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Publisher and editor:

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Editor in chief:

Günther Thonabauer, Secretariat of the Governing Board and Public Relations

Contributions:

Michael Andreasch, Margarete Czerny (Austrian Institute of Economic Research), René Dell'mour, Ralf Dobringer, Gerhard Fenz, Matthias Fuchs, Ernest Gnan, Claudia Oberndorfer, Margarita Schandl-Greyer, Johann Scharler, Martin Schneider, Sandra Steindl, Karin Wagner, Patricia Walter, Walter Waschiczek, Isabel Winkler

Editorial processing:

Brigitte Alizadeh-Gruber
Economic Analysis Division
Otto-Wagner-Platz 3, A 1090 Vienna

Translated by:

Dagmar Dichtl, Ingrid Haussteiner, Irene Mühldorf, Ingeborg Schuch, Susanne Steinacher, Foreign Research Division

Design:

Peter Buchegger, Secretariat of the Governing Board and Public Relations

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Walter Grosser, Printing Office

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Inquiries:

Oesterreichische Nationalbank
Secretariat of the Governing Board and Public Relations
Otto-Wagner-Platz 3, A 1090 Vienna
Postal address: P.O. Box 61, A 1011 Vienna
Telephone: (+43-1) 404 20, ext. 6666
Fax: (+43-1) 404 20, ext. 6696

Orders:

Oesterreichische Nationalbank
Documentation Management and Communications Services
Otto-Wagner-Platz 3, A 1090 Vienna
Postal address: P.O. Box 61, A 1011 Vienna
Telephone: (+43-1) 404 20, ext. 2345
Fax: (+43-1) 404 20, ext. 2398

e-mail:

oenb.publikationen@oenb.at

Internet:

http://www.oenb.at

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

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Austria

June 2003

5 *Reference Rate Cut*

Following the monetary policy decision taken by the Governing Council of the ECB on June 5, 2003, to cut the interest rate for the marginal lending facility by 0.50 percentage point to 3.00% with effect from June 6, 2003, the reference rate in Austria is reduced by 0.75 percentage point to 3.25% with effect from June 6, 2003, as required by the first euro-related amendment to civil legislation (Federal Law Gazette Part I No. 125/1998) and as specified in the corresponding regulation (Federal Law Gazette Part II No. 27/1999, as amended).

6 *Base Rate Cut*

The marginal interest rate on the main refinancing operation of the European Central Bank to be settled on June 9, 2003, is 2.09%, down by 0.73 percentage point against the interest rate calculated for the main refinancing operation (2.82%) settled immediately after the latest change of the base rate (December 11, 2002). Thus, in accordance with Article I (1) of the first euro-related amendment to civil legislation (Federal Law Gazette Part I No. 125/1998) and as specified in the corresponding regulation (Federal Law Gazette Part II No. 27/1999, as amended), the base rate is reduced by 0.73 percentage point to 1.47% with effect from June 9, 2003.

11 *Amendment to the Insurance Companies Supervision Act*

The federal law amending the Insurance Companies Supervision Act, the Cartel Act 1988, the Insurance Taxation Act 1953, the Insurance Contracts Act 1958, the Nuclear Liability Act 1999, the Federal Law on Extended Protection for Victims of Road Accidents, the Financial Market Authority Act, the Stock Exchange Act and the Banking Act (the 2003 Amendment to the Insurance Companies Supervision Act) is promulgated.

The amendment to the Insurance Companies Supervision Act serves the purpose of implementing Directives 2002/13/EC and 2002/83/EC, which amend the solvency margin requirements for life assurance undertakings, into Austrian law. Also, fiscal disadvantages arising in connection with insurance contracts concluded in non-Member States are to be eliminated; this provision is part of a liberalization process in connection with WTO requirements and the current GATS negotiation round.

13 *Duty of Care and Combating Money Laundering and the Financing of Terrorist Activities*

The Federal law amending the Banking Act, the Gambling Act, the Capital Market Act, the Insurance Companies Supervision Act and the Financial Market Authority Act is promulgated.

The amendment to the EU Directive on Money Laundering and three of the Eight Special Recommendations adopted by the Financial Action Task Force on Money Laundering (FATF) in October 2001 necessitate amendments to the Banking Act, the Gambling Act, the Capital Market Act, the Insurance Companies Supervision Act and the Financial Market

Authority Act. The activities of bureaux de change are reclassified as financial services requiring a license, thus making them subject to the supervision by the Financial Market Authority. Since full application of the Banking Act is not required, certain exceptions apply to bureaux de change with regard to capital and liquidity requirements, the provisions in connection with accounting rules and regular reporting, and the requirement of two full-time professional managers.

30 *Maximum Interest Rate Regulation 2003 (Federal Law Gazette Part II No. 312/2003)*

In accordance with a Financial Market Authority regulation, the state subsidies granted for life assurance contracts and for the newly introduced state-sponsored personal pension plans concluded after January 1, 2004 are reduced. The guaranteed maximum interest rate for life assurance contracts will be 2.75%, while the upwards adjustment (pursuant to Article 108 para 1 Income Tax Law 1988) of the fixed rate of 5.5% will not exceed 2% for the new state-subsidized personal pension scheme.

July 2003

24 *Real Estate Investment Funds Act (adoption by the Bundesrat, the upper house of parliament)*

The Real Estate Investment Funds Act reestablishes the Real Estate Funds Act and adapts the Mutual Funds Act to Community law.

The Real Estate Investment Funds Act including accompanying amendments has been created as a response to the increasing demand for long-term, secure and profitable investment opportunities in real estate. Important new provisions are: a) The business operations of a real estate fund need to be conducted by a custodian bank, which is to be appointed; b) the investment rules of the Company Pension Fund Act and the Pension Fund Act are applied to real estate funds; c) the funds are subject to banking supervision.

The measures to adapt the Investment Fund Act to EU Directives are: a) The introduction of a "European Passport" granting permission to investment companies to offer cross-border services in all Member States; b) the permission to manage portfolios on a single-customer basis; c) the introduction of a simplified prospectus for investors, which increases investment companies' information requirements.

European Union

May 2003

7 The *European Commission,* in an opinion on the budgetary situation in France prepared under the obligations of Article 104.5 of the Treaty, concludes that an excessive deficit exists in France. It is recommended to the French government to put an end to the present excessive deficit situation as rapidly as possible and by 2004 at the latest. The necessary measures have to be taken before October 3, 2003.

8 The *Governing Council of the ECB* presents the results of a thorough evaluation of the ECB's monetary policy strategy. The current definition

of price stability as a year-on-year increase in the HICP for the euro area of below 2% is specified as an inflation rate close to but below 2%. There is also a change in the communication of the Governing Council of the ECB: the introductory statement of the President will henceforth start with the economic analysis to identify risks to price stability. The monetary analysis will then follow to assess medium to long-term trends in inflation in view of the close relationship between money and prices over extended horizons. To underscore the longer-term nature of the reference value for monetary growth as a benchmark for the assessment of monetary developments, the Governing Council also decided to no longer conduct a review of the reference value on an annual basis.

10/11 In a referendum, an overwhelming majority of *Lithuanian* citizens (89.9%) vote in favor of joining the EU. Voter turnout comes to 63.3% and thus clearly exceeds the 50% turnout required for the referendum to be valid.

12 At their meeting in Brussels, the *Eurogroup finance ministers* note that the 2006 target for reaching balanced national budgets is unrealistic. EU Commissioner for Economic and Monetary Affairs Pedro Solbes calls upon the EU Member States to bring their budget deficit down below 3% next year and to reduce the underlying deficit by ½ percentage point per year.

13 At the *Ecofin Council meeting* in Brussels, the EU finance ministers discuss the Preliminary Draft Budget (PDB) for 2004 (the budget for the EU-15 will take effect on January 1, 2004 and for the EU-25 on May 1, 2004), the Broad Economic Policy Guidelines for 2003 to 2005, which have been recommended by the European Commission for the first time with a three-year perspective, and the economic and financial implications of aging populations.

In addition, the EU finance ministers examine the updated stability program of Austria. In spite of savings, mainly in the administrative area, the Austrian government expects the deficit to rise from 0.7% to 1.5% of GDP owing to the envisaged tax reform in 2005. As the tax reform of 2005 will apparently not be accompanied by sufficient expenditure restraint and the debt-to-GDP ratio is expected to fall slightly below the reference value of 60% not before 2007, the Austrian stability program is only partly in line with the requirements of the Stability and Growth Pact, the Council concludes.

The EU *finance ministers* reach a special agreement with Switzerland within the framework of the tax package. They fail to agree upon the EU savings tax directive on account of Italy's reservation to grant its approval only if authorized to grant fiscal aid to its dairy farmers. However, the finance ministers decide not to reopen the tax package.

15 At its plenary session, the *European Parliament* by a large majority approves the appointment of OeNB Vice Governor Gertrude Tumpel-Gugerell as a new member of the Executive Board of the ECB.

16/17 In a referendum, an overwhelming majority of *Slovak* citizens (92.46%) vote in favor of joining the *EU.* Voter turnout comes to 52.15% and thus exceeds the required turnout of 50%.

23 The *European Commission* presents an Action Plan on "Modernising Company Law and Enhancing Corporate Governance in the EU" aimed at strengthening confidence in financial markets.

26/27 The *Euro-Mediterranean Conference* at Iraklion (Crete) is attended by the EU foreign ministers, their counterparts from twelve countries from the southern and eastern parts of the Mediterranean region as well as, for the first time, the foreign ministers of the ten future EU Member States. The preparations for establishing a free trade area until 2010 constitute the key topic of this meeting.

30/31 At its plenary session in Brussels, the Praesidium of the *European Convention* presents a draft of the Constitutional Treaty. Apart from a general debate on the Charter of Fundamental Rights, discussions focus on enhanced cooperation, economic and monetary policy, tax issues as well as the system of own resources and budgetary procedure.

31 May-1 June At the eleventh *EU-Russia Summit* in the town of Strelna, near St. Petersburg, which is also attended by the heads of state or government of the ten future EU Member States, the EU heads of state or government and Russia decide to introduce visa-free travel in the long run and basically agree to create a common economic area. The Russian proposal to establish a partnership council for strengthening bilateral relations meets with clear support by the participants. A bilateral agreement is concluded to define procedures governing the relations with the Russian enclave Kaliningrad within the enlarged borders of the EU.

June 2003

1 Former Vice Governor of the Oesterreichische Nationalbank Gertrude Tumpel Gugerell takes up her mandate as member of the Executive Board of the *ECB*. Tumpel-Gugerell succeeds Sirkka Hämäläinen from Finland, whose mandate expired on May 31, 2003, for a term of office of eight years.

2 At the *Eurogroup* meeting in Luxembourg, the finance ministers request that France take further steps towards reducing the fiscal deficit beyond the plans currently in effect.

3 At the *ECOFIN Council* in Luxembourg, the EU finance ministers, after almost seven years of negotiations, adopt the EU tax package (Directive on the taxation of cross-border savings income, Directive on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States, code of conduct for business taxation). According to the Directive on the taxation of savings to counter cross-border tax evasion, 12 of the 15 EU Member States will, as of January 1, 2005, implement an automatic exchange of information on interest income of nonresident EU citizens so that savings income can be taxed in each foreign EU citizen's country of residence. Austria, Luxembourg, Belgium and Switzerland will retain banking secrecy and as from January 1, 2005, apply a withholding tax at a rate of at least 15% for the first three years, which will increase to 20% as from January 1, 2008 and to 35% as from January 1, 2011. As soon as Switzerland, Liechtenstein, Andorra, Monaco and San Marino also start

providing information about the interest income of nonresidents, Austria, Luxembourg and Belgium will join the routine monitoring system as well.

The *ECOFIN Council* also launches an excessive deficit procedure against France pursuant to Article 104 (6) of the Treaty, because, according to Eurostat, the country's deficit ratio reached 3.1% of GDP in 2002 and is expected to increase further in 2003. The ECOFIN Council also issues a recommendation pursuant to Article 104 (7) of the Treaty, calling upon the French government to take appropriate consolidation measures by October 3, 2003, in order to bring the deficit level below the 3% deficit limit by 2004 at the latest and to reduce the cyclically adjusted deficit by at least 0.5% of GDP by 2004.

In preparation for the Thessaloniki European Council, the *EU finance ministers* issue the European Commission's recommendation on the Broad Economic Policy Guidelines, now effective for a period of three years, with the three core priorities of achieving stronger growth potential, labor market reform, and pension and health care system reform.

5 The *Governing Council of the ECB* decides to cut the minimum bid rate on the main refinancing operations of the Eurosystem, conducted as variable rate tenders, by 50 basis points from 2.50% to 2.00%. The interest rates on the marginal lending facility and the deposit facility are also reduced by 50 basis points each, to 3.00% and 1.00% respectively. ECB President Willem Duisenberg says that the interest rate cut has become necessary as the economy remained sluggish in the first quarter of 2003 and growth forecasts for 2003 and 2004 have been revised downwards as well as because of the strength of the euro's exchange rate, downside risks caused by economic imbalances outside Europe and the SARS crisis, all of which contributed to a distinct decrease in inflationary pressures over the last few months.

7/8 In a two-day referendum, 77.5% of *Poland's* citizens vote in favor of accession to the *European Union.* Voter turnout comes to 58.8% and thus distinctly exceeds the required turnout of 50%.

9 The British Chancellor of the Exchequer, Gordon Brown, announces that, after careful consideration, the *United Kingdom* will not, for the time being, join Monetary Union, pointing out that, to date, only one of the five economic tests he set out in 1997 has been met. Overall, however, convergence between the economies of the United Kingdom and the euro area has increased, Brown says.

11 *Sveriges Riksbank* lowers its key interest rate by 0.5 percentage point to 3.00%.

11–13 At its plenary session in Brussels, the *European Convention* reaches consensus on Parts I (constitutional provisions) and II (Charter of Fundamental Rights) of the draft EU Constitution.

13/14 In a two-day referendum, 77.33% of the *Czech Republic's* citizens vote in favor of accession to the *European Union.* Voter turnout is 55.2%; there are no minimum turnout requirements.

17 The *Italian Presidency of the Council of the European Union* presents its five priorities for the second half of 2003 to the ECOFIN Council: economic

growth, the external dimension of the Union, the Intergovernmental Conference, financial services and taxation. Public investment in infrastructure, in particular in the area of transportation, is envisaged as the engine to revitalize the European economy. These investments are to be financed by the European Investment Bank (EIB).

18 In Paris, Jean-Claude Trichet, *Governor of the Banque de France,* is cleared of involvement in the banking scandal swamping the formerly state-owned bank Crédit Lyonnais, having been acquitted of the charge of presenting false financial information to cover up losses. This decision removes the last legal hurdle for Trichet's candidacy as the successor to ECB President Willem Duisenberg.

20 The *Thessaloniki European Council,* where all acceding countries for the first time participate in all deliberations, welcomes the draft European Constitution (Parts I and II) presented by the President of the European Convention, Valéry Giscard d'Estaing, as "a good basis for starting in the Intergovernmental Conference," which is due to begin in October 2003. The Convention's mandate will be extended to July 15, 2003 in order to complete Parts III and IV of the draft Constitution.

The *heads of state and government* reiterate their approval of the candidacy of Jean-Claude Trichet, Governor of the Banque de France, for the presidency of the European Central Bank.

The *European Council* approves the draft Broad Economic Policy Guidelines and the draft Employment Guidelines.

With regard to the Lisbon Strategy, the *European Council* welcomes the final adoption of the tax package and the internal energy market package as well as the progress made in the implementation of the Financial Services Action Plan.

The *European Council* endorses the conclusions on the Western Balkans adopted by the General Affairs and External Relations Council on June 16, 2003, including the Annex "The Thessaloniki agenda for the Western Balkans: Moving towards European integration." The European Union's stabilization and association process will continue to provide the framework for establishing closer relations with the Western Balkans and for preparing the countries for future EU membership.

27 *Eurostat* publishes an alternative approach to determining the comparative wealth of EU regions. According to the new approach, the disposable household income will be the key indicator of a region's wealth instead of regional Gross Domestic Product (GDP).

July 2003

1 With the entering into force of a provision of Regulation (EC) No. 2560/2001, the *charges for cross-border credit transfers* in euro are brought into line with those levied for payments within Member States. Credit transfers in euro up to an amount of EUR 12,500 have to be treated equally provided that they are made in the territory of the EU between two euro-denominated accounts.

2 Italian Prime Minister and President of the EU Council Silvio Berlusconi presents the Italian presidency's program "Europe: citizens of a shared

dream" in the *European Parliament*. It focuses on preparing the Intergovernmental Conference, a "European Action for Growth" (a program which includes stepping up public investment, particularly in the area of the Trans-European Network projects), EU enlargement and the New Neighbourhood initiative, Europe's presence in the world and the citizens' security.

The *European Parliament* adopts the European Commission's amended proposal for a Directive on prospectuses. The Directive is one of the cornerstones of the EU's Financial Services Action Plan, introducing a new "European passport" for issuers which can be used both for the public offer of securities and the application for admission to trading.

4 At its plenary session, the *European Convention* discusses parts III (the policies and functioning of the Union) and IV (general and final provisions) of the draft constitution. The question of the extension of qualified majority voting, in particular to the areas of non-discrimination, taxation, social policy and the Common Foreign and Security Policy (CFSP), is the key topic of this session.

7 At the *Euro-Mediterranean Trade Ministerial Conference* in Palermo, the EU foreign ministers, their counterparts from the ten acceding countries as well as from ten Mediterranean countries discuss the deepening of trade and investment relations to establish a free trade area in the Mediterranean region by 2010.

9 *Sveriges Riksbank* lowers its key interest rate from 3% to 2.75%. The inflation report published in June assumes that the inflation rate will remain below the inflation target of 2% in the next two years. In the economic outlook, downside risks remain paramount.

9/10 At the closing session of the *European Convention* in Brussels, the Praesidium makes some amendments to parts III (the policies and functioning of the Union) and IV (general and final provisions) of the draft Constitutional Treaty, among others with regard to provisions concerning the access of third-country nationals to the labor market the "cultural exception" in trade. In addition, an article is inserted on the symbols of the Union, one of which is the euro.

10 The *European Court of Justice (ECJ)* annuls decisions taken by the ECB and the European Investment Bank (EIB) concerning fraud prevention and cooperation with the European Anti-Fraud Office (OLAF). OLAF is now also allowed to conduct administrative investigations in cases of alleged wrongdoing at the ECB and the EIB.

The *Bank of England* reduces its key interest rate from 3.75% to 3.50%. Unfavorable international economic conditions, subdued domestic demand and the renewed increase of the exchange rate are given as reasons for this move. The fact that at 2.8% the RPIX inflation rate is currently above the target rate of 2.5% is attributed to temporary upward effects which are expected to disappear in the upcoming months.

14 The *Eurogroup* finance ministers discuss economic developments, economic policy coordination to strengthen consumer and investor

confidence, the 2004 budget strategy and the results of the European Convention in Brussels.

15 At its meeting in Brussels, the *Ecofin Council* unanimously adopts the recommendation to appoint Jean-Claude Trichet as next President of the ECB without a debate. According to the EU Treaty, Trichet will remain in office for the full eight years; he is to take up the position on November 1, 2003.

The EU finance ministers also discuss the Presidency Programme (European Action on Growth), financial services (mandate for a report on financial market integration) and the International Accounting Standards.

The *European Commission* sends official requests to Austria and Germany to put an end to discriminatory tax treatment of foreign investment funds that makes it more difficult for foreign funds to market their services in these two countries. According to the Commission, certain tax provisions violate EC Treaty rules on free movement of services and capital (Articles 49 and 56).

16 At its meeting in Brussels, the *Ecofin Council* (budget) adopts the European Commission's preliminary draft budget for the financial year 2004 at its first reading after a conciliation meeting with the European Parliament. For the first time, the budget not only covers the expenditures of the current Member States but makes appropriations for the ten new Member States, too. The budgetary appropriations necessary for the enlarged Union are available as from May 1, 2004.

18 The Chairman of the *Convention on the Future of Europe,* Valéry Giscard d'Estaing, officially hands over the full draft Treaty establishing a Constitution for Europe to the Italian Presidency of the European Council, Silvio Berlusconi, in Rome. This officially completes the work of the European Convention. Giscard d'Estaing calls on the Italian Presidency to conduct the Intergovernmental Conference at the highest political level, so as to bring it to completion under the Italian Presidency in December 2003. The Chairman of the Convention proposes May 9, 2004, for signing the Constitution.

23/24 At the Fifth *ASEM Economic Ministers' Meeting* in Dalian, China, the ministers of economic affairs, trade and industry from the EU and ten Asian countries as well as the EU Commissioner for Trade, Pascal Lamy, debate about the forthcoming 5th WTO Ministerial Conference to be held in Cancun, global economic developments and cooperation between Europe and Asia.

31 The *Governing Council of the European Central Bank* adopts an opinion on a recommendation from the Council of the European Union on the appointment of a new ECB President. It has no objections to the proposed candidate, Jean-Claude Trichet.

Gerhard Fenz,
Johann Scharler,
Martin Schneider

Editorial close:
August 21, 2003

1 OeNB Economic Indicator Signals Slight Pickup in Growth in the Third Quarter of 2003

The OeNB economic indicator points to real GDP growth of 0.2% in the second quarter and of 0.3% in the third quarter of 2003 (seasonally adjusted and quarter-on-quarter). Compared to the corresponding quarters of 2002, this translates into annual growth rates of 0.7% and 0.9%, respectively. At these rates, the subdued growth of the past two years is set to continue over the summer. Actual growth in the first three months of 2003 (seasonally adjusted and quarter-on-quarter) came to 0.2% or 0.1 percentage point less than the OeNB economic indicator forecast of April 2003. The current growth estimate for the second quarter of 2003 remains unchanged against April at 0.2%.

Table 1

Real GDP Forecast According to the OeNB's Economic Indicator

2002				2003		
1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
Year-on-year change in % (not seasonally adjusted)						
0.6	1.1	1.4	1.1	0.5	x	x
Year-on-year change in % (seasonally adjusted)						
0.2	1.2	1.4	1.4	1.0	0.7	0.9
Quarter-on-quarter change in % (seasonally adjusted)						
0.6	0.4	0.2	0.2	0.2	0.2	0.3

Source: OeNB, Eurostat (seasonally adjusted ESA 95 data).

The Austrian economy has entered its third consecutive year of sluggish growth, and still there are no clear signs of an imminent substantial recovery. Not since 1945 has any slump been as persistent. Against this background, model forecasts, which by definition are based on empirical regularities observed in past periods, are subject to particularly high uncertainty.

The trends of many domestic and foreign confidence indicators reflect the pronounced uncertainty about current and future economic developments. In the past few months, most of these indicators moved sideways, so that they provide no clear picture of what economic trends to expect in the upcoming months. Some indicators, such as the ifo business climate index in Germany, the confidence indicator of the construction sector and new auto registrations in Austria, were picking up most recently and, paired with the powerful recovery of stock prices in 2003, warrant cautious optimism. But these positive signals need to strengthen before the unusually protracted phase of sluggish growth can be said to have ended. As the negative impact of various supply-side shocks (higher oil prices, tumbling stock prices, terrorist attacks, SARS, the war in Iraq and most recently the euro's strength) that have buffeted the economy since 2001 wears off, the economy should begin to recover in Austria and abroad in the second half of 2003.

For Austria, however, the current global macroeconomic environment is still quite unfavorable. Economic activity in Austria's main trade partner countries – Germany, Italy, Switzerland – is slightly recessionary. As in the past years, the world is pinning its hopes on the U.S. economy, where the twin deficit is weighing on prospects for the recovery, however. Ongoing robust

Eastern European (to a growing extent Southeastern European) demand for imports from Austria represents a positive impulse for Austria's economy.

The appreciation of the euro has placed an additional burden on Austrian exporters. Accordingly, foreign trade will provide less of a growth impulse than in 2001 and 2002. With domestic demand weak, however, the current account will remain in surplus. Nevertheless, the goods and services surplus has begun to narrow somewhat.

Monetary policy is making an important contribution to the anticipated step-by-step economic recovery. Low inflation – the Harmonised Index of Consumer Prices, HICP, of July came in at just 1.0% year on year – is strengthening households' purchasing power. In addition, the lowest interest rates in Austrian post-War history will facilitate financing of consumer durables. Cheap finance is expected to spur business investment as well.

Faced with a tight labor market, Austrian households are exercising spending restraint. The slight positive growth of payroll employment (excluding persons doing compulsory military service and persons on paid leave) is traceable largely to training and phased retirement programs. The decline in job openings has been easing continuously, signaling a stabilization of the labor market. At the beginning of 2003, business investment revived somewhat, benefiting from the high demand for replacement purchases, the economic promotion measures of the Austrian federal government and favorable financing conditions. Following six years of diminishing residential construction activity, the construction sector continued to recover moderately in the first half of 2003.

2 Weakness Predominates Global Economy

The current global macroeconomic environment is still quite adverse for Austria. According to Eurostat's latest flash estimate for euro area GDP growth (seasonally adjusted, quarter-on-quarter), the economy appears to have stagnated in the second quarter of 2003. Austria's key trade partners in the euro area – Germany, Italy, the Netherlands, also Switzerland – currently exhibit a marginally recessionary trend. There is not enough evidence yet of an upturn in the second half of 2003. However, numerous confidence indicators support cautious optimism. For example the ifo business climate index rose for the fourth consecutive month in August 2003, and for the first time, respondents see not just future but also current business prospects more positively.

As in the past, the world economy is vesting its hopes with the U.S.A. Animated second-quarter growth of 2.4% (annualized) on the previous quarter drew for the most part on consumer spending, government spending and corporate investment. The powerful fiscal policy component of the U.S. upswing, which the euro area does not have, however, also casts doubt on the sustainability of the U.S. recovery. Moreover, the imbalance in the U.S. current account makes uncertain whether the upturn can establish a foothold.

The Asian economy excluding Japan continues to play a prominent role as a motor of world economic growth. The strong growth is based on the solid rise in exports within the region and to other regions and on lively domestic demand. Above all China, the largest economy in the area, remained very dynamic, posting a torrid GDP growth rate of 8.2% in the first half of 2003.

SARS hit the economy mainly in the first half of the year, but the effects are now rapidly coming to an end.

Continued vigorous imports by Eastern Europe are benefiting Austrian business activity. In Poland and in the Czech Republic, growth quickened noticeably in some areas year on year, whereas growth rates declined slightly in Hungary, Slovakia and Slovenia. Southeastern Europe, which topped the growth league in recent years, will continue to gain importance as an export market for Austria.

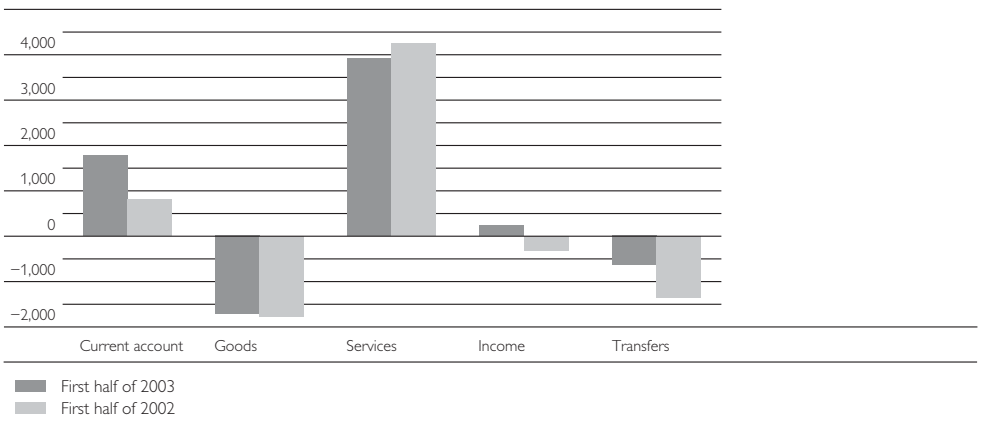
3 Current Account Improves despite Slower Export Growth

Exports, the engine of Austrian economic activity in recent years, are currently losing momentum. According to Statistics Austria, exports widened by only 2.4% year on year from January to April 2003. This deceleration is attributable both to the unfavorable economic conditions in the euro area and to the appreciation of the euro with the ensuing deterioration of Austrian exporters' price competitiveness. The foreign trade statistics indicate that in April exports even dropped by 1.5%. Payments for goods and services as recorded on a cash basis suggest that this negative trend remained unbroken throughout May and June. In the face of weak domestic activity, imports contracted by 0.3% in the first half of 2003. In the first half of 2003, the current account (cash basis) closed with a surplus of EUR 1,782 million. Year on year, this meant an improvement by EUR 981 million and thus a doubling of the surplus. This improvement is attributable above all to current transfers, which gained EUR 706 million, and to the income balance, which rose by EUR 558 million, thus shifting into a clear surplus. By contrast, the surplus on goods and services edged down, the result of a perceptible deterioration of services in the first quarter.

Travel receipts and expenditures fell by equal amounts in the first half of 2003, so that the travel balance remained largely unchanged. Overnight stays confirm this development. The number of overnight stays in the summer season

Chart 1

Current Account on a Cash Basis



Source: OeNB.

2003 so far augmented slightly compared to the 2002 result (+0.7%). By country of origin, overnight stays by Austrian tourists climbed sharply whereas nights spent by tourists from abroad diminished.

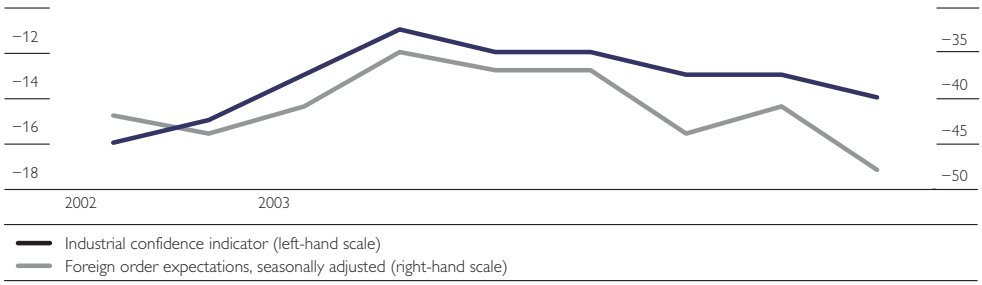
4 No Clear Signs of a Revival of Industrial Output, Construction Improves Further

The European Commission's industrial confidence index showed a marginal decline for Austria in July against the previous month, but the figure is above the 2002 average. According to the business survey regularly conducted by the Austrian Institute of Economic Research, WIFO, the outlook for capacity utilization was buoyed a bit in the second quarter of 2003. At the same time, however, order books are seen more pessimistically, reflecting expectations that orders from abroad will decrease perceptibly. Moreover, the results of WIFO's most recent business survey indicate only slight increases in outlays in the manufacturing industry. Companies have scaled back their capital spending plans since the last survey.

Construction continued to revive, extending the trend that had begun in the course of 2002. In its business survey, WIFO predicts a slight quickening of construction output in 2003, even though the structure of capital outlays is currently shifting away from expenditure for construction. Capital spending is anticipated to attain roughly the same level as in 2002. The construction confidence indicator picked up further, indicating a more optimistic scenario than in the first half of 2003. Estimates of both construction activity and sales prices in the construction sector are higher than on average in 2003 so far.

Chart 2

Austrian Industrial Confidence Indicators



Source: Eurostat.

5 Consumer Spending Remains Sluggish, Car Sales Perk Up

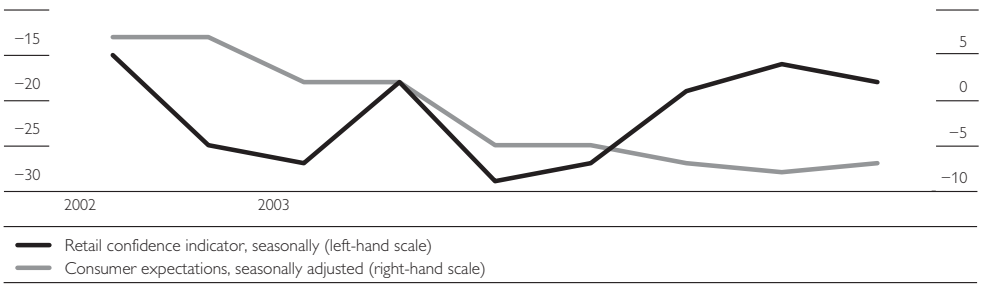
Consumer spending enlarged by 0.4% seasonally adjusted in the first three months of 2003 compared to the previous quarter, which corresponds to the trend of the past quarters. However, compared to the same quarter of the previous year, the rise in consumer outlays slowed from 1.5% in the fourth quarter of 2002 to 0.7% in the first quarter of 2003. The European Commission's consumer confidence and retail sales indicators do not provide a clear picture. Austrian consumers were somewhat more sanguine about the economic situation in July than in June 2003. However, consumer confidence remains

fairly low, with a falling tendency over the course of 2003. Unlike consumer confidence, retailer confidence declined in July 2003, after having recovered marginally from April to June. Additional indicators signal that households are slightly more optimistic about their financial condition for the next twelve months. However, this indicator is also below the average of the past months. In addition, consumers appear to be more willing to spend on big-ticket items.

A trend reversal from very weak auto sales in 2002 seems to be taking hold in 2003. New vehicle registrations shot up by 11% year on year in July 2003. Hence, new registrations advanced by 10.4 percentage points from January 2003, a rise which car sales should also reflect. WIFO's business survey, which shows a pronounced increase in investment in the automotive industry in 2003, corroborates this assumption.

Chart 3

Austrian Consumer Confidence Indicators



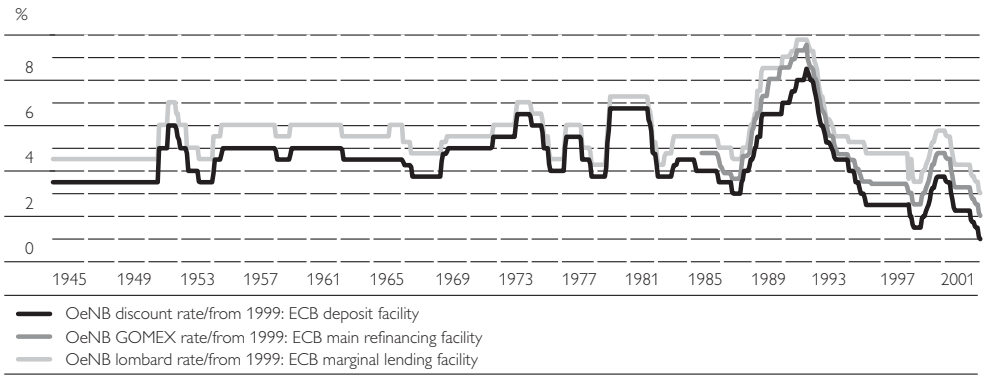
Source: Eurostat.

6 Monetary Policy Underpins Revival, Gains on the Stock Market

Monetary policy made a twofold contribution to the revival. For one thing, the consistent pursuit of price stability – the Harmonised Index of Consumer Prices, HICP, of July 2003 came in at just 1.0% year on year – effectively supports consumer spending, as low inflation is strengthening households' real

Chart 4

Interest Rates since April 1945[1])



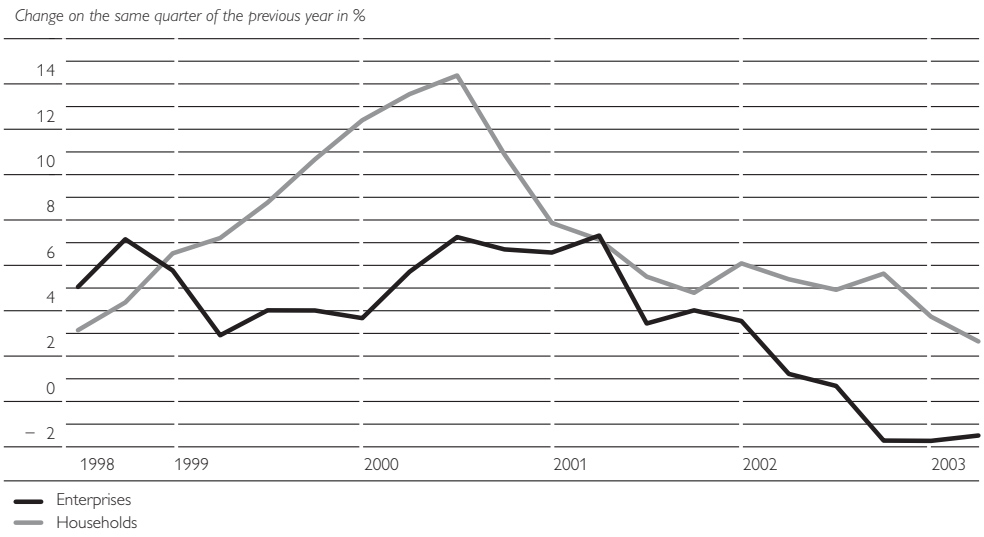
Source: OeNB.
[1]) Monthly averages. Last record: July 2003.

purchasing power. In addition, the lowest interest rates in Austrian post-War history will facilitate financing of consumer durables. Moreover, the availability of cheap finance is expected to stimulate business investment. As both components of GDP – consumer durables purchases and investment – are particularly sensitive to cyclical changes, growth prospects will improve decidedly once these components stabilize. The corporate and consumer uncertainty typical of conditions since 2001 must be reduced further if the expansionary effect of monetary policy is to come to bear fully.

Currently, the sluggish economy is still acting as a drag on credit volume growth. Credit growth has been on the decline since the end of 2000, with the slowdown petering out in the past few months. Nevertheless, Austrian banks are still exercising caution in lending, as the most recent results of the Bank Lending Survey for Austria confirm. Listless credit growth is mainly the result of demand factors, but also reflects banks' greater reluctance to lend on account of risk considerations.

Chart 5

Lending to Households and Nonfinancial Corporations



Source: OeNB.

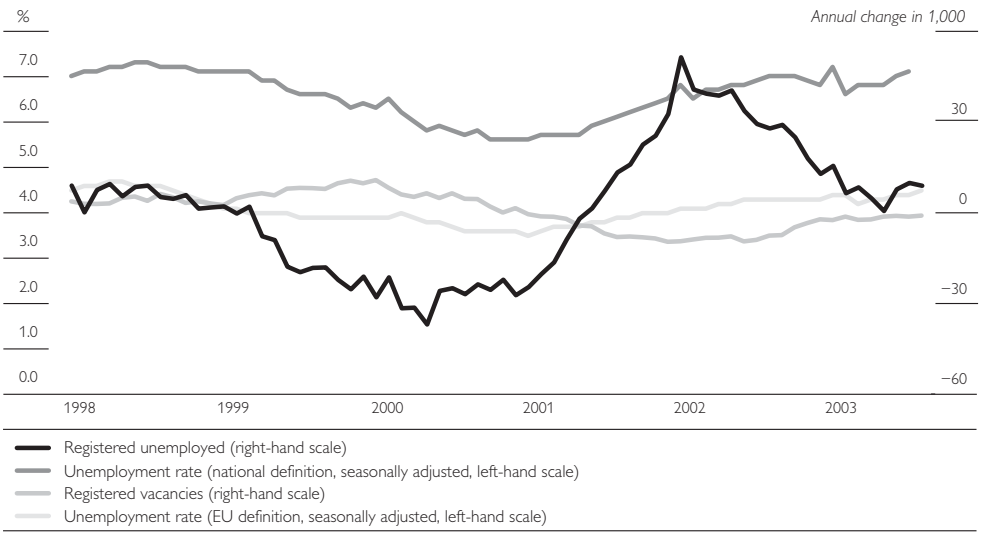
The negative fallout from the bursting of the stock market bubble is still affecting the recovery worldwide. Therefore, the powerful gains in stock prices in the course of 2003 are key for the gradual revival anticipated for the second half of the year to materialize. The DAX, for example, surged by 55% from its low in March 2003, EURO STOXX advanced by 36%, the Dow Jones Index went up by 25% and the ATX rose 21%. Nevertheless, some stock prices are still far below their highs of 2000; in fact, the DAX is down by nearly 60% from its peak in 2000.

7 Employment Stagnates, No Trend Reversal on the Horizon before 2004

Labor market developments generally follow economic fluctuations with a lag of several months. Therefore, the labor market situation is envisaged to ease only in the course of 2004. Currently, the unemployment rate for July 2003 (Eurostat definition) stands at 4.5%, a mere 0.2% increase against July 2002. At 5.8%, the seasonally unadjusted unemployment rate (national definition) is even 0.2 percentage point lower than in the 2002 period. However, this certainly does not indicate a trend reversal in the labor market. What we are observing at present is a stagnation on an unusually high level of unemployment by Austrian standards. Year on year, especially the situation of 15- to 25-year-olds and persons over 45 deteriorated; men, nonresidents and also university graduates were most severely hit. The share of long-term unemployment remains on the rise. The further development of unemployment will hinge on labor supply developments, as the employment situation is not anticipated to improve in the upcoming months.

Chart 6

Unemployment in Austria



Source: Statistics Austria, Eurostat.

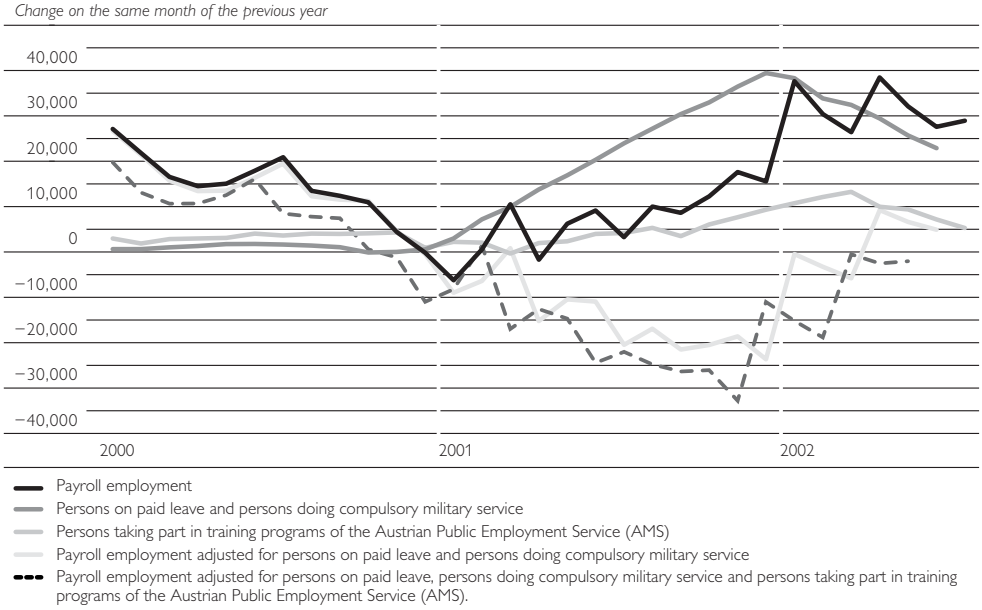
According to the Austrian Public Employment Service, in July 2003, employment figures stood at 3,275,374, nearly 30,000 more persons than one year earlier. However, persons on parental and other leave, persons undergoing training provided by the Austrian Public Employment Service and people in phased retirement programs are included in these employment figures, distorting them upward and thus distorting the unemployment statistics downward. The number of persons on paid leave and persons doing compulsory military service expanded by over 22,000 year on year in June 2003. In addition, the number of persons in training programs of the Austrian Public Employment Service are roughly 5,000 higher than in the same month of 2002. Adjusted for these effects, the robust employment growth dwindles almost to zero. Finally, the number of people in phased retirement programs climbed by

13,000 from July 2002 to over 30,000. This figure includes employees who opted to frontload work in the phased retirement period; in other words, people who are effectively no longer working but still registered as employees. However, no exact figures are available on the extent of frontloaded phased retirement.

Chart 7

Payroll Employment

Change on the same month of the previous year



Source: AMS.

Nonetheless, the employment figures suggest that Austria, unlike some other euro area countries, has already completed the most crucial adjustments on the labor market. The tendency of job openings to drop less and less in recent months confirms this assumption (chart 6).

8 Inflation Remains Subdued

Inflation stayed very low in Austria. Both in June and July 2003, the Harmonized Index of Consumer Prices inched up by only 1.0%. Thus Austria's price stability is among the best in the euro area, which as a whole posted 1.9% inflation. Austria's low inflation results from the lack of wage and price pressures on account of the weak economy and from declining energy prices. Wholesale prices, which react very sensitively to business activity trends, have been on the rise again since the fall of 2002 following a year of diminishing prices, albeit with very moderate rates of increase. Price rises in the service sector, long a sector which posted fairly high and persistent rates of inflation, have also been receding continuously. In particular, prices for plane tickets plummeted. Unprocessed food prices, by contrast, grew more vigorously as the heat wave caused crop failures. Inflation was further fueled by the housing sector. In June, rents climbed 4.7%.

Chart 8

Price Developments in Austria

Source: Eurostat.

Forecast of Key Economic Indicators for Austria

Indicator	OeNB May 2003			WIFO June 2003		IHS June 2003		OECD April 2003		IMF April 2003		European Commission April 2003	
	2003	2004	2005	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
	Annual change in %												
Main results													
GDP, real	+0.7	+1.6	+2.5	+0.7	+1.2	+0.9	+2.1	+1.1	+2.0	+1.5	+2.4	+1.2	+2.0
Consumer spending, real	+1.1	+1.7	+2.4	+1.3	+1.6	+1.2	+1.9	+1.3	+1.9	×	×	+1.2	+1.9
Government consumption, real	+0.5	+0.5	+0.2	+0.0	+0.0	−0.3	−0.3	+0.5	+0.7	×	×	+0.5	+0.5
Gross fixed capital formation, real[1])	+0.7	+4.0	+4.9	+0.8	+1.8	+1.7	+4.0	+0.8	+2.9	×	×	+1.6	+3.1
Exports, in real terms	+1.0	+4.5	+6.6	+1.5	+2.5	+1.0	+4.1	+3.0	+6.4	×	×	+4.3	+7.1
Imports, in real terms	+0.8	+5.7	+7.0	+1.3	+2.7	+1.2	+4.0	+3.0	+6.4	×	×	+4.5	+7.5
GDP per person employed	+0.9	+1.3	+1.7	+0.6	+0.9	+0.8	+1.8	×	×	×	×	×	×
GDP deflator	+1.1	+1.2	+1.3	+1.5	+1.4	+1.6	+1.5	+1.7	+1.1	+1.3	+0.5	+1.1	+1.5
CPI	×	×	×	+1.3	+1.3	+1.4	+1.5	+1.4	+1.0	+1.5	+1.4	×	×
HICP	+1.3	+1.3	+1.1	+1.3	+1.3	×	×	×	×	×	×	+1.8	+1.8
Unit labor costs	+1.2	+0.8	+0.4	+1.6	+1.1	×	×	×	×	×	×	+1.1	+1.1
Employees	−0.2	+0.3	+0.8	+0.1	+0.3	+0.1	+0.3	×	×	×	×	+0.0	+0.4
	%												
Unemployment rate[2])	4.4	4.4	4.2	4.3	4.4	4.3	4.2	5.9	5.9	4.5	4.1	4.5	4.4
	% of nominal GDP												
Current account	0.1	−0.5	−0.6	0.4	0.2	0.3	0.2	0.2	0.3	−0.8	−1.1	−0.3	−0.6
Government deficit	−1.2	−0.9	−0.6	−1.1	−1.2	−1.3	−0.7	−1.3	−1.1	−0.6	×	−1.1	−0.4
Forecast assumptions													
Oil price in USD/barrel	25.8	23.2	22.7	26.0	22.0	27.0	25.0	26.0	25.0	28.0	23.5	27.6	23.5
Short-term interest rate in %	2.5	2.4	2.4	2.2	2.1	2.2	2.4	2.3	2.3	×	×	×	×
USD/EUR	1.13	1.16	1.16	1.13	1.16	1.14	1.18	1.07	1.07	1.09	1.09	1.07	1.07
	Annual change in %												
GDP, in real terms, euro area	0.4−1.0	1.2−1.6	1.1−2.4	+0.7	+1.2	×	×	+1.0	+2.4	+1.1	+2.3	+1.0	+2.3
GDP, in real terms, U.S.A.	+2.3	+3.2	+3.3	+2.3	+3.0	+2.5	+3.0	+2.5	+4.0	+2.2	+3.6	+2.4	+2.5
GDP, in real terms, world	+3.4	+4.1	+4.6	×	×	×	×	×	×	+3.2	+4.1	+3.2	+3.7
World trade	+4.4	+6.2	+7.3	+3.3	+4.5	+7.0	+7.0	+5.9	+8.8	+4.3	+6.1	+5.4	+6.6

Source: OeNB, WIFO, IHS, European Commission, IMF, OECD.
[1]) For IHS: gross capital formation.
[2]) EU definition; for OECD: OECD definition.

Part 1

Development of Selected Economic Indicators in Austria

	2002	2003[1])	2004[1])	2005[1])	Same month one year earlier	Latest available months		Latest available period		
								2001	2002	2003
	Annual change in %									
Economic output								*1st quarter*		
real GDP at 1995 prices	+ 1.0	+0.7	+1.6	+2.5	×	×	×	+ 2.4	+ 0.6	+0.5
Manufacturing					*Dec. 2001*	*Nov. 2002*	*Dec. 2002*	*January to December*		
Output index inclusive construction	− 0.1	×	×	×	− 2.4	+ 0.6	− 1.9	+ 0.3	− 0.1	..
	Annual change in %				*in 1,000*			*Annual change in %*		
Labor market					*July 2002*	*June 2003*	*July 2003*	*January to July*		
Payroll employment adjusted for persons on paid leave, persons doing compulsory military service and persons taking part in training programs of the Austrian Public Employment Service (AMS)	+ 0.2	−0.1	+0.3	+1.0	3.246.6	3.209.3	3.276.5	+ 0.6	+ 0.1	+1.0
	− 0.6	×	×	×	3.119.5	3.048.9	3.114.5	×	− 0.4	− 0.2
Registered vacancies	−21.8	×	×	×	23.5	23.3	22.7	−17.1	−25.9	− 5.6
Registered unemployed	+14.0	×	×	×	191.6	200.9	199.9	− 2.1	+17.4	+ 2.6
	%									
Unemployment rate										
EU definition	4.3	4.4	4.4	4.2	4.3	4.4	4.5	3.5	4.2	4.4
National definition	6.9	×	×	×	5.6	5.9	5.8	6.1	7.0	7.1
	Annual change in %									
Prices and wages										
National CPI	+ 1.8	×	×	×	+ 1.6	+ 1.1	+ 1.1	+ 2.9	+ 1.8	+ 1.4
HICP	+ 1.7	+1.3	+1.3	+1.1	+ 1.5	+ 1.0	+ 1.0	+ 2.4	+ 1.7	+ 1.2
Wholesale price index	− 0.4	×	×	×	− 1.0	+ 1.7	+ 1.2	+ 2.9	− 0.7	+ 1.4
Negotiated standard wage rate index	+ 2.4	×	×	×	+ 2.4	+ 2.1	+ 2.1	+ 2.6	+ 2.4	+ 2.2
					Dec. 2001	*Nov. 2002*	*Dec. 2002*	*January to December*		
Producer price index	− 1.2	×	×	×	− 1.3	− 0.5	− 0.3	+ 0.7	− 1.2	..
Foreign trade (Statistics Austria)					*May 2002*	*April 2003*	*Mai 2003*	*January to May*		
Imports, in nominal terms	− 2.0	×	×	×	− 9.4	− 5.5	+ 0.2	+11.3	− 4.5	+ 1.6
Exports, in nominal terms	+ 4.2	×	×	×	− 1.0	− 2.4	− 3.8	+10.3	+ 2.6	+ 2.3
Overnight stays					*July 2002*	*June 2003*	*July 2003*	*January to July*		
Total number of overnight stays in Austria	+ 1.4	×	×	×	+ 0.1	+ 9.7	− 7.0	+ 1.8	+ 1.4	− 0.8
Trade					*May 2002*	*May 2003*	*June 2003*	*January to June*		
Retail sales, in real terms	+ 0.8	×	×	×	+ 1.3	+ 2.3	− 0.5	+ 0.2	+ 0.0	+ 1.8
	Balance of affirmative and negative responses									
Confidence indicators										
Industry	−16.0	×	×	×	−16.0	−13.0	−14.0	×	×	×
Consumers	+ 4.0	×	×	×	+ 2.0	− 8.0	− 7.0	×	×	×
Retail trade	−17.0	×	×	×	−20.0	−16.0	−18.0	×	×	×
Service industry	+ 8.0	×	×	×	+ 7.0	+ 8.0	+12.0	×	×	×
Construction industry	−37.0	×	×	×	−33.0	−26.0	−21.0	×	×	×
Economic Sentiment Indicator	+98.2	×	×	×	+98.1	+98.3	+98.3	×	×	×

Source: OeNB, Statistics Austria, WIFO, AMS Austria, Association of Austrian Social Security Institutions, EUROSTAT (Confidence indicators).
[1]) OeNB spring 2003 forecast.

Part 2

Development of Selected Economic Indicators in Austria

	2002	2003[1])	2004[1])	2005[1])	Same year one year earlier	Latest available months		Latest available period		
								2001	2002	2003
	EUR billion									
Balance of payments[2])					*June 2002*	*May 2003*	*June 2003*	*January to June*		
Current account balance on a cash basis	+ 0.95	+0.28	−1.12	−1.51	+ 0.16	+ 0.38	+ 0.02	−1.82	+0.80	+ 1.78
Balance on goods	+ 3.75	×	×	×	− 0.02	+ 0.01	− 0.57	−4.31	−0.78	− 1.72
Balance on services	+ 1.07	×	×	×	+ 0.15	+ 0.28	+ 0.26	+3.33	+4.24	+ 3.90
Travel	+ 1.95	×	×	×	− 0.08	− 0.02	+ 0.07	+1.61	+2.47	+ 2.27
					1st qu. 2002	*4th qu. 2002*	*1st qu. 2003*			
Current account based on transactions	+ 0.95	+0.28	−1.12	−1.51	+ 1.8	+ 0.83	+ 1.45	×	×	×
Balance on goods	+ 3.75	×	×	×	+ 0.6	+ 1.39	+ 0.61	×	×	×
Balance on services	+ 1.07	×	×	×	+ 2.2	+ 0.14	+ 1.88	×	×	×
Travel	+ 1.95	×	×	×	+ 2.6	+ 0.62	+ 2.10	×	×	×
	Index value									
ATX					*July 2002*	*June 2003*	*July 2003*	*Change against the low of 2003*		
Average	1.181.8	×	×	×	1.197.96	1.300.97	1.332.87	×	×	×
	Annual change in %									
Loans					*June 2002*	*May 2003*	*June 2003*			
Loans to households	+ 5.7	×	×	×	+ 7.2	+ 2.3	+ 2.7	×	×	×
M3					*July 2002*	*June 2003*	*July 2003*			
Monetary aggregate	+ 1.3	×	×	×	+ 7.8	+ 6.1	+ 4.6	×	×	×
	%									
Interest rates										
EONIA	3.29	×	×	×	3.30	2.21	2.08	×	×	×
Benchmark[3])	4.97	×	×	×	5.08	3.74	4.05	×	×	×
	Annual change in %									
Effective exchange rate of the euro										
Nominal[4])	+ 3.1	×	×	×	+ 7.0	+13.1	+10.6	×	×	×
Real[4])	+ 4.4	×	×	×	+ 8.2	+13.7	+11.2	×	×	×
					June 2002	*May 2003*	*June 2003*			
Indicator of Austria's price competitiveness[5])	+ 0.6	×	×	×	+ 0.8	+ 3.7	+ 4.1	×	×	×
	% of GDP									
Budget										
Fiscal balance[6])										
Central government fiscal balance	− 1.0	×	×	×	×	×	×	×	×	×
General government fiscal balance	− 0.2	−1.2	−0.9	−0.6	×	×	×	×	×	×

Source: OeNB, Statistics Austria, WIFO, AMS Austria, Association of Austrian Social Security Institutions, EUROSTAT (Confidence indicators).

[1]) OeNB spring 2003 forecast.

[2]) Annual and quarterly figures based on transactions, monthly figures on a cash basis.

[3]) Secondary market yield of the most recently issued ten-year government bond.

[4]) For the euro area.

[5]) Until December 1998: real effective exchange rate of the Austrian schilling.

[6]) August 2003 budget report to the European Commission.

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

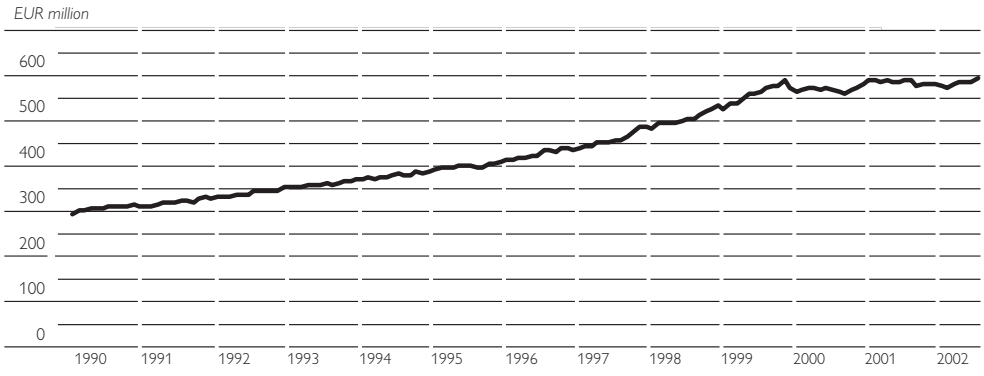
Ralf Dobringer,
Margarita
Schandl-Greyer

Total Assets on the Rise Again

After two years of stagnating growth, the total assets of all banks reporting to the Oesterreichische Nationalbank (OeNB) took an upward trend and increased by EUR 18.14 billion or 3.2% in the first half of 2003. In the same period of 2002, there had been a slight decline of EUR 0.13 billion (–0.0%). A longer-term analysis of the total assets reveals that growth has slowed down noticeably since 2000.

While domestic lending was very cautious in the first half of 2003 and banks invested primarily in foreign interbank business, refinancing continued to occur largely through traditional deposit business.

Asset Growth of Domestic Banks



Source: OeNB.

Within the bank sector, state mortgage banks registered the largest increase in total assets at 6.8%, followed by Volksbank credit cooperatives at 6.3%, special purpose banks (owing to the newly added nine severance funds) at 6.0% and joint stock banks at 4.7%. The Raiffeisen credit cooperatives were slightly above average (+3.3%), while savings banks and building and loan associations were significantly below average at 0.9% and 0.6% respectively. Despite a downward trend, savings banks continued to rank first with a market share of 36.7% in total assets at the end of June, followed by Raiffeisen credit cooperatives at 22.9% and joint stock banks at 16.3%. The special purpose banks registered a market share of 8.3%, the state mortgage banks 7.3%, the Volksbank credit cooperatives 5.4%, and the building and loan associations 3.2%. Both savings banks and building and loan associations lost market share.

The five largest banks (Bank Austria Creditanstalt AG, Erste Bank der österreichischen Sparkassen AG, Bank für Arbeit und Wirtschaft AG, Raiffeisen Zentralbank AG, Oesterreichische Kontrollbank AG) recorded a total share of 45.4% in total assets, a decline by 0.5 percentage point against the figure of December 2002. However, if observed over a longer period, it becomes evident that an upward trend has developed, since the market share of the five largest banks had been at only 35% in 1990. The market share of the ten largest banks also fell by 0.2 percentage point to 55.3% in the first half of 2003.

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

In a regional breakdown,[1]) asset growth was particularly strong in the case of Carinthian banks at 6.1% and Upper Austrian banks at 4.9%, whereas the local banks in Vorarlberg recorded a 1.0% decline in total assets.

Number of Head Offices Continues to Grow

Broken down by sectors, the number of banks reporting to the OeNB as of December 31, 2002, and June 30, 2003, developed 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	60	534	64	1,509	9	165	609	1,719	70	481	5	59	90	4	907	4,471	5,378
June 30, 2003	60	530	64	1,470	9	167	608	1,712	70	483	5	51	90	4	906	4,417	5,323
Change[1])	–	–4	–	–39	–	+2	–1	–7	–	+2	–	–8	–	–	–1	–54	–55

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 half of 2003, the number of banking offices in Austria thus fell by a total of 55. The nine new severance funds, which are also considered banks pursuant to the Austrian Banking Act, have been subject to reporting requirements since December 2002.

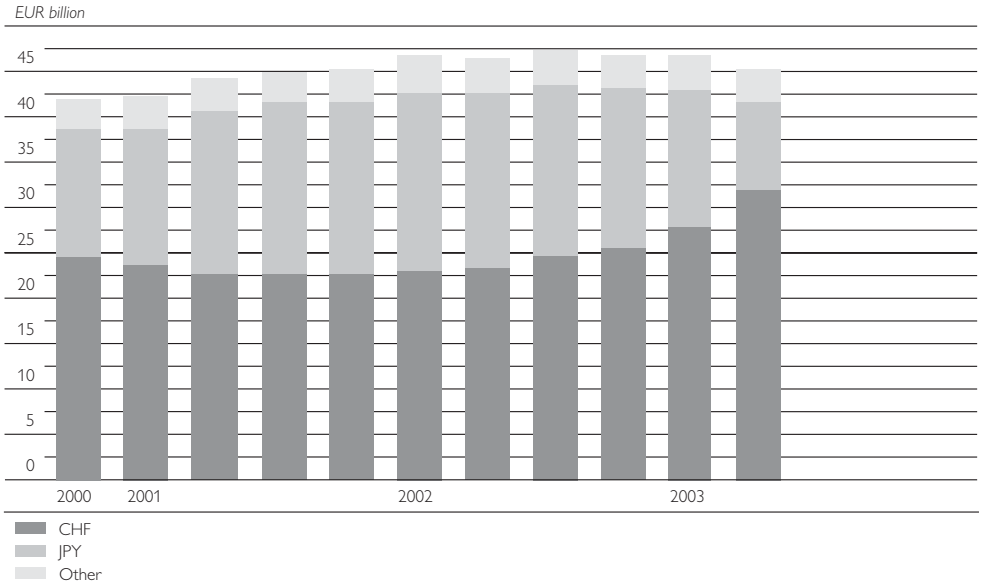
Loan Growth Declines for the First Time

In the first half of 2003, the loan volume of Austrian banks was affected by the weak national and international economic climate. As a result, loans to domestic nonbanks declined (–EUR 1.10 billion or –0.5%) for the first time since the start of electronic reporting, while in the same 2002 period, loans had risen by EUR 1.94 billion or 0.8%. By contrast, the ten largest banks recorded modest loan growth (+0.4%) in the first six months of 2003 (same period in 2002: 1.7%).

The decrease in lending affected foreign currency loans exclusively, which, partly because of exchange rate fluctuations, fell by EUR 1.48 billion or 3.3% since December 2002 – the largest drop since 1994. Compared to all banks reporting to the OeNB, the ten largest banks posted a somewhat lesser decline at 2.4%. The reason for the marked downswing in foreign currency loans is probably the poor economic situation. In addition, both borrowers and banks were increasingly made aware of the risks of such foreign currency commitments, inter alia by the Oesterreichische Nationalbank. As a result, the share of some currencies in the total loan portfolio changed drastically. Japanese yen-denominated loans, for instance, slumped by 43.7%, while lending in Swiss francs rose by 24.1%. This development is probably attributable to the fact that many borrowers redeployed interest and exchange rate gains earned in Japanese

1 *Comparisons between provinces are of limited substance, because supraregionally operating banks are always allocated to the head office location (BA-CA is, for instance, allocated to Vienna).*

Development of Foreign Currency Transactions



Source: OeNB.

yen to the Swiss franc. In the period from January to June 2002, foreign currency loans had grown by EUR 1.57 billion or 3.7%.

The share of foreign currency loans in total loans dropped from 18.8% to 18.3% since January 2003.

Compared to December 2002, euro-denominated loans showed a slight increase by EUR 0.39 billion or 0.2%. The growth rate was similar in the comparable 2002 period.

In a regional breakdown, the share of foreign currency loans in total loans was highest in Vorarlberg at 44.1% (March 2003: 44.2%), followed by the Tyrol at 35.4% (March 2003: 37.0%). Some banks in Vorarlberg and the Tyrol even recorded a share of some 65%. At 13.7%, Upper Austrian banks posted the smallest share of foreign currency loans in their lending portfolio.

Broken down by sectors, only special purpose banks (+EUR 0.18 billion or +2.1%) and Raiffeisen credit cooperatives (+EUR 0.08 billion or +0.2%) were able to increase their volume of foreign currency loans; all other sectors, in particular building and loan associations (–EUR 0.24 billion or –1.7%), suffered declines. At 24.3%, Volksbank credit cooperatives still had the highest foreign currency share in overall loans, followed by savings banks (20.9%), joint stock banks (20.2%) and state mortgage banks (19.4%).

In June 2003, an average euro-denominated loan (including overdrafts on current accounts) came to EUR 31,592, while an average foreign currency loan was some 4.4 times higher and amounted to EUR 137,426.

As of March 2003,[1]) Austria's share of total foreign currency loans outstanding in the euro area was at 3.1%, whereas loans denominated in Swiss francs accounted for 33.2% and Japanese-yen denominated loans for even 40.8%.

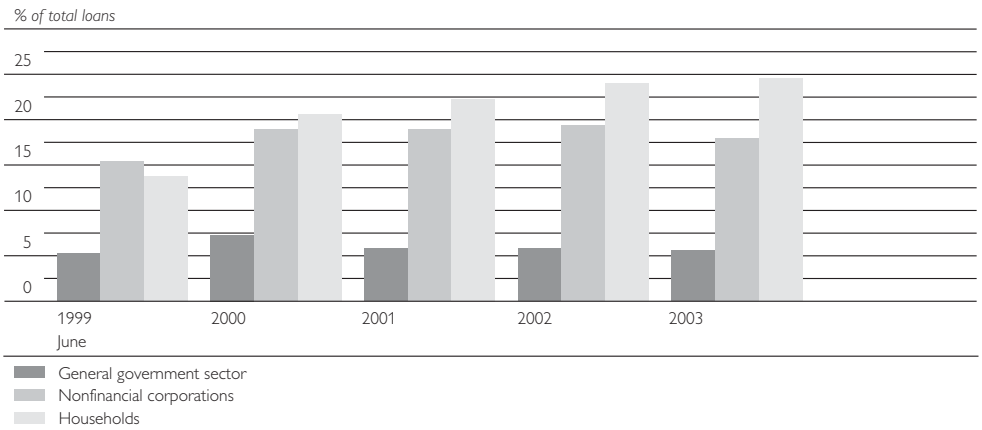
1 *At the time of the editorial close, the data for June were not yet available.*

The only economic sector to show a slight gain in total loans since January 2003 were the households (+EUR 0.31 billion or +0.5%). New loans were almost exclusively in euros. The same period of 2002 had still experienced lending growth of EUR 2.03 billion or 3.2%. At the end of June 2003, 24.9% of all loans to households were in foreign currencies. Since January 2003, the average interest rate charged on euro-denominated loans to households diminished by 0.77 percentage point to 5.74%. The share of foreign currency loans in total home and home improvement loans increased to 18.3%. Overall, home and home improvement loans fell by EUR 0.13 billion or 0.3% since the beginning of 2003. The average interest rate for home loans was 4.55%.

Since December 2002, nonfinancial corporations reduced their liabilities by EUR 0.61 billion (–0.5%), a somewhat smaller decrease than in the prior year (–EUR 1.08 billion or –0.8%). 18.1% of the total loan liabilities were denominated in foreign currencies, and it was primarily the nonfinancial corporations which moved from foreign currency loans (–EUR 1.60 billion or –6.5%) to euro-denominated loans (+EUR 0.99 billion or +1.0%). The average interest rate for commercial loans dropped by 0.76 percentage point to 4.85% in the period from January to June 2003.

At EUR 0.83 billion or 2.9% it was the government sector that recorded the greatest decline in lending in the first half of 2003, while in the same period of 2002, lending had still grown by EUR 0.45 billion or 1.6%. 5.6% of all outstanding loans were in foreign currencies. Within the government sector, the municipalities were the only ones to increase their total loans by EUR 0.17 billion or 1.4%. The average interest rate for local-authority loans decreased by 0.58 percentage point to 3.24% since December 2002.

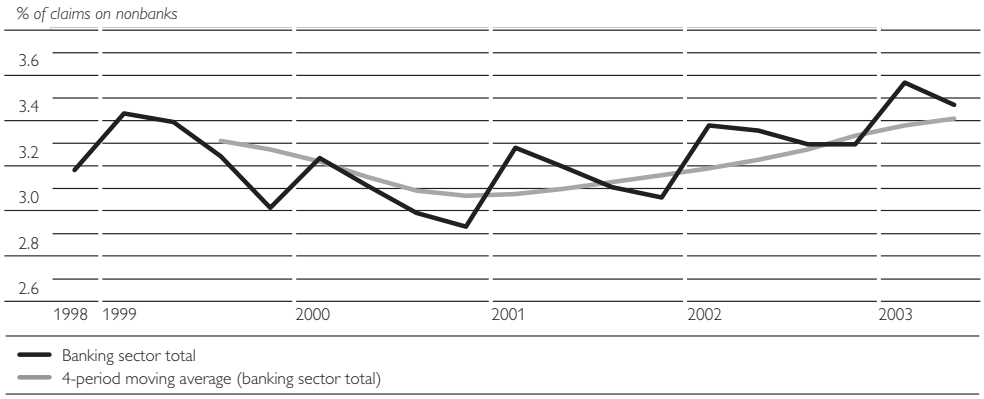
Share of Foreign Currency Loans



Source: OeNB.

Value adjustments to claims on nonbanks continued to climb and reached 3.46% as of June 30, 2003; a figure last seen in June 1998. Traditionally, the multi-tier sectors (Volksbank credit cooperatives 5.25%, Raiffeisen credit cooperatives 4.27%, savings banks 3.91%) recorded the highest level of value adjustments, followed by joint stock banks at 2.92% and state mortgage banks at 2.39%.

Value Adjustments



Source: OeNB.

Growth in Securitized Loans

Compared to December 2002, securitized loans rose by EUR 0.82 billion (+4.2%). This portfolio growth was primarily traceable to federal treasury bills (+EUR 0.31 billion) as well as debt securities and other fixed-rate securities (+EUR 0.24 billion). In the period from January to June 2002, the volume of securitized loans had fallen by EUR 0.38 billion or 1.8%.

Largest Increase in Deposits in More Than Ten Years

After a decline of EUR 1.53 billion or 0.8% in the first six months of 2002, domestic nonbank deposits increased by EUR 4.24 billion or 2.2% in the same 2003 period – a figure last recorded in 1990. Broken down by sectors, special purpose banks (+EUR 0.16 billion or +13.1%) and Raiffeisen credit cooperatives (+EUR 2.96 billion or +6.0%) reported the highest gains by far. At +EUR 0.32 billion or +2.6%, Volksbank credit cooperatives were also significantly above average, while state mortgage banks (+2.0%), building and loan associations (+0.9%), savings banks (+0.5%) and joint stock banks (+0.5%) recorded below-average growth.

In June 2003, Lower Austria posted the highest ratio of deposits to total assets at 66.1%, followed by Styria at 50.5%. Vorarlberg and Upper Austria reported above-average deposit growth at 4.2% and 3.3% respectively.

In the deposits sector, demand deposits registered the highest increase (+EUR 3.49 billion or +8.3%). At +EUR 1.85 billion or +4.8%, this deposit category had also made the greatest gains in the like 2002 period. While time deposits fell by EUR 0.70 billion or 3.2% in the first six months of 2003, the decline in the same 2002 period had been significantly greater at EUR 2.33 billion or 9.2%. The volume of savings deposits increased by EUR 1.45 billion (+1.1%) in the first half of 2003, although the average interest rate for savings deposits with an agreed maturity of more than twelve months went down by 0.52 percentage point to 1.89%. In 2002, there had been a decline in savings deposits by EUR 1.05 billion (–0.8%).

Over time, a trend toward more short-term forms of deposits has emerged. Since 1995, for instance, the average growth of savings deposits with an agreed maturity of up to one year had been at 2.6% p.a., while savings deposits with an agreed maturity of over one year rose only by an average of 1.4% p.a.

This is probably attributable to the fact that the interest rate for savings deposits with an agreed maturity of up to twelve months has fallen less significantly than the interest rate for deposits with a term of more than twelve months. Time deposits reflected a growing preference for liquidity among investors in the past few years. Since 1995, time deposits with an agreed maturity of up to one year have grown by 17.9% p.a., while those with an agreed maturity of over one year rose by only 10.4% p.a. At 11.3% p.a., demand deposits also recorded a relatively high increase.

In the first half of 2003, the households showed the greatest rise in euro-denominated demand deposits (+EUR 1.62 billion or +8.5%), which also include personal checking accounts. In the same 2002 period, this position had augmented by EUR 1.02 billion or 5.8%. The nonfinancial corporations also increased their demand deposits in the first half of 2003 by as much as EUR 1.00 billion (+6.3%). In the first six months of 2002, growth had been somewhat more restrained at EUR 0.83 billion or 5.8%. As of June 30, 2003, more than half of all demand deposits were held by households.

At the end of the first half of 2003, nonfinancial corporations accounted for some 48% of all euro-denominated time deposits, the government sector for 23%, and households for 15%. Especially the government sector reduced this position considerably since January 2003 (–EUR 1.46 billion or –24.1%), while the time deposits of nonfinancial corporations shrunk by EUR 0.31 billion or 3.1%.

For the most part, only households had savings deposits, and the euro-denominated volume of total savings deposits increased by EUR 1.36 billion or 1.1% since December 2002. In 2002, household savings deposits had actually fallen by EUR 1.09 billion or 0.9%. On average, a savings account came to EUR 5,486 as of June 2003, and every Austrian had an average of three savings accounts.

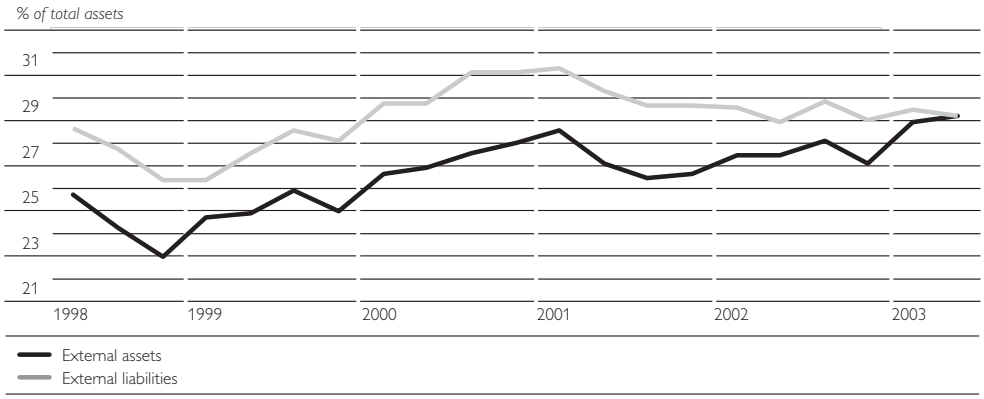
Direct Domestic Issues Down

Contrary to savings deposits, refinancing by Austrian banks through direct domestic issues slipped by EUR 2.03 billion or 3.8% during the first six months of 2003. The first half of 2002 had still experienced growth of EUR 3.25 billion (+6.0%).

External Assets Up Sharply

Since the beginning of 2003, the external assets of banks reporting to the OeNB rose substantially by EUR 17.16 billion or 11.0%. Some 85% of this increase stemmed from lending to foreign banks, which went up by EUR 14.66 billion or 19.6%. In the same period of 2002, external assets had grown by only EUR 5.04 billion (+3.2%); lending to foreign banks by EUR 3.20 billion (+3.9%). Since the external liabilities rose by only EUR 6.60 billion (+4.0%) in the first half of 2003, the external assets (with a volume of EUR 172.47 billion) were almost on a par with the external liabilities (EUR 172.80 billion) for the first time in many years.

External Business of Domestic Banks



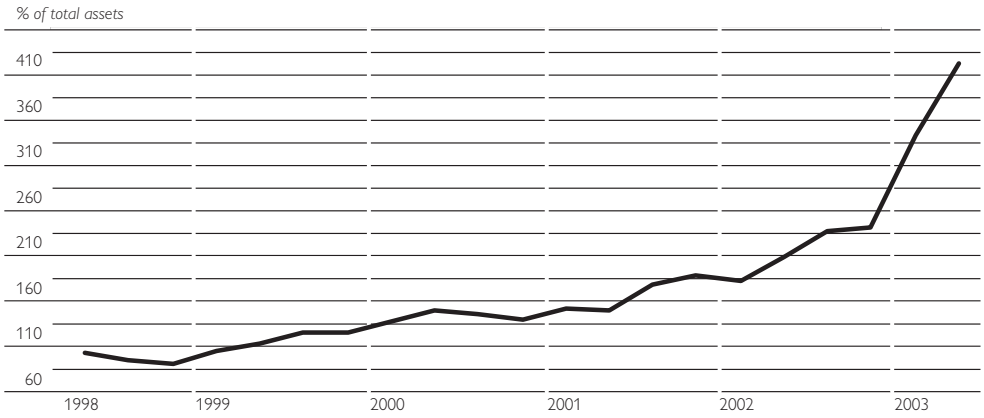
Source: OeNB.

A breakdown of assets by country shows that as of March 31, 2002,[1]) 18.2% of the external assets of banks reporting to the OeNB were attributable to Germany, followed by the United Kingdom at 12.7%, Italy at 6.0% and the United States at 4.8%. As the first EU acceding country, Poland, with a share of 4.1%, was already in sixth place even before France.

Dynamic Growth of Derivatives Transactions

Since December 2002, the volume of derivatives transactions rose by remarkable EUR 1.119 billion or 80.6% to a new level of EUR 2.507 billion. This brought the volume of special off-balance-sheet financial operations to a level that was 4.2 times greater than the total assets of all Austrian banks. Because, however, the necessary capital base climbed only by 12.6% during same period, the risk involved in business expansion was obviously low. At some 88%, interest rate contracts accounted for the largest share in derivatives transactions.

Special Off-Balance-Sheet Transactions



Source: OeNB.

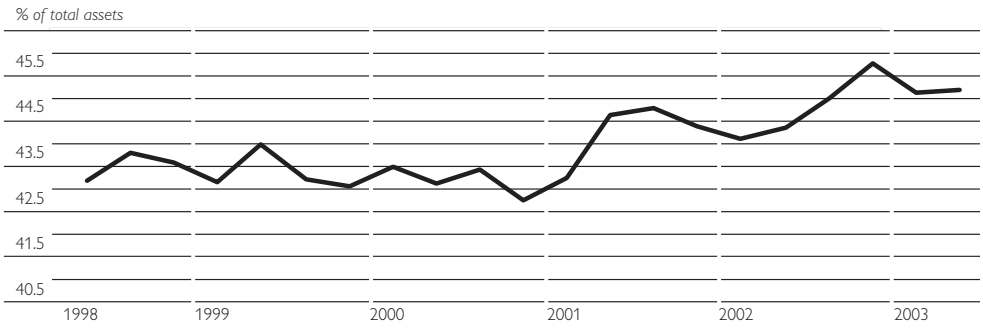
1 *Source: Bank for International Settlements regional statistics. More current data were not available at the time of editorial close.*

Capital Base Shows Moderate Gains

In the first six months of 2003, the capital base rose by only EUR 0.52 billion (+1.3%), while in the same period of 2002, the banks operating in Austria still recorded growth of EUR 1.24 billion or 3.0%. The (unconsolidated) equity capital base as a percentage of the assessment base stalled at 14.1%.

Hence, risk-weighted assets as a percentage of total assets went up by 1.9% against June 2002.

Risk-Weighted Assets



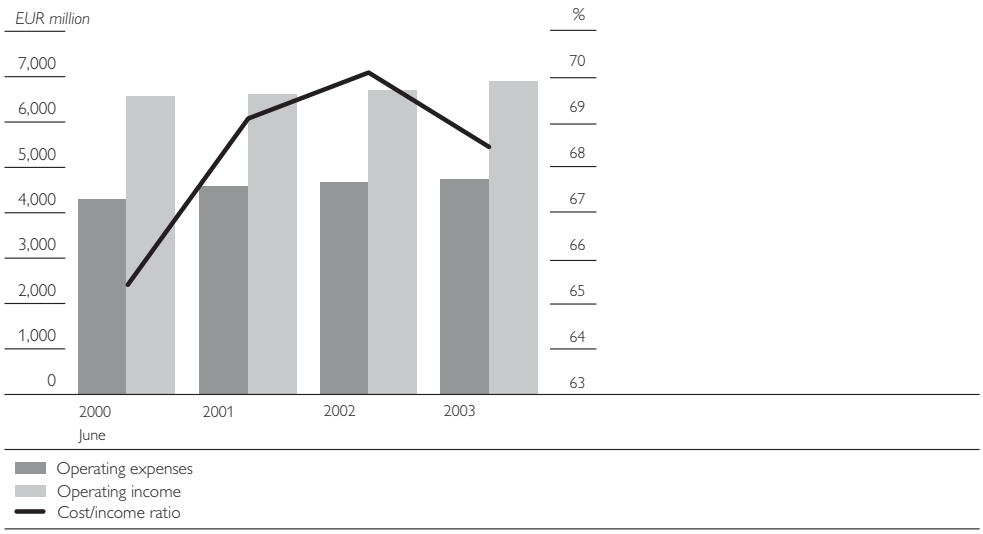
Source: OeNB.

Operating Profit Reflects Positive Trend

At EUR 2.17 billion in the first half of 2003, the unconsolidated operating profit of the banks operating in Austria was EUR 0.17 billion or 8.7% above the figure for the same period in 2002. Thus, the positive trend which had been reported in the first quarter continued in the second quarter of 2003. In a sectoral breakdown, we can observe that the state mortgage banks (+11.8%), building and loan associations (+7.3%), Volksbank credit cooperatives (+7.2%) and special purpose banks (+3.0%) all raised their operating result. Savings banks' surge of net interest income by +65.8% and joint stock banks' plunge of net interest income by –13.6% must be regarded against the backdrop of the BA-CA merger. Since the BA-CA merger took place in August 2002, it will be possible to make more substantive sectoral comparisons with 2002 at the next reporting date (first through third quarter of 2003). Set in relation to average total assets, operating income came to 0.37%, a slight increase 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 (2) of the Austrian Banking Act[1]) ran to 0.73% in the first six months of 2003 and went up by 0.04 percentage point. In the first half of 2003, banks operating in Austria reported a rise in operating income by EUR 0.20 billion or 3.0% to EUR 6.89 billion. Operating expenses showed a less significant increase by EUR 0.03 billion or 0.6% to EUR 4.71 billion. Consequently, the cost/income ratio improved by 1.6 percentage points and came to 68.4% at the reporting date.

1 *This ratio is calculated by dividing operating profits by the sum of weighted assets, weighted off-balance-sheet activities and weighted special off-balance-sheet financial operations.*

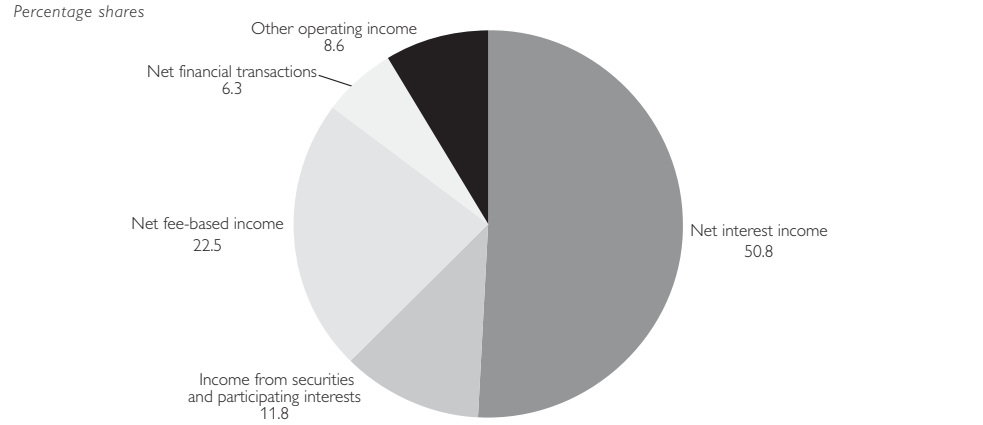
Cost/Income Ratio



Source: OeNB.

In a sectoral breakdown, the cost/income ratio of state mortgage banks (58.7%), special purpose banks (59.9%), Raiffeisen credit cooperatives and joint stock banks (65.7%) and Volksbank credit cooperatives (67.5%) was better than the average of the banks operating in Austria. The ratio of savings banks (74.7%) and building and loan associations (79.8%) lagged behind the average in the banking sector. Set in relation to average total assets, operating income went up by 0.04 percentage point and operating expenses by 0.01 percentage point. The ratio of operating profit to the assessment base as stipulated by Article 22 (2) of the Austrian Banking Act[1]) ran to 2.31% in the first two quarters of 2003 (first half of 2002: 2.32%).

Structure of Operating Income



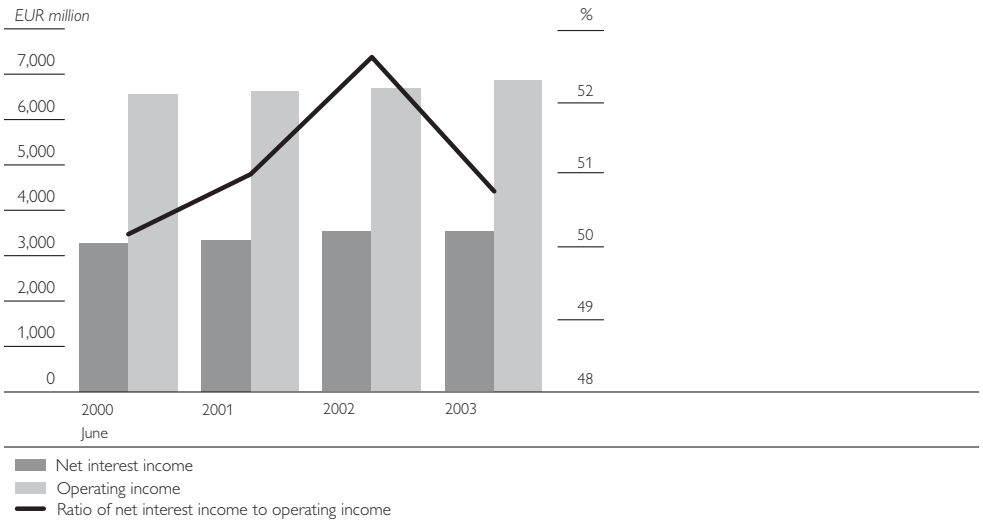
Source: OeNB.

1 *This ratio is calculated by dividing operating profits by the sum of weighted assets, weighted off-balance-sheet activities and weighted special off-balance-sheet financial operations.*

Net Interest Income Giving Slightly

In the first half of 2003, net interest income amounted to EUR 3.50 billion, thus having fallen EUR 0.02 billion or 0.62% behind the figure recorded in the like period in 2002. At the reporting date, the ratio of net interest income to total operating income came to 50.8%, a decrease by 1.9 percentage points against the same period of 2002.

Ratio of Net Interest Income to Operating Income



Source: OeNB.

The ratio of net interest income to average total assets was 0.60% and thus remained unchanged against the same period in 2002. At EUR 10.70 billion, interest receivable and similar income remained EUR 1.16 billion or 9.8% below the comparable 2002 figures, whereas interest payable and similar charges fell by EUR 1.14 billion or 13.7%, somewhat lower than the corresponding income.

In a sectoral breakdown, an analysis of the structure of operating income reveals that the ratio of net interest income to total operating income came to 68.1% with state mortgage banks, to 60.3% in building and loan associations, to 54.4% with Volksbank credit cooperatives, to 54.0% for Raiffeisen credit cooperatives and to 51.1% with savings banks. These sectors thus generated an above-average share of their income from interest rate business. The ratio of fee-based income to total operating profit stood at 26.7% with special purpose banks, to 25.1% with savings banks and to 23.1% with joint stock banks and Volksbank credit cooperatives. These sectors thus generated a relatively high share of total operating income from fee-based income.

The analysis of interest rate business included for the first time a breakdown of the total spread[1]). In the first half of 2003, it came to 1.29% and thus remained unchanged from the like 2002 period. In a sectoral breakdown, we can observe that special purpose banks (+6.3%), state mortgage banks (+4.5%), Raiffeisen credit cooperatives (+1.1%) and Volksbank credit cooperatives (+0.8%) all raised their net interest income in the first half of 2003. The building and loan associations experienced a decline in net interest income (–0.4%). Joint stock banks' plunge of net interest income by 30.3% and savings banks' surge of net interest income by 19.7% must be regarded against the backdrop of the BA-CA merger.

Income from Securities and Participating Interests

In the first half of 2003, income from securities and participating interests came to EUR 0.82 billion, a slight decrease by EUR 0.01 billion or 1.6% over the same period in 2002. The performance of the individual segments was varied: On the one hand, income from equity shares in affiliated enterprises picked up (+EUR 0.06 billion). As reported in the first quarter of 2003, this gain is primarily attributable to higher income from foreign affiliated enterprises. Growth was also recorded for income on shares and other equity interests as well as variable rate securities (+EUR 0.02 billion). On the other hand, income from participating interests showed a significant decline (–EUR 0.10 billion) against the remarkably high figure recorded in the like 2002 period.

Balance on Commissions Picks Up

After a protracted downward movement in prior reporting periods, the balance on commissions increased slightly in the first quarter of 2003 and rose yet again by EUR 0.04 billion or 2.6% to EUR 1.55 billion in the first half of 2003. This is mainly traceable to the increase in fee-based income from payment systems (+EUR 0.04 billion), but also to the rise of fee-based income from lending (+EUR 0.03 billion) and services (+EUR 0.01 billion). Fee-based income from securities continued to lose ground (–EUR 0.04 billion), although to a lesser extent than in the previous years. Despite the upturn in fee-based income, the ratio of fee-based income to total operating income slipped slightly by 0.1 percentage point in comparison to the first six months of 2002 and came to 22.5%.

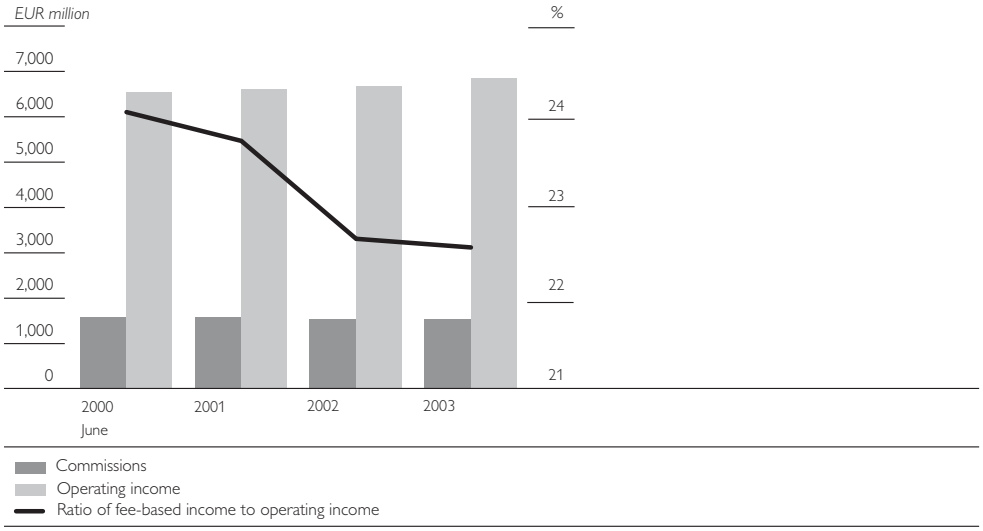
Net Income from Financial Transactions More Than Doubled

In the first half of 2003, net income from financial transactions amounted to EUR 0.43 billion and thus more than doubled (+EUR 0.23 billion or +119.0%) from the comparable 2002 period. This is primarily ascribable to the marked increase in net income on securities other than financial fixed assets

1 *For this purpose, the interest-bearing liabilities were compared with the interest-bearing assets. The resulting interest margin was adjusted for the endowment effect (meaning that 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.*

(+EUR 0.19 billion). Thus, the banks operating in Austria were able to utilize the positive situation on the international financial markets during the second quarter of 2003, which resulted in a significant gain in income from proprietary trading with securities. Net income on other financial transactions (+EUR 0.02 billion) as well as net income from trading in foreign exchange, currency and precious metals (+EUR 0.02 billion) also posted an increase. The share of proprietary trading in total operating income came to 6.3% at the reporting date, a remarkably strong rise by 3.3 percentage points over the like 2002 period. Proprietary trading thus made a substantial contribution to the increase in operating income.

Ratio of Fee-Based Income to Operating Income

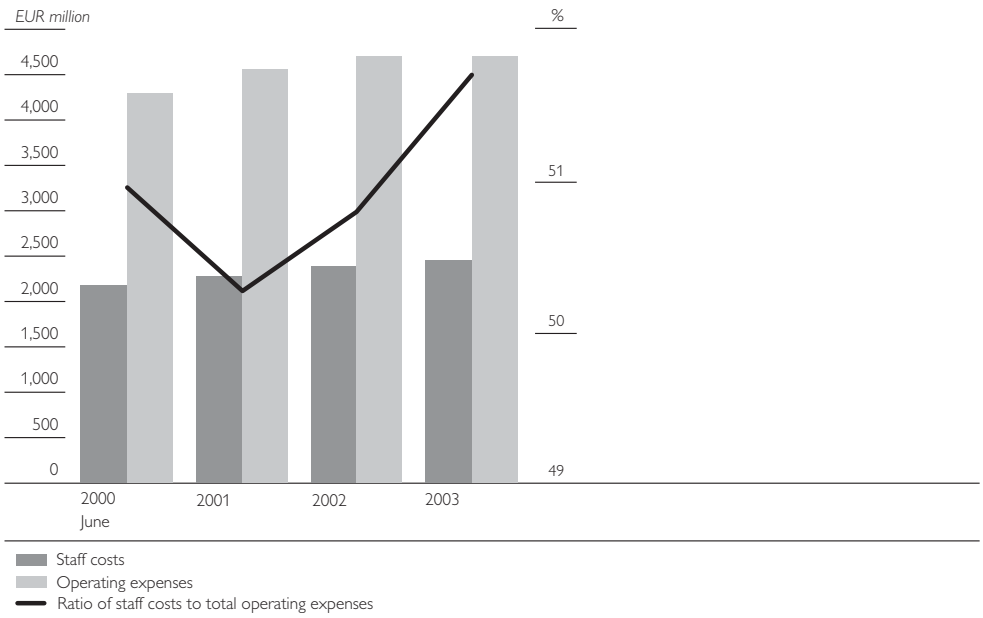


Source: OeNB.

General Administrative Expenses Climb More Moderately

At EUR 3.95 billion, general administrative expenses climbed more moderately than in the comparable quarter of 2002 (+EUR 0.04 billion or +1.0%). Staff costs went up by EUR 0.06 billion or 2.4% to EUR 2.44 billion. The ratio of staff costs to total operating expenses rose by 0.9 percentage point to 51.7%.

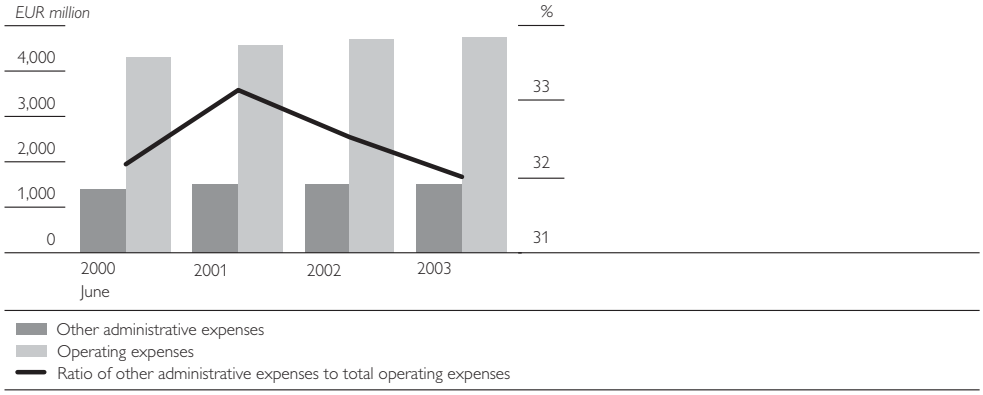
Ratio of Staff Costs to Total Operating Expenses



Source: OeNB.

Other administrative expenses came down by EUR 0.02 billion or 1.0% to EUR 1.51 billion in the first half of 2003. The ratio of administrative expenses to total operating expenses stood at 32.0%, a slight reduction by 0.5 percentage point.

Ratio of Other Administrative Expenses to Total Operating Expenses

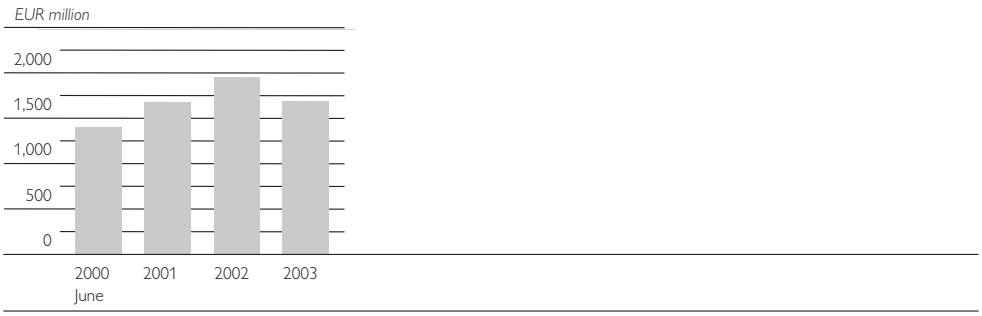


Source: OeNB.

Outlook for Full-Year 2003 Results

For the 2003 business year, banks operating in Austria expect an unconsolidated operating result of EUR 3.93 billion (estimate 2002: EUR 4.00 billion). The requirements for loan loss provisioning have been estimated at EUR 1.71 billion, which falls short of the comparable projection for 2002 by as much as EUR 0.26 billion or 13.2%. Loan loss provisions primarily include anti-

Loan Loss Provisions

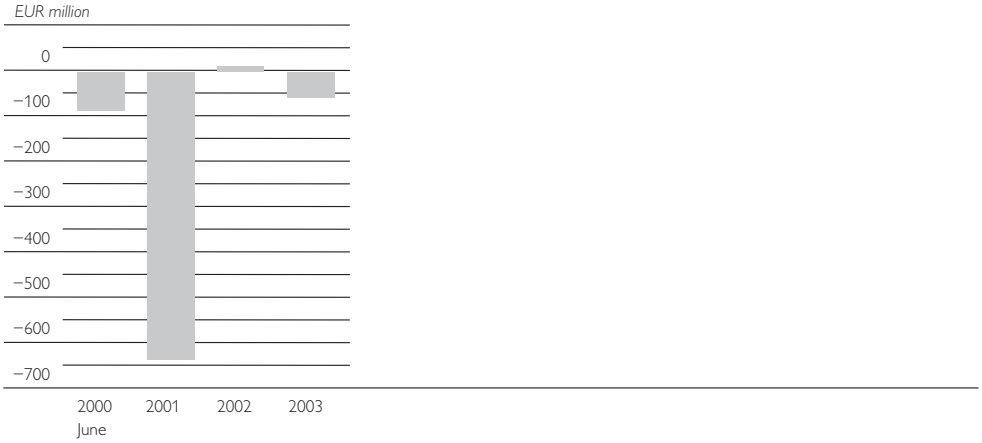


Source: OeNB.

cipated write-downs of claims on nonbanks (EUR 1.87 billion). A more detailed analysis shows that while anticipated loan loss provisioning has decreased against the same 2002 period, the estimated figure is still higher than the long-term average.

In the first half of 2003, more provisions for securities and participations will have to be cancelled than created, so that an anticipated balance of EUR 0.05 will be included in the operating profit in 2003. In the first half of 2002, a negative balance (EUR 0.01 billion) had been anticipated for this sector. This positive development is primarily attributable to the EUR 0.04 billion rise in gains realized upon the transfer from provisions for balance-sheet assets items 5 to 8 (anticipated sales of securities, shares, participating interests and equity shares in affiliated enterprises).

Transfer from/to Provisions for Securities and Participations

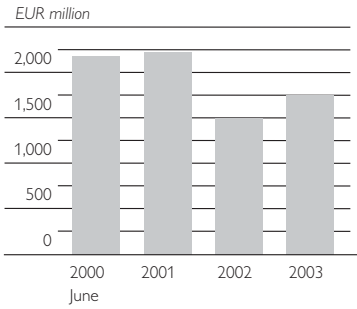


Source: OeNB.

With all risk provisions and value adjustments accounted for, the projected 2003 income on ordinary activities of banks operating in Austria runs to EUR 2.27 billion, an assessment that is EUR 0.25 billion or 12.5% above that of the same period in 2002. Extraordinary expenses for 2003 are forecast at EUR 0.09 billion (2002: EUR 0.13 billion). Anticipated tax liabilities come to EUR 0.41 billion, which is EUR 0.03 billion or 8.5% higher than the figures

for the same period in 2002. Hence, the full-year 2003 unconsolidated annual surplus of banks operating in Austria is projected to amount to EUR 1.77 billion, a marked increase of EUR 0.26 billion or 17.1% against the same period of 2002. Although the projected annual surplus experienced a jump of EUR 1.70 billion against the first quarter of 2003, the figure is still significantly lower than the estimates in the comparable quarters of 2001 and 2000.

Projected Annual Surplus



Source: OeNB.

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

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

- Sustained current account surplus;
- Sluggish global economy impacts on the Austrian current account;
- Cross-border security transactions decrease strongly;
- Austrian direct investment abroad remains at a high level despite a moderate decrease.

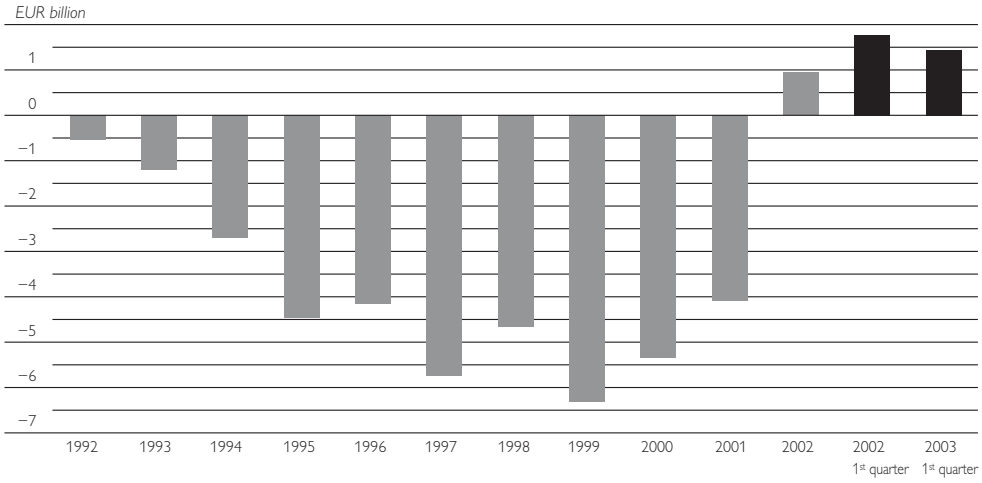
1 Current Account

The Austrian current account posted a surplus of EUR 1.4 billion in the first quarter of 2003 (first quarter of 2002: EUR 1.8 billion), thus continuing the trend of current account surpluses recorded in 2002.

The main reason for the smaller current account surplus compared with the first quarter of 2002 was the deterioration of the services account, which was mainly due to less travel expenditure by foreign guests in Austria (–13%). Apart from the balance of services, the higher deficit on the income subaccount (–EUR 800 million) also contributed to this outcome. The goods account recorded a stable surplus of some EUR 600 million compared with the first quarter of 2002, the surplus on current transfers decreased by approximately 50%, thus posting a deficit of –EUR 250 million. The relatively weak growth in goods imports and exports (+ 1.7% in nominal terms each) reflects the persistently weak Austrian and international economic conditions.[2])

Chart 1

Austria's Current Account[1])



Source: OeNB.
[1]) Up to 2000: final data; 2001 to 2002: revised data; 2003: provisional data.

Vis-à-vis the *euro area countries,* the Austrian current account posted a deficit of some EUR 350 million in the first quarter of 2003, after a surplus of EUR 460 million in the same period of 2002. One of the main reasons for this deficit

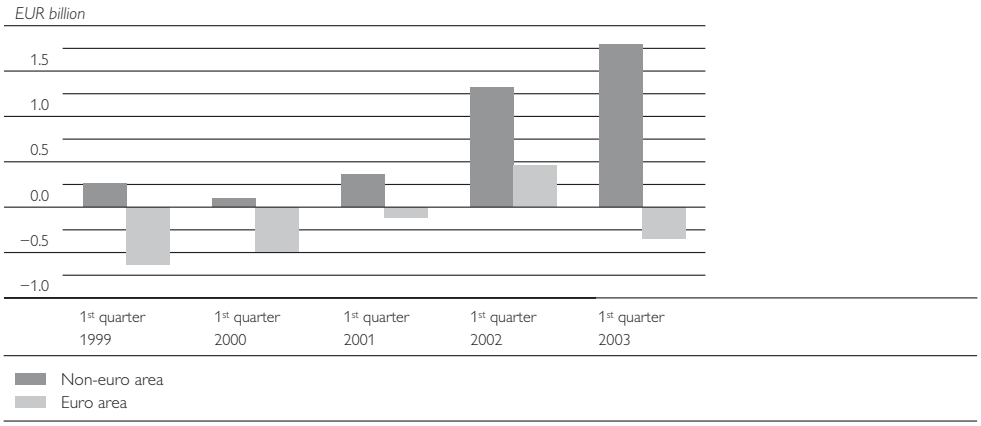
1 *Based on transactions. Editorial close: August 13, 2003. Contrary to the monthly cash balance, whose purpose is to provide a quick overview, the transaction balance is based on a calculation model requiring period adjustments and other adjustments.*

2 *See WIFO (June 2003): Prognose für 2003 und 2004: Konjunkturaufschwung nicht in Sicht, WIFO, Vienna.*

was the halving of the surplus on the goods and services account to EUR 650 million. In the first quarter of 2003, the current account of the euro area recorded a deficit of EUR 2 billion, while in 2002 it had posted a surplus of EUR 12 billion. This development is traceable to the halving of the surplus on the balance of trade (EUR 14.5 billion). The current account balance with the countries outside the euro area recorded a surplus of EUR 1.7 billion in the reporting quarter. Particularly the increase in exports to Switzerland and China contributed to this outcome.

Chart 2

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



Source: OeNB.
[1]) Up to 2000: final data; 2001 to 2002: revised data; 2003: provisional data.

The current account surplus with the *ten acceding countries* diminished slightly from EUR 1 billion to EUR 900 million.

The following analysis provides a closer look at the individual subaccounts of the Austrian current account in the first quarter of 2003.

1.1 Goods and Services

In the reporting quarter, the balance on goods and services posted a drop in surplus from EUR 2.8 billion to EUR 2.5 billion. This reduction can be attributed mainly to a 12% decrease in the exports of services and an 11% decrease in the imports of services. The first data analysis of the subsequent months of April and May does not reveal any improvement either.[1])

1.1.1 Goods

In the reporting period, Austrian external trade showed weak growth rates both in exports and in imports (in nominal terms both advanced by 1.7%), with the slight increase in imports being mainly caused by higher oil prices. Compared with the entire euro area, Austria's export performance was somewhat more dynamic. On the whole, goods exports amounted to some EUR 19.5 billion and goods imports to EUR 18.8 billion.

1 *See press release of July 18, 2003, on the occasion of the presentation of the Austrian balance of payments from January to May 2003.*

A regional breakdown reveals that according to data provided by Statistics Austria (table 3), both goods exports and imports vis-à-vis the *euro area countries* increased by 1%. By comparison, exports and imports vis-à-vis the *non-euro area countries* expanded by 5% and 3%, respectively.

The *ten acceding countries* contributed significantly to this development. Austrian exports to these countries remained stable, while imports increased by 12%. Apart from the Czech Republic and Hungary, which are both still topping the list in terms of volume, Poland, Slovenia and the Slovak Republic have been steadily gaining importance as trading partners. In the reporting period, especially exports to and imports from Slovenia and the Slovak Republic rose sharply (by 10%). Exports to Switzerland (+39%) and China (+23%) posted dynamic growth rates, with imports from China also growing considerably (+20%). By contrast, in the reporting quarter Austria's goods exports to Japan diminished by 11% against the first quarter of 2002, whereas goods imports from Japan increased by 14%. As in 2002, China continued to be Austria's main export market in Asia. In the reporting period, goods exports to the U. S. market decreased by 2%, which can be attributed, at least to some extent, to Austrian exporters' reduced competitiveness caused by the appreciation of the euro. Unexpectedly, goods imports from the U.S.A. declined by 31%.

1.1.2 Services

The services subaccount reported a significant decrease in both exports and imports. In the first quarter of 2003, exports totaled EUR 8.8 billion and imports EUR 6.9 billion. In other words, services exports went down by 12% and imports by 11%.

Almost all items on the services subaccount reported both falling exports and imports in the first quarter of 2003. This considerable reduction can mainly be attributed to the 13% decrease (from EUR 4 billion to EUR 3.5 billion) in travel spending in Austria.

1.1.2.1 Travel

Despite unfavorable news (the terrorist attacks of September 11, 2001, war in Iraq, SARS), Austrian tourism proved remarkably strong. Thanks to its reputation as a safe destination, Austria has even benefited to some extent from the crises. However, in the first quarter of 2003, the number of foreign tourist bednights decreased for the first time in five years by more than 3% to 30.7 million against the same period of the previous year. A large part of the decline is likely to be related to the late Easter date 2003. The main reason for the downturn was the slump in the number of German guests (–1.4 million overnight stays). At the same time, however, considerably more tourists from the Netherlands, Switzerland as well as Great Britain and especially from the Czech Republic, Hungary and Russia (table 5) traveled to Austria in the first quarter of 2003.

Travel receipts, which decreased by EUR 500 million (–12.5%) to EUR 3.5 billion compared with the first quarter of 2002, reflect the prevailing pessimistic consumer sentiment more clearly. Even though the extent by which travel receipts declined because of the late Easter date may be overstated,[1]) a nominal decline had already been recorded in the fourth quarter of 2002, which suggested that, in particular, less was spent on incidental expenses. Receipts from international passenger transport, which are no longer included in the travel account, stagnated at the level of 2002, namely at EUR 500 million (table 4).

Data on Austrians' travel expenditure, which have been determined on the basis of a survey among households since the introduction of euro banknotes and coins, are not available yet. An extrapolation based on cash flows still available (especially credit cards, debit cards, credit transfers) indicates slightly declining expenditure. As a consequence, travel expenditure (excluding international passenger transport) came to EUR 1.4 billion, and international passenger transport to EUR 185 million. Expressed as a percentage, this is a decline by 1.6% and 5.0%, respectively.

1.1.2.2 Other Services

As noted earlier, almost all items on the services subaccount recorded decreases both on the exports side as well as on the imports side.

Apart from travel, it is especially cross-border transactions in the field of *other business services* (such as merchanting, other trade-related services, operational leasing, other self-employed and technical business services) that contributed to the reduction of services exports and imports. Over the past ten years, these service items improved both on the exports and on the imports side. In the first quarter of 2003, however, a less dynamic development was recorded on both sides. Still, this does not imply a negative deviation from the trend; rather, the volumes went down to the levels of 2000 (exports) and 1999 (imports).

Within the euro area, Austrian services (travel excluded) were mainly consumed by Germany, the United Kingdom and Italy. All three countries imported mainly transport services from Austria. Among the acceding countries, Hungary and Poland were the most important sales markets. Transport services and construction services were of particular importance for these countries.

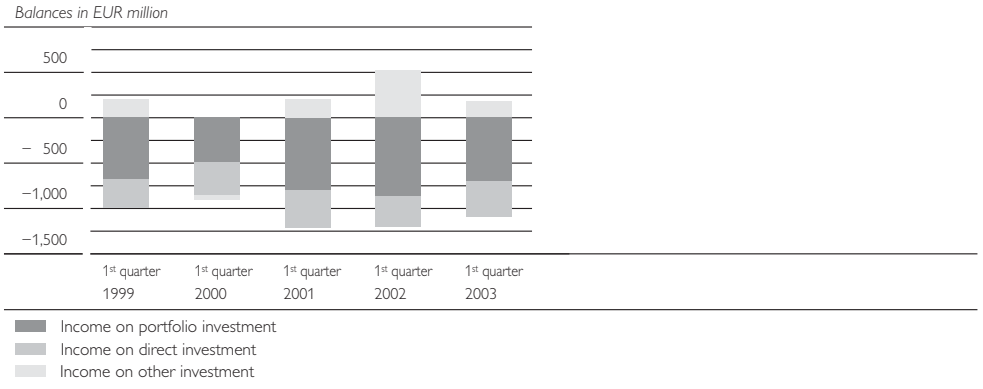
1.2 Income

At EUR 790 million, the deficit on the income subaccount in the first quarter of 2003 was one third higher than in the same period one year earlier. This change is to a large part traceable to income on other investment. While the *compensation of employees* (basically income received from the compensation of border workers and seasonal workers) posted a surplus (EUR 130 million) equal to that of previous years, the deficit on *investment income* exceeded the shortfall

1 *At the same time it cannot be excluded that the corresponding figure of 2002 is somewhat excessive due to the calculation model used.*

Chart 3

Components of Austria's Investment Income[1])



Source: OeNB.
[1]) 1999 to 2000: final data; 2001 to 2002: revised data, 2003: provisional data.

recorded in the first quarter of 2002 (EUR 920 million compared to EUR 700 million).

The regional breakdown of net investment income shows that like in 2002, the bulk of net outflows went to the euro area (EUR 1.1 billion), while the highest share of net capital income came from Eastern Europe. The acceding countries accounted for an increasing share in net inflows from cross-border income (EUR 400 million).

For the first quarter of 2003, a breakdown by the most important subaggregates shows net deficits on income from direct and portfolio investment (EUR 390 million and EUR 710 million, respectively), and a surplus on other investment income (EUR 170 million), as depicted in chart 3. On the assets side, portfolio investment has the highest share in this aggregate (45%), followed by income on other investment (36%; table 6). On the liabilities side, income on portfolio investment plays the greatest role (52%), outperforming income on direct and other investment, which have about equal weight (24% each).

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 15% each. Since the stock of foreign direct investment in Austria continues to markedly exceed the stock of Austrian FDI abroad, FDI income posted a deficit to the tune of EUR 390 million again in the first quarter of 2003. This shortfall results from the difference between Austrian owners' profits of EUR 620 million and outflows to foreign owners of EUR 1 billion in the reporting period. Actually distributed profits, which are included in these figures, came to EUR 280 million for outward and EUR 420 million for inward investment.

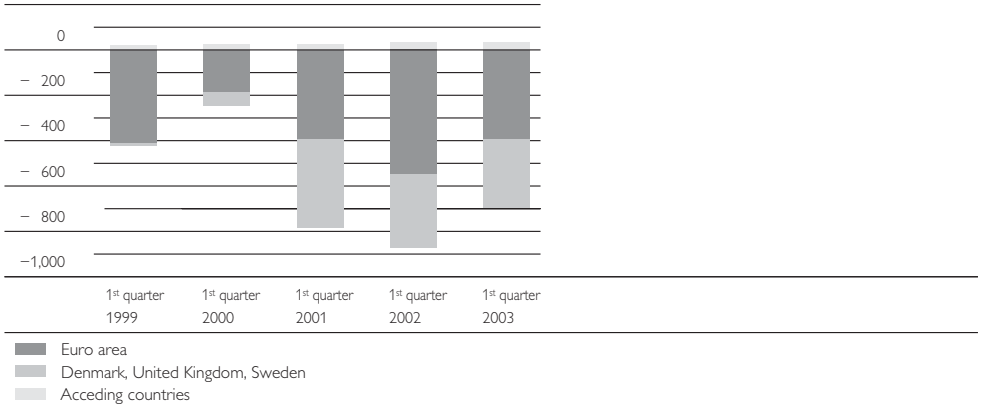
Income on portfolio investment remains the key component of investment income. Income on investment in foreign securities came to EUR 1.5 billion in the first quarter of 2003 and was clearly surpassed by the costs resulting from Austria's external debt position (EUR 2.2 billion) in the same period. A regional breakdown of net inflows and outflows in this income category shows that net outflows to the EU continue at a high level (EUR 690 million), with

Chart 4

Net Investment Income on Portfolio Investment

by Selected Country Groups[1])

EUR million



Source: OeNB.
[1]) 1999 to 2000: final data; 2001 to 2002: revised data, 2003: provisional data.

EUR 390 million going to the euro area and EUR 300 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 accounts for 95% of asset inflows and liability outflows. In the first quarter of 2003, Austria recorded interest income of EUR 1.4 billion, while Austrian borrowers faced interest payments of more than EUR 2 billion. On the assets side, interest income went mainly to the segment other sectors (62%), in particular institutional investors, and to banks (33%). On the liabilities side, the general government (56%) and banks (35%) predominated interest payments. In a comparison of net results, the Austrian general government and banks are net contributors, while the other sectors, mostly institutional investors, are net recipients.

Net income on loans, deposits and reserve assets *(income on other investment)* amounted to EUR 170 million in the period under review, less than half of the first quarter 2002 result. Income on other investment shrank by 20%, whereas expenditure rose by 6%. A breakdown by region reveals that Austria was a net contributor vis-à-vis the other euro area countries and a net recipient vis-à-vis the ten acceding countries.

The positive result of 2002 was traceable chiefly to Austrian banks' performance. In early 2003, however, Austrian commercial banks' profit from foreign borrowing went down (by 11% to EUR 380 million), mainly due to declining foreign exposures. Also, the deficit on income from sight and time deposits, which had contracted sharply in 2002, continued to shrink in early 2003, albeit at a slower pace (from EUR 32 million to EUR 11 million), as deposits were withdrawn from Austrian banks. The OeNB posted higher income outflows resulting from payments within the compensation system of the ESCB. Net income outflows of the general government, households and enterprises doubled from the first quarter of 2002 (EUR 90 million). Increasing borrowing by the segment other sectors in the course of 2002 contributed to this surge.

1.3 Current Transfers

At EUR 250 million, the shortfall on current transfers in the first quarter of 2003 was only slightly more than half the deficit of the comparable period one year earlier.

The smaller deficit can be traced to lower private and public sector outflows. EU transactions played the biggest part in general government current transfers. Austria's contributions to the EU amounted to EUR 540 million in the reporting period, while its receipts came to EUR 430 million, resulting in a net payment of EUR 110 million compared to EUR 150 million in the first quarter of 2002.

2 Capital Account

In the quarter under review, the capital account subbalance closed at a deficit of EUR 74 million, up by EUR 33 million against the first quarter of 2002.

General government capital transfers in kind played a subordinate role in the first quarter of 2003. There were no receipts from the EU, which usually make up the bulk of this item. At the same time, outflows amounted to only EUR 10 million.

Private sector capital transfers in kind closed the first quarter of 2003 at a net deficit of EUR 68 million. This balance largely results from the items migrants' transfers (–EUR 36 million) and remission of debts (–EUR 46 million).

In terms of volume, cash capital transfers are of no relevance to Austria's balance of payments.

3 Financial Account

Austria's net capital outflows decreased markedly in the first quarter of 2003 (table 7). Austrian investment abroad in the period under review augmented by 45% compared to the first quarter of 2002 to a total of EUR 20.5 billion, while at EUR 19.4 billion, foreign investment in Austria almost doubled from the like 2002 period.

In the first three months of 2003, the *direct investment* subaccount recorded capital outflows of –EUR 0.4 billion (against –EUR 1.6 billion in the same period of 2002). This result can be traced to modest Austrian direct investment abroad and a sharp increase in foreign direct investment in Austria. *Portfolio investment,* where outflows had come to –EUR 0.4 billion in the first quarter of 2002, recorded inflows to the tune of EUR 0.7 billion in the period under review. Austrian investment in foreign securities diminished from EUR 13.0 billion in the first three months of 2002 to EUR 7.2 billion in the period under review; at the same time, nonresidents purchased fewer Austrian securities (EUR 7.9 billion) than in the first quarter of 2002 (EUR 12.6 billion). A breakdown by financial instruments shows that debt securities continued to dominate both inflows and outflows. Capital outflows on the *other investment* subaccount contracted to EUR 1.4 billion against the like period of 2002 (EUR 3.6 billion), mostly because of banks' transactions. Other investment assets and liabilities expanded notably against the comparable quarter of 2002. When cross-border transactions are broken down by *interest-bearing*[1]*) and venture*

1 *Fixed-income debt instruments, deposits and loans included in any of the categories, direct investment, portfolio investment, other investment or reserve assets.*

capital-oriented[1]*) investment,* it becomes evident that interest-bearing investment accounted for the majority of cross-border transactions: In the first quarter of 2003, Austrians invested EUR 18.7 billion (91% of the overall investment volume) in interest-bearing instruments. Similarly, interest-bearing investment also played the largest role on the liabilities side (EUR 17.6 billion, 91% of the overall volume).

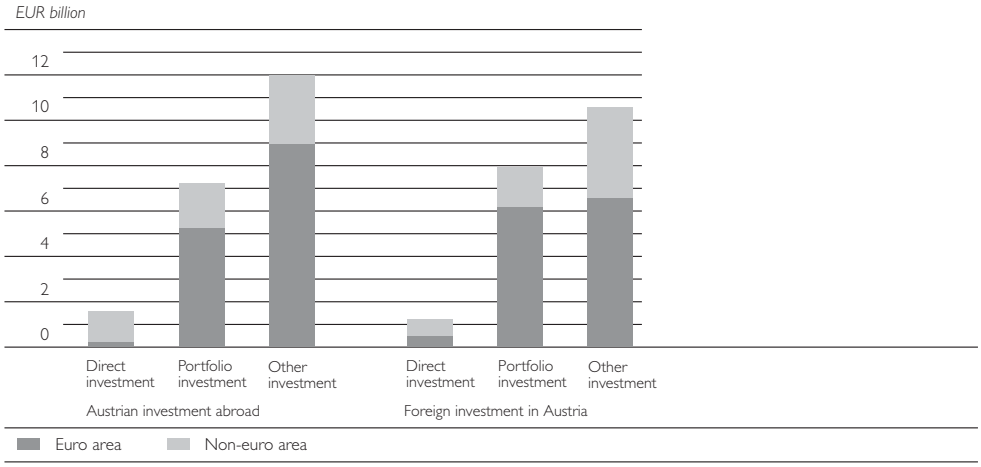
A regional analysis of cross-border capital flows in the first quarter of 2003 shows that vis-à-vis the *euro area,* the balance reversed from net capital inflows (first quarter of 2002: EUR 0.8 billion) into net capital outflows of –EUR 2.3 billion (table 8). In the period under review, capital flows vis-à-vis the euro area increased from EUR 6.9 billion to EUR 15.4 billion on the assets side and from EUR 7.7 billion to EUR 13.1 billion on the liabilities side.

Turning to capital flows from and to *non-euro area countries,* Austria posted net capital inflows of EUR 1.2 billion in the first quarter of 2003 (comparable period of 2002: –EUR 5.6 billion). While Austrian gross capital formation abroad declined by EUR 7.2 billion (first quarter of 2002) to EUR 5.1 billion, foreign investment in Austria climbed from EUR 1.7 billion (first quarter of 2002) to EUR 6.3 billion.

Chart 5

Austria's Financial Account (Selected Net Subaccounts)[1])

in the First Quarter of 2003



Source: OeNB.
[1]) Provisional data.

A sectoral breakdown of the financial account shows that *banks* (including the OeNB) closed the first quarter of 2003 with net capital exports to the tune of EUR 2.1 billion and *nonbanks* (general government and other sectors) accounted for capital imports of EUR 1.0 billion. The *general government* posted capital inflows of EUR 6.5 billion in the first quarter of 2003 against EUR 4.0 billion one year earlier, whereas capital outflows in the other sectors[2]) shrank from EUR 6.5 billion to EUR 5.5 billion.

1 *Investment in equity stakes and equity securities.*

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

3.1 Direct Investment

Foreign direct investment has been taking a nosedive worldwide. Having halved in 2001, the volume of FDI contracted by another 10% to 20% in 2002 according to preliminary OECD data. In Austria, FDI flows evolved very unevenly in 2002. While outward direct investment augmented markedly – at EUR 6 billion achieving the second best result ever – inward direct investment came to no more than EUR 1.6 billion, owing to a few large disinvestments.

In the first quarter of 2003, *outward* direct investment amounted to a remarkably high EUR 1.6 billion. Gross investment ran to EUR 1.3 billion, whereas disinvestment amounted to just EUR 120 million. Given moderate profit distributions, reinvested earnings remained high at EUR 320 million. Loans to affiliated enterprises (EUR 60 million) and households' real estate purchases abroad (EUR 50 million) played a subordinate role, as usual. The target regions of Austrian investment were the EU (especially Denmark, Germany and the United Kingdom) and the Central and Eastern European countries (the acceding countries). Hungary, the Czech Republic, Croatia and Cyprus attracted particularly large FDI flows in the quarter under review (between EUR 70 million and EUR 140 million).

At EUR 1.2 billion, *inward* direct investment trailed outward flows only by a small margin. Equity inflows came to EUR 820 million, whereas disinvestment amounted to EUR 200 million. Reinvested earnings were of roughly the same order (EUR 580 million). Intragroup credit transactions were balanced; nonresidents spent EUR 70 million on balance to purchase real estate in Austria. In a regional breakdown of FDI, the U.S.A. took over first place from Germany, which usually leads the ranking. It must be noted that the first-quarter results do not permit any conclusions for FDI growth over the rest of the year.

3.2 Portfolio Investment

On balance, cross-border transactions related to the acquisition and sale of securities resulted in capital imports of EUR 0.7 billion in the first quarter of 2003. Both on the assets and the liabilities side, debt securities accounted for over 90% of the transaction volume.

A sectoral breakdown of portfolio investment abroad shows that other sectors (mainly institutional investors) made 52% of investments, followed by the general government (27%). Foreign investors purchased exclusively securities issued by the general government in the reporting period.

Both on the assets and the liabilities side, over 70% of all transactions were conducted with euro area counterparties (table 8), with Austrian investors' purchases of euro area securities trailing euro area investors' purchases of Austrian securities. These transactions translate into net capital imports of EUR 940 million. Portfolio investment position with the rest of the world closed with net capital exports of –EUR 230 million.

3.2.1 Portfolio Investment in Foreign Securities

In the first quarter of 2003, Austrian investors acquired *foreign securities* to the tune of EUR 7.2 billion, 80% of which were invested in bonds and notes, 18% in money market paper and 3% in equity securities. Issues by euro area (mostly

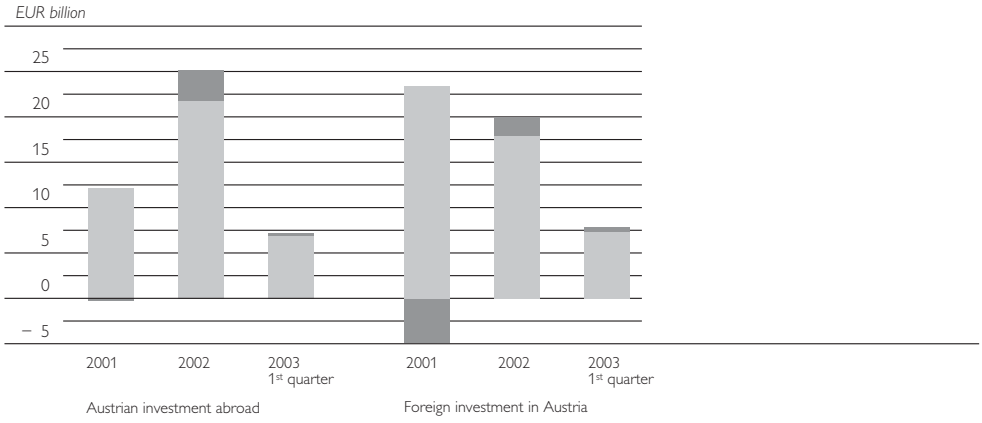
German) residents accounted for 75% of purchases. A mere 11% of funds were invested in U.S. securities, whereas acceding country issues already made up 4% of investments.

Austrian investors acquired *foreign equity securities* worth EUR 270 million. EUR 200 million were invested in *foreign shares,* in particular in shares issued by enterprises in the euro area – especially Germany and Ireland – (52%), Asia (10%) and the U.S.A. (4%). Institutional investors predominated investments in equity securities.

Investment in *foreign mutual fund shares* amounted to EUR 70 million in the first quarter of 2003. Austrians continued to primarily opt for mutual fund shares issued in Luxembourg.

Chart 6

Securities Transactions by Financial Instruments[1])



Source: OeNB.
[1]) 2000: final data; 2001 to 2002: revised data; 2003: provisional data.

As in previous years, Austrian investors who acquired foreign securities concentrated on debt securities; bonds and notes accounted for some 80% (EUR 5.7 billion) of cross-border portfolio investment. Debt securities issued by euro area (especially Dutch, German, French and Italian) residents were particularly popular (70%). Domestic investors also focused on securities issued in the acceding countries (11%). By investor category, the other sectors (mostly institutional investors) and Austrian banks were the key investors: debt securities accounted for approximately 62% of all securities purchased by the other sectors and for 22% of all bank purchases. The choice of currency also reflects investors' regional preferences: Investment was made almost exclusively in euro-denominated securities. U.S. dollar-denominated securities accounted for 4%, a share matched by Slovak koruna-denominated securities (4%) and similar to that of forint-denominated securities (2%).

Austrians acquired *foreign money market instruments,* mainly commercial paper and certificates of deposit of EUR 1.3 billion. Issues from the euro area (Germany, Belgium and Luxembourg) were most sought after, followed by instruments issued in the U.S.A., Jersey, Sweden and Denmark. Investment was made almost exclusively in euro-denominated securities. Other short-term

securities purchased by Austrian investors were denominated in pound sterling and U.S. dollars.

3.2.2 Portfolio Investment in Domestic Securities

In the first quarter of 2003, foreign investors acquired Austrian securities worth EUR 7.9 billion, i.e. just like external assets, external liabilities had diminished significantly compared to the first quarter of 2002. Debt securities (60%) were most popular with investors, with money market instruments as well as shares and mutual fund shares making up 34% and 6% of investments, respectively.

Of the EUR 530 million worth of *domestic equity securities* sold to foreign investors, *domestic shares* accounted for EUR 250 million. Most of the capital invested went to Austrian nonfinancial corporations.

Foreign investors acquired a total of EUR 280 million of *Austrian mutual fund shares,* the bulk of which were domestic money market funds and fixed-income funds.

As in previous years, foreign investors showed a clear preference for Austrian *debt securities* (EUR 4.7 billion). In this category, issues denominated in euro were most sought after, followed, by a large margin, by securities denominated in forint, zloty and Slovak koruna (EUR 30 million to EUR 60 million per currency). Canadian dollar and Swiss franc-denominated issues were retired or sold by nonresidents to Austrians. Foreign investors purchased exclusively debt securities issued by the general government. In the first quarter of 2003, foreigners invested EUR 5.1 billion or 97% of the overall total (EUR 5.2 billion) in new issues or reopened issues of the Republic of Austria. The Republic of Austria issued or reopened bonds worth EUR 7.7 billion, EUR 6.5 billion (84%) of which were sold to foreign investors.

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

		ISIN	External transactions *EUR million*
4.65%	Federal government bond 2003–2018/1/144A	AT0000385745	3,814
4.0%	Federal government bond 1999–2009/2	AT0000384821	1,273
Total			5,087

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

Continued unusually high investment in money market instruments apparently reflects uncertainty about financial market developments. Nonresidents spent EUR 2.7 billion on domestic short-term debt securities, opting mainly for issues by the Republic of Austria. 30% of these sales were of euro-denominated issues, 25% each were of U.S. dollar and pound sterling-denominated issues.

3.3 Other Investment

Other investment, basically loans and bank deposits, accounted for net capital outflows of EUR 1.4 billion in the first quarter of 2003 (table 7). Capital exports thus contracted by more than half against the same period of 2002. Contrary to the first three months of 2002, assets and especially liabilities

increased markedly. The analysis shows that the downturn in Austrian banks' external transactions recorded in 2002 did not continue in the first quarter of 2003. Rather, banks accrued claims of EUR 12 billion related to lending to nonresidents and to deposits at banks abroad. Austrian banks expanded their credit lines approximately by the same amount as in the first quarter of 2002 (EUR 1.3 billion). The trend towards granting fewer new credit lines to nonresident customers, which had been observed since 2000, seems to have come to a halt. Austrian banks targeted first and foremost the ten acceding countries, Bulgaria and Romania as well as the countries of the former Yugoslavia as borrowers. Like in 2002, long-term loans dominated new bank lending, whereas capital repayments and redemptions outweighed new short-term lending. In contrast to 2002, when banks had mainly withdrawn funds from their accounts abroad, they increased their fixed-term deposits abroad to EUR 10.7 billion.

Borrowing abroad and foreign capital deposits at domestic banks resulted in inflows of EUR 10.6 billion in the first quarter of 2003. Compared to the corresponding quarters of previous years, Austrian businesses accumulated a considerably smaller amount of loan liabilities abroad (EUR 330 billion against EUR 970 billion in the first quarter of 2002). Apart from generally low borrowing requirements in Austria, redemptions of short-term loans in particular contributed to this development. By contrast, deposits at Austrian banks increased: While 2002 saw withdrawals of fixed-term deposits from domestic accounts, new foreign capital inflows to the tune of EUR 7 billion were recorded in the first quarter of 2003.

3.4 Financial Derivatives

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

The financial derivatives subaccount closed the first quarter of 2003 with net capital outflows of EUR 910 million.

3.5 Reserve Assets

At year-end 2002, the Oesterreichische Nationalbank held reserve assets of EUR 12.4 billion. Through transactions, the reserve assets shrank by EUR 880 million in the first quarter of 2003. Liabilities from deposits were reduced by EUR 300 million, and reserve asset securities worth EUR 560 million were sold.

Annex

Table 1

Balance of Payments Summary

	1st quarter 2002[1])	1st quarter 2003[2])	Annual change
	EUR million		
Current account	+1,779	+1,447	− 332
Goods, services and income	+2,261	+1,693	− 568
Goods and services	+2,837	+2,483	− 354
Goods	+ 595	+ 607	+ 12
Services	+2,242	+1,877	− 365
Travel	+2,580	+2,097	− 483
Other services items	− 338	− 220	+ 118
Transportation	+ 591	+ 580	− 11
thereof international passenger transport	+ *304*	+ *320*	+ *16*
Construction services	+ 59	+ 28	− 31
Financial services	+ 48	+ 34	− 14
Royalties and license fees	− 247	− 191	+ 56
Other business services	+ 385	+ 329	− 56
thereof merchanting	+ *305*	+ *241*	− *64*
Other services	+ 155	+ 163	+ 8
Unclassified transactions	−1,329	−1,163	+ 166
Income	− 576	− 791	− 215
Compensation of employees	+ 119	+ 133	+ 14
Investment income	− 695	− 923	− 228
Current transfers	− 483	− 246	+ 237
General government	− 232	− 138	+ 94
Other sectors	− 250	− 108	+ 142
Capital and financial account	−4,838	−1,194	+3,644
Capital account	− 41	− 74	− 33
General government	− 39	− 10	+ 29
Other sectors	− 10	− 68	− 58
Acquisition/disposal of nonproduced, nonfinancial assets	+ 8	+ 4	− 4
Financial account	−4,797	−1,120	+3,677
Direct investment	−1,566	− 383	+1,183
Portfolio investment	− 406	+ 708	+1,114
Other investment	−3,592	−1,413	+2,179
Financial derivatives	+ 876	− 912	−1,788
Reserve assets[3])	− 109	+ 880	+ 989
Errors and omissions	+3,059	− 253	−3,312

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 quarter 2002[1])	1st quarter 2003[2])	2002[1])	1st quarter 2002[1])	1st quarter 2003[2])
Current account	– 6,201	460	– 349	7,150	1,319	1,796
Receipts	71,852	18,961	18,126	61,895	14,729	14,633
Expenditure	78,054	18,501	18,475	54,743	13,410	12,837
Goods and services	– 2,808	1,253	655	7,627	1,584	1,828
Receipts	63,703	16,842	16,074	51,790	12,247	12,168
Expenditure	66,511	15,589	15,418	44,164	10,663	10,340
Goods	– 3,857	– 821	– 1,028	7,605	1,416	1,635
Receipts	41,919	10,528	10,468	36,112	8,592	8,986
Expenditure	45,776	11,348	11,497	28,506	7,177	7,351
Services	1,049	2,074	1,684	20	168	193
Receipts	21,784	6,315	5,605	15,678	3,653	3,183
Expenditure	20,735	4,241	3,922	15,658	3,486	2,989
Income	– 3,052	– 820	– 1,022	917	244	231
Receipts	6,409	1,647	1,654	7,619	1,867	1,831
Expenditure	9,461	2,467	2,677	6,702	1,623	1,598
Current transfers	– 342	27	18	– 1,393	– 510	– 264
Receipts	1,740	472	398	2,485	615	634
Expenditure	2,081	445	380	3,880	1,125	898

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 quarter 2003					
	Exports		Imports		Net position	
	Annual change	Share of total exports	Annual change	Share of total imports		Annual change
	%				*EUR million*	
EU	+ 0.7	60.3	+ 0.9	65.2	– 989	– 29
Euro area	+ 1.2	53.9	+ 1.2	60.7	–1,357	– 10
thereof: Germany	*+ 2.7*	*32.5*	*– 0.8*	*39.5*	*–1,390*	*+230*
Italy	*+ 5.2*	*8.9*	*+ 3.3*	*7.3*	*+ 300*	*+ 40*
France	*– 6.3*	*4.2*	*+10.1*	*4.0*	*+ 33*	*–127*
Non-euro area countries	+ 4.6	46.1	+ 2.5	39.3	+1,288	+210
thereof:						
Switzerland and Liechtenstein	*+35.8*	*7.5*	*+ 3.9*	*3.8*	*+ 715*	*+355*
10 acceding countries[2])	*– 0.3*	*12.1*	*+12.0*	*10.5*	*+ 312*	*–225*
U.S.A.	*– 2.0*	*5.0*	*–30.5*	*4.0*	*+ 195*	*+319*
Japan	*–10.6*	*1.0*	*+14.0*	*2.3*	*– 259*	*– 76*
China	*+22.5*	*1.0*	*+20.2*	*2.0*	*– 181*	*– 27*
Total	+ 2.8	100.0	+ 1.7	100.0	– 70	+200

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 quarter 2002[1])	1st quarter 2003[2])	Annual change	
	EUR million			%
Travel				
Receipts	4,007	3,501	– 506	–12.6
Expenditure	1,427	1,404	– 23	– 1.6
Net position	2,580	2,097	– 483	–18.7
International passenger transport				
Receipts	499	505	+ 6	+ 1.2
Expenditure	195	185	– 10	– 5.1
Net position	304	320	+ 16	+ 5.3
	1,000			%
Foreign tourist overnight stays	*31,760*	*30,722*	*–1,038*	*– 3.3*

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

Table 5

Foreign Tourist Bednights by Country of Origin

	1st quarter 2003			
	Overnight stays	Annual change		Share
	1,000		%	
Germany	18,198	–1,410	– 7.2	59.2
Netherlands	4,245	+ 47	+ 1.1	13.8
U.K.	1,317	+ 35	+ 2.7	4.3
Belgium, Luxembourg	910	+ 22	+ 2.5	3.0
Switzerland, Liechtenstein	1,009	+ 42	+ 4.3	3.3
Denmark	571	– 1	– 0.2	1.9
Italy	486	– 24	– 4.7	1.6
France	369	+ 0	+ 0.1	1.2
Sweden	292	– 26	– 8.3	1.0
Spain	57	– 9	–13.3	0.2
Poland	506	+ 6	+ 1.1	1.6
Hungary	489	+ 64	+15.1	1.6
Czech Republic	465	+ 71	+18.1	1.5
Croatia	179	+ 23	+14.5	0.6
C.I.S.	285	+ 61	+27.0	0.9
Slovenia	118	+ 12	+11.3	0.4
Slovak Republic	81	+ 1	+ 1.6	0.3
U.S.A.	243	+ 2	+ 1.0	0.8
Japan	80	+ 12	+17.8	0.3
Other countries	822	+ 35	+ 4.5	2.7
Total	30,722	–1,038	– 3.3	100.0
Memorandum item: Austrian tourists	*8,135*	*– 156*	*– 1.9*	*x*

Source: Statistics Austria.

Table 6

Investment Income

	1st quarter 2002[1])	1st quarter 2003[2])	Annual change
	EUR million		
Net investment income[3])	– 695	– 923	–228
Investment income receipts	3,275	3,245	– 30
Investment income payments	3,970	4,168	+198
Net direct investment income[3])	– 340	– 387	– 47
Income on outward direct investment	535	616	+ 81
Income on inward direct investment	874	1,004	+130
Net portfolio investment income[3])	– 870	– 707	+163
Income on foreign equity securities	48	60	+ 12
Income on domestic equity securities	55	59	+ 4
Income on foreign bonds and notes	1,227	1,383	+156
Income on domestic bonds and notes	2,070	2,068	– 2
Income on foreign money market instruments	18	25	+ 7
Income on domestic money market instruments	38	48	+ 10
Net other investment income[3])	515	172	–343
Income on other investment, assets[4])	1,448	1,160	–288
Income on other investment, liabilities	933	988	+ 55
Investment income on foreign interest-bearing investment[5])	2,707	2,582	–125
Investment income on domestic interest-bearing investment[6])	3,041	3,107	+ 66
Investment income on foreign venture-capital oriented investment[7])	568	662	+ 94
Investment income on domestic venture-capital oriented investment[7])	929	1,061	+132
Memorandum item: Financial derivatives based on interest rate contracts[8])	*639*	*– 134*	*–773*

Source: OeNB.
[1]) Revised data.
[2]) Provisional data.
[3]) Income on outward foreign investment less income on inward foreign investment.
[4]) Income on deposits, credits and reserve assets.
[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 quarter 2002[1])	1st quarter 2003[2])
	EUR million, net			
Financial account	4,599	– 4,623	– 4,797	– 1,120
Assets	–23,019	–18,455	–14,137	–20,499
Liabilities	27,618	13,833	9,341	19,379
Direct investment	3,067	– 4,389	– 1,566	– 383
Direct investment abroad	– 3,506	– 6,001	– 2,237	– 1,586
Equity	– 3,270	– 4,758	– 1,779	– 1,210
Reinvested earnings	– 151	– 986	– 329	– 318
Other capital	– 86	– 256	– 129	– 58
Direct investment in Austria	6,574	1,612	672	1,203
Equity	4,256	223	325	620
Reinvested earnings	1,362	1,580	505	584
Other capital	955	– 191	– 158	– 1
Portfolio investment	6,721	– 5,159	– 406	708
Portfolio investment in foreign securities	–11,882	–25,151	–12,976	– 7,195
Equity securities	260	– 3,370	– 1,913	– 273
thereof: mutual fund shares	*– 409*	*– 693*	*– 342*	*– 73*
Bonds and notes	–12,403	–17,568	– 8,233	– 5,658
Money market instruments	261	– 4,214	– 2,829	– 1,264
Portfolio investment in domestic securities	18,603	19,992	12,570	7,903
Equity securities	– 4,847	2,074	880	526
thereof: mutual fund shares	*1,004*	*1,036*	*673*	*277*
Bonds and notes	26,222	19,138	10,900	4,723
Money market instruments	– 2,772	– 1,220	791	2,654
Other investment	– 7,186	3,525	– 3,592	– 1,413
Assets	– 9,520	11,320	492	–11,973
Trade credits	309	– 23	26	– 240
Loans	– 8,434	– 4,237	– 1,729	– 1,000
Currency and deposits	– 700	15,199	1,987	–10,512
Other assets	– 695	381	208	– 221
Liabilities	2,334	– 7,795	– 4,084	10,560
Trade credits	– 711	– 298	– 52	60
Loans	2,442	4,352	970	329
Currency and deposits	595	–11,594	– 4,827	10,280
Other liabilities	9	– 256	– 176	– 109
Financial derivatives	– 69	– 409	876	– 912
Reserve assets[3])	2,067	1,810	– 109	880
Memorandum item: Interest-bearing investment	*7,329*	*735*	*– 2,514*	*– 1,027*
Assets	*–19,517*	*– 9,221*	*–10,146*	*–18,676*
Liabilities	*26,846*	*9,956*	*7,631*	*17,649*
Sectoral breakdown:				
Banks (including the OeNB)	– 3,147	– 1,411	– 2,369	– 2,139
Assets	–11,933	2,576	– 1,993	–12,819
Liabilities	8,786	– 3,987	– 376	10,681
General government	10,869	9,350	4,037	6,537
Assets	– 387	– 800	– 2,543	– 1,879
Liabilities	11,256	10,150	6,580	8,416
Other sectors	– 3,124	–12,566	– 6,466	– 5,518
Assets	–10,699	–20,232	– 9,602	– 5,801
Liabilities	7,576	7,666	3,135	283

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 8

Financial Account by Region[1])

	Investment in/ from the euro area			Investment in/ from non-euro area countries		
	2002[2])	1st quarter 2002[2])	1st quarter 2003[3])	2002[2])	1st quarter 2002[2])	1st quarter 2003[3])
	EUR million, net					
Financial account	12,324	757	– 2,270	–16,947	–5,554	1,150
Assets	– 5,191	–6,915	–15,377	–13,264	–7,222	–5,122
Liabilities	17,515	7,672	13,106	– 3,682	1,669	6,273
Direct investment	33	357	256	– 4,422	–1,923	– 639
Outward direct investment	– 584	– 241	– 216	– 5,417	–1,996	–1,370
Inward direct investment	618	598	472	994	74	731
Portfolio investment	– 988	–1,925	937	– 4,171	1,519	– 229
Portfolio investment in foreign securities	–18,328	–8,605	– 5,234	– 6,823	–4,371	–1,961
Portfolio investment in domestic securities	17,340	6,679	6,171	2,652	5,891	1,732
Other investment	14,251	2,196	– 2,377	–10,726	–5,788	964
Assets	14,058	1,974	– 8,956	– 2,738	–1,482	–3,017
Liabilities	193	222	6,579	– 7,988	–4,306	3,981
Financial derivatives	– 972	133	– 1,086	563	743	174
Reserve assets[4])	×	×	×	1,810	– 109	880

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: +.

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

Isabel Winkler

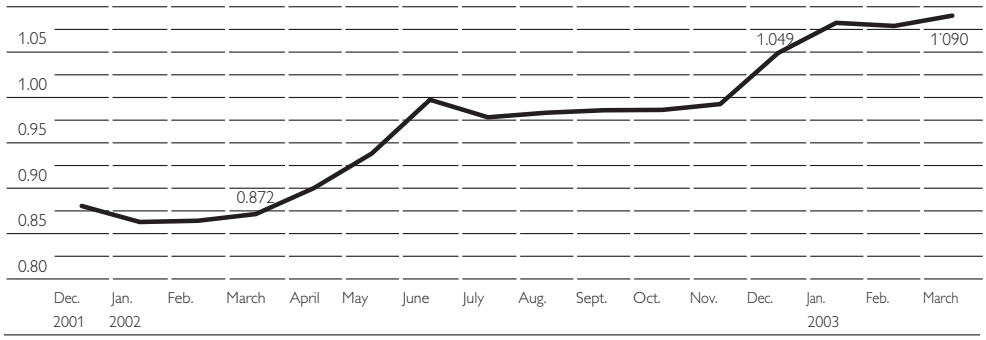
– Domestic holdings of euro-denominated foreign debt securities climb to 78%;
– Foreign holdings of Austrian debt securities exceed EUR 200 billion threshold.

1 Domestic Holdings of Foreign Debt Securities (Portfolio Assets)

At end-March 2003, Austrian holdings of foreign debt securities came to EUR 124 billion, which almost exclusively consisted of bonds and notes (EUR 117 billion). Thus, domestic investors increased their holdings of foreign debt securities by EUR 7 billion compared to the end of 2002. This rise is entirely attributable to new purchases, as positive price effects and adverse exchange rate effects offset each other. In the first quarter of 2003, 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 U.S.A. and the euro area. As the U.S. dollar continued to depreciate against the euro in the first quarter of 2003, it was mainly U.S. dollar-denominated issues that recorded adverse exchange rate effects.

Chart 1

U.S. Dollar/Euro Closing Exchange Rate



Source: OeNB.

1.1 Breakdown by Investors

As in the past, institutional investors[1]) were the leading players in portofolio investment also in the first quarter of 2003, with foreign debt securities stocks augmenting by more than EUR 3 billion. Domestic public entities expanded their corresponding portfolio by about EUR 2 billion, the Austrian banking system (OeNB and banks) by EUR 1.6 billion.

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

1.2 Regional Breakdown

Both at year-end 2002 and at the end of March 2003, foreign debt securities issued by euro area residents accounted for 65% of Austrian investors' portfolios. Accordingly, securities issued in the euro area made up the lion's share of new purchases during the first three months of 2003. In this period, Austrian investors primarily purchased debt securities issued in the Netherlands, Italy, France, Finland and Greece, while selling bonds and notes issued in Japan.

At end-March 2003, the regional breakdown of Austrian holdings of foreign debt securities was as follows:

- 30% German securities
- 8% Dutch securities and U.S. securities, respectively
- 7% Italian securities
- 6% French securities
- 4% securities issued in the United Kingdom and on the Cayman Islands, respectively
- 3% Danish and Greek securities, respectively
- 2% securities issued in Belgium, Spain, Ireland and Luxembourg, respectively.[1])

In addition, domestic investors held debt securities issued by residents of the accession countries[2]) to the tune of approximately EUR 4 billion.

At the end of the first quarter of 2003, money market instruments issued by euro area residents accounted for 54% of foreign money market instruments in Austrian investors' portfolios. In the field of short-term debt securities issued by non-euro area residents, Austrians primarily opted for securities issued in the U.S.A., Jersey, Denmark and the United Kingdom. Money market instruments issued by residents of the accession countries played a subordinate role in Austrian investors' portfolios.

1.3 Currency Breakdown

At end-2002, euro-denominated debt securities accounted for 77% of debt securities held by Austrian investors who stepped up their stock of debt securities to about EUR 91 billion (or 78%) through new purchases in the first quarter of 2003. Furthermore, Austrian investors expanded their holdings of foreign money market instruments denominated in euro from EUR 4.8 billion at end-December 2002 to EUR 6 billion at the end of March 2003.

Concerning the regional and currency allocation of foreign portfolio assets, a cross classification analysis provides the following picture for the first quarter of 2003:

- 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 other nonresidents, which also recorded positive price effects.

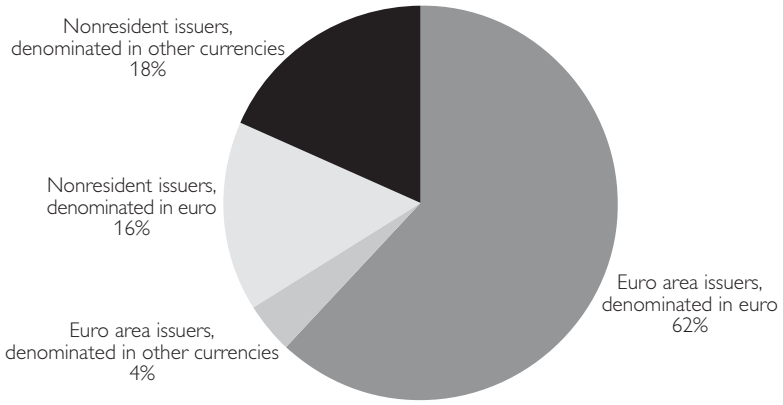
1 *Percentages do not add up to 100 as many individual countries have a share equal to or smaller than 1%.*

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

Chart 2

Domestic Holdings of Foreign Debt Securities

at End-March 2003



Source: OeNB.

– Austrian investors purchased issues denominated in other currencies issued by euro area residents and by nonresidents, but these purchases were affected by 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 billion, 97% (EUR 190 billion) of which were debt securities. In the course of the first quarter of 2003, they purchased debt securities worth another EUR 7 billion. Like portfolio assets, however, portfolio liabilities also recorded positive securities price effects and negative exchange rate effects, which offset each other in the first quarter of 2003. Thus, foreign holdings of Austrian debt securities came to EUR 202 billion at the end of March 2003.

2.1 Breakdown by Issuers

From January to March 2003, foreign investors purchased only Austrian public sector issues, whereas they sold domestic securities issued by other economic sectors. The resulting stock changes are not only attributable to sales but also adverse exchange rate effects. Since the foreign currency share of securities issued by Austrian banks is higher than that of public sector issues, this negative exchange rate effect mainly becomes obvious in the banking sector.

Foreign investors' interest in domestic public sector issues largely concentrates on Austrian government bonds. Since 1989 the largest part of government bonds has been issued through tender procedures. (Currently 24) domestic and foreign banks participate in the tender procedures. The respective issuer selects the institutions eligible to participate in a tender procedure. Austrian government bonds are generally traded over the counter; only a small percentage is traded at the Wiener Börse AG.[1]) According to the Austrian Federal

1 *For more details on the tender procedure see http://www.oekb.at/2/02/statistiken.html in the brochure "Der österreichische Rentenmarkt (May 2003)."*

Table 1

Government Bond Syndication and Tender Offers

at End-March 2003

		ISIN	Outstanding volume according to ÖBFA	External liabilities (nominal value)	Percentage
			EUR million		%
4.65%	government bond 2003–2018/1/144A	AT0000385745	5,100	3,796	74
5.00%	government bond 2002–2012/1/144A	AT0000385356	8,518	6,389	75
5.25%	government bond 2001–2011/1	AT0000385067	8,267	6,593	80
5.50%	government bond 2000–2007/144A	AT0000384953	8,750	7,185	82
5.5%	government bond 1999–2010/4	AT0000384938	8,810	6,743	77
3.4%	government bond 1999–2004/3	AT0000384862	6,725	4,827	72
4.00%	government bond 1999–2009/2	AT0000384821	7,626	4,061	53
4.125%	government bond 1999–2014/1	AT0000384748	1,320	624	47
3.90%	government bond 1998–2005/3	AT0000384524	8,826	6,781	77
4.3%	government bond 1998–2003/2	AT0000384359	7,455	5,749	77
5.00%	government bond 1998–2008/1	AT0000384227	6,917	4,131	60
6.25%	government bond 1997–2027/6	AT0000383864	5,792	4,723	82
5.875%	government bond 1996–2006/7	AT0000383518	6,404	4,871	76
Total			90,510	66,473	73

Source: Austrian Federal Financing Agency (ÖBFA), OeNB.

Financing Agency (Österreichische Bundesfinanzierungsagentur – ÖBFA), the outstanding volume of government bonds offered at these auctions came to EUR 90.5 billion at end-March 2003. The external liabilities (nominal value) resulting from these securities amounted to EUR 66.5 billion at the end of the first quarter of 2003, i.e. 73% of the total volume.

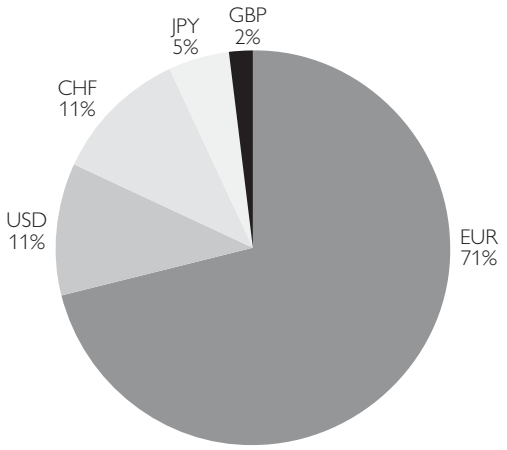
2.2 Currency Breakdown

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 price effects in the first quarter of 2003, foreign investors raised their holdings to EUR 138 billion. As regards debt securities denominated in other currencies,

Chart 3

Foreign Holdings of Austrian Debt Securities

Broken Down by Currencies at End-March 2003



Source: OeNB.

Austria's external liabilities declined. Sales by foreign investors on the one hand and the effects of the appreciation of the exchange rate of the euro on the other hand influenced this development.

At the end of December 2002, nonresident investors held Austrian money market instruments to the tune of EUR 6 billion, 36% of which were securities denominated in euro. Between January and March 2003, foreign investors acquired additional euro-denominated money market instruments and thus held securities of this category worth around EUR 3 billion at end-March 2003. Purchases in the first quarter of 2003, however, largely focused on money market instruments denominated in other currencies, with foreign investors' corresponding holdings amounting to EUR 5 billion at the end of March 2003.

Financial Investment and Financing of Households[1]) in the First Quarter of 2003 – Analysis of Financial Accounts Data

Michael Andreasch

1 The Role of Households in Financing Investment

Households are net creditors in financing investment. Since they use only part of their disposable income for consumption and investment they hold more assets than liabilities. Households save the remaining part of disposable income and chiefly invest in financial assets. When households need financial means they usually take out bank loans, which leads to the absorption of a part of the assets made available. The remaining difference – net financial investment – are those net assets which the households lend to the other domestic sectors and to nonresidents (net lending).

2 Introduction of New OeNB Statistics

To allow for a timely analysis of developments throughout the year, the European Central Bank (ECB) and the national central banks (NCBs) jointly worked out a framework for publishing a quarterly overview of financial transactions between the non-financial sectors[2]) and the financial sector as well as in the money and capital markets, including the resulting stocks of assets and liabilities. The ECB continually publishes these aggregates for the euro area. Supplying selected data about Austria, the Oesterreichische Nationalbank (OeNB) provides a national contribution, and thus a key element to the financial accounts of the euro area.

Within the framework of the Austrian financial accounts statistics, the OeNB has so far compiled annual reports about financial investment and the financing of Austrian households, currently for the years 1999 to 2002.

As announced in the report on financial investment and financing of the nonfinancial sectors in 2002,[3]) the OeNB is gradually expanding its reporting, presenting quarterly data on the individual economic sectors in the financial accounts statistics. Therefore, the corresponding quarterly aggregates will be available in addition to the annual data provided so far. In a first step, the quarterly data on households will be presented regularly, starting with this report. Thus, information about the investment behavior of households is made available in addition to data on private consumption. This analysis includes the results of investment in financial assets and the liabilities of households for 2000 up to and including the first quarter of 2003. A table provides a summary of the most important results.

The main sources of information for compiling quarterly data on financial investment and financing are primary data from the banking, insurance and pension fund statistics. Moreover, securities issues statistics and balance of payments data are used. For calculating the changes in currency holdings, an ECB model has been used for the distribution of euro banknotes and coins as of the first reporting quarter of 2002. These primary statistics are complemented by OeNB estimates. The quarterly data available are revised in the course of the calculations for a new reporting quarter.

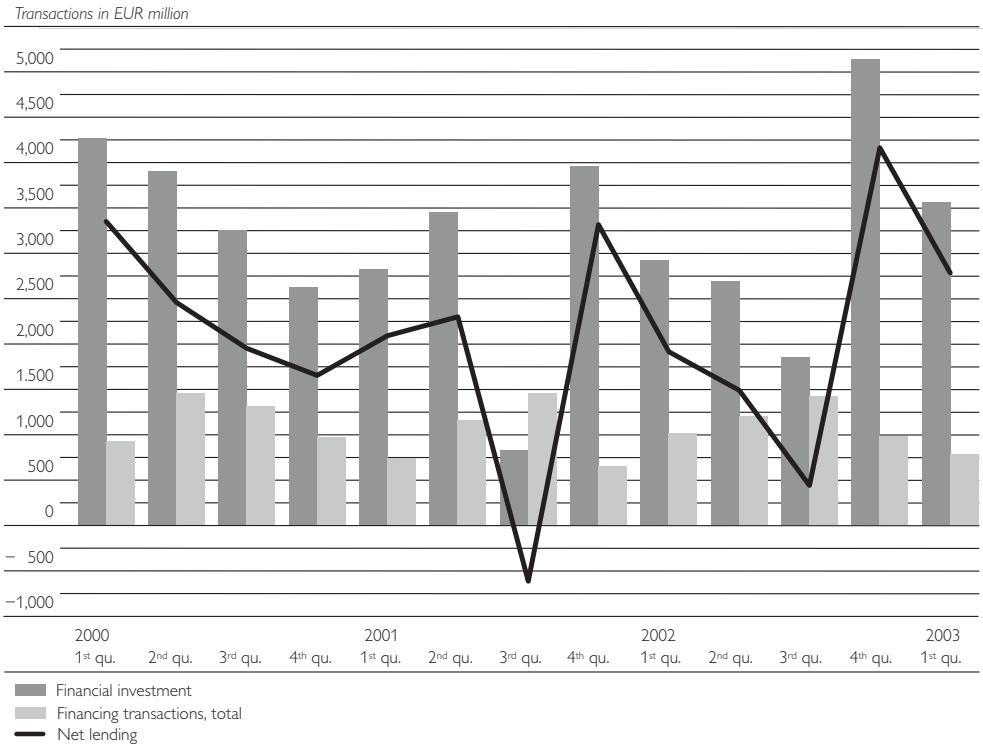
1 *Please note that in the empirical analysis, it is currently the convention in EU Member States to classify nonprofit institutions serving households (such as trade unions, political parties, churches and private foundations) among the aggregated sector "Households including nonprofit institutions serving households."*

2 *General government, nonfinancial corporations and households including nonprofit institutions serving households.*

3 *For details see Focus on Austria 2/2003.*

Chart 1

Financial Investment and Financing of Households



Source: OeNB.

3 Real Economic Conditions and Developments in Money and Capital Markets in the First Quarter of 2003

Compared to 2002 estimates, in the current forecasts of economic growth for 2003 the figures for investment and private consumption were revised downwards and are increasingly described as at best "subdued".[1]) These estimates are based on both international and national economic conditions, which were affected, inter alia, by the outbreak of the war in Iraq and the SARS crisis. The important money and capital markets recorded continued low interest rates, falling prices in international stock markets compared with the fourth quarter of 2002 as well as the appreciation of the euro against the U. S. dollar.

4 Financial Investment and Financing of Households in the First Quarter of 2003[2])

Financial investment and the financing behavior of households in 2002 reflected both economic uncertainties and adverse financial market developments. In the first quarter of 2003, growth in private consumption was relatively modest,

1 *According to the OeNB's most recent forecast (spring 2003), in 2003 gross fixed capital formation is estimated to increase by 0.7% in real terms and private consumption by 1.1% year on year. According to the June forecasts of IHS and WIFO, gross fixed capital formation is expected to rise by 1.7% and 0.8% respectively in real terms and private consumption by 1.2% and 1.1% respectively in real terms.*

2 *The cutoff date for financial accounts data presented in this report was August 29, 2003. The next update of data is due in October 2003 and will contain data up to and including the second quarter of 2003.*

increasing by 2.5% in nominal terms compared to the same period in 2002. The remaining part of disposable income amounting to EUR 3.5 billion (first quarter of 2002: EUR 2.9 billion) was invested mainly in low-risk financial assets. At the same time, the financing volume was reduced to about EUR 750 million, which corresponds to around 75% of financing needs in the first quarter of 2002.

Thus, this sector was able to provide the other domestic and foreign economic sectors with funds worth EUR 2.8 billion net.

4.1 Financial Investment

A comparison of financial investment in the reporting quarter with the quarterly development of investment in financial assets from 2000 to 2002 shows a seasonal pattern: Whereas growth in financial investment was lowest in the third quarter, households' willingness to invest part of their income in financial assets was particularly strong in the fourth quarter. Contributions to existing savings and loan investment contracts and life insurance plans as well as a continued increase in savings deposits on the occasion of the World Savings Day on October 31 are likely to have influenced this pattern.

For 2003, most recent forecasts[1]) expect an increasing accumulation of financial assets compared with 2002. Although the time series is relatively short, it becomes obvious that in the years 2000 to 2002 the level of financial investment in the first quarter allowed conclusions to be drawn about the development in the corresponding year as a whole. With regard to the ratio of the previous years, the rise in investment in the first quarter of 2003 compared with the same quarter of 2002 supports expectations of an increase in financial investment in 2003.

In the first quarter of 2003, investment by households focused on bank deposits as well as on life insurance and pension fund instruments; investment in the latter increased.

Bank deposits augmented by EUR 2.1 billion in the reporting quarter. Savings deposits including reinvested interest accounted for the major part of the increase.[2]) Savings deposits with a maturity of over one year attracted the bulk of investment by households.

The structure of households' financial assets shows that in Austria bank deposits, particularly savings deposits, remain the most important form of investment. They accounted for more than half of total financial assets at the reference date of March 31, 2003.

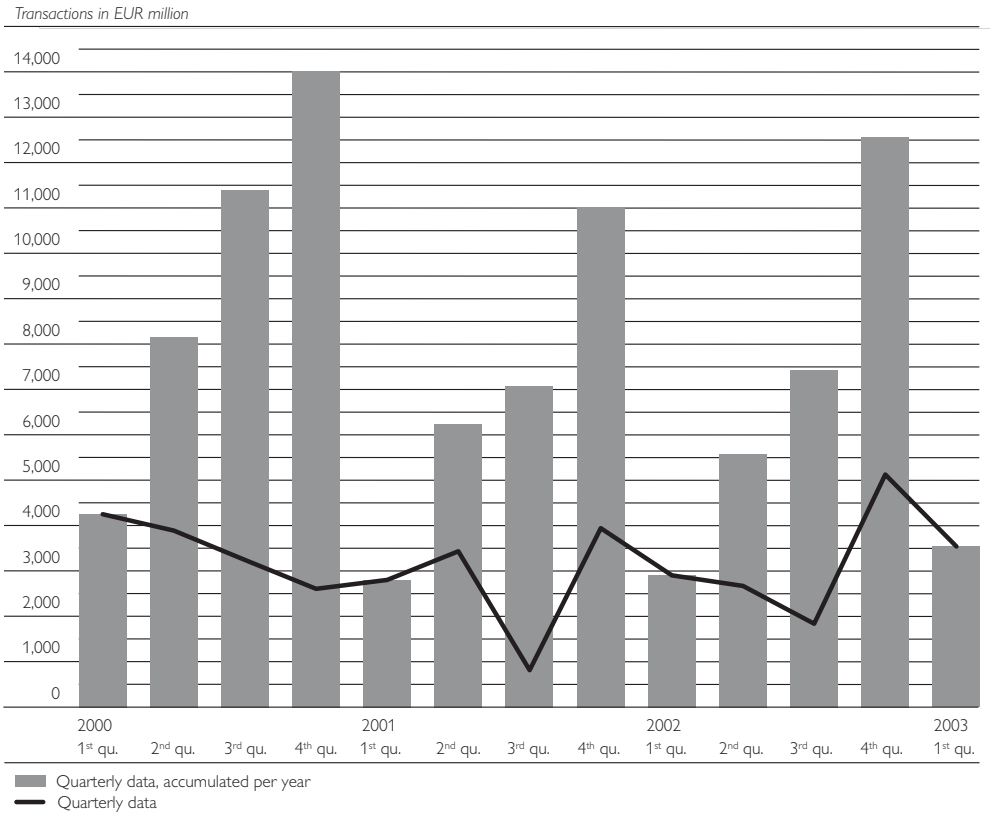
The breakdown of the increase in assets and withdrawals by quarters shows that investment in bank deposits was significant in all quarters of 2001. On the one hand, proceeds from the ongoing return of schilling bank notes and coins

1 *According to the June forecasts of IHS and WIFO, the saving rate is expected to rise from 7.5% (2002) to 7.6% (2003); furthermore, in June the WIFO estimated an increase in financial investment of households from EUR 12.6 billion (2002) to EUR 13.5 billion (2003).*

2 *Investment income – and thus the interest on savings deposits – is recorded at the time it arises as reinvestment of the underlying financing instrument per reporting quarter (accrual principle). This method is based on the European System of Accounts (ESA 95), which is mandatory for EU Member States. The illustration which is based on quarterly calculations varies from the method used in the banking statistics, with the savings interest shown as "capitalized" only at year-end.*

Chart 2

Financial Investment (Investments) by Households



Source: OeNB.

are credited to bank accounts, on the other hand, tumbling stock prices in international markets led households to invest their funds temporarily in bank accounts in the third quarter of 2001. Thus, the trend of the second half of the 1990s to invest mainly in capital market-oriented products such as shares and mutual fund shares came to a halt. In the current reporting quarter, the amount of deposits also reached a high share of financial investment on account of the persisting uncertainty in capital markets.

The increase in investment in insurance and pension fund schemes by EUR 1.5 billion in the first quarter of 2003 was apparently triggered by the public debate in general and the strengthening of the third pillar of the pension system by the launch of the tax-advantaged personal pension scheme. Approximately 50% of the rise were attributable to investments in life insurance plans. In addition, other claims against insurance companies[1]) also increased significantly (EUR 470 million).

Growth in insurance technical reserves displayed a particularly strong seasonal pattern during the past three years, compared to other financing instruments. Investment soared especially in the first and fourth quarters, a significant share of which was attributable to fluctuations in life insurance schemes.

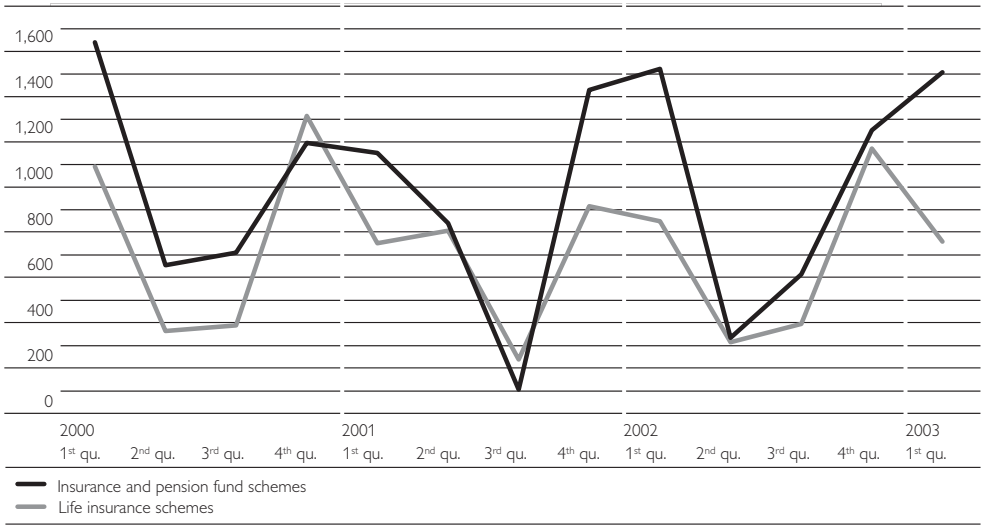
1 *Health and property/casualty insurance claims.*

Chart 3

Stock of Households' Investments

(Life Insurance and Pension Fund Plans)

Transactions in EUR million



Source: OeNB.

In contrast to the dynamic development of deposits and investments in life insurance and pension plans, households' interest in shares declined substantially in the first quarter of 2003. In the reporting quarter, households on balance sold debt securities, whereas they purchased shares and mutual fund shares each worth less than EUR 100 million. As to mutual fund shares, stock funds and mixed funds were sold, whereas fixed income fund and money market fund shares were purchased.

Household investment in shares and debt securities, particularly long-term securities issued by banks, amounted to, on average, EUR 200 million per quarter in the previous three years. In nearly all quarters, purchases and sales of debt securities and shares offset each other. As a result, financial assets invested in capital markets during the past three years did not have a marked impact on the total amount of financial investment. Investment in mutual fund shares had increased strongly between 1997 and 1999,[1]) in 2000 and 2001, however, the growth rate decreased. During the past five quarters, new investment was almost zero, therefore mutual fund shares no longer played an essential role in financial investment during recent reporting quarters.

4.2 Financing

In the first quarter of 2003, households took out loans worth slightly more than EUR 750 million, with euro-denominated loans accounting for less than three quarters. As regards foreign currency loans, there was a shift from Japanese yen to Swiss franc-denominated loans, totalling approximately EUR 600 million. Taking into account the total volume of loans, every sixth loan taken out by

1 *The change in total assets amounted to EUR 14.5 billion between 1997 and 1999.*

households was denominated in Swiss francs at the reference date of March 31, 2003.

The rise in households' financing transactions denominated in foreign currencies has been monitored closely recently. A review of the quarterly results for the past few years shows two developments:

In most of the quarters between 2000 and 2003, households took out more loans denominated in foreign currencies than in euro.

Foreign currency borrowing remained constant in all quarters und amounted to, on average, slightly more than EUR 600 million, whereas the change in euro-denominated loans (consumer loans in particular) was more volatile.

In 1999 and 2000, loans denominated in Swiss francs accounted for the major share of household borrowing, whereas loans denominated in Japanese yen increased more markedly not until 2001 and 2002. Only from the fourth quarter of 2002, loans denominated in Japanese yen decreased, partly on account of the rescheduling of debt to Swiss franc. The results already available now indicate the reversal of this trend for the first half of 2003.

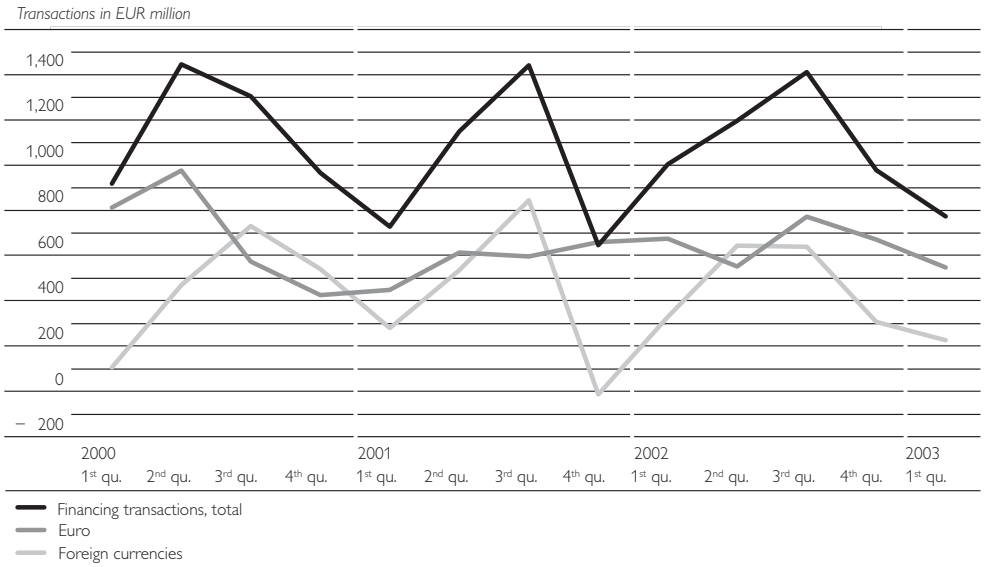
In the first quarter of 2003, loans taken out by households were mostly home and home improvement loans, with home loans granted by building and loan associations amounting to about EUR 100 million in the first quarter of 2003 being paid back on balance.

Borrowing from banks made up the largest part of debt financing of household consumption expenditure and investment projects in the past. In addition, bank debts increased as a result of the provincial governments' sale of housing loans during the past few years. At least one province is going to sell housing loans to banks this year.[1])

1 *In 2001 and 2002, domestic banks purchased provincial housing loans (notional amount EUR 4.6 billion; sales revenue EUR 2.5 billion). They had partly passed on the purchased loans by sub-participations to foreign banks. In Lower Austria, banks sold the loans to a special-purpose institution which is assigned to the financial sector. In July 2003, the province of Styria sold home loans worth EUR 833 million to banks for a total of EUR 454 million.*

Chart 4

Financing Transactions (Borrowing) by Households



Source: OeNB.

Annex

Financial Investment and Financing of Households[1])

Quarterly Data

	2000				2001				2002				2003
	1st qu.	2nd qu.	3rd qu.	4th qu.	1st qu.	2nd qu.	3rd qu.	4th qu.	1st qu.	2nd qu.	3rd qu.	4th qu.	1st qu.
	EUR million												
Financial investment													
Currency	– 355	574	72	404	– 588	4	– 756	–1,668	121	1,162	515	1,799	. .
Deposits	563	995	573	– 497	1,447	1,244	1,458	2,876	867	553	247	1,549	2,110
thereof: savings deposits[2])	*– 56*	*– 805*	*– 685*	*–1,101*	*1,386*	*566*	*1,292*	*2,360*	*906*	*– 606*	*551*	*1,309*	*2,064*
Debt securities	545	345	540	399	155	– 250	– 59	– 220	66	944	142	18	– 233
Shares and other equity	270	674	– 156	885	7	91	219	639	285	103	342	36	82
Mutual fund shares	1,601	657	1,514	229	643	1,514	– 139	898	52	– 412	– 10	484	84
Investment in life insurance and the like	1,637	651	706	1,192	1,148	837	100	1,427	1,520	330	610	1,248	1,505
thereof: life insurance	*1,088*	*360*	*384*	*1,312*	*748*	*804*	*234*	*912*	*846*	*310*	*391*	*1,167*	*755*
thereof: investment in pension funds	*251*	*158*	*145*	*2*	*50*	*159*	*– 47*	*328*	*145*	*32*	*136*	*328*	*280*
Total financial investment	4,260	3,896	3,248	2,612	2,812	3,441	823	3,953	2,911	2,679	1,846	5,133	3,548
Financing													
Financing transactions in euro	106	470	732	541	280	536	846	– 14	329	645	640	307	226
thereof: domestic bank loans	*81*	*446*	*707*	*517*	*588*	*532*	*842*	*294*	*927*	*941*	*636*	*303*	*226*
Financing transactions in foreign currencies	814	978	575	426	449	614	597	661	676	553	773	672	549
thereof: domestic bank loans	*814*	*978*	*575*	*426*	*449*	*614*	*597*	*661*	*676*	*553*	*773*	*672*	*549*
Total financing transactions	919	1,448	1,306	968	729	1,151	1,443	647	1,005	1,198	1,414	980	775
Net lending	+3,341	+2,448	+1,942	+1,644	+2,083	+2,290	– 621	+3,305	+1,906	+1,481	+ 432	+4,153	+2,773

Source: OeNB.

[1]) Including nonprofit institutions serving households.

[2]) Savings deposits including interest accrued but not yet due per quarter (accrual principle), see also footnote 2 on page 66.

Austria's External Debt
A New Indicator of the SDDS

Matthias Fuchs

The Oesterreichische Nationalbank (OeNB) has decided to publish quarterly statistics on the *external debt* of all sectors of the Austrian economy in line with the International Monetary Fund's (IMF) Special Data Dissemination Standard (SDDS),[1]) to which Austria subscribed in 1996. While the international investment position (IIP) covers Austria's entire stock of external financial assets and liabilities, the external debt statistics cover only nonequity assets and liabilities.[2]) Equity capital (like shares or direct investment) is not covered.[3])

The Analytical Usefulness of the External Debt Indicator

The external debt statistics as required by the IMF exclusively cover cross-border financial *liabilities;* they do not include financial *assets.* It should be noted, however, that disregarding the assets side to a certain extent distorts a country's debt position, since financial assets (depending on their maturity) can be used to cover liabilities. The isolated analysis of the liabilities side seems to be viable only under the assumption that the amount of financial claims on nonresidents is negligibly small, which is often the case in developing countries. However, for advanced industrialized countries with a well-developed financial system and substantial stocks of external assets and liabilities, it is vital that the statistics capture all cross-border assets and liabilities. The OeNB therefore also publishes *Austria's claims* on nonresident debtors, thus providing more comprehensive statistics than required by the IMF's standards.

The IMF lists a range of indicators that can be derived from the external debt position. Individual indicators taken alone may not lead to a meaningful conclusion on a country's external debt, but in sum they can be reasonably useful for an assessment. Two of these indicators, for example, are:

Debt-to-exports ratio: The debt-to-exports ratio is defined as the ratio of total outstanding debt at the end of the period under review to the economy's exports of goods and services for the period under review. An increasing ratio over time implies that total debt is growing faster than the country's export income. Countries which use a high share of their export income to service their external liabilities may have problems meeting their debt obligations when exports decline.

Debt-to-fiscal revenue ratio: This ratio reflects a government's room for maneuver in servicing external debt by fiscal revenues; it is of particular relevance for countries whose general government debt accounts for a large share of their total external debt. A rising ratio over time indicates that the government's leeway is shrinking.

1 *The SDDS was established to guide members in the publication of key economic statistical data and to create at the international level transparency in terms of definition, periodicity and timeliness of these data. Subscribers to the SDDS are required to describe the statistics they are responsible for (metadata) and to publish the corresponding actual data in a timely manner. The SDDS distinguishes between the following four sectors: "Real Sector," "Fiscal Sector," "Financial Sector" and "External Sector" and comprises 20 selected statistics. For further information on the SDDS, see http://dsbb.imf.org.*

2 *Debt instruments by definition require payment of principal and/or interest by the debtor (bonds and notes, loans, currency and deposits).*

3 *See IMF et al. (2001), External Debt Statistics: Guide for Compilers and Users, Final Draft, p. 17.*

Conceptual Approach[1])

External debt: The external debt statistics correspond to the international investment position, exclusive of the following items:

- direct investment: equity capital and reinvested earnings;
- portfolio investment: equity securities;
- financial derivatives;
- reserve assets.

Liabilities: Both principal and interest outstanding are classified as liabilities.

Enforceability: The liability must exist at the valuation date to be included in the statistics, which means that the creditor owns a financial claim on the debtor that is specified in a contract between them. Contingent liabilities, which arise from a particular event or from several events that may or may not occur, are not included in the statistics.

Residents: Physical and legal persons whose residence or permanent domicile or whose place of business is or whose headquarters are in Austria are considered to be residents under foreign exchange legislation. Furthermore, persons who have resided in Austria for more than three months as well as Austria-based branches of foreign enterprises as well as enterprises in Austria owned by nonresidents are considered residents.

Valuation: Traded instruments are valued at market prices which are determined by discounting future payments to the valuation date by an agreed interest rate. Nontraded instruments are valued at nominal value.

Disaggregation

By sector:	general government, monetary authorities, banks, other sectors.
By type of instrument:	money market instruments, loans, trade credits, bonds and notes, other debt liabilities.
By maturity:	short-term and long-term on an original maturity basis.

Periodicity

The statistics are disseminated with quarterly periodicity, with a lag of one quarter. In addition to the data of the reporting quarter, previous quarter and previous year-end data are included for comparison.

1 *See IMF et al. (2001), External Debt Statistics: Guide for Compilers and Users, Final Draft, p. 17. For the definition of "resident," see Official Announcement DL 1/91 of the OeNB of September 24, 1991.*

Austria's External Debt

(on a gross and net basis)

	4th quarter 2001[1])	4th quarter 2002[1])			1st quarter 2003[2])		
	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
	EUR million						
I. General government	−85,161	+ 4,549	+101,272	−96,722	+ 6,485	+110,174	−103,689
Short-term	− 579	+ 2,274	+ 972	+ 1,302	+ 4,224	+ 3,218	+ 1,006
Money market instruments	− 1,442	+ 1,537	+ 407	+ 1,130	+ 3,421	+ 2,843	+ 578
Loans	− 78	− 4	+ 27	− 31	− 5	+ 28	− 34
Currency and deposits	+ 1,649	+ 707	+ 0	+ 707	+ 774	+ 0	+ 774
Other debt liabilities	− 707	+ 35	+ 538	− 503	+ 34	+ 347	− 312
Long-term	−84,582	+ 2,275	+100,299	−98,024	+ 2,261	+106,956	−104,695
Bonds and notes	−82,148	+ 556	+ 96,620	−96,064	+ 515	+103,227	−102,712
Loans	− 3,635	+ 23	+ 3,295	− 3,272	+ 27	+ 3,344	− 3,317
Other debt liabilities	+ 1,201	+ 1,697	+ 385	+ 1,312	+ 1,719	+ 385	+ 1,335
II. OeNB	+ 6,314	+ 9,938	− 2,281	+12,219	+ 10,089	+ 947	+ 9,141
Short-term	+ 3,703	+ 4,409	− 2,856	+ 7,265	+ 3,650	+ 428	+ 3,222
Money market instruments	+ 264	+ 2,411	+ 0	+ 2,411	+ 1,824	+ 0	+ 1,824
Loans	− 236	+ 0	+ 0	+ 0	+ 0	+ 117	− 117
Currency and deposits	+ 3,675	+ 1,999	− 2,856	+ 4,855	+ 1,826	+ 311	+ 1,515
Long-term	2,611	5,529	575	4,954	6,439	520	5,919
Bonds and notes	+ 3,410	+ 5,411	+ 0	+ 5,411	+ 6,321	+ 0	+ 6,321
Loans	− 917	+ 0	+ 575	− 575	+ 0	+ 520	− 520
Other debt liabilities	+ 118	+ 118	+ 0	+ 118	+ 118	+ 0	+ 118
III. Banks	−43,074	+138,177	+167,143	−28,966	+150,805	+170,993	− 20,188
Short-term	−45,821	+ 46,347	+ 80,081	−33,734	+ 57,253	+ 84,941	− 27,688
Money market instruments	− 5,715	+ 1,469	+ 5,341	− 3,872	+ 1,588	+ 5,367	− 3,779
Loans	+15,547	+ 15,278	+ 2,124	+13,154	+ 14,866	+ 2,723	+ 12,143
Currency and deposits	−58,617	+ 26,402	+ 72,317	−45,916	+ 37,394	+ 76,553	− 39,159
Other debt liabilities	+ 2,964	+ 3,199	+ 298	+ 2,900	+ 3,405	+ 298	+ 3,107
Long-term	+ 2,747	+ 91,830	+ 87,062	+ 4,768	+ 93,552	+ 86,052	+ 7,500
Bonds and notes	−33,269	+ 41,853	+ 72,718	−30,865	+ 42,791	+ 70,979	− 28,187
Loans	+36,190	+ 44,670	+ 9,142	+35,528	+ 45,470	+ 9,187	+ 36,283
Currency and deposits	+ 39	+ 5,221	+ 4,919	+ 303	+ 5,223	+ 5,606	− 383
Other debt liabilities	− 214	+ 85	+ 283	− 197	+ 69	+ 281	− 213
IV. Other sectors	+38,014	+ 83,755	+ 39,108	+44,647	+ 86,987	+ 38,448	+ 48,539
Short-term	+ 6,306	+ 13,314	+ 7,877	+ 5,436	+ 13,928	+ 6,975	+ 6,953
Money market instruments	+ 247	+ 368	+ 20	+ 348	+ 379	+ 122	+ 256
Loans	+ 1,557	+ 5,220	+ 4,842	+ 378	+ 5,770	+ 3,759	+ 2,011
Currency and deposits	+ 2,090	+ 2,176	+ 0	+ 2,176	+ 2,029	+ 0	+ 2,029
Trade credits	+ 2,281	+ 5,606	+ 3,004	+ 2,602	+ 5,846	+ 3,064	+ 2,782
Other debt liabilities	+ 131	− 57	+ 12	− 68	− 96	+ 30	− 125
Long-term	+31,708	+ 70,442	+ 31,231	+39,211	+ 73,059	+ 31,473	+ 41,586
Bonds and notes	+33,317	+ 62,685	+ 20,402	+42,284	+ 66,091	+ 19,608	+ 46,483
Loans	− 699	+ 6,574	+ 8,954	− 2,380	+ 5,782	+ 9,978	− 4,196
Other debt liabilities	− 910	+ 1,183	+ 1,875	− 693	+ 1,187	+ 1,887	− 701
V. Direct investment: intercompany lending	− 588	+ 5,011	+ 5,250	− 238	+ 5,054	+ 5,214	− 160
Lending to affiliated enterprises[3])	+ 3,161	+ 3,661	+ 367	+ 3,294	+ 3,701	+ 368	+ 3,333
Lending to direct investors[4])	− 3,749	+ 1,350	+ 4,882	− 3,532	+ 1,353	+ 4,847	− 3,494
Nonequity assets and liabilities	−84,495	+241,431	+310,492	−69,060	+259,419	+325,776	− 66,357

Source: OeNB.

[1]) Revised data.

[2]) Provisional data.

[3]) Assets: lending by resident direct investors to affiliated enterprises abroad; liabilities: lending by nonresident affiliated enterprises to resident direct investors.

[4]) Assets: lending by resident affiliated enterprises to nonresident direct investors; liabilities: lending by nonresident direct investors to resident affiliated enterprises.

S T U D I E S

Understanding the Impact of External Trade and International Capital Flows on Euro Area Monetary Growth and Austria's Contribution from 1999 to 2002: The Monetary Presentation of the Balance of Payments

Patricia Walter

1 Motivation and Principal Findings

Against the backdrop of the increasing globalization of economic relations in the 1990s, international trade and cross-border capital flows increased substantially, with the latter in fact expanding at a multiple of the growth rate of transactions in the real economy.[1]) The scope of the resulting global economic integration became evident amid the economic slowdown that started in late 2000, when the liberalization of international capital transactions, the need to fund the United States' external trade deficit, and the spread of multinationals caused the economic downturn to be felt in almost all regions of the world. This high degree of openness of national economies makes it necessary for central banks to pay special attention to the implications of external transactions for monetary growth and inflation developments in the euro area when taking monetary decisions.

In this respect, the Directorate General Statistics of the European Central Bank (ECB) has recently introduced a statistical framework that captures the monetary effects of external transactions and mainly international capital flows, namely a monetary presentation of the balance of payments. The Banque de France, one of the first national central banks of the Eurosystem to discuss this issue, heralded this step as *"the move from the net external asset position of the MFI sector to the monetary incidence of balance of payments operations."* This study provides an introduction to the basic principle of the monetary presentation of the balance of payments and, analyzing developments in the euro area from 1999 to 2002, addresses the close interaction of external transactions with macroeconomic determinants and the transmission of monetary policy. *We found the influence of international trade and capital movements on money supply in the euro area to have changed from a restrictive to an expansionary effect.*

2 Conceptual Framework of the Monetary Presentation of the Balance of Payments

The primary statistics of the Economic and Monetary Union (EMU) have been expanded to include *a monetary presentation of balance of payments statistics with a view to obtaining input for the analysis of monetary developments from cross-border transactions and capital flows between the euro area and the rest of the world.*

Euro area money and banking statistics (i.e. the consolidated balance sheets of the monetary financial institutions (MFIs) in the euro area) cover the assets and liabilities of the MFIs, which basically comprise the banking system (the Eurosystem and commercial banks) – in other words, the euro area's money-creating sector (see box 1). The MFI balance sheets thus provide the statistical basis for the strategic statistical indicator, the monetary aggregate M3. By an accounting identity, the MFI sector's net assets and net liabilities (net external assets) vis-à-vis nonresidents form the external counterpart of M3. For the purpose of the monetary presentation of balance of payments data, the latter are combined with money and banking statistics to show how economic relations with the extra-euro area affect the money supply in the euro area. In this context, the transactions of euro area nonbanks – the money-holding sector

1 *While the trade volume increased by more than 70% between the beginning of the 1990s and 2001, the volume of cross-border direct and portfolio investments more than quadrupled.*

– are distinguished from those of the banking sector in the balance of payments statistics. This statistical framework is to help identify the underlying factors of M3 developments and to help assure the quality of M3 data. Box 2 illustrates how the monetary presentation of the euro area balance of payments works, as implied by the overall accounting identity.

In contrast to the international investment position of the euro area, which reflects the net external position of stocks on the reporting date, the balance of payments summarizes the cross-border flows that occurred during the respective reporting period. In order to combine balance of payments data and money and banking statistics, the ECB calculates the changes in the monetary aggregates and their counterparts from the development of stocks, adjusted for exchange rate effects and other non-transaction-related changes. The resulting changes in the net external asset position correspond to all external transactions of the resident MFI sector with non-euro area residents. However, the money and banking statistics do not provide any explanations about the causes of these changes, i.e. the underlying transactions of euro area non-MFIs with non-residents of the euro area. These relationships are evident from the balance of payments. With the latter governed by the double-entry principle, the banks' net capital flows match offsetting entries of net flows generated by the transactions of nonbanks. *Depending on whether nonbanks' transactions result in an inflow or outflow of capital, the external effects on money supply in the euro area will be either expansionary or restrictive.*

The monetary presentation of the balance of payments makes it possible to analyze the financial transactions of the nonbank sector with non-euro area residents with regard to their stability and their relationship with macroeconomic variables (growth differentials, interest rate spreads, exchange rates, inflation rates, equity market performance). The aim in this context is to gain insights, for monetary policy purposes, into the influence of general monetary

Box 1

Basic Format of the Consolidated Balance Sheet of Monetary Financial Institutions[1]) in the Euro Area

Assets	Liabilities
Loans to euro area nonbanks	M3
Claims on non-euro area residents (external assets)	Longer-term financial liabilities
Other assets (including fixed assets)	Financial liabilities to non-euro area residents (external liabilities)
	Other liabilities (including deposits by central governments)

The accounting identity of the money and banking statistics implies that:
M3 =
Credit to euro area nonbanks
+ net external assets
− longer-term financial liabilities
+ other counterparts

[1]) *For the purpose of the implementation of a single monetary policy, the concept of the euro area monetary financial institutions (MFI) comprises (1) the central banks, (2) resident credit institutions (under Community law), and (3) other financial institutions in the euro area, whose business is "to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account, to grant credits and/or make investments in securities." The third category of MFIs are basically money market funds.*

Box 2

Monetary Presentation of the Euro Area Balance of Payments

External transactions of the non-MFI sector
Current account[1])
+ Capital account
+ Balance of financial transactions by the non-MFI sector
+ Errors and omissions
= Balance of payments of the non-MFI sector

External transactions of the MFI sector
Balance of financial transactions of the Eurosystem
+ Financial transactions of MFIs (excluding the Eurosystem)
= Balance of payments of the MFI sector

Balance of payments of the non-MFI sector =
− Balance of payments of the MFI sector =
Change in the net external assets of the MFI sector

[1]) *It is assumed that real economic transactions relate to nonbanks.*

and real economic conditions on international capital flows and, consequently, monetary growth in the euro area. The exploration of the interaction of monetary policy measures with internal and external factors, such as shocks and technological as well as structural changes in the money and capital markets as well as in the real economy, allows conclusions to be drawn about the transmission mechanism of monetary policy in the euro area.

In theory, combining balance of payments data and money and banking statistics in the monetary presentation of the balance of payments makes it possible to identify the external factors of euro area monetary growth: the external transactions of resident nonbanks and the macroeconomic factors that influence those transactions. As cross-border transactions of resident nonbanks are settled via the euro area banking system, they affect both the net external asset position of the MFI sector and the liquidity of the money-holding sector. In accordance with the underlying theoretical concept, the changes in the MFI sector's net external assets associated with transactions should be identical with the MFI sector's capital flows as reported in the euro area's balance of payments (box 2). In practice, however, a perfect identity between the money and banking statistics and the balance of payments is not always observed, owing to differences in the compilation systems. These involve the methodology of data collection (reporting periodicity, reporting population), the calculation of flow data and the statistical concepts, basically the definition of several financing instruments. Beside the ongoing harmonization of MFI data in the balance of payments and the money and banking statistics, the reporting bases are also being aligned in a long-term process. This is done in part in the course of the changeover of national balance of payments statistics in the euro area to direct reporting. Another factor contributing to the apparent inconsistencies is the "fuzziness" of the primary statistics that is inherent in the methodology applied – for instance, errors and omissions data do not contain any sectoral information.

This shortcoming underlines a criterion that is essential for the informative value of the monetary presentation of the balance of payments, namely an adequate sectoral classification. Initially, the sectoral allocation (money-creating versus money-holding sector) of the various financial instruments had to be derived from estimates. As the primary statistics were developed further by

ECB working groups (Money and Banking Statistics, Balance of Payments and External Reserves Statistics), the sectoral breakdown of balance of payments data was improved continually.[1]) In a final step, the liabilities side of portfolio investments – the issuing sector – is to be made identifiable, if possible on the basis of code-by-code reporting of securities and the establishment of a Centralized Securities Database (CSDB) at the ECB.

Apart from the analytical purpose of providing a monetary presentation of the balance of payments, the exercise also enhances the indicator quality of the euro area's M3 monetary aggregate. Box 3 shows the composition of M3 by maturity. The outstanding volume of short-term money market instruments issued by euro area commercial banks has expanded significantly (by 80% to about EUR 300 billion) since the commencement of EMU. With the buyers presumably being predominantly non-euro area residents, the banks' money market issues have had a distorting effect on M3 growth. The sectoral allocation of national statistics along with improvements in the reporting of securities transactions and the establishment of the CSDB should make it possible, in the medium run, to obtain information about the issuing sector and the buyers' country of residence from the euro area's external transactions statistics.

Box 3

Composition of the Monetary Aggregate M3 in the Euro Area

- Cash (banknotes and coins), overnight deposits;
- Deposits with an agreed maturity of up to two years and deposits redeemable at notice up to three months;
- Marketable instruments issued by the MFI sector:
  - Repurchase agreements,
  - Money market paper and units/shares of money market funds,
  - Debt securities issued with a maturity of up to two years.

3 Monetary Presentation of the Euro Area Balance of Payments

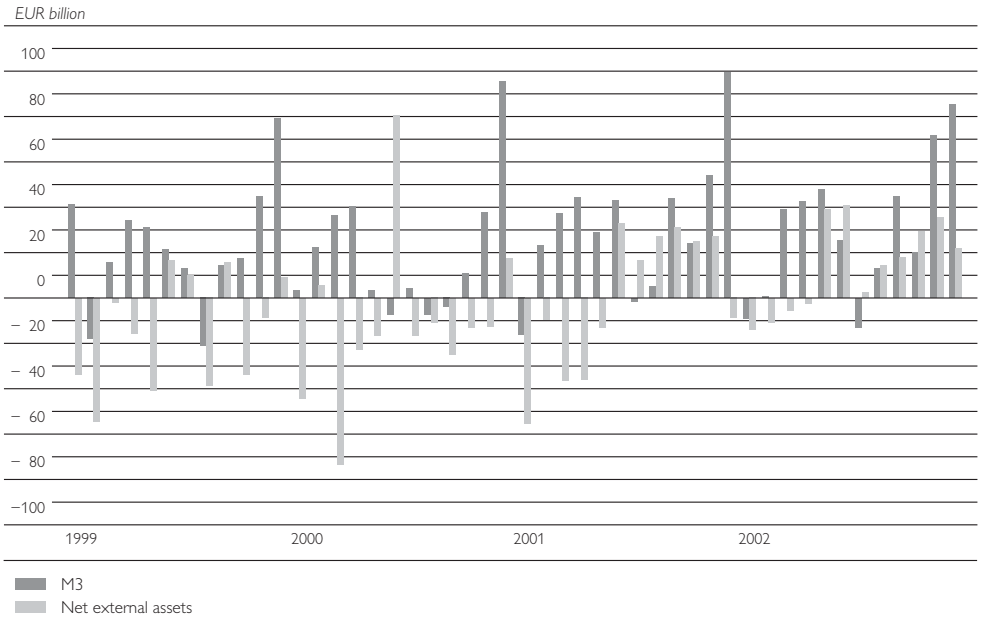
3.1 M3 and the Banking Sector's Net External Assets

As mentioned in the introduction, the objective in preparing a monetary presentation of the balance of payments statistics is to better understand the causes of monetary developments in the euro area. The accounting identity of the money and banking statistics implies that the MFI's net external assets represent the external counterpart of M3. Accordingly, changes in assets and liabilities held by euro area banks vis-à-vis nonresidents may contribute to an expansion or a restriction of money supply in the euro area. An analysis of the monthly data reported in the consolidated balance sheet of euro area MFIs shows that, since the onset of EMU, the MFI sector's net external assets have accounted for a disproportionately small share of M3 stocks. By contrast, the transaction-related changes in the external counterpart have had a major impact on changes in euro area money supply (chart 1).

1 *Guideline of the European Central Bank ECB/2003/7 on the statistical reporting requirements of the European Central Bank in the field of balance of payments statistics, the international reserves template and international investment position statistics.*

Chart 1

M3 and Net External Assets



Source: ECB.

From the start of Stage Three of EMU in Europe until year-end 2002, the net external assets of the euro area banking system contracted by EUR 175 billion as a result of transactions. Overall, external transactions therefore exerted a restrictive influence on monetary growth in the euro area in this period. A more detailed analysis by individual reporting periods reveals that the flow direction changed, causing the contribution of the MFI sector's net external assets to monetary growth to tip over into an expansionary impact in mid-2001. This means that in the first one-and-a-half years of EMU, the euro area was a net exporter of capital. Residents and nonresidents tended to borrow in the euro area and invest the capital in other regions of the world ("euro carry trade"). Since mid-2001, however, the data have been signaling increased investments by nonresidents in the euro area along with a repatriation of funds by euro area investors. Ever since, the euro area has been a net importer of capital from the rest of the world. At the same time, M3 data show monetary growth to have accelerated in the euro area in the second half of 2001. This has given rise to concerns at the ECB that in the long term more liquidity may be available in the euro area than would be necessary for financing sustainable noninflationary growth (ECB, 2002).

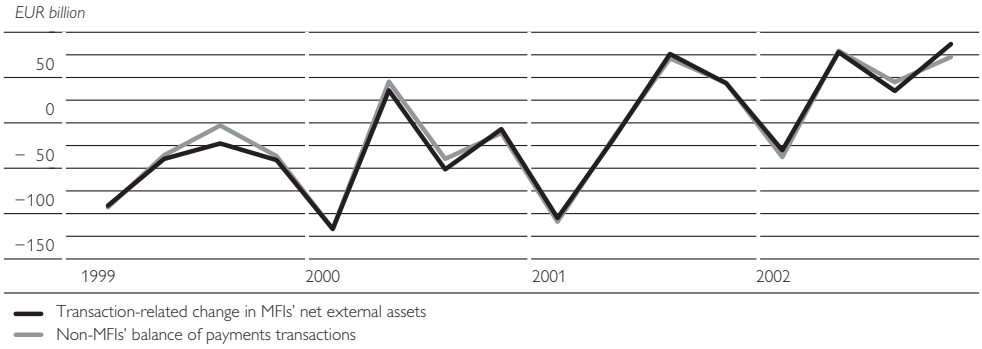
3.2 Monetary Presentation

The capital flows generated by the external transactions of nonbanks resident in the euro area, as reflected in the balance of payments statistics, are the basis for changes in the euro area banking sector's net external assets. By comparing balance of payments data with the flows derived from the consolidated MFI balance sheet within the monetary presentation framework we are able to

confirm the assumed relationships with the investment and financing behavior of the money-holding sector. Chart 2 shows the results of the monetary presentation, adjusted to the balance of payments sign convention. The results, which are available for the entire period under review on a quarterly basis, illustrate that the changes in net external assets broadly match the changes in the euro area balance of payments. The variations detected are attributable, as explained before, to differences in methodology and an incomplete allocation of items included in the balance of payments statistics.

Chart 2

Net External Assets and Monetary Presentation of the Balance of Payments



Source: ECB.

As the monetary presentation of the euro area balance of payments shows (chart 2 and table 1 in the annex), the resident nonbanks' international economic activities led to a net capital outflow from the euro area in the amount of EUR 150 billion over the past four years. This confirms that the transactions of the money-holding sector exercised a restrictive rather than an expansionary influence on liquidity in the euro area:

– Real economic transactions with the non-euro area – trade in goods and services, income flows to and from the rest of the world as well as current transfers and capital account transactions – did not contribute significantly to euro exports (EUR 1.5 billion) in the period under review.
– In terms of direct investment relationships, including the establishment, purchase or expansion of enterprises, euro area nonbanks invested more heavily abroad than vice versa. This resulted in a net capital outflow of EUR 210 billion in the reporting period.[1]) In the equity capital segment, net capital outflows were recorded in almost all reporting quarters. A significant exception from this trend was the first quarter of 2000, which was characterized by a base effect involving a single transaction in the euro area

1 *In the balance of payments statistics, direct investments as opposed to portfolio investments are defined, in accordance with the IMF Manual, as "lasting economic relationship with the aim of exercising a significant influence on the management of the company in which the interest is held." Beside this qualitative definition, the OECD uses a benchmark, a minimum interest of 10% in the share capital, for the purpose of a harmonized interpretation of the IMF definition. Exceptions are possible if there are reasonable arguments for taking smaller interests into account or for excluding larger stakes. Another component of direct investment is the purchase of real estate.*

balance of payments statistics (the takeover of Mannesmann by Vodafone in February 2000).[1]) Given the volatility of intracompany loans, which are motivated by intragroup liquidity objectives rather than economic considerations, the effect of other capital flows on euro area money supply growth was mixed. Net of the base effect of the first quarter 2000, direct investments by the money-holding sector had, on average, a restrictive impact on euro area monetary growth in the order of EUR 23 billion per reporting quarter.

– As it has been impossible up to now to classify portfolio investments in the euro area clearly by sector and country of origin (principle of "first known counterpart"), these transactions have not been allocated. From 1999 to 2002, euro area nonbanks' purchases of equity and mutual fund shares issued outside the euro area led to a capital outflow of EUR 570 billion. During the same time, the euro area imported EUR 360 billion in proceeds from the sale of shares. In the fixed-income segment, capital inflow into the euro area (EUR 625 billion) by far surpassed the capital export (EUR 360 billion) that resulted from the purchase of paper from other economic regions.[2]) On balance, transactions of the money-holding sector in the debt securities segment had, on average, an expansionary influence on euro monetary growth whereas transactions in equities had a restrictive effect.
– The available data confirm the assumption that, given the sheer volumes of the capital flows, the most significant restrictive or expansionary effects come from direct and portfolio investments. Therefore, the monetary analysis provided below will focus on these subitems of the monetary presentation. As mergers and acquisitions tend to be financed by stock swaps, direct investments and portfolio investments are often closely related. Therefore, trend conclusions have to be differentiated from a mere technical analysis of offsetting capital flows. Overall, the net effect of direct and portfolio investments in the period under review was a net capital export in the amount of EUR 160 billion. If we include only transactions in equity capital, the net outflow amounted to EUR 400 billion.
– Other investments – loans and bank deposits – produced an expansionary monetary effect of about EUR 60 billion between 1999 and 2002. EUR 80 billion of capital flowed in as a result of external transactions which owing to a lack of information could not be allocated to any specific category.

3.3 Development of Financial Transactions of the Money-Holding Sector and Explanatory Factors

The analysis of the monetary presentation of the euro area's balance of payments reveals two phases in the capital resulting from nonbanks' external transactions that run counter to each other: the reporting periods 1999 to early 2001, and the quarters following that period up to year-end 2002. The first quarter of

1 *The offsetting entry appears in portfolio investments as the deal was financed by a stock swap.*

2 *Owing to the accounting link with M3, money market fund shares/units are deducted from equities on the liabilities side and debt securities with a maturity of up to two years, issued by resident MFIs and held by nonresidents, from fixed-income securities.*

2001 marks the turning point when net capital flows started changing from a capital export to a net capital import, which was finally recorded in the third quarter of 2001. As regards the contribution to monetary growth in the euro area, the influence of the external transactions of the money-holding sector switched from restrictive to expansionary. In the first phase, international capital movements reflected the nonbanks' tendency to raise funds in the euro area and to invest the capital outside the euro area ("euro carry trade"). This trend was attributable primarily to the low exchange rate of the euro and the low level of interest rates in the euro area. Another influencing factor was the reshuffling of securities portfolios as investors diversified their currency and risk structures when the euro was introduced. In 2001, the trend reversed, leading to funds being invested net *in* the euro area and to the reduction of capital investments held *outside* the euro area. This may be seen in the context of narrowing interest rate spreads between the euro area and the U.S.A. in the wake of the bursting of the technology bubble on the stock markets, the repercussions of September 11, 2001, and the ensuing downturn of the global economy.

The nonbanks' direct investments resulted in net capital outflows almost throughout the entire period under review, with the exception of the first quarter 2000, which was characterized by the net effect of one single transaction that took place in February. As of the first half of 2001 – or even as of the beginning of 2001, if one single transaction outside the euro area in this reporting quarter is taken into account – the net capital flow from inward and outward direct investments was approaching a balance. If the first two years of EMU are regarded as the first phase in the internationalization of corporate locations, a net capital outflow from the euro area can be identified across the eight quarters at an average rate of about EUR 30 billion.[1]) By contrast, the balance of payments statistics of the United States,[2]) a major target region for capital flows from the euro area, reports a high global level and, from the euro area, even increasing volumes of net capital imports from direct investments in 1999 and 2000.[3])

As they reflect investors' profit-maximizing behavior, international capital flows serve as an indicator of a country's or a region's economic development. In contrast to portfolio investments, decisions about strategic investments are taken from a longer-term perspective, taking the relative advantages of different locations into account. Among the key considerations is an economic region's expected earnings outlook. The restrictive contribution of foreign direct investment (FDI) to monetary growth in the euro area and the United States' relative advantage in attracting foreign investments in 1999 and 2000 may be explained

1 *The data were adjusted for the base effect in February 2000.*

2 *To date, a regional breakdown of the euro area balance of payments is not yet available. Regional data are to be compiled by the end of 2004. The U.S. balance of payments – without monetary presentation – may be used as an indicator of the mutual relations between the euro area and the United States, the two major economic areas. As official U.S. statistics do not look upon the euro area as one single economic region, however, EU data have been adjusted for external transaction of the Anglo-American region, i.e. between the United States and the United Kingdom.*

3 *In the two reporting years 1999 and 2000, net FDI flows into the United States amounted to an average of EUR 25 billion per quarter (source: Bureau of Economic Analysis).*

by the higher profit expectations in the United States in connection with the information and communication technologies revolution. Europe was perceived as trailing the United States economically, particularly with regard to the exploitation of positive spillover effects from the New Economy to the benefit of the productivity of the overall economy and corporate management (differentiation between IT-producing and IT-applying sectors; IMF, 2001a). This is thought to involve, on the one hand, productivity-enhancing effects owing to the increased capital intensity of production resulting from investment in innovative capital goods that become less expensive. On the other hand a reorganization of production is assumed that would increase the efficiency of the combined use of labor and capital. The assumption that the U.S. economy would realize high productivity gains contributed to the United States' relative competitive edge as an attractive business location. This enabled the United States to secure the inflow of capital from the intensive internationalization of equity holdings resulting from the wave of cross-border mergers and acquisitions (M&A), which culminated in 2000. In its Annual Report 2002, the ECB stated that a large part of the mergers and acquisitions undertaken by euro area enterprises in the United States were technology sector-related. The motives behind these moves were the procurement of know-how and market access (ECB, 2002).

In 2001, net capital outflow from the euro area attributable to inward and outward equity investments declined. In the fourth quarter of 2001, the euro area witnessed a net capital inflow under this heading, while in 2002 the balance approached zero: Equity investments in the euro area non-banking sector stabilized in 2001 and 2002 at about EUR 30 billion per quarter; during the same period, strategic investments of nonbanks outside the euro area were halved and, at year-end 2002, also stood at about EUR 30 billion. Across these eight quarters, the influence of foreign investments on the euro area monetary aggregate remained restrictive. In this second phase of internationalization, capital (including intracompany financing) thus flowed out of the euro area at an average rate of EUR 15 billion, i.e. half the rate of 1999 and 2000. In view of the lasting decline in direct investments in the United States, global U.S. balance of payments data increasingly show net capital outflows as of 2001.[1]) The OECD notes in this regard that the role of the United States changed from a net importer of FDI to a supplier of direct investment capital to other economic regions of the world (OECD, 2003).

The change in the direction of direct investment-related net capital flows from a restrictive to a neutral effect on euro area money supply is associated with the trend observed in international M&A activities. According to UNCTAD, cross-border M&As fell from USD 1,100 billion or 7,900 transactions in 2000 to USD 600 billion or fewer than 6,000 transactions in 2001. Foreign direct investment was thus halved worldwide, with an almost 60% decline recorded in the industrialized countries (UNCTAD, 2002). This development took place against the backdrop of the global economic slowdown in the year 2001, with real growth falling from 4% in 2000 to 1.3%. The trend

1 *In the years 2001 and 2002, the FDI-related capital outflow from the United States averaged about EUR 10 billion per reporting quarter.*

reversal in the fourth quarter of 2000 marked the end of ten years of undisturbed economic growth in the United States, which temporarily brought about a reversal of the growth gap between the euro area and the United States at the expense of the U.S. economy. On the international financial markets, sentiment was influenced critically by the Enron bankruptcy, which highlighted the limits to the statistical representation of productivity gains in companies' balance sheets in addition to the measuring problems in the National Accounts.[1]) The systematic overestimation of U.S. companies' performance was finally deflated in the technology stock shakeout on the capital market and, beside a readjustment of profit expectations, also led to a revision of the economic outlook of the United States as a whole. Nonetheless, the United States remained the most attractive receiving region for international FDI as well as the largest outward investor.[2])

In contrast to direct investments, international portfolio investments in sum do not exhibit any clear trend in the euro area. While direct investments are long-term by nature, portfolio investments are highly volatile. In addition, the capital flows associated with investments in equity and fixed-income securities often move in opposite directions, with a structural change being visible in the euro area in the first and second quarters 2001: in 2001, the trend in equity investments switched from a capital outflow to net capital inflows into the euro area. In bonds, the reversal of capital flows from net capital imports to capital exports or neutral balances was only temporary. In 2002, a net capital inflow was recorded again, which, however, shrank in the course of the year. The U.S. balance of payments data show high net capital imports from portfolio investments over the entire period under review.[3]) The United States' hunger for continuing capital inflows from all other regions of the world stems from the need of funding a persistently high current account deficit.[4]) Therefore, fixed-income securities generated net capital imports into the United States across the entire period under review. Vis-à-vis the euro area, the U.S. balance of payments statistics show a steep drop of the net capital inflow or even a low level of

1 *Problems with measuring profitability were attributable to the weightings assigned to the cost of implementing technologies and future productivity and output gains. The measurement of output involved the questions of how to account for quality improvements and the IT sector's contribution to the productivity gains of the overall economy. For the time being, the true impact of the New Economy on the organisation of production processes is anything but clear. Given the loss of productivity in the United States in the course of the downturn, the IMF assumes that the productivity gains of the 1990s were driven largely by cyclical factors (IMF, 2001a). According to recent data from Credit Suisse First Boston on the development of real net domestic product per hour worked, annual growth in the United States between 1992 and 2002 was 1.1% against 1.4% in the euro area (source: Financial Times). In retrospect, the euro area's perceived performance lag in the 1990s relative to the United States is attributable to overblown economic indicators and expectations in connection with the technology bubble and needs to be revised.*

2 *Against the background of a marked decline in world-wide cross-border direct investment in the year 2001, the United States had a share of 21% in outward investment (2000: 13%) and 18% of inward investment (2000: 21%).*

3 *Between 1999 and 2002, the United States received on average more than EUR 50 billion per quarter from portfolio investments.*

4 *While the United States current account deficit remained practically unchanged in 2001 despite the economic downturn (4.1% as against 4.5% of GDP in the year 2000), it surged in 2002 to a record level of 5% of GDP or USD 500 billion. The United States currently require an annual capital inflow of USD 600 million to finance its foreign trade deficit.*

capital outflows from portfolio investments in the second and third quarters 2001.

The influence of international capital movements on monetary growth in the euro area in 1999 and 2000 was thus comprised of an expansionary contribution from investments in fixed-income securities and the restrictive impact of equity investments. A significant influence came from the euro area investors' policy of diversification. As investors sought to spread the risk of their international portfolios, capital flows were redirected to match the currency and risk structures emerging as a result of the launch of the euro and the expected harmonization of economic cycles in the single currency area. Equity investments were rerouted into the extra-euro area, most notably the Anglo-American region. Investors resident in the euro area purchased even more bonds issued by other euro area countries than before the introduction of the euro. This, combined with the emergence of a single liquid financial market in the euro area, made the issuance of debt securities more attractive and, along with the trends towards disintermediation and corporate restructuring, increased the supply in the euro area.[1]) In 1999 and 2000, global economic activity and international capital movements were still powered largely by the ten-year period of economic growth in the United States. Until the first half of 2000, the U.S. economy expanded at an average annual rate of 4%, which caused a growth gap to open vis-à-vis the euro area. This is reflected by the relative interest rates: in 1999 and 2000, the yields of euro area long-term government bonds were, on average, 80 basis points below those of U.S. treasuries; on the money market, the interest rate differential was even higher during that period, exceeding occasionally 2%.

In 2001, investments in euro area equities generated a net capital inflow while the net effect of investments in debt securities approached zero. One of the reasons for this change in trends was that European investors had completed the diversification of their international portfolios through investments in foreign equities in 2000. Then the technology bubble burst in the spring of 2000, sending the equity markets on a continuous slide. According to the IMF, the negative effect on output and investments set in without almost any delay, which was in contrast to past experience with market shakeouts after phases of systematic overvaluation severely inconsistent with fundamental data (intrinsic values) (IMF, 2003). Moreover, the declines were sharper than in earlier episodes, which has to be seen against the backdrop of the exuberant investment growth that had been fueled by the revolutionary developments in communication technology. As regards the shifts in equity investment flows between Europe and the United States, one has to take into account that European stock markets have not outperformed U.S. stock markets since; in part, performance has even been worse than in the United States.[2])

1 *Between year-end 1998 and year-end 2000, the volume of debt securities issued by euro area residents rose by 22% to more than EUR 7,000 billion.*

2 *The Bank for International Settlements (BIS) noted in its 73rd Annual Report that in 2002 the European equity markets had been shaken by the losses incurred by insurance companies. Unlike their U.S. counterparts, they had held relatively massive equity investments which they sold off in large volumes when earnings turned negative (BIS, 2002).*

A key influence on international capital movements were the repercussions of the terrorist attacks of September 11, 2001. Beside the direct effects, the human tragedy and the destruction of trading and communication infrastructure, persistent indirect reverberations have been observed (IMF, 2001b). These included negative expectations and a loss of confidence in the global economy (uncertainties regarding possible military action by the United States with potential consequences on the oil price and the U.S. dollar exchange rate) as well as an increase in the cost of corporate financing. This negative amplification effect had already been triggered prior to September 2001 by the fall in technology stocks but was reinforced and prolonged by the terrorist attacks. In the real economy, the private sector's increased reluctance to take risks led to the postponement of consumer and investment spending. On the financial markets risk premiums rose, causing equity prices to fall and lending rates to go up. The investors' demand shifted towards high-grade investments in the form of bonds and "conservative" equities. In this environment, the euro area became, at least temporarily, a safe haven for international capital: in the second, third and fourth quarters of 2001, the capital inflows from direct and portfolio investments into the euro area exceeded EUR 100 billion per quarter.

In 2002, equity investors incurred losses for the third year in a row. The aftereffects of the shocks of the two preceding years, geopolitical uncertainty and indications that a solid economic recovery would be delayed despite expansionary economic and monetary policies caused risk premiums to rise further and equity prices to drop further. In addition, the international capital flows between the euro area and the United States were influenced by accounting scandals (among them World Com, Xerox) and the ensuing debate about the quality of investor information and improvements in supervisory activities. In the light of these developments, positive economic news had relatively little impact on investors' decisions (BIS, 2003). In this context, international equity capital movements declined, with the euro area registering, on balance, minor net capital inflows or neutral balances.

On the bond markets, trends since 2001 have reflected increased interest by investors stimulated by expectations of key interest rate cuts and the eventual disappearance of the interest rate spread between the United States and the euro area at the long end. While the 2001 economic downturn was less severe in the euro area than in the United States, with growth rates never falling to zero or below, the growth gap opened again in 2002, with Europe lagging again behind the United States. While at the beginning of the year the economic indicators had signaled a recovery in the euro area, the economic outlook bleakened as the year progressed. Moreover, the euro area was pursuing a tighter monetary policy than the United States (ECB, 2002; Deutsche Bundesbank, 2003).[1]) At the end of 2002, the interest rates on the benchmark ten-year U.S. treasury

1 *In December 2002, the ECB cut its main refinancing rate by 50 basis points. It was noted that the relatively strong growth of M3 in the euro area was attributable to portfolio reshuffles of the money-holding sector against the background of continuing uncertainty. Funds flowed into short-term investments such as time deposits, money market funds, and bonds with short maturities. The inherent risk to price stability was considered low, as the funds invested were not expected to boost consumer spending but, instead, return to longer-term higher-yield investments as soon as the global economic and geopolitical situation eased.*

bonds fell to a historic low with yields dropping below those of the euro area (3.8 versus 4.3%). The monetary presentation of the balance of payments reflects this development with – in contrast to 2001 – a resumption of net capital inflows into euro area bonds, which, however, continuously declined in the course of the year.

4 Monetary Presentation of the Austrian Balance of Payments

The monetary presentation of Austria's balance of payments statistics shows the contribution of the country's external economic activities to euro area developments as well as country-specific deviations from the trend prevailing across the euro area as a whole. From 1999 to 2002, Austria's economic relations with the extra-euro area had an expansionary effect on money supply (table 2 in the annex) in the double-digit billion range. Any quantification of Austria's monetary presentation has to be interpreted with care, however: on the one hand, unlike the euro area aggregate, it does not show money market fund shares and debt securities with maturities of less than two years separately. Liabilities from portfolio investments are thus not adjusted for M3 components (box 3). On the other hand, these data cannot be broken down by sector or region owing to a lack of information at the required partner country level.

An analysis of the Austrian nonbanks' investments in equities and bonds over time does not reveal any major structural change of the kind that was observed in the euro area as a whole. What can be seen, however, is that in 2002 and at the beginning of the period under review, in line with international trends, the outflow of the Austrian nonbank sector's capital from fixed-income investments was relatively higher than that from equity investments. Where direct investments where concerned, no trend reversal was seen in the capital flows in contrast to the overall development in the euro area. As a matter of fact, Austria's restrictive contribution to euro area liquidity continued until 2002. Over the entire period under review, Austria's real economic transactions with the extra-euro area resulted in a euro import of EUR 25 billion. Under "other investments" a net capital outflow of EUR 2 billion was recorded. A plus in the amount of EUR 5.5 billion was assigned to the domestic money-holding sector in the absence of data needed for a proper allocation of the capital flows included in this amount.

The direct investment relationships of Austrian nonbanks with the extra-euro area contributed to the restrictive effect of this position on monetary growth in the entire euro area. On a net basis, a capital outflow of EUR 4 billion was registered in the first four years of EMU. On the average, Austria's non-MFI sector accumulated claims on the extra-euro area at a rate of EUR 11 billion per quarter, while investments by the extra-euro area in Austria reached, on average, only half that level. Thus, the net effect on Austria's external contribution to M3 growth in the euro area was negative or balanced in almost all reporting periods. About 20% of the capital export related to the acquisition of equity capital was compensated by net capital imports under intracompany credits.

This result may come as a surprise as it is in contradiction to the traditional image of Austria as a target country for direct investments with an only

disproportionately low level of outward investments. Since the opening up of the east in the late 1980s, this pattern – which is basically explained by the predominance of small and medium-sized enterprises in Austria – has changed fundamentally (Dell'mour, 2002). As the countries of Central and Eastern Europe gained high importance in the internationalization of the Austrian economy, the country became an active player in the globalization activities of the 1990s.[1]) According to UNCTAD, the Central and East European countries proved immune to the world-wide fall in cross-border direct investment witnessed in 2001 (UNCTAD, 2002). Austria thus deviated from the global and euro area trends by continuing the expansionary development of outward direct investment until 2002: on an annual basis, the Austrian nonbanks' transactions to build up equity holdings in the extra euro-area rose from EUR 2.2 to EUR 3.8 billion in the period under review. The peak of extra-euro area direct investment in the domestic nonbank sector was reached in the fall of 2001, after which investments in Austria fell sharply (from EUR 4 to EUR 0.8 billion on an annual basis).

During the period reviewed, the Austrian money-holding sector acquired shares and other equity securities worth more than EUR 10 billion in the extra-euro area. This contrasted with sales of domestic securities to nonresidents (not allocated) in the amount of EUR 3 billion. This investment pattern is the outcome of the special conditions on the Austrian capital market, which suffers from low market capitalization and a liquidity shortage owing to the predominance of small and medium-sized enterprises combined with a large primary industry sector. A look at fixed-income securities provides quite a different picture, with domestic demand standing at EUR 9 billion and demand for Austrian issues by extra-euro area investors (non-allocated) exceeding EUR 90 billion. Despite the fact that the liabilities side is still inadequately itemized for the purposes of monetary presentation one may conclude that equities transactions led to a net capital export with a restrictive effect on money supply and transactions in fixed-income securities produced a net capital import with an expansionary effect on money supply.

The data for Austria show that, from 1999 to the first half of 2000, investors from the money-holding sector increasingly purchased extra-euro area equities. During this period, capital outflow doubled to more than EUR 1 billion. To a large part, the preferred target area in the internationalization of Austrian portfolios was the United States, accounting for a 70% share of the transaction volume. The economic downturn in the United States, coupled with external shocks and the subsequent sluggishness of the global economy interrupted this trend already in the third quarter 2000. This ushered in a period of highly volatile capital flows. In late 2002, the Austrian nonbanks started shedding their holdings of foreign equity capital, with the result being a repatriation of capital flows from the extra-euro area. This also halved the volume of investments in

1 *At year-end 2002, Austrian direct investments in the accession countries had reached an aggregate volume of EUR 12.8 billion. According to The Vienna Institute for International Comparative Studies (WIIW), Austria was the leading foreign investor in Slovenia and in the Slovak Republic and ranked third in Hungary and in the Czech Republic.*

the United States, which, however, still remained the most important target region.

Investments of Austrian nonbanks in extra-euro area bond issues as well as the associated capital flows were influenced by the expected behavior of the central banks and therefore highly volatile. U.S. paper was of secondary importance in the period under review, with the exception of the reporting year 2001, when price gains were expected as a result of extensive cutting of key interest rates by the Fed. What is striking is the significant role East-European issues played for Austrian investors' profit intentions. In 2000 and 2001 bond issues of accession countries, most notably those of Hungary and Poland, were popular with investors, as they anticipated successive interest rate cuts to the level prevailing in the euro area and subsequent price gains. In 2002, purchases also included issues of other East European countries, including Romania and Russia.

5 Summary and Outlook for 2003

The monetary presentation of the euro area balance of payments serves to identify the sources of change in the external counterpart of M3, namely the MFI sector's net external assets. It involves an analysis of the external transactions of the euro area's money-holding sector and their macroeconomic determinants. Since June 2003, the ECB has been releasing monetary presentation data in its Monthly Bulletin (Table 8.7 Monetary Presentation of Euro Area Balance of Payments). As the development from 1999 to 2002 shows, the nonbanks' external transactions had a restrictive effect on euro area monetary developments throughout the entire period. A trend reversal from capital exports to imports along with structural changes in securities transactions continuing into 2003 can, however, be spotted in the first half of 2001.[1]) The monetary presentation of the euro area aggregate and individual member states' balances of payments provides a new and exciting approach to the analysis of monetary trends and external economic statistics. It is worthwhile to monitor and update this development, not only for monetary policy purposes but also for the benefit of the interested public.

The monetary presentation data available for 2003 to date permit a first outlook on the development of the full year. The beginning of 2003 was marked world-wide by renewed geopolitical instability, the uncertainty about the duration and the outcome of the war in Iraq and its effect on the oil price, as well as the outbreak of the SARS virus epidemic. In the economic arena there has been

1 *The year 2002 was characterised by capital imports into the euro area and the appreciation of the euro against the U.S. dollar. The fact that at the beginning of Phase Three of EMU capital exports coincided with a declining external value of the euro ("euro carry trade") points to a close correlation of the direction of capital flows with the development of a currency's external value. The exchange rate and its expected development influence not only international investment decisions. As a matter of fact, the direction of capital flows and their reorientation have in turn an impact on the exchange rate itself. This hypothesis, however, is difficult to verify as the relationships between cause and effect are not fully transparent, vary in the course of time and include a number of additional determinants, most notably relative interest rates. Long-term, i.e. over a period of decades, it is not possible to identify a stable relationship between capital flows and changes in a currency's external value. Short-term, across several years, the correlation is more pronounced (Deutsche Bundesbank, 2002).*

mounting evidence that the recession of the U.S. economy was surprisingly short-lived compared with previous experience and, according to NBER, had effectively ended in the fourth quarter 2001. The sustainability of the economic upswing is uncertain, however, given the tight situation on the labor market and restrained demand by private households and business. In the euro area, economic growth continued to lag behind expectations and stagnated in the first quarter of 2003. Apart from weak domestic demand, the external contribution, which in the two preceding years bolstered growth in the euro area, has also turned negative. With the expected delay, the effect of the euro appreciation is felt in international trade along with the nominal increase in imports attributable to the rise in oil prices. For the full year 2003, international forecasts predict global economic growth at a rate of about 2.2%, with the recovery gaining ground only towards the end of the year. In the U.S., real GDP growth is expected to run at up to 3%. An economic growth momentum as strong as in the 1990s appears unattainable in the near future. For the euro area, the ECB forecasts weak growth of around 1%.[1])

In the global economic environment outlined, the external economy and international capital movements had, overall, an expansionary influence on monetary growth in the euro area in the first quarter 2003, albeit at a lower rate than in the preceding quarter. The breakdown shows that the contribution of the real economy compared with prior periods tended to be while international capital movements continued the trend observed in the past two years: Since the third quarter of 2001, with the exception of early 2002, the euro area has been a net receiver of capital from the money-holding sector's direct and portfolio investments. In the first quarter of 2003, net capital imports rose further over the level of the prior period. As had already been observed in 2002, the nonbank sector's direct investments recorded a minor negative contribution of around EUR 3 billion. In the first quarter 2003, capital flows from inward and outward cross-border equity investments declined. In the light of global security concerns and the current economic outlook, the OECD predicts a continuation of the downward trend in direct investments for the full year 2003 (OECD, 2003). In the first five months, cross-border M&As, a key FDI component, fell to their lowest level in the OECD countries since the mid-1990s. In this light, the OECD countries' FDI might fall for the full year 2003 by 25% to 30% at the receiving end and by about 20% at the outgoing end. This would cut volumes to one-third of the levels posted in the years 1999 and 2000.

The trend in cross-border direct investments is also associated with the continuing weakness of the international equity markets. In the first quarter of 2003, these were characterized by sudden mood swings, which point to continued wariness on the part of investors. The rapid end to the war in Iraq was welcomed by the equity markets. In view of the well-founded assumption

1 *Both in the United States and in the euro area concerns about deflationary tendencies were voiced in early 2003. In view of continuously falling price levels consumers might postpone their purchases, which would bring about a plunge into another recession instead of the expected world-wide economic recovery. In the light of the experiences gained with recession in Japan, the central banks were requested to adopt preventive anti-deflationary strategies. The ECB's statements in May on the implementation of monetary policies in the euro area including a slightly positive inflation target were regarded as the establishment of a "safety margin" against deflationary tendencies in the euro area (BIS, 2003; ECB, 2003).*

that the financial and geopolitical reasons underlying the investors' general sense of uncertainty, in part already since 2000, would fade away in the course of the year, it is expected that investors will return to equities in the medium term, which should support a further improvement in market performance. Recent progress in international accounting practices will also be helpful in this regard.[1]) At the beginning of 2003, the euro area monetary presentation data indicated a continuation of the trend towards a reduction or withdrawal of funds from equities and a switch to bonds. On balance, capital inflows from equity investments have increased. At year-end 2002, the net result had still been balanced. While euro area investors liquidated their positions in other economic regions of the world, the capital inflow into euro area securities has augmented.

On the bond market, the downtrend in long-term yields continued in the first quarter of 2003. The interest rate for U.S. treasuries hit the lowest level in decades. After the experience with the bursting of the equities bubble in the year 2000, fears were voiced that the bond market might be heading in a similar direction. First signs of a sustainable economic recovery and an end to deflationary tendencies would trigger a rapid rise in yields and, consequently, a steep slide of bond prices. According to the BIS, the international investors' "flight to quality" has already come to a standstill (BIS, 2003). This is due, on the one hand, to the investors' quest for higher-yielding investments than treasuries, which is reviving the market for corporate bonds. On the other hand, high-grade investments are not expected to see any further price gains as additional rate cuts by the central banks become more unlikely as interest rates approach zero and the global economy is showing signs of a gradual recovery.[2]) In this context, the euro area monetary presentation for the first quarter 2003 shows a decline in net capital imports from international bond investments: investments of resident nonbanks in extra-euro area issues have doubled while the demand for euro area bonds increased by a disproportionately low 30%.

1 *In this context, the BIS pointed to the revision of the OECD's Corporate Governance principles, the agreement between the United States and the International Accounting Standards Board about the goal of harmonised accounting standards as well as the principles of auditor independence and for the oversight of audit firms and auditors drawn up by IOSCO, the International Organisation of Securities Commission (BIS, 2003).*

2 *In the United States, the target value for the federal funds rate was cut in June 2003 by another 25 basis points to 1%. Also in June, the ECB, after a rate cut by 25 basis points in March, reduced the minimum bid rate for the main refinancing operations by 1/2 percent to 2.00%.*

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Annex

Table 1

Monetary Presentation of the Euro Area Balance of Payments[1])

	Source	Sector	2000	2001	2002	2002			
						1st quarter	2nd quarter	3rd quarter	4th quarter
			EUR billion						
Transaction-related change in net external assets[2])	mbs[3])	MFI	141.9	4.8	–168.8	30.9	–77.9	–34.9	–86.9
Balance of payments transactions: flows underlying change in net external assets									
Current and capital accounts	b.o.p.[4])	non-allocated	– 56.2	– 9.8	73.5	15.2	5.7	25.3	27.3
Direct investment, assets	b.o.p.	non-MFI[5])	–408.0	–244.7	–155.4	–52.9	–40.6	–27.2	–34.7
Direct investment, liabilities	b.o.p.	non-MFI[6])	426.7	155.7	128.5	39.5	37.7	20.0	31.3
Portfolio investment, assets	b.o.p.	non-MFI	–343.4	–188.4	–126.7	–53.6	–48.6	– 6.0	–18.5
Portfolio investment, liabilities; equity securities excluding money market fund shares/units	b.o.p./mbs	non-allocated	37.3	173.0	52.4	15.2	38.5	– 4.7	3.4
Portfolio investment, liabilities; fixed-income securities excluding debt securities up to 2 years issued by euro area MFIs	b.o.p./mbs	non-allocated	209.8	83.7	183.8	3.9	83.7	56.6	39.6
Other investment, assets	b.o.p.	non-MFI	– 47.5	– 23.1	– 55.9	1.6	–14.3	–27.4	–15.8
Other investment, liabilities	b.o.p.	non-MFI	70.1	11.1	8.1	– 2.7	6.2	– 7.1	11.7
Financial derivatives	b.o.p.	non-allocated	– 3.5	– 3.5	– 13.8	2.5	– 2.8	– 9.6	– 3.9
Errors and omissions	b.o.p.	non-allocated	– 10.8	34.7	64.3	– 6.9	14.1	24.9	32.2
Aggregate balance of payments transactions			–125.1	– 11.5	158.3	–38.4	79.4	44.7	72.6

Source: ECB (released data).

[1]) 2000: EU-11; from 2001: EU-12.

[2]) Signs as per balance of payments sign convention: (–) increase, (+) decrease in net external assets.

[3]) Euro area money and banking statistics.

[4]) Euro area balance of payments statistics.

[5]) Pre-2001 MFI/non-MFI breakdown of direct investment is based in part on estimates.

[6]) Including MFI transactions in equity capital and reinvested earnings. These transactions are not part of the external counterpart of M3.

Table 2

Monetary Presentation of Austria's Balance of Payments

	Sector	2000	2001	2002	2002			
					1st quarter	2nd quarter	3rd quarter	4th quarter
		EUR million						
Balance of payments transactions[1])								
Current and capital accounts	*non-allocated*	4,746	6,500	9,616	1,725	2,220	2,310	3,361
Direct investment, assets	*non-MFI*	– 2,412	– 3,167	– 3,805	– 1,474	– 724	–1,191	– 416
Direct investment, liabilities	*non-MFI*	2,271	3,920	972	54	49	471	398
Portfolio investment, assets	*non-MFI*	– 4,716	– 6,405	– 4,357	– 3,274	– 399	– 721	37
Portfolio investment, liabilities; equity securities	*non-allocated*	3,857	– 4,847	2,074	880	319	467	407
Portfolio investment, liabilities; fixed-income securities	*non-allocated*	28,539	23,450	17,918	11,690	4,118	1,212	897
Other investment, assets	*non-MFI*	– 2,106	– 1,574	– 1,584	– 683	– 981	322	– 242
Other investment, liabilities	*non-MFI*	1,463	749	2,189	– 75	797	438	1,029
Financial derivatives	*non-allocated*	– 263	– 69	– 409	876	– 635	– 892	242
Errors and omissions	*non-allocated*	1,152	108	4,254	3,059	665	– 17	548
Aggregate balance of payments transactions		32,531	18,666	26,866	12,777	5,429	2,399	6,261

Source: OeNB (released data).

[1]) Source: Austrian balance of payments statistics.

[2]) Including MFI transactions in equity capital and reinvested earnings. These transactions are not part of the external counterpart of M3.

Structural Factors in the Austrian Housing and Real Estate Market

Margarete Czerny[1]),
Karin Wagner

The purpose of this paper is to highlight the different characteristics of, and different developments in, the housing and real estate markets in Austria and the European Union (EU).

1 The Relevance of Housing Markets for the Overall Economy and Monetary Policy

The housing markets have a considerable impact on the overall economy and monetary policy.

First, housing wealth is an important part of the net worth of the private sector, and housing-related expenses (e.g. mortgage payments, rents) represent a major part of household expenditure. Thus, changes in house prices, rents and mortgage interest rates impact on aggregate demand, consumption and inflation in an economy, and they play an important role in the transmission mechanism of monetary policy. In this respect it is important to actively prevent the formation of asset price bubbles, i.e. a prolonged deviation of actual prices from their underlying fundamentals. Second, episodes of boom and bust in house (and other asset) prices have in the past accelerated and exacerbated financial crises. Third, the functioning of real estate markets may have implications for the supply side of an economy, in particular for labor mobility.

2 Development of House Prices in the European Housing Markets[2])

Since 1980, real house prices in the EU have followed long cycles (often lasting more than ten years) around a moderate upward trend, namely a rise by 0% to 3% per year in the long term. In some years, however, individual EU countries also experienced sharp annual declines or increases in house prices of more than 10% ("boom" or "bust" periods). In the period under review, booms have been more frequent than busts, and they have typically been followed by prolonged periods of very low growth or even of decline in house prices. House prices have been more volatile in the three Nordic EU countries and in the United Kingdom. Spain, Ireland, the Netherlands and the United Kingdom have recently experienced two-digit growth rates in house prices. The data for 2002 show clear signs of a deceleration of house prices in Ireland and the Netherlands and double-digit annual growth rates in Spain and the United Kingdom; Greece and Italy also experienced a rapid rise in house prices. Empirical literature suggests that house prices are to a significant degree attributable to macroeconomic conditions and changes in economic policy (expectations influence price developments). When the euro, and thus a single monetary policy, was launched in 1999, nominal interest rates ceased to be a

1 *Margarete Czerny – Austrian Institute of Economic Research (WIFO), Karin Wagner – Oesterreichische Nationalbank (OeNB), Economics Analysis Division. Scientific assistance: Michael Weingärtler (WIFO).*

2 *Within the scope of its Fourth Structural Issues Report, the ECB analyzed structural changes and the origins of developments in the EU housing market. In this context, the ECB drew up a report in cooperation with the national central banks entitled "Report on Structural Factors in the EU Housing Markets," which was published in March 2003. It lists the structural effects and the impact of house price fluctuations in the EU and gives an overview of the different developments in the individual EU Member States since 1980. Given the lack of comparable data on real estate and housing markets in EU countries, the scope of EU-wide analyses was restricted to a comparison of growth rates.*

substantial source of asymmetry in house price fluctuations in the euro area. Past fluctuations of interest rates and inflation rate differences, however, are thought to have played an important role in recent movements of house prices. Apart from the importance of macroeconomic factors, the functioning of the housing markets depends largely on national and local factors. The proportion of rented dwellings in the total stock of housing has been falling over the past 20 years in most EU countries; in some countries the decline has been very sharp. It is likely that this trend reflects a fall in the supply of rental accommodation due to the strictness of the rent-related regulatory regimes. In the recent past there has been some deregulation of rental markets in many EU countries, but important segments of the rental market still operate under strict control regimes. All EU countries have complex tax/subsidy systems in place. In general, these systems have tended to favor immovable assets rather than financial assets, and they have traditionally been more favorable to owner-occupied housing than to rented housing. In some countries they favored purchases of new versus existing old dwellings. Mortgage (and total) indebtedness of households has significantly increased in most countries over the past ten years. This rise is to a large extent attributable to factors such as rising residential investment, higher income expectations, falling interest rates and a more favorable tax treatment for mortgages than for other loans. Rising house prices also contributed to the accumulation of mortgage debt by raising the collateral value of the households' assets. The high level of indebtedness increases the effects of possible income shocks and interest rate changes and may eventually affect the stability of financial institutions, which underlines the need for action and the careful monitoring of house prices by economic players.

Table 1

Overview of the EU Housing Sector in 2001

	Ratio of residential investment to GDP	Share of owner-occupied dwellings[1])	Ratio of mortgage debt to GDP	House price inflation[2]), nominal	Rent inflation	HICP inflation
	%		%	*change on previous year in %*		
Belgium	4.8	72	28	+ 5.3	+ 1.9	+2.4
Germany	6.3	39	47	+ 2.0	+ 1.1	+2.4
Greece	4.8	80	12	+11.3	+ 4.0	+3.7
Spain	7.3	83	32	+15.5	+ 4.1	+2.8
France	4.2	58	22	+ 6.5	+ 0.5	+1.8
Ireland	8.2	78	30	+ 8.0	+14.4	+4.0
Italy	4.5	69	10	+ 5.7	+ 2.1	+2.3
Luxembourg	3.2	67	29	+ 9.1	+ 3.0	+2.4
Netherlands	5.8	53	74	+ 9.7	+ 2.6	+5.1
Austria	5.0	56	30	− 2.9	+ 2.8	+2.3
Portugal	5.7	64	47	+ 3.6	+ 2.6	+4.4
Finland	4.5	64	21	− 0.8	+ 3.9	+2.7
Denmark	3.5	59	67	+ 5.8	+ 2.7	+2.3
Sweden	2.1	53	58	+ 7.9	+ 1.7	+2.7
United Kingdom	2.8	68	60	+ 8.1	+ 3.3	+1.2
Euro area	5.5	60	33	+ 6.8	+ 1.5	+2.5
EU	4.9	61	39	+ 7.1	+ 1.8	+2.3

Source: ECB.

[1]) Weights for the euro area and the EU are based on the latest available number of dwellings.

[2]) House prices for Germany refer to West Germany, while they refer to 2000 and 1999 in the case of Luxembourg and Austria, respectively.

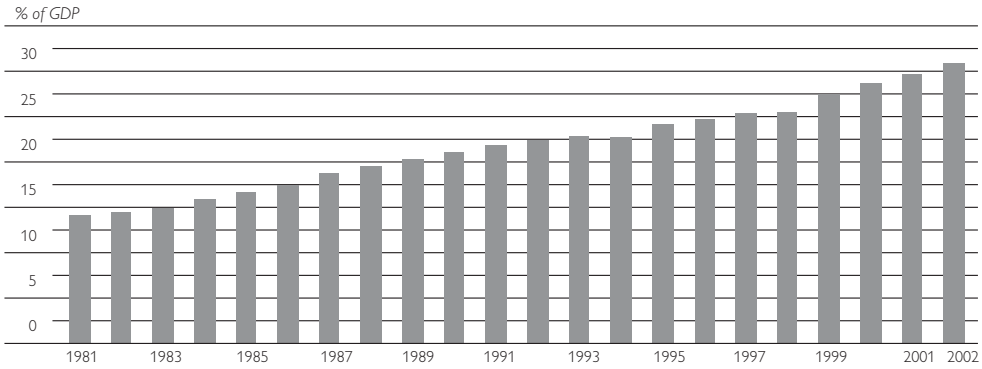
3 The Austrian Housing Market

3.1 Long-Term Household Indebtedness Increases

The level of indebtedness of Austrian households is relatively low. Internal financing prevails over external financing at a ratio of approximately 2½ to 1 (average ratio in 2000/01). Loans to households doubled from 14% in 1981 to 30.9% in 2002.

Chart 1

Loans to Households



Source: OeNB.

In recent years, credit expansion has clearly exceeded income growth, causing bank loans as a ratio of disposable income to rise from 36.5% in the fourth quarter of 1995 to 55.3% in the first quarter of 2003. This development reflects an increasing propensity to borrow on the part of households. At the same time, the ratio of mortgage loans to the total wage bill has remained stable, as revealed by an analysis of household mortgage debt since 1995.

Chart 2

Ratio of Mortgage Loans to Household Income and Interest Rate Changes

Source: OeNB.

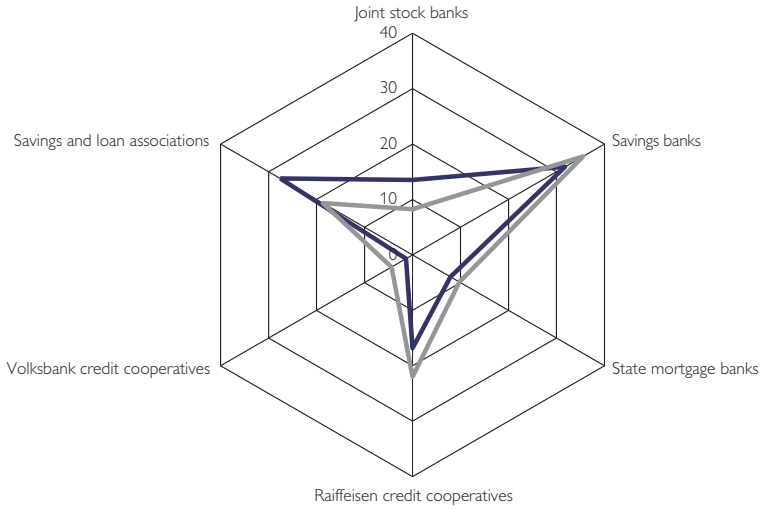
Domestic bank loans are households' primary source of residential financing; within this category, a rising preference for long-term maturities has been observed in recent years. With a mortgage debt of 30% of GDP in 2001, Austria is among the EU countries with a low level of mortgage indebtedness; in the Netherlands, the percentage of mortgage loans taken up is as high as 74% of GDP. In January 2003, 86% of all mortgage-backed loans in Austria had maturities of more than five years. In view of the increasing flattening of the interest rate curve, short-term loans have been substituted by medium- and long-term loans.

The savings and loan associations, the savings bank sector and the Raiffeisen credit cooperatives held roughly equal shares in gross mortgage lending throughout the review period. The year-on-year shift in market shares from joint stock banks to the savings bank sector observed in 2002 reflects the new sectoral affiliation of Bank Austria following its merger with HypoVereinsbank.

Chart 3

Gross Mortgage Lending by Sectors

Shares in %



1995
2002

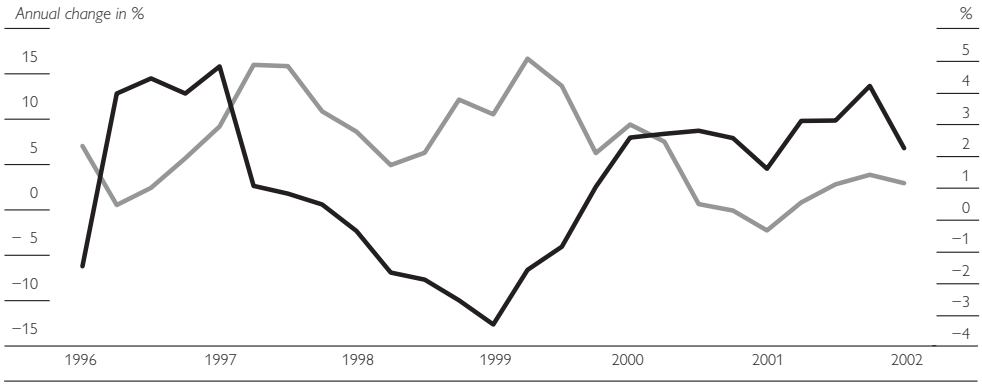
Source: OeNB.

3.2 Bank Exposure to Real Estate Financing: Minor Increase in Recent Years, Surge in Foreign Currency Lending

While bank exposure to real estate financing has hardly changed over the past few years (since December 1995, the volume has revolved around EUR 15 billion, i.e. between EUR 14 and EUR 16 billion), the share of foreign currency loans has risen quite sharply.

Chart 4

Real Estate Financing and Economic Growth

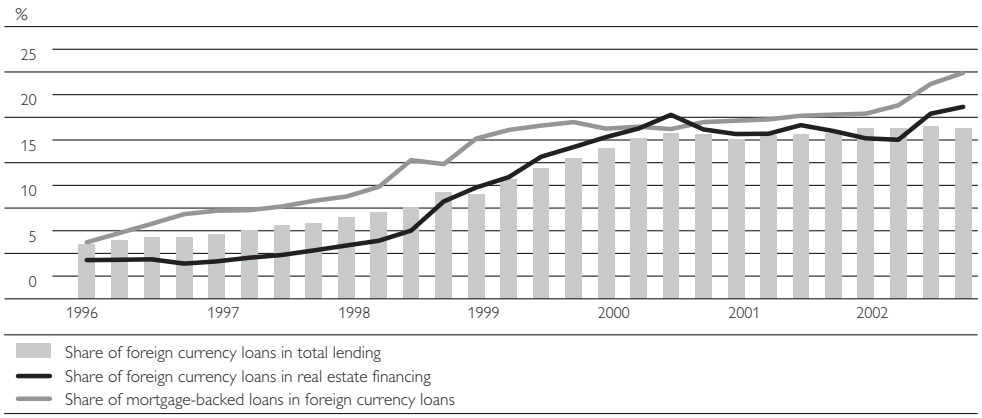


Source: OeNB, WIFO.

The share of foreign currency loans in real estate financing has risen fivefold since 1996, amid a threefold rise of the foreign currency share in total loans. Initially the share of foreign currency loans in real estate financing was in fact lower than the foreign currency share in overall lending, but that it has risen more sharply over time; following a slight decline from the third quarter of 2000, a clear increase has once again been observable since the second quarter of 2002.

Chart 5

Share of Foreign Currency Loans in Real Estate Financing and in Total Loans to Nonbanks

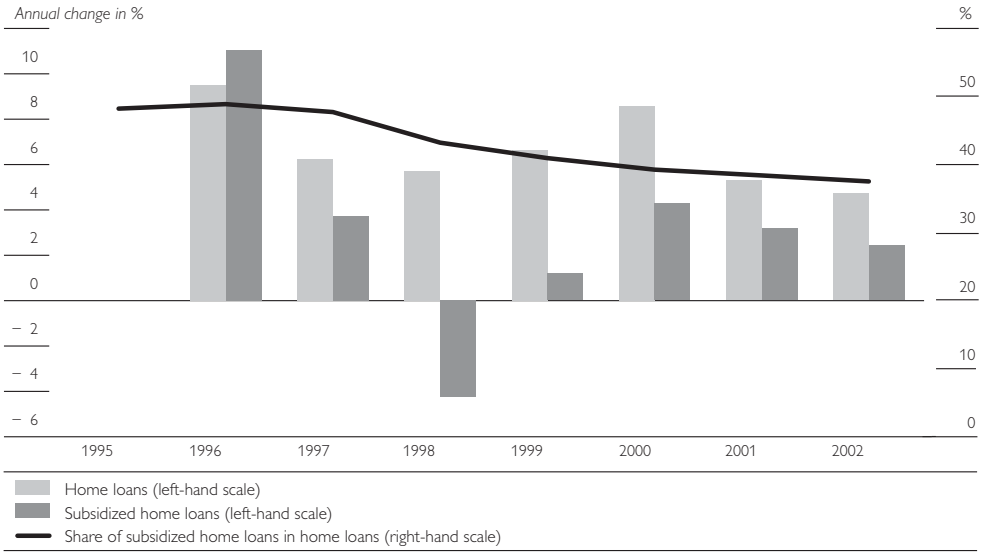


Source: OeNB.

The proportion of mortgage-backed loans in foreign currency loans has surged in the last few years. While amounting to approximately 6% at the end of 1995, it had augmented to approximately 25% by December 2002. This highlights the increasing importance of foreign currency borrowing by the private and corporate sectors. The foreign currency share in home loans has grown significantly since 1995, jumping from 0.5% in 1996 to approximately 14% in 2002.

Chart 6

Home Loans and Subsidized Home Loans



Source: OeNB.

After bank loans, government housing loans are the second-largest financing source of households. While the volume of home loans granted to residents steadily increased between 1997 and 2000, the growth rate decreased in 2001 (5.3% year on year) and in 2002 (4.7%). At the same time, the share of subsidized home loans in total home loans was falling continually. After a sharp decline by 4.3% year on year in 1998, the volume of subsidized loans has been growing again since the third quarter of 1999, but the growth rates have slowed down over time (Q3/2000: +5%; Q1/2003: +2.1%; year-on-year comparisons). Contrary to the trend in foreign currency lending, the share of subsidized foreign currency home loans in total foreign currency home loans dropped from 6.4% in 1995 to 1.8% in 2002.

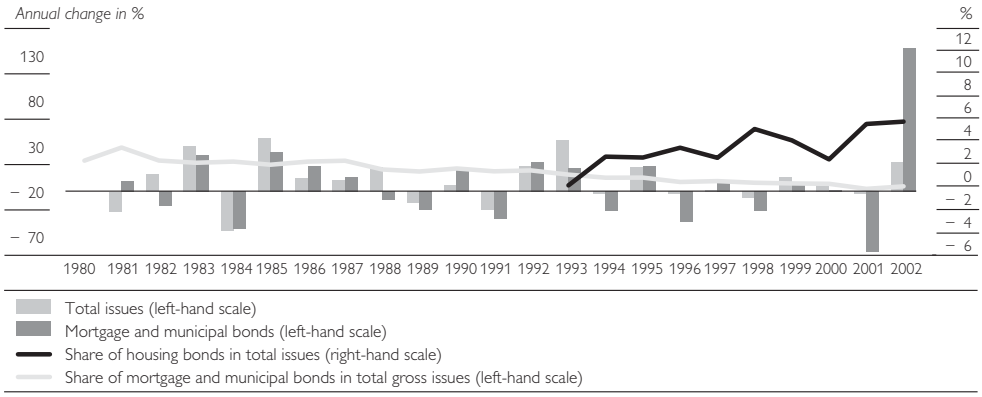
3.3 Housing Bonds are Crowding Out Mortgage and Municipal Bonds

Austrian banks are funding themselves more and more with housing bonds and less and less with mortgage and municipal bonds. Overall, the gross issuing volume of Austrian credit institutions rose from EUR 3.2 billion in 1980 to EUR 18.4 billion in 2002. While the share of mortgage and municipal bonds amounted to more than 33% at the beginning of the 1980s, it slumped to 5.7% in 2002 (2001: 2.9%). At the beginning of the 1990s, the issues of municipal bonds outnumbered mortgage bonds placed. However, the issuance of municipal bonds has dropped such that it reaches only about half the volume of the mortgage bond issues. Overall, the outstanding volume of gross issues surged from EUR 14.6 billion in 1980 to EUR 69.7 billion in 2002. While the outstanding volume of mortgage bonds has remained fairly constant over the past two decades, the outstanding volume of municipal bonds soared during the 1980s, then remained fairly stable and finally decreased near the end of the 1990s to a level of EUR 6.1 billion in 2002.

Housing bonds were first launched in the Austrian market in 1993. As the annual coupon (which may be fixed or floating) is exempt from investment income tax up to 4%, the yields are higher than those of conventional bonds paying equal interest rates. In addition, investments in housing bonds are tax deductible as special expenses in line with statutory provisions. For this reason, housing bonds have been increasingly popular in recent years, thus crowding out mortgage and municipal bonds. The volume of housing bonds issued from 1993 to the end of 2002 – in other words, the volume of long-term financing of subsidized housing raised under this title – amounts to EUR 4.5 billion. This corresponds to a share of 2.6% in the total volume outstanding of bonds issued in Austria (more than EUR 1 billion were issued in 2002 alone). Housing bonds typically have a maturity of 12 to 15 years.

Chart 7

Housing Bonds versus Mortgage and Municipal Bonds



Source: OeNB.

In the category of mortgage and municipal bonds, the market share of mortgage bank issues rose to approximately 69% in 2001. Own issues have traditionally played an important funding instrument of state mortgage banks, as is reflected by their high market share in domestic bank issuance (of 22%).

Under the Real Estate Investment Funds Act, which was adopted by the Austrian cabinet in July 2003, real estate investment funds are now admissible in Austria too. The special feature of the new "open-end real estate funds" is that they are modeled on mutual funds although they invest directly in real estate. Up to now, domestic investors who wanted to invest in real estate without acquiring property themselves only had the choice between buying stocks of real estate corporations and investing in closed-end funds. In the case of the newly introduced open-end real estate funds, the value of the shares is derived from the value of the fund's real estate holdings, as assessed by two expert appraisers. The investment company is obliged to repurchase shares at this value but may delay the repurchase for a maximum period of two years. This long period is intended to give the investment company time to sell the real estate holdings, if necessary. This will only be the case if too many investors want their money paid out at the same time. Normally, payment should be swift since the law obliges investment companies to hold adequate cash reserves (at least 10%

but not more than 40% of their fund assets). The issuance and management of real estate funds is a banking business and therefore subject to financial supervision; the supervisory authority, however, cannot be held liable.[1]) As real estate fund securities are trustee securities, they will probably be used for the premium reserve stock of insurance companies and pension funds.

This should help eliminate a competitive disadvantage vis-à-vis funds of a similar structure in other countries, notably in Germany. Moreover, the regulations governing real estate investments are now clearer and more transparent, and thus also more investor-friendly (supervision by the Financial Market Authority).

3.4 Development of House Prices

Real estate holdings account for a sizeable share of household assets, and financing rental housing and home ownership is a key motive for taking out a loan. Property prices last boomed in Austria when the inflow of migrants surged unexpectedly after the fall of the iron curtain and when baby boomers started to buy real estate at the beginning of the 1990s. From 1993 onward, this price boom leveled off, and towards the end of the 1990s prices even declined. However, since mid-2001, prices have been on the rise again. In the latter half of 2002, house prices increased by 0.7%, which is still below the long-term average. The relation of house prices to real disposable net income improved by 1.4% in the first half, and by 1.7% in the second half of 2002.

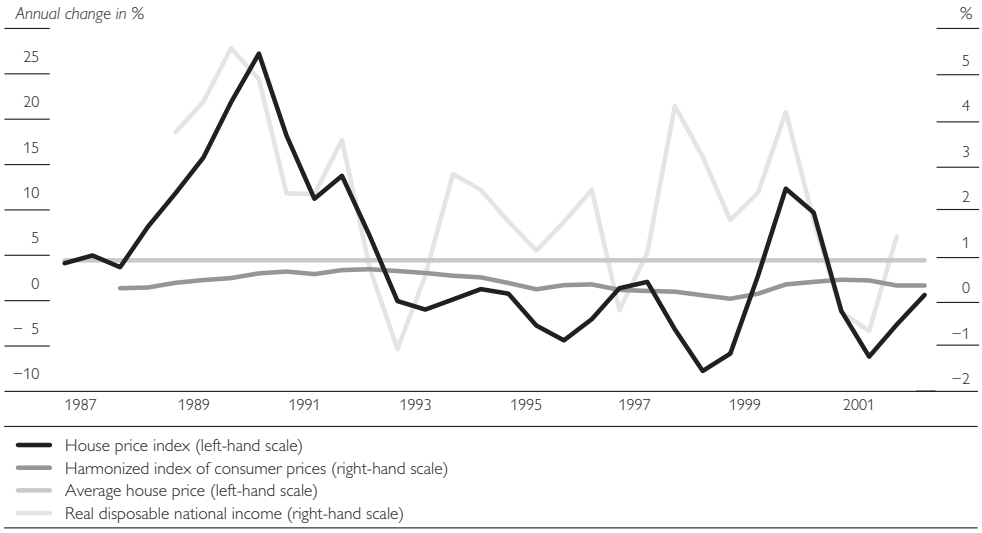
Even though residential construction activity has contracted in recent years, demand for housing is apparently not creating price pressures. In 2001, the number of building permits decreased, and the number of completed homes even slumped by 14.7%. However, the estimated[2]) 42,500 dwellings for which a building permit was granted in 2002 corresponds to a year-on-year increase of approximately 5%, which is the first (if moderate) increase since 1998. After a period of declining residential construction (between 1998 and 2000 there was a decrease of one-tenth every year; the trend continued in 2001, albeit less pronounced at 3%), this might indicate the trend reversal long since hoped for.

1 *As regards taxation, real estate funds will be treated similarly to fixed-income funds. Unrealized price gains are included in the tax base at a rate of 80%. At the company level, rental income and profits from real estate sales at corporations are taxed at a corporate income tax rate of 34%. If distributed to shareholders as a dividend payout, profit is subject to a 25% tax. Price gains from the sale of shares can be realized tax-free after a minimum holding period of one year. However, there have been debates about taxing price gains also beyond this cut-off period.*

2 *No final figures for 2002 are available as yet.*

Chart 8

House Prices, Income and HICP

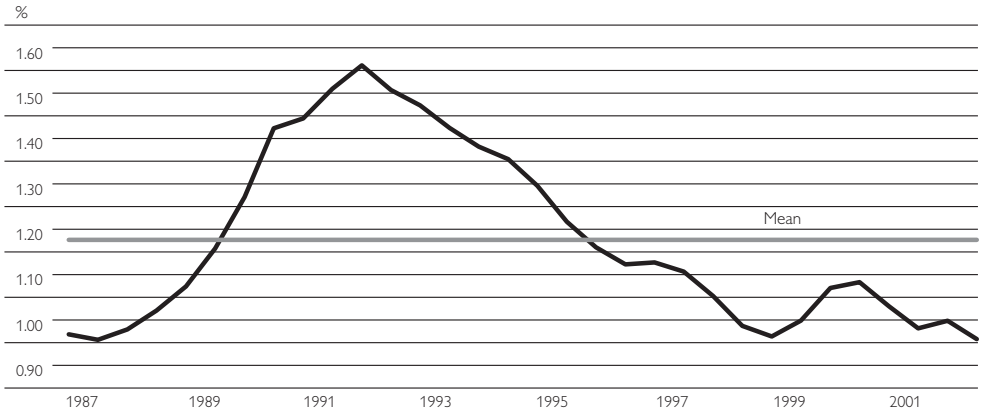


Source: Statistics Austria, Vienna University of Technology, Ametanet.

When prices and income become disconnected from real estate fundamentals, the danger of a price bubble arises, just as in the case of other assets. The relationship between house prices and equivalent rental values (i.e. the rent homeowners would pay or receive if they were renting the residences they own) is illustrated by the house price/rental (p/r) value index, which is a kind of price/earnings ratio for the housing market.[1]) This ratio clearly indicates a peak in house prices in 1992. The decline of the ratio, incidentally, reflects less a drop in house prices than a rise in imputed rental costs.[2])

Chart 9

House Price-to-Rental Value Ratio



Source: Statistics Austria, Vienna University of Technology, Ametanet, OeNB.

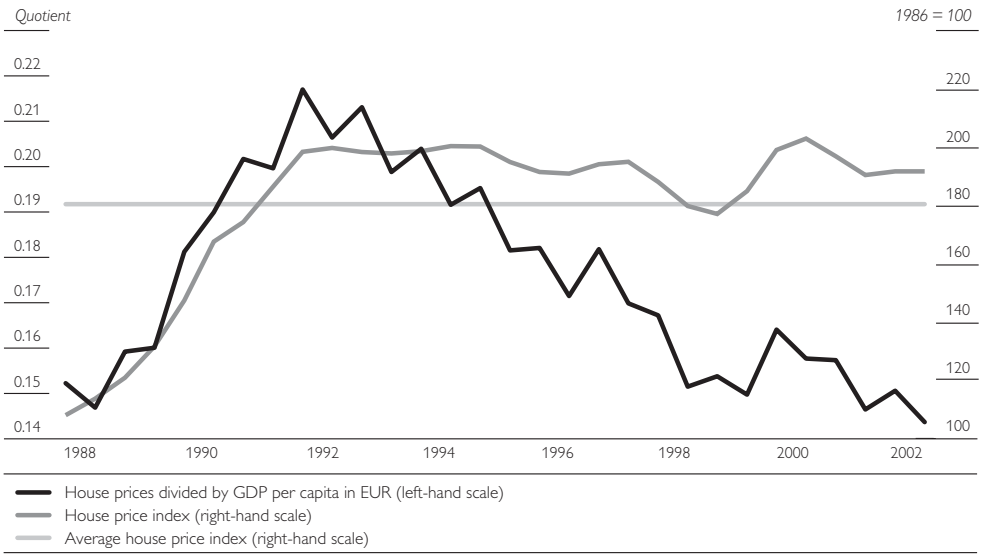
1 *Leamer, E. (2002).*

2 *A high p/r value can be justified in two situations: First, if other asset prices are also high, e.g. if stock gains and mortgage interest rates are low; and, second, in regions where housing demand is likely to surge so that prices can be expected to surge.*

An assessment as to whether house prices have become disconnected from the general business cycle can be made by analyzing the ratio of house prices to GDP per capita.[1]) While this ratio was approximately 15% above the long-term average in the first half of 1992, it has since followed a downward trend (interrupted by upward movements in early 1997 and 2000), reaching a value that was approximately 26% below the long-term average at the end of 2002.

Chart 10

House Prices and GDP per Capita



Source: Statistics Austria, Vienna University of Technology, Ametanet, OeNB.

In summary, it can be said that there has been no danger of alarming asset price developments or of asset price-related risks to financial stability in Austria in the past few years, and current developments do not indicate a risk of a price bubble developing, either.

3.5 Austrian Housing Subsidy System Traditionally Based on Supply-Side Subsidies

A considerable part of Austrian housing development is subsidized. The Austrian system of *housing subsidies* aims at lowering the financing cost for constructing and renovating homes.[2]) Economic theory cites the need to ease negative external effects and households' liquidity constraints as the reasons for housing subsidies. In Austria, home buyers or renters are hardly ever affected by negative external effects, but liquidity constraints are eased successfully by housing subsidies.

Contrary to the trend in most European countries to switch to demand-side subsidies or preferential tax treatment, demand-side subsidies in the form of housing allowances play only a minor role in Austria. The main emphasis of the

1 *If this ratio remains constant over time or drops slightly, the affordability of home ownership will also remain unchanged or even improve, on condition that all other macroeconomic determinants remain the same.*

2 *The majority of housing subsidies is granted by providing long-term loans at an interest rate below the market value.*

housing subsidy system, which was designed after the Second World War, has always been on supply-side subsidies. Supply-side subsidies basically cover government housing loans as well as interest rate and repayment subsidies to help finance housing development costs. The establishment and implementation of the housing subsidy regime is within the jurisdiction of the individual provinces. The funds used for this purpose are primarily allocated from the federal government budget (95%) and to a minor extent from the provincial and municipal government budgets. In 2001, the federal government transferred housing subsidy funds in the amount of EUR 2.5 billion to the provincial governments. Of these, EUR 1.8 billion were earmarked funds and EUR 0.7 billion were undesignated funds to be used at the discretion of the federal provinces. The share of earmarked housing subsidies in the federal budget decreased slightly from 3.5% in 1985 to 3.0% in 2002. Additional sources are funds that have been repaid, basically redeemable loans and subsidies. The federal government funds originate from earmarked taxation (according to the regional Housing Subsidy Acts) and the housing benefit contribution (employee contribution of 0.5% plus employer's contribution of 0.5% deducted from salaries). Provincial government subsidies are paid from government housing loans that have been repaid. Measured by the federal funds transferred, the shares that the individual provincial governments contribute to housing subsidies vary a lot.

A long-term analysis of the subsidization efforts since 1970 demonstrates that repayment subsidies clearly rose after a period of increased provision of government housing loans. In the 1990s, alongside repayment subsidies, non-redeemable one-off payments climbed noticeably in some federal provinces. The Fiscal Sharing Act introduced in the fall of 2000 relaxed the need to earmark housing subsidies, thus allowing provincial governments to use the funds provided by the federal government for other purposes than housing subsidies too. While current consolidated data for the federal provinces are not available, the trend towards government housing loans is likely to have increased in 2002 since, contrary to initial assumptions, such loans do not affect the budget surplus or deficit according to the Maastricht definition.

Aside from direct housing subsidies, housing subsidies are also granted indirectly in the form of government bonus payments on savings with building and loan associations as well as through the tax deductibility of housing expenses within the scope of special expenses. However, preferential tax treatment in Austria has been greatly restricted or abolished altogether. Housing bonds and preferential VAT treatment of home ownership and of rental with a purchase option as well as exemption from land tax also fall into this category. In the past ten years, the volume of indirect subsidies has dropped by more than a third. In this context, the most obvious change was the shift towards the two dedicated saving schemes available in Austria (i.e. building and loan association contracts and housing bonds) and away from deductions claimed for special expenses.

Savings plans with building and loan associations continue to be highly popular as a saving and investment vehicle. Following the reform of this scheme in 1999, interest rate policies have become more flexible. Moreover, loans granted by building and loan associations continue to be subject to an interest rate cap of 6%. On balance, deposits with building and loan associations amounted to EUR

16.7 billion in the second quarter of 2003. The number of new contracts[1]) with building and loan associations rose by 4% in 2002, thus interrupting the declining trend which had been noticeable for quite some time. In a closed cycle of saving and lending, the deposits built up by savers – as replenished by repayments of outstanding loans – generate the pool of funds available for lending. The low interest rate level has also passed through to savings plans with building and loan associations; the government bonus was reduced from 4.5% for 2002 to 4% for 2003.[2]) At the end of June 2003, the number of savings plans taken out with domestic building and loan associations totaled 5,559,470 (two thirds of all Austrians have an account with a building and loan association), with the contract value amounting to EUR 106.8 billion; the volume of all loan agreements amounted to EUR 22.5 billion. Despite the saturated market, deposits with building and loan associations rose by 27.1% in the second quarter of 2003. The extent to which the government bonus for savings plans with building and loan associations actually contributes to the creation of new housing is evidenced particularly well by the "new lending" volume of all (five) Austrian building and loan associations. This figure contains all loans allotted under such savings plans plus bridging loans and supplementary forms of financing. Altogether, building and loan associations provided financing in the amount of EUR 0.5 billion in 2002 (–16.5% year on year, compared with new lending of EUR 0.9 billion in 2001, in line with a downward trend). Government bonus payments for building and loan association contracts amounted to EUR 145 million in 2002 (new lending provided by building and loan associations is about 15 times the amount of the government subsidies).

Saving with building and loan associations is divided into an accumulation stage, in which savers build up funds, and – following loan allotment – a lending stage. Following the allotment, customers can either have their deposits paid out to them or they can invest them in a loan for housing purposes. In the category of indirect housing subsidies, savings plans with building and loan associations have increased in significance and now account for approximately 30%. Building and loan associations guarantee stable loan interest rates for periods of 20 to 30 years. The aim of home loan banks, by comparison, is to provide funds at low fixed interest rates.

Home loan banks emerged at the beginning of the nineties (1993), at a time when the demand for housing clearly exceeded the supply. At that time, it was important to stimulate the housing sector and to raise funds for financing additional dwellings at prices affordable to the middle classes. In the 1990s, home loan banks issued bonds at an average annual value of EUR 0.3 to EUR 0.4 billion; in 2001, the issuance volume already amounted to EUR 0.7 billion, and in 2002 it even exceeded EUR 1 billion.

The Austrian Institute of Economic Research (WIFO) has calculated the actual financing costs of housing investments (not taking into consideration the

1 *Traditionally, a high number of new contracts are concluded in the fourth quarter since the full government bonus can be claimed retroactively for the whole year.*

2 *A prospective bonus cut (reduction to 3.5% for deposits made in 2004) would reduce public spending by approximately EUR 15 million. The level of the government bonus will not be final until the third quarter of 2003; it will reflect the average interest level in the capital market from October 1 of the previous year to September 30 of the present year.*

effects of housing bonds and the tax deductibility of debt financing costs for housing investment within the scope of the income tax assessment). On average, 96% of all housing loans (including government housing loans) outstanding between 1985 and 1998 were subsidized, i.e. only 4% of all housing loans were granted at market conditions. However, averaging distorts recent developments. In 2001, the share of subsidized loans was down to 78%.

The weighted nominal interest rate of housing investments, i.e. the actual costs of financing such investments, fluctuates between the peak value of 6.2% at the beginning of the 1980s and 3.9% in the second half of the 1990s. The fluctuation margin is noticeably narrower than that of mortgage interest rates, and it shows that public subsidies successfully contributed towards stabilizing the nominal financing burden of households. Converted into real weighted interest rates, housing subsidies have in fact overshot their target. In the mid-1970s, real interest rates adjusted for subsidies were even negative, i.e. not only was interest income from government housing loans low, the public sector even suffered capital losses. At the moment, real interest rates are relatively high as inflation expectations are subdued.

The difference between the mortgage interest rate and the debt financing cost is the public subsidy input (expressed in percentage points).

The public subsidy input developed very dynamically from a low level at the beginning of the 1970s (2.3 percentage points) to its peak of the last 20 to 30 years of 7.2 percentage points in 1981. Thereafter, the public subsidy input dropped to a low at the end of the 1990s, with a brief interruption during the period of high interest rates (1989). Both the decline in mortgage interest rates and the availability of less expensive funding through foreign currency loans contributed to this.

The effects of financing costs on housing investments in Austria are insignificant or negligibly small. In the WIFO estimation equations, net housing investments hardly react to changes in real financing costs. Since no liquidity constraints could be detected in the aggregated data, one may conclude that the Austrian system housing of subsidies can successfully eliminate market signals.

3.6 Housing-Related Taxes and Fees in Austria

3.6.1 General

The tax deductibility of housing investments was strongly restricted in the second half of the 1990s.

Deductions may be claimed for special expenses (loan instalments, outlays for housing development and renovation, particularly for energy efficiency measures); however, only up to a certain maximum amount.

3.6.2 Housing-Related Taxes

Housing-related taxes include the land transfer tax, the land tax as well as legal transaction fees. In this respect, owner-occupiers and landlords are treated almost alike.

Land transfer tax: At present, the land transfer tax amounts to 3.5% of the selling price, while in 1998 it had been 8%. Up to that time, subsidized housing developments were exempt from the land transfer tax.

In 2000, all legal transaction fees, including fees for property-related transactions, were raised by 10%. This concerns fees for the registration of title, liens and the ranking of liens in the land register. At present, the fee for the registration of title, for instance, is 1.1% of the selling price.

Land tax: The land tax is calculated on the basis of the assessed property value, as determined by the local tax office in accordance with the Real Property Assessment Act. The tax office multiplies the assessed value by the property's class tax rate to obtain its tax capacity. The latter multiplied by the tax multiplier or local tax rate equals the actual property tax due.

In spring 2002, the proposal was made to increase assessed values. However, this plan was thwarted by the opposition of wide sections of the population and the political parties. The land tax is part of the operating costs. Any increase in the land tax would, therefore, result in a direct increase of the operating costs and, consequently, the gross rents.

Inheritance tax: The inheritance tax for real property is calculated on the basis of the assessed property value. In addition, the land transfer tax equivalent applies, which amounts to 2% in the case of spouses, a parent, children, grandchildren, stepchildren and children-in-law, and 4% for any other persons. There are five tax brackets.

Recently, the inheritance tax was considerably raised and is now based on two to three times the assessed property value. Investment income is subject to final income tax and, therefore, exempt from inheritance tax.

Value added tax on rents: Value added tax (VAT) on residential rents is 10% (since 1992 a VAT rate of 20% has applied to commercial rents). In this context, no differentiation is made between new or existing dwellings. Purchases are also subject to VAT. Businesses may claim input tax credits subject to repayment if the property is sold within a certain period of time. Private individuals are also entitled to claim input tax credit if they buy homes for rental income.[1]) Given these tax advantages, buy-for-rent deals have boomed in recent years, and supply and demand will even increase in the years ahead.[2])

The reduced VAT rate on rents of 10% should be raised to the regular national VAT rate after the end of the transitional period in 2004. In general, the tax rate on rents is an issue of EU harmonization.

Home loan banks: Housing bonds of home loan banks enjoy preferential tax treatment. On the one hand, deductions may be claimed for purchases of newly issued convertible bonds (article 18 (3) 2 of the Income Tax Law of 1988). On the other hand, interest revenues from convertible bonds are exempt from investment income tax up to a threshold of 4% of the nominal value (article 27 of the Income Tax Law of 1988). This makes such bonds a considerably better deal than bonds with comparable yields before investment income tax. Home loan banks are obliged to invest at least 80% of their proceeds in housing development or redevelopment projects.

1 *By renting a home, the owner becomes a business owner within the meaning of VAT legislation.*

2 *With respect to rental income, income tax credits can be claimed for interest on debt capital (typically purchases are financed by debt to an extent of 70%), depreciation expenses and other expenditures. The credit system has been designed to reduce tax liabilities particularly in the first few years after which an investment has been made (initially the tax credits for expenditures exceed the rental income). In addition, gains from the sale of homes are exempt from income tax when the property was resold after a minimum period of 10 years.*

3.6.3 Transaction Costs and Additional Expenses for Home Buyers and Renters

(a) Additional Costs of Buying a Home

Home buyers incur a number of expenses in addition to the purchase price, including land registration fees, fees for contract preparation, land transfer tax and possibly real estate commissions.

- Land transfer tax calculated from the purchase price 3.5%
  (in special cases, a reduction or exemption is possible)
- Fee for the registration of ownership of the property
  with the land registry 1.1%
- Legal fees for drawing up the contract and handling land registration
  (negotiable subject to the applicable fee schedule regulation) 2% to 3%
- and cash expenses for certifications and stamp duties.

These additional expenses add up to 6.5% to 7.5%. However, this figure does not include any search costs, such as real estate agent fees, or the costs of borrowing. The real estate commissions depend on the purchase price and are scaled. Pursuant to article 15 of the Estate Agent Regulation, the real estate agent fees for the purchase, sale or exchange of homes are 4% for homes worth up to EUR 36,336; EUR 1,453 for properties priced between EUR 36,337 and EUR 48,449; and 3% for properties worth more than EUR 48,449. However, these percentages are maximum rates.

Borrowing costs for loans may vary between 0.5% and 3%. In addition, home buyers may incur expenses for legal/trustee services in the amount of 1% to 2%. Thus, total expenses for home buyers may add up to outlays of 8% to 12% on top of the purchase price.

(b) Additional Costs of Renting a Home

The additional costs renters of a property incur include real estate commissions, legal fees for contract preparation and a tax on tenancy agreements. The amount of the real estate agent fees and the tenancy agreement tax depends on the type of tenancy agreement (contract of limited or unlimited duration); in the case of a contract of limited duration they also depend on the term of the lease.

Real estate agent fees: For tenancy and subtenancy agreements of an unlimited duration, tenants are charged three gross monthly rents as brokerage fees. For tenancy and subtenancy agreements of a limited duration, the landlord has to pay three gross monthly rents, whereas the tenant's fee depends on the term of the lease. In the case of a term below two years, the fee is one gross monthly rent. In the case of a term between two to three years, it amounts to two gross monthly rents, and in the case of a term of more than three years, it comes to three gross monthly rents.

Tax on tenancy agreements: For tenancies of an unlimited duration, the tax amounts to 1% of the gross rent (rent, operating expenses, VAT) for a period of three years (in the case of a monthly gross rent of EUR 451 => 451 x 36 = EUR 16,235, 1% of which is EUR 162.35).

Tenancy agreements of a limited duration are subject to a similar tax regime. If the stipulated duration is less than three years, the tax is correspondingly lower.

Contract preparation fees: These were abolished without replacement in 2000 when the stamp duty was abolished. Up to that point, a fee depending on the

number of pages (= sheets) was charged. For each sheet of the document, a fixed fee of EUR 13 was collected.

4 Summary and Conclusions

Developments in the housing markets are interrelated with macroeconomic economic trends in a number of ways. Changes in house prices have an impact on the aggregate demand, consumption and inflation of an economy since housing wealth is an important part of the net worth of the private sector. Moreover, strong fluctuations in the valuation of and in expectations about house prices have caused financial crises in the past. Finally, implications for the supply side of an economy, in particular for labor mobility, may be possible.

In section 2, we briefly described the development of house prices in the European housing markets, the functioning of which depends largely on national and local factors. When the euro, and thus a single monetary policy, was launched in 1999, nominal interest rates ceased to be a substantial source of asymmetry in house price fluctuations in the euro area. Past fluctuations of interest rates and inflation rate differences, however, are thought to have been an important factor in recent movements of house prices. The tax/subsidy systems of the EU Member States have, in general, tended to favor immovable assets rather than financial assets, and they have traditionally been more favorable to owner-occupied housing than to rented housing. Evidence for Austria does not support these findings because the domestic housing regime sets different priorities.

For the purpose of illustrating these differences, we have systematically analyzed the structural characteristics and special features of the domestic housing and real estate market.

- With a mortgage debt of 30% of GDP in 2001, Austria is among the EU countries with a low level of mortgage indebtedness. In Austria, households rely largely on own savings and subsidies to finance housing investments. Nevertheless, a strong upward trend in long-term household indebtedness has been observed in the last few years; credit expansion has clearly exceeded income growth. Since the beginning of the 1980s, loan volumes have doubled.

  In this context, domestic bank loans are the primary source of financing and long-term loans prevail.
- While bank exposure to real estate financing has remained unchanged, foreign currency lending has surged, which is in line with general lending developments. The foreign currency share, for instance, has risen fivefold since 1996.
- Aside from bank loans, government housing loans are the second-largest source of financing for households.

  Austrian banks are funding themselves more and more with housing bonds and less and less with mortgage and municipal bonds.
- As a result of the Real Estate Investment Funds Act adopted in July 2003, real estate funds are now admissible in Austria too. This should have eliminated the disadvantage vis-à-vis similar funds in other countries, and it broadened the range of investment and financing possibilities in domestic

housing. The discussion about admitting mortgage-backed securities in Austria might be a further step towards the diversification of domestic financing.

– Real estate holdings account for a sizeable share of household assets. During the 1990s, the property price boom leveled out and prices even declined towards the end of the decade. Since mid-2001 prices have been climbing again; however, the upward trend of prices has remained below the long-term average. After a stage of low construction activity, 2001/02 seems to have brought the trend reversal long since hoped for.

  In summary, it can be said that there has been no danger of alarming asset price developments or of asset price-related risks to financial stability in Austria in the past few years, and current developments do not indicate a risk of a price bubble developing, either.

– A considerable part of Austrian housing development is subsidized – either in the form of direct housing subsidies, or indirectly in the form of bonus payments for building and loan contracts and preferential tax treatment.

Contrary to the trend in most European countries to switch to demand-side subsidies or preferential tax treatment, demand-side subsidies in the form of housing allowances play only a minor role in Austria. A long-term analysis of the subsidization efforts shows that repayment subsidies clearly rise after a period of increased provision of subsidized loans. Finally, in 2000 the need to earmark housing subsidies was relaxed, thus allowing provincial governments to use the funds provided by the federal government for other purposes than housing subsidies too.

Savings plans with building and loan associations continue to be highly popular as a saving and investment vehicle. In response to changed framework conditions, interest rate policies have become more flexible since the reform in 1999.

The tax deductibility of residential investments has been strongly restricted in Austria. The level of additional expenses and transaction costs of the acquisition of real estate is average compared with other European countries.

In summary, it can be said that developments in the Austrian housing and real estate market show both similarities with and considerable differences to the European trend. The objectives and priorities of the domestic housing regime, while different from those of other EU countries, have proven to be a successful and suitable approach. Recent developments in Austria include attempts at expanding financing options through the adoption of the Real Estate Investment Funds Act and the debate on admitting mortgage-backed securities. This has broadened the range of residential financing and investment instruments available in Austria.

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Fostering Economic Growth in Europe Results of the 31st Economics Conference of the Oesterreichische Nationalbank[1])

Ernest Gnan,
Johann Scharler,
Sandra Steindl

Introduction

During the 1990s, Europe's economic performance vis-à-vis rapidly growing economies, such as the U.S.A., was rather weak. This is one of the reasons why increasing attention has focused on the issue of economic growth. The 31st Economics Conference of the Oesterreichische Nationalbank, which took place in Vienna on 12 and 13 June, 2003, centered around two main questions: Why is Europe lagging behind other regions in terms of economic growth and how can Europe improve its growth rates? Given the overall improvement of the regulatory frameworks within the European Union (EU) during the last decade (the strengthening of the internal market, the EU accession of Austria, Sweden and Finland, the successful establishment of EMU and Eastern enlargement), it is surprising that European economies did not record a higher real income growth on a par with that of the U.S.A., for example.

The conference was divided into five sessions. The first session centered on the reasons for the differences in economic growth between Europe and the United States. The other four sessions focused on the linkage between growth and labor markets, investments, fiscal policy and financial markets. Prior to these five sessions, the opening speeches of the Austrian Federal Chancellor and the OeNB's Governor as well as the three keynote addresses presented the essential issues from the economic and monetary perspective and against the background of future developments in the EU's regulatory framework.

Essential Reforms to Foster Long-Term Economic Growth within the EU

In his opening speech, Governor *Klaus Liebscher* particularly emphasized the importance of further structural reforms and stressed the unsatisfactory situation in European labor markets. Higher and sustained growth requires more flexible jobs as well as a marked increase in employees in the population. In the last few years, the EU has created important framework conditions by establishing the Single Market and the euro. Further structural reforms will be required for countries to tap into this growth potential and to prepare the EU for the imminent enlargement. According to Klaus Liebscher, many EU countries have current tax and social benefits systems that are not favorable to investments, employment or growth. Structural reforms are necessary to reduce substantial problems in European labor markets. Especially the introduction of new technologies challenges the flexibility of labor markets. Both a responsible fiscal policy and monetary policy that focuses on price stability are fundamental prerequisites for the companies which plan to make investments. After having overcome the economic slowdown, the EU countries therefore have to strictly observe the Stability and Growth Pact and have to reduce their budget deficits to zero. Basically, tax reductions are welcome, but they have to be compensated by expenditure reductions.

Austrian Federal Chancellor *Wolfgang Schüssel* emphasized that a small, open economy like Austria has only very limited autonomous leeway when its big neighbors have structural problems and weak economic growth. Therefore, long-term growth will have to be fostered especially at the European level.

1 *The OeNB will publish the various contributions to the conference in a conference volume in the fall of 2003.*

According to Wolfgang Schüssel, growth potential lies especially in the complete realization of the European Single Market. Like most European countries, Austria needs reforms because of its demographic structure. Wolfgang Schüssel commended Finland and Sweden for being examples of bold and successful structural reforms. Sometimes it is, however, necessary that politicians make unpopular decisions using their political weight in order to counteract unrealistic expectations of the welfare state that cannot be financed on a long-term basis. Incidentally, the Federal Chancellor sketched an optimistic picture of the Austrian economy. By international comparison, the Austrian labor market is very flexible. Unlike many other European countries, Austria does not prohibit termination of employment; thus the turnover of labor and jobs is much higher and consequently the unemployment rate is much lower than the European Union average. The Austrian constitutional convention will particularly aim at simplifying the historically grown state bureaucracy which resulted mainly from Austria's federal structure. Considering Austria's prosperity in an international comparison, the implementation of upcoming reforms will not pose major difficulties. If the European Council could forge a more strategic vision, this would pave the way for the 21st century to become the "European Century".

The European Commission's Director General for Economic and Financial Affairs, *Klaus Regling,* stressed the importance of a well-structured institutional infrastructure and a common framework for economic cooperation. The Convention on the future of the European Union, convened by the Laeken European Council in December 2001, has elaborated a draft European Constitution. While the European Commission would have preferred more drastic reform proposals for the regulatory framework of economic policy, this Constitution serves as a good basis for the work of the Intergovernmental Conference. The Stability and Growth Pact, which was initially established to complement monetary union, may be considered the first and most important element of a political union. However, it is essential to implement the Stability and Growth Pact in practice for it to be effective.

Lucas Papademos, Vice-President of the ECB, discussed the contribution of monetary policy to economic growth. Empirical evidence for the OECD countries reveals that also relatively low inflation rates imply adverse growth repercussions. With inflation near zero this linkage is no longer given. However, the question whether price and wage rigidities are exogenous or the result of experience with inflation remains open. L. Papademos was rather skeptical about stabilizing the economic cycle by using monetary policy means, because this would inter alia require a timely identification of the type and duration of economic shocks. Various papers have shown that shocks tend to affect supply rather than demand, but that supply-side shocks cannot be influenced adequately by monetary policy actions. Economic policies also influence the economic cycle by shaping expectations and institutions. L. Papademos drew two conclusions from these considerations: First, monetary policy contributes directly to long-term growth by ensuring sustained low positive rates of inflation. It cannot, for example, boost investment if the lack of structural reforms prevents investment from being made. Second, the role of monetary policy in stabilizing cyclical activity is rather limited. This is why monetary policy should not be considered a primary means for ensuring financial stability, but only in

cases of temporary demand shocks. Short-term trade-offs between inflation and growth are counterbalanced by structural reforms because markets react more flexibly, periods of imbalance and underutilization are shorter and a generally higher growth path can be achieved. The different structures of the U.S., and European economies also explain why the US Federal Reserve and the Eurosystem have different leeway in their monetary policies.

According to the former chief economist of the International Monetary Fund (IMF), *Michael Mussa,* U.S. monetary policy in the late 1990s was too loose, generating the share price bubble and the subsequent sharp economic downturn. The Eurosystem was right in pursuing prudent monetary policies. By contrast, however, the hesitant easing of interest rates by the Eurosystem also contributed to the current European growth slump. (Both *K. Regling* and *L. Papademos* vehemently contradicted this statement: in their opinion, the Eurosystem pursued a very accommodating monetary policy, as inflation had clearly been over 2% for a long time.) According to M. Mussa, Europe underestimated the international snowball effect triggered by the busting of the share price bubble and international political uncertainties. The Stability and Growth Pact succeeded in curbing the expansion of European fiscal deficits, whereas a positive development vis-à-vis the massive increase in budget deficits in the U.S.A. exploded. M. Mussa also argues that European political systems are not yet ready for the necessary reforms, which poses one of the major obstacles to European economic policy. The protests of interest groups against necessary reforms of state pension systems are a case in print. European policymakers face the challenge of convincing the public of the necessity of pension and labor market reforms.

The Canadian Nobel Prize Laureate *Robert Mundell,* who had always been an advocate of EMU, considered the establishment of the European Central Bank the most important event in 20th century monetary history after the foundation of the Federal Reserve System. Acceding countries are well advised to join the Monetary Union, once they can. The same holds for the United Kingdom, which Robert Mundell urged to join monetary union as soon as possible. The development of a more efficient capital market, lower risk premia, the elimination of competitive devaluations and speculative attacks mark the success of the single currency. R. Mundell criticized that the relatively short-term massive fluctuations observed between the two international currencies, the euro and the U.S. dollar, cannot be explained by the economic fundamentals. Such exchange rate fluctuations are detrimental to economic growth. Interventions in the system of freely floating exchange rates could prevent such negative effects. Governor *Klaus Liebscher* added that while the Eurosystem's monetary policies do not follow an exchange rate target, the ECB does take into account the euro exchange rate's influence on monetary conditions within the euro area. Finally, R. Mundell urged Europe to learn a lesson from the structural reforms of the U.S.A., for in the 1990s the U.S.A. profited from the supply-side revolution of the 1980s.

Mickey Levy, chief economist at the Bank of America, subscribed to the view that structural reforms were necessary to reduce the growth differential between Europe and the U.S.A. High growth in the U.S.A. can be ascribed, inter alia, to healthy population and labor force growth, a sector in which

Europe lags behind because of high taxation and legal restrictions obstructing flexible deployment of labor. Higher growth in Europe would only be possible if both the tax burden and public spending were reduced drastically.

Session 1: Why Does European Growth Lag Behind?

The first session focused on the possible reasons for the growth differential between Europe and the U.S.A. In his keynote speech, *Klaus Regling,* Director General for Economic and Financial Affairs of the European Commission, had already noted that the size of the growth differential depends on the perspective and on the length of the time horizon under consideration. Analyzing the growth process of the two economic areas over a longer period of time and per capita, European and U.S. growth rates turn out to be identical.

Nicholas Crafts, Professor of Economic History at the London School of Economics, pointed out that it is only since the mid-1990s that European productivity growth has lagged behind that of the U.S.A. Nicholas Crafts ascribed this decline in growth especially to Europe's low research ratio and the delayed broad use of information and communication technology (ICT). In Europe, ICT prices were about one third higher in the mid-1990s than in the U.S.A., which had a dampening effect on the economy. It may well be that Europe will catch up in the coming years, for growth effects triggered by the more intensive use of ICT can only be identified after a certain period of time (*M. Mussa* had already mentioned this). Production structures based on ICT require extraordinary human capital, flexible corporate structures as well as flexible labor markets. This is the reason why appropriate structural reforms in the labor markets and the accumulation of human capital are necessary prerequisites for the aspired economic growth.

Norbert Zimmermann, CEO of Berndorf AG, advocated the implementation of the Lisbon strategy. Especially the targeted increase in employment to 70% is currently unlikely to be attained. N. Zimmermann calls inter alia for the abolition of bureaucratic obstacles, tax reductions, the higher mobility of a qualified labor force, better access to risk capital, higher and more effective expenditures for research and development, the creation of infrastructure for the information age, the improvement of the European transport infrastructure, an education offensive as well as the modernization of pension systems. A sound budgetary policy is essential to keeping European politics credible. N. Zimmermann calls on the Eurosystem to pursue looser monetary policy, because the strong euro exchange rate affects European exports. It is, however, encouraging that many European companies perform very well despite the current economic difficulties. These companies are characterized by excellent management, sound finances, an emphasis on exports in view of stagnating domestic markets, the use of new information technologies and logistics and a pronounced customer orientation.

Josef Zweimüller, Professor at the University of Zurich, analyzed the correlation of inequality and economic growth. Seen over a longer period of time and compared with the U.S.A., Europe recorded higher productivity growth with smaller income disparities. The positive growth effects of equal income distribution can be traced to the accumulation of human capital. National economies

benefit if investments in human capital are made mainly on the basis of the distribution of intellectual skills and not if these investments depend on public income distribution. The presence of credit restrictions could be the reason why an inequality in income distribution could lead to distortions in the accumulation of human capital. The second channel operates through innovation incentives. A largely equal income distribution together with a pronounced middle class increases incentives for innovations, research and development. Mass production technologies would improve, thus leading to an increase in total productivity.

Bernhard Felderer, Institute for Advanced Studies (IHS), considered the growth differential of the last eight years a cause for concern. After the unsatisfactory growth rates of the 1970s, in the U.S.A. the deregulation measures of the 1980s triggered more intensive competition and higher growth rates especially in the labor market and in the telecommunications sector. B. Felderer questioned J. Zweimüller's view stating that investments in human capital could promote both growth and a flatter distribution of income. Consequently, the assumed reverse causality – namely that a smaller inequality of income would promote the accumulation of human capital – does not necessarily hold. The labor market requires a certain inequality of income resulting from different levels of efficiency and qualification, as these are essential incentive, signal and allocation mechanisms.

Session 2: Labor Markets and Economic Growth

The second session was dedicated to the relationship between economic growth and labor markets. Some of the previous contributions already indicated that structural reforms in the labor markets are considered to be inevitable.

Jean-Phillipe Cotis, Chief Economist of the OECD, emphasized that Europe was on the right way. Compared to the situation ten years ago, structural improvements have been made. However, the reform progress differs strongly among the EU countries. Especially the Nordic countries, the Netherlands and the United Kingdom, have implemented fruitful reforms in the last few years. In larger economies progress is slow, for structural reforms were either late in coming or modest. Many countries still have to tackle the most important reforms, which at the same time are the most unpopular and therefore politically most difficult to implement. J.-P. Cotis identified five primary reform areas in the labor market: First, economies need to increase participation rates by eliminating obstacles to employment both on the supply and on the demand side. This is necessary also to increase potential growth. Also early retirement options common in many EU countries need to be eliminated. Second, many countries need to reform their provisions on job protection. These provisions impede the smooth functioning of the labor market, triggering an inefficient and socially unjust segmentation of the labor market. Third, in order to reduce persistent unemployment, unemployment benefits should only be paid to people who are seriously interested in finding a job. Fourth, labor costs for less qualified workers should be reduced in order to promote employment. Fifth, active labor market policies should be restricted, because they distract from the necessary fundamental reforms.

Karl Pichelmann, adviser at the European Commission, cited the reduction of social security contributions and more flexible working hours as possible concepts for successful reforms. Using an ex post simulation, the European Commission calculated how actual structural reforms affected employment and output. If these reforms had not been introduced, the European Union would have had five to six million fewer jobs, unemployment would have increased by approximately two million people and the current growth rate would have been significantly lower. Of course, there are still considerable rigidities within the European Union. Europe's population growth lags behind that of the U.S.A. because of lower fertility rates and migration. If Europe does not introduce reforms, it is expected to face unfavorable demographic shifts, and thus to suffer more severely from growth setbacks than the U.S.A. The results of the simulation model suggest that differences in potential growth are largely traceable to the size of the labor force. The EU has elaborated a three-pillar scheme which aims at reducing public debt ratios, at increasing employment rates especially for women and older employees and at reforming pension systems and health care.

Karl Aiginger, Austrian Institute of Economic Research (WIFO), stressed the different performances of the EU countries. The "top four" (Sweden, Finland, Denmark and the Netherlands) clearly post higher economic and employment growth rates. The importance of research, development and human capital, a sound fiscal policy and a well-developed welfare state are common characteristics of the "top four" countries. According to K. Aiginger, structural reforms in the labor market are necessary conditions for growth. Factors enhancing growth on a long-term basis comprise education, research, development, the distribution of new technologies as well as prudent fiscal and monetary policies which do not impede growth processes.

Session 3: Investments and Economic Growth: Industrial Perspectives

The third session focused on how investments and economic growth correlate from the industry's point of view. *Hannes Androsch* and *Josef Taus,* both formerly Austrian politicians and currently industrialists, analyzed investments from a company, a national and a European perspective. It is true that physical investment on the part of companies are still necessary in order to increase productivity growth, but the accumulation of human capital and the creation of public infrastructures are becoming more and more important. *Hannes Androsch* emphasized that Austria needs economic growth also on a macroeconomic level and not only in the different sectors, whose inflation and growth rates differ. Competitive pressure within industry is so high that profits are likely to be low because companies have little leverage in setting prices.

This is a development which affects investment behavior. By contrast, services are not so heavily exposed to international competition. *Josef Taus* emphasized the importance of the banking sector for economic growth and posed the question: What is the ideal structure for the banking sector? Banks are primarily responsible for risk trade. J. Taus suggested that further regulatory measures, as provided for by the Basel II framework, could be detrimental to

economic growth. By comparison, the central banks' monetary policy measures do not have much less effect. In addition, the Austrian economy suffers from the problem that risk capital, which is basically available, leaves the country in search of higher yields because the Austrian risk capital market is severely underdeveloped. Finally, J. Taus stated that there was a brain drain leading to the loss of highly qualified technical workers, thus curbing innovation and investments in Austria.

Session 4: Reforms in the Public Sector

The fourth session discussed the link between fiscal policy and long-term growth. *Vito Tanzi,* Under Secretary of State in the Italian Ministry of Finance and Economy, stressed that fiscal policy influences long-term growth. High taxation reduces growth potential, because a high tax burden distorts not only decisions on labor supply but also saving and investing incentives. However, taxes can also be too low: then it is no longer possible to provide the essential public services which are necessary for an economy to function efficiently. Theoretically, it is possible to deduce an ideal tax level from these considerations. But in practice this is hardly realizable. However, apparently almost all EU countries have tax levels that are above the ideal level. Moreover, the way in which the tax system is structured also has a crucial influence, because high marginal tax rates may cause welfare losses. According to V. Tanzi, countries may raise their potential output through revenue-neutral tax reforms that change the distortionary impact of taxes; proportional value added taxes, for example, have a lower distortionary impact than progressive income taxes.

The stability of tax systems is very important, because uncertainty about future taxes may create a time inconsistency problem.

Most empirical papers on fiscal policy and growth should be interpreted with caution because of inadequate data and various methodical problems. However, they largely confirm the above-mentioned theoretical considerations.

In the next section, representatives of the Ministries of Finance of the United Kingdom, Sweden, Finland and the Netherlands provided an overview of their respective fiscal policy strategies. *Jon Cunliffe,* Managing Director at the British Treasury, stressed the importance of cyclically adjusted deficits for decision-making in fiscal policy. On a short-term basis, fiscal policy rules have to be designed in such a way as to give automatic stabilizers the possibility to become effective; at the same time, however, these rules are also designed to control the debt ratio on a long-term basis. In line with the notion of intergenerational fairness, deficits should first and foremost be utilized to finance public investments.

Kees von Dijkhuizen, Treasurer General of the Dutch Ministry of Finance, also agreed that fiscal policy rules are the most important instrument for enhancing budget discipline. In addition, these rules enhance political transparency and strengthen the confidence of companies, consumers and investors. The Netherlands define separate objectives for the revenue and the expenditure side, respectively. It is exactly this approach that has marked Dutch budget policy over the last ten years. Consequently, extraordinary revenues cannot lead to an increase in expenditures, but they have to be utilized to redeem debt. This is

why the unexpectedly high economic growth during the second half of the 1990s could be used to considerably reduce the public debt.

According to *Jens Henriksson,* State Secretary at the Swedish Ministry of Finance, the successful consolidation of the general government budget was a necessary prerequisite for growth rates well above the OECD average in Sweden in the last few years. As financial markets' confidence as well as public confidence are decisive for successful reforms in the public sector, consolidation measures must be conducted transparently. It is important to define and consequently pursue readily understandable goals. Although deficit reductions may be painful because it also involves cuts in transfer payments, the maintenance of public social security systems on a long-term basis requires sound budget policy.

Martti Hetemäki, Director General of the Finish Ministry of Finance, stressed that high growth rates are necessary to finance the costs of population aging. Pension system reforms and especially the rise in statutory retirement ages are necessary to reduce costs and to deploy resources more efficiently. Tax reforms are also necessary to create incentives for an increase in labor supply. The fact that there are different taxes on labor helps explain the differences in labor supply and also in the levels of per capita real income across Europe.

The Austrian Minister for Finance, *Karl Heinz Grasser,* discussed topical budget and fiscal policy issues emphasizing that sound public finances are necessary to create appropriate conditions for sustained growth. In the current economic situation, fiscal policy is clearly not designed to support the economy.

Session 5: Financial Markets and Economic Growth

The financial crises of the last few years provoked profound losses of income and growth. *Mario Blejer,* Director General at the Centre of Central Bank Studies of the Bank of England, summarized the rather scarce empirical economic literature, noting that more developed financial markets are associated with higher contemporary and future economic growth. A series of case studies reveals that of the financial system instability or crises can, via various channels, provoke massive growth setbacks. Impacts may include a considerable deterioration of the degree of development of a financial market as well as the collapse of cooperation between financial market players including payment systems. The information function of the financial markets can suffer considerably. Consumer and business confidence may be affected. The increased uncertainty raises real interest rates and reduces banks' willingness to conclude long-term financing contracts. Financial market and exchange rate instability can pose serious problems for macroeconomic policies. Economic policy must therefore ensure financial stability by counteracting failures in the financial market without forgetting the possible impact of financial instability on other sectors. The above-mentioned measures could consist in a combination of measures to strengthen self-regulation, safety nets (taking into consideration the danger of moral hazard) and financial market regulation. Macroeconomic policy must be designed to create transparency and predictability through stability-oriented monetary policy. In case of emergency, so-called circuit breakers and direct market intervention are additional possibilities. Finally, M. Bleyer emphasized that stability must not be confused with rigidity; financial market prices should

react flexibly to changing economic conditions, and financial institutions should adjust over time. Economic policy mainly aims at avoiding market movements that could cause systemic destabilization.

Manfred Neumann, professor at the University of Bonn, noted that financial systems and financial markets are often more stable than assumed. Speculative bubbles and subsequent financial crises are often triggered by misguided economic policy (excessively expansive monetary policy), inadequate financial market supervision and currency pegs with overvalued exchange rates. Strong market fluctuations pose a major risk for growth and employment. This is the reason why central banks should closely monitor strong price fluctuations on financial markets.

Summary

Klaus Liebscher concluded from the conference's contributions that sustained economic growth is based on numerous correlating factors. All participants at the conference agreed that the comparatively low growth in many EU countries is first and foremost caused by structural problems.

Despite this broad consensus and although structural reforms have triggered a considerable increase in growth and employment in recent years, many reforms still have to be implemented. Only if the public itself recognizes the necessity and the long-term advantages of reforms can political resistance be overcome.

There was also a general consensus about the necessity of accumulating human capital and the need to invest in research and development. The more elastic labor supply and demand are, the more successful investments in information and communication technologies will be; hence it is necessary to enhance flexibility on labor markets. Most of the EU countries' labor markets need further significant reforms to increase the participation rate and to decrease structural unemployment.

Labor market reform is important not only to increase the long-term growth potential but also to maintain sound public finances. In the last few years, successful budget consolidation has been based increasingly on fiscal policy principles designed to strengthen transparency, predictability and the confidence of economic agents in the reforms' sustainability. After having overcome the current growth setback, budget policymakers will again have to strictly observe the objectives of the Stability and Growth Pact. Budget reforms on the expenditure and revenue sides should be geared more to positive long-term growth and employment effects.

Speakers emphasized dynamic entrepreneurship as a crucial basis for higher growth. Apart from a highly qualified labor force, a well-functioning infrastructure and smooth financing, less bureaucracy or facilitation business startups and a reduced tax burden were cited as the essential factors that make a location attractive for business.

Monetary policy can help dampen economic fluctuations only to a degree and only in the case of specific types of economic shocks. On a long-term basis, its most important contribution to growth and employment can be seen in securing price stability. Stable and internationally integrated financial markets are important for distributing capital in Europe in an optimal way. The fact that

Europe has sound financial markets is traceable to highly developed regulation and supervision systems.

EU Eastern enlargement will considerably transform political, institutional and economic conditions. The EU institutions will have to meet this challenge by radically reforming their decision-making processes. The draft constitution of the European Convention will be a good basis for the work of the upcoming Intergovernmental Conference.

The Bank Lending Survey for the Euro Area – Background, Objectives and Results for Austria

Walter Waschiczek

Background and Objectives of the Survey

The Role of Bank Loans in Corporate and Household Financing

In all financial systems, banks play a key role in directing financial assets toward future-oriented investment options across time and space. This applies particularly to the euro area, where banks account for a higher share in the total assets of all financial intermediaries – and loans account for a higher share in banks' total assets – than in more market-based financial systems such as the U.S.A. and the United Kingdom (ECB, 2002). In the euro area, bank loans play a more important role above all for the financing of small and medium-sized enterprises (SMEs) with limited capital market access and, of course, for households.

Therefore, the financing conditions for businesses and households also depend to a large extent on the ability and willingness of banks to grant loans. The factors impacting the volume of loans generated by the banking sector are not only of macroeconomic relevance, however. They also play a decisive role in the implementation of monetary policy, as banks – via lending – have a crucial influence on the transmission of monetary policy actions to the real economy. The credit channel reflects this particular relevance of banks' lending behavior. This monetary policy transmission mechanism operates particularly all in imperfect markets, where certain market participants face financial constraints owing to asymmetric information (Bernanke and Gertler, 1995).

The Credit Channel in Monetary Transmission

The literature on the credit channel distinguishes between the bank lending channel and the balance sheet channel. When there is a bank lending channel, lending is restrained by a monetary tightening that causes bank deposits to be withdrawn. If banks (or borrowers) are not able to replace the withdrawn deposits (or loans) by other forms of funding, this monetary policy-induced reduction of deposits will reduce lending. The balance sheet channel emphasizes the role of a firm's net worth in obtaining external finance. If an enterprise's balance sheet position deteriorates, the risk of moral hazard increases as fewer assets are available as collateral for loans and/or the equity financing rate declines. If borrowers have a smaller financial stake in their own company, their interests will be less congruent with those of the lenders. Therefore, as a firm's net worth goes down, the cost of external funding goes up because a risk premium will be charged.

A reduction in lending often has different effects on different groups of borrowers, depending on the extent by which enterprises are able to substitute loans with other types of financing. While the bond market may provide alternatives for large enterprises, bank loans are difficult to substitute for borrowers that depend on banks as intermediaries (in particular SMEs and households).

Objectives of the Euro Area Bank Lending Survey

Given the importance of bank loans for the funding of enterprises and households, more detailed information on banks' lending behavior is a useful instrument for a central bank in implementing monetary policy. The euro area bank lending survey is intended to provide this information. Yielding qualitative data on banks' lending behavior, the survey will thus constitute a major contribution to interpreting the macroeconomic and monetary situation in the euro area.

Last but not least, the survey is also meant to facilitate the analysis of supply and demand conditions in the credit markets, as the statistical data reported by banks do not directly reveal the reasons for changes in these conditions. Given that the survey concentrates on the current situation, it will complement banks' regular reports on lending trends, as statistics on the latter are usually available only with a certain time lag.

The U.S. Federal Reserve has been conducting similar bank lending surveys since 1967. They have proved to be a highly valuable instrument contributing importantly to the assessment of current and future lending conditions (Lown, Morgan and Rohatgi, 2000). For a number of years, the Bank of Japan has also used this instrument to supplement its monetary analysis. Experience of other central banks has shown that bank lending surveys can provide important additional information for the assessment of financial and economic developments and monetary policy making.

Details on the Survey Process

Structure of the Questionnaire

The survey takes the form of a questionnaire containing qualitative questions on past and expected future developments regarding lending policies. The questionnaire consists of 18 questions concerning loans to enterprises and households. The first part contains 7 questions on loans (and credit lines) to enterprises, while the second part has 10 questions on loans to households. For households, there are separate questions for loans for house purchase and consumer credit/other lending. The questions concern areas such as credit standards[1]) and the conditions and terms for loans to enterprises and households.[2]) 13 questions are backward-looking (referring to the quarter that ended in the month prior to the survey), and 4 questions are forward-looking (referring to the current quarter); an open question is intended to capture those credit market developments that might not have been covered by the other questions. If necessary, further ad hoc questions on topics of specific interest may be added.[3])

The questions should remain constant over time. The definitions and classifications used in the survey are consistent with ECB monetary statistics. All questions are of a purely qualitative nature and do not ask for concrete figures, thus keeping participants' answering time relatively low.

Participants in the Bank Lending Survey

The euro area national central banks (NCBs) chose 86 representative banks from all euro area countries to participate in the bank lending survey. This choice was

1 *The bank lending survey defines credit standards as the internal guidelines or criteria that reflect a bank's loan policy, i.e. the written criteria that define the types of loan a bank considers desirable or undesirable, the designated geographical priorities, the collateral deemed acceptable and unacceptable, etc.*

2 *The bank lending survey defines "credit conditions and terms" as the specific obligations agreed upon by the lender and the borrower. In the context of this survey, they consist of the direct price or interest rate, the maximum size of the loan, the access conditions and other terms and conditions in the form of non-interest rate charges (e.g. fees), collateral requirements (including compensating balances), loan covenants and maturity (short versus long-term).*

3 *The questionnaire is included in ECB (2003a).*

based on three aspects: (1) to survey a minimum of three banks per country, (2) to ensure that the number of banks surveyed per country more or less corresponds to the country's share in the euro area total lending aggregate, and (3) to primarily contact large institutions.

Five large Austrian credit institutions were invited to participate in the survey for Austria,[1]) which means that the Austrian sample is comparable to that of other countries of approximately the same size.

Number of Banks Surveyed Broken Down by Country and Country Weight[1])

	Banks surveyed	Country weights
	Number	*%*
Belgium	4	2.9
Germany	17	36.2
Greece	3	1.3
Spain	10	10.8
France	15	17.4
Ireland	5	1.8
Italy	7	12.9
Luxembourg	5	1
Netherlands	6	8.7
Austria	5	3.2
Portugal	5	2.5
Finland	4	1.3
Total	86	100

Source: ECB (2003a).
[1]) On the basis of lending survey results for the third quarter of 2002.

In order to obtain a global perspective the survey addresses senior loan officers with the participating banks. Participation is voluntary. The individual responses will remain confidential.

Conduct of the Survey

The bank lending survey takes place every January, April, July and October. In Austria, the survey is conducted electronically, with participants receiving the questionnaires via e-mail. In order to guarantee the efficient and secure transmission of answers, participants transfer the filled-in questionnaires (Excel files) to the Oesterreichische Nationalbank (OeNB) via a special password- and user ID-protected website.

While strictly safeguarding the anonymity of the participating banks, the euro area NCBs then send the results of their respective countries to the ECB, which compiles an aggregate result for the euro area. In this process, the national results are weighted with the individual countries' market share in lending to euro area nonbanks. An analysis of the aggregate euro area results as well as the individual country aggregates are submitted to the Governing Council of the ECB for the monetary policy meeting taking place in the month following the survey.

1 *Until further notice, the identity of the banks surveyed shall not be disclosed, as this would make it impossible to guarantee the complete confidentiality of the survey particularly in small countries. The Federal Reserve System has not published the list of banks included in its survey, either.*

Evaluation of Survey Results

Presentation of Results

The ECB (ECB, 2003b) presents the results in two different ways: The first type of presentation shows the net difference between answers that indicate a (strong) upward trend (tightened, contributed to tightening) and answers that indicate a (strong) downward trend (eased, contributed to easing). Answers stating "remained basically unchanged" are not taken into account. This indicator is above all intended to capture the dynamics of credit conditions and terms.

The second type of presentation shows the results as the (unweighted) mean of the individual answers, assigning the value of 1 to the first possible answer (e.g. "tightened considerably") and the value of 2 to the second possible answer (e.g. "tightened"), etc. As there are five possible answers, the answer "remained basically unchanged" always takes the value of 3. The more banks choose this answer, therefore, the closer the result will be to 3. The degree of deviation from 3 thus indicates the extent by which credit conditions and terms had changed (eased/tightened, etc.). From a methodological point of view, this procedure is not entirely unproblematic, as the answers to the bank lending survey merely result in ordinal scales;[1]) however, this method is often used in opinion research (e.g. for the U.S. Senior Loan Officer Opinion Survey).

As the Austrian sample consists of only five participants, a presentation of net differences would result in a situation in which the confidentiality of answers could no longer be guaranteed. Therefore, only the second type of presentation – i.e. the mean of the individual answers – is used for the Austrian results.

Interpretation of Results

The interpretation of bank lending survey results is subject to a number of limitations. On the one hand, this is a purely qualitative survey that does not ask any numerical values. The answers are therefore neither objective nor quantitative. On the other hand, the survey covers quarter-on-quarter changes and does therefore not allow for drawing any conclusions on absolute changes, such as the extent by which loan policy was eased.

Given that only three surveys have taken place so far, the Eurosystem has relatively little experience with this new instrument. The available data series are still rather short and are therefore not suitable for systematic analysis. Estimating to what extent this instrument is a trustworthy indicator of lending trends will therefore only be possible over time.

Results of the First Three Bank Lending Surveys in Austria

Loans to Enterprises

Credit Standards as Applied to the Approval of Loans

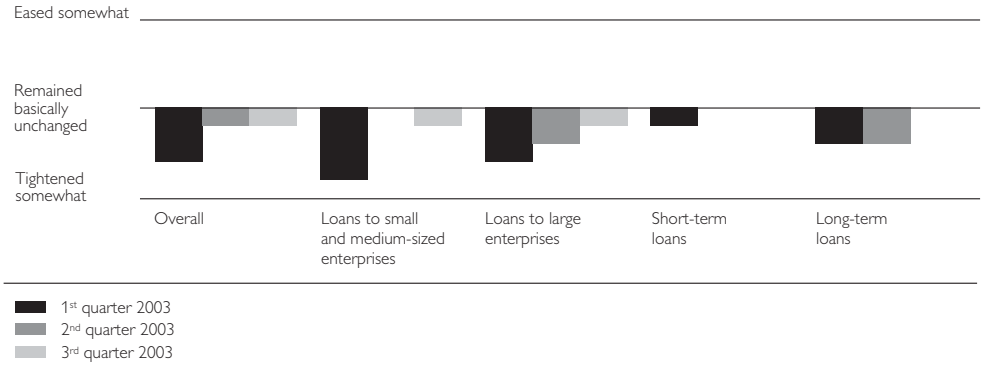
In general, the presently available bank lending survey results for Austria indicate that banks have slightly tightened their credit standards. After the first

1 *Ordinal scales define the ranking, but do not quantify differences (similar to school grades). Therefore, strictly speaking, it is not admissible to produce an average – which, however, does not keep opinion researchers from doing so at a regular basis in practice.*

two surveys had already indicated that banks were rather cautious in formulating and applying standards for loans to enterprises, this trend continued in the third quarter of 2003[1]). All in all, none of the banks included in the sample has so far stated in any of the surveys that it had eased the standards for granting loans to enterprises.

In the third quarter of 2003, the extent by which credit standards were changed matches that of the previous quarter. Banks were slightly more circumspect in extending loans to both SMEs and large enterprises; as for maturities, banks were slightly more cautious in granting long-term loans than short-term loans.

1. Over the past three months, how have credit standards as applied to the approval of loans to enterprises changed?



Source: Bank Lending Survey.

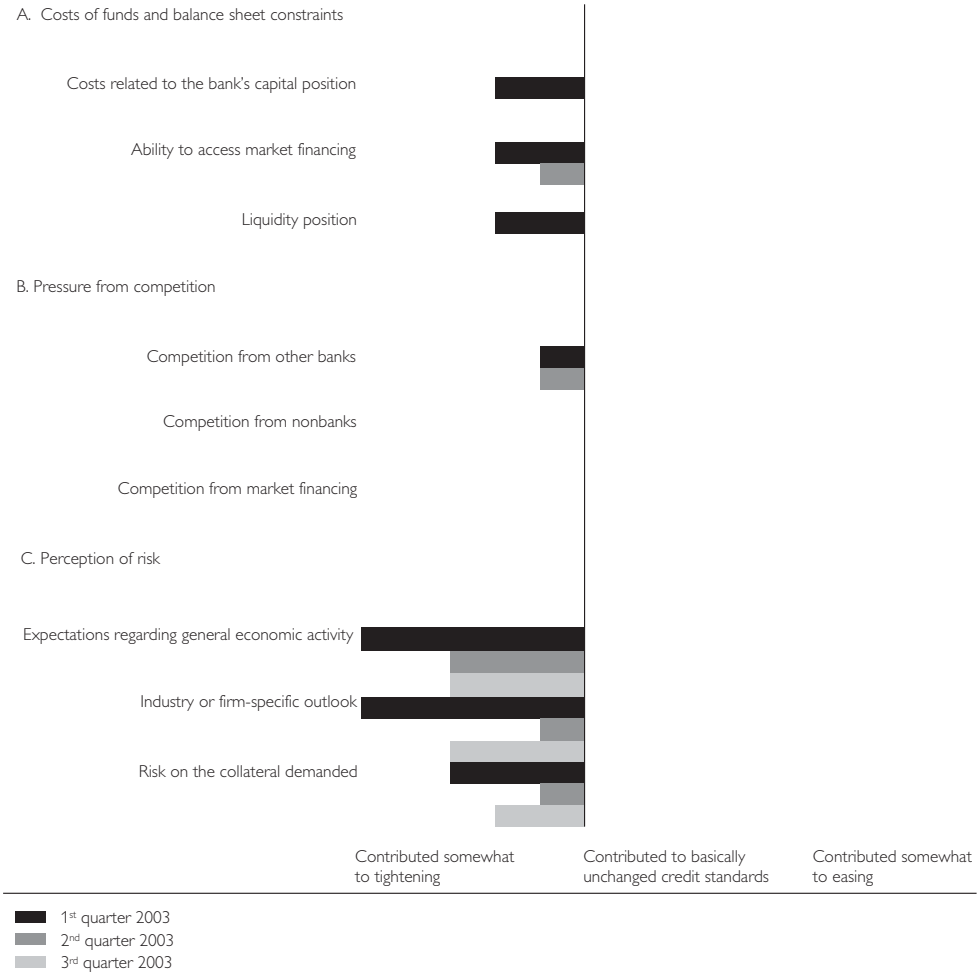
The most important factor contributing to this more cautious lending policy was risk perception. Moreover, the banks surveyed said that expectations regarding general economic activity, the industry or firm-specific outlook and risk on the collateral demanded mainly impacted on their decisions. Refinancing costs and balance sheet-related restrictions only played a role in the first survey, while pressure from competition (from other banks, nonbanks and market financing) did not have any influence on the lending behavior of the banks surveyed.

Conditions and Terms for Approving Loans

Similar to credit standards, the conditions and terms for approving loans to enterprises have undergone certain changes. In the third quarter of 2003, banks increased their margins particularly on riskier loans, but also on average loans (which had remained unchanged in the previous quarter). At the same time, the banks surveyed further raised collateral requirements and loan covenants, albeit to a lesser extent than stated in the two previous surveys. The size and maturity of granted loans remained unchanged, however.

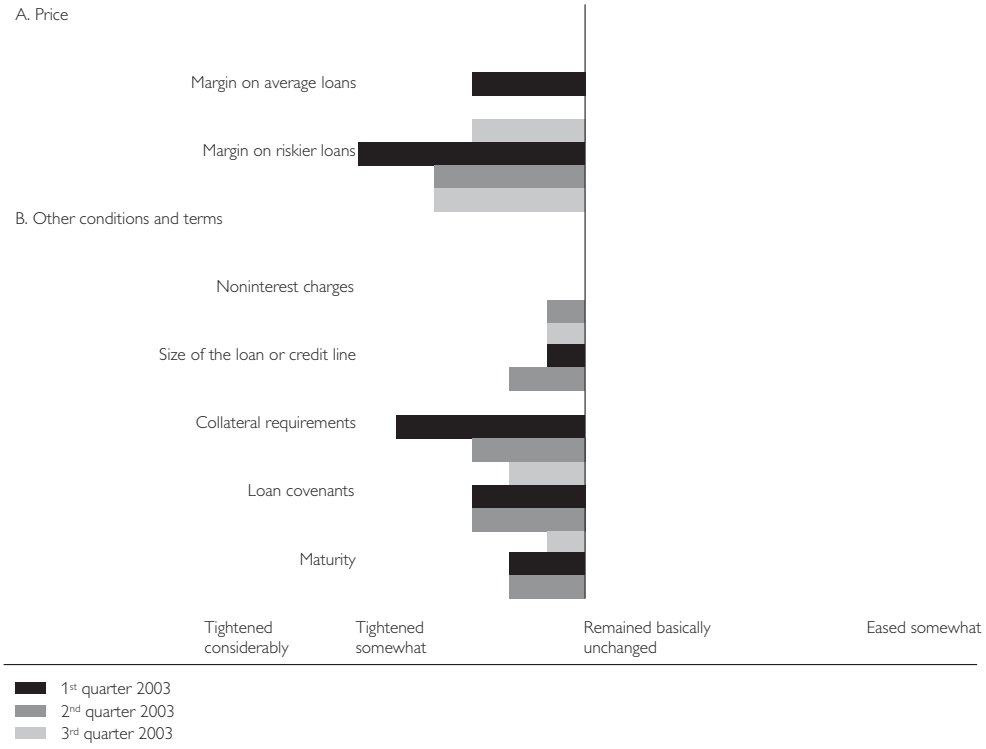
1 *As agreed upon with the ECB, the respective quarters are numbered according to when the survey is conducted. This means that the current survey is that of the third quarter, even if it captures developments of the second quarter.*

2. Over the past three months, how have the following factors affected credit standards as applied to the approval of loans to enterprises?



Source: Bank Lending Survey.

3. Over the past three months, how have conditions and terms for approving loans to enterprises changed?



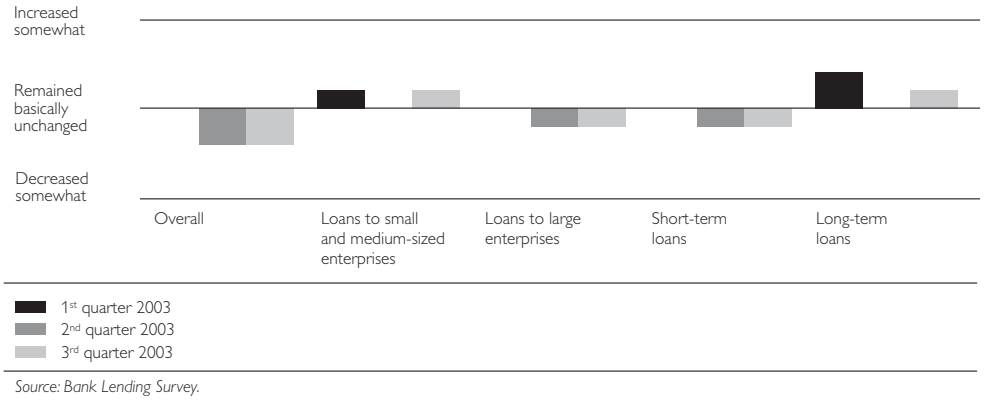
Source: Bank Lending Survey.

Demand for Loans to Enterprises

Like in the previous period, the respondents said that demand for loans to enterprises declined somewhat in the third quarter of 2003. While large enterprises' financing needs went down, SMEs took out more loans.

Fixed investment in particular contributed to lower loan demand. According to the banks surveyed, mergers/acquisitions and corporate restructuring,

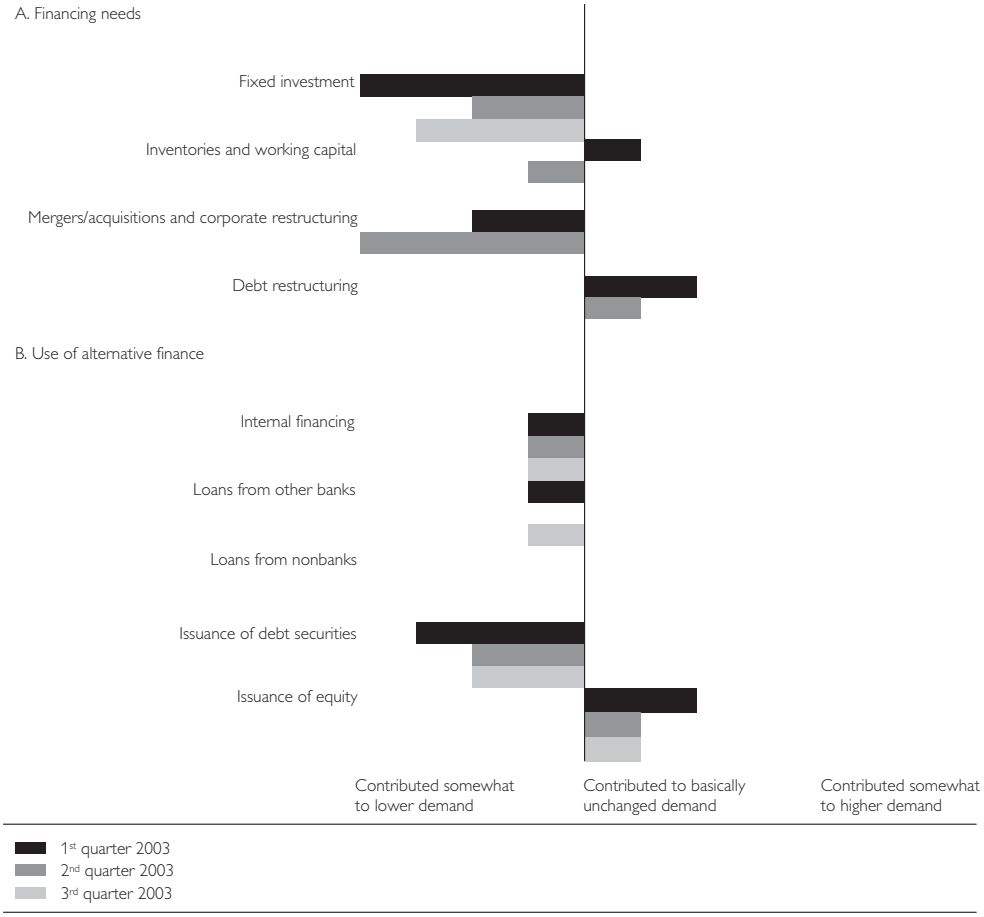
4. Over the past three months, how has the demand for loans to enterprises changed?



Source: Bank Lending Survey.

which impacted considerably on demand for loans to enterprises in the second quarter of 2003, did not affect demand in July 2003. Furthermore, corporate bonds continued to gain importance at the expense of loans from banks: The issuance of debt securities has contributed to the decrease in demand for loans from banks.

5. Over the past three months, how have the following factors affected the demand for loans to enterprises?



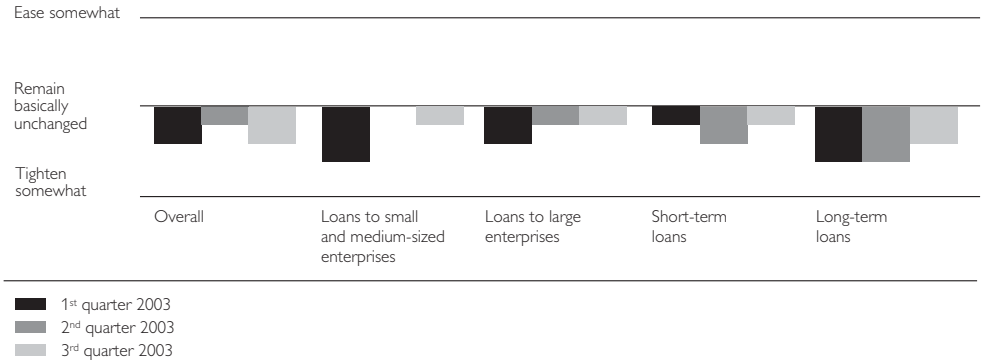
Source: Bank Lending Survey.

If we consider the changes in credit standards as applied to the approval of loans to enterprises to be indicators for credit supply and if we compare the mean values of credit standard assessments with credit demand assessments, we will see that the recent decline in loan demand is demand rather than supply-driven.

Outlook for the Next Three Months

The banks surveyed in July 2003 said that they expected credit standards for the approval of loans (or credit lines) to enterprises to be lowered somewhat over the next three months. This assessment applies to both large enterprises and SMEs as well as to short and long-term loans.

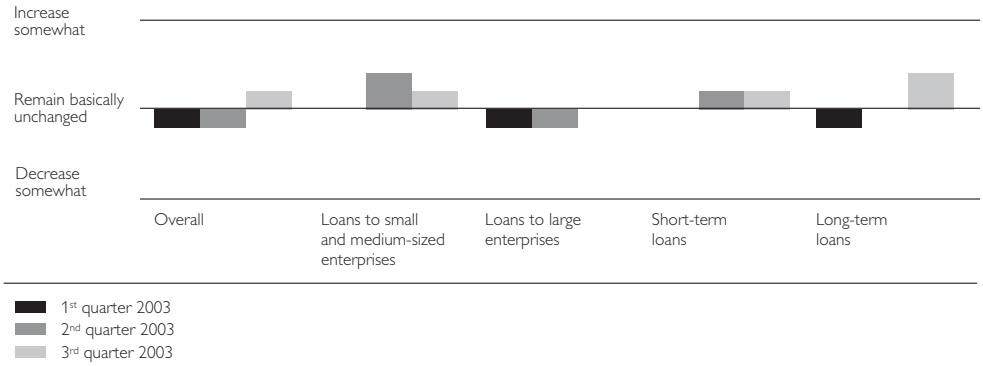
6. Please indicate how you expect credit standards as applied to the approval of loans to enterprises to change over the next three months.



Source: Bank Lending Survey.

Conversely, there was a turnaround in banks' assessment of demand for loans or credit lines to enterprises over the next three months. On balance, the banks surveyed expect loan demand – especially from SMEs – to pick up somewhat.

7. Please indicate how you expect demand for loans to enterprises to change over the next three months.



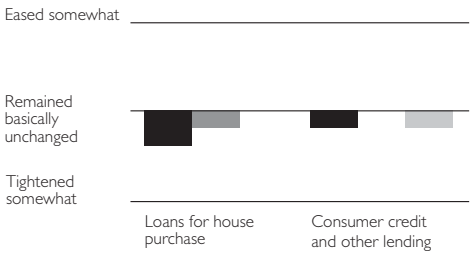
Source: Bank Lending Survey.

Loans to Households

Credit Standards as Applied to the Approval of Loans to Households

In retail lending, credit standards were narrowed to a lesser extent than in corporate lending. The bank lending survey distinguishes between loans for house purchase as well as consumer credit and other lending. After credit standards for house purchase loans had been tightened somewhat in the first two quarters of 2003, they remained unchanged in the third quarter of 2003; standards for consumer credit and other lending were raised to some extent.

8. Over the past three months, how have credit standards as applied to the approval of loans to households changed?



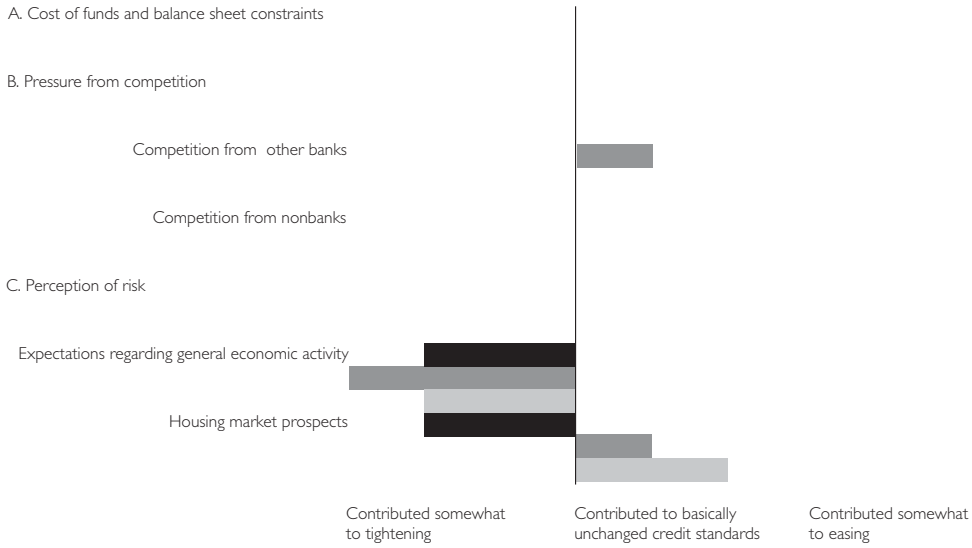
1st quarter 2003
2nd quarter 2003
3rd quarter 2003

Source: Bank Lending Survey.

Loans for House Purchase

The perception of risk had the greatest impact not only on credit standards applicable to loans to enterprises but also on credit standards applicable to loans to households. As regards loans for house purchase, the economic outlook caused banks to pursue a more prudent approach. Housing market prospects, on the other hand, contributed to a slight easing of credit standards in 2003.

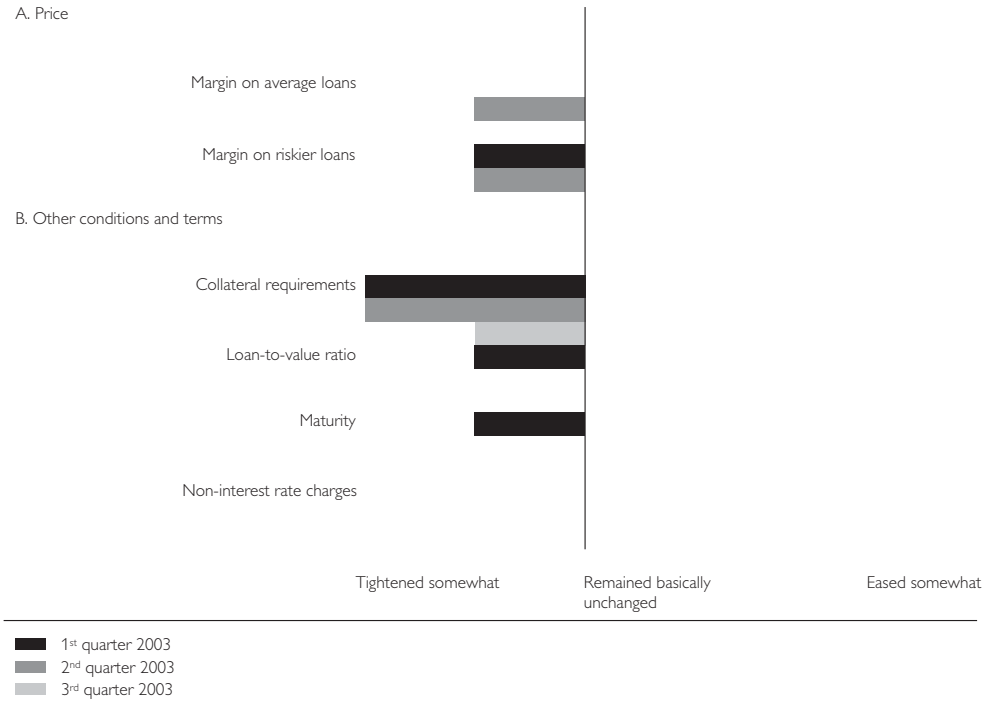
9. Over the past three months, how have the following factors affected credit standards as applied to the approval of loans to households for house purchase?



1st quarter 2003
2nd quarter 2003
3rd quarter 2003

Source: Bank Lending Survey.

10. Over the past three months, how have conditions and terms for approving loans to households for house purchase changed?



Source: Bank Lending Survey.

The conditions and terms for approval of house purchase loans hardly changed; banks only increased collateral requirements slightly in the third quarter of 2003, albeit to a lesser extent than in the previous periods.[1])

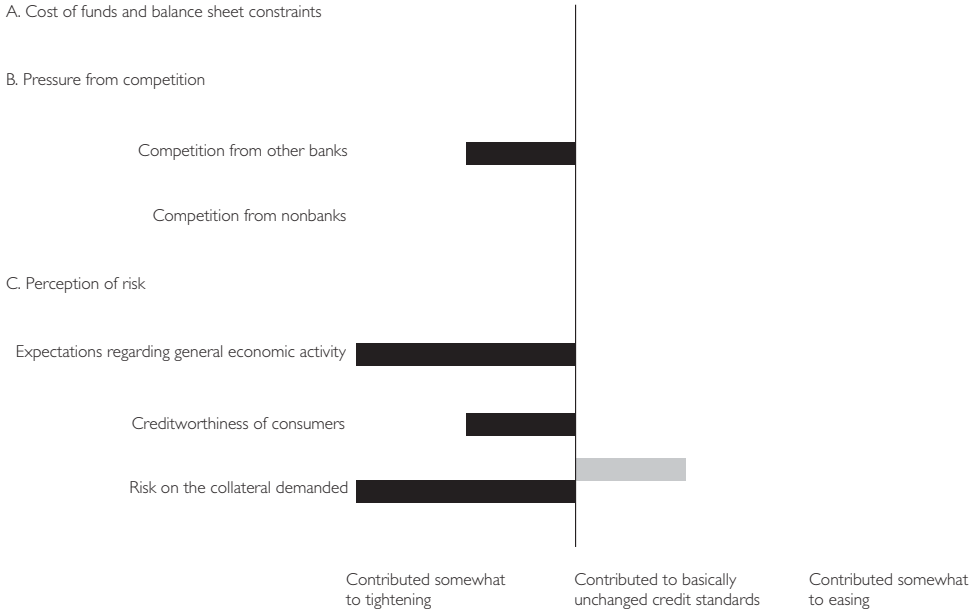
Consumer Credit and Other Lending

Since none of the banks surveyed changed its conditions and terms for approval of consumer credit and other lending in the third quarter of 2003, the underlying factors hardly changed at all, either; interestingly, households' creditworthiness contributed somewhat to the easing of credit standards.[2])

1 *The absolute level of interest on housing loans has gone down since the beginning of the third quarter of 2002 – a change similar to that of interest levels for commercial loans. Austrian banks' margins on loans for house purchase (calculated as the difference to the five-year swap rate) followed the same pattern: rising in the fourth quarter of 2002 and in the first quarter of 2003 and falling, on average, in April and May 2003.*

2 *Interest rates on loans to households were also on the decline in nominal terms for the entire period covered by the Bank Lending Survey, whereas margins rose in the fourth quarter of 2002 and in the first quarter of 2003 against the previous quarter and went down, on average, in April and May 2003.*

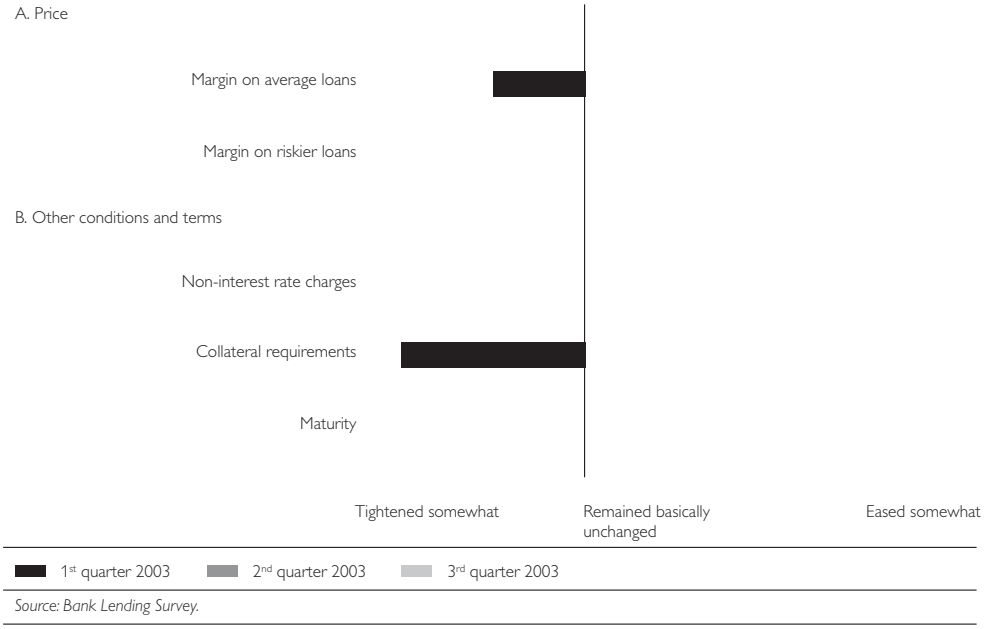
11. Over the past three months, how have the following factors affected credit standards as applied to the approval of consumer credit and other lending to households?



Source: Bank Lending Survey.

Like at the previous survey date, the credit standards for approving consumer credit and other lending remained unchanged in the third quarter of 2003.

12. Over the past three months, how have conditions and terms for approving consumer credit and other lending to households changed?

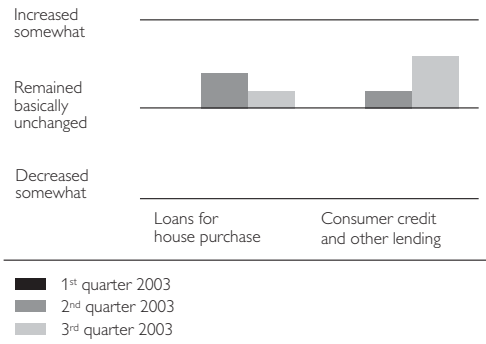


Source: Bank Lending Survey.

Demand for Loans to Households

Apart from the usual seasonal fluctuations, demand for loans to households continued to inch up over the past three months, as the survey results of July 2003 show. Demand for consumer credit and other lending increased more markedly than demand for house purchase loans, which even trailed the previous quarter's figure.

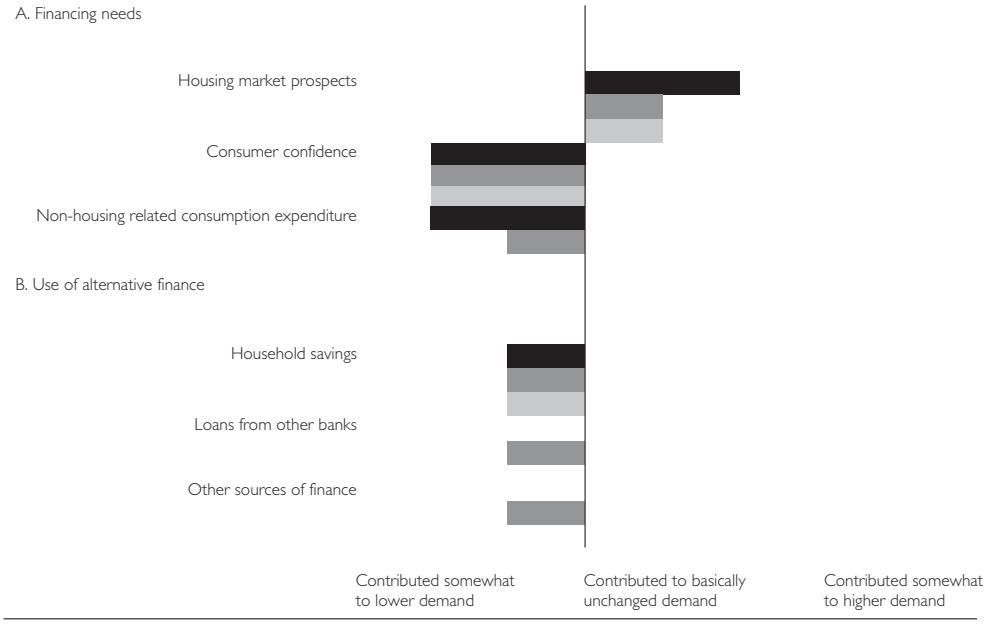
13. Over the past three months, how has the demand for loans to households changed?



Source: Bank Lending Survey.

Demand for house purchase loans was underpinned by housing market prospects, whereas consumer confidence weighed on households' financing needs.

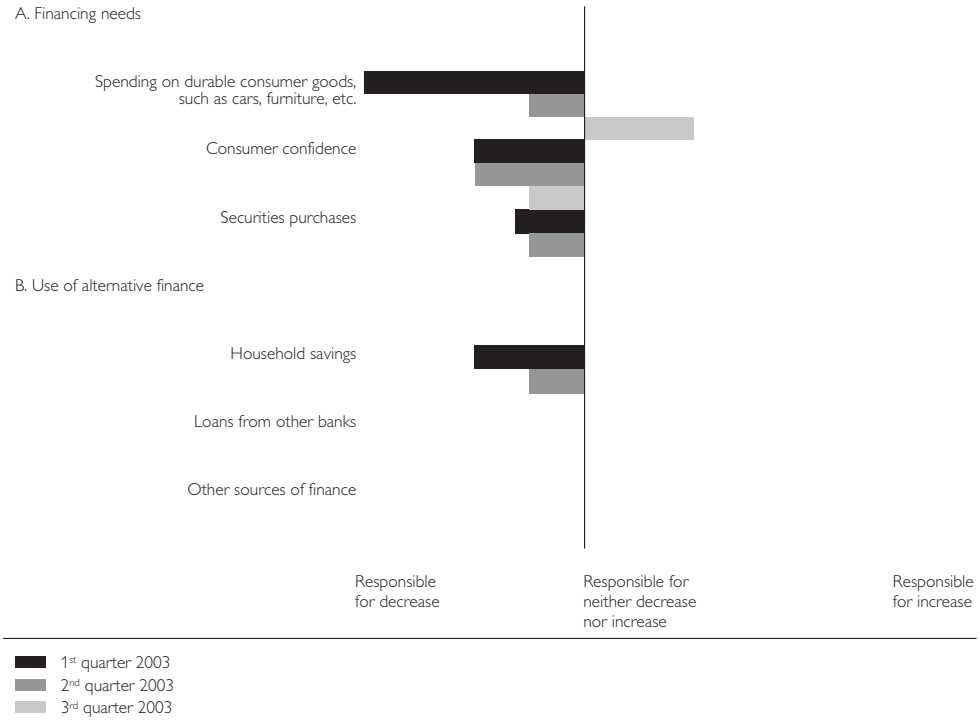
14. Over the past three months, how have the following factors affected the demand for loans to households for house purchase?



Source: Bank Lending Survey.

Consumer confidence dampened households' financing needs also as regards consumer credit and other lending. At the same time, spending on durable consumer goods, such as cars, furniture, etc., pushed up loan demand in the third quarter of 2003.

15. Over the past three months, how have the following factors affected the demand for consumer credit and other lending to households?

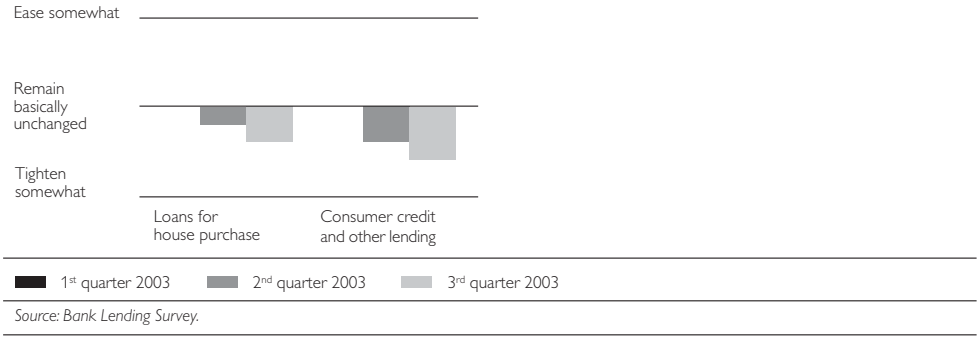


Source: Bank Lending Survey.

Outlook for the Next Three Months

The responding loan officers expected credit standards for approving both house purchase loans and other household loans to be raised once again. In particular consumer credit was to be handled cautiously, loan officers said.

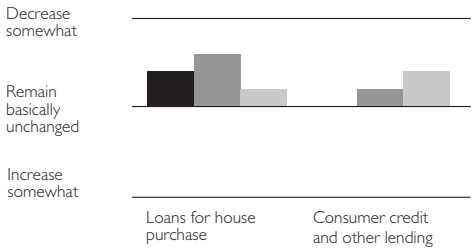
16. Please indicate how you expect credit standards as applied to the approval of loans to households to change over the next three months.



Source: Bank Lending Survey.

At the same time, the banks surveyed expect demand for loans to households to increase in the next three months. For the first time demand for consumer credit is anticipated to rise more markedly than demand for house purchase loans.

17. Please indicate how you expect demand for loans to households to change over the next three months.



1st quarter 2003
2nd quarter 2003
3rd quarter 2003

Source: Bank Lending Survey.

Comparison with Other Statistics

Since the bank lending survey has so far been conducted only three times and experience with this instrument is thus fairly limited, its results should be interpreted with caution. This notwithstanding, the Austrian results for the first three quarters are widely consistent with domestic banks' data on loans to households reported to the ECB. Lending to enterprises declined in the period covered by the bank lending survey: After a 1.0% decrease in the fourth quarter of 2002, the first two quarters of 2003 saw a drop by 2.2% each. Conversely, loans to households expanded, albeit at a falling rate, over the period under review. In particular, consumer credit and other lending growth lost considerable momentum, coming to merely 0.2% in the second quarter of 2003, after 3.5% in the fourth quarter of 2002. The expansion of house purchase loans decelerated less markedly.

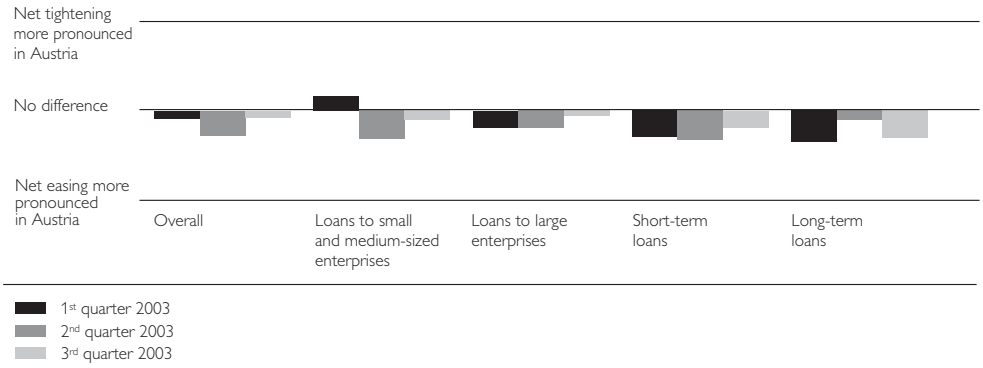
Banks' responses on the changes in margins on riskier and average loans broadly match the changes in interest rate margins. Due to overall market developments, the absolute interest rate level was on the decline over the entire survey period. However, interest margin growth is a much more suitable indicator of financing conditions.[1]) Austrian banks' average margins slipped slightly in April and May 2003 (data for June 2003 are not yet available) against the previous quarters, after having risen in the fourth quarter of 2002 and in the first quarter of 2003. This applies equally to commercial loans, personal loans and house purchase loans.

1 *The method to calculate the interest margin is based on ECB (2000). It contrasts interest rates on commercial loans with interest rates on alternative forms of investment with equal maturity periods. As a reference rate for corporate loans, the ECB uses the five-year swap rate.*

Comparison of Results for Austria and the Euro Area[1])

All in all, the results for Austria more or less match those for the entire euro area. Compared to the euro area average, the lending policy of Austrian banks was generally somewhat looser. Both at the Austrian and the euro area levels, risk perception played a key role in lending to enterprises. At the same time, refinancing costs and balance sheet constraints had a significantly smaller impact. Apart from credit standards, banks' conditions and terms for approving loans were raised both in Austria and in the euro area. Banks expanded their margins, especially on riskier loans, but also – to a lesser extent – on average loans.

Difference in the change of credit standards as applied to the approval of loans to enterprises in the euro area and in Austria



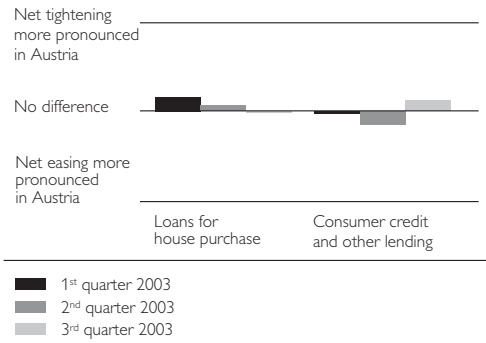
Source: Bank Lending Survey.

Demand for loans (and credit lines) to enterprises in the euro area contracted less visibly than supply. This euro area result also corresponds to its Austrian equivalent. In Austria, especially demand for loans to SMEs and demand for long-term loans was slightly lower than in the euro area. Both in Austria and the euro area, fixed investment weighed particularly heavy on demand. Unlike in Austria, however, not only issuance of debt securities but also debt restructuring drove down demand for loans from banks in the euro area.

As regards retail lending, the results for Austria hardly differed from those for the euro area. Like in Austria, banks' restraint in formulating and applying credit standards for retail lending in the euro area was considerably less palpable than for corporate lending. Conditions and terms for approving loans to households were tightened to a lesser extent than for approving loans to enterprises; however, contrary to developments in Austria, these differences were less marked than the differences in credit standards. Also, unlike their Austrian counterparts, banks in the euro area notably increased their margins on riskier loans; this applies to both house purchase loans and consumer credit and other lending.

1 *For detailed results for the euro area, see the ECB's website (www.ecb.int).*

Difference in the change of credit standards as applied to the approval of loans to households in the euro area and in Austria



Source: Bank Lending Survey.

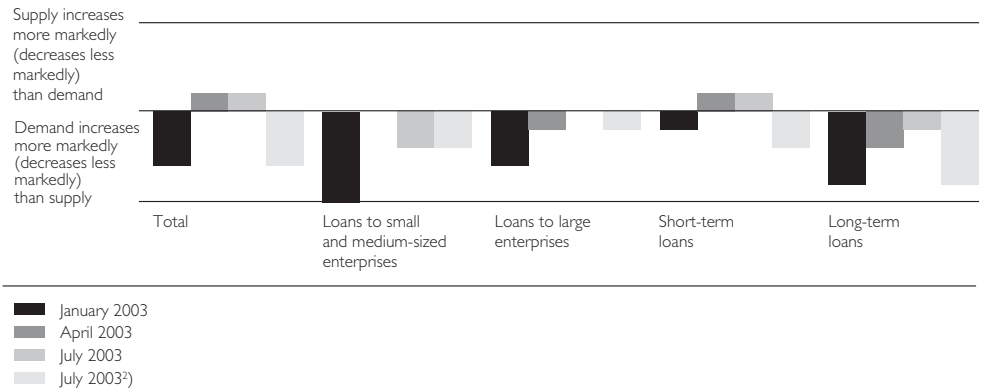
Conclusions

So far the bank lending survey has produced interesting results on lending trends in the euro area and in Austria. For Austria, the survey results indicate that banks reduced lending somewhat in the fourth quarter of 2002 and in the first half of 2003. The banks surveyed were fairly cautious in extending loans to households, but showed particular caution in lending to enterprises. These changes were reflected first and foremost in credit margins, especially on riskier loans, and in a somewhat more circumspect credit policy as regards collateral and covenants.

The fact that banks attribute their credit supply policy mostly to risk considerations and the weak economy suggests that the current decline in loan growth is not a credit crunch. The comparatively sharper fall in the assessment of loan demand may also indicate that the drop in loans to enterprises has not been brought about by a credit crunch.

The responding loan officers expect that on balance, credit standards for loans to both enterprises and to households will be raised further over the next

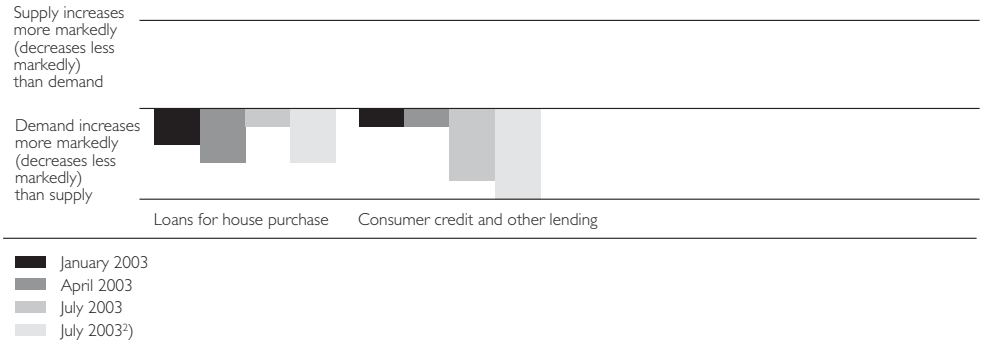
Difference between the change in supply[1]) of and demand for loans to enterprises against the previous quarter



Source: Bank Lending Survey.
[1]) Defined as credit standards.
[2]) Banks' expectations of changes in credit standards and demand over the next three months.

three months; at the same time, credit demand is anticipated to pick up. If the loan officers are right in their expectations, the coming months would see rising demand amid falling supply. If cyclical developments continue to lie at the root of falling loan supply like in the previous quarters, the resulting deceleration in loan growth would not involve elements of a credit crunch.

Difference between the change in supply[1]) of and demand for loans to households against the previous quarter



Source: Bank Lending Survey.
[1]) Defined as credit standards.
[2]) Banks' expectations of changes in credit standards and demand over the next three months.

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Abbreviations

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

Legend

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

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

Official Announcements of the Oesterreichische Nationalbank

		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			
DL 1/91	Promulgation of the new Official Announcements regarding the Foreign Exchange Law; general provisions 1. Issuance of new Official Announcements 2. Definitions 3. Fees	Sept. 24, 1991	4/1991
DL 2/91	Granting of general licenses 1. General license 2. Waiver of obligation to declare; release 3. Nonbanks 4. Banks not engaged in foreign business 5. Foreign exchange dealers 6. Exchange bureaus 7. Special banks and financial institutions 8. Provisions applying to both banks and financial institutions	Sept. 24, 1991	4/1991
DL 3/91	Reporting requirements 1. General provisions 2. Exemptions from the reporting obligation 3. General reports 4. Reports by banks 5. Reports by nonbanks and financial institutions 6. Special reports	Sept. 24, 1991	4/1991
DL 4/91	Assets of nonresidents with residence (domicile) in Iraq	Oct. 29, 1991	4/1991
DL 2/93	Modification of the Official Announcement DL 3/91	May 5, 1993	2/1993
DL 1/95	Repeal of the Official Announcement DL 1/93; SC Resolution 1022 (1995) Concerning the suspension of the sanctions of the United Nations against the Federal Republic of Yugoslavia	Dec. 21, 1995	4/1995
DL 1/96	Modification of Official Announcement DL 3/91	Sept. 3, 1996	3/1996
DL 1/99	Modification of Official Announcements DL 2/91 and DL 3/91 to the Foreign Exchange Act	Dec. 21, 1998	4/1998
DL 2/99	Abrogation of Official Announcement DL 3/93 Sanctions of the United Nations against Libya	April 30, 1999	1/1999
DL 3/99	Modification of Official Announcement DL 3/91 with respect to the Foreign Exchange Act	Dec. 16, 1999	3/1999
DL 1/01	Modification of Official Announcement DL 3/91 with respect to the Foreign Exchange Act	June 19, 2001	2/2001

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

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

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

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Calendar of Monetary and Economic Highlights	4/1999
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Three Perspectives on the Interaction of Financial Markets and the
Real Economy
Stock Markets, Shareholder Value and Investment
Financial Development and Macroeconomic Volatility:
Evidence from OECD Countries
A Financial Decelerator in Europe? Evidence from Austria
Banking Structure and Investment in Austria:
Some Empirical Evidence
Corporate Governance, Investment, and the Implications
for Growth
Panel Discussion: What Kind of Financial System Works Best
for Europe?

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
Bankwesengesetz 1993	1994

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

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

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

1975	Die ökonomischen, politischen und sozialen Konsequenzen der Wachstumsverlangsamung
1976	Störungsanfällige Bereiche in unserem ökonomischen und sozialen System
1977	Fiskalismus kontra Monetarismus
1978	Wirtschaftsprognose und Wirtschaftspolitik
1979	Technik-, Wirtschaftswachstums-, Wissenschaftsverdrossenheit: Die neue Romantik – Analyse einer Zeitströmung
1980	Probleme der Leistungsbilanz in den achtziger Jahren
1981	Systemkrisen in Ost und West
1982	Forschung und Wirtschaftswachstum
1983	Ausweg aus der Krise – Wege der Wirtschaftstheorie und Wirtschaftspolitik
1984	Der Weg zur Welthandelsnation
1985	Weltanschauung und Wirtschaft
1986	Vollbeschäftigung, ein erreichbares Ziel?
1987	Vollendung des Binnenmarktes in der Europäischen Gemeinschaft – Folgen und Folgerungen für Österreich
1988	Sand im Getriebe – Ursachen und Auswirkungen der Wachstumsverlangsamung in Österreich
1989	Banken und Finanzmärkte – Herausforderung der neunziger Jahre
1990	Wettbewerb und Kooperation im Finanzbereich
1991	Wirtschaftliche und politische Neugestaltung Europas – Rückblick und Perspektiven
1992	Zukunft regionaler Finanzmärkte in einem integrierten Europa
1993	Europäische Währungspolitik und internationaler Konjunkturverlauf
1994	Neue internationale Arbeitsteilung – Die Rolle der Währungspolitik
1995	Die Zukunft des Geldes – das Geld der Zukunft
1996	Auf dem Weg zur Wirtschafts- und Währungsunion – Bedingungen für Stabilität und Systemsicherheit
1997	Die Bedeutung der Unabhängigkeit der Notenbank für die Glaubwürdigkeit der europäischen Geldpolitik
1998	Wirtschaftspolitik 2000 – Die Rolle der Wirtschaftspolitik und nationaler Notenbanken in der WWU
1999	Möglichkeiten und Grenzen der Geldpolitik
2000	Das neue Millennium – Zeit für ein neues ökonomisches Paradigma?
2001	Der einheitliche Finanzmarkt – Eine Zwischenbilanz nach zwei Jahren WWU
2002	Wettbewerb der Regionen und Integration in der WWU (Competition of Regions and Integration in EMU)
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
No. 62	Growth, convergence and EU membership	2002
No. 63	Wage Formation in Open Economies and the Role of Monetary and Wage-Setting Institutions	2002
No. 64	The Federal Design of a Central Bank in a Monetary Union: The Case of the European System of Central Banks	2002
No. 65	Dollarization and Economic Performance: What Do We Really Know?	2002
No. 66	Growth, Integration and Macroeconomic Policy Design: Some Lessons for Latin America	2002
No. 67	An Evaluation of Monetary Regime Options for Latin America	2002
No. 68	Monetary Union: European Lessons, Latin American Prospects	2002
No. 69	Reflections on the Optimal Currency Area (OCA) Criteria in the Light of EMU	2002
No. 70	Fiscal and Monetary Policy Coordination in EMU	2002
No. 71	EMU and Accession Countries: Fuzzy Cluster Analysis of Membership	2002
No. 72	Monetary Integration in the Southern Cone: Mercosur Is Not Like the EU?	2002
No. 73	Forecasting Austrian HICP and its Components using VAR and ARIMA Models	2002
No. 74	The Great Exchange Rate Debate after Argentina	2002
No. 75	Central European EU Accession and Latin America Integration: Mutual Lessons in Macroeconomic Policy Design	2002
No. 76	The Potential Consequences of Alternative Exchange Rate Regimes: A Study of Three Candidate Regions	2002
No. 77	Why Did Central Banks Intervene in the EMS? The Post 1993 Experience	2002
No. 78	Job Creation and Job Destruction in a Regulated Labor Market: The Case of Austria	2002
No. 79	Risk Assessment for Banking Systems	
No. 80	Does Central Bank Intervention Influence the Probability of a Speculative Attack? Evidence from the EMS	2002
No. 81	How Robust are Money Demand Estimations? A Meta-Analytic Approach	2003
No. 82	How Do Debit Cards Affect Cash Demand? Survey Data Evidence	2003
No. 83	The Business Cycle of European Countries. Bayesian Clustering of Country-Individual IP Growth Series	2003
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
No. 86	Testing for Longer Horizons Predictability of Return Volatility with an Application to the German DAX	2003

1 *For a comprehensive List of the Topics Discussed in the Working Papers please refer to issue no. 12/2002 of "Statistisches Monatsheft."*

Addresses of the Oesterreichische Nationalbank

	Postal address	Telephone	Telex
Head Office			
Otto-Wagner-Platz 3 A 1090 Vienna *Internet: http://www.oenb.at*	P. O. Box 61 A 1011 Vienna Austria	+43-1/404 20, ext. Fax: +43-1/404 20 2398	(1) 114669 natbk (1) 114778 natbk
Branch Offices			
Bregenz Anton-Schneider-Straße 12	P. O. Box 340 A 6901 Bregenz Austria	+43/5574/49 61, ext. Fax: +43/5574/49 61 99	
Eisenstadt Esterhazyplatz 2	P. O. Box 60 A 7001 Eisenstadt Austria	+43/2682/627 18, ext. Fax: +43/2682/627 18 99	
Graz Brockmanngasse 84	P. O. Box 8 A 8018 Graz Austria	+43/316/81 81 81, ext. Fax: +43/316/81 81 81 99	
Innsbruck Adamgasse 2	A 6021 Innsbruck Austria	+43/512/594 73, ext. Fax: +43/512/594 73 99	
Klagenfurt 10.-Oktober-Straße 13	P. O. Box 526 A 9010 Klagenfurt Austria	+43/463/576 88, ext. Fax: +43/463/576 88 99	
Linz Coulinstraße 28	P. O. Box 346 A 4021 Linz Austria	+43/732/65 26 11, ext. Fax: +43/732/65 26 11 99	
Salzburg Franz-Josef-Straße 18	P. O. Box 18 A 5027 Salzburg Austria	+43/662/87 12 01, ext. Fax: +43/662/87 12 01 99	
St. Pölten Julius-Raab-Promenade 1	P. O. Box 5 A 3100 St. Pölten Austria	+43/2742/313 483, ext. Fax: +43/2742/313 483 99	
Representative Offices			
Oesterreichische Nationalbank London Representative Office 5th floor, 48 Gracechurch Street **London EC3V 0EJ, United Kingdom**		+44/20/7623 6446 Fax: +44/20/7623 6447	
Oesterreichische Nationalbank New York Representative Office 745 Fifth Avenue, Suite 2005 **New York, N. Y. 10151, U.S.A.**		+1/212/888 2334 +1/212/888 2335 Fax: +1/212/888 2515	(212) 422509 natb ny
Permanent Mission of Austria to the EU Avenue de Cortenbergh 30 **B 1040 Bruxelles, Belgium**		+32/2/285 48 42, 43 Fax: +32/2/285 48 48	
Permanent Mission to the OECD 3, rue Albéric-Magnard **F 75116 Paris, France**		+33/1/53 92 23 39 +33/1/53 92 23 44 Fax: +33/1/45 24 42 49	