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Contents

Since January 2003 the national central banks of the euro area have collected data for a new harmonized interest rate statistics based on a regulation of the European Central Bank. These statistics show the retail interest rates applied by banks to deposits and loans vis-à-vis households and nonfinancial corporations. Thus, the European Central Bank and the national central banks of the euro area can rely on a methodologically consistent basis for performing various analyses. The new indicators of the interest rate statistics will play an important role in the examination of the monetary policy transmission mechanism and will facilitate the interpretation of monetary developments within the framework of monetary analysis, providing further analytical points of departure for studies on financial stability and integration. The new interest rate statistics yielded interesting initial results for Austria. In particular, it was found that the retail interest rates applied by Austrian banks to deposits and loans in the course of 2003 had developed in parallel to the key interest rates of the European Central Bank.

The opinions expressed in the section *"Study"* are those of the individual authors and may differ from the views of the Oesterreichische Nationalbank.

Reports

European Union

August 2003

1 The *Austrian Nationalrat* passes the Federal Constitutional Act on the conclusion of the Accession Treaty of ten new EU Member States, thereby ratifying the Accession Treaty.

21 *Eurostat* takes a decision on the accounting treatment of capital injections undertaken by government units into public corporations, as defined in the European System of Accounts (ESA95). Eurostat specifies conditions according to which the transfer of funds to a public corporation has to be recorded either as a financial transaction with no effect on government deficit/surplus or as a government expenditure (capital transfer) with an impact on government deficit/surplus.

22 The *Dutch government* agrees on austerity measures to the amount of EUR 3.9 billion, because its budget deficit in 2004 threatens to violate the 3% limit laid down in the Stability and Growth Pact. These cuts in public spending add to an earlier savings package of approximately EUR 13 billion to be implemented until 2007.

The *ECB* announces that in June 2003 the current account of the euro area posted a surplus of EUR 3.2 billion compared with a surplus of EUR 0.4 billion recorded in May 2003; after seasonal adjustment, the surplus for June amounted to EUR 2.5 billion. In the financial account, combined direct and portfolio investment recorded net inflows of EUR 38.2 billion in June against EUR 7.7 billion in May 2003.

September 2003

10 The *European Commission* slightly downgrades its 2003 growth forecast for the euro area, expecting GDP to grow by no more than 0.5% this year, against a forecast of 0.7% in July. In the second quarter of 2003, the euro area economy contracted for the first time since end-2001.

12/13 The *Informal Meeting of Economics and Finance Ministers* in Stresa, Italy, focuses on the increasing budget deficits and on simplifying the rules on reduced rates of VAT. Additional issues are the preparation of the forthcoming G-7 meeting and the IMF and World Bank Annual Meetings as well as the progress of the draft European Constitution.

14 In *Sweden's euro referendum,* 55.9% of the voters decide against the single currency; only 42.0% vote in favor of the euro. Voter turnout comes to 82.6%.

Sveriges Riksbank, the Swedish national bank, announces that in its monetary policy stance it will continue to maintain an inflation target of 2%. In a referendum on EU entry, 66.9% of Estonian citizens vote in favor of joining the European Union. Voter turnout comes to 63%.

17 In an opinion on the European Constitution, the *European Commission* welcomes the draft Constitutional text as an excellent basis for the work of the Intergovernmental Conference (IGC) and comments, in particular, on institutional issues. In its view, an effective, credible European Commission must include a full member from each Member State. Moreover, the European Commission states that the modus operandi of the Governing Council of the ECB and the operational framework for

monetary policy decisions should be reviewed. It also proposes to reduce the numbers of issues requiring unanimous decision by the Council.

18 The *European Central Bank (ECB)* adopts an opinion, as requested by the Council of the European Union, on the draft Constitution. The ECB welcomes the draft Constitution, considering that it simplifies streamlines and clarifies the legal and institutional framework of the European Union and enhances the Union's ability to act at both the European and the international level. Despite this generally positive assessment, the ECB opinion identifies certain aspects of the draft Constitution which should be improved. For example, the ECB suggests introducing a reference to "noninflationary growth" or "price stability" in the Constitution.

19 The latest figures compiled by the *European Commission* show a further deterioration in Member States' implementation in national law of Internal Market Directives. The new figures show that eight Member States had a "transposition deficit" more than double the target of 1.5%. Only two Member States (Denmark and Spain) met this target, while Austria recorded the highest "transposition deficit."

20 *Latvia* is the last of the ten acceding countries to vote for *joining the EU.* In a referendum, 67% of Latvian citizens vote in favor of EU entry, whereas 32.3% vote against. Voter turnout comes to 72.5%.

23 The *European Parliament* approves the nomination of Jean-Claude Trichet as President of the ECB with 315 votes for, 83 against and 75 abstentions. Jean-Claude Trichet will succeed Wim Duisenberg on November 1, 2003.

24 In its opinion on the convening of the Intergovernmental Conference (IGC), the *European Parliament* calls on governments not to challenge the consensus achieved by the Convention and to approve the draft treaty establishing a Constitution for Europe without altering its basic balance. In addition, the European Parliament supports the Italian Presidency's intention of winding up IGC proceedings by December 12/13, 2003.

29 The *General Affairs Council* welcomes the convening of a Conference of the Representatives of the Governments of the Member States on the reform of the European Union treaties, with a view to its first meeting on October 4, 2003 in Rome. However, there is no consensus on the actual agenda of the individual working sessions and on concluding the Intergovernmental Conference on December 12/13, 2003, as intended by the Italian Presidency.

October 2003

4 At an Extraordinary Summit meeting in Rome, the EU Heads of State or Government open the *Intergovernmental Conference* (IGC) convened to approve the Draft Constitutional Treaty drawn up by the Convention. The Heads of State or Government of the ten new EU Member States are equal partners in the debates; the candidate countries Romania, Bulgaria and Turkey enjoy observer status. In its "Declaration of Rome,"

the European Council reiterates its expectations of concluding the constitutional negotiations in advance of the European Parliament elections in June 2004.

7 In their deliberations, the *EU finance ministers* (Ecofin Council meeting) focus on an investment program to boost the European economy. The Ecofin Council adopts an interim report on "European Action for Growth" to be submitted to the Brussels European Council. In addition, the Ecofin Council reaches political agreement by qualified majority on the Investment Services Directive.

8 The *European Commission* proceeds with its excessive deficit procedure for France. According to the Commission, France has taken no effective action within the deadline of October 3, 2003, to put an end to the excessive deficit situation by 2004 at the latest. Therefore it recommends to the Ecofin Council to announce that France "has taken no effective action" and to agree that France "be given notice to take, within a specified time-limit, measures for the deficit reduction."

9 The *European Central Bank (ECB)* launches a new webpage dedicated to the results of the ECB's "Survey of Professional Forecasters" (www.ecb/int/stats/spf). This is a quarterly survey which the ECB has conducted since 1999 and which focuses on expectations for HICP inflation, real GDP growth and the unemployment rate in the euro area.

16/17 *European Council* and *IGC* meetings are convened in Brussels at the level of the Heads of State or Government. The European Council supports the time schedule proposed by the Italian Presidency for the Intergovernmental Conference. Furthermore, the European Council endorses the European Commission's Growth Initiative, which aims at speeding up investment in transport Trans-European Networks (TENs), telecommunications networks, TEN energy projects as well as investment in human capital. Finally, the European Council decides to appoint Jean-Claude Trichet president of the ECB.

22 At its plenary session in Strasbourg, the *European Parliament* supports the European Commission's proposal to adopt a regulation that would oblige the EU members' governments to deliver to Eurostat quarterly reports on national financial accounts and financial transactions or instruments. This initiative is part of the action plan of the ECB and the European Commission for the stability of Economic and Monetary Union.

The *European Commission* adopts an opinion on "Economic Governance" addressed to the Intergovernmental Conference. With this note, the European Commission proposes to the Italian Presidency to introduce a new "enabling clause" into the Constitutional Treaty that authorizes the European Council – either on proposal of the European Commission or on recommendation of the ECB – to change unanimously the composition of both the Governing Council and the Executive Board of the ECB. This proposal would allow for a more comprehensive reform of the operating procedures of the Governing Council of the ECB.

The *French government* appoints Christian Noyer, ECB vice president from 1998 to 2002, governor of the Banque de France; he replaces the future ECB president Jean-Claude Trichet.

27 In implementing the Financial Services Action Plan, the *European Commission* designates four expert groups (for banks, insurances, asset management, securities investment and trade) to thoroughly examine the degree of financial market integration achieved so far.

29 In its Autumn Economic Forecast, the *European Commission* presents economic data for 2003 to 2005. While the average growth in the euro area remains limited to 0.4% in 2003, it is projected to rise to 1.8% in 2004 and to 2.3% in 2005 (0.8%, 2% and 2.4% in the EU, respectively).

31 Dutchman *Wim Duisenberg* steps down as president of the ECB.
Christian Noyer assumes the office of governor of the *Banque de France,* thus succeeding Jean-Claude Trichet, the ECB's new president.

November 2003

1 Jean-Claude Trichet, former governor of the French central bank, assumes the office of President of the *European Central Bank (ECB);* his appointment for an eight-year term was unanimously approved by the euro area Heads of State or Government on October 16, 2003.

4 Regarding the French budget deficit and compliance with the Stability and Growth Pact, the *Ecofin Council* decides by qualified majority voting to postpone its debate on implementing the excessive deficit procedure for France to its meeting on November 25, 2003. Austria, the Netherlands and Finland do not agree with this decision.

5 In its Country Monitoring Reports, the *European Commission* concludes that, on the whole, the acceding countries are ready for accession in the very large majority of areas. Remaining gaps in the preparation for EU membership include issues affecting the internal market and the delivery of EU funds to beneficiaries in the new Member States, in particular in the field of agriculture.
This year's Regular Reports on Bulgaria's and Romania's progress towards accession confirm that both countries have made good progress in their efforts to meet the accession criteria. Both countries continue to fulfill the political criteria; at the same time, they still have to make considerable efforts to fulfill the economic criteria and to develop sufficient administrative and judicial capacity to implement and enforce the *acquis.* The European Commission confirms that Turkey has made considerable progress; however, significant further efforts to meet the Copenhagen economic criteria are still required.

6 The *Bank of England* raises its key interest rate by 25 basis points to 3.75% because sustained strong domestic demand (in particular on the housing market) despite weak economic activity and the depreciation of the pound sterling have sparked inflation concerns.

25 Against the recommendation of the European Commission and against the votes of Austria, Finland, Spain and the Netherlands, the *European finance ministers* decide by qualified majority to suspend for Germany and France the excessive deficit procedures foreseen by the Stability and Growth Pact. In addition, the European finance ministers recommend that Germany and France make further efforts in 2004 and 2005 to

effectively cut their deficits. The Governing Council of the ECB deeply regrets the decisions taken by the Council and urges France and Germany to correct their excessive budget deficits as rapidly as possible and by 2005 at the latest.

Economic Outlook for Austria from 2003 to 2005 (Fall 2003)

Johann Scharler,
Martin Schneider,
Martin Spitzer

Editorial close:
December 3, 2003

1 Summary

According to the fall 2003 economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real gross domestic product (GDP) is projected to grow 0.9% in 2003. Economic growth is expected to accelerate to 1.6% in 2004 and to 2.5% in 2005.

Due to robust growth in exports, in 2002 the Austrian economy expanded by a stronger than expected 1.4%. The domestic economy, by contrast, grew at only a very modest pace. High levels of uncertainty slowed private consumption growth, and investment declined sharply for the second year in a row. The picture has been the reverse during 2003 so far. Whereas the sluggish global economy and the depreciation of the U.S. dollar led to a dramatic loss in export momentum, domestic demand recovered slightly. Domestic economic agents gained yet further confidence in GDP growth – which is mirrored in improving confidence indicators. Investment picked up sharply in the first half of 2003. In addition to the demand for replacement investments, the investment allowance originally granted until end-2003 (and now extended until the end of 2004 under the so-called "growth and location package" of November 2003) triggered the frontloading of investment, thereby contributing to growth in 2003. The construction industry in 2003 staged a recovery, a key contribution to which came from increased investment in transport infrastructure (approved under the government's first economic stimulus package in December 2001). The period of declining residential construction investment should come to an end in 2003.

In 2003 private consumption growth will be merely subdued, due to sluggish growth in real household income as a result of the gloomy labor market situation. In 2004 growth in nominal household income will gather some momentum. However, real household income and consumption will advance at a somewhat slower pace, due to a slight rise in inflation. In 2005 escalating real incomes will fuel robust consumption growth and boost the saving ratio. Against the backdrop of a global economic recovery, export growth will regain momentum from the fourth quarter of 2003. In 2004 and 2005 exports will be a mainstay of GDP growth. Thanks to healthy investment growth, however, imports will also advance strongly. This means the contribution of net exports to GDP growth will be negative in 2003 and 2004. Net exports should not make a positive contribution to GDP until 2005.

The current gloomy situation in the labor market will only improve by mid-2004. Employment, which contracted 0.3% in 2002, will stagnate in 2003. It is expected to continue growing at only a modest rate in 2004 and will not regain momentum until 2005. In 2004 the jobless rate (Eurostat definition) will remain at 2003 levels (4.4%) before dropping slightly to 4.2% in 2005.

In 2002 a current account surplus (0.3% of GDP) was generated for the first time since 1990 due to a decline in imports. An almost balanced current account (0.1% of GDP) is anticipated for 2003, as the balance of trade will deteriorate slightly. Whereas in 2004 the current account will worsen slightly to –0.1% of GDP on the back of expected robust import growth, in 2005 projected strong export growth will send it back into surplus (0.2% of GDP). 2004 and 2005 will see some improvement in the income balance due to increased inflowing income from direct investment (primarily from Central

Table 1

OeNB Fall Outlook for 2003 – Key Results

	2002	2003	2004	2005
	Annual change in % (real)			
Economic activity				
Gross domestic product	+ 1.4	+ 0.9	+ 1.6	+ 2.5
Private consumption	+ 0.8	+ 1.2	+ 1.5	+ 2.0
Government consumption	+ 0.1	– 0.2	+ 0.0	+ 0.3
Gross fixed capital formation	– 2.8	+ 2.8	+ 3.5	+ 4.9
Exports of goods and services	+ 3.7	+ 0.6	+ 4.3	+ 6.5
Imports of goods and services	+ 1.2	+ 1.1	+ 5.0	+ 6.5
	% of nominal GDP			
Current account balance	0.3	0.1	– 0.1	0.2
	Percentage points			
Contribution to real GDP growth				
Private consumption	+ 0.4	+ 0.7	+ 0.8	+ 1.1
Government consumption	+ 0.0	+ 0.0	+ 0.0	+ 0.0
Gross fixed capital formation	– 0.6	+ 0.6	+ 0.8	+ 1.1
Domestic demand (excl. changes in inventories)	– 0.2	+ 1.2	+ 1.6	+ 2.3
Net exports	+ 1.4	– 0.3	– 0.2	+ 0.2
Changes in inventories (incl. errors and omissions)	+ 0.2	– 0.1	+ 0.1	+ 0.0
	Annual change in %			
Prices				
Harmonized Index of Consumer Prices (HICP)	+ 1.7	+ 1.3	+ 1.6	+ 1.5
Private consumption expenditure (PCE) deflator	+ 1.1	+ 1.5	+ 1.6	+ 1.5
GDP deflator	+ 1.4	+ 1.8	+ 1.2	+ 1.7
Unit labor costs (whole economy)	+ 0.5	+ 1.4	+ 0.8	+ 0.6
Compensation per employee (at current prices)	+ 2.4	+ 2.4	+ 2.1	+ 2.4
Productivity (whole economy)	+ 1.7	+ 1.0	+ 1.4	+ 1.8
Compensation per employee (at 1995 prices)	+ 1.3	+ 0.9	+ 0.5	+ 0.9
Import prices	– 1.7	– 0.9	– 0.2	+ 1.3
Export prices	– 0.5	– 1.1	+ 0.1	+ 1.4
Terms of trade	+ 1.3	– 0.3	+ 0.3	+ 0.1
Income and savings[1])				
Real disposable household income	+ 2.2	+ 1.0	+ 1.4	+ 2.1
	% of nominal disposable household income			
Saving ratio	8.6	8.5	8.5	8.7
	%			
Labor market				
Unemployment rate (Eurostat definition)	4.3	4.4	4.4	4.2
	Annual change in %			
Payroll employment	– 0.3	+ 0.0	+ 0.2	+ 0.9
	% of nominal GDP			
Budget				
Government debt	67.3	66.2	64.9	62.3
Budget balance (Maastricht definition)	– 0.2	– 0.9	– 0.8	– 0.5

Source: 2002: Statistics Austria, 2003 to 2005: OeNB fall 2003 outlook.
[1]) 2002: OeNB estimate.

and Eastern European countries), thereby positively influencing the current account.

Compared with other European countries, the Harmonized Index of Consumer Prices (HICP) edged up only slightly in Austria in 2002 (1.7% after 2.3% in 2001). In 2003 the inflation rate is expected to continue falling to 1.3%, before rising to 1.6% in 2004. In addition to a hike in energy taxes from January 1, 2004, increased oil prices in 2003 are contributing factors. In 2005 inflation, in line with assumed oil price trends, should dip to 1.5%. Prices are currently not subject to any notable demand or wage pressures. The rising euro exchange rate will have a dampening effect on inflation in 2003, in particular.

In 2003 the economy's continued sluggishness will also contribute to a deterioration in the budget balance to –0.9% of GDP (Maastricht definition). In 2004 the budget balance should see a slight improvement (–0.8% of GDP) due to brighter economic prospects, expected modest wage settlements and continued public sector retrenchment. Whereas the first stage of the tax reform in 2004 will have a largely neutral effect on the budget, the changes in the health and pension insurance contributions of public sector employees will have a deficit-reducing effect on the general government's budget balance. Since details on the second stage of the tax reform (scheduled for 2005) have yet to be announced, it was not included in this forecast. Accordingly and given the economic recovery and continued cautious trends in spending, the OeNB expects the budget balance to improve to –0.5% of GDP in 2005.

2 Conditioning Assumptions

The OeNB compiled this forecast as its input for the Eurosystem's fall 2002 staff projections for macroeconomic trends in the euro area. The euro area countries prepare individual country projections under the coordination of the European Central Bank (ECB), which are finally aggregated to euro area totals. The individual forecasts are all conditioned on the same underlying assumptions about global economic developments over the forecast horizon and on uniform technical assumptions. In the case at hand, the forecast horizon ranges from the third quarter of 2003 to the fourth quarter of 2005. November 15, 2003, was the cut-off date for the underlying assumptions on global economic trends and for the technical assumptions on interest rates, commodity prices and exchange rates.

The OeNB used its macroeconomic quarterly model to prepare the projections for Austria. The key data source was data adjusted for seasonal and calendar effects from Eurostat's national accounts. The figures in this forecast should therefore also be interpreted as having been adjusted for seasonal and calendar effects. In other words, this forecast does not include effects arising from the three additional working days in 2004.

2.1 The World Economy Outside the Euro Area

The first half of 2003 was largely marked by unfavorable factors such as a high degree of political uncertainty, increasing oil prices and a slump in stock prices. Meanwhile various indicators suggest that the global economic recovery will gain momentum by the end of 2003. This upswing will be fueled primarily by strong growth in the U.S.A. and in Asia. In the Asian economies, domestic demand is currently running high, which means this region will make a strong contribution to global economic growth. However, there still remain imbalances which represent a risk to the upturn (especially the U.S. budget and current account deficits, for instance).

In the *U.S.A.,* despite poor labor market data, economic recovery – favored by markedly expansionary monetary and fiscal policies – has been seen since 2002. In the first half of 2003 public consumption grew sharply as a result of the war in Iraq. Helped in particular by an easing of fiscal policies by way of wide-ranging tax cuts and low interest rates, the U.S. economy expanded by 8.2% (quarter on quarter, annualized basis) in the third quarter of 2003. However, the stimulating effect of private consumption on growth is expected to diminish somewhat during the upturn whereas other demand components are likely to become increasingly influential. This applies to investment, in particular – and to a lesser extent – to net exports as well, although the contribution of net exports to growth will remain relatively weak until the end of the forecast horizon. Real GDP growth is expected to reach 2.9% in 2003 and to further accelerate to 3.8% in 2004. Rising long-term interest rates have however led to a slight contraction in residential construction investment. On the other hand, risk premia on corporate bonds have declined, which should rekindle investment activity. The steep rise in disposable income in 2003 will not only support consumption but boost the saving ratio, as levels of household debt are still relatively high. If the labor market scenario does not ease sufficiently, the saving ratio could increase even more sharply than expected. The reduction in the U.S. current account deficit from its current record level of 5% of GDP is expected to make slow progress.

Table 2

Underlying Global Economic Conditions

	2002	2003	2004	2005
	Annual change in % (real)			
Gross domestic product				
World GDP growth outside the euro area	+ 3.4	+ 4.0	+ 4.7	+ 5.0
U.S.A.	+ 2.4	+ 2.9	+ 3.8	+ 3.5
Japan	+ 0.2	+ 2.7	+ 1.8	+ 1.9
Asia excluding Japan	+ 6.0	+ 5.3	+ 6.0	+ 6.3
Latin America	+ 0.1	+ 1.8	+ 3.7	+ 5.0
EU acceding countries	+ 2.4	+ 3.1	+ 4.0	+ 4.4
Switzerland	+ 0.2	– 0.5	+ 1.6	+ 2.7
Euro area	+ 0.9	×	×	×
Lower limit[1])	×	+ 0.2	+ 1.1	+ 1.9
Upper limit[1])	×	+ 0.6	+ 2.1	+ 2.9
World trade				
Imports of goods and services				
World economy	+ 2.4	+ 3.6	+ 6.1	+ 7.4
Non-euro area countries	+ 3.8	+ 4.5	+ 6.7	+ 7.9
Real growth of euro-area export markets	+ 3.1	+ 4.0	+ 6.6	+ 8.0
Real growth of Austria's export markets	+ 0.9	+ 3.3	+ 5.5	+ 7.5
Prices				
Oil price (in USD/barrel of Brent)	25.0	28.5	26.2	24.5
Three-month interest rate in %	3.3	2.3	2.1	2.1
Long-term interest rate in %	5.0	4.1	4.2	4.3
USD/EUR exchange rate	0.945	1.126	1.169	1.169
Nominal effective exchange rate (euro area index)	89.65	99.66	100.77	100.77

Source: ECB.

[1]) *Results of Eurosystem's fall 2003 projections. The ECB presents the results in ranges based upon average differences between actual outcomes and previous projections.*

In *Japan* economic trends in the first half of 2003 were much better than expected, resulting in a sharp upward revision in growth prospects for the Japanese economy. Following a moderate slowdown in the second half of 2003, growth is expected to pick up considerably in 2004. Deflationary trends should however abate only slightly by the end of the forecast horizon. A surge in investment is expected in the second half of 2003. Demand for investment will also be the driving force for recovery – at least, in the short term. A greater willingness by companies to invest can be attributed to more upbeat expectations and improved levels of profitability. *Asia excluding Japan* will remain the world's fastest-growing economic area in 2003. The fallout from SARS has largely subsided and did not prompt a revision in growth prospects.

The outlook for the *EU acceding countries* is generally positive, predicting growth rates above those of the euro area over the forecast horizon, albeit not as high as those recorded in the late 1990s. High wage growth and tax relief mean that their economies will be supported by private consumption, in particular. The highest growth rates will be posted by the Baltic states. Figures for the first half of 2003 show that Poland should have overcome its weak growth, which has persisted for longer than expected. This forecast has not made any separate assumptions about the short-term effects the acceding countries' joining the EU on May 1, 2004, will have on the Austrian economy.

The *Swiss* economy contracted in the first half of 2003, primarily due to a slump in investment. The strength of the Swiss franc in early 2003 triggered a fall in exports, thereby also contributing to sluggish growth. A modest recovery is anticipated for the third and fourth quarters of 2003, as Switzerland will also benefit from the improvement in underlying global economic conditions.

2.2 The Euro Area Economy

The economic outlook for the euro area has not changed significantly compared with the spring 2003 outlook. A slight recovery, which will gather momentum in 2004, is still expected in the second half of 2003. The last few months have seen increased signs of a sustained upturn. Both the visible improvement in underlying global economic conditions and the confidence indicators which have been in steep uptrend for months support the expectation of recovery in the second half of 2003. In addition, while industrial production trends still remain very modest, currently available estimates for the third quarter of 2003 indicate a pickup in growth.

While euro area exports shrank in the first half of 2003, export activity should recover in the second half of the year. At the same time, exporters must expect a loss of market share due to the appreciation of the euro and to the related deterioration in price competitiveness. Growth in disposable household income will accelerate during the upturn, leading private consumption to gain momentum in 2004. The labor market outlook remains subdued for the time being. Employment is expected to rise only from 2004 onwards. Investment activity should rebound towards the end of 2003. Continued low capacity utilization is however curbing investment demand, with the result that the usual accelerator effects are not fully coming into play.

The three major euro area economies posted a very muted performance in 2003. Whereas in *France* and *Italy* falling exports are currently offsetting relatively healthy domestic demand, *Germany* is suffering from pronounced sluggishness in its domestic economy. Employment will continue to decline in 2003, which will further weaken private consumption. Investment will stagnate due to low capacity utilization. Germany, however, is showing signs of recovery. Both confidence indicators and the financial markets suggest a growing improvement in expectations. Furthermore, German export prices are highly competitive; therefore, exporters should be able to benefit from the recovery in external demand.

Growth in *Portugal* and the *Netherlands* will be negative in 2003. Whereas in Portugal this is due to slack domestic demand, in the Netherlands corporate profitability was hit by high wage increases and labor hoarding, forcing companies to restructure.

2.3 World Trade

World trade developments are basically in sync with those of the world economy. The growth rates of global import demand outside the euro area will climb significantly by the end of the forecast horizon, with the acceleration of growth being restricted primarily to Asia excluding Japan and to the transition economies. Since the economies of Austria's key trading partners (Germany, Italy and Switzerland) are likely to make only a slow recovery, demand for Austrian exports in these countries will likewise grow at a slow pace. However, the Austrian economy will be driven by healthy demand in the EU acceding countries – a sales market for Austrian exports that is steadily growing in importance.

2.4 Technical Assumptions

This forecast, which is based on the assumption that the monetary policy framework will remain unchanged, presupposes constant levels of both short-term nominal interest rates and the nominal effective exchange rate of the euro (euro area index) over the entire forecast horizon. The underlying short-term interest rate (three-month Euribor) is based on the two-week average prior to October 17, 2003. Long-term interest rates, which are in tune with market expectations for ten-year government bonds, come to 4.1% (2003), 4.2% (2004) and 4.3% (2005). A constant rate of USD/EUR 1.169 is assumed for future USD/EUR exchange rate trends. Taking previous exchange rate trends into account, we arrive at an average rate for 2003 of USD/EUR 1.126. Accordingly, the euro appreciated by 19% year on year relative to the U.S. dollar in 2003. The appreciation of the euro against other currencies was weaker on average. The nominal effective exchange rate used for the euro area projection was 11.2% higher in 2003 than in 2002. For the period from 2003 to 2005, we assume oil prices of USD 28.5, USD 26.2 and USD 24.5 per barrel (Brent) in each successive year. The assumed future trend in crude oil prices is based on forward rates. Compared with the spring 2002 outlook, oil prices in 2003 were USD 2.7 higher (+11%).

3 External Sector

In 2003 growth in real exports of goods and services will slow to 0.6%, after relatively robust (given the sluggish global economy) export growth of 3.7% was generated in 2002. In addition to weak economic conditions in the euro area, this slowdown is due to a deterioration in price competitiveness as a result of the euro's appreciation. This means Austrian exporters will be hit by a loss of market share, which will be reflected primarily in muted export trends in 2003. This will also persist into 2004 and 2005 although market share loss will decline towards the end of the forecast horizon.

Austrian import growth will gather pace during the expected upturn. The growth of domestic demand – particularly, import-intensive investment in

Table 3

Growth and Price Developments, Austrian External Trade

	2001	2002	2003	2004	2005
	Annual change in %				
Exports					
Competitors' prices in Austria's export markets	+0.8	−2.8	−6.5	−0.5	+1.2
Export deflator	−0.1	−0.5	−1.1	+0.1	+1.4
Changes in price competitiveness	+1.1	−1.1	−5.6	−0.3	−0.1
Import demand in Austria's export markets (real)	+2.1	+0.9	+3.3	+5.5	+7.5
Austrian exports of goods and services (real)	+7.5	+3.7	+0.6	+4.3	+6.5
Market share	+5.5	+2.7	−2.7	−1.1	−0.9
Imports					
International competitors' prices in the Austrian market	+1.4	−1.6	−4.3	−0.3	+1.2
Import deflator	−0.3	−1.7	−0.9	−0.2	+1.3
Austrian imports of goods and services (real)	+5.9	+1.2	+1.1	+5.0	+6.5
Terms of trade	+0.2	+1.3	−0.3	+0.3	+0.1
Contribution of net exports to GDP growth[1])	+0.9	+1.4	−0.3	−0.2	+0.2

Source: OeNB fall 2003 outlook, Eurosystem.
[1]) In percentage points.

plants and equipment – will lead to import growth speeding up from the second half of 2003. Although annual growth in 2003 will remain slight (+1.1%), it will reach 5.0% in 2004 and will continue accelerating in 2005 (+6.5%). As a result of these trends, net exports will dampen GDP growth in 2003 and 2004 and only in 2005 make a positive contribution.

4 Current Account

Following a positive current account of 0.3% of nominal GDP in 2002, a balanced current account is anticipated for 2003. The acceleration of import growth, the deterioration in price competitiveness and the related loss of market share in Austrian export markets will lead to a slight worsening in the balance of trade. A small current account deficit is therefore expected for 2004. At the end of the forecast horizon the current account should move back into surplus (0.2% of GDP) thanks to robust export growth, in particular.

The slight deterioration in the balance of trade expected for 2003 is due to the development of the goods balance since imports of capital goods will increase in the wake of the surge in investment. This also explains the deteri-

Table 4

Austria's Current Account

	2001	2002	2003	2004	2005
	% of nominal GDP				
Balance of trade	0.3	2.1	1.8	1.4	1.6
Balance on goods	−0.7	1.7	1.4	1.2	1.5
Balance on services	1.0	0.4	0.4	0.2	0.1
Euro area	−4.5	−3.5	−4.1	−4.6	−4.5
Non-euro area countries	4.8	5.7	5.9	6.0	6.1
Balance on income	−1.6	−1.0	−1.0	−0.8	−0.7
Balance on current transfers	−0.6	−0.8	−0.7	−0.7	−0.7
Current account	−1.9	0.3	0.1	−0.1	−0.2

Source: OeNB fall 2003 outlook.

oration in the balance of trade with the euro area, as most capital goods come from countries in this region.

As a result of projected strong export growth, further improvements in the balance of trade are not likely until 2005. As in 2002, the income balance in 2003 shows a negative balance of 1.0% of nominal GDP. A growing amount of Austrian direct investment (primarily in the EU acceding countries) is maturing and is thus yielding increasing returns. The income balance will therefore improve slightly in 2004 and 2005. At –0.7% of GDP, the current transfers balance will stagnate over the forecasting horizon.

5 Prices, Wages and Costs

5.1 Consumer Prices and Economic Deflators

The OeNB expects inflation to rise from 1.3% in 2003 to 1.6% in 2004. A slight drop to 1.5% is anticipated for 2005. The profile of consumer price trends will be U-shaped in 2003. The increase in the HICP, which was 1.7% in early 2003, slowed from April and was around 1% until October (with the exception of September). September 2003 saw inflation rise to 1.4%, which was triggered by a base effect from cheaper flights and package holidays in 2002.

For the full year of 2003, an inflation rate of 1.3% is forecast. The rise in inflation to 1.6% anticipated for 2004 will be primarily due to the energy subcomponent. First, the hike in energy taxes as of January 1, 2004, will push up overall inflation by 0.16 percentage point. Second, the high price of oil in 2003 (USD 28.5/barrel of Brent) will also influence oil prices in 2004. Oil prices assumed in this forecast (forward rates) will start to trend down from the first quarter of 2004 and come to an annual average USD 26.2 per barrel (Brent) in 2004. A rise in bread prices in October 2003 also made a small contribution to inflation, whereas a hike in taxes on tobacco from January 1, 2004, is not expected to feed through to price growth. The fall in inflation in 2005 to 1.5% is based primarily on our assumption that oil prices will decline to USD 24.5 per barrel (Brent). Prices are not expected to be subject to either wage or demand pressure since further wage moderation has been assumed and the output gap will only be closed towards end-2005.

Economic deflators in 2003 were basically determined by the appreciation of the euro. This placed exporters in the euro area countries under greater competitive price pressure, which led some of them to slash prices. As a result, export prices (as measured by the export deflator) are expected to decline by 1.1% in 2003. A similar picture can be seen in imports, with the import deflator down by 0.9%. Whereas export and import deflators are anticipated to more or less stagnate in 2004, external trade prices are expected to rise in 2005. This will mean a slight deterioration in the terms of trade in 2003, with some improvement expected in 2004 and 2005.

The GDP deflator is a measure for price trends in the economy as a whole and is basically determined by wage developments. The steep rise in 2003 (+1.8%) is due to one-off payments for public sector employees and in manufacturing in the first half of 2003, which will also result in a smaller increase (+1.2%) in 2004. In 2005 it is expected to reaccelerate in line with anticipated higher wages.

Table 5

Selected Price Indicators for Austria

	2002	2003	2004	2005
	Annual change in %			
Harmonized Index of Consumer Prices (HICP)	+1.7	+1.3	+1.6	+1.5
HICP energy	–2.7	+1.3	+4.2	–0.4
HICP excl. energy	+2.0	+1.3	+1.4	+1.6
Private consumption expenditure (PCE) deflator	+1.1	+1.5	+1.6	+1.5
Investment deflator	+0.8	+1.4	+1.5	+1.7
Import deflator	–1.7	–0.9	–0.2	+1.3
Export deflator	–0.5	–1.1	+0.1	+1.4
Terms of trade	+1.3	–0.3	+0.3	+0.1
GDP deflator	+1.4	+1.8	+1.2	+1.7
Unit labor costs	+0.5	+1.4	+0.8	+0.6
Compensation per employee	+2.4	+2.4	+2.1	+2.4
Labor productivity	+1.7	+1.0	+1.4	+1.8
Collectively agreed wage settlements	+2.4	+2.3	+2.1	+2.3
Profit margins[1])	+0.9	+0.4	+0.5	+1.2

Source: 2002: Statistics Austria, 2003 to 2005: OeNB fall 2003 outlook.
[1]) GDP deflator divided by unit labor costs.

5.2 Wages, Productivity and Corporate Profits

In 2001 labor productivity in the whole economy (real GDP per employee) stagnated, as enterprises boosted employment despite the sluggish economic scenario. In 2002 employment contracted by 0.3%, generating productivity growth. A modest improvement in productivity is expected for 2003 to 2005. Growth in corporate profit margins has been very subdued since 2001 and is not expected to pick up momentum until 2005.

Against this backdrop, Austrian employers suffered wage losses of 0.5% in real terms in 2001. In 2002 wage growth in real terms (+0.3%) underperformed growth in labor productivity (+1.7%) by a wide margin. In 2002 wage settlements for federal government employees (with an option of renegotiating the deal) amounted to 0.8%,[1]) and a hike of 2.1% was agreed for 2003. However, the negotiations were reopened in spring 2003, which led to a 1% rise in wages (or a maximum of EUR 18.9) for federal government employees as of July 1, 2003, and to a one-off payment of EUR 100. There were also one-off payments in manufacturing. In the economy as a whole, total wages per payroll employee rose by 2.6% in the first half of 2003.

The rise in unemployment and subdued economic growth continue to suggest moderate wage settlements (+2.1%) in 2004. Collectively agreed wage settlements of 2.3% are anticipated for 2005.

6 Domestic Economy

6.1 Consumption

Household income growth was modest in 2003. Due to the tight labor market situation, employee compensation grew slowly in 2003. The sluggish economy, moreover, has been depressing mixed income and investment income. In 2002 an increase in family-related transfers (child-rearing benefits) and the impact

1 *The index of collectively agreed wages for all public sector employees for 2002 was 1.1%, owing to the higher settlements for regional and local government employees.*

of the marked increase in the prepayment of estimated income tax of 2001 generated a positive contribution of net transfers less direct taxes (last seen in 1994) to growth in disposable household income. In 2003 the increase in family benefits and the impact of automatic stabilizers (unemployment benefit and long-term unemployment assistance) will raise net transfers to households (transfers received less transfers paid), while pension system reforms will reduce net transfers. All in all, net transfers less direct household taxes in 2003 will curb growth in nominal disposable household income by 0.2 percentage point. Real disposable household income in 2003 will grow by 1.0%. This is equivalent to a slowdown in growth of 1.2 percentage points year on year.

Table 6

Determinants of Nominal Household Income in Austria

	2002	2003	2004	2005
	Annual change in %			
Compensation of employees	+2.2	+2.4	+2.4	+3.3
Employees	–0.3	+0.0	+0.2	+0.9
Wages per employee	+2.2	+2.4	+2.1	+2.4
Gross mixed income of the self-employed and property income	+3.6	+2.2	+3.9	+4.8
Net transfers minus direct taxes[1])	+3.9	–1.5	–1.3	–4.2
	Contribution to disposable household income in percentage points			
Compensation of employees	+1.6	+2.0	+2.0	+2.7
Gross mixed income of the self-employed and property income	+1.1	+0.7	+1.2	+1.5
Net transfers minus direct taxes[1])	+0.6	–0.2	–0.2	–0.6
Disposable household income (nominal)	+3.3	+2.4	+3.0	+3.7

Source: OeNB fall 2003 outlook, Statistics Austria.

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

Private consumption in 2003 will increase by 1.2%, 0.3 percentage point faster than in 2002. This means consumer spending will make a fairly large contribution to growth in domestic demand. In view of the weak growth in real disposable household income, the saving ratio will decline slightly.

Table 7

Private Consumption in Austria

	2002	2003	2004	2005
	Annual change in %			
Disposable household income (nominal)	+3.3	+2.4	+3.0	+3.7
Private consumption deflator	+1.1	+1.5	+1.6	+1.5
Disposable household income (real)	+2.2	+1.0	+1.4	+2.1
Private consumption (real)	+0.8	+1.2	+1.5	+2.0
	% of disposable household income			
Saving ratio	8.6	8.5	8.5	8.7

Source: OeNB fall 2003 outlook, Statistics Austria.

Consumer confidence has been looking up recently, with its indicator in steep uptrend since mid-2003. The retail confidence index has also been following suit, indicating that consumption growth has stabilized. However, both indicators are still below their long-term average. The tight labor market and related uncertainty about how their finances will change remain a strain on consumers. This is reflected in the indicator for assessing the future position of household finances, which is currently signaling only a slight improvement.

In the next few years the economic recovery and better employment prospects should generate stronger growth in household income. While both mixed income and investment income, which are both very sensitive to cyclical changes, are expected to recover in 2004, in 2005 employee compensation growth will bounce back sharply – even in the absence of tax relief. The OeNB expects real consumption growth to rise to 1.5% in 2004 and to 2.0% in 2005.

6.2 Investment

Following the slump in investment activity in 2001 and 2002, investment growth of 2.8% is expected for 2003. Aggregate investment will make a key contribution to growth in domestic demand and thus to the emerging upturn in 2003. Investment growth is expected to continue to be strong also in 2004 (+3.5%) and in 2005 (+4.9%).

In the first half of 2003 investment performed far better than anticipated. In particular, investment in plant and equipment rose sharply in the first quarter of 2003. This is likely to be due to two reasons: first, replacement investments which were postponed in the last two years because of the sluggish economy; second, the investment allowance originally granted until end-2003 under the second economic stimulus package of September 2002 (now extended until end-2004 under the growth and location package of November 2003) may have led to the frontloading of investments. Austrian industrial corporations are increasingly more upbeat about order books and production, according to the latest survey figures. This suggests that companies are also increasingly prepared to make capacity-boosting investments. Historically low interest rate levels and related favorable financing conditions will also contribute to stronger investment growth.

Civil engineering is currently benefiting from more active public sector investment in transport infrastructure. Key impetus came from the increase (approved under the first economic stimulus package of December 2001) in the extra-budgetary financing limit of the Austrian rail infrastructure financing company SCHIG and ASFINAG, the state-owned company responsible for planning, financing, constructing and operating Austria's national major road network. In 2002 residential construction investment contracted for the sixth year in a row (–6.2%). In 2003 the rundown of surplus capacity should gradually come to an end (–0.3%). Residential construction is expected to make a slight recovery in 2004 (+0.1%) and 2005 (+1.1%).

Inventory changes (including statistical discrepancy) will continue to depress GDP growth slightly in 2003. In 2004 businesses will step up inventory building during the upturn, thereby making a mildly positive contribution to growth.

7 Labor Market

A turnaround in the labor market is not expected before mid-2004. Total employment, which contracted by 0.3% in 2002, will continue to fall slightly (–0.1%) in 2003. The number of payroll employees will stagnate in 2003. However, it should be noted when interpreting this figure that institutional measures in 2003 distort it to the upside. This is due to an increase in the number of people in training programs of the Austrian Public Employment Office (AMS) and to people in part-time pension schemes, who still appear in the statistics as employed.[1]) Easier access of foreign labor to the labor market (since early 2003) has also created additional employment. The contraction in employment due to the economic situation is therefore more severe than official employment data would suggest. Employment growth is not expected to resume until mid-2004, as the economy will be picking up.

The number of public sector employees will decline over the next few years as well. This forecast assumes a fall by 1,800 persons in 2003, 1,700 persons in 2004 and 2,300 persons in 2005. The number of self-employed will be determined by two overlapping trends. Whereas the number of self-employed in agriculture has been waning for decades, the number of other self-employed has been rising steadily. Overall, the decline in self-employed will slow down over the forecast period.

Table 8

Labor Market Developments in Austria

	2002	2003	2004	2005
	Annual change in %			
Total employment	– 0.3	–0.1	+0.2	+0.8
thereof:				
Payroll employment	*– 0.3*	*+0.0*	*+0.2*	*+0.9*
Self-employed	*– 0.5*	*–0.5*	*–0.2*	*+0.0*
Public sector employment	*– 0.5*	*–0.3*	*–0.3*	*–0.4*
Registered unemployment	+12.4	+6.2	+2.9	–5.4
Labor supply	+ 0.3	+0.3	+0.3	+0.4
	%			
Unemployment rate (Eurostat definition)	4.3	4.4	4.4	4.2

Source: OeNB fall 2003 outlook, Eurostat.

Labor supply will grow at a relatively constant rate (2003: +0.3%, 2004: +0.3%, 2005: +0.4%). Compared with other countries, labor supply in Austria reacts with great sensitivity to the economic situation. The growth of marginal employment, easier access of foreign labor to the labor market (since early 2003) and greater labor force participation by mature workers as a result of the pension reforms of 2000 and 2003 currently rank among those structural factors that expand labor supply.

Compared with 2002, the rise in unemployment will more or less halve in 2003. 2004 will see a slight rise in joblessness due to growth in labor supply. The jobless rate (Eurostat definition) in 2004 will remain as high as in 2003 (4.4%). It will only decline to 4.2% in 2005 as GDP growth will be gathering pace.

8 Risks to the Forecast and Alternative Scenarios

8.1 Forecast Risks and Uncertainties

This forecast represents the most likely economic growth scenario for Austria (until 2005) from the OeNB's perspective. The upturn anticipated for the second half of 2003 will basically be supported by an improvement in the underlying global economic conditions and by an increase in business confidence. However, Austrian industrial production data underpinning these

1 *The higher number of child-rearing benefit recipients attributable to the extension of the period of receipt and of eligibility is not included in these employment data (national accounts definition).*

assumptions were still not available at the time this forecast was made. This means uncertainty about the exact timing and strength of the recovery continues to prevail. The greatest risks can be seen in developments in the international environment. In particular, a sudden correction in current macroeconomic imbalances in the U.S.A. (a high current account deficit in combination with a high budget deficit) and an ensuing further depreciation of the U.S. dollar represent a risk to the euro area and thus also to Austria. Future oil price trends may be considered another risk factor. This forecast assumes a gradual decline in oil prices from USD 28.5 per barrel (Brent) in 2003 to USD 24.5 per barrel (Brent) in 2005. A less sharp decline or a rise in oil prices represents a further downside risk to the forecast. The second stage of the tax reform scheduled for 2005 was not included in the forecast and represents an upside risk to GDP growth in 2005.

8.2 Scenario of a Gradual Correction of U.S. Imbalances

A scenario was simulated to quantify the effects of a gradual correction of the imbalances prevailing in the U.S. economy. This scenario assumed that U.S. households' saving ratio from the first quarter 2004 will be 1 percentage point higher than in the baseline solution. This would dampen the strength of the U.S. recovery to some extent and slightly reduce the imbalance between the respective propensities to save and to invest. In accordance with these assumptions, the nominal effective exchange rate of the U.S. dollar will therefore be 5% lower from the first quarter of 2004 as well. The effects of these changes on the nominal effective exchange rate of the euro will basically depend on the performance of currencies in other major economic areas of the world, and in particular on the reaction of Southeast Asian countries. For the euro area, monetary policies were assumed to remain unchanged.

Table 9 shows the weights of individual economic areas for the nominal effective exchange rate of the U.S. dollar and the euro. Southeast Asian countries have a trade weight of 28.6% for the euro area and 38.5% for the U.S. economy. This scenario assumes that the currencies of Southeast Asian countries will also appreciate against the U.S. dollar. If, however, these countries keep their bilateral exchange rate relative to the U.S. dollar constant, the euro area would bear an essentially bigger share of the effects of the dollar's depreciation.

Table 9

Exchange Rate Weighting for the Euro Area and the U.S.A.

	Euro area	U.S.A.	Europe (other)	Southeast Asian countries	America (other)	United Kingdom	Other countries
	Nominal effective exchange rate weighting of country/economic area						
Euro area	×	17.2	28.0	28.6	5.1	18.0	3.1
U.S.A.	19.5	×	4.6	38.5	30.9	5.0	1.5

Source: ECB.

The direct effects of these assumptions on Austria's underlying economic conditions are an appreciation of the euro against the U.S. dollar by 7.4% and a rise of the nominal effective exchange rate for Austria by 1.7%.

The effects of these new assumptions for Austria are lower GDP growth in 2004 (down 0.2 percentage point) and lower inflation in 2004 and 2005 (down 0.1 percentage point). Assuming constant interest rates, lower inflation implies

Table 10

Input Variables for the Exchange Rate Scenario

	2003	2004	2005
	Deviation from baseline scenario in %		
Nominal effective exchange rate of the euro	0.0	1.7	1.7
USD/EUR exchange rate	0.0	7.4	7.4
Demand in Austria's export markets	0.0	–0.4	–0.4
Competitors' prices in Austria's export markets	0.0	–0.9	–0.7

Source: ECB.

higher user cost of capital in real terms, resulting in a decline in investment in real terms compared with the baseline scenario. Lower demand in Austria's export markets, together with reduced competitiveness, will trigger a marked slide in exports in 2004 (down 0.3 percentage point). Employment will react to the downturn in domestic demand with a lag and will undershoot the baseline scenario by 0.1% in 2005. Since lower inflation will offset the effect of declining household income induced by falling employment, private consumption will remain as good as unchanged compared with the baseline solution.

Table 11

Key Results of the Scenario

	2003	2004	2005
	Deviation from baseline scenario in %		
Real GDP	0.00	–0.16	–0.14
HICP	0.00	–0.11	–0.16
Private consumption (real)	0.00	0.00	–0.01
Private investment (real)	0.00	–0.22	–0.39
Exports (real)	0.00	–0.31	–0.33
Imports (real)	0.00	–0.15	–0.28
Employment	0.00	–0.07	–0.10

Source: OeNB fall 2003 outlook.

9 Comparison of Forecasts

9.1 Comparison with the OeNB's Spring 2003 Outlook

The underlying international economic conditions for 2003 and 2004 have trended down since the spring 2003 outlook. Austrian export markets, for instance, expanded notably less sharply in 2003 than expected in the spring outlook. Oil prices rose considerably. Whereas short-term interest rates fell slightly compared with the spring outlook, long-term interest rates increased. The exchange rate remained virtually unchanged.

Table 13 shows a breakdown of the reasons for the forecast revisions. The GDP and HICP revisions are broken down by the impact of new data, the effects of new external assumptions, and other effects. In the case of GDP, the impact of new data records the effect of new data for the first and second quarters of 2003 and the changed statistical overhang[1]) arising in 2003 annual growth due to the revisions of data for 2002. For the HICP, the months already available for 2003 are also included. The effects of the new external assumptions were simulated using the OeNB's macroeconomic model. The item "other"

1 *The statistical overhang is a measure for influencing growth in one year by growth in the individual periods of the previous year. It is equivalent to the percentage difference between the levels of corresponding variables in the final period of the previous year divided by the annual average of the previous year.*

Table 12

Change in Underlying External Economic Conditions Compared to the Spring Outlook for 2003

	Fall 2003			Spring 2003			Difference		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	Annual change in %						*percentage points*		
Growth of Austria's export markets	+3.3	+5.5	+7.5	+4.1	+5.8	+7.3	–0.9	–0.3	+0.2
Competitors' prices in Austria's export markets	–6.5	–0.5	+1.2	–6.2	+0.1	+1.3	–0.3	–0.6	–0.1
Competitors' prices in Austria's import markets	–4.3	–0.3	+1.2	–4.0	+0.3	+1.2	–0.3	–0.6	–0.0
	USD								
Oil price	28.5	26.2	24.5	25.8	23.2	22.7	+2.7	+2.9	+1.8
	Annual change in %								
Nominal effective exchange rate (exports)	–4.0	–0.5	+0.0	–4.1	–0.6	+0.0	+0.1	+0.0	+0.0
Nominal effective exchange rate (imports)	–1.9	–0.3	+0.0	–2.0	–0.3	+0.0	+0.1	+0.1	+0.0
	%								
Three-month interest rate	2.3	2.1	2.1	2.5	2.4	2.4	–0.1	–0.2	–0.2
Long-term interest rate	4.1	4.2	4.3	3.9	3.9	4.0	0.2	0.4	0.3
	Annual change in %								
Real GDP, U.S.A.	+2.9	+3.8	+3.5	+2.3	+3.2	+3.3	+0.7	+0.6	+0.2
	USD/EUR								
USD/EUR exchange rate	1.13	1.17	1.17	1.13	1.16	1.16	–0.01	0.00	0.00

Quelle: ECB.

comprises various assumptions about the performance of domestic variables such as government consumption and changes in assessment.

The forecast for real GDP growth in 2003 was revised upwards slightly (from 0.7% to 0.9%). This is due to revisions of historical growth rates in 2002. By contrast, the changes in the external assumptions do not have a significant effect on the revisions. The rate of GDP growth for 2004 and 2005 remained unchanged, but its composition has changed. Whereas in 2003 domestic demand (primarily investment) plays a bigger role than anticipated in the spring outlook, in 2004 and 2005 growth will be driven more strongly by net exports. This is due to flatter investment trends, which are reflected in weaker import growth. The mildly negative effect of the external assumptions in 2004 will be

Table 13

Breakdown of Forecast Revisions

	Gross Domestic Product			Harmonized Index of Consumer Prices		
	2003	2004	2005	2003	2004	2005
	Annual change in %					
Fall 2003 outlook	+0.9	+1.6	+2.5	+1.3	+1.6	+1.5
Spring 2003 outlook	+0.7	+1.6	+2.5	+1.3	+1.3	+1.1
Difference	+0.2	–0.0	+0.0	–0.0	+0.3	+0.4
Due to:						
New data[1])	+0.2	+0.0	+0.0	–0.2	+0.0	+0.0
External assumptions	–0.0	–0.1	+0.0	+0.1	+0.2	+0.2
Other[2])	+0.0	–0.0	–0.0	–0.0	+0.2	+0.2

Source: OeNB fall and spring 2003 outlooks.

[1]) Effect of new and revised historic data.

[2]) Different assumptions about trends in domestic variables such as wages, government consumption, effects of measures designed to support the economy, and rating changes.

partly offset by weaker imports and the slightly positive effects of the growth and location package of November of 2003.[1])

The HICP revisions for 2004 and 2005 are attributable primarily to higher oil prices. Compared with the spring outlook, moreover, prices were assumed to be subject to somewhat greater pressure from demand. Furthermore, an increase in bread prices will be of importance in 2004.

9.2 Comparison with Other Forecasts

The forecasts of Austria's real GDP growth in 2003 stay within a narrow range (0.7% to 0.9%), whereas, naturally, the estimates for 2004 are spread more widely. The OeNB's estimate of 1.6% is in the lower middle band of the forecasts, which range from 1.4% (Austrian Institute of Economic Research, WIFO) to 2.1% (Institute for Advanced Studies, IHS). The OeNB's forecast

Table 14

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB November 2003			WIFO September 2003		IHS September 2003		OECD November 2003			IMF September 2003		European Commission October 2003		
	2003	2004	2005	2003	2004	2003	2004	2003	2004	2005	2003	2004	2003	2004	2005
	Annual change in %														
Key results															
GDP (real)	+ 0.9	+ 1.6	+ 2.5	+0.7	+1.4	+0.9	+2.1	+0.8	+1.6	+2.4	+0.7	+1.5	+0.9	+1.9	+2.5
Private consumption (real)	+ 1.2	+ 1.5	+ 2.0	+1.3	+1.6	+1.3	+1.9	+1.3	+1.7	+2.3	×	×	+1.1	+1.8	+2.2
Government consumption (real)	− 0.2	+ 0.0	+ 0.3	−0.5	−0.5	−0.3	−0.3	−0.4	−0.3	−0.2	×	×	−0.1	+0.3	+0.3
Gross fixed capital formation (real)[1])	+ 2.8	+ 3.5	+ 4.9	+1.7	+1.8	+1.9	+3.8	+2.6	+3.7	+5.6	×	×	+1.9	+2.5	+3.8
Exports (real)	+ 0.6	+ 4.3	+ 6.5	−0.1	+3.4	+1.1	+4.3	+0.1	+3.7	+6.8	×	×	+1.1	+5.7	+7.6
Imports (real)	+ 1.1	+ 5.0	+ 6.5	+0.5	+2.8	+1.5	+4.1	+1.0	+3.8	+7.4	×	×	+1.1	+5.7	+7.6
GDP per employee	+ 1.0	+ 1.4	+ 1.8	+0.4	+1.0	+0.7	+1.7	×	×	×	×	×	×	×	×
GDP deflator	+ 1.8	+ 1.2	+ 1.7	+1.9	+1.3	+1.8	+1.7	+1.8	+1.0	+1.1	+1.3	+1.2	+1.3	+1.2	+1.1
CPI	×	×	×	+1.3	+1.2	+1.3	+1.5	×	×	×	+1.3	+1.2	×	×	×
HICP	+ 1.3	+ 1.6	+ 1.5	+1.2	+1.1	×	×	+1.3	+1.0	+1.1	×	×	+1.3	+1.6	+1.5
Unit labor costs	+ 1.4	+ 0.8	+ 0.6	+1.8	+1.0	×	×	×	×	×	×	×	+1.7	+1.3	+0.9
Payroll employment	− 0.1	+ 0.2	+ 0.8	+0.2	+0.5	+0.2	+0.4	×	×	×	×	×	+0.1	+0.3	+0.5
	%														
Unemployment rate[2])	4.4	4.4	4.2	4.3	4.4	4.4	4.3	5.5	5.5	5.2	4.4	4.4	4.5	4.6	4.1
	% of nominal GDP														
Current account	0.1	− 0.1	0.2	−0.0	−0.2	0.2	0.4	−0.2	−0.2	0.3	0.2	−0.3	0.5	0.5	0.5
Government surplus/deficit	− 0.9	− 0.8	− 0.5	−1.0	−1.2	−1.3	−0.7	−1.3	−1.2	−1.8	−1.5	−1.3	−1.0	−0.6	−0.2
External assumptions															
Oil price in USD/barrel of Brent	28.5	26.2	24.5	29.0	25.0	27.0	24.0	27.0	27.0	27.0	28.5	25.5	28.3	25.6	24.1
Short-term interest rate in %	2.3	2.1	2.1	2.3	2.2	2.1	2.3	2.3	2.0	2.2	×	×	×	×	×
USD/EUR	1.13	1.17	1.17	1.10	1.10	1.12	1.16	1.15	1.15	1.15	1.12	1.12	1.13	1.16	1.15
	Annual change in %														
Euro area GDP (real)	0.2–0.6	1.1–2.1	1.9–2.9	+0.4	+1.5	×	×	+0.5	+1.8	+2.5	+0.5	+1.9	+0.4	+1.8	+2.3
U.S. GDP (real)	+ 2.9	+ 3.8	+ 3.5	+2.3	+3.0	+2.5	+3.5	+2.9	+4.2	+3.8	+2.6	+3.9	+2.8	+3.8	+3.3
World GDP (real)	+ 3.5	+ 4.3	+ 4.7	×	×	×	×	×	×	×	+3.2	+4.1	+3.3	+4.1	+4.1
World trade	+ 3.6	+ 6.1	+ 7.4	+3.3	+5.0	+9.0	+7.0	+4.0	+7.8	+9.1	+2.9	+5.5	+4.7	+7.2	+7.9

Source: OeNB, WIFO, IHS, OECD, IMF, European Commission.
[1]) For IHS: Gross investment.
[2]) Eurostat definition; for OECD: OECD definition.

1 *The economic effect of the growth and location package of November 2003 is marginal (below 0.1 percentage point of additional GDP growth in 2004). Rather, the measures help to strengthen the medium and long-term growth potential of the Austrian economy.*

basically differs in two aspects from most of the other forecasts. First, it is more upbeat in assessing investment activity. Second, its inflation forecast for 2004 is much higher. Compared with the WIFO forecast of September 2003, the OeNB's HICP forecast is 0.7 percentage point higher.

As regards the assessment of employment growth, however, the OeNB is more cautious than the other institutions. This also explains its consumption forecast for 2004 (together with higher expected inflation), which is lower than those of the IHS and the European Commission.

10 Annex

Table A1

Demand Components (Constant Prices)

at 1995 prices

	2002	2003	2004	2005	2002	2003	2004	2005
	EUR million				*Annual change in %*			
Private consumption	112,800	114,189	115,906	118,216	+0.8	+1.2	+1.5	+2.0
Government consumption	36,655	37,098	37,109	37,207	+0.1	−0.2	+0.0	+0.3
Gross fixed capital formation	44,800	45,058	46,652	48,920	−2.8	+2.8	+3.5	+4.9
thereof: Investment in plant and equipment	*18,081*	*18,118*	*18,737*	*20,044*	*−6.6*	*+4.6*	*+3.4*	*+7.0*
Residential construction investment	*8,899*	*9,680*	*9,686*	*9,792*	*−6.2*	*−0.3*	*+0.1*	*+1.1*
Investment in other construction and other investment	*17,821*	*17,260*	*18,228*	*19,084*	*+3.4*	*+2.8*	*+5.6*	*+4.7*
Changes in inventories (incl. statistical discrepancy)	689	− 643	− 414	− 346	×	×	×	×
Domestic demand	194,944	195,701	199,252	203,998	0.0	+1.2	+1.8	+2.4
Exports of goods and services	111,192	110,842	115,620	123,184	+3.7	+0.6	+4.3	+6.5
Imports of goods and services	104,962	103,820	109,006	116,094	+1.2	+1.1	+5.0	+6.5
Net exports	6,229	7,022	6,615	7,090	×	×	×	×
Gross domestic product	201,174	202,723	205,867	211,088	+1.4	+0.9	+1.6	+2.5

Source: 2002: Statistics Austria; 2003 to 2005: OeNB fall 2003 outlook.

Table A2

Demand Components (Current Prices)

	2002	2003	2004	2005	2002	2003	2004	2005
	EUR million				*Annual change in %*			
Private consumption	123,934	128,200	132,218	136,870	+1.9	+2.7	+3.1	+3.5
Government consumption	40,658	41,842	42,530	43,345	+1.4	+1.8	+1.6	+1.9
Gross fixed capital formation	48,289	49,244	51,747	55,187	−2.0	+4.3	+5.1	+6.6
Changes in inventories (incl. statistical discrepancy)	699	− 483	− 1,141	− 572	×	×	×	×
Domestic demand	213,579	218,803	225,354	234,830	+0.8	+3.2	+3.0	+4.2
Exports of goods and services	115,172	114,567	119,605	129,181	+3.2	−0.6	+4.4	+8.0
Imports of goods and services	110,418	110,503	115,809	124,937	−0.6	+0.3	+4.8	+7.9
Net exports	4,754	4,064	3,796	4,243	×	×	×	×
Gross domestic product	218,333	222,868	229,150	239,073	+2.7	+2.7	+2.8	+4.3

Source: 2002: Statistics Austria; 2003 to 2005: OeNB fall 2003 outlook.

Table A3

Deflators of Demand Components

	2002	2003	2004	2005	2002	2003	2004	2005
	1995 = 100				*Annual change in %*			
Private consumption	109.9	112.3	114.1	115.8	+1.1	+1.5	+1.6	+1.5
Government consumption	110.9	112.8	114.6	116.5	+1.3	+2.1	+1.6	+1.6
Gross fixed capital formation	107.8	109.3	110.9	112.8	+0.8	+1.4	+1.5	+1.7
Domestic demand (excl. changes in inventories)	109.6	111.7	113.4	115.2	+1.1	+1.6	+1.6	+1.6
Exports of goods and services	103.6	103.4	103.4	104.9	−0.5	−1.1	+0.1	+1.4
Imports of goods and services	105.2	106.4	106.2	107.6	−1.7	−0.9	−0.2	+1.3
Terms of trade	98.5	97.1	97.4	97.4	+1.3	−0.3	+0.3	+0.1
Gross domestic product	108.5	109.9	111.3	113.3	+1.4	+1.8	+1.2	+1.7

Source: 2002: Statistics Austria; 2003 to 2005: OeNB fall 2003 outlook.

Table A4

Labor Market

	2002	2003	2004	2005	2002	2003	2004	2005
	1.000				*Annual change in %*			
Total employment	4,060.6	4,058.2	4,065.3	4,096.3	–0.4	–0.1	+0.2	+0.8
thereof: Private sector employment	*3,536.9*	*3,536.4*	*3,545.1*	*3,578.5*	*–0.4*	*+0.0*	*+0.2*	*+0.9*
Payroll employment (national accounts definition)	3,313.6	3,314.8	3,323.0	3,354.2	–0.3	+0.0	+0.2	+0.9
	%							
Unemployment rate (Eurostat definition)	4.3	4.4	4.4	4.2	×	×	×	×
	% of real GDP							
Unit labor costs (whole economy)[1]	68.2	69.1	69.7	70.1	+0.5	+1.4	+0.8	+0.6
	At 1995 prices, EUR 1.000							
Labor productivity (whole economy)	49.5	50.0	50.6	51.5	+1.7	+1.0	+1.4	+1.8
Real compensation per employee[2]	30.7	30.8	30.9	31.2	+1.3	+0.9	+0.5	+0.9
	At current prices, EUR 1.000							
Gross compensation per employee	33.7	34.5	35.3	36.1	+2.4	+2.4	+2.1	+2.4
	At current prices, EUR million							
Total gross compensation of employees	111,792	114,490	117,237	121,138	+2.2	+2.4	+2.4	+3.3

Source: 2002: Eurostat; 2003 to 2005: OeNB fall 2003 outlook.
[1]) Gross wages as a ratio of real GDP.
[2]) Gross wages per employee divided by the private consumption deflator.

Table A5

Current Account

	2002	2003	2004	2005	2002	2003	2004	2005
	EUR million				*% of nominal GDP*			
Balance of trade	4,688.0	4,004.2	3,140.9	3,898.4	2.1	1.8	1.4	1.6
Balance on goods	3,749.0	3,093.3	2,691.7	3,583.5	1.7	1.4	1.2	1.5
Balance on services	939.0	910.9	449.1	314.9	0.4	0.4	0.2	0.1
Euro area	– 7,661.0	– 9,041.7	–10,618.3	–10,685.1	–3.5	–4.1	–4.6	–4.5
Non-euro area countries	12,349.0	13,045.8	13,759.2	14,583.5	5.7	5.9	6.0	6.1
Balance on income	– 2,207.1	– 2,240.2	– 1,773.4	– 1,750.8	–1.0	–1.0	–0.8	–0.7
Balance on transfers	– 1,734.3	– 1,627.4	– 1,656.6	– 1,620.3	–0.8	–0.7	–0.7	–0.7
Current account	746.6	136.5	– 289.1	527.3	0.3	0.1	–0.1	0.2

Source: 2002: OeNB; 2003 to 2005: OeNB fall 2003 outlook.

Table A6

Quarterly Forecast Results

	2003	2004	2005	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
	Annual change in %														
Prices, wages and costs															
HICP	+1.3	+1.6	+1.5	+1.8	+1.1	+1.1	+1.2	+1.6	+1.7	+1.6	+1.6	+1.4	+1.4	+1.5	+1.6
HICP (excl. energy)	+1.3	+1.4	+1.6	+1.5	+1.2	+1.2	+1.3	+1.6	+1.5	+1.3	+1.3	+1.5	+1.6	+1.8	+1.8
Private consumption expenditure (PCE) deflator	+1.5	+1.6	+1.5	+1.7	+1.4	+1.4	+1.4	+1.6	+1.7	+1.6	+1.5	+1.4	+1.4	+1.5	+1.7
Gross fixed capital formation deflator	+1.4	+1.5	+1.7	+2.3	+1.1	+1.4	+1.0	+1.1	+1.5	+1.6	+1.7	+1.8	+1.7	+1.7	+1.6
GDP deflator	+1.8	+1.2	+1.7	+1.5	+2.1	+1.9	+1.9	+1.3	+1.2	+1.2	+1.4	+1.6	+1.7	+1.8	+1.8
Unit labor costs	+1.4	+0.8	+0.6	+1.5	+1.7	+1.2	+1.1	+0.7	+0.5	+0.9	+0.9	+0.8	+0.7	+0.5	+0.4
Nominal wages per employee	+2.4	+2.1	+2.4	+2.6	+2.6	+2.2	+2.0	+1.9	+2.0	+2.3	+2.4	+2.4	+2.4	+2.3	+2.4
Productivity	+1.0	+1.4	+1.8	+1.1	+0.8	+1.0	+0.9	+1.2	+1.4	+1.4	+1.5	+1.6	+1.7	+1.8	+2.0
Real wages per employee	+0.9	+0.5	+0.9	+0.9	+1.2	+0.8	+0.6	+0.3	+0.2	+0.6	+0.9	+1.0	+0.9	+0.8	+0.7
Import deflator	–0.9	–0.2	+1.3	–1.0	+1.2	–0.7	–2.8	–1.9	–1.7	+1.0	+1.9	+1.7	+1.3	+1.1	+1.1
Export deflator	–1.1	+0.1	+1.4	–0.5	+1.1	–1.7	–3.4	–1.6	–1.1	+1.1	+2.0	+1.8	+1.3	+1.2	+1.2
Terms of trade	–0.3	+0.3	+0.1	+0.5	–0.1	–1.0	–0.6	+0.3	+0.6	+0.1	+0.1	+0.1	+0.1	+0.1	+0.0
	At 1995 prices, annual and/or quarterly changes in %														
Economic activity															
GDP	+0.9	+1.6	+2.5	+0.0	+0.3	+0.4	+0.3	+0.4	+0.4	+0.5	+0.6	+0.6	+0.7	+0.8	+0.8
Private consumption	+1.2	+1.5	+2.0	+0.2	+0.3	+0.2	+0.3	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Government consumption	–0.2	+0.0	+0.3	–0.7	+0.1	+0.5	+0.3	–0.1	–0.3	–0.2	–0.1	+0.1	+0.2	+0.3	+0.3
Gross fixed capital formation	+2.8	+3.5	+4.9	+3.2	+0.5	+0.9	+0.9	+0.6	+1.1	+1.1	+1.1	+1.1	+1.2	+1.4	+1.5
thereof: Investment in plant and equipment	*+4.6*	*+3.4*	*+7.0*	*+8.4*	*–0.6*	*+0.5*	*+1.2*	*+0.4*	*+1.1*	*+1.3*	*+1.6*	*+1.7*	*+2.0*	*+2.0*	*+2.0*
Residential construction investment[1])	*–0.3*	*+0.1*	*+1.1*	*+0.0*	*–0.7*	*–0.5*	*–0.2*	*+0.4*	*+0.2*	*+0.2*	*+0.3*	*–0.1*	*+0.5*	*+0.5*	*+0.5*
Exports	+0.6	+4.3	+6.5	+0.3	+0.1	+0.8	+0.6	+1.4	+1.2	+1.4	+1.4	+1.6	+1.8	+1.9	+1.9
Imports	+1.1	+5.0	+6.5	+1.0	+0.0	+1.0	+1.1	+1.5	+1.4	+1.5	+1.5	+1.6	+1.7	+1.7	+1.8
	Contribution to real GDP growth in percentage points														
Domestic demand	+1.2	+1.6	+2.3	+0.7	+0.3	+0.4	+0.4	+0.3	+0.4	+0.5	+0.5	+0.6	+0.6	+0.6	+0.7
Net exports	–0.3	–0.2	+0.2	–0.3	+0.1	–0.1	–0.2	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1
Changes in inventories	–0.1	+0.1	+0.0	–0.3	–0.1	+0.0	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
	%														
Labor market															
Unemployment rate (Eurostat definition)	4.4	4.4	4.2	4.3	4.4	4.4	4.4	4.5	4.4	4.4	4.4	4.3	4.3	4.2	4.1
	Annual and/or quarterly changes in %														
Total employment	–0.1	+0.2	+0.8	+0.0	+0.1	+0.0	+0.0	+0.0	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2
thereof: Private sector employment	*+0.0*	*+0.2*	*+0.9*	*+0.0*	*+0.1*	*+0.0*	*+0.0*	*+0.0*	*+0.1*	*+0.2*	*+0.2*	*+0.2*	*+0.3*	*+0.3*	*+0.3*
Payroll employment	+0.0	+0.2	+0.9	+0.0	+0.1	+0.0	+0.0	+0.0	+0.1	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3
	At 1995 prices, annual and/or quarterly changes in %														
Additional variables															
Disposable household income	+1.0	+1.4	+2.1	+0.3	+0.3	+0.0	+0.1	+0.4	+0.5	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5
	% of real disposable household income (saving ratio) and % of real GDP (output gap)														
Household saving ratio	7.7	7.7	7.9	7.7	7.9	7.7	7.6	7.6	7.7	7.8	7.9	7.9	7.9	7.9	7.9
Output gap	–0.8	–0.7	–0.3	–0.8	–0.8	–0.8	–0.9	–0.8	–0.8	–0.7	–0.7	–0.6	–0.4	–0.2	0.0

Source: OeNB fall 2003 outlook. Quarterly data are seasonally adjusted.

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

Money and Credit in the First Three Quarters of 2003[1])

Ralf Dobringer,
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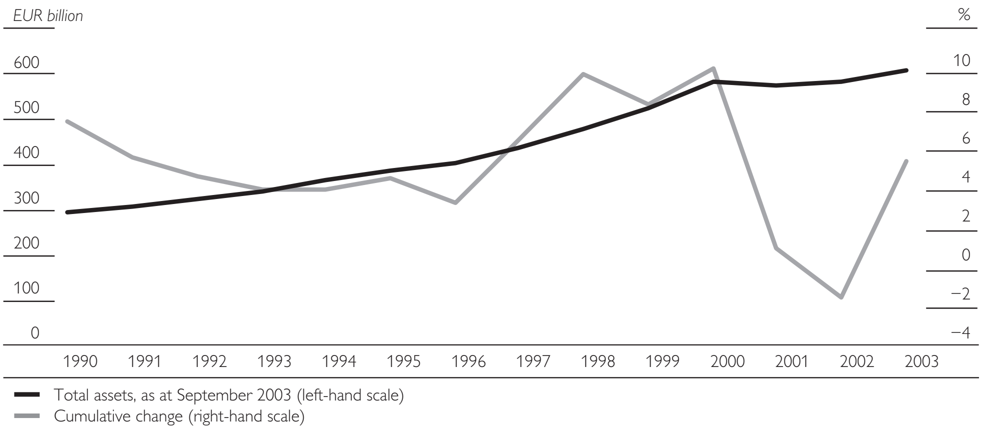
Dynamic Growth in Total Assets

In the first three quarters of 2003, the individual banks subject to reporting to the Oesterreichische Nationalbank (OeNB) expanded their total assets by as much as 5.3% (+EUR 30.58 billion), thus exceeding the EUR 600 billion mark for the first time (total assets as at September 30, 2003: EUR 603.90 billion). In the same period of 2002, total assets had decreased by 1.4% (–EUR 8.47 billion) and, in 2001, they had only edged up by 1.0% (+EUR 5.82 billion).

Asset Growth of Domestic Banks



Source: OeNB.

On the assets side, more than two-thirds of the growth can be attributed to international operations, while domestic lending declined further compared with the already subdued result of 2002. Banks continued to refinance themselves largely through deposits by domestic nonbanks. External business posted the highest growth rate also on the liabilities side.

Within the bank sector, total asset growth was varied: While state mortgage banks and special purpose banks registered increases of 10.1% and 9.5%, respectively, savings banks posted an increment of only 2.2% and building and loan associations of a mere 1.3%. The main reason for the significant rise in the special purpose bank sector was the formation of severance funds. As stipulated in Article 18 paragraph 1 of the Company Pension Fund Act (Betriebliches Mitarbeitervorsorgegesetz – BMVG), a severance fund is an institution entitled to take in and invest severance contributions. The severance contributions that are transferred into the severance fund are owned by the fund and held in trust for those entitled to receive future benefits. As at September 30, 2003, the nine severance funds held EUR 134.51 million in total assets, a figure with a strong tendency to rise.

Despite a decline (–1.1 percentage points since the beginning of 2003), savings banks continued to hold the largest market share in total assets at 36.4%, followed by Raiffeisen credit cooperatives at 23.2% (+0.3 percentage point) and joint stock banks at 16.2% (+0.1 percentage point). Special purpose banks registered a market share of 8.4%, state mortgage banks 7.4%, Volksbank credit cooperatives 5.3% and building and loan associations 3.2%.

1 *Based on unconsolidated balance sheet and income statement data reported by individual banks to the OeNB.*

The five largest banks (Bank Austria Creditanstalt AG, Erste Bank der oesterreichischen Sparkassen AG, Bank für Arbeit und Wirtschaft AG, Raiffeisen Zentralbank AG and Oesterreichische Kontrollbank AG) recorded a joint market share of 45.5%, after 45.9% in January 2003. At 55.6%, the market share of the ten largest banks remained nearly unchanged.

The province[1]) where total asset growth was particularly strong was Carinthia at 10.9%, followed by Styria at 7.5%. Upper Austria (5.8%) and Vienna (5.6%) were also above average.

Number of Head Offices Remains Unchanged

Broken down by sectors, the number of banks operating in Austria as at December 31, 2002, and September 30, 2003, was as follows:

Number of Banking Offices in Austria

	Joint stock banks and private banks		Savings banks		State mortgage banks		Raiffeisen credit cooperatives		Volksbank credit cooperatives		Building and loan associations		Special purpose banks		Total		Total number of head offices and branch offices
	H	B	H	B	H	B	H	B	H	B	H	B	H	B	H	B	
December 31, 2002	59	534	64	1,509	9	165	609	1,719	70	481	5	59	81	4	897	4,471	5,368
September 30, 2003	61	530	64	1,461	9	168	598	1,721	70	484	5	51	90	4	897	4,419	5,316
Change[1])	+2	–4	–	–48	–	+3	–11	+2	–	+3	–	–8	+9	–	–	–52	–52

Source: OeNB.
H = Head offices.
B = Branch offices and bureaux de change.
[1]) Changes are traceable to new offices, closing of offices and mergers.

During the first three quarters of 2003, the number of banking offices in Austria thus fell by a total of 52, while the number of head offices, at 897, remained unchanged.

Loan Growth Remains Subdued

On the back of the persistently weak Austrian and international economic situation in the third quarter of 2003, loans increased only by 1.3% (+EUR 3.11 billion) in the first three quarters of 2003 and thus even more slowly than in the same period of 2002 (+1.5%), which had already been sluggish. Never before since the start of electronic reporting had cumulative loan growth been found as restrained. On average, the five largest banks even registered a decline of 2.0%.

In the first three quarters of 2003, the sluggish loan growth was exclusively carried by euro-denominated loans, which grew by 1.9% (+EUR 3.56 billion), which contrasts with a meager 0.5% in the like 2002 period . For the first time, foreign currency loans diminished, by no less than 1.0% (–EUR 0.45 billion; 2002: +6.0%). Over the same period the exchange rate of both the Swiss franc (about –6%) and the Japanese yen (about –4%) fell against the euro.

The share of foreign currency loans in total loans therefore shrank from 18.8% to 18.4%. The marked shift from foreign currency loans to euro-denominated loans might also have to do, inter alia, with the warnings increas-

1 *Comparisons between provinces have only limited informative value, as banks operating across provinces are always allocated according to the location of the head office (BA-CA is, for instance, allocated to the province of Vienna).*

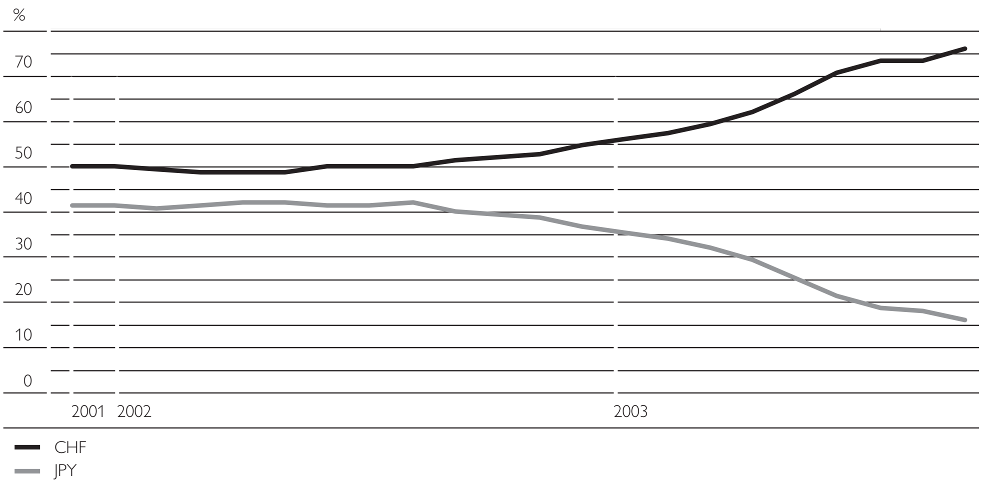
ingly issued about the specific risks of foreign currency commitments, also by the Oesterreichische Nationalbank. However, the five largest banks reported an opposite trend, with euro-denominated loans decreasing by 2.4%, while foreign currency loans expanded by 3.3%.

Broken down by sectors, the Volksbank credit cooperatives, at 24.5%, posted the highest share of foreign currency loans in their lending portfolio, followed by the savings banks at 21.7%, the state mortgage banks at 19.9% and the joint stock banks at 18.5%. The remaining bank sectors were below average.

Vorarlberg continued to account for the most sizeable share in foreign currency loans at 44.5%, followed by Tyrol with a share of 35.9%. But while in Vorarlberg foreign currency loans continued to rise (+1.3%), Tyrol reported a decline of 2.5%. The largest increase in total loans (euro plus foreign currency) was recorded in Carinthia (+2.8%), the largest decline in Salzburg (–0.4%).

Across the individual foreign currencies, a dramatic shift from Japanese yen to Swiss franc has taken place especially since the beginning of 2003. Whereas the Japanese yen slumped by some 56%, the Swiss franc rose by as much as 39%. This development is probably attributable to the fact that many borrowers redeployed interest and exchange rate gains earned in Japanese yen to the less volatile Swiss franc.

Share of CHF/JPY Loans in All Foreign Currency Loans



Source: OeNB.

As at June 30, 2003,[1]) Austria’s share of total foreign currency loans outstanding in the euro area came to 3.1% after 3.2% in December 2002. The domestic share of loans denominated in Swiss franc, however, increased from 30.9% to 36.3%, while Japanese yen-denominated loans dropped from 43.1% to 34.4%.

In September 2003, an average euro-denominated loan (including overdrafts on current accounts) came to EUR 31,847, while an average foreign currency loan was 4.3 times higher, amounting to EUR 137,447.

1 *At the time of editorial close, the data for September were not yet available.*

About two-thirds of the total loan growth in the first three quarters of 2003 was attributable to households, whose loans mounted by 3.2% (+EUR 2.13 billion) to EUR 69.24 billion. By contrast, in 2002, loans had still advanced by 5.5% (+EUR 3.44 billion). This development occurred despite the fact that in the first three quarters of 2003 the average interest rate charged on euro-denominated loans to households diminished by 0.74 percentage point to 5.11% and that for home loans by 0.79 percentage point to 4.17%. Overall, as at September 2003, 28.8% of all bank loans were held by households. Households were also the only sector to take out still more foreign currency (+7.0%) than euro-denominated loans (+1.9%), both in absolute terms and as a percentage.

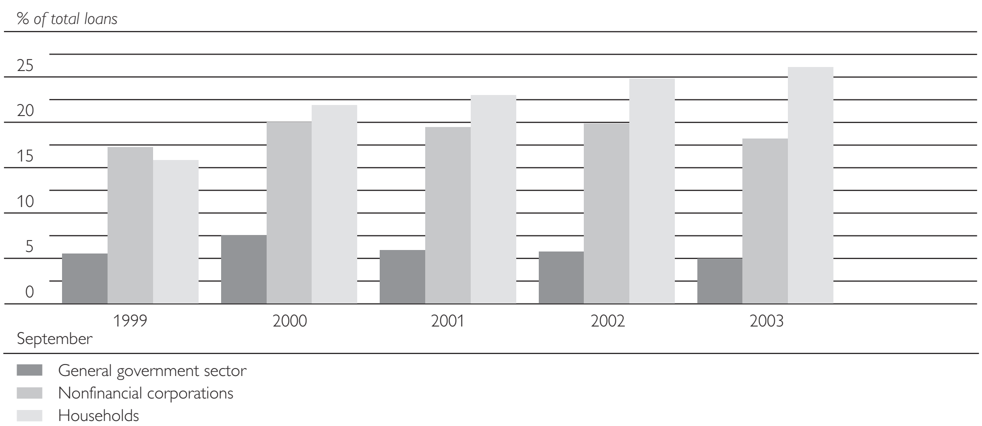
The general government sector posted the second-largest increase in loan volume; since January 2003, lending augmented by 6.6% (+EUR 1.88 billion), while in 2002 it had gone up only by 4.1% (+EUR 1.17 billion). The share of euro-denominated loans was greater than 95%.

In September 2003, 53% of all outstanding loans were to nonfinancial corporations. For cyclical reasons, however, loans to this economic sector have dropped by 0.6% (–EUR 0.72 billion) since the beginning of 2003. This contrasts with a decrease of 1.5% (–EUR 1.95 billion) in the like 2002 period. Nonfinancial corporations drove the general decline in foreign currency loans because they increased euro-denominated loans by 0.9% (+EUR 0.95 billion), while trimming foreign currency loans noticeably by 6.7% (–EUR 1.67 billion). In 2002, foreign currency loans had still risen by 1.4% (+EUR 0.36 billion).

In the first three quarters of 2003, the average interest rate on corporate loans of up to EUR 1 million dropped by 0.86 percentage point to 3.71%, that for loans over EUR 1 million fell by almost 1 percentage point to 3.01%.

In September 2003, value adjustments for claims on nonbanks reached a peak of 3.3%, a figure last seen for this month in 1998. Traditionally, the multi-tier sectors (savings banks, Raiffeisen credit cooperatives and Volksbank credit cooperatives) were above this average.

Share of Foreign Currency Loans



Source: OeNB.

Securitized Loans Up by 1.1%

Although the volume of securitized loans had been steadily declining since 1998, it rose by as much as 1.1% (+EUR 0.22 billion) since the beginning of 2003. In the same period of 2002, it had contracted by 5.1% (–EUR 1.10 billion). The portfolio growth was primarily traceable to debt securities and other fixed-income securities, which increased by 28.1% (+EUR 0.57 billion).

Largest Growth in Deposits Since 2001

After a decline of 1.0% (–EUR 1.99 billion) in the first three quarters of 2002, domestic nonbank deposits increased by as much as 1.6% (+EUR 3.06 billion) in the same 2003 period. The 2003 increase has been the second-largest since the beginning of the 1990s, after the record rise in the comparable 2001 period (+2.2%).

Special purpose banks reported the highest gains in deposits at 13.8% (+EUR 0.17 billion), followed by Raiffeisen credit cooperatives at 5.0% (+EUR 2.44 billion), state mortgage banks at 2.5% (+EUR 0.20 billion) and Volksbank credit cooperatives at 2.4% (+EUR 0.29 billion). Below-average deposit growth or even a decline was recorded by joint stock banks (–1.3% or –EUR 0.50 billion), savings banks at +0.5% (+EUR 0.31 billion) and building and loan associations (+0.9% or +EUR 0.15 billion).

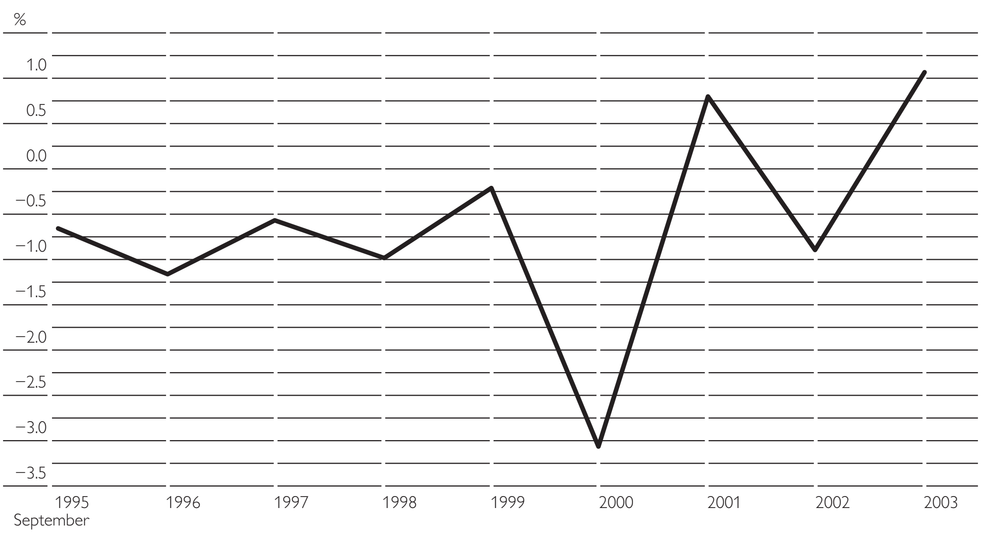
In a regional breakdown, growth in deposits was highest in Vorarlberg at 3.4%, followed by Upper Austria at 2.3%, whereas in Burgenland deposits contracted by 1.2%.

On several recent occasions, especially short-term deposit categories expanded substantially, which reflects a growing preference for liquidity among investors. Also, growth in demand deposits, which include e.g. personal checking accounts, at 11.6% (+EUR 4.88 billion) was more than twice the amount recorded in the like 2002 period (5.1% or EUR 1.99 billion). As at September 30, 2003, some 24% of all deposits were sight deposits, of which less than half (47%) were held by households; this percentage rose by 5 percentage points over the past ten years. Since December 2002 sight deposits of households augmented by 12.6% (+EUR 2.40 billion). Another 40% of sight deposits were held by nonfinancial corporations, which expanded their volume by 13.9% (+EUR 2.20 billion) since the beginning of 2003. The general government sector and nonbank financial intermediaries accounted for the remainder (8% and 5%, respectively).

Contrary to sight deposits, time deposits fell by 14.4% (–EUR 3.17 billion) since December 2002. Also in 2002, there had been a – somewhat lesser – decline of 11.2% (–EUR 2.82 billion). Traditionally, time deposits are held predominantly by nonfinancial corporations (53% in September 2003), which, however, reduced their stocks by as much as 7.6% (–EUR 0.76 billion) since January 2003. This reduction affected especially long-term deposits (–19.4%). The second-largest share (24%) was attributable to the general government, which scaled back its time deposits by as much as 27.1% (–EUR 1.64 billion) in the first three quarters of 2003. Households accounted for 16% of time deposits, having diminished them by 19.6% (–EUR 0.63 billion) since the beginning of 2003. The remaining 7% were held by nonbank financial intermediaries.

In September 2003, about two-thirds of all deposits were savings deposits. While the volume of savings deposits had still decreased by 0.9% (–EUR 1.15 billion) in 2002, it grew already by 1.1% (+EUR 1.35 billion) in the first three quarters of 2003, thus reaching the highest level in more than ten years, even though the average interest rate on savings deposits has fallen by 0.61 percentage point to a historic low of 2.20% since January 2003.

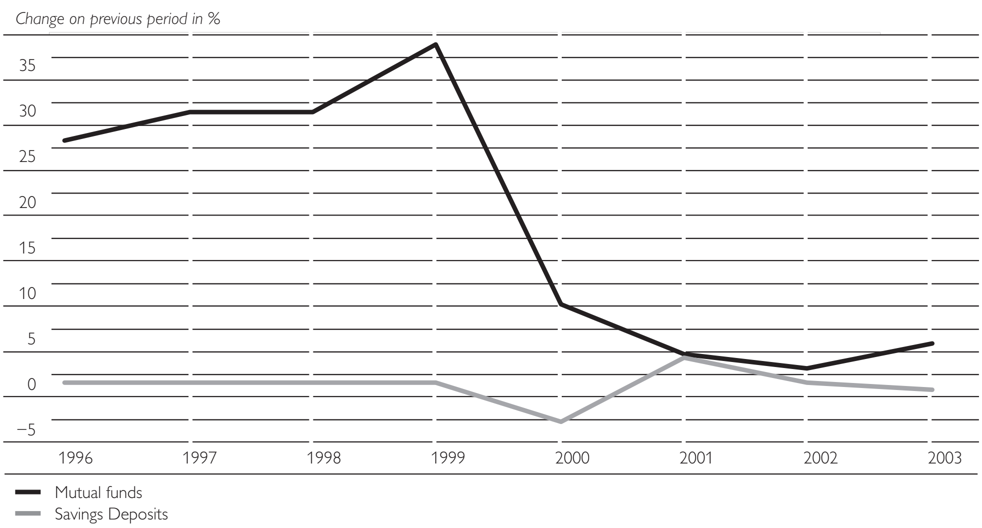
Cumulative Change in Savings Deposits



Source: OeNB.

Broken down by economic sectors, traditionally more than 99% of savings deposits were held by nonfinancial corporations and households. On average, a savings account balance came to EUR 5,486, and every Austrian had an average of three savings accounts.

Savings Deposits and Mutual Fund Assets



Source: Vereinigung Österreichischer Investmentgesellschaften (VÖIG).

At 6.4%, the mutual fund assets[1]) managed by domestic investment companies grew more significantly than savings deposits, after a rather weak performance in 2001 and 2002 (see chart). Overall, the investment companies reported fund assets of EUR 96.17 billion. Some 58% of this volume consisted in fixed-income funds, 18% in mixed funds and an additional 15% in equity funds. The remainder was attributable to quasi money market funds and short-term fixed-income funds.

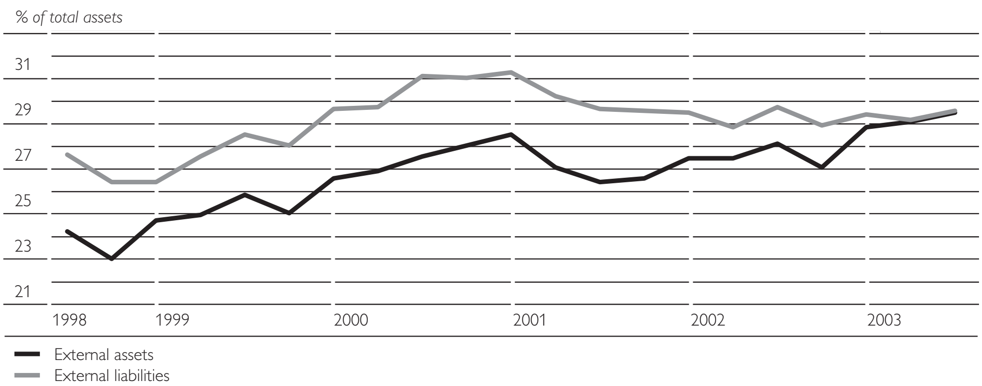
Reduction in Direct Domestic Issues

The volume of banks' direct domestic issues slipped by 2.3% (–EUR 1.25 billion) against December 2002. In 2002, this position had still augmented by 2.3%. The decline in the first three quarters of 2003 was traceable chiefly to the reduction in debt securities (–4.8% or –EUR 1.22 billion).

Growth in External Business

In the first three quarters of 2003, external business accounted for a substantial part of total asset growth. External assets already climbed by 15.0% or EUR 23.32 billion since December 2002. In the same period of 2002, growth had been only 4.2% (+EUR 6.61 billion). Claims on foreign banks alone accounted for EUR 18.03 billion (+24.1%) and thus for about 77% of the overall increase, whereas claims on foreign nonbanks rose by only 1.7% (+EUR 0.89 billion).

External Business of Domestic Banks



Source: OeNB.

A breakdown by country shows that as at June 30, 2003,[2]) 18.3% of the external assets of banks reporting to the OeNB were attributable to Germany (+0.5 percentage point compared with December 2002), followed by the United Kingdom at 12.5% (–1 percentage point), Italy at 5.3% (+0.2 percentage point), the Netherlands at 4.3% (+0.9 percentage point) and the United States at 4.2% (–1.3 percentage points).

1 Source: *Vereinigung Österreichischer Investmentgesellschaften (VÖIG).*
2 Source: *Bank for International Settlements regional statistics; the sample comprises 26 banks reporting to the OeNB and their branches abroad. The data for September were not yet available at the time of editorial close.*

At the reporting date, the share of external assets in total assets as well as that of external liabilities in total assets was some 30% each.

The above chart shows that the external liabilities did not rise as sharply as the external assets (by +7.5% or +EUR 12.41 billion), which is why in June 2003 excess liabilities were eliminated for the first time in many years. On the external liabilities side, securitized foreign liabilities posted the most dynamic growth at 9.4% (+EUR 5.68 billion), closely followed by liabilities against foreign banks at 7.9% (+EUR 5.46 billion).

The tendency of external interbank business to pick up strongly while transactions with foreign nonbanks are growing only below average is reflected above all in the fact that interbank business between the reporting parent bank and the branch abroad is brisk thanks to the internationalization of Austrian banks, while external nonbank business is predominantly handled by the branches abroad.

Derivatives Transactions Doubled

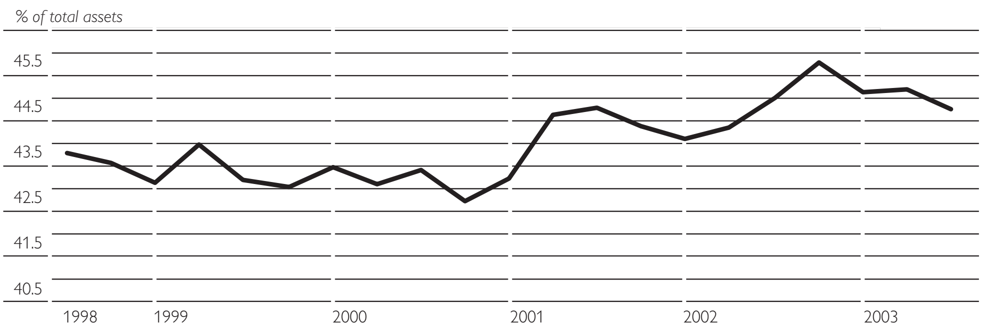
In the first three quarters of 2003, the volume of derivatives transactions almost doubled (+84.0% or +EUR 1,165.34 billion) to reach EUR 2,553.46 billion, which was more than four times the banks' total assets. In September 2003, interest rate contracts accounted for some 87% of special off-balance-sheet financial operations, posting a growth rate of 93.2% (+EUR 1,065.94 billion). However, the risk involved in business expansion was obviously low because the respective capital charge dropped by even 2.8% to EUR 1.94 billion.

Capital Base Further Rising

Since December 2002, the capital base has risen already by 5.8% (+EUR 2.41 billion). As a result, the unconsolidated equity capital base as a percentage of the assessment base[1]) also increased by 0.5 percentage point to 14.6%.

Risk-weighted assets as a percentage of total assets have dropped quite perceptibly from 45.8% to 44.7% since January 2003, which implies that banks entered into fewer high-risk or less risky commitments.

Risk-Weighted Assets in % of Total Assets



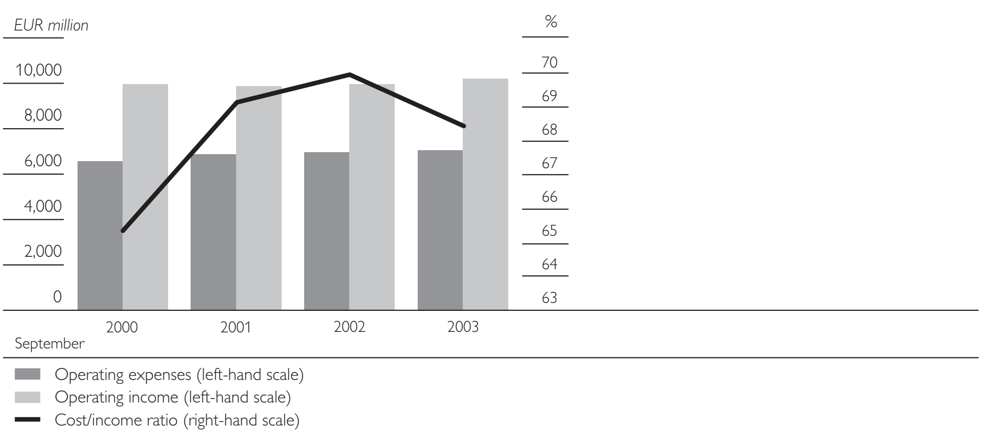
Source: OeNB.

1 *Article 22 paragraph 2 Austrian Banking Act: The sum of weighted assets, weighted off-balance-sheet activities and weighted special off-balance-sheet financial operations with the exception of the item for which the necessary capital base is calculated forms the assessment basis.*

Operating Profit Shows Positive Development

At EUR 3.23 billion in the first three quarters of 2003, the unconsolidated operating profit of banks operating in Austria increased significantly by EUR 0.22 billion or 7.4%. Thus, the positive trend reported since the beginning of the year continued in the third quarter of 2003. A sectoral breakdown demonstrates that savings banks (+17.4%), joint stock banks (+14.8%), state mortgage banks (+9.6%), Volksbank credit cooperatives (+4.9%) and Raiffeisen credit cooperatives (+0.1%) all raised their operating profit, while building and loan associations (–18.1%) and special purpose banks (–1.3%) experienced declines. Set in relation to average total assets, operating income came to 0.55% in the first three quarters of 2003, increasing by 0.03 percentage point over the same period in 2002. The ratio of operating profit to the assessment base as stipulated by Article 22 paragraph 2 of the Austrian Banking Act ran to 1.08% in the first nine months of 2003, having inched up by 0.04 percentage point. In the first three quarters of 2003, operating income rose by EUR 0.26 billion or 2.6% to EUR 10.25 billion. Operating expenses were less dynamic, edging up EUR 0.04 billion or 0.5% to EUR 7.02 billion. Consequently, the cost/income ratio improved by 1.4 percentage points and came to 68.5% at the reporting date.

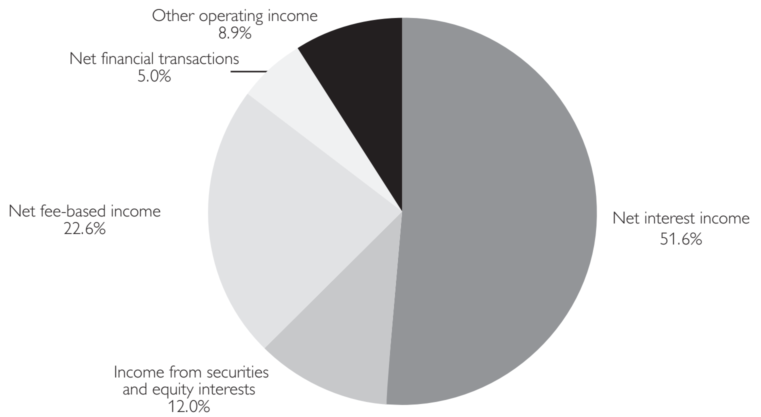
Cost/Income Ratio



Source: OeNB.

Broken down by sectors, the cost/income ratios of state mortgage banks (57.9%), special purpose banks (60.1%), Raiffeisen credit cooperatives (65.2%), Volksbank credit cooperatives (67.3%) and joint stock banks (67.3%) were better than the average of all banks operating in Austria. The ratios of building and loan associations (79.9%) and savings banks (74.3%) lagged behind the average in the Austrian banking sector. Set in relation to average total assets, operating income went up marginally by 0.01 percentage point, while operating expenses slipped slightly by 0.02 percentage point. The ratio of operating profit to the assessment base as stipulated by Article 22 paragraph 2 of the Austrian Banking Act amounted to 3.41% in the first three quarters of 2003, showing a reduction of 0.05 percentage point.

Structure of Operating Income

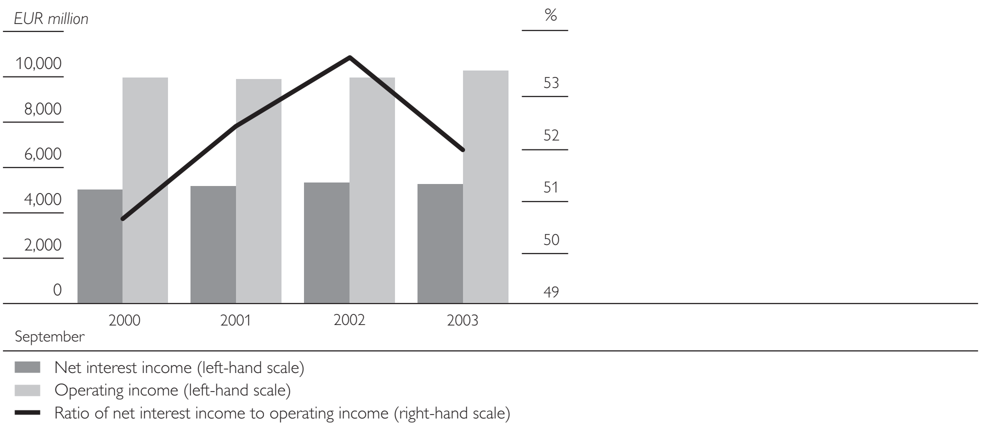


Source: OeNB.

Net Interest Income Giving Slightly

In the first three quarters of 2003, net interest income amounted to EUR 5.29 billion, thus having fallen EUR 0.02 billion or 0.4% against the figure recorded in the same period in 2002. The ratio of net interest income to total operating income came to 51.6% and decreased by 1.6 percentage points against the comparable quarter of 2002.

Ratio of Net Interest Income to Operating Income



Source: OeNB.

The ratio of net interest income to average total assets was 0.90%, down 0.02 percentage point. At EUR 15.67 billion, interest receivable and similar income remained EUR 2.05 billion or 11.5% below the comparable 2002 figures. At the same time, interest payable and similar charges fell by EUR 2.02 billion or 16.3%, i.e. slightly less than the corresponding income. A sectoral breakdown of net interest income reveals that state mortgage banks (+5.8%), special purpose banks (+1.8%) and Raiffeisen credit cooperatives (+1.1%) all raised their net interest income, whereas joint stock banks (–5.2%), Volksbank credit cooperatives (–1.5%), savings banks (–0.6%) and building and loan associations (–0.2%) all suffered declines. In the first three quarters of

2003, the total spread[1]) came to 1.27%, having contracted by 0.02 percentage point compared with the like 2002 period. Thus, it is significantly below the average of 1.43% of the last nine years.

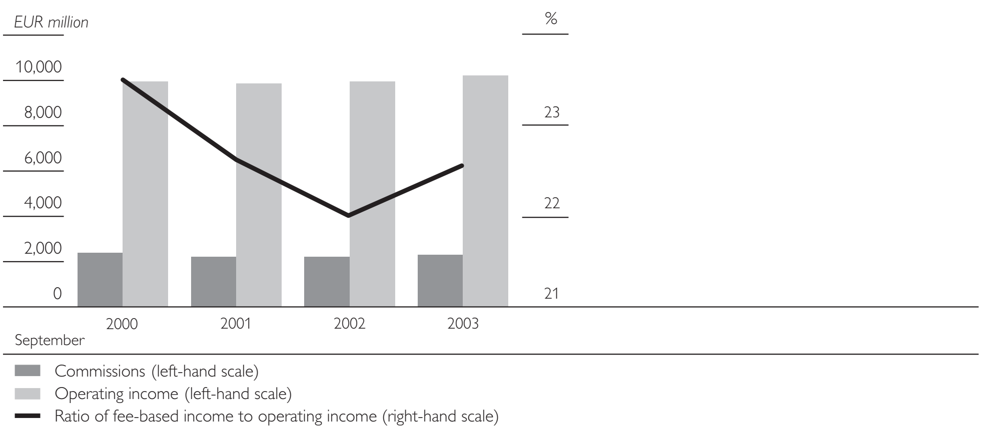
Income from Securities and Equity Interests Slightly Higher

Income from securities and equity interests came to EUR 1.23 billion, a slight increase of EUR 0.02 billion or 1.6%. On the one hand, income from equity shares in affiliated enterprises (+EUR 0.09 billion)[2]) and income on shares and other equity as well as variable rate securities (+EUR 0.04 billion) picked up. On the other hand, income from equity interests shrank markedly (–EUR 0.11 billion). As already reported in the second quarter of 2003, this decline is mainly traceable to one-off special dividends within the Raiffeisen sector in 2002, which generated particularly high income from equity interests.

Balance on Commissions Gains Substantially

At EUR 2.31 billion, the balance on commissions was significantly higher than the figure of the like 2002 period, namely up EUR 0.11 billion or 5.2%. All income segments posted increases. Fee-based income from payment transactions (+EUR 0.06 billion) as well as fee-based income from lending (+EUR 0.05 billion) rose pronouncedly. After a protracted downward movement in prior reporting periods, fee-based income from securities was seen to recover slightly in the first three quarters of 2003 (+EUR 0.01 billion). The ratio of fee-based income to total operating income grew by 0.6 percentage point and stood at 22.6%.

Ratio of Fee-Based Income to Operating Income



Source: OeNB.

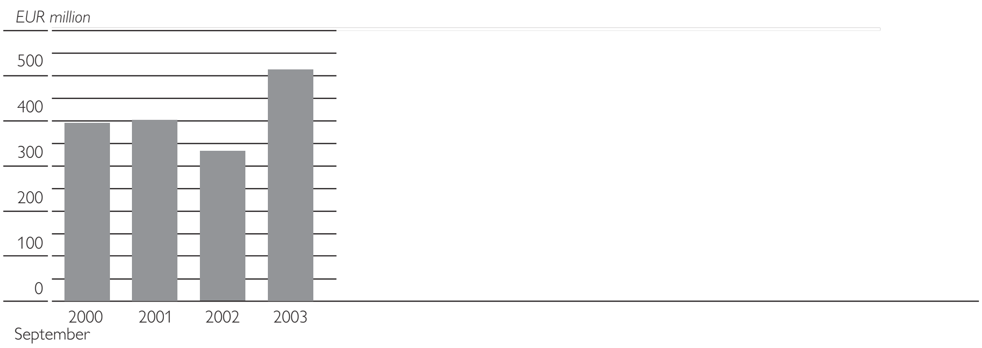
1 *In calculating the total spread, the interest-bearing liabilities were compared with the interest-bearing assets. The resulting interest margin was adjusted for the endowment effect (i.e. the different volumes of assets and liabilities were considered in the calculation). When interpreting the total spread, one must be aware that during the year this indicator is only a projection that may be imprecise. In addition, it is important to point out that this method does not take the different term structures on the assets and the liabilities side into account.*

2 *This is mainly due to the increase in income from foreign affiliated companies.*

More Than 50% Gain in Net Income from Financial Transactions

In the first three quarters of 2003, net income from financial transactions rose by EUR 0.18 billion or 55.4% to EUR 0.51 billion, i.e. by more than half compared with the like 2002 period, thus significantly contributing to the income of banks operating in Austria. This positive development is primarily attributable to the marked increase in net income on securities other than financial fixed assets (+EUR 0.22 billion). Thus, the banks were able to profit from the favorable climate on the market. While net income from trading in foreign exchange, currency and precious metals remained almost unchanged, net income on other financial transactions declined by EUR 0.04 billion.

Net Income from Financial Transactions



Source: OeNB.

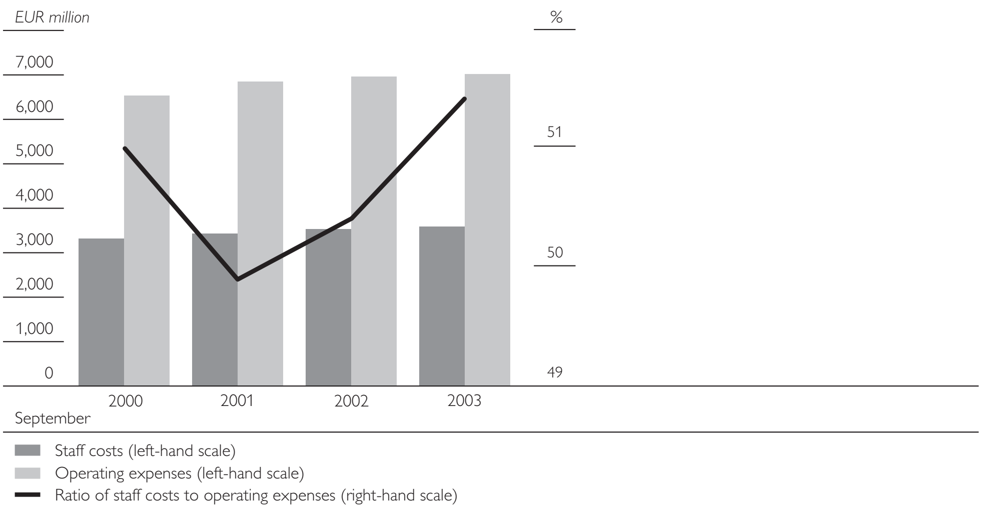
The share of trading income in total operating income came to 5.0% at the reporting date, a rise of 1.7 percentage points over the like 2002 period. Broken down by sectors, net income from financial transactions grew in all sectors, except for building and loan associations which do not record income from trading activity: Savings banks (+107.4%), Volksbank credit cooperatives (+102.5%), Raiffeisen credit cooperatives (+44.7%), state mortgage banks (+38.9%), joint stock banks (+30.0%) and special purpose banks (+1.4%).

General Administrative Expenses Climb More Moderately

At EUR 0.06 billion or 1.0%, general administrative expenses climbed more moderately than in the comparable periods of the previous years. Staff costs went up by EUR 0.09 billion or 2.6% to EUR 3.61 billion. The ratio of staff costs to total operating expenses stood at 51.5% at the reporting date, rising by 1.1 percentage points over the same period of 2002.

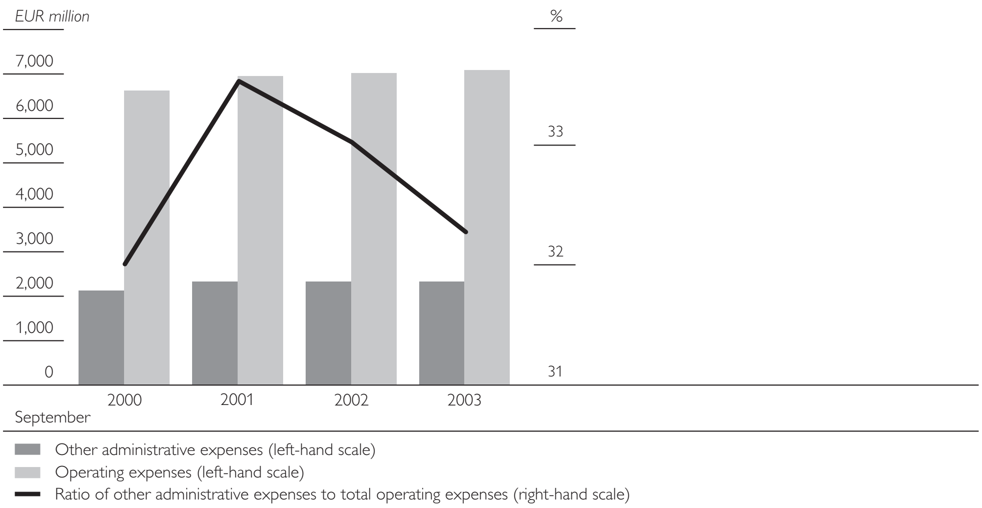
Other administrative expenses came down by EUR 0.04 billion or 1.6% to EUR 2.27 billion in the first three quarters of 2003. The ratio of other administrative expenses to total operating expenses stood at 32.3%, reflecting a decrease of 0.7 percentage point.

Ratio of Staff Costs to Operating Expenses



Source: OeNB.

Ratio of Other Administrative Expenses to Total Operating Expenses



Source: OeNB.

Outlook for Full-Year 2003 Results

For the 2003 business year, banks operating in Austria expect an unconsolidated operating result of EUR 3.99 billion, which is above the estimated result for the same period of 2002 by EUR 0.04 billion or 0.9% (outlook data of the third quarter of 2002: EUR 3.95 billion). However, the expected operating result falls short of the actual 2002 result by EUR 0.22 billion or 5.2% (fifth quarterly report[1]) 2002: EUR 4.21 billion). The requirements for loan loss provisioning

1 *As stipulated in the Regulation on Quarterly Reports, at the end of each business year, banks shall update and report to the OeNB the final results for the forth quarter and the full year upon finalization of year-end audits (fifth quarterly report).*

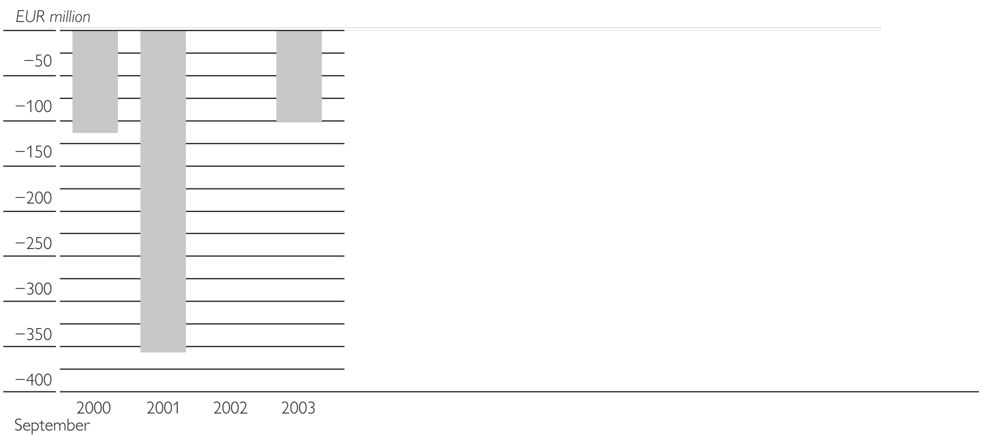
have been estimated at EUR 1.73 billion, which falls short of the comparable projection for 2002 by as much as EUR 0.35 billion or 17.0% (outlook data of the third quarter of 2002: EUR 2.08 billion) and is also significantly below the actual level of 2002 (fifth quarterly report 2002: EUR 2.16 billion). Loan loss provisions primarily include anticipated write-downs of claims on nonbanks (EUR 1.95 billion). Owing to the improved economic outlook, banks in Austria anticipate loan loss provisions to be lower; moreover, more recoveries from loan loss provisions are expected.

Loan Loss Provisions

Source: OeNB.

At the reporting date in the third quarter of 2003, provisioning expenses for securities and participations of EUR 0.10 billion are likely to be factored into income in the year 2003. The anticipated balance in the third quarter of 2002 (EUR 0.001 billion) as well as the actual provisions for securities and participations in 2002 (EUR 0.01 billion) had still been lower by far.

Transfer from/to Provisions for Securities and Participations



Source: OeNB.

With all risk provisions and value adjustments accounted for, the projected income for 2003 has been significantly revised upward. Income on ordinary activities is expected to come to EUR 2.36 billion (September 2002: EUR 1.87 billion). The projected figure at the reporting date is significantly, i.e. EUR 0.31 billion or 15.2%, above the actual income on ordinary activities in 2002.

Extraordinary expenses for 2003 are forecast at EUR 0.12 billion, an assessment that lies below the comparable figure in 2002 (third quarter of 2002: EUR 0.17 billion) and the actual 2002 figure (fifth quarterly report 2002: EUR 0.31 billion). Anticipated tax liabilities come to EUR 0.40 billion (third quarter of 2002: EUR 0.37 billion; fifth quarterly report 2002: EUR 0.34 billion). Hence, the unconsolidated annual surplus of banks operating in Austria is projected to amount to EUR 1.85 billion, a marked increase of EUR 0.52 billion or 39.1% against the projected figure of 2002 (third quarter of 2002: EUR 1.33 billion), which is significantly higher than the actual 2002 figure (fifth quarterly report 2002: EUR 1.40 billion).

Projected Annual Surplus

Source: OeNB.

Balance of Payments in the First Half of 2003[1])

René Dell'mour,
Matthias Fuchs,
Claudia Oberndorfer,
Patricia Walter,
Isabel Winkler

– The current account surplus vis-à-vis non-euro area countries augments; the current account deficit vis-à-vis the euro area doubles.
– Investment in foreign securities sinks almost by half, whereas foreign demand for Austrian securities rises slightly.
– Cross-border deposit transactions increase markedly.

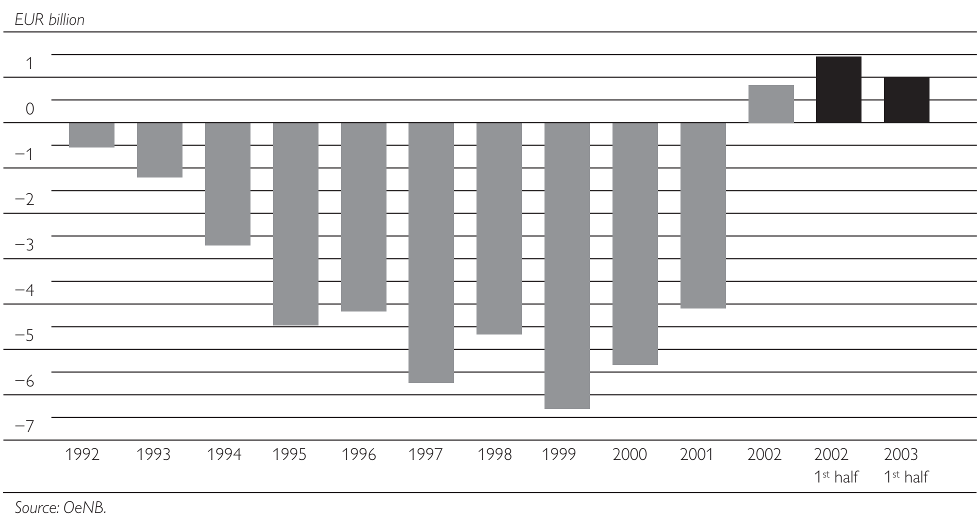
1 Current Account

According to the latest data published by the Austrian Institute of Economic Research (WIFO), the Austrian economy edged up 0.6% in real terms in the first half of 2003.[2]) Both domestic consumer demand, which augmented somewhat against the first half of 2002, and moderately increasing investment in construction, plant and equipment carried this subdued growth. With the euro remaining strong, exports hardly had any positive impact on economic growth. Against the first half of 2002, the balance of payment data of the Oesterreichische Nationalbank (OeNB) showed a decline for both the import (–0.4%) and export (–1.5%) of goods and services – and thus no external boost to economic growth.

The trend of a positive current account balance, which has been evident since 2002, prevailed in the period under review. In the first half of 2003, the balance of all Austrian current account subsections (goods, services, income, current transfers) showed a surplus of EUR 1 billion (see annex, table 1), a decline by EUR 400 million against the like period of last year.

Chart 1

Austria's Current Account[1])



Source: OeNB.
[1]) Up to 2001: final data; 2002: revised data; 2003: provisional data.

In the reporting period, the Austrian current account deficit vis-à-vis *euro area countries* more than doubled to some EUR 2.5 billion against the same 2002

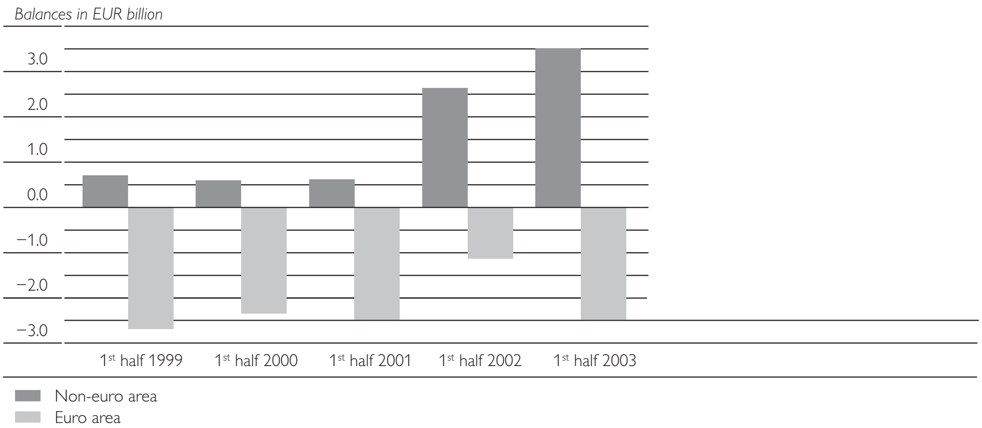
1 *Based on transactions. Editorial close: November 17, 2003. Contrary to the monthly cash balance, whose purpose is to provide a quick overview, the transaction balance is based on a calculation model requiring period adjustments and other adjustments.*
2 *See WIFO, September 2003, Weakness of Aggregate Demand to Be Gradually Overcome.*

period (see annex, table 2). This rise was largely traceable to three years of economic stagnation in the euro area and the ensuing weak exports.[1])

In the first half of 2003, the current account vis-à-vis *non-euro area* countries closed at a surplus of EUR 3.5 billion, having increased by some EUR 1 billion. As in the first quarter of 2003, goods exports, especially to Switzerland, and the development of income inflows, largely from the acceding countries, had a positive impact.

Chart 2

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



Source: OeNB.
[1]) Up to 2001: final data; 2002: revised data; 2003: provisional data.

1.1 Goods and Services

In the first half of 2003, the positive balance on goods and services sank to EUR 3.0 billion, as compared with EUR 3.6 billion year on year. This development is ascribable to a 1.5% decline in goods and services exports and almost stagnating imports.

1.1.1 Goods

According to the external trade data compiled by Statistics Austria, both goods exports and imports merely recorded growth rates of less than 1% in the first half of 2003.

A regional breakdown reveals some growth of imports from euro area countries and an imports surge from the ten acceding countries of 11% (see annex, table 3). Exports to euro area countries remained unchanged, whereas shipments to the acceding countries gained slightly by about 1%. In the first half of 2003, Austrian imports from France picked up strikingly by 35%. This surge was carried primarily by import gains in the railway, aircraft and ships category from some EUR 9 million to approximately EUR 550 million. Exports to Greece and Portugal climbed substantially by 14% and 11%, albeit by small absolute figures of EUR 270 million and EUR 180 million, respectively. Both exports to and imports from Austria's main trading partner Germany remained unchanged year on year.

1 *See WIFO, September 2003, Weakness of Aggregate Demand to Be Gradually Overcome.*

In the first half of 2003, Austrian goods imports from the Czech Republic jumped 21% against the like period of last year, which makes the Czech Republic Austria's major imports partner within the group of the ten acceding countries. Although exports to the Czech Republic continued to gain considerably by 6%, they still lagged behind Hungary in terms of volume, despite a 10% decline in exports to Hungary. Since the opening up of the East these two countries have become Austria's main trading partners among the acceding countries, but the rest of them are gaining importance as well. Most of all, this applies to the sales markets of Slovenia and the Slovak Republic. In absolute terms, both countries still clearly lag behind Hungary and the Czech Republic; their growth rates are, however, above the 10% mark. This patently illustrates the essential role geographical proximity plays for exports and imports. Each of the four countries mentioned is a direct neighbor of Austria.

1.1.2 Services

The services subaccount posted both reduced exports and imports. On balance, the first half of 2003 saw services exports of EUR 17.5 billion and services imports of EUR 16 billion; this equals a decline by 4.5% and 3%, respectively.

1.1.2.1 Travel

With a certain time lag, the sustained weakness of the economy also fed through to the travel account. As expected, the bednight decline of 3½% in the first quarter of 2003 was offset in the second quarter, but the years of bednight growth almost came to a halt in the first half-year at a plus of 0.3% (see annex, table 5). All told, 44.9 million foreign tourist bednights are a respectable result for the period under review. The peak season of July and August will naturally be decisive for the 2003 bednight statistics.

In the first half of 2003, a breakdown by countries of origin did not reveal any spectacular changes: The figure for German tourists was below average at –1.4%, Swiss and Belgian visitors were more numerous at +7.8% and +5.5%, respectively. The great momentum of Central and Eastern European countries of origin, such as the Czech Republic at +18%, Hungary at +19% or the CIS at +23%, prevailed (see annex, table 5).

Travel receipts contracted by EUR 60 million to EUR 6.3 billion year on year (see annex, table 4), which reflects the pessimistic consumer sentiment amid cyclical weakness even more clearly than the bednight figures. Decreasing revenues (–0.9%), a stagnating number of bednights (+0.3%) and slightly rising tourist export prices of some 2% translate into a slowdown of real demand per bednight of more than 3%. As bednight statistics continue to illustrate a growing importance of four- and five-star hotels, tourists apparently put a brake on additional expenses. Income from international passenger transport, which is no longer included in travel receipts, augmented by EUR 60 million to EUR 1 billion.

No final data are as yet available for Austrians' travel spending, which is being determined by means of a household survey started in early 2002. An extrapolation on the basis of the available data on payment flows (mostly credit cards, ATM cards, credit transfers, transport expenditure), however, suggests a slight slowdown of expenses. According to this estimate, Austrians spent

EUR 3.9 billion on travel (excluding international passenger transport) and EUR 400 million on international passenger transport, a decline by 1.9% and 4.5%, respectively, against the year 2002.

1.1.2.2 Other Services

Excluding travel, the chief component of the Austrian services account, Austria exported services worth some EUR 11 billion and imported services to the tune of EUR 12 billion in the first half of 2003. In the reporting period, cross-border construction and transport services evolved favorably. Developments in the construction sector had a positive impact on the emerging economic recovery. Both exports and imports of cross-border construction services showed growth rates of approximately 20%. Transport exports gained 2%, transport imports picked up 3%.

1.2 Income

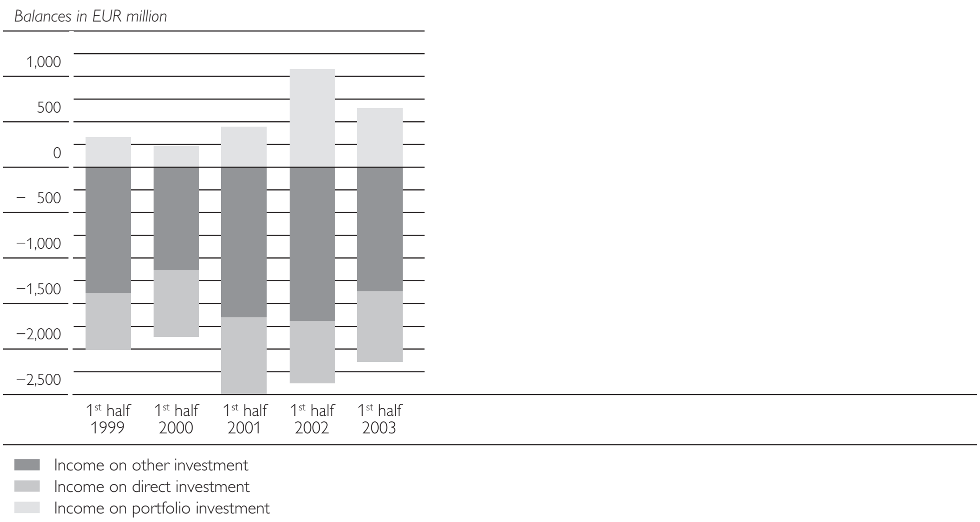
The *income account* closed the first half of 2003 at a net deficit of EUR 1.3 billion, having widened by EUR 200 million year on year.

As in previous years, income related to the *compensation of employees,* which is largely income from border workers and seasonal workers, posted a surplus of EUR 250 million. By contrast, the deficit on *investment income* (see annex, table 6) widened to EUR 1.6 billion, after EUR 1.3 billion in the first half of 2002:

- The net income on "loans, deposits and reserve assets" decreased by EUR 400 million,
- income outflows resulting from direct investment augmented by EUR 100 million and
- income outflows resulting from portfolio investment sank by EUR 300 million, only partly offsetting the negative effects mentioned above.

Chart 3

Components of Austria's Investment Income[1])



Source: OeNB.
[1]) Up to 2001: final data; 2002: revised data; 2003: provisional data.

As in previous years, a regional breakdown of net investment income shows that the bulk of net outflows in the amount of EUR 2.1 billion went to the euro area. The acceding countries accounted for an increasing share in net inflows from cross-border income (EUR 820 million).

A sectoral allocation of net investment income shows the general government sector to be a net payer and the OeNB, banks and other sectors to be net recipients.

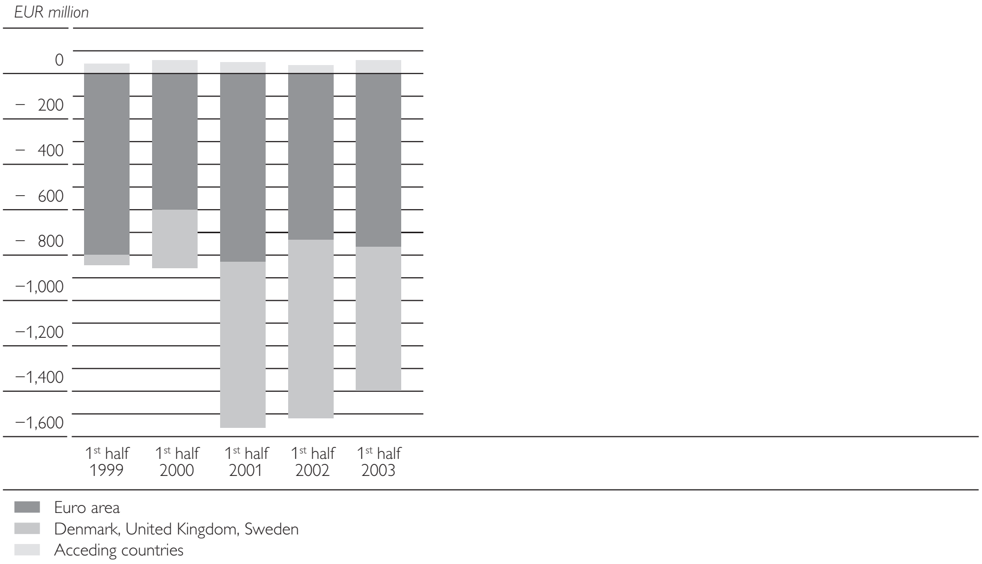
The rise in *income on direct investment* reflects the steadily progressing internationalization of Austria's economy. Income on both outward and inward foreign direct investment (FDI) expanded by about 16% each. Since the stock of foreign direct investment in Austria continued to exceed the stock of Austrian FDI abroad, FDI income again posted a deficit (EUR 780 million) in the first half of 2003. This shortfall results from the difference between Austrian investors' profits of EUR 1.2 billion and outflows to foreign owners of EUR 2.0 billion in the reporting period. Actually distributed profits, which are included in these figures, came to EUR 650 million for outward and EUR 830 million for inward investment.

As in previous periods, *income on portfolio investment* remained the largest component of investment income. In the first half of 2003, this sector's net deficit narrowed by EUR 300 million to EUR 1.4 billion year on year. Growing income on portfolio investment abroad largely carried this development and was, in turn, mostly attributable to rising income on debt securities. At the same time, Austria's net income outflows stagnated at the level of the first half of 2002.

A regional breakdown of net inflows and outflows in this income category shows that net outflows continued at a high level, with EUR 800 million going

Chart 4

Net Investment Income on Portfolio Investment by Selected Country Groups[1])



Source: OeNB.
[1]) Up to 2001: final data; 2002: revised data; 2003: provisional data.

to the euro area and a total of EUR 630 million to Denmark, the United Kingdom and Sweden. The acceding countries are net contributors of portfolio investment income vis-à-vis Austria.

Income on bonds and notes accounted for 90% of the results on both sides of the balance sheet. In the first half of 2003, Austria recorded interest income of EUR 2.6 billion, while Austrian borrowers faced interest payments of EUR 4.1 billion. On the assets side, interest income went mainly to the "other sectors" segment (61%), in particular institutional investors, and to banks (34%). On the liabilities side, the general government (56%) and banks (34%) dominated interest payments. On balance, the Austrian general government and banks are net contributors, while the other sectors, mostly institutional investors, are net recipients.

In the first half of 2003, the Austrian income on loans, deposits and reserve assets *(income on other investment)* amounted to EUR 650 million. This corresponds to a decrease by some EUR 400 million year on year, which is largely traceable to a drop in Austria's revenues. The income on other investment, however, continues to compensate for about 30% of the deficit on direct and portfolio investment. A regional breakdown for the first half of 2003 reveals, as usual, that Austria was a net contributor vis-à-vis the euro area (EUR 140 million) and a net recipient vis-à-vis the ten acceding countries (EUR 220 million).

In a sectoral breakdown, Austrian banks traditionally close this income category at a surplus, whereas the other economic sectors (general government, corporations and households) each post a deficit. The general government deficit remained unchanged at EUR 110 million, but the private sector deficit widened. Banks' surplus narrowed by EUR 330 million to EUR 920 million: Monetary authorities accounted for higher income outflows as a consequence of monetary income distribution. Commercial banks' income surplus on loans contracted by EUR 100 million to EUR 800 million, but the favorable development of other income offset about half of this reduction. Banks' income deficit on currency and deposits sank sustainably from EUR 880 million in 2001 to EUR 30 million because of U.S. dollar exchange rate effects and the reduction of fixed-term deposits.

1.3 Current Transfers

At some EUR 700 million, the shortfall on current transfers ran to EUR 400 million less in the first half of 2003 than in the same 2002 period.

The smaller deficit can be traced to lower private and general government sector outflows. EU transactions accounted for the lion's share of general government current transfers. Austria's contributions to the EU amounted to EUR 1.1 billion in the reporting period, while its receipts came to EUR 0.8 billion, resulting in a net payment of EUR 0.3 billion compared with EUR 0.7 billion in the first half of 2002.

2 Capital Account

The capital account balance closed the reporting period at a deficit of EUR 140 million, a rise by EUR 110 million against the like period of last year.

General government capital transfers in kind played a subordinate role. There were no EU investment grants. *Private sector* capital transfers in kind closed the first half of 2003 at a net deficit of EUR 130 million. This balance resulted from the items migrants' transfers (–EUR 60 million) and private sector debt forgiveness (–EUR 70 million).

3 Financial Account

In the first half of 2003, Austrian net capital exports were substantially smaller than in the like 2002 period (see annex, table 7). While Austrian gross capital formation abroad exceeded the comparable figure by some 70% at EUR 32.4 billion in the period under review, foreign investment in Austria even doubled at EUR 29.8 billion.

In the first half of 2003, the *direct investment* subaccount recorded capital outflows of EUR 0.4 billion (against outflows of EUR 2.9 billion in the same period of 2002). This was mostly traceable to a surge of foreign direct investment in Austria to EUR 2.1 billion, while Austrian investors' direct investment abroad declined by 22% to EUR 2.5 billion. The balance on *portfolio investment* turned from capital exports of EUR 1.4 billion in the first half of 2002 to capital imports to the tune of EUR 8.2 billion in the first half of 2003. In terms of volume, Austrian investment in foreign securities sank by half to EUR 9.6 billion, as compared to the first six months of 2002. Capital outflows on the *other investment* subaccount, which is largely determined by banks' transactions, soared to EUR 10.8 billion against EUR 0.9 billion year on year. In particular short-term deposits recorded a great expansion of both assets and liabilities.

The shift into "safe havens" continued: A breakdown of cross-border transactions by financial instruments reveals that *interest-bearing*[1]) investment exceeded *venture capital-oriented investment*[2]) in the first half of 2003: In this period, Austrians invested EUR 29.4 billion (91% of the overall investment volume) in interest-bearing instruments, after EUR 13.9 billion or 72% year on year. This predominance was just as pronounced on the liabilities side, where interest-bearing instruments accounted for EUR 26.7 billion or 90% of the overall volume against EUR 13.6 billion or 90% in the like period of 2002.

A regional analysis of cross-border capital flows in the first half of 2003 shows that, vis-à-vis the *euro area,* the balance reversed from net capital inflows (first half of 2002: EUR 2.3 billion) into net capital outflows of EUR 0.3 billion (see annex, table 8). In the period under review, capital flows vis-à-vis euro area countries increased from EUR 9.8 billion to EUR 23.9 billion on the assets side and from EUR 12.0 billion to EUR 23.7 billion on the liabilities side.

Vis-à-vis *non-euro area countries,* Austria posted net capital outflows of EUR 2.5 billion in the first half of 2003, down from EUR 6.4 billion year on year. While Austrian gross capital formation in this region declined from EUR 9.5 billion to EUR 8.5 billion, non-euro area investment in Austria picked up from EUR 3.1 billion to EUR 6.0 billion.

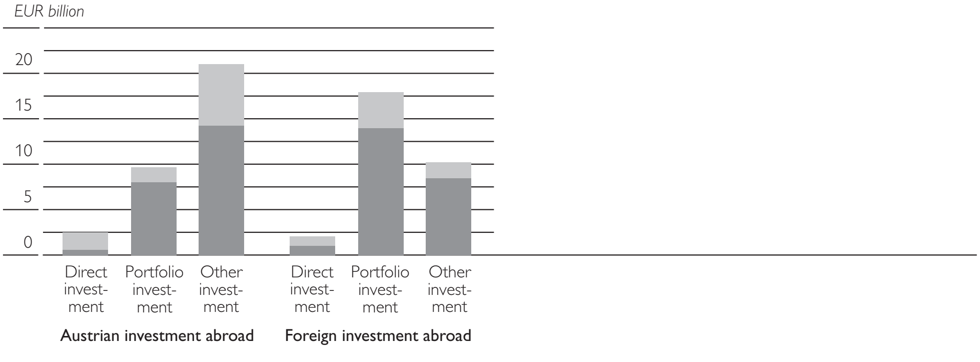
A sectoral breakdown of the financial account shows net capital exports of *MFIs* (the OeNB and banks) in the amount of EUR 4.6 billion and capital imports of the other sectors of EUR 2.0 billion. In the first half of 2003, the

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

2 *Investment in equity capital and equity securities.*

Chart 5

Austria's Financial Account (Selected Net Subaccounts)[1])
in the First Half of 2003



Source: OeNB.
[1]) Provisional data.

general government posted capital imports of EUR 9.4 billion against EUR 6.3 billion year on year, whereas the *other sectors*[1]) reduced their capital exports from EUR 10.3 billion to EUR 7.5 billion.

3.1 Direct Investment

In Austria, FDI flows evolved very unevenly in 2002. While outward direct investment augmented markedly *against* the world-wide trend – achieving the second best result ever at EUR 5.9 billion – inward direct investment recorded a drastic slump owing to a few large disinvestments. 2002 inward direct investment was revised downward to less than EUR 1.0 billion. Thus, Austria saw hardly any new inward capital flows in 2002. Investment was exclusively carried by reinvested earnings of EUR 1.6 billion, which offset net equity capital outflows.

In 2003, the situation of FDI flows seems to have got back to normal. In the first half of 2003, outward FDI fell by EUR 710 million or 22% to EUR 2.5 billion. Gross investment in equity capital came to EUR 2.2 billion, whereas disinvestment amounted to just EUR 480 million. Given moderate profit distributions, reinvested earnings remained high at EUR 550 million. Loans to affiliated enterprises and households' real estate purchases contributed EUR 200 million and EUR 30 million, respectively. The reduction in outward FDI was attributable to slightly lower Austrian investment in Central and Eastern Europe. After three record years in terms of investments in this area, 2003 so far only saw major investment volumes in Hungary at EUR 250 million, Croatia at EUR 240 million, the Czech Republic at EUR 220 million and Slovenia at EUR 120 million. By contrast, investment in the EU picked up, with the largest volumes going to Denmark at EUR 580 million, Germany at EUR 450 million and the United Kingdom at EUR 130 million.

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

At EUR 2.1 billion, *inward* direct investment trailed outward flows only by a small margin. Equity inflows of EUR 1.2 billion contrasted with disinvestment in the amount of EUR 340 million. Reinvested earnings also stood at EUR 1.2 billion (partly based on estimates). Intercompany loans were balanced. So far, nonresidents spent EUR 180 million net to purchase real estate in Austria. The same regional pattern of direct investment inflows has been observed for years: Germany, the U.S.A, the Netherlands and Switzerland were the chief investors, together holding a share of over 80%.

3.2 Portfolio Investment

In the first half of 2003, cross-border transactions related to the *acquisition and sale of securities* resulted in net capital imports of EUR 8.2 billion. Bonds and notes accounted for more than 90% of both receipts and payments.

A sectoral breakdown of portfolio investment abroad shows that the other sectors – mainly mutual funds and insurance companies – made 56% of investments, followed by Austrian banks with 30%. Foreign investors were particularly interested in buying securities issued by the Austrian government.

Both on the assets and the liabilities side, over 75% of all transactions were conducted with euro area counterparties (see annex, table 8), with Austrian investors' purchases of euro area securities trailing euro area investors' purchases of Austrian securities. This resulted in net capital imports from euro area countries of EUR 5.9 billion. The portfolio investment position vis-à-vis the rest of the world likewise recorded net capital imports (EUR 2.3 billion).

3.2.1 Portfolio Investment in Foreign Securities

In the first half of 2003, Austrian investors acquired *foreign securities* to the tune of EUR 9.6 billion. At 87%, bonds and notes were most popular with investors, with money market instruments and equity securities making up shares of 5% and a mere 7%, respectively (first half of 2002: 69% debt securities, 19% money market instruments and 12% equity securities).

Austrian investors acquired *foreign equity securities* worth EUR 710 million. EUR 460 million were invested in *foreign shares,* in particular in shares issued by enterprises in the EU – especially Germany and Sweden – (54%), the U.S.A. (16%) and Asia (11%). Households at 40% and institutional investors at 24% were the chief investors.

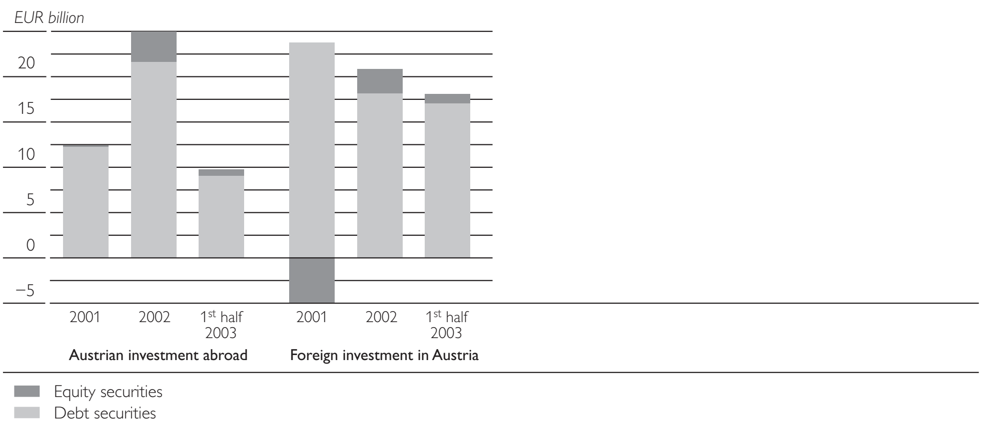
In the first half of 2003, investment in foreign *mutual fund shares* amounted to EUR 230 million. In a regional breakdown, Austrians continued to primarily opt for mutual fund shares issued in Luxembourg (76%), followed at some distance by those issued in Ireland (27%) and France (18%).

As in previous years, Austrian investors who acquired foreign securities concentrated on debt securities; *bonds and notes* accounted for 87% (EUR 8.4 billion) of cross-border transactions. Debt securities of euro area (especially French, Dutch and German) issuers were particularly popular at 75%. By investor category, the other sectors (mainly institutional investors) and Austrian banks were the most active buyers of debt securities at approximately 61% and 25%, respectively. The issuance currency is closely related to investors' regional preferences: Investment was made almost exclusively in euro-denominated securities.

Austrians acquired *foreign money market instruments,* mainly commercial paper and certificates of deposit, to the tune of EUR 510 million. Issues from the euro area (Germany, the Netherlands and Luxembourg) were most sought after, followed by instruments issued in the U.S.A. and Australia. Investment was largely made in euro-denominated securities. Other short-term securities purchased by Austrian investors were denominated in U.S. dollar and pound sterling.

Chart 6

Securities Transactions by Financial Instruments[1])



Source: OeNB.
[1]) 2001: final data; 2002: revised data; 2003: provisional data.

3.2.2 Portfolio Investment in Domestic Securities

In the first half of 2003, foreign investors acquired Austrian securities in the amount of EUR 17.8 billion. Debt securities (87%) were most popular with investors, with money market instruments as well as shares and mutual fund shares making up 8% and 5% of investments, respectively.

Of the EUR 980 million worth of *domestic equity* securities sold to foreign investors, *Austrian shares* accounted for EUR 400 million, with most of the capital invested going to Austrian nonfinancial corporations.

Foreign investors purchased a total of EUR 590 million of Austrian mutual fund shares, the bulk of which were domestic fixed-income and money market funds.

As in previous years, foreign investors showed a clear preference for *Austrian debt securities* (EUR 15.4 billion). In this category, foreign investors mainly opted for euro-denominated issues. Japanese yen-denominated and Polish zloty-denominated issues were retired or sold by nonresidents to Austrians. Foreign investors bought primarily debt securities issued by the Austrian government: In the first half of 2003, foreigners invested EUR 10.3 billion in new issues or reopened issues of the Republic of Austria.

In the first half of 2003, Wiener Börse AG saw a number of new issues of corporate bonds, such as Bau Holding Strabag AG, Berndorf AG, Energie Stmk. Finanz-Service GmbH, Jenbacher AG, ÖBB, OMV AG. Austrian residents acquired the majority of these corporate bonds; foreign investors merely bought some 10%.

Government Bond Syndication and Tender Offers in the First Half of 2003[1])

	ISIN	External transactions
		EUR million
4.65% Federal government bond 2003–2018/1/144A	AT0000385745	3,819
4.0% Federal government bond 1999–2009/2	AT0000384821	1,470
5.0% Federal government bond 1998–2008/1	AT0000384227	1,543
3.8% Federal government bond 2003–2013/2/144A	AT0000385992	3,519
Total		10,351

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

Nonresidents spent EUR 1.4 billion on domestic money market instruments. Also in the short-term segment, issues by the Republic of Austria were in highest demand. The majority of these sales to foreign investors were of euro-denominated issues, followed at some distance by issues denominated in U.S. dollar and pound sterling.

3.3 Other Investment

In the first half of 2003, Austrian *other investment* – mostly loans and bank deposits – accounted for net capital outflows of EUR 10.8 billion, a steep rise from the EUR 860 million in the like 2002 period. After having declined to EUR 1.4 billion in 2002, external assets thus picked up to EUR 21.0 billion. Whereas commercial banks and – to a lesser degree – the general government had withdrawn capital from their foreign accounts in 2001 and 2002, they substantially increased their foreign deposits in the first half of 2003, which resulted in Austrian capital exports to the tune of EUR 15 billion in the review period. At the same time, the credit lines to nonresidents expanded by EUR 0.8 billion to EUR 5.8 billion against the same period of 2002. Austrian banks' activities, mostly in terms of long-term lending, again had a decisive impact on this development. About half of their loans were extended to the non-euro area, notably to the United Kingdom, Switzerland and the U.S.A. Austrian banks continued to target, apart from the other euro area countries, Croatia and the acceding countries. By contrast, the nonfinancial sector greatly reduced its foreign lending.

In the first half of 2003, Austrian external liabilities stood at EUR 10.2 billion, after having amounted to –EUR 2.2 billion in 2002. This was mostly traceable to the short-term focus of Austrian commercial banks' deposit policy. In the first half of 2003, nonresidents' deposits accounted for EUR 9.7 billion and were mainly denominated in Swiss franc and U.S. dollar. New Austrian borrowing abroad dropped by more than half to EUR 920 million against the comparable 2002 period. This development was largely carried by enterprises and households: Apart from short-term loan redemptions, long-term lending sank by half, which is attributable to the prevailing low borrowing requirements amid cyclical weakness.

3.4 Financial Derivatives

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

The financial derivatives subaccount closed the first half of 2003 with net capital outflows of EUR 590 million.

3.5 Reserve Assets

In the first half of 2003, *reserve assets* decreased by EUR 900 million through transactions. Fixed-term deposits and securities were partly transferred to other types of assets that do not belong to reserve assets by definition.

Annex

Table 1

Balance of Payments Summary

	1st half 2002[1])	1st half 2003[2])	Annual change
	EUR million		
Current account	+1,442	+ 1,028	– 414
Goods, services and income	+2,546	+ 1,734	– 812
Goods and services	+3,645	+ 3,045	– 609
Goods	+1,663	+ 1,359	– 268
Services	+1,991	+ 1,650	– 341
Travel	+2,378	+ 2,396	+ 18
Other services items	– 387	– 747	– 360
Transportation	+1,127	+ 1,142	+ 15
thereof: international passenger transport	*+ 533*	*+ 617*	*+ 84*
Construction services	+ 36	+ 51	+ 15
Financial services	+ 53	+ 79	+ 26
Royalties and license fees	– 449	– 322	+ 127
Other business services	+ 833	+ 734	– 99
thereof: merchanting	*+ 611*	*+ 506*	*– 105*
Other services	+ 295	+ 380	+ 85
Unclassified transactions	–2,282	– 2,811	– 529
Income	–1,108	– 1,311	– 203
Compensation of employees	+ 234	+ 246	+ 12
Investment income	–1,342	– 1,558	– 216
Current transfers	–1,104	– 706	+ 398
General government	– 693	– 497	+ 196
Other sectors	– 411	– 209	+ 202
Capital and financial account	–4,176	– 2,822	+1,354
Capital account	– 31	– 138	– 107
General government	– 105	– 18	+ 87
Other sectors	+ 56	– 127	– 183
Acquisition/disposal of nonproduced, nonfinancial assets	+ 19	+ 7	– 12
Financial account	–4,146	– 2,684	+1,462
Direct investment	–2,938	– 445	+2,493
Portfolio investment	–1,368	+ 8,207	+9,575
Other investment	– 861	–10,761	–9,900
Financial derivatives	+ 442	– 589	–1,031
Reserve assets[3])	+ 579	+ 904	+ 325
Errors and omissions	+2,743	+ 1,794	– 940

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

Table 2

Current Account by Region

Net	Transactions to/from the euro area			Transactions to/from non-euro area countries		
	2002[1])	1st half 2002[1])	1st half 2003[2])	2002[1])	1st half 2002[1])	1st half 2003[2])
	EUR million					
Current account	– 6,299	– 1,113	– 2,503	7,046	2,555	3,531
Receipts	71,744	36,307	35,601	61,787	29,983	29,755
Expenses	78,042	37,420	38,105	54,742	27,428	26,224
Goods and services	– 2,845	345	– 496	7,534	3,309	3,541
Receipts	63,651	32,263	31,668	51,687	25,033	24,781
Expenses	66,497	31,918	32,164	44,153	21,724	21,240
Goods	– 3,857	– 1,521	– 2,034	7,606	3,184	3,429
Receipts	41,919	21,305	21,027	36,112	17,661	17,901
Expenses	45,776	22,826	23,061	28,506	14,478	14,472
Services	1,012	1,867	1,538	– 72	124	112
Receipts	21,732	10,958	10,641	15,575	7,371	6,880
Expenses	20,720	9,092	9,102	15,648	7,246	6,769
Income	– 3,114	– 1,337	– 1,931	907	229	620
Receipts	6,348	3,184	3,191	7,613	3,826	3,796
Expenses	9,462	4,521	5,122	6,706	3,597	3,177
Current transfers	– 340	– 122	– 76	– 1,394	– 982	– 630
Receipts	1,744	860	743	2,488	1,125	1,176
Expenses	2,084	982	819	3,882	2,107	1,807

Source: OeNB.
[1]) Revised data.
[2]) Provisional data.

Table 3

Merchandise Exports and Imports
as Recorded in the Foreign Trade Statistics

Goods by geographic area[1])

	1st half 2003					
	Exports		Imports		Net position	
	Annual change	Share of total exports	Annual change	Share of total imports		Annual change
	%				*EUR million*	
EU	– 0.5	60.4	+ 0.8	65.6	–2,070	–339
Euro area	– 0.2	54.1	+ 1.2	61.2	–2,819	–324
thereof:						
Germany	*+ 0.7*	*32.2*	*– 0.7*	*39.5*	*–2,854*	*+187*
Italy	*+ 2.3*	*8.9*	*– 1.3*	*7.1*	*+ 701*	*+114*
France	*– 3.2*	*4.4*	*+35.7*	*5.1*	*– 271*	*–574*
Non-euro area countries	+ 1.5	45.9	+ 0.3	38.8	+2,736	+216
thereof:						
Switzerland and Liechtenstein	*+11.6*	*6.3*	*– 1.7*	*3.5*	*+1,077*	*+276*
10 acceding countries[2])	*+ 0.8*	*12.5*	*+10.9*	*10.8*	*+ 652*	*–372*
U.S.A.	*– 7.0*	*4.9*	*–32.8*	*3.8*	*+ 401*	*+586*
Japan	*– 9.2*	*1.0*	*+ 8.8*	*2.3*	*– 515*	*–112*
China	*+ 2.4*	*1.1*	*+24.1*	*2.0*	*– 356*	*–141*
Total	+ 0.6	100.0	+ 0.9	100.0	– 83	–108

Source: Statistics Austria.
[1]) Geographic areas as defined by WIFO.
[2]) Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.

Table 4

Travel and International Passenger Transport

	1st half 2002[1])	1st half 2003[2])	Annual change	
	EUR million			%
Travel				
Receipts	6,392	6,332	− 60	− 0.9
Expenditure	4,014	3,936	− 78	− 1.9
Net position	2,378	2,396	+ 18	+ 0.8
International passenger transport				
Receipts	953	1,018	+ 65	+ 6.8
Expenditure	420	401	− 19	− 4.5
Net position	533	617	+ 84	+15.8
	1,000			%
Foreign tourist overnight stays	*44,711*	*44,859*	*+148*	*+ 0.3*

Source: OeNB, Statistics Austria.
1) Revised data.
2) Provisional data.

Table 5

Foreign Tourist Bednights by Country of Origin

	1st half 2003			
	Overnight stays	Annual change		Share
	1,000		%	
Germany	27,472	−404	− 1.4	61.2
Netherlands	4,963	+134	+ 2.8	11.1
U.K.	1,866	+ 26	+ 1.4	4.2
Belgium, Luxembourg	1,250	+ 77	+ 6.6	2.8
Switzerland, Liechtenstein	1,664	+121	+ 7.8	3.7
Denmark	653	+ 2	+ 0.3	1.5
Italy	937	− 9	− 0.9	2.1
France	672	+ 15	+ 2.3	1.5
Sweden	391	− 23	− 5.4	0.9
Spain	143	− 10	− 6.3	0.3
Poland	608	− 13	− 2.1	1.4
Hungary	630	+100	+18.8	1.4
Czech Republic	598	+ 91	+18.1	1.3
Croatia	207	+ 22	+11.7	0.5
CIS	381	+ 72	+23.4	0.9
Slovenia	147	+ 15	+11.6	0.3
Slovak Republic	116	+ 9	+ 8.1	0.3
U.S.A.	552	− 49	− 8.1	1.2
Japan	161	− 35	−17.9	0.4
Other countries	1,448	+ 6	+ 0.4	3.2
Total	44,859	+148	+ 0.3	100.0
Memorandum item: Austrian tourists	*15.277*	*+262*	*+ 1.7*	*x*

Source: Statistics Austria.

Table 6

Investment Income

	1st half 2002[1])	1st half 2003[2])	Annual change
	EUR million		
Net investment income[3])	–1,342	–1,558	– 216
Investment income receipts	6,530	6,496	– 34
Investment income payments	7,872	8,045	+ 182
Net direct investment income[3])	– 683	– 780	– 97
Income on outward direct investment	1,064	1,239	+ 175
Income on inward direct investment	1,747	2,018	+ 271
Net portfolio investment income[3])	–1,730	–1,424	+ 306
Income on foreign equity securities	229	334	+ 105
Income on domestic equity securities	192	196	+ 4
Income on foreign bonds and notes	2,471	2,636	+ 165
Income on domestic bonds and notes	4,189	4,148	– 41
Income on foreign money market instruments	29	53	+ 24
Income on domestic money market instruments	79	102	+ 23
Net other investment income[3])	+1,072	+ 646	– 426
Income on other investment, assets[4])	2,737	2.235	– 502
Income on other investment, liabilities	1,665	1.589	– 76
Investment income on foreign interest-bearing investment[5])	5,260	4,957	– 303
Investment income on domestic interest-bearing investment[6])	5,934	5,855	– 79
Investment income on foreign venture capital-oriented investment[7])	1,270	1,539	+ 269
Investment income on domestic venture capital-oriented investment[7])	1,938	2,199	+ 261
Memorandum item:			
Financial derivatives based on interest rate contracts[8])	*+1,460*	*– 410*	*–1,870*

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

Table 7

Financial Account

	2001[1])	2002[1])	1st half 2002[2])	1st half 2003[3])
	EUR million, net			
Financial account	4,183	–3,708	–4,146	–2,684
Assets	–23,362	–18,140	–19,310	–32,449
Liabilities	27,545	14,432	15,164	29,765
Direct investment	3,108	–4,944	–2,938	–445
Direct investment abroad	–3,506	–5,888	–3,220	–2,513
Equity	–3,270	–4,678	–2,389	–1,762
Reinvested earnings	–151	–983	–640	–551
Other capital	–86	–227	–191	–200
Direct investment in Austria	6,615	944	282	2,068
Equity	4,297	–416	–251	902
Reinvested earnings	1,362	1,578	630	1,169
Other capital	955	–217	–98	–3
Portfolio investment	6,333	–4,529	–1,368	8,207
Portfolio investment in foreign securities	–12,225	–25,081	–18,377	–9,627
Equity securities	–101	–3,371	–2,251	–711
thereof: mutual fund shares	*–770*	*–703*	*–338*	*–230*
Bonds and notes	–12,386	–17,497	–12,691	–8,406
Money market instruments	262	–4,214	–3,436	–510
Portfolio investment in domestic securities	18,558	20,552	17,009	17,834
Equity securities	–4,897	2,621	1,199	984
thereof: mutual fund shares	*1,004*	*1,036*	*713*	*587*
Bonds and notes	26,227	19,151	15,147	15,423
Money market instruments	–2,772	–1,220	663	1,418
Other investment	–7,256	4,371	–861	–10,761
Assets	–9,521	11,459	1,361	–20,939
Trade credits	309	97	–155	–108
Loans	–8,434	–4,393	–5,038	–5,814
Currency and deposits	–701	15,313	6,303	–15,030
Other assets	–695	442	251	12
Liabilities	2,265	–7,089	–2,222	10,179
Trade credits	–711	–320	–240	–218
Loans	2,372	5,132	2,183	923
Currency and deposits	595	–11,645	–4,172	9,732
Other liabilities	9	–256	8	–258
Financial derivatives	–69	–415	442	–589
Reserve assets[4])	2,067	1,810	579	904
Memorandum item:				
Interest-bearing investment	*7,282*	*1,661*	*–319*	*–2,717*
Assets	*–19,500*	*–8,988*	*–13,905*	*–29,426*
Liabilities	*26,782*	*10,649*	*13,586*	*26,709*
Sectoral breakdown:				
Banks (including the OeNB)	–3,540	–1,362	–153	–4,636
Assets	–12,270	2,696	–2,402	–16,934
Liabilities	8,731	–4,057	2,249	12,298
General government	10,945	9,335	6,263	9,434
Assets	–322	–858	–2,055	–6,662
Liabilities	11,267	10,193	8,318	16,097
Other sectors	–3,223	–11,685	–10,257	–7,482
Assets	–10,770	–19,977	–14,853	–8,853
Liabilities	7,548	8,292	4,596	1,371

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

Table 8

Financial Account by Region[1])

	Investment in/ from the euro area			Investment in/ from non euro-area countries		
	2002[2])	1st half 2002[2])	1st half 2003[3])	2002[2])	1st half 2002[2])	1st half 2003[3])
	EUR million, net					
Financial account	12,285	2,257	– 223	–15,993	–6,403	–2,461
Assets	– 5,091	– 9,791	–23,940	–13,049	–9,519	–8,509
Liabilities	17,376	12,048	23,717	– 2,944	3,116	6,048
Direct investment	– 549	– 21	443	– 4,395	–2,917	– 888
Outward direct investment	– 499	– 181	– 605	– 5,389	–3,039	–1,908
Inward direct investment	– 50	159	1,048	994	123	1,020
Portfolio investment	– 368	– 1,908	5,881	– 4,161	540	2,326
Portfolio investment in foreign securities	–18,265	–13,070	– 8,025	– 6,816	–5,307	–1,602
Portfolio investment in domestic securities	17,898	11,162	13,906	2,654	5,847	3,928
Other investment	14,227	3,650	– 5,791	– 9,856	–4,511	–4,970
Assets	14,062	3,153	–14,212	– 2,603	–1,792	–6,727
Liabilities	165	497	8,421	– 7,254	–2,719	1,758
Financial derivatives	– 1,025	536	– 756	610	– 94	167
Reserve assets[4])	×	×	×	1,810	579	904

Source: OeNB.

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

[2]) *Revised data.*

[3]) *Provisional data.*

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

Austrian Outward and Inward Direct Investment – Results of the 2001 Survey and Development of Selected Indicators

René Dell'mour

This report provides a brief overview of the main results of the survey of direct investment stocks at the turn of 2001/2002 and an update of some of the indicators first presented in Reports and Summaries 4/1995. For detailed results broken down by regions and sectors, see the supplement to Focus on Austria 3/2003.

This publication, as well as additional information on this topic, is available on the OeNB's website *(http://www2.oenb.at/english/engl_p.htm).*

Review of 2001 Results and Outlook for 2002

According to the results of the OeNB's most recent survey of Austrian direct investment abroad and foreign direct investment (FDI) in Austria, Austrian strategic direct investment abroad (outward direct investment) totaled EUR 32.4 billion at the turn of 2001/2002, while foreign direct investment in Austria (inward direct investment) came to EUR 39.0 billion. Compared to the stocks at the end of 2000, this represents an increase by roughly 20% in each category. This means that the dynamic growth seen in 2000 – when record increases of 40% were registered – has considerably decreased. However, Austria still performed well in an international comparison. According to UNCTAD's latest World Investment Report, the growth rate of worldwide direct investment stocks in 2001 was less than half of Austria's rate.

Outward direct investment rose not only in terms of capital invested but also in terms of the number of Austrian investors (from 917 to 935). At the reference date, domestic investors held stakes in 2,319 (+92) foreign enterprises, employing a total of 270,100 persons (+8.7%). *Inward* direct investment also augmented slightly in terms of the number of investors (by 26 to 3,075), as did the number of affiliated enterprises (by 19 to 2,607). Conversely, nominal invested capital dropped from EUR 11.1 billion to EUR 9.8 billion, and the number of Austrians working for foreign enterprises decreased by 5,700 to 245,600. As a result of this contrary development in employment, the number of employees at subsidiaries of Austrian investors abroad was for the first time considerably higher than the number of employees at foreign subsidiaries in Austria. The figures were nearly equal in 2000. It becomes clear how dynamic the active internationalization resulting from the opening up of Central and Eastern Europe has been, considering that the ratio of persons employed by Austrian direct investment enterprises abroad and persons employed by foreign direct investment enterprises in Austria had been 1:5 just after the transition to market economies began in 1990.

Austria's "direct investment gap" – its outward FDI comes to only four fifths of its inward FDI – seems to have considerably narrowed in 2002. While worldwide direct investments remained weak – according to UNCTAD's World Investment Report 2003, the increase is roughly 7% to 8% – Austrian investors expanded their foreign investments substantially. According to balance of payments statistics, new outward FDI came to EUR 5.9 billion. Consequently, the stock again seems to have risen by close to 20% to more than EUR 38 billion by the beginning of 2003 (table 1). Conversely, a number of large disinvestments in inward FDI resulted in an outflow of equity, which was only offset by the considerable volume of reinvested earnings. Thus, the total stock of inward FDI seems to have increased only slightly in 2002 (by EUR 0.5 billion to

EUR 39.5 billion), narrowing the above-mentioned "direct investment gap" to less than 4%.

Regional Breakdown

Austria has positioned itself as an important investor in the transition countries of Central and Eastern Europe. In 2001 the rise in FDI stocks again focused on this region (EUR 3.5 billion out of a total of EUR 5.7 billion). Among the Central and Eastern European countries (CEECs), Hungary and Russia recorded the largest increases in FDI, followed by the Czech and Slovak Republics. Poland, Bulgaria, Slovenia, Romania and Croatia also registered gains of more than EUR 100 million each. Outward FDI in EU countries rose by EUR 1.1 billion, with Germany and the United Kingdom in the lead. The OeNB survey showed that among non-European countries, the U.S.A. and Caribbean offshore financial centers registered the biggest increases in FDI inflows. At the beginning of 2002, EU countries hosted only 38% of Austria's outward FDI stocks, while the CEECs' share had widened to as much as 36% (table 2). The rest of Europe, especially Switzerland and Liechtenstein, accounted for another 7% of outward FDI. Among non-European target countries, the U.S.A. and Caribbean offshore financial centers registered the biggest shares in FDI inflows, with more than 7% each. Less than 5% of Austrian outward FDI went to all other non-European countries, including the emerging markets in Asia and Latin America.

A breakdown by the number of direct investments and employees reveals that the role of Central and Eastern Europe was even more pronounced. 49 out of 91 new direct investments were made in this region. Moreover, the number of employees in Austrian direct investment enterprises increased nearly exclusively in Central and Eastern Europe (+28,000 persons), while employment in all other countries declined by 6,000 persons in total, allowing for a summary of the role of Central and Eastern Europe for Austrian direct investment as follows: At the end of 2001, about half of all Austrian FDI went to Central and Eastern Europe. A little more than one third of the invested capital was allocated to this region, and 70% of the roughly 270,000 persons working for foreign affiliates were employed there.

As in the past, *inward* FDI focused on Germany and the EU countries. Between the end of 2000 and end-2001, investors from non-European countries raised their stocks by EUR 1.3 billion, and European investors from outside the EU expanded their FDI in Austria by as much as EUR 1.7 billion. Nevertheless, investors from EU countries continue to predominate (EUR 3.1 billion). At the end of 2001, investors from EU countries accounted for 73% of inward FDI, with German investors clearly holding more than half of these investments. The rest of Europe, especially Switzerland and Liechtenstein, was the source of another 13% of inward FDI. Individual investors from CEECs, for example from Slovenia, Hungary or Russia, were also active. However, at 1.3% or EUR 0.5 billion, their share in total volume was still marginal. The U.S.A, with a share of 6%, was the most important non-European investor.

Sectoral Breakdown

Investments in the financial sector played a key role in the expansion of Austrian direct investments abroad in 2001, accounting for one third of the increase in outward FDI stocks of EUR 5.7 billion (table 3). About a quarter of the new outward FDI is attributable to manufacturing (of which +EUR 670 million were in the sector refined petroleum products, chemicals, rubber and plastic products). Mining and quarrying, electricity and gas posted a similar increase (+EUR 630 million). Outward FDI stocks rose by EUR 820 million in the trade sector. The item "real estate and business activities" showed a gain of EUR 1 billion, which is primarily attributable to holding companies.

Unlike in preceding years, holding companies dominated inward FDI stocks in 2001. Their value expanded by EUR 4.6 billion, while total inward FDI rose by EUR 6.2 billion. Massive investments in holding companies increased their share of total inward FDI from 28% to 35%. Of the remaining sectors, only the development of the financial sector and the electrical and optical equipment sector in 2001 deserve to be highlighted. In both cases, the increase in FDI came to some EUR 650 million. All in all, the service sector's share of total inward FDI enlarged even more, rising from 71% in 2000 to 74% in 2001, while the share of manufacturing sank to only 25%.

Income

The total income of Austrian direct investment enterprises abroad in 2001 registered no change in a year-on-year comparison (table 4). This resulted in the return on equity dropping from 6.0% to 4.8% due to growing capital stocks. An analysis at the corporate level allows for changes in the return on equity to be analyzed in more detail. It becomes evident that this stagnation was caused by large isolated losses, whereas FDI enterprises in general saw an increase in return on equity. The median return on equity has been improving almost continuously since 1993 and reached 5.6% in 2001, which marks the highest level since 1989 (table 5). Once more, foreign direct investment in Central and Eastern Europe proved especially successful. In Hungary, the net income for the year doubled to EUR 420 million, while the other CEECs contributed EUR 700 million to the net income for the year. Losses were mainly posted in the EU countries and the U.S.A. Austria-based companies partly owned by foreign direct investors scored record profits. The net income for the year again rose by EUR 500 million to just under EUR 3.5 billion. This gain is in tune with the increase in invested capital, which is why the return on equity of 10.9% remained unchanged compared to 2000. When it comes to partly foreign-controlled Austrian direct investment enterprises, it seems that large enterprises were especially successful, since the median return on equity shrank only slightly from 6.8% to 6.4%.

This analysis at the corporate level also helps explain the difference in the return on equity for outward and inward FDI. The return on equity of a foreign direct investment enterprise depends to a large extent on how long the company has been in business. *Outward* direct investments established for over five years had a return on equity of 7.3%, significantly higher than that of newer affiliates, which recorded a median of only 2.8%. The same is true of *inward* direct investment: Again, the return on equity for longer-standing investments

(8.2%) considerably outpaced that of more recently established investments. The latter's return on equity reached a median of no more than 0.0%, which means that approximately half of the enterprises posted profits, while the rest posted losses. Consequently, the seemingly better return on equity of foreign direct investment companies in Austria compared to Austrian direct investment enterprises abroad can be traced to differences in age structure. 75% of inward but only 60% of outward FDI stocks were older than four years. Since young direct investment enterprises are typically associated with initial losses, the aging process[1]) of foreign direct investment companies alone is also expected to raise return on equity rates in the coming years.

The median equity ratio of both Austrian direct investment enterprises abroad and nonresident direct investment enterprises in Austria went up slightly in 2001. An equity ratio of 31.8% for outward FDI exceeds the long-term average; a ratio of 26.0% for inward FDI even marks the highest value in ten years.

In the manufacturing sector, improved profitability has gone hand in hand with higher productivity rates. Before the opening up of Central and Eastern Europe, sales per employee came to somewhat more than EUR 100,000 in both Austrian direct investment enterprises abroad and foreign direct investment enterprises in Austria. The massive inflow of investment into Central and Eastern European enterprises, which were usually outdated in terms of technology, initially drove down per capita sales in nominal terms to less than EUR 80,000, which must of course be seen in the light of the overall low wage level. However, since 1993 this figure has been rising continuously, and in 2001, at EUR 124,000, it exceeded the 2000 level by a noteworthy 11%. At the same time, sales per employee in foreign subsidiaries in Austria only increased by 2% in 2001; however, it already reached EUR 177,000. This means that productivity rates have been catching up, a phenomenon observed since 1995 which continued in the reporting year.

Employment

In 2001, Austrian direct investors employed 282,300 persons in Austria (annual average), roughly as many as in 1990 (260,800). This does not imply that direct investors did not lay off staff – after all, the number of investors increased from 679 to 935 in the past decade – but it refutes the hypothesis that jobs abroad are created largely at the expense of jobs at home. From 2000 to 2001, the number of investing enterprises climbed by 18 and their number of employees by 14,700. Of these enterprises, investors in manufacturing[2]) employed a staff of 149,000, investors in the service sector 133,300. Jobs in Austrian direct investment firms in Austria accounted for roughly 9.0% of total employment in Austria.

In 2001, a total of 270,100 persons were simultaneously employed by 2,319 Austrian direct investment enterprises abroad, which represents a 9% rise

1 *In 1994, less than 30% of outward direct investments were older than four years.*

2 *The classification is based on the Austrian Statistical Classification of Economic Activities (ÖNACE). The industries subsumed under manufacturing in this report comprise sections C through F. Back calculations have been made back to 1994.*

compared to 2000. The number of employees working at Austrian direct investors' affiliates abroad therefore increased more than sixfold between 1990 and 2001. The majority of these new jobs could not have been created in Austria, since they served to enter new markets, but the revenues they yield help secure jobs in Austria. If indirectly owned direct investment companies abroad were included, the figure would rise by another 75,300 or some 30%. Increasing the number of employees from 144,400 to 148,000 in 2001, the manufacturing sector did not expand as fast as the service sector (from 104,200 to 122,100). Nevertheless, the service sector accounted for only 45% of employees, but for 70% of total capital invested.

A comparison of Austrian direct investment companies' employment figures at home and abroad shows that in industrial enterprises, for every 100 persons employed in Austria, just as many were on the payroll of affiliates abroad (99). Services are close on the heels of manufacturing: For every 100 employees at the parent company, there are 92 employees at foreign affiliates.

The employment figures of Austrian direct investment enterprises abroad are less impressive if they are viewed in terms of the *overall dependent labor force in Austria* rather than just the number of persons working for the direct investor.[1]) For every 100 employees in Austria, there are 8.8 persons working for Austrian direct investment enterprises abroad, up from just one person prior to 1990. Still, in some sectors employment in affiliates abroad reached quite substantial proportions. The banking sector now posts the largest share of employment at Austrian direct investment enterprises abroad. With Austrian financial intermediaries intensively targeting the markets of Central and Eastern Europe, already more than 40 employees (four times as many as in 1995) were posted abroad for every 100 employees of financial intermediaries at home. The level of employment in Austrian direct investment enterprises abroad was nearly as high in the refined petroleum products, chemicals, rubber and plastic products sector, followed by the nonmetallic mineral products sector and the electrical and optical equipment sector, where 100 domestic employees contrasted with 38 and 37 persons, respectively, working for foreign affiliates (see chart).

The regional breakdown of employment in foreign affiliates differs considerably from the distribution of the capital invested. For some time, Central and Eastern Europe has been the region where most employees of Austrian direct investment companies work.[2]) At the end of 2001, 190,200 out of a total of 270,100 employees abroad were based in Central and Eastern Europe (more than 50,000 in Hungary and the Czech Republic each, 25,000 in the Slovak Republic and 20,000 in Poland). The EU countries accounted for one fifth of employees abroad; only less than 10% held jobs outside Europe.

In 2001, the number of Austrians employed at nonresident investors' affiliates dropped by 2% or 5,700 persons. According to the survey, a total of 245,600 persons (weighted by the investor's nominal capital share) were employed by foreign-controlled enterprises. If nonresident investors' indirectly owned direct investment enterprises are also taken into account, this figure rises

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

2 *Compared to a capital share of 36%.*

by another 85,100 or 34%. It was primarily subsidiaries of German investors, who employ a total of 133,800 Austrians, that posted increases. Decreases in employment figures were attributed mainly to North American and Swiss investors. Thus, the long-term trend towards a concentration on investors from EU countries – especially from Germany – has continued; their share rose from 45% to 55% during the past decade.

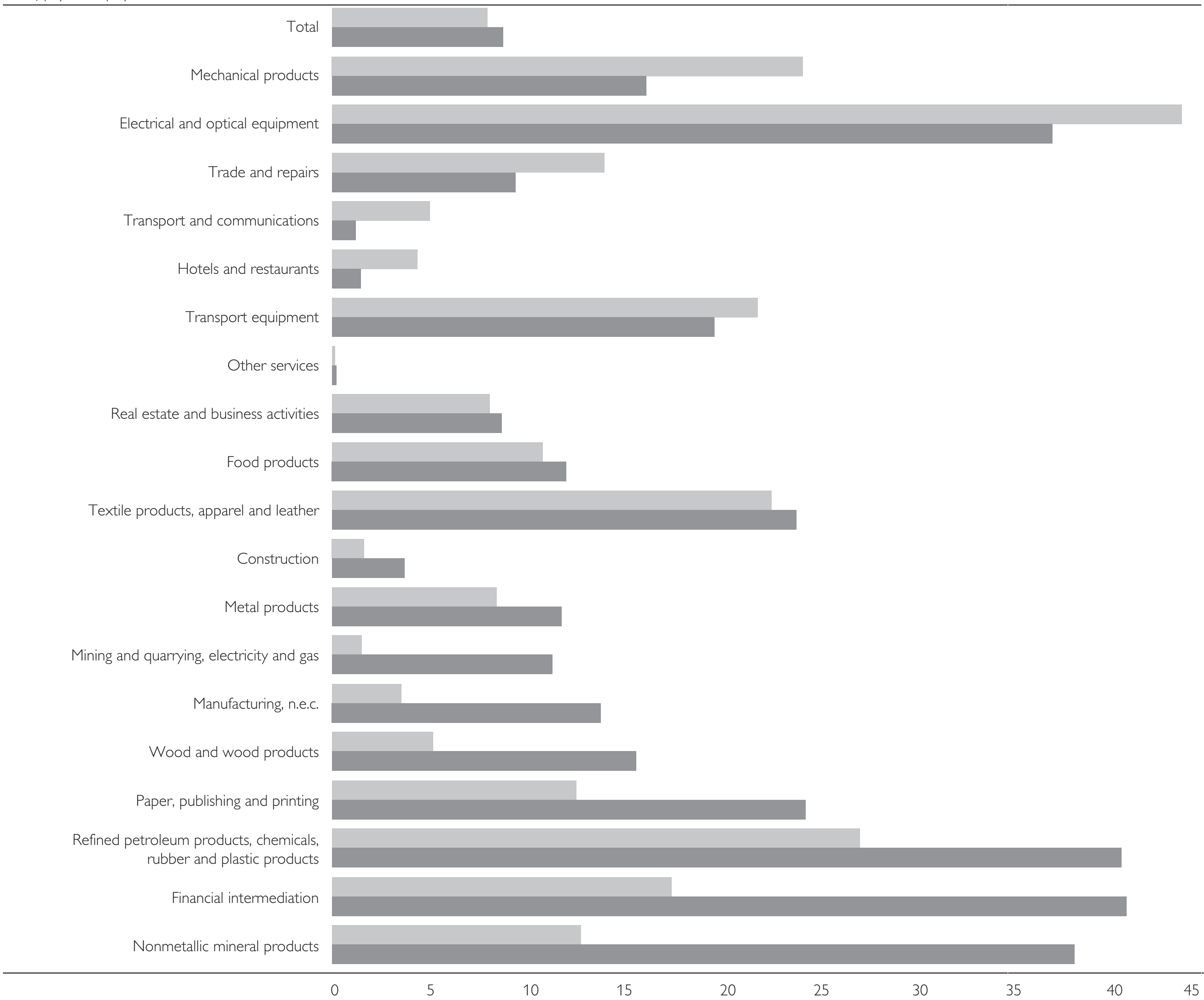
Expressed as a percentage of the total payroll employment in Austria, this means that some 7.8% of all jobs were held by people working in nonresident investors' companies in Austria. In manufacturing their share comes to 12.8%, in the service sector to 6.0%. The sectors with the largest shares of employees working for nonresident direct investors are electrical and optical equipment (44%) and chemicals (27%). Sectors hardly influenced by inward FDI in terms of employment are construction as well as mining and energy (less than 2%). Among services, the share ranges from 17% in financial intermediation to 14.0% in trade and 0.2% in other services.

As is evident from a comparison of the employment figures in Austrian parent companies' affiliates abroad with the total number of dependently employed persons in Austria working for foreign enterprises[1]) (see chart), there are sectors with considerable *outward* direct investment activities (nonmetallic mineral products and financial intermediation) and sectors with substantial *inward* direct investment activities (mechanical engineering, electrical and optical equipment). In the textiles and chemicals industries as well as in food products, both inward and outward FDI stocks are rather balanced but *substantial,* while it is hardly surprising that other services as well as hotels and restaurants are hardly the target of foreign direct investment, and employment in these sectors remains unaffected.

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

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

% of payroll employment in Austria



Employed by Austrian-controlled direct investment enterprises abroad
Employed by foreign-controlled direct investment enterprises in Austria

Source: OeNB.

Annex

Table 1

Stocks and Flows of Austrian Inward and Outward Direct Investment

Capital stocks and flows	Outward direct investment		Inward direct investment	
	EUR million			
Direct investment stocks at the end of 2000				
Equity capital	23,871		31,158	
Other capital (intragroup lending)	2,804		1,546	
		26,675		32,704
Transactions according to the 2001 balance of payments				
New equity capital	6,000		5,077	
Disinvestment	– 2,730		– 799	
Excluding privately owned real estate	– 130		– 256	
Equity capital		3,140		4,042
Reinvested earnings		151		1,362
Net lending		86		955
Valuation differences and valuation changes[1])		2,299		– 111
Direct investment stocks at the end of 2001				
Equity capital	29,192		34,984	
Other capital (intragroup lending)	3,158		3,968	
		32,351		38,952
Transactions according to the 2002 balance of payments				
New equity capital	5,974		2,435	
Disinvestment	– 1,296		– 2,851	
Excluding privately owned real estate	– 28		– 232	
Equity capital		4,650		– 648
Reinvested earnings (estimate)		983		1,578
Net lending		227		– 217
Valuation differences and valuation changes[1])		– 11		35
Projected direct investment stocks at the end of 2002				
Equity capital	34,814		35,949	
Other capital (intragroup lending)	3,385		3,751	
		38,200		39,700

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

Table 2.1

Outward Direct Investment Stocks in Austria at Year-End

	1990	1995	1998	1999	2000	2001	Forecast 2002
	EUR million						
Nominal capital	2,061	5,191	7,860	9,261	10,744	14,334	×
Other equity capital	1,027	1,829	5,375	8,076	13,127	14,858	×
Aggregate equity capital	3,089	7,021	13,235	17,337	23,871	29,192	34,800
Intragroup lending	595	1,654	1,678	1,702	2,804	3,158	3,400
Total capital	3,683	8,674	14,912	19,039	26,674	32,351	38,200
Number of direct investments	*1,189*	*1,796*	*2,078*	*2,172*	*2,302*	*2,393*	*x*
	EUR million						*2001 in %*
Total capital broken down by target region							
EU-15	1,943	4,009	6,808	8,463	11,257	12,360	38.2
thereof: Euro area	*1,610*	*3,429*	*4,882*	*5,553*	*8,398*	*9,483*	*29.3*
Germany	*900*	*1,686*	*2,333*	*2,735*	*5,070*	*5,683*	*17.6*
Netherlands	*297*	*713*	*748*	*934*	*1,693*	*1,997*	*6.2*
Italy	*139*	*174*	*415*	*480*	*550*	*607*	*1.9*
France	*74*	*199*	*502*	*533*	*491*	*529*	*1.6*
United Kingdom	*313*	*427*	*1,426*	*1,667*	*1,648*	*2,018*	*6.2*
Central and Eastern Europe	405	2,425	4,333	5,483	8,026	11,548	35.7
thereof: Hungary	*292*	*1,168*	*1,447*	*1,673*	*1,863*	*2,724*	*8.4*
Czech Republic	*10*	*693*	*1,112*	*1,291*	*2,108*	*2,554*	*7.9*
Slovak Republic	*1*	*152*	*455*	*573*	*1,272*	*1,769*	*5.5*
Other European countries	770	1,076	1,269	1,486	2,340	2,273	7.0
thereof: Switzerland, Liechtenstein	*752*	*882*	*1,042*	*1,084*	*1,214*	*1,566*	*4.8*
America	446	1,002	2,316	2,835	3,985	5,067	15.7
thereof: U.S.A.	*236*	*446*	*1,161*	*1,454*	*2,160*	*2,359*	*7.3*
Caribbean countries[2])	*60*	*155*	*636*	*875*	*1,180*	*2,316*	*7.2*
Asia, Africa, Pacific countries	119	163	185	772	1,066	1,104	3.4
Total	3,683	8,674	14,912	19,039	26,674	32,351	100.0
Market value							
EUR million	–	6,664	13,276	17,296	23,648	27,893	×
in % of total equity	–	95	100	100	99	96	×

Source: OeNB.

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

Table 2.2

Inward Direct Investment Stocks in Austria at Year-End

	1990	1995	1998	1999	2000	2001	Forecast 2002
	in Mio EUR						
Nominal capital	4,013	5,198	7,029	7,160	11,088	9,751	×
Other equity capital	4,011	7,918	12,586	15,330	20,070	25,233	×
Aggregate equity capital	8,024	13,116	19,616	22,490	31,158	34,984	35,900
Intragroup lending	489	1,342	501	874	1,546	3,969	3,800
Total capital	8,513	14,458	20,117	23,364	32,704	38,952	39,700
Number of direct investments	*3,268*	*3,094*	*3,266*	*3,230*	*3,288*	*3,327*	*x*
	in Mio EUR						*2001 in %*
Total capital broken down by region of origin							
EU-15	5,349	9,722	14,572	16,673	25,389	28,494	73.2
thereof: Euro area	*4,909*	*8,764*	*13,154*	*14,345*	*22,774*	*25,211*	*64.7*
Germany	*3,255*	*6,063*	*8,318*	*9,054*	*15,295*	*16,941*	*43.5*
Netherlands	*896*	*1,395*	*1,634*	*1,671*	*2,053*	*3,168*	*8.1*
Italy	*377*	*427*	*1,563*	*1,572*	*1,692*	*1,490*	*3.8*
France	*255*	*486*	*1,043*	*1,118*	*1,399*	*1,743*	*4.5*
United Kingdom	*259*	*608*	*678*	*1,443*	*1,881*	*2,380*	*6.1*
Sweden	*156*	*255*	*507*	*702*	*636*	*813*	*2.1*
Central and Eastern Europe	111	207	350	89	362	506	1.3
Other European countries	1,597	2,205	2,478	3,408	3,337	5,055	13.0
thereof: Switzerland, Liechtenstein	*1,550*	*2,152*	*2,323*	*3,229*	*3,137*	*3,011*	*7.7*
America	989	1,206	1,668	1,870	2,192	2,497	6.4
thereof: U.S.A.	*902*	*1,084*	*1,587*	*1,731*	*2,024*	*2,246*	*5.8*
Asien	455	808	964	1.159	1.402	1.361	3.5
thereof: Japan	*301*	*437*	*564*	*726*	*841*	*769*	*2.0*
Gulf countries[1])	*146*	*358*	*372*	*400*	*460*	*490*	*1.3*
Africa, Pacific countries	13	308	84	164	23	1,040	2.7
Total	8,513	14,458	20,117	23,364	32,704	38,952	100.0
Market value							
in EUR million	–	18,408	24,944	30,536	36,904	46,094	×
in % of total equity	–	140	127	136	118	132	×

Source: OeNB.

[1]) Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen.

Apparent arithmetical discrepancies in the tables are due to rounding.

Table 3

Outward and Inward Direct Investment by Economic Activity

	Outward direct investment				Inward direct investment			
	1995	1999	2000	2001	1995	1999	2000	2001
	EUR million							
Mining and quarrying, electricity and gas	192	392	333	969	156	289	316	367
Manufacturing and construction	2,772	5,239	6,789	8,365	5,480	7,175	9,016	9,889
Food, beverages and tobacco	236	381	486	437	522	396	668	686
Textile products, apparel and leather	71	102	79	84	192	232	252	262
Wood and wood products	134	243	243	207	43	22	50	53
Paper, publishing and printing	197	403	527	723	511	803	828	890
Refined petroleum products, chemicals, rubber and plastic products	574	803	1,212	1,883	1,771	2,379	2,385	2,376
Nonmetallic mineral products	369	1,086	1,150	1,315	300	404	473	546
Metal products	403	738	1,314	1,396	208	493	572	610
Mechanical products	217	299	490	542	597	673	917	900
Electrical and optical equipment	262	630	692	880	630	1,232	2,293	2,944
Transport equipment	54	87	116	237	482	387	412	497
Manufacturing, n.e.c.	31	68	73	77	97	74	86	78
Construction	224	398	407	584	127	81	80	47
Services	5,710	13,409	19,553	23,017	8,821	15,899	23,373	28,697
Trade and repairs	1,053	2,564	3,209	4,031	3,311	5,290	6,331	6,316
Hotels and restaurants	108	118	231	98	102	202	259	279
Transport and communications	35	64	92	168	273	1,444	1,775	1,781
Financial intermediation	1,690	4,146	5,582	7,403	1,925	2,234	5,856	6,520
Real estate and business activities	2,746	6,396	10,158	11,174	3,196	6,658	9,092	13,690
Other services	78	121	280	143	13	72	60	111
Total capital[1])	8,674	19,039	26,674	32,351	14,458	23,364	32,704	38,952

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

Table 4.1

Income from Outward Direct Investment by Region

Target region	Austrian share of											
	Net income for the year				Net balance carried forward				Profit or loss for the year			
	1995	1999	2000	2001	1995	1999	2000	2001	1995	1999	2000	2001
	EUR million											
EU-15 (excl. Germany)	18	169	83	–279	–72	249	264	–345	–54	418	347	–624
Germany	10	165	321	209	–347	–411	–341	–161	–337	–245	–20	48
Switzerland and Liechtenstein	58	73	56	166	208	275	315	360	266	348	371	527
Central and Eastern Europe (excl. Hungary)	–29	216	458	700	–109	–195	–297	147	–137	21	162	847
Hungary	3	225	196	422	–106	82	58	250	–103	307	254	673
U.S.A., Canada	–4	31	–49	–44	–134	144	177	205	–138	174	128	160
Other countries	39	245	281	168	14	178	304	248	53	424	585	416
Total	95	1,125	1,345	1,341	–545	322	480	705	–450	1,447	1,825	2,046

Source: OeNB.

Table 4.2

Income from Inward Direct Investment by Region

Region of origin	Austrian share of											
	Net income for the year				Net balance carried forward				Profit or loss for the year			
	1995	1999	2000	2001	1995	1999	2000	2001	1995	1999	2000	2001
	EUR million											
EU-15 (excl. Germany)	409	1,041	1,297	1,380	–12	17	161	508	397	1,058	1,458	1,888
Germany	656	835	1,065	1,411	–208	47	–440	458	864	882	625	1,869
Switzerland and Liechtenstein	176	251	93	294	–97	–44	–109	61	79	208	–17	355
Central and Eastern Europe (excl. Hungary)	–0	0	–1	–2	–16	2	–7	–11	–17	3	–8	–14
Hungary	2	–2	–17	3	–4	–11	–18	–17	–2	–13	–35	–14
U.S.A., Canada	324	336	599	344	19	188	290	546	344	524	889	889
Other countries	38	86	8	22	–107	–73	833	–40	–69	13	–32	855
Total	1,604	2,548	3,044	3,451	–8	126	–163	2,377	1,596	2,674	2,881	5,828

Source: OeNB.

Table 5.1

Performance Indicators of Outward Direct Investment

	1990	1992	1994	1996	1998	2000	2001	2001 Age of the direct investment enterprise < 5 years	2001 Age of the direct investment enterprise > = 5 years
	%								
Return on equity									
Highest decile	55.7	33.9	35.7	52.5	53.1	54.1	54.0	*55.4*	*53.9*
Highest quartile	16.7	10.0	13.5	18.2	20.0	21.6	22.8	*20.4*	*24.6*
Median	1.0	0.0	0.7	3.1	4.0	5.0	5.6	*2.8*	*7.3*
Lowest quartile	– 3.4	– 9.8	– 10.2	– 5.1	– 6.0	– 4.3	– 3.7	*– 9.0*	*– 0.1*
Lowest decile	– 40.8	– 47.1	– 52.2	– 34.6	– 43.8	– 36.3	– 36.0	*–56.0*	*– 27.9*
Equity ratio									
Highest decile	97.2	91.5	95.9	93.7	88.2	89.7	89.6	*92.3*	*86.1*
Highest quartile	66.7	64.8	68.4	62.4	59.8	59.7	59.9	*61.5*	*58.5*
Median	28.7	31.6	32.1	28.8	29.6	30.9	31.8	*30.7*	*33.1*
Lowest quartile	11.1	12.6	12.0	11.4	12.5	12.1	12.8	*11.4*	*13.9*
Lowest decile	1.5	2.8	2.6	1.3	2.7	2.5	2.4	*1.6*	*2.9*
Number of enterprises	*1,127*	*1,290*	*1,617*	*1,810*	*2,006*	*2,227*	*2,319*	*935*	*1,384*
Manufacturing[1])									
Return on sales									
Highest decile	11.6	8.8	10.9	12.0	14.7	13.9	13.7	*12.6*	*13.9*
Highest quartile	3.5	2.8	4.9	5.6	6.1	7.0	7.3	*5.8*	*7.8*
Median	0.6	0.0	0.6	1.3	1.3	1.9	1.9	*0.7*	*2.3*
Lowest quartile	– 3.5	– 7.3	– 4.8	– 1.8	– 2.9	– 1.3	– 1.6	*– 4.2*	*– 0.5*
Lowest decile	– 27.2	– 42.7	– 27.0	– 20.7	– 18.3	– 17.1	– 13.0	*–19.8*	*– 9.9*
	EUR 1.000								
Productivity									
Highest decile	507	414	340	333	351	412	496	*519*	*493*
Highest quartile	194	182	172	182	189	221	245	*225*	*266*
Median	83	78	78	87	90	112	124	*120*	*130*
Lowest quartile	18	31	32	35	35	50	59	*61*	*57*
Lowest decile	0	6	12	12	13	19	20	*23*	*18*
Number of enterprises	*374*	*464*	*581*	*768*	*867*	*910*	*938*	*374*	*564*

Source: OeNB.

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

Table 5.2

Performance Indicators of Inward Direct Investment

	1990	1992	1994	1996	1998	2000	2001	2001 Age of the direct investment enterprise < 5 years	2001 Age of the direct investment enterprise > = 5 years
	%								
Return on equity									
Highest decile	67.0	47.5	79.4	65.8	78.1	77.9	74.2	*61.0*	*77.0*
Highest quartile	26.5	19.6	26.7	22.6	28.0	30.6	28.2	*20.0*	*31.1*
Median	6.3	3.8	5.6	4.2	5.9	6.8	6.4	*0.0*	*8.2*
Lowest quartile	– 0.7	– 6.7	– 4.0	– 5.6	– 3.2	– 4.9	– 4.7	*– 34.7*	*0.0*
Lowest decile	– 39.3	– 50.0	– 49.9	– 50.7	– 50.7	– 46.8	– 50.9	*–128.0*	*– 32.7*
Equity ratio									
Highest decile	69.1	74.1	72.2	77.6	82.8	81.9	86.5	*99.9*	*80.8*
Highest quartile	39.3	44.2	44.4	47.1	48.0	49.4	53.0	*62.1*	*50.7*
Median	20.7	23.9	21.5	23.4	23.5	25.2	26.0	*24.5*	*26.4*
Lowest quartile	8.1	8.8	7.6	7.5	7.4	8.3	9.1	*7.0*	*9.6*
Lowest decile	0.0	– 3.6	– 6.3	– 7.5	– 9.1	– 4.1	– 2.3	*– 2.5*	*– 2.3*
Number of enterprises	*2,214*	*2,205*	*2,205*	*2,362*	*2,525*	*2,588*	*2,607*	*579*	*2,028*
Manufacturing[1])									
Return on sales									
Highest decile	8.8	8.6	12.2	12.5	13.4	14.8	13.9	*18.8*	*13.6*
Highest quartile	4.6	4.6	6.3	5.6	6.9	7.4	6.7	*4.9*	*7.2*
Median	1.6	1.2	2.1	1.3	2.4	2.6	2.5	*1.2*	*2.9*
Lowest quartile	0.0	– 1.5	– 0.9	– 1.2	0.0	0.0	– 0.5	*– 6.7*	*0.0*
Lowest decile	– 7.4	– 10.5	– 7.3	– 11.3	– 9.4	– 7.5	– 8.9	*– 36.2*	*– 6.3*
	EUR 1.000								
Productivity									
Highest decile	291	314	344	362	421	481	471	*385*	*514*
Highest quartile	167	176	213	217	245	285	276	*225*	*281*
Median	108	117	133	145	164	173	177	*157*	*185*
Lowest quartile	73	81	88	98	110	119	122	*100*	*126*
Lowest decile	48	55	65	66	78	81	77	*53*	*83*
Number of enterprises	*576*	*563*	*549*	*682*	*682*	*686*	*680*	*133*	*547*

Source: OeNB.

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

Table 6

Direct Investment and Employment

	1990	1995	1996	1997	1998	1999	2000	2001
	1,000 persons							
Outward direct investment								
Outward direct investment by Austrian direct investors	260.8	346.6	284.0	269.1	260.1	258.3	267.6	282.3
Manufacturing	×	173.2	177.2	162.7	162.0	156.7	150.0	149.0
Services	×	173.4	106.8	106.4	98.0	101.6	117.6	133.3
	%							
Share of total payroll employment	8.9	11.3	9.3	8.8	8.5	8.3	8.5	9.0
Manufacturing	×	18.3	19.2	17.6	17.5	17.0	16.4	16.5
Services	×	8.7	5.3	5.3	4.8	4.9	5.5	6.2
	1,000 persons							
Employed[1]) abroad by Austrian direct investors	43.6	125.0	135.4	161.4	187.7	199.2	248.6	270.1
Manufacturing	×	83.6	88.4	100.6	124.0	128.9	144.4	148.0
Services	×	41.4	47.1	60.8	63.7	70.2	104.2	122.1
Ratio of foreign to domestic[2]) employment	*17*	*36*	*48*	*60*	*72*	*77*	*93*	*96*
Manufacturing	×	*48*	*50*	*62*	*76*	*82*	*96*	*99*
Services	×	*24*	*44*	*57*	*65*	*69*	*89*	*92*
Employment[1]) by target country/region	43.6	125.0	135.4	161.4	187.7	199.2	248.6	270.1
EU-12 (excl. Germany)	6.0	11.7	12.8	12.5	12.6	13.9	17.4	20.2
Germany	16.1	21.1	23.8	23.7	32.9	33.7	34.9	25.0
Other EU countries	2.0	2.8	2.5	3.2	5.0	2.7	5.3	7.9
Switzerland and Liechtenstein	2.3	2.4	2.5	2.5	2.5	2.6	3.1	3.9
Hungary	7.5	44.2	46.0	51.7	52.5	49.3	48.5	54.2
Czech Republic	0.8	22.0	25.2	27.7	31.1	32.9	49.8	50.6
Other Central and Eastern European countries	2.5	11.9	14.2	26.8	37.6	45.9	64.1	85.4
U.S.A. and Canada	3.9	3.2	2.8	6.3	6.6	9.0	13.5	11.1
Other countries	2.7	5.7	5.7	6.9	6.8	9.1	12.1	11.9
Inward direct investment								
Employed[1]) in Austria by nonresident direct investors	235.8	207.7	211.7	211.5	228.4	228.4	251.2	245.6
Manufacturing	×	116.3	118.9	117.2	117.1	113.1	121.1	115.7
Services	×	91.4	92.9	94.3	111.3	115.4	130.1	129.8
	%							
Share of total employment	8.1	6.8	6.9	6.9	7.4	7.4	8.0	7.8
Manufacturing	×	12.3	12.9	12.7	12.6	12.3	13.3	12.8
Services	×	4.6	4.6	4.7	5.4	5.5	6.1	6.0

Source: OeNB, Statistics Austria.

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

[2]) For every 100 employees in Austria, there are x employees at foreign affiliates.

Austria's Portfolio Investment Position in the First Half of 2003

Isabel Winkler

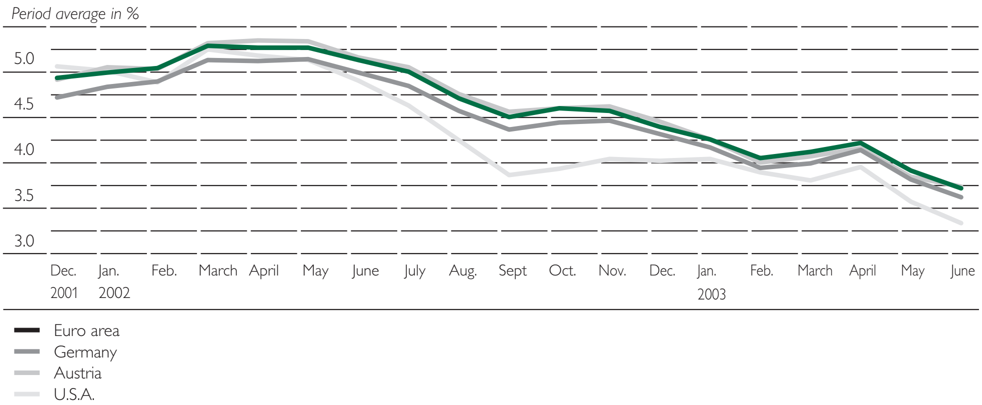
– In the first half of 2003, Austrian investors mainly purchased foreign debt securities denominated in euro.
– Foreign holdings of Austrian debt securities were dominated by large new purchases as well as losses in the value of securities.

1 Domestic Holdings of Foreign Debt Securities (Portfolio Assets)

At end-June 2003, Austrian holdings of foreign debt securities came to EUR 125 billion, which almost exclusively consisted of bonds and notes (approximately EUR 119 billion). In other words, domestic investors expanded their holdings of foreign debt securities by about EUR 9 billion compared with end-2002. This increase is mainly attributable to new purchases, as positive price effects and adverse exchange rate effects more or less offset each other. In the first six months of 2003 (except in April), government bond yields declined both in the U.S.A. and in the euro area. For Austrian investors, positive price effects resulted above all from securities issued in the euro area. As the U.S. dollar continued to depreciate against the euro in the first half of 2003, it was mainly U.S. dollar-denominated issues that recorded adverse exchange rate effects.

Chart 1

Long-Term Government Bond Yields[1])



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

1.1 Breakdown by Investors

As in the past, institutional investors[1]) were the leading players in portofolio investment in the first half of 2003. Stocks of foreign debt securities augmented by more than EUR 5 billion. The Austrian banking system (OeNB and banks) expanded its corresponding portfolio by about EUR 2 billion, domestic public entities by some EUR 1.5 billion.

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

1.2 Regional Breakdown

At the end of June 2003, 67% of foreign debt securities held by Austrian investors had been issued by euro area residents. Securities issued in the euro area made up the lion's share of new purchases during the first six months of 2003. In this period, Austrian investors primarily purchased debt securities issued in France, the Netherlands, Germany and Ireland, while selling bonds and notes issued in Japan. Apart from securities issued in the euro area, Austrian investors at mid-year mainly held debt securities issued in the U.S.A. (8%) and the United Kingdom (4%) as well as bonds and notes issued by residents of the accession countries[1]) to the tune of EUR 3.7 billion.

At the end of June 2003, money market instruments issued by euro area residents accounted for two thirds of foreign money market instruments in Austrian investors' portfolios and also for the bulk of new purchases by domestic investors. At the same time, they sold or redeemed money market instruments from Denmark, the United Kingdom and Sweden.

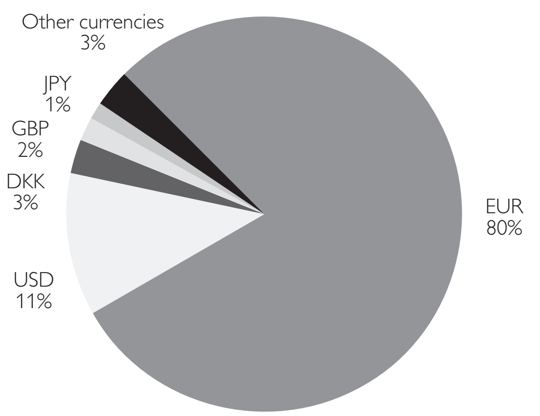
Both bonds and notes and short-term debt securities issued in Germany proved to be most popular with Austrian investors, accounting each for 30% of investors' holdings.

1.3 Currency Breakdown

At end-2002, euro-denominated debt securities accounted for 77% of debt securities held by Austrian investors. Thanks to new purchases, they increased these stocks to some EUR 95 billion (or 80%) in the first half of 2003. Debt securities denominated in U.S. dollars, the second most important investment currency, amounted to only one tenth of Austrian investors' holdings.

Chart 2

Domestic Holdings of Foreign Debt Securities Broken Down by Nominal Currrency



Source: OeNB.

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

In the first six months of 2003, the currency played a key role in Austrians' investment decisions. This is illustrated by the following cross classification analysis of the regional and currency allocation of portfolio assets:

- The majority of Austrian investors purchased euro-denominated debt securities issued by euro area residents; in addition, positive price effects drove up portfolio holdings.
- Austrian investors also acquired euro-denominated debt securities issued by non-euro area residents, which also recorded positive price effects.
- They sold, to a moderate extent, debt securities denominated in other currencies issued by euro area residents, which, however, registered adverse exchange rate effects.
- They purchased issues denominated in other currencies issued by non-euro area residents, but these purchases were affected by stronger adverse exchange rate effects.

2 Foreign Holdings of Austrian Debt Securities (Portfolio Liabilities)

At year-end 2002, foreign investors held Austrian fixed-income securities worth EUR 195.5 billion, 97% (EUR 190 billion) of which were debt securities. In the first half of 2003, they purchased debt securities for another EUR 17 billion, which is almost double the amount of foreign debt securities acquired by Austrian investors. Like portfolio assets, portfolio liabilities also recorded positive price effects. On account of comparatively stronger adverse exchange rate effects, however, the increase in foreign holdings of debt securities did not equal new purchases. Thus, foreign holdings of Austrian debt securities came to EUR 210 billion at the end of June 2003.

2.1 Breakdown by Issuers

Between January and June 2003, foreign investors primarily opted for Austrian public sector issues and only to a limited extent for domestic bank issues. Securities issued by the public sector and the banking sector posted positive price effects in the first half of 2003. Since the foreign currency share of securities issued by Austrian banks is higher than that of public sector issues, the negative exchange rate effect was more pronounced in bank issues. At mid-year 2003, foreign investors held Austrian public sector issues to the tune of EUR 113 billion and domestic bank issues worth EUR 77 billion. In the latter case, valuation effects partly offset the quantity effect.

In the first half of 2003, the Vienna stock exchange saw several IPOs[1]) of corporate bonds. At the end of June 2003, the outstanding volume of these newly issued corporate bonds came to EUR 735 million, only 12% of which were held by foreign investors.

2.2 Currency Breakdown

At year-end 2002, nonresidents had held Austrian debt securities denominated in euro to the tune of EUR 132 billion. As a result of new purchases and positive

1 *The following companies issued new bonds: Bau Holding Strabag AG, Energie Steiermark, FirstInEx Internet Services AG, Jenbacher AG, ÖBB and OMV.*

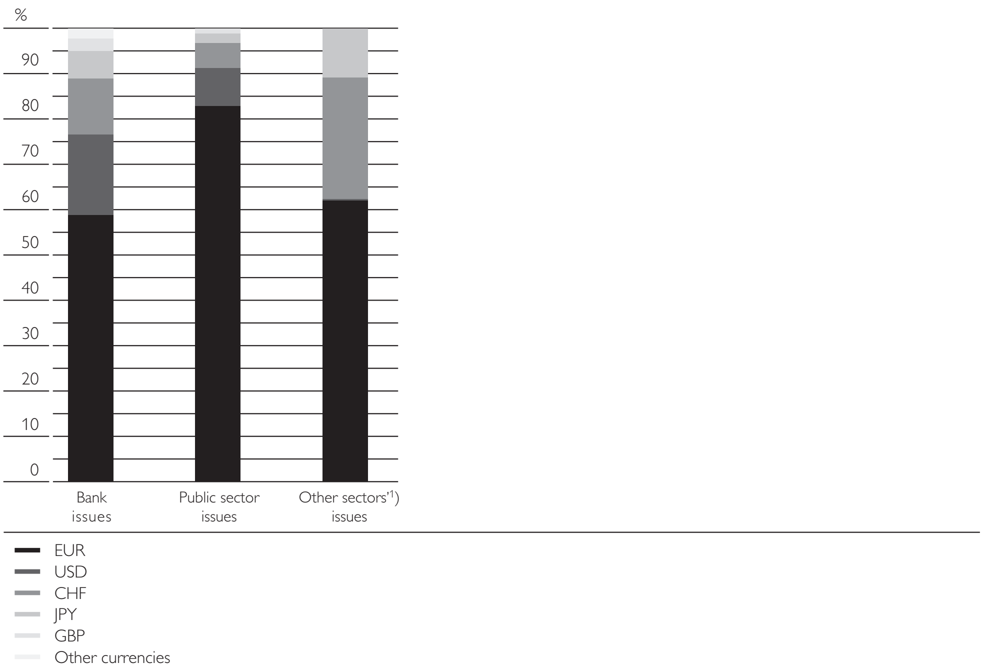
price effects in the first half of 2003, foreign investors raised their holdings to EUR 146 billion. As regards debt securities denominated in other currencies, Austria's external liabilities declined. While foreign investors purchased debt securities, the rise in the euro's exchange rate led to negative valuation effects on the stock.

An analysis of the breakdown by currency combined with the breakdown by issuers of holdings of Austrian debt securities at the end of June 2003 provided the following picture:

– Foreign investors held public sector issues totaling EUR 111 billion, 83% of which were denominated in euro. An additional 8% of public sector issues were denominated in U.S. dollars and 6% in Swiss francs.
– At the same time, foreign investors owned long-term bank issues to the amount of about EUR 73 billion, 59% of which were denominated in euro. However, 18% were denominated in U.S. dollars and 12% in Swiss francs.
– Foreign investors held debt securities issued by other sectors, mainly by institutional investors and enterprises, to the tune of approximately EUR 19 billion. 62% of this amount were denominated in euro and 27% in Swiss francs.

Chart 3

Foreign Holdings of Austrian Debt Securities Broken Down by Sector of Issuer and by Currency at End-June 2003



Source: OeNB.

[1]) Other sectors comprises other financial institutions, insurance corporations, pension funds and enterprises.

Cross-Border Holdings (and Transaction-Based Changes) of Debt Securities Broken Down by Currency

	End-of-period data						Transactions					
	2002[1]				2003[2]		2002[1]				2003[2]	
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2
	EUR billion											
Domestic holdings (and transaction-based changes) of foreign debt securities	102.3	105.0	109.4	116.3	122.7	125.2	11.0	5.0	2.5	3.1	7.0	1.8
Foreign holdings (and transaction-based changes) of domestic debt securities	189.5	192.1	197.6	195.5	201.4	209.5	11.8	4.1	1.2	0.9	7.1	9.5
Debt securities issued in euro												
by domestic issuers held by foreign investors total	123.3	128.5	133.5	134.1	140.4	149.4	6.9	3.2	2.2	1.7	6.1	8.1
thereof bonds and notes	*121.7*	*127.1*	*131.7*	*132.1*	*137.5*	*146.4*	*6.3*	*3.4*	*1.7*	*1.5*	*5.3*	*7.9*
by euro area residents held by domestic investors total	59.3	63.8	67.5	71.0	75.3	79.4	7.9	4.3	2.6	2.3	4.4	2.8
thereof bonds and notes	*56.9*	*60.9*	*64.7*	*68.1*	*71.8*	*75.5*	*5.8*	*3.8*	*2.6*	*2.2*	*3.8*	*2.6*
by non-euro area residents held by domestic investors total	16.8	16.5	16.8	18.6	20.5	20.4	1.7	−0.1	0.3	1.3	1.7	−0.3
thereof bonds and notes	*15.7*	*15.4*	*15.7*	*16.6*	*18.0*	*18.8*	*1.0*	*−0.1*	*0.2*	*0.4*	*1.2*	*0.7*
Debt securities issued in other currencies												
by domestic issuers held by foreign investors total	66.2	63.6	64.1	61.4	61.0	60.1	4.9	0.9	−0.9	−0.7	1.0	1.4
thereof bonds and notes	*59.0*	*57.2*	*58.8*	*57.7*	*55.5*	*56.0*	*4.7*	*0.8*	*0.4*	*0.4*	*−0.9*	*2.8*
by euro area residents held by domestic investors total	4.6	4.3	4.3	4.2	4.7	4.4	0.0	0.1	−0.2	−0.1	0.5	−0.2
thereof bonds and notes	*4.4*	*4.2*	*4.1*	*4.1*	*4.2*	*4.0*	*−0.1*	*0.1*	*−0.2*	*0.0*	*0.2*	*−0.2*
by non-euro area residents held by domestic investors total	21.6	20.4	20.7	22.6	22.2	21.0	1.4	0.8	−0.2	−0.4	0.4	−0.5
thereof bonds and notes	*21.3*	*19.9*	*20.3*	*21.7*	*21.3*	*20.4*	*1.4*	*0.6*	*−0.2*	*−0.4*	*0.4*	*−0.2*

Source: OeNB.
[1]) Revised data.
[2]) Provisional data.

Financial Investment and Financing of Households and Nonfinancial Corporations in Austria in the First Half of 2003 – Analysis of Financial Accounts Data[1])

Michael Andreasch

1 The Role of Households and Enterprises in Financing Investment

The financial accounts statistics depict the financial assets and liabilities of Austria's economic sectors, showing not only the stocks at year-end but also the transactions and valuation effects over the year.

In Austria households are net creditors, holding more assets than liabilities, since they use only part of their disposable income for consumption and investment. Households save the remaining part of disposable income and chiefly invest in financial assets. Households' net financial wealth is an essential source of funds made available to the net debtors general government and enterprises for financing purposes.

2 Financial Investment and Financing of Households

In 2003 households' financial activities were influenced by the following developments:

- The most recent forecast[2]) of the Austrian Institute of Economic Research (WIFO) sees households' disposable income edging up 1.6% and consumption 1.3%, both in real terms.
- The saving rate is expected to climb from 7.4% in 2002 to just below 7.8% in 2003.[3]) By comparison, in the weak economic environment of the years 2001 and 2002 households' financial assets expanded less rapidly, as households kept up their consumption levels by reducing saving rates.
- Share prices have stabilized since spring 2003.
- Real and nominal interest rates are at a record low.

2.1 Financial Investment

Expressed in figures, household investment thus performed as follows:

- In the first half of 2003 financial investment totaled EUR 6.5 billion. By comparison, in the same period of 2002, Austrians increased their financial assets by some EUR 5.6 billion, while EUR 12.5 billion of financial investment were recorded for the full year of 2002.
- The increase of the saving rate in 2003 indicates that financial investment is also likely to go up, reaching a total of between EUR 13 billion and EUR 14 billion.

The current economic conditions as well as demographic and social developments have enhanced the role of personal financial provision, in particular for retirement, which, in turn, has had a positive impact on overall saving. In turn, the structure of investment has changed significantly over the past few years. Also, the (favorable) tax treatment of saving instruments plays a rather important part in investors' choice of savings vehicle.

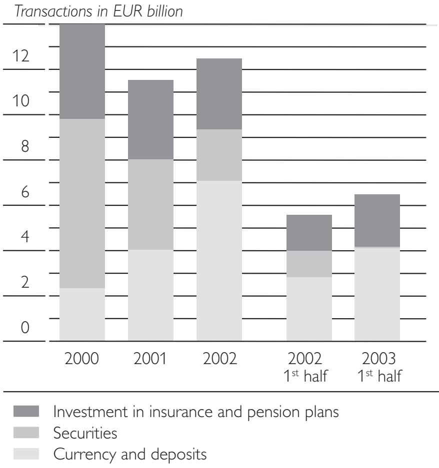
1 *In the empirical analysis, it is currently the convention in EU Member States to classify nonprofit institutions serving households (such as trade unions, political parties, churches and private foundations) among households. This should be born in mind when assessing data on the assets of households. The cutoff date for financial accounts data was September 30, 2003.*

2 *WIFO forecast of September 2003.*

3 *WIFO forecast of September 2003.*

Chart 1

Financial Assets of Households



Source: OeNB.

In particular, the following shifts in the investment structure were observed over time:

– Households have stepped up investment in short-term financial instruments, especially in bank deposits. All in all, the increase in currency and deposits in the first half of 2003 came to some EUR 4 billion or two thirds of the total rise in assets. However, the share of currency and deposits in total financial assets shrank (1995: 63%; 2003: 56%). Thus, households' financial assets at domestic banks decreased from 75% in 1995 to 63% in 2003.
– Investment in long-term securities grew at a slower pace, which may be mainly traceable to persisting uncertainty about capital market developments.
  Among debt securities, bank bonds have attracted investors' interest most. Over the past few years, tax-advantaged housing bonds, which account for part of bank bonds, have been playing an increasingly important role for banks in refinancing through the issuance of debt securities.[1]) Still, households cut back their debt security holdings by almost EUR 500 million in the first half of 2003.
  Share purchases in the first six months of 2003 came to approximately EUR 250 million; share acquisition gathered momentum especially in the second quarter of 2003, when stock markets started to recover.
  While in 2000 and 2001, households had bought at least 30% of the volume of net newly issued mutual fund shares, the share dropped to no more than 5% in 2002; households' interest in this investment vehicle remained relatively subdued in the first half of 2003, when the overall volume of mutual fund shares on balance grew at a considerably slower pace than in the previous years.
– Long-term saving, that is the accumulation of financial wealth over a period of at least five years, is being increasingly influenced by investors' wish or

1 *See also the study "Structural Factors in the Austrian Housing and Real Estate Market" published in the OeNB's Focus on Austria 3/2003, pp. 95–111.*

need to create personal financial provisions (for retirement). Investment plans to this end are offered by financial institutions outside the banking sector. Over the past few years, households' financial assets at insurance companies and pension funds have climbed fairly steadily. Money invested in life insurance plans represents the bulk of personal financial (retirement) provision. Augmenting by EUR 1.5 billion in the first half of 2003, investment in life insurance plans accounts for a notable share of some 25% of households' total financial investment.

These shifts in investment have also resulted in changes in the structure of households' total financial assets. The growing importance of investment in life insurance plans and pension funds is a key feature of this development; their share in households' total financial assets climbed from some 16% in 1995 to 22% recorded on June 30, 2003.

While at 21% the overall share of securities has remained fairly stable against the comparable value of 1995, investors' preference has shifted from debt securities and shares to mutual fund shares. Direct investment in listed shares amounted to about EUR 8.5 billion as of June 30, 2003, which represents less than 3% of households' total financial assets of EUR 295 billion. Not least because of tax advantages, households made most of their investment in mutual fund shares through domestic funds. At EUR 27.3 billion, this part of households' financial assets accounted for some 37% of retail funds' total volume. Fixed-income fund (including quasi-money market fund) shares held by households amounted to EUR 14.6 billion as of June 30, 2003. At EUR 3.9 billion, investment in equity funds was comparably low.

Table 1

Financial Assets of Households

	1995		1st half of 2003	
	EUR billion	*Share in %*	*EUR billion*	*Share in %*
Currency and deposits	19.5	9	34.2	12
Time and savings deposits	101.8	47	115.8	39
Deposits made under building loan contracts	12.7	6	16.8	6
Debt securities	32.5	15	21.7	7
Shares and other equity	4.5	2	11.1	4
Mutual fund shares	8.8	4	29.2	10
Life insurance plans	22.5	10	42.9	15
Other investment in insurance and pension plans	12.6	6	23.4	8
Total financial assets	214.9		295.1	
Memorandum item: Financial assets at domestic banks	*162.1*	*75*	*185.9*	*63*

Source: OeNB.

2.2 Financing

Despite favorable financing conditions thanks to declining interest rates, household borrowing has remained relatively stable in absolute terms over the past few years. At the same time, according to the most recent results of the bank lending survey,[1]) the general economic conditions prompted banks to tighten somewhat the credit standards applied to the approval of loans.

1 *See also the study "The Bank Lending Survey for the Euro Area – Background, Objectives and Results for Austria" in the OeNB's Focus on Austria 3/2003.*

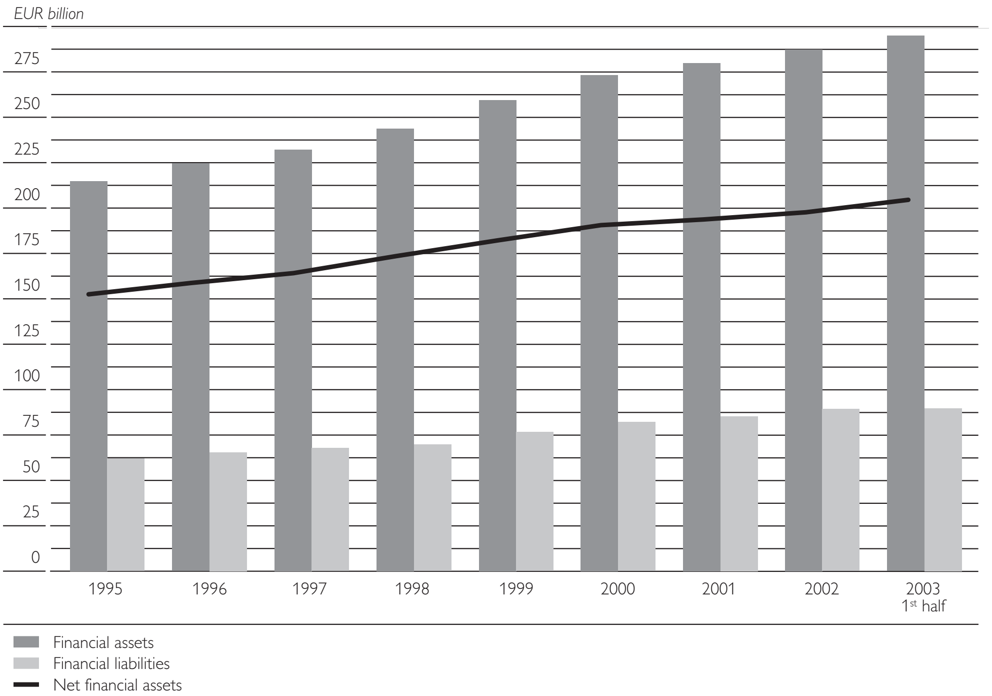
– As households did not spend all income gains on consumption, their external financing needs shrank. New loans to households in the first half of 2003 totaled EUR 1.8 billion (against EUR 2.1 billion in the first half of 2002).
– The share of foreign currency borrowing in total financing has been on the rise since the second half of 2000; in the first half of 2003, foreign currency loans accounted for three quarters of all new loans. Since the fourth quarter of 2002, foreign currency borrowing has increasingly been redenominated from Japanese yen to Swiss francs.

2.3 Net Lending and Net Financial Assets of Households

Households' financial assets totaled around EUR 295 billion as of June 30, 2003, which equals about 2.2 times the annual disposable income. Asset growth in the first half of 2003 comprised new investment to the tune of EUR 6.5 billion and valuation gains of EUR 1 billion (especially in the second quarter of 2003).

Chart 2

Financial Assets and Liabilities of Households



Source: OeNB.

At the same time, as of June 30, 2003, household debt stood at EUR 90 billion or two thirds of annual disposable income. In other words, Austrian households' indebtedness is fairly low in an EU-wide comparison.[1])

In the first half of 2003, households took out new loans worth EUR 1.8 billion, while overall household debt was reduced by valuation effects of some EUR 1.3 billion, resulting from the appreciation of the euro against the Swiss franc and the Japanese yen.

1 *In Germany, for instance, the household debt ratio was 87% at the end of 2002.*

Overall, in the first half of 2003, net financial assets ran to EUR 205 billion, and the balance of financial investment and new borrowing resulted in household net lending of EUR 4.6 billion.

3 Financial Investment and Financing of Nonfinancial Corporations

Financial investment and financing in the corporate sector took place against an economic background characterized by the following factors:

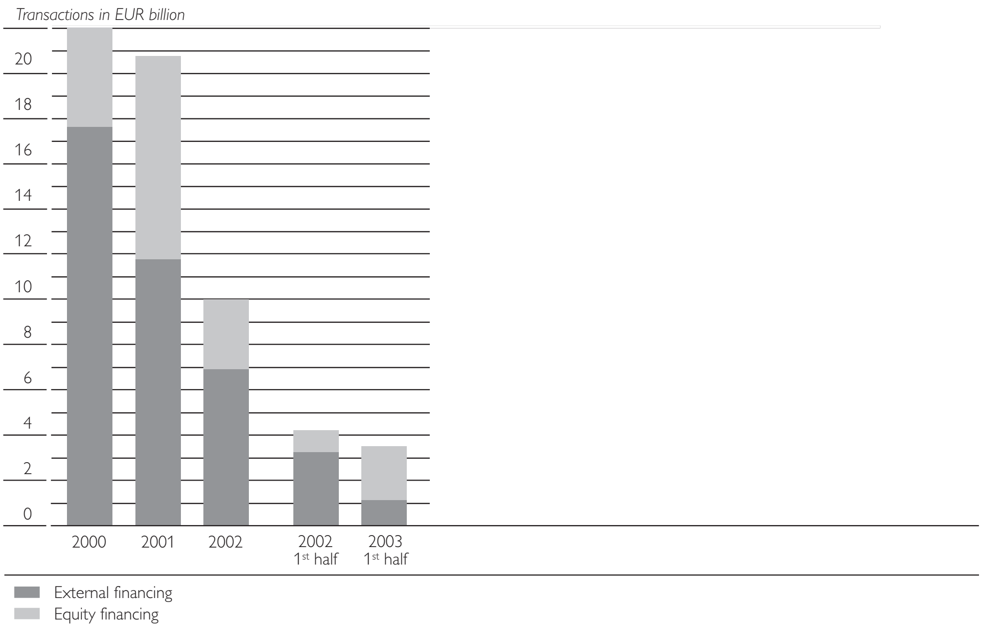
– The weak economic conditions of the past few years persisted in 2003. According to the most recent WIFO forecast of September 2003, real GDP growth will be below 1% in 2003.
– Gross investment is expected to edge up 0.9% in 2003 against the previous year.
– For many enterprises, sluggish market developments translated into stagnating sales.

3.1 Financing

Enterprises' financing needs had already been lower in 2002 than in the previous year. The currently available data show that financing slowed down further in the first half of 2003.

Chart 3

External and Equity Financing of Nonfinancial Corporations



Source: OeNB.

This decrease is attributable to both lower financing needs and to banks applying higher standards for the approval of loans in light of the prevailing difficult economic conditions. Banks throughout the euro area became more cautious. While interest rates on loans are very low at the moment, which is a boon to financing costs, banks have also increased the margins for riskier loans.

– Enterprises' liabilities grew by almost EUR 3.5 billion in the first half of 2003, that is by EUR 700 million less than in the same period of 2002.
– Loans accounted for some 70% of total financing in 2002, a share that reflects the restructuring of balance sheets observed since the mid-1990s in favor of equity capital. In the first half of 2003, loans represented about a third of total financing.
  The share of domestic bank loans in total liabilities decreased considerably between 1995 and 2003 (from 69% to 53%). Also, new loans have diminished in absolute terms since 1999. In 2002, enterprises even cut back on bank loans. In the first half of 2003, by contrast, new bank loans came to EUR 1.2 billion, accounting for nearly all external financing.
  Apart from banks, Austrian enterprises' main lenders over the past few years were the general government and nonresident investors – both foreign financial institutions and corporations. As of June 30, 2003, external loans represented 7% and loans from the general government 6% of enterprises' total liabilities. These sources of financing played no role in the first half of 2003.
  The net issuance of corporate bonds at the Vienna stock exchange in the first half of 2003 was de facto offset by redemptions of domestic companies' foreign currency-denominated bonds. Between July and September, the Vienna stock market again saw two major offerings: Telekom Austria AG and the Austrian state holding company ÖIAG issued bonds in the amount of some EUR 1 billion, a notable stimulus for the Austrian bond market. As of June 30, 2003, some 6% of total corporate liabilities were funded through bonds.
– Equity financing has been continuously rising over the past few years. High inward direct investment flows have particularly contributed to a steady rise of the share of equity financing, which had reached 26% by mid-2003 (1995: 17%). While the data may not be complete across all countries, this increase must, however, be seen in the light of the fact that Austria continues to figure among the EU countries with the lowest equity financing ratios. In Germany, for instance, the equity financing ratio is more than 40%, and the EU average is higher than 50%.

3.2 Financial Investment

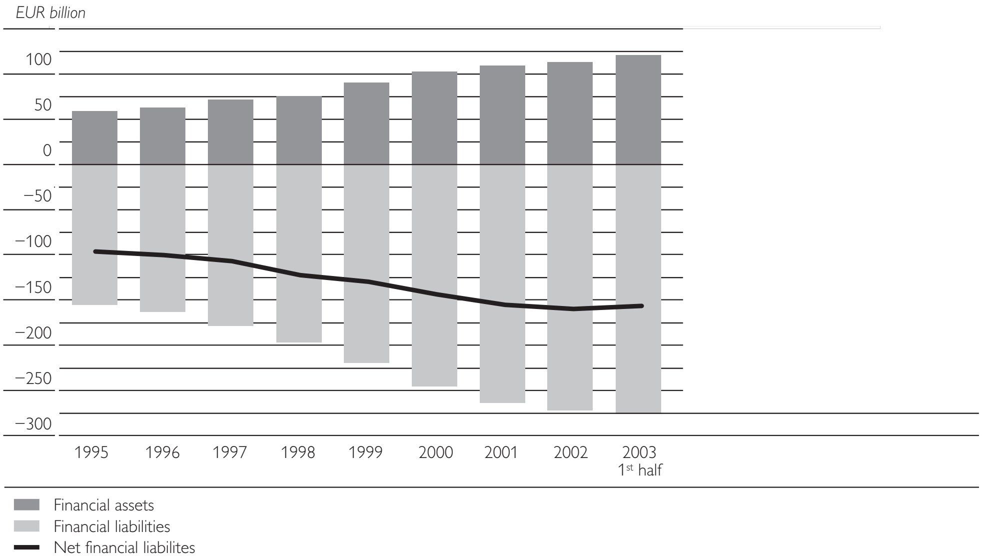
Nonfinancial corporations increased their financial investment by a substantial EUR 5 billion, the same amount recorded for 2002 as a whole. Outward direct investment accounted for a major share, posting a transaction value of almost EUR 1.8 billion. In addition, nonfinancial corporations invested EUR 1 billion in mutual fund shares and EUR 1.1 billion in short-term deposits with domestic banks.

3.3 Net Lending and Net Financial Liabilities of Nonfinancial Corporations

Nonfinancial corporations' liabilities totaled EUR 272 billion as of the end of June 2003, which corresponds to some 124% of GDP at market prices. Financing in the first half of 2003 stood at EUR 3.5 billion. In addition, price effects drove up liabilities by some EUR 500 million: While the exchange rate fluctuations of the Swiss franc and the Japanese yen against the euro reduced liabilities on foreign currency loans, the rise in share prices increased equity financing.

Chart 4

Financial Assets and Financial Liabilities of Nonfinancial Corporations



Source: OeNB.

These liabilities compare with corporate financial assets worth some EUR 119 billion as of June 30, 2003. Asset growth in the first half of 2003 was made up of new investment to the tune of EUR 5 billion and valuation gains of EUR 2.3 billion (especially from equity and mutual fund shares) recorded since the end of 2002.

The two components that play the largest role in the structure of corporate financial assets are equity (especially direct investment), which at the end of the first half of 2003 represented a 32% (or EUR 38 billion) share of total financial assets, as well as liquid funds, i.e. currency and deposits, with a share of 25% (EUR 30 billion).

Net financial liabilities decreased in the first half of 2003 compared with the same period of 2002, standing at EUR 153 billion, and the net lending position even turned positive (EUR 1.5 billion).

Annex

Table 1

Financial Investment and Financing of Households[1])

	2000	2001	2002	1st half 2002	1st half 2003[2])
	EUR million				
Financial investment					
Currency	695	– 3,008	3,597	1,284	283
Sight and time deposits[3])	1,633	7,026	3,475	1,520	3,810
thereof: savings deposits[4])	*– 2,647*	*5,605*	*2,160*	*300*	*2,468*
Debt securities	1,829	– 327	1,115	1,010	– 452
Shares and other equity	1,672	1,047	587	299	243
Mutual fund shares	4,000	3,297	595	– 120	278
Life insurance plans	3,143	2,698	2,278	937	1,527
Investement in other insurance products	487	325	483	604	537
Investment in pension plans	556	490	357	35	243
Total financial investment	14,016	11,547	12,487	5,569	6,468
Financing					
Financing in euro	1,849	1,761	1,654	841	476
Financing in foreign currencies	2,792	2,321	2,675	1,229	1,343
Total financing transactions	4,641	4,082	4,329	2,070	1,819
Net lending/borrowing	+ 9,375	+ 7,464	+ 8,158	+3,499	+4,649

Source: OeNB.
[1]) Including nonprofit institutions serving households.
[2]) Preliminary data.
[3]) Including loans and other assets.
[4]) Including interest accrued but not yet due per quarter (accrual principle).

Table 2

Financial Assets and Liabilities of Households[1])

	1995	1998	2001	2002	1st half of 2003[2])
	EUR billion				
Financial assets	214.9	243.8	280.0	287.6	295.1
Liabilities	61.9	69.7	85.4	89.2	89.7
Net financial assets	152.9	174.1	194.6	198.4	205.4
	% of GDP				
Financial assets	125	128	132	132	×
Liabilities	36	37	40	41	×
Net financial assets	89	91	92	91	×

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

Table 3

Financial Investment and Financing of Nonfinancial Corporations

	2000	2001	2002	1st half of 2002[1])	1st half of 2003[2])
	EUR million				
Financial investment					
Currency and deposits	843	50	1,024	815	1,102
Debt securities	503	258	784	619	679
Shares and other equity	3,862	6,042	2,067	920	1,629
thereof: Austrian direct investment abroad	*4,145*	*2,500*	*3,174*	*2,031*	*1,761*
Mutual fund shares	2,276	439	54	20	1,024
Loans and other assets	2,502	1,524	1,078	×	557
Total financial investment	9,985	8,313	5,007	2,374	4,991
Financing					
Loans	18,033	11,339	6,866	3,294	1,629
thereof: loans from domestic MFIs	*10,736*	*5,408*	*– 933*	*– 282*	*1,219*
Debt securities	2,116	600	– 235	– 41	– 206
Shares and other equity	4,361	8,960	3,072	963	2,351
thereof: foreign direct investment in Austria	*2,308*	*5,520*	*902*	*366*	*1,510*
Other liabilities	– 2,544	– 183	268	×	– 284
Total financing transactions	21,966	20,716	9,971	4,216	3,489
Net lending/borrowing	–11,981	–12,403	– 4,964	– 1,842	+ 1,501

Source: OeNB.
[1]) Partly estimates.
[2]) Partly estimates, preliminary data.

Table 4

Financial Assets and Liabilities of Nonfinancial Corporations

	1995	1998	2001	2002	1st half of 2003[1])
	EUR billion				
Financial assets	58,1	74,3	108,1	112,0	119,3
Liabilities	–153,0	–194,4	–259,8	–268,1	–272,1
Net financial liabilities	– 94,9	–120,1	–151,7	–156,1	–152,8
	% of GDP				
Financial assets	34	39	51	51	×
Liabilities	– 89	– 102	– 122	– 123	×
Net financial liabilities	– 55	– 63	– 71	– 71	×

Source: OeNB.
[1]) Partly estimates, preliminary data.

Austria's International Investment Position in 2002[1])

Matthias Fuchs

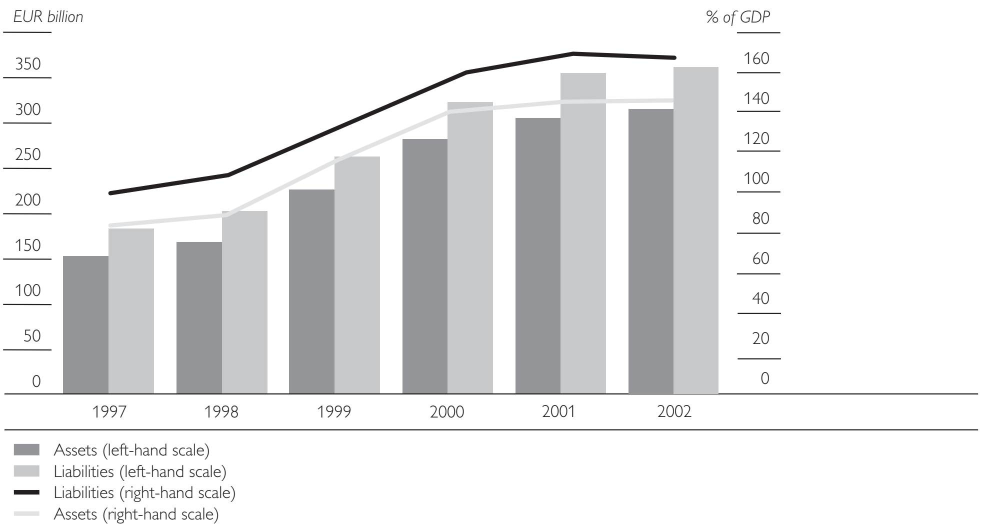
1 Overview

The unfavorable economic environment and the continued uncertainty in the capital markets continued to have a major impact on Austria's International Investment Position (IIP)[2]) in 2002. This holds particularly true for risk capital held by Austrians abroad, which was characterized by restructurings in favor of debt securities and by price losses. Moreover, the rise of the euro against the most important world currencies led to decreases in the value of assets held in foreign currency.

Both assets and liabilities increased to a much lesser extent in 2002 than in the three preceding years. On December 31, 2002, foreign assets were up by 4%, or EUR 12.4 billion, on the previous year and foreign liabilities were 2%, or EUR 6.9 billion, higher. While Austria's external assets came to EUR 316.4 billion on the reporting date, its external liabilities amounted to EUR 364.5 billion (table 1a).

Chart 1

Austria's External Assets and Liabilities



Source: OeNB.
[1]) Final data until 2001, revised data for 2002.

A structural breakdown of external assets and liabilities shows that portfolio investment accounted for an even larger share of both external assets and of external liabilities in 2002 than in 2001: This particular financing instrument made up 46% of total external assets and 59% of external liabilities. The high demand for secure investments already observed in 2001 continued in the reporting year: On December 31, 2002, more than 80% of cross-border securities were invested in debt securities.

The continued economic weakness as well as the uncertainty in the financial markets markedly diminished the readiness of investors to make cross-border investments. The internationalization ratio, which expresses external assets

1 *Editorial close: November 10, 2003.*

2 *The IIP reflects the financial assets held by Austrians abroad and by nonresidents in Austria valued at market prices.*

and/or liabilities as a percentage of GDP and which has soared since Austria's euro area entry in 1999, increased slightly by 3 percentage points to 146% of GDP on the asset side at the end of 2002 while the corresponding indicator on the liabilities side even stagnated at 168% (table 2). The economically more favorable years of 1999 and 2000 had still seen a rise of 25 percentage points on average in cross-border financial interlinkage on both sides of the account.

The net IIP – the balance of Austria's external assets and external liabilities – has traditionally shown a deficit; it decreased from EUR 53.7 billion to roughly EUR 48.1 billion in a year-on-year comparison. This development is due to two factors: On the one hand, Austria generated larger net outflows than inflows in 2002 for the first time in the past ten years, with the related *transactions* resulting in a decrease of the deficit of the IIP. On the other hand, exchange rate developments owing to the steady depreciation of the world's major currencies (U.S. dollar, pound sterling, Japanese yen) against the euro resulted in a clear reduction of Austrian foreign currency debt, which was particularly beneficial to domestic commercial banks that effected a considerable part of their financing in foreign currency. The security price losses experienced at international stock exchanges during 2002 markedly lowered the financial assets of Austrian investors abroad, while Austria's liabilities were only slightly influenced by price effects owing to the comparably favorable development of the domestic securities markets. The change in Austria's net IIP *not caused by price and exchange rate changes* amounts to approximately 40% (table 3).

The structure of the investment instruments shows that the change in Austria's net IIP, aside from the low deficit on direct investment, is primarily due to higher net external assets from cross-border credit and deposit transactions (other investment). However, net external debt from portfolio investment slightly increased compared with 2001.

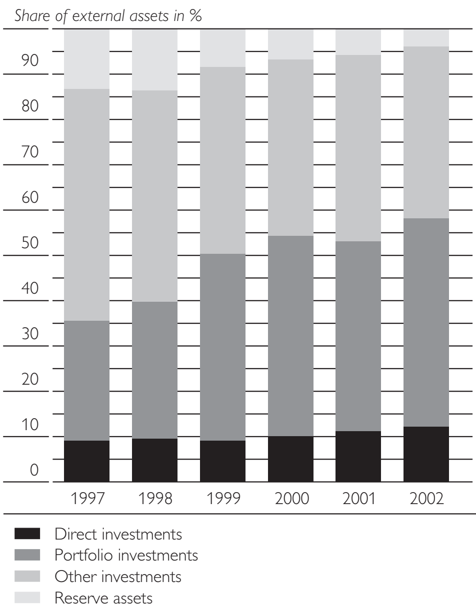
A closer look at the breakdown of external assets with a defined maturity provides the following insights: In terms of original maturities, the share of short-term external assets declined from roughly 37% at end-2001 to 31% at the reporting date of December 31, 2002 (table 5). The share of short-term liabilities also shrank, dropping from 37% to 35%. In the area of portfolio investment, the share of long-term investment was noticeably high on both sides of the account (roughly 95% each). However, the great majority of cross-border loans and deposits had maturities of less than one year: Short-term investment accounted for a share of 58% on the asset side, and of as much as 93% on the liabilities side (table 5). The significant surplus of short-term instruments on the liabilities side reflects the usual behavior of market participants in times of normal interest rate regimes, as was observed in 2002: Banks in particular used short-term financing opportunities, investing part of their liquidity gained at more attractive long-term interest rates.

2 Austria's External Assets

The external assets of Austrian investors totaled EUR 316.4 billion on the reporting date of December 31, 2002. Austria's outward foreign direct investment (FDI)[1]) stock had a value of EUR 38.9 billion on the reporting date, up 15% compared to the end of 2001. This increase resulted from the large growth of Austrian equity capital compared to 2001; the amount (EUR 6 billion) nearly equals the historical peak value registered in 2000. Price and exchange rate changes reduced external assets by roughly EUR 1 billion (table 3). *Portfolio investment* continued to be the most important financial instrument for Austrian investors abroad, with the volume coming to EUR 145.1 billion (+14%) at the end of 2002. While foreign debt securities holdings rose by 26% to EUR 116.3 billion, the market value of equity securities dropped by 19% to EUR 28.8 billion. Money market paper holdings played a subordinate role even though they augmented noticeably from EUR 1.1 billion to EUR 5.8 billion. Austrian external assets in the form of *loans, deposits and other claims* fell by 4% compared to the end-2001 figure, coming to EUR 120.0 billion on the reporting date. *Reserve assets,* which had amounted to EUR 17.7 billion at the end of 2001, had a market value of EUR 12.4 billion on December 31, 2002 (–30%); foreign securities stocks dipped from EUR 9.4 billion to EUR 5.8 billion.

Chart 2

Breakdown of Austria's External Assets



Source: OeNB.
[1]) Final data until 2001, revised data for 2002.

A regional breakdown shows that the euro area is Austria's most important investment region, accounting for 45% of its invested external assets. Euro area

1 *In line with international usage, the direct investment figures published as part of the IIP also contain transnational real estate holdings. By contrast, the detailed data on direct investment stocks (FDI survey) published in Focus on Austria 4/2003 do not include real estate investment (for quantitative data, see table 8 in the annex).*

securities were in particularly high demand in Austria; they reached a market value of EUR 90.3 billion on December 31, 2002, more than 80% of which can be ascribed to debt securities (table 4). By contrast, Austrian holdings of U.S. securities amounted to a mere EUR 15.8 billion on the reporting date, while those from Central and Eastern Europe accounted for EUR 4.6 billion. Two thirds of Austrian external assets in the category of deposits and lending (market value) were invested in non-euro area countries. Almost half of other investment in the euro area was made in the German financial market (EUR 20.5 billion). The most important investment region for Austrian direct investors in 2002 was Central and Eastern Europe, both in terms of existing external assets and new investment. The market value of total FDI abroad came to EUR 38.9 billion, 38% of which were invested in Central and Eastern European countries, 27% in the euro area and 7% in the U.S.A. (table 4).

Broken down by sectors, banks (EUR 145.2 billion) and the *other sectors*[1]) (EUR 142.6 billion) held the lion's share of external assets at the end of 2002, with the two sectors accounting for roughly 45% each of total external assets (table 6). Banks' claims arising from other investment (loans, deposits and other claims) reached EUR 91.6 billion or 63% of all claims at the end of 2002, thus representing their most important financial instrument. Long-term loans predominated while the short-term share of currency and deposits amounted to more than 80%. At EUR 43.3 billion or roughly 30% of all external assets, foreign debt securities were well represented in the banks' portfolios.

At EUR 4.9 billion, the general government's assets exceeded the reference value of 2001 by 21% on December 31, 2002; loans, deposits and other claims accounted for EUR 2.5 billion thereof and debt securities for EUR 2.1 billion. Other sectors held almost two thirds of their external assets in the form of securities, whose market value totaled EUR 88.8 billion on December 31, 2002, and consisted mostly of debt securities (71%). In the category "other sectors," institutional investors (other financial institutions) held over 54% of total external assets, followed by nonfinancial corporations (40%) and households (6%). The OeNB's external assets dropped from EUR 24.5 billion to EUR 23.8 billion.

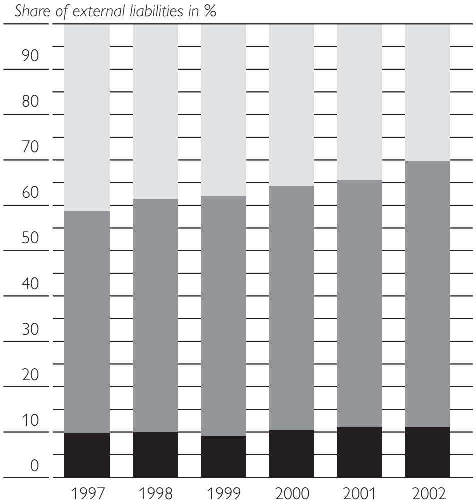
3 Austria's External Liabilities

While Austria's external assets came to EUR 316.4 billion on the reference date of December 31, 2002, its external liabilities stood at EUR 364.5 billion. *Inward FDI* (market value) closed the year at EUR 40.7 billion, up from EUR 39.9 billion at year-end 2001. As in the case of external assets, *portfolio investment* was the most significant financing instrument by far among external liabilities, coming to almost 60%, or EUR 214.1 billion, of inward FDI (up from EUR 194.5 billion on a year-on-year comparison). Austrian debt securities holdings in foreign investors' portfolios rose from EUR 177.5 billion to EUR 195.5 billion, equity securities holdings from EUR 16.9 billion to EUR 18.6 billion. Money market papers, an insignificant factor with respect to the volumes invested, dropped to EUR 5.8 billion (–26%). Nonresidents reduced their Austrian *deposits and loans* from EUR 123.3 billion to EUR 109.7 billion (–11%).

1 *"Other sectors" comprises other financial institutions, nonfinancial corporations and households.*

Chart 3

Breakdown of Austria's External Liabilities



Direct investments
Portfolio investments
Other investments

Source: OeNB.
[1]) Final data until 2001, revised data for 2002.

In a regional breakdown of Austria's external liabilities on December 31, 2002, the euro area accounted for 68% of inward FDI (table 4). Austrian debtors' liabilities arising from cross-border loans and deposits vis-à-vis the euro area had a market value of approximately EUR 44.4 billion or roughly 40%, EUR 28.2 billion of which were ascribed to German investors. While investors with holdings of inward FDI and other investment are easily identified, portfolio investment cannot be assigned reliably to the respective category, so that no regional analysis of portfolio investment can be provided.

In a sectoral breakdown, *general government* accounted for the largest rise (EUR 12.3 billion) in external liabilities in absolute terms; its share in total external liabilities rose from 25% to 28%. As in the preceding years, *banks* had the highest share of liabilities, which still came to 48% despite a decline of EUR 8.9 billion. Aside from securities issues (roughly 45%), deposits and lending (roughly 50%) remained Austrian banks' key external liabilities. The liabilities of *other sectors* amounted to EUR 91.1 billion on the reporting date, 6% more than at the end of 2001. The liabilities of nonfinancial corporations rose by 4% to EUR 70.7 billion, those of institutional investors by 9% to EUR 19.3 billion.

For longer time series[1]) for Austria's IIP, see table 7.1.0 of the OeNB's "Focus on Statistics," available on the OeNB's website at
http://www2.oenb.at/stat-monatsheft/englisch/chapter07_p.htm

In addition, quarterly information on main parts of Austria's IIP is published at[2]) http://www2.oenb.at/zabil/vp_tabellen_p.htm

1 *Recent data quality improvements may cause data to deviate from earlier publications.*

2 *See also the press release of September 29, 2003: Die Auslandsverschuldung der österreichischen Volkswirtschaft im zweiten Quartal 2003 (The Austrian economy's external indebtedness in the Second Quarter of 2003).*

4 Annex

Table 1a

Austria's International Investment Position

End-of-period stocks	Assets		Liabilities		Net	
	2001[1])	2002[2])	2001[1])	2002[2])	2001[1])	2002[2])
	EUR million					
Direct investment						
Equity capital and reinvested earnings	+ 30,805	+ 35,600	+ 36,151	+ 37,177	− 5,346	− 1,577
Other capital	+ 3,161	+ 3,249	+ 3,749	+ 3,532	− 588	− 238
Total	+ 33,966	+ 38,894	+ 39,900	+ 40,709	− 5,934	− 1,815
Portfolio investment						
Equity securities	+ 35,391	+ 28,780	+ 16,929	+ 18,604	+18,462	+10,177
Monetary authorities	+ 1,134	+ 1,251	+ 0	+ 0	+ 1,134	+ 1,251
General government	+ 103	+ 41	+ 0	+ 0	+ 103	+ 41
Banks	+ 2,062	+ 1,742	+ 1,515	+ 2,232	+ 547	− 489
Other sectors	+ 32,092	+ 25,746	+ 15,414	+ 16,372	+16,678	+ 9,374
Debt securities	+ 92,214	+116,290	+177,548	+195,508	−85,335	−79,218
Bonds and notes	+ 91,102	+110,504	+169,791	+189,740	−78,689	−79,235
Monetary authorities	+ 3,410	+ 5,411	+ 0	+ 0	+ 3,410	+ 5,411
General government	+ 622	+ 556	+ 82,770	+ 96,620	−82,148	−96,064
Banks	+ 34,852	+ 41,853	+ 68,120	+ 72,718	−33,269	−30,865
Other sectors	+ 52,217	+ 62,685	+ 18,900	+ 20,402	+33,317	+42,284
Money market instruments	+ 1,112	+ 5,786	+ 7,758	+ 5,768	− 6,646	+ 17
Monetary authorities	+ 264	+ 2,411	+ 0	+ 0	+ 264	+ 2,411
General government	+ 0	+ 1,537	+ 1,442	+ 407	− 1,442	− 1,130
Banks	+ 403	+ 1,469	+ 6,118	+ 5,341	− 5,715	− 3,872
Other sectors	+ 445	+ 368	+ 198	+ 20	+ 247	+ 348
Total	+127,605	+145,070	+194,478	+214,112	−66,873	−69,042
Other investment						
Trade credits	+ 5,583	+ 5,486	+ 3,302	+ 2,982	+ 2,281	+ 2,504
Loans	+ 67,784	+ 71,760	+ 20,056	+ 28,959	+47,728	+42,801
Monetary authorities	+ 0	+ 0	+ 1,154	+ 575	− 1,154	− 575
General government	+ 10	+ 18	+ 3,724	+ 3,322	− 3,713	− 3,303
Banks	+ 57,356	+ 59,948	+ 5,620	+ 11,266	+51,737	+48,682
thereof long-term	*+ 39,765*	*+ 44,670*	*+ 3,575*	*+ 9,142*	*+36,190*	*+35,528*
Other sectors	+ 10,417	+ 11,794	+ 9,559	+ 13,795	+ 858	− 2,002
Currency and deposits	+ 44,692	+ 36,504	+ 95,856	+ 74,380	−51,163	−37,876
Monetary authorities[3])	+ 1,884	+ 1,999	− 1,791	− 2,856	+ 3,675	+ 4,855
General government	+ 1,649	+ 707	+ 0	+ 0	+ 1,649	+ 707
Banks	+ 39,070	+ 31,623	+ 97,647	+ 77,236	−58,577	−45,613
thereof short-term	*+ 32,881*	*+ 26,402*	*+ 91,498*	*+ 72,317*	*−58,617*	*−45,916*
Other sectors	+ 2,090	+ 2,176	+ 0	+ 0	+ 2,090	+ 2,176
Other claims, other liabilities	+ 6,650	+ 6,260	+ 4,068	+ 3,391	+ 2,583	+ 2,869
Monetary authorities	+ 118	+ 118	+ 0	+ 0	+ 118	+ 118
General government	+ 1,670	+ 1,732	+ 1,177	+ 923	+ 494	+ 809
Banks	+ 3,418	+ 3,284	+ 668	+ 581	+ 2,750	+ 2,703
Other sectors	+ 1,444	+ 1,126	+ 2,223	+ 1,887	− 780	− 761
Total	+124,709	+120,010	+123,281	+109,712	+ 1,428	+10,298
Financial derivatives	+ 0	+ 0	+ 0	+ 0	+ 0	+ 0
Reserve assets						
Monetary gold[4])	+ 3,519	+ 3,335	×	×	+ 3,519	+ 3,335
Special Drawing Rights	+ 264	+ 176	×	×	+ 264	+ 176
Reserve position in the Fund	+ 942	+ 783	×	×	+ 942	+ 783
Foreign exchange	+ 12,985	+ 8,143	×	×	+12,985	+ 8,143
Currency and deposits	+ 3,567	+ 2,358	×	×	+ 3,567	+ 2,385
with monetary authorities	+ 2,216	+ 1,490	×	×	+ 2,216	+ 1,490
with foreign banks	+ 1,351	+ 895	×	×	+ 1,351	+ 895
Securities	+ 9,418	+ 5,758	×	×	+ 9,418	+ 5,758
Equity securities	+ 0	+ 0	×	×	+ 0	+ 0
Bonds and notes	+ 7,228	+ 4,503	×	×	+ 7,228	+ 4,503
Money market instruments	+ 2,190	+ 1,255	×	×	+ 2,190	+ 1,255
Financial derivatives	+ 0	+ 0	×	×	+ 0	+ 0
Other sectors	+ 0	+ 0	×	×	+ 0	+ 0
Total	+ 17,710	+ 12,437	×	×	+17,710	+12,437
External assets or liabilities	+303,990	+316,411	+357,659	+364,532	−53,669	−48,121

Source: OeNB.

[1]) *Final data.*

[2]) *Revised data.*

[3]) *Liabilities with a negative sign may result from transactions processed via the ESCB TARGET system, for which special rules apply.*

[4]) *Valuation at the market price.*

Table 1b

Austria's International Investment Position – Structural Data

End-of-period stocks	Assets 2001[1])	Assets 2002[2])	Liabilities 2001[1])	Liabilities 2002[2])
	% of external assets or liabilities			
Direct investment				
Equity capital and reinvested earnings	10.1	11.3	10.1	10.2
Other capital	1.0	1.0	1.0	1.0
Total	11.2	12.3	11.2	11.2
Portfolio investment				
Equity securities	11.6	9.1	4.7	5.1
Monetary authorities	0.4	0.4	0.0	0.0
General government	0.0	0.0	0.0	0.0
Banks	0.7	0.6	0.4	0.6
Other sectors	10.6	8.1	4.3	4.5
Debt securities	30.3	36.8	49.6	53.6
Bonds and notes	30.0	34.9	47.5	52.1
Monetary authorities	1.1	1.7	0.0	0.0
General government	0.2	0.2	23.1	26.5
Banks	11.5	13.2	19.0	19.9
Other sectors	17.2	19.8	5.3	5.6
Money market instruments	0.4	1.8	2.2	1.6
Monetary authorities	0.1	0.8	0.0	0.0
General government	0.0	0.5	0.4	0.1
Banks	0.1	0.5	1.7	1.5
Other sectors	0.1	0.1	0.1	0.0
Total	42.0	45.8	54.4	58.7
Other investment				
Trade credits	1.8	1.7	0.9	0.8
Loans	22.3	22.7	5.6	7.9
Monetary authorities	0.0	0.0	0.3	0.2
General government	0.0	0.0	1.0	0.9
Banks	18.9	18.9	1.6	3.1
thereof long-term	*13.1*	*14.1*	*1.0*	*2.5*
Other sectors	3.4	3.7	2.7	3.8
Currency and deposits	14.7	11.5	26.8	20.4
Monetary authorities	0.6	0.6	– 0.5	– 0.8
General government	0.5	0.2	0.0	0.0
Banks	12.9	10.0	27.3	21.2
thereof short-term	*10.8*	*8.3*	*25.6*	*19.8*
Other sectors	0.7	0.7	0.0	0.0
Other claims, other liabilities	2.2	2.0	1.1	0.9
Monetary authorities	0.0	0.0	0.0	0.0
General government	0.5	0.5	0.3	0.3
Banks	1.1	1.0	0.2	0.2
Other sectors	0.5	0.4	0.6	0.5
Total	41.0	37.9	34.5	30.1
Financial derivatives	0.0	0.0	0.0	0.0
Reserve assets				
Monetary gold	1.2	1.1	×	×
Special Drawing Rights	0.1	0.1	×	×
Reserve position in the Fund	0.3	0.2	×	×
Foreign exchange	4.3	2.6	×	×
Currency and deposits	1.2	0.8	×	×
with monetary authorities	0.7	0.5	×	×
with foreign banks	0.4	0.3	×	×
Securities	3.1	1.8	×	×
Equity securities	0.0	0.0	×	×
Bonds and notes	2.4	1.4	×	×
Money market instruments	0.7	0.4	×	×
Financial derivatives	0.0	0.0	×	×
Other sectors	0.0	0.0	×	×
Total	5.8	3.9	×	×
External assets or liabilities	100.0	100.0	100.0	100.0

Source: OeNB.
[1]) Final data.
[2]) Revised data.

Table 2

Austria's International Investment Position – Key Positions

	End-of-period stocks				
	EUR million	*% of GDP*	*% of exports of goods and services*	*% of external liabilities*	*% of non-equity liabilities*
External assets					
1998[1])	166,414	87.6	201.3	82.4	×
1999[1])	224,992	114.4	251.0	85.9	×
2000[1])	281,020	137.2	273.7	87.4	×
2001[1])	303,990	143.5	273.6	85.9	×
2002[2])	316,411	146.1	276.0	86.8	×
External liabilities					
1998[1])	201,936	106.3	244.2	×	×
1999[1])	261,789	133.1	292.1	×	×
2000[1])	321,368	156.9	313.0	×	×
2001[1])	357,659	168.8	321.9	×	×
2002[2])	364,532	168.3	318.0	×	×
Net investment position					
1998[1])	– 35,522	18.7	43.0	17.6	×
1999[1])	– 36,797	18.7	41.1	14.1	×
2000[1])	– 40,348	19.7	39.3	12.6	×
2001[1])	– 53,669	25.3	48.3	15.0	×
2002[2])	– 48,121	22.2	42.0	13.2	×

Source: OeNB.
[1]) *Final data.*
[2]) *Revised data.*

Table 3

Austria's International Investment Position – Change in the Position

	End-2001 stocks[1])	Changes in 2002[2])			End-2002 stocks[2])
		total	transactions	price and exchange rate changes	
	EUR million				
Direct investment	+ 33,966	+ 4,928	+ 5,888	– 960	+ 33,894
Portfolio investment	+127,605	+17,465	+25,081	– 7,616	+145,070
Other investment	+124,709	– 4,699	–11,459	+ 6,760	+120,010
Financial derivatives	+ 0	+ 0	+ 0	+ 0	+ 0
Reserve assets	+ 17,710	– 5,273	– 1,810	– 3,464	+ 12,437
External assets	+303,990	+12,421	+17,700	– 5,279	+316,411
Direct investment	+ 39,900	+ 809	+ 944	– 135	+ 40,709
Portfolio investment	+194,478	+19,634	+20,552	– 918	+214,112
Other investment	+123,281	–13,570	– 7,089	– 6,481	+109,712
Financial derivatives	+ 0	+ 0	+ 0	+ 0	+ 0
External liabilities	+357,659	+ 6,873	+14,408	– 7,535	+364,532
Direct investment	– 5,934	+ 4,120	+ 4,944	– 824	– 1,815
Portfolio investment	– 66,873	– 2,169	+ 4,529	– 6,698	– 69,042
Other investment	+ 1,428	+ 8,870	– 4,371	+13,241	+ 10,298
Financial derivatives	+ 0	+ 0	+ 0	+ 0	+ 0
Reserve assets	+ 17,710	– 5,273	– 1,810	– 3,464	+ 12,437
Net investment position	– 53,669	+ 5,548	+ 3,292	+ 2,256	– 48,121

Source: OeNB.
[1]) *Final data.*
[2]) *Revised data.*

Table 4

Austria's International Investment Position – Regional Breakdown

End-2002 stocks[1]

	total	vis-à-vis EU-15	vis-à-vis the euro area	*thereof vis-à-vis Germany*	vis-à-vis non-euro area residents	*thereof vis-à-vis* Central and Eastern Europe	*thereof vis-à-vis* the U.S.A.
	EUR million						
Direct investment	38,894	13,809	10,557	*6,422*	28,337	*14,647*	*2,538*
Portfolio investment	145,070	104,635	90,311	*40,382*	54,759	*4,640*	*15,797*
Equity securities	28,780	17,926	15,179	*4,956*	13,601	*672*	*5,881*
Debt securities	116,290	86,709	75,132	*35,426*	41,158	*3,968*	*9,916*
Other investment	120,010	60,643	42,661	*20,515*	77,349	*18,916*	*11,128*
thereof currency and deposits	*36,504*	*29,041*	*20,208*	*9,450*	*16,297*	*1,254*	*1,132*
Financial derivatives	0	0	0	0	0	0	0
Reserve assets	12,437	×	0	0	12,437	*x*	*x*
External assets	316,411	×	143,529	*67,319*	172,882	*x*	*x*
Direct investment	40,709	28,964	27,655	*16,819*	13,054	*51*	*2,352*
Portfolio investment	214,112	×	×	*x*	×	*x*	*x*
Other investment	109,712	57,346	44,411	*28,189*	65,301	*5,189*	*10,686*
thereof currency and deposits	*74,380*	*36,893*	*28,601*	*18,371*	*45,779*	*4,419*	*2,580*
Financial derivatives	0	0	0	*0*	0	*0*	*0*
External liabilities	364,532	×	×	×	×	×	×

Source: OeNB.

[1] Revised data.

Table 5

Austria's International Investment Position – Maturity Breakdown (Original Maturities)[1]

	2001[2] total	2001[2] short-term	2001[2] long-term	2002[3] total	2002[3] short-term	2002[3] long-term
	End-of-period stocks in EUR million					
Direct investment	3,161	0	3,161	3,294	0	3,294
Portfolio investment	92,214	1,112	91,102	116,290	5,786	110,504
Other investment	123,447	79,585	43,862	118,785	69,036	49,749
Financial derivatives	0	0	0	0	0	0
Reserve assets	16,768	5,757	11,011	11,654	3,640	8,014
Nonequity assets	235,589	86,454	149,135	250,023	78,462	171,561
Direct investment	3,749	0	3,749	3,532	0	3,532
Portfolio investment	177,548	7,758	169,791	195,508	5,768	189,740
Other investment	123,281	106,131	17,150	109,734	101,894	7,840
Financial derivatives	0	0	0	0	0	0
Nonequity liabilities	304,579	113,889	190,690	308,774	107,662	201,112
Net external debt	– 68,990	– 27,435	– 41,554	– 58,751	– 29,201	– 29,550
	Maturity bands in % of total					
Direct investment	100.0	0.0	100.0	100.0	0.0	100.0
Portfolio investment	100.0	1.2	98.8	100.0	5.0	95.0
Other investment	100.0	64.5	35.5	100.0	58.1	41.9
Financial derivatives	×	×	×	×	×	×
Reserve assets	100.0	34.3	65.7	100.0	31.2	68.8
Nonequity assets	100.0	36.7	63.3	100.0	31.4	68.6
Direct investment	100.0	0.0	100.0	100.0	0.0	100.0
Portfolio investment	100.0	4.4	95.6	100.0	3.0	97.0
Other investment	100.0	86.1	13.9	100.0	92.2	7.1
Financial derivatives	×	×	×	×	×	×
Nonequity liabilities	100.0	37.4	62.6	100.0	34.9	65.1
Net external debt	100.0	39.8	60.2	100.0	49.7	50.3

Source: OeNB.

[1] Contains only components with a defined maturity.

[2] Final data.

[3] Revised data.

Table 6

Austria's International Investment Position – Sectoral Breakdown

	2001[1])	2002[2])
	End-of-period stocks in EUR million	
OeNB	+ 24,521	+ 23,824
General government	+ 4,067	+ 4,924
Banks	+140,403	+145,191
Other sectors	+140,999	+142,472
Other financial institutions	+ 71,149	+ 77,282
Nonfinancial corporations	+ 52,545	+ 56,472
Households	+ 11,305	+ 8,718
External assets	+303,990	+316,411
OeNB[3])	– 639	– 2,282
General government	+ 89,057	+101,376
Banks	+183,327	+174,375
Other sectors	+ 85,914	+ 91,064
Other financial institutions	+ 17,744	+ 19,335
Nonfinancial corporations	+ 67,925	+ 70,700
Households	+ 245	+ 1,029
External liabilities	+357,659	+364,533

Source: OeNB.
[1]) *Final data.*
[2]) *Revised data.*
[3]) *Liabilities with a negative sign may result from transactions processed via the ESCB TARGET system, for which special rules apply.*

Table 7

Portfolio Investments in 2002[1]) – Sectoral Breakdown

	Total	Equity securities			Debt securities		
		total	stocks	mutual fund shares	total	bonds and notes	money market instruments
	End-of-period stocks in EUR million						
OeNB	9,073	1,251	0	1,251	7,821	5,411	2,411
General government	2,134	41	23	17	2,093	556	1,537
Banks	45,065	1,743	937	806	43,322	41,853	1,469
Other sectors	88,799	25,746	18,597	7,148	63,054	62,685	368
Other financial institutions	74,246	18,041	13,621	4,420	56,205	56,001	204
Nonfinancial corporations	5,755	2,367	1,595	772	3,389	3,254	135
Households	8,797	5,337	3,381	1,956	3,460	3,430	30
Portfolio investments, assets	145,070	28,780	19,557	9,223	116,290	110,504	5,786
OeNB	×	×	×	×	×	×	×
General government	97,027	×	×	×	97,027	96,620	407
Banks	80,291	2,232	1,848	384	78,060	72,718	5,341
Other sectors	36,794	16,372	7,257	9,115	20,422	20,402	20
Other financial institutions	16,486	9,549	434	9,115	8,124	8,124	0
Nonfinancial corporations	19,081	6,823	6,823	×	12,298	12,278	20
Households	×	×	×	×	×	×	×
Portfolio investments, liabilities	214,112	18,604	9,105	9,499	195,508	189,740	5,768

Source: OeNB.
[1]) *Revised data.*

Table 8

Bridging Table to the Results of the 2001 Direct Investment Survey

	2001[1]) End-of-period stocks in EUR million
Assets	
Outward direct investment (IIP)	33,966
less real estate abroad	1,616
corresponds to direct investment claims on nonresidents/total[2])	32,350
thereof: equity	*29,192*
other capital	*3,158*
Liabilities	
Inward direct investment (IIP)	39,900
less real estate in Austria	947
corresponds to direct investment liabilities on nonresidents/total[3])	38,953
thereof: equity	*34,984*
other capital	*3,969*

Source: OeNB.
[1]) Final data.
[2]) See supplement to Focus on Austria 3/2003 Austrian Outward and Inward Direct Investment at the End of 2001, table 1.1.
[3]) See supplement to Focus on Austria 3/2003 Austrian Outward and Inward Direct Investment at the End of 2001, table 1.2.

STUDY

New Harmonized Interest Rate Statistics for the Euro Area – Framework, Implementation in Austria and First Results

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1 Introduction

Interest rates in general and the retail interest rates of financial intermediaries in particular play a central (economic policy) role in a modern economy. The availability of information on interest rates helps the central bank observe and analyze the transmission of interest rate policy and the effects it has on wide parts of the economy and the people, i.e. the monetary policy transmission mechanism. Retail bank interest rates are an important signal that borrowers and depositors receive about the central bank's intentions and actions, where they "feel" monetary policy taking place. When these interest rates change, borrowers and depositors adjust their economic behavior accordingly. By the end of 2003, after five years of Economic and Monetary Union (EMU), the Eurosystem succeeded in implementing a harmonized European Central Bank (ECB) interest rate statistical framework which gives a very broad overview of the interest rates applied by the financial intermediaries to deposits and loans. This constitutes an important milestone in the Eurosystem's supply of information.

2 Analytical Significance of Euro Area-Wide Interest Rate Statistics

The role of bank interest rates depends directly on the significance of the banking sector as a financial intermediary in the economy. The financial markets of the euro area countries are strongly bank-based systems. Traditionally, banks have played a major role in Europe even if this role varies in degree in each country. Austria is among the countries where banks' intermediation role continues to be significant.[1])

Article 105 of the Treaty on European Union stipulates that the primary objective of the European System of Central Banks (ESCB) – and thus of the Eurosystem – shall be to maintain price stability in the euro area. Without prejudice to the objective of price stability, the ESCB, and the Eurosystem, shall support the general economic policies in the Community. Furthermore, the ESCB – like every central bank – shall assume special responsibility with regard to financial stability. In accordance with Article 105 (5) of the Treaty on European Union, the ESCB shall also contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

In order to fulfill the mandate of maintaining price stability, the Eurosystem has devised a monetary policy strategy which is based on two pillars. The first pillar focuses on analyzing the development of the monetary aggregate (the broadly defined money stock M3) and the second pillar on observing and assessing a very wide array of economic indicators that may suggest inflationary risks. Apart from real activity indicators (e.g. GDP, consumption growth, investment growth), this wide array also includes price and cost indicators and, in addition to exchange rates, financial market indicators, in particular various interest rates.

While money market rates (EONIA and EURIBOR) and capital market returns were reported during the first five years of EMU, no retail bank interest

1 *ECB (2002), Report on Financial Structures.*

rates for the euro area were collected on a harmonized basis in all Member States. The information available in this respect, which was also published regularly in the ECB Monthly Bulletins (Table 3.4 – Retail bank interest rates), related to national interest rates aggregated into standard categories but compiled in different ways (basis of reference: new business and/or outstanding amounts, type of data: nominal or effective interest rates, and compilation method: sampling approach or census). The catalogue of indicators within the framework of this short-term approach comprised ten indicators.[1]) The ECB explicitly stressed in a footnote to these statistics that these nonharmonized indicators were suitable for analysis purposes only to a limited extent. Although these indicators were useful in identifying trends, they had only little informative value as to retail interest rate levels in the euro area and neither were they sufficiently differentiated to meet the analytical requirements of the single monetary policy. Therefore, they were only of limited use for illustrating the transmission of the ECB's interest rate policy signals to bank customers or for analyzing financial stability.

Retail bank interest rates, however, play an important transmission role in the pass-through of the central bank's monetary policy impulses via the so-called interest rate channel. A quicker and fuller pass-through of central bank interest rates via money market and capital market interest rates to retail bank interest rates strengthens monetary policy transmission via this channel.[2]) Central bank decisions have a direct impact on the money market and may thus feed through to interest rates. The effects of changes in money market interest rates on capital market interest rates and, subsequently, on retail bank interest rates are not subject to the direct influence of the central bank and may last longer and be of varying degrees. Yet it is especially these interest rates that have the strongest impact on the consumption and investment decisions of households and enterprises and thus on the real economy. Bank decisions on interest rates on deposits and loans, however, also affect financial sector profitability and thus financial stability. This, too, may have effects on the real economy.[3])

Interest rate changes are driving forces for portfolio shifts. With declining interest rates, for example, the opportunity cost of holding cash and very short-term, low-return deposits will fall; as a consequence, investors shift their portfolios, which, in turn, may have repercussions on the monetary aggregates.

Another issue of interest from an economic policy, but also from an analytical point of view, refers to the effects of the business cycle on retail interest rates charged by banks. Especially the impact of the cyclical position on the risk premia charged for loans is of importance, i.e. to what extent will they rise

1 *The indicators comprised interest rates on overnight deposits, deposits with an agreed maturity of up to 1 year, over 1 and up to 2 years and over 2 years, deposits redeemable at notice of up to 3 months and over 3 months, loans to enterprises with an agreed maturity of 1 year and over 1 year and loans to households for consumption and loans to households for house purchase.*

2 *For an empirical analysis of the pass-through of monetary policy impulses in the euro area on the retail bank interest rates, see De Bondt (2002).*

3 *De Bondt (2002) differentiates between a short-term and a long-term pass-through of interest rate changes. Her empirical findings suggest that euro area banks pass on interest rates in the short term (one month) to a maximum degree of 50%, but in the longer run to a degree of up to 100%. According to her calculations, the pass-through process has significantly quickened since the start of EMU.*

when the economy slows down and how fast and to what extent will banks reduce them when the economy recovers. Normally, these moves in risk premia have procyclical effects, and therefore they can counteract the changes in central bank interest rates.

Changes in bank interest rates always go hand in hand with distributive effects. Interest rate cuts will ease the burden for borrowers, generating positive income effects. Broken down by sectors, this applies mainly to the corporate sector and the general government sector, which are both net debtors by tradition. On the other hand, interest rate cuts mean negative changes in income for depositors. This affects in particular the household sector, which is normally the group of biggest net creditors in an economy.[1]) The new interest rate statistics allow to estimate such income effects, especially by taking into account outstanding amounts.

In addition to the undisputed relevance of euro area-wide interest rate statistics, national data play an important role in assessing the effects of monetary policy. As long as the integration of the national financial markets in the euro area has not been achieved in full, considerable regional differences in the interest rates on deposits and loans will persist. Together with regional differences in inflation rates, the effects of the ECB interest rates on the real economy may vary significantly among Member States. For these differences, too, the interest rate statistics now available provide a reliable basis for analysis.

Differences in national interest rates for comparable products in an environment of completely liberalized cross-border capital flows are also an indicator of a lack of market integration, whereas an increasing convergence of interest rates may suggest increasing integration.

Finally, the levels of and changes in the interest margins between deposits and lending rates as well as the interest spreads compared to alternative investment instruments provide important information to the institutions involved in prudential supervision as regards bank profitability, the sustainability of bank profits and the degree of competitive pressure. Conclusions about banks' competitive situation can also be drawn from shifts in their product policies in terms of amounts of new business. Thus, the euro area central banks are able to observe structural developments in the banking and financial system more closely and to better analyze and carry out their financial stability tasks.

3 Background

3.1 Previous Interest Rate Statistics Scheme

The Oesterreichische Nationalbank (OeNB) has compiled interest rate statistics on retail bank interest rates since 1995.[2])

3.1.1 Reporting Population

In 1995, the sample of reporting institutions consisted of 43 credit institutions. By 2003 the number of credit institutions contained in the sample had decreased

1 *For the latest results on the financial wealth of households and enterprises in Austria, see Andreasch/Schubert/Wimmer (2003).*

2 *Annex 1 illustrates the fundamental differences between the previous and the new interest rate statistics, which may give valuable support in the interpretation of the different results.*

to 37 on account of mergers. The underlying selection method was a purposive sample approach according to functional and regional criteria. The sample comprised all credit institutions that were important for the retail bank business in the Austrian market.

This sample consisted of the major joint stock banks, the state mortgage banks as well as the largest institutions of the savings bank, Raiffeisen credit cooperative and Volksbank credit cooperative sectors. The small credit institutions of the savings banks, Raiffeisen credit cooperative and Volksbank credit cooperative sectors and, importantly, the building and loan associations were not included.

3.1.2 Type of Interest Rate

The credit institutions reported the respective standard interest rate applied during the review month. This was defined as the rate agreed with the largest number of customers during the review period or the most commonly applied interest rate; loan charges were mostly covered. Fees that banks charge on commercial and personal loans were included in the debit interest rates, whereas commissions on turnover were not.

3.1.3 Business Coverage

The previous interest rate statistics covered only the interest rates applied to new business in the reporting month, with the definition of new business being very narrow. It covered all new contracts that had been concluded within the reporting month, with the exception of prolongations or modifications of previous arrangements.

The reported interest rates were to reflect only the most common terms and conditions agreed between credit institutions and their domestic nonbank customers. Therefore, all atypical contracts that deviated from normal business transactions in substance were to be disregarded. This included e.g. fiduciary transactions, redemption agreements and also foreign currency transactions. Although the latter were not atypical transactions anymore in 2003, they remained excluded until the switch to the new framework. Terms and conditions for contracts involving bank officials or persons enjoying similar terms and conditions were not included either.

3.1.4 Breakdown

The interest rates were broken down by type of contract, with seven categories on the assets side and eleven on the liabilities side. The categories on the assets side were personal loans (credits and loans to natural persons), commercial loans (current account loans and loans to enterprises), housing loans (unless secured by mortgages recorded in the land register), mortgage loans (loans to private individuals and enterprises secured by mortgages recorded in the land register), discount loans and public-sector loans (loans to central, regional and local governments and other bodies corporate entitled to collect levies).

The liabilities side distinguished between deposits in personal checking accounts, overnight savings deposits, savings deposits with agreed maturities of up to 12 and over 12 months, savings deposits of between ATS 500,000 and ATS 1 million (as from 2002: between EUR 50,000 and EUR 100,000) and of between ATS 1 million and ATS 5 million (as from 2002: between EUR 100,000 and EUR 500,000) as well as savings bonds (including capital savings books). The latter were broken down into maturities of 12, 24, 36, 48, and 60 months.

4 The Making of the New Interest Rate Statistics

As early as in July 1996, the European Monetary Institute (EMI), the forerunner of the ECB, outlined all statistical requirements necessary for monetary policy implementation by the ECB in the so-called Implementation Package[1]) and prepared a catalogue of the most important steps to be taken. Creating a set of harmonized bank interest rate statistics was considered one of the most important projects to be implemented. In the run-up to and at the beginning of EMU, however, priority was given to the harmonization of the balance sheet statistics to compile the consolidated balance sheet of the monetary financial institutions (MFIs)[2]) in the euro area, as these data were an indispensable basis for calculating the monetary aggregates in the euro area.

At the end of 1999, eventually, the Working Group on Money and Banking Statistics (WGMBS) and the Statistics Committee (STC), two fora of ECB and national central bank (NCB) representatives which had already stood the test of several years of successful cooperation, took up work on developing a steady-state approach, i.e. a long-term stable solution for the collection of interest rate statistics for the euro area.

A first step in the development of the new interest rate statistics was to perform a large-scale survey of the future potential users at the end of December 1999. For this purpose a standardized questionnaire was addressed not only to various ESCB users (ECB, NCBs) but also to external users like Eurostat, the IMF and the OECD. The summarized results of this user survey were available at the end of March 2000.

On the basis of the requirements the working group set up the outline of a possible reporting scheme during 2000. Thanks to the NCBs' previous experience and suggestions it was possible to partly tone down users' extremely comprehensive requests to a more realistic level. The cornerstones of the new statistics turned out to be the compilation of interest rate data both for new business and outstanding amounts, the limitation of reporting to retail interest rates referring to households and nonfinancial corporations, the selection of an interest rate not containing any elements attributable to charges as the central element of the statistics and, in addition, the collection of the annual percentage rate of charge only for consumer credit and housing loans on the basis of the APRC concept (see chapter 5, section 5.3).

In parallel with the discussions in the working group, in June 2000 the Governing Council of the ECB decided that mandatory cost-benefit analyses ("merits and costs procedure") be performed in the course of developing and implementing new statistical reporting obligations. Essentially, this mandatory

1 *EMI (1996), Statistical requirements for Stage Three of Monetary Union.*

2 *MFIs comprise credit institutions as defined in European Community law and other financial institutions that receive (close) substitutes for deposits and/or grant loans in economic terms. Because of their specialized business, money market funds and NCBs are exempt from reporting MFI interest rate statistics.*

procedure is to ensure that prior to the introduction of new statistical reporting obligations, the costs of their implementation and running expenses be compared with and carefully considered against their benefit for users.

This procedure was thus applied to the new interest rate statistics. In January 2001, the responsible bodies in the ECB took note of the user requirements (formal catalogue of users' requirements and arguments) for the interest rate statistics, and during February and March 2001 a comprehensive fact-finding exercise with regard to a number of crucial items in the new reporting scheme was carried out at potential reporting agents. The responses allowed important conclusions to be drawn on the applicability and cost load of various reporting obligations and the informative value of interest rate indicators. The results of the survey of the reporting agents prompted some changes in a number of details of the planned interest rate statistics reporting scheme. On the whole, it should be stressed that the requirements eventually proposed represented a compromise in many respects between sometimes diverging positions of individual central banks, including the ECB, as well as a compromise between extensive user requirements and implementability.

In line with the mandatory merits and costs procedure, the NCBs assessed the costs associated with the new statistics ("costs assessment exercise") by means of qualitative cost factors, and, subsequently, evaluated the user benefit in relation to the aggregated (relative) cost estimates provided by the various ECB user areas ("matching exercise").

There was a general understanding that, certainly, it would be expensive to implement and compile the new interest rate statistics since many countries would be forced to develop completely new IT applications; on the other hand, it was indicated that the benefit of these statistics would justify the expense.

The final reporting obligations for the new interest rate statistics were eventually adopted by way of regulation by the ECB Governing Council on December 20, 2001, (see chapter 5). Reporting of the new statistics was to begin in January 2003.

5 Outline of the Scheme and National Implementation

5.1 Statutory Basis

On the basis of its powers as laid down in the ECB statistics regulation,[1]) the ECB adopted a regulation containing the essential outlines and details of this reporting obligation, which was directly addressed to the potential reporting agents in the euro area. Regulation (EC) No 63/2002 of the ECB concerning statistics on interest rates applied by MFIs to deposits and loans vis-à-vis households and nonfinancial corporations (ECB/2001/18) thus constitutes the central supranational statutory basis for the interest rate statistics.

In line with the principle embodied in Article 5.2 of the Statute of the ESCB and the ECB, according to which the NCBs of the euro area are to collect the necessary statistical information to the extent possible, the individual countries have adapted their national reporting systems on the basis of the ECB regulation on interest rate statistics and have adopted reporting guidelines for the interest

1 *See Regulation (EC) No 2533/98 of the Council of 23 November 1998 concerning the collection of statistical information by the ECB.*

rate statistics. The reporting framework for the Austrian interest rate statistics is based, from a national point of view, on the separately prepared reporting obligations for interest rate statistics established by the OeNB pursuant to Article 44 (1) Federal Act on the Oesterreichische Nationalbank and based on ECB Regulation 2001/18.[1])

5.2 Subject of Reporting

The new interest rate statistics show the interest rates applied by MFIs in Austria to euro-denominated deposits and loans vis-à-vis households and nonfinancial corporations resident in EMU Member States,[2]) covering both interest rates relating to new business and to the stock of all deposits and loans. Since foreign currency loans play a major role in the domestic market, in Austria interest rates for this business line are also collected, albeit only relating to new business.

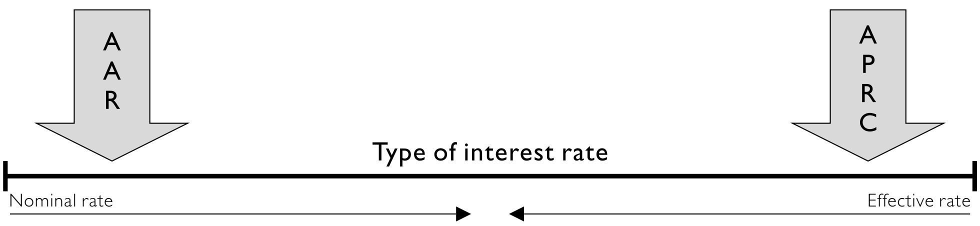
5.3 Type of Interest Rate

The following two types of interest rates form the basis for the harmonized interest rate statistics in the euro area:

– the annualized agreed rate (AAR)
– the annual percentage rate of charge (APRC)

Chart 1

Classification of Interest Rate Types (AAR, APRC)



In the bandwidth between nominal interest rate and effective rate, the AAR represents an interest rate that is very close to the nominal interest rate, while the APRC is, in fact, a typical effective interest rate.

5.3.1 Annualized Agreed Rate (AAR)

As a general rule, the reporting agents are required to provide the annualized agreed rate for both new business and the stock of all deposits and loans. It contains only interest payments on deposits and loans, but no other charges that may apply (for inquiries, administration, preparation of the documents, etc.). This interest rate is agreed between the reporting agent and the customer for a deposit or loan, converted to an annual basis and quoted in percentages per annum. In the event of intrayear interest payments on deposits and loans the agreed rate shall be annualized by means of the following formula:

1 *See the reporting instructions and reporting form for the ECB interest rate statistics at www.oenb.at/rel/melde_p.htm (in German).*

2 *Households and nonfinancial corporations cover all nonfinancial sectors other than public households (general government) as defined by the European System of Accounts (ESA 1995).*

$$AAR = (1 + r_{ag} / n)^n - 1$$

with
AAR as the annualized agreed rate;
r_{ag} as the agreed interest rate per annum;
n as the number of interest capitalizations per year (e.g. n = 2 for semi-annual interest capitalizations).

In principle, the reported interest rates on customers' deposits or loans are to reflect the interest received or paid by the reporting agent; in other words, interest rate components that are borne by third parties must not be included in the calculation of the interest rate to be reported. For example, subsidies granted for deposits under building and loan contracts must not be taken into account when determining the interest payment, since they do not represent costs for the reporting agent.

5.3.2 Annual Percentage Rate of Charge (APRC)

In addition to annualized agreed rates, the reporting agents are required to provide for new business in respect of consumer credit and loans to households for house purchases the annual percentage rate of charge (APRC) as defined in Article 1(2)(e) of the Consumer Credit Directive.[1]) The annual percentage rate of charge is calculated on the basis of the following mathematical equation, as defined in Article 33 Austrian Banking Act, which reflects the national implementation of the above-mentioned EU Directive:

$$\sum_{K=1}^{K=m} \frac{A_K}{(1+i)^{tK}} = \sum_{K'=1}^{K'=m'} \frac{A'_{K'}}{(1+i)^{tK'}}$$

with
i as the APRC (including fees)
A_K as the amount of loan disbursement
$A'_{K'}$ as the amount of interest payments, repayments and payments of charges
t_K as the interval between the date of the first loan disbursement and subsequent disbursements
$t_{K'}$ as the interval between the date of the first loan disbursement and the dates of interest payments, repayments and payments of charges

The annual percentage rate of charge covers the total costs of a loan to the consumer. These total costs comprise an interest rate component and a component of other (related) charges (fees, commissions, etc.).

5.4 Business Coverage, Time Reference Point

5.4.1 Interest Rates on New Business

The interest rates on new business include all new deposit and loan contracts concluded or agreed within a reference month.

1 *Directive 87/102/EEC of 22 December 1986 for the approximation of the laws, regulations and administrative provisions of the Member States concerning consumer credit as amended by Directive 98/7/EC of the European Parliament and of the Council of 16 February 1998.*

They comprise:

- All financial contracts, terms and conditions that specify for the first time the interest rate of the deposit or loan;
- All new negotiations of existing deposits and loans (this includes parts of the contract not referring to the interest rate).

According to this definition, new business does *not* include:

- Prolongations of existing deposit or loan contracts that are carried out automatically, i.e. without the customer's active involvement;
- Changes in floating interest rates on account of automatic interest rate adjustments (agreed in advance) performed by the reporting agent;
- A change from fixed to floating interest rates or vice versa which has been agreed at the start of the contract.

5.4.2 Interest Rates on Outstanding Amounts

The reporting scheme for interest rates on outstanding amounts referring to deposits and loans is based on a snapshot observation. Basically, all deposits and loans outstanding on the last day of the month are included in the calculation of the interest rate to be reported. Bad loans and loans for debt restructuring at interest rates below market conditions must not be taken into account.

5.4.3 Special Provision for Specific New Business Categories with Regard to Weightings

It should be specially emphasized that for reasons of simplifying the definition and methodology, for specific categories of deposits and loans the definition of new business applies to the outstanding amounts at a certain point in time at the end of the reporting period. This means the outstanding amounts at the end of the month must be used for calculating the average interest rates of new business in the following categories (see also section 5.6):

- overnight deposits placed by households and nonfinancial corporations;
- deposits redeemable at notice held by households; and
- bank overdrafts vis-à-vis households and nonfinancial corporations.

This approach was chosen against the background of the problem of applying the definition of new business to these categories. Since these categories are often subject to fluctuations in the outstanding amounts, it would have meant a disproportionately great effort for the reporting agents – apart from technical uncertainties – to capture amounts of new business within the meaning of the general definition of new business.

5.5 Methodology

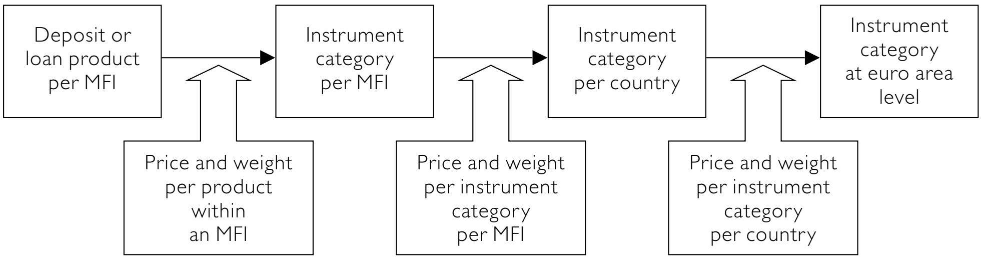
5.5.1 Capital-(Volume)-Weighting of Interest Rates

An essential element of the new interest rate statistics is the weighting of interest rates according to the volume in the course of calculating the average interest rates on deposits and loans to be reported. Both at the level of the reporting agents and in calculating the average interest rates for Austria and the euro area the underlying amounts (new business, stock of all deposits and loans) of an interest category are used for weighting.

While the weighted average interest rates on outstanding amounts referring to loans and deposits may be taken in full from the existing MFI balance sheet

Chart 2

Principle of Volume Weighting
in Calculating Average Interest Rates



statistics, the amounts of new business must be also reported by the reporting agents.

5.6 Instrument Categories

For consistency reasons the classification criteria followed, to the extent possible, the definitions applying to the harmonized MFI balance sheet statistics, in particular as far as the classification of economic sectors and product categories according to the requirements of the European System of Accounts (ESA 1995) is concerned.

The interest rates must be reported broken down by several criteria:

- by product category (deposits, loans);
- by economic sector (households including nonprofit institutions and nonfinancial corporations);
- by maturity (overnight deposits, deposits redeemable at notice, deposits with agreed maturity; loans are broken down by initial rate fixation);
- by amount (only for loans to nonfinancial corporations [up to EUR 1 million or over EUR 1 million]); and
- by purpose (bank overdrafts, consumer credit, loans for house purchases and for other purposes).

Additional remarks, details:

- For all categories the respective annualized agreed rate must be reported; in addition, for consumer credit and loans for house purchases the annual percentage rate of charge (APRC) must be reported (for definitions, see section 5.3).
- The initial period of fixation of the interest rate is defined as a predetermined period of time at the start of a contract during which the value of the interest rate cannot change. If after an initial period of fixation the interest rate automatically changes to a floating rate (as agreed in advance), this change is not included in the interest rates on new business. New lending business without any interest rate fixation (floating rates) is captured in the category of up to one year initial rate fixation.
- Bank overdrafts are generally defined as debit balances on current accounts, including in particular advances on current account. All bank overdrafts are captured independently of whether they are within or beyond the limit agreed between the reporting agent and the customer. Penalties on over-

drafts in excess of the agreed limits are covered by the annualized agreed rate only if they are an interest rate component.

Altogether, the harmonized reporting scheme to be complied with by all NCBs in the euro area comprises 45 interest rate indicators (14 for interest rates on outstanding amounts and 31 for interest rates on new business). As parts of the amounts needed for weighting may be taken from the MFI balance sheet statistics, the reporting agents are required to report only the amounts for a total of 27 categories.

The following table shows the indicators to be reported broken down by the approach to be used for volume weighting of the individual interest rate indicators in calculating the average interest rates (snapshot at a certain point in time or referring to period averages):

Table 1

Approach of Volume Weighting by Indicator Categories

	Indicators for new business		Indicators for outstanding amounts
Number of indicators	25 indicators	6 indicators[1])	14 indicators
Time reference point for weighting of amounts	Referring to period averages	Snapshot at a certain point in time	Snapshot at a certain point in time
Business coverage	Amounts of new business during the reporting period	Outstanding amounts at end-period	Outstanding amounts at end-period
Amounts to be reported in the interest rate statistics	25 indicators	2 indicators	–
Amounts compiled in the MFI balance sheet statistics	–	4 indicators	14 indicators

[1]) This refers to the following categories of deposits and loans:
– overnight deposits held by households and nonfinancial corporations;
– deposits redeemable at notice held by households and nonfinancial corporations; and
– bank overdrafts vis-à-vis households and nonfinancial corporations.

In addition to the harmonized indicators for the euro area interest rate statistics, the Austrian reporting scheme, however, comprises the following eight categories (interest rates and amounts of new business) because of their special importance:

– loans to households and nonfinancial corporations denominated in U.S. dollars, Swiss francs, Japanese yen and pound sterling; and
– savings deposits with agreed maturity held by households (four maturity bands).

5.7 Reporting Population

5.7.1 Possible Collection Methods for Interest Rate Statistics

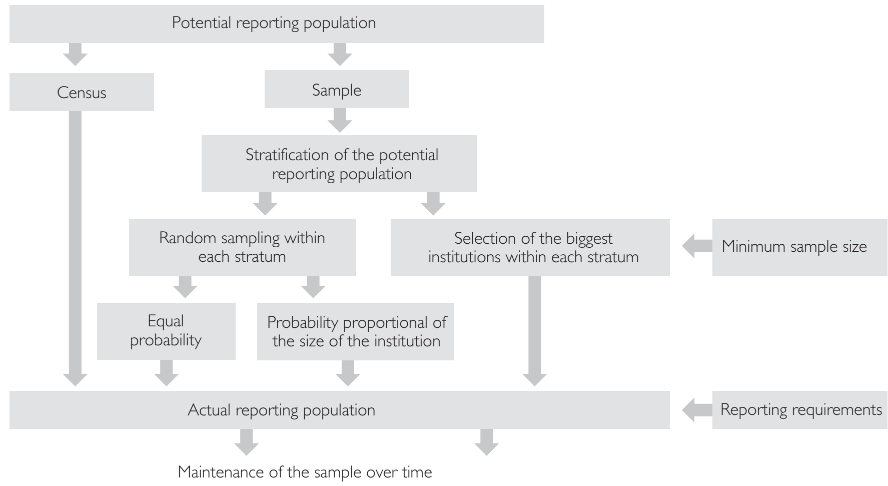
Unlike volume statistics, price statistics are suitable for applying alternative collection methods, allowing to derive sufficiently stable overall results already from the reports of a subpopulation.

Therefore, the ECB regulation provides not only for a census but also for a sample survey to compile the interest rate statistics. In a sample survey only a selection of the credit institutions in the potential reporting population is asked to report, which considerably reduces the banking sector's reporting burden as well as the NCBs' processing effort.

In order to ensure that the national samples are representative in terms of interest rates and amounts of new business to be reported, the ECB regulation

Chart 3

Decision Tree for Defining the Collection Method for the Interest Rate Statistics



Source: ECB.

laid down minimum requirements for a number of criteria for the use of the sampling approach:

– Stratification of the institutions into homogeneous strata[1]) to reduce sampling error;
– Selection of institutions (random sampling or selection of the largest institutions);
– Minimum sample size (the maximum random error for interest rates on new business on average over all instrument categories does not exceed 10 basis points at a confidence level of 90%);
– In the absence of such data the sample size may be assumed to be sufficiently large if it covers at least 30% of the potential reporting population (but no more than 100 institutions) or if at least 75% of the relevant stock of deposits and loans are covered by the sample; and
– The sample must be updated at intervals of at most two years.

The variables to be estimated by means of the sample are the interest rates on and the amounts of new business as well as the interest rates on outstanding amounts. In the case of the interest rates, the volume-weighted average interest rate determined on the basis of the individual strata serves as the direct estimator for the interest rates on deposits and loans to be reported to the ECB.

A different approach must be used for the amounts of new business, as these data are quantitative data. In this case the amounts are extrapolated per stratum according to the share of the reporting agents of this stratum in the overall stock of deposits or loans of this stratum.

1 *The strata shall be defined such that the intrastratum variance of the interest rates is lower than the extrastratum variance (Huygens theorem).*

5.7.2 Selection of Reporting Agents for the Austrian Interest Rate Statistics

In light of the great number of credit institutions in Austria, with a very large proportion of relatively small banks, it was decided – in line with the core principle of these statistics, i.e. the weighting of amounts to derive average interest rates – to apply a representative sampling approach for selecting the reporting agents. Moreover, this variant seems to be the most cost-efficient approach to produce the required results also from an overall economic perspective.

Accordingly, the actual task was to identify a suitable stratified sample for the collection of data for the harmonized interest rate statistics against the background of the following factors and considerations with regard to the sampling method:

– At a total of about 820 MFIs, the smallest 500 institutions represent only 5% of total assets, whereas the largest 10 institutions represent far more than 50%.
– Some 700 MFIs belong to one of the three decentralized banking sectors (Raiffeisen, Volksbank and savings banks), whose business and customer structures are quite similar.
– Inclusion only of institutions that also report statistical balance sheet data (contribution to the ECB consolidated balance sheet) (about 370 MFIs[1])) because these data are required for volume weighting of specific interest rate indicators.
– Because of considerable implementation costs, the stability of the sample should be guaranteed. Particularly for smaller institutions the relative implementation and operating costs are very high.

As the previous interest rate statistics[2]) were not suitable to serve as calculation basis for stratification, in particular due to the small number of reporting agents, regulatory statistical data of the quarterly report under the Austrian Banking Act were used alternatively. The major advantage of these data was that they were widely available to all Austrian credit institutions. From the data of the quarterly report, implied interest rates[3]) on loans and deposits were calculated on a highly aggregated basis per individual institution. These interest rates provided the basis for model calculations to identify, to the optimum extent, the number of strata and the reporting agents per stratum.

As stipulated by the regulation, each NCB that chooses the sampling approach identifies at least one stratification criterion to ensure that the sample of credit institutions and other institutions is representative of the participating Member State and the sampling error small. In simulations the most suitable stratification criterion for the sample chosen in Austria turned out to be the

1 *Pursuant to ECB Regulation 2001/13, the "tail" principle is used for collecting the base data for the consolidated balance sheet of the Austrian MFIs. This means that the data collection must comprise at least 95% of all MFIs, in terms of total assets. Accordingly, the number of reporting agents contributing to the ECB consolidated balance sheet is only just below 370 of more than 800 MFIs.*

2 *Collection period from 1995 until mid-2003.*

3 *Interest rates on outstanding amounts as implicit rates referring to the average of a period are calculated as quotients, with the numerator as the accumulated flow of interest during the reference period, i.e. the accrued interest payable on deposits and receivable on loans, and the denominator as the average period stock.*

"credit institution sector."[1]) However, certain additional adjustments had to be made in order to meet all quality standards stipulated in the ECB regulation. For instance, the sectors joint stock banks and special purpose banks were pooled, and the central institutions and large banks (like savings banks in provincial capitals) from the multi-tier sectors were added. The latter were removed from the multi-tier sectors, for their business spectrum deviated significantly from that of a great number of small institutions in these sectors.

Thus, the sampling scheme currently applied is based on five strata. The following table shows the detail of the scheme:

Table 2

Details on the Stratified Sample of the Austrian Interest Rate Statistics

As per September 30, 2003		Number of banks; total reporting population	Number of banks; sample	Coverage[1])
Stratum 1	Joint stock banks, special purpose banks and other large banks	104	43	76 to 100%
Stratum 2	Savings banks[2])	58	13	38 to 69%
Stratum 3	Raiffeisen credit cooperatives[2])	585	15	9 to 12%
Stratum 4	Volksbank credit cooperatives[2])	64	12	29 to 84%
Stratum 5	Building and loan associations	5	5	100%
	Total	816	88	–

[1]) *Coverage bandwidth referring to outstanding amounts of deposits and loans in the individual instrument categories.*
[2]) *Excluding large banks that are included in the stratum of joint stock banks, special purpose banks and other large banks.*

The largest stratum in terms of volume is the stratum of "joint stock banks, special purpose banks and other large banks." As this stratum turned out to be the least homogeneous by comparison, most reporting agents were chosen from this stratum, which produced a very high coverage relating to the stock of all deposits and loans.

As only banks that report the monetary statistics were to report the interest rate statistics and, moreover, the new reporting scheme would impose a very high relative cost burden on small MFIs, the largest institutions within a stratum were selected from the individual strata as actual reporting agents. Since the multi-tier sectors are highly homogeneous (as illustrated by low variances in these strata but also by the comparison of the calculated average implied interest rates on loans and deposits of the sample with the actual overall average of the stratum), a relatively small number of banks was sufficient to obtain a representative picture of these strata.

From the potential reporting population in Austria, the OeNB eventually selected 88 institutions as reporting agents. The coverage achieved by means of this sample is on average about 77% in terms of the relevant deposits and about 82% in terms of the relevant loans.

1 *According to the established classification of the Austrian credit institutions into seven major sectors (joint stock banks, savings banks, state mortgage banks, Raiffeisen credit cooperatives, Volksbank credit cooperatives, building and loan associations, special purpose banks).*

6 Impact of the New Scheme on the Interpretation of Results

6.1 Consequences of Capital (Volume) Weighting (Mainly New Business)

Although the capital weighting of interest rates applied in the new statistics brings a substantial gain in information for analytical purposes, certain special factors must be taken into account in analyzing the data, especially in the field of new business.

The great advantage of capital weighting is that every single interest rate is captured in the statistics in a way that it reflects the actual impact it has on the profit situation of an individual credit institution, or credit institutions as a whole, and also on the overall economy.

In the case of housing loans, for instance, building and loan associations with their large volumes of this type of loan have a considerable influence on the aggregated interest rate, which is reflected, e.g., in the category "over 1 and up to 5 years interest rate fixation," where building and loan associations hold a share of almost 90% in total new business reported. The capital-weighted average interest rate thus depicts the actual conditions of the Austrian market in this business segment. If – like in the previous interest rate statistics – an unweighted arithmetic mean were calculated across all interest rates reported, building and loan associations would be captured in the statistics, as in all other categories, only with a weight of about 17% (5 building and loan associations among a total of 88 reporting agents).

Capital weighting further implies that a few single large banks with their large branch networks and – thus – very high lending volumes have a substantial impact on the interest rates in many categories. The data show, for instance, that the category "consumer credit over 1 and up to 5 years interest rate fixation" is profoundly influenced by two major banks which report up to 90% of the amounts of new business in some months. When these banks stimulate new business by providing special offers, including special offers for employees (unlike the old interest rate statistics, the new statistics now also capture these terms and conditions) and at the same time reduce the interest rate, downward movements may be more pronounced. This situation may also cause inverted yield curves (interest rates with longer periods of fixation are below the ones with shorter or without any periods of fixation).

The situation is similar for the categories where the volume of deposits and loans to which the interest rates are applied is very small. As the current period of low interest rates is acting as a brake on new business contracts involving interest rates with longer periods of fixation, the results in the categories referring to loans with over 5 years but also with between 1 and 5 years interest rate fixation were observed to have followed a rather volatile course in the first months after the introduction of the new reporting scheme. Closer investigation showed that a few individual large-volume contracts had, sporadically, greatly influenced the interest rate, thus causing interest rate swings. Therefore, from a short-term perspective, in these cases only limited conclusions can be drawn about the transmission mechanism and the general common interest level.

The predominance of individual contracts in the total result may even cause problems relating to the confidentiality of individual bank data; however, the confidentiality problem is less evident with the data on interest rates than with those on new business amounts, which at present are not published, not least for this reason.

The problem is further aggravated by the application of a broad definition to new business. For instance, renegotiations of an old high-interest contract where the customer, however, is not in the position to negotiate a more favorable new interest rate may impact the total interest rate of one category contrary to the general trend.

In general, capital weighting also produces interest rates that tend to be lower on the loan side and higher on the deposit side than in the previous statistics, as they are influenced by the excellent conditions provided to weighty customers in terms of loan volume or to customers with very good credit ratings. By contrast, the concept of the most frequently applied interest rate used in the old statistics tended to reflect the standard terms in the market. The greater the share of retail business in the respective category (e.g. savings deposits or floating interest loans), the more prominently the standard terms feature in the statistics.

6.2 Sector-Specific Characteristics

A special situation arises from the fact that according to the sector definition pursuant to ESA 95 the household sector also includes nonprofit institutions serving households.[1]) As a result, the interest rates in particular in the category "other loans" are surprisingly low. This is due to the fact that some credit institutions' share of loans to nonprofit institutions serving households is disproportionately high because a great deal more loans are granted to households for consumption and house purchases than for other purposes. Therefore, individual – usually very high – loans to associations, parties or churches, which often enjoy very favorable interest rates, have a strong downward effect on the average interest rate and the share of these contracts in the total volume usually has a stronger effect on the interest rate than actual changes in the credit institutions' terms and conditions.

6.3 Impact of Credit Ratings on Interest Rates

As the interest rate collected in the interest rate statistics is the annualized agreed rate, which is the rate actually agreed with the respective customer on an individual basis, customers' credit ratings have a great influence on the interest rates reported by the credit institutions. In some categories the interest rates reported by the banks clearly reveal their customer profiles and a rise in the interest rate sometimes has less to do with changed market conditions owing to key interest rate hikes than with an increase in the proportion of customers with poorer credit ratings. Such increases, e.g. in the field of consumer credit and corporate lending, may well feed through to the total result for Austria.

1 *The sector "nonprofit institutions serving households" comprises institutions which, as non-market producers, are not profit-oriented and serve households. Their principal resources are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments and from property income.*

The strong influence of credit ratings on the interest rate captured in the interest rate statistics clearly shows when a few large loans to customers with excellent credit ratings, and thus considerable negotiating power, drive down the interest rate by 10 or more basis points. This strong negotiating position of some major customers often accounts for the notably low interest rates that are granted to large nonfinancial corporations or nonprofit institutions serving households, which play a key role not only in the interest rate reported by the credit institution but also in the total result for Austria.

Due to the often high correlation between a customer's credit rating and the credit volume, this leads to typically very big leaps that seem to be at odds with the interest rate development in the market. This was especially true for loans with longer periods of initial rate fixation granted to nonfinancial corporations in the first months after the introduction of the new statistics, and the dominating influence of credit ratings was revealed to be particularly strong in the categories where only few contracts represent the reported volume.

The interest rate actually agreed in retail banking is usually composed of the market interest rate (EURIBOR, ECB key interest rate, etc.) and a premium to cover the loan default risk, which each bank determines individually for customers or groups of customers. In the previous interest rate statistics the difference compared to the market interest rate allowed conclusions to be drawn only about the standard premium. The advantage of the new interest rate statistics scheme over the old one is that the comparison of market interest rates and reported volume-weighted retail bank interest rates over time provides information about changes in the risk situation of the banking industry and thus customers' credit ratings.

In interpreting the interest rates it must also be taken into account that offsetting effects may occur. If the general economy deteriorates and, as a consequence, the ECB cuts the key interest rates, banks can be expected to pass on these changes to their customers, which is how the transmission mechanism works. However, even though banks do pass on key rate cuts to their customers, which, according to both the old and the new interest rate statistics, they have been doing, the effect felt by the customer may be cushioned because due to the adverse economic conditions and the ensuing higher default risk, the risk premium will be raised for the majority of loans.

6.4 Interpretation of New Business

The definition of new business, which is broader than that of the previous interest rate statistics, is key to interpreting the interest rates on new business. New business not only includes new contracts that specify for the first time the interest rate of the deposit or loan but also renegotiations of existing contracts. Thus, in addition to new contracts, prolongations of existing contracts (unless carried out automatically), rate changes in fixed-interest contracts or credit line extensions are captured by the definition of new business. Whether a deposit or loan contract is considered new business depends on whether the customer is actively involved in the renegotiation of the terms and conditions; when, for instance, fixed-interest terms and conditions are to be changed, such customer involvement is always required. On the other hand, changes in floating interest rates are usually not considered as new business. The fact that any change in the contract that requires customer involvement is assigned to new business is understandable as at that time the customer might just as well decide differently and enter into a new contract (possibly even with a different credit institution). In some cases, however, the customer's financial situation will allow no other option but to accept the new terms and conditions. Because of the rather broad definition of new business in the current low interest rate period, under the mentioned conditions and with correspondingly large amounts, old contracts for which a relatively high interest rate was agreed may considerably influence the interest rate on new business.

The amounts of new business can be very high in particular with loans taken out in tranches,[1]) as in such cases not only the amount of the first loan tranche taken out must be reported but the negotiated full amount (in this case the full credit line). Therefore, the amounts of new business of a period allow only limited comparison with corresponding changes in outstanding amounts reported in the contribution to the ECB consolidated balance sheet. In an extreme case, the amounts of new business might in one month be even higher than the entire outstanding amounts for the same category captured in the contribution to the ECB consolidated balance sheet.

Apart from the categories including real new business within the meaning of a flow variable, the ECB regulation on the new interest rate statistics also contains a few new business categories relating to outstanding amounts at the end of a period. These categories are "overnight deposits," "deposits redeemable at notice" and "bank overdrafts." In the latter category bank overdrafts vis-à-vis nonfinancial corporations are particularly interesting from an analytical point of view, as due to the broad definition ("debit balances on current accounts"), advances on current account are also included in this category. For this category only the interest rates on outstanding amounts at the end of the month are available, since no reasonable and feasible definition of new business on current accounts could be found in drawing up the new interest rate statistics scheme. However, the interest rates for bank overdrafts vis-à-vis nonfinancial corporations appear to be a suitable measure for observing the transmission mechanism for two reasons: First, the risk of distortions due to volatile new business amounts does not occur in this category because the amounts are calculated on an end-of-period basis, and, second, this category usually includes only a relatively small proportion of contracts with old interest rates.

All other longer-term categories of outstanding amounts are suitable for observing the transmission mechanism only to a certain extent, given the high proportion of old contracts and the lacking timeliness of interest rates, but they are ideal for observing the credit institutions' profits generated by the loan and deposit business in the different categories.

6.5 The Issue of Key Rates

The problems addressed in this chapter related to the interpretation of certain interest rate categories as well as the large number of categories contained in the scheme prompted the ECB to make it easier for users to use the new statistics.

1 *Loans that are not taken out in full at the start of the contract but in instalments defined upon conclusion of the contract.*

Of the interest rates available on the ECB website, a few key interest rates are to be highlighted (limited selection of indicators from the list of interest rates to be reported), for which a euro aggregate as well as country-specific results are published. However, it proved extremely difficult at the level of both the ECB and the individual NCBs to ascertain which interest rates may be referred to as key interest rates for the euro area, while having sufficient weight in the individual countries to provide stable and mutually comparable results over time. In the end, the ECB decided that the amounts underlying the interest rates should serve as criterion, thus placing the focus on the new business categories overnight deposits and overdrafts (referring to the whole stock).

In our opinion, however, a user who is particularly interested in observing the transmission mechanism may achieve even better results

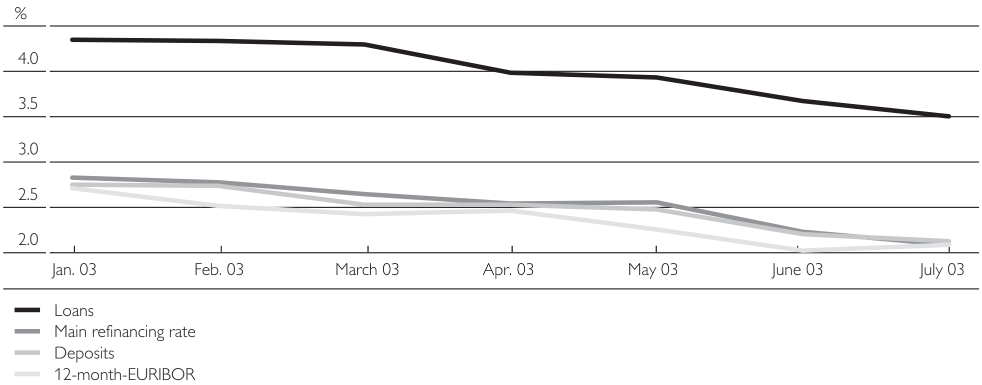
- by relying on indicators that are based on "actual" amounts of new business and whose reported volumes are of corresponding size, or
- by using total aggregates, e.g. the total of all loans, across all categories of periods of interest rate fixation in order to obtain stable informative time series, as in this case, in fact, only new agreements are captured and the amounts underlying the interest rates are sufficiently high.

7 Analysis of the Results of the New Interest Rate Statistics in 2003

A first analysis of the results of the new interest rate statistics in Austria between January and July 2003, which for the reasons mentioned above is mostly based on total aggregates, shows that in July 2003 the capital-weighted average interest rate across all euro-denominated loan categories was 0.86 percentage point below the value of January 2003, whereas the capital-weighted interest rate across all deposit categories was 0.65 percentage point lower. Over the same period, the ECB main refinancing rate declined 0.74 percentage point. This shows that Austrian banks largely passed the ECB key interest rate cuts on to their customers. Due to the less marked decline of the interest rates on deposits, the margin between the capital-weighted average interest rate across all

Chart 4

Comparison of Retail Interest Rates with the ECB Main Refinancing Rate



Source: OeNB.

euro-denominated loans and that across all euro-denominated deposits dropped from 1.71 percentage points in January 2003 to a mere 1.50 percentage points in July 2003.

7.1 Development of Interest Rates on Loans Referring to New Business

The continuing trend of clearly decreasing average interest rates on loans intensified in most collection categories owing to the key interest rate cut of June 2003. In July 2003 the capital-weighted average interest rate across all euro-denominated loan categories fell by 0.17 percentage point compared to the previous month and thus by 0.86 percentage point to 3.5% compared to January 2003. The average interest rate dropped particularly sharply for loans to non-financial corporations, and especially for loans amounting to over EUR 1 million, to be precise from 3.98% in January 2003 by 0.97 percentage point to 3.01%, whereas the decline was only 0.64 percentage point for loans amounting to up to EUR 1 million.

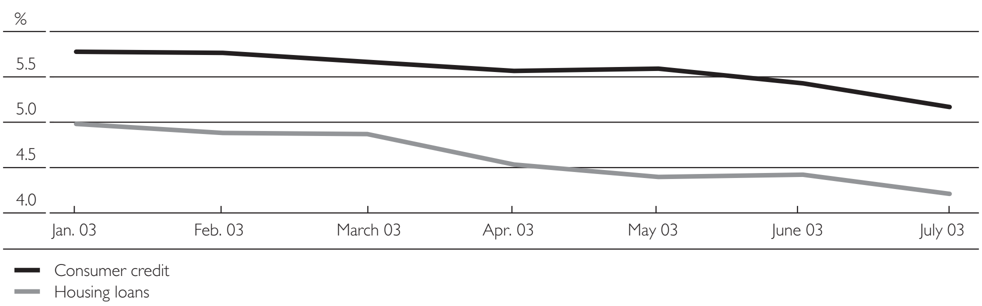
Interest rates on housing loans also fell notably, on average by 0.78 percentage point against January 2003, whereas interest rate reductions were less significant for consumer credit (5.15% in July against January 2003, a decline by 0.70 percentage point).

By comparing the annual percentage rates of charge and the annualized agreed rates, the charges referring to the respective loan categories can be calculated. In the consumer credit category the share of charges in overall costs (at 5.88% the annual percentage rate of charge was clearly above the capital-weighted annualized agreed rate of 5.15% across all periods of interest rate fixation) was higher than in the category of housing loans (with an annual percentage rate of charge of 4.41% compared with the capital-weighted annualized agreed rate of 4.18%), even though the charges for housing loans had been reduced markedly since January 2003 (the difference between the annual percentage rate of charge and the annualized agreed rate dropped from 0.41 to 0.23 percentage point).

In the categories covering foreign currency loans, loans denominated in Japanese yen and Swiss francs, which are by far the most important in terms of loan size, the already very low interest rates dropped less markedly than the interest rates on euro-denominated loans. The average interest rate on yen-denominated loans edged down by 0.08 percentage point to 1.12% against

Chart 5

Housing Loans and Consumer Credit



Source: OeNB.

January 2003 and the average interest rate on loans denominated in Swiss francs slid by 0.47 percentage point to 1.55%, while the rates on euro-denominated loans fell by 0.86 percentage point over the same period.

7.2 Development of the Interest Rates on Deposits Referring to New Business

Interest rates on deposits, too, saw a clear downward trend, albeit to a lesser degree than interest rates on loans (the corresponding average interest rate across all euro-denominated deposits dropped by 0.65 percentage point). The capital-weighted average interest rate across all maturity categories on savings deposits of households, which is collected by the OeNB in addition to the deposits to be reported under the ECB regulation, was 2.25% in July 2003 and thus 0.56 percentage point below the corresponding value of January 2003.

Table 3

Interest Rates[1]) on Loans Referring to New Business

	Loans to households					Loans to nonfinancial corporations		Loans to households and nonfinancial corporations		Loans denominated in euro total
	Consumer credit		Housing loans		Other loans	Loans up to EUR 1 million	Loans over EUR 1 million	Loans denominated in JPY	Loans denominated in CHF	
	Annualized agreed rate	APRC	Annualized agreed rate	APRC						
	% p.a.									
2003										
January	5.85	6.62	4.96	5.37	5.32	4.57	3.98	1.20	2.02	4.36
February	5.75	6.48	4.86	5.24	5.22	4.67	3.91	1.20	2.01	4.33
March	5.65	6.36	4.85	5.21	5.04	4.59	3.75	1.22	1.85	4.29
April	5.55	6.27	4.50	4.80	4.96	4.46	3.46	1.20	1.80	3.97
May	5.57	6.26	4.37	4.72	4.72	4.29	3.47	1.17	1.79	3.92
June	5.41	6.18	4.39	4.63	4.58	4.04	3.21	1.04	1.59	3.67
July	5.15	5.88	4.18	4.41	4.41	3.93	3.01	1.12	1.55	3.50

Source: OeNB.
[1]) Unless otherwise stated, the interest rate shall be the annualized agreed rate.

Table 4

Interest Rates[1]) on Deposits Referring to New Business

	Deposits held by households				Deposits held by nonfinancial corporations	Deposits denominated in euro total[2])
	Savings deposits					
	Up to 1 year	1 to 2 years	Over 2 years	Total		
	% p.a.					
2003						
January	2.57	3.01	3.39	2.81	2.61	2.65
February	2.59	2.98	3.33	2.83	2.59	2.63
March	2.44	2.91	3.24	2.65	2.32	2.42
April	2.42	2.85	3.16	2.58	2.37	2.41
May	2.34	2.70	3.12	2.54	2.33	2.36
June	2.15	2.55	3.01	2.37	1.99	2.08
July	2.10	2.37	2.85	2.25	1.92	2.00

Source: OeNB.
[1]) The interest rate is the annualized agreed rate.
[2]) The average refers to all deposit categories compiled.

The average interest rate on savings deposits with an agreed maturity of over two years was 2.85%, following a decline of 0.54 percentage point against January 2003. Thus, in July 2003 the interest rate fell below the 3% mark for the first time this year. For deposits placed by nonfinancial corporations, at 1.92 percentage points, the capital-weighted average interest rate across all maturity periods was below the 2% mark in July 2003 for the second time this year and therefore lower by 0.69 percentage point than at the beginning of 2003.

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Regulation (EC) No 2423/2001 of the European Central Bank of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13).

Regulation (EC) No 63/2002 of the European Central Bank of 20 December 2001 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18).

Annex I

Austrian interest rate statistics 1995 to 2003	**ECB interest rate statistics since 2003**
Type of interest rate – Nominal interest rate + certain charges; fees that banks charge on personal and commercial loans are included, whereas commissions on turnover are not	**Type of interest rate** – Annualized agreed rate contains interest rate components (intrayear interest payments on deposits and loans, disagio) but no other charges; – Annual percentage rate of charge (additionally for consumer credit and housing loans)
Published interest rate – Reporting agents provide monthly information about the interest rate agreed most frequently on new business in 18 categories during the review month; no amounts – The OeNB eliminates 5% of the outliers and calculates the unweighted arithmetic mean across the interest rates – the bandwidth is also published	**Published interest rate** – Reporting agents provide monthly information about the capital-weighted average interest rate applied to all new business in 39 categories + amounts of new business in 35 categories + interest rates on outstanding amounts in 14 categories – The OeNB calculates the capital-weighted average interest rate for Austria, extrapolating in 4 of 5 strata the amounts of new business on the basis of the stocks of the reported minimum reserve
Reporting population – Reporting agents (in the end 37 reporting agents due to mergers) – Selection of the reporting population Selective sampling – (“purposive sample”) according to functional and regional criteria	**Reporting population** – 88 reporting agents – Selection of the reporting population Stratified random sample or biggest credit institutions per stratum; ECB regulation would also allow census – Credit institutions subdivided into 5 strata
Business included – Only new business – Narrow definition of new business: Only new contracts concluded within a month – Prolongations and changes of previous agreements not included – Only “regular business” with Austrians covered – Foreign currency business, employee or comparable terms and conditions not covered	**Business included** – New business + outstanding amounts – Broad definition of new business: New contracts plus renegotiations of existing contracts – Prolongations and interest payments on top of the interest rate included (unless carried out automatically) – All business with households or nonfinancial corporations resident in the euro area covered – Foreign currency loans (in separate categories) and special terms and conditions also covered
Breakdown – Assets side: Only by type of loan – Liabilities side: By maturity, deposit amount, type of deposit	**Breakdown** – Assets side: Sectoral breakdown by customer, initial period of fixation, type of instrument and, for loans to nonfinancial corporations, by amount – Liabilities side: Sectoral breakdown by customer, maturity, type of deposit

Abbreviations

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

Legend

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

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

Official Announcements of the Oesterreichische Nationalbank

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

Official Announcements Regarding the Foreign Exchange Law

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

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

Official Announcements
Regarding the Foreign Exchange Law (cont.)

DL 1/02	Modification of Official Announcements DL 1/91 and DL 3/91 with respect to the Foreign Exchange Act	Feb. 25, 2002	1/2002
DL 2/02	Amendment to Official Announcement DL 2/91; UN Security Council Resolution No. 1373 (2001)	Sept. 2, 2002	3/2002
DL 3/02	Modification of Official Announcement DL 2/02	Jan. 20, 2003	4/2002
DL 1/03	Abrogation of Official Announcement DL 4/91	July 18, 2003	3/2003
DL 2/03	Abrogation of Official Announcement DL 2/02	Sept. 2, 2003	4/2003
DL 3/03	Abrogation of Official Announcement DL 1/91 and DL 2/91	Dec. 23, 2003	4/2003

Council Regulations of the European Communities

		Published in the Official Journal of the European Communities

Minimum Reserve Regulations

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

List of Reports, Summaries and Studies[1])

Published in "Focus on Austria"

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

1 *For a comprehensive list of reports, summaries and studies hitherto published please refer to issue no. 1/2003 of "Focus on Austria."*

	Published in "Focus on Austria"
Austrian Financial Market (cont.)	
Money and Credit in the First Three Quarters of 2002	4/2002
Money and Credit in 2002	1/2003
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Focus on Austria 2/2001:

The New Framework for Fiscal Policy

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Austria's Sovereign Debt Management Against the Background
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Balance Sheet and Bank Lending Channels:
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Transmission Mechanism and the Labor Market:
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Monetary Transmission and Fiscal Policy
Principles for Building Models of the
Monetary Policy Transmission Mechanism

Focus on Austria 2/2003:

**Pension Finance Reform:
From Public to Financial Economics**

Welfare Effects of Pension Finance Reform
Varieties of Capitalism and Pension Reform: Will the "Riester-Rente" Transform the German Coordinated Market Economy?
Pension Finance Reform, Tax Incentives for Life Annuities and the Problem of Adverse Selection
Pension Funds and European Financial Markets
Investment-Based Pension Reform as a Solution to the Old-Age Crisis?
Risk Issues in the Pension Reform Debate
Investment-Based Pension Reform for Austria – Or Boosting Employment and Growth?
Tax Incentives in Investment-Based Pension Reform and Fiscal Sustainability

Publications of the Oesterreichische Nationalbank

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

Other Publications	
New Developments in Banking and Finance in East and West (Kranichberg 1989)	1990
Erfahrungen Österreichs beim Übergang von administrativer Regulierung zur Marktwirtschaft (Moscow 1990)	1990
Challenges for European Bank Managers in the 1990s (Badgastein 1990)	1991
From Control to Market - Austria's Experiences in the Post-War Period (Warsaw 1990)	1991
The Economic Opening of Eastern Europe (Bergsten Conference Vienna 1991)	1991
Erneuerung durch Integration – 175 Jahre Oesterreichische Nationalbank	1991
Striking a Balance – 175 Years of Austrian National Bank	1991
Transparente Dispositionen – Liberalisierter Devisenverkehr unter Beachtung internationaler Publizitätsverpflichtungen	1991
Ausgeglichene Position – Die neue Präsentation der österreichischen Zahlungsbilanz	1992
Aktive Bilanz – Ein Jahr vollständig liberalisierter Devisenverkehr in Österreich	1992
Economic Consequences of Soviet Disintegration (Bergsten Conference Vienna 1992)	1993
Neuorientierung – Internationale Vermögensposition und Außenwirtschaftliche Investitionsbilanz Österreichs	1993
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Other Publications (cont.)	Published
Internationale Vermögensposition 1992 – Die grenzüberschreitenden Forderungen und Verpflichtungen Österreichs	1994
International Investment Position for 1992 – Austria’s Cross-Border Assets and Liabilities	1994
Western Europe in Transition: The Impact of the Opening-up of Eastern Europe and the Former Soviet Union	1995
Die Oesterreichische Nationalbank als Unternehmen	1996
Monetary Policy in Central and Eastern Europe: Challenges of EU Integration	1996
Monetary Policy in Transition in East and West	1997
Die Auswirkungen des Euro auf den Finanzmarkt Österreich	1997
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Die Zukunft des Geldes: Auf dem Weg zum Euro Grundlagen – Strukturen – Termine	1997
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Kompendium von Texten zur Wirtschafts- und Währungsunion	1997
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Information literature on banknote security	recurrently

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

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

1975	Die ökonomischen, politischen und sozialen Konsequenzen der Wachstumsverlangsamung
1976	Störungsanfällige Bereiche in unserem ökonomischen und sozialen System
1977	Fiskalismus kontra Monetarismus
1978	Wirtschaftsprognose und Wirtschaftspolitik
1979	Technik-, Wirtschaftswachstums-, Wissenschaftsverdrossenheit: Die neue Romantik – Analyse einer Zeitströmung
1980	Probleme der Leistungsbilanz in den achtziger Jahren
1981	Systemkrisen in Ost und West
1982	Forschung und Wirtschaftswachstum
1983	Ausweg aus der Krise – Wege der Wirtschaftstheorie und Wirtschaftspolitik
1984	Der Weg zur Welthandelsnation
1985	Weltanschauung und Wirtschaft
1986	Vollbeschäftigung, ein erreichbares Ziel?
1987	Vollendung des Binnenmarktes in der Europäischen Gemeinschaft – Folgen und Folgerungen für Österreich
1988	Sand im Getriebe – Ursachen und Auswirkungen der Wachstumsverlangsamung in Österreich
1989	Banken und Finanzmärkte – Herausforderung der neunziger Jahre
1990	Wettbewerb und Kooperation im Finanzbereich
1991	Wirtschaftliche und politische Neugestaltung Europas – Rückblick und Perspektiven
1992	Zukunft regionaler Finanzmärkte in einem integrierten Europa
1993	Europäische Währungspolitik und internationaler Konjunkturverlauf
1994	Neue internationale Arbeitsteilung – Die Rolle der Währungspolitik
1995	Die Zukunft des Geldes – das Geld der Zukunft
1996	Auf dem Weg zur Wirtschafts- und Währungsunion – Bedingungen für Stabilität und Systemsicherheit
1997	Die Bedeutung der Unabhängigkeit der Notenbank für die Glaubwürdigkeit der europäischen Geldpolitik
1998	Wirtschaftspolitik 2000 – Die Rolle der Wirtschaftspolitik und nationaler Notenbanken in der WWU
1999	Möglichkeiten und Grenzen der Geldpolitik
2000	Das neue Millennium – Zeit für ein neues ökonomisches Paradigma?
2001	Der einheitliche Finanzmarkt – Eine Zwischenbilanz nach zwei Jahren WWU
2002	Wettbewerb der Regionen und Integration in der WWU (Competition of Regions and Integration in EMU)
2003	Die Förderung des Wirtschaftswachstums in Europa (Fostering Economic Growth in Europe)

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

		Published
No. 61	Price Dynamics in Central and Eastern European EU Accession Countries	2002
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No. 65	Dollarization and Economic Performance: What Do We Really Know?	2002
No. 66	Growth, Integration and Macroeconomic Policy Design: Some Lessons for Latin America	2002
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No. 84	Searching for the Natural Rate of Interest: A Euro-Area Perspective	2003
No. 85	Investigating Asymmetries in the Bank Lending Channel. An Analysis Using Austrian Banks' Balance Sheet Data	2003
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1 *For a comprehensive List of the Topics Discussed in the Working Papers please refer to issue no. 12/2002 of "Statistisches Monatsheft."*

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