Oesterreichische Nationalbank

Eurosystem

Annual Report 2006

Stability and Security.

A Chronolgy of Highlights

The OeNB and Austria	2006	The OeNB and the Euro Area, ESCB and EU
New OeNB reporting system for external statistics enters into force, page 69	JANUARY	Austria assumes EU presidency from January 1 to June 30, 2006, page 58
STEP.AT project to establish a neutral clearing system in Austria launched, page 75		
	FEBRUARY	
OeNB Anniversary Fund celebrates 40^{th} anniversary, page 91	MARCH	Governing Council of the ECB increases key interest rates by 25 basis points to 2.50%, page 29
	APRIL	
OeNB Economics Conference: "Globalization: Opportunities and Challenges for the World, Europe and Austria," page 85	MAY	European Commission and ECB publish convergence reports on Lithuania and Slovenia, page 56
OeNB ownership structure changes: the Republic of Austria now holds some 70% of the shares, page 6		
OeNB euro bus tours Austria until August: 72 stops throughout Austria, page 81		
OeNB contributes significantly to overcoming incidents at two Austrian banks (*BAWAG P.S.K.* and *Hypo Alpe-Adria-Bank International AG*), page 37	JUNE	Governing Council of the ECB increases key interest rates by 25 basis points to 2.75%, page 29
OeNB and FMA present information brochure on the risks of foreign currency borrowing, page 42		
	JULY	
Amendments to the Austrian Banking Act promulgated in Austrian Federal Law Gazette Part I No. 141/2006 to implement Basel II in Austria, page 43	AUGUST	Governing Council of the ECB increases key interest rates by 25 basis points to 3.00%, page 29
	SEPTEMBER	European Commission presents progress reports on the results of the negotiations on the accession of Bulgaria and Romania to the EU, page 53
OeNB and ECB jointly organize the Cultural Days of the European Central Bank in Frankfurt (October 18 to November 14, 2006), page 85	OCTOBER	Governing Council of the ECB increases key interest rates by 25 basis points to 3.25%, page 29
		ECB's Cultural Days 2006 focus on Austria, page 85
OeNB Conference on European Economic Integration: "The Changing Landscape of FDI in Europe," page 59	NOVEMBER	
Deadline for exchanging the ATS 100 banknote featuring Angelika Kauffmann expires, page 81		
IMF concludes Article IV consultation with Austria with a positive assessment, page 35	DECEMBER	Governing Council of the ECB increases key interest rates by 25 basis points to 3.50%, page 29
Regulations on new supervisory reporting system published, page 44		European Commission and ECB publish convergence reports on the Czech Republic, Estonia, Cyprus, Latvia, Hungary, Malta, Poland, Slovakia and Sweden, page 56
Austrian migration plan for the transition to SEPA completed, page 72		
OeNB delivers euro banknotes to Banka Slovenije on behalf of the ECB, page 79		European Payments Council (EPC) adopts framework for Single Euro Payments Area (SEPA), page 72
	2007	
OeNB's share in the ECB's paid-up capital declines to 2.9002% upon Slovenia's participation in the Eurosystem, page 131	JANUARY	Slovenia introduces the euro and becomes the 13^{th} euro area country, page 55
OeNB's share in the ECB's subscribed capital declines to 2.0159% upon Bulgaria's and Romania's accession to the EU and the participation of their central banks in the ESCB, page 131		As of 2007, bank loans may be used as collateral for Eurosystem credit operations, page 60
		Bulgaria and Romania join the EU, page 52
Basel II enters into force on January 1, 2007, page 43		
	FEBRUARY	Malta and Cyprus request convergence assessment by the ECB as required prior to euro adoption, page 56
OeNB dedicates a special issue of its series "Monetary Policy & the Economy" to "5 Years After – Austria's Experience with the Euro," page 23	MARCH	Governing Council of the ECB increases key interest rates by 25 basis points to 3.75%, page 30

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Ownership Structure and Decision-Making Bodies of the OeNB

Owners, General Council, State Commissioner

The OeNB's Owners

The OeNB is a stock corporation. Its capital totals EUR 12 million; the majority of this sum is held by the Austrian federal government, the remainder by employer and employee organizations as well as banks and insurance corporations. Only Austrian citizens or legal persons or partnerships under commercial law which are based and have their head office in Austria and which are neither directly nor indirectly majority-owned by foreigners may be shareholders. The transfer of OeNB shares requires the explicit approval of the General Council. Since May 2006, the Republic of Austria has held 70.3% of the OeNB's capital stock.

Functions of the General Council

The General Council is charged with the supervision of all business not falling within the remit of the European System of Central Banks (ESCB). Pursuant to Article 20 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act), the General Council is to advise the Governing Board in the conduct of the OeNB's business and in matters of monetary policy. The joint meetings of the General Council and the Governing Board must take place at least once every quarter. General Council approval is required for a number of management decisions, including starting and discontinuing business lines, establishing and closing down branch offices, as well as acquiring and selling subsidiaries and real property. Also, the General Council must approve appointments of members of supervisory boards and executive bodies of companies in which the OeNB is a shareholder. Moreover, the General Council must give its approval to appointments of the second executive tier of the OeNB itself. Finally, the General Council has the exclusive right of decision on issues detailed in Article 21 paragraph 2 Nationalbank Act, e.g. drawing up nonbinding tripartite proposals to the Austrian federal government for appointments to the OeNB's Governing Board by the Federal President, defining general operational principles for all matters not covering the remit of the ESCB, approving the financial statements for submission to the General Meeting, and approving the cost estimates for the next financial year.

Composition of the General Council

The General Council consists of the President, one Vice President and twelve other members. Only persons holding Austrian citizenship may be members of the General Council. The President, the Vice President and six other members of the General Council are appointed by the federal government for a term of five years; they may be reappointed. The remaining six members are elected by the General Meeting (stockholders' meeting) for a term of five years. Articles 20 through 30 of the Nationalbank Act govern issues pertaining to the General Council.

The General Council of the OeNB comprised the following members on December 31, 2006.

Herbert Schimetschek
President
Chairman of the Board of Austria Versicherungsverein auf Gegenseitigkeit

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

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August Astl
Secretary General of the Austrian Chamber of Agriculture

Bernhard Felderer
Director of the Institute for Advanced Studies (IHS)

Philip Göth
Certified public accountant/tax consultant
Partner of Deloitte Austria

Elisabeth Gürtler-Mauthner
Managing Director of Sacher Hotels Betriebsges.m.b.H. and Vice President of the Österreichische Hoteliersvereinigung (ÖHV)

Alfred Hannes Heinzel
President and CEO of Heinzel Holding GmbH

Manfred Hofmann
Director
Head of the Austrian Federal Economic Chamber's Department of Finance and Accounting
CEO of Wirtschaftskammern Pensionskasse AG
Director of the Austrian Federal Economic Chamber's pension fund

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

Max Kothbauer
Chairperson of the Board of the University of Vienna

Johann Marihart
Chief Executive Director of Agrana Beteiligungs-AG

Werner Muhm
Chief of the Chamber of Labor of Vienna

Gerhard Randa
Executive Vice President Magna International Inc.

Walter Rothensteiner
Chief Executive Director of Raiffeisen Zentralbank Österreich AG

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

Martina Gerharter
Staff Council Chair

Gerhard Kaltenbeck
Staff Council Deputy Chair

State Commissioner
Thomas Wieser
Director General at the Federal Ministry of Finance

Deputy State Commissioner
Alfred Lejsek
Head of the Financial Markets Directorate
Federal Ministry of Finance

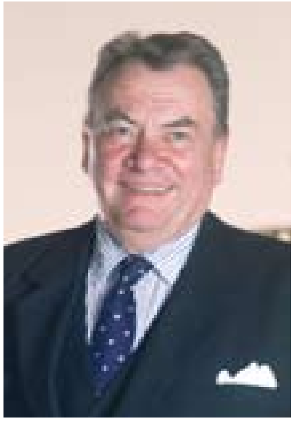
Personnel Changes
between April 27, 2006, and April 24, 2007

General Council members ***Georg Kovarik*** and ***Johann Zwettler*** resigned their seats on the General Council at the ordinary General Meeting of May 30, 2006. ***Alfred Hannes Heinzel,*** President and CEO of Heinzel Holding GmbH, and ***Max Kothbauer,*** Chairperson of the Board of the University of Vienna, were appointed to the General Council by the ordinary General Meeting.

On June 1, 2006, ***Thomas Reindl*** resigned from his position as Chairperson of the Central Staff Council; ***Martina Gerharter*** was voted Chairperson in his stead. With effect from October 2, 2006, ***Gerhard Kaltenbeck*** replaced ***Thomas Reindl*** as representative delegated to the General Council by the Staff Council.

In its meeting of February 14, 2007, the federal government appointed ***Ewald Nowotny,*** CEO and Chairman of the Managing Board of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG, to the General Council with effect from April 23, 2007. At the same meeting, the federal government reappointed ***Bernhard Felderer*** and ***Werner Muhm*** to the General Council with effect from April 23, 2007. The term of office of ***Herbert Kofler*** ended April 22, 2007.

President's Report



Euro area economic activity gained considerable speed and depth in 2006 and is on a solid growth path, sustained by improved consumer and business confidence. While interest rates have risen, they have remained relatively low by historical standards, thus enhancing the overall conditions for the Eurosystem central banks' activities despite a sharp decline in the U.S. dollar's value against the euro.

Under these more positive but still somewhat difficult circumstances, total net income generated by the Oesterreichische Nationalbank (OeNB) in 2006 was comparable with that of 2005 and close to the long-term average. However, allocations to the provisions for exchange rate risks were required to cover risks, so that the OeNB's operating profit in 2006 was nearly two-thirds lower than in 2005. In explaining this profit development, it must be emphasized that legal changes at the end of the 1990s have prevented the buildup of reserves to cover risks. These developments have been pointed out at several occasions in recent years. Therefore, looking ahead, framework conditions will have to be modified to ensure that reserves can be built up once again, as is the case at other Eurosystem central banks. After all, in order to ensure the credibility of the entire Eurosystem, central banks must have sufficient resources to perform their tasks.

On the basis of its core functions, the OeNB has defined medium-term corporate goals in priority areas of competence – stability policy, risk management, means of payment and the analysis of Central, Eastern and Southeastern European countries. The OeNB will continue its efforts of recent years to optimize resource allocation with the fundamental aim of lowering expenditure sustainably and of reducing staff.

In addition to its active participation in the European System of Central Banks in 2006, the OeNB accomplished important work in all business areas, notably implementing its investment strategy successfully, playing an active role in the smooth and timely launch of Basel II, and contributing to further progress with preparations for the Single Euro Payments Area. In external communications, the OeNB set great store above all by providing clear information about monetary policy and the security of payment means. The OeNB demonstrated special commitment and efficiency in ensuring financial stability in connection with the provision of liquidity to a large Austrian bank. Furthermore, the OeNB made further progress in restructuring its subsidiaries, taking advantage of synergies. The search for a strategic partner for Austria Card (a 100% OeNB subsidiary that produces smart card and identity systems) was initiated.

In line with international trends, the OeNB has placed particular emphasis on corporate governance issues, appointing, for instance, an accounting and internal control systems subcommittee of the General Council.

The consistently high degree of trust the OeNB enjoys as an institution proves that people acknowledge the OeNB's excellent achievements as a customer-oriented service provider. This provides a solid basis for the success of the OeNB's work within the Eurosystem.

President
Herbert Schimetschek

Governing Board

Governor's Report

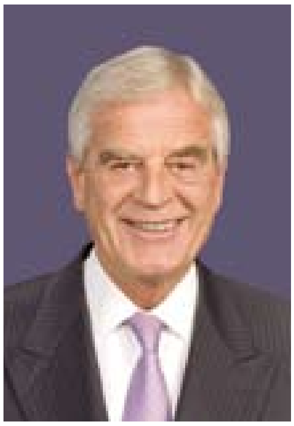
In 2006, the global economy grew by some 5%, driven by the powerful expansion of the Asian economies. The euro area economic upturn gained strength progressively, with economic growth substantially more dynamic at +2.7% in 2006 than in 2005.

This improved economic performance was affected by the sharp rise in oil prices above all in the first eight months of 2006; oil prices peaked at nearly USD 80 per barrel. High oil prices had a direct impact on inflation that did not begin to ease until the end of the year, after oil prices had subsided perceptibly. The annual average HICP inflation rate in the euro area was 2.2% in 2006. The risk of these inflationary developments for Eurosystem monetary policy – inflation rates were on the rise, coming to over 2% – was that they could result in persistently higher inflation expectations. Additionally, continued vigorous money and credit growth coupled with ample liquidity posed risks to price stability. Consequently, the Governing Council of the ECB raised key interest rates in the euro area by a total of 150 basis points in six steps from the beginning of 2006 until March 2007. Despite the interest rate increases, monetary policy has continued to be on the accommodative side. Hence, Eurosystem monetary policy has contributed to keeping medium- and long-term inflation expectations in line with price stability, thereby making the best possible contribution to sustainable economic growth and job creation in the long run.

Next to monetary stability through low inflation and well-functioning, crisis-resistant financial markets, sound public finances are crucial to the success of monetary union. After a period of unsatisfactory fiscal performance, euro area countries made consolidation progress in 2006, taking advantage of more favorable economic developments and higher tax revenues in their wake. Government deficits have contracted perceptibly. In the next few years, especially countries with remaining budgetary imbalances and/or high public debt levels will need to take further ambitious fiscal measures.

A dynamic structural policy – making economies more responsive to change and ensuring that the benefits of EMU materialize fully – should make it easier for this process to succeed. The Lisbon strategy of the EU, which sets targets to be reached by 2010, has determined the right reform focus. The implementation of the reform measures is progressively taking shape, partly because of countries' obligations under the three-year National Reform Programs. The relaunch of the Lisbon strategy has succeeded in assigning clear priorities – strengthening competitiveness, promoting innovation and R&D, cutting red tape and advancing deregulation.

Austria's economy advanced by 3.2% in 2006, a performance the likes of which had last been recorded during the boom year 2000. Austria thus retained its growth edge not just on its largest trade partners, Germany and Italy, but also on the EU and the euro area. The unemployment rate (Eurostat definition) dropped below the 5% mark. At the same time, inflation remained low at 1.7%. Robust economic activity helped reduce the general government budget deficit to 1.1% of GDP



in 2006. The program of the new Austrian government appointed in January 2007 envisages reaching a general government surplus of about 0.4% of GDP by 2010.

The Austrian banking sector continued to develop dynamically in 2006. Growth was mainly driven by external business, with Austrian banks' subsidiaries in Central, Eastern and Southeastern Europe once again contributing significantly to banking sector profitability. In 2006, two Austrian banks made headlines for a while. However, the related tensions were overcome rapidly and smoothly, not least thanks to the key role the OeNB played. Thus, the Austrian financial system's excellent reputation for stability was preserved.

January 1, 2007, marked two important milestones in the process of European integration: Slovenia became the 13th member of the euro area, which made the euro the single currency of 317 million Europeans, and Bulgaria and Romania became the 26th and 27th members of the European Union. The OeNB provides its expertise to support European integration and international cooperation through many avenues.

At the end of 2006, euro cash had been circulating in Austria for five years. Austrians have embraced the euro and have become quite familiar with its economic and practical advantages: For example, the single currency makes traveling easier, it facilitates price comparisons, and it boosts economic efficiency in Europe. The OeNB's diverse and continuous communications activities have helped raise public awareness of these benefits. In the field of cashless payments, 2006 was marked by major harmonization work on the establishment of the Single Euro Payments Area.

In the past few years, in an environment of changed responsibilities, the OeNB has evolved into a modern, dynamic and knowledge-based service provider, a lean organization with efficient cost management. We will continue to advance on this course over the next years.

Governor
Klaus Liebscher

Governing Board

Peter Zöllner, Klaus Liebscher, Wolfgang Duchatczek and Josef Christl (from left to right)

The Governing Board of the OeNB comprised the following members on December 31, 2006.

Klaus Liebscher
Governor

Wolfgang Duchatczek
Vice Governor

Peter Zöllner
Member of the Governing Board

Josef Christl
Member of the Governing Board

See *www.oenb.at* for additional information about the Governing Board of the OeNB.

The Year 2006 at a Glance

Economic and Financial Developments

Robust Global Growth at Over 5% in 2006

At 5.4%, real-term world economic growth was even more dynamic than in 2005. The main drivers were the low level of long-term interest rates and continued powerful growth in Asia, particularly in China. The United States and the Central, Eastern and Southeastern European countries also saw remarkably vibrant growth. Until August 2006, oil prices surged, triggering inflationary pressures, but began to slow down markedly from September, stimulating economic growth and dampening inflation.

Euro Area: Increased Growth, Inflation at 2.2%, Tighter Monetary Policy

In the course of 2006, real GDP growth gained momentum, reaching 2.7% for the whole year (2005: +1.4%). The driving force was euro area demand. As a result of the surge in crude oil prices, inflation remained perceptibly above 2% during the first eight months of 2006. Not until toward the end of the year did price pressures ease slightly. Annual inflation came to 2.2% in 2006. Euro area unemployment (Eurostat definition) dropped to 7.9%, the lowest level since 2001. Greater inflationary pressures, a strong economic upswing and a pronounced monetary expansion called for monetary policy tightening: In the course of the year, the Governing Council of the ECB increased key interest rates in five successive steps by a total of 125 basis points to 3.50%. In view of the risks to price stability, key interest rates were raised by another 25 basis points at the beginning of March 2007.

Austria: Economic Growth Over 3%, Unemployment Rate Under 5%, Inflation Still Below 2%

In 2006, the Austrian economy benefited from robust international economic activity. At 3.2%, Austrian real GDP growth considerably outpaced the 2005 rate and almost reached the levels of the boom year 2000 (+3.4%). Moreover, Austria posted more vigorous economic growth than its biggest trading partners, Germany and Italy, and had a growth edge of half a percentage point on the euro area. Conditions on the labor market improved significantly, with the unemployment rate falling from 5.2% in 2005 to 4.8% in 2006 according to Eurostat. With an HICP inflation rate of 1.7%, Austria ranges among the euro area countries with the lowest inflation rates. Unexpectedly high tax revenues were instrumental in reducing the general government deficit to 1.1% of GDP in 2006, a level below the euro area average of 1.6%.

Ongoing Positive Developments in the Austrian Banking Sector

Austrian banks' unconsolidated total assets augmented by 9.9% to almost EUR 800 billion in 2006, mainly on the back of banks' external business. Austrian banks' subsidiaries in Central, Eastern and Southeastern Europe have come to account for a substantial part of the Austrian banking sector's income. Unconsolidated operating profit advanced by 3.1% to EUR 5.8 billion in 2006. While operating income increased less than operating expenses, resulting in a marginally higher cost-to-income ratio; nevertheless, this ratio performed very well by historical standards.

Chart 1

Real GDP

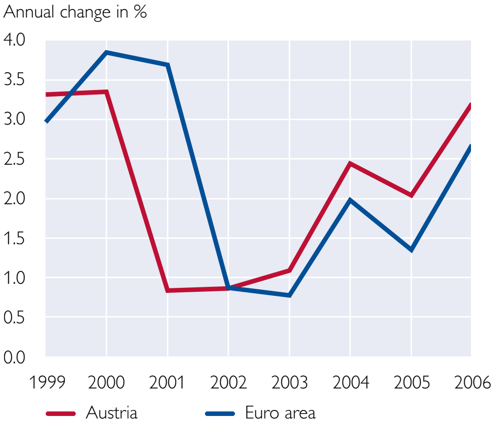
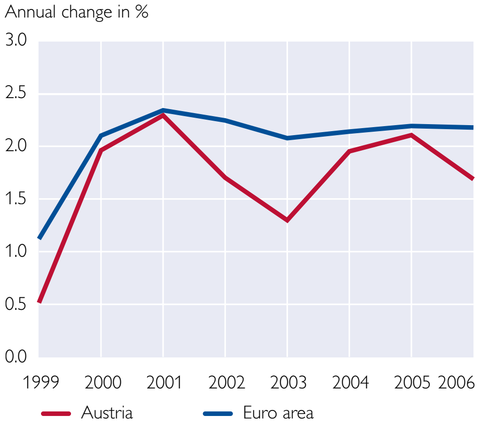


Chart 2

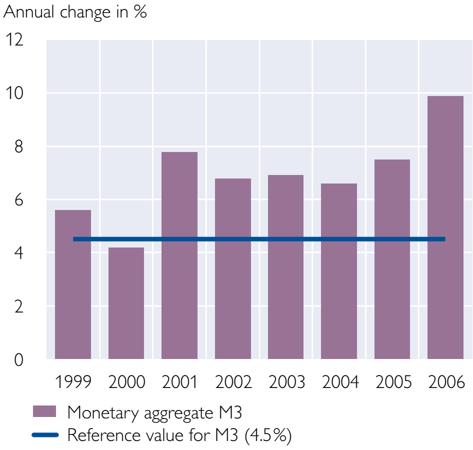
HICP Inflation



Source: Statistics Austria, Eurostat.

Chart 3

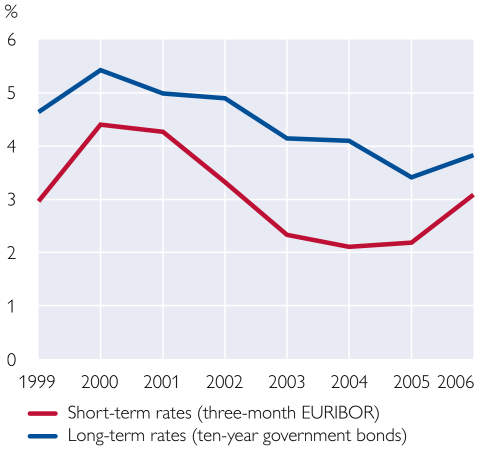
Monetary Aggregate M3 in the Euro Area



Source: ECB.

Chart 4

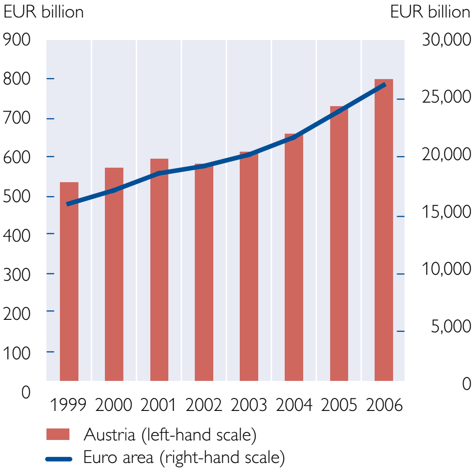
Euro Area Interest Rates



Source: Thomson Financial.

Chart 5

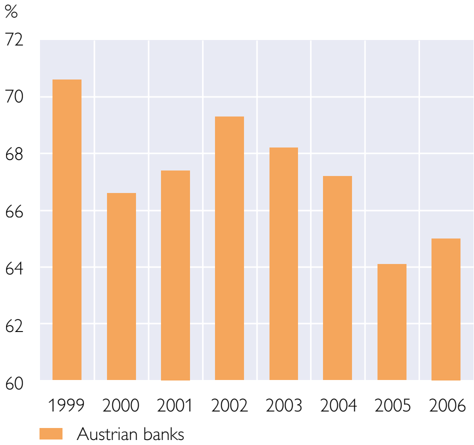
Banks' Total Assets



Source: OeNB, ECB.

Chart 6

Banks' Cost-to-Income Ratio



Source: OeNB.

The Year 2006 for the OeNB

Decrease in Operating Profit

The OeNB's financial statements for 2006 report an operating profit of EUR 193 million, down by EUR 295 million on 2005 as a result of allocations to risk provisions. The central government's share of profit came to EUR 178 million (2005: EUR 451 million), composed of EUR 48 million of corporate income tax and a 90% profit share of EUR 130 million after taxes. The OeNB's profit for the year 2006 of EUR 14 million will be appropriated according to the General Meeting's decision.

Decline in Net Income to EUR 437 Million

Net income came to EUR 437 million (2005: EUR 731 million) as a result of allocations to risk provisions in the amount of EUR 235 million. Net interest income amounted to EUR 568 million (2005: EUR 451 million), the net result of financial operations, writedowns and risk provisions came to –EUR 175 million (2005: EUR 182 million) and income from equity and participating interests amounted to EUR 25 million (2005: EUR 68 million). Total expenses in 2006 were practically unchanged at EUR 244 million (2005: EUR 243 million). EUR 115 million (2005: EUR 105 million) of this amount were attributable to staff cost, including, among others, transfers for salary adjustments and allocations to staff-related provisions. Administrative expenses ran to EUR 77 million (2005: EUR 85 million), the cost of banknote production services to EUR 25 million (2005: EUR 16 million).

Gain in Net Currency Position to EUR 12.9 Billion

The OeNB's total net currency position came to EUR 12.9 billion on December 31, 2006; gold holdings accounted for EUR 4.5 billion of this amount, foreign currency holdings for EUR 8.4 billion. The increase by EUR 0.7 billion against December 31, 2005, is mainly attributable to valuation gains, particularly on gold holdings.

Renewed Rise in Number of Large-Value Payment Transactions[1]

The OeNB operates one of the 16 real-time gross settlement (RTGS) systems in Europe. These RTGS systems and the ECB payment mechanism together form the Trans-European Automated Real-time Gross settlement Express Transfer system TARGET. Since the launch of the Austrian RTGS system ARTIS in 1999, the number of payment orders processed has steadily increased from 1.4 million to approximately 4.4 million in 2006. Incoming and outgoing TARGET payments (chart 10) are cross-border payments within the EU, whereas domestic RTGS payments are effected exclusively in the Austrian financial market.

Increase in Cash Processing Volume to 1.2 Billion Euro Banknotes and 1.7 Billion Euro Coins in 2006

Since the euro cash changeover in 2002, the number of banknotes processed has risen by an average of 13% annually. In 2006, 1.2 billion banknotes and 1.7 billion coins were processed and checked for their circulation fitness and authenticity. Against 2005, the number of counterfeit banknotes recovered from circulation in Austria dropped by around 17% to below 6,000, i.e. to 1% of all counterfeits recovered in the euro area (around 560,000).

[1] *See the glossary and/or abbreviations sections for explanations of terms used.*

Chart 7

The OeNB's Operating Profit

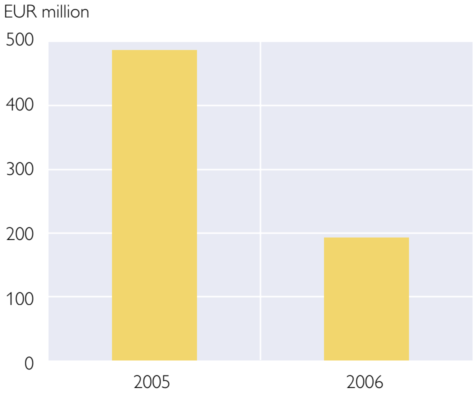
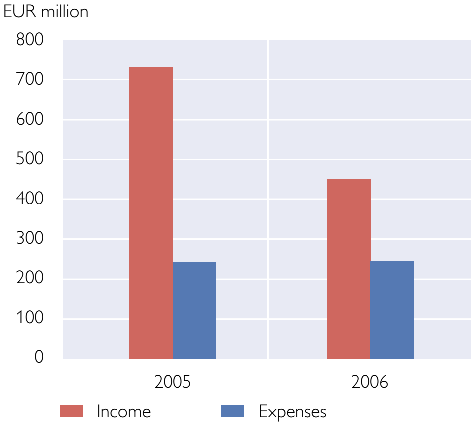


Chart 8

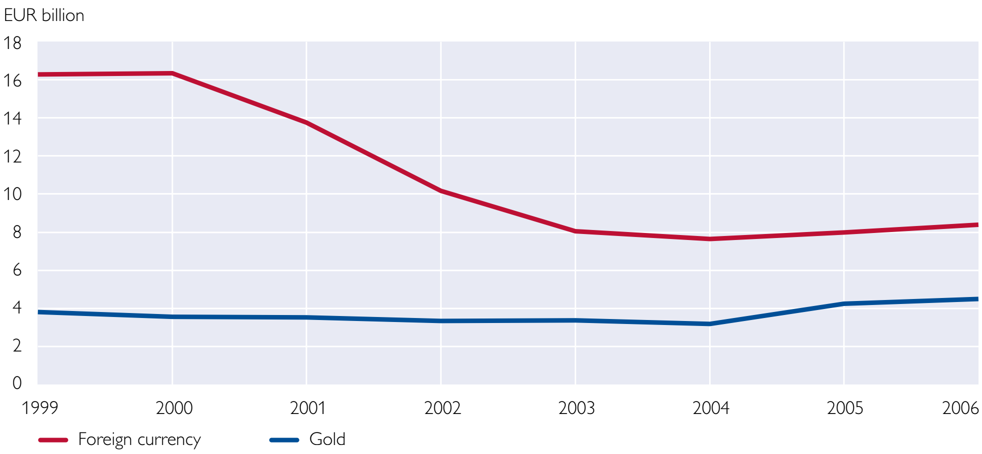
The OeNB's Income/Expenses



Source: OeNB.

Chart 9

The OeNB's Net Currency Position



Source: OeNB.

Chart 10

Number of ARTIS Transactions

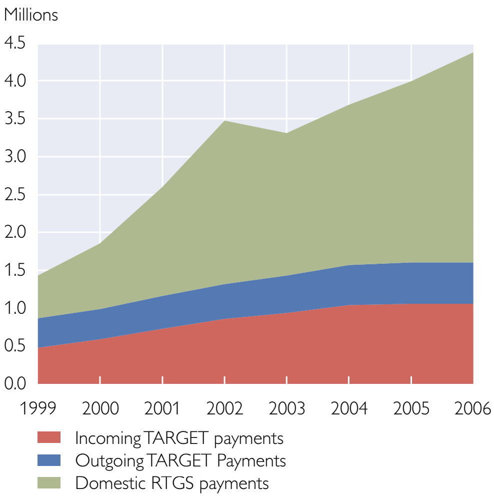
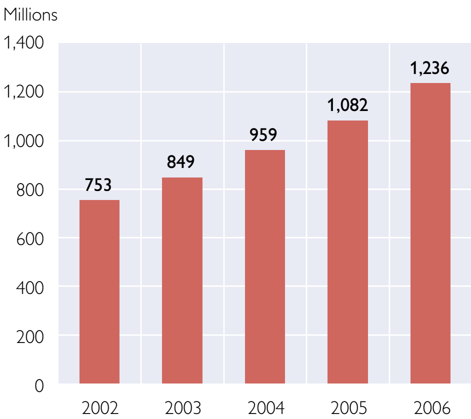


Chart 11

OeNB: Number of Processed Euro Banknotes



Source: OeNB.

Report of the Governing Board on the Financial Year 2006

Five Years after the Euro Cash Changeover – Austrians Are Doing Well with the Euro

The Euro – A Secure and Stable Currency

Austria and 11 other countries adopted the euro as legal tender on January 1, 2002. Following the introduction of the euro in Slovenia on January 1, 2007, some 317 million Europeans in 13 EU Member States now have the euro as their currency. The Oesterreichische Nationalbank (OeNB) has taken the euro's 5th anniversary as an opportunity to examine the euro experience from various angles of interest to the public.[1]

At the beginning of 2002, 12 EU countries put into circulation banknotes and coins with a total value of some EUR 220 billion. By the end of December 2006, the value of euro cash in circulation had nearly tripled to roughly EUR 646 billion (11 billion banknotes and 70 billion coins) and had thus in fact risen above the comparable U.S. dollar value. In the public mind, the euro has established itself as a stable global currency. In 2006, 73% of the euro area population (Austria: 79%) were convinced that the euro had an international stature similar to that of the U.S. dollar or the Japanese yen.

The European Commission's regular Eurobarometer survey indicates that euro cash was widely accepted from the outset. In 2006, as many as 94% of euro area respondents considered themselves adept at handling the new banknotes (74% found it very easy or easy to handle euro coins). 93% of all Austrians no longer had any problems handling euro banknotes (68% had no problems with euro coins).

A single currency for 317 million Europeans

People in the euro area value the euro as a secure, stable and efficient means of payment, a fact to which the efforts of the Eurosystem national central banks to ensure the high quality of cash in circulation and to protect the population from counterfeits have contributed significantly. On average, just under 50,000 counterfeits a month were withdrawn from circulation in the euro area as a whole from 2004 to 2006. However, the volume of counterfeits is clearly on the decline compared to the volume of cash in circulation. The total of counterfeit notes withdrawn from circulation in Austria more than halved from roughly 13,000 in 2004 to less than 6,000 in 2006.

The euro has boosted the euro area's economic potential. The credible, stability-oriented monetary policy strategy of the Eurosystem and the primary objective of maintaining price stability as laid down in the Treaty establishing the European Community create stable framework conditions for economic agents. These stable framework conditions foster investment, economic growth and employment. Euro area real GDP grew by an average of 2.0% a year from 1999 to 2006, whereas the unemployment rate according to the Eurostat definition fell from 9.2% in 1999 to 7.9% in 2006. For 2007, all signs point to robust economic growth and a further decline in the jobless rate. Underpinned by a stable

94% find it easy to use euro banknotes

[1] *See also issue Q1/07 of the OeNB's publication Monetary Policy & the Economy, in which eight analyses deal in depth with the topic of Austria's experience with the euro five years after the cash changeover. The analyses are also available on the OeNB's website.*

macroeconomic environment, structural reforms under the Lisbon strategy have begun to have a positive impact.

For the Eurosystem, price stability means that the annual rise in consumer prices (HICP) should be below, but close to, 2% over the medium term. The Eurosystem, its monetary policy strategy and the total of some 20 key rate adjustments made since the establishment of Economic and Monetary Union (EMU) in 1999 have contributed substantially to attaining this goal, ensuring that prices have remained stable. Moreover, this monetary policy stance has contained inflationary expectations and has provided for low real interest rates. Between 1999 and 2006, euro area inflation averaged 2.1% a year. Despite the surge in oil prices and other unfavorable shocks, inflation has been comparatively low at an average of 2.2% a year since the cash changeover.

Since the introduction of the euro, inflation has come to around 2% a year in the euro area …

Austria: Low Inflation Coupled with Robust Growth

Austria's economic performance has benefited from the euro. Real GDP expanded by an average of 2.1% a year from 1999 to 2006, with Austrian economic growth consistently above the euro area average since 2003. Along with Finland and Germany, Austria figures among the three euro area countries with the lowest inflation rates. Average inflation as measured by the HICP came to 1.7% a year from 1999 to 2006. In the five years since the introduction of euro cash, headline inflation remained low at an average of 1.7% despite the surge in energy prices. Austrian respondents' assessment of the euro confirms these data: According to the OeNB Barometer survey of the fourth quarter of 2006, 94% of all Austrians consider low inflation very important. Three-quarters of respondents classify the euro as a stable currency. Roughly 70% expect the euro to remain stable over the next five years. The Eurosystem and the OeNB are aware of their responsibility and honor the trust placed in them by pursuing a forward-looking monetary policy. The survey results also show that Austrians attribute the Eurosystem and the OeNB high competence in securing the stability of the euro.

… and to 1.7% a year in Austria

Perceived Inflation Declines as People Become Increasingly Familiar with the Euro

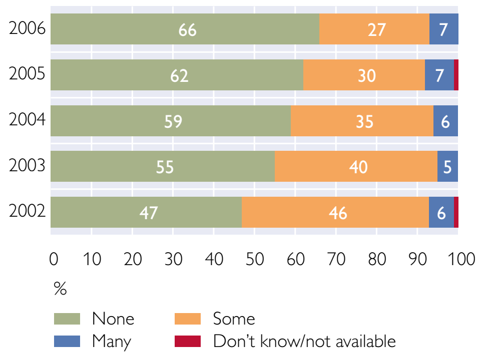
Upon the introduction of euro banknotes and coins, Austrians were influenced by psychological factors and by the high visibility of above-average price increases in some categories of items they buy on a day-to-day basis; consequently, they subjectively perceived rises in inflation, but hardly registered the sharp decline in the price of other items in the basket of consumer goods. Researchers are well aware of the phenomenon of the biased subjective perception of price increases. People's deep-seated expectation that the euro would make prices rise, the slow pace of familiarization with euro pricing and the inclination to keep thinking in schilling terms, especially for exceptional purchases, reinforced the subjective impression of euro-induced inflation. However, the discrepancy between perceived and measured inflation, which was especially prevalent during the first years following the changeover, had become perceptibly smaller by the end of 2006. Moreover, Austrians have developed a feel for the new currency and have become accustomed to using the euro as a unit of value. These developments give rise to the hope that people have largely overcome their impression of a "euro price shock" and that HICP inflation and perceived inflation will converge again.

The Majority of Austrians Is Convinced of the Advantages of the Euro

European Commission and OeNB studies indicate that Austrians are well aware of the opportunities created by the single European currency: In 2006, 62% of all Austrians were convinced of the benefits of the euro and euro cash. Benefits include: lasting price stability in a large currency area; facilitation of business transactions by eliminating transaction costs for currency conversion, cross-border transfers and cash withdrawals in other euro area countries; more transparent prices; easier travel. The initial difficulties people encountered in day-to-day use of the euro – when paying for purchases and trying to tell the various denominations apart – declined sharply during the five years from 2002 to 2006 (chart 12). Austrians have become accustomed to using the euro as a unit of value for daily purchases. 56% of all Austrians found it easy to judge euro prices or to gauge the value of euro amounts, and only 12% still had major difficulties using the euro value scale in 2006 (chart 13). Through a broad range of information activities, the OeNB and its partner institutions were able to contribute substantially to making people familiar with the euro.

Chart 12

Austrians' Problems in Handling the Euro



Source: Flash Eurobarometer.

People have become accustomed to calculating in euro

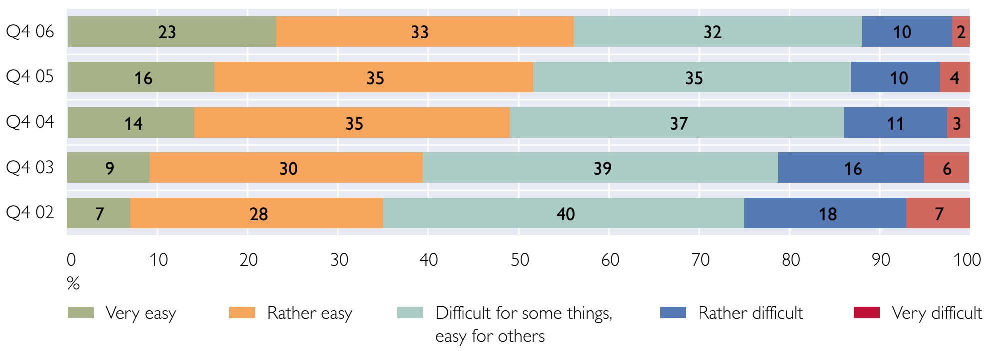
Austrians Prefer to Pay Cash

9 out of 10 Austrians prefer cash to cards

Cash payments account for some 86% of all payment transactions in Austria. However, the share of cash payments has been on the decline in

Chart 13

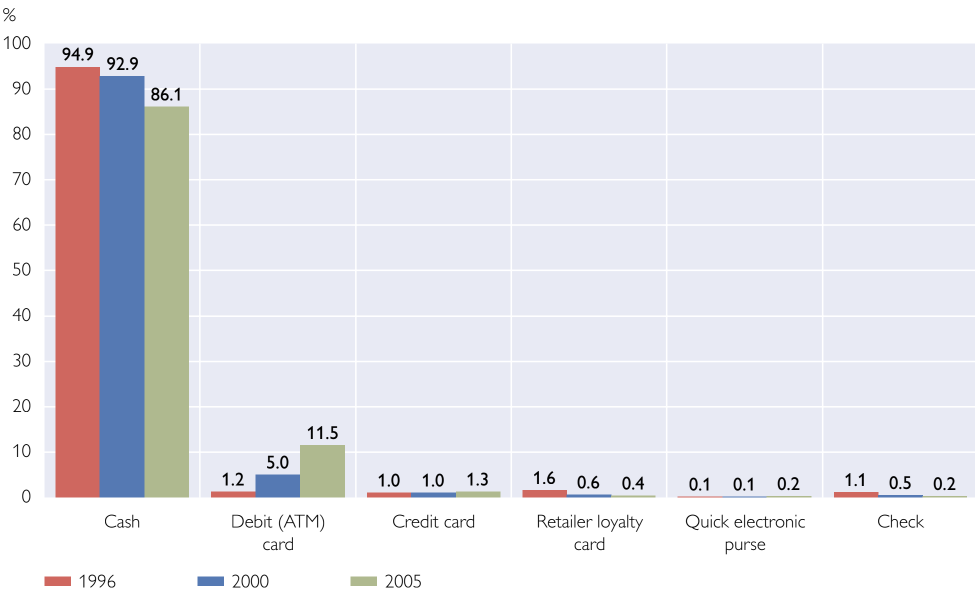
The Euro as a Benchmark for Price Calculation:
How Easy Is It for Austrians to Calculate in Euro?



Source: OeNB Barometer survey.

Chart 14

Breakdown of Transactions by Type of Payment



Source: OeNB.

recent years (chart 14). During the same period, the share of debit card (ATM) payments expanded to about 11.5%. Although credit card payments posted a slight increase, their share in the total volume remained very low (1.3%). Overall, the shift away from cash to cashless payment methods has continued. The bulk of small-value payments are made in cash. The larger the payment amount is, the smaller the cash payment share is: 95% of all payments below EUR 5 are cash payments, compared with roughly 54% of all payments in excess of EUR 100.

Household payment behavior does not change abruptly, however, which is why it is important to supply the general public and the business community in Austria with sufficient cash. Jointly with its subsidiaries, the OeNB uses an efficient logistics network to handle this task successfully. A banknote is returned to the OeNB an average of three to four times a year; it is counted and checked with high-performance banknote processing machines and, if necessary, shredded. Since the introduction of euro cash in 2002, the number of banknotes processed has risen by an average of 13% a year. In 2006, 1.2 billion banknotes and 1.7 billion coins were processed and examined to establish whether they were fit for reissue.

To secure trust in the currency, the authorities will continue to invest in the integrity of euro cash. Preparations for the next generation of euro banknotes are already well under way.

Monetary Policy Secures Price Stability amid Economic Upswing

Economic Upturn in Europe

Robust Global Growth

At 5.4%, real-term world economic growth (IMF figures) was somewhat more dynamic in 2006 than in 2005. The low level of long-term interest rates and continued powerful growth in Asia, particularly in China, were the main growth drivers. The United States and the Central, Eastern and Southeastern European (CESEE) countries also saw remarkably dynamic growth. Oil prices surged until August 2006, triggering inflationary pressures, but began to decrease markedly from September, thus stimulating economic growth and dampening inflation.

In 2006, real GDP in the United States increased by 3.3% against 2005. Growth was especially dynamic in the first quarter and slowed down again slightly in the second quarter as a result of declining investment, particularly in the building sector. A sharp increase in net exports in the fourth quarter buffered the impact of declining investment spending. Household consumption expenditure developed robustly throughout the year. In 2006, the emerging economies of Asia, notably China and India, continued to gain importance for the development of the global economy: With real-term economic growth reaching 10.7% in China and 9.2% in India according to the IMF, both countries have a significant growth advantage over highly industrialized nations. Throughout the region, growth was underpinned by strong international demand for export goods and by dynamic investment. Forecasts expect the economic upswing of the region to continue over the next few years, which will lead to a more even balance of global economic power.

World economic growth will slow down somewhat in 2007 and 2008 mainly because growth is expected to be weaker in the United States, where private consumption is anticipated to decline as diminishing building investment and stabilizing housing prices signal the end of the real estate boom.

Euro Area Grows Robustly at 2.7%

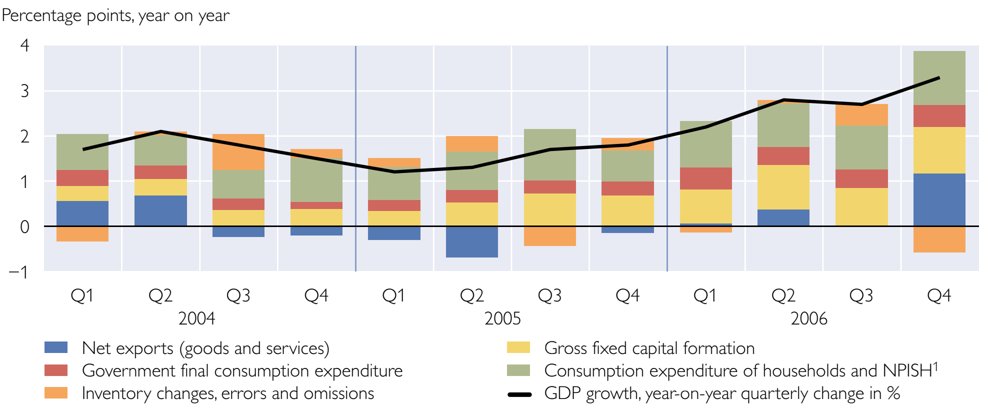
The economic upturn in the euro area has taken hold in 2006. Real GDP growth gained momentum throughout the year, reaching 3.3% in the fourth quarter of 2006, the highest quarterly growth rate since the boom year 2000. For the reporting year as a whole, economic growth stood at 2.7% and thus markedly above the 2005 value of 1.4%.

Euro area growth is driven by domestic demand …

Growth was driven by strong domestic demand, with household consumption expenditure developing very dynamically on the back of improved labor market conditions and high consumer confidence. The euro area unemployment rate (Eurostat definition) came to 7.9% in 2006, the lowest level since 2001. Developments in the business sector were also exceptionally dynamic: Industrial confidence climbed to historical highs owing to favorable financing conditions, balance sheet restructuring, rising capacity utilization and a solid development of industrial production. High profit margins and moderate wage developments promoted investment spending. After increasing sharply in the first quarter of 2006, euro area exports stabilized at a high level to gain momentum again in the fourth quarter. As imports developed

Chart 15

Contributions to Growth of the Components of Euro Area Real GDP

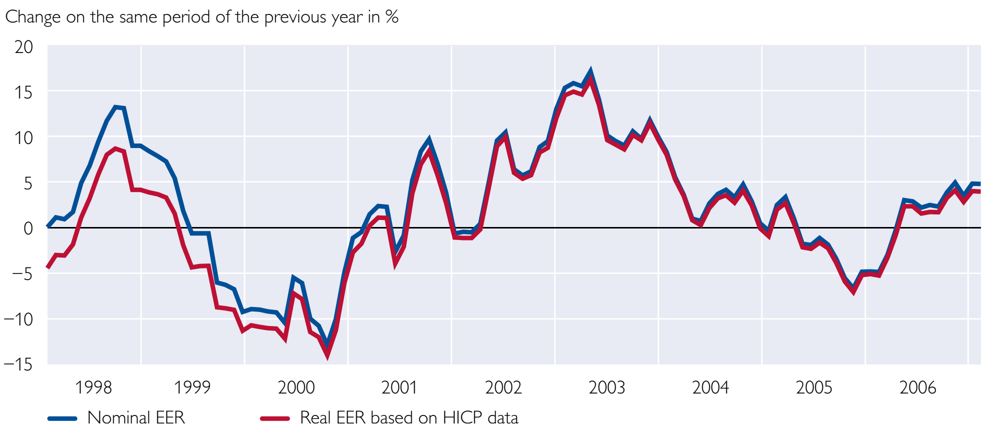


Source: Eurostat.

[1] *Nonprofit institutions serving households.*

Chart 16

Effective Exchange Rate of the Euro



Source: ECB.

dynamically, the external sector's contribution to GDP growth was significant only in the last quarter of 2006, however.

… and remains robust in 2007

According to the ECB staff macroeconomic projections of March 2007, economic growth in the euro area will remain robust, ranging between 2.1% and 2.9% in 2007 and between 1.9% and 2.9% in 2008. Uncertainties surrounding these projections include the development of crude oil prices, the risk of stronger protectionist trends, and a sudden correction of existing global current account imbalances, which might cause a sharp appreciation of the euro against the U.S. dollar. In 2006, the euro strengthened against the U.S. dollar (from 1.1797 USD/EUR to 1.3170 USD/EUR) and also against the Japanese yen (from 138.90 JPY/EUR to approximately 156.93 JPY/EUR). Yet on average, both nominal and real effective exchange rates showed only a slight upward trend in 2006.

Interest Rates Hiked Five Times by 25 Basis Points Each in 2006

In 2006, the Governing Council of the ECB raised the minimum bid rate on the main refinancing operations in the euro area in five steps from 2.25% in January to 3.50% in December. This gradual withdrawal of the monetary accommodation that had prevailed until 2005 was a response to increasing upward risks to price stability as identified in the results of both economic analysis and monetary analysis in the context of the ECB's monetary policy strategy. Regarding medium-term monetary policy, the risk perceived was that higher inflation expectations could persist and that potentially higher wage claims could have a negative impact on future price developments.

In 2006, HICP inflation rates were volatile and characterized by two divergent developments: While in the first half of the year, HICP inflation stood above 2% – peaking at 2.5% in summer 2006 – mainly as a consequence of high oil prices, but also because of increasing administered prices and indirect taxes, it decelerated again markedly in September 2006 and remained below 2% for the rest of the year. In 2006, the inflation rate averaged 2.2%, just as in 2005. Especially in the first half of the year, high inflation was a concern for the Governing Council of the ECB.

High and surging crude oil prices were the main reason for inflation to come to above 2% in the first half of 2006. The price of Brent crude was around USD 60 per barrel in early 2006 and climbed to almost USD 80 per barrel until early August, which corresponds to a year-on-year increase of slightly more than 30% for the first half of 2006. The HICP inflation rate rose markedly as a result, with energy prices accounting for about 1 percentage point of inflation. From September 2006, oil prices dropped again sharply to below USD 60 per barrel, which quickly dampened inflation: That same month, HICP inflation decelerated to 1.7% in the euro area, with the contribution of energy prices shrinking to 0.1 percentage point.

High oil prices push inflation above 2% in the first half of 2006

Contrary to commodity prices, wage costs – which constitute another important inflation indicator – developed very moderately throughout the reporting year, which can also be attributed to strong global competition, above all in industry.

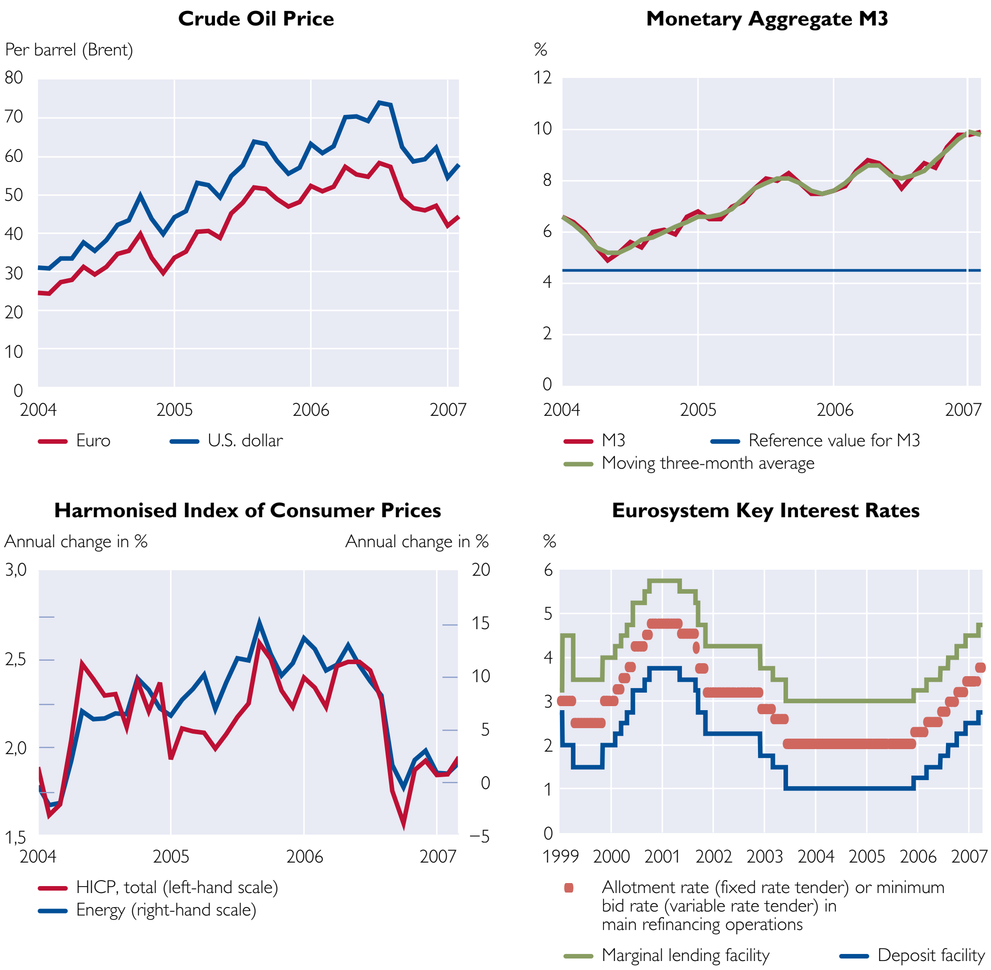
The risks to price stability derived from economic analysis (the first pillar of the monetary policy strategy) were confirmed by the results of monetary analysis (the second pillar). Monetary aggregates as well as lending grew robustly mainly as a result of the low level of interest rates and of vigorous economic growth. The upward trend in monetary aggregates started in mid-2004 and continued in 2006. Already ample liquidity expanded further owing to the dynamic growth of the monetary aggregate M3, which poses a risk for medium- and long-term price stability.

High monetary growth in the euro area

According to ECB staff macroeconomic projections of March 2007, HICP inflation is likely to increase by between 1.5% and 2.1% in 2007, and by between 1.4% and 2.6% in 2008. This forecast is based on the assumption that oil prices remain relatively stable and wages increase slightly over the next two years. Risks to the inflation outlook, which are primarily seen on the upside, include another surge in oil prices, higher than projected increases and/or additional

Chart 17

Development of Monetary Indicators in the Euro Area



Source: ECB, Thomson Financial, OeNB.

increases in administered prices and indirect taxes. They also refer to uncertainties in connection with the forecast wage developments: Given that labor market conditions have improved thanks to dynamic economic activity, wage claims might rise, which would in turn negatively impact on inflation. Monetary and credit growth also picked up again markedly at the beginning of 2007. In view of all this, the Governing Council of the ECB raised the key interest rates by another 0.25 percentage point on March 8, 2007.

As of March 2007, the minimum bid rate on the main refinancing operations was at 3.75%, the interest rate on the marginal lending facility came to 4.75% and the rate on the deposit facility stood at 2.75%.

Dynamic Growth Continues in the New EU Member States

Vibrant growth in the new EU Member States

Economic growth in the new Member States which joined the EU in 2004 was very vigorous in 2006. With average growth rates of 6.2%, these economies expanded much stronger than the euro area. As a consequence of this positive growth differential, real convergence with euro area income levels continued in

2006. The Baltic states Estonia and Latvia posted particularly high growth rates of around 10% on average in 2006 (see table 1), which makes them two of the fastest-growing economies of the world. GDP growth in the Czech Republic and Slovakia was also above average. Only Hungary's economy expanded at a considerably slower pace than that of the other countries, as consolidation measures aimed at reducing the high budget deficit (just under 10% of GDP in 2006) sharply dampened private consumption and investment.

As in the euro area, growth in Eastern European countries was mainly sustained by domestic demand. Both private consumption and investment were supported by strong loan growth. Moreover, consumer spending was boosted by a perceptible increase in employment and a decline in unemployment. Investment benefited from high levels of macroeconomic demand, favorable financing conditions and a satisfactory profit performance.

There is no indication of a decline in consumption and investment in 2007, and exports should continue to develop favorably, given the overall good competitiveness of the Eastern European countries. The general outlook for 2007 is positive, and the average growth performance of the region is expected to be similar to that in 2006. Yet, some risks emanate from partly very high current account deficits and accelerating loan growth in certain countries. Both factors could undermine macroeconomic stability.

Price pressures in the new EU Member States stronger than in 2005

Especially in the first half of 2006, elevated energy prices led to an increase in inflation in the new EU Member States, with price pressures easing slightly toward the end of the year. In 2006, inflation ranged from 1.3 % in Poland to 6.6% in Latvia. In 2006, inflation was, by and large, somewhat higher than in 2005: Even adjusted for the effects of the high energy prices and other particularly volatile components, e.g. prices for unprocessed foods, inflation rates

Table 1

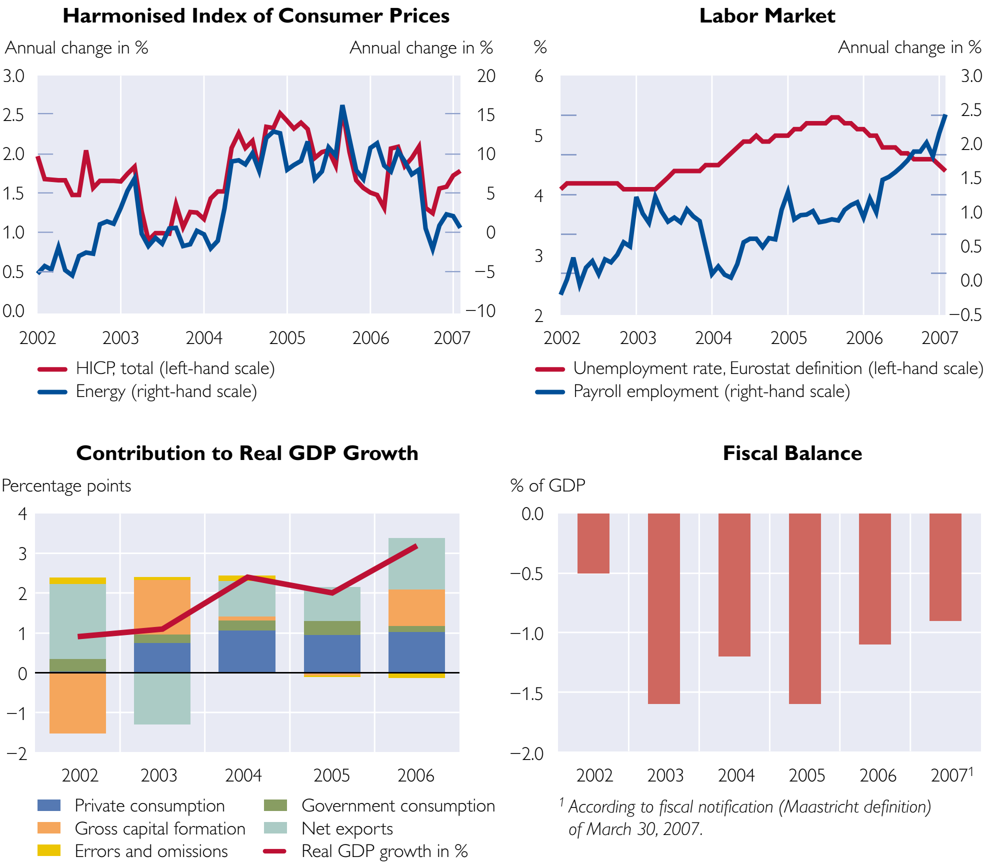
Selected Economic Indicators for the New EU Member States

	Real economic growth		Unemployment rate (Eurostat definition)		Inflation rate (HICP)	
	2005	2006	2005	2006	2005	2006
	Annual changes in %		%		% per annum	
Poland	3.5	5.8	17.7	13.8	2.2	1.3
Slovakia	6.0	8.3	16.3	13.4	2.8	4.3
Slovenia	4.0	5.2	6.5	6.0	2.5	2.5
Czech Republic	6.1	6.0	7.9	7.1	1.6	2.1
Hungary	4.2	3.9	7.2	7.5	3.5	4.0
Estonia	10.5	11.4	7.9	5.9	4.1	4.4
Latvia	10.6	11.9	8.9	6.8	6.9	6.6
Lithuania	7.6	7.5	8.3	5.6	2.7	3.8
Malta	3.0	2.9	7.3	7.3	2.5	2.6
Cyprus	3.9	3.8	5.2	4.7	2.0	2.2
Bulgaria	6.2	6.1	10.1	9.0	6.0	7.4
Romania	4.1	7.6	7.2	7.3	9.1	6.6

Source: Eurostat.

Chart 18

Development of Selected Economic Indicators in Austria



[1] *According to fiscal notification (Maastricht definition) of March 30, 2007.*

Source: Statistics Austria, Eurostat.

still increased in 2006. This is mainly attributable to high GDP growth rates, a tightening of the labor markets and stronger wage increases.

Austria's Economy Posts Strongest Growth Since 2000

At 3.2%, Austria Grows Faster than the Euro Area in 2006

Austrian economy grows more than euro area and EU economies

In 2006, the Austrian economy benefited from robust international economic activity. At 3.2%, real GDP growth considerably outpaced the 2005 rate and almost reached the levels of the boom year 2000 (3.4%). Following a growth rate of 0.7% and 0.9% in the first and second quarters, respectively (seasonally and working-day adjusted, quarter on quarter), the Austrian economy even gained some momentum in the third (1.0%) and fourth (0.8%) quarters of 2006. Austria therefore posted more animated economic growth than its biggest trading partners, Germany and Italy, and its growth was also above the EU and euro area averages.

In 2006, growth in Austria was mainly sustained by exports of goods and services. Austrian exports for the first time exceeded EUR 100 billion, which was ascribable to the favorable development of unit labor costs and the continuing deepening of the country's economic ties with CESEE. For the first time since 2003, gross fixed capital formation contributed perceptibly to GDP growth. Private consumption remained rather weak despite good economic conditions and declining unemployment.

Current forecasts expect the Austrian economy to post continued robust growth. According to Austrian and international institutions, real GDP growth rates will reach around 3% in 2007 and about 2.5% in 2008.

HICP Inflation Rate Comes to 1.7% in 2006

International developments, and above all commodity prices, have a significant impact on both price developments and economic growth in Austria. At 1.7%, the HICP inflation rate for the full year 2006 was below 2% for the first time since 2003. Until March 2006 prices fell, particularly for package holidays and electronics equipment. From April 2006, higher fuel prices, increased household energy costs and operating costs fueled inflation again, though. Between August and October 2006, HICP inflation dropped again from 2.1% to 1.3% which can mainly be attributed to the development of fuel prices that fell in the course of 2006, after having peaked in September 2005. In the EU-27, Austria and the Netherlands posted the fourth-lowest inflation rate at 1.7%, behind Poland, Finland and Sweden. The forecasts of spring 2007 expect the 2007 and 2008 inflation rates in Austria to remain below 2%.

Economic growth to stay strong in Austria in 2007 and 2008

Box 1

Globalization, Inflation and Monetary Policy

Over the past ten years, Austria's integration into the world economy has taken a quantum leap forward. According to an OeNB study,[1] the increasing and meanwhile substantial share of imports from the new EU Member States has slightly dampened Austrian import prices. In addition, globalization seems to have exerted downward pressure on the producer prices of Austrian medium-sized and large enterprises. By and large, the price effects of globalization have been relatively negligible in Austria, as most of the country's biggest trading partners and direct investors are still other European high-wage countries. Nevertheless, globalization seems to have indirectly dampened prices in Austria. Particularly Austria's EU accession has promoted liberalization and deregulation (e.g. of the network industries). The substantial wage moderation of the past few years is also likely to have been motivated by successful negotiations between the social partners in the light of business location and competition considerations.

Another OeNB study[2] analyzes whether or not globalization has influenced euro area inflation and comes to the conclusion that the domestic output gap seems to have lost its impact on euro area inflation. There is no proof, however, that euro area inflation has been significantly influenced by the global output gap instead. Monetary policy is increasingly focusing on inflationary expectations owing to (1) the weaker transmission of monetary policy impulses given higher global synchronization of long-term interest rates, (2) increased uncertainty involved in setting monetary policy due to globalization, and (3) the flattening of the Phillips curve in the euro area. Moreover, central banks should not rely on the potential inflation-reducing effects of globalization, as they may turn out to be of an impermanent nature: Supply shortages of energy and commodities, changes in saving and investment patterns in emerging economies or protectionism might put an end to the inflation-dampening effect of globalization.

[1] *Glatzer, E., E. Gnan and M. T. Valderrama. 2006. Globalization, Import Prices and Producer Prices in Austria. In: Monetary Policy & the Economy Q3/06. OeNB. 24–43.*

[2] *Gnan, E. and M. T. Valderrama. 2006. Globalization, Inflation and Monetary Policy. In: Monetary Policy & the Economy Q4/06. OeNB. 37–54.*

Unemployment Rate Again Drops Below 5% in 2006

The favorable economic conditions have had a positive impact on the labor market in Austria. The unemployment rate (Eurostat definition) fell from 5.2% in 2005 to 4.8% in 2006, back to the 2004 level; according to the national definition, unemployment reached 6.8%. At the beginning of the recovery, most jobs created were part-time; meanwhile, the number of full-time employees has also started to rise. Employment went up in particular in the manufacturing and construction sectors, which traditionally offer full-time jobs. At the same time, labor supply increased by some 35,000 persons against 2005, which was attributable to the effects of the 2003 pension reform, the influx of foreign labor and demographic developments (the surge in labor market entrants of the second baby-boom generation). The latest forecasts predict a further decline of the unemployment rate in 2007 and 2008.

Austria among the EU Member States with the lowest inflation rates

General Budget Deficit Comes to 1.1% in 2006

The November 2005 update of the Austrian stability program (extrapolated for the years 2005 to 2008) still expected the general government budget balance in 2006 (Maastricht definition) to come to –1.7% of GDP (2005: –1.6%), given persisting effects on the budget of Austria's growth and employment programs as well as of the second stage of the tax reform. Unexpectedly high tax revenues were instrumental in reducing the Austrian general government deficit to 1.1% of GDP in 2006, while the deficit was slightly larger in the euro area (1.6% of GDP) and in the EU (1.7% of GDP).

Austrian general government deficit lower than that of the euro area

In mid-January 2007, the new Austrian federal government took up office and presented its new program which outlines the government's main targets. These include further pursuing sound fiscal policies, while at the same time strongly emphasizing social welfare measures[1] and continuing the country's current growth and location policies. Numerous measures are aimed at maintaining Austria's competitiveness as an international business location. The program also includes the aim of achieving full employment and a balanced budget by 2010. Specifically, the March 2007 update of the Austrian stability program for the years 2006 to 2010 establishes that a general government surplus of about 0.4% of GDP should be reached by 2010. Numerous expert and working groups have been established to work out appropriate measures to achieve the objectives of the Lisbon agenda. An additional EUR 1 billion was made available until 2010 to implement these measures: EUR 400 million for growth and employment, EUR 400 million for social protection and welfare, EUR 200 million for education. The program also specifies savings at the federal and regional levels as well as in the social security funds to amount to EUR 1.16 billion.[2]

[1] *Notably by introducing an unconditional basic income in the amount of EUR 726 (thus harmonizing unemployment benefits, transitional assistance and welfare benefits) while at the same time introducing minimum wages in the amount of EUR 1,000.*

[2] *For more in-depth information on Austria's economic policy, see the chapter "Economic Policy Reforms in the EU Begin to Make an Impact."*

Box 2

Positive IMF Assessment of the Austrian Economy

In its Article IV consultation, the IMF again gave a very favorable assessment of Austria's economic situation. In the summary (published in May 2007) of the December 2006 consultation, the IMF emphasized Austria's growth edge on the euro area as well as its comparatively low unemployment rate. Yet at the same time, the IMF report called for a number of additional measures to be taken by the new Austrian government. The most important objective cited was the need to reach a balanced budget over the cycle. The IMF report recommended that Austria further consolidate the general government budget amid high economic growth and achieve a balanced budget in 2008 by implementing a broad-based expenditure reform, streamlining public administration at the regional and local levels, reforming health care and further harmonizing pension schemes. Furthermore, the grand coalition government should aim at reinvigorating constitutional reforms through the Austrian Convention.

Current Account Surplus Reaches Record High in Austria

Austria achieved a historic surplus of EUR 8.2 billion in the current account of 2006, thus continuing a trend observed in recent years. Productivity gains combined with moderate wage and price increases have strengthened Austria's competitiveness in the EU. After posting a current account deficit of 3.2% of GDP at the beginning of Stage Three of EMU, Austria recorded a surplus of 2.1% of GDP in 2005 and 3.2% of GDP in 2006.

This further improvement of the current account by EUR 3 billion against 2005 is mainly attributable to buoyant foreign trade: For the first time, imports and exports amounted to markedly above EUR 100 billion. Yet the highest surplus for the Austrian economy was generated through trade in services (EUR 10 billion), with tourism accounting for the largest share (almost EUR 6 billion). In addition, especially innovative and high-growth sectors like research and development services as well as architectural, engineering and other technical services generated a surplus of around EUR 1 billion each.

At above EUR 20 billion, investment income from abroad was markedly higher than tourism and travel revenues. Foreign direct investment alone generated income in the amount of EUR 5.8 billion in 2006. Although income paid to foreign investors still slightly outstripped income received, this deficit might shrink over time if Austria continues to post a surplus on goods and services.

Current account surplus strengthens Austria's role as an international investor

In parallel to this development, increasing current account surpluses have turned Austria into an exporter of capital (EUR 7 billion).

The volume of cross-border capital flows reached a historical high at almost EUR 160 billion, with new outbound investment coming to EUR 82 billion and inbound investment amounting to EUR 75 billion.

In 2006, Austrian foreign direct investment totaled EUR 3 billion, thus less than half the amount spent in 2005. Foreign investors even reduced their equity holdings in 2006. Hence, it was only thanks to retained profits and increased inflows from intracompany loans that a small surplus of EUR 200 million could be reached.

Although bonds still account for the bulk of cross-border trade in securities, the demand for stocks has increased in recent years. Foreign demand for Austrian shares peaked at EUR 6.8 billion in 2006, thus exceeding the combined amount of the years 2003 to 2005. The favorable development of the Austrian Traded Index (ATX) mirrored this trend.

The largest transactions in the 2006 financial account were bank transactions (loans as well as demand and time deposits): In 2006, net loans to foreign borrowers amounted to EUR 13 billion, and Austrian borrowing from foreign banks totaled EUR 14 billion. In 2006, Austrian deposits abroad increased by EUR 39 billion, while foreign deposits at Austrian banks increased by EUR 25 billion.

The OeNB Contributes to Safeguard Financial Stability

The stability of financial market structures is essential for the economy and for monetary policy. As an important stakeholder in the economy, the OeNB plays a key role in this respect through the close cooperation it seeks with financial market agents. The OeNB contributes to establishing, maintaining and improving the conditions that ensure financial stability in Austria, with a view to supporting efficient capital allocation in the interest of economic welfare and to achieving a smooth implementation of monetary policy. In 2006, incidents at two banks required the special attention of the OeNB and its cooperation partners. By helping to manage these incidents, the OeNB contributed considerably to preserving Austria's high financial stability.

Austria's Financial System Remains Sound despite Problems at Two Institutions

While the Austrian financial system remained stable as a whole in 2006, two Austrian banking groups hit the news.

First, BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG faced lawsuits by creditors of the U.S. brokerage firm Refco claiming up to USD 1.3 billion, including a court-ordered temporary freeze of its U.S. asset holdings, after having granted Refco a loan of hundreds of millions of U.S. dollars shortly before Refco filed for Chapter 11 bankruptcy protection in the fall of 2005. Following media reports about the Refco deal and news of previously undisclosed substantial losses incurred by BAWAG P.S.K. in the late 1990s, savers withdrew large amounts from BAWAG P.S.K. toward the end of April 2006. Against this backdrop the OeNB declared that it stood ready to provide funds in case of liquidity shortages. As the events unfolded, it became clear that BAWAG P.S.K. – Austria's fourth-largest bank at the time, whose creditors could hold the Republic of Austria liable for some EUR 5.5 billion since BAWAG acquired the formerly state-owned P.S.K. – would not be in a position to ensure full compliance with capital adequacy provisions for the current year and to close the accounts for 2005, as it would have to allocate substantial funds to provisions. As a consequence, the federal government, the OeNB, the Financial Market Authority (FMA) and representatives of the Austrian financial sector drew up a comprehensive financing package for BAWAG P.S.K., comprising a federal act to safeguard the bank's future by authorizing a federal government guarantee of up to EUR 900 million and the provision of capital in the amount of EUR 450 million by Austrian banks and insurers.

All incidents handled successfully

Having reached a global settlement in the United States at the end of June 2006, BAWAG P.S.K. was able to go ahead with the sales process initiated earlier and was ultimately bought by a consortium of the U.S. investment firm Cerberus and Austrian investors at the end of 2006.

The second incident goes back to fall 2004, when Hypo Alpe-Adria-Bank International AG incurred losses in the triple-digit millions (euro) on liabilities from structured swaps (specifically, swaps with embedded foreign currency options). After it had become known in late March 2006 that these losses had only been partly recognized in the financial statements for 2004, the accounts for 2004 were reopened and the losses were booked on an accrual basis, resulting in a negative result for 2004.

Active role in crisis management

In both cases the OeNB helped shed light on developments through a series of analyses and on-site examinations, and in the case of BAWAG P.S.K. it also contributed substantially to finding a way out. In this process the OeNB benefited from the positive effects and synergies arising from its ability to cross-check its macroprudential findings with insights and experience gained from microprudential supervision, and was able to strengthen the pivotal crisis management role that it has as a lender of last resort.

The problems outlined above were individual incidents that did not imply any danger for the stability of Austria's financial system as a whole. As has been repeatedly confirmed by the International Monetary Fund (IMF), the standards Austrian banking supervisors apply are in line with international practices. Moreover, the prudential framework is being continually refined by the FMA in close cooperation with the OeNB in response to regulatory changes, market developments and product innovations. In this context, policymakers are discussing a number of measures that should help prevent similar incidents in the future. In addition, the national Court of Audit and a parliamentary review committee are examining these events and any consequences they might entail for financial market supervision.

Risk-Bearing Capacity Continues to Improve

Business in the Austrian banking industry developed favorably despite the two incidents in 2006 outlined above, and the sector as a whole remained very stable. Higher profits generated by strong expansions and solid capital ratios improved banks' risk-bearing capacity further. Regular stress tests conducted by the OeNB confirm Austrian banks' resilience to shocks in all major credit and market risk categories.

Austrian banks' overall performance remains positive

Austrian banks benefited above all from their ongoing expansion into Central, Eastern and Southeastern Europe (CESEE) and the dynamic market growth in those regions during 2006. At the same time, lending and fee-based activities within Austria enabled banks to achieve solid results on the domestic market. Banks' unconsolidated total assets augmented by 9.9% to EUR 797.8 billion in 2006. The CESEE segments of Austria's banking business have grown to account for more than one-third of consolidated results, even adjusted for one-off effects from sales. The consolidated return on assets of the Austrian banking industry reached a historical high in 2006, reflecting high income from operations and extra income from the sale of subsidiaries.

On the domestic market, income from fee-based transactions increased by 9.1%, thus contributing 26% of total operating income, while interest income remained broadly stable given shrinking interest margins, on the one hand, and strong credit growth on the other. At the same time, the growth rate of unconsolidated operating income dropped moderately to 5.8% in 2006, while the growth rate of operating expenses increased slightly to 7.3%. On balance, the cost/income ratio deteriorated somewhat to 65.0% from 64.1% in 2005, which had been the most favorable reading in recent years. Unconsolidated operating income reached EUR 5.8 billion, having grown by 3.1% in 2006 compared with an impressive 19.1% in 2005.

Credit risk costs have declined continually since 2003.[1] In December 2006, specific allowances for impaired loans accounted for 2.9% of all claims on nonbanks, having dropped 0.2 percentage point below the corresponding rate of December 2005. In fact, apart from 2000, specific allowances have not been as low since 1995. Similarly, the market risk of Austrian banks declined in most areas in 2006. For instance, interest rate risk in the banking book declined continually in 2006. Despite the high growth rate of business volumes in CESEE, reflecting acquisitions among other things, the consolidated capital ratio remained broadly unchanged (11.6%) compared with 2005, as did the consolidated core capital ratio (8.1%).

Capital Market Gains Importance

Developments on the Austrian capital market remained positive in 2006. Both stock and corporate bond markets benefited from favorable capital market conditions. The good results of companies listed at Wiener Börse, many of which are active in CESEE, as well as the continued commitment to active capital market policies contributed substantially to the solid performance of the Austrian stock market. The stock index ATX, which covers the most liquid stocks traded at the Vienna stock exchange, peaked at 4,463 points at the end of 2006, when the market capitalization of Austrian stocks amounted to more than 56% of GDP. The rise in market capitalization reflects both supply- and demand-side factors. Companies took advantage of the favorable financing conditions for over EUR 12 billion worth of capital increases and new issues. Demand for Austrian stocks also continued to rise, especially among foreign investors: The Vienna stock exchange reported an increase of more than 70% in the trading volume in 2006 and a rise in the trading volume of foreign investors from close to 46% (2005) to 53% (2006).

ATX reaches record highs at the Vienna Stock Exchange

Other financial intermediaries – such as mutual funds and pension funds – maintained the momentum of previous years and reached new asset highs. State-subsidized personal pension plans benefited notably from the boom of the Austrian capital market, given the high share of domestic stocks in their portfolio. The capital market has gained importance for household finances in recent years, especially for individual saving for retirement. As a result, developments in capital markets will play a greater role in the future in assessing the financial stability of the household sector.

[1] *The assessment of a decline in allowances remains unaffected by the government guarantee provided for BAWAG P.S.K. – in relation to loans to nonbanks, allowances decline for the banking sector both with and without BAWAG P.S.K.*

Box 3

Households' Financial Assets

In the summer and fall of 2004, the OeNB conducted a survey of Austrian households to gain insights into their asset allocation, investment behavior and indebtedness.

As outlined by an OeNB paper published in 2006,[1] the survey data clearly show that the level of household income is strongly correlated with both the level of financial assets and the propensity to invest in capital market instruments. Savings deposits remain by far the investment instrument of choice of Austrian households, accounting for about 60% of all investment in financial assets. Nevertheless, 13% of Austrian households display a strong tendency to invest in capital markets. Roughly half of all households are regular savers, 44% put money aside at irregular intervals, whereas 5% say they do not save at all. Somewhat more than 40% of Austrian households have taken out loans. Most loans are home loans; they account for roughly 85% of the debt volume.

The data compiled through the OeNB survey are used for internal analyses and for numerous research projects (on the indebtedness of households, demand for foreign currency loans, financial literacy in Austria, etc.). Household microdata have become an increasingly important tool in recent years also at the international level, both in scientific research and for monetary and economic policymaking. In this respect, a newly established network of Eurosystem staff experts has been given the mandate to evaluate whether surveys on household finance and consumption might be conducted in all countries of the euro area. The OeNB is, moreover, a partner institution of the Luxembourg Wealth Study (LWS), an initiative aimed at making microdata on household wealth comparable internationally. The data of the OeNB's 2004 survey have been integrated into the LWS database[2] and will be available to the research community free of charge from mid-2007 onward.

[1] *Beer, C., P. Mooslechner, M. Schürz and K. Wagner. 2006. Austrian Households' Financial Wealth: An Analysis Based on Microeconomic Data. In: Monetary Policy & the Economy Q2/06. OeNB. 94–110.*

[2] *For further details see http://www.lisproject.org/lws.htm.*

Strong Expansion of Austrian Banking Activities in Central, Eastern and Southeastern Europe

Following the opening up of CESEE markets, Austrian banks have successfully tapped into those markets in recent years. The income earned in this region has grown to contribute substantially to the profitability of the Austrian banking sector and was instrumental in pushing the Austrian banking system into the mid-ranks of the former EU-15 with regard to return on assets. The most important markets for Austrian banks are the Czech Republic, Croatia, Slovakia, Hungary and Romania. Austrian banks have by now become market leaders in some markets of the region.

About two-thirds of the exposure of Austrian banks to CESEE (as a percentage of total assets) is concentrated in EU Member States. The high share of investment in the EU substantially limits the underlying risks of institutional, legal and economic conditions in those markets. Following new acquisitions and a restructuring of the portfolio of Bank Austria Creditanstalt within the UniCredit Group, the focus of Austrian activities in the area has moved further (south)east. The markets beyond the EU's borders offer higher yields, which come with higher risks. For instance, rapid credit growth in CESEE countries, especially in foreign currencies, is a challenge for banks' risk management systems.

Box 4

Austria Asserts Itself as a Regional Financial Center for Central, Eastern and Southeastern Europe

Cross-border financial transactions of Austrian banks retained their momentum, exceeding the level of EUR 1,000 billion for the first time in 2005. The Vienna stock exchange played a particularly active role, asserting itself more and more as a competence cluster of profitable projects in CESEE. The successful positioning of Austrian companies in the region made purchases of ATX instruments increasingly attractive for foreign investors. The significance of these growth markets has gradually raised the appeal of securities investments at the Vienna stock exchange, allowing them to gradually catch up with the dynamic development which has characterized foreign direct investment by Austrian companies for quite some time now. Thus, Austria has gradually assumed the role of a regional financial center for the CESEE transition economies.

It should also be noted that Austrian investors are increasingly targeting new regions in Eastern and Southeastern Europe as well as Russia.

The OeNB closely monitors and analyzes developments in these markets and the exposure of Austrian banks to the region. In 2006, the OeNB developed new, significantly more stringent stress test scenarios to assess the shock resilience of the Austrian banking system vis-à-vis CESEE. Austrian banks are well positioned to withstand the comparatively extreme yet plausible shocks assumed in these stress tests: The capital ratio was found to drop by approximately 0.9 percentage point, not taking into consideration the risk buffer provided by the profits earned.

IMF Confirms Positive Assessment of the Austrian Financial Sector

The generally positive assessment of the performance of Austria's financial industry was confirmed during the annual Article IV Consultations of the IMF in December 2006. The IMF concluded that the rapidly expanding activities of the Austrian financial sector in CESEE countries had been instrumental in increasing profits. Cost cuts for domestic business operations had also had a positive impact on profitability. Moreover, Austria had a solid capital ratio and a satisfactory shock absorption capacity.

Significance of the CESEE market continues to rise

In the conclusions of its mission, the IMF also noted that the risks involved in the expansion into CESEE countries had grown and that these risks, as before, would have to be monitored closely, along with the risks arising from foreign currency lending. In this respect the IMF positively acknowledged the joint FMA/OeNB initiative of seeking to educate the public about the risks of foreign currency loans with an information folder. The IMF also pointed out that close cooperation between host and home country supervisors was key to the effective supervision of cross-border banking groups, welcoming the steps taken by Austria in this respect. Furthermore, the IMF welcomed the measures taken to further strengthen corporate governance in the banking sector and recommended the forceful implementation of these measures. These measures include a higher frequency of on-site inspections, intensified off-site examinations of systemically important banks, enhanced fit-and-proper tests for supervisory board members and stricter requirements for external bank auditors.

Information folder about the risk of foreign currency loans published

In the second half of 2007, the IMF plans to update the comprehensive Financial Sector Assessment Program[2] stemming from 2003 and 2004.

Share of Foreign Currency Loans in Household Loans Remains High

The share of foreign currency loans to households stagnated at high levels in 2006. Close to one-third of the entire volume of household loans was denominated in a currency other than euro. At the same time, the share of foreign currency loans in the corporate portfolio, which has been declining since 2002, dropped to slightly below 10% of the loan volume of nonfinancial corporations in the reporting year. Overall, both the share and the volume of foreign currency loans extended to nonbanks declined perceptibly in 2006, leaving an amount of EUR 52 billion of foreign currency loans outstanding at the end of 2006.

With a share of 91%, the dominant foreign currency was the Swiss franc, while only 3% of all foreign currency loans were denominated in Japanese yen, despite the yen's interest rate advantage over the Swiss franc.

National Basel II discrections ease conditions for Austrian SMEs

The high demand for foreign currency loans among households as opposed to the strong decline in such demand in the corporate sector would imply that households and businesses judge the advantages and risks of foreign currency borrowing in fundamentally different ways. In a joint initiative, the FMA and the OeNB therefore compiled a folder designed to educate the public about the risks of foreign currency loans, which was presented at the end of June 2006.[3] Specifically addressed to households, this folder provides a clear and concise overview of the risks of this financing instrument. The goal of this initiative is to enhance households' risk awareness concerning foreign currency loans.

The OeNB will continue to point out the risks of foreign currency lending and borrowing to banks and borrowers, in no small part because such loans are augmenting substantially in a number of CESEE countries.

Basel II Discussion Process Completed Successfully

The publication of a revised capital adequacy framework (Basel II) by the Basel Committee on Banking Supervision in June 2004 had triggered a discussion process on the new framework at the EU level. This process was completed in 2006: Following intensive negotiations, the Basel II rules were officially adopted by the Council and the European Parliament on June 14, 2006,[4] formalizing the basic agreement achieved in the fall of 2005.

A number of national discretions which ease conditions for Austrian businesses could be negotiated at an early stage of the debate. As a case in point, the risk weights laid down in the standardized credit risk framework may be reduced from 100% to 75% for small and medium-sized enterprises, provided that the loan volume does not exceed EUR 1 mil-

[2] *http://www.imf.org/external/pubs/ft/scr/2004/cr04238.pdf.*

[3] *Link to the German original of the folder: www.oenb.at/de/img/fwk-folder_tcm14-42978.pdf.*

[4] *Capital Requirements Directive, comprising Directive 2006/48/EC (recasting Directive 2000/12/EC) and Directive 2006/49/EC (recasting 93/6/EEC).*

lion. For a EUR 1 million loan, the application of this national discretion lowers the bank's capital requirements by EUR 20,000, which also ought to feed through to the terms and conditions of the loan.

The Basel II rules, which entered into force on January 1, 2007, made the framework for calculating capital requirements for credit and market risk more risk-sensitive and introduced an explicit measure for operational risk. EU banks may, however, choose to defer the application of the new rules until the end of 2007. The more advanced approaches for calculating credit and operational risk become fully operational at the beginning of 2008. From the present perspective, Basel II will probably not enter into force in the U.S.A. before 2009, but this delay is unlikely to create competitive disadvantages for either EU or U.S. banks.

Implementation of Basel II on Schedule in Austria

Austria was among the first EU Member States to have completed the transposition of the Basel II framework into national law, thus providing legal certainty for all agents at an early stage. Specifically, the new rules were introduced with an amendment of the Austrian Banking Act,[5] which contains the fundamental conditions, and two FMA regulations, which govern the technical details. The revised Banking Act was published in the Federal Law Gazette in August 2006, the Solvency Regulation[6] and the Disclosure Regulation[7] in early October 2006.

In the run-up, experts of the Federal Ministry of Finance, the FMA and the OeNB had conducted comprehensive discussions with the Austrian banking industry in order to find appropriate and practical solutions for transposing the new rules into national law. These negotiations were characterized by a highly constructive climate and guided by the understanding that a smooth implementation process was in the interest of all stakeholders.

Moreover, the OeNB, had already launched an information campaign on Basel II several years ago, including detailed information for Austria's Members of the European Parliament, a nationwide roadshow organized together with the Austrian Federal Economic Chamber, the provision of information in daily newspapers, the quarterly publication of a Basel II newsletter and the provision of best practice guidelines (for instance on bank-wide risk management and operational risk). In this way, policymakers provided support not only for the banking industry but at the same time prepared bank clients for a new form of transparency in their relationship with their banks, raising awareness of the need for professional and open business relations.

Early implementation of Basel II

Furthermore, the measures required for putting the Basel II framework into practice were also tackled in a timely manner. The FMA and the OeNB conducted preliminary consultations with those banks that intend to use internal ratings (IRB approach) to calculate credit risk-weighted assets and worked out a

5 *Austrian Federal Law Gazette Part I No. 141/2006.*

6 *Austrian Federal Law Gazette Part II No. 374/2006.*

7 *Austrian Federal Law Gazette Part II No. 375/2006.*

checklist for the application of the – simpler – standardized approach for the rest of the banking sector. It is up to the FMA to decide, based on OeNB opinions on individual banks' IRB models and procedures, whether a bank meets the regulatory requirements for applying internal ratings. The OeNB has been working intensively on providing such opinions since mid-2006.

Under the Basel II rules, banking groups resident in Austria that wish to apply their internal model abroad, too, need the approval of all banking supervisors involved. The Austrian supervisor organizes cooperation meetings for this purpose. At these meetings, the authorities involved discuss the approval process, negotiate the division of labor and exchange results in order to guarantee a smooth and efficient approval process.

Following comprehensive preparations, to which the OeNB contributed substantially, the final step was the promulgation in mid-December 2006 of the regulation which reorganizes supervisory reporting in accordance with the Basel II framework.

Comprehensive Cooperation with the FMA

The OeNB fulfilled its statutory banking supervisory tasks in close cooperation with the FMA and the finance ministry, and was able to make an important contribution to safeguarding the stability of the Austrian financial system through numerous on-site inspections, which were partly carried out together with FMA officials.

With regard to the Basel II framework, which leaves it up to banks whether they wish to apply simple procedures or advanced procedures such as the IRB approach, the OeNB shared its expertise in the approval process to which IRB approaches are subjected and supported FMA decision-making with comprehensive opinions.

Moreover, the OeNB is responsible for processing the reports submitted by Austrian banks. In consultation with the FMA, the OeNB developed state-of-the-art databases and software tools that allow a more effective analysis of credit institutions. The results are made available to the FMA as well.

As laid down in Memoranda of Understanding on international supervisory cooperation, the OeNB organizes, jointly with the FMA, meetings with other supervisors and international conferences on reporting and analysis systems. To be able to fulfill their supervisory tasks as effectively as possible, the OeNB and the FMA seek regular bilateral contacts at different management levels. The most important forum is the Committee on Financial Markets, which provides a platform for discussing issues of financial stability and banking supervision. The Committee meets at quarterly intervals, bringing together OeNB and FMA officials as well as representatives of the finance ministry.

Intensification of International and EU-Wide Supervisory Cooperation

Against the backdrop of deepening financial integration, the intensity of international and EU-wide multilateral supervisory cooperation has increased substantially in recent years. At the EU level, above all the Committee of European Banking Supervisors (CEBS) should be pointed out. CEBS, whose participants include banking supervisory and central bank officials from countries within the European Economic Area, is committed to improving the effectiveness and efficiency of cross-border supervisory processes by strengthening the convergence of supervisory practices in individual member countries and promoting supervisory cooperation. In this way, CEBS aims to promote a common "European supervisory culture." So far, activities have concentrated above all on establishing guidelines for Basel II, which will now have to be implemented. Alongside CEBS, the Banking Supervision Committee (BSC) of the European System of Central Banks (ESCB) has asserted itself as a platform for cooperation between EU central banks and supervisory authorities.

The OeNB is represented not only in CEBS and the BSC, but also in a number of other European forums, committees and working groups. For instance, an OeNB official chairs the BSC Working Group on Banking Developments (WGBD), and up to 2007 an OeNB official worked for the CEBS Bureau established to support the CEBS chair; in this framework, the OeNB hosted international meetings. In June 2006, for instance, the OeNB and the FMA invited members to a CEBS meeting in Vienna.

In parallel to the numerous European cooperation activities, the debate on the potential further development of the European supervisory infrastructure was carried forward in 2006. In this respect, the OeNB supports maintaining the current supervisory regime and using CEBS channels to develop the existing framework further with a view to enhancing cooperation. Notwithstanding calls for a regulatory pause following the completion of the Financial Services Action Plan, a number of further financial regulatory issues were on the EU agenda, including in particular the establishment of a new legal framework for payments within the single market.

The OeNB Contributes Substantially to Payment System Security

In 2006, the OeNB continued to fulfill its mandate for payment systems oversight, laid down in Article 44a of the Nationalbank Act, by continually monitoring payment systems operating in Austria as well as the participation of Austrian banks in international payment systems. In this context, the OeNB regularly analyzes payment system statistics and conducts comprehensive examinations of individual systems. In 2006, the OeNB for the first time inspected a provider of payment system infrastructures. For such examinations, the OeNB relies on the support of A-SIT (Zentrum für sichere Informationstechnologie – Austria), which has been accredited as an oversight office.

High security levels for electronic payments in international comparisons

Most Austrian payment systems reported a substantial increase in transaction volumes in 2006. In terms of value, ARTIS,[8] the large value payment system operated by the OeNB, was the single most important payment system, while direct debit payment systems led the field with regard to the number of transactions processed. Overall, the degree of systemic stability was high in 2006. Disturbances could be remedied quickly and effectively in close coop-

[8] *ARTIS: Austrian Real Time Interbank Settlement.*

eration with the system providers. Following news of a number of fraud cases involving the manipulation of POS[9] terminals in the summer of 2006, the OeNB liaised with the providers of the payment systems and the POS terminal network to come up with solutions. Generally, the security levels for electronic transactions are very high in Austria by international comparison.

At the EU level, the OeNB was closely involved in drafting the Directive on Payment Services in the Internal Market, which was initially scheduled to be adopted in 2006. Yet diverging opinions among Member States on the supervisory treatment of payment institutions led to a delay. From a stability perspective and given competition considerations, Austria supports a regime oriented on the prevailing supervisory framework for banks.

In addition, the OeNB continued to contribute to developing European supervisory standards for securities clearing and settlement systems; these activities have yet to produce concrete results. In November 2006, market participants adopted a Code of Conduct, among other things with a view to increasing price transparency. Implementation, which is scheduled to be completed by 2008, is monitored by a monitoring group consisting of the European Commission, ECB and CESR[10] officials.

Extension of Central Credit Register Coverage

Data exchanges among European credit registers have become operational

Data exchanges among the European central credit registers were off to a good start in 2006. In a largely automated procedure, the domestic loan obligations that the OeNB compiles are now being adjusted at quarterly intervals for corresponding data from the central credit registers (CCRs) of the NCBs of Belgium, Germany, Italy, Portugal and Spain. Furthermore, entities reporting to the above CCRs may now, for the first time, address ad-hoc queries to the home CCR of foreign borrowers to establish their foreign credit obligations. This new possibility greatly improves lenders' access to information, particularly with regard to lending to large foreign corporations. The international exchange of loan data supports banking and financial market supervisors; at the same time, it enables the OeNB to enhance its service function vis-à-vis entities reporting to the CCR.

At the national level, the decision to extend CCR coverage was adopted in 2006 and will take effect at the beginning of 2008. Apart from providing for the enhanced integration of information about the risk situation of borrowers and about the quality of loan servicing and collateral, the restructuring of the OeNB's analysis function triggered by the implementation of Basel II leads to a harmonization of CCR reports with other supervisory reports. As a result, CCR data are expected to play an even more prominent role in the analysis systems of both the OeNB and the FMA.

Continual Monitoring of Potential Risks

Stability mandate reinforced by conducting surveys

Under its stability mandate, the OeNB continually monitors potential risks in financial markets and deals with changes and developments in financial

[9] *POS: point of sale.*

[10] *CESR: Committee of European Securities Regulators.*

markets on an ongoing basis. In 2006, for instance, it conducted surveys on the risk positions of large Austrian banks with hedge funds and their involvement in leveraged buyout activities. The results of these analyses are presented at regular intervals, e.g. in the OeNB's semiannual Financial Stability Report, at press conferences or workshops; they are also discussed with supervisors and financial intermediaries.

As in previous years, the OeNB cooperated closely with European central banks as well as supervisors and initiated important steps in this context. As a case in point, a BSC working group conducted a survey on the risk of foreign currency lending in selected EU Member States, coordinated by the OeNB. An internal event was dedicated to discussing the implications of the new financial reporting standards on the stability of the financial system. Moreover, the OeNB hosted workshops[11] to discuss the effects of demographic aging on banks and financial stability. These workshops provided an appropriate framework for a constructive, forward-looking dialogue with academics and renowned professionals.

Furthermore, the OeNB refined its risk-based analysis methods and improved its analytical framework. Complex banking analysis models were refined or newly developed, partly through research cooperations with different universities. The OeNB has developed a pioneering software tool to analyze systemic risk in the banking sector, the Systemic Risk Monitor, which will make it possible to take account also of the contagion risk among individual banks. Thanks to these efforts, the OeNB has managed to achieve an internationally renowned role in this area. The OeNB also introduced innovations with regard to the aggregation of the numerous analysis results to arrive at an accurate overall assessment.

OeNB widely recognized for its pioneering role in stress testing

Finally, the OeNB also asserted its competence in crisis management in 2006. The structures and procedures laid down in a dedicated internal handbook proved successful in two crisis management simulation exercises at the European level. Moreover, these exercises documented the good cooperation among the national central banks within the ESCB. Looking ahead, the OeNB will continue to invest in crisis management and enhance its competences in the field.

[11] *Two-part workshop on "Aging and its implications for banks and bank strategy" on April 4 and September 29, 2006.*

Economic Policy Reforms in the EU Begin to Make an Impact

Euro area deficit declines

Countries Should Use Favorable Cyclical Conditions to Take Reform Measures

Ever since the single currency was introduced and the Eurosystem assumed responsibility for euro area monetary policy, fiscal policy has played an especially important role in the euro area countries' economic policy strategies. Sound public finances provide a solid basis for price stability and thus for growth and job creation. In addition, they establish the necessary room for maneuver to offset fluctuations of economic performance over the business cycle.

The basic pillar of fiscal policy coordination among the euro area countries is the Stability and Growth Pact. Its objective of achieving a budgetary position close to balance over the medium term is geared toward supporting price stability with an efficient fiscal policy. To reach the fiscal objective, countries should endeavor to substantially reduce any budget deficits during an upswing, a formula a number of euro area countries followed in 2006. As a result, the aggregate deficit of the euro area dropped from 2.5% of GDP in 2005 to 1.6% in 2006, and, according to forecasts,

Table 2

General Government Budget Balances

% of GDP

	2002	2003	2004	2005	2006	2007[1]
Belgium	0.0	0.1	0.0	−2.3	0.2	−0.5
Germany	−3.7	−4.0	−3.7	−3.2	−1.7	−1.6
Finland	4.1	2.5	2.3	2.7	3.9	2.9
France	−3.2	−4.1	−3.6	−3.0	−2.5	−2.6
Greece	−5.2	−6.2	−7.9	−5.5	−2.6	−2.6
Ireland	−0.4	0.4	1.4	1.0	2.9	0.9
Italy	−2.9	−3.5	−3.5	−4.2	−4.4	−2.9
Luxembourg	2.1	0.4	−1.2	−0.3	0.1	−0.5
Netherlands	−2.0	−3.1	−1.8	−0.3	0.6	0.1
Austria	−0.5	−1.6	−1.2	−1.6	−1.1	−1.2
Portugal	−2.9	−2.9	−3.3	−6.1	−3.9	−4.0
Slovenia	−2.5	−2.8	−2.3	−1.5	−1.4	−1.6
Spain	−0.3	0.0	−0.2	1.1	1.8	1.1
Euro area	**−2.5**	**−3.0**	**−2.8**	**−2.5**	**−1.6**	**−1.5**
Denmark	1.2	0.0	2.0	4.7	4.2	4.3
Estonia	0.4	2.0	2.3	2.3	3.8	1.6
Latvia	−2.3	−1.6	−1.0	−0.2	0.4	−1.2
Lithuania	−1.5	−1.3	−1.5	−0.5	−0.3	−1.2
Malta	−5.5	−10.0	−5.0	−3.1	−2.6	−2.7
Poland	−3.2	−6.3	−5.7	−4.3	−3.9	−2.0
Sweden	−0.2	−0.9	0.8	2.1	2.2	2.4
Slovakia	−7.7	−2.7	−2.4	−2.8	−3.4	−3.0
Czech Republic	−6.8	−6.6	−2.9	−3.5	−2.9	−3.6
Hungary	−8.2	−7.2	−6.5	−7.8	−9.2	−7.4
United Kingdom	−1.7	−3.2	−3.1	−3.1	−2.8	−2.8
Cyprus	−4.4	−6.3	−4.1	−2.3	−1.5	−1.7
EU-25	**−2.3**	**−3.0**	**−2.7**	**−2.3**	**−2.0**	**−1.6**
Bulgaria	−0.4	−0.9	2.2	1.9	3.3	1.8
Romania	−2.0	−1.5	−1.5	−1.4	−1.9	−2.6

Source: Eurostat.

[1] *European Commission forecast (autumn 2006).*

will decline further to 1.5% of GDP in 2007. The positive outcome for 2006 can be attributed mainly to the rise in tax revenues on the back of more vigorous economic activity. Within the euro area, six countries closed 2006 with a budget surplus or a balanced budget. Two euro area countries (Italy and Portugal) reported a deficit exceeding the ceiling of 3% of GDP, while another two countries (Germany and Greece) succeeded in reducing their deficits to below 3% of GDP for the first time in years. From the wider EU perspective, five countries did not observe the 3% of GDP limit (table 2). Hence, despite the revival of economic activity, fiscal consolidation remains an urgent economic policy challenge and must be resolutely pursued.

At approximately 70% of GDP, the euro area debt ratio hardly changed compared to 2005. The debt ratio across all EU Member States was perceptibly lower at approximately 62% of GDP, because the new Member States and the U.K. posted comparably low debt ratios.

The introduction of the euro decisively strengthened not just the importance of fiscal policy, but also the role of a committed structural policy. Only flexible and adaptable economies can fully exploit the growth potential of a common currency and a Single Market. In 2000, the EU Member States therefore agreed on a common European strategy, the Lisbon agenda, aimed at mobilizing and increasing the potential for growth. This strategy was targeted at making the EU the world's most dynamic and competitive economy by 2010. The mid-term review of the Lisbon agenda in 2005 found fault with the generally inadequate progress in many areas and saw a lack of national identification with the Lisbon goals and their implementation as one of the main causes for this disappointing delivery.

The relaunched Lisbon strategy calls for stronger action and ownership by Member States, requiring them to draw up forward-looking strategy papers for the promotion of growth and employment. These are referred to as National Reform Programs (NRPs) and cover a three-year cycle. The NRPs aim to set out a comprehensive strategy to deliver growth; they refer to important country-specific problem areas and sketch out proposals for solutions. Progress is reviewed annually, and minor fine-tuning is possible. The first round of NRP evaluation took place in the fall of 2006.

Implementation of Lisbon strategy makes progress

For the euro area, the European Commission concluded in this review that real change had been achieved in all four priority areas[1]. Progress was acknowledged above all in the priority areas knowledge and innovation, and strengthening the business environment for small and medium-sized enterprises (SMEs). Employment and energy had made less progress. Moreover, more action was required to improve the sustainability of public finances and to raise competitive intensity in specific sectors. In the fiscal policy area, the European Commission, though recognizing the consolidation progress already made,

[1] *In its Communication to the 2006 Spring European Council, the European Commission defines four priority areas requiring stepped-up efforts. These areas are knowledge creation, unlocking business potential by promoting SMEs, more and better jobs, and an integrated European energy strategy.*

called above all for more ambitious budgetary consolidation efforts. In particular, the rising life expectancy of Europe's citizens represented a challenge to the long-term sustainability of public finances and social systems. Economic policy proposals to promote competitiveness envisage measures to raise factor mobility, boost the speed of wage and price adjustment, and strengthen innovation capacity.

The European Commission advises euro area countries to use the current economic upturn to reinforce their reform efforts; after all, the upswing was partly due to reforms initiated and delivered under the Lisbon strategy. Specifically, the European Commission called for more competition especially in services and financial services, and further reform of labor markets to make them more flexible.

Austria, too, had made good progress in the implementation of its NRP, concluded the European Commission. The country was commended for its good record in using renewable energy sources. The European Com-

Box 5

National Reform Programs under the Lisbon Strategy for Jobs and Growth: Inspiration for Austrian Economic Policymaking

National Reform Programs (NRPs) have been in place for EU Member States since fall 2005 as a result of the Lisbon Strategy. Two-way learning and the communication of best practice models are explicit aims of the NRPs. A comparison[1] of NRPs[2] published online shows many interesting approaches to economic policy structure and content that are also relevant for Austria: A forward-looking competition policy would be able to actively make out sectors facing competition problems and propose remedial changes. The education and training system could benefit from a number of initiatives aimed at both quantitative and qualitative improvements (in the university sector, this could include top-level research, postgraduate schools and a general increase in tertiary education participation). Many countries are developing specific programs for the promotion of disadvantaged groups of the population, e.g. migrant children. In promoting employment, all countries are moving as one in the direction of reconciling work and family life through more and better childcare facilities, improvements to family support services, etc. Education and employment initiatives are largely consistent with the corresponding European strategies. Public sector reform focuses on the transition to output-based systems, an approach intended to improve efficiency while maximizing cost-effectiveness by concentrating public expenditure on growth promotion. Support for SMEs is shifting more and more toward fast-growing early-stage companies for which specific counseling services and improved financing terms are made available.

The strategies and action plans of other countries that seek to achieve preset targets through a forward-looking, cross-sectoral approach can also provide new ideas for structuring Austria's economic policy processes. Targets are defined on the basis of an analysis of strengths and weaknesses that results in the establishment of clear priorities. Detailed implementation plans describe the measures to be taken, and implementation itself is monitored continually. Furthermore, the success of policy measures in achieving their goals is evaluated. Other countries' NRPs also provide new ideas for making the preparation process more transparent and for communicating the NRP to the public, e.g. in the form of seminars for stakeholders from civil society.

[1] *Janger, J. 2006. The Lisbon National Reform Programs: New Ideas for Austria's Economic Policy. In: Monetary Policy & the Economy Q2/06. OeNB. 46–68.*

[2] *http://europa.eu.int/growthandjobs/pdf/nrp_2005_en.pdf.*

mission also positively stressed pension reform and its impact on the sustainability of public finances. Additional reforms, e.g. of public administration and health care, could contribute substantially to sound public finances. Progress on employment policy had also been good, stated the European Commission. Increased spending on active labor market measures and lifelong learning programs had made a first positive impact. The European Commission also pointed out, however, that the programs were not always perfectly suited to the individual demands and requirements of labor market participants. Although some advances had been made. the low employment rate of older workers remained one of the central challenges facing Austrian labor market policy. Also, the better reconciliation of work and family needed further attention.

Moreover, the European Commission stated that Austria had posted a strong economic performance in 2006 that was more dynamic than the euro area average, but its growth potential could be improved by better integrating specific population groups in the labor market, and by promoting lifelong learning and service-sector competition.

Austria implements structural reforms

The OECD regularly performs assessments of the economic developments in its member states. These assessments focus especially on economic policy measures to enhance long-term growth potential. In the Economic Survey of the Euro Area, published January 4, 2007, the OECD concludes that the economic recovery in the euro area had taken hold. The OECD cautioned that with the recovery underway, attention could shift back to the euro area's longer-term challenges, namely subdued potential growth and structural shortcomings. The priorities for European economic policymakers should be to reduce labor market rigidities, boost competition (especially in services) and integrate European financial markets further. The OECD pointed out that the recovery had also created a golden opportunity to reduce budget deficits and debt ratios resolutely. Hence, the OECD's assessment broadly matches that of the European Commission. As the Lisbon strategy covers nearly all of the highlighted problem areas, commitment in implementing the NRPs should be given even greater priority.

European Integration Makes Progress in 2006

Fifth EU enlargement is a success

Further EU and Euro Area Enlargement

2006 was an important year for the European aspiration of intensifying cooperation to achieve political stability and economic prosperity. Both dimensions of European integration – enlargement and deepening – made considerable progress. On January 1, 2007, Bulgaria and Romania became EU Member States, concluding the fifth enlargement round, which had begun in May 2004 with the entry of ten Central and Eastern European countries – the EU-10 – into the EU. On the same day, Slovenia became the 13th euro area member country and thus the first of the EU-10 to introduce the euro as legal tender. These enlargement steps are impressive evidence of the continued great appeal of the European model. The prospect of economic welfare and political cooperation has decisively accelerated European integration.

The fifth enlargement was the most ambitious round to date. Never before has such a large number of countries with so many citizens been integrated into EU structures within just a few short years. In this context, the Central and Eastern European countries have undergone complex economic, political and social change processes, and have yet to complete them fully. Notwithstanding the daunting challenge as which the fifth enlargement had presented itself at the outset, it was not only a political achievement but also an economic success, as the European Commission observed in a statement released in May 2006. With economic growth averaging 3.75% a year between 1997 and 2005, the EU-10 economies actually fared better than the old Member States, which posted only 2.5% growth on average in the same period. This growth differential led to a gradual convergence of economic performance. But the new Member States are not the only ones to have benefited from enlargement. The expansion of the Single Market by approximately 75 million additional citizens opened up significant business vistas for enterprises in the old EU Member States. Economic ties measured in terms of trade and investment flows became closer, and enlargement helped boost the pace of economic growth in the acceding and the incumbent Member States.

Box 6

Austria Benefits from EU Enlargement

As a hub between Eastern and Western Europe, Austria has so far mainly drawn benefits from EU enlargement. With Austrian firms investing in the new Member States and cross-border transactions posting a stellar rise, Austria's economy shares in the region's upswing. The gains include the creation of new jobs and the securing of existing jobs. Considering this generally positive assessment of EU enlargement, the widespread skepticism among Austrians is astonishing. While enlargement has indeed posed a challenge to some sectors and some jobholder groups, they stand to benefit from the prosperity gains as well, as long as they are willing to embrace change and given incentives, if necessary.

Trade, foreign direct investment (FDI), financial investment and migration are the main vehicles of economic integration.

The removal of trade barriers between Eastern and Western Europe has spawned a rapid expansion of trade in goods and services. Central and Eastern European countries – mostly new Member States – are the destination of nearly one-fifth of all Austrian exports and thus represent Austria's second-largest export market behind Germany. Exports to this region have contributed substantially to bringing Austria's trade accounts close to balance in recent years.

The bulk of Austria's net direct investment assets stems from the ten new Member States and new target regions in Central, Eastern and Southeastern Europe (CESEE). In 2003, Austrian outward FDI for the first time exceeded inward FDI. But Austria's role as an East-West hub is also confirmed by many multinational corporations' decision to coordinate their eastward expansion from Austria. From the perspective of the countries of this region, Austria consistently ranges among the top investor countries, and is among the top two in the newest EU Member States – first in Bulgaria and second in Romania. In particular in the Eastern European banking sector, Austria has become the largest investor, accounting for a market share averaging 25%. The operating profits of Austrian banks' subsidiaries in CESEE more than doubled from 2002 to 2006, and some Austrian banks earn more than half their annual group income in the region.

Austrian Outward FDI in CESEE

Stocks in 2005	Investor ranking	Total stocks in EUR billion	Austrian share in %
Bosnia and Herzegovina	1st place	1.96	32.7
Croatia	1st place	13.19	29.0
Bulgaria	1st place	8.53	28.3
Slovenia	1st place	5.56	27.9
Romania	2nd place	15.04	15.7
Slovakia	3rd place	11.02	14.7
Serbia	3rd place	3.04	11.8
Hungary	3rd place	40.40	11.4
Czech Republic	3rd place	42.04	11.2
Ukraine	3rd place	13.85	8.7
Poland	5th place	62.69	5.0
Lithuania	9th place	5.45	2.7
Estonia	10th place	10.37	1.1
Latvia	13th place	4.04	1.4

Source: WIIW data base (May 2006).

On the subject of the free movement of workers within the EU, Austria – like most Western European EU Member States – has opted to temporarily restrict access to its labor market. Austria has justified the extension of its transitional arrangement by three years until May 2009 among other things by the fact that the Austrian labor market has not been able to fully absorb migration up to now and that millions of potential commuters live on the other side of the especially long border between Austria and Eastern European countries. However, the examples of countries which did not restrict access to their labor markets[1] show that migration produces not only labor supply but also labor demand, and that migration has a positive impact on productivity in the long term.

[1] Ireland, Sweden, and the U.K. (minor restrictions).

Implementation of the Enlargement Strategy Continues

Bulgaria and Romania join the EU

Bulgaria and Romania joined the EU on January 1, 2007, after a comparatively brief period in which they succeeded in transforming their economies from centrally planned to functioning market economies and in fulfilling the political and legal criteria for EU membership. While acknowledging this achievement in its monitoring report of September 2006, the European Commission also identified a number of areas that require further work even after accession, notably the fight against corruption, judicial reform, the proper management of EU agricultural funds and direct payments, and food safety. Therefore, the European Commission prescribed a number of accom-

Convergence between Southeastern Europe and the EU continues

Accession negotiations make progress with Croatia…

… but stall with Turkey

panying measures for accession, such as a mechanism to cooperate and verify progress in the area of judicial reform and the fight against organized crime and corruption. To protect the EU's financial interests, a separate regulation specifying a mechanism for the proper use of agricultural funding was adopted. EU legislation also provides for comprehensive measures to deal with possible dangers emanating from areas like food safety.

Croatia and Turkey were granted EU candidate country status in 2005. Screening – an analytical comparison of the laws of the candidate country and Community law to identify any gaps – has already been completed for all accession negotiation chapters. The successful conclusion of the screening process is the prerequisite for the official opening of a negotiation chapter. By end-February 2007, two negotiation chapters had been provisionally concluded for Croatia. The Republic of Macedonia also has candidate country status, but as yet, no date has been set for the opening of accession negotiations.

In November 2006, the European Commission found that certain obstacles to the free movement of goods between the EU and Turkey remained. Hence, Turkey had not fulfilled all obligations it had undertaken to implement with the Additional Protocol to the Ankara Agreement. Specifically, this means that Turkey has not extended the existing customs union agreement with the EU to the new Member States and above all to Cyprus. Under the circumstances, the European Commission recommended to suspend opening those chapters of the accession negotiations to which these restrictions by Turkey related. Furthermore, it advocated that no decision be taken to provisionally close any additional chapters until Turkey had completely fulfilled its commitments related to the Additional Protocol.

The conclusion of negotiations on a Stabilisation and Association Agreement (SAA) with Albania represented an important milestone of the continued convergence process between Southeastern Europe and the EU. The intention of SAAs is, among other things, to promote economic and trade relations and to pave the way, following a transition period, for free-trade rules compliant with the rules of the World Trade Organization (WTO). SAA negotiations with Bosnia and Herzegovina were started in November 2005. Most of the wording has already been agreed, but the country must still provide evidence of further progress in some key areas. Montenegro achieved independence from Serbia in June 2006 after a referendum. Following independence, the EU launched negotiations for an SAA with Montenegro that build on results of earlier negotiations with the State Union of Serbia and Montenegro. In May 2006, SAA negotiations were interrupted, however, as Serbia failed to fulfill its commitment to fully cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY).

The Euro Comes to the New Member States

In their respective convergence reports of May 2006, the European Commission and the ECB concluded that Slovenia had achieved a high degree of sustainable economic convergence with a track record of stability-oriented economic policy and far-reaching reforms, and that central bank independence had been ensured.

Box 7

Slovenia – 13th Euro Area Member

Slovenia has been a member of the euro area since January 1, 2007. Following the positive assessment of Slovenia's economic convergence in the ECB's and the European Commission's convergence reports of May 2006 and the June 2006 European Council conclusion to welcome Slovenia's entry into the euro area, the Council of Economics and Finance Ministers (Ecofin Council) adopted a decision allowing Slovenia to join the euro area on July 11, 2006. The irrevocable conversion rate of the Slovenian tolar to the euro was also set on July 11, 2006, at EUR 1 = SIT 239.640, the central rate agreed when the tolar entered the exchange rate mechanism II (ERM II). Slovenia was the first euro area country in which the date of euro adoption and the issue of euro banknotes and coins coincided. The period of parallel circulation of old and new currency was quite short – until January 14, 2007 – and the period during which tolar cash could be exchanged free of charge at Slovenian commercial banks ended March 1, 2007. At the Bank of Slovenia, banknotes may be exchanged without a deadline, coins until December 31, 2016. Dual price display became obligatory on March 1, 2006, and will remain in force until the end of June 2007; some goods and services are excepted.

One of the key challenges on the occasion of the introduction of the euro in Slovenia was to prevent negative price effects. According to the Slovenian statistical office, in the direct run-up to the introduction of the euro (i.e. in December 2006), some goods and services categories (such as cafés and restaurants, furniture, cosmetic articles, textiles, personal services) were subjected to unusually high price increases, which might partly be associated with the introduction of the euro. However, this trend was not confirmed: inflation diminished in January and February 2007.

Slovenia's euro area entry is the culmination of the successful convergence process of the past few years. Nominal convergence with the euro area was evidenced by the marked decline in inflation (from 9.9% in 1996 to 2.5% in 2006) and budget deficits (to 1.4% of GDP in 2006), low government debt (27.8% of GDP in 2006), the convergence of long-term and short-term interest rates, a high degree of exchange rate stability during the period in which Slovenia participated in ERM II (June 2004 to December 2006), and a low current account shortfall.

Comparison of Slovenian and Euro Area Indicators

	Slovenia		Euro area	
	1996	2006	1996	2006
Population (million)	1.99	2.00	299.48	314.56
Population (% of euro area population)	0.7	0.6	×	×
GDP (% of euro area GDP)	0.3	0.4	×	×
Per capita GDP (at PPP, % of euro area GDP)	62	79	×	×
GDP per employee (% of euro area GDP)	57	76	×	×
Employment ratio (%)	61.6	66.0[1]	58.2	63.5[1]
Unemployment rate (Eurostat definition, %)	6.9	6.0	10.7	7.9

Source: Eurostat.
[1] 2005 data.

As a result, the European Commission and the ECB proposed that Slovenia adopt the euro, which it did on January 1, 2007. Slovenia is now the 13th EU Member State to enjoy the advantages of the single currency, including the elimination of various transactions costs and more transparent prices and, above all, price stability as a firmly enshrined goal.

Slovenia introduces the euro

Slovenia's euro area membership is of particular symbolic value: The euro has now made first inroads into the new Member States. The introduction not only has economic advantages, but above all, it reinforces a common European identity and connects the CESEE countries more closely with the EU.

Euro Introduction in the New Member States Stalls

New EU Member States do not fulfill convergence criteria

The Treaty establishing the European Community stipulates that the ECB and the European Commission examine the progress made in the fulfillment by the Member States of their obligations regarding the achievement of Economic and Monetary Union (EMU) at least once every two years, or at the request of a Member State with a derogation. These obligations refer to the achievement of a high degree of sustainable convergence as measured by the fulfillment of the convergence criteria price stability, government budgetary position, exchange rate stability and long-term interest rates. The convergence reports document the examination of convergence progress. Such reports were due in 2006 and submitted in December for the Czech Republic, Estonia, Cyprus, Latvia, Hungary, Malta, Poland, Slovakia, and Sweden.[1] Slovenia and Lithuania were assessed in the convergence reports of May 2006 at the request of the respective national authorities.

As outlined above, the assessment of Slovenia resulted in the proposal that the country adopt the euro. In contrast, the convergence reports for Lithuania concluded that the country was not ready to adopt the euro. Over the reference period, Lithuania posted a 12-month average rate of HICP inflation of 2.7%, which is slightly above the reference value stipulated in the Treaty.[2]

The convergence reports of December 2006 came to the conclusion that on the basis of the October 2006 data, none of the reviewed countries fulfilled all convergence criteria. Five countries did not fulfill the price stability criterion. One country had long-term interest rates above the reference value. With regard to budgetary performance, five of the examined countries were found to be in an excessive deficit situation. Furthermore, three countries exceeded the 60% of GDP reference value for government debt. Finally, four countries were not participating in ERM II, and only one country had been participating for more than two years before the convergence examination.

With the launch of the euro in Slovenia, the euro has made its debut in Central, Eastern and Southeastern Europe. At present, the time at which the euro will have replaced the national currencies of all countries that joined the EU during the fifth enlargement is not foreseeable, though. While during the enlargement year 2004 many new Member States had still aspired to introduce the euro as quickly as possible, this impetus had subsided noticeably by 2006. At the current juncture, only Cyprus, Malta and Slovakia give a specific date for euro introduction. Cyprus and Malta are aiming for 2008. Both countries

[1] *Two Member States – Denmark and the United Kingdom – are not covered by the ECB's or the European Commission's respective convergence reports because they have negotiated opt-out arrangements and are not participating in Stage Three of EMU.*

[2] *The reference value is calculated as the arithmetic average of the 12-month moving average rate of inflation of the three best-performing Member States in terms of price stability plus 1.5 percentage points.*

have already submitted a request for convergence assessment. The Ecofin Council is likely to decide on this request in July 2007 on the basis of convergence reports to be prepared by the ECB and the European Commission. Slovakia plans to introduce the euro in 2009, whereas the remaining new Member States have postponed the date of euro introduction indefinitely or have not stated any date. Bulgaria intends to join ERM II already in 2007, which would make 2010 the earliest date for euro introduction.

The Euro: The Monetary Policy Anchor in Central, Eastern and Southeastern Europe

The euro has already come to play an important role in the CESEE economies. A number of countries orient their monetary and exchange rate policies on the single currency. Six new Member States were participating in ERM II at the reporting date, limiting fluctuations of their currencies' external value to a band of ±15% to the euro. After Národná banka Slovenska had intervened in the foreign exchange market in December 2006 and in March 2007, a unanimous decision was taken on March 16, 2007, following the procedure within the ERM II framework to revalue the Slovak koruna's central parity by 8.5%. The new central rate of the koruna was set at EUR 1 = SKK 35.4424, retaining the standard fluctuation band of ±15% around the central parity. Bulgaria, Bosnia and Herzegovina as well as the Baltic countries operate euro-based currency board arrangements. Montenegro and Kosovo even opted to officially introduce the euro as legal tender.[3] The euro is also playing an important and growing role in the invoicing of trade and in the capital markets. Moreover, euro use among the CESEE population has become quite widespread, irrespective of a legal basis and independently of the exchange rate regime in place. Cash holdings, savings and borrowing in euro are not unusual in the region today.

Euro use in CESEE has become widespread

To measure the extent of euro use in the region, the OeNB has been conducting surveys in five CESEE countries since 1997 to record volumes of euro holdings, savings and loans, and to ascertain the motives for euro use.[4] In more detail, at the end of 2006 some 37% of respondents in Slovenia, 30% in Croatia, 19% in Slovakia, 8% in the Czech Republic and 6% in Hungary were holding foreign currency, predominantly euro, either in the form of cash or of foreign currency accounts. The percentages are similar for foreign currency-denominated loans to households and enterprises: The unweighted average share of foreign currency-denominated loans in total loans at year-end 2005 was 42%, ranging from 10% in the Czech Republic to 77% in Croatia. The bulk of these foreign currency loans are denominated in euro. Moreover, the data indicate that the euro has generally and primarily gained ground in recent years at the expense of the U.S. dollar.

It should be noted that currency substitution is a temporary phenome-

[3] *This phenomenon of unilateral euroization is referred to as "de jure euroization."*

[4] *See Backé, P., D. Ritzberger-Grünwald and H. Stix. 2007. The Euro on the Road East: Cash, Savings and Loans. In: Monetary Policy & the Economy Q1/07. OeNB. 114–127.*

non in CESEE. Ultimately, all EU Member States are bound by the Treaty on European Union to adopt the euro. Therefore, the time at which the euro becomes legal tender in these countries depends on how fast the EU enlargement and convergence process itself moves forward.

The OeNB Provides Its Expertise to Support European and International Cooperation

In 2006, Austria played an especially important role in the European institutional framework. For the second time since 1998, Austria held the rotating presidency of the Council of the European Union (in the first half of 2006). The major political achievements of the presidency were no doubt the agreement with the European Parliament on the EU financial perspectives for 2007 to 2013 and the agreement on the Services Directive, which aims at promoting the free movement of services in the internal market.

Austria assumes EU Council presidency in the first half of 2006

Austria had set itself the special priority of pressing ahead with preaccession efforts for Southeastern European countries and scored a key political success with the conclusion of negotiations on an SAA for Albania (see above). A meeting of EU and Western Balkans foreign ministers confirmed the EU accession perspective for the countries of the region. Against the background of growing skepticism about enlargement among EU Member States and the intensifying debate about the EU's absorption capacity, this confirmation must be seen as an especially important step to support the region. The OeNB, too, has increasingly directed its regional analysis focus to these countries, which are becoming more and more important for the Austrian economy.

OeNB research focus on CESEE

The OeNB's focus on Central, Eastern and Southeastern Europe also extends to its financial market activities. Expertise in this area is to be shared, e.g. by providing risk assessments for, and training financial market supervisors of, these countries. The OeNB is developing long-term partnerships with CESEE to secure Austria's economic interests and to strengthen its own position as a center of expertise for integration issues within the Eurosystem. In the field of cash services, the OeNB is particularly well positioned to provide innovative and secure integrated solutions through its subsidiaries.

The OeNB is involved in European and international cooperation through many avenues. Its representation in numerous Eurosystem/ESCB forums comes to mind first. As the OeNB's governor is a voting member of the Governing Council of the ECB, the supreme decision-making body of the Eurosystem, the OeNB contributes actively to monetary policy and other decisions. In addition, the OeNB provides expertise in the forums of numerous EU and other international organizations and networks.

Within the framework of its focus on "going east," the OeNB maintains a multitude of contacts to CESEE central banks. A key objective of the OeNB's "going east" efforts is to facilitate the integration of the new Member States into the Eurosystem while establishing itself as a crucial contact partner within the Eurosystem.

In this context, the OeNB has concentrated its research activities on the CESEE region. The OeNB uses dialogue and technical cooperation to share the knowledge gained through these activities with the countries to which it applies. The OeNB's annual Conference on European Economic Integration is an important channel for knowledge sharing. In 2006, the conference was organized jointly with the European Bank for Reconstruction and Development (EBRD) on the topic "The Changing Landscape of FDI in Europe." Welcoming nearly 260 participants from 30 countries, the event met with lively interest.

On the occasion of Austria's EU Council presidency, the OeNB and the Austrian Federal Economic Chamber organized an international conference jointly with the Austrian Federal Ministry of Finance and the European Commission. More than 280 participants from the euro area and the new Member States benefited from exchanges at the conference themed "Experience with and Preparations for the Euro."

The OeNB organized the second Brussels Economic Round Table in July 2006. Entitled "Enlargement of the Euro Area: Which Countries Will Join Next?" it also dealt with euro issues, specifically the future strategy for euro area expansion.

Last but not least, over 90 articles in OeNB publications – "Monetary Policy & the Economy," "Focus on European Economic Integration," "Financial Stability Report," "Working Papers," workshop and conference proceedings – made the main research results of OeNB staff accessible to a broad readership in 2006.

The OeNB Ensures Implementation of Monetary Policy and Efficient Management of Reserve Assets

The OeNB is responsible for implementing the Eurosytem's single monetary policy in Austria, and, in this capacity, conducts the Eurosystem's monetary policy operations with credit institutions in Austria. In addition, it manages its own reserves and reserve assets transferred to the ECB. The year 2006 saw some changes in the framework for monetary policy instruments and procedures, and a continuation of the OeNB's successful investment performance.

Framework for Eligible Collateral Expanded

All Eurosystem liquidity-providing operations have to be based on underlying assets provided by counterparties. The Eurosystem now applies a single framework for eligible assets covering all Eurosystem credit operations. This single framework for collateral (also referred to as the "single list") came into effect on January 1, 2007, and replaces the two-tier system installed at the beginning of Economic and Monetary Union, which will be phased out by May 31, 2007. The OeNB was actively involved in designing the new single framework.

Single framework for eligible collateral

A major change was the decision to make credit claims, i.e. bank loans, eligible as collateral in all euro area countries under the single collateral framework.

In Austria, credit claims had been acceptable already in the past as so-called tier-two assets. The new framework brings the OeNB's counterparties a number of advantages, which appear to have prompted them to use this asset class more intensively than in the past, judging from early statistics. The most important advantages include:

- Eligible debtors include not only nonfinancial corporations but also, as a rule, public entities (central, regional and local governments).
- The maturity spectrum has been broadened substantially by lifting previous restrictions on the residual maturity on credit claims.
- To ensure that credit claims comply with the required high credit standards, a Eurosystem credit assessment framework (ECAF) has been set up. A key characteristic of ECAF is that counterparties may choose among four credit assessment sources to prove the necessary credit quality, namely:
  - NCB in-house credit assessment systems, currently operated by Austria as well as Germany, France and Spain
  - renowned rating agencies (such as Moody's, Standard & Poor's and Fitch)
  - counterparties' own, validated internal ratings-based (IRB) systems
  - third-party rating tools
- In addition, the OeNB has set up a fully automated electronic reporting interface, which ensures a quick and efficient mobilization of credit claims.

Changes in the Implementation of Monetary Policy Measures

On January 13, 2006, the ECB published an update of its publication entitled "The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures" ("General Documentation").[1] In this update, the ECB specified the criteria on the basis of which the eligibility of asset-backed securities (a category of debt instruments) for use in Eurosystem credit operations is to be assessed in the future. In the past, the Eurosystem had treated asset-backed securities according to the general rules governing debt instruments, rather than applying specific eligibility criteria. Thus, the general tier-one eligibility criterion stipulating that debt instruments must have "a fixed, unconditional principal amount" was interpreted to exclude those asset-backed securities in the case of which credit risk had been transferred to a special purpose vehicle using credit derivatives. To increase the overall transparency of the collateral framework, the ECB has now introduced adjustments specifying the precise criteria that have to be fulfilled by asset-backed securities in addition to the criteria applicable to debt instruments in general. As a result of the introduction of the new criteria, it was also decided that the "fixed, unconditional principal amount" requirement will no longer apply to asset-backed securities. This is because the principal amount of all asset-backed securities is usually dependent on the performance of the underlying assets. The new criteria relate to the following five aspects: (1) the structure of the transaction, (2) the composition of the pool of assets, (3) the seniority of the tranches, (4) the issuer's country of residence, and (5) the assessment of the eligibility of the asset-backed securities.

On December 22, 2006, the Governing Council of the ECB, moreover, decided to increase the allotment volume for each of the longer-term refinancing operations to be conducted in the year 2007 from EUR 40 billion to EUR 50 billion.

ECB publishes revised version of the General Documentation

Market Environment for OeNB Portfolio Management

The world economy entered its third year of strong expansion in 2006. Growth remained dynamic in the economies of Eastern Asia and the United States; euro area output also expanded robustly. Under these favorable economic conditions, international financial markets were closely monitoring the perspectives for global growth and the monetary policy measures the major central banks were likely to take in this context. Both the market for government securities and the market for riskier assets (high-yield investment and stocks) reacted very sensitively to macroeconomic signals as well as central banks' measures and intentions. Expectations of an imminent "interest rate pause" by the Federal Reserve or of gradual interest rate changes by the Eurosystem as well a regional shift of the economic momentum from the United States to Europe and Asia caused the U.S. dollar to depreciate markedly: International interest rate differentials favoring the U.S. currency and a marked difference in cyclical positions from which the U.S. dollar had benefited in 2005 narrowed gradually in the course of 2006. The U.S. dollar therefore depreciated by almost 9% against the euro until mid-May 2006. Thereafter, the exchange rate developed

[1] *For further details, see www.ecb.int/press/pr/date/2006/html/pr060113.en.html.*

sideways until November, only to suffer another setback in the final weeks of the year, as a result of a special factor (see box 8). On balance, the U.S. dollar lost 10.5% against the euro in 2006.

U.S. dollar depreciates, yen develops unevenly

The performance of the U.S. dollar against the yen was mixed. In spring 2006, the U.S. dollar depreciated sharply against the Japanese yen within a matter of weeks (by about –7.5%), prompted by increasing signals by the Bank of Japan that it was about to end several years of zero interest rate policy given further progress in economic recovery. Yet with markets turning skeptic about the preparedness of the Bank of Japan to increase interest rates rapidly, the U.S. dollar exchange rate soon turned positive again. The Japanese central bank did raise its key rate on July 14, 2006, from 0% to 0.25%, but then held interest rates steady until the end of the year. Furthermore, the marked weakness of the Japanese yen (also against other currencies, including the euro) most likely reflects substantial volumes of carry trade[2] transactions initiated above all by hedge funds.

Yield curves flatten, U.S. yield curve gradually inverts

Government bond yields, which had started to increase in 2005, continued to rise in the key markets for such bonds until mid-2006. U.S. government bond yields with a ten-year maturity rose from 4.3% at the beginning of the year to close to 5.25% by July 2006. Among other things, this trend was supported by a series of positive economic outlooks and resurging insecurity about the impact which the Federal Reserve's interest rate pause might have on inflation. The worldwide rise in bond yields may also result from the fact that governments were increasingly taking action to avail themselves of the favorable capital market conditions. The U.S. Treasury, for instance, launched a 30-year bond on February 9, 2006, for the first time since 2001. This auction met with high demand by institutional investors from the U.S.A. (pension funds) as well as from international investors (i.e. central banks of emerging markets – see box 8).

In the euro area, long-term bond yields picked up in line with developments in the U.S.A. in the first half of 2006. The yields of ten-year government bonds rebounded from a historical low of about 3% (September 22, 2005) to 4.15% (July 5, 2006). The main reason for this development was the strengthening economic outlook for the euro area. Here, too, stronger primary market sales, the effect of which is hard to quantify, are likely to have played a role. In the early months of 2006, the long-term yields of Japanese government bonds continued the ascent on which they had embarked in mid-2005 and, given expectations that Japan had finally escaped from deflation, reached a new record high on May 10, 2006, by rising above 2%, a level last reached in the late 1990s.

In the summer months of 2006, long-term government bond yields started to decline on all major markets. At the same time, yield curves were flattening, in continuation of a trend already observed in 2005. In the U.S.A., the yield curve even became gradually inverted, and the negative slope steepened as the year progressed. In other words, short-

[2] *Please refer to the glossary annexed to the report for definitions.*

term yields turned higher than long-term yields, and the term spread widened. This development most probably reflected easing inflation pressures and increasing signals of a slowdown of U.S. output growth. Market participants were beginning to wonder whether this inversion of the U.S. yield curve was heralding an upcoming recession. Yet toward the end of 2006 expectations of a "soft landing" in 2007 appeared to prevail. This moderation of expectations reflected the apparently limited impact the cooling real estate market had on U.S. consumption and consumer confidence, a massive decline in crude oil prices (by almost 30% in U.S. dollars in early August 2006), the ongoing buoyancy of stock markets and a continued stream of positive corporate data.

Developments in the markets for riskier assets – above all assets of emerging economies – would appear to signal that the global economic recovery of the past few years has broadened geographically. The rising trend in international stock markets observed since 2003 continued in 2006 except for a brief surge in sales in May and June 2006. Driven by positive fundamentals and supported by the temporary end of the interest rate tightening cycle in the U.S.A., international stock markets rallied to new highs in the course of the year. Following a massive inflow of foreign capital, the risk premia on risky corporate bonds from emerging markets continued to drop further, with some brief interruptions. Investors' unabatedly high risk tolerance is evident above all from historically low implicit volatilities of prices for risky assets. This is particularly notable, as an increasing incidence of geopolitical tensions does not appear to have affected investors' propensity to take risks in any way.

Portfolio Management at the OeNB

The OeNB's Treasury Section manages reserve assets and other assets worth around EUR 21.5 billion. The assets are invested in gold, foreign currency and euro portfolios – which form the monetary policy segment of investment – and a number of other subportfolios relating to the investment of own funds, assets transferred to the ECB, pension reserve assets and reserve funds endowed for the National Foundation for Research, Technology and Development (National Foundation). Investment in the various subportfolios is subject to different objectives and rules. In the second year covered by the Second Central Bank Gold Agreement (signed for the period from September 2004 to September 2009), the Treasury Section sold around 14 tons of gold. Taken together, the signatories of the Gold Agreement sold about 395.5 tons of gold during this period.

OeNB invests reserve assets and other assets

As in previous years, the OeNB carried out portfolio shifts in line with the framework conditions set by the European System of Central Banks (ESCB), as motivated by national, market and risk considerations. As a rule, the Treasury Section strives to reduce portfolio risks by spreading investment across a broad range of currencies and financial instruments and endeavors to ensure a steady flow of income. At the same time, the Investment Committee and the trading unit take on the challenge of turning untypical market conditions into profits through active portfolio management. While the Treasury has shifted assets to higher-yielding currencies and instruments in recent years, funds remain invested in highly liquid instruments with very limited credit risk. Investment decisions continue to be guided by the traditional priority sequence – security, liquidity and returns.

Value-at-risk calculations are used to fine tune the risk level of benchmarks to the OeNB's specific requirements as a central bank, taking into account above all the OeNB's risk-bearing capacity resulting from its liability-side reserves. Moreover, the OeNB's risk management relies substantially on a detailed analysis of complex structured products (including funds), also with regard to assets submitted as collateral for monetary policy transactions. Given the fast-paced developments in this segment of the market, a high level of (continual) professional development of staff working in this area is a key priority.

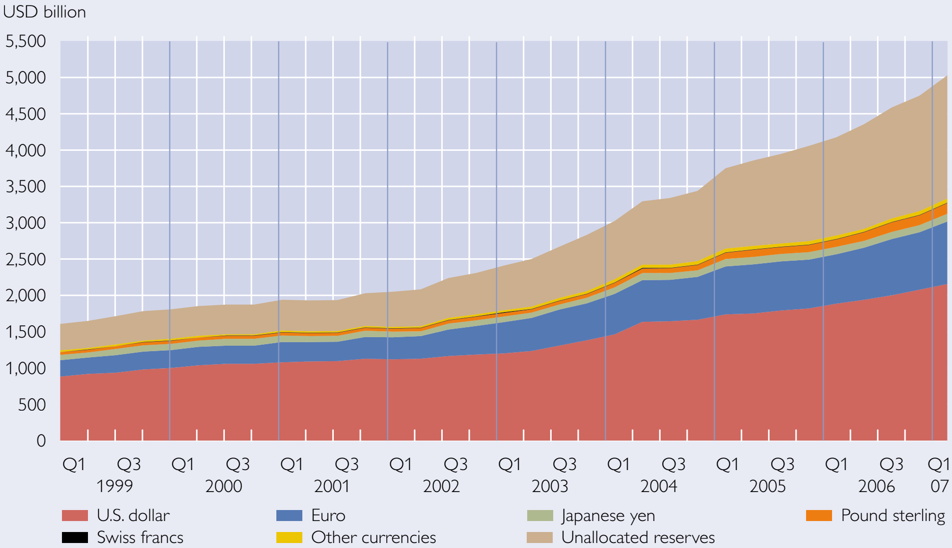
The OeNB is the only central bank within the ESCB to actively conduct trading operations directly

Box 8

Global Currency Reserves Reach USD 5,000 Billion

In 2006, central banks had investments of nearly USD 5,000 billion worldwide. According to BIS statistics, this corresponds to a share of 11% of world GDP (while the OeNB's reserve assets correspond to 3.8% of the Austrian GDP). IMF statistics shed some light on how currency allocation has changed over time. The chart below shows that the U.S. dollar clearly remains the currency of choice, but that the euro has gained significance, while the Japanese yen has lost importance at the cost of the pound sterling. A particularly fast-growing part of the currency reserves stems from emerging economies, above all from China. Those countries report the highest reserve holdings internationally by far, but they do not publish their currency allocation. This policy may at times cause substantial uncertainty in foreign exchange markets: The surge in selling U.S. dollars at the end of 2006, for instance, was caused by a leak in information that the Chinese central bank was shifting currency reserves from the U.S. dollar to other currencies.

Allocation of Global Currency Reserves



Source: IMF (COFER database).

in New York, via its local Representative Office. It provides the OeNB's traders as well as traders from other European central banks opportunities to gain first-hand trading experience in New York.

Using a decentralized approach, the OeNB manages its share of the foreign reserve assets transferred to the ECB on behalf and for the account of the ECB. These management activities are strictly separated by "Chinese walls" from all other activities carried out by the OeNB's Treasury.

With regard to the management of the ECB's reserves, the Governing Council of the ECB now supports the concept of currency specialization: Since January 2006, most Eurosystem central banks have, therefore, specialized in investments denominated in either U.S. dollar or Japanese yen. As a result of this specialization, the OeNB was entrusted with managing part of the ECB's yen portfolio. The OeNB's portfolio management on behalf of the ECB has been very successful in recent years.

OeNB manages its part of the ECB's yen portfolio very successfully

The OeNB Is a Reliable Source for Financial Statistics

The OeNB Is Among Austria's Key Providers of Statistical Data

OeNB financial statistics cover a wide range of topics

Statistical data are tools on which modern societies have come to depend. They influence policymakers and economic agents, highlight trends, lead opinions and support or disprove arguments. In an increasingly complex world, statistics help consumers make informed decisions, providing important guidance for investment and saving, home purchases and retirement provisioning. How valuable statistics are depends essentially on the quality of data collection but also on the confidence users have in the figures. Therefore the integrity of statistics producers must be beyond any doubt; users must be sure that the data are compiled properly. Given its knowledge of the financial market, the OeNB performs the responsible task of compiling a range of official statistics on financial developments, basically money and banking statistics, interest rate statistics, supervisory statistics and external statistics. The OeNB is thus among the key providers of statistical data for

Box 9

OeNB Statistics: Two Examples

Record Profits for Austrian Direct Investors Abroad in 2004

The OeNB's direct investment statistics show that Austrian investors had spent EUR 49.8 billion on acquiring strategic equity holdings abroad by the end of 2004, while foreign investors had bought EUR 45.8 billion worth of Austrian equity. Thanks to substantial new investment in 2005, the stock of outward foreign direct investment (FDI) is expected to have reached EUR 57.5 billion, and inward FDI stocks EUR 52.7 billion by the end of 2005. Having staged an impressive catching-up process since 1990, Austria has been a net direct investor abroad since 2003. The development of direct investment income has been particularly favorable: In 2004, the income generated by FDI enterprises of Austrian corporations abroad jumped by EUR 1 billion to EUR 4.2 billion. While the income of nonresidents' FDI enterprises in Austria also rose markedly, the Austrian economy became a net creditor already in 2003. The performance of companies in Central and Eastern Europe was best of all, with double-digit yields in a number of countries.

Cross-Border Financial Assets and Liabilities Exceed EUR 1,000 Billion for the First Time in 2005

The international integration of Austria's financial markets reached a new high in 2005: Cross-border assets and liabilities grew by some 20% each, and their sum for the first time exceeded the threshold of EUR 1,000 billion by the end of 2005. Austria's financial liabilities abroad, which totaled EUR 525.4 billion, surpassed financial assets by EUR 38.4 billion. Austria's International Investment Position thus was somewhat less favorable in 2005 than in 2004 (–EUR 33.1 billion). The rate of internationalization, which captures the volume of cross-border financial assets and liabilities relative to GDP, reached 413% in 2005 (2004: 356%). The key drivers of this development were the exceptionally high purchases of foreign securities by Austrian investors striving to benefit from the favorable conditions in international financial markets: These purchases reached a new record high (EUR 34 billion) in 2006. At the same time, the rally of the Austrian blue chip stock index ATX – reflecting above all foreign demand – contributed to driving up financial liabilities substantially. Foreign investors, whose purchases markedly influenced the performance of the ATX (+51%), made profits of some EUR 10 billion from price gains of Austrian stocks.

Austria. Consequently, the comprehensive and objective collection of economic data and the compilation and distribution of the relevant statistics is among the OeNB's key targets. The OeNB itself depends on sound statistics in fulfilling its core policy tasks, such as maintaining price stability and the stability of financial markets and payment systems. At the same time, the OeNB's statistics contribute to informing the public as reliably as possibly about economic developments in Austria.

OeNB statistics provide answers to a wide spectrum of issues and important insights into the Austrian economy. Among other things, they indicate what average interest rates domestic banks charge households for loans, how profitable foreign direct investment is, how far the international integration of Austria's capital markets has progressed, what financing and saving preferences domestic households have or that Austrians have invested already close to EUR 250 billion in foreign securities. For more detailed examples of the wealth of information that the OeNB's statistics offer, see box 9.

Alongside primary statistics compiled in-house, the OeNB also offers access to numerous economic statistics produced by a variety of other statistics providers on its website. In 2006 the OeNB's online data set consisted of some 240 tables, which were accessed about 3 million times during the year. Detailed descriptions of collection methods, data coverage and data sources also allow less experienced data users to interpret the statistics properly. Users may flexibly choose their query parameters, such as the time horizon or frequency of

OeNB online statistics in 2006: 240 tables, 3 million page views

Chart 19

Chart 20

Queries Addressed to the Statistics Hotline in 2006 (by Subject)

Source: OeNB.

data series. In addition, query results may be easily exported into Excel files.

OeNB supports international development of statistical methods and concepts

To enable a meaningful use of statistical data, it is important to provide more than plain figures. After all, high data quality is of little use if the data are interpreted incorrectly. Being aware of the need to support data interpretation, the OeNB provides a wide range of print and online products. Comprehensive detailed analyses, brief reports on topical issues or brochures on specific subjects ensure the targeted distribution of statistical information to various domestic and international audiences and increase the knowledge of the functioning of the economy and its increasingly complex ramifications. Naturally, the national and foreign media are important partners for the OeNB in communicating its statistical findings. In this respect, eight press conferences hosted by the OeNB's Statistics Section provided an adequate framework for interaction with the press.

OeNB Statistics Hotline
Monday through Friday
9 a.m. to 4 p.m.
(+43-1) 404 20-5555

Furthermore, individual queries may be addressed to the OeNB's Statistics Hotline at (+43-1) 404 20-5555 from 9 a.m. to 4 p.m. on all business days. In 2006, this service was used 1,700 times. The majority of queries are made by experts, i.e. members of banks, insurance companies or other financial service providers. Moreover, the hotline is frequently used by journalists and students.

Given Austria's role in the increasingly integrated world economy, in which national borders are becoming more and more blurred, the OeNB's statistics are not addressed to a domestic audience alone. As today's economic agents often operate across great physical distances and cultural barriers, they are dependent on standardized information, which makes high-quality, readily available and harmonized data essential. International organizations have for a long time worked on creating binding data standards for statistics providers such as central banks. For instance, the internationally comparable Financial Soundness Indicators compiled by the IMF – with OeNB input for Austria – contribute to enhancing the transparency of financial systems and reflect the financial stability of the countries covered. The OeNB is actively involved in developing statistical methods and concepts in cooperation with numerous international financial institutions and uses the exchange of expertise and ideas to improve its own products. Working in networks has become imperative for central banks just as it has for businesses, as it enables them to better cope with the challenges posed by today's fast-paced economy. The statistics experts at the OeNB stand ready to meet the challenge of rendering up-to-date and correct insights into the economy, for instance by providing data on the increasing number of regions in which Austrian banks do business as a result of the domestic banking industry's strong orientation toward Eastern Europe. Thus it was necessary to redefine the supervisory statistics framework in 2006 to put a risk-oriented reporting system in place. It takes detailed risk analyses to preserve the stability of the Austrian financial market in the face of the new structures that emerge as transnational business grows.

Yet amid the impetus of European integration, we must not neglect the specific regional aspects of our economy and society. Special market know-how and close contacts with economic agents will remain an essential precondition for compiling sound financial statistics. Like other central banks, the OeNB is in fact obligated to supply a variety of statistical data on the Austrian economy to international organizations, above all the ECB, the IMF, the BIS and Eurostat. The increasingly important task of coordinating and controlling the interaction of economies at the European and international levels depends fundamentally on such national input. Informed decision-making, after all, depends on sound statistical data.

New Framework for Compiling External Statistics

Dynamic development of the economy faces statisticians with new challenges daily

Producing and publishing external statistics for Austria – the balance of payments, the International Investment Position and direct investment statistics – are core tasks of the OeNB. On the basis of these statistics, important statistical measures are compiled such as net exports, which help gauge the performance of the Austrian economy within the framework of the national accounts system. Moreover, these statistics provide the basis for indicators that measure Austria's competitiveness and its attractiveness as a business location, such as the current account balance or the internationalization ratio of the domestic capital market and of corporations in Austria. Apart from the national functions of external statistics, they also serve as input for calculating EU and euro area aggregates. The OeNB thus contributes to implementing national structural and competition policies as well as common economic and monetary policies in Europe.

Statistics are the basis for economic policy control and coordination

Standards based on international law (resulting above all from Austria's IMF membership) and on Community law regulate the reliability, timeliness and comparability of external statistics. To implement and secure these quality standards in Austria, the Foreign Exchange Act was adopted in 2004 as promulgated in Federal Law Gazette Part I No. 123/2003. Within the new framework, the OeNB can meet the special challenges in producing external statistics that result from the internationalization trend. The often cited "globalization" affects both capital transactions and cross-border trade in goods and services. As a small, open economy, Austria has benefited above all from the process of economic integration in Europe and, well before the fifth enlargement round, from the catching-up of Eastern European economies. These developments have significantly raised Austria's degree of openness and strengthened the role of cross-border transactions in enhancing domestic welfare. Austria's exports and imports of goods and services taken together exceed domestic output, and the stocks of financial assets and liabilities abroad have grown to more than four times Austrian annual GDP.

Internationalization calls for new statistical concepts

The growing internationalization of the economy creates a technical challenge for producers of external statistics not only because of augmenting transaction volumes. With the growing business activity of transnational corporations, pooled liquidity management (cash centers) has gained importance, blurring the connection between economic and financial transactions. Ever since the introduction of a common European currency, it has no longer been possible to distinguish between domestic and foreign transactions on the basis of the currency in which the payments are denominated. Moreover, the euro area is increasingly turning into a single payments area. Since the statistical reporting thresholds were raised accordingly, bank transfers are no longer a meaningful source of information for external statistics. The increasing internationalization of the economy has, for the reasons outlined above, triggered a trend toward collecting external transaction figures directly from the agents – firms, households and governments – themselves. This direct reporting system is increasingly replacing the previous practice of gathering data indirectly from credit institutions.

Data for external sector statistics increasingly collected at the source

Austria responded to this development with the Foreign Exchange Act of 2004 and with the corresponding reform of the framework for compiling the balance of payments and related statistics from January 1, 2006. The guiding principle of the reform was to ensure a simple and cost-efficient reporting system for economic agents while maintaining the quality standard of Austria's external statistics. The new system therefore implies some extra burden for the OeNB in the form of additional calculations and estimations. For the production of the Austrian current account, the OeNB has established a close cooperation with Statistics Austria. Both institutions focus on their respective fields of specialization (Statistics Austria on the real economy, the OeNB on the financial sector), which ensures optimum synergy effects, high-quality statistics and a minimal reporting burden.

The restructuring of the production process for the Austrian balance of payments required the OeNB to adjust its data supply somewhat. As banks stopped reporting data on payment transactions, the OeNB had to discontinue its monthly time series on payment flows. For the reporting year 2006, the OeNB also stopped publishing the quarterly and annual time series on transactions that the IMF and the ECB require and instead made available a highly aggregated table through press releases (see *www.oenb.at*). To enable year-on-year comparisons, OeNB publishes preliminary back-calculations for the corresponding quarters of the previous year. For the second half of 2007, the OeNB plans to make available a stable time series, beginning with the reporting year 1995, to an interested

Box 10

New Design for Compiling the Austrian Balance of Payments

- *The Austrian balance of payments statistics have been based on direct surveys of economic agents engaged in external transactions since 2006.*
- *The sample surveys are tailored to the type of transaction and economic sector. The reporting population consists of some 7,000 economic entities, 3,800 of which are engaged in trade in services.*
- *Statistical data other than survey data as well as public register and administrative data may also be used under the Foreign Exchange Act 2004.*
- *Data on the travel industry are based on a hybrid compilation design (effective from January 1, 2006), i.e. a wide range of sources are evaluated.*
- *Foreign affiliates statistics are being implemented gradually.*
- *The current account was broadly harmonized with the national accounts when switching to the new balance of payments system.*
- *The OeNB calculates the exchange rate and price effects of capital transactions to decrease the reporting burden.*
- *The data base for the balance of payments was integrated with the data base for monetary statistics.*

expert audience and to reinstall the traditional press release and publication calendar. Until then, the OeNB will continue to liaise with research and forecasting institutions in Austria to inform them about prospective data breaks and plausible assumptions for bridging these gaps.

Positive experience with the new balance of payments system

Initial experience with the new balance of payments system shows that intensive, early contacts with firms secured the good cooperation of reporting agents. This is a major precondition for preserving the quality of the statistical results. The cooperation between the OeNB and Statistics Austria has also worked well. During the first reporting year under the new system, the two statistics providers jointly assessed breaks in time series and gained input for back-calculations. Looking ahead, both the OeNB and Statistics Austria see the need to concentrate on refining the results on data breaks, on realigning information sources (especially in the travel industry), and on checking the plausibility of model assumptions and gap estimates. Following completion of these tasks, the Austrian external statistics should provide a more detailed breakdown, reflect economic trends more accurately, be better comparable internationally and be more consistent with national accounts data.

The OeNB as Banks' Partner in Payment Services

Given that the OeNB is tasked with ensuring safe and sound cashless payments systems, this highly dynamic area is one of the most important links between the OeNB and the business and banking community. Work is currently focusing on the creation of a single euro payments area; the OeNB's efforts in 2006 were directed toward achieving this goal.

Single Euro Payments Area to be launched on January 1, 2008

Implementing the Single Euro Payments Area

The Single Euro Payments Area (SEPA) project aims at gradually harmonizing the fragmented market for cashless retail payments, which is the logical next step after the euro cash changeover. As the formats, systems and procedures required for processing cashless payments currently differ across countries, one essential aspect of the project is the introduction of uniform SEPA formats for direct debits and credit transfers across all SEPA markets. The members of the European Payments Council (EPC), i. e. representatives of European banks and banking associations, have been working on developing these standards since 2002. The most important frameworks were agreed at end-2006; they form the basis for implementation in the individual payments markets. The OeNB has supported the implementation of SEPA from the very beginning, not only in the European System of Central Banks (ESCB) and in cooperation with the European Commission, but also in its active cooperation with the Austrian banking industry and business community. A guideline for the implementation of SEPA in Austria was completed by the Austrian Payments Council (APC) at end-2006. This national migration plan contains a migration strategy and lists the necessary activities and milestones.

EU Directive creates common legal basis

The objectives of the SEPA project will be accomplished when European citizens and enterprises can make cashless cross-border payments throughout the euro area from a single bank account, using a single set of payment instruments, as easily and securely as they can make domestic payments today. The country or bank where customers hold this account should make no difference for payments.

SEPA will become reality on January 1, 2008: From that time on, all European banks should be able to process SEPA credit transfers and, as soon as a common regulatory framework is in place, SEPA direct debits. By the end of 2010, a critical mass of transactions should be processed with SEPA instruments; after that, SEPA payment services will progressively replace the national systems.

SEPA Will Also Optimize Card Payments

The SEPA initiative also aims at creating an environment in which card payments can be made without any technical, legal or business barriers that might prevent card organizations, cardholders, card issuers, acquirers or merchants from using or offering cross-border card payment services. In addition to the proposed EU Directive on Payment Services, which provides the legal foundation for the creation of an EU-wide single market for payments, the EPC's SEPA Cards Framework (SCF) establishes a set of general principles and rules for card payments.

These principles and rules apply to all euro area countries and to those EU countries that have decided to extend the application of Regulation (EC) No. 2560/2001[1] to their currencies.[2]

The SCF aims at achieving the following goals: In the future, all card transactions should comply with the EMV standard[3] and they should be based on microprocessor chips embedded in the card and cardholder verification via Personal Identification Number (PIN) input. Magnetic stripe transactions should be phased out by end-2010. To give an incentive for migration, all card organizations must implement the liability shift principle[4] by January 1, 2008, at the latest, and banks must issue SFC-compliant cards from 2008 onward. Banks that act as acquirers must provide merchants with adequate legal and technical solutions. The latter will benefit from more transparency regarding fees and services, and their choice to change acquirer or accept more than one card scheme must not be artificially constrained. In addition, the same fees must apply to all transactions processed with a given payment product of a given card organization, irrespective of whether they involve domestic or cross-border payments. Throughout the SEPA, every cardholder will thus be able to make payments on identical terms and as easily as in the national context today. The card organizations[5] have to remove legal and commercial barriers, e.g. discriminatory membership criteria, and provide for the interoperability of the individual card schemes.

Card payments in SEPA will be as easy as card payments in national systems today

To accomplish these goals and ensure technical interoperability, standardization will be required in several areas. The EPC Cards Working Group has been monitoring and coordinating the standardization efforts of the various initiatives since autumn 2006. The terminal interface features, for instance, will be developed further and standardized, allowing cardholders to make payments via a multilingual, user-friendly interface. In addition, the interaction between chip cards and terminals will be further harmonized in line with the EMV standard. Likewise, preparations are made to standardize the protocols and minimum requirements for terminal-to-acquirer interfaces. Finally, uniform standards will have to be defined for the transfer of data between acquirers and issuers (authorization and clearing) as well as for network requirements. In all these areas, special emphasis is placed on harmonizing minimum security requirements that should be based on existing standards whenever feasible and appropriate. The establishment of a neutral certification body for terminal certification is also planned.

1 *Regulation (EC) No. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro stipulates that customer charges on cross-border electronic payments up to EUR 50,000 must not exceed those on national transactions.*

2 *This currently applies to Sweden.*

3 *EMV stands for the three companies that developed the standard: Europay, MasterCard and VISA.*

4 *Please refer to the glossary annexed to the report for definitions.*

5 *E.g. VISA, MasterCard, American Express, Diners Club, JCB or national debit card issuers.*

Banks' Extensive Use of OeNB Payment Services Confirms the Need for Such Services

OeNB helps implement SEPA by creating a payments hub in Austria

The OeNB took action to create a hub for interbank payments in Austria for two main reasons: first, because many banks use the existing OeNB payment services extensively, and second, because the OeNB is committed to keep improving its payment services. By joining forces with the banks, the OeNB aims at positioning Austria as a strong and competitive payments area in Europe. Thanks to its regulatory and operational efforts, the OeNB is thus contributing substantially to guaranteeing safe payment processing and increasing market efficiency.

The pan-European automated clearing house STEP2 has gained in importance in Austria, as the number of transactions routed through STEP2 via the open and neutral access provided by the OeNB has risen steadily (with monthly year-on-year increases of between 11% and 15% in the second half of 2006). This permitted the OeNB to lower transaction costs, as it is committed to the principle of cost recovery and does not aim to generate profits. Some 10% of all indirect STEP2 participants[6] across Europe use the access provided by the OeNB.

The OeNB is actively promoting the implementation of SEPA-compliant interbank services so as to make the maximum contribution to achieving compliance with the SEPA requirements in Austria. At the beginning of 2008 and according to schedule, the OeNB will be providing the banks participating in STEP.AT and STEP2 with the new common SEPA formats. Participating banks will be able to use the future-oriented SEPA payment instruments both in domestic and cross-border transactions within the European Economic Area.

The OeNB will be offering a conversion service for banks that cannot yet process the new XML-based formats at the beginning of 2008. This service for banks participating in STEP.AT includes the conversion of payments submitted in the new format into the EDIFACT format that has been used in Austria so far. It also allows banks to submit payments in the old format to the OeNB, which will convert it into the new format and forward it to the receiving bank via STEP.AT or STEP2.

With this conversion service, the OeNB will make a substantial contribution to integrating Austrian banks in SEPA and promoting the use of SEPA instruments.

[6] *While direct participants process transactions directly with EBA Clearing, the operator of STEP2, indirect participants send and receive payment orders via a direct participant of their choice. The STEP2 system currently connects over 100 direct and more than 1,600 indirect participants from the entire European Economic Area.*

Box 11

STEP.AT – The Logical Next Step

From mid-2007 onward, STEP.AT will markedly increase the efficiency and security of interbank payment systems in Austria. In the development of STEP.AT, and especially in the design of the individual services, the OeNB has cooperated closely with interested banks, as they are the potential users of the system.

STEP.AT is a multilateral clearing system that provides same-day settlement. Submitted transfers will be batched and settled several times per day to guarantee swift processing of interbank transactions in STEP.AT. Thanks to straight-through processing, transfers can be submitted every day of the week and at all hours, which will help smooth out peaks in system utilization and prevent capacity bottlenecks in data transfers at the participating banks. Three types of participation will cater to the needs of the different banking sectors and institutions: Direct participants will directly send and receive payment orders to/from STEP.AT, with payments to be settled via their own OeNB accounts. Indirect participants, while directly sending and receiving payment orders to/from STEP.AT, will have their payments settled via the account of the direct participant on whom they rely. For the third type of participation, both payment orders and funds are channeled through the account of the direct participant involved.

Covering only bank-to-bank transactions, STEP.AT will process all formats used in Austrian interbank payments. At the beginning of 2008, STEP.AT will complement these formats with the common XML formats, thus achieving compliance with SEPA requirements at the earliest possible date.

STEP.AT offers a number of advantages over the correspondent bank system that Austrian banks currently use: A harmonized clearing system simplifies day-to-day operations (which helps reduce expenses) and cuts the cost of necessary future investments in hardware and software. Past experience shows that in the absence of a central clearing service, implementing procedural changes and migration projects in the interbank sector takes a long time and involves great technical and administrative effort. With STEP.AT, Austria will not only close the gap on the European standard in interbank payment systems, but also provide market participants with a SEPA-compliant payments infrastructure.

TARGET2 Will Gradually Replace TARGET from November 19, 2007

Replacing the TARGET[7] payment system with TARGET2 is a major Eurosystem project. Today, TARGET consists of the national real-time gross settlement (RTGS) systems of the euro area countries and the ECB payment mechanism. The national euro RTGS systems of Denmark, the United Kingdom, Poland and Sweden are also connected to TARGET. The system allows for the swift, secure and reliable processing of both domestic and cross-border euro payments, thus contributing significantly to integrating the euro money market and reducing systemic risk. TARGET is one of the largest payment systems in the world: In 2006, it processed some 326,196 domestic and cross-border transactions with a value of around EUR 2,092.3 billion on average a day.

TARGET is one of the world's largest payment systems

The migration to TARGET2, which starts on November 19, 2007, is scheduled to be completed by May

[7] *TARGET: The Trans-European Automated Real-time Gross settlement Express Transfer system that has been operational since January 1999.*

19, 2008. Given that Austria is part of the first migration group, Austrian participants will be able to send and receive payment orders to/from TARGET2 from the first day. The OeNB keeps the Austrian banks up to date on the latest developments of TARGET2 at numerous events.

TARGET2: development ensures success

During a four-year transition period starting from the respective migration dates, Eurosystem central banks can continue processing transactions through the existing RTGS systems. After that, they should use TARGET2 to process all payments that are routed through TARGET today; this applies to interbank payments, payments settled between banks and ancillary systems, and to transactions for the conduct of the single monetary policy. Settlement on a single shared platform will provide a harmonized service level and a single price structure for all domestic and cross-border TARGET2 transactions in the euro area.

The TARGET2 pricing scheme will allow direct participants to choose between a flat rate and a volume-based degressive fee that becomes cheaper than the first option as soon as there are more than 5,751 transactions a month.

Table 3

Core Pricing Scheme for TARGET2

Option A			
			EUR
Monthly fee			100
Flat transaction fee			0,8
Option B			
Monthly fee			1.250
	volume		
Band	from	to	
1	1	10,000	0.6
2	10,001	25,000	0.5
3	25,001	50,000	0.4
4	50,001	100,000	0.2
5	100,001	above	0.125

Source: ECB Communication on TARGET2, July 24, 2006.

Additional fees will be charged for indirect participation and certain other services; a separate pricing scheme applies to ancillary systems.

TARGET2 Securities – Eurosystem Initiative to Harmonize Securities Settlement

In 2006, the Eurosystem initiated a dialogue with the banking community and central security depositories (CSDs) to improve the efficiency of securities settlement. Today, processing securities transactions in a cross-border context is still not as efficient as in the national context, notwithstanding numerous attempts to amend the situation. The concept of TARGET2 Securities (T2S) envisages centralized processing of delivery-versus-payment (DVP) transactions by transferring central bank accounts and securities accounts to one and the same technical platform that would be fully owned and operated by the Eurosystem. The T2S project aims at removing barriers between the systems and at harmonizing settlement of securities denominated in euro. Thus, T2S is an important next step toward the integration of financial markets that would also lead to price transparency, open access and to the unbundling of services and prices. Feasibility studies conducted by the Eurosystem arrived at the conclusion that T2S is viable from a legal, technical, operational and economic viewpoint. In the next step, the T2S user requirements are to be defined in close cooperation with the users.

Chart 21

OeNB Subsidiaries in the Field of Cashless Payments

AUSTRIA CARD Plastikkarten und Ausweissysteme Gesellschaft m.b.H. (100%)

- production and sale of credit cards, card systems and related forms
- production and sale of ID systems

Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) GmbH (25%)

- development of concepts and measures to reduce credit institutions' payment transactions costs by increasing the degree of automation and enhancing customer service

OeNB Subsidiaries in the Field of Cashless Payments

Austria Card continues to flourish

Austria Card continued to prosper in 2006, with the number of cards produced again increasing by almost 5% to 76.7 million. While the share of chip cards remained almost stable at 13.9 million, two other segments posted strong growth: personalization and services. Personalization refers to loading and printing optical and electronic cardholder-specific data onto chip cards. The number of personalized payment cards alone doubled compared with last year's figures, which is attributable to foreign banks placing numerous orders with Austria Card. The services segment covers mostly consultation of banks in the migration from magnetic stripe cards to EMV-compliant chip cards.

On December 31, 2006, the number of credit cards (MasterCard, VISA, Diners Club and American Express) issued in Austria totaled 2.28 million (+5.0% or around 109,000 cards against December 2005). In 2006, Austrian credit cards were used in some 59 million transactions (+7.1% compared with 2005) with a total value of EUR 6.2 billion and an average value per transaction of EUR 105 (2005: EUR 103).

Austrian Payments Council is the coordination body for SEPA implementation in Austria

In 2006, the cooperation platform STUZZA (founded in 1991) was mainly concerned with achieving the goals set for the Austrian Payments Council (APC). The APC was established in 2005 within the framework of STUZZA by the OeNB – which also chairs the APC – the Austrian banking industry, the Austrian Federal Economic Chamber and the Austrian Bankers' Association. The APC is committed to promoting and coordinating the implementation of the Single Euro Payments Area in Austria. Experts from the banks and the OeNB evaluate the effects of SEPA implementation on the various aspects of cashless payments and develop technical and organizational solutions in APC working groups. At end-2006, the APC completed the Austrian migration plan, which outlines the basic approach to, and the next steps in, the implementation of SEPA in Austria.

Demand for Euro Cash Remains High

Currency in circulation in the euro area and in Austria

At end-2006, the number of euro banknotes in circulation in the euro area stood at 11.3 billion, their value at EUR 628.2 billion (which represented an increase of 11% against 2005 in value terms). The volume of euro coins came to 69.5 billion, representing a value of EUR 17.9 billion (which meant an increase of 7% against 2005 in value terms). Taken together, the value of banknotes and coins in circulation totaled EUR 646.1 billion. In November 2006, the value of euro cash in circulation for the first time surpassed the worldwide value of U.S. cash in circulation. The year-end total for the U.S. dollar was about USD 810 billion, which translated into EUR 615 billion at current exchange rates.

Austria is a banknote-importing country, i.e. Austria receives more banknotes from abroad than it exports to other euro area countries or the rest of the world. This fact reflects Austria's geographical position (close to large euro area countries such as Germany and Italy), its strong banking presence in Central, Eastern and Southeastern Europe, and its high revenues from tourism. The steady inflow of banknotes raises the stocks of banknotes in the OeNB's vaults, which must be processed and then redistributed within the Eurosystem. In this way, the OeNB contributes to efficient cash supply within the euro area.

Table 4

Lodgments and Withdrawals of Euro Banknotes and Coins in 2006[1]

	Lodgments	Withdrawals
	billionk	
Banknotes	1,197.52	1,020.93
Coins	1,762.49	2,161.13

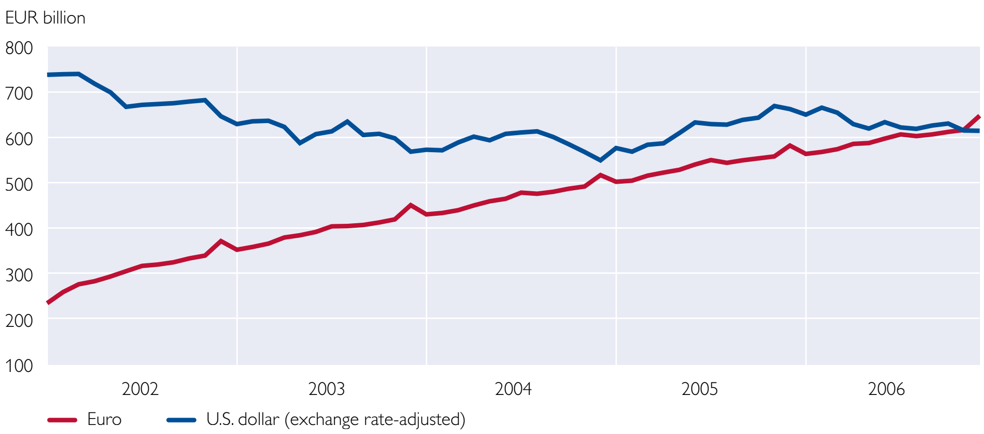
Source: OeNB.

[1] *Excluding cross-border transports among Eurosystem central banks.*

The balance of euro banknotes and coins put into circulation by the OeNB (withdrawals) and those returned to the OeNB (lodgments) continued to decrease steadily, given the free flow of euro cash across borders and the higher number of banknotes returned. For banknotes, the net balance remained negative (the number of euro banknotes re-

Chart 22

Value of EUR and USD Cash in Circulation



Source: ECB.

turned to the OeNB in 2006 exceeded withdrawals by 350 million); for coins, the net balance remained positive and increased by 15% to 3 billion coins. The OeNB estimates that 330 million to 350 million banknotes with a value of EUR 16 billion to EUR 17 billion were actually in circulation in Austria in the reporting year. Coin circulation in Austria broadly corresponded to the balance of coin lodgments and withdrawals recorded by the OeNB.

In the area of cash supply, the OeNB has established itself as a competence center and logistics hub both within the Eurosystem and on a wider scale. One of the major pillars of this strategy is ensuring the availability of state-of-the-art vault systems which meet the requirements of a supraregional cash logistics center. In addition, the public-private partnership that the OeNB has established with commercial banks for the provision of cash cycle solutions has earned worldwide recognition.

Given Austria's geographical position, the OeNB's expertise in cash logistics and its regular contacts with Banka Slovenije, the OeNB was able to contribute substantially to preparations for the euro cash changeover in Slovenia and to a smooth launch of the euro at the beginning of 2007. The OeNB provided the launch stock of euro banknotes on behalf of the Eurosystem, transporting 94.5 million banknotes – weighing 76 tons – worth EUR 2.2 billion from Vienna to Ljubljana.

Slovenia adopts the euro

Ensuring Cash Security for the Public

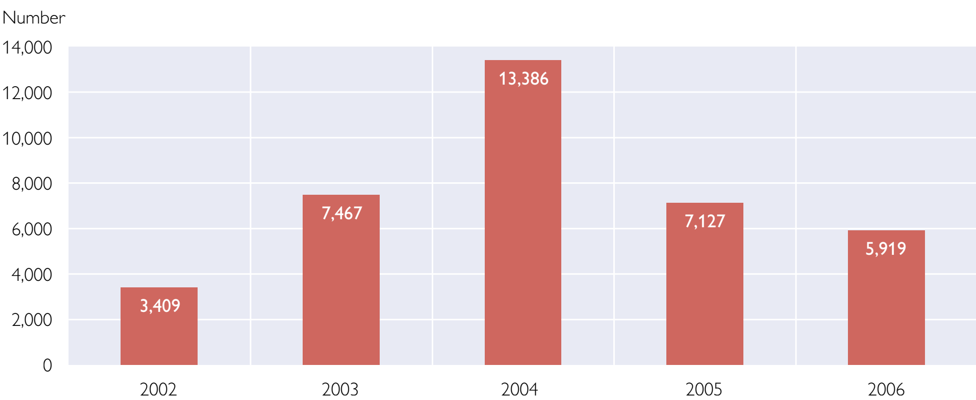
Despite the rising volumes of banknotes in circulation in the euro area, the number of counterfeits has dipped across Europe and has dropped markedly in Austria. The total number of counterfeit euro banknotes withdrawn from circulation sank by 2.6% to 564,171 banknotes in 2006, with the number of counterfeits recorded in Austria totaling 5,919. The Austrian share in total euro area counterfeits is thus about 1%. Against 2005 figures, the number of counterfeits withdrawn in Austria dropped by 1,208 or 17%. This figure compares with somewhat more than 1 billion banknotes put into circulation by the OeNB in 2006.

The OeNB has established itself as a logistics hub for cash supply

Number of counterfeits continues to decline

Chart 23

Euro Counterfeits Withdrawn from Circulation in Austria



Source: OeNB.

Quality of currency in circulation is checked regularly

Judging from counterfeit banknotes removed from circulation in Austria, the EUR 50 banknote continued to be counterfeiters' biggest target (31.8%) in 2006, followed by the EUR 100 banknote (29%), the EUR 200 banknote (17.6%) and the EUR 20 banknote (15.5%). The ensuing damage was 9% lower than in 2005 and totaled EUR 584,580.

In a regional breakdown, most incidences of counterfeit banknotes continued to be recorded in the greater Vienna area. In 2006, 50% of all counterfeits were detected in Vienna and Lower Austria.

While the quality of counterfeits is rising, it is still possible to spot all euro counterfeits by applying the FEEL – LOOK – TILT test, for which no special equipment is required. The quick and reliable validation of banknotes and coins can be additionally facilitated by technical devices, such as banknote authentication devices, banknote counting and sorting machines, cash recycling systems as well as coin counters. To make sure that these devices can identify all counterfeits, they must be checked and their software must be upgraded at regular intervals. The OeNB Test Center, which was established in 2005 to this effect, continued and expanded its activities successfully in 2006. As required by the ECB, equipment checks are offered free of charge. Test results are made available to the public on the OeNB's website. Overall, 73 devices were tested during 2006, including 9 prototypes. Furthermore, manufacturers of authentication sensors had their newest developments tested before fitting machines with these sensors.

OeNB Test Center expands its activities successfully

The risk of coming across counterfeits is very low for individuals. Nonetheless, the OeNB is committed to keeping up comprehensive protection through the production of high-quality banknotes, regular quality checks of banknotes in circulation and the efficient communication of security features to the general public.

A top priority in the production of euro banknotes is the integration of security features anyone can check without special equipment. This strategy has proved effective and will be kept up as euro banknotes are developed further. Because banknotes are highly sophisticated products that need to be produced in large quantities, preparatory work on the next banknote series already started in 2004.

The OeNB and GSA Handled Some 1.2 Billion Banknotes in 2006

The OeNB makes a significant contribution to banknote security by striving to ensure the high quality of banknotes in circulation. The better the quality, the easier it is to check the security features, especially the property of the paper and the raised ink features. In 2006 some 1.2 billion banknotes were routed through the processing machines of the OeNB and GSA (the OeNB's cash logistics subsidiary). Banknotes that do not meet the minimum requirements established by the Eurosystem must not be put back in circulation. Banknotes are checked and sorted according to a wide range of criteria, including soiling, tears, holes, crumples, de-inking, folds and limpness. Banknotes that fail to meet the minimum standards are automatically destroyed.

In the euro area, credit institutions and other professional cash handlers (such as bureaux de change) are authorized, as a rule, to reissue euro banknotes. To ensure the integrity and fitness of reissued euro banknotes, the ECB established a framework for the detection of counterfeits and fitness sorting. This framework guarantees that banks and other professional cash handlers recycle euro banknotes to customers only if these banknotes have passed fitness and authenticity tests. Such checking may be done either by using banknote processing equipment that has been tested by a national central bank or by appropriately trained experts. After the banknote processing machines have established the fitness and authenticity of the banknotes, these banknotes may be dispensed by ATMs or other customer-operated devices.

Framework for the detection of counterfeits and fitness sorting is implemented

Under the framework for the detection of counterfeits and fitness sorting, banks and other professional cash handlers are obliged to regularly provide national central banks with relevant "cash recycling" data. By collecting data, the ECB and the national central banks are able in particular to

- determine who is involved in banknote recycling;
- compare the ratio of unfit banknotes among cash handlers;
- recognize problems that require clarification by the national central banks, e.g. in the form of on-site inspections.

Preparatory work for implementing the framework, in particular the collection of data, started in 2006. The OeNB Test Center has assumed the main responsibilities in this respect.

A variety of channels tailored to the respective audience are used to inform the population. Alongside special campaigns in the mass media aimed at familiarizing as many Austrians as possible with the security features of the euro banknotes, a special focus was put on training professional cash handlers in 2006 (bank tellers, cashiers in retail trade, police officers, etc.). Thanks to the OeNB's branch offices, such training is offered free of charge across Austria.

The Euro Bus Spreads Information on Cash Security

In the summer months of 2006, the euro bus, which first toured Austria in 2002, again provided Austrians with the opportunity to exchange their remaining schillings for euro free of charge and to obtain information on the euro and its security features. On its fifth tour, the euro bus attracted the highest number of exchange customers since the year of the cash changeover. Between May 5 and August 5, 2006, the euro bus made 72 stops throughout Austria, serving 40,759 customers, who exchanged a total of ATS 62 million for euro. The final stop of the euro tour 2006 in the center of Vienna was a record event: On August 5, as many as 1,500 customers exchanged a total of ATS 3.57 million.

Exchange Period Ended for "Angelika Kauffmann" Schilling Banknote

The exchange deadline for the ATS 100 banknote featuring a portrait of Angelika Kauffmann expired on November 28, 2006. This banknote was first issued in 1970 and called in more than 20 years ago. The OeNB made sure to advertise the forthcoming exchange deadline for this banknote with two special euro bus stops on November 18, 2006, in Eisenstadt (Burgenland) and on November 25, 2006, in St. Pölten (Lower Austria) as well as with an Information Day at the OeNB. These efforts notwithstanding, a total of 2,886,710 of these banknotes have not been returned to the OeNB. The corresponding balance – EUR 20,978,539.71 – was therefore transferred to the Federal Ministry of Finance on November 29, 2006.

Over the next few years, the exchange deadline will expire for another five banknotes, which had all ceased to be legal tender before the introduction of the euro. However, there is no deadline for converting the schilling banknotes and coins of the last series; they may be exchanged free of charge into euro at the OeNB or at euro bus stops.

Exchange deadline for ATS 500 "Josef Ressel" banknote expires in 2007

The next banknote to reach its exchange deadline is an ATS 500 banknote featuring a portrait of Josef Ressel. This banknote was first issued in 1966 and called in in 1987. A total of 363,550 of these banknotes with a value of EUR 13,210,104 were still outstanding on December 31, 2006.

The OeNB's Cash Service Subsidiaries

The *Oesterreichische Banknoten- und Sicherheitsdruck GmbH* (OeBS) is the company responsible for printing and producing banknotes in Austria and for developing security features. From 1816 – the year in which the OeNB was established – until 1998, the banknote printing works operated as a department within the OeNB. This department was spun off in 1998, with ownership remaining in the hands of the OeNB. Within the framework of the ESCB, the OeBS now produces the share of annual bank-

Box 12

Called-In Banknotes and Exchanges Deadlines

*Denomination: ATS **500** (2nd motif)*
*Portrait (front): **Josef Ressel***
Date of issue: October 24, 1966
Exchange deadline: August 31, 2007

*Denomination: ATS **50** (3rd motif)*
*Portrait (front): **Ferdinand Raimund***
Date of issue: February 15, 1972
Exchange deadline: August 31, 2008

*Denomination: ATS **20** (4th motif)*
*Portrait (front): **Carl Ritter von Ghega***
Date of issue: November 4, 1968
Exchange deadline: September 30, 2009

*Denomination: ATS **500** (3rd motif)*
*Portrait (front): **Otto Wagner***
Date of issue: October 20, 1986
Exchange deadline: April 20, 2018

*Denomination: ATS **1.000** (4th motif)*
*Portrait (front): **Erwin Schrödinger***
Date of issue: November 14, 1983
Exchange deadline: April 20, 2018

For all other schilling banknotes, no exchange deadline has been set.

note production assigned to Austria on the basis of the ECB's capital key. In addition, the OeBS also participates in invitations to tender for banknote production worldwide. Today, it takes comprehensive research and development activities to meet the requirements for high-quality and secure banknotes. This has become evident during the preparations for the next series of euro banknotes, in which the OeBS is actively involved.

Banknote production in Austria

In 2006 the OeBS produced 174 million EUR 100 banknotes (62% of the total production volume in this category in 2006) and 109.4 million EUR 5 banknotes (10% of the total production volume in 2006). In 2007, the OeBS will contribute to the production of EUR 10 banknotes.

Coin production in Austria

GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA), is Austria's leading company in the field of cash services. The company offers cash processing services and solutions for the entire cash supply chain, next to purchasing and selling foreign currency. The company has been operating in its current form since mid-2001. The GSA's majority shareholder is the OeNB, which currently holds 91.4% of the company's shares. The remaining 8.6% are held by Austrian commercial banks and insurance companies. The company is intent on optimizing the cost efficiency of its cash processing and logistics services, and on offering top quality. A cash processing cooperation network with domestic commercial banks has allowed the GSA to achieve economies of scale. As a service provider in the field of payment processing, the company thus contributes to supplying the economy with cash in an efficient manner.

The core purpose of *Münze Österreich Aktiengesellschaft* is minting, distributing and withdrawing divisional and negotiable coins as well as producing and selling items made of precious and other metals. The company, formerly owned by the Republic of Austria, has been a 100% subsidiary of the OeNB since 1989.

In 2006, Münze Österreich supplied the OeNB with 257 million euro coins (worth EUR 22.7 million) intended for circulation.

Chart 24

OeNB Cash Services Subsidiaries

Oesterreichische Banknoten- und Sicherheitsdruck GmbH (100%)

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

GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (91.4%)

- cash processing
- cash supply chain solutions
- logistics

Münze Österreich Aktiengesellschaft (100%)

- coin minting, distribution and withdrawal
- production and sale of metal items
- engineering and consulting services

Integrated Communications Convey Stability and Security

The OeNB Continues Its Successful Campaign "I Work Hard for My Money. Good that Every Euro Is Worth It."

The OeNB's public relations activities focus on providing information about a stable currency, the single monetary policy and the monetary policy strategy of the ECB/Eurosystem. Open and effective communication has consistently translated into high confidence ratings for the OeNB, which even reached 79% in the fourth quarter of 2006, an above-average result in a long-term comparison.

Comprehensive campaign highlights the importance of monetary policy for the economy

In recent years, the OeNB has sought new ways to improve transparency and accessibility. In 2006, the OeNB continued to run a comprehensive and message-oriented campaign, launched in fall 2004, to enhance the public's understanding of the economic benefits of monetary policy. The campaign revolves around a catchy slogan, which roughly translates as "I work hard for my money. Good that every euro is worth it." Using ads, TV spots, advertorials and media cooperations, this campaign has maximized impact and media reach by combining marketing and public relations activities. In addition, the OeNB again used classic advertising motifs combined with text messages to inform the public about relevant issues and duties, and raised the public's awareness of information it can access interactively through the OeNB hotline and website.

The OeNB reinforced its advertising themes through strategic cooperations with print media and by placing advertorials. In 2006, the OeNB published contributions in Austria's most influential newspapers to communicate the practical economic benefits of the OeNB's work for every citizen. The topics included: the OeNB's contribution to monetary policymaking to safeguard price stability within the Eurosystem; cash supply and cash security in Austria; the provision of essential data, analyses and statistics; the supervision of financial and banking systems to secure stable financial markets. The informative texts were preceded by teaser ads aimed at attracting attention and increasing impact.

From April to mid-June 2006, the OeNB cooperated with radio stations to inform the public about the OeNB's work. Under the heading of the slogan "Ask – Know – Understand," the audience was familiarized with the OeNB's goals and duties as well as with basic economic terms in an entertaining and hands-on way. Once again, the key element of this initiative was the current image campaign's claim: "I work hard for my money. Good that every euro is worth it."

At the same time, the OeNB, together with the Austrian Federal Economic Chamber, intensified its efforts to disseminate targeted information on Basel II. Various media cooperations helped to raise the general awareness for this topic and to encourage the public to deal with the related implications and changes.

Press Relations and the OeNB Hotline

One challenge for the OeNB's press and media work in 2006 was the need to respond to the problems facing the Austrian bank BAWAG P.S.K. As these events also generated public interest in the OeNB's supervisory function, the OeNB intensified communication on this topic. Furthermore, the OeNB issued a total of 157 press releases and organized several press conferences to explain, among other things, trends in financial statistics, relevant research findings, economic developments and macroeconomic forecasts.

A special series of seminars for journalists, which culminated in a joint event with the ECB in Frankfurt, was aimed at enhancing participants' knowledge of the duties and mechanisms of the OeNB, the European System of Central Banks (ESCB) and the Eurosystem.

The OeNB hotline has been a central information point for the public's questions about money, interest rates, currency exchange and the like. The total number of inquires increased considerably from 31,322 in 2005 to 36,406 in 2006. Interestingly, while the share of e-mail inquiries went up to 53.5% in 2006 (31% in 2005), telephone inquiries went down to 46.5% in 2006 (69% in 2005).

Educational Measures Focusing on Young People

For the OeNB, familiarizing young people with economic issues constitutes a vital and sustainable approach to enhancing public awareness of the significance of monetary policy. Therefore, the OeNB's educational activities for schools have been an integral element of its public relations activities for many years. As part of its intensified efforts to promote economic and financial literacy, the OeNB started in 2006 to develop a new initiative to improve the public's familiarity with economic fundamentals. Greater knowledge leads to a better understanding of economic processes and consequently to a better understanding of the economic benefits of a stability-oriented monetary policy.

The OeNB – A Platform for Dialogue

In the reporting year, the OeNB hosted a total of 264 events. Particularly major events organized on the occasion of Austria's EU presidency in the first half of 2006 as well as various other specialized seminars and workshops provided ideal opportunities to establish and intensify key contacts. More than 11,000 people participated in these events and benefited from the chance to exchange ideas and discuss controversial issues in the forums provided by the OeNB. In 2006 the highlights included:

Over 36,000 queries addressed to the OeNB Hotline (+43-1) 404 20-6666

– the informal Ecofin Council meeting in March 2006;
– the conference on "Experience with and Preparations for the Euro" in Linz, jointly organized with the Austrian Federal Economic Chamber, the European Commission and the Austrian Federal Ministry of Finance;
– the 34th Economics Conference on "Globalization: Opportunities and Challenges for the World, Europe and Austria;"
– the Conference on European Economic Integration in November 2006, dedicated to foreign direct investment, jointly organized with the EBRD.

From October 18 to November 14, 2006, Austria was the focus of the Cultural Days of the ECB, an initiative launched in 2003 and featuring Portugal, Poland and Hungary in previous years. With most of the events sold out, the program reflected an ideal mixture of concerts, readings, exhibitions, films, theater and dance performances.

Austria is the focus of the 2006 Cultural Days of the ECB

Featuring 35 events and 16 screenings of Austrian films over more than four weeks, the Cultural Days were a welcome opportunity to communicate the OeNB's long-lasting cultural commitment. With some 10,000 visitors, the Cultural Days 2006, cohosted by the OeNB and Austria, were a great success.

The OeNB – A Keeper of Old Treasures

OeNB Money Museum: new visitor record

The OeNB's Money Museum is becoming increasingly popular. The number of visitors surged by 226% until December 2006 from 2003, when the Museum was reopened. In 2006, 12,358 visitors were welcomed (+10% against 2005). Museum staff dedicated 618 working hours to organize and conduct a total of 309 guided tours.

The annual Museum Night organized by the Austrian Broadcasting Corporation yet again proved a big success for the OeNB's Money Museum, drawing as many as 1,396 visitors. The Museum also continued to participate in the holiday activity program for young people organized by the City of Vienna three times a year, which attracted 841 participants. The Museum's involvement in the children's university offered by the University of Vienna for 122 participants for two weeks sparked particular interest. Another annual highlight was the initiative "Education for Democratic Citizenship Action Days," which has been organized by the Austrian Federal Ministry for Education, Science and Culture since 2003.

In addition to its regular opening days (196 days in 2006), the Money Museum opened 14 times for special tours and events. As of April 2006, opening hours were extended to 5:30 p.m. on Thursdays to better cater to the needs of working people. Thursday proved to be the most popular day of the week, with a total of 83 guided tours in 2006.

Since 2003, the successful pedagogical concept "treasure chest" has raised the share of visitors from primary school to 10%; kindergarten children account for around 1% of visitors. As in previous years, young people aged 13 to 18 made up the largest group of visitors.

The temporary exhibition "Coined for Europe. Euro Coin Genesis" opened on April 24, 2006, and followed "Behind the Scenes – Central Bank Buildings as a Manifestation of Architectural Epochs." In summer 2006, the permanent exhibition "Money in Austria – From Antiquity to Modern Times," on display in the Money Museum's vault, was adapted and will continue to be offered as the standard tour for school classes.

Objects and original sketches of the OeNB's collections and art archives were given as loans to national and international museums and were displayed in exhibitions attracting over 618,400 visitors. In the reporting year, the Museum has also continued its efforts to catalogue and process its collections.

The OeNB –
A Future-Oriented Enterprise

Forward-Looking Processes, Structures and Products at the OeNB

Amid altered responsibilities, manifold activities within the Eurosystem as well as projects serving and involving the general public and business enterprises, the face of the OeNB has changed significantly in recent years. To be able to cope with all these challenges, the OeNB needed to streamline organizational structures, reorganize workflows, introduce efficient cost management and evolve into a modern service provider. The OeNB implemented these changes resolutely and successfully, relying on the principles that have guided it for decades and that have since been recast into pillars of the Eurosystem: the principles of security, stability and trust.

In the years to come, the OeNB will continue to target its activities at ensuring that Austrians and Austrian businesses enjoy stability in a globalized economy and financial world. In view of the challenges that lie ahead and in order to strengthen the OeNB's position as a knowledge-based service provider, the central bank has set itself ambitious goals. Focused training for staff members, equal opportunity employment and motivated teams of dedicated professionals are pivotal to reach these objectives.

In recent years, projects have become key drivers of the OeNB's efforts to advance the concept of a lean, modern and highly customer-oriented central bank. To this end, workflow and business process analyses have become increasingly important. One of many projects tackled in 2006 was the optimization of the structure of communications between the OeNB and its subsidiaries.

Advances in corporate governance

Corporate Governance – A Vital Part of Corporate Policy

The Austrian Code of Corporate Governance provides a regulatory framework for corporate management and supervision. The OeNB is committed to the basic rules of corporate governance, which form a cornerstone of credibility and trust. As a nonlisted corporation, the OeNB is not principally obligated to adhere to corporate governance rules, but it voluntarily implements recognized standards as defined in the Austrian Code of Corporate Governance. However, the OeNB also has to comply with international provisions, central bank legislation and other specific stipulations applicable to central banks. In the years ahead, corporate governance is scheduled to be further developed step by step in a dynamic process.

For this purpose, a corporate governance working group was founded to determine and develop measures the OeNB must take to comply with general corporate governance principles in the short and medium term. In this context, an accounting and internal control systems subcommittee of the OeNB's General Council was established.

As a public institution, the OeNB has been corporate governance compliant for a long time in that it is controlled annually by appointed auditors and at irregular intervals by the Austrian Court of Audit. As a financial institution, the OeNB is subject to compliance provisions designed to prevent insider trading. The ECB, finally, is entitled to perform audits to assess the integrity of transactions related to assets the OeNB administers on its behalf.

The OeNB's internal control system consists of the following components: *management responsibility, operational frameworks* defining the proper implementation of business operations, and *internal controls.* The OeNB follows a functional management responsibility approach: Managers are responsible for ensuring that proper control procedures are followed in their fields of competence. Internal auditors monitor compliance with legal and internal provisions and assess the appropriateness of the different measures as prescribed by the internal control system.

Risk management rules for the treasury function are clearly defined in a comprehensive set of internal rules and regulations. A special risk management handbook addresses operations risk by describing the infrastructure and systemic elements of crisis management at the OeNB, enabling the OeNB to deal effectively with incidents.

The financial markets and banking analysis functions are clearly structured and have defined responsibilities, among other things for on-site inspections and payment systems oversight. Procedures to be followed if a financial market crisis should arise have been laid down in a manual compiled for this purpose.

The consistent implementation of comprehensive IT security policy measures ensures that the OeNB's IT applications enjoy maximum stability. Observance of compliance rules is monitored by a compliance officer, who is directly responsible to the governor.

The effectiveness of all internal control measures is tested and evaluated at regular intervals.

In addition, a Code of Conduct drawn up on the basis of international standards establishes rules of conduct for all OeNB employees.

Strategic Human Resources Development Fosters a High Level of Performance

Human resources activities in 2006 were marked in particular by strategic considerations to optimize, and establish the best conditions for, professional performance. The main issues were the redefinition of the expert career path, the reorganization of the financial incentives system, and the reinforcement of mobility and flexibility.[1] Moreover, the OeNB took an important reform measure by adjusting the Conditions of Service for staff employed from January 1, 2007, and by modifying the defined contribution scheme in this respect.

In addition, further optimization steps were taken to sharpen the focus and efficiency of training and development programs for staff and management. The initial training for new staff was modified to communicate basic central bank functions. The range of seminars was extended and was tailored to helping staff cope with the challenge of steady change in the central banking environment. In 2006, the OeNB contributed intensively to the joint human resources development measures of and cooperation within the European System of Central Banks (ESCB). Work in

[1] *For details, please see the OeNB's 2006 Intellectual Capital Report.*

Table 5

Overview of the OeNB's Ecological Indicator Values

Energy consumption	Site	2006	2005	2004	Unit	Benchmark[1] +	Benchmark[1] ~	Benchmark[1] –
Electricity consumption	Vienna	8.0	8.3	8.4	MWh per employee	<4.5	6	>8
Heat consumption	Vienna	62	66	73	kWh/per m²	<110	130	>150
Water consumption								
Water consumption	Vienna	131	114	121	l per employee day	< 60	100	>120
Consumption of material and products								
Total paper consumption	all sites	136	159	212	kg per employee	<100	200	>500
Consumption of printing/photocopying paper	all sites	9,624	11,830	12,330	sheets per employee	<8,000	10,000	>12,000
Share of recycled paper	all sites	90	90	90	%	>30	20	<10
Consumption of cleaning agents	Vienna	14	22	31	per m²	not available		
CO_2 emissions, total								
CO_2 emissions[2]	all sites	2.8	2.9	3.0	tons per employee	<2.8	4	>4.5

Source: OeNB.

[1] *Source: Association of Environmental Management in Banks, Savings Banks and Insurance, guideline of the Austrian Society for Environment and Technology.*

[2] *From operations and business travel.*

the human resources area focused especially on equal opportunities for men and women, and diversity.

Further Development of IT Services for the ESCB

The sale of OeNB services within the ESCB and to third parties is intended first, to raise the OeNB's profile within the ESCB as a source of know-how and second, to respond to growing cost pressure.

OeNB environmental figures improve further

In April 2006, the OeNB assumed responsibility for maintaining the ESCB's Counterfeit Monitoring System (CMS). The CMS fulfills a key role in the fight against euro counterfeiting. Apart from the ECB and the NCBs, police stations and national mints use the CMS. In addition to maintaining the system, the OeNB is in charge of developing it further, e.g. adapting it to integrate forthcoming euro banknote series.

OeNB develops IT services for ESCB treasury functions

In 2006, the OeNB developed the new Tender Operations system for the ESCB (TOP). The switch to Internet technology has given the ESCB a state-of-the-art system in terms of user comfort, stability, reliability and security to implement monetary policy operations. TOP went live in February 2007.

The OeNB Takes Its Environmental Responsibility Seriously

In fulfilling its tasks, the OeNB sets great store by environmental protection. Hence, the OeNB not only observes environmental protection laws but also takes measures to continually improve its corporate environmental performance. The OeNB has been certified according to EMAS (Eco-Management and Audit Scheme) since 1999, and it was recertified in the reporting year after a follow-up audit.

Optimization efforts allowed the OeNB to reduce its energy consumption by roughly 5% in 2006, among other things by cutting back on electricity use and especially on distance heating use. The OeNB's recently updated corporate environmental policy acknowledges the risks involved in climate change.[2]

Business, Science and Culture Promotion

With funds originally provided under the European Recovery Program (ERP), the OeNB continued to give valuable financial support to Austrian businesses in 2006. The volume of ERP loan applications grew by some 30% from 2005 to 2006 to a record of 300 processed applications, first, because investment activity was very strong, and second, because many companies rushed to frontload investment in view of the substantial reductions of regional subsidies envisaged for the EU structural fund period 2007 to 2013. According to the OeNB's ERP accounts, the lending ratio for the EUR 948.8 million ERP loan portfolio managed by the OeNB came to nearly 97%, proof that the endeavor to provide earmarked funds to Austrian businesses was crowned with success. Subsidized loans were generally granted to small and medium-sized enterprises, as well as to innovation projects and regional projects. Additionally, Austrian companies seeking to branch out into Southeastern European transition markets and growth markets in the Far East received subsidized loans.

Austrian export promotion is a key factor in the ongoing highly favorable development of Austrian exports. In 2006, the OeNB again provided its expertise in the framework of export guarantees and export financing. Taking into account the business interests of a large number of exporters and of the Republic of Austria, support decisions were driven by the goal to balance risk diversification among buyer countries especially for large projects.

The OeNB considers it very important to contribute to safeguarding Austria's future. With this concern in mind, the OeNB founded the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching in 1966 to mark the 150th anniversary of the OeNB's establishment; the Anniversary Fund celebrated its 40th anniversary in 2006. From the outset, the Anniversary Fund has provided substantial funding for Austrian researchers and has thus established itself as a stable and indispensable partner in Austrian research promotion. Funding of more than 8,600 projects totaled over EUR 681 million up to and including 2006, with grants provided for scientific projects in basic research and up to 2003 also in applied research. After establishment of the National Foundation for Research, Technology and Development (National Foundation), the OeNB Anniversary Fund has remained in charge of providing grants to promote outstanding basic research in Austria.

Successful research promotion for 40 years

In 2006, the OeNB made direct grants to the tune of some EUR 10.7 million for 180 research projects mainly in economics and medicine (clinical research) and to a lesser extent also in the social sciences and the humanities. Funds are granted for projects selected on the basis of sound criteria; stringent quality standards apply to the funding process. The

[2] *For details, please see the OeNB's 2006 Environmental Statement.*

OeNB Anniversary Fund provides a forum in which cutting-edge project results are regularly presented to an expert audience.

In addition, the OeNB provided EUR 3.6 million of basic funding to three economic research institutes, the Institute for Advanced Studies (IHS), the Austrian Institute of Economic Research (WIFO) and The Vienna Institute for International Economic Studies (wiiw). The National Foundation provides a sound and reliable basis for the sustainable, strategic long-term financing of Austrian research initiatives independently of public finances. Its efforts are in particular targeted at financing interdisciplinary research projects which are likely to generate benefits in the long run. The provision of sustainable financing for such initiatives contributes to visibly positioning and internationalizing Austrian excellence in research. As in 2005, the OeNB provided a total of EUR 75 million of support to the National Foundation in 2006.

Like many other Austrian businesses, the OeNB puts a special emphasis on promoting cultural activities. Its collection of valuable old string instruments, which has become one of Europe's most outstanding collections, currently comprises 36 instruments on loan to Austrian violin stars and Austrian chamber music ensembles and orchestras. The OeNB feels an obligation to make this collection accessible also to a broader public. In 2006, the OeNB produced a CD in cooperation with the Austrian Broadcasting Corporation's radio station Ö1 on which musicians play instruments on loan to them from the OeNB's collection and donated the net profit from CD sales to the charity "Licht ins Dunkel" (A Light in the Dark). The ECB's Cultural Days 2006 in Frankfurt also included several concerts at which Austrian musicians played instruments from the OeNB's collection.

Financial Statements
of the Oesterreichische Nationalbank
for the Year 2006

Balance Sheet as at December 31, 2006

Assets

	December 31, 2006 EUR		December 31, 2005 EUR	
1 Gold and gold receivables		4,480,989,970.86		4,229,152,318.69
2 Claims on non-euro area residents denominated in foreign currency		5,204,492,549.03		5,786,985,589.54
2.1 Receivables from the IMF	286,102,786.08		512,056,414.91	
2.2 Balances with banks and security investments, external loans and other external assets	4,918,389,762.95		5,274,929,174.63	
3 Claims on euro area residents denominated in foreign currency		1,620,524,702.53		1,132,332,872.37
4 Claims on non-euro area residents denominated in euro		604,267,842.17		434,254,091.19
4.1 Balances with banks, security investments and loans	604,267,842.17		434,254,091.19	
4.2 Claims arising from the credit facility under ERM II	–		–	
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro		12,150,942,571.00		12,511,816,494.00
5.1 Main refinancing operations	9,286,523,750.00		9,307,000,000.00	
5.2 Longer-term refinancing operations	2,864,418,821.00		3,204,816,494.00	
5.3 Fine-tuning reverse operations	–		–	
5.4 Structural reverse operations	–		–	
5.5 Marginal lending facility	–		–	
5.6 Credits related to margin calls	–		–	
6 Other claims on euro area credit institutions denominated in euro		114,785.55		104,558.34
7 Securities of euro area residents denominated in euro		3,276,539,398.54		3,181,050,094.26
8 General government debt denominated in euro		424,307,693.41		419,956,629.70
9 Intra-Eurosystem claims		16,950,770,703.24		9,980,534,553.24
9.1 Participating interest in the ECB	116,475,959.82		116,475,959.82	
9.2 Claims equivalent to the transfer of foreign reserves	1,157,451,203.42		1,157,451,203.42	
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates[1]	×		×	
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	15,676,843,540.00		8,706,607,390.00	
9.5 Other claims within the Eurosystem (net)	–		–	
10 Items in course of settlement		103,011,656.71		93,593,378.76
11 Other assets		8,561,913,879.55		8,620,004,487.34
11.1 Coins of euro area	136,913,779.23		162,808,807.41	
11.2 Tangible and intangible fixed assets	153,843,810.70		156,223,313.73	
11.3 Other financial assets	6,795,448,294.21		6,866,730,342.43	
11.4 Off balance sheet instruments' revaluation differences	11,680,181.94		7,015,432.92	
11.5 Accruals and prepaid expenses	437,973,734.79		385,321,338.14	
11.6 Sundry	1,026,054,078.68		1,041,905,252.71	
		53,377,875,752.59		**46,389,785,067.43**

[1] *Only an ECB balance sheet item.*

Liabilities

	December 31, 2006 EUR		December 31, 2005 EUR	
1 Banknotes in circulation		16,814,843,600.00		15,128,006,240.00
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		4,473,529,774.79		4,975,937,306.98
2.1 Current accounts (covering the minimum reserve system)	4,429,029,774.79		4,969,837,306.98	
2.2 Deposit facility	44,500,000.00		6,100,000.00	
2.3 Fixed-term deposits	–		–	
2.4 Fine-tuning reverse operations	–		–	
2.5 Deposits related to margin calls	–		–	
3 Other liabilities to euro area credit institutions denominated in euro		–		–
4 Debt certificates issued [1]		×		×
5 Liabilities to other euro area residents denominated in euro		5,827,726.14		7,785,714.85
5.1 General government	4,719,190.85		3,878,973.09	
5.2 Other liabilities	1,108,535.29		3,906,741.76	
6 Liabilities to non-euro area residents denominated in euro		13,772,332.52		8,133,374.73
7 Liabilities to euro area residents denominated in foreign currency		62,630.43		47,603.90
8 Liabilities to non-euro area residents denominated in foreign currency		492,750,173.24		501,654.30
8.1 Deposits, balances and other liabilities	492,750,173.24		501,654.30	
8.2 Liabilities arising from the credit facility under ERM II	–		–	
9 Counterpart of Special Drawing Rights allocated by the IMF		204,397,772.00		216,626,545.50
10 Intra-Eurosystem liabilities		21,160,054,118.18		15,712,996,024.99
10.1 Liabilities equivalent to the transfer of foreign reserves [1]	×		×	
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–		–	
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–		–	
10.4 Other liabilities within the Eurosystem (net)	21,160,054,118.18		15,712,996,024.99	
11 Items in course of settlement		–		–
12 Other liabilities		435,414,186.92		651,428,588.97
12.1 Off balance sheet instruments' revaluation differences	182,225.40		2,831,748.60	
12.2 Accruals and income collected in advance	73,488,885.26		43,874,231.84	
12.3 Sundry	361,743,076.26		604,722,608.53	
13 Provisions		2,460,854,136.31		2,227,186,837.52
14 Revaluation accounts		3,176,112,287.25		3,307,525,203.79
15 Capital and reserves		4,125,785,417.62		4,117,008,962.34
15.1 Capital	12,000,000.00		12,000,000.00	
15.2 Reserves	4,113,785,417.62		4,105,008,962.34	
16 Profit for the year		14,471,597.19		36,601,009.56
		53,377,875,752.59		**46,389,785,067.43**

[1] *Only an ECB balance sheet item.*

Profit and Loss Account for the Year 2006

		Year ending December 31, 2006 EUR		Year ending December 31, 2005 EUR	
1.1	Interest income	1,365,051,482.13		908,835,336.59	
1.2	Interest expense	−797,482,537.64		−457,404,954.92	
1	**Net interest income**		567,568,944.49		451,430,381.67
2.1	Realized gains/losses arising from financial operations	144,581,213.16		218,151,499.02	
2.2	Writedowns on financial assets and positions	−149,010,812.54		−44,291,261.03	
2.3	Transfer to/from provisions for foreign exchange and price risks	−170,211,391.03		8,097,746.79	
2	**Net result of financial operations, writedowns and risk provisions**		−174,640,990.41		181,957,984.78
3.1	Fees and commissions income	4,748,359.05		3,707,251.01	
3.2	Fees and commissions expense	−2,829,301.94		−2,927,529.40	
3	**Net income from fees and commissions**		1,919,057.11		779,721.61
4	Income from equity shares and participating interests		25,201,625.35		68,424,721.58
5	Net result of pooling of monetary income		6,342,645.51		7,053,357.45
6	**Other income**		10,233,471.15		21,157,284.59
	Total net income		436,624,753.20		730,803,451.68
7	Staff costs		−115,315,844.89		−104,910,021.29
8	Administrative expenses		−76,996,623.04		−85,322,038.76
9	Depreciation of tangible and intangible fixed assets		−14,142,430.90		−15,236,889.89
10	Banknote production services		−24,573,567.19		−16,184,763.09
11	Other expenses		−12,641,658.01		−21,136,277.78
	Total expenses		−243,670,124.03		−242,789,990.81
			192,954,629.17		**488,013,460.87**
12	Corporate income tax		−48,238,657.29		−122,003,365.22
			144,715,971.88		366,010,095.65
13	Central government's share of profit		−130,244,374.69		−329,409,086.09
14	**Profit for the year**		**14,471,597.19**		**36,601,009.56**

Notes to the Financial Statements 2006

General Notes to the Financial Statements

Legal Framework

The Oesterreichische Nationalbank (OeNB) is obligated (under Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 61/2006 – Nationalbank Act) to prepare its balance sheet and its profit and loss account in conformity with the provisions established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank. These rules are laid down in the Accounting Guideline adopted by the Governing Council on November 10, 2006.[1] The OeNB's financial statements for the year 2006 were prepared fully in line with the provisions set forth in this Guideline. In cases not covered by the Guideline, the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence Nationalbank Act were applied. The Nationalbank Act provisions that govern the OeNB's financial reporting (Articles 67 and 69 as well as Article 72 paragraph 1 Nationalbank Act) have remained unchanged from the previous year. Under paragraph 3 of Article 68 Nationalbank Act, amended with the 2004 Financial Reporting Amendment Act (Federal Law Gazette I No. 161/2004), the OeNB continued to be exempt from Article 243 paragraph 2 last sentence as well as paragraph 3 items 2 and 5 of the Commercial Code.

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

The financial statements for the year 2006 were prepared in the format laid down by the Governing Council of the ECB.

Accounting Policies

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

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

On the basis of the ECB's Accounting Guideline (ECB/2006/16), foreign exchange transactions, financial instruments denominated in foreign currency

[1] *Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16). In accordance with a decision taken by the Eurosystem/ESCB Accounting and Monetary Income Committee (AMICO) on July 6, 2006, this Guideline may be applied from December 31, 2006.*

and related accruals must be recorded at trade date (economic approach) while securities transactions denominated in foreign currency may still be recorded according to the cash/settlement approach. Interest accrued in relation to foreign currency transactions, including premiums or discounts, must be recorded on a daily basis from the spot settlement date. To record specific euro-denominated transactions, financial instruments and related accruals, the Eurosystem national central banks (NCBs) may use either the economic or the cash/settlement approach.

Foreign currency transactions whose exchange rate is not fixed against the accounting currency were recorded at the euro exchange rate prevailing on the day of the transaction.

At year-end, both financial assets and liabilities are revalued at current market prices/rates. This applies equally to on balance sheet and off balance sheet transactions. The arbitrage pricing principle is used to value gold interest rate swaps and gold forward interest rate swaps. To this end, the products are split into the components at which these products are traded on international exchanges (LIBOR curve, gold swap rates and gold forward rates). The revaluation takes place on a currency-by-currency basis for foreign exchange positions and on a code-by-code basis for securities. Securities held as permanent investment (financial fixed assets), which are shown under *other financial assets*, were valued at cost.

Gains and losses realized in the course of transactions are taken to the profit and loss account. The average cost method is used on a daily basis for gold, foreign currency instruments and securities, to compute the acquisition cost of items sold, having regard to the effect of exchange rate and/or price movements. As a rule, the realized gain or loss is calculated by juxtaposing the sales price of each transaction with the average acquisition cost of all purchases made during the day. In the case of net sales, the calculation of the realized gain or loss is based on the average cost of the respective holding for the preceding day.

Unrealized revaluation gains are not taken to the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses are recognized in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against new unrealized gains in subsequent years. Furthermore, based on current legislation, the OeNB's management[2] determined that unrealized foreign currency losses that must be expensed were to be covered by the release of an offsetting amount from the *reserve fund for exchange rate risks* accumulated in the run-up to 1999 (recorded under liability item 14 *Revaluation accounts*). Unrealized losses in any one security, currency or in gold holdings are not netted with unrealized gains in other securities, currencies or gold, since netting is prohibited under the ECB's Accounting Guideline.

[2] *Decision of the Governing Board of November 10, 1999, and of the General Council of November 25, 1999.*

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

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

As a result of the harmonized accounting rules which have to be observed since January 1, 1999, future market developments, especially (volatile) interest and exchange rate movements, may entail considerable fluctuations of the income accruing to the OeNB, the other Eurosystem NCBs and the ECB.

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

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

Tangible and intangible fixed assets are valued at cost less depreciation. Depreciation is calculated on a straight-line basis from the quarter after acquisition throughout the expected economic lifetime of the assets (table 1).

Table 1

Asset	Depreciation period
Computers, related hardware and software, motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Buildings	25 years
Fixed assets costing less than EUR 10,000	no capitalization

Realized Gains and Losses and Revaluation Differences and Their Treatment in the Financial Statements of December 31, 2006

Table 2

	Realized gains profit and loss account item 2.1	Realized losses profit and loss account item 2.1	Unrealized losses profit and loss account item 2.2	Change in unrealized profits
		(posted to the profit and loss account)		(posted to revaluation accounts)
	EUR million	*EUR million*	*EUR million*	*EUR million*
Gold	181.528	–	–	+360.732
Foreign currency				
Holdings for own account	39.576	9.001	64.789 [1]	−332.627
Own funds	0.005	0.280	–	+0.402
Securities				
Holdings for own account	53.909	111.598	67.705	−3.451
Own funds	2.275	19.098	16.028	−0.739
IMF euro holdings	7.287	–	–	–
Participating interests	–	–	0.489	+10.607
Off balance sheet instruments				
Holdings for own account	0.131	0.153	–	−0.411
Own funds	–	–	–	–
Total	**284.711**	**140.130**	**149.011**	**+34.513**

[1] *This amount did not have an impact on profit because the loss was offset against the reserve fund for exchange rate risks.*

Banknotes in Circulation and Intra-Eurosystem Balances

The ECB and the 12 participating NCBs, which together comprise the Eurosystem,[3] issue euro banknotes. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.[4]

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the OeNB is disclosed under the balance sheet liability item *banknotes in circulation*.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under subitems *intra-Eurosystem claims/intra-Eurosystem liabilities: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see *Intra-Eurosystem balances* in the notes on accounting policies).

From the cash changeover year until five years following the cash changeover year, the intra-system balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of

[3] *Banka Slovenije joined the Eurosystem on January 1, 2007.*

[4] *Banknote allocation key means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in such total.*

banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the first day of the sixth year after the cash changeover year when income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. For the OeNB and all other participating NCBs, which together comprised the Eurosystem until December 31, 2006, the adjustment period ended on December 31, 2007.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under item 1 *Net interest income* of the profit and loss account.

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be due to the NCBs in the same financial year it accrues and distributed on the second working day of the following year in the form of an interim distribution of profit. It shall be so distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer part or all of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate and gold price risks. The amount distributed to the OeNB is recognized in the profit and loss account under item 4 *Income from equity shares and participating interests.*

With respect to 2006, the Governing Council decided at its meeting of December 21, 2006, that the full amount of such income should be retained by the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset under *Claims related to the allocation of euro banknotes within the Eurosystem.*

Risk Management

Financial and operational risk incurred in connection with the OeNB's central banking activities have a crucial impact on its financial result and on its ability to continue as a going concern. The OeNB's risk management is based on binding rules; risk is determined by means of recognized procedures, and risk control is guaranteed through continuous monitoring. Moreover, regular reporting procedures have been put in place.

Financial Risk

Financial risk covers a range of collateral-related risks, basically market, credit and liquidity risk. Reserve asset and risk management principles are laid down in a rule book adopted by the OeNB's Governing Board. The investment of reserve assets is governed by a benchmarking system and is subject to defined limits and durations. Moreover, the OeNB holds separately managed investment portfolios for different asset types and currencies. Regular reports are made to an investment committee and to the Governing Board of the OeNB. Strategies for broadening diversification must be authorized by the Governing Board.

Market Risk

Market risk is the risk of exposure arising from movements in markets, in particular exchange rate and interest rate change, as determined by generally recognized VaR calculation models. Exchange rate risk is controlled through a dual benchmarking system of strategic and tactical benchmarks. The strategic benchmarks, which the Governing Board of the OeNB adopts, as a rule, for one-year periods, also define the upper exposure limits. The strategic measures are complemented by tactical benchmarks, which are defined for shorter periods at the regular meetings of the responsible investment committee to reflect e.g. short-term market developments. Interest rate risk is managed on the basis of duration targets or limits.

Credit Risk

Credit risk is the risk of incurring a loss due to the failure of a counterparty. Here, risk management relies on a credit risk limit system which documents current credit risk limits and actual exposure. Credit risk reports reflecting this information as well as information derived from monitoring developments in financial markets are discussed thoroughly at regular investment committee meetings and are reviewed at regular intervals by the Governing Board.

Liquidity Risk

Liquidity risk is the risk arising from a counterparty's inability to meet its financial obligations in time or in full or the risk that a counterparty may not dispose of sufficiently liquid funds to meet its obligations. To avoid this risk, the OeNB selects counterparties with the highest credit standing and strictly applies the established limits, with a particular emphasis on security and liquidity. These principles take precedence over profitability considerations.

Table 3 shows financial risk and financial provisions as on December 31, 2005 and December 31, 2006.

Table 3

Year-End Comparison of Financial Risk and Financial Provisions

Risk	Risk assessment			Financial provisions		
		2006	2005	2006	2005	
		EUR million		EUR million		
Gold risk	VaR	877	618	877[1]	618[1]	Revaluation account
Exchange rate risk	VaR	1,436	1,778	349	492	Reserve fund for exchange rate risks
				61	394	Revaluation accounts
				743	844	Reserve for nondomestic and price risks
				283	48	Provisions for exchange rate risks
		1,436	1,778	1,436	1,778	
Risk of interest rate changes and pro rata Eurosystem risk and other market risks	VaR	1,230	1,129	1,230	1,129	Reserve for nondomestic and price risks
Total		**3,543**	**3,525**	**3,543**	**3,525**	

[1] *Holdings on the revaluation accounts come to EUR 2,194 million on December 31, 2006 (EUR 1,833 million on December 31, 2005).*

Operational Risk

Operational risk is the risk of incurring losses due to defects, inadequate procedures or systems, human error or unforeseen events affecting operations. The OeNB has set up adequate risk controls for operational risk, as laid down in its risk management handbook ORION – Handbuch Risiko- und Krisenmanagement (ORION stands for "Operationales Risikomanagement in der Oesterreichischen Nationalbank" – operational risk management at the Oesterreichische Nationalbank). Risk valuation takes into account the impact of various risk scenarios on the OeNB's reputation, on costs and any resulting losses. It is an ongoing process, and reports are submitted to the management every half year.

IT Security Policy

IT security policy defines guidelines and provisions to guarantee a high level of security for the development, operation and use of IT systems at the OeNB. The following bodies and persons have key responsibilities in the IT security process: The IT Security Forum, a body which coordinates and controls IT security; the IT security manager, who is responsible for the technical accuracy of the measures submitted for approval as well as for initiating and implementing the IT security process; the IT security experts, who are responsible for the elaboration and implementation of IT security guidelines and IT specification; and the technical experts in charge of the respective products. Regular tests and reports are part of the framework of the IT security policy.

Capital Movements

Table 4

Movements in Capital Accounts in 2006	December 31, 2005	Increase	Decrease	December 31, 2006
	EUR million	*EUR million*	*EUR million*	*EUR million*
I. Capital				
Capital (stock)	12.000	–	–	12.000
Profit-smoothing reserve	2.226	–	–	2.226
	14.226	**–**	**–**	**14.226**
II. Provisions for special business risks				
Reserve for nondomestic and price risks	1,973.263	–	–	1,973.263
	1,973.263	**–**	**–**	**1,973.263**
III. Capital including reserves and provisions (I. + II.)	**1,987.489**	**–**	**–**	**1,987.489**
IV. Supplementary capital (earmarked)				
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
Initial OeNB Anniversary Fund	31.500	–	–	31.500
OeNB Anniversary Fund National Foundation endowment	1,500.000	–	–	1,500.000
Earmarked capital funded with net interest income from ERP loans	598.020	8.776	–	606.796
	2,129.520	**8.776**	**–**	**2,138.296**
Total capital (III. + IV.)	**4,117.009**	**8.776**	**–**	**4,125.785**

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

Development of the OeNB's Currency Positions in the Financial Year 2006

Table 5

Net currency position (including gold)	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Gold and gold receivables	4,480.990	4,229.152	+251.838	+6.0
Claims on non-euro area residents denominated in foreign currency[1]	7,207.987	7,664.347	−456.360	−6.0
Claims on euro area residents denominated in foreign currency	1,620.525	1,132.333	+488.192	+43.1
Other assets	165.514	185.019	−19.505	−10.6
less:				
Liabilities to euro area residents denominated in foreign currency	0.063	0.047	+0.016	+34.1
Liabilities to non-euro area residents denominated in foreign currency	492.750	0.502	+492.248	n. a.
Counterpart of Special Drawing Rights allocated by the IMF	204.398	216.627	−12.229	−5.7
Off balance sheet instruments' revaluation differences	0.182	0.409	−0.227	−55.5
Other liabilities	3.193	4.382	−1.189	−27.1
Revaluation accounts[2]	23.223	23.431	−0.208	−0.9
	12,751.207	12,965.453	−214.246	−1.7
Off balance sheet assets/liabilities (net)	+110.076	−759.223	+869.299	+114.5
Total	**12,861.283**	**12,206.230**	**+655.053**	**+5.4**

[1] *Excluding the share of the IMF quota which has not been drawn (expressed in euro).*
[2] *Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities as on December 31, 2005, and December 31, 2006, respectively.*

Notes to the Balance Sheet

Assets

1 Gold and Gold Receivables

Closing balance	*EUR million*	
December 31, 2006	4,480.990	
December 31, 2005	4,229.152	
Change	+251.838	(+6.0%)

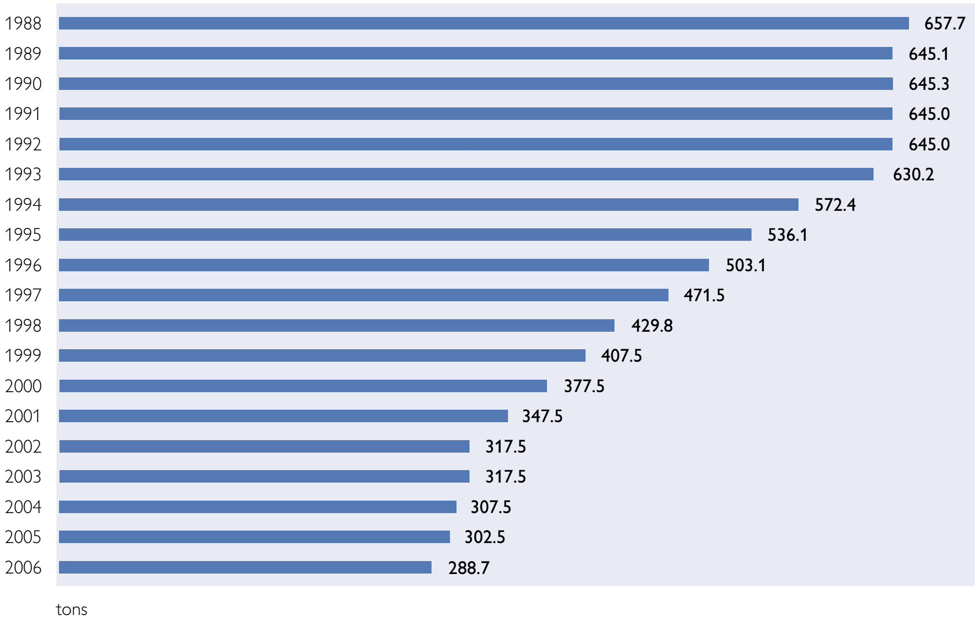
This item comprises the OeNB's holdings of physical and nonphysical gold, which amounted to 9,283,408.684 fine ounces or 288,746.32283 kg of fine gold on December 31, 2006. At a market value of EUR 482.688 per fine ounce (i.e. EUR 15,518.78 per kg of fine gold), the OeNB's gold holdings were worth EUR 4,480.990 million at the balance sheet date.

The valuation on December 31, 2006, resulted in unrealized valuation gains of EUR 2,193.855 million.

In 2006, 13.75 tons of gold were sold for EUR 213.016 million (2005: 5 tons for EUR 56.782 million). The sales were effected within the framework of the Joint Statement on Gold concluded by 14 EU central banks (including the OeNB) and the ECB in March 2004. The price gains of EUR 181.528 million realized on the sales were disclosed under item 2.1 *Realized gains/losses arising from financial operations* of the profit and loss account.

The Joint Statement on Gold provides for annual sales over a period of five years under a concerted program; annual sales are not to exceed 500 tons and total sales over the five-year period are limited to 2,500 tons. Moreover, gold leasings and the use of gold futures and options must not be increased over this period.

The OeNB's Gold Holdings



Source: OeNB.

Note: Includes the gold holdings transferred via swaps to the EMI and the ECB in 1995 (101.3 tons), 1996 (89.2 tons) and 1997 (71.1 tons).

2 Claims on Non-Euro Area Residents Denominated in Foreign Currency

Closing balance	*EUR million*	
December 31, 2006	5,204.493	
December 31, 2005	5,786.985	
Change	−582.492	(−10.1%)

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

Table 6 shows the development of *receivables from the IMF.*

Table 6

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Total claims (Austrian quota) equivalent to SDR 1,872.3 million[1]	2,137.418	2,265.296	−127.878	−5.7
less:				
Balances at the disposal of the IMF	2,003.495	1,877.361	+126.134	+6.7
Receivables from the IMF	133.923	387.935	−254.012	−65.5
Holdings of Special Drawing Rights	144.189	124.121	+20.068	+16.2
Other claims against the IMF	7.991	–	+7.991	×
Total	**286.103**	**512.056**	**−225.953**	**−44.1**

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

Drawings of Special Drawing Rights (SDRs) on behalf of IMF members, the revaluation, by the IMF, of euro holdings under *balances at the disposal of the IMF* as well as transfers by the IMF boosted *receivables from the IMF* by a total of EUR 99.798 million. Conversely, repayments by members reduced these receivables by a total of EUR 225.932 million. Moreover, these claims were adjusted by revaluation losses (–EUR 128.753 million) as well as realized exchange rate gains and book value reconciliation (+EUR 0.857 million).

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2006, this rate hovered between 3.03% and 4.07% per annum, mirroring the prevailing SDR rate.

The *holdings of Special Drawing Rights*[5] were recognized in the balance sheet at EUR 144.189 million on December 31, 2006, which is equivalent to SDR 126 million. The net increase of holdings by EUR 20.068 million in 2006 resulted from interest credited, above all remunerations of the participation in the IMF (+EUR 6.540 million), net sales of SDRs (+EUR 23.741 million) and revaluation differences (–7.290 million).

No purchases arising from designations by the IMF were effected in 2006. Principally the OeNB continues to be obliged under the IMF's statutes to provide currency on demand in exchange for SDRs. Members designated by the IMF may use SDRs up the point at which the OeNB's holdings of SDRs are three times as high as its net cumulative allocation. The OeNB's current net cumulative allocation is SDR 179.045 million.

Other claims against the IMF comprise the OeNB's other contributions to loans under special borrowing arrangements, most recently claims arising from contributions to Emergency Assistance for Natural Disasters (EAND).

Table 7 shows the development of *balances with banks and security investments, external loans and other external assets*.

Table 7

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	%
Balances with banks	1,774.764	1,260.593	+514.171	+40.8
Securities	3,138.569	4,008.794	−870.225	−21.7
Other external assets	5.057	5.542	−0.485	−8.8
Total	**4,918.390**	**5,274.929**	**−356.539**	**−6.8**

Balances with banks outside the euro area include foreign currency deposits on correspondent accounts, deposits with agreed maturity, overnight funds and reverse repos. Securities relate to instruments issued by non-euro area residents. Operations are carried out only with counterparties with top credit ratings.

[5] *Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account, but on behalf of the Republic of Austria, and to enter the SDRs purchased or allocated gratuitously on the assets side of the balance sheet.*

3 Claims on Euro Area Residents Denominated in Foreign Currency

Table 8 shows the development of *claims on euro area residents denominated in foreign currency.*

Table 8

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Balances with banks	835.840	440.100	+395.740	+89.9
Securities	784.685	692.233	+92.452	+13.4
Total	**1,620.525**	**1,132.333**	**+488.192**	**+43.1**

4 Claims on Non-Euro Area Residents Denominated in Euro

Table 9 shows the development of *claims on non-euro area residents denominated in euro.*

Table 9

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Securities investments	596.205	426.008	+170.197	+40.0
Other investments	8.063	8.246	−0.183	−2.2
Total	**604.268**	**434.254**	**+170.014**	**+39.2**

5 Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

Table 10 shows the development of the liquidity-providing transactions executed by the OeNB.

Table 10

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
5.1 Main refinancing operations	9,286.524	9,307.000	−20.476	−0.2
5.2 Longer-term refinancing operations	2,864.419	3,204.816	−340.397	−10.6
5.3 Fine-tuning reverse operations	–	–	–	–
5.4 Structural reverse operations	–	–	–	–
5.5 Marginal lending facility	–	–	–	–
5.6 Credits related to margin calls	–	–	–	–
Total	**12,150.943**	**12,511.816**	**−360.873**	**−2.9**

5.1 Main Refinancing Operations

Main refinancing operations are regular liquidity-providing reverse transactions, carried out by the Eurosystem NCBs with a weekly frequency in the form of standard (variable or fixed rate) tender operations. Since March 8, 2004, the maturity of the standard tender has been one week. All counterparties that fulfill the general eligibility criteria may submit bids within a timeframe of 24 hours from the tender announcement.

Table 11 shows the increases in the minimum bid rate on the main refinancing operations of the Eurosystem in 2006 as decided by the Governing Council of the ECB.

Table 11

Decision of	With effect from	By (percentage point)	To (%)
March 2, 2006	March 8, 2006	+0.25	2.50
June 8, 2006	June 15, 2006	+0.25	2.75
August 3, 2006	August 9, 2006	+0.25	3.00
October 5, 2006	October 11, 2006	+0.25	3.25
December 7, 2006	December 13, 2006	+0.25	3.50

5.2 Longer-Term Refinancing Operations

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

5.3 Fine-Tuning Reverse Operations

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

In 2006, the OeNB conducted one such operation with a total volume of EUR 200 million with a single counterparty.

5.5 Marginal Lending Facility

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

Recourse to the marginal lending facility averaged EUR 7.733 million in 2006.

Table 12 shows the increases in the interest rate on the marginal lending facility in 2006 as decided by the Governing Council of the ECB.

Table 12

Decision of	With effect from	By (percentage point)	To (%)
March 2, 2006	March 8, 2006	+0.25	3.50
June 8, 2006	June 15, 2006	+0.25	3.75
August 3, 2006	August 9, 2006	+0.25	4.00
October 5, 2006	October 11, 2006	+0.25	4.25
December 7, 2006	December 13, 2006	+0.25	4.50

6 Other Claims on Euro Area Credit Institutions Denominated in Euro

Closing balance	*EUR million*	
December 31, 2006	0.115	
December 31, 2005	0.104	
Change	+0.011	(+9.8%)

This item comprises claims not related to monetary policy operations.

7 Securities of Euro Area Residents Denominated in Euro

Closing balance	*EUR million*	
December 31, 2006	3,276.539	
December 31, 2005	3,181.050	
Change	+95.489	(+3.0%)

This item covers all marketable securities that are not used in monetary policy operations and that are not part of investment portfolios earmarked for specific purposes.

The annual change is mainly attributable to net purchases.

8 General Government Debt Denominated in Euro

Closing balance	*EUR million*	
December 31, 2006	424.308	
December 31, 2005	419.957	
Change	+4.351	(+1.0%)

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

In theory, the maximum federal liability is the sum total of all silver commemorative coins issued before 1989, minus any coins returned to and paid for by the central government, minus any coins directly withdrawn by Münze Österreich Aktiengesellschaft and minus repayments, which are effected by annual installments of EUR 5.814 million out of the *central government's share* in the OeNB's profit. The proceeds from silver recovery, including the interest on the investment of these proceeds by Münze Österreich Aktiengesellschaft, are designated for repayment by the contractual deadline (every year on December 15). Any amount outstanding on December 31, 2040, will have to be repaid in the five following years (2041 to 2045) in five equal installments. The federal liability came to EUR 1,204.135 million on December 31, 2006.

The net increase in *general government debt* resulted from returns of silver commemorative coins to the central government in the course of 2005 with a total face value of EUR 20.116 million not offset by redemptions made out of the *central government's share* in the OeNB's profit for the year 2005 or the proceeds from metal recovery (which together totaled EUR 15.765 million).

9 Intra-Eurosystem Claims

Closing balance	*EUR million*	
December 31, 2006	16,950.771	
December 31, 2005	9,980.534	
Change	+6,970.237	(+69.8%)

This balance sheet item consists of the claims arising from the OeNB's share in the ECB's capital and the claims equivalent to the transfer of foreign reserves to the ECB. Furthermore, this item shows net claims related to the allocation of euro banknotes within the Eurosystem.

Table 13 shows the development of *intra-Eurosystem claims* as on December 31, 2005, and December 31, 2006.

Table 13

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
9.1 Participating interest in the ECB	116.476	116.476	–	–
9.2 Claims equivalent to the transfer of foreign reserves	1,157.451	1,157.451	–	–
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates[1]	×	×	×	×
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	15,676.844	8,706.607	+6,970.237	+80.1
9.5 Other claims within the Eurosystem (net)	–	–	–	–
Total	**16,950.771**	**9,980.534**	**+6,970.237**	**+69.8**

[1] *Only an ECB balance sheet item.*

9.1 Participating Interest in the ECB

This subitem shows the share that the OeNB holds in the capital of the ECB. At 2.0800%, the OeNB's share in the ECB's subscribed capital has remained unchanged since May 1, 2004, as has its share of the participating NCBs' fully paid up shares of the ECB's capital (2.9095%).

See the *Notes on Off Balance Sheet Positions* for information about additional capital contributions transferred to the ECB.

9.2 Claims Equivalent to the Transfer of Foreign Reserves

This item represents the OeNB's claims arising from the transfer of foreign reserve assets to the ECB. The claims are denominated in euro at the original conversion rate. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

The claim shown in the financial statements for 2006 has remained unchanged since May 1, 2004.

See the *Notes on Off Balance Sheet Positions* for information about additional transfers.

9.4 Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem

This item reflects the OeNB's claims vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see also the section *Banknotes in Circulation and Intra-Eurosystem Balances*).

10 Items in Course of Settlement

This claim results from 2006 net float items settled at the beginning of January 2007.

11 Other Assets

Table 14 shows the development of *other assets*.

Table 14

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
11.1 Coins of euro area	136.914	162.809	−25.895	−15.9
11.2 Tangible and intangible fixed assets	153.844	156.223	−2.379	−1.5
11.3 Other financial assets	6,795.448	6,866.730	−71.282	−1.0
11.4 Off balance sheet instruments' revaluation differences	11.680	7.016	+4.664	+66.5
11.5 Accruals and prepaid expenses	437.974	385.321	+52.653	+13.7
11.6 Sundry	1,026.054	1,041.905	−15.851	−1.5
Total	**8,561.914**	**8,620.004**	**−58.090**	**−0.7**

11.1 Coins of Euro Area

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

11.2 Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets comprise OeNB *premises* and *equipment* (including computers, related hardware and software, and motor vehicles), *tangible real assets* and *intangible fixed assets*.

Table 15 shows the development of *premises*.

Table 15

	EUR million
Cost incurred until December 31, 2005 [1]	117.858
Purchases in 2006	–
Sales (cost incurred) in 2006 [2]	0.971
Accumulated depreciation	26.448
Book value on December 31, 2006	90.439
Book value on December 31, 2005	95.390
Annual depreciation in 2006	4.404

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

[2] *The balance between the book value of the sales and the underlying historical costs less accumulated depreciation is EUR 0.547 million.*

The sales (book value of EUR 0.547 million) relate to OeNB real estate in 2006; income on these sales came to EUR 0.381 million net.

Table 16 shows the development of *equipment*.

Table 16

	EUR million
Cost incurred until December 31, 2005	85.508
Purchases in 2006	8.863
Sales (cost incurred) in 2006 [1]	10.504
Accumulated depreciation	59.514
Book value on December 31, 2006	24.353
Book value on December 31, 2005	24.106
Annual depreciation in 2006	8.207

[1] *The balance between the book value of the sales and the underlying historical costs less accumulated depreciation is EUR 0.409 million.*

Table 17 shows *tangible real assets* (the OeNB's collection of antique string instruments and the coins of the OeNB's Money Museum).

Table 17

	EUR million
Cost incurred until December 31, 2005	30.690
Purchases in 2006	3.856
Sales (cost incurred) in 2006	–
Accumulated depreciation	1.600
Revaluation	5.494
Book value on December 31, 2006	38.440
Book value on December 31, 2005	36.100
Annual depreciation in 2006	1.516

In 2006, two violins were purchased and added to the OeNB's string instrument collection: an Antonio Stradivari (Cremona 1718, ex Viotti, ex Arnold Rosé) and a Giovanni Battista Guadagnini (Turin, around 1770 to 1775, ex Meinel).

On December 31, 2006, the OeNB's collection of valuable instruments encompassed 28 violins, 5 violoncellos and 3 violas. 34 of the 36 instruments were on loan to renowned musicians under the OeNB's cultural promotion program.

Table 18 shows the development of *intangible fixed assets* (right of use).

Table 18

	EUR million
Cost incurred until December 31, 2005	0.720
Purchases in 2006	–
Sales in 2006	–
Accumulated depreciation[1]	0.108
Book value on December 31, 2006	0.612
Book value on December 31, 2005	0.627
Annual depreciation in 2006[1]	0.015

[1] *Depreciation is over a period of 46 years.*

11.3 Other Financial Assets

Table 19 shows the development of *other financial assets*.

Table 19

	December 31, 2006 EUR million	December 31, 2005 EUR million	Change EUR million	%
Securities	5,533.925	5,739.070	−205.145	−3.6
Participating interests	849.731	835.091	+14.640	+1.8
Other investments	411.792	292.569	+119.223	+40.8
Total	**6,795.448**	**6,866.730**	**−71.282**	**−1.0**

Of the OeNB's securities portfolio, EUR 1,632.856 million represented investments of pension reserve assets, another EUR 1,545.321 million reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (of which EUR 1,504.096 million were earmarked as an endowment for the National Foundation for Research, Technology and Development, also referred to in brief as the National Foundation). Moreover, the securities portfolio related to capital and reserves, i.e. the OeNB's own funds management, came to EUR 2,355.748 million.[6] Revaluations of the portfolios resulted in unrealized valuation gains of EUR 56.145 million and unrealized price losses of EUR 17.763 million as well as unrealized foreign currency gains of EUR 0.402 million.

Of *participating interests*, EUR 533.318 million formed part of the own funds portfolio and EUR 316.413 million part of the investment portfolio relating to investments of the pension reserve.

Table 20 shows the development of *participating interests*.

Table 20

	EUR million
Net asset value on December 31, 2005	835.091
Purchases in 2006	0.742
Sales in 2006 (at book value)	0.567
Annual depreciation in 2006	0.489
Revaluation in 2006	14.954
Net asset value on December 31, 2006	849.731

Other investments include investments of the pension reserve (EUR 29.285 million), investments to promote the National Foundation (EUR 30.323 million), investments of the initial OeNB Anniversary Fund (i.e. exclusive of the National Foundation endowment; EUR 14.258 million) and the own funds portfolio (EUR 337.926 million) and consisted mainly of overnight and short-term funds.

11.4 Off Balance Sheet Instruments' Revaluation Differences

This item reflects revaluation gains arising on off balance sheet positions (for which an offsetting entry is made under liabilities item 14 *Revaluation accounts)*. On December 31, 2006, these gains totaled EUR 11.680 million. Thereof, EUR 6.604 million were attributable to valuation gains on gold interest rate swaps. The remainder, EUR 5.076 million, results from book value reconciliations and realized gains relating to off balance sheet transactions.

Closing balance	*EUR million*	
December 31, 2006	11.680	
December 31, 2005	7.016	
Change	+4.664	(+66.5%)

[6] *The OeNB's own funds shown under liabilities include its capital, the reserve for nondomestic and price risks, earmarked ERP capital, the reserve fund for exchange rate risks and the provisions for exchange rate risks.*

11.6 Sundry

Table 21 shows the development of *sundry* assets.

Table 21

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Claims arising from ERP loans to companies	917.411	828.865	+88.546	+10.7
Money market investment with the Oesterreichische Kontrollbank (OeKB) for ERP lending	31.341	111.110	−79.769	−71.8
ERP loan portfolio managed by the OeNB	948.752	939.975	+8.777	+0.9
Settlement account with the tax authorities	29.350	–	+29.350	×
Schilling coins	8.346	23.064	−14.718	−63.8
Shareholder loans	4.928	5.824	−0.896	−15.4
Advances on salaries	6.935	7.141	−0.206	−2.9
Claims arising from real estate sales to subsidiaries	3.333	6.667	−3.334	−50.0
Claims arising from prepayments of corporate income tax in 2006	–	37.406	−37.406	−100.0
Other claims	24.410	21.828	+2.582	+11.8
Total	**1,026.054**	**1,041.905**	**−15.851**	**−1.5**

Pursuant to Article 3 paragraph 2 of the ERP Fund Act, the OeNB's maximum financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued on a reserve account (EUR 606.796 million on December 31, 2006). The ERP loan portfolio managed by the OeNB thus totaled EUR 948.752 million on December 31, 2006. The provisions governing the extension of loans from this portfolio are laid down in Article 83 of the Nationalbank Act.

The residual terms of advances on salaries generally exceed one year. All advance payments are secured by life insurance plans.

Other claims came to EUR 24.410 million at December 31, 2006, and mainly comprised advances, accounts receivable and claims arising from day-to-day business.

Liabilities

1 Banknotes in Circulation

Closing balance	EUR million	
December 31, 2006	16,814.844	
December 31, 2005	15,128.006	
Change	+1,686.838	(+11.2%)

This item reflects the value of euro banknotes in circulation allocated to the OeNB. Table 22 shows how this share is calculated and how it developed in 2006.

Table 22

	December 31, 2006	December 31, 2005	Change
	EUR million	EUR million	EUR million
Total value of euro banknotes put in circulation by the OeNB	1,138.000	6,421.399	−5,283.399
Adjusted for:			
Liability resulting from the share of euro banknotes in circulation allocated to the ECB (8%)	−1,462.274	−1,315.581	−146.693
Claims related to the allocation of euro banknotes within the Eurosystem	+17,139.118	+10,022.188	+7,116.930
Net claims related to the allocation of euro banknotes within the Eurosystem	+15,676.844	+8,706.607	+6,970.237
Banknotes in circulation	**16,814.844**	**15,128.006**	**+1,686.838**

See the sections *Banknotes in Circulation* and *Intra-Eurosystem Balances* for further explanations on this item.

Table 23 shows the annual averages of *banknotes in circulation* during the past five years.

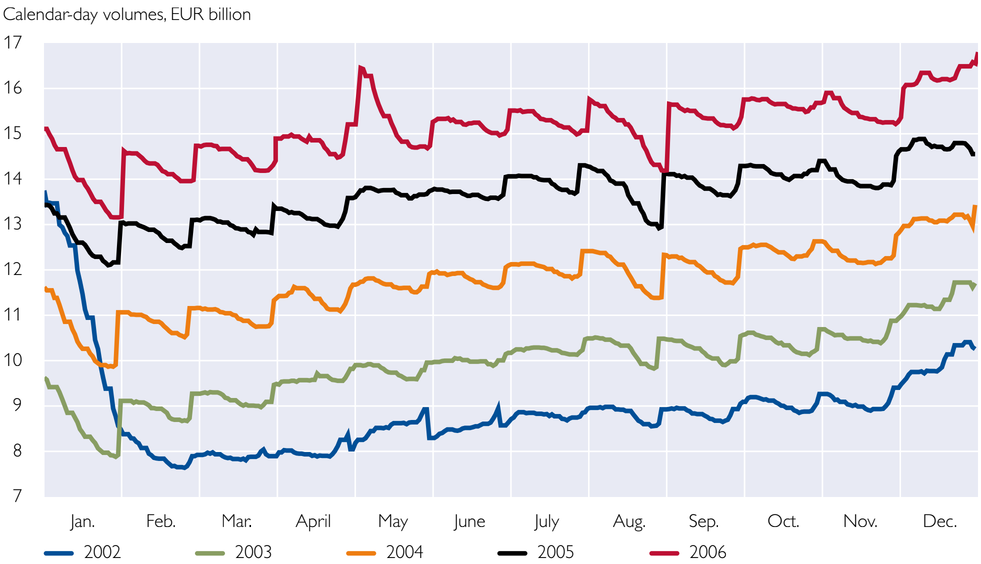
Table 23

	Banknotes in circulation, annual average[1]	Change	
	EUR million	EUR million	%
2002	8,887	−3,632	−29.0
2003	9,913	+1,026	+11.5
2004	11,751	+1,838	+18.5
2005	13,618	+1,867	+15.9
2006	15,128	+1,510	+11.1

[1] *In 2002, the values cover both euro and schilling banknotes in circulation. From 2003, the figures refer exclusively to euro banknotes in circulation.*

In the financial year 2006, the OeNB provided Banka Slovenije with unissued banknotes with a value of EUR 2,175 million on behalf of the Eurosystem to prepare the euro changeover on January 1, 2007, on the basis of an ECB guideline on provisions for preparations for the euro cash changeover and on frontloading and subfrontloading as well as a bilateral agreement between the OeNB and Banka Slovenije. In return, Banka Slovenije will repay the euro banknotes borrowed by delivering an equivalent number and quality of euro banknotes to the Eurosystem.

The OeNB's Banknotes in Circulation over the Past Five Years



Source: OeNB.

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

2 Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

Table 24 shows the development of *liabilities to euro area credit institutions related to monetary policy operations denominated in euro.*

Table 24

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
2.1 Current accounts (covering the minimum reserve system)	4,429.030	4,969.837	−540.807	−10.9
2.2 Deposit facility	44.500	6.100	+38.400	+629.5
2.3 Fixed-term deposits	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–
Total	**4,473.530**	**4,975.937**	**−502.407**	**−10.1**

2.1 Current Accounts (Covering the Minimum Reserve System)

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

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

2.2 Deposit Facility

The *deposit facility* refers to overnight deposits placed with the OeNB by Austrian banks that access the Eurosystem's liquidity-absorbing standing facility at the prespecified rate. In 2006, the volume of such transactions averaged EUR 9.267 million.

Table 25 shows the increases in the interest rate on the *deposit facility* as decided by the Governing Council of the ECB.

Table 25

Decision of	With effect from	By (percentage point)	To (%)
March 2, 2006	March 8, 2006	+0.25	1.50
June 8, 2006	June 15, 2006	+0.25	1.75
August 3, 2006	August 9, 2006	+0.25	2.00
October 5, 2006	October 11, 2006	+0.25	2.25
December 7, 2006	December 13, 2006	+0.25	2.50

5 Liabilities to Other Euro Area Residents Denominated in Euro

Closing balance	*EUR million*	
December 31, 2006	5.828	
December 31, 2005	7.786	
Change	+1.958	(+25.1%)

This item comprises general government deposits of EUR 4.719 million, current account deposits of credit institutions that are not subject to minimum reserve requirements, and current account deposits of nonbanks.

6 Liabilities to Non-Euro Area Residents Denominated in Euro

Closing balance	*EUR million*	
December 31, 2006	13.772	
December 31, 2005	8.133	
Change	+5.639	(+69.3%)

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

9 Counterpart of Special Drawing Rights Allocated by the IMF

Closing balance	*EUR million*	
December 31, 2006	204.398	
December 31, 2005	216.627	
Change	−12.229	(−5.6%)

This item represents the counterpart in euro of the SDR 179 million allocated gratuitously to the OeNB, measured at current market values on the balance sheet date. The OeNB was allocated SDRs in six installments from 1970 to 1972 and from 1979 to 1981, always on January 1.

10 Intra-Eurosystem Liabilities

Closing balance	*EUR million*	
December 31, 2006	21,160.054	
December 31, 2005	15,712.996	
Change	+5,447.058	(+34.7%)

This item shows the OeNB's net liabilities arising from transactions with the 11 other Eurosystem central banks as well as the remaining three ESCB central banks (the Bank of England, Sveriges Riksbank and Danmarks Nationalbank) and with the ECB (in particular balances arising in connection with the TARGET payment system). Moreover, this item covers net claims arising at year-end from the difference between monetary income to be pooled and distributed and the balances arising from any redistribution of ECB seigniorage income.

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

ECB. The ECB remunerates the net balance at the prevailing marginal interest rate for the Eurosystem's main refinancing operations.

12 Other Liabilities

Table 26 shows the development of *other liabilities*.

Table 26

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
12.1 Off balance sheet instruments' revaluation differences	0.182	2.832	−2.650	−93.6
12.2 Accruals and income collected in advance	73.489	43.874	+29.615	+67.5
12.3 Sundry	361.743	604.723	−242.980	−40.2
Total	**435.414**	**651.429**	**−216.015**	**−33.2**

12.1 Off Balance Sheet Instruments' Revaluation Differences

Off balance sheet instruments' revaluation differences subsumes the revaluation losses arising on off balance sheet positions, which are posted to the profit and loss account, and book value reconciliation.

12.3 Sundry

Table 27 shows the development of *sundry* liabilities.

Table 27

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Central government's share of profit (without dividends)	130.244	329.409	−199.165	−60.5
Liability from schilling banknotes in circulation with an exchange deadline	167.080	192.233	−25.153	−13.1
Earmarked funds of the OeNB Anniversary Fund				
Initial OeNB Anniversary Fund	23.793	22.879	+0.914	+4.0
OeNB Anniversary Fund National Foundation endowment	34.419	45.123	−10.704	−23.7
Other	6.207	15.079	−8.872	−58.8
Total	**361.743**	**604.723**	**−242.980**	**−40.2**

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

The reduction of the subitem schilling banknotes in circulation with an exchange deadline is attributable to exchanges of banknotes and to the end of the exchange period for the 100 schilling banknote with the portrait of Angelika Kauffmann, the second banknote for which the exchange period has ended since the introduction of the euro.

According to the General Meeting's decision, EUR 12.579 million of the *profit for the year 2005* were apportioned to the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching. Adjusted for the return on investment for 2006 and repayments made, the initial OeNB Anniversary Fund thus received funds totaling EUR 39.265 million. Of these funds, EUR 15.472 million were paid out in 2006; EUR 18.165 million of the remaining undisbursed funds totaling EUR 23.793 million have been pledged. In 2006, the General Council decided to allocate an additional EUR 10.674 million to fund 180 projects and EUR 3.580 million to fund three institutes. This means that since funds were first pledged as financial assistance in 1966, a total EUR 681.374 million have been paid out.

The EUR 34.419 million the OeNB Anniversary Fund provided for the National Foundation are earmarked pro rata income for 2006; payment to the National Foundation is made the day after the General Meeting.

13 Provisions

Table 28

	December 31, 2005	Transfer from	Transfer to	December 31, 2006
	EUR million	*EUR million*	*EUR million*	*EUR million*
Pension reserve	1,893.116	−96.870	+96.870	1,893.116
Personnel provisions				
Severance payments	46.190	−2.129	+8.803	52.864
Anniversary bonuses	10.632	−1.180	+1.511	10.963
Residual leave entitlements	9.791	−0.257	–	9.534
Supplementary contributions to pension plans	–	–	+2.509	2.509
Other	0.020	−0.013	+0.925	0.932
Statutory or contractual social charges	0.084	−0.084	+0.086	0.086
Salary cost revisions in 2006	0.448	−0.448	+0.481	0.481
Provisions for				
Schilling banknotes without an exchange deadline	214.842	−12.556	–	202.286
Exchange rate risks	48.000	–	+235.000	283.000
Accounts payable to subsidiaries	0.848	−0.838	+3.725	3.735
Conclusion of the renovation work on the OeNB's main building and northern office building	1.628	−1.628	–	–
Accounts payable	0.923	−0.923	+0.700	0.700
Other	0.665	−0.315	+0.298	0.648
Total	**2,227.187**	**−117.241**	**+350.908**	**2,460.854**

Under its initial retirement plan, the OeNB assumes full liability to provide retirement benefits to the employees recruited until April 30, 1998. To cover this liability, the OeNB is obligated by law to establish a *pension reserve* corresponding to the actuarial present value of its pension liabilities.

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

Pension payments covered by the *pension reserve* augmented by EUR 3.277 million or 3.5% to EUR 96.870 million in 2006. This includes the remuneration of 15 retired board members or their dependents (totaling EUR 4.183 million; 2005: 15 persons at EUR 4.139 million).

The income on investment relating to the *pension reserve* was transferred to the *pension reserve* when the financial statements for 2006 were prepared. The *pension reserve* is shown at its actuarial present value, based on a discount rate of 3.85% per annum applied to pension plan assets existing on December 31, 2006 (2005: 3.50% per annum).[7]

[7] *The discount rate is evaluated annually. It is calculated on the basis of the actual investment yield, taking into account general increases in salaries and expected yields. Marginal deviations in the future need not automatically entail an adjustment of the discount rate.*

Provisions for severance payments and anniversary bonuses are calculated according to actuarial principles; the discount rate of 3.50% per annum is the same as that applied in 2005.

Given the potential need for the OeNB to pay one-off supplementary contributions to staff pension plans, the OeNB's financial statements will, from 2006, include dedicated provisions based on actuarial principles. The corresponding amounts in the financial statements for 2006 are based on a discount rate of 3.50% per annum.

The provision for *schilling banknotes without an exchange deadline* was drawn down for exchanges of schilling banknotes.

No provisions for pending lawsuits were made, as the latter are not expected to have a material impact.

14 Revaluation Accounts

Table 29 shows the development of *revaluation accounts*.

Table 29

	December 31, 2006	December 31, 2005	Change
	EUR million	*EUR million*	*EUR million*
Revaluation accounts			
Gold	2,193.855	1,833.123	360.732
Foreign currency	61.568	393.793	−332.225
Securities	73.532	105.140	−31.608
Participating interests	211.273	196.319	+14.954
Off balance sheet instruments	6.604	7.015	−0.411
Total	2,546.832	2,535.390	+11.442
Unrealized valuation gains from January 1, 1999 (initial valuation)			
Securities	1.423	1.423	–
Participating interests	278.807	278.854	−0.047
Total	280.230	280.277	−0.047
Reserve fund for exchange rate risks (funded up to the end of 1998)	349.050	491.858	−142.808
Total	**3,176.112**	**3,307.525**	**−131.413**

The amounts on the *revaluation accounts* reflect the valuation gains established in the course of the valuation of assets as on December 31, 2006. Those gains may be realizable in the context of future transactions in the respective category or may be used to reverse revaluation losses that may arise in future years. The revaluation gains in each currency cover the risk associated with nondomestic assets (as established with the VaR method).

In line with requirements, the initial valuation gains recorded in the opening balance sheet of January 1, 1999, were partly realized during 2006 in the course of sales of underlying assets.

Article 69 paragraph 1 of the Nationalbank Act obliges the OeNB to maintain a *reserve fund for exchange rate risks* which may arise on nondomestic assets. On the one hand, the annual change reflects the realization of exchange rate gains resulting from the sale of underlying assets (gold and foreign currency). On the other hand, the fund is used to cover unrealized exchange losses that must be expensed, as well as any exchange risks (as calculated with the VaR method) that are not offset by the balances on the *revaluation accounts*. As from January 1, 1999, no further allocations to this special reserve have been permitted.

15 Capital and Reserves

According to Article 8 paragraph 1 Nationalbank Act, the capital of the OeNB (liability item 15.1) is EUR 12.000 million.

A federal act passed in 2006[8] empowered the Republic of Austria to purchase the shares of the OeNB's capital held by Anteilsverwaltung BAWAG P.S.K. Aktiengesellschaft (face value: EUR 1,432,000.00) and by the Austrian Trade Union Federation (face value: EUR 1,000,000.00). The transfer was executed at the ordinary General Meeting on May 30, 2006, and the entry into the register of shareholders was made on July 7, 2006. Thus, the Republic of Austria now holds 70.3% of the shares of the OeNB.

Table 30 shows the development of *capital and reserves*.

Table 30

	December 31, 2006	December 31, 2005	Change	
	EUR million	*EUR million*	*EUR million*	*in %*
Profit-smoothing reserve	2.226	2.226	–	–
Reserve for nondomestic and price risks	1,973.263	1,973.263	–	–
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching	1,531.500	1,531.500	–	–
Earmarked capital funded with net interest income from ERP loans	606.796	598.020	+8.776	+1.5
Total	**4,113.785**	**4,105.009**	**+8.776**	**+0.2**

The *reserve for nondomestic and price risks* serves to cover the risks associated with foreign currency and security prices. The section *Risk Management* contains more information on the OeNB's risk management principles.

Since 2003, the capital of the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching (EUR 1,531.500 million) has consisted of its initial funding (EUR 31.500 million) and of an endowment to support the National Foundation (EUR 1,500.000 million).

The initial funding of EUR 31.500 million consists of EUR 7.267 million apportioned from the *net income* for the year 1965 in April 1966 and EUR 24.233 million allocated from the *profit for the year* 2002 in May 2003.

The endowment of EUR 1,500.000 million for the National Foundation was established in 2003 by earmarking funds reappropriated from the *freely disposable reserve fund* (EUR 545.000 million) and from the *general reserve fund* (EUR 955.000 million).

Earmarked ERP capital funded with net interest income from loans represents the cumulative interest income accruing to the OeNB from lending out of the ERP loan portfolio managed by the OeNB. Appropriation of this ERP capital is subject to international law; it is earmarked exclusively for ERP loans.

[8] *Austrian Federal Law Gazette I No. 61/2006, "61. Bundesgesetz, mit dem ein Bundesgesetz betreffend die Haftungsübernahme zur Zukunftssicherung der BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG geschaffen, das Bundesfinanzgesetz 2006 und das Nationalbankgesetz 1984 geändert sowie ein Bundesgesetz betreffend den Erwerb von Aktien der Oesterreichischen Nationalbank geschaffen werden" (this federal act is not only the legal basis for purchases of OeNB shares by the Republic of Austria, it also authorizes the Austrian Federal Minister of Finance to assume liability for specific BAWAG P.S.K. receivables on behalf of the Republic of Austria).*

Notes on Off Balance Sheet Positions

The following financial assets and liabilities of the OeNB were stated off the balance sheet on December 31, 2006:

- forward purchases (EUR 438.459 million) and sales (EUR 433.383 million) consisting of swaps and euro- as well as foreign currency-denominated forward transactions
- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to the point at which the OeNB's holdings of SDRs are three times as high as its gratuitous net cumulative allocation of EUR 469.004 million
- contingent liabilities to the IMF under the New Arrangements to Borrow, totaling EUR 465.773 million
- obligation to make a supplementary contribution of EUR 36.662 million (equivalent to SDR 32.115 million) to the OeNB's stake in the capital of the Bank for International Settlements (BIS) in Basel consisting of 8,564 shares of SDR 5,000 each
- liabilities of EUR 21.220 million from foreign currency investments effected in the OeNB's name for third account
- repayment obligations to the amount of EUR 18.885 million arising from pension contributions made by OeNB staff members payable on termination of employment contracts
- contingent liability of EUR 1,040.000 million, equivalent to the OeNB's share of the maximum of EUR 50 billion reserve assets that the ECB may require the euro area NCBs to transfer (based on the OeNB's share of 2.0800% in the ECB's subscribed capital at the balance sheet date)
- contingent liability of EUR 104.000 million, equivalent to the OeNB's share of the ECB's capital of EUR 5 billion, should the ECB increase its capital by such amount under Article 28.1 of the ESCB Statute (based on the OeNB's share in the ECB's subscribed capital of 2.0800% at the balance sheet date)
- contingent liabilities of EUR 111.000 million arising from bank guarantees given and contingent assets of EUR 1.096 million arising from bank guarantees received
- contingent liabilities of EUR 20.520 million arising from guarantees given in connection with the sale of the OeNB's 38% share of *Austrian Payment Systems Services (APSS) GmbH*

At the current juncture, no substantiated figures about the possible material impact on the OeNB of the lawsuit pending against the Republic of Austria in a bankruptcy case can be provided.

Table 31 shows *holdings of derivatives* on December 31, 2006.

Table 31

	Underlying value *EUR million*	Market value gains *EUR million*	Market value losses *EUR million*
Gold Interest rate swaps			
Sales	123.568	6.422	–

The market values represent the valuation of December 31, 2006, with gains of EUR 6.604 million less a depreciation of EUR 0.182 million effected in previous years entered in the *revaluation accounts* (liability item 14).

Moreover, foreign currency options (denominated in euro, U.S. dollars, Swedish kronor, Australian dollars and yen) and security options (denominated in Australian dollars and pound sterling) were traded in 2006, all of which matured prior to December 31, 2006. The result of these transactions was taken to item 1 *Net interest income* of the profit and loss account.

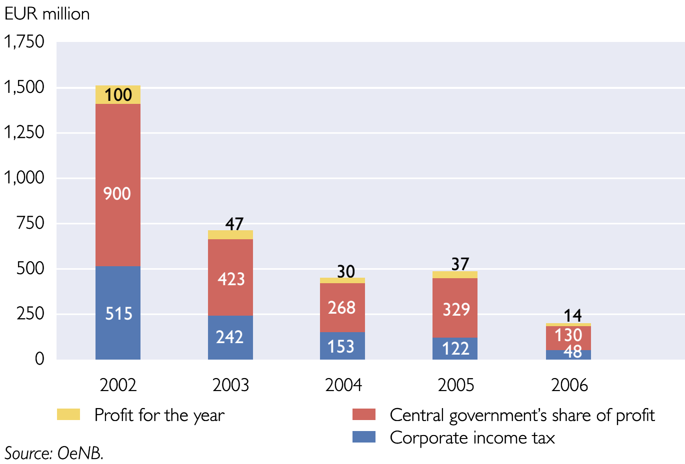
Notes to the Profit and Loss Account

Table 32

	2006	2005	Change[1]	
	EUR million	EUR million	EUR million	%
1 Net interest income	567.569	451.430	+116.139	+25.7
2 Net result of financial operations, writedowns and risk provisions	−174.641	181.958	+356.599	+196.0
3 Net income from fees and commissions	1.919	0.780	+1.139	+146.1
4 Income from equity shares and participating interests	25.202	68.425	−43.223	−63.2
5 Net result of pooling of monetary income	6.343	7.053	−0.710	−10.1
6 Other income	10.233	21.157	−10.924	−51.6
Total net income	**436.625**	**730.803**	**−294.178**	**−40.3**
7 Staff costs	−115.316	−104.910	+10.406	+9.9
8 Administrative expenses	−76.997	−85.322	−8.325	−9.8
9 Depreciation of tangible and intangible fixed assets	−14.142	−15.237	−1.095	−7.2
10 Banknote production services	−24.574	−16.185	+8.389	+51.8
11 Other expenses	−12.641	−21.136	−8.495	−40.2
Total expenses	**−243.670**	**−242.790**	**+0.880**	**+0.4**
Operating profit	**192.955**	**488.013**	**−295.058**	**−60.5**
12 Corporate income tax	−48.239	−122.003	−73.764	−60.5
	144.716	366.010	−221.294	−60.5
13 Central government's share of profit	−130.244	−329.409	−199.165	−60.5
14 Profit for the year	**14.472**	**36.601**	**−22.129**	**−60.5**

[1] *Absolute increase (+) or decrease (−) in the respective item.*

Operating Profit over the Past Five Years



Source: OeNB.

1 Net Interest Income

Net interest income represents the balance of interest income and interest expense.

Net interest income from assets and liabilities denominated in foreign currency totaled EUR 307.169 million (+EUR 49.896 million), that from euro-denominated assets and liabilities came to EUR 163.310 million (+EUR 48.184 million). Monetary policy refinancing operations yielded EUR 375.674 million (+EUR 150.871 million), and the ECB remunerated the transfer of foreign reserves with EUR 28.086 million (+EUR 7.424 million). Income on intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem came to EUR 385.301 million (+EUR 239.284 million). Conversely, EUR 144.034 million (+EUR 47.455 million) were required to remunerate minimum reserves. Interest expenses of EUR 572.801 million (+EUR 303.936 million) resulted from TARGET liabilities.

2 Net Result of Financial Operations, Writedowns and Risk Provisions

Realized gains/losses arising from financial operations from day-to-day business result from receivable or payable differences between the acquisition cost and the market value of gold, foreign currency, securities or other transactions. Among other things, these gains include price gains from the sale of 13.75 tons of gold.

Net realized gains contracted by EUR 73.570 million to EUR 144.581 million, basically consisting of net income on gold and foreign currency transactions (+EUR 219.115 million, compared to +EUR 28.468 million in 2005) and net expenses on securities transactions (–EUR 74.512 million, compared to +EUR 33.776 million in 2005).

Writedowns on financial assets and positions largely reflect the decline in market prices of balance sheet items as on December 31, 2006, below the average cost of the respective currencies or securities. Foreign currency writedowns came to EUR 64.789 million (+48.691 million), securities writedowns to EUR 83.733 million (+EUR 55.827 million) and writedowns on participating interests to EUR 0.489 million (+EUR 0.303 million).

Transfers to/from provisions for foreign exchange rate and price risks resulted from transfers from the *reserve fund for exchange rate risks* that the OeNB funded up to the end of 1998 with a view to covering unrealized foreign currency losses of EUR 64.789 million. Thus, in compliance with Article 69 paragraph 1 Nationalbank Act, these losses did not have an impact on profit. However, in view of the assessment of risk associated with nondomestic assets, EUR 235.000 million were transferred to the *provisions for exchange rate risks*.

4 Income from Equity Shares and Participating Interests

Dividend payments of EUR 18.000 million made by Münze Österreich Aktiengesellschaft and of EUR 2.432 million made by the BIS for 2006 were disclosed under *income from equity shares and participating interests*.

The distribution of profit by AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H. resulted in income of EUR 1.500 million. Moreover, net income of EUR 3.085 million from the sale of the OeNB’s share in Austrian Payment Systems Services (APSS) GmbH and liquidation proceeds of EUR 0.185 million in Realitäten-Verwertungs-Gesellschaft m.b.H. in Liqu. were recognized in this item.

On December 21, 2006, the Governing Council of the ECB decided not to distribute the ECB's 2006 income of EUR 1,319 million on euro banknotes in circulation (seigniorage income) to the NCBs but to transfer this amount to a provision for foreign exchange rate, interest rate and gold price risks. The OeNB's share of the ECB's seigniorage income, and hence its share of this provision, comes to EUR 38.372 million.

5 Net Result of Pooling of Monetary Income

The amount of the OeNB's monetary income is determined by measuring the actual annual income that it derives from the earmarkable assets held against its liability base. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of the OeNB's gold holdings in proportion to its capital key share. Gold is considered to generate no income. Where the value of the OeNB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the average rate of return on the earmarkable assets of all NCBs taken together.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key.

The difference between the monetary income pooled by the OeNB in 2006 (amounting to EUR 428.510 million) and the monetary income reallocated to the OeNB (amounting to EUR 434.853 million) was the net result arising from the calculation of monetary income.

6 Other Income

The decline in other income resulted mainly from the fact that unlike in 2005, the OeNB had no income from sales of real estate in 2006.

7 Staff Costs

Salaries, severance payments, the employer's social security contributions and other statutory or contractual social charges fall under the heading *staff costs*. These costs are reduced by recoveries of salaries and employees' pension contributions.

As of January 1, 1997, the pension contributions of employees who had joined the OeNB after March 31, 1993, and who qualify for an OeNB pension, were raised from 5% of their total basic pay to 10.25% of their basic salaries up to the earnings cap as defined in the General Social Security Act. A rate of 2% applies to income above the earnings cap.

Salaries net of pension contributions collected from staff members grew by EUR 2.562 million or 3.1% to EUR 85.855 million against the previous year. The OeNB's outlays were reduced by recoveries of salaries totaling EUR 6.603 million for staff members on secondment to subsidiaries and foreign institutions.

The four members of the Governing Board received emoluments[9] including remuneration in kind (tax value of the private use of company cars, subsidies to health and accident insurance) totaling EUR 1.115 million (2005: EUR 1.042 million). Table 33 shows a breakdown of these items.

Table 33

	Emoluments	Remuneration in kind and other benefits	Total
	EUR thousand	*EUR thousand*	*EUR thousand*
Governor Klaus Liebscher	273	8	281
Vice Governor Wolfgang Duchatczek	258	64[1]	322
Executive Director Peter Zöllner	251	10	261
Executive Director Josef Christl	242	8	250

[1] *Includes an anniversary bonus of EUR 55,000.*

The emoluments of the OeNB's President and Vice President amounted to EUR 109,000 in 2006 (2005: EUR 107,000).

Table 34 shows the development of staff in full-time equivalents (FTEs).

Table 34

	December 31[1]			Annual average[1]		
	2006	2005	Change	2006	2005	Change
Staff employed at the OeNB[2]	931.7	947.5	−15.8	935.4	962.8	−27.4
Total	1,100.5	1,114.5	−14.0	1,104.8	1,131.2	−26.4

[1] *Including part-time employees on a pro rata basis.*
[2] *Excluding employees on secondment or leave (such as maternity and parental leave).*

Statutory or contractual social charges totaling EUR 13.162 million (+EUR 0.329 million) contain municipal tax payments of EUR 2.599 million, social security contributions of EUR 6.558 million and contributions of EUR 3.902 million to the Family Burden Equalization Fund.

At its meeting on October 12, 2006, the General Council adopted Conditions of Service for staff employed by the OeNB after December 31, 2006. An important feature of the Conditions of Service (known as DB IV) is that they provide for a defined contribution scheme.

[9] *Limits apply under the Federal Constitutional Law Limiting the Emoluments of Public Officials.*

10 Banknote Production Services

Expenses for banknote production services result above all from the purchase of euro banknotes from the Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS).

12 Corporate Income Tax

A corporate income tax rate of 25% is to be applied to the taxable income according to Article 72 Nationalbank Act, which qualifies as income under Article 22 paragraph 1 of the Corporate Income Tax Act.

13 Central Government's Share of Profit

Under Article 69 paragraph 3 of the Nationalbank Act, the *central government's share of profit* is 90% of the net income for the year after tax, as in previous years, and amounted to EUR 130.244 million (2005: EUR 329.409 million).

Post-Balance Sheet Events

With the accession of Romania and Bulgaria to the EU and their NCBs' membership in the ESCB on January 1, 2007, the relative shares of the NCBs in the capital of the ECB (the ECB's "capital key," last changed on May 1, 2004) had to be adjusted.

At the same time, the ECB's capital key had to adjusted to reflect the fact that, also with effect from January 1, 2007, Slovenia fulfilled the necessary conditions for adoption of the euro as its currency. The derogation under Article 4 of Slovenia's Act of Accssion was thus abrogated on January 1, 2007, and Banka Slovenije adopted the single currency as legal tender in Slovenia. Consequently, Banka Slovenije joined the Eurosystem on that date.

Finally, under Article 49.3 of the Statute of the ESCB, the accession of a country to the EU and the integration of its NCB into the ESCB triggers an automatic increase in the ECB's subscribed capital and in the maximum amount of foreign reserve assets that the ECB may require the NCBs to transfer.

As the combined result of the changes on January 1, 2007, the subscribed capital of the ECB rose by EUR 196 million to a total of EUR 5,761 million on the same day, and the limit for the transfer of foreign reserve assets to the ECB was raised by EUR 1,960 million to EUR 57,607 million.

Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital key shares of NCBs were adjusted as follows on January 1, 2007:

Table 35

Key for subscription to the ECB's capital	From May 1, 2004, to December 31, 2006	From January 1, 2007
	%	%
Deutsche Bundesbank	21.1364	20.5211
Banque de France	14.8712	14.3875
Banca d'Italia	13.0516	12.5297
Banco de España	7.7758	7.5498
De Nederlandsche Bank	3.9955	3.8937
Nationale Bank van België / Banque Nationale de Belgique	2.5502	2.4708
Oesterreichische Nationalbank	2.0800	2.0159
Bank of Greece	1.8974	1.8168
Banco de Portugal	1.7653	1.7137
Suomen Pankki – Finlands Bank	1.2887	1.2448
Central Bank and Financial Services Authority of Ireland	0.9219	0.8885
Banka Slovenije[1]	–	0.3194
Banque centrale du Luxembourg	0.1568	0.1575
Total euro area NCBs	**71.4908**	**69.5092**
Bank of England	14.3822	13.9337
Narodowy Bank Polski	5.1380	4.8748
Banca Naţională României	–	2.5188
Sveriges Riksbank	2.4133	2.3313
Danmarks Nationalbank	1.5663	1.5138
Česká národní banka	1.4584	1.3880
Magyar Nemzeti Bank	1.3884	1.3141
Bulgarian National Bank	–	0.8833
Národná banka Slovenska	0.7147	0.6765
Lietuvos bankas	0.4425	0.4178
Banka Slovenije[1]	0.3345	–
Latvijas Banka	0.2978	0.2813
Eesti Pank	0.1784	0.1703
Central Bank of Cyprus	0.1300	0.1249
Central Bank of Malta / Bank Ċentrali ta' Malta	0.0647	0.0622
Total non-euro area NCBs	**28.5092**	**30.4908**
Total euro area and non-euro area NCBs	**100.0000**	**100.0000**

[1] *Euro area member from January 1, 2007.*

As a combined result of the changes on January 1, 2007, the weighting (i.e. percentage share) assigned to the OeNB in the key for subscription to the ECB's capital (fixed at 2.0800% since May 1, 2004) declined to 2.0159%. Yet the capital subscription that the OeNB actually has to pay up increased, as the ECB's subscribed capital rose automatically upon Bulgaria's and Romania's accession to the EU. The OeNB transferred the difference of EUR 0.384 million to the ECB, bringing its paid-up capital share to EUR 116.129 million.

Following the accession of Bulgaria and Romania to the EU, not only the OeNB's paid-up capital share but also its percentage share in the paid-up capital of the ECB would have risen. However, since the key for fully paid-in subscriptions was additionally adjusted to reflect the accession of Banka Slovenije to the Eurosystem, the OeNB's percentage share actually dropped from 2.9095% to 2.9002%.

The adjustments to the ECB's capital key and the resulting changes in NCBs' capital shares entailed an adjustment of the NCBs' euro claims equivalent to the foreign reserve assets transferred to the ECB. As the OeNB's subscribed share of the ECB's capital, while having decreased in percentage terms, rose in absolute terms, the OeNB's euro-denominated *claims equivalent to the transfer of foreign reserves* augmented by EUR 3.839 million to EUR 1,161.290 million.

The changes entered into force on January 1, 2007. All required transfers were effected on January 2, 2007, through the TARGET system.

The increase in the subscribed capital of the ECB under Article 49.2 of the Statute triggered by the expansion of the Eurosystem to 13 members was effected in March 2007 following the approval of the ECB's annual accounts by the Governing Board of the ECB.

Governing Board (Direktorium)

Governor Klaus Liebscher
Vice Governor Wolfgang Duchatczek
Executive Director Peter Zöllner
Executive Director Josef Christl

General Council (Generalrat)

President Herbert Schimetschek
Vice President Manfred Frey
August Astl
Bernhard Felderer
Philip Göth
Elisabeth Gürtler-Mauthner
Alfred Hannes Heinzel (from May 30, 2006)
Manfred Hofmann
Herbert Kofler
Max Kothbauer (from May 30, 2006)
Georg Kovarik (until May 30, 2006)
Johann Marihart
Werner Muhm
Gerhard Randa
Walter Rothensteiner
Johann Zwettler (until May 30, 2006)

In accordance with Article 22 paragraph 5 Nationalbank Act, the following representatives of the Central Staff Council participated in discussions on personnel, social and welfare matters: Martina Gerharter, Thomas Reindl (until October 2, 2006) and Gerhard Kaltenbeck (from October 2, 2006).

Vienna, March 14, 2007

Bestätigungsvermerk

„Wir haben den um den Anhang erweiterten Jahresabschluss der Oesterreichischen Nationalbank, Wien, für das Geschäftsjahr vom 01. Jänner 2006 bis 31. Dezember 2006 mit einer Bilanzsumme von € 53.377.875.752,59 unter Einbeziehung der Buchführung und des Geschäftsberichts – soweit er sich auf den Jahresabschluss bezieht – geprüft.

Die Buchführung, die Aufstellung und der Inhalt dieses um den Anhang erweiterten Jahresabschlusses sowie des Geschäftsberichtes liegen in der Verantwortung der gesetzlichen Vertreter der Gesellschaft.

Dieser um den Anhang erweiterte Jahresabschluss sowie dieser Geschäftsbericht wurden in Übereinstimmung mit den Vorschriften des Nationalbankgesetzes 1984 in der geltenden Fassung und den ergänzenden Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs. 4 des „Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der „Guideline of the European Central Bank of 10 November 2006 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2006/16)" erlassenen Vorschriften erstellt.

Der gem. § 68 Abs. 1 NBG zu erstellende Geschäftsbericht ersetzt den Lagebericht gem. § 243 HGB.

Unsere Verantwortung besteht in der Abgabe eines Prüfungsurteils zu diesem um den Anhang erweiterten Jahresabschluss auf der Grundlage unserer Prüfung und einer Aussage, ob der Geschäftsbericht – soweit er sich auf den Jahresabschluss bezieht – in Einklang mit dem Jahresabschluss steht.

Wir haben unsere Prüfung unter Beachtung der in Österreich geltenden gesetzlichen Vorschriften und Grundsätze ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern, die Prüfung so zu planen und durchzuführen, dass ein hinreichend sicheres Urteil darüber abgegeben werden kann, ob der um den Anhang erweiterte Jahresabschluss frei von wesentlichen Fehldarstellungen ist, und eine Aussage getroffen werden kann, ob der Geschäftsbericht – soweit er sich auf den Jahresabschluss bezieht – mit dem Jahresabschluss in Einklang steht. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld der Oesterreichischen Nationalbank sowie die Erwartungen über mögliche Fehler berücksichtigt.

(Fortsetzung des Bestätigungsvermerkes auf der nachfolgenden Seite)

(Fortsetzung des Bestätigungsvermerkes)

Im Rahmen der Prüfung werden die Nachweise für Beträge und sonstige Angaben in der Buchführung und im Jahresabschluss überwiegend auf Basis von Stichproben beurteilt. Die Prüfung umfasst ferner die Beurteilung der angewandten Rechnungslegungsgrundsätze und der von den gesetzlichen Vertretern vorgenommenen, wesentlichen Schätzungen sowie eine Würdigung der Gesamtaussage des um den Anhang erweiterten Jahresabschlusses. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unser Prüfungsurteil darstellt.

Unsere Prüfung hat zu **keinen Einwendungen** geführt.

Auf Grund der bei der Prüfung gewonnenen Erkenntnisse entspricht der um den Anhang erweiterte Jahresabschluss nach unserer Beurteilung den gesetzlichen Vorschriften des Nationalbankgesetzes 1984 in der geltenden Fassung und den ergänzenden Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs. 4 des „Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der „Guideline of the European Central Bank of 10 November 2006 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2006/16)" erlassenen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage des Unternehmens zum 31. Dezember 2006 sowie der Ertragslage des Unternehmens für das Geschäftsjahr vom 01. Jänner 2006 bis 31. Dezember 2006 in Übereinstimmung mit den österreichischen Grundsätzen ordnungsmäßiger Buchführung im Sinne des § 67 Abs. 2 NBG.

Der Geschäftsbericht steht – soweit er sich auf den Jahresabschluss bezieht – in Einklang mit dem Jahresabschluss."

Wien, am 14. März 2007

TPA Horwath
Wirtschaftsprüfung GmbH

Mag. Thomas Schaller, CPA
Wirtschaftsprüfer

MOORE STEPHENS AUSTRIA
Wirtschaftsprüfungsgesellschaft mbH

Dr. Peter Wundsam
Wirtschaftsprüfer

Die Veröffentlichung oder Weitergabe des Jahresabschlusses mit unserem Bestätigungsvermerk darf nur in der von uns bestätigten Fassung erfolgen. Für abweichende Fassungen (zB Verkürzungen) gelten die Bestimmungen des § 281 HGB.

Translation of the report of the external auditors from German into English by the OeNB for information purposes. In case of discrepancies, the German text signed by TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH shall prevail.

Report of the Auditors

We have audited the Financial Statements – comprising total assets of EUR 53,377,875,752.59 – including the Notes to the Financial Statements, of the Oesterreichische Nationalbank in Vienna for the year from January 1, 2006, to December 31, 2006, and taking into account the accounting records on which they are based as well as the Annual Report, insofar as it refers to the Financial Statements.

The accounting records, preparation and the content of these Financial Statements, including the Notes to the Financial Statements and the Annual Report, are the responsibility of the OeNB's management.

The Financial Statements, including the Notes to the Financial Statements, and the Annual Report were prepared in conformity with the provisions of the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act) as amended and the supplementary provisions established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2006/16).

The Annual Report to be prepared under Article 68 paragraph 1 Nationalbank Act replaces the report of the Management Board to be drawn up pursuant to Article 243 Commercial Code.

Our responsibility is to express an opinion on these Financial Statements, including the Notes to the Financial Statements, based on our audit and to state whether the Annual Report, insofar as it refers to the Financial Statements, is in accordance with the Financial Statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated Financial Statements are free from material misstatement and whether we can state that the Annual Report, insofar as it refers to the Financial Statements, is in accordance with the Financial Statements. In determining the audit procedures, we considered our knowledge of the business, the economic and legal environment of the Oesterreichische Nationalbank as well as the expected occurrence of errors.

An audit involves procedures to obtain evidence about amounts and other disclosures in the accounting records and the Financial Statements on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the Financial Statements, including the Notes on the Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit *did not give rise to any objections.*
In the course of our audit we have found that the Financial Statements, including the Notes to the Financial Statements, are in accordance with the provisions of the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act) as amended and the supplementary provisions established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2006/16) and provide a true and fair picture of the OeNB's financial position on December 31, 2006, and the results of its operations from January 1, 2006, to December 31, 2006, in line with the principles of generally accepted accounting practice as required in Article 67 paragraph 2 Nationalbank Act.
Insofar as the Annual Report refers to the Financial Statements, it is in accordance with the Financial Statements.

Vienna, March 14, 2007

TPA Horwath Wirtschaftsprüfung GmbH	MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH
Thomas Schaffer, CPA external auditor	Peter Wundsam external auditor

The Financial Statements including our audit report may be published or distributed only as audited by us. Shorter versions or excerpts etc. are subject to the provisions of Article 281 of the Commercial Code.

Profit for the Year and Proposed Profit Appropriation

The statutory allocation of OeNB profit to the central government in line with Article 69 paragraph 3 of the Nationalbank Act came to EUR 130.244 million in 2006 (item 13 of the profit and loss account; 2005: EUR 329.409 million). Adjusted for this amount, the balance sheet and the profit and loss account show a profit for the year 2006 of EUR 14,471,597.19.

On March 28, 2007, the Governing Board endorsed the following profit appropriation proposal to the General Council:

	EUR
to pay a 10% dividend on the OeNB's capital stock of EUR 12 million	1,200,000.00
to allocate to the Leopold Museum Private Foundation	4,530,424.48
to allocate to the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching: funds earmarked for promotion by the OeNB	8,741,172.71
	14,471,597.19

Report of the General Council on the Annual Report and the Financial Statements for 2006

The General Council (Generalrat) fulfilled the duties incumbent on it under the Nationalbank Act 1984 by holding regular meetings, by convening subcommittees to examine specific issues and by making informed decisions.

The Governing Board (Direktorium) periodically reported to the General Council on the Oesterreichische Nationalbank's operations and results, on the conditions on the money, capital and foreign exchange markets, on important day-to-day management issues, on all developments of significance for an appraisal of monetary and economic developments, on the arrangements made for auditing the OeNB's finances, and on any other significant dispositions and events affecting the OeNB's operations.

The Financial Statements for the year 2006 were given an unqualified auditor's opinion after examination by the auditors elected at the General Meeting of May 30, 2006, TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH, on the basis of the books and records of the Oesterreichische Nationalbank as well as the information and evidence provided by the Governing Board.

In its meeting of April 24, 2007, the General Council approved the Annual Report of the Governing Board and the Financial Statements for the business year 2006. The General Council submits the Annual Report and moves that the General Meeting approve the Financial Statements of the Oesterreichische Nationalbank for the year 2006 and discharge the General Council and the Governing Board of its responsibilities regarding the preceding business year. Moreover, the General Council requests that the General Meeting approve the allocation of the profit for the year in accordance with the proposal made in the notes to the Financial Statements 2006 (page 137).

Notes

Abbreviations, Legend

AG	Aktiengesellschaft (roughly: stock corporation)
APC	Austrian Payments Council
APSS	Austrian Payment Systems Services
ARTIS	Austrian Real Time Interbank Settlement (the Austrian RTGS system)
A-SIT	Secure Information Technology Center – Austria
ATM	automated teller machine
ATS	Austrian schilling
ATX	Austrian Traded Index
Basel II	New Basel Capital Accord
BAWAG P.S.K.	Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse AG
BIS	Bank for International Settlements
BSC	Banking Supervision Committee of the ESCB (EU)
CCR	central credit register
CEBS	Committee of European Banking Supervisors (EU)
CESEE	Central, Eastern and Southeastern Europe
CESR	Committee of European Securities Regulators
CEEI	Conference on European Economic Integration
CMS	Counterfeit Monitoring System
COFER	Currency Composition of Official Foreign Exchange Reserves (an IMF database)
CSD	central securities depository
EBA	Euro Banking Association
ECAF	Eurosystem credit assessment framework
ECB	European Central Bank
Ecofin	Council of Economic and Finance Ministers (EU)
EDIFACT	Electronic Data Interchange For Administration, Commerce and Transport
EMAS	eco-management and audit scheme
EMI	European Monetary Institute
EMU	Economic and Monetary Union
EMV	Europay, MasterCard and VISA
EPC	European Payments Council
ERM II	Exchange Rate Mechanism II (EU)
ERP	European Recovery Program
ESCB	European System of Central Banks
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
FMA	Financial Market Authority (Austria)
FTE	full-time equivalent
GDP	gross domestic product
GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (the OeNB's cash logistics company)
HICP	Harmonised Index of Consumer Prices
IHS	Institute for Advanced Studies
IMF	International Monetary Fund
IRB	internal ratings-based
M3	broad monetary aggregate M3
MWh	megawatt hours
NCB	national central bank
NPISH	nonprofit institutions serving households
NRP	National Reform Program (EU)
OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH (Austrian Banknote and Security Printing Works)
OECD	Organisation for Economic Co-operation and Development
OeNB	Oesterreichische Nationalbank
ORION	Operationales Risikomanagement in der OeNB (operational risk management at the OeNB)
POS	point of sale
RTGS	Real-Time Gross Settlement
SAA	Stabilization and Association Agreement
SCF	SEPA Cards Framework
SDR	Special Drawing Right (IMF)
SEPA	Single Euro Payments Area
SIT	Slovenian tolar
SMEs	small and medium-sized enterprises
STEP.AT	Austrian clearing and settlement system that is operated by the OeNB and that conforms to SEPA standards
STEP2	Straight-Through Euro Processing (EBA)
STUZZA	Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (Austrian Research Association for Payment Cooperation)
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer
TOP	Tender Operations system
USD	U.S. dollar
VaR	value at risk
WIFO	Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research)
wiiw	Wiener Institut für internationale Wirtschaftsvergleiche (The Vienna Institute for International Economic Studies)
WTO	World Trade Organization

× = No data can be indicated for technical reasons

.. = Data not available at the reporting date

0 = The numerical value is zero or smaller than half of the unit indicated

– = The numerical value is zero (legend entry in the Financial Statements only)

n. a. = Not applicable (legend entry in the Financial Statements only)

Discrepancies may arise from rounding.

Glossary

Acquirer: Service provider authorizing and clearing payment card transactions. Licensed by card organizations to enlist merchants as business partners willing to accept electronic payment from cardholders who have signed up with the relevant organization; handles all relevant transactions for the merchants.

Benchmark: Typically a benchmark index, which defines the market environment relevant for the investment of a portfolio and provides a yardstick for all investment decisions. The goal of investors is to outperform the benchmark on a sustainable basis and without incurring major additional risks.

Capital adequacy: The concept that banks must maintain sufficient and appropriate capital backing to cover their exposure to risks. The capital adequacy frameworks Basel I and Basel II established by the Basel Committee on Banking Supervision (BCBS) prescribe a capital ratio of 8% of risk-weighted assets.

Capital ratio: A key financial measure of banks' capital strength, expressed as the ratio of own funds to risk-weighted assets.

Carry trade: Refers i.a. to an investment strategy in the foreign exchange markets of buying a higher-yielding currency with the capital of a lower-yielding currency to gain an interest rate differential. The more market participants pursue such a strategy, the greater the likelihood is that the high-yield currency appreciates against the low-yield currency, as the supply of the funding currency exceeds the demand for the target currency under ceteris paribus conditions. This strategy bears the risk that the loss resulting from a depreciation of the target currency against the funding currency for given reasons, e.g. changes in the interest rate differential, is greater than the profit from the interest rate differential.

Central Credit Register: Information system maintained by the OeNB to monitor banks' exposure to large loans and meet related information needs of banks and banking supervisors. Article 75 of the Austrian Banking Act obliges credit and financial institutions as well as insurance companies to report to the OeNB, on a monthly basis, any credits and credit lines granted that exceed the sum of EUR 350,000 million.

Clearing: The process of reconciling claims or liabilities related to payments or securities transactions prior to settlement; may include netting of payments.

Convergence criteria: Four requirements that are laid down in the Maastricht Treaty and that an EU Member State must fulfill to qualify for participation in Stage Three of Economic and Monetary Union (EMU), i.e. for the introduction of the euro: (1) an inflation rate not more than 1.5 percentage points above that of the three best-performing Member States in terms of price stability, (2) a long-term interest rate not more than 2 percentage points above that of the three best-performing Member States in terms of price stability, (3) a government budgetary position without a deficit that is excessive, in particular if the government deficit does not exceed 3% of GDP and the ratio of public debt to GDP does not exceed 60%, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace, and (4) currency variations within the normal fluctuation margins of the exchange rate mechanism II (ERM II) for at least two years without devaluation against the currency of any other Member State.

Credit risk: The risk of an impairment of a bank's assets or loss given default resulting from a deterioration of customers' creditworthiness.

Currency board system: By installing a currency board – the strictest kind of exchange rate regime – a country forgoes the privilege of operating a central bank in its own right and thus the privilege of conducting an independent monetary policy. As a rule, a currency board system institutionally guarantees the free convertibility of cash and deposits into an international anchor currency. To this effect, a country must fix its exchange rate against the chosen anchor currency and commit itself to linking domestic currency in circulation to the stock of reserve assets. Furthermore, a currency board system is not allowed to buy domestic assets, which is why it cannot provide liquidity in the event of crisis. Unlike a central bank, a currency board may, thus, not act as a lender of last resort.

EMV standard: EMV is a universal specification for payment cards with processor chip technology and the respective POS terminals. EMV stands for the three companies that developed the standard: Europay, MasterCard and VISA.

ERM II (Exchange Rate Mechanism II): agreement which provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States seeking to adopt the euro. It specifies fluctuation bands for the exchange rates of participating currencies to the euro. The standard fluctuation band amounts to ±15% around the central rate, while narrower bands may be agreed on a case-by-case basis.

Euroization: Refers to a policy under which a country abandons its own currency to adopt the euro.

Federal Reserve: The *Federal Reserve System* (frequently referred to as the *Fed*), the central banking system of the United States, comprises 12 Federal Reserve Banks controlling 12 districts under the Federal Reserve Board. The U.S. Congress established the Fed in 1913 to monitor and regulate the U.S. monetary and banking system. Its most important body is the Federal Open Market Committee (FOMC), which sets U.S. monetary policy. Alan Greenspan chaired the FOMC until January 31, 2006, and was succeeded by Ben Bernanke on February 1, 2006.

Financial Soundness Indicators (FSI): Within the framework of initiatives to strengthen financial systems, the IMF has been publishing indicators of financial stability for over 60 countries online since the end of January 2007. Essentially, the indicators cover bank data (profitability, business structure, capital adequacy) and data of other financial institutions, nonfinancial corporations and households; some market liquidity and real estate market indicators are provided.

Harmonised Index of Consumer Prices (HICP): In line with Treaty provisions, price convergence among the EU Member States is to be measured in terms of a harmonized index of consumer prices. The HICP, which is computed by Eurostat, is the result of these standardization efforts and is the key inflation indicator for the monetary policy of the Eurosystem. As laid down by the Governing Council of the ECB, the Eurosystem targets a price stability objective of an annual HICP increase of below, but close to 2%.

Hedge funds: Pooled investment vehicles which are much less restricted than other investment funds in choosing and changing investment strategies. Investment strategies, and hence asset accumulation, asset allocation and investment risk, differ strongly from hedge fund to hedge fund. Typically, hedge funds pursue an aggressive total return strategy, holding both long and short positions, frequently by taking highly leveraged bets on market movements that are not offset by a corresponding hedged position.

Implied volatility: A measure of expected volatility of future short-term and long-term interest rates and hence a measure of market risk. In addition to using historical time series to calculate the past standard deviation of interest rates *(historical volatility)* as an indicator for future fluctuations, it is also possible to use a forward-looking approach and calculate the volatility corresponding to all known price-influencing factors – the time left to expiration, the price of the underlying security, the interest rate and the exercise price. The volatility corresponding to those parameters is referred to as *implied volatility*. Volatility is a measure of incomparable informative value for individual professional market players and for the financial system as a whole. An abrupt rise in market volatility may, for example, prompt a majority of market makers to substantially reduce their exposure and to stop quoting bid and ask prices, potentially causing market liquidity to drop sharply.

International Financial Reporting Standards (IFRS): Under Regulation (EC) No. 1606/2002, listed companies governed by the law of an EU Member State have been obliged to prepare their consolidated financial statements according to IFRS since January 1, 2005. The International Accounting Standards Board (IASB) started to develop IFRS in 2003. All International Accounting Standards (IAS) remain applicable unless the IASB has amended or replaced them by new standards. The primary objective of IFRS financial reporting is to enable investors to compare financial information.

Inverted yield curve: A yield curve is the relation between the interest rate and the residual maturity of fixed-interest securities; it is referred to as inverted when long-term yields fall below short-term yields and the curve slopes downward. Such an unusual situation may signal an impending recession. As a rule, inflation is so low during a recession that even low long-term yields are attractive to investors. Moreover, a recession is often accompanied by lasting surges in sales in riskier markets, such as stock markets. Investors then reallocate assets to more secure forms of investment, such as government bonds. As a result, long-term yield declines. However, factors independent of a recession may also trigger an inversion of yield curves – such as high demand for long-term bonds by pension funds seeking to match their long-term liabilities.

Leveraged Buyout (LBO): In general, a leveraged buyout is the takeover of a company by external financial investors, usually LBO funds, who fund the transaction with a significant amount of debt and little equity. The low amount of equity funding coupled with the use of debt increases (leverages) the financial return. The investment horizon is usually five to ten years, during which the investor endeavors to increase the value of the company, e.g. by restructuring, expansion or changes in its financial structure. To realize profits, investors float the company on the stock exchange or sell it to other financial investors (secondary buyout).

Lisbon strategy: The reform agenda introduced by the Lisbon European Council in March 2000 that aims at making the EU the most competitive and dynamic knowledge-based economy in the world by 2010.

Lodgment (of cash): Cash logistics term relating to all returns of banknotes and coins to the OeNB or GSA by commercial banks and retailers.

M3: A broad monetary aggregate that comprises M1 (currency in circulation and overnight deposits), M2 (M1 plus short-term savings and time deposits) as well as marketable instruments, in particular repurchase agreements, money market fund shares/units and debt securities with a maturity of up to and including two years issued by monetary financial institutions (MFIs). M3 has been assigned a prominent role in the monetary policy strategy of the Eurosystem. M3 developments in the euro area are monitored against a reference value of 4.5%; this is the annual growth rate of M3 over the medium term that is deemed consistent with the maintenance of price stability.

Market risk: The risk that financial market fluctuations (e.g. changes in interest rates, stock prices or exchange rates) will impact on an entity's assets and liabilities.

Memorandum of Understanding (MoU): Agreement reached between two authorities on cooperation principles and information-sharing procedures regarding issues of common interest.

On-site inspection: Thorough examination of individual banks, during which supervisors largely work on the premises of a given bank. By reviewing relevant business areas, supervisors cross-check the data reported by banks against firsthand information in as much detail as is required to assess the need for supervisory action.

Operational risk (in banking): Defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Payment card personalization: Refers to the process by which a cardholder's information is loaded onto a payment card, either optically or electronically. Optical personalization means printing customer information onto the card using one of a variety of methods – laser, raised print or thermosublimation. Information includes e.g. the customer's name, the bank identification code, and the account or credit card number. Electronic personalization means the uploading of the respective programs and personal data onto the payment card's magnetic stripe and chip.

Rating: Assessment of the creditworthiness of a debtor against standardized qualitative and quantitative criteria. Ratings are used to determine a borrower's probability of default.

Return on assets (ROA): Ratio of net profit after taxes to total assets.

Risk-Oriented Reporting System: Development and extension of coverage of the regulatory reporting scheme to better capture individual risk in different areas within banks. The Risk-Oriented Reporting System covers statistical aspects of equity risk and operational risk in addition to credit, interest rate and market risk. Other functions of the system include the compilation of detailed data from banking groups and banks' foreign subsidiaies.

Screening: Phase of the EU accession process during which the extent to which the laws, regulations and institutions of the candidate country comply with the *acquis communautaire* is examined. The aim is to identify any problems in implementing the *acquis* and determining the need for transition periods and solutions.

Shift of liability: In the payments field, a contractual agreement that the party in the process chain that has failed to adopt the EMV standard is liable for any damage to another party resulting from this noncompliance with the EMV standard. To give some examples, a bank that has failed to equip its cards with chips or to set up EMV-ready cash machines is liable for any resulting damage, as is a retailer who has no EMV terminal and has to rely on a card's magnetic stripe even though the customer's card has a chip. If an acquirer has failed to supply a retailing partner with a suitable terminal, the liability reverts to the acquirer.

Stability and Growth Pact (SGP): Framework annexed to the EU Treaty, adopted in 1997 and reformed in 2005, that is meant to help prevent excessive public deficits. The primary goal of the SGP is the achievement of balanced general government budgets over the medium term.

STEP2: The first pan-European clearing house (PEACH) for fully electronic standardized intra-EU credit transfers. According to Regulation (EC) No. 2560/2001, charges for cross-border transfers must not be higher than for national payments. The OeNB has been providing open and neutral access to STEP2 since 2003. More than 150 banks in Austria and abroad use this access.

Stress test: Analysis of the impact of drastic, yet plausible stress scenarios in terms of credit and market risk on the adequacy of a bank's capital.

Systemic risk: The risk that several credit institutions develop financial difficulties at the same time.

TARGET2: Next generation of the TARGET system, scheduled to start operation in November 2007. A Single Shared Platform (SSP) to be built by the Deutsche Bundesbank, the Banque de France and the Banca d'Italia will be at the heart of TARGET2, which will offer extended, standardized functionality across Europe at harmonized prices.

TARGET2 Securities (T2S): The concept of TARGET2 Securities (T2S) envisages centralized processing of delivery-versus-payment (DVP) transactions by transferring central bank accounts and securities accounts to one and the same technical platform fully owned and operated by the Eurosystem. The T2S project aims at removing barriers between the systems and at harmonizing settlement of securities denominated in euro and at ensuring price transparency, open access and the unbundling of services and prices.

Terminal (payment systems): Device set up at points of sale for the entry and transfer of data needed to process payments made with payment cards.

Treaty: Refers to the Treaty establishing the European Community ("Treaty of Rome") and subsequent amendments. The Treaty of Rome entered into force on January 1, 1958. It was amended by the Treaty on European Union (Maastricht Treaty, entered into force on November 1, 1993). The Stability and Growth Pact (Treaty of Amsterdam, May 1, 1999) amended both the Treaty establishing the European Community and the Treaty on European Union; the most recent amendment of both instruments – the Treaty of Nice – entered into force on February 1, 2003.

Settlement: Settlement discharges obligations – especially those incurred in forward transactions – in respect of funds or assets transfers. There are two types of settlement – cash settlement and actual delivery of the underlying asset.

Withdrawal (of cash): Cash logistics term relating to the supply of commercial banks and retailers with banknotes and coins through the OeNB or GSA.

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Periodical Publications of the Oesterreichische Nationalbank

For further details see *www.oenb.at*

Monetary Policy & the Economy — quarterly

This quarterly publication, issued both in German and English, offers analyses of current cyclical developments, medium-term macroeconomic forecasts and studies on central banking and economic policy topics. It also summarizes the findings of macroeconomic workshops and conferences organized by the OeNB.

Statistiken – Daten & Analysen — quarterly

This publication contains brief reports and analyses focusing on Austrian financial institutions, cross-border transactions and positions as well as financial flows. The contributions are in German, with executive summaries of the analyses in English. The statistical part covers tables and explanatory notes on a wide range of macroeconomic and financial indicators. The tables and additional information and data are also available on the OeNB's website in both German and English. This series also includes special issues on selected statistics topics published at irregular intervals.

econ.newsletter — quarterly

The quarterly English-language newsletter is published only on the Internet and informs an international readership about selected findings, research topics and activities of the OeNB's Economic Analysis and Research Section. This publication addresses colleagues from other central banks or international institutions, economic policy researchers, decision makers and anyone with an interest in macroeconomics. Furthermore, the newsletter offers information on current publications, studies or working papers as well as events (conferences, lectures and workshops).

For further details see *www.oenb.at/econ.newsletter*

Financial Stability Report — semiannual

Issued both in German and English, the *Financial Stability Report* contains first, a regular analysis of Austrian and international developments with an impact on financial stability and second, studies designed to provide in-depth insights into specific topics related to financial market stability.

Focus on European Economic Integration — semiannual

The English-language publication *Focus on European Economic Integration* is the successor publication to Focus on Transition (published up to issue 2/2003). Reflecting a strategic regional research priority of the OeNB, this publication is a channel for communicating our ongoing research on Central and Eastern European countries (CEECs) as well as Southeastern European (SEE) countries ranging from economic country studies to studies on central banking issues and related topics. One of the purposes of publishing theoretical and empirical studies in the Focus on European Economic Integration, which are subject to an external refereeing process, is to stimulate comments and suggestions prior to possible publication in academic journals.

Workshops – Proceedings of OeNB Workshops — three to four issues a year

The *Proceedings of OeNB Workshops* were introduced in 2004 and typically comprise papers presented at OeNB workshops at which national and international experts, including economists, researchers, politicians and journalists, discuss monetary and economic policy issues. Workshop proceedings are available in English only.

Working Papers — about ten papers a year

The OeNB's *Working Paper* series is designed to disseminate, and provide a platform for discussing, findings of OeNB economists or outside contributors on topics which are of special interest to the OeNB. To ensure the high quality of their content, the contributions are subjected to an international refereeing process.

Economics Conference (Conference Proceedings) — annual

The *Economics Conference* hosted by the OeNB represents an important international platform for exchanging views and information on monetary and economic policy as well as financial market issues. It convenes central bank representatives, economic policymakers, financial market players, academics and researchers. The conference proceedings comprise all papers presented at the conference, most of them in English.

Conference on European Economic Integration (Conference Proceedings) — annual

This series, published in English by a renowned international publishing house, reflects presentations made at the OeNB's annual conference on Central, Eastern and Southeastern European issues and the ongoing EU enlargement process (formerly East-West Conference).

For further details see *ceec.oenb.at*

Annual Report annual

The *Annual Report* of the OeNB provides a broad review of Austrian monetary policy, economic conditions, new developments in the financial markets in general and in financial market supervision in particular as well as of the OeNB's changing responsibilities and its role as an international partner in cooperation and dialogue. It also contains the OeNB's financial statements.

Intellectual Capital Report annual

The *Intellectual Capital Report* has been published since 2003 as a review of the OeNB's intellectual capital and its use in the OeNB's business processes and services. The report provides an integrated view of the strategically important management of human, relational, structural and innovation capital; it clarifies the relationships between different types of capital and describes various determinants that influence the OeNB's intellectual capital. The findings of the report serve to assess the consistency of the OeNB's intellectual capital with its knowledge-based strategic orientation.

Photographs

Nußdorfer Bridge, Vienna
built 1962–1964

Europabrücke, Tyrol
built 1959–1963

Egerndorfer Achbrücke, Wörgl, Tyrol
built 2004

Bridge to the Island in the Mur River,
Graz, Styria, built 2002

Hohe Brücke, Vienna
built 1903–1904

Lauferbauerbrücke, Gesäuse, Styria
rebuilt 2003

Addresses of the Oesterreichische Nationalbank

	Postal address	*Telephone*	*Telex*
Head Office			
Otto-Wagner-Platz 3	PO Box 61	(+43-1) 404 20-6666	(1) 114669 natbk
AT 1090 Vienna	AT 1011 Vienna	Fax: (+43-1) 404 20-2398	(1) 114778 natbk
Internet: www.oenb.at			
E-mail: oenb.info@oenb.at			

Branch Offices

Western Austria Branch Office

Innsbruck		
Adamgasse 2	Adamgasse 2	(+43-512) 594 73-0
AT 6020 Innsbruck	AT 6020 Innsbruck	Fax: (+43-512) 594 73-99

Southern Austria Branch Office

Graz		
Brockmanngasse 84	PO Box 8	(+43-316) 81 81 81-0
AT 8010 Graz	AT 8018 Graz	Fax: (+43-316) 81 81 81-99
Klagenfurt		
10.-Oktober-Straße 13	10.-Oktober-Straße 13	(+43-463) 576 88-0
AT 9020 Klagenfurt	AT 9020 Klagenfurt	Fax: (+43-463) 576 88-99

Northern Austria Branch Office

Linz		
Coulinstraße 28	PO Box 346	(+43-732) 65 26 11-0
AT 4020 Linz	AT 4021 Linz	Fax: (+43-732) 65 26 11-99
Salzburg		
Franz-Josef-Straße 18	PO Box 18	(+43-662) 87 12 01-0
AT 5020 Salzburg	AT 5027 Salzburg	Fax: (+43-662) 87 12 01-99

Representative Offices

Oesterreichische Nationalbank	(+44-20) 7623-6446	
London Representative Office	Fax: (+44-20) 7623-6447	
Gracechurch Street 48, 5th floor		
GB EC3V 0EJ London		
Oesterreichische Nationalbank	(+1-212) 888-2334	(212) 422509 natb ny
New York Representative Office	(+1-212) 888-2335	
745 Fifth Avenue, Suite 2005	Fax: (+1-212) 888-2515	
US 10151 New York		
Permanent Representation of Austria to the EU	(+32-2) 285 48-41, 42, 43	
Avenue de Cortenbergh 30	Fax: (+32-2) 285 48-48	
BE 1040 Brussels		
Permanent Representation of Austria to the OECD	(+33-1) 53 92 23-39	
Rue Albéric-Magnard 3	(+33-1) 53 92 23-44	
FR 75116 Paris	Fax: (+33-1) 45 24 42-49	

Our Mandate and Responsibilities

Mandate

The Oesterreichische Nationalbank (OeNB) is the central bank of the Republic of Austria and, as such, an integral part of the European System of Central Banks (ESCB). In this capacity, the OeNB acts on the basis of full personal, financial and institutional independence.
The OeNB's aims and actions are guided by the fundamental principles security, stability and trust. The primary objective of the Eurosystem, and hence of the OeNB, is to maintain price stability in the euro area and thus to safeguard the euro's purchasing power.

Responsibilities

Contribution to Monetary Policymaking within the Eurosystem
- Participation of the OeNB's Governor in decision-making within the Governing Council and General Council of the European Central Bank (ECB)
- Conduct of extensive economic analysis and research

Monetary Policy Operations – Reserve Management
- Conduct of monetary policy operations with Austrian banks
- Participation in Eurosystem foreign exchange interventions
- Management of the OeNB's own reserve assets and of the reserves transferred to the ECB
- Conduct of minimum reserve operations and monitoring of Austrian banks' minimum reserve holdings

Financial Stability and Banking Supervision
- Participation in the prudential supervision of Austrian banks and payment systems oversight to secure financial stability
- Risk analysis of financial markets and banks

Provision of Statistics
- Compilation of conclusive, high-quality statistics, above all monetary, interest rate and prudential statistics as well as external trade statistics (e.g. balance of payments and financial accounts)

Cash Supply
- Provision of Austrian businesses and consumers with secure banknotes and coins and ensuring of smooth cash circulation

Payment Systems
- Provision and promotion of smoothly operating payment systems in Austria and their cross-border integration

National and International Cooperation
- Close cooperation with national bodies, e.g. Financial Market Authority, the Government Debt Committee and the Statistics Advisory Board (Statistikrat)
- Representation in a wide range of bodies of the Eurosystem, the ESCB and the EU
- International monetary policy cooperation and participation in international financial institutions (IMF, BIS)

Consultancy
- Drafting of laws and opinions

Selected Indicators for the OeNB

Business indicators *As on December 31*	**2006**	**2005**
	EUR thousand	
Net currency position	12,861,283	12,206,230
Banknotes in circulation	16,814,844	15,128,006
Total assets	53,377,876	46,389,785
Operating profit	192,955	488,013
Corporate income tax	48,239	122,003
Central government's share of the OeNB's profit	130,244	329,409
Profit for the year	14,472	36,601
	Absolute figures	
Full-time equivalent staff	931.7	947.5
Intellectual capital indicators		
	Number	
Number of inquiries to OeNB hotlines	38,153	33,535
Newsletter subscriptions	14,953	12,834
OeNB publications	64	67
Research cooperation projects with external partners	44	42
Working visits (one month and longer) to national and international organizations	29	25
Environmental performance indicators		
Heat consumption, kWh/m^2	62	66
Electricity consumption, MWh per employee	8.0	8.3
Use of recycled paper, %	90	90

Source: OeNB.

Our Mission Statement

In 2005, the national central banks of the independent Eurosystem (including the OeNB) published a joint mission statement that enshrines the following key objectives and values:

We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.

In pursuing our objectives, we attach utmost importance to credibility, trust, transparency and accountability. We aim for effective communication with the citizens of Europe and the media. We are committed to conducting our relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence.

We jointly contribute, strategically and operationally, to attaining our common goals, with due respect to the principle of decentralisation. We are committed to good governance and to performing our tasks effectively and efficiently, in a spirit of cooperation and teamwork. Drawing on the breadth and depth of our experiences as well as on the exchange of know-how, we aim to strengthen our shared identity, speak with a single voice and exploit synergies, within a framework of clearly defined roles and responsibilities for all members of the Eurosystem.

The OeNB's mission statement complements the Eurosystem's mission statement and transposes it to Austrian requirements. The main messages are:

As the central bank of the Republic of Austria, the OeNB serves the Austrian and European public.

To build and maintain trust in the OeNB, we take pride in performing our tasks professionally, drawing on the high competence and motivation of our employees.

Our products and services are customer oriented to ensure their value to our customers and partners.

Ongoing market-oriented product and process innovation ensures the efficient and cost-effective provision of services in line with sustainability and in particular environmental protection.

We are cooperative, solution-oriented and reliable partners in our relations with customers and associates.

Our employees' commitment, motivation, creativity, willingness to learn, team spirit and mobility – the success factors of our work now and in the future – are the hallmarks of our working style.

Organization Chart

President
Herbert Schimetschek

Office of the General Council
Richard Mader, Head

Vice President
Manfred Frey

Governing Board

Central Bank Policy Department
Klaus Liebscher, Governor

Office of the Governor
Wolfgang Ippisch, Head

Internal Audit Division
Wolfgang Winter, Head

Communications Division
Günther Thonabauer, Head

Planning and Controlling Division
Gerhard Hohäuser, Head

Anniversary Fund
Wolfgang Höritsch, Head

Personnel Division
Axel Aspetsberger, Head

Future Unit
Peter Achleitner, Director

Money, Payment Systems, Accounting and IT Department
Wolfgang Duchatczek, Vice Governor

Legal Division
Hubert Mölzer, Head

Payment Systems and Information Technology Section
Wolfgang Pernkopf, Director

Information Technology and Payment Systems Strategy Division
Walter Hoffenberg, Head

IT Development Division
Reinhard Auer, Head

IT Operations Division
Erich Schütz, Head

Payment Systems Division
Andreas Dostal, Head

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

Printing Office
Gerhard Habitzl, Technical Manager

Cashier's Division
Gerhard Schulz, Head

Northern Austria Branch Office
Josef Kienbauer, Branch Manager

Southern Austria Branch Office
Friedrich Fasching, Branch Manager

Western Austria Branch Office
Armin Schneider, Branch Manager

Accounting Section
Friedrich Karrer, Director

Financial Statements Division
Elisabeth Trost, Head

Accounts Division
Herbert Domes, Head

Economics and Financial Markets Department
Josef Christl, Executive Director

Economic Analysis and Research Section
Peter Mooslechner, Director

Economic Analysis Division
Ernest Gnan, Head

Economic Studies Division
Martin Summer, Head

European Affairs and International Financial Organizations Division
Franz Nauschnigg, Head

Foreign Research Division
Doris Ritzberger-Grünwald, Head

Brussels Representative Office
Marlies Stubits-Weidinger, Chief Representative

Paris Representative Office
Konrad Pesendorfer, Chief Representative

Financial Stability and Bank Inspections Section
Andreas Ittner, Director

Financial Markets Analysis and Surveillance Division
Michael Würz, Head

Banking Analysis and Inspections Division
Helmut Ettl, Head

Credit Division
Franz Richter, Head

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

Equity Interest Management Division
Franz Partsch, Head

Treasury Section
Rudolf Trink, Director

Treasury – Strategy Division
Reinhold Wanka, Head

Treasury – Front Office
Walter Sevcik, Head

Treasury – Back Office
Gerhard Bertagnoli, Head

London Representative Office
Carmencita Nader-Uher, Chief Representative

New York Representative Office
Gerald Fiala, Chief Representative

Organization and Internal Services Section
Albert Slavik, Director

Organization Division[1]
Wolfgang Ruland, Head

Procurement and Technical Services Division
Thomas Reindl, Head

Security Division
Gerhard Valenta, Head

Documentation Management and Communications Services
Susanne Ried, Head

Statistics Section
Aurel Schubert, Director

Banking Statistics and Minimum Reserve Division
Gerhard Kaltenbeck, Head

Balance of Payments Division
Eva-Maria Nesvadba, Head

[1] Environmental Officer Johann Jachs
As of April 24, 2007

In line with the Federal Act on the Oesterreichische Nationalbank, the Annual Report of the OeNB provides information about the monetary policy of the Eurosystem, economic developments, financial markets, payment services and cash services. Furthermore, it details the OeNB's national and international role and responsibilities. The OeNB's Financial Statements and the Notes to the Financial Statements are an integral part of the Annual Report.

Coordination
Manfred Fluch

Contributions
Gernot Ebner, Manfred Fluch, Matthias Fuchs, Johannes Haushofer, Oliver Huber, Georg Hubmer, Markus Pammer, Michael Pfeiffer, Anton Schautzer, Doris Schmid, Josef Schreiner, Manfred Zipko

Editorial processing
Alexander Dallinger

Translations
Jennifer Gredler, Alexandra Majer, Rena Mühldorf, Irene Popenberger, Ingeborg Schuch, Susanne Steinacher

Technical production
Peter Buchegger (design)
Walter Grosser, Erika Gruber (layout, typesetting)
OeNB Printing Office (printing and production)

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Photographs
Michael Dürr, Peter Rigaud

Inquiries
Oesterreichische Nationalbank, Communications Division
Postal address: PO Box 61, AT 1011 Vienna
Phone: (+43-1) 404 20-6666
Fax: (+43-1) 404 20-6698
E-mail: oenb.info@oenb.at

Orders/address management
Oesterreichische Nationalbank, Documentation Management and Communications Services
Postal address: PO Box 61, AT 1011 Vienna
Phone: (+43-1) 404 20-2345
Fax: (+43-1) 404 20-2398
E-mail: oenb.publikationen@oenb.at

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