



OESTERREICHISCHE NATIONALBANK

F O C U S O N A U S T R I A

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The opinions expressed in the section “Studies” are those of the individual authors and may differ from the views of the Oesterreichische Nationalbank.

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R E P O R T S

Banking Holidays in Austria in the Year 2000

April 24, May 1, December 25 and December 26 are full banking holidays in all EU countries. On other holidays, specific areas such as payment systems and foreign exchange trading will continue to be in operation.

January 1	New Year's Day
January 6	Epiphany
April 24	Easter Monday
May 1	Labor Day
June 1	Ascension Day
June 12	Whitmonday
June 22	Corpus Christi Day
August 15	Assumption Day
October 26	National Holiday
November 1	All Saints' Day
December 8	Immaculate Conception
December 25	Christmas Day
December 26	Saint Stephen's Day

Moreover, banks in Vienna and other cities are closed Saturdays. The above list does not include holidays on Saturdays or Sundays in 2000. On April 21, payment transaction services in Austria will be restricted. Moreover, the Oesterreichische Nationalbank's St. Pölten branch office will be closed on November 15, the state holiday.

Calendar of Monetary and Economic Highlights

Austria

November 1999

- 4 Based on the monetary policy decision taken by the Governing Council of the ECB on November 4, 1999, to raise the *interest rates of the marginal lending facility* and the deposit facility by 0.5 percentage point to 4.0 and 2.0% respectively, both with effect from November 5, 1999, according to the Euro-Related Amendment to Financial and Fiscal Legislation, the *reference rate* in Austria rises by 0.5 percentage point to 4.25% and the *base rate* increases by 0.5 percentage point to 2.5%.
- 5 Wiener Börse joins the electronic trading system Xetra (exchange electronic trading). This system is used for stock and bond trading and gives all market participants irrespective of their location access to electronic securities trading across borders. Orders are settled via a centrally administered orderbook.
- 21 to 23 The *Oesterreichische Nationalbank* holds its annual *East-West Conference*, chaired by *Vice Governor Gertrude Tumpel-Gugerell*. Some 150 experts from 30 countries attend, and representatives of international organizations (such as the IMF, the ECB and the OECD) present their assessment of experience in overcoming the recent global financial turbulences under the general topic “Financial Crisis – A Never Ending Story?”
- The first day of the conference deals with the history and causes of financial crisis and focuses on the role of banking regulators and the development of a new international financial architecture. On the second day of the conference, the contagious effects of financial crises on neighboring countries and regions are reviewed. Other major issues during the second conference day are how to spot the early warning signals of crisis, the problem of the “right” exchange rate regime for crisis-prone countries and the effectiveness of capital controls. One of the key findings of the conference is that the stability of the financial system presupposes suitable macroeconomic and regulatory measures, such as prudent and cautious capital market liberalization and the implementation of international supervisory standards.

January 2000

- 1 *Austria* takes over the chairmanship of the Organization of Security and Cooperation in Europe (OSCE).

European Union

November 1999

- 1 *European Central Bank Regulation (EC) No. 2157/1999* of 23 September 1999 on the powers of the European Central Bank to impose sanctions (ECB/1999/4) goes into effect. This regulation specifies the procedure with which the ECB imposes sanctions on banks who do not comply with the ECB’s minimum reserve requirements.

- 4 For the first time since the introduction of the single European currency, the *Governing Council of the ECB* moves to increase the key interest rates. It decides to raise the *interest rate on the main refinancing operations* of the Eurosystem by 0.5 percentage point to 3.0%, with effect from the operation to be settled on November 10, 1999. In addition, it decides to increase the *interest rates on both the marginal lending facility and the deposit facility* by 0.5 percentage point to 4.0 and 2.0% respectively, both with effect from November 5, 1999. The ECB's main argument for raising interest rates was to counter the upward trend of the balance of risks to price stability in the face of ample liquidity in the euro area and to counteract any uncertainty about future monetary policy. Almost immediately following the ECB's monetary policy tightening, the *Bank of England* and *Danmarks Nationalbank* raise their *key interest rates* from 5.25 to 5.50% and from 2.85 to 3.30%, respectively.
- 8 The *Council of the European Union (ECOFIN)* publishes a statement on the introduction of *euro banknotes and coins*: After the introduction of euro cash on January 1, 2002, the period of dual circulation of the old and new notes and coins will last between four weeks and two months in the 11 Member States. Member States may facilitate the exchange of old notes and coins at banks after this period. The provisions leave room for Member States to implement the cash changeover in the way which best suits the specific circumstances in each country. To provide for a sufficient quantity for circulation in the first days of January 2002, ECOFIN proposed that it would be helpful if financial institutions and certain other groups, notably cash in transit companies and retailers, were already provided with notes and coins some time before the changeover. The Board of Directors of the BIS decides to invite five central banks – *Banco Central de la República Argentina, the European Central Bank, Bank Indonesia, Bank Negara Malaysia and the Bank of Thailand* – to become members of the BIS by subscribing for shares of the third tranche of the capital of the BIS.
- 9 *Greek Minister of Finance Yannis Papandoniου* announces that Greece will submit its application for entry into *EMU* between March 5 and March 12, 2000. The *ECB* publishes its report on the *legal protection* of banknotes in the EU Member States. The Report is intended as a contribution to the preparation of the legal framework for the protection of euro banknotes within the EU Member States.
- 10 The *European Commission* presents its *enlargement strategy* in a speech held by the President of the European Commission, *Romano Prodi*, before the European Parliament. Prodi stated that while it was true that the Amsterdam Protocol had provided for a two-stage reform process, these provisions had clearly been overtaken by events. The necessary changes to the EU's institutions would have

- to be completed by the end of 2002. According to Prodi, the reform package would have to be agreed at the close of the Inter-Governmental Conference (IGC) in December 2000. The IGC should finish before the end of 2000 with agreement on the amendments to be made to the Treaty.
- 11 to 12 The first Seminar on the Accession Process on 11 and 12 November 1999 in *Helsinki* is attended by Eurosystem representatives and the governors of the central banks of the 12 EU accession countries and served to initiate a “*continuous dialogue*.”
- 12 Sveriges Riksbank raises its *repo rate* by 0.35 percentage point to 3.25% to counteract the risk of overheating on the labor market and inflationary pressures.
- 17 In its *Economic Outlook* of November, the *OECD* expects economic growth for the OECD area to average 2.8% in 1999, 2.9% in 2000 and 2.6% in 2001. GDP growth in the euro area is forecast to be weaker at 2.1, 2.8 and 2.8%, respectively. Inflation will remain at approximately 2.5% in the OECD area, and below 2% in the euro area in the three-year period.
- 18 The *European Court of Auditors* publishes its *report for the financial year 1998*. The report contains observations concerning the following fields: own resources, the Common Agricultural Policy, structural measures, internal policies, external aid, administrative expenditure, financial instruments and banking activities.
The *Governing Council* of the *ECB* decides to leave *unchanged the interest rates* on the main refinancing operations, the marginal lending facility and the deposit facility at 3.0, 4.0 and 2.0%, respectively.
- 24 The *European Commission* adopts a communication setting out its *strategy for the European Union’s Internal Market* over the next five years. The Strategy centers on four main objectives, namely improving the quality of life of citizens, enhancing the efficiency of the EU’s product and capital markets, improving the business environment and exploiting the achievements of the Internal Market in a changing world.
- 25 The *EU Economy Review* forecasts real GDP growth in both the EU and the euro area to accelerate from the close-to-potential rate of 2.1% in 1999 to 3% in both 2000 and 2001 for the EU as a whole. Budgetary discipline is assessed as adequately supportive of economic growth. Employment is set to increase by 1.2% in 1999, 1.2% in 2000 and 1.1% in 2001. Inflation is likely to rise slightly, above all as a result of risen petroleum prices and the euro’s weakness against the U.S. dollar.
- 29 As one of the main items on the Brussels *ECOFIN* agenda, *ECOFIN* adopts common positions on two proposals for Directives of the European Parliament and the Council concerning the taking up, the pursuit and the prudential supervision of the business of electronic money institutions and the *modification of Directive 77/780/EEC* relating to the taking up and pursuit of the

business of credit institutions – in order to cover electronic money institutions. The Council agreed, further to the recommendation by the Commission, on the abrogation of the decision concerning the existence of an excessive deficit in Greece.

As a result of the *United Kingdom's* firm and full adherence to the position outlined in its paper on international bonds, the Member States simply reiterate their positions on the tax package (code of conduct on business taxation, taxation of savings and elimination of withholding taxes on crossborder interest and royalty payments between companies). The majority of delegations and the Commission express their readiness to come to an agreement on the package before the Helsinki European Council (on December 9 and 10). On the topic of economic policy cooperation, the Council approves the report on "Economic policy coordination: review of instruments and experience in stage 3 of EMU," which will be forwarded to the Helsinki European Council.

Meeting after the ECOFIN Council, the *Joint ECOFIN/Labour and Social Affairs Council (LSA)* reaches political agreement on the text of 50 Recommendations to Member States on the implementation of their employment policies and on the Guidelines for Member States' Employment Policies for the year 2000.

- 30 ECB President Wim Duisenberg attends the fourth Hearing before the Committee on Economic and Monetary Affairs (CEMA) of the European Parliament, known as the *Monetary Dialogue*. He addresses the CEMA on the ECB's interest rate increase of November 4, 1999, the Governing Council's discussion on the Helsinki seminar with the EU accession countries and the euro's exchange rate. Among the other issues discussed are the ECB's monetary policy strategy and its medium-term orientation, the call for more transparency, supervisory issues and the frontloading of euro banknotes.

December 1999

- 1 *IMF* forecasters submit a *revised world economic outlook* to the IMF's Executive Board. Compared to the figures released in October, the IMF's predictions have been revised upward across the board: for world output growth, to 3.3 from 3.0% for 1999 and to 3.9 from 3.7% for 2000; for euro area GDP growth, to 2.2 from 2.1% for 1999 and to 3 from 2.8% for 2000; and for U.S. GDP growth, to 3.9 from 3.7% for 1999 and to 3.6 from 2.6% for 2000.
- 2 Acting on a report of the European Commission to the European Council on the *length of the transitional period for the introduction of euro notes and coins*, the European Parliament adopts a resolution with the following recommendations: First, that the dual circulation period be limited to two months; second, that retailers and service providers give change in euros only from the second week

of January 2000 onward at the latest; third, that euro notes and coins be distributed in advance from the beginning of December 2001 – to retailers and public administration agents; fourth, that dual pricing practices be monitored carefully and, fifth, that the EU Member States, the European Commission, the ECB, the ESCB and the European Parliament cooperate more strongly in their efforts to inform the general public about the euro. Moreover, the European Parliament endorses measures that aim at spreading the use of electronic money and advancing the development of the electronic purse.

The *Governing Council of the ECB* confirms the *reference value* for euro area monetary growth for the year 2000 at 4¼% annual growth, measured on the basis of three-month moving averages for the broad aggregate M3. It also confirms the ECB's definition of price stability as a year-on-year increase in the Harmonized Index of Consumer Prices of no more than 2%.

- 7 The *Economic Policy Committee of the EU (EPC)* meets in Brussels. The Committee decides to conduct country reviews henceforth in closer cooperation with the Single Market Committee. The main issues on the agenda are healthcare system efficiency, network industry deregulation and the Macroeconomic Dialogue.
- 10 *European Commission* publishes its first *report on the use of the euro*. The main focus of the report, which is to be released quarterly in the future, is on the use of the euro in public administration and by business operators and households.
- 10/11 At the Helsinki European Council, the *heads of state or government of the EU Member States* decide to open formal accession negotiations with another six EU candidate countries – Romania, Slovak Republic, Latvia, Lithuania, Bulgaria and Malta in February 2000. Of historic significance is the Council's decision to grant Turkey the status of candidate for future accession to the Union.
- 15 The *Governing Council of the ECB*, convened for its last meeting in the year 1999, decides to leave the *interest rates* for the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 3, 4 and 2%, respectively. The *Central Bank of Greece* cuts its key interest rates, thus moving its rates closer to the level prevailing in the other EU Member States. The rate on two-week interbank deposits is lowered to 10.75 from 11.50%. The lombard rate is cut back to 12.25 from 13.00%. The interest rate range for overnight money is lowered to a band of 9.00 to 10.25%, from 9.25 to 11.00%.
- 16 At a meeting in Berlin, the finance ministers and central bank governors of the seven leading industrial states, Russia, ten emerging economies, the EU and the IMF inaugurate a new forum, *the Group of 20*. The new group will look at ways of streamlining the global financial system, strengthening the system of regulation in developing countries and finding new private and public resources to prevent further crises.

- 26 The *Central Bank of Greece* announces a cut in its lombard rate by another 75 basis points to 11.5% to take effect on December 27.

January 2000

- 1 One year after the introduction of the *euro*, European financial markets report a smooth transition into the year 2000.
Portugal takes over the rotating EU presidency from Finland. The priorities of the Portuguese presidency will be to advance the process of enlargement, to launch a new intergovernmental conference on institutional reforms, and to build a Common European Security and Defence Policy.
- 5 Meeting for the first time in the new millennium, the *Governing Council of the ECB* decides to leave the *interest rates* for the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 3, 4 and 2%, respectively.
- 12 The *European Commission* decides to take the *European Central Bank (ECB)* and the *European Investmentbank (EIB)* to the *European Court* at Luxembourg under Article 230 of the Treaty of Amsterdam for insufficient compliance with the EU's anti-fraud rules. The European Commission argues that the anti-fraud schemes endorsed by the ECB and the EIB in October 1999 do not recognize the sole jurisdiction of the *European Anti-Fraud Office (OLAF)* in this field and that they impede full implementation of the EU's anti-fraud rules.
- 13 The *Bank of England's* Monetary Policy Committee votes to raise the Bank's repo rate by 25 basis points to 5.75%. The Committee concludes that this increase is needed to meet the inflation target of 2.5% in the medium term.
- 14 According to the *ECB's Monthly Bulletin of January 2000*, net capital outflows arising from direct investment and portfolio investment stand at EUR 149.4 billion (ATS 2,056 billion) after the first ten months of 1999. This compares with net capital outflows of ECU 140.4 billion in the corresponding period of 1998.
The *Economic Policy Committee of the EU (EPC)* meets to discuss research and development issues, the statutes of the EPC, preparations for the forthcoming European Council meeting and country review issues.
- 17 At the request of the *Greek* authorities the central rate of the *Greek drachma in the Exchange Rate Mechanism (ERM II)* is revalued by 3.5% to GRD 340.75. The standard fluctuation band remains unchanged at $\pm 15\%$. For Greece this is a major milestone on the road to euro entry.
- 18 The *European Commission* approves a *free trade agreement between the EU and Mexico* which envisages the lifting of all tariffs on industrial products by the year 2007.
- 20 The *Governing Council of the ECB* decides that the interest rates on the main refinancing operations, the marginal lending facility and

- the deposit facility will remain unchanged at 3.0, 4.0 and 2.0% respectively.
- 24/25 The *General Affairs European Council* focuses on the inter-governmental conference, EU enlargement and the Lisbon Extraordinary European Council on “Employment, economic reforms and social cohesion – towards a Europe based on innovation and knowledge.”
- 26 The Monetary Policy Council of the *Bank of Greece* lowers the *fixed tender rate* for 14-day deposits from 10.75 to 9.75%. Simultaneously it adjusts the rates at which *overnight deposits* are remunerated, cutting the rate for the first tranche from 10.25 to 9.5% and the rate for the second tranche from 9.0 to 8.5%. Furthermore, the *lombard rate* is lowered from 11.5 to 11.0%. This third easing of key interest rates within the past four months brings the Greek rates closer to the euro area rates.
- 31 Discussing the latest exchange rate developments at a meeting in Brussels, the *Euro 11 Ministers and the ECB* indicate that they share the view that growth is now robust in the euro area and that, as a consequence, the euro has potential for appreciation.
- The *Council of Economic and Finance Minister of the EU (ECOFIN)* meeting in Brussels adopts the updated stability programs of Ireland, the Netherlands and Finland and the updated convergence programs of Greece and Sweden.
- The President of the *ECOFIN*, *Joaquim Pina Moura*, introduces the *Presidency work program in the ECOFIN area in the first half of 2000*, elaborating on the following three key items.
- Lisbon Summit:* The Portuguese initiative aims at boosting the competitiveness of the European economy. The ECOFIN Council will play a key role in the preparations for the summit meeting.
- Economic policy coordination:* The Portuguese presidency does not envisage launching a new institutional process; instead, the processes begun in Luxembourg, Cardiff and Cologne shall be consolidated. The main thrust will be on structural reforms. The ECOFIN Council shall hold an orientation debate on the implementation of the basic features of economic policy at the meeting scheduled for February 28, 2000.
- Tax package:* The Portuguese presidency commits itself to keeping up efforts to successfully resolve tax issues in line with the mandate defined at the European Council of Helsinki and the compromise proposed by the Commission and the Finnish Presidency in December 1999. Under the Helsinki mandate a highranking tax policy group is set up, which is to convene for its first meeting on February 25, 2000. The group will be chaired by the Portuguese State Secretary for Tax Issues, *Manuel Baganha*. The *Portuguese Presidency* will, moreover, *concentrate on fraud prevention and budget issues, notably the EU's own funds*.

Economic Outlook for Austria from 1999 to 2001 Fall 1999

I General Assessment

The global economic backdrop against which the Austrian economy is analyzed and which serves as the basis for the economic outlook for Austria in the near term has shown noticeable signs of improvement in the recent past. It seems that the global economy has started to develop along a more balanced path of higher growth. In addition to the United States of America's unfalteringly solid economic performance in recent years, the tendencies evidenced in Europe, Asia and Latin America – following the turmoil in the past two years – also signal a pickup. The U.S. expansion is bound to continue, albeit at a slightly more moderate pace, and a multitude of indicators suggest a more favorable outlook for Asia (excluding Japan). Even Japan is apparently emerging from the protracted recession, although its prospects are still rather uncertain. The picture painted by the eastern and central European economies is generally bright, even though the transition process remains a challenge for the CEECs. While Latin America seems to have weathered the storm, some countries, in particular their financial systems, are still fragile. All told, today's prospects for global economic growth in the next few years read better than those set forth in the OeNB's spring 1999 forecast.¹⁾

Following a brief slowdown around the turn of 1998/1999 triggered by exogenous factors, the pace of real growth in the euro area is again going to quicken in the second half of 1999. The projected growth rate of 2.9% for both 2000 and 2001 exceeds the forecasts presented in the spring 1999 economic outlook.

Against this backdrop, Austria's economy showed mixed signals in the first half of 1999. Foreign demand was hit by the international financial crisis and by the dampened growth posted by Austria's key trading partners, such as Germany and Italy: according to calculations for the first half of 1999 drawn up by the Austrian Institute of Economic Research (WIFO), Austrian exports of goods and services dropped by 0.9% year-on-year. In contrast, domestic demand rallied on the back of favorable income and employment trends, pushing domestic investment activity along a sustainable track.

However, the slump of the Austrian export industry at the turn of 1998/1999 seems to have bottomed out. Since the summer deliveries abroad have accelerated, reviving industrial production accordingly. In real terms, industrial production had already grown more vigorously in the second quarter of 1999, with manufacturing faring significantly better than construction. Besides, the relatively strong output growth is carried, in particular, by demand for capital goods.

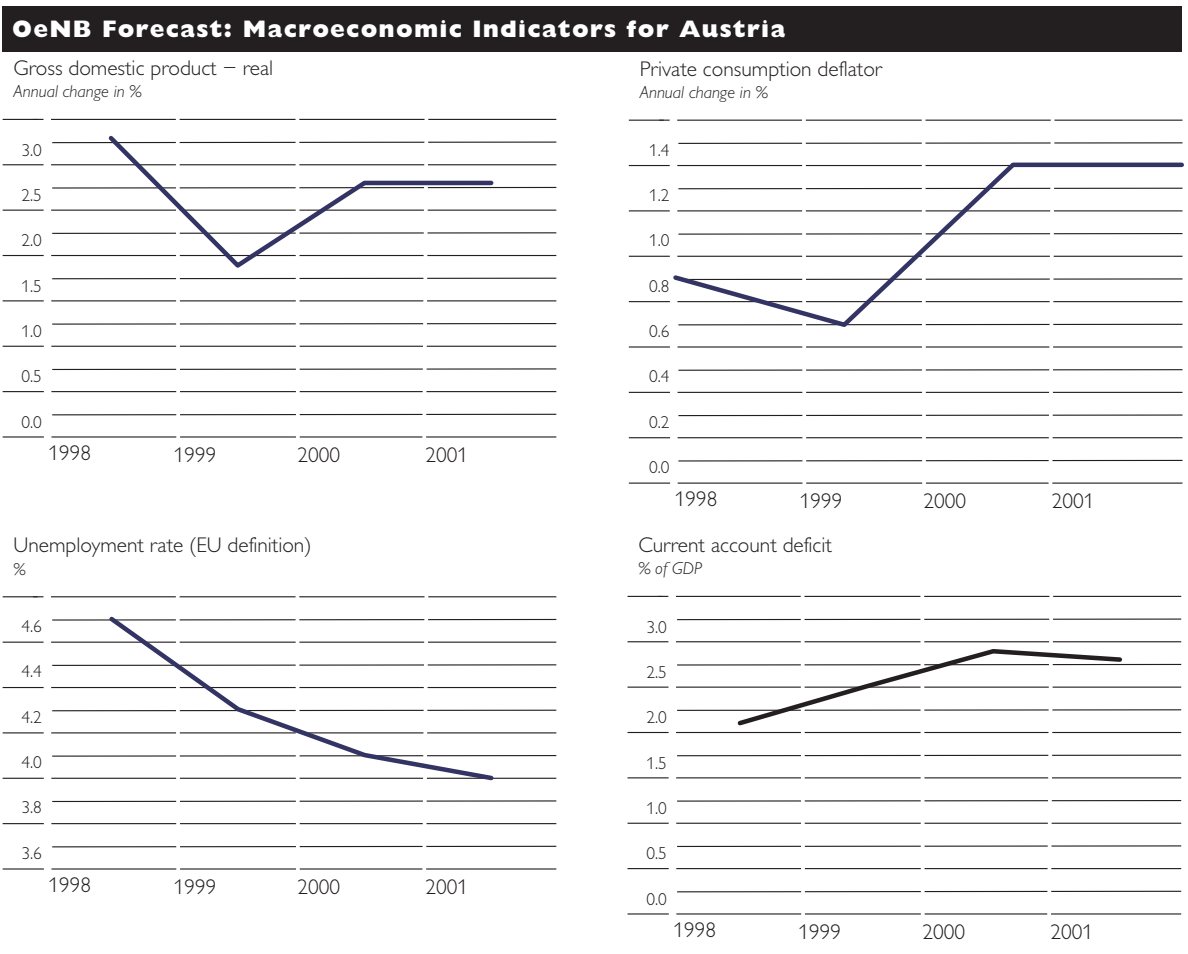
Austria's economy expanded by 1.5% in the first six months of 1999 according to the figures released by WIFO. A higher rate of employment and enhanced income conditions coupled with price stability contributed to the sound trade result as did the uptrend enjoyed by Austria's tourist

¹ For details on the outlook for the future international framework conditions, see table 1. For the OeNB's spring 1999 economic outlook, see *Focus on Austria*, 2/1999, 14–20.

industry. Private consumption thus provided the essential momentum for the Austrian economy.

Further down the road, the rebound of exports combined with sustained solid domestic demand will usher in an upswing to be continued into 2000 and 2001. Structural change, above all in the services sector, will bolster domestic demand, fostering ongoing growth for employment and investment. Private consumption will remain a key buttress of the upswing, not least because the tax reform slated for 2000 will boost disposable incomes by 1% in 2000. Real GDP is expected to advance by 1.9% in 1999, followed by 2.8% each in 2000 and 2001 (see chart 1).

Chart 1



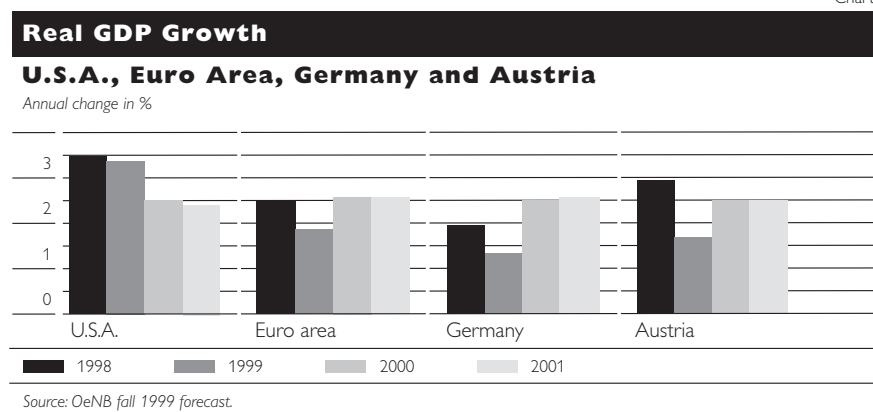
Source: OeNB fall 1999 forecast.

The recent figures on HICP inflation in Austria were remarkably low, averaging 0.3% in the first ten months of 1999. In the third quarter of 1999, the upward pressure on prices was, however, slightly more pronounced: The annualized rate of inflation came to 0.5% in August, edged up to 0.6% in September, and further progressed to 0.8% in October. These increments are almost exclusively due to the firming in energy prices, which will spur inflation further in the first months of 2000. This effect will subsequently taper off, yet towards the end of 2000, buoyant

domestic demand will lift goods and services prices by 1.4% according to the consumption deflator. A like advance is forecast by the OeNB for 2001, owing in part to the labor cost tendencies, which will impact Austria's global competitiveness favorably.

To date, the labor market has seen impressive increases in the number of the employed in 1999, which is in part attributable to active policy measures envisaged by the National Action Plan for Employment. Especially business-related services, health care and education added numerous new jobs. In the years to come, such measures will most likely promote employment growth to a lesser extent though. Part-time workers for whom demand has increased in the recent past will, however, continue to be sought after on a large scale. The OeNB projects employment to grow by 0.9% (1999), 0.8% (2000) and 0.7% (2001). The rate of unemployment (EU definition) will retreat to 4.0% by 2001.

Chart 2



2 International Economic Environment

Given the brighter outlook for a sustained recovery of the global economy, the assumptions about external demand vis-à-vis the euro area were raised accordingly. In line with external projections, the global rate of real GDP growth is 2.85% for 1999 and will mount to 3.3% in 2000 and 3.5% in 2001, with the improvement resulting from more upbeat prospects for the U.S.A., Japan and other developed economies. Also, the Asian countries as well as the economies in transition affected by the past financial crises seem to be bouncing back more quickly than expected.

This scenario underscores the uptrend observed for the euro area: amid international developments and competitive euro exchange rate conditions exports will expand rapidly. Domestic demand will surge, inter alia because the overall financial environment still favors consumption and investment notwithstanding the recent interest rate hike. Industrial confidence is looking up, with output projections revised upward after it had become clear that the recent slowdown would not last and profit margins began to widen again in sync with the business cycle.

Prospects for employment in the euro area are relatively favorable. The number of persons in the workforce will augment in 1999 and the two subsequent years, and the unemployment rate will shrink accordingly.

While upward pressures on prices will accelerate marginally, inflation will still be well clear of the 2% mark. This results from a variety of internal and external factors: In the short term, the uptick of energy and other import prices plays a key role; this effect will, however, abate later on. In the medium term, the effects of stepped-up domestic demand will start to exert a greater influence on price developments, with labor costs and the profit margins tipping the scale.

Public finances in the euro area will improve more rapidly than previously projected, owing essentially to the brighter economic situation and to the reduced burden of interest payments. Expenditure cuts announced by some participating Member States are more or less canceled out by other countries' tax cuts. Fiscal policy will hence be neutral or somewhat expansive in the years to come.

A number of euro area Member States (Spain, Portugal, Ireland, Finland, Luxembourg) recently boasted marked economic growth compared to, above all, Austria's neighboring countries Germany and Italy. While the next years do not herald an entirely homogeneous picture, the divergences will nevertheless narrow significantly.

Table 1

Economic Environment				
	1998	1999	2000	2001
	Annual change in %			
GDP growth				
U.S.A.	+3.9	+3.8	+2.8	+2.7
Euro area	+2.8	+2.1	+2.9	+2.9
thereof Germany	+2.2	+1.5	+2.8	+2.9
Austria's export markets ¹⁾	+5.8	+3.9	+5.8	+6.3
	%			
Interest rates				
Three-month rate	+3.9	+2.9	+3.2	+3.2
Ten-year rate	+4.7	+4.7	+5.5	+5.5
	USD/barrel			
Oil prices	12.7	17.5	19.6	17.3
	USD/EUR			
Exchange rate	2.12	1.08	1.08	1.08

Source: OeNB fall 1999 forecast.

¹⁾ Forecast of the Austrian trading partners' imports, weighted by Austria's respective export share.

Table 1 provides an overview of the assumptions about the international framework conditions. Interest rate and exchange rate developments have been extrapolated on a technical basis.¹⁾ Expectations for oil prices point to a gradual decrease over the forecast horizon, which is in line with futures prices.

1) The cut-off for the assumptions on the interest rates was October 15, 1999. The increase of the base rate and of the reference interest rate of the ESCB on November 4, 1999, was already anticipated in the assumptions. The exchange rates represent a continuation of the average figures from October 6 to 19, 1999, corresponding to a EUR/USD exchange rate of 1.075.

3 Economic Outlook for Austria from 1999 to 2001

The international economic environment outlined above by extension suggests a favorable outlook for Austria (see table 2). The forecast is based on the assumption that export growth will rebound in the second half of 1999, which ties in with international scenarios. Given the weak performance in the first half, the 1999 growth rate of total export activity is a moderate 1.8%. The sluggishness evidenced in the export sector in 1999 leads to a clear negative contribution to growth, with the net exports component coming to -0.9% of GDP. Both 2000 and 2001 may again see a balanced outcome, not least since the model-based forecast produced export growth rates of 7.0% (2000) and 6.2% (2001). These prospects notwithstanding, domestic demand will remain the driver of the economy over the forecast horizon. The increment in real GDP (seasonally adjusted) will be most pronounced at the beginning of the year 2000. Growth will then decelerate somewhat, but will post slight gains come 2001.

Table 2

Austria's Economic Outlook

(Macroeconomic Indicators)

	1998	1999	2000	2001
<i>Annual change in %</i>				
Real final demand				
Gross domestic product	+3.3	+1.9	+2.8	+2.8
Private consumption	+1.7	+2.1	+2.4	+2.2
Government consumption	+1.5	+1.1	+1.2	+0.7
Gross fixed capital formation	+4.7	+4.7	+4.5	+5.5
Exports of goods and services	+7.9	+1.8	+7.0	+6.2
Imports of goods and services	+6.6	+3.3	+6.8	+6.3
Labor market				
Unit labor costs	+0.2	+0.8	+0.9	+0.7
Gross compensation per employee	+2.9	+1.8	+2.8	+2.8
Labor productivity	+2.6	+1.0	+1.9	+2.1
Real wages	+2.0	+1.1	+1.4	+1.4
Employment rate	+0.7	+0.9	+0.8	+0.7
%				
Unemployment rate (EU definition)	4.7	4.3	4.1	+4.0
<i>Annual change in %</i>				
Prices				
GDP deflator	+1.0	+0.7	+1.2	+1.5
Consumption deflator	+0.9	+0.7	+1.4	+1.4
Export prices (SNA)	-0.3	+0.9	+1.1	+1.2
Import prices (SNA)	-0.9	+1.6	+2.7	+0.9
Terms of Trade	+0.6	-0.7	-1.5	+0.2
Real disposable income	+2.7	+2.3	+3.3	+2.1
<i>% of disposable income</i>				
Household savings ratio	8.3	8.4	9.2	9.1
<i>% of GDP</i>				
Current account	-2.0	-2.5	-2.9	-2.8

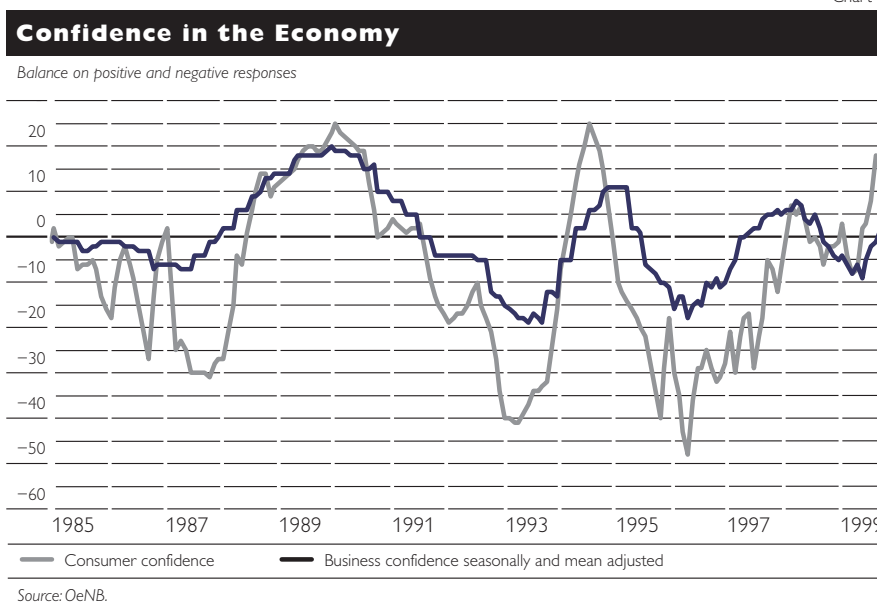
Source: OeNB fall 1999 forecast.

Economic Growth to Quicken in 2000 and 2001

In 1999, improved labor market conditions, rising incomes, tame inflation as well as anticipation of the 2000 tax reform have boosted households' purchasing power and stabilized consumer expectations and they will

continue to give momentum to consumption growth. This trend is also reflected by a rise in consumer confidence. The most recent outcome of the consumer confidence barometer points to a sustained favorable consumption climate, with both the expectations on future financial conditions and consumers' propensity to buy trending upwards. Owing to tax cuts and more extensive transfer payments to families, income gains will mount in particular in the year 2000, fueling private consumption further. Households will, however, put substantial portions of these income gains aside, allowing the savings ratio to scale highs last recorded before the implementation of the 1996 and 1997 fiscal austerity packages. While these effects will level off somewhat in 2001, private consumption will continue to make a substantial contribution to growth.

Chart 3

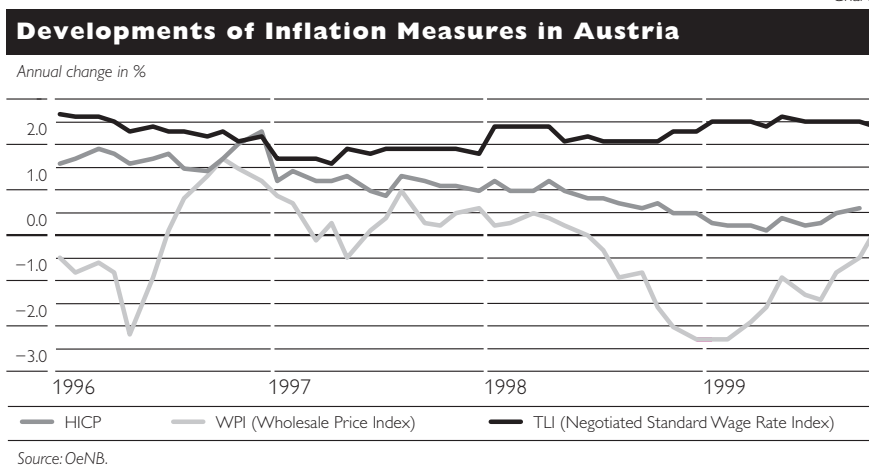


According to the industrial confidence barometer, faith in the Austrian industry has improved since the summer of 1999, which is mainly attributable to favorable production expectations and increasingly optimistic assumptions on incoming orders. This will, in turn, foster continuous investment with a view to extending and upgrading the capital stock. However, hefty productive investment will contrast with relatively modest construction investments.

Tame Inflation on the Forecast Horizon

In the euro area Austria ranks among the countries with the lowest inflation, which is traceable to a combination of factors. First, Austria has been benefiting from pronounced wage restraint since 1995. Overall unit labor cost has hence remained flat from 1995 to 1998; in manufacturing it has even diminished markedly. Furthermore, in 1998, world prices of nonenergy commodities slipped by about 10% and oil prices plummeted by as much as roughly 30%. The slide in prices gradually fed through to

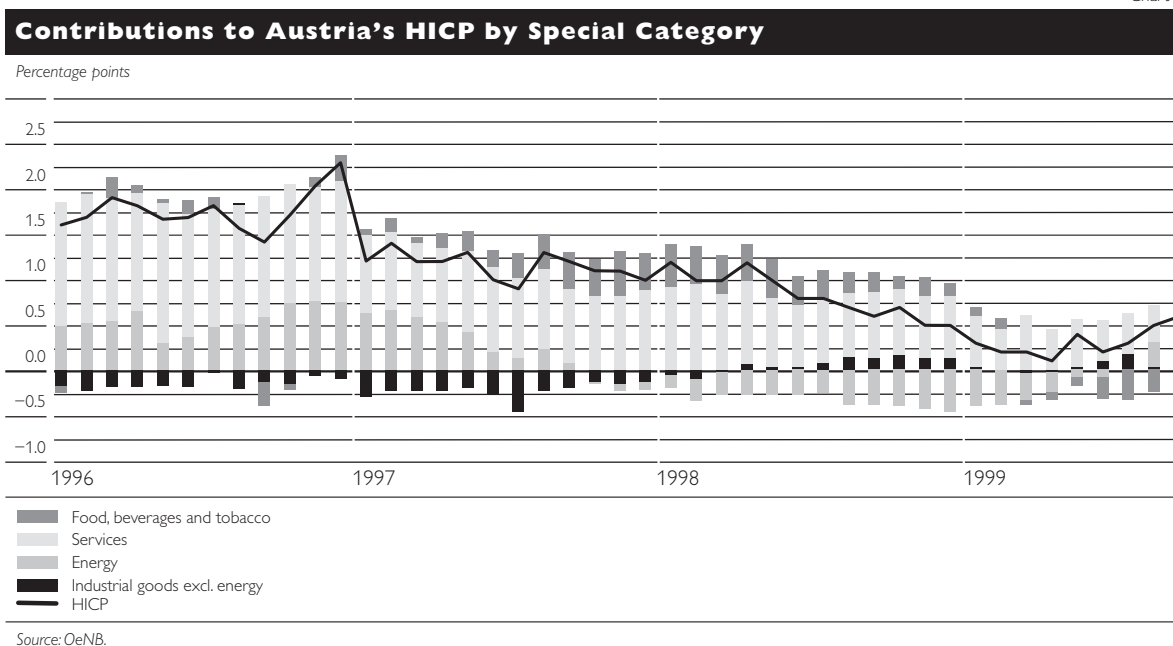
Chart 4



consumer prices for energy, resulting in a reduction of HICP inflation of approximately 0.4%.

Oil prices underwent a trend reversal in the first few months of 1999 though. As a consequence, the energy subcategory contributed a perceptible 0.33 percentage point to inflation in September, followed by 0.45 percentage point in October. At 0.3%, the inflation rate averaged out over the current period, i.e. from January to October 1999, is still subdued. For one, this is due to the modest salary and wage hikes in the like period: the collectively agreed minimum wages progressed by a mere 2.5% year on year. Another reason for the benign inflation picture are distinct dampening price effects, which became tangible once several industries (above all, telecommunications and most recently the electricity sector) were liberalized or deregulated. High competitive pressures in the tradeables

Chart 5



sector (especially retail trade in food and electronics) and, for some time, also services (insurance, travel) have also played a role.

On the whole, inflation is expected to remain in check throughout the forecast horizon. Upward pressures on prices will first and foremost be exerted by import prices. Oil prices are assumed to climb clearly in 1999, peak in the first months of the year 2000 and then retreat again gradually. It follows, thus, that in 2000 oil prices will continue to trend upwards, albeit to a much lesser degree, and slide the year after. Import prices will advance by 1.6% in 1999 and by 2.7% in 2000, pushing up Austria's private consumption deflator by 1.4% each in 2000 and 2001 after a rise of 0.7% in 1999.

On the wage front, sustained restraint is in the offing. The outcome of the fall 1999 wage bargaining round is a harbinger of a continuation of temperate wage claims in the industrial sector into the year 2000. In the same vein, the fact that a significant amount of jobs created in the services sector are part-time will keep wage inflation at bay. Following an advancement of 1.9% in 1999, nominal wages are projected by the OeNB to increase by 2.8% each in 2000 and 2001. As labor productivity is expected to climb by about 2% in each year, overall unit labor cost will grow at a modest pace, with real unit labor cost slightly contracting over the same period.

In light of the conducive supply environment, notably the continued mild increases in nominal unit labor cost, inflationary pressures are likely to remain weak. What is more, Austria's integration into the common market still continues to have an impact on price developments. Stiffer competition in some sectors which were opened up only recently is expected to have a dampening effect on prices as well.

Labor Market on a Solid Path of Recovery

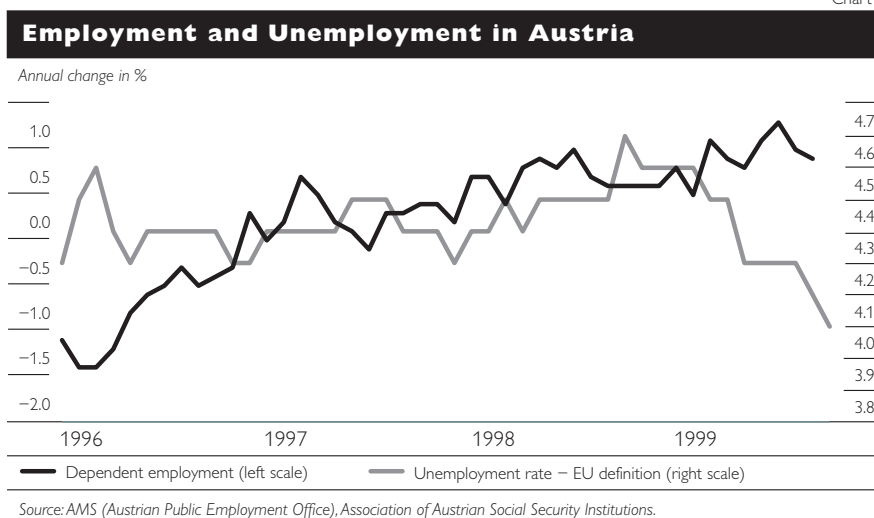
While in 1998 the labor market was marked by the paradox – brought about by special factors – of parallel employment and unemployment growth, 1999 has so far seen both the creation of jobs and a scaleback of unemployment. Demand for labor has been strong for three years now, leading to an all-time high in employment figures in the middle of 1999. The number of unemployed has contracted since the beginning of 1999, and to a remarkable extent in some sectors. The following factors – on the supply as well as the demand side – have contributed to the labor market's better performance:

- Bias towards domestic demand, which is more labor-intensive,
- subsiding of labor supply growth,
- labor market policy measures (job coaching, intensified training) aimed at boosting the employability of the jobless,
- distinct expansion of employment opportunities.

According to WIFO¹⁾ estimates, two thirds of the reduction in unemployment is attributable to cyclical effects (stepped-up domestic

1 Marterbauer, M. *Aufhellung des Industrieklimas, spürbarer Rückgang der Arbeitslosigkeit*. In: *WIFO-Monatsberichte*, 8/1999, 535–542.

Chart 6



demand and higher employment), while the remaining third is traceable to policy measures related to the National Action Plan for Employment. Altogether, 29,000 new jobs were created and the number of unemployed sank by 14,000 persons year on year in the period from January to October 1999. Employment (including persons doing compulsory military or alternative service and persons on paternity leave) came to 3.11 million, while unemployment averaged 220,000, which is tantamount to a 1.0% rise in employment and a 6.1% decline in joblessness.

The analysis of 1999 employment and unemployment developments produces a rate of unemployment (ten-month average) of 6.6% (national definition) and 4.4% (EU definition), with both rates markedly below the year-earlier figures.

The services sector contributed the lion's share of new employment, with business-related services, health care, trade, tourism and telecommunications briskly absorbing labor. The business-related services industries have been benefiting from the outsourcing needs of industrial enterprises and service providers as well as the dynamic pace of IT services. The recovery of the tourist industry entails intensified demand for labor, which also spills over into trade. The telecommunications boom is reflected by the swelling ranks of engineers needed in this field. By contrast, secondary sector employment contracted slightly amid lackluster export demand and structural change.

All things considered, employment growth was primarily driven by the increase in part-time jobs and more flexible working time arrangements in general. According to the Austrian microcensus, from 1996 to 1998 the share of part-time jobs edged up from 13 to 15%, leveling with the EU average, as the number of part-time workers surged from 73,000 to close to 460,000. Trade, health care and business-related services figured most prominently in this expansion.

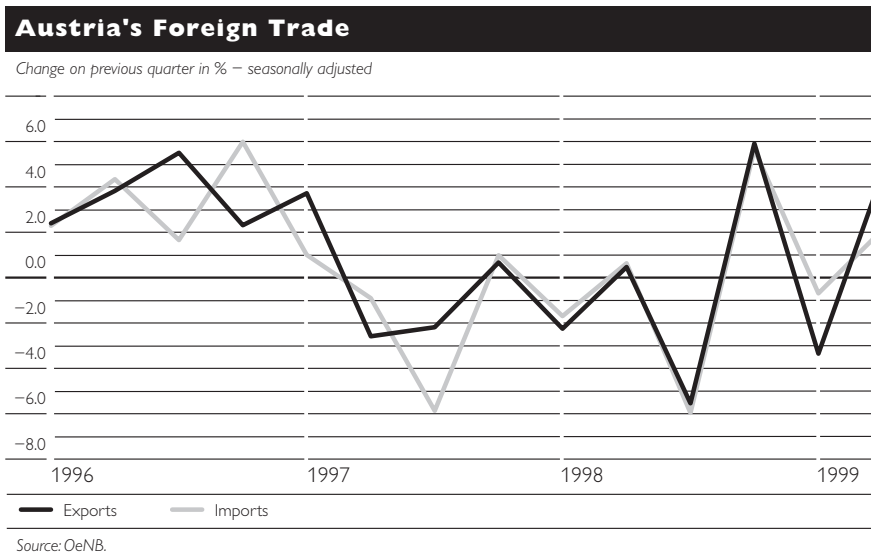
The OeNB forecast projects a continuation of favorable labor market conditions for 2000 and 2001. Employment growth may not remain as buoyant though, as the effects of active employment measures are likely to

taper off. The gain in the number of dependently employed persons, running to 0.9% in 1999, will slide somewhat in 2000 (0.8%) and 2001 (0.7%). Unemployment will nevertheless continue to recede: unemployment according to the national definition is forecast to drop to 6.3% by 2001, or 4.0% according to the EU definition.

Current Account deteriorates Slightly

Export activity, which was slow in early 1999, did, however, manage – albeit rather hesitantly – to stage a comeback in the months that followed. According to the current foreign trade statistics, nominal exports progressed by 2.4% from January to August 1999. At 5.7%, imports registered a much larger increase, which is attributable to lively domestic demand. While deliveries to EU countries outperformed overall exports, shipments to third countries stagnated. As a whole, Austrian exporters seem to have overcome the drop-off evidenced at the outset of 1999, which had been triggered by sluggish demand on the part of the country's key trading partners (Germany, Italy, eastern and central European countries).

Chart 7



At ATS 29 billion, the current account gap on a cash basis from January to August 1999 more or less equaled that of the like 1998 period (ATS 29 billion). The widening in the goods deficit was largely offset by the higher surplus posted by the services subaccount, with the latter mainly due to rising travel surpluses. The balances on both factor income and current transfers worsened, however.

The import overhang induced by robust domestic demand has resulted in a considerable deterioration of the trade balance, a trend bound to be amplified by the firming oil prices. In 2000, import prices will climb higher than export prices, impairing the terms of trade. The enhanced travel turnover does not cancel out the negative balances on factor income (mainly due to a rise in the net deficit of investment income) and current transfers,

both of which expanded. Consequently, the current account shortfall will augment perceptibly from 2.5% in 1999 to 2.8% of GDP by 2001.

4 Risks

The advance in oil prices may be regarded as a temporary supply shock. This forecast expects world oil prices to rise up to the first quarter of 2000 and then resume a slight downward trend. Should this not be the case, dampened economic growth and risks of an upward move of prices could be in store.¹⁾ Austria's tight public finances might, for their part, also ensue more pronounced expenditure cuts and, thus, act as a brake on government consumption. Threats to exports mostly stem from the business with the eastern and central European countries, whose economies are not immune from various risks, such as the future developments in Russia.

From a different angle, Austria's economic growth is primarily carried by domestic demand. Amid ongoing favorable labor market conditions and higher real incomes following the tax reform, this trend should be sustainable. Furthermore, it should not be ruled out that the brighter economic outlook might jump-start export activity with many trading partners more quickly than generally expected, fueling strong growth.

5 Other Forecasts – A Comparison

The forecast scenarios of various institutions²⁾ unanimously augur well for a sustained recovery of the Austrian economy (see table 3). Analogous to the OeNB, these institutions project a noticeable pickup in economic growth for the year 2000, which should give very slightly in 2001. Growth rates for 1999 range from 1.9% (Institute of Advanced Studies, IHS) to 2.2% (WIFO, OECD). According to all forecasts, growth will accelerate in 2000, with real GDP growth rates diverging from 2.3% (IHS) to 2.8% (WIFO, OeNB). The expansion is expected to slow down marginally in 2001. On employment growth, the majority of forecasts strike an optimistic note. Basically all institutions anticipate the rate of unemployment to fall well below the 7% mark (national definition) over the next two years and to come close to 4% according to the EU definition. As to inflation, an identical course is predicted: all institutions forecast the combination of rising oil prices and accelerated economic growth to go hand in hand with a slightly higher rate of inflation in 2000 and 2001, which will, however, remain well below the 2% mark.

1 See also this issue's study: "Impact of the Recent Upturn in Crude Oil Prices on Inflation in Austria – A Comparison with Historic Supply Shocks."

2 This analysis is based on the most recent forecasts compiled by WIFO (October 1999), the IHS (October 1999), the OeNB (October 1999), the OECD (October 1999), the European Commission (October 1999) and the IMF (September 1999).

6 Annex

Table 3

Austria's Key Macroeconomic Indicators															
October 1999 Forecast															
	OeNB preliminary data			WIFO final data		IHS final data		OECD preliminary data			European Commission preliminary data			IMF final data	
	1999	2000	2001	1999	2000	1999	2000	1999	2000	2001	1999	2000	2001	1999	2000
<i>Annual change in %</i>															
Real GDP	+1.9	+2.8	+2.8	+2.2	+2.8	+1.9	+2.3	+2.2	+2.7	+2.4	+2.1	+2.8	+2.6	+2.0	+2.5
Real private consumption	+2.1	+2.4	+2.2	+2.0	+2.5	+2.0	+2.4	+2.2	+2.5	+2.3	x	x	x	x	x
Gross fixed capital formation	+4.7	+4.5	+5.5	+3.7	+3.9	+3.5	+3.6	+3.8	+3.9	+3.5	x	x	x	x	x
Exports of goods and services, real	+1.8	+7.0	+6.2	+3.1	+5.6	+1.8	+4.0	+4.0	+5.6	+6.4	x	x	x	x	x
Imports of goods and services, real	+3.3	+6.8	+6.3	+2.7	+5.3	+2.7	+4.4	+4.8	+5.4	+6.5	x	x	x	x	x
GDP deflator	+0.7	+1.2	+1.5	+0.9	+1.1	+0.7	+1.0	+1.0	+1.4	+1.3	x	x	x	x	x
HICP	+0.5	+1.3	+1.3	x	x	x	x	x	x	x	+0.4	+1.2	+1.1	x	x
CPI	x	x	x	+0.6	+1.2	+0.6	+1.3	x	x	x	x	x	x	+0.7	+0.9
Unit labor costs	+0.8	+0.9	+0.7	+1.3	+0.5	x	x	x	x	x	x	x	x	x	x
Dependent employment	+1.0	+0.9	+0.8	+1.0	+0.9	+1.2 ¹⁾	+0.8 ¹⁾	+0.7	+0.8	+0.6	x	x	x	x	x
<i>%</i>															
Unemployment rate (EU definition)	4.3	4.1	4.0	4.4	4.2	4.4	4.2	x	x	x	x	x	x	4.3	4.2
Unemployment rate (Austrian Public Employment Office, AMS)	6.7	6.4	6.3	6.8	6.6	6.7	6.4	x	x	x	x	x	x	x	x
Unemployment rate (% of labor force)	6.0	5.8	5.6	6.1	5.9	x	x	6.3	5.8	5.4	6.1	5.8	5.7	x	x
Household savings ratio	8.4	9.2	9.1	8.5	9.0	7.9	8.4	8.6	9.3	9.1	x	x	x	x	x
<i>% of GDP</i>															
Current account	-2.5	-2.9	-2.8	-2.2	-2.1	-2.6	-2.8	x	x	x	-2.2	-2.4	-2.3	-1.8	-1.5
General government deficit	-2.2	-2.6	-2.1	-2.0	-2.5	-2.3	-2.4	-2.1	-2.7	-2.3	-2.2	-2.6	-2.4	x	x
<i>USD/barrel</i>															
Oil prices	17.5 ²⁾	19.6 ²⁾	17.3 ²⁾	17.0	20.0	19.2	23.0	17.5	22.2	22.4	x	x	x	x	x
<i>%</i>															
Long-term interest rate	4.7 ²⁾	5.3 ²⁾	5.3 ²⁾	4.6	5.1	4.7	5.3	4.6	5.6	5.8	x	x	x	x	x

Source: OeNB fall 1999 forecast.

¹⁾ Exclusive of persons doing compulsory military or alternative service and persons on paternity leave.

²⁾ ECB data.

Table 4

Demand Components (in Real Terms) at 1983 Prices								
	1998	1999	2000	2001	1998	1999	2000	2001
	ATS million				Annual change in %			
Private consumption	982,904	1,003,795	1,028,027	1,050,835	+1.7	+2.1	+2.4	+2.2
General government consumption	274,551	277,625	281,086	283,135	+1.5	+1.1	+1.2	+0.7
Gross fixed capital formation	458,985	480,437	502,210	529,979	+4.7	+4.7	+4.5	+5.5
Errors and omissions	30,356	33,918	32,300	32,550	x	x	x	x
Domestic demand	1,716,440	1,761,858	1,811,323	1,863,949	+2.4	+2.6	+2.8	+2.9
Exports (total)	1,022,954	1,041,411	1,114,535	1,183,370	+7.9	+1.8	+7.0	+6.2
Imports (total)	1,010,916	1,044,404	1,115,886	1,186,362	+6.6	+3.3	+6.8	+6.3
Gross domestic product	1,758,834	1,792,782	1,842,271	1,893,507	+3.3	+1.9	+2.8	+2.8

Source: OeNB fall 1999 forecast.

Table 5

Demand Components (at Current Prices)								
	1998	1999	2000	2001	1998	1999	2000	2001
	ATS million				Annual change in %			
Private consumption	1,449,821	1,490,525	1,548,004	1,605,134	+2.6	+2.8	+3.9	+3.7
General government consumption	493,733	511,013	528,898	544,765	+3.3	+3.5	+3.5	+3.0
Gross fixed capital formation	627,744	665,605	711,425	768,688	+5.4	+6.0	+6.9	+8.0
Errors and omissions	47,433	47,495	52,100	45,220	x	x	x	x
Domestic demand	2,571,298	2,667,143	2,788,328	2,918,587	+3.4	+3.7	+4.5	+4.7
Exports (total)	1,144,755	1,175,918	1,272,811	1,367,081	+7.5	+2.7	+8.2	+7.4
Imports (total)	1,139,946	1,196,834	1,312,880	1,408,848	+5.6	+5.0	+9.7	+7.3
Gross domestic product	2,623,540	2,693,722	2,800,358	2,922,039	+4.3	+2.7	+4.0	+4.3

Source: OeNB fall 1999 forecast.

Table 6

Demand Components (Price Indices)								
	1998	1999	2000	2001	1998	1999	2000	2001
	1983=100				Annual change in %			
Private consumption	147.5	148.5	150.6	152.7	+0.9	+0.7	+1.4	+1.4
General government consumption	179.8	184.1	188.2	192.4	+1.7	+2.3	+2.2	+2.3
Gross fixed capital formation	136.8	138.5	141.6	145.0	+0.6	+1.3	+2.2	+2.4
Domestic demand	149.8	151.4	153.9	156.6	+0.9	+1.1	+1.7	+1.7
Exports (total)	111.9	112.9	114.2	115.5	-0.3	+0.9	+1.1	+1.2
Imports (total)	112.8	114.6	117.6	118.7	-0.9	+1.6	+2.7	+0.9
Gross domestic product	149.2	150.3	152.0	154.3	+1.0	+0.7	+1.2	+1.5

Source: OeNB fall 1999 forecast.

Table 7

Labor Market								
	1998	1999	2000	2001	1998	1999	2000	2001
	number				Annual change in %			
Labor supply	3,684,359	3,702,188	3,723,120	3,744,573	+0.7	+0.5	+0.6	+0.6
Employment	3,446,565	3,478,987	3,508,344	3,533,353	+0.6	+0.9	+0.8	+0.7
Dependently employed	3,076,665	3,108,653	3,137,408	3,161,675	+0.7	+1.0	+0.9	+0.8
Self-employed	369,900	370,334	370,936	371,678	+0.3	+0.1	+0.2	+0.2
Unemployed	237,794	223,202	214,775	211,220	+1.9	-6.1	-3.8	-1.7
	%							
Unemployment rate	7.2	6.7	6.4	6.3	x	x	x	x
National definition	4.5	4.0	3.7	3.6	x	x	x	x
EU definition	6.5	6.0	5.8	5.6	x	x	x	x
OECD definition								
	ATS							
Gross wages per employee	424,432	432,097	444,312	456,805	+2.9	+1.8	+2.8	+2.8
Unit labor costs ¹⁾	0.83	0.84	0.85	0.85	+0.2	+0.8	+0.9	+0.7

Source: OeNB fall 1999 forecast.

¹⁾ Gross wages per employee divided by GDP per inhabitant.

Table 8

Current Account								
	1998	1999	2000	2001	1998	1999	2000	2001
	ATS million				% of GDP			
Uses								
Net exports (nominal)	4,809	- 20,916	- 40,069	- 41,768	+0.2	-0.8	-1.4	-1.4
Net factor income	- 11,294	- 17,344	- 12,600	- 12,800	-0.4	-0.6	-0.4	-0.4
Transfers from abroad	- 31,358	- 33,760	- 32,307	- 32,190	-1.2	-1.3	-1.2	-1.1
Current account balance	- 37,843	- 72,020	- 84,976	- 86,758	-1.4	-2.7	-3.0	-3.0
Net saving								
Households	130,928	137,075	157,460	160,893	+5.0	+5.1	+5.6	+5.5
General government	- 58,553	- 59,499	- 73,033	- 61,203	-2.2	-2.2	-2.6	-2.1
Other sectors	-113,165	-150,200	-164,257	-179,334	-4.3	-5.6	-5.9	-6.1
Current account balance (ESA 95)	- 53,494	- 67,441	- 80,398	- 82,179	-2.0	-2.5	-2.9	-2.8

Source: OeNB fall 1999 forecast.

Table 9

National Income								
	1998	1999	2000	2001	1998	1999	2000	2001
	ATS million				Annual change in %			
Gross domestic product	2,623,540	2,693,722	2,800,358	2,922,039	+ 4.3	+2.7	+4.0	+4.3
less:								
Capital consumption	369,000	390,928	418,189	447,229	+ 7.2	+5.9	+7.0	+6.9
Indirect taxes	337,218	344,838	358,452	374,019	+ 7.7	+2.3	+3.9	+4.3
Net factor income	-11,294	-17,344	-12,600	-12,800				
National income (excluding net transfers to the EU)	1,928,616	1,975,300	2,036,317	2,113,591	+ 3.7	+2.4	+3.1	+3.8
Disposable income								
Households	1,580,749	1,627,599	1,705,464	1,766,027	+ 3.6	+3.0	+4.8	+3.6
General government	578,118	597,495	601,478	633,690	+ 2.7	+3.4	+0.7	+5.4
Other sectors	138,325	128,804	120,134	120,083	+20.2	-6.9	-6.7	+0.0
Disposable national income	2,297,192	2,353,898	2,427,076	2,519,800	+ 4.2	+2.5	+3.1	+3.8

Source: OeNB fall 1999 forecast.

Table 10

Private Sector								
	1998	1999	2000	2001	1998	1999	2000	2001
	ATS million				Annual change in %			
Gross compensation of employees	1,305,849	1,343,287	1,394,006	1,444,297	+ 3.6	+2.9	+ 3.8	+3.6
General government transfers	540,600	566,316	590,241	610,981	+ 3.1	+4.8	+ 4.2	+3.5
Other household income	430,175	438,570	448,144	462,648	+ 4.8	+2.0	+ 2.2	+3.2
Direct taxes on households	695,875	720,574	726,927	751,900	+ 3.9	+3.5	+ 0.9	+3.4
Disposable household income	1,580,749	1,627,599	1,705,464	1,766,027	+ 3.6	+3.0	+ 4.8	+3.6
Household consumption	1,449,821	1,490,525	1,548,004	1,605,134	+ 2.6	+2.8	+ 3.9	+3.7
Household saving	130,928	137,075	157,460	160,893	+16.5	+4.7	+14.9	+2.2
Disposable income (at 1983 prices)	1,071,674	1,096,139	1,132,623	1,156,198	+ 2.7	+2.3	+ 3.3	+2.1
Household savings ratio in %	8.3	8.4	9.2	9.1	x	x	x	x

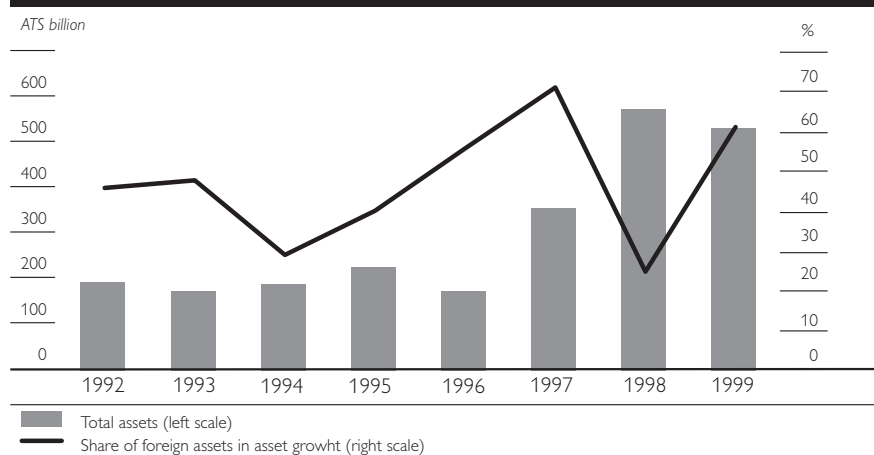
Source: OeNB fall 1999 forecast.

Money and Credit in the First Three Quarters of 1999

Asset Growth Slows Somewhat

Asset growth at Austrian banks slowed somewhat in the first three quarters of 1999. Compared to growth of EUR 42.0 billion or 9.6% from January to September 1998, assets increased by EUR 38.8 billion or 8.1% in the corresponding 1999 period, to a total of EUR 519.6 billion. In contrast to 1998, the gain in total assets funded by growth in domestic assets was rather low. Above all, this can be ascribed to the fact that domestic interbank assets had expanded particularly strongly in 1998 in the aftermath of intra-group restructurings and grew more moderately in 1999. The expansion of domestic nonbank assets was also somewhat lower than in the corresponding period of last year, however. Whereas loan portfolios at Austrian banks continued to augment moderately, investment portfolios expanded at a brisk pace as banks invested more heavily in securitized assets, in particular in shares of mutual funds. Austrian nonbanks, meanwhile, raised the bulk of their funds in the review period by issuing securities. Overall, the biggest growth factor were foreign assets, which rebounded strongly in the first three months of 1999 after having markedly declined in 1998.

Asset Growth in the First Three Quarters



Source: OeNB.

The number of banking offices in Austria rose by 10 to 5,557 in the first three quarters of 1999. During this time, the number of head offices declined by 4 to 967 as 4 banks were absorbed through mergers, 2 new banks were chartered, and 2 banks closed down. Meanwhile, branch offices expanded, increasing by 14 to 4,590.

Robust International Business

Austrian credit institutions briskly expanded their international business in the first three quarters of 1999. In the nine months to September, they increased their foreign assets by EUR 23.7 billion or 21.4% – more than twice as much as in 1998, when banks had reduced their external exposure amidst international financial crises in Asia and Eastern Europe. Foreign assets accounted for almost two thirds of asset growth in the survey period. As a percentage of total assets, they rose by 2.8 percentage points to 25.9% from year-end 1998. Half of this expansion is attributable to increases in

banks' portfolios of foreign securities and participations. From year-end 1998 to end-September 1999, this category grew by EUR 12.5 billion or 45.3%, which is two and a half as much as in the corresponding period of 1998. Furthermore, Austrian banks posted more solid growth in loans to foreign nonbanks (+EUR 3.4 billion or +10.8%) and in international interbank loans (+EUR 8.1 billion or +16.2%) than a year earlier.

Growth in foreign liabilities was mainly driven by interbank business. This category advanced by EUR 19.2 billion or 29.6%, thus accounting for roughly 90% of the total expansion in foreign liabilities. The volume of banks' direct offerings in international capital markets rose by EUR 3.0 billion or 8.3% in the first three quarters of 1999. By contrast, deposits placed by nonresidents shrank (–EUR 1.1 billion or –4.4%). On balance, external liabilities expanded by EUR 21.4 billion or 16.9% in the first three quarters of 1999 – which is EUR 2.3 billion below what banks gained in foreign assets. Consequently, Austrian banks' net liabilities vis-à-vis nonresidents narrowed to ATS 13.9 billion.

Loan Growth Solely Driven by Foreign Currency Loans

The loan portfolios of Austrian banks increased by EUR 6.5 billion or 3.2% in the first nine months of 1999, faster than in the year-earlier period (+2.2%). When securitized assets¹⁾ are factored in, credit institutions' loans²⁾ to domestic nonbanks rose by EUR 7.0 billion or 3.5% to EUR 208.0 billion. The volume of euro-denominated loans contracted by 0.3% from end-January³⁾ to end-September 1999, whereas foreign currency-denominated loans jumped by 42%. Thus, loan growth was funded in its entirety by foreign currency loans.

Whereas in 1997 and 1998 the public sector rolled back its bank loans, it newly stepped up its borrowings in the first three quarters of 1999, namely by EUR 0.2 billion or 0.8%. For one thing, the pace at which central and state governments scaled back their loans decelerated in the nine months to September 1999. For another thing, social security funds increased their loans by EUR 1.3 billion. Meanwhile, the share of government obligations in banks' investment portfolios dropped by EUR 1.5 billion or 6.6%. On balance, bank lending to the general government, thus, decreased by EUR 1.4 billion or 2.5% in the review period.

Enterprises expanded their loan volume by a mere EUR 2.2 billion or 1.9% in the first three quarters of 1999. Even though businesses displayed a higher spending propensity and even though nominal interest rates were low, business loans rose just half as much as in the corresponding period of 1998 (+4.2%). As the year progressed, the annualized growth rate decelerated from 6.4% in the first quarter to 3.9% in the third quarter.

1 *Debt securities not admitted to listing on the stock exchange.*

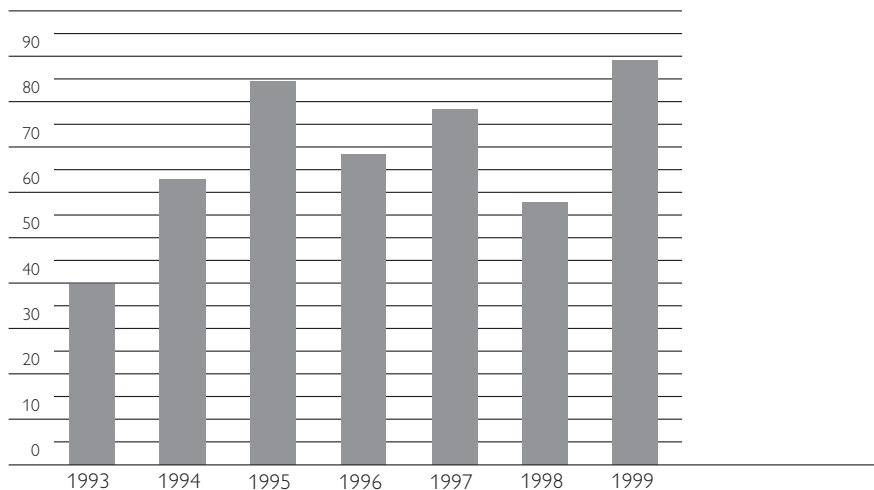
2 *Loans include all types of loans to resident and nonresident customers, regardless of classification. They also include both securitized and unsecuritized assets, but the latter only when the debt securities have not admitted to listing on the stock exchange. (OeNB, Reporting guidelines for credit institutions' monthly returns pursuant to § 74 paras 1 and 4 Austrian Banking Act, Vienna 1999).*

3 *ATS/EUR and foreign currency balances cannot be measured against year-end 1999 figures because of the changeover from the schilling to the euro.*

Loan Growth in the First Three Quarters

ATS/EUR and Foreign Currency

ATS billion



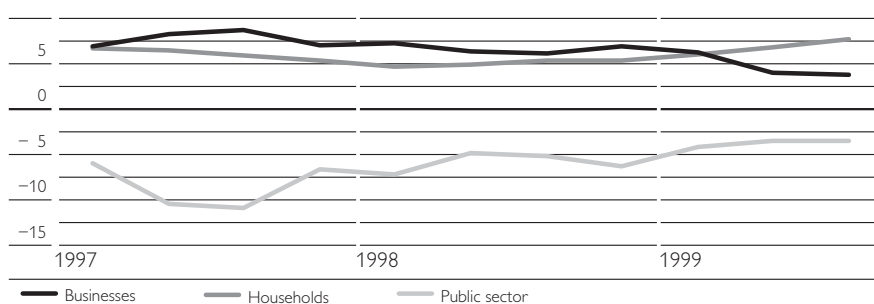
Source: OeNB.

Evidently, banks' self-financing capacity¹⁾ was improving that much that they were able to fund their investment projects more easily from their own resources.

Given the robust demand for durable consumer goods, loans to households continued to expand at a lively pace. During the first three quarters of 1999, this category grew by EUR 3.1 billion or 6.4%. By contrast, demand for home and home improvement loans was rather subdued because of lackluster demand for housing.

Loans to Nonbanks

Annual change in %



Source: OeNB.

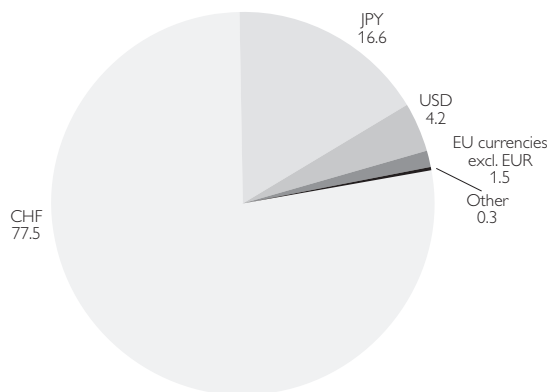
Foreign currency loans continued to be much in demand in the first three quarters of 1999. The volume of loans denominated in Swiss francs rose by EUR 5.9 billion or 36.2% to EUR 22.4 billion, while the yen loan portfolio almost tripled to reach EUR 4.8 billion. On balance, EUR 28.9 billion were

¹ See Peneder, M. and M. Pfaffermayr. *Selbstfinanzierung und Kapitalausstattung im internationalen Vergleich*. In: *WIFO-Monatsberichte* 3/1999, 177–186.

outstanding in foreign currency loans at the end of September 1999. Thereof, 77% were loans in Swiss francs, and 17% loans in Japanese yen. Between the end of January¹⁾ and the end of September, foreign currency loans to households jumped by 65%, and to businesses by 38%. Euro-denominated loans, by contrast, posted a net decline. At the end of September 1999, foreign currency loans made up 17.2% of all business loans, and 15.8% of all loans to households. Even the public sector's foreign currency loan exposure, which had contracted in recent years, increased in the survey period.

**Foreign Currency Loans
to Domestic Nonbanks as of September 30, 1999**

Share in %

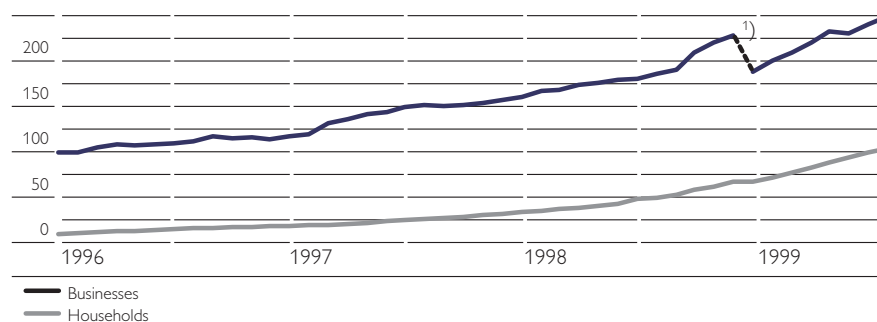


Source: OeNB.

In comparison with the euro area, foreign currency borrowing is particularly widespread in Austria. At the end of June, Austria accounted for 36% of all area-wide Swiss franc credits and for roughly 17% of all area-wide borrowing in Japanese yen. By contrast, Austria's share of total credit in the euro area came to a mere 3%.

Foreign Currency Loans

ATS billion



Source: OeNB.

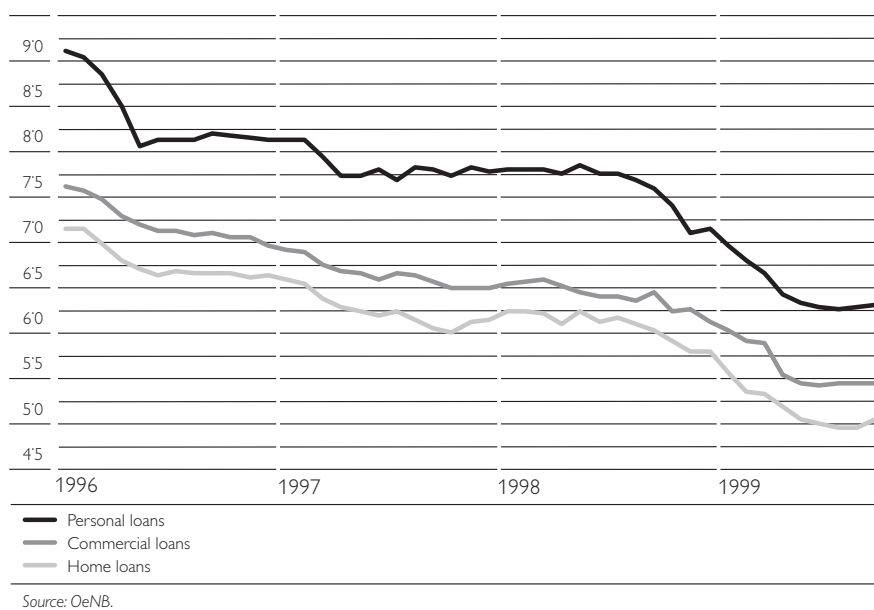
¹⁾ Break in the time series in December 1998 because of the changeover from ATS to EUR.

1) Foreign currency loan growth in the various borrower categories cannot be measured against year-end 1998 figures because of the changeover from the schilling to the euro.

The decline in lending rates has come to a halt in recent months. From May 1999 onward, commercial loans commanded an average interest rate of 5.4%, and personal loans were offered at an average rate of 6.3%. Compared with the year-end 1998 level, this is a drop by about half a percentage point. Since the beginning of the data series (April 1995), interest rates for commercial loans have declined by 3 percentage points, and rates for personal loans have even dropped by almost 4 percentage points.

Lending Rates at Domestic Credit Institutions

Averages in %



The securities portfolios of Austrian banks expanded comparatively strongly in the review period, mainly because of high investment in shares of mutual funds. This category rose by EUR 5.2 billion or 70.3% in the first three quarters of 1999. By comparison, holdings of debt securities grew by EUR 1.1 billion or 10.5% on balance. By categories, higher purchases of domestic bank bonds contrasted with a contraction in holdings of government obligations. Net acquisitions of domestic stocks came to EUR 50 billion.

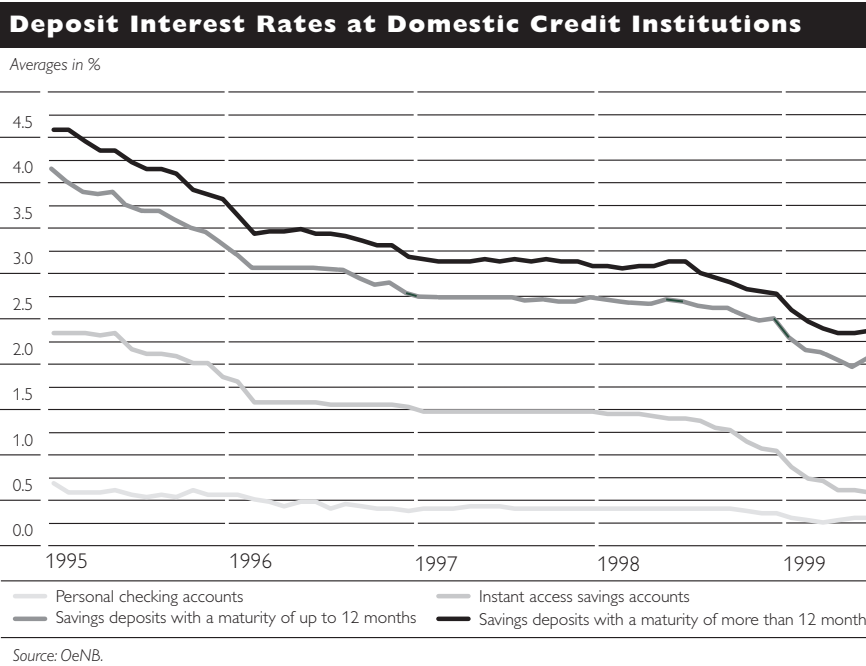
Short-term Deposits Surge

Deposits placed by domestic nonbanks at Austrian banks rose by EUR 1.7 billion or 1.0% in the nine months to September 1999, which is a slight deceleration from 1998 growth rates. Investment patterns reflect a rising preference of investors for putting their money into more liquid accounts. Whereas deposits payable on demand¹⁾ augmented by 10.8%, deposits subject to a fixed term or a period of prior notice before withdrawal contracted, with the exception of deposits with maturity periods of between

¹ Demand deposits and instant access savings deposits.

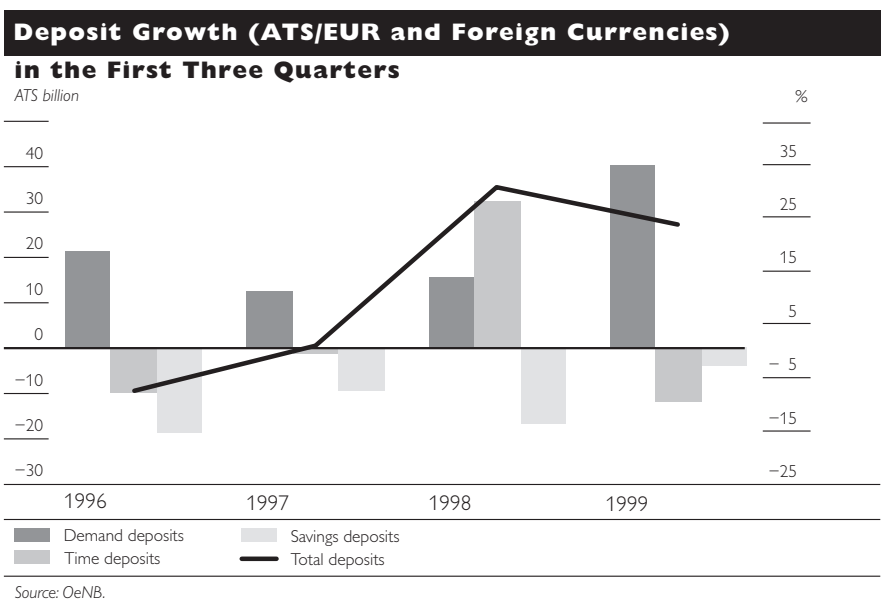
one and five years, which rose moderately. The share of deposits payable on demand in total deposits rose by 2.0 percentage points to 24.4% in the first three quarters of 1999.

Evidently the low level of interest rates has strengthened investors' preference for liquidity. After all, the average interest rate on savings deposits sank by approximately half a percentage point in the nine months to September. However, similar to lending rates, interest rates on savings deposits ended their decline in the third quarter of 1999. At the same time, the spread between savings rates and the rates that demand deposits carry has narrowed noticeably: From January to September 1999, the interest rate differential between instant access savings accounts and demand deposits narrowed from 100 to 29 basis points. Meanwhile, the gap between rates for instant access savings accounts and fixed-term savings accounts narrowed from 225 to 172 basis points for deposits with a maturity period of up to 12 months, and from 270 to 205 basis points for deposits with a maturity period of more than 12 months.



Investors' high liquidity preference is also apparent from growth patterns in the various deposit categories: While demand deposits (ATS/EUR and foreign currencies) expanded by EUR 2.9 billion or 10.2% in the first three quarters of 1999, time deposits and savings deposits diminished. Time deposits contracted by EUR 0.9 billion or 4.7%; savings deposits by EUR 0.3 billion or 0.3%. Households and businesses significantly increased their demand balances and trimmed their time deposits. By contrast, the public sector expanded time deposits but scaled back demand deposits.

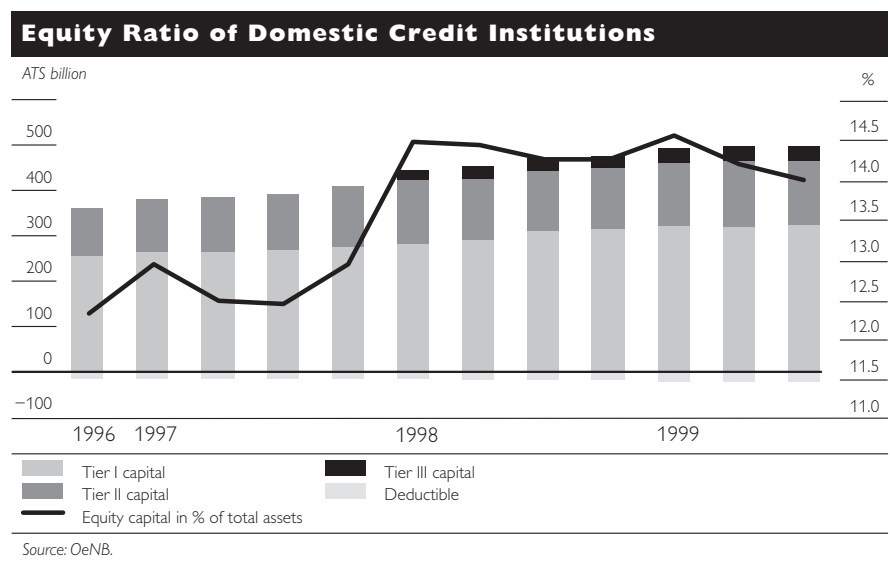
Banks' direct domestic offerings totaled EUR 4.9 billion in the review period. The direct issuance volume was thus almost three times as high as the increase in deposits. The bulk of the new offerings were bonds, mostly



variable-rate instruments. Meanwhile, banks sold less mortgage bonds, municipals bonds and cash obligations than in 1998.

Equity Ratio Reaches 13.98%

Austrian credit institutions added EUR 1.4 billion or 4.3% to their equity capital stock in the first three quarters of 1999, thus expanding the equity stock to EUR 34.6 billion. However, since at the same time the calculation basis rose by EUR 14.6 billion or 6.3%, banks' equity ratio (pursuant to § 23 Austrian Banking Act 1993) actually dropped from 14.25 to 13.98%. Core capital (tier I capital), which expanded by EUR 0.7 billion since year-end 1998, accounted for half of the equity increase. Supplementary capital (tier II capital) only inched up EUR 0.4 billion or 4.4%, and tier III capital by EUR 0.4 billion or 20.6%.



Balance of Payments in the First Half of 1999¹⁾

I Current Account

In the first half of 1999, Austria's current account calculated on the basis of transactions (see table 1) was in deficit by EUR 2,140 million, a slight increase by EUR 200 million compared with the analogous 1998 period.

The balance on goods and services showed a surplus of EUR 120 million in the period under review, which contrasts with a shortfall of EUR 470 million one year before. Thus, the higher current account deficit was primarily traceable to outflows in the income subaccount (–EUR 1,290 million).

The *euro area as a whole* reported a positive current account balance of EUR 26,700 million in the first six months of 1999. *Austria's current account surplus vis-à-vis the extra-euro area*²⁾ came to EUR 1,380 million in the same period.

A more detailed analysis of the subaccounts of the Austrian current account in the first half of 1999 can be found below.

1.1 Goods

According to the *forecasts compiled by the Austrian economic research institutions*,³⁾ the growth rates of goods imports will exceed those for exports throughout 1999 – a trend that reflects the accelerating economic activity in Austria. The Austrian export performance was also impaired by the economic and financial crises that hit various parts of the world since mid-1998. The impact of the doubling of crude oil prices since the beginning of 1999 was far less pronounced than in the 1970s, as energy consumption in relation to GDP has markedly shrunk since then.

In the 1990s, energy intensity came to just about 0.7 PJ/ATS billion of GDP, compared with 0.9 PJ in the 1970s. The share of energy imports in total goods imports fell to 4% in 1998 from 12% in the mid-1970s.

At the time of publication of the semiannual balance of payments, the foreign trade data forming the basis of the *goods* item showed sharply diverging growth rates for the first half of 1999. The revisions now made available by Statistics Austria (ÖSTAT) with the publication of the July foreign trade data (see explanatory notes on Data Revisions) reveal expansion rates whose trend corresponds with the aforementioned forecasts and the reported merchandise payments (see monthly cash balance).

According to the most recent figures of the *foreign trade statistics as compiled by ÖSTAT*, goods exports edged up 2.7%, while imports rose by 4.0%. The corresponding *merchandise payments* showed an increase of almost 1½% for both exports and imports.

1) Based on transactions. Date of going to press: November 2, 1999. As of the beginning of 1999, the Austrian balance of payment figures published in *Focus on Austria* are based on the currency unit euro, using the irrevocable conversion rate of EUR 1 = ATS 13.7603 (differences due to rounding may be possible). In the OeNB's statistical monthly (*Focus on Statistics*: www.oenb.co.at/stat-monatsheft/englisch/start_p.htm), by contrast, the data are given in both euros and schillings.

2) Austria's current account vis-à-vis nonresidents of the euro area.

3) WIFO fall forecast: goods exports: +5%; goods imports: +6%.

IHS fall forecast: goods exports: +2%; goods imports: +3%.

The difference between the goods flows and the corresponding payments is indicated in the subitem unclassified transactions of the services subaccount.

The analysis of foreign trade by *geographic area* and commodity category relies on the merchandise statistics released by ÖSTAT. According to these figures, the worsening of the balance of goods transactions in the first half of 1999 was primarily due to larger imports from the euro area, in particular Germany, which drove the shortfall vis-à-vis the euro area up by EUR 1,380 million (see table 2). Exports to central and eastern European countries – markets in which Austria would traditionally score surpluses – decreased substantially, with the positive balance shrinking by EUR 220 million.

Broken down by *commodity categories*, raw materials and food were the only items to register improved results, whereas all other categories recorded a deterioration. The deficit on the balance of consumer and capital goods widened by some EUR 630 million for each category; the shortfall on the balance of semimanufactured goods went up by EUR 490 million (see table 3).

Data Revisions

Like the merchandise payment figures of the OeNB, the ÖSTAT foreign trade data are subject to continuous revision. As regards data on goods imports, ÖSTAT made a substantial downward revision, while goods exports were only subject to a minor downward revision. More specifically, the growth rates for goods imports and exports in the first half of 1999 were cut from 8.2 to 4.0% and from 3.5 to 2.7%, respectively.

In the current account, ÖSTAT foreign trade statistics are subsumed under the item goods, following conceptual adaptations (goods imports, e.g., are shown excluding the freight component). Since the revisions carried out by ÖSTAT were not available at the time of publication of the semiannual balance of payments, the revised data were not taken into account.

The data revisions conducted by ÖSTAT are also plausible with regard to the development of the corresponding payment flows reflected in the cash balance.

Revisions of foreign trade data affect the goods item rather than the current account as a whole, as discrepancies between the foreign trade figures (adapted in accordance with the balance of payments concept) and the merchandise payments are entered as unclassified transactions in the services subaccount.

1.2 Services

The surplus on the services subaccount surged by EUR 2,110 million to EUR 3,270 million in the first half of 1999.

1.2.1 Travel

The recovery of the travel industry, which had started in the winter season of 1997/98, continued unabated in the first half of 1999. The number of *overnightstays by foreign tourists* rose by 4.3% (see table 5), with the expansion concentrating on the first quarter due to the early Easter date. The summer season started out in a lackluster fashion. The strongest gains in overnight stays were recorded for the countries of origin that are vital to Austrian tourism – namely Germany and the Netherlands – as well as for central and

eastern European countries (with the exception of the CIS), while setbacks were reported for France, Italy, Russia and Switzerland. *Foreign exchange receipts* mounted by 4.3% to EUR 5,450 million (see table 4) and thus more or less in sync with overnight stays. The receipts from international passenger transport, which previously formed part of the travel account, advanced by 8.7% to EUR 720 million. The slowdown in the growth of travel receipts by comparison to the number of overnight stays – discussed in the report on the first quarter of 1999 – was primarily due to individual respondents' delays in reporting. Nevertheless, the fact remains that Austria's top-of-the-range hotels posted below-average expansion rates for the first time in a number of years.

Austrians' travel expenses in the first half of 1999 dropped by 5.7% or EUR 230 million to close to EUR 3,820 million. Expenses in passenger transport also fell by comparison to the corresponding 1998 period (–3.4% or –EUR 340 million). Apart from Austrians' continued decline of expenditure on shopping abroad, a growing preference for vacationing in Austria (+3.3% overnight stays) may have played an important role.

As receipts and expenditures developed in entirely opposite directions, the travel account improved substantially by EUR 460 million to EUR 1,604 million.

1.2.2 Other Services Items

The balance on other services turned from a deficit of EUR 20 million into a surplus of EUR 1,640 million in the first half of 1999. As already pointed out above, this can be ascribed above all to the EUR 1,550 million improvement of the subitem unclassified transactions (see Data Revisions). Other key factors were the deterioration of the item other business services including merchanting and overhead costs of affiliated enterprises as well as the improvement of the financial services balance and the balance on royalties and license fees.

1.3 Income

In the first half of 1999, the income subaccount was in deficit by nearly EUR 1,300 million, up by more than EUR 800 million year on year. The lion's share of this increase was traceable to outflows deriving from the item foreign investment income from portfolio investment.

Whereas income from the item *compensation of employees* resulted in a surplus of some EUR 250 million in the first half of both 1998 and 1999, the balance of the investment income item was negative in both periods: After a shortfall of approximately EUR 700 million in the first six months of 1998, it recorded a deficit of EUR 1,500 million in the period under review (see table 6).

A structural breakdown shows negative balances for net direct investment income (–EUR 650 million) and net portfolio investment income (roughly –EUR 1,000 million) along with a surplus for income on other investment of slightly less than EUR 150 million.

In the first half of 1999, Austrian income on active direct investment came to EUR 480 million and thus some EUR 60 million more than one

year previously. By contrast, passive direct investment income amounted to EUR 1,130 million, an increase by roughly EUR 100 million from the like 1998 period.

As Austria's net debtor position from portfolio investment increased relatively strongly, the first half of 1999 saw larger outflows of investment income to nonresidents (about EUR 2,600 million) than inflows to Austrian investors (approximately EUR 1,600 million).

The net deficit of portfolio investment income, amounting to EUR 1,000 million, derived mainly from the hefty shortfall of income on bonds and notes. In the first half of 1999, interest payments on foreign securities held by Austrians ran to some EUR 1,260 million, while Austrian debtors forked out EUR 2,300 million worth of income to foreign investors. At nearly EUR 180 million, the assets and the liabilities side of equity securities were more or less identical. Net income on money market instruments in the first half of 1999 was in deficit by almost EUR 60 million.

1.4 Current Transfers

At EUR 760 million, *net general government current transfers* – the key item of this subaccount – remained virtually unchanged from the corresponding period one year earlier. The transactions with the EU contained in this item ran to EUR 650 million net, a marginal increase by approximately EUR 100 million on the first six months of 1998. Austria's contribution to the EU budget came to EUR 1,190 million in the reporting period, while its receipts (excluding EU subsidies to infrastructure projects) totaled EUR 540 million.

The shortfall on *private sector transfers*, by contrast, dropped from EUR 260 million to EUR 200 million, which was primarily attributable to a lower volume of taxes and fees paid by Austrians.

2 Capital Account

The capital account closed with a deficit of EUR 60 million in the survey period (first half of 1998: –EUR 70 million). *Capital transfers in kind* showed diverging sectoral developments.

The *general government's* capital transfers in kind encompass in particular those receipts from the EU that are earmarked for infrastructure programs and consequently do not fall under the heading current transfers. They came to EUR 50 million in the first half 1999, compared with EUR 40 million one year previously.

The *private sector's* capital transfers in kind closed with a shortfall of EUR 130 million by comparison to EUR 100 million in the corresponding 1998 period, mainly on account of debt forgiveness.

3 Financial Account

Austrian cross-border capital flows on the assets side, based on transactions (see table 7), reached a value of EUR 21,880 million in the first half of 1999, of which some 74% went into other member countries of the euro area.

In the same period, Austria's *total external liabilities* came to about EUR 23,500 million.

Thus, capital flows on both the assets and the liabilities side surpassed the 1998 annual results.

Cross-border capital movements in both directions were essentially characterized by massive *portfolio investment* in the form of bonds and notes as well as increased *direct investment*. The large volume of transactions was in line with the developments throughout the euro area.

A breakdown by *interest-bearing versus risk capital-oriented financial instruments as well as by maturity* provides the following picture: 84% of total Austrian cross-border investment abroad involved interest-bearing financing such as deposits, loans and debt securities, of which more than two thirds can be ascribed to long-term securities. Foreign investors' additional capital flows into Austria were also primarily traceable to interest-bearing securities (85%), with long-term securities accounting for close to 50%.

The development of cross-border capital movements broken down by *Austrian economic sectors* was as follows: With the introduction of the euro, the OeNB assumed several functions in addition to managing Austria's reserve assets,¹⁾ notably a clearing-house role with respect to TARGET payments, which thus entailed capital movements in the item other investment. The sectoral analysis relies on the OeNB's cross-border transactions in all business areas. In the first six months of 1999, the OeNB imported EUR 4,800 million on balance, with a reduction of reserve assets going hand in hand with an increase in short-term liabilities. In the same period, *banks* exported EUR 1,900 million on balance, although capital movements differed substantially in the first and second quarters: While banks recorded capital outflows of somewhat less than EUR 7,000 million in the first quarter, mainly on account of hefty portfolio investment, they imported around EUR 5,100 million in the second quarter, due to sales of own issues abroad and rising liabilities from short-term deposits. The consolidated outcome of the sectors OeNB and banks shows that their liabilities augmented by EUR 2,900 million on balance in the first half of 1999. Moreover, *general government* was a net importer of capital, mainly on account of its sales of bonds and notes abroad (EUR 7,790 million). These capital inflows contrasted with capital exports of the category *other sectors* (comprising other financial institutions such as investment companies, insurance companies and pension funds as well as nonfinancial corporations and households), whose net claims vis-à-vis nonresidents expanded further. The balance of net new investment abroad minus nonresidents' investment in financial instruments of this category came to EUR 9,080 million in the first half of 1999, of which EUR 8,230 million can be traced to portfolio investment in securities of other financial institutions.

1) *The introduction of the euro has entailed a new definition of reserve assets: Reserve assets are only those claims that are denominated in a currency other than euro and that exist vis-à-vis nonresidents; they also comprise monetary gold, SDRs and the IMF reserve position. OeNB investment in euro or in the form of claims on euro area residents can be found in the items portfolio investment, financial derivatives or other investment, depending on the individual financial instrument.*

Financial Account by Sectors

	1998 ¹⁾	First half 1999 ¹⁾	Second half 1999 ²⁾
<i>EUR million, net</i>			
Financial account			
Assets, total	-17,055	-21,883	-9,133
Liabilities, total	21,790	23,501	9,675
Net	+4,735	+ 1,618	+ 542
Sectoral breakdown			
OeNB			
Assets	-3,461	- 162	- 384
Liabilities	x	4,954	-1,170
Net	-3,461	+ 4,792	-1,554
General government			
Assets	- 633	- 507	- 913
Liabilities	11,291	8,298	2,259
Net	+10,658	+ 7,791	+1,346
Banks			
Assets	-3,638	- 9,298	-1,966
Liabilities	4,848	7,411	7,046
Net	+1,210	- 1,887	+5,080
Other sectors			
Assets	-9,323	-11,916	-5,869
Liabilities	5,651	2,839	1,541
Net	-3,672	- 9,077	-4,328
<i>Memorandum item:</i>			
<i>OeNB and Banks</i>			
Assets	-7,099	- 9,460	-2,350
Liabilities	4,848	-12,365	5,876
Net	-2,251	+ 2,905	+3,526
Unclassified transactions (Errors and omissions)			
Net	- 421	576	1,026
Financial deficit/surplus	-4,314	+ 2,194	+1,568

Source: OeNB.

¹⁾ Revised data.

²⁾ Preliminary data.

The *balance of the capital movements* of all domestic sectors based on increased claims on nonresidents and the further expansion of liabilities vis-à-vis nonresidents resulted in a net capital import of EUR 1,620 million in the first half of 1999. Including transactions posted under errors and omissions, total capital imports of EUR 2,200 million resulted in the compensation of the financial deficit, which was the outcome of a current account deficit and a virtually balanced capital account.

Moreover, the expansion of Austrian cross-border capital flows on the assets side, based on transactions, led to an *increase in total external assets* as measured by the international investment position as of December 31, 1998, by approximately 13%. Austria's transaction-based *total external liabilities* mounted by marginally less than 11% since January 1, 1999.

3.1 Direct Investment

According to the OeNB's balance of payments statistics, Austrian outward direct investment activity continues unabated following the peak of the previous year, whereas inward direct investment will very likely not reach the extremely high 1998 value.

Austrian net capital exports under the heading *outward direct investment* amounted to EUR 1,450 million in the first half of 1999, which means that there is a fair chance of last year's all-time high of EUR 2,460 million again being surpassed. The net investments in equity holdings (including premises and buildings) on the order of EUR 1,130 million ensued from outward investment to the amount of EUR 1,350 million (gross) and outward disinvestment totaling EUR 220 million (gross). The marked improvement of the earnings situation of Austrian subsidiaries abroad over the past few years led to reinvested earnings to the amount of EUR 320 million in the first half of 1999. The volume of loans between Austrian investors and their affiliated enterprises remained virtually unchanged, however.

For the fourth time in a row, Austrian enterprises stepped up outward investment significantly, with the outcome of the first half of 1999 being almost twice as large as the total 1995 result, when the initial boom in the wake of the opening-up of eastern Europe had lost steam.

Eastern Europe accounted for about half of the total volume of outward direct investment in the survey period (more precisely, EUR 750 million). As opposed to the first major investment wave in eastern Europe in the early 1990s, Austrian activities no longer centered primarily on Hungary. Like in 1998, the Czech Republic was the most attractive country for investment in central and eastern Europe. Investment in Russia was in part due to factors such as covering of losses or recapitalization in order to hedge long-term investments. Poland, which has become increasingly popular with Austrian investors since 1997, was slightly ahead of Hungary in terms of Austrian direct investment. The EU attracted only about half of the Austrian investment volume in eastern Europe (EUR 430 million), with Germany and the United Kingdom dominating the picture. At EUR 220 million in the first half of 1999, Austrian direct investment outside Europe also exceeded the total results of most years since 1992. As regards the sectoral breakdown, asset-side direct investment was recorded for a broad range of industries, in particular banking, building materials, chemicals, trade and engineering.

Inward direct investment was not on a par with Austrian direct investment abroad. With EUR 1,920 million, the volume of net acquisitions by foreign companies of Austrian equity capital was above Austrian outward direct investment, but perceptibly trailed the exceptional 1998 outcome of EUR 5,320 million. Inward acquisitions of EUR 1,100 million were recorded alongside inward disinvestment of EUR 240 million. Thus, net investments in equity holdings (including premises and buildings) ran to EUR 860 million. According to preliminary calculations, reinvested earnings came to EUR 1,060 million, while the repatriation of foreign investors' other claims on their Austrian subsidiaries led to minimal disinvestment.

In spite of a large number of individual investment projects, 80% of all inward direct investment in the first half of 1999 can be traced to only four countries, namely Germany, Switzerland, Hungary and the United States. As in most of the previous years, Germany was the number-one investor with EUR 900 million, i.e. nearly 50% of the total capital invested. Hungary's hefty outward flows to Austria (EUR 270 million) were mainly

due to losses being covered. Switzerland benefited from its role as a prime location for holding companies. From a sectoral viewpoint, investment activity continued to be carried by telecommunications, followed by banking and trade.

Generally speaking, however, the fact remains that Austria is lagging behind other industrial countries, in particular with respect to outward direct investment. In spite of massive investment activity abroad in the first half of 1999, Austria's share in total euro area outward direct investment came to a mere 1%. As far as inward FDI is concerned, Austria accounted for 2.5% (investment from extra-euro area countries) and 3% (total investment including cross-border investment within the euro area), which more or less corresponds to its economic clout within EMU.

3.2 Portfolio Investment

Cross-border purchases and sales of securities in the first half of 1999 were marked by the following factors on international capital markets:¹⁾

- The record number of transactions on international capital markets in the first and second quarters of 1999 were driven by the rapidly accelerating trend towards securitization in Europe, with the introduction of the euro contributing in a decisive manner. Issuing activity in the euro area and sales of euro-denominated securities were hardly affected by the euro's depreciation against the U.S. dollar. Investor demand for euro issues was extremely lively as the development of an integrated European capital market made headway.
- Global issues and bonds launched as a result of mergers and acquisitions gained importance and emerging market borrowers increasingly tapped the capital markets again. Apart from the traditionally high proportion of government borrowing as well as securities floated by financial institutions with a view to securing loans to the private sector and financing acquisitions, a larger number of corporate bonds were launched – primarily by Italy, the Netherlands and Spain – and met with strong demand.
- Following the sharp decline of international bond yields caused by investors' flight into high-quality government bonds in the wake of the financial crises erupting in the second half of 1998, yields recovered in the first half of 1999, which was in keeping with the prevailing cyclical conditions in the major issuing countries.
- The bullish stock markets all over the world fueled international sales. In most euro area countries, business picked up, with German and French enterprises being responsible for the lion's share of the expansion.

Austrian Investors' Portfolio Investment

The results of Austrian portfolio investment in the second quarter of 1999 were almost as impressive as in the previous quarter, with acquisitions of foreign securities coming to EUR 7,110 million (transaction value),

¹ See also BIS Quarterly Review "International Banking and Financial Market Developments", August 1999.

practically the same volume as in the first three months of 1999. All in all, total purchases of foreign securities in the first half of 1999 were tantamount to an expansion of some 30% of Austrian external assets from portfolio investment.¹⁾

Austrian investors showed a preference for debt securities (85%), primarily with maturities of more than one year. This development, which had already manifested itself in the first quarter, gained pace in the second quarter. In both equity securities and debt securities, euro area issues were the most sought after (84%). 90% of the investment in foreign debt in the first half of 1999 can be traced to the financial sector (including the OeNB, banks and other financial institutions such as insurance companies or mutual funds), with mutual funds and insurance companies accounting for the biggest proportion. The aforementioned other financial institutions were instrumental in portfolio investment by households and enterprises, as the private sector's investment with insurance companies and mutual funds involved a sizeable share of foreign securities. This development – already observed in the previous year – accelerated in the first half of 1999. The private sector's "direct" portfolio investment in the first half of 1999 involved an expansion of foreign assets (i.e. securities), with shifts occurring above all in the second quarter. Apparently foreign stocks were sold in exchange for shares of mutual funds and debt securities.

In the first half of 1999, domestic investors bought EUR 2,200 million worth of *foreign equity securities*. This is close to half of the total 1998 value, with the first quarter of 1999 accounting for 70% thereof. An analysis of the two securities subgroups foreign shares and shares of foreign mutual funds in the first half of 1999 shows that residents purchased *foreign shares* to the amount of EUR 1,200 million, with most of the purchases effected in the first quarter of 1999. In the first half of 1999, Austrian investors primarily went for listed shares of the sectors finance, manufacturing and technology.

In the first half of 1999, Austrians put some EUR 1,000 million into *shares of foreign mutual funds*, mainly euro-denominated equity funds and balanced funds.

In terms of value, *debt securities* accounted for the largest share of Austrian net new investment in *foreign securities*. When acquiring foreign debt, domestic investors showed a clear predilection for bonds and notes issued by other euro area countries (first half of 1999: EUR 9,600 million). A similarly strong focus emerges in a breakdown of portfolio investment by currencies: Acquisitions of euro-denominated issues clearly dominated (92%), whereas demand for USD bonds was moderate by comparison (7%). The deterioration of the euro's exchange rate vis-à-vis the U.S. dollar in the first half of 1999 apparently did not have any influence on investment decisions in this period.

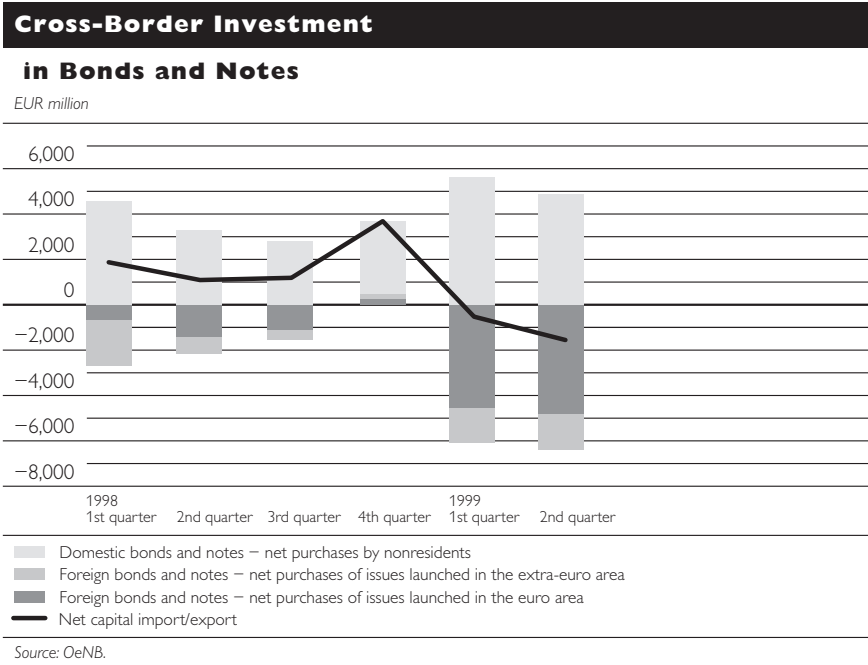
1 The relevant stock values appear in the international investment position contained in table 7.1.0 of the OeNB's Focus on Statistics. The 1998 international investment position has also been treated and analyzed extensively in issue 3/1999 of Focus on Austria.

The high percentage of euro-denominated securities was very likely due to the better investment potential in the large euro area, which does not involve any exchange rate risks.

Of particular importance were purchases of bonds and mortgage bonds issued in Germany, France, Italy and the Netherlands, with German Pfandbriefe holding the strongest appeal (close to 25%). Moreover, investors put money into issues launched by banks and other financial institutions, in addition to government bonds and selected corporate bonds, with the largest individual deals stemming from securities with a size of more than EUR 1 billion.

The secondary market accounted for 70% of both sales and purchases. Domestic investors' disinvestment ran to approximately EUR 2,700 million, with the securities concerned featuring an average¹⁾ maturity of less than 10 years, a residual maturity of marginally less than 7 years and an average yield of 5.6%. During the same period, domestic investors bought securities to the tune of EUR 11,300 million (average maturity: over 12 years; residual maturity: less than 11 years; average yield: 4.7%).

Cross-border transactions on the primary market were as follows: Redemptions in the survey period featured an average maturity of about 5 years and an average yield of 6.4%, while investments in new foreign issues were characterized by an average maturity of almost 12 years, carrying an average yield of approximately 4.1%.



¹ The average is calculated on the basis of weighted individual transactions of each securities type over the total survey period.

Portfolio Investment in Austria

Nonresident net portfolio investment (including interest accrued) in Austrian securities came to EUR 11,850 million in the first half of 1999, which is tantamount to an 11% rise compared with the level as of end-1998.¹⁾ Foreign investors took a particular liking to domestic debt securities, whose share in total cross-border securities sales came to 89% in the review period.

In the first half of 1999, *domestic equity securities* worth around EUR 1,300 million changed into nonresidents' hands (EUR 890 million thereof in the second quarter alone), which means that the transaction-induced increase of 1998 as a whole was exceeded.

In the survey period, *Austrian shares* to the amount of some EUR 560 million were sold abroad (above all listed banks, industrials and utilities).

In the first two quarters of 1999, nonresidents bought *shares of Austrian mutual funds* (for the most part fixed income and balanced funds) totaling EUR 710 million. The second quarter alone accounts for EUR 420 million of this amount, which corresponds to roughly 40% of the total 1998 volume.

Net sales of *domestic debt securities* in the survey period focused on the primary market. Since issuers floated euro-denominated securities, nonresidents' purchases of domestic euro debt securities were also very high. More than four fifths of the bonds and notes bought by nonresidents in the first half of 1999 were euro issues.

Throughout the review period, hefty net sales of federal government issues dominated the market, although the second quarter of 1999 showed a somewhat weaker performance than the first three months of the year. A key factor in the second quarter was the low volume of primary market transactions in federal government bonds floated or topped up by means of tender procedure or as syndicated loans in 1999. These transactions, however, contributed decisively to total nonresident investment in domestic debt securities, accounting for about 65% in the first half of 1999. The total transaction value of general government issues absorbed by nonresidents came to EUR 7,790 million (or approximately 77% of nonresidents' total investment in domestic bonds and notes).

Tender and Syndicated Loans in the First Half 1999¹⁾

	ISIN	EUR million
Federal government bond 1998–2005/3	AT0000384524	1,377
Federal government bond 1999–2014/1	AT0000384748	681
Federal government bond 1997–2027/6	AT0000383864	1,031
Federal government bond 1999–2009/2	AT0000384821	2,302
Federal government bond 1999–2004/3	AT0000384862	1,582
Total		6,973

Source: OeNB.

¹⁾ Transaction values: + = sale abroad.

¹ The relevant stock values appear in the international investment position contained in table 7.1.0 of the OeNB's Focus on Statistics. The 1998 international investment position has also been treated and analyzed extensively in issue 3/1999 of Focus on Austria.

Apart from federal government issues, bank bonds also played a role in foreign investors' portfolio decisions. In the second quarter, above all, nonresidents made such purchases to the total amount of EUR 2,670 million on the primary market.

In addition to domestic euro-denominated debt securities (80% of total), nonresidents also invested in USD issues.

Similar to the currency breakdown, the maturity structure¹⁾ and yields were also strongly determined by domestic borrowers' new issues, as the majority of transactions took place on the primary market.

The foreign-owned domestic bonds and notes redeemed in the review period had an average maturity of 7 years and carried an average yield of 6.5%, whereas new issues purchased by nonresidents had an average maturity of 10 years and an average yield of 4.1%.

Secondary market transactions had only a minor impact on the breakdown by maturities and yields, as their share in total transactions was relatively low.

3.3 Other Investment

The other investment account (deposits, loans including trade credits and financial leasing as well as other financial assets and liabilities) recorded capital imports to the tune of EUR 2,370 million in the survey period. Taking account of the development of reserve assets, this outcome reflects the process of cross-border investment, as primarily autonomous financial transactions and, to a lesser degree, current and capital account transactions were channeled through bank and OeNB accounts. In this context, TARGET transactions represented a crucial factor in the first half of 1999, forming part of the OeNB's other investment account. With regard to other investment, the sectors OeNB and banks registered a net capital import to the amount of EUR 2,740 million, whereas domestic nonbanks were net exporters of capital totaling EUR 380 million.

The OeNB's and banks' cross-border financial transactions resulted in capital imports on the order of EUR 6,240 million with residents of the extra-euro area.

A look at the situation in international banking²⁾ shows that the sudden revival of the international syndicated loan market in the second quarter of 1999 could essentially be ascribed to the global restructuring process in the corporate sector. Moreover, debt financing in eastern Europe, Latin America and Asia was on the upswing, albeit to a lesser extent. Austrian data show that domestic banks extended EUR 1,400 million worth of long-term credit to foreign borrowers, the lion's share of this amount going to EMU member countries as well as eastern and central Europe, in particular Hungary and Croatia, whereas claims on Russia contracted, in line with the international trend.

1 The average is calculated on the basis of weighted individual transactions of each securities type over the total survey period.

2 See also BIS Quarterly Review "International Banking and Financial Market Developments", August 1999.

3.4 Reserve Assets

Capital transactions led to a decrease in reserve assets by EUR 1,940 million in the first half of 1999.

The crucial factor was the reduction of gold and USD holdings as a result of the transfer of part of the NCBs' reserve assets to the ECB (EUR 1,180 million) in accordance with the EU Treaty. The offsetting entry was made in the other investment account (other assets, monetary authorities sector).

Table 1

	First half		Annual change
	1998 ¹⁾	1999 ²⁾	
	EUR million		
Current account	-1,939	-2,137	- 198
Goods, services and income	- 915	-1,173	- 258
Goods and services	- 473	+ 118	+ 591
Goods	-1,633	+3,154	-1,521
Services	+1,160	+3,273	+2,113
thereof:			
Travel	+1,180	+1,637	+ 457
Construction services	+ 101	+ 105	+ 4
Financial services	+ 10	+ 50	+ 40
Royalties and license fees	- 332	- 267	+ 65
Other business services	+ 644	+ 526	- 118
Government services, n.i.e.	+ 186	+ 161	- 25
Unclassified transactions	-1,109	+ 437	+1,546
Income	- 443	-1,291	- 848
Compensation of employees	+ 251	+ 245	- 6
Investment income	- 694	-1,537	- 843
Current transfers	-1,023	- 964	+59
General government	- 759	- 765	- 6
Private sector	- 264	- 200	+ 64
Capital and financial account	+4,417	+1,561	-2,856
Capital account	- 71	- 58	+ 13
thereof:			
General government	+ 36	+ 43	+ 7
Private sector	- 102	- 131	- 29
Acquisition/disposal of nonproduced, nonfinancial assets	- 6	+ 30	+ 36
Financial account	+4,488	+1,620	-2,868
Direct investment	+1,324	+ 464	- 860
Portfolio investment	+1,209	-3,121	-4,330
Other investment	+1,689	+2,366	+ 677
Financial derivatives	+ 60	- 25	- 85
Reserve assets ³⁾	+ 206	+1,936	+1,730
Errors and omissions	-2,478	+ 576	+3,054

Source: OeNB.

¹⁾ Revised data.

²⁾ Provisional data.

³⁾ OeNB: Gold and foreign exchange, reserve position in the Fund. SDRs, etc.: increase: -/decrease: +.

Table 2

Merchandise Exports and Imports as Recorded

in the Foreign Trade Statistics

Goods by geographic area

First half 1999						
	Exports		Imports		Balance	
	Annual change	Share of total exports	Annual change	Share of total imports	Annual change	
	%				ATS million	
OECD	+ 5.6	89.0	+10.4	89.8	-3,976	-1,341
EU	+ 7.4	67.7	+12.3	71.4	-4,404	-1,386
EMU	+ 7.6	61.1	+12.4	65.9	-4,542	-1,378
thereof:						
Germany	+ 9.5	38.6	+14.2	42.8	-3,449	-1,012
Italy	+ 2.7	9.3	+13.6	8.4	- 167	- 277
France	+12.0	4.8	+ 8.1	5.2	- 255	- 48
CEECs ¹⁾	-11.2	13.6	- 1.3	10.2	+ 867	+ 223
U.S.A.	+ 8.1	4.2	+14.0	5.3	- 396	- 29
Japan	+30.7	1.0	+ 2.9	2.3	- 530	- 28
Total	+ 3.7	100.0	+ 8.7	100.0	-3,929	-1,518

Source: ÖSTAT.

¹⁾ Central and Eastern European countries: Albania, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, Yugoslavia.

Table 3

Merchandise Exports and Imports as Recorded

in the Foreign Trade Statistics

Goods by commodity category

	Exports			Imports			Balance	
	First half 1999	Annual change		First half 1999	Annual change		First half 1999	Annual change
	EUR million	%		EUR million	in		EUR million	
Foodstuffs	1,353	+ 121	+ 9.8	1,807	+ 107	+ 6.3	- 454	+ 14
Raw materials	1,291	+ 58	+ 4.7	2,460	- 114	- 4.4	-1,169	+ 172
thereof: energy (SITC 3)	251	- 12	- 4.5	1,170	- 162	-12.1	- 920	+ 150
Semimanufactured goods	4,130	- 634	-13.3	4,217	- 144	- 3.3	- 88	- 490
Manufactured goods	22,032	+1,390	+ 6.7	24,246	+2,647	+12.3	-2,214	-1,257
Capital goods	7,641	+ 428	+ 5.9	8,186	+1,057	+14.8	- 545	- 629
Consumer goods	14,391	+ 962	+ 7.2	16,061	+1,590	+11.0	-1,669	- 628
Miscellaneous manufactured articles	48	x	x	53	x	x	- 4	x
	28,854	+ 974	+ 3.5	32,783	+2,493	+ 8.2	-3,929	-1,518

Source: ÖSTAT.

Table 4

Travel and International Passenger Transport				
	First half		Annual change	
	1998 ¹⁾	1999 ²⁾		%
	EUR million			
Travel				
Receipts	5,225	5,452	+ 227	+ 4.3
Expenses	4,045	3,815	- 230	- 5.7
Balance	1,180	1,637	+ 456	+38.7
International passenger transport				
Receipts	661	718	+ 58	+ 8.7
Expenses	356	344	- 12	- 3.4
Balance	304	374	+ 70	+22.9
	1,000			%
Foreign tourist bednights	53,482	55,781	+2,299	+ 4.3

Source: ÖSTAT, OeNB.
¹⁾ Revised data.
²⁾ Provisional data.

Table 5

Foreign Tourist Bednights by Country of Origin				
	First half 1999		Share	
	Overnight stays	Annual change		%
	1,000			%
Germany	26,888	+1,162	+ 4.5	48.2
Netherlands	4,009	+ 366	+10.1	7.2
United Kingdom	1,499	+ 118	+ 8.5	2.7
Belgium, Luxembourg	1,093	+ 90	+ 9.0	2.0
Switzerland, Liechtenstein	1,285	- 16	- 1.3	2.3
Sweden	386	+ 3	+ 0.8	0.7
France	713	- 61	- 7.9	1.3
Italy	837	- 14	+ 1.6	1.5
Spain	141	- 3	- 2.2	0.3
Finland	102	+ 11	+12.2	0.2
U.S.A.	696	+ 17	+ 2.5	1.2
Japan	237	+ 16	+ 7.3	0.4
Hungary	413	+ 62	+17.6	0.7
Slovakia	83	+ 6	+ 8.5	0.1
Czech Republic	423	+ 45	+12.0	0.8
Poland	562	+ 85	+17.8	1.0
Commonwealth of Independent States	180	- 33	-15.6	0.3
Slovenia	143	+ 4	+ 3.2	0.3
Croatia	172	+ 4	+ 2.6	0.3
Other countries	15,919	+ 436	+ 2.8	28.5
Total	55,781	+2,299	+ 4.3	100.0
Memorandum item: Austrian tourists	14,233	+ 459	+ 3.3	x

Source: ÖSTAT.

Table 6

	First half		Annual change
	1998 ¹⁾	1999 ²⁾	
	<i>EUR million</i>		
Investment income receipts	4,394	4,241	-152
Investment income payments	5,088	5,778	+690
Net investment income ³⁾	- 694	-1,537	-843
Net direct investment income ³⁾	- 614	- 647	- 33
Income on direct investment abroad	419	481	+ 62
Income on direct investment in Austria	1,033	1,128	+ 95
Net portfolio investment income ³⁾	- 623	-1,013	-390
Income on foreign equity securities	115	186	+ 71
Income on domestic equity securities	171	172	+ 1
Income on foreign debt securities	1,142	1,257	+115
Income on domestic debt securities	1,883	2,333	+451
Income on foreign money market instruments	8	21	+ 13
Income on domestic money market instruments	60	82	+ 22
Financial derivatives on interest rate contracts, net	+ 225	+ 110	-114
Net other investment income ³⁾	+ 543	+ 123	-420
Income on other investment, assets ⁴⁾	2,484	2,186	-298
Income on other investment, liabilities	1,941	2,063	+122

Source: OeNB.
¹⁾ Revised data.
²⁾ Provisional data.
³⁾ Income on outward foreign investment less income on inward foreign investment.
⁴⁾ Income on deposits, credits and reserve assets.

Table 7

Financial Account			
(including change in reserve assets)			
	1998 ¹⁾	First half 1998 ²⁾	2nd quarter 1999 ²⁾
<i>EUR million, net</i>			
Financial account	+ 4,735	+ 1,620	+ 544
Assets	-17,056	-21,881	-9,132
Liabilities	+21,791	+23,501	+9,675
Direct investment	+ 2,866	+ 464	+ 109
Direct investment abroad	- 2,457	- 1,454	- 782
Equity capital	- 1,903	- 1,132	- 627
Reinvested earnings	- 547	- 318	- 150
Other capital	- 7	8	0
Direct investment in Austria	+ 5,323	+ 1,918	+ 890
Equity capital	+ 3,844	+ 858	+ 506
Reinvested earnings	+ 1,300	+ 1,062	+ 385
Other capital	+ 180	- 2	- 1
Portfolio investment	+ 4,583	- 3,121	-1,700
Portfolio investment in foreign securities	-10,339	-14,968	-7,114
Equity securities	- 4,633	- 2,221	- 682
Bonds and notes	- 6,033	-12,405	-6,386
Money market instruments	+ 327	- 342	- 45
Portfolio investment in domestic securities	+14,921	+11,847	+5,414
Equity securities	+ 908	+ 1,275	+ 889
Bonds and notes	+13,806	+10,432	+4,858
Money market instruments	+ 208	+ 141	- 333
Other investment	+ 640	+ 2,366	+1,952
Assets	- 989	+ 7,243	-1,334
Trade credits	+ 641	+ 55	- 92
Loans	- 4,808	- 4,687	-3,543
Currency and deposits	+ 3,211	+ 1,435	-2,342
Other assets	- 33	- 1,066	- 42
Liabilities	+ 1,629	- 9,609	+3,285
Trade credits	- 266	+ 101	- 15
Loans	+ 60	+ 416	- 21
Currency and deposits	+ 1,526	- 9,133	+3,204
Other liabilities	+ 308	- 40	- 117
Financial derivatives	- 439	- 25	- 94
Assets	- 356	- 152	- 8
Liabilities	- 83	+ 127	+ 86
Reserve assets³⁾	- 2,914	- 1,936	+ 89

Source: OeNB.

¹⁾ Revised data.

²⁾ Provisional data.

³⁾ OeNB: Gold and foreign exchange, reserve position in the Fund, SDRs, etc.; increase: -/ decrease +.

Austrian Outward and Inward Direct Investment in 1997

*Results of the 1997 Survey and Development
of Selected Indicators*

Review of 1997 and Outlook for 1998

The OeNB's most recent direct investment survey shows that the total stock of Austrian direct investment abroad (outward FDI) expanded to ATS 168.1 billion at the end of 1997 and the total stock of foreign direct investment in Austria (inward FDI) grew to ATS 221.2 billion.

As in 1996, total outward FDI widened more (+23%) than total inward FDI (+13%), indicating that the growth of outward direct investment continued to accelerate. The rise by more than ATS 31 billion between 1996 and 1997 represents a record surpassed only during the investment boom from 1989 to 1993 following the fall of the iron curtain. Direct investment in Austria also advanced at an above-average rate exceeded only four times during the past two decades. Overall, the gap between inward and outward FDI stocks contracted noticeably: For the first time, outward FDI came to as much as three quarters of the stock of direct investment in Austria.

While outward FDI expanded, the number of Austrian investors remained unchanged (just under 900); however, these investors held stakes in a larger number of enterprises (+132). Inward direct investment increased both in terms of the number of investors (+58) and of the number of affiliated enterprises (+102).

Since Austria's balance of payments statistics were adjusted to meet the requirements of the 5th edition of the IMF's balance of payments manual, the links between balance of payments flows and changes in stocks recorded in the direct investment survey can be displayed in a consistent and logical fashion (see table 1). Although changes in stocks and balance of payments flows cannot be expected to be identical because of differences or discrepancies between definitions, coverage and valuation, balance of payments statistics do provide information about the essential components of stock changes. Moreover, the links between the two statistics allow the level of direct investment at the end of 1998 to be estimated. With sales of direct investment enterprises in Austria and abroad having reached a record in 1998, outward direct investment is expected to have climbed to roughly ATS 200 million and FDI in Austria is likely to have grown to a stock of almost ATS 300 million.

Regional Breakdown

In 1997, direct investment abroad focused on the regions North America, Eastern Europe and EU Member States outside of EMU ("other EU"; see table 2). Direct investment stocks in Germany, traditionally Austria's most important recipient of direct investment, however, dropped marginally. This development confirms the shift of Austrian direct investment from the EU to Eastern Europe observed consistently throughout the 1990s. Nearly one third of the capital invested went to Eastern Europe, whereas the share of Austrian capital in affiliated enterprises in the EU sank to just over 40% of total Austrian FDI. Investment outside of Europe began to regain significance in 1993 and accounted for a 17% share in the review period, almost as much as in 1990.

Extensive and growing inward direct investment by EU-based companies reflected the pronounced trade links between Austria and the Single Market. 72% of all direct investment in Austria originated in the EU in 1997. Germany alone accounted for 47% of direct investment in Austria. Investment from Eastern Europe, while still representing a very small percentage, expanded at an above-average pace. Investors from countries outside of Europe cut back their holdings in Austrian direct investment enterprises on balance.

Sectoral Breakdown

Austrian firms made nearly three quarters of all direct investment abroad in service sector companies (see table 3), underlining the growing importance of services. The share of outward direct investment in this sector rose to as much as 69%, compared to only 29% in manufacturing and construction. Mining and quarrying and electricity, gas and water accounted for the remaining 2%. Within the service sector, the highest increases in outward direct investment were in trade and repairs (higher than in the entire manufacturing and construction sector), financial intermediation and the sector real estate and business activities (including holding companies).

Services played an even bigger role in inward direct investment. Net direct investment in manufacturing and construction in Austria contracted in 1997, reducing this sector's share in total inward direct investment to just 30%. If this 30% share plus the inward direct investment share of 1% for mining and quarrying and electricity, gas and water are subtracted from the total, services are seen to account for the remaining 69%. By order of magnitude, the services posting the most powerful inward direct investment increases in absolute terms were financial intermediation, trade and repairs, real estate and business activities and transport and communication (the full impact of the liberalization of the telecommunications and power supply sectors was not felt until 1998).

Income and Return on Equity

The profitability of foreign affiliates of Austrian direct investors continued to improve in 1997. Affiliates in most countries targeted by Austrian investors posted better annual results. Austrian direct investment enterprises abroad closed the review year with a total annual profit of ATS 8.9 billion, which represents a further rise on 1996 as well as a historic high. While the foreign affiliates have so far always carried forward losses on balance, the net loss carryover decreased to only ATS 3.3 billion in 1997 (see table 4).

Foreign direct investors in Austria succeeded in hiking their Austrian affiliates' income for the year by more than ATS 6 billion in 1997, bringing total profit for the year to a record ATS 25.4 billion. Only the profits of German parent companies' direct investment enterprises in Austria did not measure up to the high 1996 results. Net profit or loss carried forward, which had closed the last review period with a profit of ATS 0.6 billion, slipped into the red and posted a loss of ATS 2.0 billion.

Key ratios for individual enterprises confirm that the surge in the aggregate profit for the year of Austrian direct investment enterprises abroad in 1997 was indeed carried by a rise in the return of equity of the majority of affiliates. The median return on equity, which has been improving steadily since 1993, picked up further from 3.1% to 4.5% in 1997 (see table 5). Thus the return on equity of Austrian direct investment enterprises abroad for the first time reached a level comparable to that of inward investment enterprises (4% to 8%).

Judging from the weighted average return on equity instead of the median return on equity, i.e. from an aggregate-level perspective, Austrian direct investment enterprises abroad still have considerable scope to improve profitability. With annual profits coming to ATS 25 billion and equity to ATS 210 billion, the return on equity of inward direct investment enterprises was twice that of outward direct investments, where equity ran to ATS 145 billion and annual profits amounted to only ATS 9 billion.

The age of the direct investment enterprise continues to be highly correlated with the profitability of individual enterprises. Direct investment enterprises established for more than four years had a return on equity of 6.8%, far above the 1.6% return on equity of newer affiliates. Unless there is another investment boom, however, profitability should logically improve in companies which posted startup losses during the review period as they mature. More than half the direct investment undertakings abroad were more mature enterprises in 1997 compared to a mere 30% in 1994. By contrast, the age structure correlates negatively with the degree of external financing: Older direct investment enterprises tend to have a lower equity ratio than more recent startups abroad.

Improved profitability went hand in hand with higher productivity rates.¹⁾ After median sales had dropped from ATS 1.5 million to ATS 1 million per employee after the fall of the iron curtain, it started to rise steadily from 1993. At ATS 1.24 million, median productivity in manufacturing improved by 4% on the 1996 figure.

Turning to inward direct investment, the higher annual profits were reflected by a rise in the median return on equity from 4.2% to 4.7%. As in the case of outward FDI, more mature firms posted a higher return on equity (6.3%) than startups (0%). A separate analysis segregating companies by age shows that outward direct investments were more profitable than direct investment companies in Austria for the first time. However, as over three quarters of the direct investment enterprises in Austria were founded more than four years ago, direct investment firms in Austria still performed better than outward investments. The return on sales of manufacturing enterprises improved considerably again, and at 1.7% is close to the record of 2.1% recorded in 1994. After stagnating in 1996, productivity picked up

1 For reasons of comparability, productivity and the return on sales are reviewed only for manufacturing. Until 1995, this comprised companies belonging to the sectoral association "industry" in the Austrian Federal Economic Chamber; since 1996 calculations have been made for the ÖNACE (Austrian Statistical Classification of Economic Activities) sections C through F (Mining and quarrying and electricity, gas and water, manufacturing and construction).

again in industrial direct investment enterprises. The return on sales per employee clocked in at ATS 2.2 billion, a 10% rise on the year before.

Employment

In 1990 Austrian direct investors employed 260,000 persons within Austrian boundaries, which compares with a rise to slightly less than 350,000 up to the year 1995 when outward direct investment boomed. While this expansion can be traced primarily to a swelling of the ranks of investing enterprises over the years, the reduction by some 40,000 employees in 1996 did not result from a decline in the number of investors (which remained virtually the same), but rather from the shedding of foreign affiliates by a single major transport company. On average in 1997, Austrian direct investors employed 269,000 persons in Austria, 15,000 or 5% less than in 1996. 163,000 of these people worked in the manufacturing industry¹), and 106,000 in services. Jobs in direct investment firms in Austria accounted for almost 9% of total employment.

Weighted for the investor's nominal capital share, a total of 161,400 persons were employed by Austrian direct investors' foreign affiliates in 1997, which represents a 19% rise. Thus the number of employees working in Austrian direct investors' affiliates nearly quadrupled between 1990 and 1997. Manufacturing still accounted for the lion's share (106,000 employees), but in the review year the service sector's share expanded to nearly 40% from less than one third. Thus for every 100 persons employed in the manufacturing industry in Austria, 62 more were on the payroll of Austrian direct investors' affiliates abroad. The service sector is close on the heels of manufacturing; for every 100 service sector employees in Austria, 57 worked in a direct investment enterprise abroad (again, weighted, i.e. multiplied by the direct investor's percentage ownership of the enterprise's nominal capital).

Most of the rise in employment in foreign affiliates occurred in the transition countries in Central and Eastern Europe, i.e. Hungary, Poland, the Czech Republic, the Slovak Republic, Russia and Romania. The regional distribution of employment in foreign affiliates is very different from the structure of the capital invested. Most of the employees – 51,700 or almost a third – worked in Hungarian affiliates, a third in the remaining transition countries, and less than a quarter in direct investment enterprises in the EU. Just 13,000 employees (8%) work for Austrian direct investment enterprises located outside of Europe.

Turning to inward direct investment, the total number of domestic employees hired by nonresident investors' affiliates in Austria stayed virtually unchanged at 211,500 in 1997. When this figure is broken down, a shift away from production (reduction by 1,500 employees) toward services (an increase by 1,500) is revealed.

¹ The sectors are classified according to the Austrian Statistical Classification of Economic Activities (ÖNACE) and comprise the manufacturing sections C through F. Back calculations of data are available only until 1994.

In terms of the overall dependent labor force in Austria, this means that – as in previous review periods – nearly 7% of all jobs were held by people working in nonresident investors' direct investment companies in Austria; which breaks down to 12.7% of the jobs in manufacturing and 4.7% of all service sector jobs. The most heavily influenced sector in manufacturing was electrical and optical equipment (40%) followed by transport equipment and chemicals at roughly 30% each. Construction, mining, the power supply sector and wood and wood products were the sectors with the lowest share of employees in foreign investors' direct investment enterprises in Austria. Among services, the share ranges from a high of 13% in trade and repairs to 10% in financial intermediation to a low of 0.1% in other services.

This calculation, however, takes into account only the first tier of direct investment enterprises; in other words, the employees of nonresident investors' indirectly owned direct investment enterprises do not figure in this total. If the (weighted) number of employees of indirectly owned direct investment enterprises of 79,000 is factored in, the share of foreign-controlled Austrian jobs rises to about 9.5%.

Foreign Trade and Direct Investment

Another area covered by the OeNB's direct investment survey is the commodity trade of the direct investment enterprises in Austria and abroad with the respective direct investor and vice versa. This information is useful to illustrate the role of international groups in Austrian foreign trade.

Almost 900 Austrian firms hold a stake of at least 10% in a company abroad. These enterprises account for exports of ATS 240 billion and imports of ATS 173 billion, i.e. net exports amounted to ATS 68 billion (see table 7). The 2,400 companies in Austria in which foreign direct investors hold a stake exported goods to the amount of ATS 239 billion and imported ATS 296 billion worth of goods in 1997, confirming the general trend of inward direct investment enterprises to post net imports. A comparison of all direct investors and direct investment enterprises in Austria adjusted for any dual coverage shows that these enterprises account for 53% of all Austrian exports and 46% of all imports. Their total contribution to Austria's trade balance was positive, with net exports running to ATS 16 billion (total exports: ATS 382 billion, total imports ATS 366 billion). In terms of their share of employees, direct investment enterprises make an outsized contribution to foreign trade. While this finding does not provide a clear answer to the frequently posed question of whether direct investment generates additional trade or whether it replaces the trade of companies without foreign investments, it does appear to support the assertion that direct investment boosts trade.

Table 7 also shows that direct investment firms consistently made a positive contribution to the balance of trade throughout the 1990s. As a rule, the trade of internationally linked companies rises at a faster pace than overall trade. On average, overall exports expanded by 5.8% and imports by 4.6% in the 1990s, whereas direct investment companies' exports advanced by 8.2% and imports climbed by 7.6% in the same period.

Austrian direct investment companies' exports (+10.4%) and Austrian direct investors' imports (+12.8%) grew at an especially dynamic rate. Of course, this overall figure provides no information about individual firms' performance. One important reason for this animated trade growth is that the number of companies with participations abroad or in which foreign investors hold stakes is steadily rising; companies with cross-border equity links are becoming increasingly important for Austria's economy and for Austria's foreign trade in particular.

Intragroup Trade

One area of special interest is cross-border trade between linked enterprises. This international trade reflects the increasing division of labor between companies within a multinational group, but it gives a skewed impression, because it is not subject to market forces to the same extent as exports and imports as a whole. Thus intragroup trade provides companies with the option of shifting profits because their calculations use internal rather than market prices for products.

When analyzing the data for Austria, one must take into account that the definition of intragroup trade is more restrictive for outward than for inward direct investment. In the case of outward FDI, the trade between the Austrian direct investor and the direct investment company abroad is registered, whereas in the case of inward FDI, the trade of the direct investment enterprise located in Austria with investors abroad and with any other companies within the group is recorded.

The data show that direct investors in Austria posted net exports in intragroup trade as well (see table 8), with exports to affiliates coming to ATS 28.5 billion and imports amounting to only ATS 15.5 billion. This means that intragroup trade accounted for only 12% of the exports and 9% of the imports of the 900 Austrian firms with a stake in a company abroad. By contrast, intragroup trade accounted for a far larger share of Austrian affiliates of foreign direct investors, i.e. nearly half of all exports (ATS 114 billion) and more than half of total imports (ATS 159 billion) in 1997; therefore, net imports came to ATS 45 billion. This dichotomy between the shares of intragroup trade is only partly attributable to the asymmetric coverage. The main reason is that Austrian direct investment enterprises are frequently affiliates of huge multinational groups with production processes split up among subsidiaries world-wide. Such production structures entail extensive trade in intermediate products. Austrian investors, however, tend to be much smaller, and outsource only specific production processes or establish sales offices abroad to open up small local markets.

A look at the development of trade over time reveals that the fastest-growing segment within the trade between interlinked companies, which is already growing more quickly than overall trade, is intragroup trade. Its share of total commodity exports rose from 10% to 20% in the course of the 1990s, and the percentage of commodity imports expanded from 16% to 22% in the same period. The most animated growth was recorded by Austrian affiliates' intragroup exports, which widened by

15.5% annually and imports of Austrian direct investors, which were lower in terms of volume, climbed 16.7% a year.

Annex

Table 1

Stocks and Flows of Austrian Inward and Outward

Direct Investment

Capital stocks and flows

Outward Direct Investment Inward Direct Investment

ATS billion

Direct investment stocks at the end of 1996		
Equity capital	112.6	181.0
Other capital (intragroup lending)	23.8	14.9
	136.4	195.9
Transactions acc. to the 1997 balance of payments		
New equity capital	28.2	28.2
Disinvestment	- 7.0	- 7.3
Excluding privately owned real estate	- 2.3	- 0.5
Equity capital	18.8	20.3
Reinvested earnings	5.4	12.8
Net lending	- 2.2	- 1.3
Valuation differences and valuation changes ¹⁾	9.8	- 6.6
Direct investment stocks at the end of 1997		
Equity capital	145.8	210.1
Other capital (intragroup lending)	22.4	11.1
	168.1	221.2
Transactions acc. to the 1998 balance of payments		
New equity capital	43.1	65.5
Disinvestment	- 17.0	- 12.6
Excluding privately owned real estate	- 1.3	- 1.2
Equity capital	24.8	51.7
Reinvested earnings	7.5	17.9
Net lending	0.1	2.5
Outlook for direct investment at the end of 1998		
Equity capital	178	280
Other capital (intragroup lending)	22	14
	201	293

Source: OeNB.

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

Table 2

Outward and Inward Direct Investment Stocks								
Outward direct investment								
	1990	1992	1993	1994	1995	1996	1997	1998 ¹⁾
	ATS billion							
Nominal capital	28.4	45.4	60.4	64.2	71.4	83.2	93.7	x
Annual change in %	+68.9	+18.0	+33.2	+6.2	+ 11.3	+ 16.5	+ 12.6	x
Other equity	11.5	17.6	17.4	19.8	23.9	29.4	52.1	x
Annual change in %	+26.4	+39.2	- 1.1	13.6	20.6	23.0	77.3	x
Equity capital	39.8	63.0	77.8	84.0	95.3	112.6	145.8	178
Annual change	+54.0	+23.3	+23.6	+ 7.9	+ 13.5	+ 18.1	+ 29.5	+ 22.1
Lending	8.2	14.9	20.6	19.0	22.8	23.8	22.4	22
Total capital	48.0	77.9	98.5	103.0	118.0	136.4	168.1	201
Annual change in %	+50.7	+20.9	+26.4	+ 4.6	+ 14.6	+ 15.5	+ 23.3	+ 19.5
EU-11 (excluding Germany)	8.0	14.5	18.7	19.2	23.8	27.1	28.7	30.2
Germany	12.1	19.5	20.9	18.1	23.1	27.3	27.0	29.4
Other EU countries	4.5	8.4	10.8	9.4	7.9	8.2	14.4	25.1
Switzerland and Liechtenstein	9.2	9.7	10.3	11.6	11.3	11.1	13.8	15.1
Eastern Europe (excluding Hungary)	1.6	5.7	9.8	14.8	17.7	22.5	32.9	43.2
Hungary	3.8	12.3	16.4	17.7	16.0	17.0	18.7	21.1
U.S.A. and Canada	5.3	5.0	7.3	7.2	8.1	8.4	16.6	17.0
Other countries	3.5	3.0	4.2	4.9	10.1	14.8	16.0	19.9
Rest of Europe	0.2	0.6	1.0	1.2	2.6	3.1	3.9	4.3
Rest of the world	3.2	2.4	3.2	3.8	7.5	11.7	12.1	13.6
Market value	-	56.0	70.5	72.7	91.7	108.2	144.1	x
Annual change in %	x	+20.2	+25.9	+ 3.1	+26.2	+ 18.0	+ 33.2	x
By relation to total equity	-	0.89	0.90	0.87	0.96	0.96	0.99	x
Inward direct investment								
	1990	1992	1993	1994	1995	1996	1997	1998 ¹⁾
	ATS billion							
Nominal capital	55.2	60.9	62.5	64.5	71.5	74.5	78.7	x
Annual change in %	+ 7.1	+ 4.4	+2.7	+ 3.1	+ 10.9	+ 4.1	+ 5.6	x
Other equity	44.6	52.9	55.0	60.0	86.9	106.6	131.4	x
Annual change in %	+ 15.8	+ 11.4	+ 3.9	+ 9.0	+ 44.9	+ 22.7	+ 23.3	x
Equity capital	99.9	113.8	117.5	124.5	158.4	181.0	210.1	280
Annual change	+ 10.9	+ 7.5	+ 3.3	+ 5.9	+ 27.3	+ 14.3	+ 16.0	+ 33.3
Lending	6.7	13.4	20.6	20.8	18.5	14.9	11.1	14
Total capital	106.5	127.3	138.1	145.3	176.9	195.9	221.2	293
Annual change in %	+ 9.1	+ 14.8	+ 8.5	+ 5.2	+ 21.8	+ 10.8	+ 12.9	+ 32.5
EU-11 (excluding Germany)	21.8	25.9	28.5	27.1	34.1	35.4	42.6	79.6
Germany	40.2	47.4	51.1	50.6	74.4	85.2	103.8	119.9
Other EU countries	5.2	7.4	7.3	9.5	10.6	12.2	11.9	13.7
Switzerland and Liechtenstein	20.6	23.2	23.3	25.9	27.2	25.7	28.7	34.1
Eastern Europe (excluding Hungary)	1.3	1.0	1.3	2.3	2.4	2.9	3.4	3.6
Hungary	0.2	0.8	0.6	0.5	0.5	0.6	1.1	1.9
U.S.A. and Canada	10.0	14.6	16.1	9.8	11.7	15.3	15.5	17.2
Other countries	7.3	7.2	9.9	19.5	16.0	18.7	14.2	22.8
Rest of Europe	0.7	0.5	0.6	0.6	0.8	1.5	1.8	1.9
Rest of the world	6.6	6.7	9.3	18.9	15.2	17.2	12.4	16.6
Market value	-	170.8	179.9	194.5	253.3	293.0	358.2	x
Annual change in %	x	- 2.3	+ 5.3	+ 8.1	+ 30.2	+ 15.7	+ 22.3	x
By relation to total equity	-	1.50	1.53	1.56	1.60	1.62	1.71	x

Source: OeNB.

¹⁾ 1998 values are extrapolated.

Table 3

	Outward direct investment				Inward direct investment			
	1994	1995	1996	1997	1994	1995	1996	1997
	ATS billion							
Mining and quarrying, and electricity, gas	2.8	2.6	3.0	2.9	0.6	1.8	2.2	2.1
Manufacturing and construction	34.7	38.0	40.7	48.6	55.9	65.4	68.4	66.6
Food products	4.0	3.3	3.2	3.5	5.9	6.7	5.6	3.4
Textile products, apparel and leather	0.9	1.0	0.7	1.1	2.3	2.4	2.3	2.5
Wood and wood products	1.2	1.9	0.6	1.3	0.4	0.5	0.5	0.5
Paper, publishing and printing	2.2	2.8	3.0	4.8	5.6	5.8	9.3	9.1
Refined petroleum products, chemicals, rubber and plastic products	6.8	7.5	7.8	8.0	17.4	21.3	22.3	23.7
Nonmetallic mineral products	3.3	4.9	5.3	7.4	4.3	3.7	4.7	4.4
Metal products	4.8	5.1	6.6	7.8	2.0	2.5	3.4	3.3
Mechanical products	2.3	2.9	2.8	3.2	6.9	7.3	8.3	8.3
Electrical and optical equipment	4.2	3.7	4.7	4.7	5.4	7.3	3.7	3.8
Transport equipment	0.4	0.8	0.6	0.6	3.5	4.8	4.9	4.2
Manufacturing n.e.c.	0.4	0.4	0.5	0.8	0.6	1.3	1.6	1.7
Construction	4.3	3.6	4.9	5.3	1.5	1.8	1.7	1.7
Services	65.4	77.5	92.7	116.7	88.7	109.7	125.3	152.5
Trade and repairs	13.9	15.6	17.5	26.8	28.9	38.7	41.2	48.1
Hotels and restaurants	1.9	1.9	2.1	2.5	1.7	1.7	2.4	2.4
Transport and communication	0.7	0.9	0.5	0.6	2.4	3.7	3.7	8.1
Financial intermediation	17.2	21.1	26.9	32.6	15.9	25.7	31.4	40.6
Real estate and business activities	24.6	37.0	44.5	53.2	39.3	39.6	46.3	52.9
Other services	7.1	1.0	1.1	1.0	0.5	0.2	0.5	0.5
Total	103.0	118.0	136.4	168.1	145.3	176.9	195.9	221.2

Source: OeNB.

Table 4.1

	Austrian share of								
	Profit or loss for the year			Net profit or loss carried forward			Income for the year		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
ATS billion									
EU-15 (excl. Germany)	-0.7	0.4	1.9	-1.0	-1.4	0.4	0.3	1.8	1.5
Germany	-4.6	-4.2	-4.3	-4.8	-4.8	-5.2	0.1	0.6	0.9
Switzerland and Liechtenstein	3.7	4.4	4.5	2.9	3.3	3.7	0.8	1.1	0.8
Eastern Europe (excl. Hungary)	-1.9	-1.3	-0.2	-1.5	-1.9	-1.9	-0.4	0.6	1.8
Hungary	-1.4	-1.1	0.5	-1.5	-2.5	-1.5	0.0	1.4	2.0
U.S.A. and Canada	-1.9	-2.3	0.6	-1.8	-2.3	-0.1	-0.1	0.6	0.7
Other countries	0.7	2.1	2.6	0.2	0.9	1.5	0.5	1.3	1.0
Total	-6.2	-2.0	5.5	-7.5	-8.7	-3.3	1.3	6.7	8.9

Source: OeNB.

Table 4.2

Income from Inward Direct Investment by Regions

	Foreign share of								
	Profit or loss for the year			Net profit or loss carried forward			Income for the year		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
	ATS billion								
EU-15 (excl. Germany)	5.5	2.4	2.5	-0.2	0.5	-2.9	5.6	1.8	5.4
Germany	11.9	12.6	11.8	2.9	2.0	2.8	9.0	10.6	9.0
Switzerland and Liechtenstein	1.1	0.9	1.0	-1.3	-0.8	-0.8	2.4	1.7	1.9
Eastern Europe (excl. Hungary)	- 0.2	- 0.1	- 0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0
Hungary	0.0	0.0	- 0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
U.S.A. and Canada	4.7	4.6	5.8	0.3	-0.2	-0.1	4.5	4.8	5.9
Other countries	- 1.0	- 0.7	2.5	-1.5	-0.8	-0.8	0.5	0.1	3.3
Total	22.0	19.7	23.4	-0.1	0.6	2.0	22.1	19.1	25.4

Source: OeNB.

Table 5.1

Performance Indicators of Outward Direct Investment

	1989	1993	1994	1995	1996	1997	1997	
							Age of the direct investment enterprises	
							<5 years	>=5 years
	%							
Total								
Return on equity								
Highest decile	70.2	31.9	35.7	42.9	52.5	53.1	45.4	60.3
Highest quartile	23.6	10.0	13.5	14.2	18.2	20.6	16.3	22.7
Median	3.7	0.0	0.7	1.0	3.1	4.5	1.6	6.8
Lowest quartile	0.0	-13.0	-10.2	- 9.2	- 5.1	- 4.6	- 8.3	- 0.8
Lowest decile	-27.1	-55.7	-52.2	-52.5	-34.6	-36.4	-48.2	-25.9
Equity ratio								
Highest decile	91.4	92.9	95.5	92.7	93.7	88.8	92.5	86.2
Highest quartile	55.7	68.1	68.4	63.2	62.4	59.5	61.7	57.8
Median	24.0	34.6	32.1	31.3	28.8	28.0	30.7	25.3
Lowest quartile	8.1	13.1	12.0	12.0	11.4	11.0	12.4	10.5
Lowest decile	0.4	3.6	2.6	2.4	1.3	2.1	3.7	1.3
Number of enterprises	839	1,495	1,617	1,718	1,810	1,942	925	1,017
Production sector¹⁾								
Return on sales								
Highest decile	11.6	10.8	10.9	9.5	12.0	12.7	10.9	14.7
Highest quartile	5.3	4.3	4.9	4.4	5.6	5.9	4.7	7.1
Median	1.1	0.0	0.6	0.6	1.3	1.4	0.7	2.0
Lowest quartile	- 1.2	- 7.2	- 4.8	- 3.7	- 1.8	- 1.8	- 4.7	0.0
Lowest decile	-15.4	-39.3	-27.0	-22.6	-20.7	-15.9	-25.4	- 7.0
	ATS million							
Output								
Highest decile	6.6	5.2	4.7	5.6	4.6	5.1	3.9	7.0
Highest quartile	3.0	2.5	2.4	2.5	2.5	2.6	2.2	3.3
Median	1.5	1.1	1.1	1.1	1.2	1.2	0.9	1.7
Lowest quartile	0.6	0.4	0.4	0.4	0.5	0.5	0.4	0.6
Lowest decile	0.0	0.1	0.2	0.1	0.2	0.2	0.1	0.3
Number of enterprises	272	526	581	621	768	826	416	410

Source: OeNB.

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

Table 5.2

Performance Indicators of Inward Direct Investment									
	1989	1993	1994	1995	1996	1997	1997		
								Age of the direct investment enterprises	
								<5 years	>=5 years
	%								
Total									
Return on equity									
Highest decile	72.2	54.8	79.4	81.5	65.8	67.3	60.0	72.9	
Highest quartile	30.0	19.0	26.7	27.1	22.6	23.3	15.7	26.0	
Median	7.6	3.5	5.6	5.9	4.2	4.7	0.0	6.3	
Lowest quartile	- 0.8	- 7.2	- 4.0	- 2.8	- 5.6	- 4.2	-27.5	- 0.1	
Lowest decile	-40.0	-55.6	-49.9	-50.0	-50.7	-50.0	-90.4	0.4	
Equity ratio									
Highest decile	67.5	74.2	72.2	74.6	77.6	79.6	96.7	72.5	
Highest quartile	38.6	45.0	44.4	45.2	47.1	46.9	54.8	45.5	
Median	20.0	22.5	21.5	22.7	23.4	23.6	21.5	24.3	
Lowest quartile	7.9	8.1	7.6	7.6	7.5	7.4	6.0	8.0	
Lowest decile	0.7	- 5.3	- 6.3	- 6.4	- 7.5	- 9.9	-11.7	- 8.4	
Number of enterprises	2,187	2,205	2,205	2,262	2,362	2,464	602	1,862	
Production sector¹⁾									
Return on sales									
Highest decile	8.5	8.7	12.2	12.8	12.5	11.8	7.6	12.8	
Highest quartile	4.8	4.0	6.3	6.0	5.6	6.4	2.6	6.6	
Median	1.8	1.2	2.1	1.7	1.3	1.7	0.3	2.3	
Lowest quartile	0.0	- 1.6	- 0.9	- 1.2	- 1.2	- 0.1	- 7.6	0.0	
Lowest decile	- 6.1	- 9.7	- 7.3	- 8.3	-11.3	- 8.4	-34.1	- 4.8	
	ATS million								
Output									
Highest decile	3.7	4.4	4.7	4.8	5.0	5.4	6.6	5.2	
Highest quartile	2.1	2.5	2.9	3.0	3.0	3.2	3.2	3.2	
Median	1.4	1.7	1.8	2.0	2.0	2.2	2.2	2.2	
Lowest quartile	0.9	1.2	1.2	1.3	1.4	1.5	1.4	1.5	
Lowest decile	0.6	0.8	0.9	1.0	0.9	1.0	1.0	1.1	
Number of enterprises	575	543	549	548	682	679	135	544	

Source: OeNB.

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

Table 6

Direct Investment and Employment					
	1990	1994	1995	1996	1997
<i>1,000 persons</i>					
Outward direct investment					
Employed in Austria					
by Austrian direct investors	260.8	353.9	346.6	284.0	269.1
Manufacturing	x	181.6	173.2	177.2	162.7
Services	x	172.3	173.4	106.8	106.4
%					
Share of total employment	8.9	11.5	11.3	9.3	8.8
Manufacturing	x	17.7	18.3	19.2	17.6
Services	x	9.0	8.7	5.3	5.3
<i>1,000 persons</i>					
Employed abroad ¹⁾ by Austrian direct investment enterprises	43.6	106.1	125.0	135.4	161.4
Manufacturing	x	71.9	83.6	88.4	100.6
Services	x	34.2	41.4	47.1	60.8
<i>Ratio of foreign to domestic employment</i>	17	30	36	48	60
Manufacturing	x	40	48	50	62
Services	x	20	24	44	57
Employment ¹⁾ by target country/region					
EU-11 (excl. Germany)	6.0	10.3	11.7	12.8	12.5
Germany	16.1	19.9	21.1	23.8	23.7
Other EU countries	2.0	2.2	2.8	2.5	3.2
Switzerland and Liechtenstein	2.3	1.6	2.4	2.5	2.5
Eastern Europe (excl. Hungary)	3.3	25.9	33.9	39.4	54.5
Hungary	7.5	39.2	44.2	46.0	51.7
U.S.A. and Canada	3.9	3.0	3.2	2.8	6.3
Other countries	2.7	3.9	5.7	5.7	6.9
Inward direct investment					
Employed ¹⁾ by inward direct investment enterprises in Austria	235.8	204.7	207.7	211.7	211.5
Manufacturing	x	115.6	116.3	118.9	117.2
Services	x	89.1	91.4	92.9	94.3
%					
Share of total employment	8.1	6.7	6.8	6.9	6.9
Manufacturing	x	11.3	12.3	12.9	12.7
Services	x	4.6	4.6	4.6	4.7

Source: OeNB.

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

Table 7

Exports and Imports of Internationally Linked Austrian Enterprises

	Total exports			Exports acc. to foreign trade statistics	Share of total exports in percent		
	Direct investors in Austria	Direct investment enterprises in Austria	Adjusted total		Direct investors in Austria	Direct investment enterprises in Austria	Adjusted total
	ATS million				%		
1990	131,734	102,449	207,654	466,067	28	22	45
1991	142,962	145,054	248,408	479,029	30	30	52
1992	140,115	159,360	254,450	487,558	29	33	52
1993	160,488	164,176	269,250	467,171	34	35	58
1994	184,261	189,130	299,122	512,515	36	37	58
1995	208,734	199,812	327,157	580,014	36	34	56
1996	235,534	215,870	350,716	612,190	38	35	57
1997	240,435	239,090	381,871	715,016	34	33	53

	Total imports			Imports acc. to foreign trade statistics	Share of total imports in percent		
	Direct investors in Austria	Direct investment enterprises in Austria	Adjusted total		Direct investors in Austria	Direct investment enterprises in Austria	Adjusted total
	ATS million				%		
1990	65,918	155,211	198,678	556,234	12	28	36
1991	90,841	195,198	247,893	591,898	15	33	42
1992	98,081	198,096	246,575	593,923	17	33	42
1993	105,932	203,070	257,714	564,909	19	36	46
1994	121,004	234,882	280,423	628,878	19	37	45
1995	129,675	245,252	297,440	668,031	19	37	45
1996	165,799	266,332	332,671	712,760	23	37	47
1997	172,749	296,289	365,770	790,251	22	37	46

Source: OeNB.

Table 8

Austrian Enterprises' Intragroup Trade

	Intragroup exports			Share of enterprise exports			Share of Austrian exports		
	Direct investors in Austria to direct investment enterprise	Direct investment enterprise in Austria to group	Intragroup	Direct investors in Austria to direct investment enterprise	Direct investment enterprise in Austria to group	Intragroup	Direct investors in Austria to direct investment enterprise	Direct investment enterprise in Austria to group	Intragroup
	ATS million			%					
1990	14,956	31,011	45,967	11	30	22	3	7	10
1991	15,642	60,806	76,448	11	42	31	3	13	16
1992	20,032	61,840	81,872	14	39	32	4	13	17
1993	20,949	66,634	87,583	13	41	33	4	14	19
1994	23,351	82,598	105,949	13	44	35	5	16	21
1995	27,390	92,791	120,180	13	46	37	5	16	21
1996	28,839	100,692	129,531	12	47	37	5	16	21
1997	28,499	113,653	142,152	12	48	37	4	16	20

	Intragroup imports			Share of enterprise imports			Share of Austrian imports		
	Direct investors in Austria from direct investment enterprise	Direct investment enterprise from group	Intragroup	Direct investors in Austria from direct investment enterprise	Direct investment enterprise from group	Intragroup	Direct investors in Austria from direct investment enterprise	Direct investment enterprise from group	Intragroup
	ATS million			%					
1990	6,006	81,032	87,037	9	52	44	1	15	16
1991	3,850	102,805	106,654	4	53	43	1	17	18
1992	5,789	103,497	109,287	6	52	44	1	17	18
1993	6,094	107,048	113,142	6	53	44	1	19	20
1994	8,012	121,320	129,332	7	52	46	1	19	21
1995	8,361	131,928	140,289	6	54	47	1	20	21
1996	12,908	141,650	154,558	8	53	46	2	20	22
1997	15,460	158,973	174,434	9	54	48	2	20	22

Source: OeNB.

S T U D I E S

1997 Coordinated Portfolio Investment Survey – Outcome of the First Global Measurement of Regionally Allocated Securities Holdings Conducted in the Framework of an IMF Statistical Project¹⁾

Michael Andreasch

I Purpose and Scope of the Coordinated Survey

The Coordinated Portfolio Investment Survey (CPIS, Coordinated Survey) which was compiled under the auspices of the IMF to measure securities holdings at the year-end 1997 had its origins in a recommendation set forth in the Final Report of the IMF Working Party on the Measurement of International Capital Flows published in 1992. The objectives of the Coordinated Survey are twofold: (i) to collect comprehensive information, with geographical detail, on the stock of securities held by the individual countries and (ii) to reconcile global imbalances in portfolio investment assets and liabilities. The global discrepancy in financial asset and liability flows is derived from the fact that creditor countries' capital exports related to investments in nonresident securities fall pronouncedly short of the capital imports reported by the debtor countries.²⁾

In 1994, a representative group³⁾ of national collectors and compilers of balance of payments and international investment position data was constituted and began to make preparations for the Coordinated Survey. This task force drew up detailed specifications conforming to the concepts and definitions set out in the fifth edition of the IMF Balance of Payments Manual (BPM5) and proposed compilation methods. The latter were published in the IMF Coordinated Portfolio Investment Survey Guide of August 1996, which was to provide guidance for compilers of any country embarking on the Coordinated Survey. The CPIS was to capture the nonresident securities held by the respondent countries (taking account of the external assets of all domestic economic sectors) from each of the issuing countries whose securities were held by any reporting country as at the December 31, 1997, reference date. Securities were to be valued at market prices. As many countries collected and compiled such statistical data for the first time, for practical reasons the survey was to cover only the categories *equity securities* and *long-term debt securities* (bonds and notes excluding money market paper) and did not include a currency breakdown.

As at December 31, 1997, 29 countries participated in the CPIS, with all principal investing nations represented except for Germany, Switzerland, Luxembourg and a number of offshore financial centers. In light of this broad participation, it was for the first time possible to draw up international portfolio investment statistics and carry out a regional analysis.

1 This analysis, which is based on the report released by the International Monetary Fund (IMF) in January 2000, looks into nonresident portfolio holdings from the perspective of Austria.

2 According to the IMF, from 1991 to 1997 unreported capital exports, i.e. the cumulated discrepancy between transactions on the asset side (cross-border investments by creditor countries) and on the liabilities side (securities sold abroad by issuing countries) amounted to approximately USD 520 billion.

3 Members of the task force: Ms. Laliberté (chair, Canada), Ms. Dunlup (Australia), Mr. Andreasch (Austria), Ms. Donkers, Mr. Melis (Belgium), Mr. Carbonneau (Canada), Mr. Schweitzer (France), Mr. Seiler (Germany), Mr. Loi (Italy), Ms. Tanaka, Mr. Isaki (Japan), Mr. Sparling (Netherlands), Mr. Blomberg (Sweden), Ms. Lakin, Mr. Sabine (United Kingdom), Mr. Grier, Mr. Scholl (U.S.A.), Mr. Widera (BIS), Ms. Kruse (ECB), Ms. Bertrand (OECD), Mr. Heath, Mr. Motala (IMF).

2 Results of the Coordinated Survey

The following section deals with the consolidated outcome of the survey data released by the IMF in November 1999. At the December 31, 1997, cut-off date, the market value of nonresident securities held by the 29 participating countries amounted to approximately ATS 66,200 billion (EUR 4,810 billion). As was to be expected, the U.S.A., the United Kingdom and Japan accounted for the largest holdings of equity and long-term debt securities, i.e. close to 70% of the total volume. The market value of the securities held by investors residing in the EU countries that participated in the Coordinated Survey¹⁾ came to ATS 28,140 billion (43%) at year-end 1997, with slightly less than half attributable to euro area investors.

Analyzing the ratios of nonresident securities holdings to GDP of the participating countries produced the following result. At over 60%, Bermuda, Ireland, the UK, the Netherlands and Belgium registered the highest ratios, while the values recorded by ten respondent countries, including the U.S.A., France and Italy as well as Denmark and Austria, each lay within the 20% to 30% range. At 25%, the average ratio shows that the participating countries as a whole played a significant role in global cross-border investment. The GDP ratio may be considered as a measure of the value added through factor income on outward investment, which is greatly influenced by large holdings of nonresident issues. At the same time, this ratio also serves as an indicator of the internationalization degree of portfolio assets.

The Coordinated Survey also looked at the distribution of stocks of nonresident securities by the two types of securities reported. On balance, the participating countries invested more or less equally in equities and long-term debt securities, with the individual shares of the investing nations differing quite substantially. Investors residing in the United States, for instance, held nearly 70% of total cross-border assets in equities, which contrasts with their Japanese counterparts' share of close to 20% in this category. Investment behavior naturally impacted the regional distribution of the portfolio.

When analyzing the overall survey results, it has to be borne in mind that a few major European countries did not participate in this statistical project. Besides, a number of countries decided not to include their nonresident securities holdings related to reserve assets in the total stock reported, which made it necessary to obtain additional data and to draw up estimates.

The IMF, for instance, gleaned data from the Bank for International Settlements (BIS) statistics on banks' holdings and integrated them as a separate category in the regional breakdown of the CPIS. This way it was at least possible to factor in banks' holdings of the countries that did not participate in the Coordinated Survey, i.e. Germany, Luxembourg, Switzerland and Hong Kong SAR.²⁾ As at the cut-off date, banks' holdings

1 All EU Member States except Germany, Greece and Luxembourg.

2 As of July 1, 1997, Special Administrative Region of the People's Republic of China.

in these countries totaled ATS 3,070 billion. Considering the assets of all economic sectors, on the basis of international statistical statements (available for Germany and Switzerland) and of OeNB estimates in the case of Luxembourg (see chapter 4 CPIS Result for Austria), cross-border portfolio assets of these countries added up to ATS 15,400 billion.

Table 1

Total Portfolio Investment in Cross-Border Securities in the 1997 CPIS

End of period 1997	Cross-border securities			Share of equities in cross-border securities	Share of participating country in CPIS total	Share of cross-border securities in relation to GDP
	equity securities	long-term debt securities	total			
	Market value in ATS billion			%		
Country participating in CPIS						
Argentina	127	228	355	35.9	0.5	9.6
Australia	415	94	509	81.5	0.8	9.9
Austria	145	498	643	22.6	1.0	24.7
Belgium	819	1,095	1,914	42.8	2.9	62.1
Bermuda	592	1,048	1,640	36.1	2.5	7,035.8
Canada	1,338	221	1,559	85.8	2.4	19.6
Chile	5	2	7	73.8	0.0	0.7
Denmark	275	270	544	50.5	0.8	24.1
Finland	39	99	139	28.5	0.2	9.0
France	1,258	2,602	3,860	32.6	5.8	21.7
Iceland	5	1	6	82.7	0.0	6.2
Indonesia	0	9	9	3.5	0.0	0.3
Ireland	461	747	1,208	38.2	1.8	130.6
Israel	13	27	40	33.3	0.1	3.2
Italy	950	2,176	3,126	30.4	4.7	21.6
Japan	2,006	8,997	11,002	18.2	16.6	20.7
Korea	12	102	115	10.7	0.2	2.1
Malaysia	17	4	22	79.9	0.0	1.8
Netherlands	1,608	1,458	3,066	52.4	4.6	67.3
New Zealand	63	18	81	77.6	0.1	9.9
Norway	117	321	438	26.8	0.7	22.6
Portugal	60	179	239	25.2	0.4	18.6
Singapore	205	57	262	78.2	0.4	21.6
Spain	282	313	595	47.4	0.9	8.8
Sweden	662	208	869	76.1	1.3	30.2
Thailand	3	1	3	84.5	0.0	0.2
United Kingdom	5,831	6,106	11,937	48.8	18.0	71.8
U.S.A.	15,127	6,858	21,986	68.8	33.2	21.5
Venezuela	0	30	31	1.5	0.0	2.7
CPIS total	32,438	33,768	66,206	49.0	100.0	x
thereof: EU-15 ¹⁾	12,391	15,750	28,141	44.0	42.5	x
EU-11 ¹⁾	5,624	9,166	14,790	38.0	22.3	x
Additional data						
BIS banking statistics ²⁾	x	3,068	3,068	x	x	x
SEFER survey ³⁾	0	6,394	6,394	100.0	x	x
CPIS total including additional data	x	43,230	75,668	x	x	x
Memorandum item:						
Germany	2,978	3,134	6,112	48.7	x	22.9
Luxembourg	1,471	3,009	4,479	32.8	x	2,160.9
Switzerland	2,077	2,730	4,807	43.2	x	148.6

Source: IMF (CPIS, BOPSY), OeNB.

¹⁾ Exclusive of Germany and Luxembourg.

²⁾ Germany, Luxembourg, Switzerland and Hong Kong SAR.

³⁾ Reserve assets of 38 countries.

As not all countries reported the regional distribution of their portfolio asset holdings from reserve asset investments for use in the CPIS, the IMF conducted the Survey of Country Distribution of Long-Term Securities

Held as Foreign Exchange Reserve Assets (SEFER)¹⁾ to supplement the CPIS data. The additional data allow for a diversification by issuing country, but not by creditor country, with this lack of attributability leading to an understatement of the individual creditor countries' claims. Total portfolio holdings reported by the countries participating in the SEFER survey ran to ATS 6.4 trillion as at December 31, 1997.

3 Analysis of the Geographically Allocated Securities Holdings

The geographic attribution of the portfolio asset holdings of the countries participating in the 1997 CPIS reveals a number of patterns in the investment policies pursued by the investing countries up to the reference date of end-December 1997 (see tables 4 to 9):

- The countries targeted for outward investment were above all major industrial countries, all of which have deep and liquid capital markets. Apart from that, debt securities of international organizations played a significant role in the investment policies of a few creditor countries.²⁾ The Cayman Islands, an important financial hub, ranked among the first ten destinations for outward investment. Luxembourg was also included in this list of countries by merit of its status as an issuer of mutual funds shares. The holdings of debt securities of the participating countries (including the results of the SEFER survey as well as the banks' holdings of debt securities recorded by the BIS banking statistics) from the ten major issuing countries amounted to slightly less than 75% of total holdings.
- Regional aspects related to the country of residence of the creditor also influenced which countries were sought out for outward investment. For one thing, it was observed that proximity and economic interlinkages were determining factors in regional portfolio decisions. This, by extension, applies to countries which record sizeable mutual direct investments. Canada and the U.S.A. were a case in point: 52% of Canada's holdings of nonresident portfolio assets consisted of U.S. securities, while 67% of all Canadian securities owned by nonresidents were held by U.S. investors.
- In addition, regional clusters manifested themselves within the CPIS countries, which also had to do with preferences for particular financing instruments:

Long-term debt securities issued by EU countries accounted for 52% of EU creditor countries' total holdings of bonds and notes (ATS 15,750 billion). A similar percentage was registered by American investors, who owned 44% of total external assets (ATS 8,400 billion) in debt securities issued by Americans. Asia Pacific invested equally in EU and American issues, with nonresident portfolio investment assets totaling ATS 9,300 billion.

1 This survey contains long-term securities held as foreign exchange reserve assets by 38 countries.

2 The portfolio holdings of Italy and Japan amounted to close to half of participating countries' total investment volume in nonresident securities issued by international organizations.

Table 2

The Top Ten Issuing Countries					
in terms of total holding by CPIS countries/country groups					
End of period 1997	Equity securities	Share of issuing country in CPIS total	End of period 1997	Long-term debt securities	Share of issuing country in CPIS total
	Market value in ATS billion	%		Market value in ATS billion	%
Canada	1,031	3.2	Canada	2,250	5.2
France	2,062	6.4	Cayman Islands	1,189	2.7
Germany	1,807	5.6	France	1,328	3.1
Italy	981	3.0	Germany	5,155	12.0
Japan	3,055	9.4	Italy	2,054	4.8
Luxembourg	1,332	4.1	Japan	1,830	4.2
Netherlands	2,077	6.4	Netherlands	1,476	3.4
Switzerland	1,601	4.9	United Kingdom	2,936	6.8
United Kingdom	3,966	12.2	U.S.A.	11,197	26.2
U.S.A.	5,402	16.7	Intern. organizations	2,194	5.1
Top ten	23,314	71.9	Top ten	31,607	73.5

Source: IMF.

As regards the *equities* portfolio, the EU creditor countries held 47% of the total of ATS 12,400 billion of nonresident equities issued within the EU. In the same vein, 50% of American investors' total holdings on the order of ATS 17,200 billion were accounted for by securities launched by EU issuers. By contrast, 52% of the external assets (ATS 2,700 billion) of Asian-Pacific creditors were invested in America. Underlying a great many portfolio investment decisions was the axis U.S.A. – United Kingdom – Japan.

- The external assets and liabilities accumulated by individual offshore financial centers were noteworthy as well, as was illustrated in particular by the data reported on Bermuda (asset side) and the Cayman Islands (liabilities side). Owing to the Financial Service Center established in Dublin, Ireland was in a similar position on the asset side.
- The capital markets of Central and Eastern European Countries (CEECs) were not tapped significantly up until the reference date of December 31, 1997; less than 1% of total holdings of all participating countries was attributable to securities issued by the CEECs.
- The central banks of the 38 countries responding to the SEFER survey held long-term debt securities of ATS 6,400 billion (market value), with a clear majority, namely 64%, centering on the U.S.A. and, as such, on U.S. dollar-denominated holdings. German, French, British and Japanese securities figured prominently as well.

Approximately 70% of the EU countries' total external liabilities in long-term debt securities as at the end-December 1997 cut-off were to countries that participated in the CPIS, BIS and SEFER surveys, with the same percentage applying to the euro area. Coverage of Canada was about as high, while it was lower for the U.S.A. (45%) and Japan (59%). In terms of outstanding total issues of the EU/euro area countries, the countries participating in the CPIS, BIS and SEFER surveys held about 17% of the debt securities floated by the EU or euro area Member States. Around 7%

of the outstanding volume of U.S. securities were held by the countries which participated in the CPIS, BIS and SEFER surveys.

4 CPIS Result for Austria

4.1 Austria's external assets

As at the reference date, Austria's external claims arising from equities and long-term debt securities amounted to a total of ATS 643 billion, around 1% of the external claims of all countries participating in the Coordinated Survey. This placed Austria among the top 15 investing countries (see tables 1 and 10).

According to these figures, Austria's external assets in equities and long-term debt securities came to approximately 25% of GDP, which corresponded to the average value recorded for CPIS participants and put Austria in a league with France, Italy, Japan and the U.S.A. as well as the Scandinavian countries. Austrian securities holdings are therefore marked by a high degree of internationalization.

Equities accounted for a mere 23% of total Austrian nonresident securities holdings. Finland, Norway and Portugal pursued similar investment policies.

Austria's holdings of *nonresident long-term debt securities* with a market value of about ATS 500 billion matched the euro area average in their geographic attribution.¹⁾ The regional allocation of portfolio investment observed for Austria closely resembled that of France (see table 5). Cross-border portfolio investments centered on the euro area (45%), with holdings of German securities particularly sizeable (ATS 152 billion). At end-December 1997, Austria's portfolio of American issuers' securities stood at ATS 127 billion, with U.S. issuers accounting for the lion's share (ATS 85 billion).

The regional breakdown of *nonresident equities by issuing country* showed a pattern which largely conformed to that observed for euro area long-term debt securities, with the greatest shares attributable to German and U.S. equities (ATS 30 billion and ATS 27 billion, respectively). The regional breakdown was most similar to that observed in Portugal (see table 8). Moreover, domestic investors held shares of Luxembourg mutual funds to the tune of ATS 24 billion.

4.2 Austria's external liabilities

In terms of total portfolio holdings reported by CPIS participants including the claims contained in the BIS and SEFER surveys, the claims on Austria represented less than 1% (see tables 1 and 10).

40% of *Austria's external liabilities from long-term debt securities* corresponded to claims of the countries responding to the CPIS, BIS and SEFER surveys, a third of which stemmed from euro area Member States. In terms of the total outstanding volume of Austrian debt securities, the share came

¹ Compared to the euro area average, Austria's investments in Eastern Europe were above average; with regard to securities issued by international organizations, Austria's holdings were, by contrast, below average given the predominance of Italian investors in this category.

to 15%, which reflected the euro area average. France, the Netherlands, the United Kingdom and the U.S.A. accounted for the largest portfolio holdings. A comparison of creditor countries and the respective currencies in which issues were denominated revealed the following picture for the major creditor nations: The Netherlands, France and Japan held nearly as many securities as Austria launched and sold abroad in the respective national currencies. The holdings of Austrian securities in Canada and the U.S.A. were significantly smaller, even though Austria floated sizeable issues in both U.S. and Canadian dollars. In this context, one has to bear in mind Canadian and U.S. investors' preference for equities when opting for nonresident securities. In addition, both Canadian and U.S. investors tend to place money in Austrian long-term debt securities denominated in their domestic currencies.

U.S. and British investors held the largest shares of *Austrian equities held by nonresidents*.

5 Result of the OeNB's Estimates on the Regional Breakdown of Portfolio Holdings in Germany, Luxembourg and Switzerland

The reasoning behind the OeNB's estimates was that the coverage of global external debt arising from securities was affected by the nonparticipation of key countries. Indeed, substantial gaps in reporting may have resulted from the fact that Germany, Luxembourg and Switzerland did not participate in the Coordinated Survey. As a consequence, the OeNB drew up estimates with a view to enhancing coverage for Austria in particular.

The global data released for Germany and Switzerland in the international investment positions of these two countries served as the starting point upon which the regional breakdown of nonresident securities holdings was to be based. As regards Luxembourg, cumulated balance of payments transactions of the past 20 years, which are only available jointly for Belgium and Luxembourg, were adjusted for valuation effects and the portfolio holdings reported by Belgium.¹⁾ Varying approaches were applied to the estimation of long-term debt securities and equities, since the data sources available were not uniform.

With *long-term debt securities*, the assumption was that there was not too big a difference between nonbanks and banks in the countries in question. To lend substance to this thesis, the correspondence between the regional breakdown of banks' and of nonbanks' holdings as at the reference date of December 31, 1997, was researched for all countries which had both participated in the CPIS and reported banks' securities holdings to the BIS.

This comparison attested to a relatively high degree of conformity in investment policies. A cross-check served to establish the degree of agreement between the regional breakdown of investments by nonbanks

¹ Source: *Balance of Payments Statistical Yearbook*; IMF. Even upon consultation of the Belgian central bank, it was not possible to extract the claims Belgium has on Luxembourg and vice versa, which will likely distort the overall outcome to an extent which cannot be quantified.

Table 3

Regional Breakdown by Group of Issuing Countries		
End of period 1997	Countries which participated in the CPIS and whose banks reported to the BIS	
	Regional breakdown (CPIS)	Regional breakdown (BIS banking statistics)
	Distribution in percentage points	
EU-15	47.7	47.3
<i>thereof euro area</i>	35.8	40.3
Other European countries	2.5	2.4
America	34.6	36.7
Asia Pacific	7.4	8.6
African and other countries	0.4	0.2
International organizations	6.8	3.9
Unclassified	0.6	1.0
<i>Memorandum item: top ten issuing countries</i>	74.8	74.8

Source: IMF (CPIS), BIS (holdings of long-term international securities of reporting banks).

from Germany, Luxembourg and Switzerland and the countries participating in the Coordinated Survey.

The two exercises revealed a high degree of conformity in investment policies pursued by nonbanks in Germany, Luxembourg and Switzerland both in terms of the regional distribution of banks' holdings in these three countries and in terms of the distribution recorded for the CPIS countries. This may be regarded as further evidence of the clear focus on the major issuing countries.

This estimate produced the following result for Austria's liabilities in long-term debt securities. As at December 31, 1997, these three countries' holdings of Austrian securities amounted to ATS 350 billion, or about 36% of all Austrian securities held by nonresidents. Much as in the case of the creditor countries France, the Netherlands and Japan, it turned out that German and Swiss investors owned a relatively large share of Austrian securities which were denominated in Deutsche mark and Swiss francs and were sold abroad.

To arrive at an estimate of the *regional breakdown of Austrian equities*, the regional allocation of two comparable country groups was – given the lack of detailed data – used for Germany, Switzerland and Luxembourg. The first such group comprised all CPIS countries, while the second group encompassed the European countries participating in the Coordinated Survey. Both calculations resulted in only slight differences as to the regional distribution by issuing country. The same approach was applied to the internationally operating mutual funds located in Luxembourg, given the lack of direct data on the regional investment policies with regard to long-term debt securities and equities.

According to the estimates, Germany, Luxembourg and Switzerland held Austrian equities to the amount of around ATS 77 billion, or 39% of all Austrian shares and mutual funds shares owned by nonresidents.

6 Outlook for CPIS Activities

Preliminary final results of the CPIS were presented to the IMF Balance of Payments Committee in October 1999 on the occasion of the committee's annual meeting. The following future activities were outlined:

- The CPIS is to be repeated for the reference date of December 31, 2001, and is to be conducted every three years.
- Short-term money market paper is to be covered as a separate category.
- Efforts are underway to convince more countries to participate in the Coordinated Survey and to enhance the analysis of data on cross-border assets of offshore centers.
- The SEFER survey is to be repeated in parallel to the CPIS.

Annex

Table 4

Investment in Long-Term Debt Securities Issued by Nonresidents**Holdings of CPIS countries/country groups****End of period 1997**

Groups of issuing countries	EU countries			America		Asia Pacific		Other countries				Total
	total ¹⁾	thereof euro area ²⁾	thereof Austria	total	thereof U.S.A.	total	thereof Japan	total	banks reporting to the BIS ³⁾	SEFER countries	other CPIS countries	
<i>Market value in ATS billion</i>												
EU-15 ¹⁾	8.174	5.159	295	2.634	2.405	3.742	3.689	3.139	1.274	1.676	189	17.689
thereof euro area ²⁾	6.529	3.946	225	1.573	1.438	2.435	2.408	2.500	1.027	1.356	116	13.036
Other European countries	477	162	23	267	228	176	160	76	54	21	1	997
America	4.386	2.138	127	3.690	2.768	4.233	4.116	4.756	424	4.232	101	17.066
Asia Pacific	1.170	378	23	1.226	1.149	752	652	868	538	292	38	4.017
African and other countries	77	12	1	84	87	6	15	7	4	4	0	174
International organizations	1.371	1.239	29	247	204	337	337	239	88	143	8	2.194
Unclassified	95	78	0	238	18	37	28	724	687	26	11	1.093
Total	15.750	9.166	498	8.387	6.858	9.282	8.997	9.810	3.068	6.394	349	43.230
Memorandum item: top ten issuing countries	11.668	6.860	381	4.997	3.900	6.957	6.789	7.985	1.609	6.105	271	31.607
<i>Share of CPIS countries/country groups' nonresident holdings by issuing country in %</i>												
EU-15 ¹⁾	51.9	56.3	59.2	31.4	35.1	40.3	41.0	32.0	41.5	26.2	54.3	40.9
thereof euro area ²⁾	41.5	43.1	45.2	18.7	21.0	26.2	26.8	25.5	33.5	21.2	33.2	30.2
Other European countries	3.0	1.8	4.6	3.2	3.3	1.9	1.8	0.8	1.7	0.3	0.3	2.3
America	27.8	23.3	25.4	44.0	40.4	45.6	45.7	48.5	13.8	66.2	28.9	39.5
Asia Pacific	7.4	4.1	4.7	14.6	16.8	8.1	7.2	8.8	17.5	4.6	11.0	9.3
African and other countries	0.5	0.1	0.3	1.0	1.3	0.1	0.2	0.1	0.1	0.1	0.0	0.4
International organizations	8.7	13.5	5.9	2.9	3.0	3.6	3.7	2.4	2.9	2.2	2.3	5.1
Unclassified	0.6	0.8	0.0	2.8	0.3	0.4	0.3	7.4	22.4	0.4	3.3	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item: top ten issuing countries	74.1	74.8	76.6	59.6	56.9	74.9	75.5	81.4	52.5	95.5	77.8	73.1
<i>Share of CPIS countries/country groups' holdings of individual countries' issues in %</i>												
EU-15 ¹⁾	46.2	29.2	1.7	14.9	13.6	21.2	20.9	17.7	7.2	9.5	1.1	100.0
thereof euro area ²⁾	50.1	30.3	1.7	12.1	11.0	18.7	18.5	19.2	7.9	10.4	0.9	100.0
Other European countries	47.9	16.3	2.3	26.8	22.9	17.7	16.1	7.6	5.4	2.1	0.1	100.0
America	25.7	12.5	0.7	21.6	16.2	24.8	24.1	27.9	2.5	24.8	0.6	100.0
Asia Pacific	29.1	9.4	0.6	30.5	28.6	18.7	16.2	21.6	13.4	7.3	1.0	100.0
African and other countries	44.2	6.8	0.8	48.3	49.7	3.3	8.6	4.2	2.1	2.2	0.0	100.0
International organizations	62.5	56.5	1.3	11.3	9.3	15.4	15.3	10.9	4.0	6.5	0.4	100.0
Unclassified	8.7	7.1	0.0	21.7	1.6	3.4	2.5	66.3	62.8	2.4	1.0	100.0
Total	36.4	21.2	1.2	19.4	15.9	21.5	20.8	22.7	7.1	14.8	0.8	100.0
Memorandum item: top ten issuing countries	36.9	21.7	1.2	15.8	12.3	22.0	21.5	25.3	5.1	19.3	0.9	100.0

Source: IMF.

¹⁾ Exclusive of Germany, Luxembourg and Greece.²⁾ Exclusive of Germany and Luxembourg.³⁾ Germany, Luxembourg, Switzerland and Hong Kong SAR.

Table 5

Investment in Long-Term Debt Securities Issued by Nonresidents**Holdings of EU CPIS countries****End of period 1997**

Groups of issuing countries	Euro area countries ¹⁾									Other EU countries ²⁾		
	Austria	Belgium	Finland	France	Ireland	Italy	Netherlands	Portugal	Spain	Denmark	Sweden	United Kingdom
<i>Market value in ATS billion</i>												
Euro area ¹⁾	225	643	28	1,158	317	423	994	76	82	135	83	2,365
Other EU countries ²⁾	70	92	31	363	193	228	138	20	78	57	35	340
Other European countries	23	18	3	37	9	49	17	3	3	12	7	296
America	127	254	15	677	188	544	221	59	52	46	71	2,130
Asia Pacific	23	58	7	192	19	27	46	2	2	9	9	772
African and other countries	1	2	0	5	1	3	1	2	1	0	0	67
International organizations	29	27	15	170	3	841	41	18	96	9	0	122
Unclassified	0	0	0	0	17	60	0	0	0	2	2	14
Total	498	1,095	99	2,602	747	2,176	1,458	180	313	270	208	6,106
<i>Memorandum item:</i>												
<i>top ten issuing countries</i>	<i>381</i>	<i>803</i>	<i>65</i>	<i>1,872</i>	<i>629</i>	<i>1,699</i>	<i>1,032</i>	<i>125</i>	<i>254</i>	<i>187</i>	<i>155</i>	<i>4,467</i>
<i>Share of CPIS countries/country groups' nonresident holdings by issuing country in %</i>												
Euro area ¹⁾	45.2	58.7	28.5	44.5	42.4	19.5	68.2	42.5	26.1	49.9	40.1	38.7
Other EU countries ²⁾	14.0	8.4	31.5	14.0	25.9	10.5	9.4	11.1	24.8	21.2	16.8	5.6
Other European countries	4.6	1.7	3.0	1.4	1.2	2.3	1.2	1.5	1.0	4.4	3.5	4.8
America	25.4	23.2	15.4	26.0	25.2	25.0	15.1	33.0	16.7	17.2	34.3	34.9
Asia Pacific	4.7	5.3	6.8	7.4	2.6	1.2	3.1	1.3	0.5	3.2	4.4	12.6
African and other countries	0.3	0.2	0.1	0.2	0.1	0.2	0.1	0.9	0.3	0.0	0.0	1.1
International organizations	5.9	2.5	14.7	6.5	0.5	38.6	2.8	9.8	30.6	3.5	0.1	2.0
Unclassified	0.0	0.0	0.0	0.0	2.2	2.8	0.0	0.0	0.0	0.6	0.7	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Memorandum item:</i>												
<i>top ten issuing countries</i>	<i>76.6</i>	<i>73.3</i>	<i>65.3</i>	<i>71.9</i>	<i>84.2</i>	<i>78.1</i>	<i>70.8</i>	<i>69.8</i>	<i>81.1</i>	<i>69.4</i>	<i>74.4</i>	<i>73.2</i>

Source: IMF.

¹⁾ Exclusive of Germany and Luxembourg.²⁾ Exclusive of Greece.

Table 6

Investment in Long-Term Debt Securities Issued by Nonresidents

Holdings of CPIS countries/country groups

End of period 1997

The top ten issuing countries in terms of total holdings of all CPIS countries

	EU countries ¹⁾			America		Asia Pacific		Other countries				Total	Share of the issuing country, total
	total	thereof euro area ²⁾	thereof Austria	total	thereof U.S.A.	total	thereof Japan	total	banks reporting to the BIS ³⁾	SEFER countries	other CPIS countries		
	Market value in ATS billion											%	
Canada	357	188	12	1,379	1,338	341	338	172	82	78	12	2,250	5.2
Cayman Islands	321	216	4	174	171	643	640	51	51	0	0	1,189	2.7
France	496	246	13	204	185	252	249	376	158	196	22	1,328	3.1
Germany	2,774	1,874	152	592	545	741	728	1,048	0	979	69	5,155	12.0
Italy	1,177	313	17	239	221	224	220	415	361	46	8	2,054	4.8
Japan	738	224	3	413	381	18	0	661	383	244	34	1,830	4.2
Netherlands	586	434	23	180	165	472	470	238	188	46	3	1,476	3.4
United Kingdom	888	857	44	760	689	909	889	378	108	236	34	2,936	6.8
U.S.A.	2,961	1,267	85	809	0	3,011	2,919	4,417	192	4,137	88	11,197	26.2
International organizations	1,371	1,239	29	247	204	337	337	239	88	143	8	2,194	5.1
Top ten	11,668	6,860	381	4,997	3,900	6,948	6,789	7,994	1,609	6,105	279	31,607	73.5

Source: IMF.

¹⁾ Exclusive of Germany, Luxembourg and Greece.

²⁾ Exclusive of Germany and Luxembourg.

³⁾ Germany, Luxembourg, Switzerland and Hong Kong SAR.

Table 7

Investment in Equity Securities Issued by Nonresidents**Holdings of CPIS countries/country groups****End of period 1997**

Groups of issuing countries	EU countries ¹⁾			America		Asia Pacific		Other countries	Total
	total	thereof euro area ²⁾	thereof Austria	total	thereof U.S.A.	total	thereof Japan		
<i>Market value in ATS billion</i>									
EU-15 ¹⁾	5,790	3,054	85	8,514	8,034	816	602	71	15,192
thereof euro area ²⁾	4,782	2,366	73	4,961	4,694	417	334	32	10,191
Other European countries	828	370	16	1,250	1,179	95	73	4	2,177
America	3,575	1,628	36	3,689	2,581	1,436	1,189	47	8,746
Asia Pacific	2,035	517	7	3,384	3,131	354	135	7	5,780
African and other countries	47	22	0	169	197	2	2	0	218
International organizations	49	3	0	4	1	0	0	0	53
Unclassified	66	31	2	181	3	19	3	7	272
Total	12,391	5,624	145	17,190	15,127	2,722	2,006	135	32,438
Memorandum item: top ten issuing countries	9,567	4,658	122	11,429	9,900	2,226	1,729	92	23,314
<i>Share of CPIS countries/country groups' nonresident holdings by issuing countries in %</i>									
EU-15 ¹⁾	46.7	54.3	58.2	49.5	53.1	30.0	30.0	52.5	46.8
thereof euro area ²⁾	38.6	42.1	50.2	28.9	31.0	15.3	16.6	23.3	31.4
Other European countries	6.7	6.6	11.1	7.3	7.8	3.5	3.7	2.7	6.7
America	28.9	28.9	24.8	21.5	17.1	52.8	59.3	34.6	27.0
Asia Pacific	16.4	9.2	4.5	19.7	20.7	13.0	6.8	5.0	17.8
African and other countries	0.4	0.4	0.1	1.0	1.3	0.1	0.1	0.4	0.7
International organizations	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Unclassified	0.5	0.6	1.2	1.1	0.0	0.7	0.2	4.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item: top ten issuing countries	77.2	82.8	84.2	66.5	65.4	81.8	86.2	68.3	71.9
<i>Share of CPIS countries/country groups' holdings of individual countries' issues in %</i>									
EU-15 ¹⁾	38.1	20.1	0.6	56.0	52.9	5.4	4.0	0.5	100.0
thereof euro area ²⁾	46.9	23.2	0.7	48.7	46.1	4.1	3.3	0.3	100.0
Other European countries	38.0	17.0	0.7	57.4	54.2	4.3	3.4	0.2	100.0
America	40.9	18.6	0.4	42.2	29.5	16.4	13.6	0.5	100.0
Asia Pacific	35.2	8.9	0.1	58.5	54.2	6.1	2.3	0.1	100.0
African and other countries	21.4	10.1	0.1	77.3	90.1	1.0	1.0	0.2	100.0
International organizations	93.2	6.1	0.0	6.7	2.8	0.1	0.0	0.0	100.0
Unclassified	24.3	11.4	0.6	66.4	1.2	6.9	1.2	2.4	100.0
Total	38.2	17.3	0.4	53.0	46.6	8.4	6.2	0.4	100.0
Memorandum item: top ten issuing countries	41.0	20.0	0.5	49.0	42.5	9.5	7.4	0.4	100.0

Source: IMF.

¹⁾ Exclusive of Germany, Luxembourg and Greece.²⁾ Exclusive of Germany and Luxembourg.

Table 8

Investment in Equity Securities Issued by Nonresidents

Holdings of EU CPIS countries

End of period 1997

Groups of issuing countries	Euro area countries ¹⁾									Other EU countries ²⁾		
	Austria	Belgium	Finland	France	Ireland	Italy	Netherlands	Portugal	Spain	Denmark	Sweden	United Kingdom
<i>Market value in ATS billion</i>												
Euro area ¹⁾	73	687	14	491	64	512	364	32	129	88	270	2,057
Other EU countries ²⁾	12	34	12	135	136	78	248	4	29	59	69	193
Other European countries	16	15	3	130	30	58	99	2	17	27	52	380
America	36	63	6	383	146	184	688	16	106	63	214	1,669
Asia Pacific	7	17	4	103	71	96	208	5	2	30	52	1,436
African and other countries	0	2	0	14	2	6	2	2	0	0	2	22
International organizations	0	0	0	2	1	0	0	0	0	1	0	46
Unclassified	2	0	0	0	11	18	0	0	0	7	1	27
Total	145	819	39	1,258	461	950	1,608	61	282	275	662	5,831
<i>Memorandum item:</i>												
<i>top ten issuing countries</i>	122	752	27	1,000	377	752	1,341	44	243	204	568	4,137
<i>Share of CPIS countries/ country groups' holdings by issuing country in %</i>												
Euro area ¹⁾	50.2	83.9	34.9	39.0	13.8	53.9	22.6	53.3	45.6	32.0	40.8	35.3
Other EU countries ²⁾	7.9	4.2	31.3	10.8	29.4	8.2	15.4	6.4	10.2	21.3	10.5	3.3
Other European countries	11.1	1.8	8.3	10.3	6.5	6.1	6.1	3.1	6.0	9.7	7.9	6.5
America	24.8	7.7	14.3	30.4	31.7	19.3	42.8	25.5	37.6	23.0	32.4	28.6
Asia Pacific	4.5	2.1	10.7	8.2	15.4	10.1	12.9	8.8	0.5	11.0	7.9	24.6
African and other countries	0.1	0.3	0.2	1.1	0.5	0.6	0.1	2.9	0.1	0.1	0.4	0.4
International organizations	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.2	0.0	0.8
Unclassified	1.2	0.0	0.0	0.0	2.5	1.9	0.0	0.0	0.0	2.6	0.1	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Memorandum item:</i>												
<i>top ten issuing countries</i>	84.2	91.8	68.3	79.4	81.7	79.1	83.4	71.9	86.3	74.2	85.8	71.0

Source: IMF.

¹⁾ Exclusive of Germany and Luxembourg.

²⁾ Exclusive of Greece.

Table 9

Investment in Equity Securities Issued by Nonresidents

Holdings of CPIS countries/country groups

End of period 1997

The top ten issuing countries in terms of total holdings of all CPIS countries	EU countries ¹⁾			America		Asia Pacific		Other countries	Total	Share of the issuing country, total %
	total	thereof euro area ²⁾	thereof Austria	total	thereof U.S.A.	total	thereof Japan			
	<i>Market value in ATS billion</i>									
Canada	92	40	1	902	886	36	29	1	1,031	4.4
France	830	251	5	1,121	1,065	108	88	3	2,062	8.8
Germany	808	373	30	861	815	134	110	5	1,807	7.8
Italy	397	97	2	549	521	34	22	1	981	4.2
Japan	1,184	334	5	1,812	1,709	54	0	5	3,055	13.1
Luxembourg	1,220	1,077	24	75	65	27	24	10	1,332	5.7
Netherlands	615	265	9	1,403	1,339	56	45	3	2,077	8.9
Switzerland	689	330	11	822	776	87	70	3	1,601	6.9
United Kingdom	680	588	10	2,906	2,724	362	239	18	3,966	17.0
U.S.A.	3,052	1,304	27	978	0	1,329	1,101	43	5,402	23.2
Top ten issuing countries	9,567	4,658	122	11,429	9,900	2,226	1,729	92	23,314	100.0

Source: IMF.

¹⁾ Exclusive of Germany, Luxembourg and Greece.

²⁾ Exclusive of Germany and Luxembourg.

Table 10

Austria's Portfolio Assets and Liabilities**1997 CPIS results****End of period 1997**

	Austria's external assets			Austria's external liabilities		
	equity securities	long-term debt securities	total	equity securities	long-term debt securities	total
	<i>Market value in ATS billion</i>					
Total	145	498	643	198	989	1,186
	<i>Investment sectors</i>			<i>Issuing sectors</i>		
Economic sectors						
OeNB	0	97	97	0	0	0
Banks	16	153	168	32	400	432
Other financial corporations	66	168	233	104	2	105
General government	0	2	2	0	482	482
Nonfinancial corporations	19	25	43	62	105	167
Households	45	54	99	0	0	0
	<i>Issuing countries</i>			<i>Creditor countries</i>		
Regional breakdown						
Euro area	73	225	298	16	105	121
<i>thereof: Germany</i>	30	152	181	x	x	x
<i>France</i>	5	13	17	2	35	37
<i>Italy</i>	2	17	19	4	16	21
<i>Netherlands</i>	9	23	32	8	35	42
<i>Luxembourg</i>	24	1	25	x	x	x
Other EU-15 countries	12	70	81	19	53	72
<i>thereof: United Kingdom</i>	10	44	54	17	48	65
Other European countries	16	23	39	x	x	x
<i>thereof: Switzerland</i>	11	1	11	x	x	x
<i>CEECs</i>	5	20	25	x	x	x
America	36	127	163	50	30	79
<i>thereof: U.S.A.</i>	27	85	111	47	25	72
<i>Canada</i>	1	12	13	2	0	2
Asia Pacific	7	23	30	2	105	108
<i>thereof: Japan</i>	5	3	8	2	87	89
Other countries	0	1	2	0	30	30
International organizations	0	29	29	x	x	x
SEFER	x	x	x	0	15	15
Unclassified	2	0	2	111	651	762
Memorandum item: top ten	122	381	504	x	x	x
OeNB estimates for the creditor countries						
Germany	x	x	x	24	156	180
Luxembourg	x	x	x	5	44	48
Switzerland	x	x	x	6	95	101

Source: IMF (CPIS), OeNB (IIP, estimates).

Impact of the Recent Upturn in Crude Oil Prices on Inflation in Austria – A Comparison with Historic Supply Shocks

Manfred Fluch¹⁾

Crude oil prices have shown considerable volatility over the past 30 years. Since oil is a major production factor, this has had major repercussions on inflation, output growth, employment figures and wage increases.

Sharp increases in the price of production factors can trigger stagflation, as the two historic oil shocks have shown: In Austria, they dampened economic activity, put strong upward pressure on prices and wages, and worsened the current account balance. Last but not least, the era of full employment ended in the aftermath of the second oil price shock.

Given the recent upturn in crude oil prices, it is of interest whether a situation will reemerge that is reminiscent of the effects of the historic supply shocks. At the current juncture, projections of the medium- and long-term effects on the economy are difficult, since crude oil prices started to rise only a few months ago. It is, therefore, only the short-term impact that can be evaluated at present.

Such evaluation must, of course, take into account that the recent surge in oil prices is in fact a rebound. This notwithstanding, a noticeable deviation from the medium- and long-run equilibrium of the past few years has occurred (see chart 1). From January 1988 to August 1999, one ton of crude oil traded for ATS 1,615 on average. Between January 1995 and August 1999, the average import price was even as low as ATS 1,500 per ton. By July 1999, the import price per ton had climbed to almost ATS 1,800, and by August 1999 it was already close to ATS 2,000 per ton.

I Transmission of the Cost of Imported Raw Materials to Inflation

Inflation theory denotes a surge in the cost of imported raw materials as a case of cost-push inflation and as a case of imported inflation. In a small open economy, imported inflation adversely affects real economic output. Oil price hikes alter the international terms of trade: relative to the receipts from the export of goods and services, the cost of imported oil rises at a faster rate. If it is not possible to substitute oil by alternative energy products,²⁾ the economy experiences a negative supply shock: A bigger share of resources is needed to buy the required oil supply, while at the same time less output is generated to accommodate domestic demand.

In the past three decades the Austrian economy saw at times dramatic raw material and oil price spikes (the first oil price shock in the mid-1970s and the second oil price shock at the end of the 1970s/beginning of the 1980s). Besides surging oil prices a number of internal factors (mostly fiscal measures, such as VAT hikes and petroleum tax increases or the introduction of an energy tax) sparked inflationary pressures and triggered inflationary spurts. In 1996, both external factors (rising oil prices) and

¹⁾ The author is grateful to Ernest Gnan and Walpurga Köhler-Tögelhofer for helpful comments and discussions.

²⁾ Calculations by Kratena (1999) show that in Austria even the long-term price elasticity of oil is comparatively small. Kratena found the cross price elasticity of oil to be highest for coal. In other words, coal is a substitute for oil.

internal factors (introduction of an energy tax) fueled a temporary burst of inflation. By contrast, in 1986 and 1998 a downturn in oil prices noticeably alleviated the inflationary uptick.

In analyzing the effects of supply shocks, it is important to distinguish between direct (first-round) and indirect (second-round) effects. It is not easy to separate the two stages empirically, and the effects are hard to quantify. Empirical research on price effects is based on supply-output relationships in the production process and on the analysis of pass-through effects at the various trading levels. First-round effects are defined as a direct pass-through of increases in the cost of imported production materials to the cost of domestic production. An important element of indirect transmission are the price elasticities of supply and demand and the responsiveness of wages to changes in the price level. Second-round effects are, in addition, caused by price increases of nonenergy import goods, i.e. goods which have become more expensive to produce even abroad because of higher energy prices.

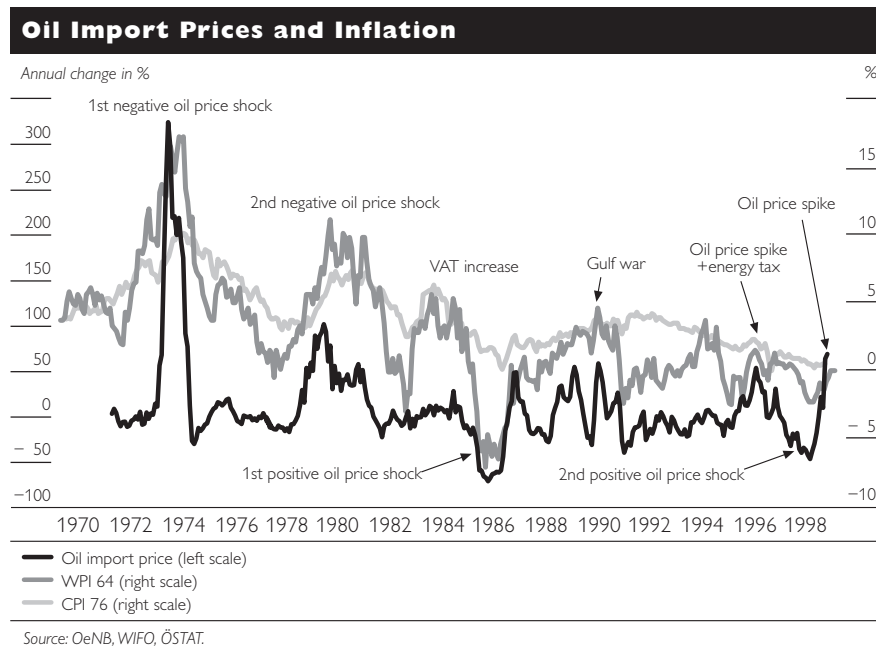
In the case of crude oil, the margin between changes in raw material prices and final consumer prices is also affected by a number of other factors, such as fiscal influences (taxes), transportation costs, market structures, competition and price rigidities. On the one hand, this explains to a certain extent why the pass-through of crude oil price changes to the CPI components which are sensitive to oil and raw material prices (gasoline, diesel and heating oil) is not complete.¹⁾ On the other hand, oligopolistic market structures imply that oil-processing industries will use sinking oil prices to increase their profit margins or will strive to pass on oil price hikes to their customers – at times disproportionately so. Since the short-term price elasticity of demand for energy (in particular for oil products)²⁾ is very small, companies have considerable scope for raising the prices of the final goods.

The aim of this analysis is to determine in a first step what role energy in general and oil in particular play as a production factor. In a second step, the effects of a price rise, such as crude oil price increases, on the various inflation indicators are looked into. A comparison of the effects of current price increases with changes in the aftermath of the two historic oil crises wraps up the analysis.

1 *Calculations by Puwein and Wüger (1999) show the net price of high-octane gasoline (Superbenzin) to have had a price elasticity of roughly 0.3 relative to crude oil prices over the 1985 to 1999 period in Austria. This compares with a ratio of 0.5 for Germany. In other words, one third (or half in Germany) of the crude oil price hike fed through to the net price of high-octane gasoline. The fact that the elasticity was lower in Austria than in Germany means that in Austria the cost of crude oil was only half as significant as in Germany for the pricing of high-octane gasoline. In other words, in Austria the net price is influenced to a much larger extent by other factors (e.g. profit margin, other costs). Calculations by Gräf and Preischl (1999) revealed an even lower elasticity for the CPI energy components to oil price changes, namely 0.1 (compared with 0.25 for the U.S.A.).*

2 *For more details see Kratena (1999).*

Chart 1



2 Energy as a Production Factor – Structural Changes

To determine the relevance of energy as a production factor, its cost and consumption patterns have to be examined in a first step. Since crude oil price increases feed through to the prices of all other imported energy resources (and even domestically produced energy) – albeit by different degrees and at divergent paces –, our analysis focused on the significance of the input factor energy for the whole of the economy. This analysis has revealed a significant structural change from the 1970s and early 1980s. The 1990s – the age of high technology and energy-saving production processes – have seen an increased decoupling of energy demand from economic growth.¹⁾

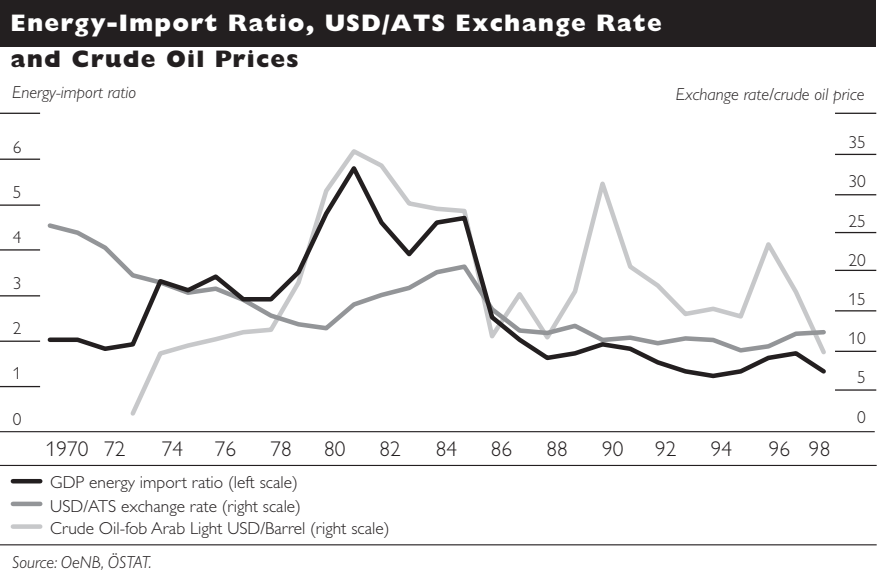
2.1 Development of Energy Imports

In the three decades since 1970, Austria's dependency on imported energy has dropped notably. In 1998 the import ratio (nominal energy imports in % of GDP) for energy products was approximately 1½%²⁾ (see left scale of chart 2). By contrast, in the first half of the 1970s, during the first oil crisis, the energy import ratio had been between 3 and 4%. At the beginning of the 1980s, it had even risen to between 4 and 6%, which was an historic high. What is more, the appreciation of the U.S. dollar against the Austrian schilling worsened the Austrian energy balance even more. As the increase in the price of petroleum dampened domestic demand, economic growth

¹⁾ This decoupling process must also be seen against the backdrop of the two historic oil supply shocks. The long-term price elasticity of energy demand is higher than the short-term elasticity, because adapting production processes to relative price changes causes adjustment costs, which tend to be the higher the faster the adjustment process is completed.

²⁾ The share of energy imports in total imports was 5.3% in 1997, and 4.1% in 1998.

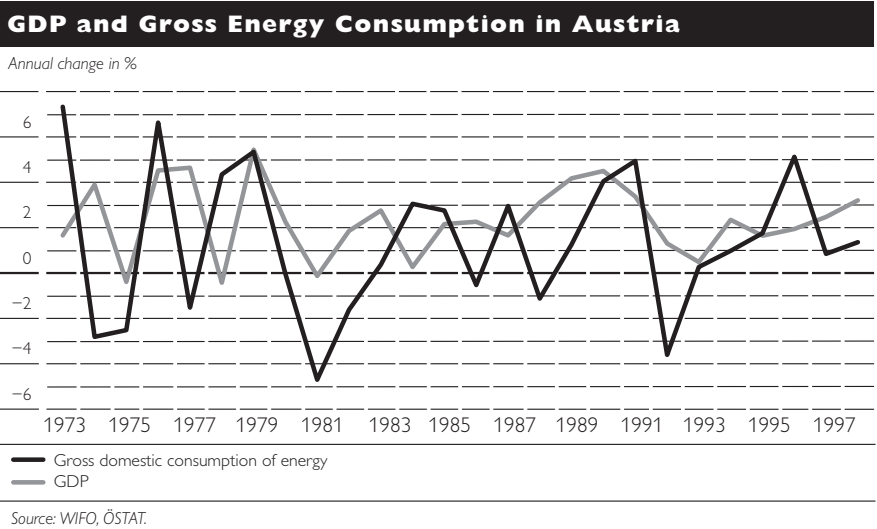
Chart 2



decelerated significantly, and gross energy consumption fell sharply at the beginning of the 1980s (see chart 3).

In the course of the 1990s, the energy import ratio largely stabilized. Only two times – in 1991 (Gulf war) and 1997 (temporary upturn in crude oil prices) – did prices rise for shorter periods, but the peak registered in the early 1980s was not reached.

Chart 3



Developments were similar within the energy-intensive sectors of the economy (gas utilities, PVC production, processing of oil and natural gas)¹⁾ with a particularly high energy import dependency ratio of intermediate goods. Excluding gas, which displays an upward import trend, the import

¹ According to the input-output statistics, the share of the cost of imported energy in the total production costs lies between 50 and 60% for those sectors of the economy.

Chart 4

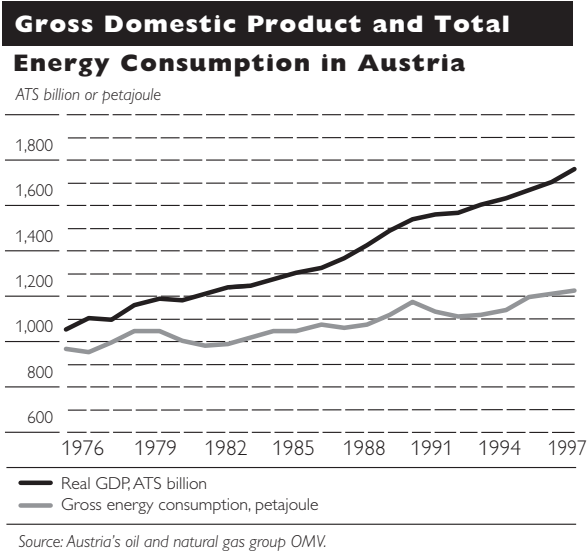
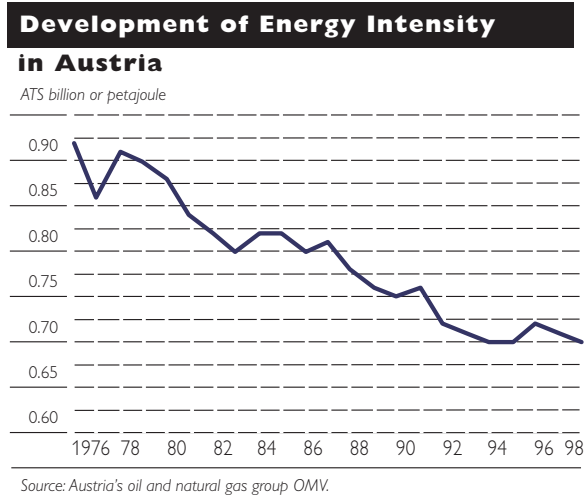


Chart 5



ratio stabilized in the 1990s by comparison with the 1980s (production of PVC goods) or dropped slightly (processing of oil and natural gas).

2.2 Decoupling of Energy Demand and GDP Growth

Particularly in the 1990s those developments were driven by the decoupling of energy demand and GDP growth, especially in the energy-intensive sectors of the economy. While the output contribution of energy has remained flat or rose, its share as a production factor has declined.¹⁾ In other words, the energy intensity of production has dropped in Austria (see charts 4 and 5). A similar development is evident from the cost pattern of businesses. The input-output analysis shows that business expenses for gas, oil, natural gas and petroleum products²⁾ as a share of total production costs have almost halved (1983: 3.7%; 1990: 1.9%). Energy as an input or cost factor has, thus, become less significant by comparison with the 1980s. Considering the Austrian economy as a whole, the tertiarisation of the economy and the shrinking importance of the heavy industry have played a key role in lowering energy intensity.

2.3 Energy Consumption Patterns

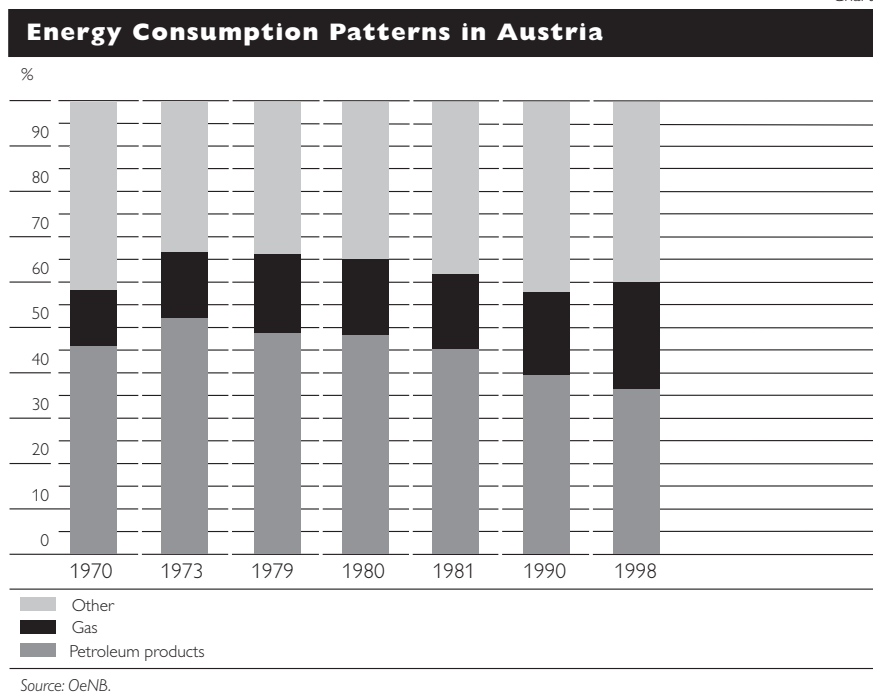
The diminishing significance of – above all liquid – energy resources is also evident from the pattern of consumption. As can be seen in chart 6, the share of petroleum products as an energy resource has dropped steadily since the 1970s.

While in 1972 petroleum products accounted for more than half of the total energy consumption, their share declined continually throughout the 1980s and 1990s to reach 39% in 1998.

¹ See Alder and Bittermann (1999) and the Austrian Federal Environment Agency (1994).

² See input-output tables for 1983 and 1990.

Chart 6



3 Pass-Through Effects of Oil Price Increases Reflected on Selected Inflation Indicators

3.1 Wholesale Price Index and Consumer Price Index

Since no Producer Price Index is available for Austria to date,¹⁾ the following is based on the Wholesale Price Index (WPI)²⁾ and the Consumer Price Index (CPI). Both the WPI and the CPI tend to move in synch with crude oil prices (as shown in chart 1), with the development of the WPI correlating even more strongly with oil prices than the CPI.³⁾ This can be explained above all with the fact that the WPI is determined to a much larger extent by raw material prices and the prices of other intermediate goods whose cyclical responsiveness is particularly high and that together account for a share of 40%, which is almost as big as the share of consumer goods. Therefore, the WPI is a lot more sensitive to exogenous disturbances than the CPI. Contrary to the CPI, the WPI moreover does not contain any services.

The CPI also moves in synch with oil prices, but its oscillations are less strong. This can be explained with the relatively big weight of the subcomponent electricity, gas and other fuels (accounting for 8.89% of the 1996 HICP). The WPI and the CPI react to upturns in the price of imported crude oil with a very small time lag. In other words, rising oil prices are rapidly passed on to end user prices (gasoline, diesel and heating

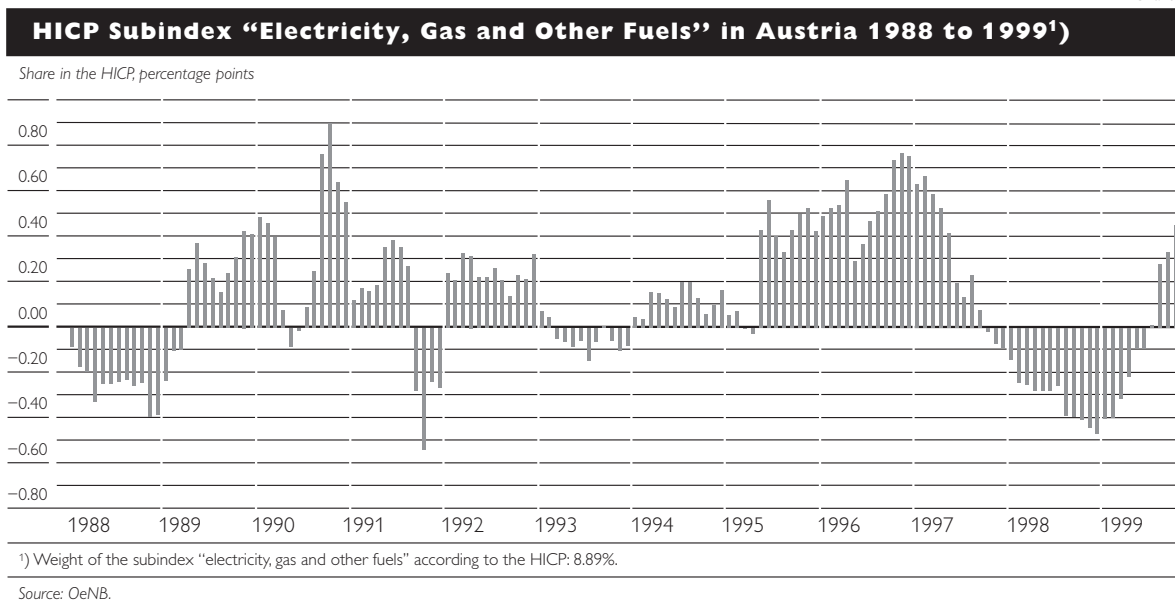
1 Publication planned as from 2002.

2 The Wholesale Price Index is used as a proxy for the Producer Price Index also internationally.

3 Oil import prices and the Wholesale Price Index have a correlation coefficient of 0.70 for the period of 1972 to August 1999; oil import prices and the CPI a ratio of 0.47.

fuel). By contrast, declining oil prices tend to feed through to consumer prices only with a time lag and, moreover, to a less large extent. Thus, the paths of the WPI and the CPI diverge more strongly when crude oil or raw material prices go down.

Chart 7



3.2 The Contribution of Energy Components to Consumer Price Inflation

Consumer price inflation rose steeply in the aftermath of the supply shocks of the 1970s: For the first oil crisis, the primary effect of the oil price increases has been estimated at 3 percentage points (of course, other raw material prices surged as well).¹⁾

Calculations for the second oil crisis²⁾ put the latter's contribution to inflation at 1½ percentage points. By comparison, the strong upturn in crude oil prices³⁾ over the second half of 1999 has exerted relatively moderate upward pressures on prices, contributing 0.33 percentage points to the rise in the HICP in September, and 0.45 percentage points each in October and November 1999 (see chart 7).

4 Macroeconomic Effects of the Latest Upturn in Oil Prices

Compared with the 1970s and the early 1980s, the significance of energy prices for production has diminished. The reduced sensitivity of prices to such supply shocks can, moreover, be explained by a number of structural phenomena:

1 See Schwödiauer (1975).

2 See Kramer (1979).

3 The oil price hike (roughly a doubling) in the second half of 1999 by far trails the increases of 1973 when oil prices quadrupled, and of 1979/80 when they almost tripled.

- Austria's accession to the EU in 1995 has exposed businesses to greater international competition. This has created an environment where the pressure on businesses to cut costs and to enhance efficiency is much greater than it was before. Stiffer competition in the production sector, the process of liberalization and deregulation (accompanied by marked inflation-dampening effects in a number of sectors of the economy) coupled with the dismantling of monopolies (in the energy sector), the deregulation of gasoline prices and measures to bring gasoline prices closer to European levels have squeezed profit margins. These days, energy price rises are being partly cushioned by profit margin cuts. While it has become more difficult to pass on price increases to the customers in the new environment, price reductions must be passed on more quickly.
- Wage moderation has kept a lid on labor cost increases in the recent past. Subdued labor costs coupled with notable productivity gains (above all in the manufacturing industry) have brought unit labor costs down, which has in turn made possible gains of export shares in the world market. Moderate wage settlements in the fall 1999 wage negotiation rounds – but also EMU-induced flexibility in wage adjustments – signal that it is unlikely that a wage-price spiral will be set in motion, as had happened during the earlier oil crises.

Regarding other macroeconomic developments, no recession dangers similar to the ones that emerged in the mid-1970s or early 1980s are looming on the horizon, given the favorable external economic conditions that prevail at present. Projections for the year 2000 unanimously anticipate accelerated economic growth and higher employment in Austria. What is likely is that the current account deficit will deteriorate, if not as strongly as in the past (see table 1).

Table 1

**Development of Key Economic Data
at Times of Rising Oil Prices**

	Import prices	Wholesale Price Index	Consumer Price Index	Negotiated Standard Wage Rate Index	Economic growth	Payroll employ- ment	Unemploy- ment rate ¹⁾	Current account balance
	Annual change in %						%	% of GDP
First oil crisis								
1973	3.7	10.3	7.6	11.3	4.9	3.8	1.6	-0.3
1974	19.2	15.2	9.4	13.2	3.9	1.9	1.5	-1.0
1975	3.8	6.4	8.4	12.9	-0.4	0	2.1	-0.1
Second oil crisis								
1979	5.9	4.2	3.7	5.1	5.5	0.6	2	-1.0
1980	10.1	8.6	6.4	5.4	2.3	0.5	1.9	-2.7
1981	10.2	8	6.8	7.2	-0.1	0.4	2.4	-2.0
1982	1.3	3.2	5.4	7.2	1.9	-1.2	3.7	1.1
Oil price increase								
1999 ²⁾	1.6	x	0.7 ³⁾	1.8 ⁴⁾	1.9	0.9	6.7	-2.5
2000 ²⁾	2.7	x	1.4 ³⁾	2.8 ⁴⁾	2.8	0.8	6.4	-2.9

Source: OeNB.

¹⁾ National concept.

²⁾ Fall 1999 forecast of the OeNB (see article in this issue).

³⁾ Consumption deflator.

⁴⁾ Gross wages per employee.

Considering the aforementioned, the upturn in oil prices that started in March 1999 and that is forecast to continue at least until the first quarter of the year 2000 should have far less dramatic effects on the Austrian economy than the first and the second oil crises. The resulting inflationary tendencies should likewise be subdued. No dramatic upward pressures on prices, as were characteristic of the first and second oil crises, are anticipated to emerge, since environment and market conditions have undergone a fundamental change.

At the current juncture, all forecasts anticipate the economic recovery to accelerate. Employment figures are on the up, and unemployment is going down. Wage gains are tame, and real incomes are boosted by the tax reform under implementation. The current account deficit is going to worsen, but not as strongly as in the aftermath of the first and second oil crises.

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Abbreviations

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

Legend

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

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

Official Announcements of the Oesterreichische Nationalbank

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

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

DL 1/91	Promulgation of the new Official Announcements regarding the Foreign Exchange Law; general provisions 1. Issuance of new Official Announcements 2. Definitions 3. Fees	Sept. 24, 1991	4/1991
DL 2/91	Granting of general licenses 1. General license 2. Waiver of obligation to declare; release 3. Nonbanks 4. Banks not engaged in foreign business 5. Foreign exchange dealers 6. Exchange bureaus 7. Special banks and financial institutions 8. Provisions applying to both banks and financial institutions	Sept. 24, 1991	4/1991
DL 3/91	Reporting requirements 1. General provisions 2. Exemptions from the reporting obligation 3. General reports 4. Reports by banks 5. Reports by nonbanks and financial institutions 6. Special reports	Sept. 24, 1991	4/1991
DL 4/91	Assets of nonresidents with residence (domicile) in Iraq	Oct. 29, 1991	4/1991
DL 2/93	Modification of the Official Announcement DL 3/91	May 5, 1993	2/1993
DL 1/95	Repeal of the Official Announcement DL 1/93; SC Resolution 1022 (1995) Concerning the suspension of the sanctions of the United Nations against the Federal Republic of Yugoslavia	Dec. 21, 1995	4/1995
DL 1/96	Modification of Official Announcement DL 3/91	Sept. 3, 1996	3/1996
DL 1/99	Modification of Official Announcements DL 2/91 and DL 3/91 to the Foreign Exchange Act	Dec. 21, 1998	4/1998
DL 2/99	Abrogation of Official Announcement DL 3/93 Sanctions of the United Nations against Libya	April 30, 1999	1/1999
DL 3/99	Modification of Official Announcement DL 3/91 with respect to the Foreign Exchange Act	Dec. 16, 1999	3/1999

Council Regulations of the European Communities

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Minimum Reserve Regulations

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

List of Reports, Summaries, and Studies¹⁾

Published in
"Focus on Austria"

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

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Calendar of Monetary Highlights	2/1998
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¹ For a comprehensive list of reports, summaries and studies hitherto published please refer to issue no. 4/1999 of "Focus on Austria."

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Focus on Transition	semiannually
Geschäftsbericht	annually
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New Developments in Banking and Finance in East and West (Kranichberg 1989)	1990
Erfahrungen Österreichs beim Übergang von administrativer Regulierung zur Marktwirtschaft (Moscow 1990)	1990
Challenges for European Bank Managers in the 1990s (Badgastein 1990)	1991
From Control to Market - Austria's Experiences in the Post-War Period (Warsaw 1990)	1991
The Economic Opening of Eastern Europe (Bergsten Conference Vienna 1991)	1991 ¹⁾
Erneuerung durch Integration – 175 Jahre Oesterreichische Nationalbank	1991
Striking a Balance – 175 Years of Austrian National Bank	1991
Transparente Dispositionen – Liberalisierter Devisenverkehr unter Beachtung internationaler Publizitätsverpflichtungen	1991
Ausgeglichene Position – Die neue Präsentation der österreichischen Zahlungsbilanz	1992
Aktive Bilanz – Ein Jahr vollständig liberalisierter Devisenverkehr in Österreich	1992
Economic Consequences of Soviet Disintegration (Bergsten Conference Vienna 1992)	1993
Neuorientierung – Internationale Vermögensposition und Außenwirtschaftliche Investitionsbilanz Österreichs	1993 ¹⁾
Bankwesengesetz 1993	1994 ¹⁾

¹ Out of print.

Other Publications (cont.)

Published

Internationale Vermögensposition 1992 – Die grenzüberschreitenden Forderungen und Verpflichtungen Österreichs	1994 ¹⁾
International Investment Position for 1992 – Austria's cross-border assets and liabilities	1994
Western Europe in Transition: The Impact of the Opening up of Eastern Europe and the former Soviet Union	1995
Die Oesterreichische Nationalbank als Unternehmen	1996
Monetary Policy in Central and Eastern Europe: Challenges of EU Integration 1996	1996 ¹⁾
Monetary Policy in Transition in East and West	1997
Die Auswirkungen des Euro auf den Finanzmarkt Österreich	1997 ¹⁾
Die Bank der Banken	1997
Die Zukunft des Geldes: Auf dem Weg zum Euro	
Grundlagen – Strukturen – Termine	1997
Geld und Währung	1997
Kompendium von Texten zur Wirtschafts- und Währungsunion	1997
Nationalbankgesetz 1984 (as of January 1999)	1999
Information literature on banknote security recurrently Working Papers (for a list of the topics discussed in the papers, see below)	recurrently
Videos	
Wie Mozart entsteht (banknote security)	1990
The Evolution of W. A. Mozart (English version of "Wie Mozart entsteht")	1995
Bank der Banken (tasks and functions of the OeNB)	1991
The Banks' Bank (English version of "Bank der Banken")	1991

¹ Out of print.

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

- 1975 Die ökonomischen, politischen und sozialen Konsequenzen der Wachstumsverlangsamung
- 1976 Störungsanfällige Bereiche in unserem ökonomischen und sozialen System
- 1977 Fiskalismus kontra Monetarismus
- 1978 Wirtschaftsprognose und Wirtschaftspolitik
- 1979 Technik-, Wirtschaftswachstums-, Wissenschaftsverdrossenheit: Die neue Romantik – Analyse einer Zeitströmung
- 1980 Probleme der Leistungsbilanz in den achtziger Jahren
- 1981 Systemkrisen in Ost und West
- 1982 Forschung und Wirtschaftswachstum
- 1983 Ausweg aus der Krise – Wege der Wirtschaftstheorie und Wirtschaftspolitik
- 1984 Der Weg zur Welthandelsnation
- 1985 Weltanschauung und Wirtschaft
- 1986 Vollbeschäftigung, ein erreichbares Ziel?
- 1987 Vollendung des Binnenmarktes in der Europäischen Gemeinschaft – Folgen und Folgerungen für Österreich
- 1988 Sand im Getriebe – Ursachen und Auswirkungen der Wachstumsverlangsamung in Österreich
- 1989 Banken und Finanzmärkte – Herausforderung der neunziger Jahre
- 1990 Wettbewerb und Kooperation im Finanzbereich
- 1991 Wirtschaftliche und politische Neugestaltung Europas – Rückblick und Perspektiven
- 1992 Zukunft regionaler Finanzmärkte in einem integrierten Europa
- 1993 Europäische Währungspolitik und internationaler Konjunkturverlauf
- 1994 Neue internationale Arbeitsteilung – Die Rolle der Währungspolitik
- 1995¹⁾ Die Zukunft des Geldes – das Geld der Zukunft
- 1996¹⁾ Auf dem Weg zur Wirtschafts- und Währungsunion – Bedingungen für Stabilität und Systemsicherheit
- 1997 Die Bedeutung der Unabhängigkeit der Notenbank für die Glaubwürdigkeit der europäischen Geldpolitik
- 1998 Wirtschaftspolitik 2000 – Die Rolle der Wirtschaftspolitik und nationaler Notenbanken in der WWU
- 1999 Möglichkeiten und Grenzen der Geldpolitik

¹ Out of print.

List of the Topics

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Discussed in the Working Papers

No. 1 ¹⁾	Hat Böhm-Bawerk recht gehabt? Zum Zusammenhang zwischen Handelsbilanzpassivum und Budgetdefizit in den USA ²⁾	1990
No. 2 ¹⁾	Ost- und Mitteleuropa auf dem Weg zur Marktwirtschaft – Anpassungskrise 1990	1991
No. 3 ¹⁾	Die Wirtschaft Österreichs im Vergleich zu den EG-Staaten – eine makroökonomische Analyse für die achtziger Jahre	1991
No. 4 ¹⁾	The Soviet Banking Reform	1991
No. 5 ¹⁾	Die Auswirkungen der Finanzmarkt- und Kapitalverkehrs- liberalisierung auf die Wirtschaftsentwicklung und Wirt- schaftspolitik in Norwegen, Schweden, Finnland und Großbritannien – mögliche Konsequenzen für Österreich ²⁾	1991
No. 6 ¹⁾	Zwei Jahre G-24-Prozeß: Bestandsaufnahme und Perspektiven unter besonderer Berücksichtigung makroökonomischer Unterstützungsleistungen ²⁾	1991
No. 7 ¹⁾	Die Finanzoperationen der öffentlichen Haushalte der Reformländer ČSFR, Polen und Ungarn: Eine erste quantitative Analyse	1991
No. 8 ¹⁾	Erfüllung der Konvergenzkriterien durch die EG-Staaten und die EG-Mitgliedswerber Schweden und Österreich ²⁾	1992
No. 9 ¹⁾	Alternative Strategies For Overcoming the Current Output Decline of Economies in Transition	1992
No. 10 ¹⁾	Signaling a Hard Currency Strategy: The Case of Austria	1992
No. 11 ¹⁾	The Impact of the Opening-up of the East on the Austrian Economy – A First Quantitative Assessment	1993
No. 12 ¹⁾	The Scope for Regional Autonomy in Russia	1993
No. 13 ¹⁾	EMU and the International Monetary System: A Transatlantic Perspective	1993
No. 14 ¹⁾	Austria's Role as a Bridgehead Between East and West	1993
No. 15 ¹⁾	Prospects for Growth in Eastern Europe – Some questions raised in the course of a macroeconomic forecasting exercise	1994
No. 16	A Survey of the Austrian Capital Market	1994
No. 17	Trade and Employment: Can We Afford Better Market Access for Eastern Europe?	1994
No. 18	Interdependence of Politics and Economic Development: Financial Stabilization in Russia	1994
No. 19 ¹⁾	Austrian Exchange Rate Policy and European Monetary Integration	1995
No. 20 ¹⁾	Monetary Spill-over Effects in the ERM: The Case of Austria, A Former Shadow Member	1995
No. 21	Investing in Insider-dominated Firms: A Study of Voucher Privatization Funds in Russia	1995
No. 22	Pessimism Confounded? Economic Recovery in Eastern Europe	1996
No. 23	Will Asymmetric Shocks Pose a Serious Problem in EMU?	1996
No. 24	Exchange Rates and Monetary Policy in Central Europe – a Survey of Some Issues	1997

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No. 25	Sources of Currency Crises: An Empirical Analysis	1998
No. 26	Structural Budget Deficits and Sustainability of Fiscal Positions in the European Union	1998
No. 27 ¹⁾	Trends in European Productivity: Implications for Real Exchange Rates, Real Interest Rates and Inflation Differentials	1998
No. 28	What Do We Really Know About Real Exchange Rates?	1998
No. 29	Goods Arbitrage and Real Exchange Rate Stationarity	1998
No. 30	The Great Appreciation, the Great Depreciation, and the Purchasing Power Parity Hypothesis	1998
No. 31	The Usual Suspects? Productivity and Demand Shocks and Asian Pacific Real Exchange Rates	1998
No. 32	Price Level Convergence Among United States Cities: Lessons for the European Central Bank	1998
No. 33	Core Inflation in selected European Union Countries	1998
No. 34	The impact of EMU on European unemployment	1998
No. 35	Room for Manoeuvre of Economic Policy in the EU Countries – Are there Costs of Joining EMU?	1998
No. 36	Heterogeneities within Industries and Structure-Performance Models	1998
No. 37	Estimation of the Term Structure of Interest Rates A Parametric Approach	1999
No. 38	On the Real Effects of Monetary Policy: Central Banker's View	1999
No. 39	Democracy and Markets: The Case of Exchange Rates	1999
No. 40	Central Banks in European Emerging Market Economies in the 1990s	2000

¹ Out of print.

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