



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

ANNUAL REPORT 2002







REPORT ON THE FINANCIAL YEAR 2002
WITH ANNUAL STATEMENT OF ACCOUNTS 2002

Submitted to the General Meeting on May 15, 2002



When Stage Three of Economic and Monetary Union (EMU) commenced in 1999, many people still thought the new European currency a very abstract and remote prospect. This perception changed quickly once the euro banknotes and coins had actually been introduced in 2002. The new cash was readily adopted as a symbol of the new Europe.

The OeNB considers the circumspect and comprehensive preparation of the cash changeover a key feature of the operation's success. Above all, the efficient assignment of responsibilities among the OeNB and its subsidiaries OeBS, the Austrian Mint and GSA contributed importantly to a smooth execution. The carefully planned course of action made the switch to the new currency easier for Austrians, which was reflected by their positive attitude to the euro and high confidence ratings for the OeNB in surveys.

The successful changeover has patently shown Austrians that their central bank, the OeNB – which is now part of the European monetary framework – continues to fulfill a number of key tasks. The OeNB, its management and its staff represent Austria's interests at the international level; in particular, they have a decisive role in monetary policymaking within the Eurosystem. One of great strengths of the European monetary union is its decentralized structure. This arrangement makes use of the decades of experience the individual national central banks have acquired. Moreover, the ESCB/Eurosystem setup is suited to benefiting from national central banks' expertise in their own countries to efficiently prepare and implement the ESCB's policies. This blend of European orientation, common management and the integration of national structures is a fundamental factor in EMU's success.

The startup of Stage Three of EMU and the smooth realization of the euro

changeover was somewhat clouded by persistent economic weakness in the wake of the tragic events of September 11, 2001. Hopes of a sustained recovery in 2002 were disappointed, as the economy could not shake the negative effects on growth of high oil prices, the slump on world stock markets and pronounced investor uncertainty. Likewise, the Iraq crisis heightened uncertainty at the global level.

The economic difficulties of Austria's main trade partner Germany further compounded the unfavorable economic situation for Austria. Another factor the economy had to contend with was the sluggish growth of the Italian and Swiss markets, which weighed on Austrian exports. In this gloomy environment, Austria's close ties to countries in Central and Eastern Europe proved to be a boon. The favorable economic conditions in nearly all accession countries are a direct advantage for Austria's economy, but more importantly, they demonstrate this region's progress on the road to EU accession.

At this juncture, Austria has a decisive role to play as a hub of European East-West integration. Our country has the advantage of long-standing ties with the region, enabling it to contribute significantly to European history in the making. In its own interest and for the benefit of a unified Europe, Austria must rise to the challenge its role involves.

The OeNB may be a small central bank, but it has an important mission in the European integration and enlargement process. The OeNB's expertise on Eastern Europe and its steadfast commitment in cooperating with the accession country central banks is held in great esteem in the Eurosystem.

Adolf Wala
President

The most outstanding event of the 2002 business year was certainly the smooth introduction of euro banknotes and coins in Austria and 11 other Member States of the European Union (EU). In the meantime, the euro has not only successfully established itself next to the U.S. dollar as a sound world and anchor currency, but has also become an increasingly familiar means of payment for some 300 million European citizens in the euro area and thus a tangible expression of Monetary Union. People's feel for the value of the euro and the new prices has been improving continuously, and the differences between perceived inflation and the statistically measured inflation rate, which were widely discussed in the euro area, have been disappearing gradually. The independence of the Eurosystem, its decentralized structure and the resulting efficiency as well as its appropriate monetary policy strategy have crucially contributed to successfully maintaining price stability since the beginning of Monetary Union. However, to be able to fully utilize the economic potential of the stability-oriented monetary policy, the euro area requires responsible fiscal, structural and wage policymaking suited to ensuring the euro area's ability to cope with increased international competition and, thus, to sustain growth and employment. Adhering to these objectives is particularly important in the prevailing difficult global economic conditions, as geopolitical tensions have severely aggravated risks and as the associated uncertainty has led to a further delay in the upswing, an increase in financial market volatility and a decline in confidence. Stability-oriented policy must meet these challenges at all levels. Therefore, the euro area countries have to comply strictly with the Stability and Growth Pact, an important part of the institutional framework for Monetary Union. The excessive deficit procedures recently initiated against some EMU member countries in line with the relevant provisions of the Treaty have strengthened the credibility of the Stability and Growth Pact. Now more than ever, prudence dictates that fiscal policies need

to be geared towards stability and public finance positions need to be sound, not least because of the demographic developments in the euro area. Furthermore, structural reforms in the labor, goods and financial markets that have already been launched must be pursued resolutely to make the euro area more flexible and resilient to external shocks and to increase potential output, which will improve growth prospects and foster consumer and investor confidence.

In an environment of stiffer competition, Austria is also called upon to take the necessary long-term reform measures to, inter alia, strategically secure the attractiveness of Austria as a business location and to guarantee the sustainability of sound public finances and effective health and pension systems. After the successful implementation of Monetary Union, the EU is now facing the next big challenge of integration: its enlargement by ten new Member States. The signing and ratification of the accession treaties will pave the way for the acceding countries to join the EU on May 1, 2004. The prospective EU members have made impressive progress not only in terms of economic transition and catching up, but also in terms of integration.

Before the new Member States can join Monetary Union, however, they will participate in the new exchange rate mechanism ERM II and strictly and sustainably fulfill the legal and economic convergence criteria. Legal and institutional aspects and the principle of equality of all EU Member States as well as economic considerations underpin the case for gradual monetary integration.

Monetary Union and the euro have significantly strengthened the euro area's position in the dynamic process of globalization and will continue to play a key role as a catalyst for reform and for the further economic and political integration in Europe, thus making a vital contribution to preserving peace and prosperity in Europe.

Klaus Liebscher
Governor



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Conventions used in the tables

–	=	zero
x	=	not applicable
0	=	negligible
∅	=	average

Discrepancies may arise from rounding.

Abbreviations

ACH	automated clearing house	IMBA	Institut für Molekulare Biotechnologie GmbH
AG	Aktiengesellschaft (roughly: stock corporation)	IMF	International Monetary Fund
ARTIS	Austrian Real-Time Interbank Settlement (the Austrian RTGS system)	IP	Internet protocol
APSS	Austrian Payment Systems Services GmbH	IRB	internal ratings-based
ASFINAG	road construction company	IT	information technology
A-SIT	Zentrum für sichere Informations-technologie Austria – Austrian Secure Information Technology Center	JVI	Joint Vienna Institute
ATM	automated teller machine	M3	broad monetary aggregate M3
BIS	Bank for International Settlements	MFI	Monetary Financial Institution
BSC	Banking Supervision Committee	MoU	Memorandum of Understanding
BSE	bovine spongiform encephalopathy	MÖAG	Münze Österreich AG – Austrian Mint
CACs	collective action clauses	MRO	main refinancing operation
CDG	Christian Doppler Research Society	MTN	Monetary Transmission Network
CEE	Central and Eastern Europe	NCBs	national central banks
CEECs	Central and Eastern European countries	OECD	Organisation for Economic Co-operation and Development
CESR	Committee of European Securities Regulators	OeNB	Oesterreichische Nationalbank
CIS	Commonwealth of Independent States	OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH – Austrian Banknote and Security Printing Works
EBA	Euro Banking Association	ÖAW	Österreichische Akademie der Wissenschaften – Austrian Academy of Sciences
ECB	European Central Bank	ORF	Österreichischer Rundfunk – Austrian Broadcasting Corporation
Ecofin	Council of Economic and Finance Ministers (EU)	POS	point of sale
EDP	excessive deficit procedure	QIS	Quantitative Impact Study
EFC	Economic and Financial Committee (EU)	RTGS	Real-Time Gross Settlement
EMAS	Eco-Management and Audit Scheme	SCHIG	rail infrastructure financing company
EMU	Economic and Monetary Union, Monetary Union	SDR	Special Drawing Right (IMF)
EPM	ECB payment mechanism	SDRM	Sovereign Debt Restructuring Mechanism
ERM II	Exchange Rate Mechanism II (EU)	SEPA	single European payment area
ESA 95	European System of Accounts 1995	SME	small and medium-sized enterprise
ESCB	European System of Central Banks	STEP2	Straight Through Euro Payment system
EU	European Union	STUZZA	Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr G.m.b.H – Austrian Research Association for Payment Cooperation
Eurostat	Statistical Office of the European Communities	S.W.I.F.T.	Society for Worldwide Interbank Financial Telecommunication
FDI	foreign direct investment	TARGET	Trans-European Automated Real-time Gross settlement Express Transfer (ESCB)
FFF	Forschungsförderungsfonds für die gewerbliche Wirtschaft – Industrial Research Promotion Fund	Treaty	Treaty establishing the European Community
FMA	Financial Market Authority	TUG	TARGET User Group
FSAP	Financial Sector Assessment Program	VaR	Value at Risk
FWF	Austrian Science Fund – Fonds zur Förderung der wirtschaftlichen Forschung	WIFO	Österreichisches Institut für Wirtschaftsforschung – Austrian Institute of Economic Research
GDP	gross domestic product	WIIW	Wiener Institut für internationale Wirtschaftsvergleiche – The Vienna Institute for International Economic Studies
GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (cash services company)		
HICP	Harmonized Index of Consumer Prices		
IHS	Institute for Advanced Studies		





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

General Council (Generalrat), State Commissioner

on December 31, 2002

Adolf Wala

President

Herbert Schimetschek

Vice President

Chairman of the Board
of Austria Versicherungsverein
auf Gegenseitigkeit

August Astl

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

Herbert Kofler

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

Walter Rothensteiner

Chief Executive Director
of Raiffeisen Zentralbank Österreich AG

Helmut Elsner

Chief Executive Director
of Bank für Arbeit und Wirtschaft AG

Karl Werner Rüsçh

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

Bernhard Felderer

Director
of the Institute for Advanced Studies (IHS)

Richard Leutner

Secretary
of the Austrian Trade Union Federation

R. Engelbert Wenckheim

Board Member
of Getränkeindustrie Holding AG

Helmut Frisch

Chairman of the Supervisory Board
of Vienna Technical University

Johann Marihart

Chief Executive Director
of Agrana Beteiligungs-AG

Lorenz R. Fritz

Secretary General
of the Federation of Austrian Industry

Werner Muhm

Deputy Chief
of the Chamber of Labor of Vienna

Representatives delegated by the Staff Council to attend proceedings
that deal with personnel matters:

Thomas Reindl

Martina Gerharter

State Commissioner

Manfred Frey

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

Deputy State Commissioner

Heinz Handler

Director General
in the Federal Ministry for Economic Affairs
and Labour

Governing Board (Direktorium)

on December 31, 2002



Klaus Liebscher

Governor

Wolfgang Duchatzek

Executive Director

Gertrude Tumpel-Gugerell

Vice Governor

Peter Zöllner

Executive Director

Personnel Changes

between April 25, 2002 and April 10, 2003

Helmut *Elsner*, Chief Executive Director of Bank für Arbeit und Wirtschaft AG, and Richard Leutner, Secretary of the Austrian Trade Union Federation, were appointed to the General Council at the ordinary General Meeting of May 23, 2002. Moreover, Lorenz R. *Fritz*, whose term of office ended the day of the General Meeting in 2002, was reappointed to the General Council. Johann *Zwettler* resigned his seat on the General Council at the ordinary General Meeting in 2002.

In the resolution of July 8, 2002, the Federal President of Austria reappointed Wolfgang *Duchatzek*, whose contract had expired on July 14, 2002, as a member of the Governing Board from July 15, 2002, for a duration of five years.

ORGANIZATION CHART

President Adolf Wala	Vice President Herbert Schimetschek
Office of the President Richard Mader, Head	
Governing Board (Direktorium)	
Central Bank Policy Department Klaus Liebscher, Governor	Economics and Financial Markets Department Gertrude Tumpel-Gugerell, Vice Governor
Office of the Governor Wolfgang Ippisch, Head	Section
Internal Audit Division Wolfgang Winter, Head	Economic Analysis and Research Peter Mooslechner, Director
Secretariat of the Governing Board and Public Relations Wolfdietrich Grau, Head	Economic Analysis Division Ernest Gnan, Head
Planning and Controlling Division Gerhard Hohäuser, Head	Economic Studies Division Eduard Hochreiter, Head
Anniversary Fund Wolfgang Hörtsch, Head	European Affairs and International Financial Organizations Division Franz Nauschnigg, Head
Section	Foreign Research Division Doris Ritzberger-Grünwald, Head
Accounting Michael Wolf, Director	Brussels Representative Office Reinhard Petschnigg, Representative
Financial Statements Division Friedrich Karrer, Head	Paris Representative Office Andreas Breitenfellner, Representative
Accounts Division Otto Panholzer, Head	Section
Section	Financial Institutions and Markets Andreas Ittner, Director
Legal Matters and Management of Equity Interests Bruno Gruber, Director	Financial Markets Analysis and Surveillance Division Michael Würz, Head
Legal Division Hubert Mölzer, Head	Banking Analysis and Inspections Division Peter Mayerhofer, Head
Management of Equity Interests	Credit Division Franz Richter, Head
	Unit
	Future Unit Peter Achleitner, Director

Money, Payment Systems and Information Technology Department
Wolfgang Duchatzcek, Executive Director

Section

Payment Systems and Information Technology
Wolfgang Pernkopf, Director

Systems Development Division
Reinhard Auer, Head

Technical Support Division
Erich Schütz, Head

Payment Systems Division
Andreas Dostal, Head

Section

Cashier's Division and Branch Offices
N. N.

Cashier's Division
Stefan Augustin, Head

Printing Office
Gerhard Habitzl, Technical Manager

St. Pölten
Roland Müllner, Branch Manager

Bregenz
Helmut Höpperger, Branch Manager

Eisenstadt
Friedrich Fasching, Branch Manager

Graz
Gerhard Schulz, Branch Manager¹⁾

Innsbruck
Günther Federer, Branch Manager

Klagenfurt
Günter Willegger, Branch Manager

Linz
Axel Aspetsberger, Branch Manager¹⁾

Salzburg
Elisabeth Kollarz, Branch Manager

Investment Policy and Internal Services Department
Peter Zöllner, Executive Director

Personnel Division
Maria Zojer, Head

Section

Treasury
Rudolf Trink, Director

Treasury – Strategy Division
Rudolf Kreuz, Head

Treasury – Front Office
Walter Sevcik, Head

Treasury – Back Office
Gerhard Bertagnoli, Head

London Representative Office
Elisabeth Antensteiner, Representative

New York Representative Office
Gerald Fiala, Representative

Section

Organization and Internal Services
Albert Slavik, Director

Organization Division
Norbert Weiß, Head²⁾

Administration Division
Roland Kontrus, Head

Security Division
Gerhard Valenta, Head

Documentation Management and Communications Services
Alfred Tomek, Head

Section

Statistics
Aurel Schubert, Director

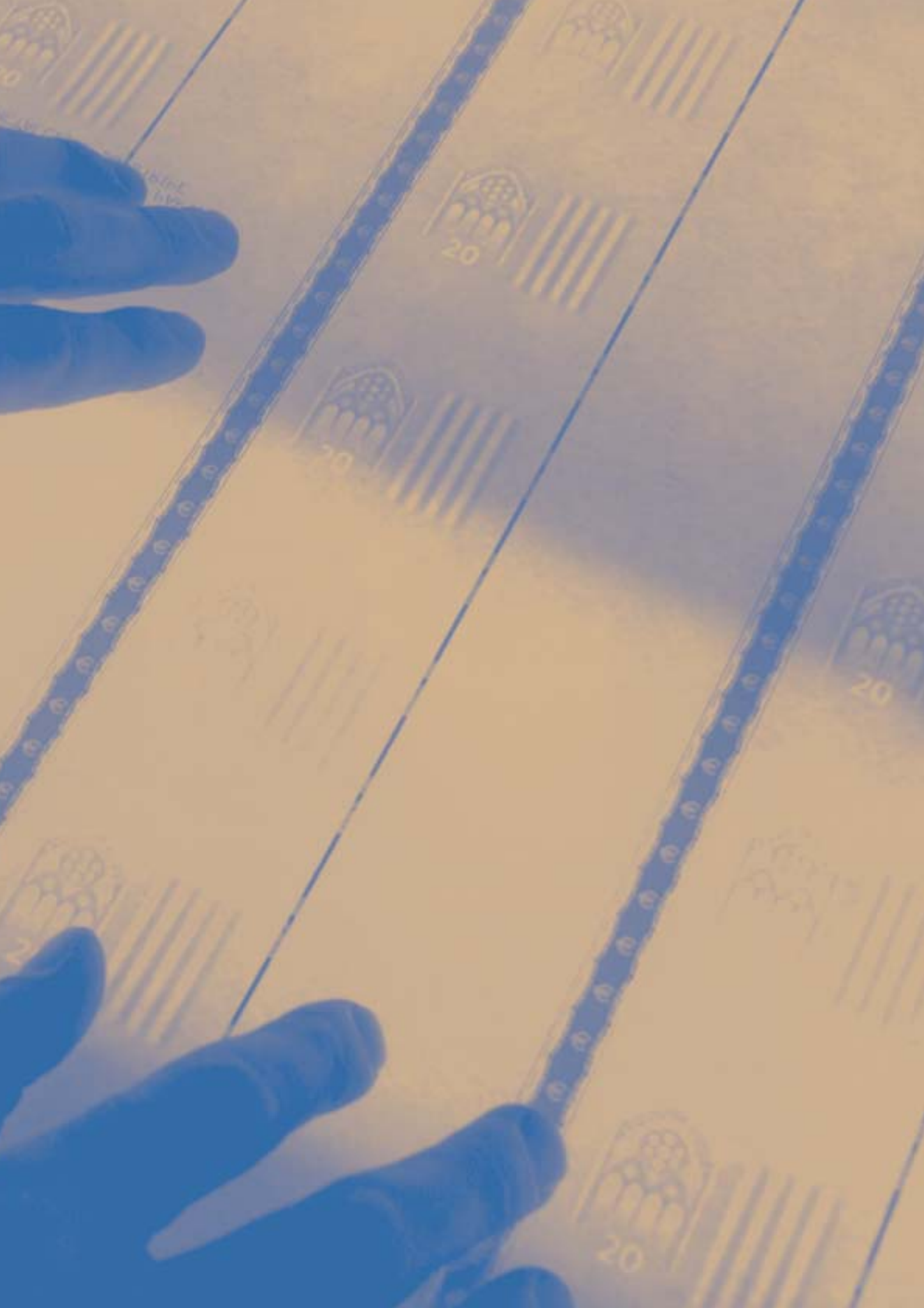
Banking Statistics and Minimum Reserve Division
Alfred Rosteck, Head

Balance of Payments Division
Eva-Maria Nesvadba, Head

¹ Coordinator of Branches.

² Environmental Officer.

As of April 10, 2003.





Report of the
Governing Board (Direktorium)
for the Financial Year 2002

The Euro: A Success in Its First Year

Positive Expectations Met

Smooth cash changeover

The introduction of euro banknotes and coins proceeded smoothly thanks to thorough planning and the expert handling of operations and communications by all parties involved – the banks, cash-in-transit companies and government, above all the Federal Ministry of the Interior. Thus, businesses, public services and consumers encountered no difficulties with the changeover. Years of meticulous logistical planning of all stages from the production of euro banknotes and coins to their distribution via the ATM network and banks ensured that this daunting task could be fulfilled successfully. The changeover process was backed by targeted public relations activities that enhanced the public's acceptance of the new money. The fact that artist Robert Kalina, who works for the Oesterreichische Nationalbank, designed the euro banknotes, also had a positive impact.

As a result of these efficient preparations, people soon stopped using schilling cash for everyday payment transactions. After less than two weeks, Austrians already made over 90% of all cash payments in euro. The highly professional approach of all parties involved in the changeover and the positive attitude of the general public, which some media even termed “europhoria,” were key to this success.

Cash migration

At the beginning of 2002, nearly all euro banknotes and coins in circulation in Austria came from the domestic launch stock of euro cash. Later, however, the different national cash stocks issued by the 12 euro area countries¹⁾ mingled. Euro coins re-

flected this development most obviously, because the national images on the reverse made them sought-after collector's items. However, migration of euro banknotes is much more important for logistics. A number of factors – tourism, the close trade links between euro area economies and different national cashholding habits – result in an imbalance in the distribution of euro banknotes in the euro area.

Various studies were drawn up in 2002 to analyze banknote migration in greater detail. A prime motivation for these studies was to gather information starting from the earliest possible date. The studies centered on data about cash held by households and banks, and businesses' cash lodgements with GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA).

The share of coins from other euro area countries, above all of high-denomination coins, rose steadily in Austria to reach over 20% at the end of 2002. The most common nonnational euro coins in Austria originated in Germany (13%) and Italy (4%).

Euro banknote migration progressed at an even more rapid pace than euro coin migration. The volumes of banknotes in circulation and the denominations used by households have remained fairly stable, but the share of nonnational banknotes augmented further. The ratio of Austrian euro banknotes (serial numbers starting with N) to non-Austrian euro banknotes stood at about 60:40 at the end of 2002. As in the case of euro coins, German (serial numbers starting with X) and Italian (serial numbers starting with S) euro banknotes accounted for the lion's share of foreign euro banknotes in Austria.

¹⁾ Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. In addition, the Vatican, Monaco and San Marino issue euro coins of their own, though only small volumes.

In a regional analysis, the pace of cash migration has been faster in western than in eastern Austria, as the western provinces are adjacent to euro area countries and the share of euro area tourists cash is higher. As a case in point, 60% of all euro banknotes and 40% of all euro coins in Tyrol are nonnational in origin.

Against this background, the cross-border redistribution of banknotes in bulk from locations with a surplus to locations with a deficit has become an important issue. The purpose of bulk redistribution is to optimize the allocation of euro banknotes to minimize printing and transportation costs.

Effective counterfeit deterrence

The euro is one of the most counterfeit-proof currencies in the world. Of course, a leading international currency like the euro arouses forgers' interest much more than a less significant currency. However, a wide range of measures taken by Austria's security forces and the OeNB have helped to quickly remove counterfeits from circulation.

A total of 3,409 forged banknotes were withdrawn in Austria in 2002. The most commonly falsified banknote was the EUR 50 note, which accounted for 67% of all counterfeits, followed by the EUR 100 note (26%). By overall comparison to the track record of the euro precursor currencies (e.g. Deutsche mark or Italian lira), conditions were stable in Austria. The total damage caused by counterfeit banknotes slightly exceeded EUR 220,000, which is rather low relative to the damage resulting from other crimes such as shoplifting or payment card fraud. The figures for the entire euro area – 167,118 counterfeit notes were retired – show that the number of counterfeit bank-

notes diminished to a quarter of the level recorded under the legacy currencies.

To further contain the circulation of counterfeit notes, the OeNB's head office and branches held cash handling training courses for 1,000 new external partners (e.g. trainers and chief cashiers) also in 2002. Familiarity with the euro banknote security features and careful inspection and comparison of banknotes prevents users from mistaking counterfeits for genuine euro notes.

The three main tests recommended to users are:

- FEEL the raised print (on the front of the banknote),
- LOOK at the banknote (hold it up to a good light source),
- TILT the banknote (in a well-lit area).

One indispensable counterfeit deterrence measure is to keep the quality of banknotes in circulation as high as possible. The security features of new banknotes are far easier to verify than those of soiled, crumpled or torn banknotes. Therefore, every banknote in circulation is checked by the banknote processing machines of GSA three to four times a year, as statistics indicate, and is replaced by a new note if it does not pass muster.

To further raise public awareness, the OeNB launched a public relations campaign together with the Austrian Broadcasting Corporation's radio station Ö3. At the heart of this campaign, which was called "MEHR-scheinchen," was a game based on the serial numbers and security features of banknotes; winners were awarded money prizes. The winners had to be familiar with the security features of the respective denominations and had to check them on banknotes they owned. The campaign was evaluated by an opinion research in-

stitute, which confirmed that it was very well received: 85% of Austrians polled supported this OeNB campaign; only 4% rejected it. Extrapolating the survey figures, the “MEHR-scheinchen” campaign succeeded in reaching some 2.7 million Austrians; about 1 million citizens felt better informed about banknote security features as a result. The campaign also clearly increased the number of security features those surveyed were able to name spontaneously when quizzed.

Level of schilling cash returns is steady

The flowback of schilling cash placed entirely different demands on logistical planning than the distribution of euro cash, which the OeNB was able to prepare meticulously. The decision who would return what denominations when and where was entirely up to the consumer.

Although the bulk of the expected withdrawals occurred before conclusion of the dual circulation period (January and February 2002), schilling banknotes and coins equivalent to some EUR 938 million had still not been redeemed by the end of 2002. The comparatively high share of schilling banknotes stemming from obsolete series (these banknotes no longer had legal tender status during the changeover, but were still within the exchange deadline), whose value amounted to EUR 250 million, suggests that banknotes and coins are desired collectors' items, so that it may be assumed that not all schilling cash will in fact be returned. The OeNB's offices will exchange schilling notes and coins of the most recent series for euro free of charge for an unlimited period.

Various campaigns help speed up schilling cash returns

The OeNB helped organize and carry out a number of campaigns aimed at encouraging people to return schilling banknotes and coins:

- In fall 2002, the OeNB initiated a joint fundraising campaign with Austria's banks and post offices with the motto “Give the schilling a last chance”; the proceeds were used to aid flood victims. From August 26 to September 20, 2002, some 8,000 banks and post offices collected schilling banknotes and coins (euro cash was also accepted).¹⁾
- For the “Euro-Tour,” a unique Austrian effort in support of the euro changeover, a bus sponsored by the OeNB stopped by 88 Austrian towns and communities from July 1 to October 10, 2002. This bus accommodated a service counter operated in close cooperation with the OeNB branch in the respective region and offered the public the free exchange of schilling for euro cash and comprehensive information about the euro, above all about the banknote security features. Some 32,000 Austrians took advantage of this opportunity to exchange their schilling cash stockpiles.²⁾ The “Euro-Tour” was conceived mainly as a service for people who do not live within the immediate vicinity of an OeNB branch.

1 Austrians donated roughly 35 tons (15 million) coins to this drive, with total donations coming to EUR 1.1 million.

2 Exchanges within the “Euro-Tour” campaign totaled approximately ATS 39 million, and more than 15 tons of schilling coins were returned. As expected, the average amounts exchanged per customer were small (ATS 1,250 per person).

OeNB Information Campaign and Targeted Public Relations Activities Boost Confidence

Effective communication strategy

The replacement of national currencies by the euro and the euro area countries' transfer of monetary policy sovereignty to the Eurosystem was not just an economic milestone of European post-war history, it also represented a tremendous public relations challenge. A project of these dimensions required a consistent public relations format throughout the exchange phase, and it had to be accompanied by specific public relations measures during the entire period. Information reduces apprehension and boosts confidence – and confidence is one of the crucial prerequisites for the success of a stability-oriented monetary policy. One of the OeNB's functions in the Eurosystem is to act as an interface between monetary policymakers and the Austrian business community as well as the general public.

This task ties in with the OeNB's close links and cooperation with the national central banks (NCBs) of the Eurosystem. However, confidence does not simply happen, it is the result of a proactive public relations strategy. To this end, the OeNB built up a public relations network that includes the public broadcasting network ORF, the federal government (Euro Initiative), various labor and industry associations and aid organizations.

This successful team strategy, which received several prizes,¹⁾ was continued in 2002. After the successful euro changeover, the OeNB's campaign refocused above all on raising euro value awareness, providing comprehensive information about the security features of euro bank-

notes, and supporting the flowback of schilling cash via the media.

To promote and reinforce the public's understanding of the change in the OeNB's position resulting from its integration into the Eurosystem, a special advertising campaign was drawn up that conveyed messages mainly through newsprint ads. A consistent design and the targeted provision of information using press releases and ads succeeded in raising public consciousness as intended.

Aid for flood victims

The extensive flood damage of the summer of 2002 prompted the OeNB to undertake a crusade with the motto "Expedition Großglockner" with the Austrian radio station Ö3 and a number of volunteers: The OeNB pledged to make a donation for every person who scaled the Großglockner alpine road by bicycle or on foot. As almost 12,000 participants covered the prescribed distance, the OeNB contributed roughly EUR 1.2 million to the emergency aid project for flood victims.

Getting a feel for the euro

The introduction of the new currency represented a special challenge to the general public because people had to get a feel for the value of the euro. Therefore the OeNB cooperated with a polling institute and the University of Vienna in launching a series of studies designed to track Austrians' perception of the euro's value during the changeover.

The most recent results are quite promising, as they signal that the Austrian public's feel for the euro is improving. Only 9% of the respondents stated that they still convert euro prices of staples into schillings down to the last cent while the share of people who no longer convert euro prices

¹ National prize for public relations activities in 1996 and nomination for the national prize for public relations activities in 2002 in cooperation with Skills Group; EFFIE award 2002 for the OeNB and the Demner, Merlicek & Bergmann agency for the campaign "Mit der Nationalbank zum Euro" (The OeNB – Making the Euro Yours); moreover, Demner, Merlicek & Bergmann received the AME International Award at the New York Festival for the euro introduction campaign commissioned by the OeNB.

into schilling equivalents already stood at 55%. To continue this positive trend, the OeNB has executed other specially targeted public relations activities in cooperation with a number of partners.

These actions included the airing of the “Europlay” interactive TV game in cooperation with the Austrian Broadcasting Corporation during which viewers called in to have their feel for euro prices tested. In addition, a “Teuro quiz” (teuro is a portemanteau word combining “euro” and “teuer”, German for expensive) was organized together with an Austrian daily; the aim was to counteract people’s subjective perception that the euro was linked with a rise in inflation.

Euro enthusiasm unbroken

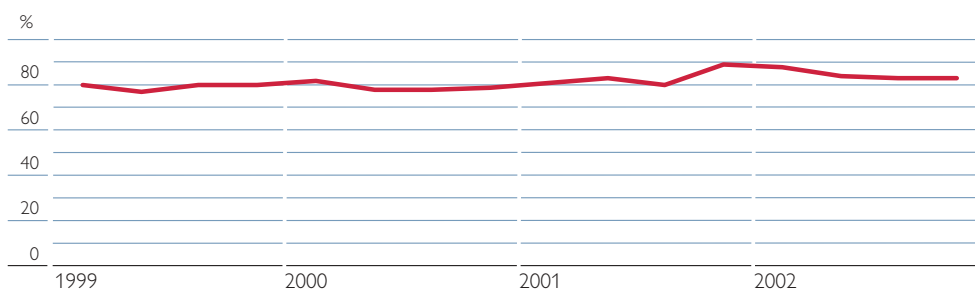
The public’s interest in the euro remained keen in 2002. The OeNB’s call center alone dealt with 33,195 queries, roughly 28,000 of which were in the form of telephone calls and over 5,000 of which were sent by e-mail; overall, a trend toward new issues, such as Basel II, began to take hold. Information provided on the OeNB’s website at

www.oenb.at was accessed or downloaded 53.6 million times in 2002.

Confidence in the OeNB remains high

Apart from the activities focused on the euro changeover, the OeNB organized a large number of events such as conferences, symposiums and workshops. A total of 244 events attracted 10,300 visitors, further reinforcing the OeNB’s role as a platform and dialogue partner. An in-depth treatment of economic topics for many years has made the OeNB an internationally recognized competence center. In addition to a variety of publications, above all dealing with economics, the OeNB issued 160 press releases in 2002 covering a broad range of institutional, economic and statistical aspects. These activities helped the OeNB to maintain its score for public confidence at a high level of 83%, according to a study drawn up by an opinion polling institute. Even after the advertisement and public relations campaigns had been wrapped up once the crucial phase of the changeover was over, confidence in the OeNB was higher than a year earlier, evidencing that the OeNB’s work was successful.

Public Confidence in the OeNB



Source: OeNB.

Stability-Oriented Monetary Policymaking in Times of Weak Economic Activity

Eurosystem Monetary Policy Four Successful Years of Economic and Monetary Union

The OeNB's active role in the Eurosystem

The Eurosystem¹⁾ has been in charge of the single monetary policy of the euro area since the beginning of Stage Three of Economic and Monetary Union (EMU) on January 1, 1999.

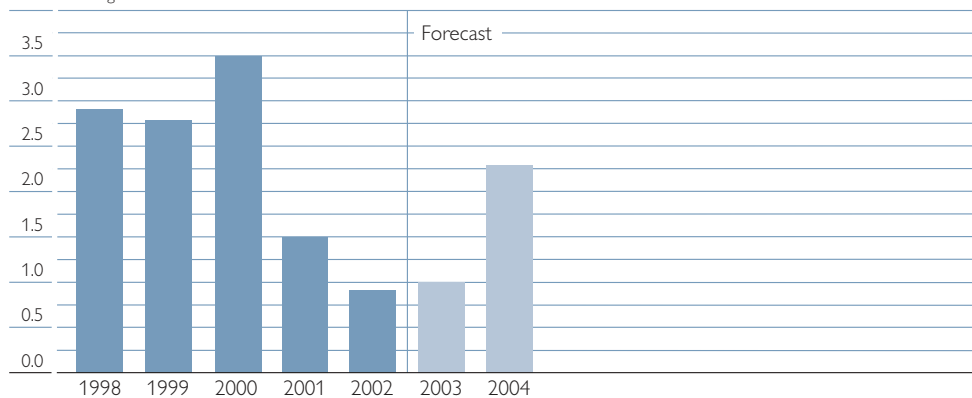
The euro area currently comprises Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.

The OeNB is an integral part of the Eurosystem and is involved in joint decision making. The OeNB's governor represents the OeNB on the Governing Council of the European Central Bank (ECB) on the basis

Key Indicators for the Euro Area

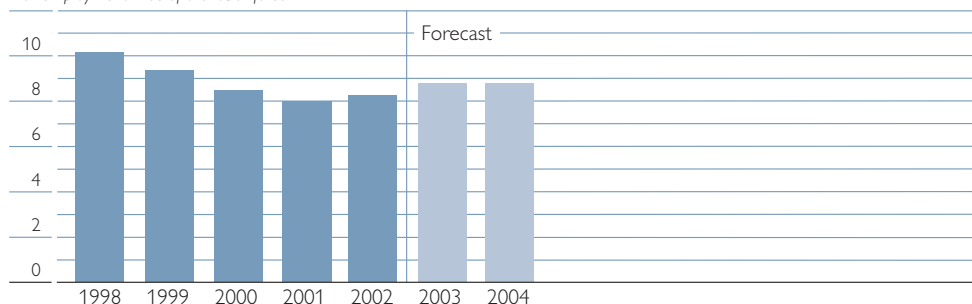
Real GDP growth

Annual change in %



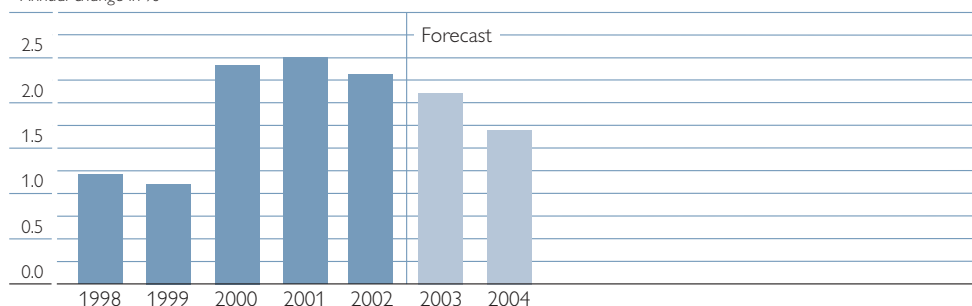
Unemployment rate

Unemployment in % of the labor force



HICP inflation

Annual change in %



Source: 2003: Eurostat; 2004: European Commission.

¹ The Eurosystem is composed of the ECB and the NCBs of the EU Member States which have adopted the euro. The Eurosystem and the NCBs of the other EU Member States constitute the European System of Central Banks (ESCB).

of the “one member, one vote” principle. In this capacity, the Governor is independent and not bound by any instructions. Apart from being an integral part of the Eurosystem, the OeNB is also a link to Austrian economic policymakers.

**Inflation declines
with economic growth moderate**

The single monetary policy with its primary objective of price stability makes the euro a highly stable currency. Euro area inflation subsided to 2.2% in 2002. After the considerable setback in GDP growth in 2001 in the wake of plummeting stock prices and the terrorist attacks of September 11, ongoing geopolitical tension further weakened the euro area economy. Consequently, economic growth was sluggish at +0.8% in 2002. With economic momentum anemic, unemployment in the euro area augmented to an average of 8.4% in 2002, which, however, is still below the average of the 1990s. Monetary Union fosters the integration of the goods and financial markets, thus helping to boost the growth potential of the euro area. To be able to benefit fully from the opportunities EMU provides, the euro area countries need to implement further structural reforms in the labor, goods and capital markets and to secure the sustainable consolidation of public finances.

The Stability and Growth Pact introduced in connection with EMU has already brought about a major improvement of budgetary positions in many euro area countries, among them Austria. Adverse cyclical conditions in 2002 put the Stability and Growth Pact to a hard test in the euro area. The initiation of excessive deficit procedures against Portugal and Germany demonstrated the resolve

of the EU Member States to follow the precepts of the Stability and Growth Pact even under difficult business conditions. Furthermore, in October 2002 the Eurogroup finance ministers decided that all member countries whose budgets are not in balance would commit themselves to reducing their cyclically adjusted deficits by a minimum of 0.5 percentage point a year starting in 2003.

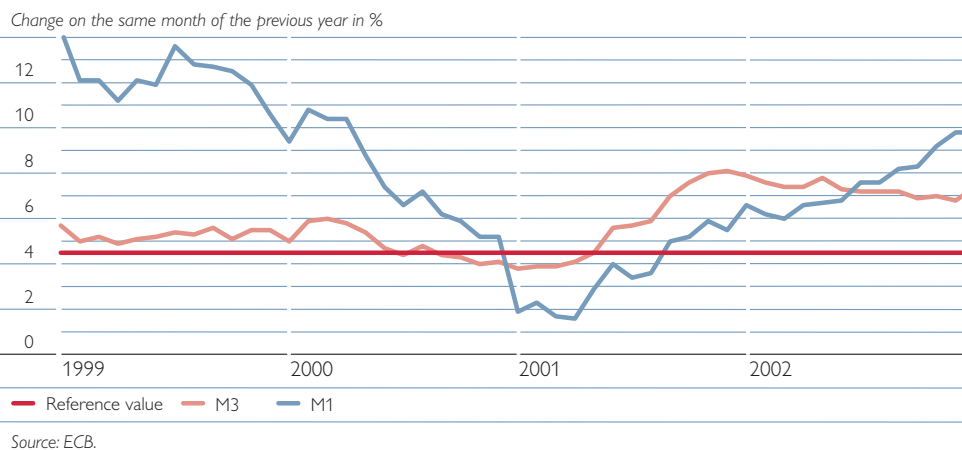
**The Eurosystem's
Monetary Policy Strategy
in the Light of the
Interest Rate Cut in 2002**

Forward-looking monetary policymaking

The primary objective of the Eurosystem's monetary policy is the maintenance of price stability. The Eurosystem defines price stability as a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) of below 2%, which is to be maintained over the medium term. In order to ensure the forward-looking nature of monetary policy, it was based on a two-pillar framework. In the context of the first pillar of the strategy, monetary growth was accorded an important role. The announcement by the ECB's Governing Council of a quantitative reference value for the growth rate of the broad monetary aggregate M3¹⁾ underlines the importance of monetary aggregate growth. The rationale for this reference value is that there is a stable long-term relationship between monetary aggregate growth and the change in the price level. Empirical research has provided sufficient evidence of this link. The reference value is calculated on the basis of an assumption for trend potential output growth of between 2% and 2.5% and for the trend decline in M3 velocity of between 0.5% and 1.0% a year. On these assumptions,

1 The broad monetary aggregate M3 includes currency in circulation, overnight and other short-term deposits as well as money market fund shares/units, money market paper and debt securities issued by MFIs.

Monetary Developments in the Euro Area



an annual M3 growth rate of 4.5% is consistent with the objective of price stability. However, if M3 growth begins to deviate from this reference value, the Governing Council of the ECB does not automatically take steps to counteract these deviations. Much rather, the impact on price structures of the monetary aggregate and its components and counterparts (such as credit expansion) are thoroughly analyzed.

The Governing Council of the ECB confirms reference value for M3 growth

A forward-looking monetary policy must take into account a number of other factors that could influence price stability in addition to monetary growth. These factors are subsumed under the second pillar of the monetary policy strategy. Aggregates such as GDP growth, wages and productivity, yield curves, the exchange rate and cost indices are used to gauge pressure on prices. The Eurosystem's forecasts of price changes constitute another important element of the second pillar.

At its meeting of December 5, 2002, the Governing Council reviewed the reference value for monetary growth. It decided to reconfirm

the existing value on the grounds that the evidence continued to support the assumptions for trend potential growth in the euro area and for a trend decline in M3 income velocity which formed the basis for the derivation of the reference value. The attainment of higher potential growth in the euro area remained conditional on further progress in structural reforms in the labor and goods markets, noted the Governing Council. The Governing Council stressed that the reference value for monetary growth was a medium-term concept, as short-term movements in M3 were often caused by temporary factors, and that deviations of M3 from the reference value had to be analyzed in conjunction with other real and financial indicators in order to understand their implications for price stability. Hence, M3 growth rates in excess of the reference value of 4.5% from the third quarter of 2001 onward had to be assessed in the context of large portfolio reallocations in the euro area. In 2002, M3 growth came to 7.2%, mainly as a result of the high level of uncertainty and distress in financial markets and notably because of the unprecedented decline

The Transmission Mechanism in the Euro Area

The Monetary Transmission Network (MTN), a forum that included OeNB experts, conducted research on the monetary policy transmission mechanism in the euro area. The research network came to the following conclusions:

The research was based on the premise of a temporary and unexpected interest rate increase of 100 basis points and examined the impact of this move on other economic variables. As a rule, short-term money market rates react immediately, as do other prices in financial markets, such as stock prices. Growth and inflation expectations should adjust immediately following the interest rate decision and should then have an impact on wage and price formation. However, expectations are difficult to measure, and were not taken into account in the project as a consequence.

The empirical results show that GDP begins to contract significantly two quarters after the interest rate hike. One year after the increase, GDP growth is down by 0.2% to 0.4%; two years later, GDP growth is 0.3% to 0.7% lower. As a result of rigidities, prices respond with a considerable lag. In the first one and a half years following the interest rate boost, the level of consumer prices hardly changes; only then do consumer prices begin to sink somewhat. After three years, prices have dropped by 0.2% to 0.4%.

The reason for the marked time lag in the reaction of prices to monetary policy decisions is that these decisions are transmitted via the goods and labor markets, i.e. via real economy imbalances that lead to delayed price and wage adjustments. Following this argumentation, a decline in the rate of inflation invariably entails real economic costs in the form of reduced output in the short run.

Monetary policy is transmitted to domestic demand through different channels, the interest rate channel and the credit channel. Monetary policy decisions impact on the structure of market interest rates and on assets through the interest rate channel. A temporary increase in real interest rates makes it more rewarding for households to increase saving. Thus they postpone a part of consumption, which diminishes current demand for consumer goods. An interest rate hike also makes the acquisition of new capital more expensive and hence reduces the demand for capital goods (cost-of-capital channel). Finally, unexpected interest rate decisions as a rule impact on assets, e.g. bonds and equities, and therefore reduce household wealth. Households react by trimming their spending on consumer goods (wealth channel).

The second group of transmission channels (credit channels) arises as a result of incomplete and asymmetric information in financial markets. An increase in key interest rates may, for instance, cause the volume of bank lending to contract because the value of collateral necessary for borrowing operations declines. Two consequences are possible: either a credit is not extended, or the cost of external financing rises, making financing projects unprofitable (balance sheet channel). The cost of obtaining external finance may also augment because banks themselves have problems with their balance sheets and have to restrict lending (bank lending channel).

Finally, monetary policy decisions also have an effect on the exchange rate. In theory, tightening of monetary policy should cause the domestic currency to appreciate, which translates into a decline in foreign demand for domestic goods and makes imports cheaper. Both of these effects act as a damper on prices. However, empirical evidence shows that the link between monetary policy and the exchange rate is uncertain.

As the euro area is a largely closed economy, aggregate demand is composed mostly of demand for consumer and capital goods, whereas exports play a lesser role. Consequently, the relative importance of these two demand channels for monetary policy was examined. In the euro area, the decline in investment demand plays a much larger role in moderating output growth than consumer demand. The situation in the United States is exactly opposite, as output is influenced above all by a decrease in consumer demand. This is explained by the fact that the wealth effect, which dampens consumer demand, is much more pronounced in the U.S.A. than in the euro area. Both the greater importance of the stock market and more widespread stock ownership in the U.S.A. support this argument. In the euro area, liquid investment vehicles predominate private investment, which explains the limited importance of consumer demand for the transmission mechanism there.

Research on the role of the different channels suggests that the cost-of-capital channel is the dominant transmission channel. The findings of the MTN appear to indicate that the credit channel is not of central importance in shaping the transmission of monetary policy under crisis-free conditions.

The project results also confirm that monetary policy appears to have a different impact on the various economic sectors according to the state of the economic cycle. An interest rate change feeds through to output much more strongly during a weak cyclical phase than during an upturn. (For more details see OeNB: Aspects of the Transmission of Monetary Policy, Focus on Austria 3–4/2001, and ECB: Recent findings on monetary policy transmission in the euro area, Monthly Bulletin October 2002.)

in stock prices. Numerous retail investors saw fit to reduce their holdings of relatively risky assets such as stocks and to opt increasingly for relatively liquid and low-risk assets partly contained in M3.

Eurosystem cuts interest rate by 50 basis points on December 5, 2002, ...

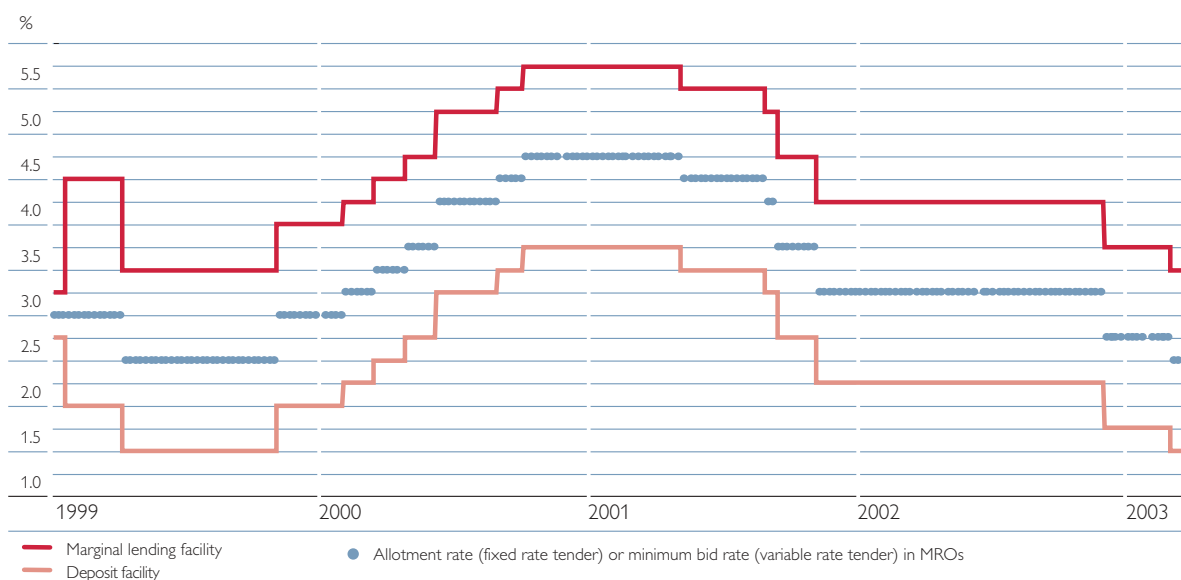
At its December 5 meeting, the Governing Council of the ECB also decided to reduce the minimum bid rate on the main refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility by 0.50 percentage point each to 2.75%, 3.75% and 1.75%, respectively. This decision was explained by the strengthened evidence of a decline in inflationary pressure. Analyzing the first pillar, deviations of M3 from the reference value were seen as having been caused by special factors that did not pose a threat to price stability in the medium term. The moderation of the growth in loans to the private sector supported this assessment.

The indicators under the second pillar confirmed the judgment that inflationary pressure had eased. The most recent output growth data available at the time, which were close to the lower end of the forecast, signaled that the accumulation of substantial liquidity would not cause prices to rise in the short run. Also, in particular consumer confidence data did not indicate that moderate GDP growth would gain considerable momentum in the coming months.

... and by 25 basis points on March 6, 2003

At its meeting of March 6, 2003, the Governing Council trimmed interest rates by another 25 basis points. The minimum bid rate on the main refinancing operations was lowered to 2.50%, the interest rate on the marginal lending facility was cut to 3.50% and the interest rate on the deposit facility was reduced to 1.50%. The Governing Council justified the interest rate cuts with the improvement of the outlook for price stability over the medium term in recent months, owing in particular

Interest Rate Development in the Euro Area



Source: ECB.

to the subdued pace of economic growth and the appreciation of the exchange rate of the euro. The economic outlook as assessed under the two pillars of the monetary policy strategy had hardly changed from the December 2002 date of the last interest rate reduction. The most recent available forecasts indicated that economic growth would not pick up noticeably in the first half of 2003. Therefore, the Governing Council assumed that the outlook for economic growth in the euro area in 2003 had weakened compared with expectations voiced in fall 2002. Above all, the geopolitical tensions and the associated rise in oil prices dampened expectations for a rapid and sustained upturn. The pronounced volatility in oil markets made it difficult to forecast short-term inflation developments. However, more fundamental factors should dominate price developments once these markets had normalized somewhat. First, the significant appreciation of the nominal effective exchange rate of the euro over the past year was expected to continue to feed through the economy into consumer prices, via import and producer prices. Second, the moderate pace of economic growth should also reduce inflationary pressures.

Transparency of Monetary Policymaking

More effective monetary policy

The ECB and the euro area NCBs are intent on ensuring a suitable degree of transparency. In the context of monetary policy, transparency means that a central bank informs the public about its mandate, strategy, assessments and decisions in an appropriate manner. A central bank that displays continuity in its public relations gains credibility and ensures that its deci-

sions are more effective. The increased standing of transparency for central banks is reflected, among other things, by the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies.

Transparency and independence

The view that a central bank whose primary objective is to maintain price stability must be able to act independently of all other economic policymakers prevails in the current monetary policy debate. This operational independence includes the freedom from any instruction by political institutions. In the past, the long-term orientation of monetary policy was frequently sacrificed for other political aims that were determined by the life of a parliament, which risked compromising the price stability goal. The ECB and the NCBs actively assume the obligation of accountability resulting from a properly understood concept of independence. This means that the Eurosystem clearly justifies its actions to euro area citizens. This transparency enables the public to monitor every decision the Eurosystem takes, raising acceptance of these decisions.

Monetary policy

predictability reduces uncertainty

Transparency is important not just for the reasons linked to central bank independence, but above all because it makes monetary policy more effective. For one thing, having a clearly defined monetary policy objective makes it possible for other market participants to check whether decisions are consistent with objectives, which is a fundamental prerequisite for central bank credibility. If central banks make public the monetary policy strategy and verifiably abide by this strategy, market participants can

orient their expectations on the Eurosystem's objectives. Predictable decisions of the ECB's Governing Council reveal the forward-looking nature of monetary policy, reducing uncertainty in the markets. Transparency helps market participants anticipate interest rate changes, so that financial markets are less subject to volatility. In an analysis of the near-term predictability of monetary policy decisions, Pérez-Quirós and Sicilia (2002)¹) come to the conclusion that the market correctly anticipated 11 of 12 ECB key interest rate cuts. Market participants also accurately gauged the key interest rate cut of December 5, 2002. Hence the predictability of the ECB's monetary policy is comparable to that of the U.S. Federal Reserve System.

**Transparency increased
through various channels**

Apart from the explicit definition of price stability and the provision of comprehensive information about the ECB's monetary policy strategy, which enhance transparency in the manner described, the ECB also wields a number of channels to communicate its decisions to the public, e.g. the press conferences of the President and the Vice-President of the ECB. Speeches by and interviews with members of the ECB's Governing Council have a similar public relations impact. Here, the NCBs have a crucial role to play. The euro area comprises 12 nations with partly dissimilar monetary policy traditions. The years of experience each NCB has acquired in handling its specific economic policy environment gives it the expertise to translate monetary policy decisions in its national setting. The NCBs have built up close networks of communication channels in their countries and are thus especially

qualified to present the Eurosystem's decisions to their national public.

The Treaty establishing the European Community (the Treaty) requires the ECB to report directly to the European Parliament. To fulfill this duty, the President of the ECB appears before the Committee on Economic and Monetary Affairs of the European Parliament once a quarter. The Treaty also provides for the right of the President of the EU Council to attend meetings of the Governing Council of the ECB in a nonvoting capacity.

With its publications "Berichte und Studien" and its English-language counterpart "Focus on Austria," "Focus on Transition" and the Working Papers (see chapter "Publications"), the OeNB provides a forum in which its own experts and renowned economists from other institutions inform the public about the Eurosystem's monetary policy and current economic developments and in which they publish the results of their research.

**The NCBs'
and the OeNB's Roles
within the Eurosystem**

**Centralized decision making –
decentralized implementation**

The architecture of the Eurosystem provides for centralized decision making. This is the only means to ensure that the monetary policy of the euro area is uniform. The decisions are implemented decentrally, coordinated by the Executive Board of the ECB. The responsibilities and tasks of the NCBs may be derived clearly from this structure.

First, the governors of the individual NCBs contribute to all Eurosystem decisions within the framework of the Governing Council of the ECB. All governors are thor-

¹ Pérez-Quirós, G. and J. Sicilia: *Is the European Central Bank (and the United States Federal Reserve) predictable? ECB Working Paper No. 192.*

oughly briefed by their NCB staff, which is a crucial element in providing independent analytical input for a broad and inclusive process of opinion forming in the Governing Council.

Second, the NCBs communicate the Eurosystem's single monetary policy to the general public and to economic policymakers in their respective countries.

Third, the NCBs play the operational role within the Eurosystem – they implement monetary, foreign exchange and payments policy and contribute to or compile monetary and balance of payments statistics. To this end the OeNB, like the other NCBs, provides data for the liquidity forecasts that enable the ECB to assess the liquidity of the Eurosystem. On this basis the ECB decides how much central bank money to allot; it implements these decisions decentrally through the NCBs via regular tender operations. To guarantee a level playing field, the information on a given tender operation is provided simultaneously to all bidding banks; innovative IT systems ensure the smooth handling of this procedure. As part of the operational tasks they fulfill for the Eurosystem, the NCBs hold the minimum reserves of the commercial banks in their respective countries, collect statistical data and take part in international monetary policy cooperation.

Fourth, the NCBs of all EU Member States have subscribed to the ECB's capital. 50% of the share in the capital of the ECB are calculated on the basis of the population share of the respective Member State, 50% on the basis of the respective Member State's share in the gross domestic product of the Community. The weighting of the OeNB in the key is 2.3594%, which corresponds

to approximately EUR 118 million. Among other things, paying up the capital share of the ECB entitles NCBs to a share of the ECB's profit. In addition to the proportional profit distribution, the capital key is also used for the allocation of the sum of the NCBs' monetary income.

The NCBs have national responsibilities in addition to the tasks they perform as integral parts of the Eurosystem. The OeNB, for example, has prudential supervision obligations, which are described in greater detail in the chapter "The OeNB's Role in Maintaining Financial Stability."

EU Enlargement is on Track

*The decision-making process
in the Governing Council
will remain efficient after enlargement*

Like other EU decision-making bodies, the Governing Council of the ECB must prepare for EU enlargement and for acceding countries' euro area membership. On February 3, 2003, the Governing Council of the ECB, in conformity with the enabling clause contained in the Treaty of Nice, which gives it the right to amend the voting powers of the Governing Council members, issued a recommendation under which it proposed a rotation system for the exercise of voting rights. The rotation system becomes effective when the number of NCB governors exceeds 15. The voting rights are limited to 21, which means that the members of the Executive Board of the ECB will retain permanent voting rights and the voting rights of the NCB governors will rotate. All members of the Governing Council will continue to attend meetings in a personal and independent capacity and will be able to participate actively in the discussions.

**Rotation system secures
representation of all euro area countries**

The new voting system can be adjusted over time so as to accommodate any sequencing of euro area enlargement up to 27 Member States. The principle of representativeness ensures that every monetary policy decision the Governing Council of the ECB takes has the support of countries representing more than 60% of the euro area economy measured by a composite indicator. The allocation of NCB governors to voting groups will be based on a ranking resulting from their country's representation in this composite indicator. A country's GDP share will account for five sixths of its weight in the composite indicator, and the total assets of the aggregated balance sheet of monetary financial institutions within the territory of the Member State will account for one sixth. This second component recognizes the specific relevance of the financial sector for central banking decisions.

The rotation system will ensure that the ECB's Governing Council retains the ability to decide quickly

and efficiently and would preserve key principles of the Eurosystem's discussions – the one member, one vote principle, and ad personam participation. On March 21, 2003, the European Council adopted the recommendation of the ECB's Governing Council. This Council decision must be ratified by all Member States.

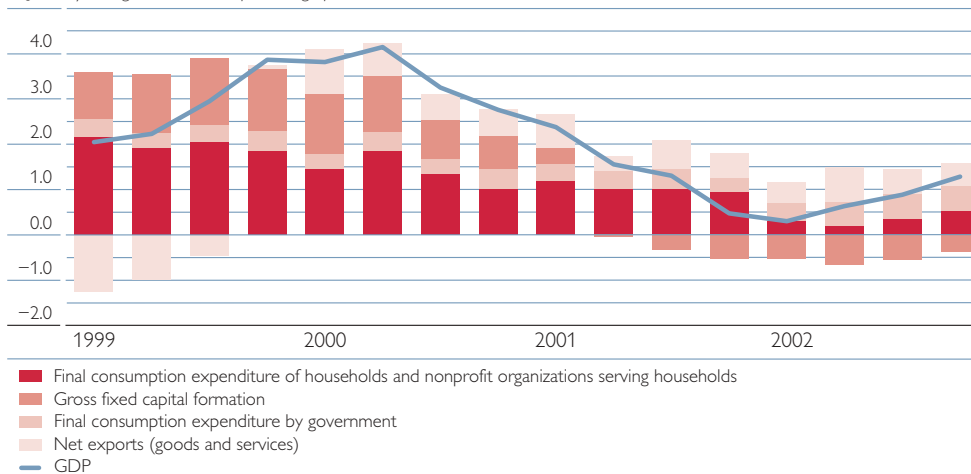
**Euro Area Economic
Activity in an
Unfavorable Inter-
national Environment
International Economic
Performance below
Expectations in 2002**

Subdued global economic growth

The global economy suffered from sluggish growth in 2002. At the beginning of the year, forecasters still expected that euro area and U.S. growth would gain momentum in the second half of the year, but by the first quarter, they revised downward their GDP growth projections considerably. In the euro area, exports were the main pillar of growth in view of tepid domestic demand. In the first half higher public spending still partly offset very soft con-

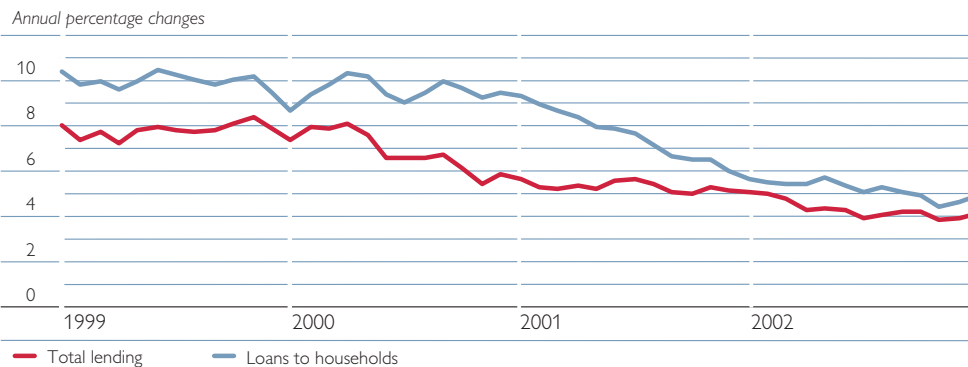
Contributions to Growth of the Components of Euro Area Real GDP

Quarterly change annualized in percentage points



Source: Eurostat.

Euro Area Credit Growth



Source: ECB.

Note: In December 2002 loans to households accounted for 69.2% of total lending.

sumer spending. Euro area output growth closed with a rate of 0.8% for the year. The moderate pace of euro area economic growth is contingent on structural rigidities in addition to current uncertainties and the weak international economy.

Anemic household consumption expenditure is partly attributable to higher unemployment, which dampened disposable incomes. Euro area joblessness climbed from 8.1% in January 2002 to 8.5% in December 2002.

The Impact of Stock Price Losses on the Real Economy

In the euro area stock prices contracted by over a third in 2002 as measured by the decline in the Dow Jones EURO STOXX index. In the same period, equities lost about 17% of their value in the U.S.A. A negative change in stock prices impacts on the real economy via different channels. For one thing, the wealth effect restricts household consumption expenditure. The share of privately held stocks in disposable income and the propensity to consume income from stockholdings determine the size of this effect. On the other hand, the value of stocks and mutual fund shares equaled 66% of disposable income in the euro area; the figure was 122% for the U.S.A. The percentages augmented markedly in both regions from 1997 to 2000.

No euro area estimates are available for the effect of stock wealth increases on consumption. In an analysis, the IMF (2002)¹ made such estimates for a number of countries. Depending on the structure of their financial market, countries were classified under one of two categories of financial systems – bank-based or market-based. The marginal propensity to consume out of equity wealth (i.e. the increase in consumer spending associated with an increase in wealth) in countries with bank-based systems come to 0.009 for the period 1984 to 2000, which translates into a cut in household spending in these countries of 0.9 cent for every permanent decline of EUR 1 in equity wealth. At 0.043, this value is clearly higher for the United States; accordingly, a decline in equity wealth by USD 1 reduces consumer spending by 4.3 cents.

These results reflect macroeconomic relationships and not actual spending by individual households. One reason the propensity to consume is significantly lower in the euro area than in the United States may well be that equity holdings are less widespread in the former region. 10% of German and 13% of French households had equity holdings in 2002 compared to 19% of all U.S. households in 1998. According to Poterba (2000)² declining stock prices reduce spending even of consumers who do not own stocks, because confidence in future economic developments declines (confidence channel of asset effects).

In theory, stock price changes also have an effect on the cost of equity to finance investment. Declining stock prices reduce the ratio between a firm's market value to the replacement cost of capital tied up in the firm, which diminishes the incentive for further investment. However, empirical evidence of the link between gross fixed capital formation and stock prices is negligible for the euro area. This phenomenon is likely to be a result of the bank-based financial structure of euro area countries, where companies procure debt finance from bank loans.

¹ World Economic Outlook, April, p. 82–83.

² Poterba, J.: Stock Market Wealth and Consumption, *Journal of Economic Perspectives*, Vol. 14, p. 99–119.

The year 2002 began with unexpectedly robust first-quarter GDP growth in the United States, but investor confidence, which had already been fragile because of the stock market slump and the terrorist attacks of September 11, 2001, was further eroded by accounting scandals. The geopolitical situation, above all the war in Iraq, compounded the uncertainty of economic agents. In the face of listless household expenditure, marginally rising government spending and slightly positive net trade, investment continued to stagnate. The U.S. economy expanded by 2.4% year on year in real terms in 2002.

While Japan posted 0.3% growth in 2002, consumer spending did not get off the ground, as the saving ratio remained high and unemployment surged. Deflation, a large budget deficit and high government debt as well as the unresolved banking crisis persist as dampers on the economy.

Inflation at 2.2% in the euro area in 2002

Euro area HICP inflation picked up temporarily at the beginning of 2002 to diminish from February to June 2002. In June HICP inflation stood at 1.8%, having fallen below the 2% mark for the first time in

two years. Between July and October 2002, the rate of price increase in the euro area mounted to reach 2.3% in October. The prime component pushing up inflation was energy: Whereas energy prices had been an important damper on prices between September 2001 and July 2002, this effect all but dissipated in August and September and kicked in again for the first time in October. In November inflation dipped to 2.2% and ended the year at 2.3% in December 2002. Over the year, HICP inflation averaged 2.2%, 0.3 percentage point less than in the previous year.

Euro exchange rate up against the U.S. dollar

The euro exchange rate appreciated noticeably from December 2001 to December 2002; the nominal effective exchange rate advanced by an average 8.8% in 2002. In view of the increasing tension over the Iraq situation, international investors increasingly flocked to the euro as a safe haven; concerns about the elevated U.S. current account deficit are also likely to have played a role. Also, the interest rate differential between the euro and the U.S. dollar appears to have contributed to the

Development of the Exchange Rate of the Euro against the U.S. Dollar

From January 1, 1999, to March 31, 2003



Source: Datastream.

rise in the euro's exchange rate. The nominal effective appreciation of the euro against a number of currencies should help dampen inflation by lowering the price of imports to the euro area somewhat in the medium term.

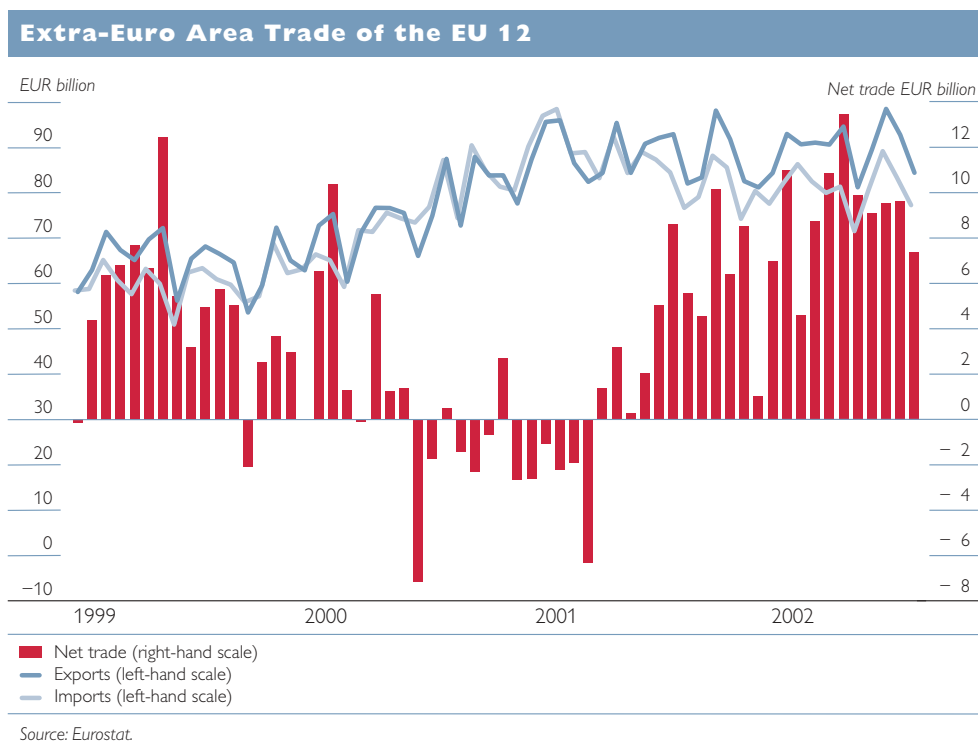
According to preliminary data for the calendar year 2002, the euro area current account switched from a deficit of EUR 14 billion in 2001 to a surplus of EUR 62 billion in the year under review. All subbalances contributed to this positive outcome. The surplus on goods augmented by EUR 76 billion to EUR 133 billion. In more detail, the euro area's exports widened by about 2.5%, whereas imports shrank by roughly 3.5% (both in nominal terms). The surplus on services climbed from EUR 1 billion in 2001 to EUR 13.5 billion in the review year. The income subaccount closed with a deficit of EUR 39.5 billion, nearly unchanged from the 2001 result, whereas the shortfall on current

transfers declined from EUR 51 billion to EUR 45 billion.

The euro area financial account closed with net capital exports of EUR 171.3 billion in 2002, an increase compared to 2001. In a breakdown by subbalances, net FDI outflows contracted from EUR 101.5 billion in 2001 to EUR 21 billion in 2002. In the category of debt securities, capital exports in 2001 switched into capital imports of EUR 11.3 billion in the reporting year.

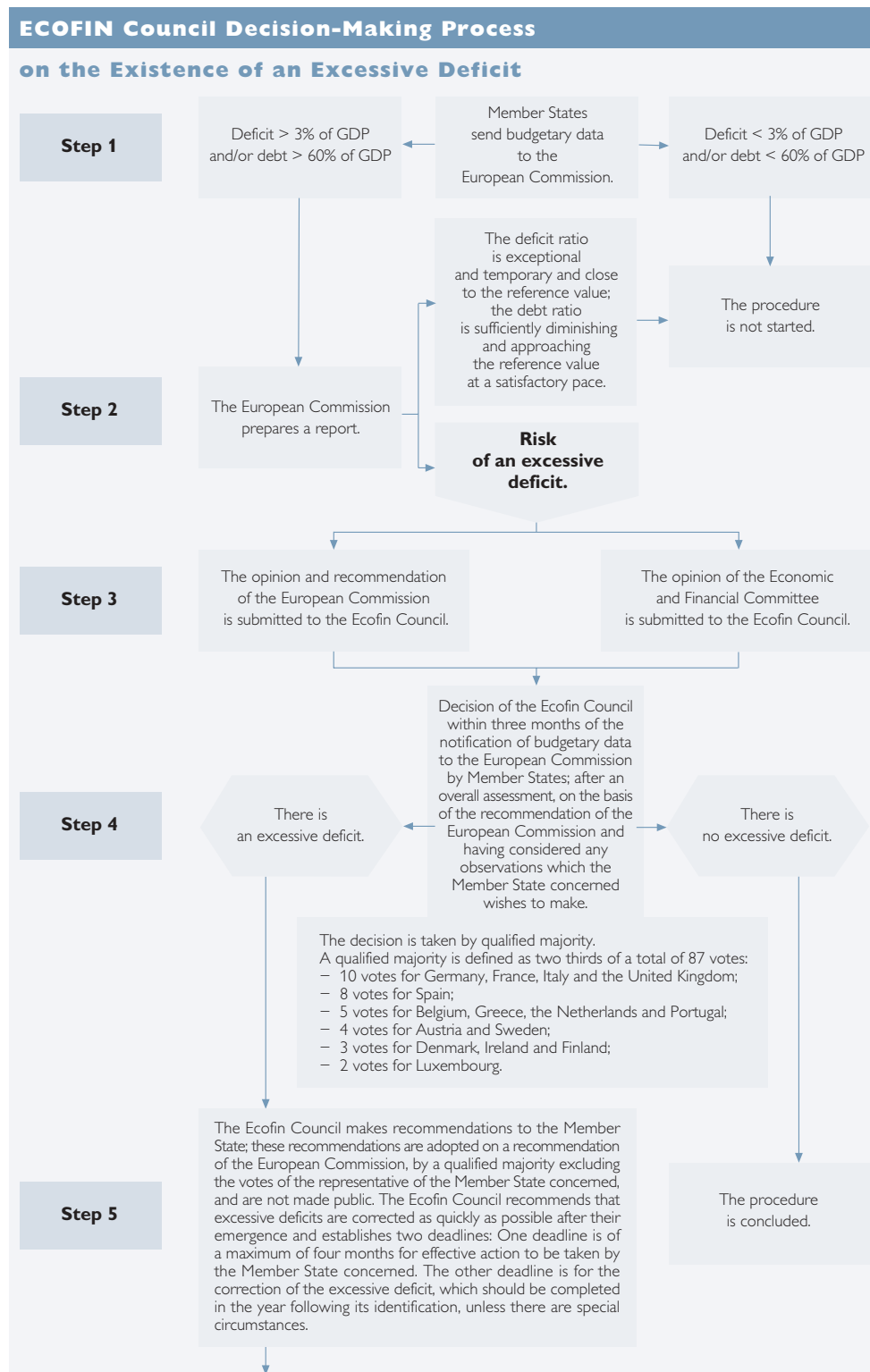
Weak business activity hampers compliance with euro area fiscal targets

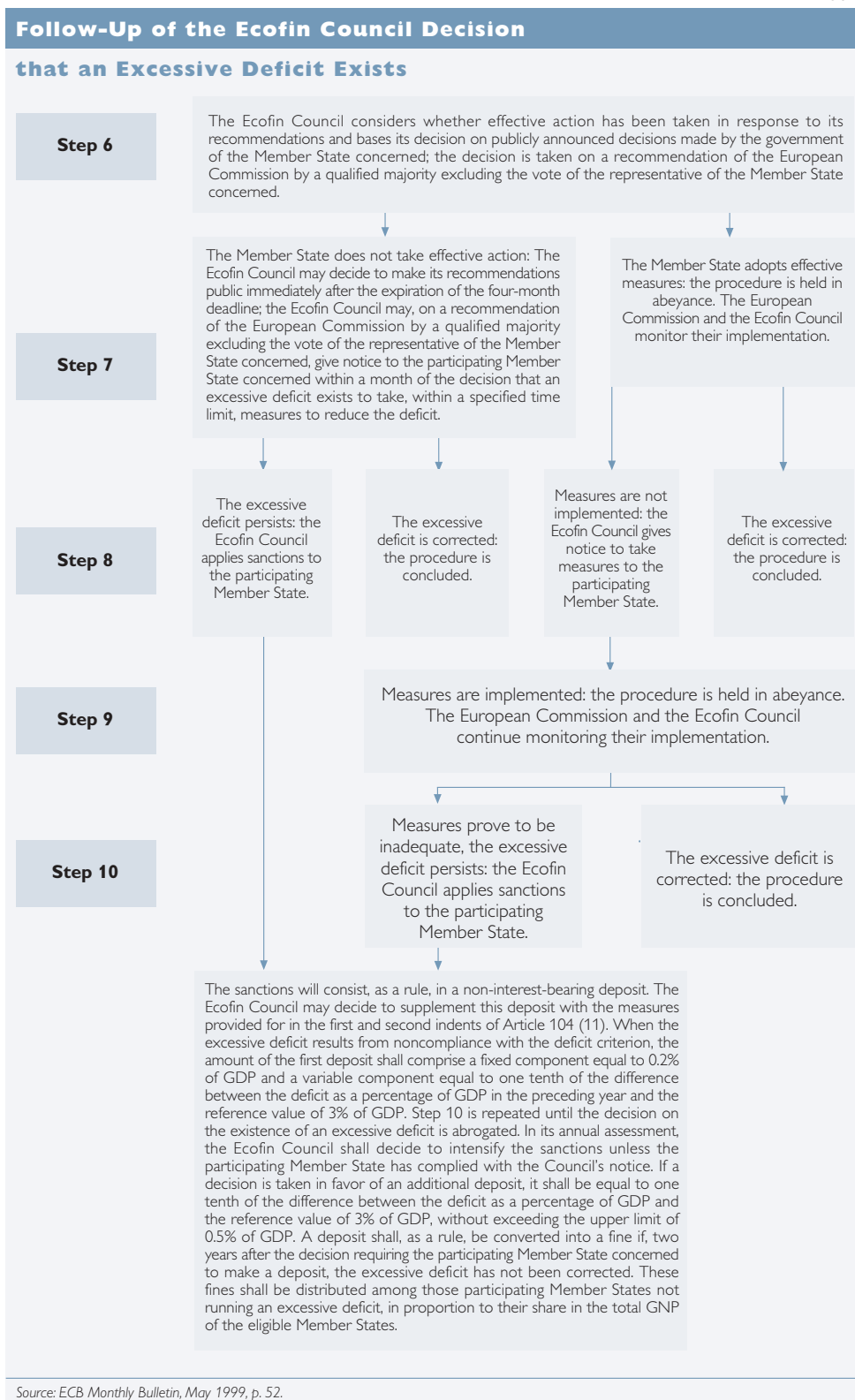
Weak economic activity in 2002 impeded fiscal consolidation in the euro area. The aggregate budget deficits of all euro area countries came to 2.2% of GDP in 2002 following 1.5% in 2001. This deterioration may be traced primarily, though not exclusively, to the sluggishness of business activity. The cyclically adjusted budget deficit enlarged from 2% in 2001 to 2.2% in 2002.



The greatest concerns focused on the budgetary situation in Germany and Portugal: In the case of Portugal, a revision in July 2002 indicated that the deficit ratio for 2001 came to 4.1% of GDP rather than the originally envisaged 2.2%; in 2002 the

deficit still stood at 3.4%. The most recent estimates put Germany's budget deficit at 3.8% in 2002. As a consequence, the European Commission initiated excessive deficit procedures against Portugal and Germany.





Austria: Slowdown in Growth, Marginal Current Account Surplus

Expertise for economic policymakers

As a competence center for economics and an information hub between the Eurosystem and Austrian economic policymakers, the OeNB draws attention to topics relevant to monetary policy and points out areas in which economic policy reforms are needed. One of the key tasks the OeNB fulfills in its monetary policy analyses is to provide economic forecasts for Austria as a contribution to the Eurosystem's projections for the euro area and to make assessments of cyclical conditions and of the outlook for price developments.

Growth did not accelerate in the course of 2002

After output growth had cooled perceptibly in 2001, growth revived slightly at the beginning of 2002. In line with tendencies throughout Europe, the upswing observed in the first half of 2002 could not gain momentum in the second half of the year, causing economic activity to stall. The quarterly growth data reflect the slowdown in the course of 2002. While seasonally adjusted growth on the previous period 2001 amounted to 0.8% and 0.5%, respec-

tively, in the first two quarters of 2002, it dropped to 0.1% in the third quarter and to -0.1% in the fourth quarter. Annual real GDP growth amounted to 1% in 2002, markedly below the long-term average. Growth is not expected to pick up until the second half of 2003, when it will be underpinned by external demand.

Investment in plant and equipment slumps; net exports fuel growth

A number of factors were implicated in the disappointment of expectations that a solid upswing would take hold in 2002. The unfavorable international economic situation – particularly in Germany, Austria's main trading partner – and the extremely pronounced uncertainty about future economic development prompted enterprises to trim planned investment substantially. Whereas construction investment began to stabilize at a low level after having weathered years of crisis, equipment investment shrank distinctly, declining by nearly 9%. Consumer spending, which had bolstered the economy in recent years, plummeted in 2002. Consumer reticence was the result of the limited rise in real incomes and stagnating employment. Government consumption did not stimulate

Real Gross Domestic Product and Its Composition in Austria

1995 = 100	unadjusted			seasonally adjusted					
	2000	2001	2002	4 th qu. 2001	1 st qu. 2002	2 nd qu. 2002	3 rd qu. 2002	4 th qu. 2002	
	Annual change in %			Quarterly change annualized in %					
Gross domestic product	+3.5	+0.7	+1.0	-0.0	+0.8	+0.5	+0.1	-0.1	
	<i>in percentage points</i>								
Components of GDP growth									
Private consumption	+1.86	+0.82	+0.52	+0.41	+0.14	-0.29	+0.46	+0.48	
Government consumption	+0.01	-0.10	+0.24	+0.09	+0.16	-0.03	+0.07	-0.02	
Gross fixed capital formation	+0.70	-0.96	-1.08	+0.10	-0.09	-0.56	-0.31	-0.07	
Net exports	+0.83	+0.79	+1.40	-0.17	+1.32	-0.25	+0.58	-1.44	
Statistical discrepancy	+0.13	+0.12	-0.04	-0.45	-0.70	+1.65	-0.73	+0.92	

Source: OeNB, Statistics Austria (annual values), Eurostat (quarterly values).

growth manifestly either because austerity measures were implemented within the framework of budget consolidation. As in 2001 net exports were the mainspring of GDP growth. While export growth suffered a striking decline, imports augmented at an even slower rate than exports.

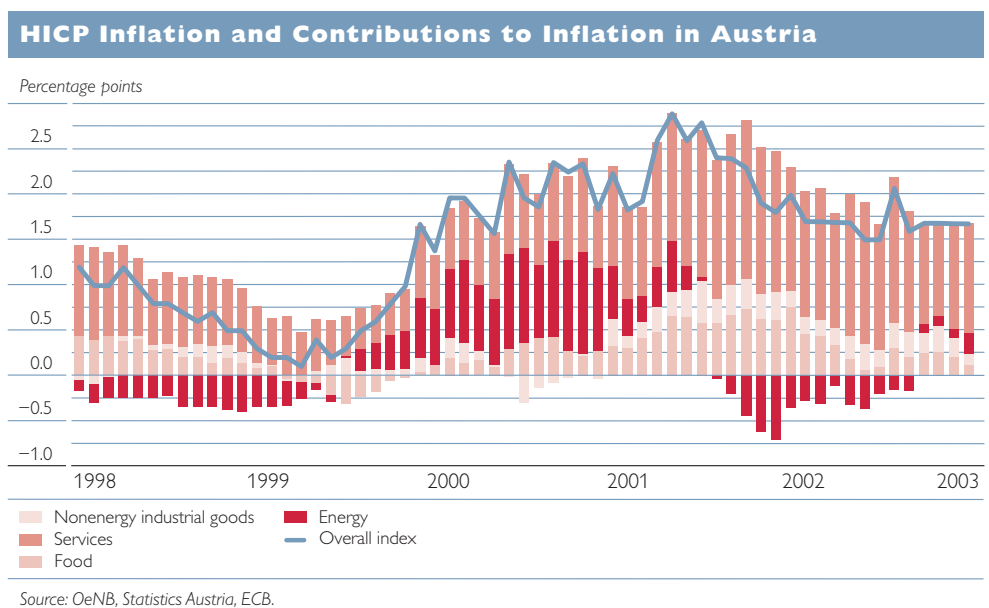
**Unemployment mounts;
employment stagnates**

The labor market reacted to the economic slowdown with a time lag. The jobless rate went up by 0.5 percentage point on average in 2002 according to Eurostat to 4.1%; according to the national definition, it widened by 0.8 percentage point to 6.9%. The unemployment rate continued to rise until December. Slack business activity in the second half of 2002 may affect the labor market again in 2003, however. Moreover, the decline in dependent employment (adjusted for persons in compulsory military service and persons on paid childcare leave) stopped accelerating in the second half of the review year. At the end of the year, the number of dependently employed persons was down by 20,000 on the end-2001 fig-

ure. The rise in the number of registered vacancies, a reliable leading indicator for the labor market, slowed markedly in the course of 2002.

Inflation returns to well below the 2% mark

Inflation decelerated substantially in 2002. The increase in the HICP came to 1.7% (2001: +2.3%). The rate of price increase peaked in August at 2.1% and subsequently let up to end the year at 1.7% in December. Services, an important subcomponent of the HICP with a weight of 45%, were the main factor contributing to inflation. The upward trend in the price of services was surprisingly persistent in the course of the year and slowed only toward the end of 2002. Energy costs, typically dominated by the price of crude oil, displayed a different trend. Their contribution to inflation was initially negative, but turned positive in the course of the second half of the year when crude oil prices gained pace. The development of food prices reflects the fact that increases related to the BSE crisis and foot-and-mouth disease were dropping out of the calculation. At the beginning of 2002, a supply



shortage triggered by unfavorable weather conditions temporarily drove up prices, above all of vegetables. In the euro area, only HICP inflation rates in Germany and Belgium were lower than those in Austria in 2002.

The introduction of euro notes and coins had no significant effects on Austrian prices in 2002 (see box “The Development of Inflation in Austria since the Start of Economic and Monetary Union in 1999”).

The Development of Inflation in Austria since the Start of Economic and Monetary Union in 1999

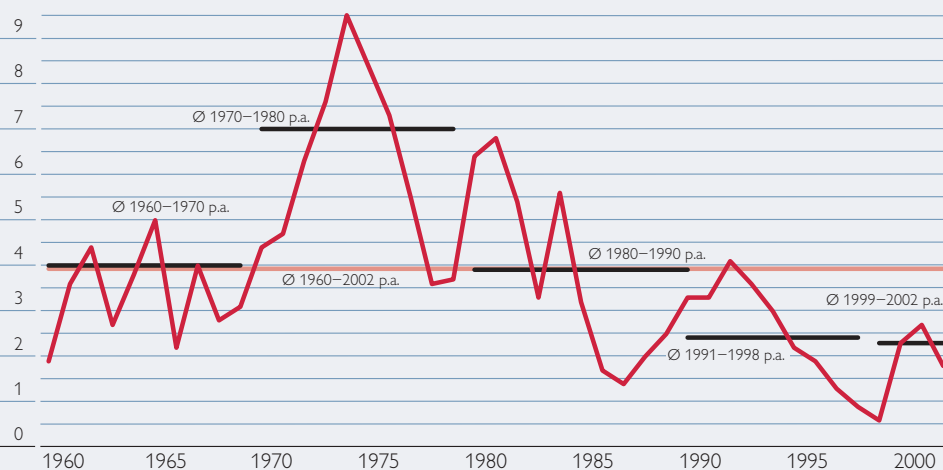
The Euro Underpins Price Stability in Austria

In 1999, the first year since the inception of EMU, inflation fell to 0.5% in Austria, the lowest rate recorded in 40 years. Above all in 2001 and 2002, years marked by a difficult global economy and geopolitical tensions, the price stability orientation of the euro area’s monetary policy proved successful and helped the euro to become a highly stable currency. While inflation had averaged about 2.4% throughout the 1990s in Austria, it sank to just above 2% from the establishment of EMU. This is especially remarkable considering that burgeoning oil prices represented a supply shock for the world economy in 2000. At the same time, stepped-up budget consolidation efforts translated into partly hefty increases in fees, rates and indirect taxes, which put upward pressure on the inflation rate. In 2001 inflation spiked, and these factors remained in force. In addition, the BSE and foot-and-mouth epidemics drove up inflation by boosting the price of meat and other foods.

Excluding these extraordinary influences, inflation would have been lower at around 1% in Austria in 2000 and 2001. While the cash changeover had some impact on prices, the rate of price increase subsided to 1.7% in 2002, which is below the euro area average.

Inflation in Austria from 1960 to 2002

Annual change of consumer prices in %



Source: Statistics Austria, OeNB.

Heightened Competition Puts a Lid on Prices

In addition to temporary inflationary pressures, a number of factors have curbed Austrian inflation since the country joined the EU and became a member of EMU. As these factors are the outcome of structural reforms and the reinforcement of market forces, they are of a more permanent nature. This trend was bolstered notably by the opening up of markets, the elimination of government monopolies and the implementation of far-reaching restructuring measures. The liberalization of the telecommunications sector had an especially positive impact on consumer prices. Once the telecommunications market had been opened in 1998, prices for cell phone services dropped from

month to month, enhancing consumers' purchasing power. In turn, electricity and gas prices were deregulated gradually, and gas and power supply markets are now beginning to show the impact of substantial price reductions.

Euro Changeover: The Public Perceived Price Rises when Inflation in Fact Declined

Actual overall economic developments did not confirm fears that the euro cash changeover would entail a surge in inflation. In Austria, a number of different factors kicked in to effectively counteract price rises in the wake of the introduction of euro notes and coins:

- Market forces (intensified competition in the exposed and sheltered sectors of the economy, enterprises' absorption of changeover costs through temporary reductions of profit margins, greater transparency of prices across the euro area) broadly counterbalanced price increases.
- Soft cyclical conditions weighed on household demand and reduced sales in some sectors.
- Legal standards such as the Euro-Related Pricing Act, which prescribed dual pricing, and the threat of sanctions induced companies not to step out of line with unjustifiable price hikes.
- The Euro Price Commission, consumer advocacy organizations and the general public carefully monitored rounding of converted prices.

Actual, Perceived and Expected Inflation in Austria



Source: FESSEL-GfK, European Commission, OeNB.

All of these factors ultimately brought HICP inflation in Austria down markedly from 2.3% in 2001 to 1.7% in 2002. Although the euro changeover scarcely had an effect on prices across all goods and services, a breakdown reveals that some service providers, above all the restaurant and catering business, hairdressers, repairs, in fact lifted prices. On the whole, however, the price impact of the cash changeover is likely to have amounted to no more than around 0.1 percentage point to 0.2 percentage point.

In the course of 2002, perceived inflation deviated more from price increases actually measured than in the past. Partly, this phenomenon stemmed from consumers' tendency to be familiar with the price of goods and services they buy frequently whereas they are less attentive to changes in the price of purchases they make at greater intervals or of services they use regularly (rent, for example). What in fact happened is that the price of some less expensive goods was boosted disproportionately, while the price of expensive and very high-cost goods advanced more moderately or even declined. With people gaining a feel for the euro and becoming used to euro pricing structures, the gap between their perception of inflation and actually registered price hikes began to narrow toward the end of 2002; in the end it will disappear. A gratifying factor is that inflationary expectations remained stable and low.

**EU Member States' budget balances
improve marginally**

The most recent calculation of the stability and convergence programs signals only minor improvements in EU countries' general government deficits for 2003 over 2002 against the background of continued unfavorable economic conditions for the majority of Member States.

The data for Austria's excessive deficit procedure (EDP) report to the European Commission and the budget projections in the new government's program have become available. The new Austrian stability program is scheduled to be discussed at the Ecofin Council meeting in May 2003.

**General government deficit for 2002
at 0.6% of GDP**

The considerable deterioration of the economic outlook and the expected rise in government outlays in the wake of the flood in August 2002 induced the Austrian Federal Ministry of Finance to estimate the general government deficit at 1.3% of GDP in 2002 in its September EDP report to the European Commission. The latest stability program of March 2003 states a general government deficit of just 0.6% of GDP for 2003. This figure is largely attributable to the unexpectedly small impact of the flood catastrophe on the budget and to unforeseen additional tax revenues in the second half of 2002. Furthermore, the accrual method of accounting, which is required for an ESA 95 presentation of the budget balance, had a favorable effect on interest expenses and EU own funds, as expenditure in these two categories was significantly lower when calculated on an ESA 95 basis than on a cash basis.

The central government contributed most to the extraordinarily large reduction of the general government deficit, but the social security funds also posted an improved balance, as did state and local governments. The economic stimulus program passed in the fall of 2002 is likely to have burdened the budget balance only marginally.

**Eurostat decision entails an upward revision
of Austria's debt ratio**

The debt ratio in the stability program is given at 67.9% of GDP (EDP report of September 2002: 63.1%). The massive adjustment of government debt arose from Eurostat's decision to classify as public debt funds raised by the Austrian Federal Financing Agency and onlent above all to public entities that are wholly owned by the federal government but that are categorized as private-sector enterprises (chiefly the road construction company ASFINAG and the rail infrastructure financing company SCHIG). This reclassification has lifted debt levels from the year 1998. Another Eurostat decision (regarding the sale of housing subsidy loans of the province of Lower Austria) resulted in an additional base effect of 1.2% of GDP from the year 2001. These effects translate into debt ratios of 66.8% of GDP for 2000, 67.3% for 2001 and 67.9% for 2002. The debt ratio should sink again from 2003.

Future budgetary measures

An escalation above all of expenditure on civil servants' salaries, pensions and family transfers is expected in 2003. Revenues are anticipated to show only moderate growth rates, as the economic revival is likely to progress only hesitantly. Under the stability program, the government

has targeted a deficit-to-GDP ratio of 1.3% and a debt-to-GDP ratio of 67.0% for 2003. The new Austrian government program provides for a tax reform whose first stage is to impact on the budget from 2004 as well as consolidation measures on the expenditure side of the budget (administrative reform, pensions, social security, Federal Railways and subsidies thereto) for the 2003 to 2006 period in its government program.

Surplus on current account

For the first time in ten years, the Austrian current account closed with a surplus in 2002 (0.7% of GDP or EUR 1.56 billion) after having posted a deficit of EUR 3.91 billion in 2001. The current account performed well because the goods and services subbalance swung into surplus and because outflows on the income subaccount declined.

Goods and services improve significantly

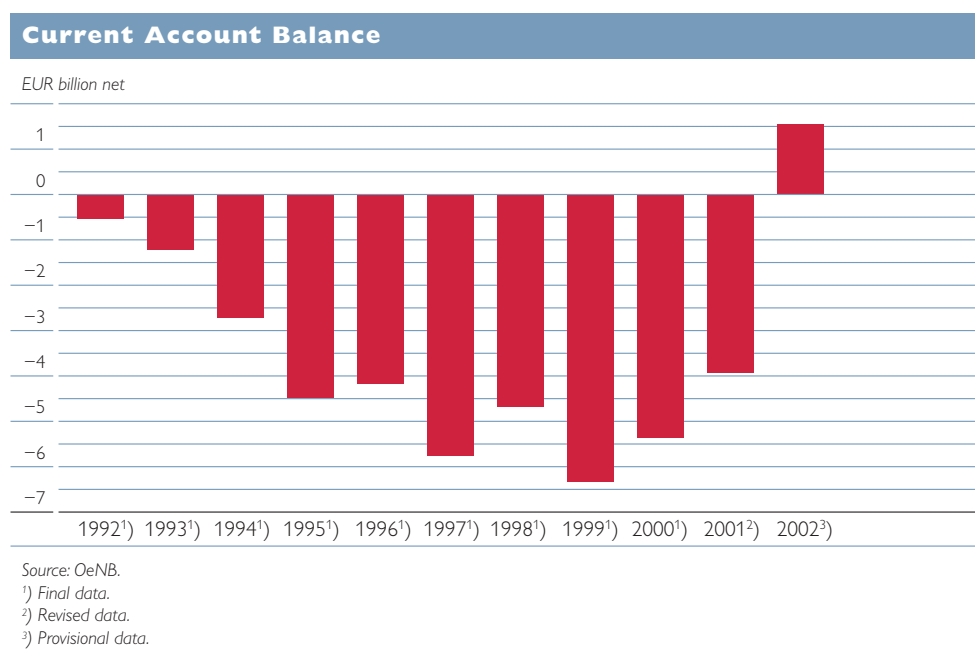
Austrian goods exports enlarged by 4.2% in the review year, whereas the value of goods imports contracted

2.3% in the face of faltering domestic demand and diminishing fixed investment.

The shortfall on the goods account switched into a surplus of EUR 3.50 billion. The services balance remained at roughly the same level as in 2001 with a surplus of EUR 2.00 billion. Travel, the main component of services, posted a highly favorable outcome, closing with a surplus of EUR 2.09 billion, which surpasses the result for 2001 by EUR 0.67 billion. Travel receipts climbed by 5% to EUR 12.03 billion year on year, whereas Austrians' travel expenditure abroad went up by only 1% to EUR 9.93 billion.

Sharply reduced outflows on the income balance, current transfers post slight deterioration

The provisional income balance closed the year with a deficit of –EUR 2.25 billion, or EUR 1.06 billion less than in 2001 (January through December 2001: –EUR 3.31 billion). As already observed throughout 2002, the bulk of the



decline in the deficit may be pinpointed to substantially higher inflows of other investment income (credits, bank deposits, foreign reserves). Moreover, the balances on portfolio investment and direct investment income improved. At –EUR 1.68 billion, net current transfer outflows outpaced the –EUR 1.36 billion recorded in the same period of 2001. At EUR 0.56 billion, the deficit on capital transfers exceeded the comparable 2001 result.

**Outward and inward FDI
develop along different lines**

Austrian investors' dynamic foreign direct investment (FDI) abroad in 2002 resulted in net capital exports of EUR 5.74 billion. At EUR 7.37 billion, Austrian gross outward FDI surpassed the like result of 2001; disinvestment ran to just EUR 1.63 billion. By contrast, gross inward FDI by nonresidents amounted to EUR 4.47 billion, only a bit more

than disinvestment of EUR 2.72 billion in 2002.

Portfolio investment closed with net capital flows abroad of EUR 5.51 billion (January through December 2001: net capital inflows of EUR 5.96 billion). Austrian investors' purchases of securities abroad totaled EUR 25.59 billion net (January through December 2001: EUR 12.71 billion), with the vigorous expansion of their external claims focused above all on long-term debt securities and money market instruments. Net purchases by foreign investors dropped to EUR 20.08 billion from EUR 18.68 billion in 2001; debt securities remained the main type of investment.

Capital flows resulting from deposits and lending, which are subsumed under other investment flows, closed with net capital imports on the order of EUR 2.19 billion, and transactions reduced reserve assets by EUR 1.81 billion.

The OeNB's Role in Maintaining Financial Stability

The OeNB's Activities to Maintain Financial Stability

The OeNB publishes semiannual
Financial Stability Reports

Over the past few years, central banks have increasingly turned their attention to financial stability. Central banks play a pivotal role in determining framework conditions and in maintaining stability in the financial markets. Providing well-founded analyses of financial market developments and of potential risks to the stability of the Austrian financial system, the OeNB makes an essential contribution to ensuring financial stability. In publishing the semiannual Financial Stability Report, the OeNB aims at raising market players' and the general public's awareness of the problems that could arise if developments in financial markets go awry.

OeNB supports

Financial Sector Assessment Program

In 2002, OeNB experts in the assessment of banking supervision and in combating money laundering and the financing of terrorism again provided support to the IMF's and the World Bank's joint Financial Sector Assessment Program (FSAP) missions. The FSAP was launched in 1999 in the wake of the financial crises of the 1990s. Based on an examination of the strengths and weaknesses of a country's financial system, the program identifies actions suited to eliminating any deficiencies with the aim of making the financial system less vulnerable and fostering stability and growth at the national and international levels. An FSAP mission to assess the Austrian financial market, focusing, in all probability, on banking, insurance and securities supervision, is scheduled for fall 2003.

Heterogeneous Developments Pose a Challenge to the Austrian Financial Sector

Austrian banks prove relatively resilient
amid adverse conditions

Persistently sluggish international stock markets and subdued economic activity have further weakened financial markets. The Austrian banking system, however, remained fairly resilient amid these adverse conditions. First results of macroeconomic stress tests conducted by the OeNB to examine the implications of various crisis scenarios for the credit portfolios of Austrian banks confirm this assessment. In particular, the findings showed that the Austrian banks' risk-bearing capacity with regard to credit risk seemed to be satisfactory.

The main reasons for the soundness of the Austrian banking sector are that the banks have successfully established themselves in the Central and Eastern European markets and that they have focused on conventional retail business instead of extending their activities into areas which have recently turned out to be particularly crisis-prone, such as investment banking.

Unfavorable market conditions and international stock market turmoil nevertheless left their mark on Austrian banks' operating performance. In the year under review, operating profit (on an unconsolidated basis) went down by 7.9% to EUR 4.2 billion compared to 2001, which is attributable mainly to declining revenues from financial transactions and fee income. Bearish stock markets and investors' dwindling interest in stocks led to shrinking trade volumes; lower fee-based income from securities clearly mirrors this trend. Net interest income remained broadly unchanged against the pre-

vious year, accounting for 52% of overall operating income. At -2.4%, operating income decreased quite markedly, whereas operating expenses edged up by a mere 0.2%, with staff costs making up the largest share. Accordingly, the cost/income ratio deteriorated compared to 2001, coming to 69.3% in December 2002.

The economic slowdown also had an impact on lending. While loans had increased by EUR 7.9 billion or 3.5% in 2001, loan growth decelerated to EUR 2.7 billion or 1.2% in the reporting year. Corporate loans decreased by EUR 2.3 billion or 1.8% in 2002. Credit growth was mainly supported by the demand for foreign currency loans. The amount of foreign currency loans denominated in Swiss franc and Japanese yen to households and enterprises remained high by international standards. Austria accounted for 31% and 43%, respectively, of foreign currency loans denominated in Swiss franc and Japanese yen in the euro area, with Austria's share in total loans in the euro area amounting to a modest 3%.

Austrian banks maintain strong foothold in Central and Eastern Europe

Austrian banks' branch offices in Central and Eastern Europe again provided a major contribution to group operating profit. Banks majority-owned by Austrian banks successfully defended their market share, some even gained additional market share. 2002 figures confirm that Austrian banks retained a strong foothold in the privatization of Central and Eastern European financial services. The focus of acquisition activities of the major Austrian banks has shifted somewhat in favor of the successor states to the former Yugoslavia as well as Romania and Bulgaria.

Austrian insurance sector hit by adverse market conditions

Austrian insurance companies were also affected by the difficult market conditions. As the investment performance of life insurance plans continued to deteriorate, cuts in bonus payments, i.e. profit shares which are granted beyond the guaranteed rate of return, from more than 6% to some 5.25% were announced. Austrian insurers are faced not only with low revenues from financial assets, but also with costs arising from damage caused by the floods of August 2002; however, the latter are expected to be fairly limited, since on the one hand, many Austrians were not insured against flood damage, and on the other hand, a large part of the damage is likely to be covered by reinsurance contracts. Foreign branches of Austrian insurers, which have stepped up their activities in Central and Eastern Europe over the past few years, have made a positive contribution to business development so far.

The pace of total asset growth of Austrian insurance companies apparently slowed down further in 2002. The investment structures were adapted from previous years to reflect the altered economic conditions. External assets expanded over the past few years and have come to represent a major investment category, next to equity securities and other domestic securities.

Moderate performance of Austrian mutual funds

With stock markets unpredictable and business activity sluggish, the performance of Austrian mutual funds also suffered. These difficult conditions notwithstanding, however, mutual funds stayed attractive for investors, drawing new investment of

EUR 10.64 billion by private and institutional investors. At the close of December 2002, the 22 Austrian investment companies managed a total of EUR 102.7 billion in the 1,837 investment funds they operated. EUR 70.0 billion were managed by retail funds, EUR 32.7 billion by institutional funds. Debt securities make up the bulk of investments in Austrian mutual funds (64%), followed by mutual fund shares (16%), and by stocks and equity securities (14%).

The OeNB's Role in Prudential Supervision

The OeNB's involvement in banking supervision

On April 1, 2002, a comprehensive reorganization of prudential supervision in Austria took effect. The new Financial Market Authority (FMA) was established as a single regulator responsible for banks, insurance firms, securities and pension funds. The reform also entailed amendments to substantive prudential law, including, for instance, changes to supervisory procedures.

Regardless of the transfer of prudential responsibilities from the Federal Ministry of Finance to the FMA, which now represents the statutory integrated financial sector supervisory agency, the OeNB is closely involved in the supervision of credit institutions in performing its tasks set out in the Banking Act. Under the new legislation, it is mandatory for the FMA to commission the OeNB with on-site examinations of banks' market and credit risk; furthermore, the FMA may commission the OeNB with other on-site examinations (e.g. inspections in connection with money laundering). The OeNB's obligation to draw up expert opinions has remained in effect. Also, the

framework under which banks have to report data to the OeNB for processing has been left in place. A clause explicitly requiring the provision of mutual administrative assistance ensures the exchange of information between the OeNB and the FMA. Its close operational involvement in prudential supervision enables the OeNB to play a more active role in this field at the Eurosystem level as well.

Financial Market Committee established

The reform included the establishment of the Financial Market Committee at the Federal Ministry of Finance to foster cooperation and the exchange of views and to provide for consultation on supervision issues between the bodies responsible for maintaining financial stability. The committee consists of representatives of the FMA, the OeNB and the Federal Ministry of Finance. The OeNB considers the Financial Market Committee to be crucial to the effectiveness of prudential supervision.

OeNB activities in supervisory bodies

In the period under review, the OeNB continued and intensified its close cooperation with other central banks and supervisors within the ESCB and in international organizations and was represented on international supervisory bodies. Since June 2002, the vice governor of the OeNB has held the chair of the EU Banking Advisory Committee, and at the end of 2002, the OeNB became a member of the Groupe de Contact, a group of EU banking supervisory authorities. The OeNB's international commitment is key to the exchange of information, the analysis of international trends as well as the reinforcement and analysis of the supervisory framework.

Memorandum of Understanding on crisis management

Since the interaction of central banks and supervisors is also crucial to maintaining the stability of the international financial system, the OeNB and the other national central banks and supervisory authorities of the EU Member States agreed on a Memorandum of Understanding (MoU) on high-level principles of cooperation in crisis management situations (which is to take effect on March 1, 2003). The MoU is to enhance the practical arrangements for handling crises with the potential of cross-border contagion at the EU level.

OeNB Legally Entrusted with Payment Systems Oversight

The OeNB is entrusted with payment systems oversight

The amendment to the Federal Act on the Oesterreichische Nationalbank (Nationalbank Act 1984) conferred payment systems oversight in Austria on the Oesterreichische Nationalbank from April 1, 2002. Article 44a of the Nationalbank Act spells out the legal principles for the OeNB's oversight function. In connection with the mandate to oversee the systemic stability of payment systems as well as the secure participation in payment systems, this provision specifies, in particular, the reporting obligations of payment systems operators and participants with regard to the measures in place to ensure legal, financial, organizational and technical systemic security. Also, the OeNB is empowered to declare recommendations issued by the ECB and the Basel Committee on Payment and Settlement Systems – which contain international principles to maintain systemic stability – binding by way of ordinances.

Cooperative approach to payment systems oversight

In line with the Eurosystem's principle that the use of regulatory power be an instrument of last resort, the OeNB pursues a cooperative approach in fulfilling its legal obligations in payment systems oversight. Against this background, the reporting obligations as stipulated in Article 44a paragraphs 7 and 8 of the Nationalbank Act are of particular importance. Thus, the OeNB together with payment systems operators and participants subject to oversight (whose contributions were coordinated by the Austrian Federal Economic Chamber) worked out a questionnaire and documentation guidelines on the basis of which operators and participants are to prepare their reports on the maintenance of secure systems operation and secure participation (in accordance with Article 44a paragraphs 7 and 8 of the Nationalbank Act). Similarly, transparent standards to evaluate reports (oversight principles for electronic payment systems) were set up, which contain the requirements to maintain systemic stability deemed necessary by the OeNB.¹⁾

If the evaluation of reports carried out during a systemic examination revealed that the information provided did not comply with the technical or content requirements set out in the oversight principles, the OeNB would communicate these points of noncompliance to the relevant system operator and would support their removal. The first external system examination was carried out according to schedule already in the year under review, after the operators had been granted an appropriate period of preparation.

The Austrian Real-Time Interbank Settlement (ARTIS) system

¹ See http://www2.oenb.at/rel/zsa_p.htm; the documents mentioned are available in German only.

was subject to an internal review in 2002. The OeNB thus met its obligation to evaluate its own payment system with a view to complying with the Core Principles for Systemically Important Payment Systems within the framework of the Eurosystem and its obligation to assess the systemic stability of its own payment system as stipulated in Article 44a of the Nationalbank Act. The evaluation showed that ARTIS complied with the Core Principles.

In order for the OeNB to be able to fulfill its payment systems oversight responsibilities, a secure reporting system for payment systems statistics was developed to provide reliable data, in particular on the amount and value of transactions processed by payment systems. After internal preparatory work on the system had been concluded, public consultations were launched in early 2003.

Other payment systems oversight issues

In the reporting year, a number of payment systems oversight issues were high on the agenda also at the Eurosystem and the EU levels. The consultation procedure on electronic money systems security objectives conducted by the ECB between March and September 2002, in which the OeNB served as contact point for interested parties in Austria, and the European Commission's initiative to establish a legal framework for retail payments in the Single Market seem to be particularly noteworthy in this context. The Austrian Secure Information Technology (A-SIT) center continued to make valuable contributions to payment systems oversight by providing support in assessing IT security issues specific to payment systems.

OeNB contributes to establishing standards for securities settlement

From a central bank perspective, secure and efficient securities settlement systems are an essential prerequisite for monetary policymaking and the smooth functioning of payment systems. Therefore, the OeNB closely follows the ongoing integration and consolidation of European securities settlement systems and actively takes part in the joint working group of the ESCB and the Committee of European Securities Regulators (CESR) to contribute to efforts towards establishing European standards for securities clearing and settlement.

The OeNB as a Provider of Macroeconomic and Financial Market Statistics

The OeNB provides high-quality statistics

Economic and monetary policy decision making requires timely and reliable data. Next to Statistics Austria, the OeNB belongs to the major providers of economic statistics in Austria. The OeNB's data compilation work focuses above all on financial statistics. The OeNB contributes to the European aggregates, which serve as the basis for the single economic and monetary policy, by supplying Austria-related data to the ECB and Eurostat and at the same time compiles and publishes the corresponding Austrian data. The IMF, the OECD and the BIS also receive data from the OeNB on an ongoing basis. The statistics compiled by the OeNB primarily comprise the balance of payments, the consolidated balance sheet of the Monetary Financial Institution (MFI) sector as the basis for the calculation of monetary aggregates, the interest rate statistics, and the financial accounts including the necessary

primary statistics. In addition, the OeNB is responsible for making available the data required by prudential supervisors.

Cooperation agreement with Statistics Austria

To increase the efficiency of the division of responsibilities between Statistics Austria and the OeNB, the two organizations concluded a framework agreement in May 2002 as the basis for a new form of cooperation. The new cooperation arrangements aim to make optimum use of synergies and to keep the reporting burden low for those subject to reporting requirements. The largest joint project scheduled for the coming years is the redesign of the data sources for the Austrian external trade statistics, which is to form the basis for a jointly compiled balance of payments. Furthermore, the joining of forces is to pave the way for embarking on innovative projects in the field of economic statistics. The collaborative efforts of the OeNB and Statistics Austria are coordinated by a joint steering committee.

More detailed financial accounts data for 2001

Within the new cooperation framework, the OeNB produces the financial accounts statistics for Austria. At the end of October 2002, the results for 2001, which were compiled in accordance with international standards, were presented and published at an OeNB press conference.

According to the financial accounts statistics, the weak economy drove down both funds raised (savings and financing transactions) and investment (financial and nonfinancial) in Austria in 2001 compared to 2000. Like in the previous years, financial investment by the nonfinan-

cial sectors – households, nonfinancial corporations and the government – increasingly went to markets and institutions outside the banking sector. Borrowing from banks also continued to decline, except for household borrowing. Over the past few years, households more and more opted for mutual fund shares and insurance products; however, owing to the high uncertainty in the financial markets, liquid and secure financial assets at banks regained some of their popularity in 2001. Nonfinancial corporations invested heavily abroad, above all in the form of direct investments. The government funded itself almost exclusively by issuing securities over the past few years.

The financial accounts represent an instrument ideally suited to monitoring and analyzing changes in the financial assets and liabilities of all sectors of the Austrian economy on an ongoing basis.

The OeNB provides access to a growing volume of statistical information

The OeNB launched a new series of publications aimed at informing the interested public in a readily understandable manner on the purpose and the content of various OeNB statistics. The five folders published in this series in 2002 were dedicated to the balance of payments, direct investment, securities, the IMF Special Data Dissemination Standard and minimum reserves; the series is scheduled to be continued in 2003. The folders are available in German only.

Another new service the OeNB provides in the field of statistics is the Statistics Hotline (telephone number: 43-1 404 20-5555), which was launched in September 2001. In 2002, the Statistics Hotline regis-

tered some 1,350 calls. More than 90% of the incoming requests were answered within 24 hours. Apart from handling data requests directly, the Statistics Hotline passes requests for information on to both OeNB staff and external providers.

In an effort to acquaint new potential customers with its broad spectrum of statistics products and services, the OeNB in early 2002 launched a website presenting a different financial indicator every two weeks complemented by easily comprehensible explanatory notes; the website (www.dieaktuellezahl.oenb.at) is available in German only. The number of Austrian and foreign subscribers to this service came to more than 280 in March 2003.

The OeNB as a Dialogue Partner in the Basel II Process

Revision of Basel Capital Accord in full swing

In 2002, preparatory work for the new capital adequacy framework for banks and investment firms (Basel II) continued at a vigorous pace. Early in the year, the focus was on assessing the comments on the working papers published by the Basel Committee on Banking Supervision in the fall of 2001 and the results of the quantitative impact study of November 2001. The review showed that the proposed structure of the new capital adequacy framework and the system of risk weights are in principle consistent with the main objectives of international supervisors, which comprise risk-based capital charges for assets, no increase (on average) of capital charges for banks under the standardized approach and moderate capital incentives for banks applying advanced risk management approaches.

In July 2002, the Basel Committee reached agreement on the following changes: reduced risk weights for exposures to SMEs (with less than EUR 50 million in annual sales), no mandatory maturity adjustments under the foundation IRB (internal ratings-based) approach and the option to exempt enterprises with less than EUR 500 million in annual sales from the maturity framework under the advanced IRB approach, as well as the increased recognition of the risk-mitigating effect of collateral. The Basel Committee also outlined the schedule until the finalization and implementation of the new capital adequacy framework by December 31, 2006.

Third quantitative impact study launched

In October 2002, the Basel Committee launched the third quantitative impact study (QIS 3). In the course of QIS 3, around 300 participating banks worldwide calculated their minimum capital requirements on the basis of the new provisions to compare the results with the capital charges calculated on the basis of the existing framework. After the conclusion of QIS 3 at the end of the first quarter 2003, the Basel Committee is to publish its third consultative paper. It is expected that the new paper will require only minor further adjustments so that the New Basel Capital Accord will be adopted at the end of 2003.

The European Commission also continued its work on new capital requirements. The technical working groups analyzed the changes in the proposals of the Basel Committee and incorporated them in an advance draft directive. This document was published in November 2002 as the basis for the preconsultative dialogue exercise with the financial industry.

The European Commission plans to launch a third consultative round in mid-2003; the relevant draft directive is expected to be issued in 2004. The Member States will be required to implement the new provisions by December 31, 2006.

The OeNB supports Austrian interests and steps up communication

OeNB experts are monitoring the proposals put forward by the Basel Committee at the international level and are actively taking part in the preparation of the European Commission's draft directive. The OeNB succeeded in having Austrian interests taken into consideration in the negotiations. The current proposals are much better adapted to the needs of SMEs as well as of small and medium-sized banks than older proposals, which guarantees an adequate treatment of the Austrian corporate sector. Moreover, the provisions regarding mortgage-backed loans and personal loans, which figure prominently in the Austrian financing structure, will be more favorable.

At the national level, the OeNB stepped up public relations contacts with the banks. In cooperation with the Financial Market Authority, the OeNB regularly organized events in Vienna and in the provincial capitals to prepare credit institutions for QIS 3. The share of Austrian banks participating in the quantitative impact study was above average compared to other countries. The OeNB provided strong support to the involved credit institutions, which helped produce a representative result for the Austrian banking sector. The results of QIS 3 will be issued prior to the publication of the third consultative paper. For Austria, it will be vital that the final framework of risk weightings of Basel II take into

account Austrian banks' specific portfolio structure.

Furthermore, the OeNB together with the Financial Market Authority and the Austrian Federal Economic Chamber launched an information initiative aimed at borrowers, especially SMEs. A nationwide series of lectures on the effects of Basel II on SMEs was kicked off with a round table discussion of high-profile personalities from the world of politics, business and finance hosted by the OeNB and the Austrian Federal Economic Chamber on October 7, 2002. The campaign, which ran until spring 2003, gave entrepreneurs a platform to obtain and discuss up-to-date information on the opportunities and risks of Basel II for corporate finance. In summer 2002, the OeNB launched a website on Basel II,¹⁾ which provides an overview of all current proposals and comprehensive background documentation. Thus, borrowers may access clear and comprehensive information on this fundamental reform process in capital financing.

The advent of Basel II also prompted the OeNB to review and update processes in banking analysis and inspection, risk analysis, financial market analysis and banking statistics as well as the underlying IT systems. The objective of these efforts is to adjust banking analysis and inspection processes in cooperation with the newly established FMA to Basel II requirements, thus making a contribution to strengthening Austria's banking and financial markets.

¹ See <http://basel2.oenb.co.at>; the website is available in German only.

Initiatives to Strengthen the Financial System

IMF and EU efforts towards financial crisis prevention

One of the most discussed issues at the IMF in 2002 was the question of how to prevent and cope with international financial crises in the future. The IMF's Sovereign Debt Restructuring Mechanism (SDRM) initiative aims at establishing an international insolvency framework to manage bankruptcies of sovereign states. The OeNB actively contributed to these discussions, among other things by cohosting (together with the Austrian Federal Economic Chamber) a high-profile working group on government bankruptcy and its implications at the Forum Alpbach conference in August 2002.

At the informal meeting of the EU finance ministers and central bank governors on September 7, 2002, the finance ministers agreed to incorporate collective action clauses (CACs) into the foreign sovereign bonds issued by EU Member States in future. In government debt crises, holders of bond contracts with such clauses are obliged to agree to the restructuring of these contracts and thus to facilitate crisis resolution.

Restructuring of the European financial architecture

On the basis of the final report submitted by the Committee of Wise Men on the Regulation of European Securities Markets chaired by Alexandre Lamfalussy, the Economic and Financial Committee (EFC) worked out a proposal to reorganize structures at the European level in the field of banking supervision, insurance supervision, financial conglomerates and financial stability; in December 2002, the Ecofin Council endorsed this proposal. The reorganiza-

tion of the committees responsible for the insurance sector, which took effect in 2002, is to serve as the basis for the remodeling of the committees responsible for the other financial sectors. Moreover, the reforms are to enable the relevant regulatory bodies to respond more swiftly to market developments. A regulatory committee, which will be composed of representatives of the Member States appointed by the relevant ministers, will be set up for each sector. Each committee will be assisted by a supervisory committee responsible for providing advice to the European Commission, exchanging information, supporting the uniform transposition of directives into national law and the harmonization of supervisory practices; the representatives of the Member States on these committees will be appointed by the national supervisory authorities. Central bank representatives will attend the meetings of the new banking committee in a nonvoting capacity. At the European level, financial stability activities are carried out under the auspices of both the EFC, which is assisted by the restructured Financial Services Policy Group (renamed Financial Services Committee), and the ESCB Banking Supervision Committee (BSC).

Government launches initiative to strengthen the capital market

In Austria, a range of private and public initiatives were taken in the reporting year to strengthen and stimulate the domestic capital market. Under the guidance of a capital market representative appointed by the federal government, experts drew up an ambitious action plan containing both supply- and demand-side support measures for the Austrian capital market. The introduction of

new state-subsidized individual retirement plans helped stimulate business at the Vienna stock exchange and strengthen private pension provision. The government hopes that government assistance and capital guarantees will make private pension plans more secure and attractive for a growing number of private investors.

To increase investor confidence, the Austrian Association for Financial Analysis and Investment Advisory Services in cooperation with the Aus-

trian Institute of Certified Public Accountants worked out a corporate governance code. Even though the Austrian corporate governance code is a voluntary self-regulatory measure, it can be expected that the confidence-building measures it contains will be adopted by a number of enterprises listed on the Vienna stock exchange and that it will thus have a positive impact on capital market agents.

Economic and Institutional Framework Conditions in the Accession Countries

European Council of Copenhagen concludes accession negotiations

In 2002, the EU accession countries made significant progress toward EU accession. The Copenhagen European Council of December 12 and 13, 2002, made the political decision to include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia as members of the EU from May 1, 2004. An intense closing round resulted in the conclusion of accession negotiations – a milestone for the ten countries now also referred to as “acceding countries.” The multi-year accession process comprises the following three key components:

- accession negotiations, including monitoring of compliance with the obligations accepted during the negotiations up to accession,
- a regular review of the progress toward accession made by the candidate countries (annual Regular Reports of the European Commission),
- the preaccession strategy encompassing various instruments (Europe Agreements, Accession Partnerships and National Programmes for the Adoption of the Acquis; financial preaccession assistance, access to Community programs and agencies for the accession countries). Within the framework of the preaccession strategy, the EU established a macroeconomic dialogue with the accession countries, which, in turn, served as the basis for a macrofinancial dialogue.

At the central bank level, the Eurosystem maintains a dialogue with

the central banks of the accession countries. In December 2002, the fourth annual seminar took place in Genval, Belgium, centering, inter alia, on an exchange of views about the future exchange rate policies of the accession countries.

OeNB involvement in negotiations

The OeNB’s involvement in the accession process has gone beyond its participation in the central bank dialogue, as the OeNB has also helped shape Austria’s positions in the accession negotiations, provided input for Austria’s role in the macrofinancial dialogue and has had observer status at bilateral working meetings related to economics and finance of the European Commission and the accession countries in the context of the implementation of the Europe Agreements.

For the accession negotiations, the EU body of law was divided into 31 negotiation chapters, with the chapters “freedom to provide services (with respect to financial services), “free movement of capital,” and “Economic and Monetary Union” regarded as directly relevant to central banks. Participating in the interministerial working group on enlargement, the OeNB has been contributing to the Austrian positions on these chapters. The EMU chapter was provisionally concluded already at a relatively early stage. Negotiations on all chapters were concluded with all ten acceding countries in December 2002. As to EMU, it was agreed that upon accession the acceding countries would participate in EMU as Member States with a derogation pursuant to the Treaty, i.e. they will not yet be part of the Eurosystem and thus be in the same situation as Sweden, which is currently the only Member State with this

status. With regard to the free movement of capital, transitional arrangements were made for the removal of all capital controls, which will be valid beyond EU entry. These arrangements do not, however, refer to the movement of financial capital, since no accession country had submitted a request to that effect, but primarily to the acquisition of (agricultural) land.

Costs of enlargement

With regard to the financial implications of the upcoming enlargement, the Presidency Conclusions of the Copenhagen European Council refer to annual ceilings for enlargement-related expenditures in the EU budget from 2004 to 2006 which are below the ceilings determined by the European Council in Berlin in March 1999. From 2004 to 2006, aggregate appropriations for commitments may reach a maximum of EUR 37.6 billion (1999 prices); the Berlin financial framework had pegged this ceiling at EUR 42.6 billion. On the other hand, the acceding countries will have to contribute fully to the EU budget already during their first year of membership. To ensure that they will not become net payers and that no acceding country will be in a worse financial position than before accession, two additional expenditure headings (budgetary compensation, cash flow facility) totaling EUR 3.3 billion (1999 prices) were created.

Road map for enlargement

The Presidency Conclusions also spell out the milestones of the road map for enlargement and for the new Constitutional Treaty. Once the Accession Treaty has been completed and submitted to the European Commission for its opinion, the European

Parliament has to give its assent. The Accession Treaty is scheduled to be signed in Athens on April 16, 2003, and will then have to be ratified both in the old and in the new Member States. Following the presentation of the results of the Convention on the Future of Europe slated for the Thessaloniki European Council of June 19 and 20, 2003, an Intergovernmental Conference will take place in 2003 to 2004 to draft the new Constitutional Treaty with full participation of the ten new Member States (and Bulgaria and Romania as observers). On May 1, 2004, the acceding countries are to enter the EU, with Commissioners from the new Member States joining the Commission from the day of accession. This is to be followed by the signing of the Constitutional Treaty.

Observer status in ESCB

To enhance the integration of the accession countries into the ESCB, the Governing Council of the ECB decided already in September 2002 to invite the governors of the accession country central banks to its meetings as observers following the signing of the Accession Treaty. Furthermore, the Governing Council decided to grant observer status to experts from the accession country central banks in the ESCB committees, whenever these meet in ESCB composition.

Growth in most central European accession countries still higher than in the EU

Like in the EU, the pace of economic expansion decelerated in the central European accession countries in the first half and in the summer of 2002, but growth remained strong on balance compared to that in the EU. With the exception of Poland, whose real GDP edged up by some 1.4% in the first three quarters of

2002 year on year, the central European countries posted economic growth rates of between 2.6% and 3.9%. In the face of the economic slowdown in the EU, the main trading partner, domestic demand remained the chief source of growth in the central European countries. Above all, private consumption, but also government consumption were leading the way together with, notably, state financed infrastructure investments; here, the Slovak Republic and Hungary, where elections were held in 2002, were cases in point. Apart from that, investment remained subdued, though. The economic stagnation in Poland was attributable primarily to the marked decline in capital accumulation. This reflected reduced corporate profits and economic prospects that continued to be modest in combination with persistently high real interest rates.

Disinflation progresses

In 2002, almost all central European accession countries registered a further drop in inflation from record lows. Even Slovenia, which had previously achieved only moderate disinflation, saw a pronounced reduction

of inflation. At the end of 2002 and the beginning of 2003, the Czech Republic and Poland showed the lowest inflation rates: in the former, inflation had even decelerated in January 2003, and in the latter, year-on-year price growth came to less than 1%.

Currencies hit by appreciation pressure

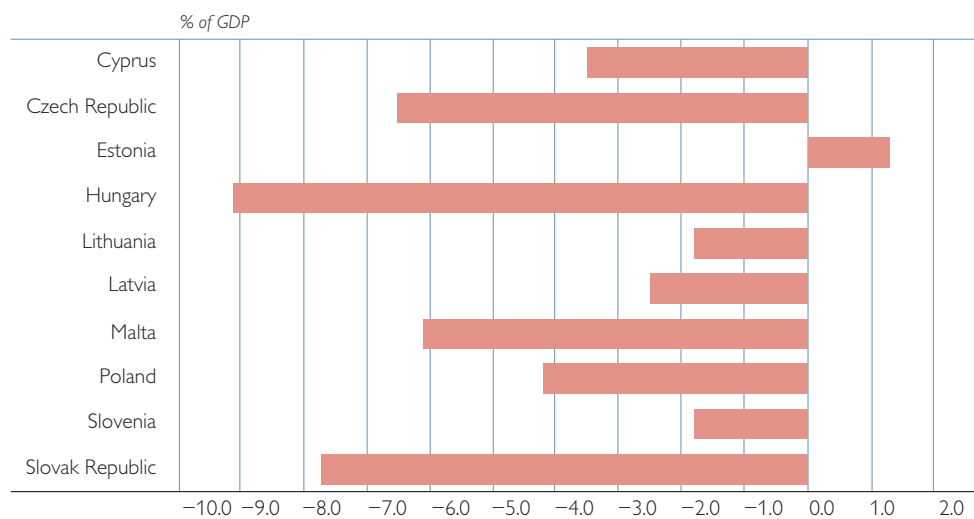
In the first half of 2002, significant inward FDI coupled with a modest current account deficit imposed strong appreciation pressure on the Czech koruna. Massive foreign exchange intervention by the Česká Národní Banka and reductions of the key interest rates – at times even to below the euro area interest rate level – helped alleviate the upward pressure toward mid-2002. The Polish zloty, by contrast, depreciated in nominal terms in the first six months of the reporting year, reaching the level of early 2000. In the fourth quarter of 2002 and in early 2003, the Polish zloty, the Slovak koruna and, especially, the Hungarian forint came under considerable appreciation pressure, not least on account of the political decisions in favor of EU enlargement. Magyar Nemzeti Bank's defense of the

Selected Economic Indicators for the Acceding Countries

	GDP growth			Inflation rate			EUR exchange rate ¹⁾		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
	annual change in %						national currency unit per EUR		
Cyprus	+5.2	+4.1	+2.0	4.9	2.0	2.8	0.57	0.58	0.58
Czech Republic	+3.3	+3.1	+2.0	3.9	4.7	1.8	35.61	34.08	30.81
Estonia	+7.1	+5.0	+5.6	3.9	5.8	3.6	35.60	34.70	30.80
Hungary	+5.2	+3.8	+3.3	9.8	9.2	5.3	260.04	256.68	242.97
Latvia	+3.8	+7.9	+6.1	0.9	2.5	1.9	3.70	3.58	3.46
Lithuania	+6.8	+5.9	+5.9	2.6	1.3	0.3	0.56	0.56	0.58
Malta	+6.1	-0.8	+3.0	2.4	2.9	2.2	0.40	0.40	0.41
Poland	+4.0	+1.0	+1.3	10.1	5.5	1.9	4.01	3.67	3.86
Slovenia	+4.6	+3.0	+3.1	10.9	9.4	7.5	205.03	217.19	226.22
Slovak Republic	+2.2	+3.3	+3.9	12.0	7.1	3.3	42.59	43.31	42.70

Source: Eurostat, WIIW.

¹⁾ Cyprus pound, Czech koruna, Estonian kroon, Hungarian forint, Latvian lat, Lithuanian litas, Maltese lira, Polish zloty, Slovenian tolar, Slovak koruna.

2002 General Government Fiscal Balances¹⁾

Source: European Commission.

¹⁾ These figures are essentially based on national data in line with ESA 95.

±15% fluctuation bands vis-à-vis the euro finally led to a moderate downward correction of these three currencies.

Budget deficits higher than planned

In the year under review, the central European countries posted substantial budget deficits, some of which were considerably in excess of the values originally targeted. However, comparability is not yet given as the fiscal data of the accession countries are still being aligned with EU standards (ESA 95). At 9.4% of GDP, Hungary's general government deficit nevertheless seemed to be the highest, which was ascribable chiefly to extraordinarily solid wage settlements in the 2002 election year. In the same vein, elections may also have left their mark on the Slovakian deficit (7% of GDP). Poland's so-called economic deficit for the general government came to 5.8% of GDP, exceeding the target by close to 1 percentage point, not least because of weak economic growth. In the Czech Republic, the comparable deficit was

in a range of 4.7% to 5.7% of GDP, while at 3%, Slovenia continued to record the lowest deficit.

OeNB Activities in the Enlargement Process

OeNB's enlargement-related research is highly renowned

Among all Eurosystem NCBs, the OeNB is renowned for its expertise in Central and Eastern European countries (CEECs) as well as its transition process analyses. In focusing on transition economies, the OeNB covers a special area of economic analysis and research within the Eurosystem. It also issues a regular publication, the Focus on Transition, which is dedicated to Central and Eastern European (CEE) topics. In addition, the OeNB maintains an exchange program with CEE central banks. This cooperation allows OeNB experts to hone their expertise in accession countries during work and research stays and, at the same time, facilitates the future integration of the central banks of these countries into the ESCB.

The Impact of EU Enlargement

The OeNB publication *Focus on Austria 2/2002* investigated in particular the effects of EU enlargement to the east.¹⁾ OeNB as well as external experts reflected on the likely consequences of enlargement on the accession and euro area countries, notably Austria. Their conclusions may be summarized as follows:

- An in-depth analysis of the EU institutions and decision-making process revealed that the EU's current setup needs to undergo further adjustments to ensure its efficiency and effectiveness beyond enlargement. The results of the Convention on the Future of Europe will largely determine the reform measures to be taken.
- The enlargement of the EU will entail positive growth effects both for the current and for the future EU Member States, which will increase over time.
- Migration and stepped-up trade will impact wage levels in the EU and in Austria depending on age, qualifications and gender. The positive effects are shown to increase with the workforce's level of qualification.
- The CEE banking sector being so small, the possible effects on the EU banking industry are considered to be low. However, Austria is in a different position because it has invested heavily in CEE. Altogether, eastern enlargement will reduce the risks for Austrian banks in these countries and will drive up the growth potential. Owing to Austrian banks' strong presence in this market, the effects are significant not only for individual banks, but also have an impact on the entire Austrian banking sector.
- Upon EU entry, the eastern European bond markets will lose their emerging market status and will be integrated into general European bond benchmarks. Enlargement will hardly affect the equity markets of the current Member States. However, Austria's stock market could receive an impulse in the wake of EU enlargement.

1 This issue of *Focus on Austria* may be retrieved from http://www2.oenb.at/publikationen/bestu0202_p.htm.

Every November, the East-West Conference staged by the OeNB draws political and economic experts as well as researchers from all over the world and offers a forum for communication and an exchange of views. The 2002 conference theme was "Structural Reforms and the Search for an Adequate Policy Mix in the EU and in Central and Eastern Europe." Furthermore, the OeNB hosts several East Jour Fixe meetings a year, where outstanding researchers present their latest findings on economic issues in CEECs.

OeNB events draw a great many experts

The particular importance the OeNB attaches to the CEECs is also reflected in its involvement in the Joint

Vienna Institute (JVI). At a multi-lateral level, the JVI offers training seminars and courses specifically for officials from the central banks and finance ministries of the transition countries. Geographically speaking, the focus is on Central and Eastern Europe and on the Commonwealth of Independent States (CIS), but the JVI has also welcomed participants from countries outside this region, such as China and Vietnam. The courses are tailored to applied economics issues that have a particular relevance for the transition process. The international sponsoring organizations – spearheaded by the IMF – and the relevant Austrian institutions share responsibility for putting the course programs together and for providing the pool of trainers.

Courses typically last from 1 week to 14 weeks, depending on the course program.

On March 13, 2002, the Managing Director of the IMF, Horst Köhler, the Austrian Federal Minister of Finance, Karl-Heinz Grasser, and OeNB Governor Klaus Liebscher

signed a MoU on the JVI in Vienna. This MoU documents the agreement reached between the Republic of Austria and the IMF to share the cost of running the JVI and to relocate it to new premises, thus extending the life of the JVI and confirming its location in Vienna.

New Tasks for the OeNB in Cashless Payments

Road Map for the Establishment of a Single European Payment Area

General framework conditions

The European payment market is divided into large-value and low-value transactions. The national central banks are in charge of the settlement of large-value payments in the light of the high security and system requirements and operate a payment system specifically for this purpose. Low-value payments, in particular customer payments, by contrast, are processed primarily by commercial banks.

Location-specific framework conditions

The dynamic developments the payment systems market is currently undergoing at the European level pose great challenges for all Member States as well as the EU accession countries. To harness economies of scale for payment transactions, new standards are to be introduced. The new structures are meant to prevent unfavorable developments, such as steeper access and transfer costs, inhibition of innovation and limited technical connectability.

The central banks – in close cooperation with commercial banks – have increasingly taken the initiative in implementing a single market for retail payments to foster a competitive payment infrastructure which is in line with EU stipulations. Hence, it is necessary for the OeNB, banks and other stakeholders to resolutely promote Austria's interests in this realm both at the national and at the European level.

Legal framework conditions

The tasks of the OeNB as an NCB and its associated mandate in the field of payment systems are core competen-

ces enshrined in ESCB and national legal provisions (see Article 105 [2] of the Treaty establishing the European Community, Article 33 of the Protocol on the Treaty, ESCB/ECB Statute, Articles 4 and 50 of the Federal Act on the Oesterreichische Nationalbank).

BIS and ECB call for active role of central banks in payment systems

In September 2002, the BIS published a report addressing policy issues for central banks in retail payments. In addition to calling for a legal and regulatory framework, the BIS made a case for a more active role of central banks to achieve greater market efficiency and an enhanced infrastructure. Central banks are welcomed as catalysts for harmonization and the further development of the infrastructure.

To support this active involvement of the central banking community, market analyses about the efficiency of payment processing need to be compiled and used to define an effective tailor-made action plan.

With the above-mentioned report, the BIS was first to recommend not only regulatory, but also operational intervention geared towards efficient and safe payment solutions.

The ECB likewise stressed the importance of competition to ensure efficient payment systems. Moreover, it pointed out how important cost and price transparency in payment systems was for guiding customers, as this was bound to promote the evolution towards efficient payment instruments and systems.

In the same vein, the ECB seconded the threefold – i.e. operational, oversight, and catalyst or facilitator – role for central banks in retail payments as proposed by the BIS. It furthermore articulated its views on

the concrete challenges in European payment systems and made suggestions on how central banks should get involved in tackling these issues. The ECB, for instance, envisages an operational role for central banks above all as facilitators of the implementation of a single European payment area (SEPA) as well as in the area of TARGET2¹) and cash supply.

Regulatory framework conditions

Following EU and EMU accession, the regulatory framework – also that related to payment systems – changed fundamentally for Austria and the OeNB. With its regulations and directives²), the EU determines not only the rules the Member States have to abide by, but frequently also the pace of the evolutionary process. In such an environment, it is essential to continually adapt and develop national legal provisions (Austrian Banking Act, Financial Market Authority Act); and institutions (inter alia, the OeNB, but also banks) likewise need to be very flexible.

Dynamic Developments in Payment Instruments and Payment Systems

Competitive or market-policy framework conditions

Payment systems offer network services the benefits of which tend to increase proportionally to the number of participants that are addressable via the systems. The market developments of the previous years – a no-

ticeable trend towards centralization and internationalization as well as the heightened complexity of payment networks – lend substance to this assumption.

For one thing, these developments are ascribable to the characteristics inherent in payment systems, but, for another, they have been accelerated significantly by the active role the European Commission has taken in completing the internal market.

Dynamic growth in noncash transactions coupled with the SEPA drive present payment system providers which have so far catered only to national markets with new challenges. The cashless transaction business has been gaining momentum in particular at the systemic level following the implementation of the Regulation on cross-border payments in euro, which became valid for card-based payments on July 1, 2002.

With the tight schedule laid down in this legal instrument, the European Commission defined stringent requirements for banks. The Regulation, which took effect for card payments up to an amount of EUR 12,500 (applicable both to face-to-face and remote retail transactions) as well as ATM withdrawals on July 1, 2002, will become effective for credit transfers up to an amount of EUR 12,500 on July 1, 2003.

Entry into force of the Regulation on cross-border payments in euro:

	Up to EUR 12,500	EUR 12,500 to EUR 50,000
Card payments	July 1, 2002	January 1, 2006
ATM transactions	July 1, 2002	January 1, 2006
Credit transfers	July 1, 2003	January 1, 2006
Electronic purse transactions	July 1, 2002	January 1, 2006

- 1 *The Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system consists of the National Real-Time Gross Settlement (RTGS) systems of the EU Member States and the ECB payment mechanism (EPM).*
- 2 *For instance Directive 97/5/EC on cross-border credit transfers, which took effect in August 1999, and Regulation No. 2650/2001/EC on cross-border payments in euro adopted in December 2001.*

On the road to a single European payment area a number of obstacles have yet to be negotiated, as the EU is faced with divergencies in the legal and technical harmonization of national payment systems and the daunting and time-consuming task of hammering out a common European standard. Besides, the establishment of a pan-European clearing infrastructure, a cost-efficient infrastructure for cross-border payments and TARGET2 are among the issues that have yet to be resolved in the Member States.

Within the framework of EU enlargement, integrating the national payment systems of the accession countries into the European payment infrastructure is set to prove particularly challenging.

Most countries have to cope with sunk costs they incur when bringing their heterogeneous national payment systems in line with European standards. Market participants' reluctance to make the necessary investments jeopardizes the technical connectability of the national systems, with volume and cost constraints possibly resulting in new access barriers.

The EU, national legislators and supranational institutions, such as the BIS and ECB, have thus called on the NCBs to facilitate quality and safety as well as broad access and low costs. Supranational institutions in particular have been asking for a more active involvement of the NCBs in payment systems in recent months.

Efficient Payment Infrastructure and Processing

The NCBs manage the cash distribution and the provision of liquidity and through TARGET offer decentralized RTGS systems for the settlement of interbank payments. In addition, many central banks provide

retail payment infrastructures. The NCBs' activities help step up the quality, efficiency and safety of payment infrastructures and ensure broad access and cost efficiency.

The OeNB supports the Austrian financial market by operating a large-value system called ARTIS¹), which channels transactions safely via the ESCB-wide TARGET system.

Large-Value Payments

ARTIS

Boosting the amount and volume of transactions

In 2002, the implementation of new ARTIS versions helped improve the system markedly and consequently boosted productivity. Domestic transactions grew by 33.5% on 2001 and cross-border payments mounted by 5.9%. What is more, given robust system stability, the availability of TARGET remained at a very high level throughout the entire year.

Process optimization

In January 2002, test runs of S.W.I.F.T.-Net²) commenced, and in October 2002, the secure IP network for communicating with other banks went live. The OeNB informed the Austrian banking community about the new access mode on several occasions, for instance, at ARTIS workshops and TARGET User Group (TUG) meetings.

Internet link

The ARTIS participants, i.e. primarily banks but also public agencies with financing tasks, are under enormous cost pressure. As a consequence, demand for a modern, cost-efficient access solution based on standard products is high. ARTIS Online Internet is a genuine e-business solution tailored to streamlining day-to-day

1 The Austrian Real-Time Interbank Settlement (ARTIS) system allows commercial banks to effect large-value payments in euro in real time and in a cost-efficient manner via the OeNB.

2 S.W.I.F.T. – Society for Worldwide Interbank Financial Telecommunication. S.W.I.F.T. connects 7,000 financial institutions in 198 countries via a global safe communications network and offers proprietary message types.

OeNB account management and secures the OeNB's position as a provider of cutting-edge payment means and systems. Mandatory use of the a.sign light certificate issued by A-Trust, an OeNB subsidiary, guarantees system security. The basic functionality, which has been in use since September 2002, is to be extended in 2003 to include the processing of payment orders.

Liaison with customers

Numerous information activities, a dedicated website and personal interaction ensure service level compliance and excellent customer relations. The results of a customer satisfaction survey conducted by the Payment Systems Division of the OeNB attested the staff's service orientation and technical competence.

Contingency planning

To ensure that the OeNB continues to process payments in times of a crisis and thus also comply with ESCB requirements, the OeNB drew up a contingency plan which has been successfully tested and is revised on a regular basis. The new edition of the contingency manual provides detailed process information accounting for both internal and external interfaces.

The contingency measures are meant to warrant full business continuity in a backup office equipped with an adequate IT infrastructure. Furthermore, procedures are in place to safeguard that a small number of critical payments may be processed in the case of unplanned downtime.

TARGET2

On October 24, 2002, the Governing Council of the ECB took a strategic decision on the long-term evolution of TARGET. It was acknowledged

that, although TARGET had successfully met its main objectives, its heterogeneous technical design reflecting the reality of the mid-1990s would translate over time into a number of problems for its users, who increasingly expect a more harmonized service. Furthermore, the ability of the present TARGET system to cope with future challenges, in particular EU enlargement, was questioned. TARGET2, the next generation of the system, will be introduced to overcome these shortcomings.

According to the decision of the Governing Council, the basic structure of the future TARGET2 system is as follows:

TARGET2 will be a multi-platform system based on the principles of:

1. a broadly defined and harmonized core service offered by all platforms,
2. a single price structure applicable to that core service as from the start of operation of TARGET2,
3. cost effectiveness, which implies that the single price is based on the most efficient RTGS system (i.e. the system with the lowest cost per item),
4. by the end of a four-year period after the start of TARGET2 operations, subsidies going beyond an acceptable public good factor¹⁾ must be phased out.

The TARGET2 system will consist of several individual platforms and, in the first three years of its operation, a single shareable platform available to those central banks which from the start or in the course of that period decide to give up their individual platform. After that initial period any central bank will be free either to maintain its individual platform or to join the already existing shareable platform, or to create an-

¹⁾ *The public good factor will take due account of the positive externalities generated by TARGET, inter alia, in terms of reduction in systemic risk and will be determined by the Governing Council of the ECB.*

other shared platform with any other central bank willing to do so.

The single shareable platform available from the start of TARGET2 will be an integral part of the structure of TARGET2. It will not be implemented until the central banks which are in principle interested in joining it have finally decided to do so. The design of the shareable platform should allow each NCB which joins it to preserve the business relationships with “its” banks, including monetary policy and lender of last resort relationships.

With a view to specifying the business, service features and interfaces of TARGET2 as well as governance, financing and pricing issues in greater detail, the ECB launched a public consultation on December 16, 2002.

Following this initiative geared towards structurally enhancing the TARGET system in order to achieve economies of scale and harmonizing the large-value payment infrastructure, OeNB experts have embarked on in-depth analyses and a selection process. The OeNB is committed to contributing actively to the design of the next generation of TARGET to ensure that Austrian interests are given due consideration.

Interbank Payments

EBA STEP2

Like Finland, Austria is one of the few European countries which does not offer a national automated clearing house (ACH) but uses bilateral interbank arrangements for the clearing and settlement of domestic payments.

Cost effectiveness in clearing and settlement is driven above all by centralization or volume concentration and a consolidation of infrastructures.

All efforts at the European level are directed at establishing a Europe-wide clearing infrastructure – an endeavor which is very likely to take several years (see the options proposed by the European Payments Council for creating a SEPA¹)).

To comply with the requirements of the European Commission for establishing a single payment area, it is necessary to swiftly draw up a migration plan with the commercial banks to ensure their integration into a European infrastructure. Such a plan should provide banks with appropriate transitional solutions and should also support timely increases in efficiency designed to advance the establishment of a single market.

Among the various initiatives for launching a European clearing mechanism, STEP2²) represents a highly promising project with an ambitious schedule. With STEP2, the Euro Banking Association (EBA) intends to offer a Europe-wide clearing house for cross-border noncritical payments. The OeNB has started preparations to secure availability of STEP2 in Austria.

Activities Related to the Austrian Payment Systems Services (APSS) GmbH

In the face of stiffening international competition on the domestic market, the successful expansion of Austrian banks in Central and Eastern Europe and the dramatic surge in cashless, card-based payments, the Austrian banking community decided in 2002 to reposition the Austrian Payment Systems Services (APSS) GmbH in the noncash business. Once again tapping into synergies, the OeNB and the Austrian banks jointly established an efficient infrastructure for settling card payments.

1 Options of the European Payments Council on building a single European payment area (SEPA):

1. a single automated clearing house (ACH) for the euro,
 2. a pan-European clearing house connecting banks and potentially substituting some of the domestic ACHs,
 3. a hybrid linkage routing hub connecting existing domestic ACH systems,
 4. ACH direkt linkages, an exchange system connecting existing domestic ACH systems,
 5. bilateral exchanges,
 6. use of card networks.
- 2 Straight Through Euro Payment system.

The core competence of APSS is the processing of cashless, card-based transactions. As an independent agent, APSS provides the necessary payment system infrastructure (ATM network, point-of-sale (POS) terminals) for all card issuing organizations. It offers optimized processing of POS transactions for banks, traders and end customers. As a result, cashless payments are handled more economically, safely and swiftly

across all processing phases. In the course of the reporting year, the number of outdoor and indoor ATMs mounted to some 6,600, that of POS terminals to around 70,000. Anually, customers effect approximately 110 million ATM withdrawals and around 190 million noncash POS transactions. A state-of-the-art IT infrastructure supports the competitiveness of Austrian banks in Europe.

Foreign Reserve Policy in the Context of the Eurosystem

EMU Creates New Legal, Institutional and Economic Framework Conditions for Foreign Reserve Policy

The role of the NCBs' foreign reserves

At the start of Stage Three of EMU, the NCBs of the participating Member States transferred part of their official foreign reserve assets to the ECB. The NCBs retained the larger remainder of the foreign reserves. At the end of 2002, the OeNB held net reserve assets (foreign currency holdings, gold and claims on the IMF) amounting to EUR 13.5 billion. On the liabilities side, the OeNB recorded banknotes in circulation totaling EUR 10.2 billion. This and other items on the liabilities side are covered by holdings on the assets side.

The function and the appropriate level of foreign reserve assets held by the NCBs has repeatedly become an issue of public debate.

Why central banks hold foreign reserves

Central banks have always held foreign reserve assets for a number of reasons. Reserves are a cover for the currency and thus underpin confidence in the currency; they can be used for foreign exchange swaps to steer domestic liquidity conditions; foreign reserves can be used to settle external liabilities, for instance for goods imports or to service foreign debt in a foreign currency; the income from reserve asset investment guarantees a central bank's financial independence; and finally, foreign reserves assets are also emergency reserves.

Naturally, the weight attached to these arguments changes over time. For instance, owing to international financial market liberalization, official reserves now play a smaller part

in import financing under normal conditions; at the same time, international financial markets have become more volatile and vulnerable, which increases the necessity for central banks to have an appropriate amount of foreign reserves available (for instance, for the injection of liquidity after the terrorist attacks of September 11, 2001). Already before the completion of Monetary Union, there was no generally accepted rule of thumb for the optimum level of foreign reserve assets. As a consequence, the foreign reserve policies pursued by central banks varied widely, both in Europe and worldwide.

EMU changed framework conditions

For the central banks of the participating Member States, EMU marked another change in the economic, legal and institutional framework for foreign reserve policy. In the new context, the foreign reserve assets of the Eurosystem (i.e. of the ECB and the NCBs) back the common currency, the euro. It has been argued that the new framework has rendered the foreign reserve assets retained by the NCBs obsolete and that they should be "sold" or "used for other purposes." However, the Treaty establishing the European Community (the Treaty) limits the room for maneuver in foreign reserve policy; moreover, monetary policy considerations suggest that this issue be addressed in a very cautious and prudent manner.

Management of foreign currency reserves is the sole responsibility of the Eurosystem ...

According to Article 105 (2) of the Treaty, one of the basic tasks of the ESCB is to hold and manage the official foreign reserves (that is gold and foreign currency holdings as well as

claims on the IMF) of the Member States. All foreign reserves of the NCBs of the participating Member States recorded in the NCBs' balance sheets on January 1, 1999, became foreign reserves of the Eurosystem. The Eurosystem has the sole right of disposal. Since holding and managing reserve assets is a quintessential task of the ESCB, there is no leeway, for example, to outsource part of the foreign reserves into a special-purpose fund.

... and includes decision making

on the appropriate level of foreign reserves

According to Article 108 of the Treaty, the ECB and the NCBs are not permitted to seek or take instructions when exercising the powers and carrying out the duties conferred upon them. The Community institutions and bodies as well as the governments of the Member States are obliged to respect this principle and not to seek to influence the decision-making bodies of the ECB and the NCBs in the performance of their tasks. As regards reserve assets, this provision applies to their management and to the decision on the appropriate level of foreign reserve holdings necessary for the ESCB to be able to fulfill its tasks. This does not imply that the level of the ESCB's foreign reserve assets was laid down once and for all. The ESCB can adjust the level of foreign reserve assets to changing monetary and exchange rate policy requirements.

Provisions for international commitments

The NCBs are subject to a range of legal constraints resulting from the Treaty and legal instruments derived therefrom as well as from international obligations. First, Article 31.2 of the Statute of the ESCB stipulates that Member States' transac-

tions with their foreign exchange working balances, above a certain limit, be subject to approval by the ECB to ensure consistency with the exchange rate and monetary policies of the Community. Furthermore, Article 101 of the Treaty prohibits the NCBs and the ECB from transferring central bank funds exceeding the annual distribution of profit to governments or other public authorities (prohibition of monetary financing). Also, the ECB is entitled to effect further calls of foreign reserve assets. The margin call for a further EUR 1.2 billion from the OeNB's foreign reserve holdings has already been agreed; this decision does not rule out further calls beyond this amount. The share of OeNB foreign reserves holdings which the IMF may draw on amounts to EUR 2.6 billion.

International comparisons

are not a viable argument

Reserve assets are a public good; thus, common private sector criteria do not apply. In tranquil times, foreign reserve assets tend to be rated excessive, but in more troubled times, they are considered insufficient. Furthermore, it should be borne in mind that the conditions of EMU are untested waters. Comparisons with the levels of foreign reserves held by the Bank of Japan or the U.S. Federal Reserve System are not viable, owing to the different legal, institutional, historical and economic conditions in these economies.

Emergency reserve

Evidently, the NCBs of the Eurosystem no longer intervene in the markets to support their individual national currencies. Monetary Union has also reduced the potential need

for foreign reserves to cover international liabilities. However, a range of essential reasons to hold reserve assets still apply. They continue to be a vital reserve for emergency situations also in the future.

**Reserve assets are an anchor
of credibility for the euro**

Backing for money in circulation in the form of assets not subject to government influence still represents a crucial anchor of credibility for a currency and its acceptance by the public. The central bank needs to cover the liabilities in its balance sheet. This is particularly true for the euro and the Eurosystem, which are both very young from a historical perspective.

It will take many years until the euro has fully established itself as an international currency. The new currency has yet to stand the test of time. The public (both in Austria and abroad) and the international foreign exchange and financial markets will watch closely whether the euro can maintain its stability over economic cycles, in the face of unexpected political or financial shocks and in an enlarged EMU. Political pressure for reducing what is called “excess” foreign reserves would openly violate the provisions of the Treaty stipulating central bank independence and would undermine the credibility of the Eurosystem.

**High transfers of profits
to the government**

Apart from providing a cover to the currency, foreign reserves underpin the credibility and the independence of monetary policy also in so far as the revenues from reserve asset investment ensure the financial independence of the Eurosystem. Only a small share of the income on reserve assets is used to cover the operating

costs of the central bank. The bulk of the OeNB's profit (93%) is transferred to the federal government budget. In the financial year 2002, the transfers (profit share and corporate tax) to the federal government came to EUR 1.4 billion, which roughly equals the entire amount of government funding for research and development in that year. Since the start of Stage Three of EMU, the OeNB has transferred EUR 5.7 billion in profits and corporate tax to the federal government.

**Reserve transactions' impact
on financial markets**

If the Eurosystem for monetary and exchange rate policy reasons decided to restructure its balance sheet to reduce its reserve assets, a cautious and gradual approach would have to be taken. Otherwise, the amounts of liquidity involved could have an undesired effect on foreign currency markets. The sterilization of liquidity-absorbing foreign currency sales by expansionary domestic money market operations is not without problems for large amounts. Furthermore, if foreign government bond holdings were reduced abruptly, repercussions on European bond yields could not be ruled out.

**Monetary policy requirements
have priority**

It is vital that in the debate on the future of the Eurosystem's and the OeNB's foreign reserves the priority of the Eurosystem's monetary policy requirements be recognized and compliance with the legal and institutional rules including the independence of the Eurosystem in fulfilling its tasks be ensured. Decisions on the level and the composition of reserve assets must take into account long-term, strategic considerations,

the complexity of the subject matter as well as the public's and the financial markets' heightened sensitivity in this context.

Efficient Foreign Reserve Management

ESCB membership brought about changes

For the OeNB, membership in the ESCB involved a number of structural changes in reserve asset management. On January 1, 1999, a part of the gold and foreign currency reserves (denominated in U.S. dollars and Japanese yen) was transferred to the ECB in exchange for a corresponding asset position. The NCBs manage these foreign currency reserves in the name and on behalf of the ECB. The ECB lays down the investment principles including the risk parameters. The NCBs of the participating Member States manage their reserves in competition with one another; the performance they achieve is compared on a monthly basis.

Success factors

in OeNB foreign exchange transactions

The OeNB has been doing well in this challenging environment, which can be attributed to the following factors:

- The OeNB is a small, flexible central bank with a strong market orientation. The OeNB monitors and analyzes new developments in the field of financial instruments and techniques as well as in risk management on an ongoing basis; thus, new approaches can be swiftly integrated into its set of instruments, wherever appropriate.
- The OeNB makes sure that treasury staff members continually receive training (attending courses, workshops, and the like) to provide them with the best possible

preparation for competing in foreign reserve management.

- The OeNB actively participates in an intense exchange of information with central banks within and outside the ESCB as well as with commercial banks. Representation in the numerous working groups and committees of the ESCB is a key aspect.
- The OeNB's Treasury Section operates representative offices in two of the world's leading financial centers, London and New York. One of their main tasks is to provide information directly from market sources.

It is not only the OeNB's foreign reserve management on behalf of the ECB that benefits from the factors listed above, but also the OeNB's management of the much larger reserve assets it retained, which are also part of the overall ESCB reserves. Contrary to the assets transferred to the ECB, the reserve assets owned by the OeNB comprise not only gold and foreign currency assets but also euro-denominated assets. For risk diversification reasons, the OeNB makes its investments also in a range of currencies other than the U.S. dollar. It must also implement risk management measures to hedge the risks these investments are exposed to.

The OeNB's gold policy

The gold policy of the OeNB and of the other central banks in the ESCB is largely influenced by the Washington Agreement signed on September 26, 1999. The participating central banks agreed on limits of gold sales and to freeze gold lending and sales at present levels. Within this framework, the OeNB continued its long-term policy of moderate gold sales totaling 90 tons within a five-year

period; at the end of 2002, the OeNB's gold holdings amounted to approximately 317 tons. The OeNB stepped up its activities in gold investment, for instance by creating the appropriate legal framework (e.g. for pledge agreements) and by taking advantage of the shape of the gold interest rate curve, and thus increased its revenues without incurring additional credit risk.

Despite difficult market conditions, the OeNB increased its profits while implementing appropriate risk control measures

Despite difficult market conditions characterized by significant uncertainties and nervous markets, the OeNB again posted a well above-average result in 2002.

This performance can be traced largely to shifts of foreign currency reserves into euro-denominated reserves, which, like in the two previous years, yielded substantial additional profits in 2002. In addition, the smaller exchange rate risk – which had diminished thanks to these transactions – was also reflected in the amount of risk provisions.

In line with common practice at international commercial banks, the OeNB manages its U.S. and Canadian dollar-denominated reserves in the respective time zones, i.e. in Vienna and at the representative office in New York.

The OeNB is one of those central banks which have started to use derivative instruments relatively early. In risk management they are a highly liquid and cost effective alternative to conventional hedging instruments.

Apart from the usual set of investment instruments of public and private borrowers, the OeNB seeks to achieve additional revenues, for instance via securities lending activities; special importance is attached to a firm legal basis and adequate risk management.

Continuous improvements and adjustments of the treasury infrastructure

In line with international standards, the trading, settlement, controlling and accounting functions at the OeNB are strictly separate. Adequate IT systems are a crucial prerequisite for the OeNB to perform its tasks in an efficient and secure manner; recently, market dynamics increased requirements both in trading and in IT systems. Therefore, the OeNB decided to implement a new trading and analysis system which fits into the existing system framework while accommodating the requirements of trading in the medium term. In 2002, the system was subjected to a thorough trial run; since the beginning of 2003, it has been operational.

Efficient Organization Ensures Successful Corporate Governance

The OeNB's Tasks: An Overview

The OeNB has twofold responsibilities – in the ESCB and in Austria

The OeNB's responsibilities result from its particular role as an integral part of the ESCB and from its function as the central bank of Austria. In this dual role, the OeNB has an

active voice in the ESCB's monetary policy and contributes to strengthening Austria's financial market. The key purpose of the OeNB's activities both at the national and at the international level is to benefit its users and partners.

Thus, the OeNB's tasks comprise:

The OeNB's Task: An Overview

- participation of the OeNB's Governor in the Governing Council and in the General Council of the ECB;
- close involvement in a range of Eurosystem, ESCB and EU bodies;
- macroeconomic research and analysis, especially as a contribution to the monetary policy decisions of the Governing Council of the ECB;
- contacts between the Eurosystem, Austrian economic policymakers and the general public;
- provision of conclusive, high-quality statistics (above all monetary, balance of payments, interest rate and prudential statistics);
- handling of transactions with banks focused on implementing the Eurosystem's monetary policy with its prime objective of price stability;
- participation in foreign exchange market intervention to smooth extraordinary and undesirable market fluctuations;
- management of the OeNB's own reserve assets and of the OeNB's share of the ECB's foreign reserves;
- conduct of minimum reserve operations and monitoring of minimum reserve holdings;
- provision and promotion of reliable cross-border payment systems in Austria (ARTIS, TARGET);
- provision of cash to Austrian businesses and consumers;
- analysis of financial markets and banks with a view to risks;
- participation in the prudential supervision of Austrian banks and payment system oversight to secure financial market stability;
- international monetary policy cooperation and participation in international financial institutions (IMF, BIS).

International cooperation

These tasks and responsibilities are dealt with in detail in various chapters of this annual report. The following section provides an overview of the OeNB's role in international monetary policy cooperation.

In performing its statutory tasks, the OeNB is represented in international monetary institutions and actively participates in a communication network of technical bodies as well as international organizations and financial institutions. This close involvement enables the OeNB to

represent and communicate the interests and perspectives of the Austrian business community and public. The following box provides an overview of the OeNB's activities at the international level in 2002.

The OeNB in International Organizations and as an International Partner in Dialogue

European System of Central Banks (ESCB) and Eurosystem

The OeNB is an integral part of the ESCB and of the Eurosystem. In his capacity as a member of the Governing Council of the ECB, the governor of the OeNB actively takes part in the monetary policy and technical decision-making process on this panel and in the implementation of these decisions. Representing the OeNB in the 13 committees of the Eurosystem and the numerous working groups, OeNB staff is involved in the preparation of Governing Council decisions; furthermore, OeNB experts provide position papers on and analyses of macroeconomic, international and institutional issues.

European Union (EU)

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

The OeNB actively participates in the Economic and Financial Committee (EFC), in the EFC working group on IMF-related issues, as well as in the Economic Policy Committee. These EU bodies are, in particular, responsible for the preparation of the meetings of the EU economic and finance ministers.

The OeNB's representative offices in Brussels and in Paris considerably facilitate and accelerate the exchange of information between the EU and the OeNB as well as the coordination of positions on economic policy issues.

As a member of the Banking Advisory Committee, the OeNB provides advice to the European Commission for its preparation of coordinating measures in the field of credit institutions.

In the run-up to EU enlargement, OeNB representatives are participating in the macroeconomic dialogue with the EU accession countries, which addresses above all economic and fiscal policy issues.

Bank for International Settlements (BIS)

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

OeNB staff presents studies at BIS conferences and seminars and provides contributions to various BIS working groups, for instance, on technical cooperation activities with the transition economies or in the field of statistics.

Organisation for Economic Co-operation and Development (OECD)

OeNB staff is actively involved in the work of various OECD committees, including the Economic Policy Committee, the Financial Markets Committee and in a number of country review committees. Since 2002, the OeNB has held the chair of the Committee on Capital Movements and Invisible Transactions, which is a great achievement for Austria. The OeNB's participation in the country review committees is influential because the OECD has a key advisory function to the economic policymakers in the countries under review.

International Monetary Fund (IMF)

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

On May 3, 2002, the OeNB hosted a meeting of the members of its IMF constituency in Vienna for an exchange of information on financial stability issues and the IMF's Financial Sector Assessment Programs.

The OeNB as a Platform for an International Exchange of Views

The OeNB also provides a platform for an international exchange of views and information on economic, monetary and financial policy issues between central bankers, economic policymakers, financial market players and university researchers, with a special focus on the EU's enlargement to central, eastern and southeastern Europe.

In this context, the OeNB organized a range of conferences and seminars in 2002, including the Economics Conference on the "Competition of Regions and Integration in EMU" and the East-West Conference on "Structural Reforms and the Search for an Adequate Policy Mix in Central and Eastern Europe" as well as, in cooperation with the Centre for Economic Policy Research/European Summer Institute, the conference "Financial Market Regulation in Accession Countries," the "Monetary Union Conference" in cooperation with the Banco Central de Chile and the University of Vienna, and, in cooperation with the Austrian Federal Economic Chamber, a seminar on government bankruptcy and its implications at the Forum Alpbach conference. Furthermore, the OeNB hosted a number of workshops on topics such as "EU Enlargement to the East: Effects on the EU-15 in General and on Austria in Particular," "Fiscal Monitoring in the EU – Perspectives for the Accession Countries" or "Pension Finance Reform: From Public to Financial Economics."

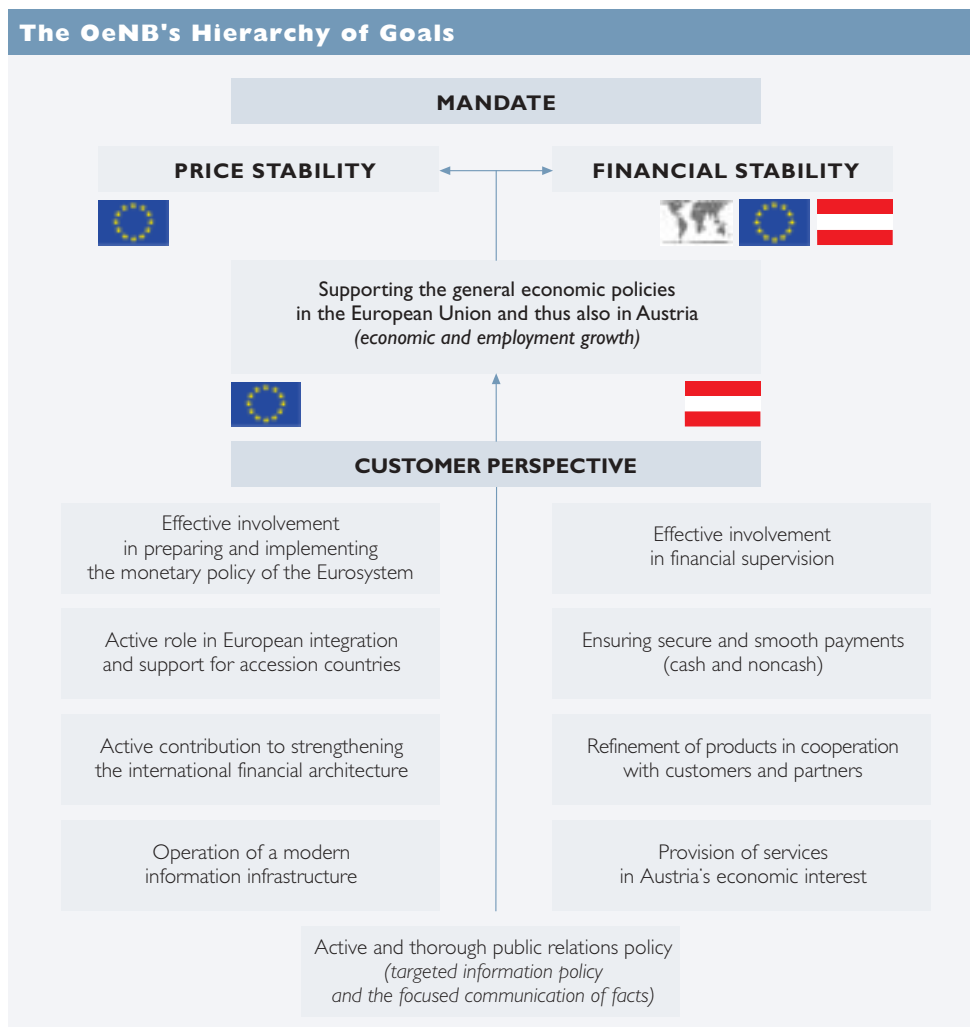
Professional Handling of Responsibilities Based on Service and Customer Orientation

Refinement of the corporate strategy

In the fall of 2001, the OeNB embarked on drafting its strategy for the 2003 to 2006 period. The OeNB's strategic functions are based on the long-term objectives reflected

in the mission statement, medium-term aims subsumed under corporate strategy and annual operational goals established during annual planning.

The mission statement primarily mirrors the OeNB's dual role – in Austria as well as in the ESCB and the Eurosystem – and its strong customer orientation, as illustrated in the chart below.



In 2002, work began on translating these overall objectives into concrete goals for each business area of the OeNB. To this end, the OeNB expanded its range of business management instruments (e.g. cost effectiveness analysis) and adjusted it to cur-

rent and future framework conditions (e.g. benchmarking).

The revision and refinement of the corporate strategy aims not only to continuously enhance operational processes, but also to optimize the organizational management of tasks.

**Further optimization of processes
and strengthening
of the customer-oriented approach**

One project of this optimization process was dedicated to the assessment of the OeNB's Accounting Division. Another project, the front office trading system project, was also carried out within the optimization framework. The latter entailed the implementation of new IT systems for the treasury as the basis for optimizing organizational processes, in particular ticketing, portfolio management, portfolio analysis, simulation, investment analysis, limits as well as performance measurement.

The OeNB perceives itself as a customer-oriented enterprise that seeks to gear its steady process of improvement towards the benefit of its customers. In this context, contacts with customers (including banks, businesses, universities and other research institutions, central banks and the public) are key to meet their needs and requirements. The second main objective of the optimization process is to make internal services more efficient.

**Continuous e-business innovation process
established**

Under the title "eBusiness II/Electronic Customer Processes," the OeNB continued its e-business projects launched in 2001. This initiative aims to automate customer-oriented business processes via the Internet to support customer use of OeNB products by ensuring optimum access. Within the current project, public acceptance of the e-prototypes that are already online was assessed. Since the first e-business websites were all well received, new e-business ideas were developed and launched in 2002.

The applications currently operational¹⁾ that can be accessed by a broad group of users without requiring special access rights or special knowledge include

- <http://dictionary.oenb.at>: segments of the OeNB's specialized terminology database;
- <http://dieaktuellezahl.oenb.at>: important Austrian economic indicators, including detailed descriptions and trends;
- <http://karriere.oenb.at>: recruitment at the OeNB, including vacancies and online application forms.

Another group of applications can be accessed by a predefined group of users only; it includes:

- eTender: handling of monetary policy transactions in liquidity management;
- ARTIS online: payment settlement with the OeNB;
- Major Loans Register: interactive reporting and information access.

**Human resource management
developed further**

In the field of human resource management, the OeNB seeks to enhance its attractiveness as an employer. The creation of performance-linked salary systems and the extension of part-time work arrangements are just two measures already taken to achieve this goal.

The introduction of teleworking at the OeNB marks another step towards more flexible work schedules. Both employees and the employer will benefit from the advantages and chances the teleworking arrangements offer. Staff with different responsibilities and from different divisions will take part in a one-year trial run.

Human resource development focused its demand-led training

¹ All OeNB e-business applications currently operational can be accessed via <http://ebusiness.oenb.at> or via the OeNB website (<http://www.oenb.at>) under "e-Prototypen." The e-business applications are available in German only.

measures on its key strategic areas customer and process orientation. The OeNB stepped up its cooperation activities with the ESCB, organizing, for instance, a joint training program on Basel II with the German Bundesbank, which benefits both sides in terms of cost saving and quality enhancement.

The OeNB is actively involved in a number of international human resource development projects within the ESCB, whose purpose is to forge closer links between human resources divisions. OeNB staff thus benefits from international job rotation and joint training opportunities.

For the OeNB, it is crucial to attract and keep highly-qualified staff. The incentives that need to be provided to achieve this goal include life-long learning, improved information policies and giving employees the opportunity to balance job, family and spare time.

Future-oriented IT management system

The OeNB's IT divisions provide IT infrastructure, applications and services to all divisions of the OeNB and its subsidiaries. Especially the OeBS and the GSA make active use of these OeNB services for their operations. In 2002, the IT divisions provided the systems necessary to support the OeBS and the GSA in the distribution of euro cash and the return of schilling banknotes and coins. Also, a system for processing incoming orders, deliveries and payments was implemented for GSA within a very short period of time.

The introduction of euro cash was taken as an opportunity to further consolidate the OeNB's IT systems; an umbrella system management platform is to enhance the systems' quality and availability. On the basis of the experience gained during the

cash changeover, the IT applications of the OeNB and of its subsidiaries were adjusted to current market requirements, which marked another step towards refining the OeNB's "payment means cluster" to ensure that cash distribution and processing operations in Austria evolve to meet future requirements.

The creation of a joint infrastructure for e-business applications as well as the use of modern security technologies and signature solutions make it possible for the OeNB to offer its customers and partners innovative solutions and products also in this area. These activities are carried out in cooperation with the subsidiary A-Trust, which supports access to certain OeNB e-business applications by means of certificates.

EMAS environmental management developed further

As a modern central bank, the OeNB views itself as having a special responsibility for the environment, which is also reflected in the incorporation of environmental awareness into the mission statement from 1989. Since then, the OeNB has launched a number of environmental protection measures. It pioneered, for instance, the company-wide use of recycled paper and the eco-labelling of cleaning detergents. The OeNB has been awarded various prizes acknowledging its commitment to environmental protection. In late 2002, the waste management team received the city of Vienna's "waste manager 2002" award for its efforts in recycling shredded banknotes.

The introduction of a comprehensive environmental management system pursuant to the EMAS Council Regulation¹⁾ was the logical result of years of activities in this area and led to a further upgrading and exten-

¹ *Eco-Management and Audit Scheme.*

sion of the OeNB's environmental protection efforts. The system was first introduced at the OeNB's Money Center; now it will be extended to the entire group.

- The OeNB passed the environmental audit conducted by three external auditors. The entire enterprise at the head office in Vienna is now certified in accordance with the EMAS Council Regulation. The branch offices are scheduled to be certified in 2003.
- An environmental protection team was established to implement the objectives laid down in the newly formulated environmental declaration. This new team consists of the environmental officer, the waste management officer and members of staff from each section (the so-called environmental control agents).
- An environmental database was implemented as a tool for the environmental management system. The database is used to store and evaluate environmental data and supports the steady process of improvement and documentation. Each member of the environmental protection team has access to this database.

The OeNB's Subsidiaries

Efficient structures support the OeNB in undertaking its tasks

The OeNB counts the provision of banknotes and coins in Austria and the smooth functioning of payment systems among its responsibilities. To handle some of the related tasks, the OeNB resorts to the services of its subsidiaries. To this end, the OeNB has built up a network of affiliated companies specialized on payment instruments and services.

In the cash segment, the OeNB is the parent company of the Austrian

Mint (Münze Österreich AG – MÖAG) and the Austrian Banknote and Security Printing Works (Oesterreichische Banknoten- und Sicherheitsdruck GmbH – OeBS), which cover the production of euro banknotes and coins in Austria. The third subsidiary involved in the cash segment is the cash services company GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA), in which the OeNB holds a majority stake. In establishing GSA, the OeNB has succeeded in putting cash logistics in Austria on a broad and cost-efficient basis.

In the cashless payments segment, the subsidiary AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H. is the premier manufacturer of highly secure chip cards in Austria. This segment also includes companies in which the OeNB has a minority holding: Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H., A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH (A-Trust) and Austrian Payment Systems Services (APSS) GmbH. These companies' business focuses on providing a low-cost, high-security infrastructure for the Austrian financial market, which is why the OeNB holds shares in these future-oriented enterprises as a neutral partner next to Austrian banks.

By strategically bundling know-how and by coordinating services with its subsidiaries to provide a full range of payment systems services, the OeNB contributes to

- enhancing the security of payment services (e.g. ensuring that banknotes and coins are counterfeit proof and that data networks are stable);

- improving the quality of payment service products (e.g. compatible payment media); and
- lowering overall costs in Austria (e.g. by concentrating cash processing operations within GSA).

Through their activities, the subsidiaries support the OeNB in fulfilling its responsibilities effectively and efficiently.

Promoting efficient and reliable payment systems

The OeNB, with the market support of its subsidiaries, endeavors to supply cash to Austrian users in an optimal fashion and to ensure the smooth functioning of payment systems. The most recent example confirming the appropriateness of this concept was the successful euro changeover, dur-

ing which the OeNB's subsidiaries played a key role in implementing the operational aspects of the changeover. These central bank-related tasks will remain the strategic focus of the OeNB's subsidiaries. Since the subsidiaries' business covers a broad range of payment products, the OeNB's security aims can be implemented within the best possible business setup while ensuring the greatest overall economic utility. Efficiently coordinated measures enable the affiliated companies to act as full-range providers of payment instruments/systems and cash services. Research and development are also accorded a key role. Employing highly specialized experts and state-of-the-art production means, these companies develop future-oriented

Payment Means Cluster of the OeNB

Cash

Cash production

Münze Österreich AG (MÖAG)

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

Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS)

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



Cash processing

GELDSERVICE AUSTRIA

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

- cash processing
- supply of banknotes and coins
- logistics

Cashless payments

Production of payment instruments

AUSTRIA CARD-

Plastikkarten und Ausweissysteme Gesellschaft m. b. H.

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



Provision of infrastructure and reliable services

Austrian Payment Systems Services (APSS) GmbH

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

A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH

- certification services in the area of electronic signatures

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

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

technologies and products. The OeBS (innovations in the field of security features, production processes, counterfeit recognition) and AUSTRIA CARD (software developments for chip card applications) range among the pioneers.

Changes in equity holdings in the review year

The OeNB sold minority interests in GSA in 2002 to more banks which wished to use the company's services, expanding the group of GSA shareholders.

The electronic signature certification services of A-Trust were merged with another firm's signature services in 2002. The restructuring of shareholdings in the process resulted in a marginal reduction of the OeNB's equity stake in A-Trust.

At the request of the other shareholders, the OeNB raised its equity participation in APSS from 10% to 38% in 2002.

Implementation of market-oriented group management control

The economic control approach applied to the intercompany provision of goods and services between the OeNB and its subsidiaries was reinforced in 2002 in the course of a project, and professional intercompany accounting management was further improved.

Promotion of Science, Research and Culture

Research promotion

Since its foundation in 1966, the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching has provided grants for scientific projects in basic and applied research, with funds totaling around EUR 568 million. The Anniversary Fund has thus become an indispensa-

ble element in securing the future of Austrian science and research.

In 2002 the OeNB again earmarked the lion's share of its net profit, EUR 70 million, for research promotion. The amount paid out for economics-oriented research in the reporting year came to about EUR 65 million. These funds mainly served to finance 146 economics-oriented research projects via the Austrian Industrial Research Promotion Fund (Forschungsförderungsfonds für die gewerbliche Wirtschaft – FFF) and the Austrian Science Fund (Fonds zur Förderung der wirtschaftlichen Forschung – FWF). In addition, the OeNB's Anniversary Fund provided funding for six laboratories of the Christian Doppler Research Society (Christian-Doppler-Forschungsgesellschaft – CDG), five payment instruments/systems and cash services research projects, Institut für Molekulare Biotechnologie GmbH (IMBA) at the Austrian Academy of Sciences (Österreichische Akademie der Wissenschaften – ÖAW) and three economic research institutes (WIFO, IHS and WIIW).

The OeNB directly granted funds of approximately EUR 12.4 billion for 227 research projects in economics, medicine, social sciences and the humanities, focusing in particular on stepping up its promotion of economics. At regular intervals, selected project results are presented to an expert public via the platform "Forum Jubiläumsfonds." With these funding activities, the OeNB has contributed significantly to the promotion of innovation and technological development as well as the improvement of Austria's appeal as a business location and the international competitiveness of the Austrian economy.

Promotion of cultural activities

The OeNB has made the promotion of cultural activities a special focus. Its collection of valuable old string instruments currently comprises 29 instruments, which are on loan to rising Austrian violin stars and Austrian chamber music ensembles and orchestras. The OeNB has a mission to make this collection accessible to music lovers.

To this end, the OeNB organized the second “Stradivari & Co” concert cycle at RadioKulturhaus in cooperation with the Austrian Broadcasting Corporation. Moreover, “Meister-

werke der Geigenbaukunst,” a book on masterpieces of violinmaking prepared by Rudolf Hopfner, Director of the Collection of Antique String Instruments at Vienna’s Kunsthistorisches Museum, in cooperation with the OeNB, was presented in 2002. This publication is an effort to scientifically document the OeNB’s collection of antique string instruments and provides a comprehensive and highly detailed overview with instrument measurements, descriptions, photographic reproductions and, wherever available, brief histories of the lineage of the instruments’ ownership.





Financial Statements
of the Oesterreichische Nationalbank
for the Year 2002

Balance Sheet as at December 31, 2002

Assets

	December 31, 2002 euro	December 31, 2001 euro
1. Gold and gold receivables	3,336,169,087.69	3,519,118,265.13
2. Claims on non-euro area residents denominated in foreign currency	8,964,563,163.—	13,979,832,639.04
2.1 Receivables from the IMF	998,506,293.06	1,262,683,249.24
2.2 Balances with banks, security investments, external loans and other external assets	7,966,056,869.94	12,717,149,389.80
3. Claims on euro area residents denominated in foreign currency	788,121,132.87	1,108,565,345.82
4. Claims on non-euro area residents denominated in euro	1,268,490,067.32	1,569,219,994.13
4.1 Balances with banks, security investments and loans	1,268,490,067.32	1,569,219,994.13
4.2 Claims arising from the credit facility under ERM II	—	—
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	2,851,119,297.—	1,290,549,780.—
5.1 Main refinancing operations	2,679,245,467.—	379,071,760.—
5.2 Longer-term refinancing operations	171,873,830.—	911,478,020.—
5.3 Fine-tuning reverse operations	—	—
5.4 Structural reverse operations	—	—
5.5 Marginal lending facility	—	—
5.6 Credits related to margin calls	—	—
6. Other claims on euro area credit institutions denominated in euro	81,554.11	182,269,783.31
7. Securities of euro area residents denominated in euro	2,015,082,547.10	1,742,630,781.57
8. General government debt denominated in euro	351,366,342.42	287,632,718.05
9. Intra-Eurosystem claims	4,175,873,646.22	3,153,430,658.76
9.1 Participating interest in the ECB	117,970,000.—	117,970,000.—
9.2 Claims equivalent to the transfer of foreign reserves	1,179,700,000.—	1,179,700,000.—
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates ¹⁾	×	×
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	—	—
9.5 Other claims within the Eurosystem (net)	2,878,203,646.22	1,855,760,658.76
10. Items in course of settlement	86,106,011.07	83,404,749.23
11. Other assets	9,836,252,296.47	4,384,003,886.29
11.1 Coins of euro area	345,879,860.37	151,994,553.97
11.2 Tangible and intangible fixed assets	146,872,313.85	135,622,952.35
11.3 Other financial assets	7,316,249,229.68	2,548,765,865.44
11.4 Off-balance-sheet instruments' revaluation differences	12,065,471.25	6,571,481.94
11.5 Accruals and prepaid expenditure	325,957,680.22	355,593,036.02
11.6 Sundry	1,689,227,741.10	1,185,455,996.57
	<u>33,673,225,145.27</u>	<u>31,300,658,601.33</u>

¹⁾ Only an ECB balance sheet item.

Liabilities

	December 31, 2002 euro	December 31, 2001 euro
1. Banknotes in circulation	10,237,504,457.54	10,172,302,497.04
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	3,541,818,388.57	5,497,601,442.69
2.1 Current accounts (covering the minimum reserve system)	3,541,468,388.57	5,497,601,442.69
2.2 Deposit facility	350,000.—	—
2.3 Fixed-term deposits	—	—
2.4 Fine-tuning reverse operations	—	—
2.5 Deposits related to margin calls	—	—
3. Other liabilities to euro area credit institutions denominated in euro	—	1,059,618,205.55
4. Debt certificates issued¹⁾	×	×
5. Liabilities to other euro area residents denominated in euro	32,894,322.56	42,101,899.13
5.1 General government	10,666,110.91	21,298,633.20
5.2 Other liabilities	22,228,211.65	20,803,265.93
6. Liabilities to non-euro area residents denominated in euro	1,731,293.20	63,530,444.37
7. Liabilities to euro area residents denominated in foreign currency	92,137,718.11	308,726,918.84
8. Liabilities to non-euro area residents denominated in foreign currency	583,590,178.92	985,659,161.39
8.1 Deposits, balances and other liabilities	583,590,178.92	985,659,161.39
8.2 Liabilities arising from the credit facility under ERM II	—	—
9. Counterpart of Special Drawing Rights allocated by the IMF	232,096,033.50	255,051,392.95
10. Intra-Eurosystem liabilities	7,403,756,720.—	—
10.1 Liabilities equivalent to the transfer of foreign reserves ¹⁾	×	×
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	—	—
10.3 Net liabilities related to allocation of euro banknotes within the Eurosystem	7,403,756,720.—	—
10.4 Other liabilities within the Eurosystem (net)	—	—
11. Items in course of settlement	85,345,638.01	507,385,260.28
12. Other liabilities	1,405,665,367.63	1,516,790,955.97
12.1 Off-balance-sheet instruments' revaluation differences	13,921,305.80	207,999,252.71
12.2 Accruals and income collected in advance	206,904,633.25	109,867,776.42
12.3 Sundry	1,184,839,428.58	1,198,923,926.84
13. Provisions	2,295,146,397.91	1,856,057,752.80
14. Revaluation accounts	3,448,891,071.01	4,680,053,372.83
15. Capital and reserves	4,212,554,582.22	4,247,440,269.22
15.1 Capital	12,000,000.—	12,000,000.—
15.2 Reserves	4,200,554,582.22	4,235,440,269.22
16. Profit for the year (thereof EUR 118,388.57 profit brought forward in 2002)	100,092,976.09	108,339,028.27
	<u>33,673,225,145.27</u>	<u>31,300,658,601.33</u>

¹⁾ Only an ECB balance sheet item.

Profit and Loss Account for the Year 2002

	Business year 2002 euro	Business year 2001 euro
1.1 Interest income	1,024,920,983.44	1,287,006,069.51
1.2 Interest expense	– 430,736,433.01	– 413,905,931.65
1. Net interest income	594,184,550.43	873,100,137.86
2.1 Realized gains/losses arising from financial operation	863,199,704.61	995,744,801.23
2.2 Writedowns on financial assets and positions	– 139,989,135.82	– 88,353,343.41
2.3 Transfer to/from provisions for foreign exchange and price risks	125,471,349.28	87,320,307.38
2. Net result of financial operations, writedowns and risk provisions	848,681,918.07	994,711,765.20
3.1 Fees and commissions income	1,713,055.22	1,381,355.03
3.2 Fees and commissions expense	– 2,097,981.23	– 1,701,254.24
3. Net income from fees and commissions	– 384,926.01	– 319,899.21
4. Income from equity shares and participating interests	242,848,036.33	54,095,046.59
5. Net result of pooling of monetary income	199,010.51	– 606,563.30
6. Other income	<u>84,483,298.22</u>	<u>7,322,868.26</u>
Total net income	1,770,011,887.55	1,928,303,355.40
7. Staff cost	– 98,103,441.50	– 92,971,491.46
8. Administrative expenses	– 100,158,690.79	– 110,604,056.83
9. Depreciation of tangible and intangible fixed assets	– 21,882,518.83	– 19,945,786.71
10. Banknote production services	– 33,042,822.48	– 62,232,247.83
11. Other expenses	<u>– 2,057,936.33</u>	<u>– 1,119,902.18</u>
Total expenses	– 255,245,409.93	– 286,873,485.01
	1,514,766,477.62	1,641,429,870.39
12. Corporate income tax	<u>– 515,020,602.39</u>	<u>– 558,086,155.93</u>
	999,745,875.23	1,083,343,714.46
13. Central government's share of profit	<u>– 899,771,287.71</u>	<u>– 975,009,343.01</u>
14.1 Net income	99,974,587.52	108,334,371.45
14.2 Profit brought forward	118,388.57	4,656.82
14. Profit for the year	<u>100,092,976.09</u>	<u>108,339,028.27</u>

Notes to the Financial Statements 2002

General Notes to the Financial Statements

Accounting Fundamentals and Legal Framework

The OeNB is committed (pursuant to Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank of 1984 as amended – Nationalbank Act) to prepare its balance sheet and its profit and loss account in conformity with the policies established by the Governing Council of the ECB under Article 26.4 of the ESCB/ECB Statute. These policies are laid down in the Guideline of the European Central Bank of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).¹⁾ The OeNB's financial statements for the year 2002 were prepared fully in line with the provisions set forth in this guideline. In cases not covered by the guideline, the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence of the Nationalbank Act were applied.

The other Nationalbank Act provisions that govern the OeNB's financial statements (Articles 67 through 69 and Article 72 paragraph 1 of the Nationalbank Act, as amended and as promulgated in Federal Law Gazette I No. 60/1998) as well as the relevant provisions of the Commercial Code as amended remained unchanged from the previous year. In accordance with Article 67 paragraph 3 of the Nationalbank Act, the OeNB continued to be exempt in 2002 from preparing consolidated financial statements as required under Article 244 et seq. of the Commercial Code.

The financial statements for 2002 were prepared in the format laid

down by the Governing Council of the ECB. The applicable guideline (ECB/2002/10) resulted in the following changes to the format:

Assets item 9.4 "Other claims within the Eurosystem (net)" was renumbered as 9.5. In connection with the representation of banknotes in circulation, a new assets item 9.4 "Net claims related to the allocation of euro banknotes within the Eurosystem" was created.

Liabilities item 10.3 "Other liabilities within the Eurosystem (net)" was renumbered as 10.4, as a new item 10.3 "Net liabilities related to the allocation of euro banknotes within the Eurosystem" was inserted.

The ECB and the 12 national central banks of the Member States that have adopted the euro, which together form the Eurosystem, have issued euro banknotes as from January 1, 2002.²⁾ On the last business day every month, the total value of euro banknotes in circulation is allocated among the Eurosystem national central banks in line with the banknote allocation key.³⁾ Accordingly, the ECB is allocated 8% while the remaining 92% are divided among the 12 national central banks of the Eurosystem. The national central banks' month-end shares of the total value of euro banknotes in circulation are disclosed under liabilities item 1 "Banknotes in circulation" of their periodical financial statements.

The difference between the value of the euro banknotes each national central bank is allocated under the banknote allocation key and the value of banknotes the respective national central bank actually issues gives rise to intra-Eurosystem balances. If the value of the euro banknotes issued

1 Decision of the Governing Council of the ECB of December 5, 2002.

2 Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

3 The banknote allocation key designates the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the national central banks' share in such total.

is below the value established according to the banknote allocation key, the difference is recorded under assets item 9.4 “Net claims related to the allocation of euro banknotes within the Eurosystem.” If the value of the euro banknotes issued is above the value designated in the banknote allocation key, the difference is recorded under liabilities item 10.3 “Net liabilities related to the allocation of euro banknotes within the Eurosystem.”

Monetary income accrues to the national central banks in the performance of the Eurosystem’s monetary policy functions. The ESCB/ECB Statute provides for the pooling of this income and its redistribution among the national central banks in proportion to their paid-up shares in the ECB’s capital. Banknotes in circulation are taken into account in the calculation of monetary income from 2002. From 2002 to 2007 the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in national central banks’ relative income positions as compared to previous years.¹⁾ The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each national central bank in the period from July 1999 to June 2001 and the average value of the banknotes that would have been allocated to them during that period under the ECB’s capital key. This adjustment will be reduced in annual stages until the end of 2007, after which income on banknotes will be allocated fully in proportion to the national central banks’ paid-up shares in the ECB’s capital. The interest income and expense on these balances is cleared through the accounts of the ECB and disclosed under item 1 “Net in-

terest income” of the profit and loss account.

Accounting Policies

The financial statements were prepared in conformity with the accounting policies adopted by the Governing Council of the ECB²⁾. Said accounting policies, which govern the accounting and reporting operations of the Eurosystem, follow accounting principles harmonized by Community law and generally accepted international standards. The key policy provisions are summarized below.

- Economic reality and transparency,
- prudence,
- recognition of post-balance sheet events,
- materiality,
- a going-concern basis,
- the accruals principle,
- consistency and comparability.

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

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

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

Gains and losses realized in the course of transactions were taken to the profit and loss account. For gold,

¹ Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16).

² Decision of the European Central Bank of 5 December 2002 (ECB/2002/10).

foreign currency instruments and securities, the average cost method was used in accordance with the daily netting procedure for purchases and sales. As a rule, the realized gain or loss was calculated by juxtaposing the sales price of each transaction with the average acquisition cost of all purchases made during the day.

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

Unrealized revaluation gains were not taken to the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses were recognized in the profit and loss account when they exceeded previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against new unrealized gains in subsequent years. Furthermore, the OeNB's management¹⁾ determined that unrealized foreign currency losses that must be expensed were to be covered by the release of an offsetting amount from the "reserve fund for exchange risks" accumulated in the runup to 1999. Unrealized losses in any one security, currency or in gold holdings were not netted with unrealized gains in other securities, currencies or gold, since netting is prohibited under the Accounting Guideline.

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

In compliance with Article 69 paragraph 4 of the Nationalbank Act, which stipulates that the reserve fund for exchange risks be set up and released on the basis of a risk assessment of nondomestic assets, the value-at-risk (VaR) method was used to calculate the currency risk. VaR is defined as the maximum loss of a gold or foreign currency portfolio with a given currency diversification at a certain level of confidence (97.5%) and for a given holding period (one year). The potential loss calculated under this approach is to be offset against the "reserve fund for exchange risks" and the "revaluation accounts." Provided that such losses cannot be offset in this way, any remaining loss shall be offset against net income by allocating the necessary funds to "provisions for exchange rate risks." In case just part of the "reserve fund for exchange risks" is needed to cover the loss, the difference will be released and will increase net income.

Future market developments, especially interest and exchange rate movements, may entail considerable fluctuations of the income accruing to the OeNB, the other Eurosystem national central banks and the ECB as a result of the harmonized accounting rules with which they must comply since January 1, 1999.

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

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

Tangible and intangible fixed assets were valued at cost less depreciation. Depreciation was calculated on a straight-line basis, beginning with

¹⁾ *Decision of the Governing Board of November 10, 1999, and of the General Council of November 25, 1999.*

the quarter after acquisition and continuing over the expected economic lifetime of the assets, namely:

- computers, related hardware and software, and motor vehicles (4 years),

- equipment, furniture and plant in building (10 years)¹⁾,

- buildings (25 years).

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

Realized Gains and Losses and Revaluation Differences and their Treatment in the Financial Statements of December 31, 2002

	Realized gains (posted to the profit and loss account)	Realized losses (posted to the profit and loss account)	Unrealized losses (posted to the profit and loss account)	Change in unrealized gains (posted to revaluation accounts)
<i>EUR million</i>				
Gold	237.406	0.000	–	+ 120.859
Foreign currency Held for own account	500.629	21.792	133.993 ¹⁾	–1,182.142
Own funds Securities	–	0.000	–	+ 7.117
Holdings for own account Own funds	140.016 0.607	16.591 –	0.450 ²⁾ 0.028 ²⁾	+ 26.542 + 43.419
IMF euro holdings	23.056	–	–	–
Participating interests	–	–	5.518	+ 68.472
Off-balance sheet instruments	0.836	0.967	–	+ 5.494
Total	902.550	39.350	139.989	– 910.239

¹⁾ This amount did not have an impact on profit because the loss was offset against the "reserve fund for exchange risks."

²⁾ This amount did not have an impact on profit because the loss was offset against the "reserve for nondomestic and price risks."

¹ By way of derogation from this principle, the residual value of the banknote and coin processing equipment was written down to zero in the financial statements for 2002, as it is hardly used any longer.

Capital Movements

Movements in Capital Accounts in 2002

	Dec. 31, 2001	Increase	Decrease	Dec. 31, 2002
	EUR million			
Capital	12.000	–	–	12.000
Reserves				
General reserve fund	1,611.952	–	–	1,611.952
Freely disposable reserve fund	917.719	–	–	917.719
Reserve for nondomestic and price risks	1,164.425	+32.576	– 85.824	1,111.177
Earmarked capital funded with net interest income from ERP loans	534.078	+18.362	–	552.440
Fund for the Promotion of Scientific Research and Teaching	7.267	–	–	7.267
	4,235.441	+50.938	– 85.824	4,200.555
Profit for the year	108.339	–	– 8.246	100.093
	4,355.780	+50.938	– 94.070	4,312.648
Total				
Revaluation accounts				
Reserve fund for exchange risks	1,842.748	–	– 306.318	1,536.430
Initial valuation reserve	282.253	–	– 0.743	281.510
Eurosystem revaluation accounts	2,555.052	–	– 924.101	1,630.951
	4,680.053	–	–1,231.162	3,448.891

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

Development of the OeNB's Currency Positions in the Business Year 2002

Net Currency Position (including gold)

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	EUR million			
Gold and gold receivables	3,519.118	3,336.169	– 182.949	– 5.2
Claims on non-euro area residents denominated in foreign currency ¹⁾	15,705.247	10,608.376	–5,096.871	– 32.5
Claims on euro area residents denominated in foreign currency	1,108.565	788.121	– 320.444	– 28.9
Other assets	23.092	65.653	+ 42.561	+184.3
less:				
Liabilities to euro area residents denominated in foreign currency	308.727	92.138	– 216.589	– 70.2
Liabilities to non-euro area residents denominated in foreign currency	985.659	583.590	– 402.069	– 40.8
Counterpart of Special Drawing Rights allocated by the IMF	255.051	232.096	– 22.955	– 9.0
Off-balance sheet instruments' revaluation differences	–	4.316	+ 4.316	
Revaluation accounts	91.132	110.065	+ 18.933	+ 20.8
Subtotal	18,715.454	13,776.114	–4,939.340	– 26.4
Off-balance sheet assets/liabilities (net)	– 1,434.061 ²⁾	– 256.385	–1,177.676	– 82.1
Total	17,281.392	13,519.729	–3,761.663	– 21.8

¹⁾ Excluding the share of the IMF quota which was not drawn expressed in euro.

²⁾ This item includes forward sales of 30 tons of gold.

Notes to the Balance Sheet

Assets

1. Gold and gold receivables

	EUR million
Closing balance Dec. 31, 2002	3,336.169
Closing balance Dec. 31, 2001	3,519.118
Change	- 182.949 -5.2%

This item comprises the OeNB's holdings of physical and nonphysical gold, which amounted to approximately 317 tons on December 31, 2002. At a market value of EUR 326.830 per fine ounce (i.e. EUR 10,507.827 per kg of fine gold), the OeNB's gold holdings were worth EUR 3,336.169 million at the balance sheet date.

The year-on-year change results from sales (30 tons worth EUR 306.116 million) as offset by unrealized revaluation gains on the order of EUR 54.673 million and by net price gains of EUR 68.494 million realized at sale.

The gold sales (forward transactions concluded in 2001) complied with the Central Bank Gold Agreement concluded by 14 national central banks – among them the

OeNB – and the ECB in September 1999; this agreement limits total gold sales by the contracting partners to 2,000 tons over a five-year period. This sale was the last in a series of sales totaling 90 tons scheduled for the OeNB for this period.

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

	EUR million
Closing balance Dec. 31, 2002	8,964.563
Closing balance Dec. 31, 2001	13,979.832
Change	- 5,015.269 -35.9%

These claims consist of receivables from the International Monetary Fund – including the “receivables from the IMF,” “holdings of Special Drawing Rights” (SDR) and “other claims against the IMF” – and claims denominated in foreign currency against non-euro area countries, i.e. counterparties resident outside the euro area.

The receivables from the IMF comprise the following items:

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	EUR million			
Receivables from the IMF	941.696	783.250	-158.446	-16.8
Holdings of SDRs	264.007	176.367	- 87.640	-33.2
Other claims against the IMF	56.980	38.889	- 18.091	-31.7
Total	1,262.683	998.506	-264.177	-20.9

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

Drawings of SDRs on behalf of IMF members and the revaluation of euro holdings by the IMF as well as transfers by the IMF boosted the **receivables from the IMF¹** by a total of EUR 240.591 million. Con-

versely, repayments by members reduced the receivables from the IMF by a total of EUR 158.989 million. Revaluation losses (-EUR 241.907 million) reduced these claims, whereas realized exchange rate gains

and book value reconciliation (+EUR 1.859 million) enlarged them.

The national IMF quota remained unchanged at SDR 1,872.3 million in 2002.

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2002 this rate hovered between 1.9% and 2.3% per annum, mirroring the prevailing SDR rate.

The holdings of **Special Drawing Rights¹** were recognized in the balance sheet at EUR 176.367 million on December 31, 2002, which is equivalent to SDR 136 million. The reduction of holdings by EUR 87.640 million on balance resulted above all from the sale of SDRs equivalent to EUR 88.072 million. Interest credited, above all remunerations of the participation in the IMF, boosted holdings by EUR 18.153 million.

No purchases arising from designations by the IMF were effected in 2002. Principally the OeNB continues to be obliged under the IMF's statutes to provide currency on de-

mand in exchange for SDRs. Members designated by the IMF may use SDRs up to the point at which the OeNB's holdings of SDRs are three times as high as its net cumulative allocation. The OeNB's current net cumulative allocation is SDR 179.045 million.

Other claims against the IMF comprise the OeNB's other contributions to loans under special borrowing arrangements. In the financial statements for 2002 this item relates exclusively to claims arising from contributions (over SDR 30 million) to the Poverty Reduction and Growth Facility (PRGF). The PRGF is a special initiative designed to support the IMF's aims by granting the poorest countries credits at highly concessional terms in order to finance economic programs targeted at fostering economic growth and ensuring a strong, sustainable recovery of the balance of payments.

Balances with banks, security investments, external loans and other external assets cover the following subitems:

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
Balances with banks	3,416.102	2,274.884	-1,141.218	-33.4
Securities	9,293.899	5,684.975	-3,608.924	-38.8
Other assets	7.148	6.198	- 0.950	-13.3
Total	12,717.149	7,966.057	-4,751.092	-37.4

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

The other external assets comprise only non-euro area banknotes.

The change in this item reflects above all government transactions and reclassifications to the own funds portfolio.

¹ Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account on behalf of the Republic of Austria and to enter the SDRs purchased or allocated gratuitously on the assets side of the balance sheet as cover for the total circulation.

3. Claims on euro area residents denominated in foreign currency

Foreign currency-denominated claims on euro area residents are as follows:

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
Balances with banks	494.146	324.720	-169.426	-34.3
Securities	614.419	463.401	-151.018	-24.6
Total	1,108.565	788.121	-320.444	-28.9

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

This item includes all euro-denominated investments and accounts with

counterparties who are not euro area residents.

On December 31, 2001, and December 31, 2002, the subitems of this balance sheet item closed as follows:

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
Security investments	1,368.803	780.679	-588.124	- 43.0
Other investments	200.417	487.811	+287.394	+143.4
Total	1,569.220	1,268.490	-300.730	- 19.2

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

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

The principal components of this item are:

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
5.1 Main refinancing operations	379.071	2,679.245	+2,300.174	+606.8
5.2 Longer-term refinancing operations	911.478	171.874	- 739.604	- 81.1
5.3 Fine-tuning reverse operations	-	-	-	-
5.4 Structural reverse operations	-	-	-	-
5.5 Marginal lending facility	-	-	-	-
5.6 Credits related to margin calls	-	-	-	-
Total	1,290.549	2,851.119	+1,560.570	+120.9

5.1 Main refinancing operations

Main refinancing operations are regular liquidity-providing reverse transactions, executed by the national central banks with a weekly frequency and a maturity of two weeks

in the form of standard (fixed or variable rate) tender operations. All counterparties which fulfill the general eligibility criteria may submit bids within a timeframe of 24 hours from the tender announcement. In

2002 all main refinancing operations were carried out in the form of variable rate tenders.

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

5.2 Longer-term refinancing operations

Longer-term refinancing operations are regular liquidity-providing reverse transactions with a monthly frequency and a maturity of three months. They are aimed at providing longer-term refinancing to the financial sector and are executed through standard tenders by the national central banks. All longer-term refinancing operations conducted in 2002 were carried out in the form of variable rate tenders.

5.3 Fine-tuning reverse operations

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

In 2002 the OeNB participated in two Eurosystem fine-tuning operations comprising EUR 69.027 million (January 4 to 6) and EUR 88.317 million (December 18 to 23) in

2002. The first operation was conducted to meet higher liquidity needs during the cash changeover. The fine-tuning operations were conducted as variable rate tenders with minimum bid rates of 3.3% and 2.8% per annum.

5.4 Structural reverse operations

The ECB may use **structural reverse operations** to adjust the structural position of the ESCB vis-à-vis the financial sector. In 2002 no such operations were carried out.

5.5 Marginal lending facility

Counterparties may use the **marginal lending facility** to obtain overnight liquidity from national central banks at a prespecified interest rate against eligible assets. The facility is intended to satisfy counterparties' temporary liquidity needs. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight interest rate. The marginal lending facility was accessed numerous times in 2002.

5.6 Credits related to margin calls

Credits related to margin calls arise when the value of underlying assets regarding credit extended to credit institutions increases beyond collateral requirements, obligating the central bank to provide counterparties with additional credit to offset the value in excess of requirements. If such credit is provided not by the return of securities but rather by an entry on an account, a claim on the counterparty is recorded in this sub-item. No claims were recorded under this item in 2002.

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

	<i>EUR million</i>
Closing balance Dec. 31, 2002	0.082
Closing balance Dec. 31, 2001	182.270
Change	-182.188 -99.9%

On January 1, 2002, initial claims on credit institutions recorded already in September 2001 in respect of euro starter kits totaling EUR 179.685 million were increased by EUR 10,030.693 million for front-loaded euro banknotes and coins, with banknotes accounting for EUR 9,744.042 million of this amount and coins accounting for EUR 286.651 million. The total claim on credit institutions resulting from frontloaded euro cash – EUR 10,210.378 million – was debited in banks' respective accounts with the OeNB in three tranches (on January 2, January 21 and January 30, 2002) according to the linear debiting model.

7. Securities of euro area residents denominated in euro

	<i>EUR million</i>
Closing balance Dec. 31, 2002	2,015.083
Closing balance Dec. 31, 2001	1,742.631
Change	+ 272.452 +15.6%

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

The annual change is mainly due to additions resulting from transactions.

8. General government debt denominated in euro

	<i>EUR million</i>
Closing balance Dec. 31, 2002	351.366
Closing balance Dec. 31, 2001	287.632
Change	+ 63.734 +22.2%

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

In theory, the maximum federal liability is the sum total of all silver commemorative coins issued before 1989, minus any coins returned to and paid for by the central government, minus any coins directly withdrawn by the Austrian Mint. Repayment of the maximum federal liability of EUR 1,270.108 million is effected by annual installments of EUR 5.814 million out of the central government's share of the OeNB's profit. The proceeds from metal recovery, including the interest on the investment of these proceeds by the Austrian Mint, are designated for repayment by the contractual deadline (every year on December 15). Any amount outstanding on December 31, 2040, will have to be repaid in the five following years (2041 to 2045) in five equal installments.

The silver commemorative coins returned to the central government in the course of 2002 had a total face value of EUR 89.482 million. The redemptions made out of the central government's share in the OeNB's profit for the year 2001 plus the pro-

ceeds from metal recovery totaled EUR 25.748 million.

9. Intra-Eurosystem claims

	<i>EUR million</i>
Closing balance Dec. 31, 2002	4,175.874
Closing balance Dec. 31, 2001	3,153.431
Change	+1,022.443 +32.4%

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

in Decisions ECB/2001/15 and ECB/2001/16 (see also section "General Notes to the Financial Statements") as well as TARGET balances and other (net) claims within the Eurosystem, provided that these items closed the reporting year with net claims.

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

Other claims within the Eurosystem (net) consisted of the following subitems on December 31, 2002:

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	<i>EUR million</i>			
9.1 Participating interest in the ECB	117.970	117.970	–	–
9.2 Claims equivalent to the transfer of foreign reserves	1,179.700	1,179.700	–	–
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates	×	×	×	×
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	–	–	–	–
9.5 Other claims within the Eurosystem (net)	1,855.761	2,878.204	+1,022.443	+55.1
Total	3,153.431	4,175.874	+1,022.443	+32.4

9.1 Participating interest in the ECB

The share that the OeNB holds in the **capital of the ECB** – EUR 5 billion in total – corresponded to 2.3594% at the balance sheet date, unchanged from December 31, 2001.

The following table contains a breakdown of the various national central banks' shares in the capital of the ECB:

The 15 EU central banks' shares in the capital of the ECB on December 31, 2002				
	subscribed capital key		thereof paid-up shares in the capital	Eurosystem capital key share
	%	EUR		%
Deutsche Bundesbank	24.4935	1,224,675,000	1,224,675,000	30.2410
Banque de France	16.8337	841,685,000	841,685,000	20.7838
Banca d'Italia	14.8950	744,750,000	744,750,000	18.3902
Banco de España	8.8935	444,675,000	444,675,000	10.9804
De Nederlandsche Bank	4.2780	213,900,000	213,900,000	5.2819
Banque Nationale de Belgique	2.8658	143,290,000	143,290,000	3.5383
Oesterreichische Nationalbank	2.3594	117,970,000	117,970,000	2.9130
Bank of Greece	2.0564	102,820,000	102,820,000	2.5389
Banco de Portugal	1.9232	96,160,000	96,160,000	2.3745
Suomen Pankki	1.3970	69,850,000	69,850,000	1.7248
Central Bank of Ireland	0.8496	42,480,000	42,480,000	1.0490
Banque central de Luxembourg	0.1492	7,460,000	7,460,000	0.1842
	80.9943	4,049,715,000	4,049,715,000	100.0000
Bank of England	14.6811	734,055,000	36,702,750 ¹⁾	
Sveriges Riksbank	2.6537	132,685,000	6,634,250 ¹⁾	
Danmarks Nationalbank	1.6709	83,545,000	4,177,250 ¹⁾	
	19.0057	950,285,000	47,514,250	
Total	100.0000	5,000,000,000	4,097,229,250	

¹⁾ Corresponds to 5% of the subscribed capital key share to cover the ECB's costs.

9.2 Claims equivalent to the transfer of foreign reserves

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

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

The ECB remunerates the nonredeemable euro-denominated claims with which it has credited the national central banks in return for the transfer at 85% of the current interest rate on the main refinancing operations on a daily basis.

¹ These correspondent accounts may be used for a limited amount of transactions e.g. when a temporary disruption of the TARGET system occurs.

9.5 Other claims within the Eurosystem (net)

The **other claims within the Eurosystem (net)** largely represent net claims arising from balances on TARGET accounts with the other 14 national central banks (i.e. including nonparticipating national central banks) and the ECB. Moreover, this item covers net claims arising at year-end from the difference between monetary income to be pooled and distributed, the claim arising from the redistribution of ECB monetary income as well as net claims arising from the correspondent accounts¹⁾ of individual national central banks.

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

The ECB remunerates the net balance on a daily basis, settling payment

at the end of the month. The ECB calculates this remuneration centrally, using the prevailing interest rate for main refinancing operations. The corresponding payments are settled ex post monthly via the TARGET system.

10. Items in course of settlement

This claim results from 2002 net float items settled at the beginning of January 2003.

11. Other assets

Other assets comprise the following items:

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
11.1 Coins of euro area	151.995	345.880	+ 193.885	+127.6
11.2 Tangible and intangible fixed assets	135.623	146.872	+ 11.249	+ 8.3
11.3 Other financial assets	2,548.766	7,316.249	+4,767.483	+187.1
11.4 Off-balance sheet instruments' revaluation differences	6.571	12.065	+ 5.494	+ 83.6
11.5 Accruals and prepaid expenditure	355.593	325.958	- 29.635	- 8.3
11.6 Sundry	1,185.456	1,689.228	+ 503.772	+ 42.5
Total	4,384.004	9,836.252	+5,452.248	+124.4

11.1 Coins of euro area

This item represents the OeNB's stock of fit coins of the euro area on December 31, 2002; on December 31, 2001, this item had consisted of Austrian schilling coins only.

As schilling coins lost their legal tender status when the dual circulation period ended on February 28, 2002, schilling coins were reclassified

in 2002 and subsumed under assets item 11.6 "Sundry."

11.2 Tangible and intangible fixed assets

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

Premises developed as follows:

Cost incurred until Dec. 31, 2001	Purchases in 2002	Sales in 2002	Accumulated depreciation	Book value on Dec. 31, 2002	Book value on Dec. 31, 2001	Annual depreciation in 2002
EUR million						
82.878 ¹⁾	19.085	0.288 ²⁾	16.581	85.094	68.306	2.241

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

²⁾ The balance between the book value of the sales and the underlying historical costs is EUR 0.232 million.

Additions in 2002 mainly relate to capitalized costs of work in the main building of the OeNB.

Equipment developed as follows:

Cost incurred until Dec. 31, 2001	Purchases in 2002	Sales in 2002	Accumulated depreciation	Book value on Dec. 31, 2002	Book value on Dec. 31, 2001	Annual depreciation in 2002
EUR million						
85.045	15.478	9.273 ¹⁾	63.066	28.184	33.710	19.626

¹⁾ The balance between the book value of the sales and the underlying historical costs is EUR 7.895 million.

Movable real assets worth EUR 32.920 million represent the OeNB's collection of antique string instruments.¹⁾ As in the previous year, on December 31, 2002, the OeNB's collection of valuable instru-

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

Intangible fixed assets developed as follows:

Cost incurred until Dec. 31, 2001	Purchases in 2002	Sales in 2002	Accumulated depreciation	Book value on Dec. 31, 2002	Book value on Dec. 31, 2001	Annual depreciation in 2002
<i>EUR million</i>						
0.720	–	–	0.046	0.674	0.689	0.015

11.3 Other financial assets

Other financial assets comprise the following subitems:

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	<i>EUR million</i>			
Securities	1,497.705	6,063.592	+4,565.887	+304.9
Participating interests	815.825	1,017.558	+ 201.733	+ 24.7
Other investments	235.236	235.099	– 0.137	– 0.1
Total	2,548.766	7,316.249	+4,767.483	+187.1

Of the OeNB's securities portfolio, EUR 1,483.191 million represented investments of pension reserve assets, another EUR 13.972 million reflect investments of the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching. Moreover, the securities portfolio related to capital and reserves, i.e. the OeNB's own funds management, came to EUR 4,566.429 million. The change in the securities portfolio resulted chiefly from transfers to the own funds portfolio. Revaluations of the portfolios resulted in unrealized valuation gains of EUR 101.469 million and unrealized price losses of EUR 85.374 million as well as unrealized foreign currency gains of EUR 7.117 million.

Of the participating interests, EUR 714.108 million formed part of the own funds portfolio and EUR

303.450 million part of the investment portfolio relating to investments of the pension reserve.

Other investments include investments of pension reserve assets (EUR 221.405 million) and investments of the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching (EUR 13.694 million) and consisted mainly of demand deposits.

The own funds of the OeNB disclosed on the liabilities side include the capital stock, the general reserve fund, the freely disposable reserve fund, the reserve for nondomestic and price risks, earmarked ERP capital funded with net interest income from loans, the reserve fund for exchange risks and general provisions, above all provisions for exchange rate risks and provisions for general banking risks.

¹ The OeNB began acquiring antique string instruments in 1989.

Participating interests developed as follows:

Net asset value on Dec. 31, 2001	Purchases in 2002	Sales in 2002	Book value on Dec. 31, 2002	Book value on Dec. 31, 2001	Annual depreciation in 2002	Revaluation in 2002
815.825	13.374	0.345 ¹⁾	1,017.558 ²⁾	815.825	5.518	73.878

EUR million

¹⁾ The balance between the book value of the sales and the underlying historical costs is EUR 0.344 million.

²⁾ This includes a dividend of EUR 0.120 million for the financial year 2002.

The participating interests were valued at their net asset value in the annual accounts for 2002. For more information on the development of participating interests, please see the chapter “The OeNB’s Sub-

sidiaries” in the Annual Report 2002.

11.6 Sundry

Sundry assets comprises the following subitems:

	Dec. 31, 2001	Dec. 31, 2002	Change
	EUR million		
Claims arising from ERP loans to companies	748.807	709.928	- 38.879
OeKB overnight account for ERP lending	127.226	184.467	+ 57.241
ERP loan portfolio managed by the OeNB	876.033	894.395	+ 18.362
Interim account for schilling banknotes in circulation	-	629.195	+629.195
Schilling coins ¹⁾	-	119.761	+119.761
Advances on salaries	6.332	5.612	- 0.720
Advances to prefinance the production of euro coins	145.346	-	-145.346
Stock of euro starter kits	8.093	-	- 8.093
Other claims	149.652	40.265	-109.387
Total	1,185.456	1,689.228	+503.772

¹⁾ The 2001 financial statements showed this item in assets item 11.1 “Coins of euro area.”

According to Article 3.2 of the ERP Fund Act, the ceiling of the OeNB’s financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued (EUR 552.440 million on December 31, 2002). The ERP loan portfolio managed by the OeNB thus totaled EUR 894.395 million on December 31, 2002. The provisions governing the extension of loans from this portfolio are laid down in Article 83 of the Nationalbank Act.

In order to adequately reflect economic reality with regard to schil-

ling banknotes in circulation, which cannot be disclosed under liabilities item 1 “Banknotes in circulation” beyond December 31, 2002, an interim account with a mirror amount was written into the assets side of the balance sheet. The offsetting items on the liabilities side are a liability (for banknotes which are no longer tender and for which an exchange deadline has been determined) and a provision (for banknotes which may be exchanged for an unlimited period).

Schilling coin holdings were reclassified from assets item 11.1 “Coins of euro area” to assets item 11.6 “Sundry” subitem “Other

claims,” as schilling coins lost their legal tender status on March 1, 2002.

The residual terms of advances on salaries are generally more than one year. Security on all advance payments is in the form of life insurance plans.

Advances to the Austrian Mint to prefinance the production of euro coins in 1998 were offset against the OeNB’s liability from assuming delivery of the euro starter kits and settled between the parties on January 2, 2002.

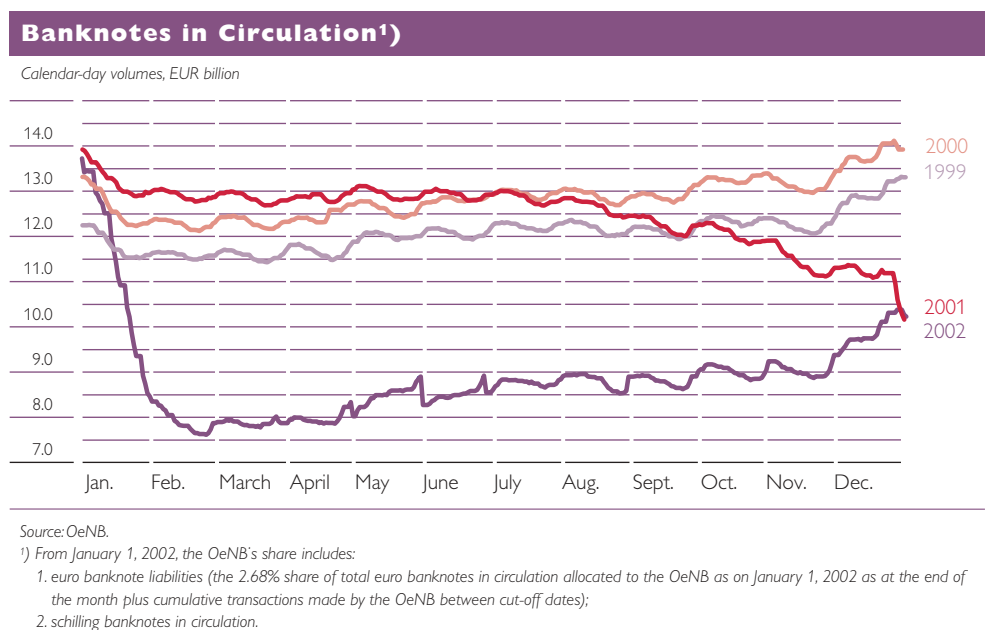
Own holdings of euro starter kits disclosed on December 31, 2001, reflects the value of undistributed euro starter kits. Starter kits continued to be sold during the beginning of January 2002. The stock remaining at the balance sheet date was subsumed under coin holdings.

Other claims in 2002 came to EUR 40.265 million and mainly comprised advances, accounts receivable and claims arising from day-to-day business.

Liabilities
I. Banknotes in circulation

	EUR million
Closing balance Dec. 31, 2002	10,237.504
Closing balance Dec. 31, 2001	10,172.302
Change	+ 65.202 +0.6%

This item comprises the OeNB’s share of the euro banknotes in circulation calculated by applying the banknote allocation key, which is 2.68% in the case of the OeNB. This corresponds to 92% of the OeNB’s Eurosystem capital key share, which is 2.9130% in the case of the OeNB (see also notes on the representation of banknotes in circulation in section “Accounting Fundamentals and Legal Framework”). Moreover, this item for the last time includes schilling banknotes in circulation, which came to EUR 629.195 million.



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

	Banknotes in circulation, annual average EUR million	Annual change %	
1999	12,095		
2000	12,851	+ 756	+ 6.3
2001	12,519	- 332	- 2.6
2002	8,887	-3,632	-29.0

Banknotes in circulation posted an annual high on January 1, 2002, at EUR 13,736 million, and an annual low of EUR 7,624 million on February 25, 2002.

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

On December 31, 2002, the sub-items of this balance sheet item closed as follows:

	Dec. 31, 2001 EUR million	Dec. 31, 2002	Change	%
2.1 Current accounts (covering the minimum reserve system)	5,497.601	3,541.468	-1,956.133	-35.6
2.2 Deposit facility	-	0.350	+ 0.350	-
2.3 Fixed-term deposits	-	-	-	-
2.4 Fine-tuning reverse operations	-	-	-	-
2.5 Deposits related to margin calls	-	-	-	-
Total	5,497.601	3,541.818	-1,955.783	-35.6

2.1 Current accounts (covering the minimum reserve system)

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

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

2.2 Deposit facility

The **deposit facility** item refers to overnight deposits placed with the OeNB by Austrian banks that access the Eurosystem's liquidity-absorbing standing facility at the prespecified rate. In 2002 the volume of such transactions averaged EUR 1.105 million.

3. Other liabilities to euro area credit institutions denominated in euro

	EUR million
Closing balance Dec. 31, 2002	-
Closing balance Dec. 31, 2001	1,059.618
Change	-1,059.618

On December 31, 2002, this item contained exclusively liabilities arising from deposits pledged by credit institutions as collateral for front-loaded euro banknotes. The pledges on these deposits were fully redeemed in January 2002.

5. Liabilities to other euro area residents denominated in euro

	<i>EUR million</i>
Closing balance Dec. 31, 2002	32.894
Closing balance Dec. 31, 2001	42.102
Change	- 9.208 -21.9%

This item comprises general government deposits of EUR 10.666 million and current account deposits of credit institutions that are not subject to minimum reserve requirements and of nonbanks.

Moreover, it contains the deposits of the so-called Danube Fund, the International Fund for the Clearance of the Fairway of the Danube, an international organization established in Vienna under the patronage of the European Commission. This Fund, set up by the Danube Commission, is entrusted with handling the funding of the project to restore free navigation on the Danube in the Novi Sad region. Under the provisions of the Federal Act on the International Fund for the Clearance of the Fairway of the Danube (Federal Law Gazette I No. 70/2000), the Danube Commission's funds, 85% of which are provided by the European Commission and 15% of which are provided by neighboring countries and other donors, are deposited on an interest-bearing account maintained by the OeNB.

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

	<i>EUR million</i>
Closing balance Dec. 31, 2002	1.731
Closing balance Dec. 31, 2001	63.530
Change	-61.799 -97.3%

This item contains euro-denominated liabilities to non-Eurosystem central banks and monetary institutions. The liability resulting from the collateral for euro banknotes and coins frontloaded to non-Eurosystem central banks and monetary institutions was offset on January 2, 2002, upon introduction of euro cash.

7. Liabilities to euro area residents denominated in foreign currency

	<i>EUR million</i>
Closing balance Dec. 31, 2002	92.138
Closing balance Dec. 31, 2001	308.727
Change	-216.589 -70.2%

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

	<i>EUR million</i>
Closing balance Dec. 31, 2002	583.590
Closing balance Dec. 31, 2001	985.659
Change	-402.069 -40.8%

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

9. Counterpart of Special Drawing Rights allocated by the IMF

	EUR million
Closing balance Dec. 31, 2002	232.096
Closing balance Dec. 31, 2001	255.051
Change	- 22.955 -9.0%

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

10. Intra-Eurosystem liabilities

	EUR million
Closing balance Dec. 31, 2002	7,403.757
Closing balance Dec. 31, 2001	-
Change	+7,403.757

This item includes net liabilities arising from the allocation of euro banknotes within the Eurosystem as stipulated in Decisions ECB/2001/15 and ECB/2001/16 (see also section "Accounting Fundamentals and Legal Framework").

11. Items in course of settlement

	EUR million
Closing balance Dec. 31, 2002	85.346
Closing balance Dec. 31, 2001	507.386
Change	-422.040 -83.2%

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

On December 31, 2001, this item comprised liabilities of EUR 443.982 million resulting from the delivery of schilling cash by credit institutions which were settled at the beginning of January 2002 by corresponding credits to the banks' current accounts. Moreover, it includes EUR 24.126 million of frontloaded euro banknotes and euro coin rolls handed out at OeNB counters, as they were not yet legal tender on December 31, 2001. From the beginning of January 2002 these euro banknotes were disclosed under banknotes in circulation, and the euro coins were debited to asset item 11.1 "Coins of euro area."

12. Other liabilities

Other liabilities are broken down as follows:

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	EUR million			
12.1 Off-balance sheet instruments' revaluation differences	207.999	13.921	-194.078	-93.3
12.2 Accruals and income collected in advance	109.868	206.905	+ 97.037	+88.3
12.3 Sundry	1,198.924	1,184.839	- 14.085	- 1.2
Total	1,516.791	1,405.665	-111.126	- 7.3

12.1 Off-balance sheet instruments' revaluation differences

The **off-balance sheet instruments' revaluation accounts** subsume the revaluation losses arising on

off-balance sheet positions, which are posted to the profit and loss account. The rise from December 31, 2001, resulted from book value reconciliations and realized losses.

12.3 Sundry

This item is composed of the following subitems:

	Dec. 31, 2001	Dec. 31, 2002	Change	%
	<i>EUR million</i>			
Central government's share of profit (without dividends)	975.009	899.771	- 75.238	- 7.7
Liability from schilling banknotes in circulation with an exchange deadline	-	250.251	+250.251	
Liquid funds of the Fund for the Promotion of Scientific Research and Teaching	22.643	20.116	- 2.527	- 11.2
Liability to the Austrian Mint – euro starter kits	190.702	-	-190.702	-100.0
Other	10.570	14.701	+ 4.131	+ 39.1
Total	1,198.924	1,184.839	- 14.085	- 1.2

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

The amount of EUR 20.116 million shown as **liquid funds of the Fund for the Promotion of Scientific Research and Teaching** consisted of earmarked funds not used up by December 31, 2002. According to the General Meeting's decision, EUR 70.250 million of the profit for the year 2001 were apportioned to the OeNB's Fund for the Promotion of Scientific Research and Teaching to support research projects, with EUR 61.529 million apportioned to

projects with a highly practical thrust. In 2002, the General Council decided to apportion an additional EUR 80.351 million to fund 396 projects and EUR 2.390 million to promote three institutes; on balance EUR 76.808 million were paid out. This means that since funds were first pledged as financial assistance in 1966, a total EUR 567.774 million have been paid out.

The liability to the Austrian Mint reflects the acceptance of euro starter kits and was settled between the parties on January 2, 2002.

13. Provisions

	Dec. 31, 2001	Transfer from	Transfer to	Dec. 31, 2002
	<i>EUR million</i>			
Pension reserve	1,780.867	86.106	106.939	1,801.700
Personnel provisions				
Severance payments	44.111	-	2.061	46.172
Anniversary bonuses	10.239	0.037	-	10.202
Residual leave entitlements	9.287	-	0.155	9.442
Provisions for				
schilling banknotes without an exchange deadline	-	-	306.945	306.945
Corporate income tax	-	-	105.967	105.967
Exchange rate risks	-	-	9.000	9.000
Accounts payable	5.850	5.805	1.339	1.384
Repatriation of banknotes	1.182	1.182	-	-
Premises management	1.636	0.111	0.638	2.163
Accounts payable to subsidiaries	0.389	0.389	0.590	0.590
Other	2.496	2.186	1.271	1.581
Total	1,856.057	95.816	534.905	2,295.146

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

Following a change in the retirement plan, staff recruited after May 1, 1998, stands to receive a state pension supplemented by an occupational pension from an externally managed pension fund. For this supplementary pension the OeNB took out a contract effective May 1, 1999, which also applies retroactively to employees taken on in the 12 months from May 1, 1998. With the OeNB's direct liability to pay retirement benefits now limited to staff recruited before May 1, 1998, the pension reserve set up to secure this liability has become a closed system. Therefore, the OeNB started to tap its pension reserve to pay out retirement benefits in 2000.

Pension benefits as covered by the pension reserve augmented by EUR 2.701 million to EUR 86.106 million. This includes the remuneration of 15 retired board members or their dependents (totaling EUR 3.987 million; 2001: EUR 3.947 million).

The EUR 106.939 million of income on investment relating to the pension reserve was transferred to the pension reserve when the financial statements for 2002 were prepared. The pension reserve is shown at its actuarial present value. It was calculated on December 31, 2002, according to actuarial principles; the discount rate of 3.50% per annum is the same as that applied in 2001.

Provisions for severance payments are calculated according to actuarial principles, applying a discount rate of 3.50% per annum (December 31, 2001: 3.50% per annum). Requirements to top up the account led to an increase.

Actuarial calculations put the need for anniversary bonuses at EUR 10.202 million as at the balance sheet date. Consequently, EUR 0.037 million were withdrawn from provisions for anniversary bonuses when the financial accounts for 2002 were closed.

The replenishment of the provision for corporate income tax is the balance between the corporate income tax¹⁾ due in 2002 and prepaid quarterly installments (including creditable taxes).

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

¹⁾ The corporate income tax is calculated according to Article 72 paragraph 1 Nationalbank Act.

14. Revaluation accounts

This item consists of the following accounts:

	Dec. 31, 2001	Dec. 31, 2002	Change
	<i>EUR million</i>		
Eurosystem revaluation accounts			
Gold	700.470	821.329	+ 120.859
Foreign currency	1,459.230	284.205	-1,175.025
Securities	203.909	254.602	+ 50.693
Participating interests	184.872	258.750	+ 73.878
Off-balance sheet instruments	6.571	12.065	+ 5.494
Subtotal	2,555.052	1,630.951	- 924.101
Unrealized valuation gains from January 1, 1999 (initial valuation)			
Securities	2.320	1.782	- 0.538
Participating interests	279.933	279.728	- 0.205
Subtotal	282.253	281.510	- 0.743
Reserve fund for exchange risks (funded up to the end of 1998)			
	1,842.748	1,536.430	- 306.318
Total	4,680.053	3,448.891	-1,231.162

Revaluation is effected on a currency-by-currency and code-by-code basis. The above amounts reflect the valuation gains established in the revaluation of assets as at December 31, 2002. Those gains are realizable only in the context of future transactions in the respective category unless used earlier to reverse revaluation losses that may arise in future years. The revaluation gains in each currency, moreover, cover the risks that the nondomestic assets carry (as established with the VaR method).

In line with requirements, the **initial valuation** gains recorded in the opening balance sheet of January 1, 1999, were partly realized during 2002 in the course of sales of underlying assets.

Article 69 paragraph 1 of the Nationalbank Act obliges the OeNB to maintain a reserve covering exchange risks which may arise on nondomestic assets. The **reserve fund for exchange risks** posted in the

financial statements 2002 contains exchange gains accrued in the runup to 1999 totaling EUR 1,536.430 million. On the one hand the annual change reflects the realization of exchange rate gains resulting from the sale of underlying assets. On the other hand the fund is used to cover unrealized exchange losses that must be expensed, as well as any exchange risks (as calculated with the VaR approach) that are not offset by the balances on the revaluation accounts. As from January 1, 1999, no further allocations may be made to this fund.

15. Capital and reserves

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

	Dec. 31, 2001	Dec. 31, 2002	Change	
	EUR million			%
General reserve fund	1,611.952	1,611.952	–	–
Freely disposable reserve fund	917.719	917.719	–	–
Reserve for nondomestic and price risks	1,164.425	1,111.177	–53.248	–4.6
Earmarked capital funded with net interest income from ERP loans	534.078	552.440	+18.362	+3.4
Fund for the Promotion of Scientific Research and Teaching	7.267	7.267	–	–
Total	4,235.441	4,200.555	–34.886	–0.8

The reserve for nondomestic and price risks serves to offset any ECB losses which the OeNB may have to cover according to its share in the ECB's capital as well as any unrealized losses resulting from a fall in the price of securities. The total risk to be covered (including the pro rata risk of the ECB that is not covered by its own risk provisions) is calculated by applying recognized risk assessment models (VaR methods). According to the General Meeting's decision, on May 23, 2002, EUR 32.576 million were allocated to the reserve for nondomestic and price risks out of the profit for the year 2001. When the financial statements for 2002 were drawn up, EUR 85.824 million from this reserve were used to cover a fall in the price of securities.

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

In April 1966, EUR 7.267 million were allocated out of the net income for the year 1965 to the **Fund for the Promotion of Scientific Research and Teaching** for the purpose of profitable investment.

Other financial liabilities (off-balance sheet positions)

Apart from the items recognized in the balance sheet, the following financial liabilities and financial derivatives were stated off the balance sheet on December 31, 2002:

- Foreign currency forward transactions and swap transactions of a total of EUR 309.118 million.
- Liabilities resulting from designations under “Special Drawing Rights within the IMF” of EUR 519.921 million.
- Contingent liabilities to the IMF under the “New Arrangements to Borrow” totaling EUR 534.076 million.
- The obligation to make a supplementary contribution of EUR 27.770 million (equivalent to 15 million gold francs) to the OeNB's stake in the capital of the Bank for International Settlements (BIS) in Basel, consisting of 8,000 shares of 2,500 gold francs each.
- Liabilities of EUR 31.138 million from foreign currency investments effected in the OeNB's name for third account.
- Repayment obligations to the amount of EUR 12.149 million

arising from pension contributions paid by OeNB staff members payable on termination of employment contracts.

Moreover, the OeNB reports liabilities outstanding on unmatured gold/interest rate swaps involving 27.9 tons of gold.

Notes to the Profit and Loss Account

	2001	2002	Change ¹⁾	
	EUR million			%
1. Net interest income	873.100	594.185	-278.915	- 31.9
2. Net result of financial operations, writedowns and risk provisions	994.712	848.682	-146.030	- 14.7
3. Net income from fees and commissions	- 0.320	- 0.385	+ 0.065	+ 20.3
4. Income from equity shares and participating interests	54.095	242.848	+188.753	+348.9
5. Net result of pooling of monetary income	- 0.607	0.199	+ 0.806	+132.8
6. Other income	7.323	84.483	+ 77.160	
Total net income	1,928.303	1,770.012	-158.291	- 8.2
7. Staff costs	- 92.971	- 98.103	+ 5.132	+ 5.5
8. Administrative expenses	- 110.604	- 100.159	- 10.445	- 9.4
9. Depreciation of tangible and intangible fixed assets	- 19.946	- 21.882	+ 1.936	+ 9.7
10. Banknote production services	- 62.232	- 33.043	- 29.189	- 46.9
11. Other expenses	- 1.120	- 2.058	+ 0.938	+ 83.8
Total expenses	- 286.873	- 255.245	- 31.628	- 11.0
Operating profit	1,641.430	1,514.767	-126.663	- 7.7
12. Corporate income tax	- 558.087	- 515.021	- 43.066	- 7.7
	1,083.344	999.746	- 83.597	- 7.7
13. Central government's share of profit	- 975.009	- 899.771	- 75.238	- 7.7
14.1 Net income	108.334	99.975	- 8.359	- 7.7
14.2 Profit brought forward	0.005	0.118	+ 0.113	
14. Profit for the year	108.339	100.093	- 8.246	- 7.6

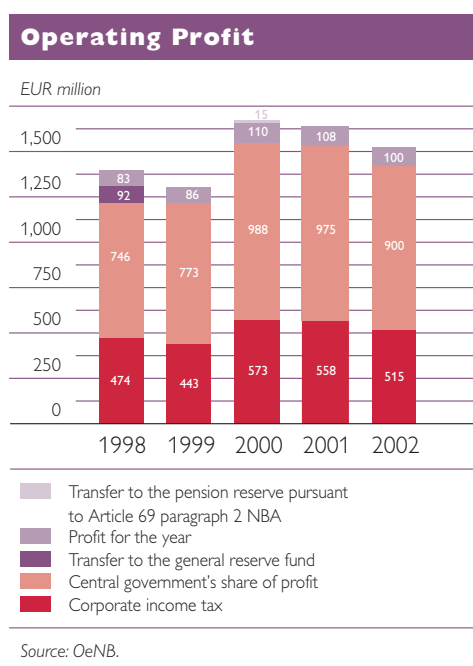
¹⁾ Absolute increase (+) or decrease (-) in the respective income or expense item.

I. Net interest income

With interest rates for euro and foreign currency investment having declined sharply from 2002 and liabilities within the Eurosystem having risen, interest income (net of interest expense) contracted by EUR 278.915 million (-31.9%) to EUR 594.185 million.

Net interest income from assets and liabilities denominated in foreign currency and euro totaled EUR 678.124 million. Refinancing operations yielded EUR 80.679 million,

and the ECB remunerated the transfer of foreign reserves with EUR 33.237 million. Moreover, interest income of EUR 84.651 million accrued from TARGET balances, whereas EUR 136.208 million were required to remunerate minimum reserves. Interest expenses of EUR 176.689 million result from liabilities within the Eurosystem stemming from the allocation of euro banknotes taking into account adjustments provided for in the transitional provisions (see also section "Accounting



Fundamentals and Legal Framework”).

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

Realized gains or losses from day-to-day financial operations resulted from – receivable or payable – differences between the acquisition cost and the market value of **gold, foreign currency, securities or other transactions**. Among other things, these gains include price gains from the sale of 30 tons of gold.

Net realized gains contracted by EUR 132.545 million (–13.3%) to EUR 863.200 million. EUR 739.299 million (–EUR 12.984 million) stem from gold and foreign currency operations, EUR 124.032 million (–EUR 116.958 million) from securities transactions.

The **writedowns on financial assets and positions** largely reflect the decline in market prices of balance sheet items as at December 31, 2002, below the average cost of the respective currencies or securities.

The item **transfer to/from provisions for foreign exchange rate and price risks** resulted from transfers from the reserve fund for exchange risks that the OeNB funded up to the end of 1998 with a view to covering unrealized foreign currency losses. Thus, in compliance with Article 69 paragraph 1 of the Nationalbank Act, these losses did not have an impact on profit. Moreover, this item reflects the offsetting of unrealized losses on security price losses against the “reserve for nondomestic and price risks.” As a result of the risk assessment of nondomestic assets to be performed under Article 69 paragraph 4 Nationalbank Act, a provision for exchange rate risks of EUR 9 million had to be made.

4. Income from equity shares and participating interests

This item contains the interim distribution of profit arising from the ECB’s seigniorage income on its 8% share of euro banknotes in circulation (according to the banknote allocation key); this income is distributed to the national central banks the same financial year it accrues to the ECB¹). This ECB income is distributed in full among the national central banks in proportion to their paid-up shares in the subscribed capital of the ECB unless the ECB’s net profit for the year is less than its income earned on euro banknotes in circulation. The OeNB’s income share of EUR 17.653 million for 2002 is shown in this item. Moreover, this item includes income from the distributions of profit for 2001 made by the ECB (EUR 42.456 million), Oesterreichische Banknoten- und Sicherheitsdruck GmbH (EUR 1.000 million), AUSTRIA CARD-Plastikkarten und Ausweissysteme Gesellschaft m.b.H.

¹ Decision of the European Central Bank of November 21, 2002 (ECB/2002/9).

(EUR 1.170 million) and Austrian Payment Systems Services (APSS) GmbH (EUR 0.215 million). Also, it records dividend payments by the BIS in Basel (EUR 2.071 million) and Münze Österreich AG, the Austrian Mint (EUR 178.000 million). Of the dividend payment by the Austrian Mint, EUR 58.000 million were for the financial year 2001 and EUR 120.000 million were for the financial year 2002. This “twin dividend payment” occurred for the first time; the dividend for 2002 reflects that part of the Austrian Mint’s annual profit for 2002 which was identified as definite.

5. Net result of pooling of monetary income

The net result of the pooling of monetary income, i.e. the OeNB’s share for 2002, will be calculated by multiplying its liability base with the marginal allotment of the final main refinancing operations rate of 2002 as reduced by the applicable expenses.¹⁾ The liability base is essentially composed of the following balance sheet items: liabilities item 1 “Banknotes in circulation”; liabilities item 2 “Liabilities to euro area credit institutions related to monetary policy operations denominated in euro”; liabilities item 10.2 “Liabilities related to promissory notes backing the issuance of ECB debt certificates”; liabilities item 10.3 “Net liabilities related to the allocation of euro banknotes within the Eurosystem”; liabilities item 10.4 “Other liabilities within the Eurosystem (net).” The total pooled monetary income of all national central banks is distributed among the national central banks at the end of each financial year in proportion to their paid-up shares in the subscribed capital of the ECB. The distribution of monetary income for

the financial year 2002 resulted in a net claim of EUR 0.199 million for the OeNB.

7. Staff costs

Salaries, severance payments and the employer’s social security contributions and other statutory or contractual social charges fall under this heading. Staff costs were reduced by recoveries of salaries and employees’ pension contributions.

As of January 1, 1997, the pension contributions of employees who joined the OeNB after March 31, 1993, and who qualify for a Bank pension, were raised from 5% of their total basic pay to 10.25% of that part of their basic salaries which is below the earnings cap on social security. A rate of 2% applies to income above the earnings cap.

With effect from May 1, 1998, new entrants are enrolled into the national social security system and in addition are covered by a defined contribution pension plan. The OeNB opted for this approach in order to bring its retirement plan in line with the retirement provision systems prevailing in Austria, where the statutory state pension is the first pillar and occupational and private pension funds are the second and third pillars.

Salaries net of pension contributions collected from staff members grew by EUR 4.382 million or 5.5% to EUR 83.800 million. This rise is attributable primarily to the wage increase negotiated for the banking sector and bonus payments and overtime connected to the successful introduction of euro cash. The OeNB’s outlays were reduced by recoveries of salaries totaling EUR 9.840 million for staff members on secondment to the subsidiaries and foreign institutions.

¹ Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16).

In a comparison of staff levels on December 31, 2001, and December 31, 2002, the number of persons working in OeNB core business (including members of the Governing Board) increased by 41 persons from 943 to 984 persons (including part-time staff). At the end of 2002 staff capacity came to 960.13. The number of blue-collar workers declined by two persons to eight workers.

The average number of staff employed by the OeNB (excluding the members of the Governing Board) widened from 1,153 employees in 2001 to 1,164 in 2002, a rise by 1.0% or 11 persons. Adjusted for employees on leave (such as maternity leave and parental leave), 931 persons were employed on average (2001: 921 persons).

The emoluments of the four members of the Governing Board (including remuneration in kind, such as private use of company cars, subsidies to health and accident insurance) pursuant to Article 33 paragraph 1 of the Nationalbank Act totaled EUR 1.008 million (2001: EUR 0.988 million). The emoluments of the President and Vice President of the Oesterreichische Nationalbank amounted to EUR 0.046 million (2001: EUR 0.046 million).

Outlays for **severance payments** went up by EUR 1.225 million or 30.3% to EUR 5.276 million in 2002.

Statutory or contractual social charges totaling EUR 12.123 million (+EUR 0.774 million) contain municipal tax payments of EUR 2.552 million, social security contributions of EUR 5.603 million and contributions of EUR 3.866 million to the family burden equalization fund.

10. Banknote production services

Expenses for banknote production services resulted from the purchase of euro banknotes from the OeBS.

12. Corporate income tax

A corporate income tax rate of 34% was applied to the taxable income according to Article 72 of the Nationalbank Act and in line with Article 22 paragraph 1 of the 1988 Corporate Income Tax Act.

13. Central government's share of profit

Under Article 69 paragraph 3 of the Nationalbank Act, the central government's share of profit is 90% of the net income for the year after tax, as in the previous years, and amounts to EUR 899.771 million (2001: EUR 975.009 million).

Governing Board (Direktorium)

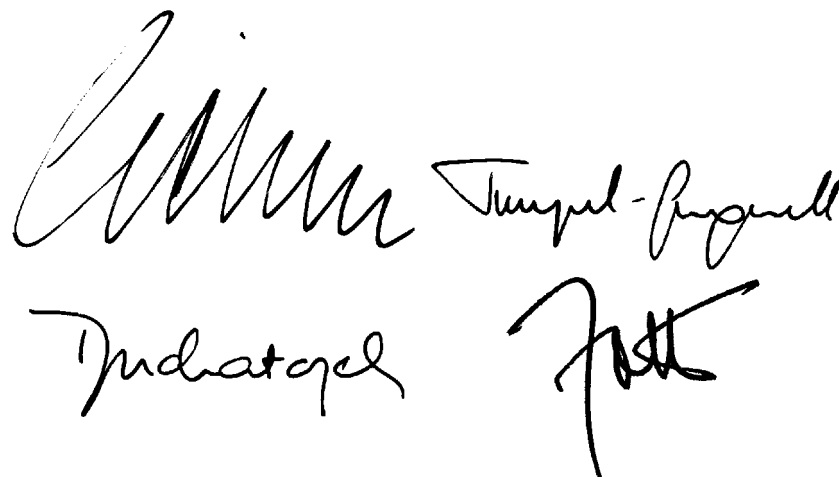
Governor Klaus Liebscher
Vice Governor Gertrude Tumpel-Gugerell
Executive Director Wolfgang Duchatzek
Executive Director Peter Zöllner

General Council (Generalrat)

President Adolf Wala
Vice President Herbert Schimetschek
August Astl
Helmut Elsner
Bernhard Felderer (from April 23, 2002)
Helmut Frisch
Lorenz R. Fritz
Rene Alfons Haiden (until April 22, 2002)
Herbert Kofler (from April 23, 2002)
Richard Leutner (until April 22, 2002; from May 23, 2002)
Johann Marihart
Werner Muhm
Walter Rothensteiner
Karl Werner Rüschi
Engelbert Wenckheim
Johann Zwettler (until May 23, 2002)

In accordance with Article 22 paragraph 5 of the Nationalbank Act, the following representatives of the Staff Council participated in discussions on personnel, social and welfare matters: Thomas Reindl and Martina Gerharter.

Vienna, March 20, 2003



Handwritten signatures of Gertrude Tumpel-Gugerell, Wolfgang Duchatzek, and Peter Zöllner.

Report of the Auditors

We have audited the accounting records and the financial statements of the Oesterreichische Nationalbank for the year ending December 31, 2002, and have found that they are presented in accordance with the provisions of the Federal Act on the Oesterreichische Nationalbank 2002 as amended and as promulgated in Federal Law Gazette I No. 60/1998. The financial statements were prepared in conformity with the accounting policies defined by the Governing Council of the European Central Bank, as set forth in the Guideline of the European Central Bank of 5 December 2002 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2002/10), in conformity with Article 26.4 of the Protocol on the Statute of the European System of Central Banks and the European Central Bank. In our opinion the accounts provide a true and fair picture of the OeNB's financial position and the results of its operations. The annual report complies with the provisions of Article 68 paragraph 1 and paragraph 3 of the Nationalbank Act as amended and as promulgated in Federal Law Gazette I No. 60/1998 and corresponds with the financial statements.

Vienna, March 20, 2003

Pipin Henzl
Certified Public Accountant

Peter Wolf
Certified Public Accountant

Profit for the Year and Proposed Profit Appropriation

With the statutory allocation of EUR 899.771 million (2001: EUR 975.009 million) of the OeNB's profit to the central government having been made in conformity with Article 69 paragraph 3 of the Nationalbank Act (item 13 of the profit and loss account), the balance sheet and the profit and loss account show a

Profit for the year 2002 of	EUR 100,092,976.09.
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On March 26, 2003, the Governing Board endorsed the following proposal to the General Council for the appropriation of profit:

to pay a 10% dividend		
on the OeNB's capital stock of EUR 12 million	EUR	1,200,000.—
to allocate to the Leopold Collection	EUR	4,232,498.26
to allocate to the OeNB Anniversary Fund		
for the Promotion of Scientific Research		
and Teaching:		
Earmarked funds	EUR	70,250,000.—
Reserves of the OeNB Anniversary Fund	EUR	24,232,716.58
to carry forward a retained profit of		EUR 94,482,716.58
		EUR 177,761.25
		EUR 100,092,976.09



Report of the General Council (Generalrat) on the Annual Report and the Financial Statements for 2002

The General Council (Generalrat) fulfilled the duties incumbent on it pursuant to the Nationalbank Act 1984 by holding its regular meetings, by convening its subcommittees and by obtaining the information required.

The Governing Board (Direktorium) periodically reported to the General Council on the Bank's operations and their current state, on the conditions on the money, capital and foreign exchange markets, on important matters which arose in the course of business, on all developments of importance for an appraisal of the monetary situation, on the arrangements made for supervising the OeNB's financial conduct and on any other significant dispositions and events affecting its operations.

The Financial Statements for the year 2002 were given an unqualified auditors' opinion after examination by the auditors elected by the General Meeting of May 23, 2002,

the certified public accounts Pipin Henzl and Peter Wolf, on the basis of the books and records of the Oesterreichische Nationalbank as well as the information and evidence provided by the Governing Board.

In its meeting of April 10, 2003, the General Council approved the Annual Report of the Governing Board and the Financial Statements for the business year 2002. The General Council submits the Annual Report and moves that the General Meeting approve the Financial Statements of the Oesterreichische Nationalbank for the year 2002 and discharge the General Council and the Governing Board from responsibility for management during the preceding business year. Moreover, the General Council requests that the General Meeting approve the allocation of the profit for the year in accordance with the proposal made in the notes to the Financial Statements 2002 (page 111).





Publications,
Imprint

Periodical Publications

	<i>Published</i>
Statistisches Monatsheft	<i>monthly</i>
Focus on Statistics	<i>monthly</i>
<i>English translation of "Statistisches Monatsheft"</i>	<i>http://www.oenb.at</i>
Leistungsbilanz Österreichs, revidierte Jahresdaten	<i>annually</i>
<i>gegliedert nach Regionen und Währungen</i>	
Berichte und Studien	<i>quarterly</i>
Focus on Austria	<i>quarterly</i>
<i>Selected chapters from "Berichte und Studien"</i>	
Finanzmarktstabilitätsbericht	<i>semiannually</i>
Financial Stability Report	<i>semiannually</i>
<i>English translation of "Finanzmarktstabilitätsbericht"</i>	
Focus on Transition	<i>semiannually</i>
Geschäftsbericht	<i>annually</i>
Annual Report	<i>annually</i>
<i>English translation of "Geschäftsbericht"</i>	
Volkswirtschaftliche Tagung	<i>annually</i>
The Austrian Financial Markets – A Survey of Austria's Capital Markets – Facts and Figures	<i>annually</i>

Selected Publications of the OeNB in 2001 and 2002

For a comprehensive overview of the OeNB's publications, please refer to the December issue of the monthly statistical bulletin "Statistisches Monatsheft," or the first issue of "Berichte und Studien," or the first issue of "Focus on Austria" of each year.

This list is designed to inform readers about selected documents published by the OeNB. The publications are available to interested parties free of charge from the Secretariat of the Governing Board and Public Relations. Please submit orders in writing to the postal address given in the imprint. You may also order copies of publications by phone.

For a complete list of the documents published by the OeNB, please visit the OeNB's website (<http://www.oenb.at>).

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