for 9%. Only 19% of the capital invested went to non-European countries, 8% thereof to the U.S.A. and 4% to Caribbean offshore financial centers. All other non-European target countries, including all emerging markets in Asia and Latin America, but also Canada and Australia, recorded a mere 7% of Austrian outward FDI.

A breakdown by the number of direct investments and by the number of employees, however, reveals a different picture. The number of direct investments in Central and Eastern Europe climbed most markedly (by 71, at a total increase of 130). Employee figures outline a similar trend: The number of employees in Austrian direct investment enterprises clearly advanced most in Central and Eastern Europe, which accounted for more than 34,000 of a total of 49,500 new employees.

In 2000, two thirds of the increase in inward FDI in Austria can be ascribed to German capital in connection with the above-mentioned Bank Austria and Hypo-Vereinsbank merger. Other EU countries, in 2000 especially Luxembourg, Spain, the United Kingdom and the Netherlands, also raised their FDI in Austria. Among non-European countries, investors from the U.S.A. and Japan were the most active. Thus, investors from EU countries continued to gain in importance in 2000. Their share in total FDI approached the 80% mark. Germany, the most important country of origin, accounted for more than 45% of inward FDI. Apart from the EU countries, only Switzerland (10%), the U.S.A. (6%) and Japan (3%) played a certain role.

Sectoral Breakdown

80% of new outward FDI was focused on services in 2000 (table 3). This result confirmed the uptrend of FDI in the service sector. It attracts no less than 73% of FDI abroad, while manufacturing as well as mining and quarrying, and electricity, gas and water record only 25% and 2%, respectively. Business services, in particular by holding companies (+EUR 3.8 billion) and the financial sector (+EUR 1.4 billion), posted the biggest increase. In the manufacturing sector, chemicals (+EUR 0.4 billion) and metal products (+EUR 0.6 billion) registered noteworthy gains.

Services also accounted for 80% of the increase in inward FDI stocks. Half of this amount was attributable to financial intermediation, which is hardly surprising, given the bank merger mentioned above. Large gains were also recorded in business services (+EUR 2.4 billion, including holding companies) and in the wholesale and retail sector (+EUR 1 billion). Within manufacturing, inward FDI flows expanded in particular in the electrical and optical equipment sector. All in all, the service sector was once again the prime target of inward FDI. Its share in total inward FDI rose from 68% to 71% between 1999 and 2000, with the financial sector posting the largest gain (by 8 percentage points from 10% to 18%).

Income and Return on Equity

The income of Austrian direct investment enterprises abroad continued to rise in 2000. Half of the annual income of EUR 1.3 billion was earned in Central and Eastern Europe. All other regions, with the exception of North America, also posted positive annual results. Furthermore, profit brought forward was raised to EUR 480 million in 2001.

Austria-based companies partly owned by foreign direct investors scored record profits. Annual results went up by EUR 500 million to more than EUR 3 billion. Thus, return on equity for inward FDI was 10.8% against 6% for Austrian FDI abroad.

An analysis at the corporate level allows assessing changes in the return on equity in more detail. It is evident that not a few single cases determined the overall outcome but that FDI enterprises in general saw an increase in return on equity. In 2000, the median return on equity,[1]) which had been improving almost continuously since 1993, progressed to a new high (5%) since 1989 (table 5), slightly surpassing the 4.9% recorded for 1999. The boost in annual profits triggered an increase in the median return on equity also in partly foreign-controlled Austrian direct investment enterprises, climbing from 6.1% to 6.8%, thus this figure also reached a record level.

Furthermore, this analysis at the corporate level helps explain the difference in the return on equity for outward and inward FDI. Obviously, the return on equity of a foreign direct investment enterprise to a large extent depends on how long it has existed. *Outward* direct investments established for over five years had a return on equity of 8.2%, significantly higher than that of newer affiliates, which recorded a median of only 0.5%. The same is true of *inward* direct investment enterprises: Again, the return on equity of longer-standing investments (8.4%) considerably outpaced that of more recently established investments. The latter's return on equity reached a median of merely 0.0%, which means that approximately half of the enterprises posted profits, while the others posted losses. Consequently, the seemingly better return on equity of foreign direct investment companies in Austria compared to Austrian direct investment enterprises abroad can be largely traced to the different age structure. 75% of inward, but only 60% of outward FDI stocks were made more than four years ago. Since young direct investment enterprises are typically associated with initial losses, the aging process[2]) of foreign direct investment companies alone is expected to raise return on equity rates in the coming years.

The median equity ratio of both Austrian direct investment enterprises abroad and nonresident direct investment enterprises in Austria went up slightly in 2000. An equity ratio of 30.9% for outward FDI corresponds to the long-term average; a ratio of 25.2% for inward FDI marks the highest value in ten years.

Improved profitability in manufacturing has been going hand in hand with higher productivity rates. Before the opening up of Central and Eastern Europe, sales per employee came to somewhat more than EUR 100,000 at both Austrian direct investment enterprises abroad and foreign direct investment enterprises

1 *Like in previous years, annual profits relate to equity excluding annual profits.*
2 *In 1994, less than 30% of outward direct investments were older than four years.*

in Austria. The massive inflow of investment into Central and Eastern European enterprises, which were usually outdated in terms of technology, initially drove down per capita sales in nominal terms to EUR 70,000, while the overall wage level was low. However, since 1993 this figure has been rising continuously, and in 2000, it exceeded for the first time the level of 1989 at EUR 112,000. At the same time, sales per employee in foreign subsidiaries in Austria already amounted to more than EUR 170,000 in 2000. Still, outward direct investments are catching up: Between 1995 and 2000, labor productivity in Austrian subsidiaries abroad advanced at a considerably faster pace (+6.7% p.a.) than in foreign subsidiaries in Austria (+4% p.a.).

Employment

In 2000, Austrian direct investors employed 267,600 (annual average) people in Austria, which basically equaled the number recorded ten years earlier (260,800). This does not imply that direct investors did not lay off staff – after all the number of investors increased from 679 to 917 between 1990 and 2000 – but it refutes the hypothesis that jobs abroad are created largely at the expense of jobs at home. From 1999 to 2000, the number of investing enterprises climbed by 15 and their number of employees by 9,360. Investors in manufacturing[1]) employed a staff of 150,000, investors in the service sector 117,600. Jobs in direct investment firms in Austria accounted for roughly 8.5% of total employment in Austria.

In 2000, a total of 248,600 persons were simultaneously employed by 2,227 Austrian direct investment enterprises abroad, which represents a 25% rise against 1999. The number of employees working at Austrian direct investors' affiliates abroad thus increased more than fivefold between 1990 and 2000. The majority of these new jobs would not have been created in Austria since they served to enter new markets; but the revenues they yield help secure jobs in Austria. If indirectly owned direct investment companies abroad were included, the figure would rise by another 56,500 or some 20%. Increasing the number of employees from 128,900 to 144,400, the manufacturing sector did not expand as fast as the service sector (from 70,200 to 104,200). Nevertheless, the service sector accounts for only 42% of employees but for 70% of total capital invested.

A comparison of Austrian direct investment companies' employment figures at home and abroad shows that in industrial enterprises in 2000, for every 100 persons employed in Austria, another 96 were on the payroll of affiliates abroad. Services are close on the heels of manufacturing: For every 100 employees at the parent company, there are 89 employees at foreign affiliates. The employment figures of Austrian direct investment enterprises abroad are less impressive if they are viewed in terms of the overall dependent labor force in Austria rather than just of the number of persons working for the direct investor.[2]) For every 100 employees in Austria, there are 7.9 persons working for Austrian direct investment enterprises abroad, up from just 1 person in early 1990. Still,

1 *The classification is based on the Austrian Statistical Classification of Economic Activities (ÖNACE). The industries subsumed under manufacturing in this report comprise sections C through F. Recalculations go back to 1994.*

2 *This is not a share; theoretically, the values can rise beyond 100%.*

in some sectors employment in affiliates abroad reached quite substantial proportions. In the sector nonmetallic mineral products, 100 domestic employees contrast with 41 persons working for foreign affiliates, and 33 persons each in the sector refined petroleum products, chemicals, rubber as well as in the sector electrical and optical equipment (see chart). In the banking sector, employment at Austrian direct investment enterprises abroad surged. With Austrian financial intermediaries intensively targeting the markets of Central and Eastern Europe, already more than 31 employees (three times as many as in 1995) were posted abroad for every 100 employees of financial intermediaries at home.

The regional breakdown of employment in foreign affiliates differs considerably from the distribution of the capital invested. For some time, Central and Eastern Europe has been the region where most employees of Austrian direct investment companies work.[1]) At the end of 2000, 162,400 of a total of 248,600 employees abroad were based in Central and Eastern Europe (49,800 in the Czech Republic, 48,500 in Hungary, 20,900 in Poland, and 16,000 in the Slovak Republic), while the EU accounted for 57,600 (approximately a quarter); only 10% held jobs outside Europe.

In 2000, the number of Austrians employed at nonresident investors' affiliates also increased fairly sharply, by 10% or 22,800 persons. According to the survey, a total of 251,200 persons (weighted for the investor's nominal capital share) were employed by foreign-controlled enterprises. If nonresident investors' indirectly owned direct investment enterprises are also taken into account, this figure rises by another 80,000 or 30%.

The merger of Bank Austria AG with HypoVereinsbank had a special impact on staff figures in 2000: Germany recorded the largest increase of all countries, and the financial sector the largest increase of all sectors. German investors employing 127,700 Austrians accounted for half of the rise in employment, the banking sector for 68% (+8,200). The number of employees at nonresident direct investors' subsidiaries went up markedly also in the retail sector (+4,900), in the electrical and optical equipment sector (+3,300), in mechanical engineering (+2,200) and in the metal industry (+1,900).

Expressed as a percentage of the total payroll employment in Austria, this means that some 8% of all jobs were held by people working in nonresident investors' companies in Austria. In manufacturing their share comes to 13.3%, in the service sector to 6.1%. The sectors with the largest shares of employees working for nonresident direct investors are electrical and optical equipment (40%) and chemicals (30%). Sectors hardly influenced by inward FDI in terms of employment are construction as well as mining and energy (less than 2%). Among services, the share ranges from 19% in financial intermediation to 14.6% in the wholesale and retail trade and 0.1% in other services.

As is evident from a comparison of the employment figures in Austrian parent companies' affiliates abroad with the total number of dependently employed persons in Austria working for foreign enterprises[2]) (see chart), there

1 *Against a capital share of 30%.*

2 *Measured as the ratio of persons employed by Austrian subsidiaries abroad (outward FDI) and of persons employed by foreign subsidiaries in Austria (inward FDI) to total domestic employment per sector. The first measure is theoretically unlimited (upwards), the second is an actual share, which cannot exceed 100%.*

are sectors with considerable *outward* direct investment activities (nonmetallic mineral products and financial intermediation) and sectors with substantial *inward* direct investment activities (mechanical engineering, transportation equipment, electrical and optical equipment). In the textiles and chemicals industries, both inward and outward FDI stocks are *substantial,* with other services as well as hotels and restaurants hardly the target of foreign direct investment, employment in these sectors remains unaffected.

Table 1

Stocks and Flows of Austrian Inward and Outward Direct Investment

Capital stocks and flows	Outward Direct Investment		Inward Direct Investment	
	EUR million			
Direct investment stocks at the end of 1999				
Equity capital	17,337		22,490	
Other capital (intragroup lending)	1,702		874	
		19,039		23,364
Transactions according to the 2000				
Balance of payments				
New equity capital	6,634		10,334	
Disinvestment	– 1,246		– 1,840	
Excluding privately owned real estate	– 250		– 368	
Equity capital		5,138		8,126
Reinvested earnings		129		944
Net lending		713		156
Valuation differences and valuation changes[1])		1,656		114
Direct investment stocks at the end of 2000				
Equity capital	23,871		31,158	
Other capital (intragroup lending)	2,804		1,546	
		26,675		32,704
Transactions according to the 2001				
Balance of payments				
New equity capital	5,286		4,830	
Disinvestment	– 2,673		– 715	
Excluding privately owned real estate	– 124		– 265	
Equity capital		2,489		3,850
Reinvested earnings (estimate)		705		1,562
Net lending		90		927
Valuation differences and valuation changes[1])		– 59		– 43
Projected direct investment stocks at the end of 2001				
Equity capital	27,006		36,527	
Other capital (intragroup lending)	2,894		2,473	
		29,900		39,000

Source: OeNB.

[1]) *E.g. exchange rate changes, differences between the transaction value and the book value, definitional differences.*

Table 2.1

Outward Direct Investment Stocks in Austria at Year-End

	1990	1995	1997	1998	1999	2000	Forecast 2001
	EUR million						
Nominal capital	2,061	5,191	6,810	7,860	9,261	10,744	×
Other equity capital[1])	1,027	1,829	4,427	5,375	8,076	13,127	×
Aggregate equity capital	3,089	7,021	11,237	13,235	17,337	23,871	27,000
Intragroup lending	595	1,654	1,626	1,678	1,702	2,804	2,900
Total capital	3,683	8,674	12,863	14,912	19,039	26,674	29,900
Number of direct investments	*1,189*	*1,796*	*2,020*	*2,078*	*2,172*	*2,302*	*x*
	EUR million						*2000 in %*
Total capital broken down by target region							
EU-15	1,943	4,009	5,273	6,808	8,463	11,257	*42.2*
thereof							
Euro area	1,610	3,429	4,183	4,882	5,553	8,398	*31.5*
Germany	900	1,686	2,031	2,333	2,735	5,070	*19.0*
Netherlands	297	713	723	748	934	1,693	*6.3*
Italy	139	174	365	415	480	550	*2.1*
France	74	199	337	502	533	491	*1.8*
United Kingdom	313	427	927	1,426	1,667	1,648	*6.2*
Central and Eastern Europe	405	2,425	4,033	4,333	5,483	8,026	*30.1*
thereof							
Hungary	292	1,168	1,511	1,447	1,673	1,863	*7.0*
Czech Republic	10	693	997	1,112	1,291	2,108	*7.9*
Slovak Republic	1	152	399	455	573	1,272	*4.8*
Other European countries	770	1,076	1,366	1,269	1,486	2,340	*8.8*
thereof							
Switzerland, Liechtenstein	752	882	1,061	1,042	1,084	1,214	*4.6*
America	446	1,002	2,025	2,316	2,835	3,985	*14.9*
thereof							
U.S.A.	236	446	1,164	1,161	1,454	2,160	*8.1*
Caribbean countries[2])	60	155	399	636	875	1,180	*4.4*
Asia, Africa, Pacific countries	119	163	165	185	772	1,066	*4.0*
Total	3,683	8,674	12,863	14,912	19,039	26,674	*100.0*
Market value							
in EUR billion	–	6,664	10,475	13,276	17,296	23,648	×
in % of total equity	–	*95*	*93*	*100*	*100*	*99*	*x*

Source: OeNB.

[1]) *Including profit/loss for the reporting year.*

[2]) *Netherlands Antilles, Barbados, Bermuda, Jamaica, St. Kitts & Nevis, Cayman Isles, Montserrat, British Virgin Isles.*

Table 2.2

Inward Direct Investment Stocks in Austria at Year-End

	1990	1995	1997	1998	1999	2000	Forecast 2001
	EUR million						
Nominal capital	4,013	5,198	5,719	7,029	7,160	11,088	x
Other equity capital[1])	4,011	7,918	11,394	12,586	15,330	20,070	x
Aggregate equity capital	8,024	13,116	17,113	19,616	22,490	31,158	36,600
Intragroup lending	489	1,342	809	501	874	1,546	2,400
Total capital	8,513	14,458	17,922	20,117	23,364	32,704	39,000
Number of direct investments	*3,268*	*3,094*	*3,246*	*3,266*	*3,230*	*3,288*	*x*
	EUR million						*2000 in %*
Total capital broken down by region of origin							
EU-15	5,349	9,722	12,540	14,572	16,673	25,389	*77.6*
thereof							
Euro area	4,909	8,764	11,535	13,154	14,345	22,774	*69.6*
Germany	3,255	6,063	8,192	8,318	9,054	15,295	*46.8*
Netherlands	896	1,395	1,653	1,634	1,671	2,053	*6.3*
Italy	377	427	696	1,563	1,572	1,692	*5.2*
France	255	486	541	1,043	1,118	1,399	*4.3*
United Kingdom	259	608	562	678	1,443	1,881	*5.8*
Central and Eastern Europe	111	207	328	350	89	362	*1.1*
Other European countries	1,597	2,205	2,348	2,478	3,408	3,337	*10.2*
thereof							
Switzerland, Liechtenstein	1,550	2,152	2,223	2,323	3,229	3,137	*9.6*
America	989	1,206	1,593	1,668	1,870	2,192	*6.7*
thereof							
U.S.A.	902	1,084	1,501	1,587	1,731	2,024	*6.2*
Asia	455	808	901	964	1,159	1,402	*4.3*
thereof							
Japan	301	437	498	564	726	841	*2.6*
Gulf countries[2])	146	358	364	372	400	460	*1.4*
Africa, Pacific countries	13	308	212	84	164	23	*0.1*
Total	8,513	14,458	17,922	20,117	23,364	32,704	*100.0*
Market value							
in EUR billion	–	18,408	26,034	24,944	30,536	36,904	x
in % of total equity	–	*140*	*152*	*127*	*136*	*118*	*x*

Source: OeNB.
[1]) Including profit/loss for the reporting year.
[2]) Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates,Yemen.

Table 3

Outward and Inward Direct Investment by Economic Activity

	Outward direct investment				Inward direct investment			
	1995	1998	1999	2000	1995	1998	1999	2000
	EUR million							
Mining and quarrying, electricity and gas	192	304	392	333	156	280	289	316
Manufacturing and construction	2,772	4,200	5,239	6,789	5,480	5,820	7,175	9,016
Food, beverages and tobacco	236	330	381	486	522	334	396	668
Textile products, apparel and leather	71	91	102	79	192	170	232	252
Wood and wood products	134	114	243	243	43	50	22	50
Paper, publishing and printing	197	383	403	527	511	665	803	828
Refined petroleum products, chemicals, rubber and plastic products	574	716	803	1,212	1,771	2,150	2,379	2,385
Nonmetallic mineral products	369	826	1,086	1,150	300	368	404	473
Metal products	403	614	738	1,314	208	375	493	572
Mechanical products	217	262	299	490	597	799	673	917
Electrical and optical equipment	262	366	630	692	630	347	1,232	2,293
Transport equipment	54	37	87	116	482	407	387	412
Manufacturing, n.e.c.	31	84	68	73	97	73	74	86
Construction	224	376	398	407	127	83	81	80
Services	5,710	10,408	13,409	19,553	8,821	14,016	15,899	23,373
Trade and repairs	1,053	2,118	2,564	3,209	3,311	4,214	5,290	6,331
Hotels and restaurants	108	68	118	231	102	191	202	259
Transport and communication	35	43	64	92	273	1,580	1,444	1,775
Financial intermediation	1,690	3,291	4,146	5,582	1,925	2,520	2,234	5,856
Real estate and business activities	2,746	4,764	6,396	10,158	3,196	5,457	6,658	9,092
Other services	78	124	121	280	13	55	72	60
Total capital[1])	8,674	14,912	19,039	26,674	14,458	20,117	23,364	32,704

Source: OeNB.

[1]) Including profit/loss for the reporting year.

Table 4.1

Income from Outward Direct Investment by Region

Target region	Austrian share of											
	Net income for the year				Net balance carried forward				Profit or loss for the year			
	1995	1998	1999	2000	1995	1998	1999	2000	1995	1998	1999	2000
	EUR million											
EU-15 (excl. Germany)	18	178	169	83	– 72	74	249	264	– 54	252	418	347
Germany	10	34	165	321	–347	–381	–411	–341	–337	–347	– 245	– 20
Switzerland and Liechtenstein	58	41	73	56	208	273	275	315	266	314	348	371
Central and Eastern Europe (excl. Hungary)	–29	– 38	216	458	–109	–166	–195	–297	–137	–205	21	162
Hungary	3	162	225	196	–106	– 44	82	58	–103	118	307	254
U.S.A., Canada	– 4	67	31	– 49	–134	47	144	177	–138	114	174	128
Other countries	39	135	245	281	14	109	178	304	53	244	424	585
Total	95	580	1,125	1,345	–545	– 90	322	480	–450	489	1,447	1,825

Source: OeNB.

Table 4.2

Income from Inward Direct Investment by Region

Region of origin	Foreign share of											
	Net income for the year				Net balance carried forward				Profit or loss for the year			
	1995	1998	1999	2000	1995	1998	1999	2000	1995	1998	1999	2000
	EUR million											
EU-15 (exkl. Germany)	409	580	1,041	1,297	−12	−56	17	161	397	523	1,058	1,458
Germany	656	997	835	1,065	208	232	47	−440	864	1,229	882	625
Switzerland and Liechtenstein	176	217	251	93	−97	−58	−44	−109	79	159	208	−17
Central and Eastern Europe (excl. Hungary)	−0	−10	0	−1	−16	1	2	−7	−17	−9	3	−8
Hungary	2	−7	−2	−17	−4	−6	−11	−18	−2	−14	−13	−35
U.S.A., Canada	324	78	336	599	19	422	188	290	344	501	524	889
Other countries	38	65	86	8	−107	−66	−73	−40	−69	−1	13	−32
Total	1,604	1,920	2,548	3,044	−8	468	126	−163	1,596	2,388	2,674	2,881

Source: OeNB.

Table 5.1

Performance Indicators of Outward Direct Investment

	1995	1996	1997	1998	1999	2000	2000	
							Age of the direct investment enterprise	
							< 5 years	> = 5 years
	%							
Total								
Return on equity								
Highest decile	42.9	52.5	53.1	53.1	53.2	54.1	*42.9*	*60.1*
Highest quartile	14.2	18.2	20.6	20.0	21.3	21.6	*17.3*	*25.1*
Median	1.0	3.1	4.5	4.0	4.9	5.0	*0.5*	*8.2*
Lowest quartile	−9.2	−5.1	−4.6	−6.0	−4.5	−4.3	*−12.8*	*0.0*
Lowest decile	−52.2	−34.6	−36.4	−43.8	−38.0	−36.3	*−64.7*	*−22.0*
Equity ratio								
Highest quartile	92.7	93.7	88.8	88.2	87.3	89.7	*96.8*	*82.7*
Highest quartile	63.2	62.4	59.5	59.8	59.0	59.7	*66.9*	*55.6*
Median	31.3	28.8	28.0	29.6	30.2	30.9	*32.1*	*30.2*
Lowest quartile	12.0	11.4	11.0	12.5	12.0	12.1	*12.8*	*11.9*
Lowest decile	2.4	1.3	2.1	2.7	2.5	2.5	*3.1*	*2.1*
Number of enterprises	*1,718*	*1,810*	*1,942*	*2,066*	*2,095*	*2,227*	*910*	*1,317*
Manufacturing[1])								
Return on sales								
Highest decile	9.5	12.0	12.7	14.7	14.5	13.9	*13.2*	*14.2*
Highest quartile	4.4	5.6	5.9	6.1	7.0	7.0	*5.5*	*8.0*
Median	0.6	1.3	1.4	1.3	1.9	1.9	*0.5*	*2.6*
Lowest quartile	−3.7	−1.8	−1.8	−2.9	−2.0	−1.3	*−6.2*	*0.0*
Lowest decile	−22.6	−20.7	−15.9	−18.3	−15.4	−17.1	*−29.4*	*−6.9*
	EUR 1,000							
Productivity								
Highest decile	410	333	368	351	370	412	*376*	*428*
Highest quartile	182	182	191	189	204	221	*191*	*250*
Median	80	87	90	90	100	112	*103*	*119*
Lowest quartile	28	35	35	35	41	50	*46*	*55*
Lowest decile	10	12	12	13	17	19	*190*	*19*
Number of enterprises	*621*	*768*	*826*	*867*	*886*	*910*	*375*	*535*

Source: OeNB.

[1]) *Classified under the sectoral association "industry" in the Austrian Federal Economic Chamber until 1995; since 1996 calculations have been made for the sections C through F (mining and quarrying, electricity, gas and water, manufacturing, construction) of the ÖNACE (Austrian Statistical Classification of Economic Activities).*

Table 5.2

Performance Indicators of Inward Direct Investment

	1995	1996	1997	1998	1999	2000	2000: Age of the direct investment enterprise < 5 years	2000: Age of the direct investment enterprise > = 5 years
	%							
Total								
Return on equity								
Highest decile	81.5	65.8	67.3	78.1	73.7	77.9	*78.8*	*76.5*
Highest quartile	27.1	22.6	23.3	28.0	26.5	30.6	*21.8*	*31.9*
Median	5.9	4.2	4.7	5.9	6.1	6.8	*0.0*	*8.4*
Lowest quartile	–2.8	–5.6	–4.2	–3.2	–5.6	–4.9	*–31.9*	*–0.0*
Lowest decile	–50.0	–50.7	–50.0	–50.7	–48.5	–46.8	*–93.3*	*–31.3*
Equity ratio								
Highest decile	74.6	77.6	79.6	82.8	80.2	81.9	*96.8*	*75.6*
Highest quartile	45.2	47.1	46.9	48.0	49.2	49.4	*56.3*	*48.1*
Median	22.7	23.4	23.6	23.5	24.9	25.2	*23.5*	*25.8*
Lowest quartile	7.6	7.5	7.4	7.4	7.4	8.3	*7.0*	*8.7*
Lowest decile	–6.4	–7.5	–9.9	–910.6	–4.1	*–3.4*	*–4.1*	
Number of enterprises	*2,262*	*2,362*	*2,464*	*2,525*	*2,542*	*2,588*	*609*	*1,979*
Manufacturing[1])								
Return on sales								
Highest decile	12.8	12.5	11.8	13.4	13.9	14.8	*13.3*	*14.9*
Highest quartile	6.0	5.6	6.4	6.9	7.0	7.4	*5.4*	*7.9*
Median	1.7	1.3	1.7	2.4	2.3	2.6	*1.5*	*3.0*
Lowest quartile	–1.2	–1.2	–0.1	0.0	–0.4	0.0	*–5.1*	*0.2*
Lowest decile	–8.3	–11.3	–8.4	–9.4	–9.6	–7.5	*–31.3*	*–5.0*
	EUR 1,000							
Productivity								
Highest decile	350.5	361.8	393.9	421.4	439.7	481	*476*	*484*
Highest quartile	215.0	216.8	233.3	245.0	257.5	285	*304*	*277*
Median	141.9	144.9	160.6	164.1	164.3	173	*164*	*176*
Lowest quartile	95.4	98.2	108.3	110.3	110.7	119	*113*	*121*
Lowest decile	70.0	66.4	75.6	77.6	75.6	81	*87*	*83*
Number of enterprises	*548*	*682*	*679*	*682*	*680*	*686*	*134*	*552*

Source: OeNB.

[1]) *Classified under the sectoral association "industry" in the Austrian Federal Economic Chamber until 1995; since 1996 calculations have been made for the sections C through F (mining and quarrying, electricity, gas and water, manufacturing, construction) of the ÖNACE (Austrian Statistical Classification of Economic Activities).*

Table 6

Direct Investment and Employment

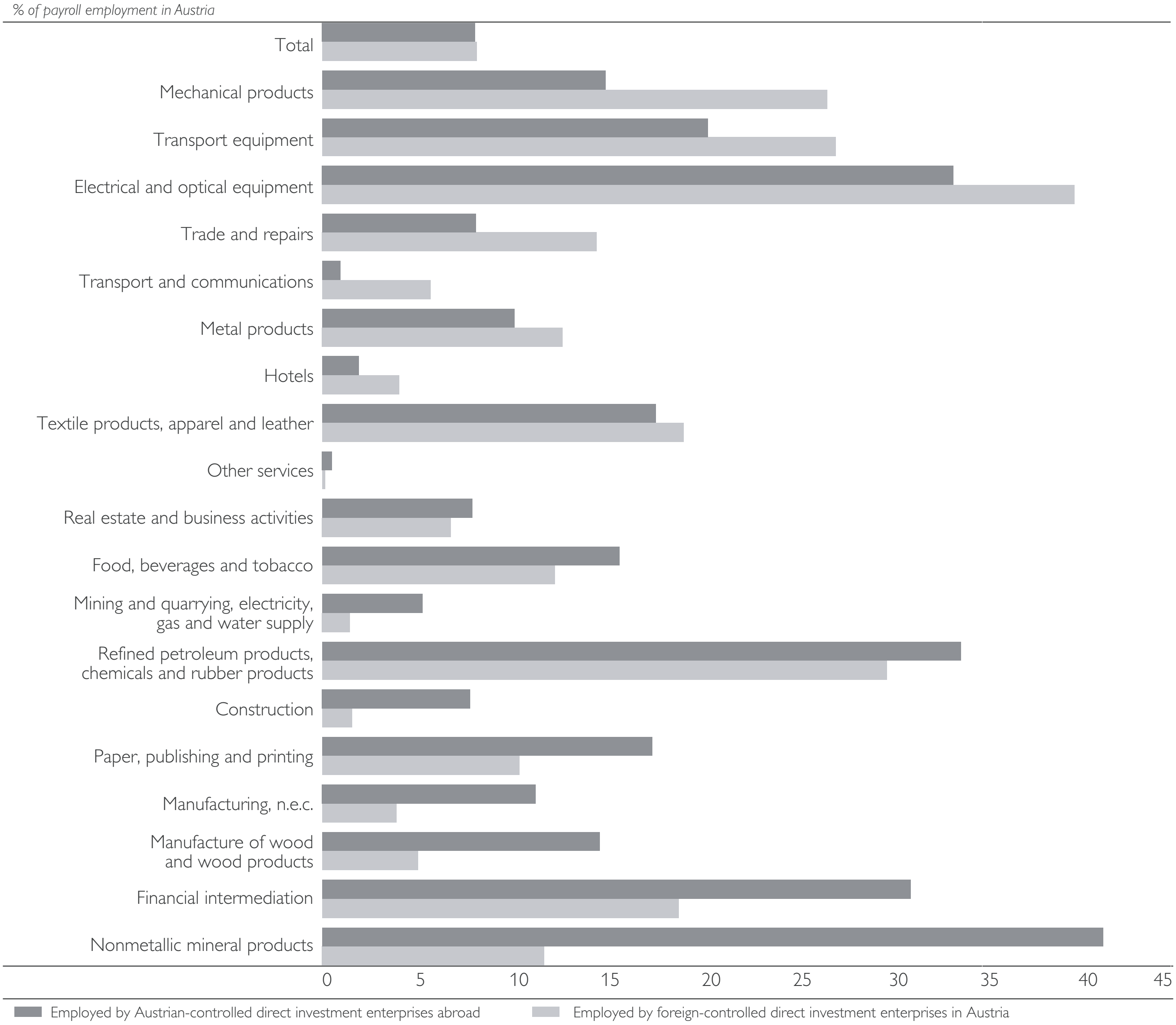
	1990	1995	1997	1998	1999	2000
	1,000 persons					
Outward direct investment						
Employed in Austria by Austrian direct investors	260.8	346.6	269.1	260.1	258.3	267.6
Manufacturing	×	173.2	162.7	162.0	156.7	150.0
Services	×	173.4	106.4	98.0	101.6	117.6
	%					
Share of total payroll employment	8.9	11.3	8.8	8.5	8.3	8.5
Manufacturing	×	18.3	17.6	17.5	17.0	16.4
Services	×	8.7	5.3	4.8	4.9	5.5
	1,000 persons					
Employed[1]) abroad by Austrian direct investors	43.6	125.0	161.4	187.7	199.2	248.6
Manufacturing	×	83.6	100.6	124.0	128.9	144.4
Services	×	41.4	60.8	63.7	70.2	104.2
Ratio of foreign to domestic employment	*17*	*36*	*60*	*72*	*77*	*93*
Manufacturing	×	*48*	*62*	*76*	*82*	*96*
Services	×	*24*	*57*	*65*	*69*	*89*
Employment[1]) by target country/region	43.6	125.0	161.4	187.7	199.2	248.6
EU-12 (excl. Germany)	6.0	11.7	12.5	12.6	13.9	17.4
Germany	16.1	21.1	23.7	32.9	33.7	34.9
Other EU countries	2.0	2.8	3.2	5.0	2.7	5.3
Switzerland and Liechtenstein	2.3	2.4	2.5	2.5	2.6	3.1
Central and Eastern Europe (excl. Hungary)	3.3	33.9	54.5	68.6	78.8	113.9
Hungary	7.5	44.2	51.7	52.5	49.3	48.5
U.S.A. and Canada	3.9	3.2	6.3	6.6	9.0	13.5
Other countries	2.7	5.7	6.9	6.8	9.1	12.1
Inward direct investment						
Employed[1]) in Austrian by nonresident direct investors	235.8	207.7	211.5	228.4	228.4	251.2
Manufacturing	×	116.3	117.2	117.1	113.1	121.1
Services	×	91.4	94.3	111.3	115.4	130.1
	%					
Share of total employment	8.1	6.8	6.9	7.4	7.4	8.0
Manufacturing	×	12.3	12.7	12.6	12.3	13.3
Services	×	4.6	4.7	5.4	5.5	6.1

Source: OeNB, Statistics Austria.

[1]) Weighted by the share of the direct investment enterprise's nominal capital.

Ratio of Persons Employed by Austrian Direct Investment Enterprises Abroad and Persons Employed by Foreign Direct Investment Enterprises in Austria to Total Payroll Employment by Sector

% of payroll employment in Austria



Source: OeNB.

Austria's Portfolio Investment Position – The Globalization of Securities Investment and its Impact on Austria

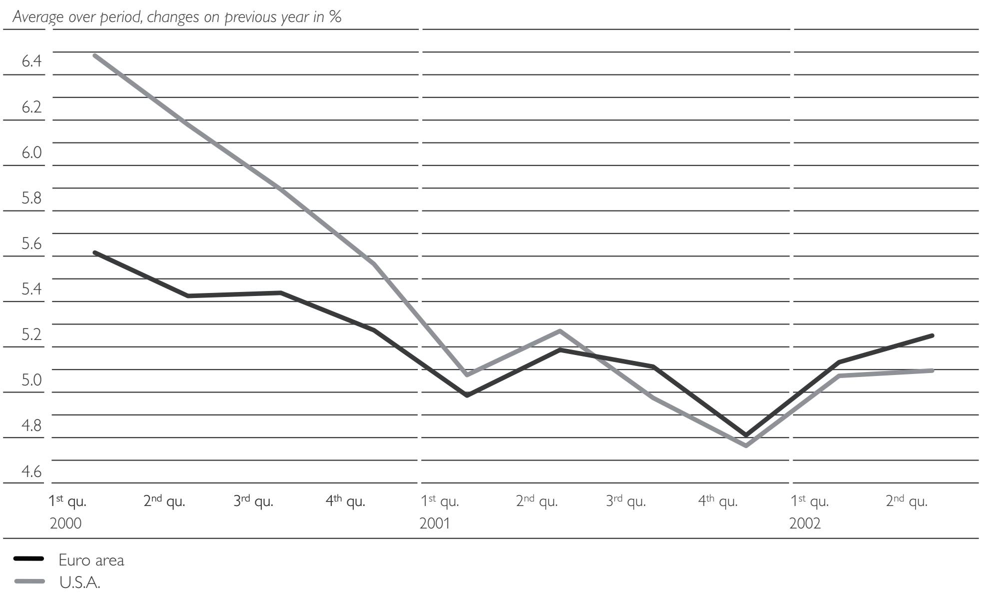
Isabel Winkler

– Austrian holdings of foreign debt securities came to EUR 106 billion at the end of June 2002.
– At the reporting date, three quarters of foreign debt securities and even 85% of money market instruments held by Austrians were denominated in euro.
– Institutional investors continued to be the largest group of investors in foreign debt securities; while the share of households was small (3%).
– At end-June 2002, domestic debt securities to the tune of EUR 191 billion (more than 60% of the total amount outstanding) were held by nonresidents; 50% thereof were issued by general government entities.
– Some 70% of Austrian debt securities held by nonresidents are euro-denominated.
– More detailed data on Austria's portfolio investment position are available on the OeNB's website (http://www2.oenb.at/stat-monatsheft/englisch/chapter07_p.htm).

1 International Capital Market Developments

Long-term bond interest rates fluctuated widely in both the *euro area* and in the *U.S.A.* in 2001; on balance, however, they changed only slightly between end-2000 and end-2001. Thus, the yield differential between ten-year government bonds in the U.S.A. and in the euro area remained largely unaffected, settling at a broadly stable level during the first two months of 2002. This indicates that in both economies, global factors – in particular the worldwide economic slowdown and uncertainty after the terrorist attacks of September 11, 2001 – were at the root of interest rate movements. In early March 2002, the yield differential between U.S. and euro area ten-year government bonds turned negative,

Long-Term Government Bond Yields[1])



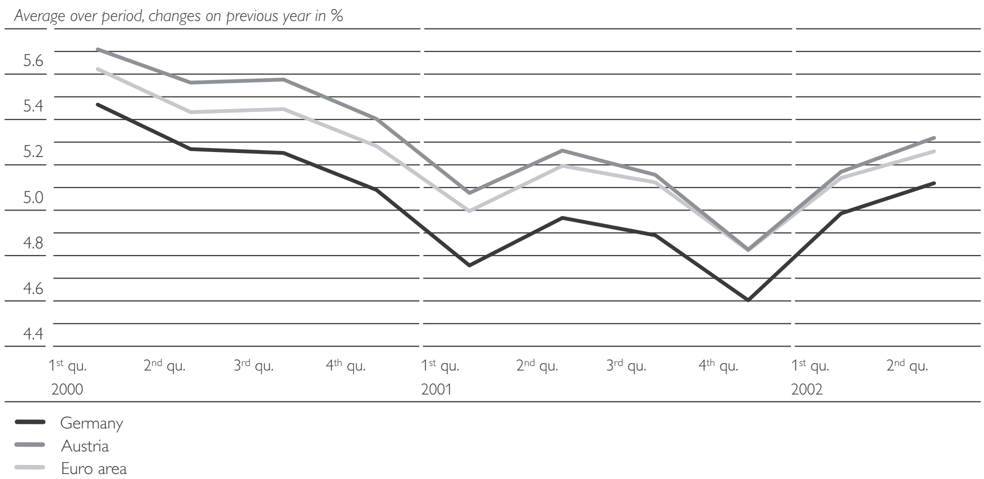
Source: OeNB.
[1]) Secondary market yields on ten-year government bonds.

just to turn positive again by April 2002. Until early June 2002, government bond yields did not show a clear trend, which was apparently the result of reports sending out diverging signals and the effects of portfolio shifts into less volatile investment vehicles. Accordingly, the yield differential between ten-year government bonds in the U.S.A. and in the euro area moved within a very narrow range.

In *Japan,* long-term government bond yields remained more or less decoupled from international interest rate developments in 2001, which mirrored the distinctive economic situation in this country. Overall, between end-2000 and end-2001, Japanese ten-year government bond yields declined by about 30 basis points to some 1.4%. Between end-January and the beginning of July 2002, bond yields came under downward pressures and slipped to approximately 1.3% on July 3. This decline in long-term bond yields in the face of an improving outlook for the Japanese economy was apparently caused by the global stock market turbulence and the continued appreciation of the Japanese yen against the U.S. dollar.

The *Austrian bond market* may be considerably smaller than the domestic market for loans, but it outperforms the domestic stock market in terms of market capitalization, i.e. amounts of bonds or shares outstanding, by far. Still, it is one of the smaller European markets as measured by its absolute size. Recording an amount of bonds outstanding of EUR 169.1 billion at the end of 2001, the Austrian bond market accounted for less than 1% of the total amount outstanding worldwide (by comparison, Germany posted 5% of total bonds outstanding).[1]) However, when market capitalization is measured as a ratio of GDP, the Austrian bond market ranks in mid-range (at about 80% of GDP). The central government is the major issuer on the Austrian bond market.

Long-Term Government Bond Yields[1])



Source: OeNB.
[1]) Secondary market yields on ten-year government bonds.

1 *Amount outstanding of all bonds issued (by residents or nonresidents) on the Austrian financial market. Source: Oesterreichische Kontrollbank AG, Der österreichische Rentenmarkt, May 2002.*

At the beginning of 2001, the Austrian yield gap vis-à-vis Germany came to 30 basis points, with the Austrian long-term government bond yield amounting to 5.1%. Long-term interest rates declined gradually in the course of 2001; at end-December 2001, the Austrian yield was 4.94% and the yield gap vis-à-vis Germany had thus shrunk to 20 basis points. In the first half of 2002, the Austrian benchmark government bond yield started a steady upward climb, reaching 5.37% in May 2002; the yield gap vis-à-vis Germany continued to run to 20 basis points.

The exchange rate of the euro against the U.S. dollar hovered around USD 0.88, showing little volatility. In the second quarter of 2002, the euro followed a clear upward trend. By mid-July 2002, the exchange rate for the first time since February 2000 rose above parity with the dollar, reaching a year high of USD/EUR 1.015 shortly afterwards (July 19, 2002). Expectations of unfavorable bond yields in the U.S.A. compared to investment in the euro area evidently prompted investors to withdraw capital from the U.S. market.

2 Insights Provided by Portfolio Investment Position Data

Since the early 1990s, securities have considerably gained in importance in Austria. The main reasons for the boom included the globalization of financial flows, Austria's entry into the EU in 1995, as well as the completion of Economic and Monetary Union (EMU). More recently, the narrowing interest rate differential between the U.S.A. and the euro area from 1999 on, the rising wealth of what is often referred to as "the generation of heirs," the public debate on the sustainability of public pension systems and the subsequent rise in private pension provision, as well as improved access to information for the general public thanks to new technologies such as the Internet have further boosted demand for securities.

Austria's external assets and liabilities have expanded by 130% each since 1996, amounting to EUR 304 billion and EUR 353 billion, respectively, at end-2001. Investment in securities, especially in debt securities, accounted for 62% of the increase on both the assets and the liabilities side. In terms of investment stocks, portfolio investment made up 45% of external assets and 55% of external liabilities.

Portfolio Investment Position – Insight and Outlook

The portfolio investment position reconciles external assets and liabilities resulting from securities transactions. In its current form, it comprises bonds and notes as well as money market instruments. Securities which are part of reserve assets and financial derivatives are not included. The portfolio investment position shows both end-of-period stocks at market value[1]) and transaction data (purchases and sales of securities). Thus, the portfolio investment position is a link between balance of payments data based on transactions[2]) and securities data from the international investment position[3]). It also supplements the financial accounts by providing a more detailed breakdown of the category money market instruments and capital market instruments of the "rest of the world" sector[4]).

Since September 2002, the OeNB has published quarterly statistics on the holdings of debt securities in a set of four tables (7.1.1/I to 7.1.1/IV; see also http://www2.oenb.at/stat-monatsheft/englisch/chapter07_p.htm), which are considerably more comprehensive than previously. The tables are made available four months after the quarter under review.

Table I of Austria's Portfolio Investment Position illustrates stocks and transactions of foreign debt securities broken down by domestic investor. Foreign debt securities are defined as debt securities whose issuers are not residents of Austria. This classification does not take into account the ownership structure of the issuer and the currency in which the security is denominated. The sectoral breakdown in this table reflects the Austrian perspective and thus refers to Austrian lenders.

Table II of Austria's Portfolio Investment Position shows the stocks and transactions of domestic securities held by foreign investors broken down by domestic issuer. Domestic securities are by definition securities issued by Austrian residents. This classification also does not take into account the ownership structure of the issuer and the currency in which the security is denominated.

Table III of Austria's Portfolio Investment Position comprises stocks and transactions of debt securities broken down by residency of issuer, namely euro area residents excluding Austrians and non-euro area residents. In this table, the euro area covers all countries[5]) that have introduced the euro except for Austria.

Table IV of Austria's Portfolio Investment Position provides a cross classification of residency of issuer (Austrian issuers, euro area issuers and other foreign issuers) and currency of issuance (euro and other currencies). This breakdown by currency is based on the nominal currency of the securities. Euro-denominated securities by definition also include instruments denominated in a predecessor currency of the euro.[6]) The annual figures for 2001 and the figures for the first and second quarters of 2002 are the first data to be published in the breakdown as described above. To link the statistics with portfolio investment position data as published previously, key annual data are also given for 1998 to 2000.

1 *In accordance with the 5th edition of the IMF Balance of Payments Manual, the market value includes the interest accrued and outstanding. Therefore, this interest is classified as reinvestment in the category of the respective financing vehicle.*

2 *See "Balance of Payments in the First Half of 2002" in this issue.*

3 *For details of the 2001 annual results, see "Austria's International Investment Position in 2001" in the OeNB's Focus on Austria 3/2002.*

4 *See "Austria's Financial Accounts: Financial Assets and Liabilities of the Sectors of the Austrian Economy – Results for 2001" in this issue.*

5 *Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.*

6 *Belgian franc, German mark, Finnish maarka, French franc, Greek drachme, Dutch guilder, Irish punt, Italian lira, Luxembourg franc, Austrian schilling, Portuguese escudo, Spanish peseta and ECU.*

The following additional information is to be provided on an annual basis from 2003 on:
- *changes in the reporting year caused by security price and exchange rate effects;*
- *further breakdown of "other currencies," such as the Swiss franc, the U.S. dollar, and the Japanese yen;*
- *further breakdown of "other foreign issuers," e.g. Switzerland, U.S.A., and Japan;*
- *breakdown by original maturity and residual maturity.*

In a next step, the tables of Austria's portfolio investment position (quarterly and annually) are to be supplemented by equity securities (stocks and mutual fund shares).

2.1 Domestic Holdings of Foreign Debt Securities (Portfolio Assets)

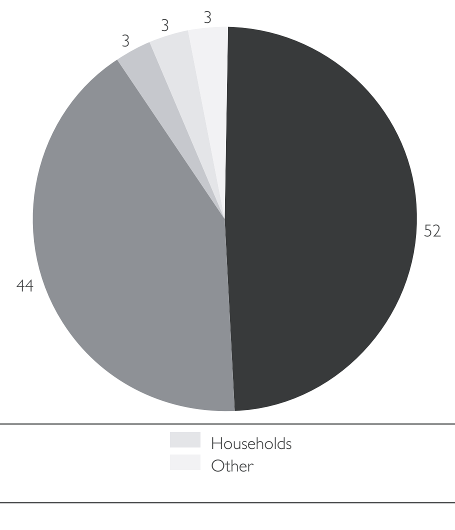
At end-2001, Austrian holdings of foreign debt securities came to EUR 93 billion, the lion's share of which exclusively consisted of bonds and notes (EUR 92 billion). In the course of the first half of 2002, Austrian investors purchased foreign debt securities for another EUR 16 billion. However, owing to adverse exchange rate and securities price effects in the second quarter of 2002, which affected mainly bonds and notes, domestic holdings expanded by a mere EUR 13 billion until end-June 2002, coming to a total of EUR 106 billion.

A sectoral breakdown of domestic holdings of foreign debt securities at the end of June 2002 reveals that like in the previous years, Austrian institutional investors[1]) were the largest group of investors (49%), followed by the banking sector (OeNB and banks, holding a share of 41%). The general government and households accounted for 3% of domestic holdings of foreign debt securities each. This seemingly low share of households is put in perspective by their holdings of domestic mutual fund shares, through which they actually indirectly possess a larger amount of foreign securities.

Domestic Holdings of Foreign Debt Securities at End-June 2002

Broken Down by Sector of Investor

EUR billion



Source: OeNB.

1 *This sector comprises insurance companies, pension funds and other financial institutions, such as mutual funds.*

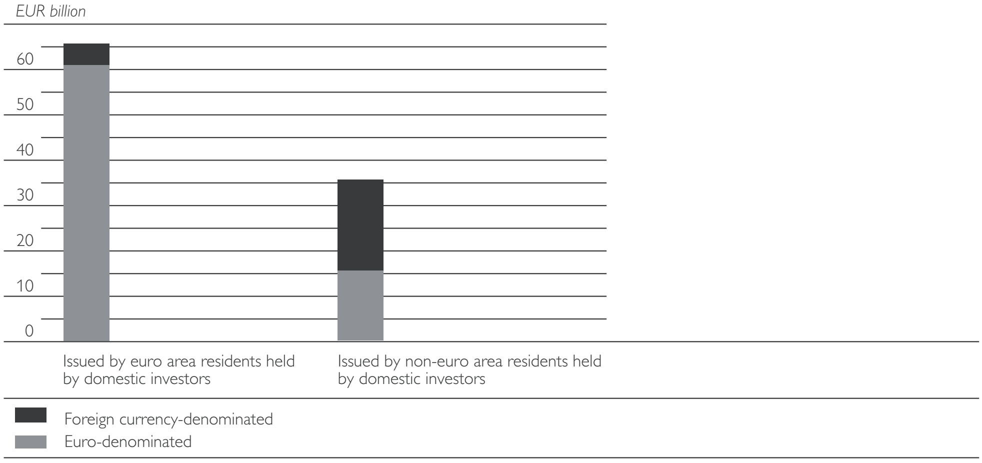
At year-end 2001, two thirds of foreign debt securities held by Austrians were issued by euro area residents (excluding Austrians). Securities issued in Germany accounted for the lion's share, followed, by a large margin, by bonds and notes from the Netherlands, Italy and France. As to debt securities issued by non-euro area residents, Austrians primarily opted for securities issued in the U.S.A., the United Kingdom and Denmark. New investment decisions made in the first half of 2002 also reflected these regional preferences. Adverse exchange rate and security price effects affected chiefly debt securities issued by non-euro area residents. Taking into account valuation effects, domestic holdings of bonds and notes issued by euro area residents came to EUR 66 billion by end-June 2002; Austrian investors' portfolios comprised bonds and notes issued by other nonresidents to the tune of some EUR 36 billion. Since money market instruments respond to changes in international financial markets much more swiftly, foreign short-term paper display a different pattern. At end-2001, money market instruments issued by non-euro area residents accounted for 54% of the total amount of money market instruments in Austrian investors' portfolios. As a result of new investments and redemptions, this share shrank to 33% by the end of June 2002, amounting to EUR 1.5 billion. At the same time, Austrian investors held money market paper issued by euro area residents worth EUR 3 billion.

An analysis by currency of domestic holdings of foreign debt securities reveals that by the end of 2001, 73% of Austrian holdings of debt securities issued by nonresidents were denominated in euro. New investments in the first half of 2002 pushed this share to 76% (EUR 77 billion). Also, domestic investors increased their holdings of foreign money market paper denominated in euro from EUR 0.5 billion (53%) at the end of 2001 to EUR 3.8 billion (85%) at the end of June 2002.

A cross classification analysis of region and currency for end-June 2002 provides the following picture: 60% of Austrian holdings of foreign debt securities were issued by euro area residents and denominated in euro, 15% were

Domestic Holdings of Foreign Debt Securities

at End-June 2002



Source: OeNB.

euro-denominated securities issued by non-euro area residents, 5% were issued by euro area residents and denominated in a foreign currency, and 20% were issued by non-euro area residents and foreign currency-denominated.

2.2 Foreign Holdings of Austrian Debt Securities (Portfolio Liabilities)

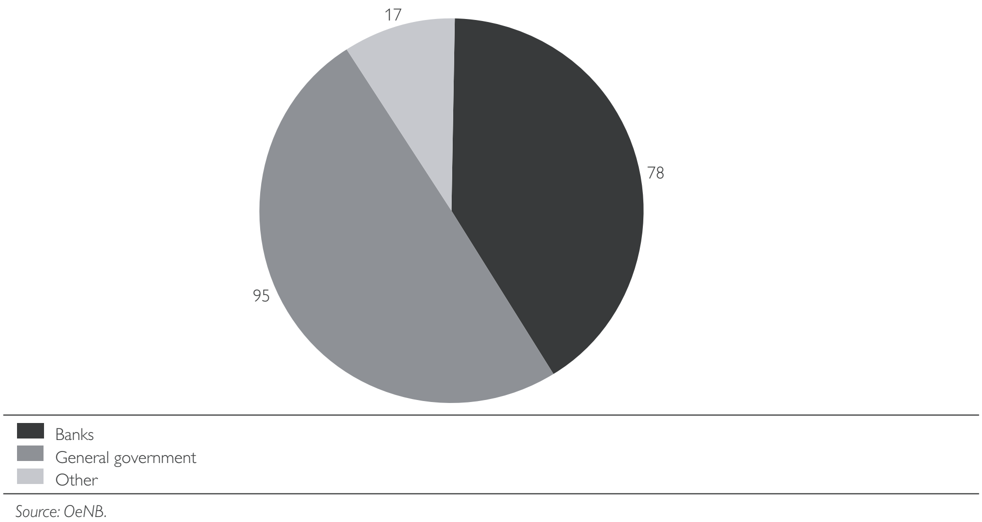
At year-end 2001, foreign investors held Austrian debt securities worth EUR 179 billion, 96% (EUR 171 billion) of which were bonds and notes. In the course of the first half of 2002, they purchased debt securities for another EUR 16 billion. Like portfolio assets, however, portfolio liabilities were also affected by adverse exchange rate effects in the second quarter of 2002. Thus, foreign holdings of Austrian debt securities came to EUR 191 billion at the end of June 2002.

By the end of 2001, the total amount outstanding of all domestic issues was EUR 280 billion, 44% of which were securities issued by banks and 47% by general government entities. Corporate bonds play a minor role in the Austrian bond market. At the end of December 2001, foreign investors held more than 60% (EUR 179 billion) of the total amount outstanding of domestic issues. In the first half of 2002, new investments in Austrian debt securities were primarily (53%) public sector issues. At the end of June 2002, the sectoral breakdown of nonresident holdings of domestic debt securities was the following:

Foreign Holdings of Austrian Debt Securities at End-June 2002

Broken Down by Sector of Issuer

EUR billion



Source: OeNB.

An analysis by currency of foreign holdings of Austrian debt securities reveals that by the end of 2001, 68% of domestic bonds and notes held by nonresidents were denominated in euro. Thanks to new investments in the first half of 2002, this share rose to 69%; thus, foreign holdings of euro-denominated Austrian bonds and notes amounted to EUR 126 billion at the end of June 2002. Debt securities denominated in other currencies also recorded new investment by nonresidents (to the tune of EUR 5.5 billion) in the first half of 2002, but owing to exchange rate effects, Austria's external liabilities in the form of bonds and notes rose by merely EUR 3 billion on balance. By contrast, only 18% of foreign holdings of domestic money market instruments were euro-denominated at the end of June 2002. Like bonds and notes, short-term fixed debt securities denominated in foreign currencies were also affected by adverse exchange rate effects in the second quarter of 2002. Thus, foreign investors held non-euro denominated Austrian money market instruments to the tune of EUR 6.4 billion at the end of June 2002.

A conclusive regional breakdown would require additional statistics from other countries, such as the Coordinated Portfolio Investment Survey (CPIS) conducted by the International Monetary Fund (IMF). When the latest version of these IMF statistics will be published in the first quarter of 2003, on the basis of which we will be able to carry out an in-depth analysis of the creditor structure.

Austria's Financial Accounts: Financial Investment and Financing Transactions of the Sectors of the Austrian Economy – Results for 2001

Michael Andreasch

1 Saving, Financing and Investment in 2001

In the year under review, 2001, economic growth slowed down in Austria. Gross domestic product augmented by 2.3% after having expanded by 5% in 2000. The deceleration of economic growth had a noticeable impact on both investment (real and financial investment) and on funds raised (savings and financing transactions).[1])

Real investment (nonfinancial investment)[2])came to EUR 18.7 billion in 2001. Whereas construction investment rose somewhat, investment in plant and equipment fell, so that total real investment was down by 13% on the year 2000.

Savings declined as well; at EUR 13.3 billion or 7.6% of disposable income, aggregate savings contracted by 14.4% from the result of the year 2000. Savings had still accounted for just under 9% of disposable income in 2000. The main factor influencing savings in 2001 was the tepid increase in disposable incomes in the total economy (+1.6% in nominal terms) in the face of a 3.1% nominal rise of total consumption expenditure.

Reflecting this downturn in the real economy, both financial investment and financing transactions contracted in 2001, but by an even stronger extent. Financial investment amounted to EUR 71.6 billion, 18.2% less than in 2000. Austria's financing transactions dropped by 17% from the value recorded in 2000 and amounted to EUR 76.9 billion.

As investment shrank more than savings, total net borrowing (real investment minus savings) contracted by almost 10% from 2000 to EUR 5.3 billion.

Table 1

Investment and Funds Raised

	1999	2000	2001
	EUR million		
Gross capital formation[1])	47,825	51,058	49,795
Consumption	– 28,226	– 29,631	–31,145
Real investment	19,599	21,427	18,650
Financial investment of the financial sector	74,003	57,434	47,104
thereof: investment within sectors	*28,198*	*10,916*	*16,525*
Financial investment of nonfinancial sectors	32,222	30,174	24,520
Total financial investment	106,225	87,609	71,624
Investment	125,824	109,036	90,274
Savings[2])	13,476	15,541	13,310
in % of disposable income	8.2%	9.0%	7.6%
Financing transactions of the financial sector	74,721	57,307	48,301
thereof: financing within sectors	*28,198*	*10,916*	*16,525*
Financing transactions of nonfinancial sectors	38,064	36,132	28,577
Total financing transactions	112,785	93,439	76,877
Funds raised	126,261	108,980	90,187
Net borrowing/lending[3])	– 6,123	– 5,886	– 5,340
Memorandum item: financial investment, consolidated[4])	*76,919*	*74,610*	*50,902*
Memorandum item: financing transactions, consolidated	*83,483*	*80,441*	*56,155*

Source: Statistics Austria, OeNB.
1) Including net additions of nonfinancial nonproduced assets and errors and omissions.
2) Including capital transfers.
3) Balance of nonfinancial (real) investment minus savings.
4) Consolidated claims and liabilities of nonfinancial corporations, financial corporations and general government within the respective sector.

1 *Based on national accounts data provided by Statistics Austria and on the financial accounts data compiled by the OeNB. September 2002 is the cutoff date for the compilation of the financial accounts.*

2 *Gross fixed capital formation, changes in inventories, net additions of nonfinancial nonproduced assets less consumption.*

2 Net Borrowing/Lending and Financing Channels from 1999 to 2001

The net borrowing or lending and the different financing channels of Austrian economic sectors[1]) in 2001 are compared with the developments in 1999 and 2000 below.

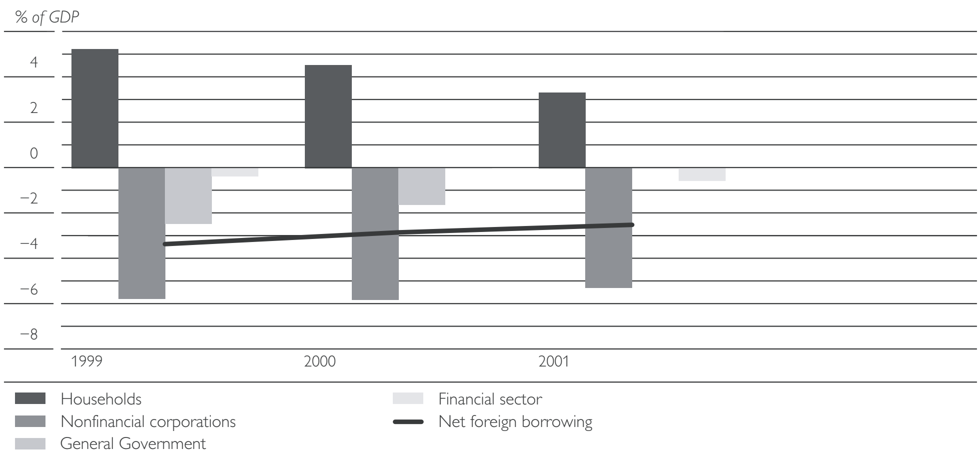
2.1 Net Borrowing/Lending

Households' financial investment outweighed their financing transactions, so that they closed 2001 as net lenders, as in 2000 and 1999. However, in each consecutive year, the rise in this sector's financial investment became smaller, both in terms of disposable income and in absolute figures. At the same time, this sector cut back its financing through loans, though not to the same extent as financial investment. The household sector's net lending diminshed to EUR 7.1 billion in 2001 compared to EUR 10.3 billion in 1999 and EUR 9.4 billion in 2000.

Both nonfinancial corporations and the government were net borrowers in the period from 1999 to 2001, but their net borrowing requirements differed. Nonfinancial corporations' net borrowing changed only little over the period, fluctuating between EUR 11.1 billion and EUR 12 billion between 1999 and 2001. Conversely, the government sector's net borrowing, which amounted to EUR 4.8 billion in 1999 and EUR 3.4 billion in 2000, in fact shifted into a slight surplus in 2001 (EUR 24 million).[2])

Chart 1

Austrian Economic Sectors' Net Borrowing/Lending



Source: OeNB.

1 *Households and nonprofit institutions serving households, nonfinancial corporations (companies), the financial sector, e.g. financial corporations (the OeNB, banks, mutual funds, monetary financial institutions, financial umbrella companies, insurance corporations and pension funds), and government.*

2 *Discrepancies between government debt and deficit values recorded in the financial accounts and in the budget report result from differences in definitions. These discrepancies are explained in more depth in the section on government finances.*

Net borrowing by the financial sector raised the combined cross-border borrowing of all sectors.[1]) Net borrowing for the economy as a whole ran to EUR 5.3 billion in 2001, signaling a decline in Austria's net cross-border borrowing between 1999 and 2001.[2]) Chart 1 shows the development of net borrowing/lending from 1999 to 2001.

2.2 Financing Channels in Financial Investment and Financing Transactions

This section provides an analysis of the Austrian economy's intersectoral financing relationships from 1999 to 2001. The following developments may be discerned:

Households' *financial investment* totaled EUR 40.3 billion from 1999 to 2001:

– The bulk of the financial investment was domestic (87%). The financial sector's investment products were most popular, accounting for 81% of households' financial investment. Households opted above all for capital market-oriented products offered by mutual funds, insurance companies and pension funds.
– Of the total, EUR 7.5 billion consisted of currency holdings as well as liquid banking products (mostly deposits); households were more willing to invest in monetary financial institutions' financial instruments in 1999 and in 2001 than in 2000.

Nonfinancial corporations invested a total of EUR 26.2 billion:

– A very low percentage – only 35% – of this amount was invested in Austria. Like households, nonfinancial corporations placed assets mainly with nonbank financial corporations.
– 65% of total financial investment consisted of cross-border investment, notably direct investment, which accounted for most of annual fluctuations in cross-border financial investment results.

The government sector placed EUR 18.4 billion of funds in the three-year period:

– Domestic investment accounted for 91% of total general government investment. Except in 2001, the financial sector played a subordinate role in government investment.
– The government's investment focused on lending to nonfinancial corporations and purchases of own securities.

Thus some 18% of nonfinancial sectors' investment totaling EUR 86.9 billion in the three years under review were in monetary financial institutions, roughly twice that share was place in mutual funds, insurance companies and pension funds, and just under 30% were invested abroad.

Turning to financing transactions, households borrowed nearly all of the EUR 13.5 billion they raised from Austrian banks. In addition, banks and a

1 *This value essentially corresponds to the balance on the current account plus capital transactions in the balance of payments.*

2 *This issue also contains a regional analysis of international capital flows in the study entitled "Distinguishing between Current Account Transactions and Financial Flows: An Analysis of Austria's Current and Financial Transactions with Countries and Regions."*

special-purpose vehicle purchased a total of EUR 3.2 billion of housing loans from the provincial authorities.

Nonfinancial corporations took out half the EUR 62.7 billion of funds they required from Austrian banks. 35% of external finance[1]) was procured from sources abroad.

In the three years analyzed, the general government expanded its total financing transactions by EUR 26.5 billion overall. The financial sector, above all domestic banks, sold assets in the form of government securities and loans totaling EUR 15.5 billion. A considerable portion was sold to foreign investors, resulting in capital inflows of EUR 36.8 billion.

The nonfinancial sectors raised a total of EUR 102.8 billion through external finance (financing transactions). The domestic banking system was tapped for roughly one third of this amount; some 60% were derived from foreign sources.

For monetary financial institutions, or MFIs (the OeNB and other monetary financial institutions), this means that the domestic nonfinancial sectors tapped MFIs for twice the amount of funds (above all loans and securities) than they themselves invested in the form of MFI deposits and securities. Mutual funds, insurance corporations and pension funds absorbed EUR 31.1 billion of nonfinancial sector investment between 1999 and 2001; in the same period, they purchased EUR 40.9 billion of foreign securities, which accounts for approximately 35% of Austria's total foreign investment.

Table 2

Financial Investment and Financing Transactions 1999 to 2001

	Households	Nonfinancial corporations	General government	Total nonfinancial sectors
	EUR million			
Financial investment				
in the respective sector[1])	×	2,068	5,319	7,388
with financial corporations	32,744	8,108	6,049	46,902
thereof with monetary financial institutions[2])	*7,528*	*2,477*	*5,841*	*15,846*
with nonfinancial sectors	2,099	− 408	5,483	7,175
cross-border financial investment	5,426	18,473	1,553	25,452
Total financial investment	40,270	28,242	18,405	86,916
Financing transactions				
in the respective sector[1])	×	2,068	5,319	7,388
with financial corporations	15,725	28,643	−15,202	29,167
thereof with monetary financial institutions[2])	*13,174*	*26,617*	*− 7,273*	*32,518*
with nonfinancial sectors	− 2,488	12,078	4,973	14,562
foreign financial liabilities	282	21,977	36,790	59,049
Total financing transactions	13,519	62,698	26,561	102,778
Net borrowing/lending	26,751	−34,456	− 8,157	− 15,862

Source: OeNB.

1) This figure contains only securities and shares held on custody accounts with banks. Compilation difficulties prevent the inclusion of all other financial instruments, above all loans including trade credits.

2) Monetary financial institutions: The OeNB and other monetary financial institutions (according to the ECB's statistical definition).

1 *By contrast to internal sources of finance, chiefly savings.*

3 Households' Financial Investment and Financing Transactions[1])

In the *review year 2001* households added EUR 10.8 billion to their *financial assets* (financial investment), some 22% less than in 2000. This reduction in their financial investment is a consequence, among other things, of households' narrower room for financial maneuver, in view of lower disposable incomes and nearly unchanged consumer spending growth.

In 2001 the structure of households' financial investment changed from that of the preceding years. 37% of new investment was in low-risk and liquid deposits and securities. The euro changeover in 2001 led to a contraction of currency: nearly EUR 3 billion held in cash earlier were partly placed in bank accounts or spent. Deposits augmented by a total of EUR 7 billion in the reporting period. This development reversed the trend observed in the years before, in which households had flocked increasingly to capital market-oriented products supplied by mutual funds, insurance corporations and pension funds.

Most of the household sector's financial investment – 72% or EUR 28.9 billion – was channelled into such products, with the propensity to invest especially high in 1999, still high in 2000, and less pronounced in 2001: Households chose such products against the background of the stock market boom of the 1990s and the search for high-yield investment vehicles on bond markets. Moreover, private retirement provisioning has gained importance, prompting households to invest avidly in insurance savings products. About a third of total new investment in the years 1999 through 2001 went to life insurance and retirement provisioning products. Finally, regular savings schemes in the form of repayment vehicles[2]) are likely to have been instrumental in financing foreign currency loans.

Unlike their counterparts in other EMU member countries, Austrian households were fairly late to invest in securities and insurance products. Investment in stocks and mutual fund shares advanced at a dynamic rate in 1999 (EUR 5.9 billion) and 2000 (EUR 5.6 billion), but began to lose momentum in 2001 at EUR 3.8 billion. However, because the share of these investment vehicles in investment is still quite low compared to that in other countries, price gains and losses on volatile financial markets have less of an impact than they do for instance in the UK or the U.S.A. Unrealized price gains in 1999 were calculated at roughly EUR 2.5 billion, whereas unrealized price losses in 2000 and especially in 2001 totaled EUR 3.4 billion. From the current perspective, price losses in this field are not expected to have any serious effects on the real economy.

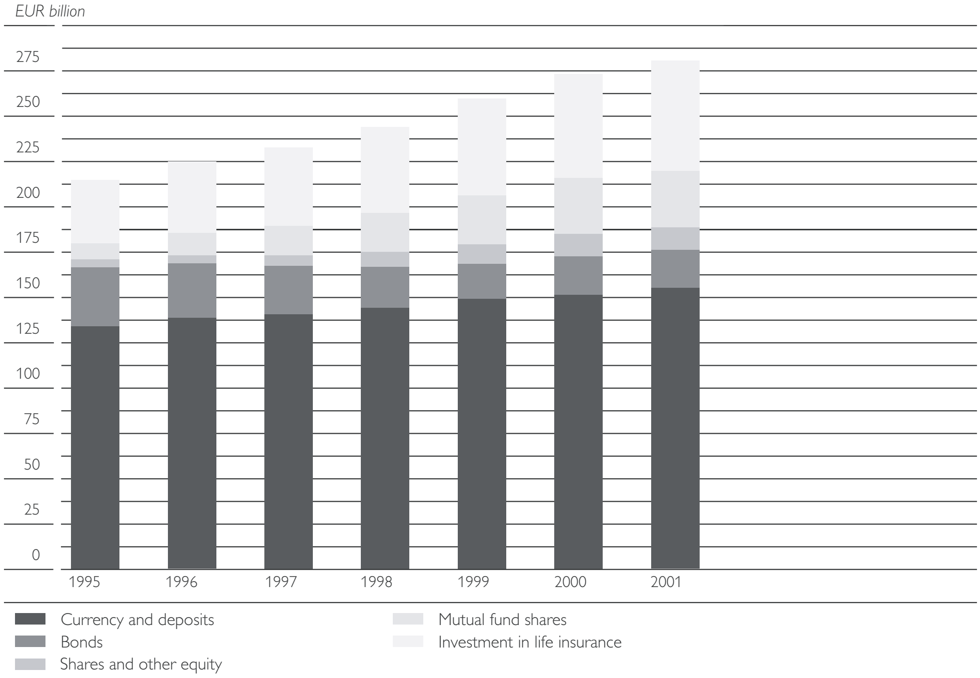
Although investment trends reversed to a certain extent in 2001, the overall composition of financial investment and hence of financial assets has changed in recent years.

1 *Austrian households in this definition covers individuals (excluding own-account workers) and nonprofit institutions with a separate legal personality which are other nonmarket producers and serve households (in Austria, e.g. trade unions, churches and private foundations). Unlike in the national accounts, own-account workers are not subsumed under households, but under nonfinancial corporations.*

2 *As a rule, foreign currency loans are repaid in a final bullet. Regular savings schemes – above all investment in mutual fund shares and life insurance schemes – are used to finance the repayment of these bullet loans.*

Chart 2

Households' Financial Investment[1])



Source: OeNB.
[1]) Including nonprofit institutions serving households.

Liquid categories – currency and deposits – accounted for about 55% of the total stock of financial assets of approximately EUR 280.9 billion at year-end 2001. 12% of Austrian households' portfolios consisted of bonds plus shares and other equity; the percentage of mutual fund shares was of the same order. Investment in life insurance accounted for a 22% share at the end of 2001. Thus the share of mutual fund certificates and of life insurance products in total financial investment has already risen to the euro area household average.[1])

Households' new borrowing in 2001 came to EUR 3.8 billion, around EUR 0.8 billion (17%) less than in 2000.

Borrowing consisted largely of loans taken out from domestic banks, nearly all of which had an initially agreed life of over one year. The bulk of the loans were used to finance purchases of consumer goods and housing. Foreign currency loans remained popular, though they accounted for less than half of new borrowing from banks in 2001.[2])

Another aspect of households' new borrowing is the shift in creditor structures. Individual provincial governments sold some EUR 3.2 billion of their housing loans to banks (and to a special-purpose vehicle).

1 *Source: Eurostat, New Cronos database; OeNB.*
2 *For more information on this topic, see the study "Foreign Currency Loans in Austria – Efficiency and Risk Considerations," published in Financial Stability Report 4 (2002) of the OeNB.*

Table 3

Households' Financial Investment and Financing Transactions[1])

	1999	2000	2001
	EUR million		
Currency	731	692	– 3,004
Sight and time deposits	4,310	1,448	7,012
Debt securities	– 1,595	1,829	– 479
Shares and other equity	1,440	1,672	957
Mutual fund shares	4,523	4,000	2,916
Investment in life insurance and the like	5,916	4,186	3,512
Other assets	66	189	– 53
Total financial investment	15,391	14,016	10,863
thereof: with Austrian MFIs[2])	*3,654*	*1,110*	*2,764*
in short-term financial instruments of Austrian MFIs[3])	*5,078*	*2,123*	*4,011*
Short-term loans	1,299	– 769	– 45
Long-term loans	3,731	5,316	3,842
Other financing transactions	44	94	6
Total financing transactions	5,075	4,641	3,803
thereof with Austrian banks	*4,128*	*4,543*	*4,503*
Net lending	10,317	9,375	7,059

Source: OeNB.
[1]) Including nonprofit institutions serving households.
[2]) Including currency.
[3]) Currency, sight and time deposits as well as short-term securities as a proxy for investment in the financial assets included in the Austrian contribution to M3.

At year-end 2001, households' financial liabilities ran to EUR 85.3 billion. Hence, this aggregate expressed as a percentage of GDP was below that of the euro area average for the sector.[1]) Net financial assets (stocks) amounted to EUR 195.7 billion at the same date. The sector's net creditor position has stayed relatively stable in the past few years, coming to about 1.5 times disposable income.

The household sector's *net lending* came to some EUR 7.1 billion, down by EUR 2.3 billion on 2000.

4 Nonfinancial Corporations' Financial Investment and Financing Transactions

Total financial investment declined to EUR 8.0 billion in the reporting year 2001, down from almost EUR 10 billion in 2000. Nonfinancial corporations trimmed their currency holdings by EUR 1.1 billion and expanded deposits with domestic banks by EUR 2.5 billion at the same time. They purchased shares and other equity to the tune of EUR 5.6 billion, half of which were foreign securities. 86% of the foreign equity consisted of direct investment.

27% of *nonfinancial corporations'* financing transactions were handled by Austrian banks, consisting of loans (20%) and bonds plus shares and other equity (7%). A relatively large share of the borrowing abroad was in the form of direct investment[2]) and loans extended by associated companies. 43% of nonfinancial corporations' total financial transactions were cross-border trans-

1 *Source: Financial Market Stability Report 1 (2001) of the OeNB.*
2 *For more details on the latest direct investment figures, see the report "Austrian Outward and Inward Direct Investment – Results of the 2000 Survey and Development of Selected Indicators" in this issue.*

Table 4

Nonfinancial Corporations'

Financial Investment and Financing Transactions[1])

	1999	2000	2001
	EUR million		
Currency	81	77	– 1,112
Sight and time deposits	1,070	766	2,525
Debt securities	309	503	91
Shares and other equity	1,811	3,862	5,650
thereof foreign direct investment	*2,624*	*4,145*	*2,435*
Mututal fund shares	3,880	2,276	821
Loans and other assets	3,079	2,502	50
Total financial investment	10,230	9,985	8,026
thereof: with Austrian MFIs[1])	*2,107*	*– 1,041*	*1,410*
in short-term financial instruments of Austrian MFIs[2])	*972*	*902*	*1,293*
cross-border financial investment	*6,012*	*8,787*	*3,674*
Short-term loans	2,696	4,376	548
Long-term loans	11,386	13,657	9,344
Debt securities	2,328	2,116	602
Shares and other equity	3,245	4,361	8,960
thereof inward foreign direct investment	*2,412*	*2,308*	*5,488*
Other financing transactions	1,911	– 2,544	– 289
Total financing transactions	21,566	21,966	19,166
thereof: with Austrian banks	*9,091*	*12,300*	*5,227*
cross-border financial transactions	*7,448*	*6,184*	*8,345*
Net borrowing	–11,335	–11,981	–11,140

Source: OeNB.
1) Including currency.
2) Currency, sight and time deposits as well as short-term securities as a proxy for investment in the financial assets included in the Austrian contribution to M3.

actions. 29% of this financing may be attributed to capital inflows from direct investments.

Nonfinancial corporations closed the year 2001 as net borrowers; financial assets of EUR 107.9 billion contrasted with EUR 258.2 billion of financial liabilities. The ratio of financial assets to financial liabilities has remained relatively stable since 1995 and hovered at just over 40% throughout the three-year period reviewed.

5 The General Government's Financial Investment and Financial Transactions

Unlike the corporate sector, the government sector borrowed almost exclusively in the form of securities, with financing transactions coming to EUR 5.6 billion. Financial investment was approximately of the same amount and consisted mainly of deposits with Austrian banks. Calculations according to ESA 95 show net financial borrowing/lending to be almost in balance (table 5). The rise in tax receipts from 2000 constituted the reason for this improvement.[1])

Turning to *financing transactions,* as in 1999 and 2000, foreign investors dominated as lenders to the government. One of the principal reasons for the broadening of the range of investors was the debt management strategy

1 *For more details see Chapter 3 (Budgetentwicklung) of the Federal Debt Committee's 2001 budget report (in German) at www.staatsschuldenausschuss.at.*

of the Federal Financing Agency, which consistently issued securities by means of tender procedures to take out new debt. Cross-border sales were expanded continuously. Moreover, institutional investors – mutual funds and insurance corporations – and banks reacted to the new conditions generated by the establishment of EMU by adjusting their portfolio allocation and by cutting back their holdings of Austrian government paper.

Apart from *financial investment* in the form of liquid deposits and in securities, the government sector also extended loans and sold large amounts of loans. A portion of the securities launched by the central government was used to onlend the proceeds to quasi-public companies. Such intermediary funding, under which companies enjoyed the same terms as the federal government, amounted to EUR 1.4 billion in 2001 and to a total of EUR 7.2 billion in the past three years. At the same time, individual local government authorities sold housing loans to the tune of EUR 3.2 billion in 2001.

Financial liabilities at market prices ran to EUR 163.8 billion in 2001, and financial assets came to EUR 70.2 billion.

Table 5 shows the conceptual differences between financial accounts data according to ESA 95 and the budget report data.

Table 5

Link between the Financial Accounts and the Results as Stated in the Budget Report[1])

	1999	2000	2001
	EUR million		
Debt at market prices, nonconsolidated, according to ESA 95	149,367	157,204	163,863
less:			
Intragovernmental claims[2])	9,872	11,749	13,003
Intermediary funding programs[3])	5,532	7,976	9,365
Difference between market and nominal values[4])	6,424	7,100	8,659
Debt at nominal values, consolidated, according to the budget report	127,539	130,379	132,835
Net borrowing/lending according to ESA 95	– 4,828	– 3,353	24
less:			
Interest rate swaps	246	343	345
Other deviations	125	– 31	– 39
Net financial borrowing/lending according to the budget report	– 4,457	– 3,041	330

Source: Statistics Austria, OeNB.
[1]) Cutoff date for financial accounts data: September 27, 2002. Cutoff date for data for the budget report: August 30, 2002.
[2]) Consolidation of individual institutional units' assets within the general government sector against the same or other government sectors.
[3]) Financing of quasi-public companies by the central government.
[4]) Price effect resulting from the valuation of securities at market prices and accrued interest not yet paid.

6 Outlook for Financing Flow Results for 2002

At the time being, results for all sectors' cross-border borrowing[1]) and estimates for household net lending have become available for the first half of 2002. These results show that the Austrian economy as a whole has an intrayear net creditor position of EUR 0.3 billion. The Austrian Institute of Economic Research's (WIFO's) current account forecast[2]) – WIFO expects the current account deficit to have run to EUR 2.0 billion in 2002 – may serve as a guideline

1 *See "Balance of Payments in the First Half of 2002" in this issue.*
2 *WIFO Monthly Report 10/2002.*

for the full-year result for 2002. The household sector raised its financial investment by about EUR 4 billion in the first half of 2002 and its financing transactions by around EUR 2 billion.[1]) According to WIFO's calculations[2]), households will probably have enlarged their net lending in 2002 compared to 2001. The current results and the WIFO forecasts[3]) for the government sector assume net borrowing in 2002 to have amounted to roughly 1.5% of GDP for the general government.

1 *Financial investment exclusive of the rise in currency and exclusive of interest credited at year-end.*
2 *Federal Debt Committee 2001 Public Finance Report, Table 35.*
3 *WIFO Monthly Report 10/2002.*

Studies

Distinguishing Current Account Transactions from Financial Flows – An Analysis of Austria's Current and Financial Transactions with Countries and Regions

Claudia Oberndorfer

1 Origins and Development

Up to the early 1980s, cross-border financial flows fulfilled their original function of funding cross-border current transactions. Whenever imbalances occurred in the current account, these were offset by subsequent financial flows. These days, however, the causality is often reversed and "autonomous" financial flows are considered to be among the reasons for current account imbalances. Capital transactions are no longer a mere spin-off of trade. The tendency of international capital transactions to become increasingly detached from goods and services transactions is also reflected in the fact that currently, the daily volume of global foreign exchange trading surpasses that of purely trade-related transactions many times over. According to the latest calculations by the Bank for International Settlements (BIS), the daily turnover on the international foreign exchange markets alone amounted to USD 1,200 billion in 2001. This means that, within no more than five days, the foreign exchange markets generate financial flows as high as the entire volume of world trade per year (approximately USD 6,000 billion).

The roots of this development go back to the beginning of the 1970s, when the Bretton Woods system ceased to be applicable. As a consequence, foreign exchange rates that had previously been pegged to the U.S. dollar were allowed to float and foreign exchange trade became increasingly liberalized. However, in the years to come, regulatory measures were repeatedly called for to overcome the impact of the oil crises and the instability of the monetary system. With the Single European Act of 1986 on completing the Single Market, the European Union (then the European Community) set the goal of completely liberalizing its capital markets by the beginning of the 1990s. In preparing for closer European integration, Austria scheduled the final liberalization of its capital market for November 4, 1991.

This study examines whether goods and services transactions are related to financial transactions on a regional level. It focuses on the goods and services subaccount, while deliberately leaving out the income and current transfers subaccounts. Neither will we look at current transfers in this study, as the volumes recorded in this subaccount are comparatively small and primarily depict financial flows between the European Union (EU) and Austria. We also exclude the income subaccount from this analysis to be able to clearly distinguish between goods and services transactions on the one hand and financial flows on the other. It is quite obvious at any rate that the significance of cross-border income for the Austrian current account results from the increase in "autonomous" financial flows during the second half of the 1990s.

The scope of this analysis is also limited with regard to the financial account which, in general, also covers reserve assets. This study, however, focuses on the regional structure of current transactions and financial flows without taking reserve assets into account, as the emphasis is on the behavior of "autonomous" capital flows.

This analysis examines the following regions: the euro area, Central and Eastern Europe, the United Kingdom, Switzerland, the U.S.A. and Japan. Results clearly show that if there is any regional correlation between current account transactions and financial flows, it is purely accidental. With the majority of the countries under observation, the volume of Austria's goods and services transactions differs widely from that of financial transactions, which confirms that financial transactions and current account transactions are not related. In the following, a detailed analysis of Austria's financial account with the above countries and regions will provide an in-depth view of the financial instruments that are relevant to Austria's financial transactions with them.

Balance of Payments

Definition

The balance of payments records all economic transactions of an economy with the rest of the world over a certain period of time. The current account depicts current transactions, while the financial account captures financial transactions.

Netting Mechanisms Versus Analysis

Double entry bookkeeping is used for recording all external transactions of an economy. If an export of goods, for example, is entered on the asset side (credit) in the current account, a financial claim to the same amount vis-à-vis the importing country is recorded on the liability side (debit) in the financial account. If capital flows only resulted from the import and export of goods and services, the financial account would simply mirror current transactions. However, a highly developed economy also effects financial transactions that are independent of goods and services transactions. For these "autonomous" capital flows, both credit and debit entries are made in the financial account. The income on capital investment (both assets and liabilities), however, is recorded in the current account. Austria's complex economic interrelations with the rest of the world do not always allow for perfectly recording all transactions effected, which may result in a discrepancy between the current account and financial account balances. To take account of this phenomenon, the balance of payments contains the item errors and omissions. Any transactions that cannot be clearly assigned to one of the balance of payments items are entered under errors and omissions. Thus, the netting mechanisms behind the balance of payments act as an indicator of statistical quality. If the transaction volumes entered under errors and omissions are small, this indicates that it was possible to precisely assign individual transactions to the respective items of the balance of payments. This, in turn, means that – all in all – the current account and the financial account are almost completely in balance.

However, the potential of netting mechanisms is limited – they cannot replace a sound analysis. Per se, individual net values have no informative value whatsoever. An analytical investigation is only possible if the developments of the balance of payments and of its subaccounts can be captured for a certain time period and/or for certain regions. Aside from net values, gross values also play an important role in such an analysis.

2 Regional Breakdown of the Balance of Payments

As expected, the following empirical analysis shows that deficits on the current account are not offset by capital inflows from the same region. The liberalization of capital markets has made it possible to receive and distribute funds from and to all regions of the world. A current account deficit vis-à-vis the euro area, for example, does not entail the obligation to import capital from this region in order to offset this deficit.

The study shows that no clear relation between current transactions and financial flows can be identified over the observation period. It is only with the Central and Eastern European countries (CEECs) that Austria appears to have this type of relation: since 1995, there has been a current account surplus vis-à-vis these countries, while Austria's financial account registered an outflow of funds to the CEECs.

Table 1

Balance of Payments: Total

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	–4,490	–4,180	–5,758	–4,685	–6,330	–5,357	–4,654
Goods and services	–1,495	–2,097	–2,903	–1,167	–1,729	–1,247	– 25
Income	–1,741	– 715	–1,349	–1,779	–2,698	–2,661	–3,345
Financial account	5,047	3,812	5,448	5,531	6,614	4,680	4,194

Source: OeNB.

The Austrian current account deficit ranged from EUR 4 billion to EUR 6 billion over the entire observation period. The financial account records highly similar values, which suggests a high statistical quality. Per se, however, the goods and services subaccount was balanced in 2001. If the financial account recorded only exports and imports of goods and services, it would have to post inflows to the tune of EUR 25 million.

The following analysis shows the dimensions of Austria's current account and financial account balances with individual regions.

Table 2

Balance of Payments: Euro Area

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	–3,914	–4,398	–5,973	–5,952	–8,104	– 7,914	–8,540
Goods and services	–2,714	–3,528	–4,758	–4,025	–5,435	– 5,444	–5,066
Income	–1,116	– 898	–1,311	–1,920	–2,809	– 2,682	–3,575
Financial account less reserve assets	3,585	3,674	4,769	7,180	3,842	17,276	– 584

Source: OeNB.

Austria's most important trading partners are the countries of the euro area. Exports of goods and services to this region amounted to EUR 62 billion and imports came to EUR 67 billion in 2001. Austria's goods and services deficit vis-à-vis the euro area climbed to more than EUR 5 billion during the observation period, while the financial account, by contrast, did not record a continuous rise in inflows: Even though capital imports were registered from 1995 to 2000, the respective volumes differed greatly. While in 2000, the financial account posted inflows to the tune of EUR 17 billion, these had ranged from EUR 3.5 billion to EUR 7 billion in the years before. In 2001 the financial account balance even turned to a deficit. From 1995 to 1998, the capital imports recorded in the financial account offset the deficit on goods and services, which indicated, on balance, that there might be a relation between current and financial transactions. However, the following three years demonstrated that this was a mere coincidence. While the positive financial account balance of 1999 did not offset the deficit on goods and services, capital inflows in 2000 were almost twice as high as capital outflows on the goods and services subaccount. In 2001 the balance of both accounts was negative.

Table 3

Balance of Payments: Central and Eastern Europe

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	2,279	2,434	3,758	3,486	3,891	4,684	5,013
Goods and services	2,107	2,103	3,238	2,978	3,250	3,339	3,728
Income	392	545	738	732	909	1,591	1,524
Financial account less reserve assets	−1,840	−1,098	−3,266	−2,456	−2,106	−5,426	−2,840

Source: OeNB.

Austria has recorded a continuously growing surplus on goods and services with the CEECs[1]), which include most of the ten EU accession countries. The netting mechanisms thus allow for capital exports to these countries, which also become visible in the financial account balance. In this case a relation exists between capital inflows from real-economy transactions and capital outflows recorded in the financial account. Table 10 shows that up to 1998, funds were channeled into these countries mainly in the form of loans, with export promotion credits playing a major role. As of 1999, capital exports have primarily taken the form of direct investment.

Table 4

Balance of Payments: United Kingdom

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	−221	− 75	89	− 154	− 74	330	538
Goods and services	−252	− 137	139	378	386	1,022	1,527
Income	23	94	− 52	− 540	− 479	− 702	−1,121
Financial account less reserve assets	473	1,827	273	4,983	3,645	−12,814	−6,040

Source: OeNB.

Up to 1999, Austria's goods and services balance with the United Kingdom (U.K.) was negligibly small, ranging from a EUR 140 million deficit to a EUR 400 million surplus. In 2000, however, the surplus came to EUR 1 billion and in 2001, it even climbed to EUR 1.5 billion. This increase is attributable to a rise in goods and services exports to the U.K., which came to some EUR 5 billion in 1999 and EUR 6 billion in 2001 while imports stagnated at approximately EUR 4.5 billion. Given London's prominent role as an international financial center, Austria's capital transactions with the U.K. started to exhibit considerable dimensions as of 1998. In particular data on transactions with the U.K. clearly indicate that the connection between goods and services transactions and financial flows is very limited.

1 *The CEECs include Albania, Belorus, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Serbia and Montenegro, Slovenia, the Slovak Republic and Ukraine.*

Table 5

Balance of Payments: Switzerland

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	136	– 69	231	256	1,114	1,151	1,260
Goods and services	929	851	930	1,149	1,943	2,801	2,336
Income	– 865	–1,029	–844	–1,007	– 957	–1,749	–1,033
Financial account less reserve assets	3,475	356	– 79	1,188	– 605	– 626	18

Source: OeNB.

Contrary to expectations, exports of goods and services to Switzerland increased from EUR 4.2 billion in 1995 to more than EUR 6.5 billion in 2001, while imports climbed from EUR 3.2 billion to EUR 4.3 billion. The growth of exports is mainly traceable to a – slightly above average – rise in goods exports (1995: EUR 2.5 billion, 2001: EUR 4.2 billion); over the same period, the services balance ranged between no more than EUR 1.7 billion and EUR 2.4 billion. The financial account balance, by contrast, decreased significantly since 1995, posting both capital outflows and inflows that are only marginally related to current transfers.

Table 6

Balance of Payments: U.S.A.

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	–1,866	–1,313	–2,690	–1,512	–2,225	–2,108	–1,917
Goods and services	–1,436	–1,382	–2,313	–1,141	–1,349	–1,217	–1,123
Income	– 361	152	– 194	– 91	– 533	– 578	– 413
Financial account less reserve assets	– 841	527	–2,911	–1,811	340	9,066	1,188

Source: OeNB.

Over the entire observation period, Austria's goods and services imports from the U.S.A. exceeded exports to the U.S., which means that outlays for goods and services were higher than receipts. In addition to the current account deficit, the balance on the financial account was also negative in 1995, 1997 and 1998, which suggests that the regional connection between current account and financial transactions is very limited.

During the observation period, the deficits on the current account with the U.S.A. were fully offset by capital inflows from other regions.

Table 7

Balance of Payments: Japan

	1995	1996	1997	1998	1999	2000	2001
	EUR million						
Current account	– 952	–775	–918	–1,151	–1,368	–1,563	–1,178
Goods and services	– 580	–441	–576	– 927	–1,004	–1,262	–1,015
Income	– 381	–319	–351	– 237	– 383	– 306	– 170
Financial account less reserve assets	2,500	– 37	648	– 579	1,728	– 999	2,229

Source: OeNB.

Just like for the regions analyzed above, this study could not identify an immediate link between current and financial transactions for Austria's trade with Japan. In 1995, the deficit on goods and services amounted to around EUR 600 million, while financial transactions went up by EUR 2.5 billion. In 2000, both the current account and financial account posted negative balances of EUR 1.7 billion and EUR 1 billion, respectively. In 2001, the financial account turned positive, posting a surplus of some EUR 2 billion, which more than offset the goods and services deficit.

3 Financial Account Instruments

Given the high and ever increasing importance of international financial transactions, we will now analyze Austria's financial transactions with the above regions in greater detail, thereby giving an overview of the development and significance of individual financial instruments over the past seven years. Major changes in the volumes employed by individual financial instruments are often attributable to large-scale cross-border mergers such as the takeover of Bank Austria AG by Bayerische Hypo- und Vereinsbank AG (HypoVereinsbank) in 2000.

The analysis of Austria's financial account with the individual regions reveals that capital movements are extremely volatile. Gross direct investment acquisitions are often contrasted by higher disinvestment. In the field of portfolio investment and other investment, capital is often only invested on a short-term basis and then withdrawn again. A trend is visible only for Austria's relations with the CEECs: During the entire observation period, the goods and services balance was always positive. On balance, this facilitates an outflow of funds from Austria to the CEECs, as it is in fact recorded in the financial account.

Table 8

Financial Account: Total

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account	5,047	3,812	5,448	5,531	6,614	4,680	4,194
Direct investment	567	1,917	591	1,609	– 306	3,365	3,195
Direct investment abroad	-828	–1,488	– 1,762	– 2,469	– 3,098	– 6,230	– 3,408
Direct investment in Austria	1,395	3,405	2,354	4,078	2,792	9,595	6,603
Portfolio investment	7,346	–1,631	1,374	5,902	– 2,553	3,229	5,164
Portfolio investment in foreign securities	– 2,073	–6,396	– 8,800	–10,116	–27,207	–29,167	–13,267
Portfolio investment in domestic securities	9,418	4,764	10,174	16,018	24,654	32,395	18,431
Other investment	– 2,078	4,020	46	742	7,925	– 2,489	– 5,885
Assets	– 7,414	651	– 4,526	– 825	–10,571	–17,187	– 6,699
Liabilities	5,336	3,369	4,572	1,566	18,496	14,698	814
Financial derivatives	213	315	829	193	– 415	– 263	– 347
Assets	213	315	624	275	– 507	– 530	– 454
Liabilities	0	0	204	– 83	93	267	108
Reserve assets	– 1,001	– 809	2,608	– 2,914	1,963	838	2,067
Errors and omissions	– 354	443	421	– 539	– 36	1,152	1,035

Source: OeNB.

Given the underlying netting mechanisms, the Austrian current account deficit implies that Austria's financial account must record inflows. Over the observation period, these inflows amounted to between EUR 4 billion and 6.5 billion. In general, the purchase and sale of securities record the highest transaction volumes of all financial instruments (direct investment, portfolio investment, other investment and financial derivatives). The sharp volume increase in portfolio investment since 1997 was mostly attributable to the introduction of the euro, to the developments in the run-up to the cash changeover and the related portfolio restructuring. The uptrend in foreign direct investment results from Austrian companies' increased investment activities in the CEECs. In the field of other investment, generally speaking, loans play a major role on the asset side and short-term sight and time deposits on the liability side.

In the following, the volume of transactions with individual countries or regions and the most important financial instruments will be described in detail.

4 Major Financial Centers

4.1 Financial Transactions with the Euro Area

Both in financial and real economic terms, the euro area countries are by far the most important trading partners for Austria; this is not only attributable to Economic and Monetary Union (EMU) and the introduction of the euro, but also to the economic links that have developed over decades between Austria and Germany.

Table 9

Financial Account: Euro Area

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	3,585	3,674	4,769	7,180	3,842	17,276	– 584
Direct investment	398	2,546	781	3,642	1,653	4,538	2,448
Direct investment abroad	– 268	– 486	– 665	– 502	– 356	– 2,785	– 77
Direct investment in Austria	666	3,032	1,446	4,144	2,010	7,324	2,525
Portfolio investment	1,885	–1,260	1,723	6,836	– 4,997	10,833	6,638
Portfolio investment in foreign securities	–1,149	–3,839	–5,527	– 5,893	–20,390	–20,250	– 5,144
Portfolio investment in domestic securities	3,034	2,578	7,249	12,729	15,393	31,083	11,781
Other investment	1,026	2,100	1,088	– 4,661	7,307	899	–10,096
Assets	–2,439	1,468	– 796	– 2,660	– 2,976	– 7,500	– 2,157
Liabilities	3,465	633	1,885	– 2,001	10,283	8,399	– 7,939
Financial derivatives	276	288	1,177	1,363	– 121	1,006	426
Assets	276	288	522	579	– 11	– 1,038	168
Liabilities	0	0	655	784	– 109	2,044	258

Source: OeNB.

From 1995 to 2000 Austria recorded continuous capital inflows from the euro area, which came to some EUR 17 billion in 2000.

A breakdown by financial instruments shows that outward FDI plays a minor role in direct investment. Only in 1998 did it exceed the EUR 1 billion threshold, amounting to EUR 2.8 billion. Of a total of EUR 2.5 billion recorded in inward investment in 2001, German investors accounted for EUR 2.2 billion. Also during the years before 2001, the bulk of inward FDI came from Germany. In 2000, for example, Germany accounted for some EUR 8 billion in direct investment, which was largely attributable to the takeover of Bank Austria AG by HypoVereinsbank. Germany is not only Austria's most important direct investor from the euro area, but ranking number one also on a global scale.

As for portfolio investment, the value of foreign securities purchased ranged between EUR 4 billion and EUR 6 billion in 1996, 1997, 1998 and 2001. In 1999 and 2000, however, this item exceeded EUR 20 billion, which reflects the above-mentioned uptrend in the acquisition of euro-denominated securities. Over the entire observation period, investors mainly focused on bonds and notes. Totaling EUR 13 billion, investment in equities surpassed investment in bonds and notes only in 2000. Domestic securities increased continuously since 1996. Net sales doubled to EUR 31 billion from 1999 to 2000, which – as in the case of securities acquisitions – was primarily attributable to the above-mentioned transfer process. This is confirmed by the fact that in 2001 the sale of domestic securities dropped to the 1998 level. The main focus was on bonds and notes; moreover, Austrian money market instruments have also gained importance since 1998.

Quite similarly, assets and liabilities under other investment started to expand as of 1999. Except for 1996, other investment posted capital outflows on the asset side. These outflows comprise lending activities and the placement of currency and deposits by Austrian banks and the Oesterreichische Nationalbank (OeNB). The rise in liabilities to EUR 10 billion in 1999 is attributable to the impact of the European payment system TARGET, which was launched against the backdrop of the introduction of the euro. In 2001, TARGET-related liabilities were repaid, which explains capital exports to the tune of EUR 8 billion. Currency and short-term deposits placed with Austrian banks account for EUR 7 billion of total capital inflows, which came to some EUR 8 billion in 2000.

4.2 Transactions with Central and Eastern Europe

Given Austria's geographic position, economic relations with the CEECs intensified soon after the collapse of the Eastern bloc. Financial Table 10 shows the development of Austria's relations with these countries in the financial sector.

Austria's financial account indicates clear trends in transactions with the CEECs. Throughout the observation period, capital exports prevailed. Out-

Table 10

Financial Account: Central and Eastern Europe

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	–1,840	–1,098	–3,266	–2,456	–2,106	–5,426	–2,840
Direct investment	– 391	– 404	– 905	– 712	– 770	–2,524	–2,564
Direct investment abroad	– 401	– 416	– 942	– 777	–1,035	–2,522	–2,559
Direct investment in Austria	10	12	37	65	266	– 2	– 5
Portfolio investment	– 20	– 202	– 470	– 654	– 321	– 825	– 761
Portfolio investment in foreign securities	– 72	– 244	– 748	– 557	– 41	–1,179	–1,216
Portfolio investment in domestic securities	51	42	278	– 98	– 280	354	454
Other investment	–1,434	– 491	–1,760	–1,140	–1,049	–2,123	487
Assets	–1,306	– 961	–2,095	–1,213	–1,259	–1,915	–1,483
Liabilities	– 127	470	335	73	210	– 208	1,969
Financial derivatives	5	– 1	– 131	50	34	46	– 2
Assets	5	– 1	– 102	6	6	46	– 2
Liabilities	0	0	– 29	43	28	0	0

Source: OeNB.

ward FDI, in particular, was constantly on the rise. Austrian outward investment goes primarily to Hungary, the Czech Republic and the Slovak Republic.

In the field of portfolio investment, both in 2000 and 2001 Austrian investors purchased securities issued by Central and Eastern European issuers to the tune of more than EUR 1 billion, with the majority of investments concentrated on bonds and notes.

On the assets side of other investment, values ranged between EUR 1 billion and EUR 2 billion in the observation period, thus mostly reflecting the export promotion loans extended to these countries. Capital imports of some EUR 2 billion in 2001 largely result from banks' intake of currency and short-term deposits.

Until 1997, the CEECs received most of their capital inflows in the form of loans. In the past few years, FDI has become the largest source of capital imports.

4.3 Transactions with Other Important Financial Centers in Europe: United Kingdom and Switzerland

Table 11

Financial Account: United Kingdom

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	473	1,827	273	4,983	3,645	–12,814	–6,040
Diredct investment	12	– 136	– 168	– 505	– 176	270	2,952
Direct investment abroad	– 28	– 9	– 155	– 535	– 222	– 135	– 61
Direct investment in Austria	41	– 126	– 13	30	46	405	3,013
Portfolio investment	65	197	641	736	8,629	– 4,474	–1,396
Portfolio investment in foreign securities	– 194	– 175	– 735	– 514	–1,231	– 2,413	–1,495
Portfolio investment in domestic securities	260	372	1,376	1,249	9,860	– 2,061	99
Other investment	302	1,468	– 384	5,401	291	– 2,317	–5,605
Assets	–1,006	1,303	– 433	2,515	– 479	– 3,435	–4,521
Liabilities	1,308	165	50	2,885	770	1,118	–1,083
Financial derivatives	93	298	184	– 648	–5,099	– 6,293	–1,991
Assets	93	298	– 116	– 263	–4,175	– 6,164	–1,954
Liabilities	0	0	300	– 385	– 924	– 129	– 38

Source: OeNB.

Until 2000, neither outward nor inward investment played a major role in transactions with the U.K. In 2001, British direct investment in Austria amounted to EUR 3 billion, EUR 2 billion of which can be attributed to the purchase of the floating shares of Austria Tabak by the British Gallaher Group.

Over the last three years of the reporting period, Austrian investors purchased British securities to the tune of EUR 1 billion to EUR 2 billion. The majority of funds were invested in bonds and notes, with equities gaining popularity in 2000 and 2001. Most of the domestic securities sold on British financial markets were bonds and notes, but money market instruments also played a role. Capital inflows of EUR 10 billion from the U.K. may be attributable to the introduction of the euro and the related shift of security portfolios. Capital outflows of EUR 2 billion in 2000 result from the redemption of money market instruments to the tune of EUR 7 billion.

The asset side of other investment records considerable fluctuations which are traceable to interbank transfers. The accumulation of assets peaked in 2001 at some EUR 4.5 billion, while liabilities dropped for the first time in the same.

The growing financial derivatives balance suggests that derivatives transactions also play a major role in the British financial market.

Table 12

Financial Account: Switzerland

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	3,475	356	– 79	1,188	– 605	– 626	18
Direct investment	133	66	169	664	224	1,333	504
Direct investment abroad	– 69	– 71	107	285	– 94	161	– 50
Direct investment in Austria	201	136	63	380	318	1,172	554
Portfolio investment	2,570	758	363	1,544	797	1,013	– 604
Portfolio investment in foreign securities	– 55	– 69	– 164	– 232	– 90	– 203	– 304
Portfolio investment in domestic securities	2,625	827	527	1,775	888	1,216	– 300
Other investment	818	–213	414	– 295	–1,730	–2,544	710
Assets	1,839	–413	163	1,112	–2,133	–1,605	– 569
Liabilities	–1,020	200	251	–1,407	403	– 939	1,279
Financial derivatives	– 46	–254	–1,025	– 725	104	– 428	– 592
Assets	– 46	–254	–1,081	– 598	– 268	– 330	– 747
Liabilities	0	0	56	– 128	371	– 98	154

Source: OeNB.

Capital transactions between Austria and Switzerland declined sharply in 1996 and 1997. While neither inward nor outward FDI plays a major role, Swiss investors have repeatedly opted for Austrian securities. In the balance of payments, however, the volume of domestic securities dropped by two thirds from 1995 to 1996 and declined even further in 1997. Only in 1998 did the sale of securities climb back to more than EUR 1.7 billion, with a major focus on bonds and notes. Austrian investment in Swiss securities was rather modest.

Capital exports as recorded under other investment consisted mostly of lending and currency and deposit flows from Austrian banks to Switzerland. The liabilities side of other investment mirrors this situation, with banks' currency and short-term deposit intake having a greater impact on this subaccount.

4.4 Transactions on Financial Markets Outside Europe

Aside from Austria's relations with the rest of Europe, the financial ties with the U.S.A. and Japan are worth a closer look. Tables 13 and 14 show the most important financial instruments in transactions with these trading partners.

Looking at the total of capital transactions with the U.S.A., volumes vary strongly over the reporting period, with their focus shifting between capital exports and imports. Direct investment in or from the U.S.A. plays a subordinate role in this context.

In the field of portfolio investment, the acquisition of American securities shows an upward trend, with investment peaking at EUR 3.8 billion in 2001. Over the entire observation period, investors focused mainly on equities, but also on bonds and notes (at a 3:1 ratio). The sale of Austrian securities also

Table 13

Financial Account: U.S.A.

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	– 841	527	–2,911	–1,811	340	9,066	1,188
Direct investment	116	166	316	– 43	118	78	424
Direct investment abroad	– 92	– 42	– 34	– 7	– 157	– 397	– 60
Direct investment in Austria	208	208	350	– 36	275	475	484
Portfolio investment	– 201	– 927	– 827	–1,525	–3,271	–2,125	– 638
Portfolio investment in foreign securities	– 61	– 940	–1,561	–1,758	–1,457	–3,109	–3,814
Portfolio investment in domestic securities	– 140	13	733	233	–1,814	983	3,175
Other investment	– 609	1,334	–2,436	– 170	– 408	5,013	2,427
Assets	–1,313	– 614	–2,824	–2,151	–2,538	3,890	– 934
Liabilities	705	1,948	387	1,981	2,130	1,123	3,362
Financial derivatives	– 148	– 46	37	– 73	3,901	6,100	–1,025
Assets	– 148	– 46	1,003	551	3,289	7,331	– 124
Liabilities	0	0	– 966	– 624	612	–1,231	– 901

Source: OeNB.

exceeded EUR 3 billion in 2001, with both money market instruments and bonds and notes playing a key role. In 2001, sales of bonds and notes to the U.S. market amounted to almost EUR 5 billion.

Under other investment, both assets and liabilities vis-à-vis the U.S.A. decreased in the observation period.

Table 14

Financial Account: Japan

	1995	1996	1997	1998	1999	2000	2001
	net EUR million						
Financial account less reserve assets	2,500	– 37	648	–579	1,728	–999	2,229
Direct investment	62	11	19	28	79	– 10	5
Direct investment abroad	13	5	2	– 1	– 21	– 9	– 2
Direct investment in Austria	49	6	17	30	100	– 1	7
Portfolio investment	2,326	–150	– 72	–658	– 290	–365	2,602
Portfolio investment in foreign securities	– 15	–306	–114	18	– 605	–586	87
Portfolio investment in domestic securities	2,341	156	42	–676	315	220	2,516
Other investment	86	75	473	215	1,615	283	– 706
Assets	– 204	271	825	225	159	330	330
Liabilities	290	–195	–352	– 9	1,456	– 48	–1,036
Financial derivatives	26	26	229	–165	324	–907	328
Assets	26	26	168	–147	324	–562	– 20
Liabilities	0	0	61	– 18	0	–345	348

Source: OeNB.

The volume of capital transactions between Austria and Japan was smaller than that between Austria and the regions analyzed above. Moreover, capital transactions with Japan do not display any trends. With regard to transaction volumes, direct investment plays a subordinate role. Only in 1995 and 2001 did inward portfolio investment exceed the EUR 1 billion threshold, as Japanese investors bought Austrian bonds and notes worth some EUR 2 billion. Austrian investment in Japanese securities, by contrast, is very low.

Other investment also posted relatively small amounts, with liabilities showing very high volatility. Given the withdrawal of currency and deposits of banks and other sectors, the assets side of other investment has recorded capital inflows since 1996. In 2000 and 2001, Japan withdrew EUR 1.5 billion worth of currency and short-term deposits placed with banks in 1999.

Abbreviations

AMS	Arbeitsmarktservice Österreich (Austrian Public Employment Office)
ARTIS	Austrian Real Time Interbank Settlement
BWA	Bundes-Wertpapieraufsicht (Federal Securities Supervisory Authority)
BWG	Bankwesengesetz (amendments to the Banking Act)
CAD	Capital Adequacy Directive
CEECs	Central and Eastern European Countries
COICOP	Classification of Individual Consumption by Purpose
CPI	Consumer Price Index
EC	European Community
ECB	European Central Bank
EEA	European Economic Area
EEC	European Economic Community
EGVG	Einführungsgesetz der Verwaltungsverfahrensgesetze (Introductory Act to the Administrative Procedure Acts)
EMU	Economic and Monetary Union
EQOS	Electronic Quote and Order Driven System
ERM	Exchange Rate Mechanism
ERP	European Recovery Program
ESCB	European System of Central Banks
ESNA	European System of National Accounts
EU	European Union
Eurostat	Statistical Office of the European Communities
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices
IHS	Institut für Höhere Studien (Institute for Advanced Studies)
IIP	International Investment Position
IMF	International Monetary Fund
NACE	Nomenclature générale des Activités économiques dans les Communautés Européennes (Statistical Classification of Economic Activities)
ÖCPA	Austrian Version of the Classification of Products by Activities
OECD	Organisation for Economic Co-operation and Development
OeKB	Oesterreichische Kontrollbank
OeNB	Oesterreichische Nationalbank
ÖNACE	Austrian Version of the Statistical Classification of Economic Activities
RTGS	Real Time Gross Settlement System
SDR	Special Drawing Right
SNA	System of National Accounts
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer
TEU	Treaty on European Union
WIFO	Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research)
WWU	Wirtschafts- und Währungsunion

Legend

– = The numerical value is zero
. . = Data not available at the reporting date
× = For technical reasons no data can be indicated
0 = A quantity which is smaller than half of the unit indicated
∅ = Mean value
_ = New series

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

Official Announcements of the Oesterreichische Nationalbank

Official Announcements Regarding the Foreign Exchange Law

		Authentic German text published in the Official Gazette (Amtsblatt zur Wiener Zeitung)	Translation published in "Reports and Summaries" and "Focus on Austria" issue no
DL 1/91	Promulgation of the new Official Announcements regarding the Foreign Exchange Law; general provisions 1. Issuance of new Official Announcements 2. Definitions 3. Fees	Sept. 24, 1991	4/1991
DL 2/91	Granting of general licenses 1. General license 2. Waiver of obligation to declare; release 3. Nonbanks 4. Banks not engaged in foreign business 5. Foreign exchange dealers 6. Exchange bureaus 7. Special banks and financial institutions 8. Provisions applying to both banks and financial institutions	Sept. 24, 1991	4/1991
DL 3/91	Reporting requirements 1. General provisions 2. Exemptions from the reporting obligation 3. General reports 4. Reports by banks 5. Reports by nonbanks and financial institutions 6. Special reports	Sept. 24, 1991	4/1991
DL 4/91	Assets of nonresidents with residence (domicile) in Iraq	Oct. 29, 1991	4/1991
DL 2/93	Modification of the Official Announcement DL 3/91	May 5, 1993	2/1993
DL 1/95	Repeal of the Official Announcement DL 1/93; SC Resolution 1022 (1995) Concerning the suspension of the sanctions of the United Nations against the Federal Republic of Yugoslavia	Dec. 21, 1995	4/1995
DL 1/96	Modification of Official Announcement DL 3/91	Sept. 3, 1996	3/1996
DL 1/99	Modification of Official Announcements DL 2/91 and DL 3/91 to the Foreign Exchange Act	Dec. 21, 1998	4/1998
DL 2/99	Abrogation of Official Announcement DL 3/93 Sanctions of the United Nations against Libya	April 30, 1999	1/1999
DL 3/99	Modification of Official Announcement DL 3/91 with respect to the Foreign Exchange Act	Dec. 16, 1999	3/1999
DL 1/01	Modification of Official Announcement DL 3/91 with respect to the Foreign Exchange Act	June 19, 2001	2/2001

Please see the German-language publication "Berichte und Studien" for a list of all Official Announcements in German.

		Authentic German text published in the Official Gazette (Amtsblatt zur Wiener Zeitung)	Translation published in "Reports and Summaries" and "Focus on Austria" issue no

Official Announcements
Regarding the Foreign Exchange Law (cont.)

DL 1/02	Modification of Official Announcements DL 1/91 and DL 3/91 with respect to the Foreign Exchange Act	Feb. 25, 2002	1/2002
DL 2/02	Amendment to Official Announcement DL 2/91; UN Security Council Resolution No. 1373 (2001)	Sept. 2, 2002	3/2002
DL 3/02	Modification of Official Announcement DL 2/02	Jan. 20, 2003	4/2002

Council Regulations of the European Communities

		Published in the Official Journal of the European Communities
Minimum Reserve Regulations		
No 2531/98	Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank	Nov. 23, 1998
No 2532/98	Council Regulation (EC) concerning the powers of the European Central Bank to impose sanctions	Nov. 23, 1998
No 2818/98	Regulation (EC) of the European Central Bank on the application of minimum reserves	Dec. 1, 1998

List of Reports, Summaries and Studies[1])

Published in "Focus on Austria"

Please see the German-language publication "Berichte und Studien" for a list of all German-language reports, studies and special publications of the OeNB.

Oesterreichische Nationalbank and Selected Monetary Aggregates

Official Announcements Regarding the Foreign Exchange Law and Minimum Reserve Requirements – see preceding page	
Calendar of Monetary Highlights	2/1999
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Calendar of Monetary and Economic Highlights	1/2000
Calendar of Monetary and Economic Highlights	2/2000
Calendar of Monetary and Economic Highlights	3/2000
The New Millennium – Time for a New Economic Paradigm? – Results of the OeNB's 28th Economics Conference	3/2000
Calendar of Monetary and Economic Highlights	4/2000
Calendar of Monetary and Economic Highlights	1/2001
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The Single Financial Market: Two Years into EMU – Results of the OeNB's 29th Economics Conference	2/2001
Calendar of Monetary and Economic Highlights	3–4/2001
Calendar of Monetary and Economic Highlights	1/2002
Calendar of Monetary and Economic Highlights	2/2002
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Banking Holidays in Austria in the Year 2002	3–4/2001
Money and Credit in the Year 2001	1/2002
Money and Credit in the First Quarter of 2002	2/2002
EURIBOR Interest Rate Instruments as Indicators of Financial Market Expectations	2/2002
Money and Credit in the First Three Quarters of 2002	4/2002

1 *For a comprehensive list of reports, summaries and studies hitherto published please refer to issue no. 1/2002 of "Focus on Austria."*

	Published in "Focus on Austria"
Interest Rates	
An International Comparison of Term Structures – Estimations Using the OeNB Model	1/1999
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Austrian Stock Market Survey and Outlook	4/2000
Austrian Bond Market	
Austrian Bond Market Developments	1/2001
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Financial Assets and Liabilities of Enterprises and Households in the Years 1995 to 1997	1/1999
Economic Outlook for Austria from 1999 to 2001	2/1999
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Economic Background	3/1999
Financial Accounts in Accordance with ESA 95 – Financial Assets and Liabilities of the Sectors of the Austrian Economy; First Release of Data for the Years 1995 to 1997	3/1999
Economic Outlook for Austria from 1999 to 2001 (Fall 1999)	4/1999
Impact of the Recent Upturn in Crude Oil Prices on Inflation in Austria – A Comparison with Historic Supply Shocks	4/1999
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Financial Accounts in Accordance with ESA 95 – Financial Assets and Liabilities of the Sectors of the Austrian Economy; Results for 1998	1/2000
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Harmonized Indices of Consumer Prices – Progress and Unresolved Problems in Measuring Inflation	2/1999
Economic Policy Co-operation in EMU: European Economic Policy Challenges	2/1999
Effects of the Euro on the Stability of Austrian Banks	3/1999
The Austrian Banks at the Beginning of Monetary Union – The Effects of Monetary Union on the Austrian Banking System from a Macroeconomic Perspective	3/1999
Recent Developments on the Meat Markets and Their Impact on Inflation in Austria and the Euro Area	1/2001
Economic Aspects of the Euro Cash Changeover in Austria	2/2001
Central Banks and the Challenges of the Information Economy – Are We on the Road to e-CBs?	1/2002

List of Studies on Focus on Austria Main Topics

Focus on Austria 2/2000:

The Monetary Policy of the Eurosystem

Monetary Policy and Monetary Policy Strategy in EMU:
New Framework – New Challenges
The Credibility of the Eurosystem
Monetary Growth during the Changeover to Economic
and Monetary Union
Indicators for Assessing Price Changes
Estimate and Interpretation of the Taylor Rule for the Euro Area
Modification to the Monetary Policy Framework
and Structural Changes in the Austrian Money Market
in Stage Three of EMU

Focus on Austria 3/2000:

On a New Capital Adequacy Framework as Proposed by Basel and Brussels

Regulatory Capital Requirements for Austrian Banks –
A Supervisory Tool Subject to Change
Supervisory Review
Credit Risk
Critical Evaluation of the Basel Committee's
and the European Commission's Proposals on the
Treatment of Other Risks in the New Capital Adequacy Framework
Interest Rate Risk in the Banking Book

Focus on Austria 2/2001:

The New Framework for Fiscal Policy

Fiscal Policy Design in the EU
Measures and Strategies for Budget Consolidation
in EU Member States
Distributive Aspects of Economic Policy in EMU –
An Analysis from an Employee Perspective
Problems Relating to the Taxation of Cross-Border Capital Income
Austria's Sovereign Debt Management Against the Background
of Euro Area Financial Markets
Cyclically Adjusted Budgetary Balances for Austria

Focus on Austria 3–4/2001:

Aspects of the Transmission of Monetary Policy

The Transmission Mechanism
and the Role of Asset Prices in Monetary Policy
Asymmetric Transmission of Monetary Policy
through Bank Lending –
Evidence from Austrian Bank Balance Sheet Data
Balance Sheet and Bank Lending Channels:
Some Evidence from Austrian Firms
Financial Innovation and the Monetary Transmission Mechanism
Transmission Mechanism and the Labor Market:
A Cross-Country Analysis
Monetary Transmission and Fiscal Policy
Principles for Building Models of the
Monetary Policy Transmission Mechanism

Focus on Austria 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 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

Publications of the Oesterreichische Nationalbank

Periodical Publications	Published
Statistisches Monatsheft	monthly
Focus on Statistics (English translation of "Statistisches Monatsheft")	http://www.oenb.at
Leistungsbilanz Österreichs, revidierte Jahresdaten gegliedert nach Regionen und Währungen	annually
Berichte und Studien	quarterly
Focus on Austria (selected chapters from „Berichte und Studien")	quarterly
Focus on Transition	semiannually
Finanzmarktstabilitätsbericht	semiannually
Financial Stability Report (English translation of "Finanzmarktstabilitätsbericht")	semiannually
Geschäftsbericht	annually
Annual Report (English translation of "Geschäftsbericht")	annually
Volkswirtschaftliche Tagung (for a list of the topics discussed at the conferences, see below)	annually
The Austrian Financial Markets – A Survey of Austria's Capital Markets – Facts and Figures	annually

Other Publications	
New Developments in Banking and Finance in East and West (Kranichberg 1989)	1990
Erfahrungen Österreichs beim Übergang von administrativer Regulierung zur Marktwirtschaft (Moscow 1990)	1990
Challenges for European Bank Managers in the 1990s (Badgastein 1990)	1991
From Control to Market - Austria's Experiences in the Post-War Period (Warsaw 1990)	1991
The Economic Opening of Eastern Europe (Bergsten Conference Vienna 1991)	1991
Erneuerung durch Integration – 175 Jahre Oesterreichische Nationalbank	1991
Striking a Balance – 175 Years of Austrian National Bank	1991
Transparente Dispositionen – Liberalisierter Devisenverkehr unter Beachtung internationaler Publizitätsverpflichtungen	1991
Ausgeglichene Position – Die neue Präsentation der österreichischen Zahlungsbilanz	1992
Aktive Bilanz – Ein Jahr vollständig liberalisierter Devisenverkehr in Österreich	1992
Economic Consequences of Soviet Disintegration (Bergsten Conference Vienna 1992)	1993
Neuorientierung – Internationale Vermögensposition und Außenwirtschaftliche Investitionsbilanz Österreichs	1993
Bankwesengesetz 1993	1994

Other Publications (cont.)

	Published
Internationale Vermögensposition 1992 – Die grenzüberschreitenden Forderungen und Verpflichtungen Österreichs	1994
International Investment Position for 1992 – Austria's Cross-Border Assets and Liabilities	1994
Western Europe in Transition: The Impact of the Opening-up of Eastern Europe and the Former Soviet Union	1995
Die Oesterreichische Nationalbank als Unternehmen	1996
Monetary Policy in Central and Eastern Europe: Challenges of EU Integration	1996
Monetary Policy in Transition in East and West	1997
Die Auswirkungen des Euro auf den Finanzmarkt Österreich	1997
Die Bank der Banken	1997
Die Zukunft des Geldes: Auf dem Weg zum Euro Grundlagen – Strukturen – Termine	1997
Geld & Währung	1997
Kompendium von Texten zur Wirtschafts- und Währungsunion	1997
Nationalbankgesetz 1984 (as of January 1999)	1999
Information literature on banknote security	recurrently

Videos

Wie Mozart entsteht (banknote security)	1990
The Evolution of W. A. Mozart (English version of "Wie Mozart entsteht")	1995
Bank der Banken (tasks and functions of the OeNB)	1991
The Banks' Bank (English version of "Bank der Banken")	1991
Fenster, Tore, Brücken: Eurogeld aus Österreich	1997
Das Geld von Morgen	1997
Der Euro stellt sich vor	2001

List of the Topics Discussed at the Economics Conferences (Volkswirtschaftliche Tagungen)

1975	Die ökonomischen, politischen und sozialen Konsequenzen der Wachstumsverlangsamung
1976	Störungsanfällige Bereiche in unserem ökonomischen und sozialen System
1977	Fiskalismus kontra Monetarismus
1978	Wirtschaftsprognose und Wirtschaftspolitik
1979	Technik-, Wirtschaftswachstums-, Wissenschaftsverdrossenheit: Die neue Romantik – Analyse einer Zeitströmung
1980	Probleme der Leistungsbilanz in den achtziger Jahren
1981	Systemkrisen in Ost und West
1982	Forschung und Wirtschaftswachstum
1983	Ausweg aus der Krise – Wege der Wirtschaftstheorie und Wirtschaftspolitik
1984	Der Weg zur Welthandelsnation
1985	Weltanschauung und Wirtschaft
1986	Vollbeschäftigung, ein erreichbares Ziel?
1987	Vollendung des Binnenmarktes in der Europäischen Gemeinschaft – Folgen und Folgerungen für Österreich
1988	Sand im Getriebe – Ursachen und Auswirkungen der Wachstumsverlangsamung in Österreich
1989	Banken und Finanzmärkte – Herausforderung der neunziger Jahre
1990	Wettbewerb und Kooperation im Finanzbereich
1991	Wirtschaftliche und politische Neugestaltung Europas – Rückblick und Perspektiven
1992	Zukunft regionaler Finanzmärkte in einem integrierten Europa
1993	Europäische Währungspolitik und internationaler Konjunkturverlauf
1994	Neue internationale Arbeitsteilung – Die Rolle der Währungspolitik
1995	Die Zukunft des Geldes – das Geld der Zukunft
1996	Auf dem Weg zur Wirtschafts- und Währungsunion – Bedingungen für Stabilität und Systemsicherheit
1997	Die Bedeutung der Unabhängigkeit der Notenbank für die Glaubwürdigkeit der europäischen Geldpolitik
1998	Wirtschaftspolitik 2000 – Die Rolle der Wirtschaftspolitik und nationaler Notenbanken in der WWU
1999	Möglichkeiten und Grenzen der Geldpolitik
2000	Das neue Millennium – Zeit für ein neues ökonomisches Paradigma?
2001	Der einheitliche Finanzmarkt – Eine Zwischenbilanz nach zwei Jahren WWU
2002	Wettbewerb der Regionen und Integration in der WWU (Competition of Regions and Integration in EMU)

List of the Topics Discussed in the Working Papers[1])

		Published
No. 55	The Effectiveness of Central Bank Intervention in the EMS: The Post 1993 Experience	2001
No. 56	Asymmetries in Bank Lending Behaviour. Austria During the 1990s	2002
No. 57	Banking Regulation and Systemic Risk	2002
No. 58	Credit Channel and Investment Behavior in Austria: A Micro-Econometric Approach	2002
No. 59	Evaluating Density Forecasts with an Application to Stock Market Returns	2002
No. 60	The Empirical Performance of Option Based Densities of Foreign Exchange	2002
No. 61	Price Dynamics in Central and Eastern European EU Accession Countries	2002
No. 62	Growth, convergence and EU membership	2002
No. 63	Wage Formation in Open Economies and the Role of Monetary and Wage-Setting Institutions	2002
No. 64	The Federal Design of a Central Bank in a Monetary Union: The Case of the European System of Central Banks	2002
No. 65	Dollarization and Economic Performance: What Do We Really Know?	2002
No. 66	Growth, Integration and Macroeconomic Policy Design: Some Lessons for Latin America	2002
No. 67	An Evaluation of Monetary Regime Options for Latin America	2002
No. 68	Monetary Union: European Lessons, Latin American Prospects	2002
No. 69	Reflections on the Optimal Currency Area (OCA) Criteria in the Light of EMU	2002
No. 70	Fiscal and Monetary Policy Coordination in EMU	2002
No. 71	EMU and Accession Countries: Fuzzy Cluster Analysis of Membership	2002
No. 72	Monetary Integration in the Southern Cone: Mercosur Is Not Like the EU?	2002
No. 73	Forecasting Austrian HICP and its Components using VAR and ARIMA Models	2002
No. 74	The Great Exchange Rate Debate after Argentina	2002
No. 75	Central European EU Accession and Latin America Integration: Mutual Lessons in Macroeconomic Policy Design	2002
No. 76	The Potential Consequences of Alternative Exchange Rate Regimes: A Study of Three Candidate Regions	2002
No. 77	Why Did Central Banks Intervene in the EMS? The Post 1993 Experience	2002
No. 78	Job Creation and Job Destruction in a Regulated Labor Market: The Case of Austria	2002
No. 79	Risk Assessment for Banking Systems	
No. 80	Does Central Bank Intervention Influence the Probability of a Speculative Attack? Evidence from the EMS	2002

1 *For a comprehensive List of the Topics Discussed in the Working Papers please refer to issue no. 12/2001 of "Statistisches Monatsheft."*

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