



OESTERREICHISCHE NATIONALBANK

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<i>In line with the provisions set forth in the Austrian Banking Act as well as for monetary policy reasons, the Oesterreichische Nationalbank analyzes the Austrian banking industry on a regular basis. Such analyses draw on a wealth of qualitative information and on the banks' prudential returns. Analyzing a large number of credit institutions in a systematic and reliable fashion, while at the same time keeping resources at a reasonable level, is only feasible when computer-assisted systems help limit in-depth monitoring to cases with the highest risk probability. To this end, the OeNB designed a modular risk assessment system, whose methodology was presented in the OeNB's Reports and Summaries publication in 1994. This report sheds light on how the Austrian supervisory risk assessment system has been modified and enhanced in the past few years and also touches on international developments.</i>	
The opinions expressed in the section "Studies" are those of the individual authors and may differ from the views of the Oesterreichische Nationalbank.	
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R E P O R T S

Calendar of Monetary and Economic Highlights

Austria

March 2000

- 16 Following the monetary policy decisions taken by the *Governing Council of the ECB* on March 16 and earlier on February 3, 2000 – which add up to a 0.5 percentage point increase in the Eurosystem's key interest rates – the following adjustments take effect in Austria as from March 17, 2000: The *base rate* is raised to 3.0% and the *reference rate* to 4.75%. In both cases this represents a rise by 50 basis points.

European Union

February 2000

- 3 The *Governing Council of the ECB* decides to increase the Eurosystem's *key interest rates* by 25 basis points. As a consequence, the forthcoming main refinancing operations of the Eurosystem will be conducted at an interest rate of 3.25%, starting with the operation to be settled on February 9, 2000. In addition, the interest rate on the marginal lending facility will be raised from 4.0 to 4.25% and that on the deposit facility from 2.0 to 2.25%, both with effect from February 4, 2000. As President Duisenberg explained, this move has become necessary because internal and external risks to keeping prices stable in the euro area over the medium term have increased more strongly than foreseen earlier. Against the background of the ECB's rate increase, *Danmarks Nationalbank* decides to raise its *official interest rates* as of February 4, 2000. It increases its lending rate (for loans against collateral and for the issue or purchase of the Bank's certificates of deposits) by 30 basis points to 3.60%. Moreover, it increases its discount rate and its current account rate to 3.25% each. In both cases the increase is 25 basis points.
- 4 One day after the key rate increases announced by the *ECB* and *Danmarks Nationalbank*, *Sveriges Riksbank* raises its repo rate by 0.5 percentage point to 3.75%. Consequently, Sweden's *key interest rate* lies half a percentage point above the euro area's key rate.
- 7 The *EU* and the *ACP States* – 71 developing countries in Africa, the Caribbean and the Pacific – reach a consensus on a new trade framework (*Lomé V*). In compliance with WTO rules, economic partnership agreements will be implemented over a transitional period during which previous unilateral custom preferences will be phased out.
- 10 The *Bank of England's* Monetary Policy Committee votes to raise the Bank's repo rate by 25 basis points to 6%. This is already the second increase in the year 2000. The Committee concludes that this increase was needed to dampen medium-term inflation risks that have been fueled by robust domestic demand.
- 15 The *EU* officially opens *accession negotiations* with *Bulgaria, Latvia, Lithuania, Romania, the Slovak Republic* and *Malta*.

- Finland* is the first European state to offer a bond for which the bookbuilding is carried out via the *Internet*.
- 17 In a teleconference, the *Governing Council of the ECB* decides to leave the *interest rates* for the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 3.25, 4.25 and 2.25%, respectively.
- 23 The *Economic Policy Committee of the EU (EPC)* meets in Brussels to discuss inter alia preparations for the Lisbon *Special European Council* on Employment, Economic Reform and Social Cohesion scheduled for March 23/24. Other items on the agenda include country reports, a compilation report and a report by the Commission on the functioning of product and capital markets (*Cardiff report*), as well as discussions on the EU's *Broad Economic Policy Guidelines*.
- 28 January 28 marks the first time the new Austrian Finance Minister, Karl Heinz Grasser, attends a *Euro-11 meeting* and the subsequent *ECOFIN Council* (Council of economic and finance ministers of the EU). Finance Minister Grasser declares himself committed to a stable fiscal policy and to adherence to the Austrian stability program, which he outlines briefly. The *stability programs* for Germany, Italy, Spain and Belgium and the *convergence programs* for the United Kingdom and Denmark are adopted with a number of critical statements on the programs.
- The *ECOFIN Council* unanimously agrees to nominate Mr. Caio Koch-Weser as the EU's candidate for the post of *Director General of the IMF*. Further items on the agenda are the *Broad Economic Policy Guidelines* and their implementation in the year 1999. In its conclusions, the *ECOFIN Council* welcomes a technical scheme for handling counterfeit euro coins and takes note of the European Commission's communication strategy for the introduction of euro banknotes and coins.

March 2000

- 1 The *European Commission* adopts a sweeping internal reorganization plan. The reform is to be implemented by September 2000.
- 2 The *Governing Council of the ECB* decides to leave the *interest rates* for the main refinancing operations, the marginal lending facility and the deposit facility *unchanged* at 3.25, 4.25 and 2.25%.
- 8 The *Bank of Greece* lowers the fixed tender rate for 14-day deposits from 9.75 to 9.25%. Simultaneously it adjusts the rates at which overnight deposits are remunerated, cutting the rate for the first tranche from 9.5 to 8.75% and the rate for the second tranche from 8.5 to 8%. Furthermore, it lowers the lombard rate from 11.0 to 10.75%. The key rate adjustment is in line with the Bank's anti-inflationary stance.
- 9 Poul Nyrup Rasmussen, *Prime Minister of Denmark*, announces that a referendum on Denmark's entry into EMU and the introduction of the euro will be held on September 28, 2000.

- 13 At a *Euro-11 meeting* in Brussels, Austria's Finance Minister Grasser presents the key elements of the Austrian budget for the year 2000. He affirms that Austria is going to meet the targets laid down in the national stability program.
Also in Brussels, the *ECOFIN Council* (Council of Economic and Finance Ministers of the EU) adopts the updated stability programs of France, Luxembourg and Portugal.
Other important monetary policy items on the ECOFIN's agenda are the nomination of *Horst Köhler* for the post of *Managing Director of the IMF* and preparations for the Lisbon Special European Council. The key elements of the contribution which the *ECOFIN* has prepared for this event are: structural policy issues, coordination of economic policies, and reforms to improve the efficiency of financial markets, risk capital regulation and the sustainability of public finances. The *ECOFIN's report to the European Council* focuses on macroeconomic strategies; it does not specify any quantitative objectives.
According to the *Statistical Office of the European Union (Eurostat)* the aggregate budget deficit of the 15 EU countries dropped from 1.5 to 0.7% of GDP in 1999. The budget deficit of the euro area countries narrowed from 2.0 to 1.2% year on year. The general government debt ratio sank from 68.9 to 68.1% in the EU, and from 73.4 to 72.2% in the euro area.
- 16/17 For the second time this year, the *Governing Council of the ECB* decides to increase the Eurosystem's key interest rates by 25 basis points. Accordingly, the new rates are: 3.5% for the Eurosystem's main refinancing operations, 4.5% for the marginal lending facility, and 2.5% for the deposit facility. With this decision the Governing Council continues the policy of countering emerging upside risks to price stability in a timely and pre-emptive manner. Against the background of the ECB's rate increase, *Danmarks Nationalbank* decides to raise its official interest rates as of March 17, 2000. It increases its discount rate and its current account rate to 3.5%. Moreover, it increases its lending rate (for loans against collateral and for the issue or purchase of the Bank's certificates of deposits) to 3.85%. Across the board, this is an increase by 25 basis points.
- 23/24 At the *Lisbon Special European Council* the heads of state or government of the 15 EU Member States agree on targeting an annual growth rate of 3% and on implementing sweeping structural reforms. The dominant theme of the European Summit of Lisbon is employment and innovation policy. Furthermore, the EU reaffirms its commitment to support the Western Balkans. Other items on the agenda include the institutional reform of the EU and the common European security and defence policy. On the occasion of the *European Summit of Lisbon*, *Greece* submits its official application for entry into the Economic and Monetary Union of the EU and the euro area. Konstantinos Simitis, Prime

Minister of Greece, communicates his country's desire for EMU accession during the concluding meeting of the 15 heads of state or government. Subject to confirmation by the ECB and the European Commission that Greece meets the fiscal convergence criteria, the country might be formally accepted as the twelfth member of EMU even before Portugal hands over the rotating EU presidency to France.

- 29/30 At a *donor conference* held by *the World Bank and the European Union* in Brussels the international community pledges financial support for the Balkan states, while at the same time calling upon them to tackle political reform and actively seek intraregional cooperation. At the two-day conference representatives of 44 states and 36 international organizations commit themselves to raise EUR 2.4 billion (ATS 33 billion) for assistance measures. The money is earmarked for projects in Kosovo, Montenegro, Macedonia, Albania, Bulgaria and Romania. The funds are to be invested only into so-called regional projects, i.e. cross-border projects involving at least two nations. Austria pledges to contribute ATS 281 million in the current year.

April 2000

- 7/8 The main items on the agenda of the *informal ECOFIN Council* (Council of Economic and Finance Ministers of the EU states) and of the meeting of the *Euro-11 group* (informal meeting of the Economic and Finance Ministers of the 11 states that have adopted the euro) in Lisbon are the future financial constitution of the EU, the improved economic outlook and negotiations on a common regime for taxing the interest paid on private savings.
- 11 The *European Commission* publishes its *Spring 2000 Forecasts* for the EU economy with projections up to the year 2001. The Commission judges the EU economy to be growing at a healthy pace, fueled by both exports and domestic demand. Real GDP growth is forecast to reach 3.4% in 2000 and 3.1% in 2001 in both the EU and the euro area. Austria is expected to achieve slightly slower expansion rates, namely 3.2 and 3.0%. Differences in national growth rates are predicted to diminish over the forecasting period.
- The European Commission adopts its recommendation for the *Broad Economic Policy Guidelines (BEPGs)* for the economic policies of the Member States and the Community. The BEPGs are now scheduled for discussion in the Economic Policy Committee and in the Economic and Financial Committee, and subsequently for adoption by the ECOFIN Council. The Guidelines are at the center of the economic policy coordination process within the EU. They set out a comprehensive strategy aimed at sustaining and improving a growth- and stability-oriented macroeconomic policy mix, promoting the transition to a knowledge-based economy,

- implementing sweeping economic reforms and preparing for population aging.
- 12 The *ECB* publishes its *Annual Report 1999*. The Report has been prepared in accordance with Article 113 of the Treaty establishing the European Community and Article 15 of the Statute of the ESCB and is being submitted to the European Parliament, the Council of the European Union and the European Commission. The annual report covers the developments in the economic environment which had an influence on the euro area's monetary policy in the first 15 months of Stage Three of Economic and Monetary Union, in addition to the description of the functioning of the Eurosystem in its various areas of competence.
- 13 The *Governing Council of the ECB* decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 3.5, 4.5 and 2.5%, respectively. In his introductory statement to the press conference after the Council meeting Willem F. Duisenberg, President of the ECB, affirms that the Eurosystem will remain vigilant in assessing upside risks to price stability and will take appropriate action if and when required.
- 14 A *Macroeconomic Dialogue* meeting is held at a technical level, the first one in which an OeNB representative – who has observer status – takes part. The Macroeconomic Dialogue was institutionalized within the framework of the European Employment Pact by the European Council of Cologne to round off existing cooperation initiatives. The Employment Pact consists of three dovetailed processes:
- a coordinated employment strategy based on economic policy guidelines and implemented in the form of National Action Plans (NAPs), at the forefront of which are active labor market policy measures (Luxembourg process);
 - structural reforms to improve the innovative capacity and efficiency of the markets in goods, services and capital (Cardiff process);
 - as a new element, the coordination of wage developments and monetary, budget and fiscal policies through a macroeconomic dialogue aimed at stimulating noninflationary output and employment growth (Cologne process).
- This second Macroeconomic Dialogue meeting at a technical level convenes representatives from the European Commission, social partners, employers (UNICE and national associations) and employees (European Trade Union Confederation and national trade unions), the ECB and a pre-in-NCB representative (Sweden) as well as several EU committees (Economic Policy Committee, Economic and Financial Committee, Labour Market Committee). The European Commission provides secretariat support for the Macroeconomic Dialogue.

- 19 In the light of the favorable inflation outlook, the *Bank of Greece* cuts its key interest rates by 50 to 75 basis points. It lowers the fixed tender rate for 14-day deposits to 8.75%. Simultaneously it adjusts the rates at which overnight deposits are remunerated, cutting the rate for the first tranche to 8.5% and the rate for the second tranche to 7.5%. Furthermore, it lowers the lombard rate to 9%.
- 27 The *Governing Council of the ECB* decides to increase the Eurosystem's key interest rates by 25 basis points. The interest rate on the *main refinancing operations* of the Eurosystem will be raised by 0.25 percentage point to 3.75%, starting from the operation to be settled on May 4, 2000. The interest rate on the *marginal lending facility* will be raised by 0.25 percentage point to 4.75%, with effect from April 28, 2000. The interest rate on the *deposit facility* will be raised by 0.25 percentage point to 2.75%, with effect from April 28, 2000.
- With this decision, the ECB continues its policy of reacting to upside risks to price stability in the medium term in a preemptive manner in order to ensure the sustainability of the current phase of noninflationary economic growth. Such risks arise from strong growth in monetary and credit aggregates, as well as from the present level of the exchange rate of the euro. The Governing Council of the ECB judges that the present level of the euro does not reflect the strong economic fundamentals of the euro area. Against the background of the ECB's rate increase, *Danmarks Nationalbank* decides to raise its official interest rates as of April 28, 2000, by 25 basis points. It increases its discount rate to 3.75%. Moreover, it increases its lending rate (for loans against collateral and for the purchase of the Bank's certificates of deposit) to 4.10%.

Economic Background

Overview

As the EU economies, specifically the euro area economies gradually recovered, growth picked up momentum in Austria as well as of the summer of 1999. In the second half of the year annualized real economic growth increased markedly. Business and consumer confidence likewise reflected the upswing, foreign trade began to gain steam, and domestic demand remained brisk. Investment forged ahead, and real manufacturing output growth quickened considerably as of the middle of 1999. Rising tourism and buoyant sales provided additional impetus. Household investment in durable consumer goods, notably vehicles, expanded. In sum, real GDP growth advanced by about 2%, which basically corresponded with the EU/euro area average.

The cyclical upswing clearly reversed labor market trends, and the inflation rate stayed down in the face of the rise in oil prices as of the second quarter of 1999. Continued wage moderation and a flexible wage policy contributed to the low inflation trend. The year-on-year current account deficit widened as a consequence of sluggish export activity early on, concurrent vigorous import growth and a further rise in the deficit on investment income.

According to Statistics Austria's data for 1999, the government deficit increased at a slower pace than GDP (both aggregates were calculated following ESA 95 criteria), reducing the deficit-to-GDP ratio from 2.5% in 1998 to 2.0% in 1999. However, the downward trend of the debt-to-GDP ratio, which had started in 1996, came to a halt in 1999. Mainly on account of the appreciation of foreign currency liabilities, this ratio moved up from 63.5% in 1998 to 64.9% of GDP in 1999.

Recent forecasts for 2000 and 2001 indicate a continuation of the cyclical recovery. Economic growth is projected to pick up speed, exerting some inflationary pressure in addition to the effects of climbing oil prices and a weak euro exchange rate. Employment will continue to grow at a dynamic pace.

All the economic indicators currently available augur well for a sustained recovery of the Austrian economy into the beginning of the year 2000. The most important driving forces of this development are described below: The significantly more favorable international economic developments sharply boosted export demand and lifted industrial output. Moreover, investment augmented. Foreign trade also benefits from continued gains in competitiveness which, in turn, are upheld by stepped-up productivity and moderate wage hikes. Animated domestic demand remains the engine of output growth, in the light of the income boost attributed to the tax reform and a favorable labor market performance.

Development of Selected Economic Indicators

	1997	1998	1999	2000 ¹⁾	2001 ¹⁾	last recently available period		
						1998	1999	2000
<i>Annual change in %</i>								
Economic output, real GDP at 1995 prices						<i>1st to 3rd quarter</i>		
GDP	+ 1.2	+ 2.9	+ 2.2 ¹⁾	+ 2.8	+ 2.8	+ 3.2	+ 1.9	..
Gross capital formation	+ 2.1	+ 6.0	+ 3.9 ¹⁾	+ 4.6	+ 4.0	+ 6.8	+ 1.8	..
Private consumption	+ 0.1	+ 1.5	+ 2.3 ¹⁾	+ 2.7	+ 2.3	+ 1.8	+ 2.4	..
Public consumption	- 0.4	+ 2.0	+ 0.3 ¹⁾	- 1.0	+ 0.0	+ 2.0	+ 2.4	..
Exports	+10.1	+ 8.7	+ 4.0 ¹⁾	+ 5.8	+ 5.9	+ 8.2	+ 4.1	..
Imports	+ 9.4	+ 6.9	+ 4.1 ¹⁾	+ 5.1	+ 5.0	+ 9.8	+ 7.5	..
GDP per employee	+ 0.7	+ 1.9	+ 1.2 ¹⁾	+ 1.9	+ 2.0	+ 2.2	+ 0.5	..
Industrial output						<i>January to November</i>		
Output index incl. construction	+ 6.8	+ 9.6	x	x	x	+10.1	+ 4.5	..
Productivity per hour	+ 5.5	+ 3.2	+ 3.7 ¹⁾	+ 4.4	+ 4.3	x	x	x
Labor market						<i>January to February</i>		
Payroll employment	+ 0.3	+ 0.7	+ 1.0	+ 0.9	+ 0.8	+ 0.7	+ 0.7	+ 1.2
Registered unemployment	+ 1.2	+ 1.9	- 6.8	- 2.9	- 4.2	+ 1.1	+ 0.1	- 9.0
<i>in %</i>								
Unemployment rate								
EU concept	4.4	4.7	4.4	4.2	4.1	4.4	4.6	4.2
National concept	7.1	7.2	6.7	6.5	6.2	9.1	9.1	8.2
<i>Annual change in %</i>								
Prices								
National CPI	+ 1.3	+ 0.9	+ 0.6	+ 1.1	+ 1.0	+ 1.1	+ 0.5	+ 1.4
HICP	+ 1.2	+ 0.8	+ 0.5	x	x	+ 1.1	+ 0.2	+ 1.6
Wholesale price index	+ 0.4	- 0.5	- 0.8	x	x	+ 0.2	- 2.3	+ 2.7
Wages								
Negotiated standard wage rate index	+ 1.8	+ 2.2	+ 2.5	+ 1.8 ²⁾	+ 2.3 ²⁾	+ 2.4	+ 2.6	+ 2.0
Unit labor cost								
General	+ 0.3	+ 1.3	+ 1.2 ¹⁾	- 0.0	+ 0.3	x	x	x
Manufacturing industry	- 4.0	- 0.7	- 0.7 ¹⁾	- 1.8	- 1.4	x	x	x
Relative unit labor cost³⁾								
Vis-à-vis major trading partners	- 3.6	+ 0.5	- 2.4 ¹⁾	- 1.2	- 1.6	x	x	x
Vis-à-vis Germany	1.2	+ 1.5	- 2.4 ¹⁾	- 0.9	- 1.7	x	x	x
Foreign trade (Statistics Austria)						<i>January to December</i>		
Imports, in nominal terms	+10.9	+ 6.6	+ 5.5	+ 8.1	+ 7.6	+ 6.6	+ 5.5	..
Exports, in nominal terms	+16.8	+ 8.4	+ 5.8	+ 8.1	+ 8.1	+ 8.4	+ 5.8	..
<i>ATS billion</i>								
Balance of payments⁴⁾								
Current account	-64.1	-56.8	-61.2 ¹⁾	-64.7	-57.6	-41.9	-52.6	..
Goods	-52.0	-45.2	-63.2 ¹⁾	-68.5	-69.2	-62.9	-73.5	..
Services	12.0	27.3	x	x	x	42.8	55.1	..
Travel	10.8	20.7	24.4	36.6	41.5	20.7	24.4	..
<i>in %</i>								
Interest rates						<i>February</i>		
EONIA	x	x	2.74	x	x	x	3.12	3.28
Secondary market yield (government bonds ⁵⁾)	5.68	4.71	4.68	5.50	5.70	5.07	3.98	5.77
<i>Annual change in %</i>								
Effective exchange rate of the euro								
Nominal	x	x	x	x	x	x	x	-10.7
Real	x	x	x	x	x	x	x	-10.4
Indicator of Austria's price competitiveness ⁶⁾)	- 3.4	- 0.2	- 1.5	- 0.2	- 0.5	<i>January</i>		
						- 2.0	+ 0.9	- 2.8
<i>% of GDP</i>								
Budget								
Net government debt ⁷⁾)								
Central government	- 2.7	- 2.9	- 2.4	- 2.2	..	x	x	x
General government	- 1.9	- 2.5	- 2.0	- 1.7	- 1.9 ¹⁾	x	x	x

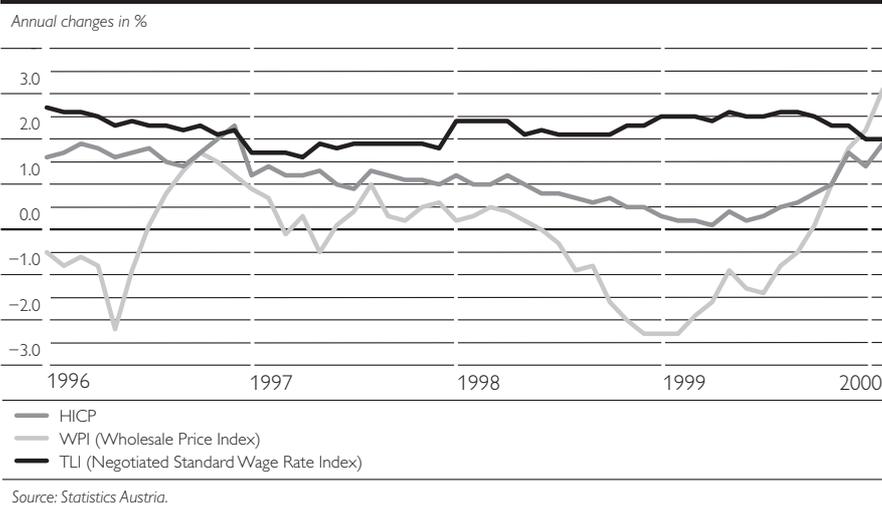
Source: OeNB, Statistics Austria, WIFO, AMS Austria, Association of Austrian Social Security Institutions.

¹⁾ WIFO forecast of December 1999.²⁾ Change in gross earnings per employee.³⁾ Manufacturing industry, calculated in uniform currency.⁴⁾ Annual figures are based on transactions, last recently available period on cash balances.⁵⁾ Ten-year federal government bonds (benchmark).⁶⁾ Until December 1998: real effective exchange rate of the Austrian schilling.⁷⁾ According to Statistics Austria; ESA 95-based calculation.

Prices, Wages, Competitiveness

Throughout 1999 price stability was largely maintained. With an annualized HICP inflation rate of 0.5%, Austria experienced the lowest inflation since 1945¹⁾ and also scored the lowest rate within the euro area. Inflation rebounded, however, in the fourth quarter of 1999 in Austria as well as in the entire euro area on account of the upturn in oil prices. The price increases of some energy products (fuels, various heating materials) were partly leveled out by price reductions of other goods resulting from fierce competition and from the liberalization and deregulation of important economic sectors (telecommunications, insurance sector, power supply industry).

Developments of Inflation Measures in Austria



Continued temperate wage claims buttressed low inflation. General unit labor costs edged up in 1999 while declining in manufacturing; relative unit labor costs improved by about 5½% against those of Austria's major trading partners from 1997 to 1999, strengthening Austria's competitive position in world markets. The 1999 wage bargaining rounds were generally concluded at a lower level than in 1998. Wages are thus expected to exert only marginal inflationary pressure in 2000. In January and February 2000, the negotiated standard wage rate index went up by a mere 2.0% each, after having increased an average 2½% in 1999. Wage settlements for the industrial workers subgroup receded from 3.1% in September 1999 to 2.4% in February 2000.

After the inflationary spurt in December 1999 (+1.7%), inflation softened slightly, running at an annualized 1.6% in January 2000.²⁾

¹⁾ Apart from the one-time 5.4% decline in prices in 1953.

²⁾ The HICP was revised in January 2000 on the basis of new European standards. A new weighting scheme considering the enlarged commodity basket in the fields of health, education and social protection was set up. Since the work of Statistics Austria has not been concluded – which will probably be the case when the February data are published – information about details such as back calculations or changes in weighting cannot be provided yet.

Although inflation eased, soaring prices of fuels and some heating materials continued to exert inflationary pressure. By contrast, the boost in tourism, which also accelerated inflation in December in light of the millennium change, diminished somewhat in January for seasonal reasons.

However, food prices climbed considerably on account of an upward trend in essential goods prices. The downward pressure on prices from recently liberalized markets, on the other hand, continues or is starting to have an impact, as in the case of electricity (in January 2000 the price of electricity plummeted by 3.0% year on year).

After advancing 2.2% in January 2000, wholesale prices gained 3.1% year on year in February.

Production

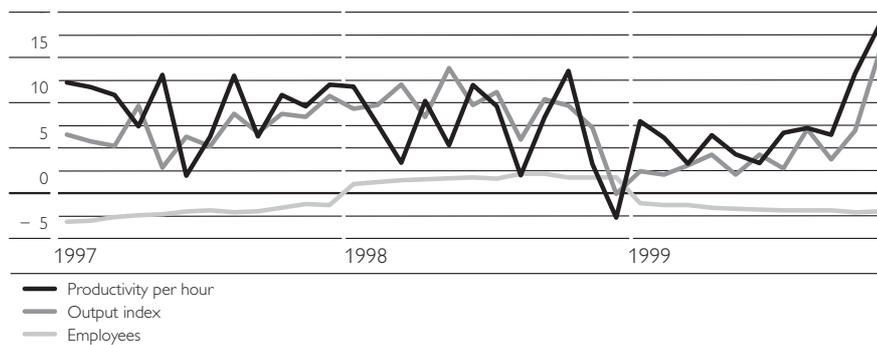
Indicators of industrial and consumer confidence have been improving almost continuously since the summer of 1999. The confidence barometer continued to rise at the beginning of the year 2000, with business surveys painting an optimistic picture. According to the WIFO business survey of January 2000, especially the general business situation and output expectations are seen in a bright light. In the past decade, only 1990 and 1994 recorded such an outstanding score on business sentiment. Given an Industrial Confidence Index of -8 in February, the European Commission registers a stabilization of the Austrian situation in comparison to previous months.

Consumer confidence fluctuated at the beginning of the year 2000. The Fessel/GfK Consumer Confidence Index advanced slightly from December 1999 (+3) to January (+5). However, consumer confidence retreated again in February (+1), possibly on account of uncertainties about the new Federal Government and the reforms it proposed for many areas of the economy.

Carried by accelerating exports, manufacturing was back on a pronounced expansionary path. During 1999 real output growth picked up from quarter to quarter. The third quarter already showed a year-on-year improvement of 4.2%. This trend strengthened toward the

Industrial Output

Annual change in %



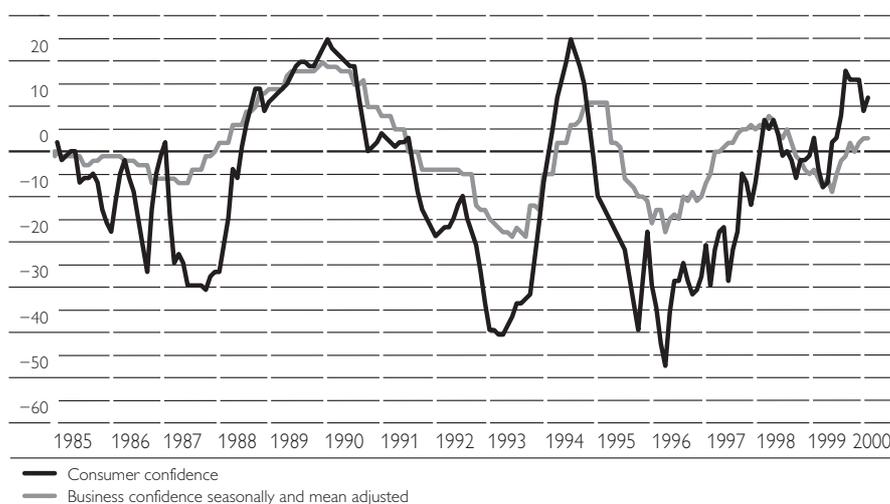
Source: OeNB, Statistics Austria.

end of 1999, resulting in an average year-on-year output growth of 4.5% for the first eleven months of 1999, much of which stems from higher production of intermediate and capital goods. Having overcome its weakness at the beginning of the year, the construction sector also picked up momentum, to reach an output growth almost on a par with that of the other sectors. Manufacturing productivity (output per hour) was remarkable; in the third quarter of 1999 it soared by about 6½% year on year.

After a sluggish development in the first half of 1999, real GDP growth tripled in the second half of the year. According to preliminary WIFO data, Austrian real output growth, as based on the ESA 95 methodology, amounted to 2.2% in 1999, fueled by domestic demand. Year-on-year private consumption picked up from quarter to quarter; public consumption was brisk. Toward year-end export and investment activities again set important stimuli.¹⁾

Confidence in the Economy

Balance on positive and negative responses



Source: OeNB, Fessel/GfK, GmbH Institute of Market Research.

Private Consumption

Favorable income and labor market developments and stable prices translated into a vigorous expansion of domestic demand, which augmented by a hefty 2¼% in real terms in 1999. Private consumption climbed in lockstep with imports. According to Statistics Austria, real turnover expanded by about 6½%²⁾ between January and November 1999. This

¹ For more detailed information on macroeconomic indicators, especially SNA aggregates according to ESA 95, please refer to the monthly OeNB publication "Focus on Statistics." The OeNB website (<http://www.oenb.at>) also gives access to these data via Internet.

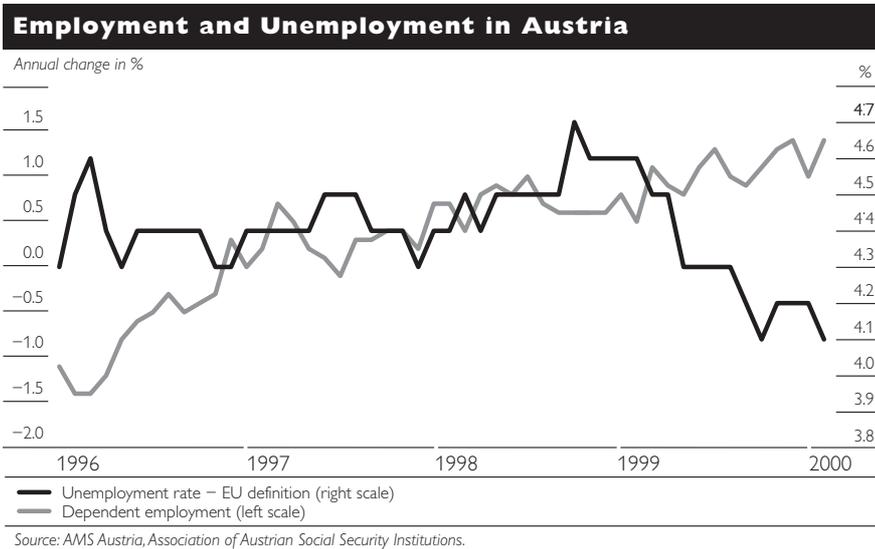
² However, this figure might paint too favorable a picture, since turnover statistics were adapted at the beginning of 1999. On the basis of model calculations and some statistical adjustments, the Austrian Institute of Economic Research in fact estimates that the actual increase amounted to only half this figure (see WIFO's monthly review 3/2000), resulting in some 3% real growth of turnover in the first eleven months of 1999.

uptrend was mainly carried by brisk demand in the vehicle sector and other durable consumer goods. Sound results in tourism also helped raise turnover figures, which, amid favorable snow conditions, remained animated into the year 2000 (increase in overnight figures in January of almost 5%).¹⁾

Labor Market

The picture of the Austrian labor market brightened throughout 1999. Dynamic domestic demand, mainly in the service sector, and the active labor market policy measures laid down in the National Action Plan for Employment fed through to employment, pushing up payroll employment by some 30,000 persons to an average 3.1 million. Thus employment expanded even faster than in 1998. At the same time, unemployment (222,000 job seekers) retreated well below the 1998 figures, in part thanks to enhanced training activities. In short, the job market was in full swing.

The largely cyclical upswing of the labor market picked up even more speed at the beginning of the year 2000. Employment continued to widen dynamically, with the service sector remaining the engine of growth. The improvement of the essential labor market indicators translated into another substantial drop of unemployment rates. The unemployment rate calculated in line with EU criteria came to an average 4.3% for the first two months of 2000 (4.1% in February), well below the corresponding 1999 figures of 4.6%. Joblessness according to the national definition came to 8.2%, having contracted almost 1 percentage point year on year.



Foreign Trade

Although foreign trade data are to be interpreted with caution on account of repeated revisions, their 1999 development is in line with cyclical trends.

¹ Any quantifiable effects triggered by sanctions against Austria, to be expected mainly in tourism, cannot be estimated until data on the first and second quarter of 2000 will be available.

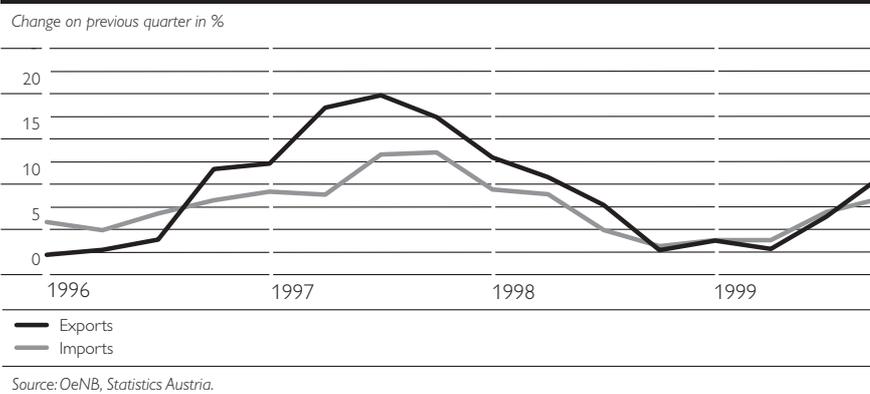
After growth had weakened at the turn of 1998/99, it showed timid signs of improvement. Foreign trade gained considerable steam only in the third and fourth quarters of 1999, when the global economy was gradually emerging from various crises, the European economy was rebounding and the euro was weak.

Austrian goods exports amounted to ATS 744 billion between January and November 1999. This translated into a rise of 4.2% or only half the corresponding 1998 figure. Goods imports came to ATS 811 billion, up by 4.8%. Propelled by brisk domestic demand, imports grew at a faster tick than exports, causing the goods deficit to widen to close to ATS 67 billion or by about 12% year on year.

Export performance varied depending on the individual foreign markets. In the EU/euro area as well as in the CEECs, export growth remained well below average. In contrast, overseas exports (to the U.S.A., Canada, Japan, China and Australia) surged. After a decline in 1998, shipments to some Asian emerging economies staged a comeback: Deliveries to Taiwan, South Korea, Indonesia and Thailand picked up vigorously; in Malaysia demand receded.¹⁾

61% of Austrian exports were delivered to neighboring countries. Shipments to Germany and Italy stagnated; exports to the Czech Republic were about level with the total average. Deliveries to Switzerland, Hungary and Slovenia boomed, whereas exports to the Slovak Republic sank.

Austria's Foreign Trade - Seasonally Adjusted



The foreign trade scenario was reflected in the current account by a widening of the goods deficit in 1999. The shortfall on goods was, however, more than offset by the higher surplus posted by the service subaccount – mainly travel surpluses – bringing about a slight improvement of the balance on goods and services. Factor income fell considerably short of the 1998 development. Net transfers were significantly higher, mainly on account of hefty outflows of interest and dividend income as well as of direct investment profit. In accordance with balance of payments conventions,

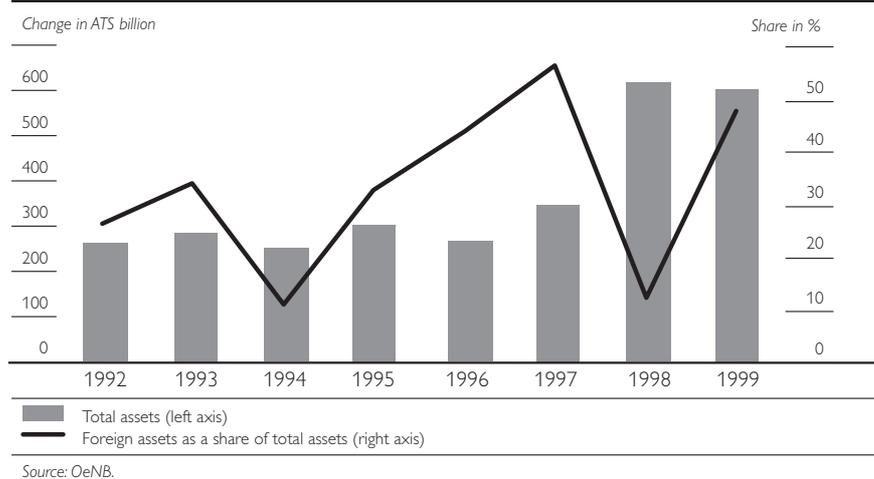
¹ In the order of their absolute exports in schillings (which came to between ATS 2 billion and ATS 2½ billion), the changes in percent were: Taiwan: +16.3%, South Korea: +11.4%, Indonesia: +36.0%, Thailand: +69.8%; Malaysia: -17.3%.

nonresidents' investment income reinvested in Austria is recorded on the debit side of the income subaccount. The 1999 transfer deficit also expanded year on year. Overall, the current account deficit on a cash basis came to ATS 52.6 billion (or 2.0% of GDP), exceeding the 1998 gap by ATS 10.7 billion (1.6% of GDP).

Marginal Slowdown of Total Asset Growth

In the review period, Austrian banks' total assets expanded slightly less than in 1998, rising by EUR 43.8 billion or 9.1% to EUR 524.6 billion. Growth diminished mainly because of the more moderate increase in interbank operations, which had advanced robustly in 1998 when intragroup funds were shifted in the wake of restructuring measures. With banks boosting foreign assets again after cutbacks in the wake of the crisis on world financial markets in the second half of 1998, international operations accounted for nearly half of the rise in assets. Domestic nonbank assets, too, continued to gain momentum, reaching a five-year peak of 6.3%, above all because loans to domestic nonbanks revived markedly. Securitized lending, though, diminished. Overall, the share of securitized and other lending to businesses and the public sector in banks' total assets contracted, as in 1998. Investment in equities, above all mutual fund shares, climbed. Sales of banks' direct paper contributed strongly to asset growth, whereas deposits grew far less than in 1998.

Austrian Banks' Total Assets

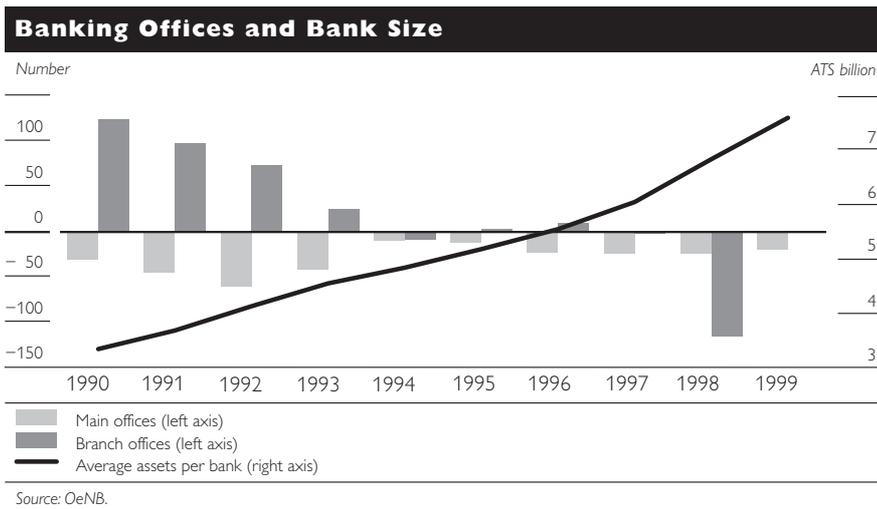


The streamlining trend in Austrian banking continued throughout the review year. While no large mergers took place, the number of independent banks was slashed from 971 to 951 (there were 20 mergers, 2 new banks were established, 2 banks were closed down). Market shares changed only minimally in 1999. The 5 big banks accounted for 43.9% of total assets, a rise by merely 0.2 percentage point, and the top ten banks held 57.6% of all assets, only 0.1 percentage point more than in 1998.¹⁾ Average total assets per bank more than doubled since 1990. Total assets widened from EUR 495 million to EUR 552 million in the reporting period.

In 1999 the number of banking offices in Austria remained unchanged at 4,576. While the decentral sectors trimmed the number of branches in their networks slightly, the joint stock banks opened several new branch establishments. Banking density decreased only marginally from 1,456 to

¹ Please note that Creditanstalt is legally independent and is thus counted as a separate bank in this list.

1,462 persons per banking office. At the end of 1999, 28 banks in Austria were majority-owned by nonresidents, up by 2 on 1998. Moreover, banks established abroad operated 15 branch offices and 30 representative offices in Austria. A trend to convert legally independent subsidiaries owned by parent banks abroad into legally dependent branch offices and thus to benefit from the Single Market was observed.



Revival of Austrian Banks' External Business

The number of branch offices established abroad by Austrian banks enlarged from 20 to 23, that of representative offices increased from 63 to 70. Most of the new establishments are located in the euro area and in Central and Eastern Europe.

After Austrian banks had reduced their international exposure during the financial crises which roiled international markets in 1998, they stepped

up foreign business again in 1999. The share of foreign assets went up by 2 percentage points to 25% of total assets, the highest annual share ever. Since banks liquidated numerous external asset and liability items as 1999 drew to a close, perhaps partly to avoid any millennium date change problems, the year-end share shrank by 0.9 percentage point against the third-quarter share.

Banks' portfolios of foreign securities and participations expanded powerfully in the year under review; at 60.6%, growth had nearly doubled from 1998. Loans to foreign nonbanks, too, outpaced the 1998 performance. Lending to customers in Central and Eastern Europe and the euro area rose particularly quickly. Turning to foreign liabilities, interbank liabilities and sales of Austrian banks' securities abroad increased most. Foreign nonbanks' deposits, however, augmented less than in 1998.

Foreign Currency Loans still Instrumental for Loan Growth

The domestic lending business was slow, though it gained momentum as the year went on, posting a 5.2% rise against 3.7% in 1998. Including securitized lending,¹⁾ banks' claims on their Austrian nonbank borrowers²⁾ enlarged by EUR 11 billion or 5.5% to EUR 212 billion. Adjusted for interest charges, which were 11.6% lower than in 1999 because interest rates had fallen, domestic loans were lifted by EUR 9 billion. As in 1998, foreign currency-denominated loans accounted for by far the largest part of loan growth: From the end of January 1999,³⁾ foreign currency assets skyrocketed by 53.1%, whereas euro-denominated assets edged up by a mere 0.7%.

Companies' borrowing from banks grew more slowly than in 1998, but borrowing by households remained very dynamic. As in the preceding years, the public sector reduced its loan liabilities to banks.

In the first half of the year, interest rates on loans remained on a downtrend, but increased again from mid-1999. At the end of 1999, personal and commercial loans were offered at rates 0.4 percentage point higher on average than mid-1999.

As in the previous years, the expansion of loans and the development of interest rates charged on loans developed along different lines in different borrower categories. The rise in personal loans quickened, which tallies with the drop in interest rates; the corporate sector, however, took out fewer loans when interest rates declined.

Considering that interest rates were on the rise in 1999, the share of loans at fixed interest rates in total loans⁴⁾ did not diminish significantly.

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

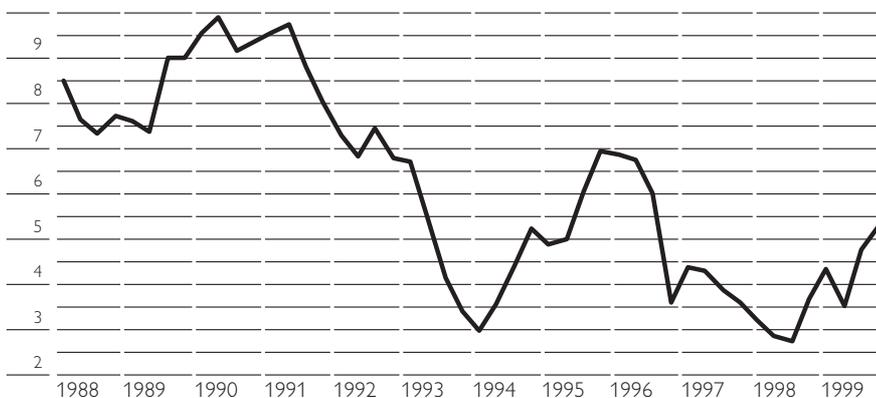
2) Loans include all types of loans to resident and nonresident borrowers regardless of classification. They also include both securitized and unsecuritized assets, provided the former have not been admitted to listing on the stock exchange. (OeNB, Reporting Guidelines for Credit Institutions' Monthly Returns pursuant to § 74 paras 1 and 4 Austrian Banking Act, Vienna 1999).

3) ATS/EUR and foreign currency balances cannot be compared with 1998 year-end figures because of the changeover from the schilling to the euro.

4) Lending to domestic nonbanks with a term of over one year.

Loans to Domestic Nonbanks

Annual change in %

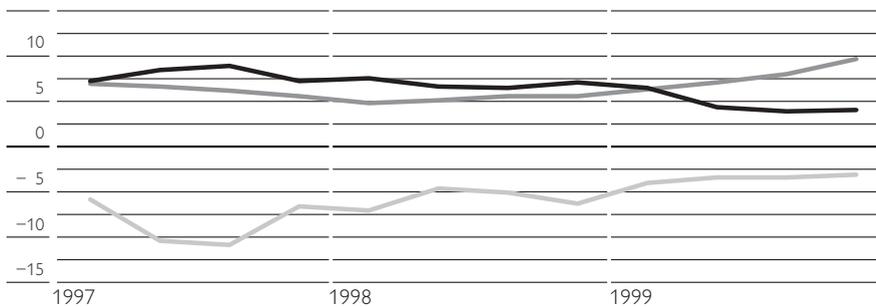


Source: OeNB.

Loans to households expanded by 10.4%. Apart from attractive interest rates, the lively demand for consumer durables powered households'¹⁾ appetite for loans, which were used roughly equally to finance consumer goods, home purchases and for "other"²⁾ purposes.

Loans¹⁾ to Nonbanks by Category

Annual change in %



— Business
— Households
— Public sector

¹⁾ Loans include securitized and unsecured assets, provided the former have not been admitted to listing on the stock exchange.

Source: OeNB.

Home and home improvement loans increased by 6.6%, outpacing the 1998 rise of 5.7%. The share of subsidized lending in total home loans contracted from 43.1 to 40.9%, thus falling by more than 7 percentage points since 1995. This may have to do partly with the more lively demand for foreign currency loans, most of which are not subsidized. Loans³⁾ extended by building and loan associations also decreased to EUR 2.1 billion

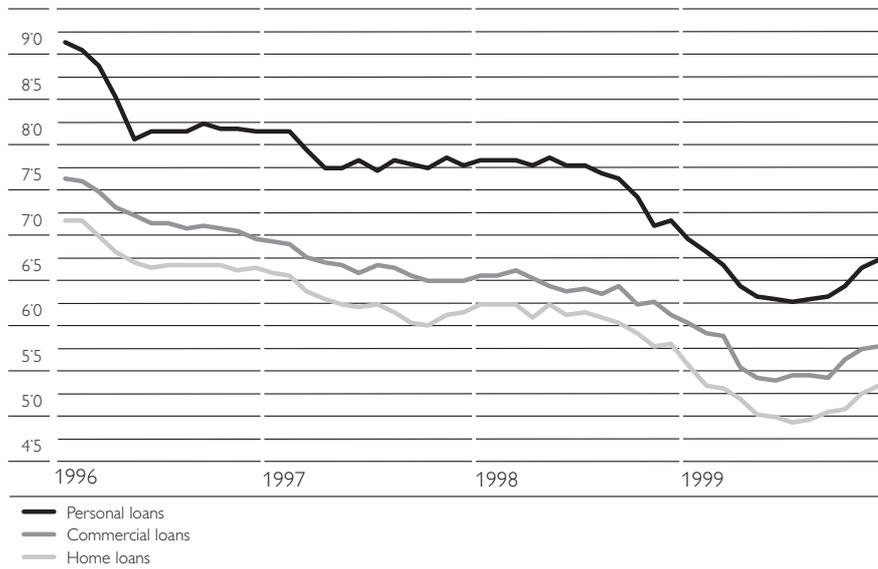
1 Pursuant to the Austrian contribution to the Consolidated Balance Sheet, which allows a breakdown and analysis of personal loans by main purpose.

2 All other loans to households not covered by the other categories (e.g. overdrafts on checking accounts).

3 Loans taken out under building and loan contracts after savings have reached the prescribed threshold.

Austrian Banks' Lending Rates

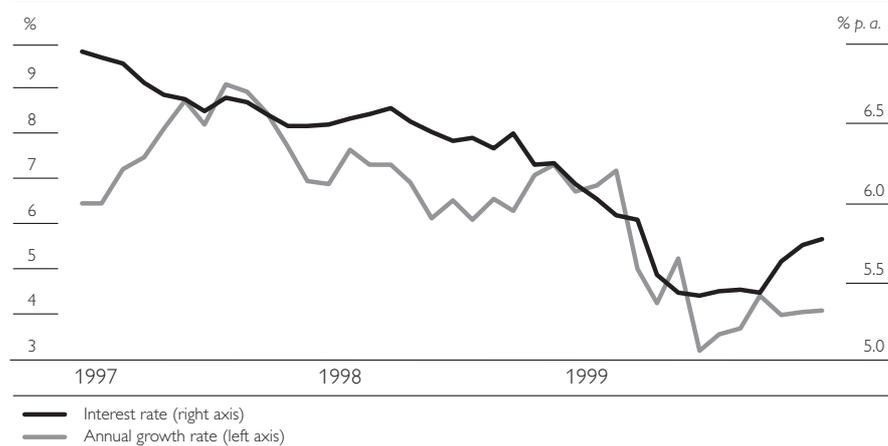
Averages in % p. a.



Source: OeNB.

from 1998, not least because this loan category was not competitive until mid-1999. Financing through building and loan associations became much more attractive again after the mid-year cut in interest rates.

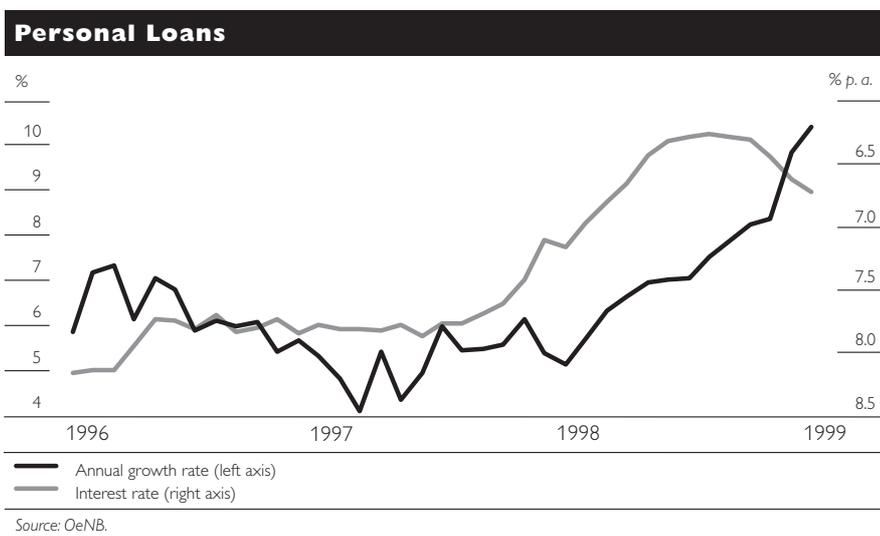
Commercial Loans



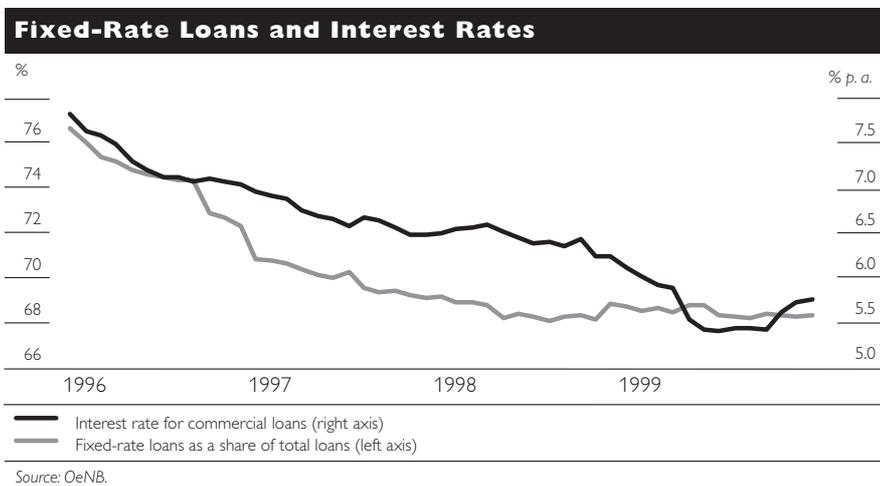
Source: OeNB.

Lending to businesses advanced by 4.1% in 1999, perceptibly slower than a year earlier, but the rate of increase quickened as the year went on because domestic demand strengthened and international framework conditions brightened. As in the previous years, business loans developed largely in parallel to gross investment in fixed assets.

However, low interest rates did not cause lending to pick up significantly, for one thing because companies' improved self-financing capacity probably allowed them to finance investment projects more easily

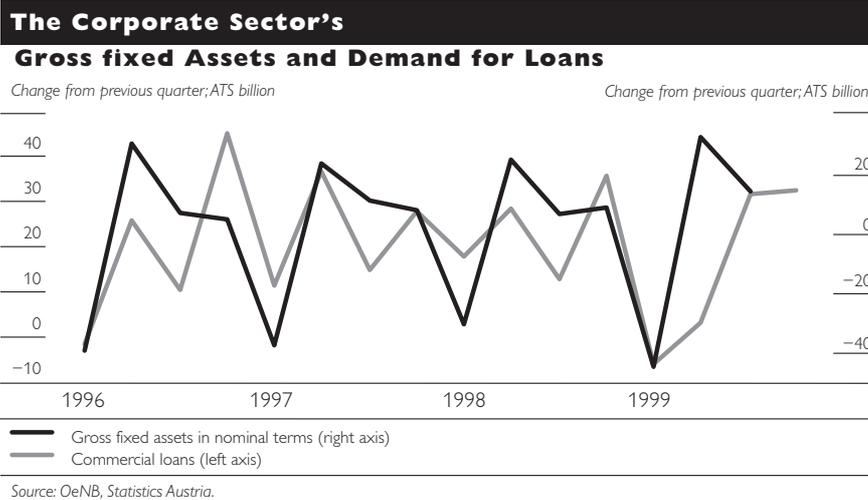


from their own resources (but 1999 cash flow data have not yet become available to verify this assumption). Also, companies opted for capital increases and new listings on stock exchanges in Austria and abroad to raise capital to a greater extent than in 1998. Conversely, Austrian companies issued only a very low volume of debt securities in Austria and abroad, unlike firms in other euro area countries, where issues of corporate bonds have risen noticeably since the establishment of EMU.



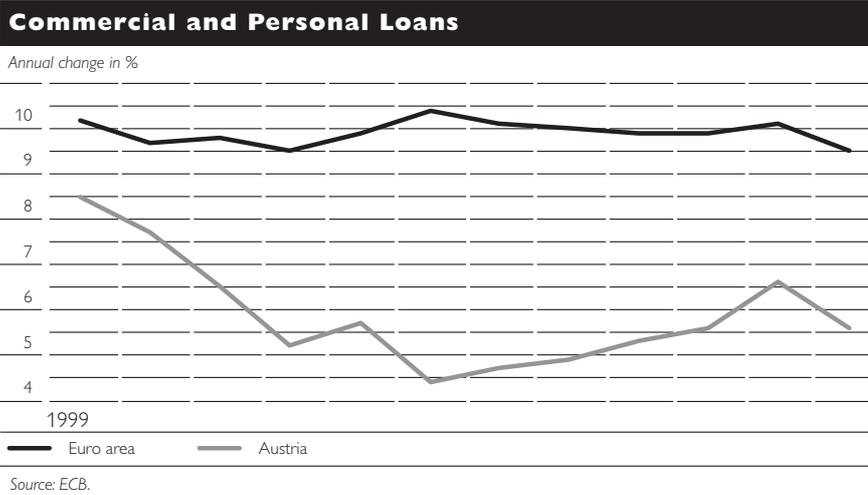
The more moderate pace of loan growth in Austria contrasted sharply with the robust expansion of lending throughout the remainder of the euro area. The incipient economic upturn and brisk merger and acquisition activity alongside climbing real estate prices in some countries are likely to have boosted euro area credit growth.

The public sector continued to reduce its borrowing from banks, though somewhat more slowly than in the previous year. Banks' loans to the public sector decreased by EUR 0.7 billion or 2.4%. Above all the federal government shifted more and more to securitized loans. Loans to the federal government fell by 13.0% in the review year, while those to state



and municipal governments rose by 2.5 and 10.3% respectively. The volume of government securities in banks' portfolios diminished at the same time. A growing share of government bonds is being purchased by international investors. Overall, bank lending to general government fell by EUR 3.3 billion to EUR 50.8 billion. Thus the public sector has lost more and more weight in banks' lending transactions.

Foreign currency loans kept expanding in 1999. Swiss franc-denominated loans jumped 36.4%; loans in Japanese yen quadrupled.¹⁾ On December 31, 73% of all foreign currency loans were denominated in Swiss francs, 21.6% were Japanese yen loans. Between the end of January and the end of December 1999, lending in foreign currency to households skyrocketed 93% and business borrowing shot up 42%. Conversely, euro lending rose only marginally. At the end of 1999, 17.7% of all loans outstanding to the household sector were in foreign currency and 17.4% of the business sector's loan exposure was in foreign currency.



¹ However, this rise is partly attributable to exchange rates: The yen appreciated from 133.73 JPY/EUR at the beginning of 1999 to 102.73 JPY/EUR at the end of the year.

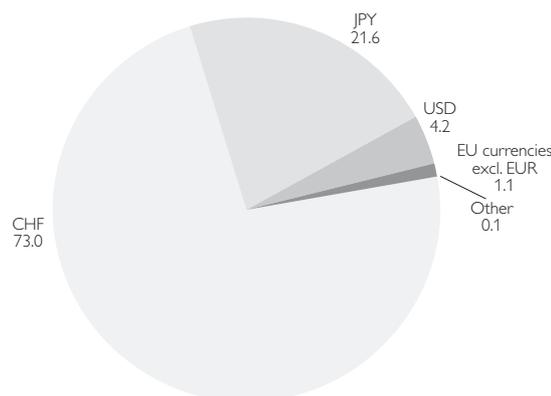
At the end of September 1999 the share of Swiss franc-denominated loans granted to domestic nonbanks by Austrian MFIs came to 38.2% of all Swiss franc lending in the euro area while the share of yen loans held by Austrian borrowers amounted to 21.0%. By comparison, lending to domestic nonbanks in Austria accounted for just 3.3% of all lending within the euro area.

Securitized lending contracted as the year passed, above all because banks' portfolios of public sector securities shrank. With Austrian banks' holdings of company paper at EUR 1 billion at the end of the reporting period, corporate bonds had still not established themselves as a major source of bank funds for businesses, accounting for less than 1% of Austrian banks' corporate finance.

The powerful surge in securities holdings was attributable chiefly to the rise in mutual fund shares by 70% to EUR 12.6 billion in 1999. In the past three years, banks' portfolios of mutual fund shares nearly tripled.

Foreign Currency Loans to Domestic Nonbanks as at December 31, 1999

Share in %



Source: OeNB.

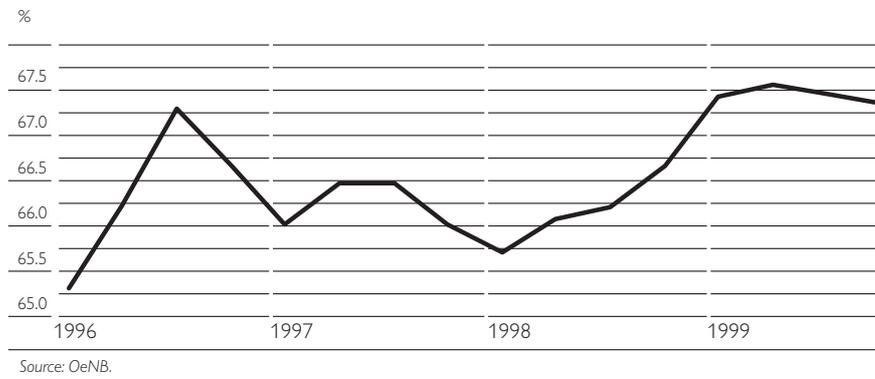
Healthy Growth of Short-Term Deposits

Austrian nonbanks' deposits at credit institutions progressed by EUR 5.2 billion or 3.1% in 1999, a considerable slowdown from the 1998 rise. In an environment of stable prices and low opportunity costs, the structure of deposits shifted further toward more liquid forms of investment. Deposits payable on demand¹⁾ climbed by 7.3%. The share of deposits with maturities of up to one year rose from 66.7% in 1998 to 67.3% of total deposits in 1999, but tended to fall slightly in the second half of the year when the steeper interest rate curve dampened the demand for more liquid funds a bit.

However, depositors' basic preference for more liquid funds showed in the development of the individual categories: Demand deposits augmented by 11.1% in 1999, whereas time deposits contracted. Savings deposits rose

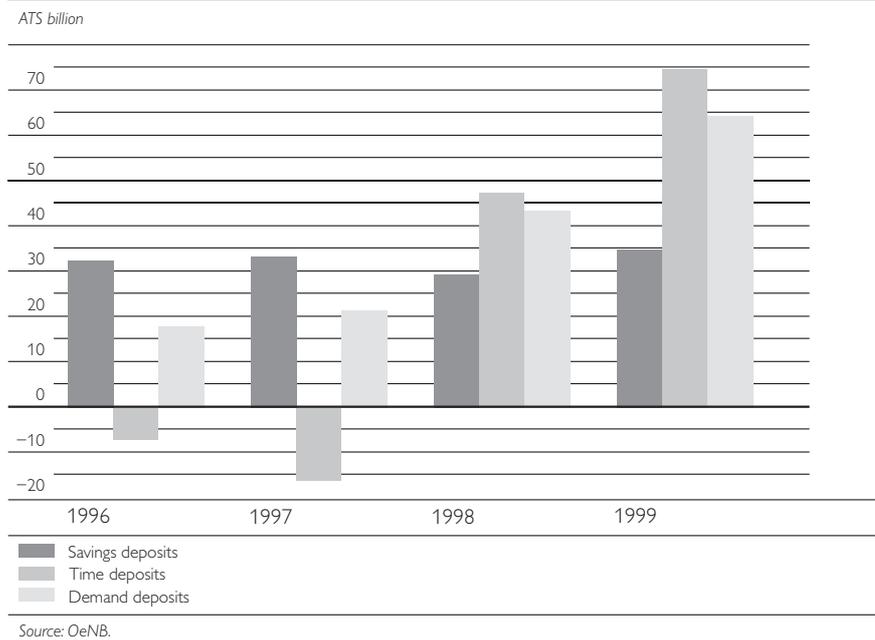
¹ Demand deposits and instant access savings deposits.

Deposits with a Maturity of 1 Year as a Share of Total Deposits

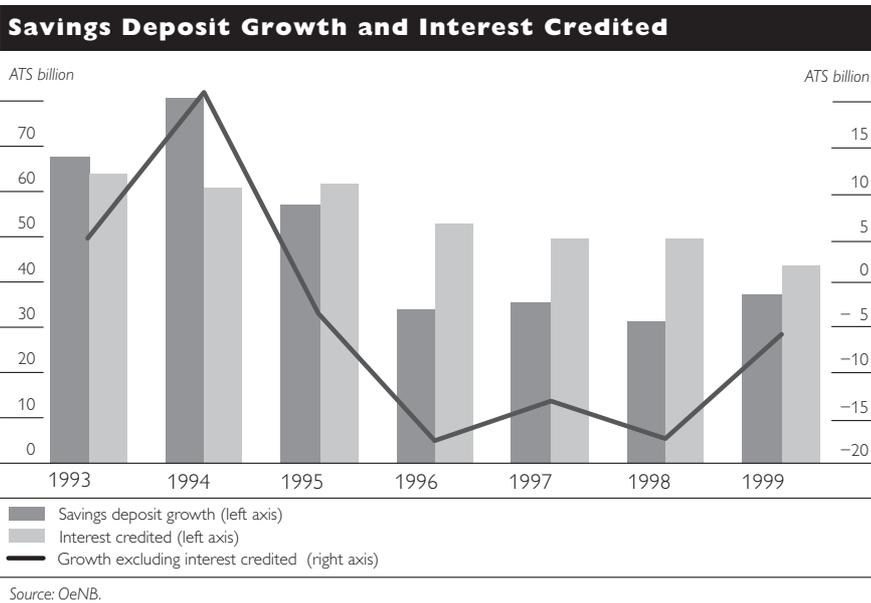


by EUR 2.5 billion or 2.1% from the end of 1998, but this increase fell short of the interest income credited to deposit accounts at year-end (EUR 3.0 billion). Thus savings deposits in fact decreased for five years in a row exclusive of interest deposited on savings accounts, though not as much in 1999 as before.

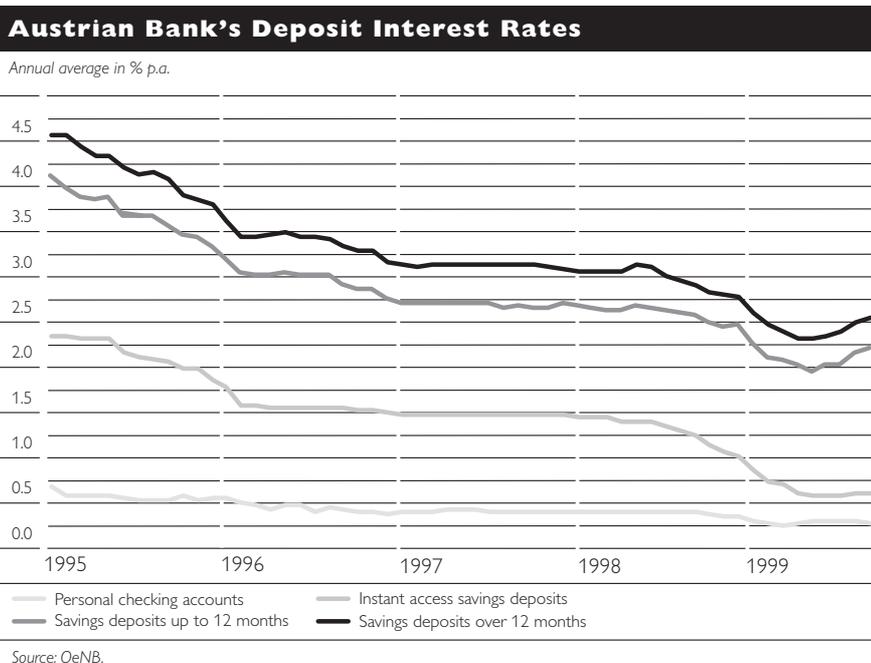
Deposits Growth (ATS/EUR and Foreign Currencies)



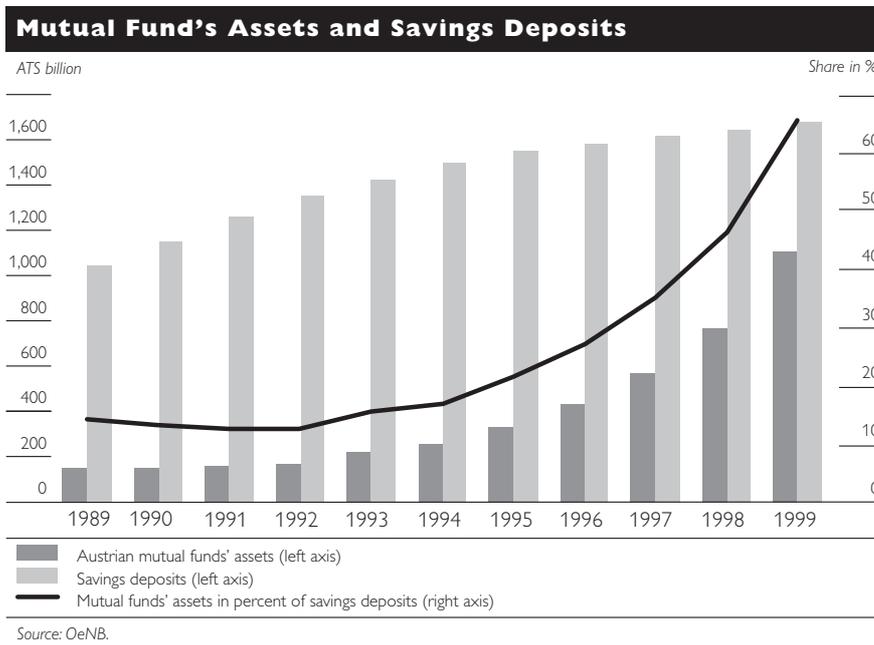
As in the case of interest on loans, interest on fixed-term savings accounts stopped dropping in the review period. The rate of interest for instant access savings deposits and personal checking accounts, though, did not start to rise again until the end of the year. The gap between savings and demand deposits, which had shrunk perceptibly in the past few years, widened somewhat in the second half of 1999, though it was still some 0.4 percentage point below the end-1998 level across the board at the end of the reporting period.



At the same time investors in search of higher yields tended to pull out of long-term deposits and moved into longer-term and less liquid investments. Above all, mutual funds were on a roll. Mutual funds' assets surged nearly EUR 25 billion, about 44%, in the year under review. At the end of 1998 assets managed by mutual funds equaled about two thirds of the volume of savings deposits, against just 17% of the savings deposit level five years previously.



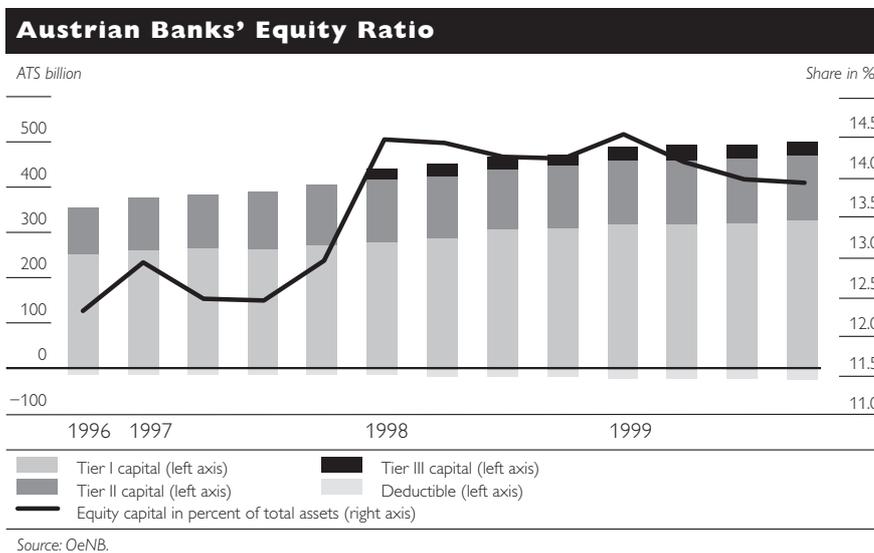
At 10.8%, the rise in placements of Austrian banks' direct paper was nearly four times that of deposits. Although the changeover to the euro makes it difficult to perform a more precise analysis, it is possible to



determine that most of the increase was in foreign currency-denominated securities launched by banks, mostly bonds. Sales of mortgage bonds, municipal bonds and cash obligations declined.

Equity Ratio at 13.9%

Austrian banks boosted their equity capital stock by EUR 1.9 billion to EUR 35.2 billion in the review year. The calculation base rose by 8.2% at the same time, so that banks' equity ratio pursuant to § 23 Austrian Banking Act 1993 in fact dipped from 14.2 to 13.9%. Core capital (tier I capital) expanded by EUR 1.0 billion in the twelve months to the end of 1999 and accounted for more than half of the equity increase. Supplementary capital (tier II capital) went up EUR 0.9 billion or 9.2%; tier III capital increased by EUR 0.4 billion or 23.1%.



Balance of Payments in the First Three Quarters of 1999¹⁾

In the first three quarters of 1999, certain trends have emerged for the balance of payments in the year 1999 as a whole:

- a diverging development for the subaccounts goods and services;
- a rise in the shortfall of the income subaccount;
- an acceleration of Austrian direct investment activity abroad;
- an increase in cross-border capital transactions due to portfolio restructuring in the wake of the establishment of the euro capital market;
- the general intensification of intra-euro area capital transactions resulting from the introduction of the euro.

I Current Account

In the first three quarters of 1999, the Austrian current account calculated on the basis of transactions (see table 1) was in deficit by EUR 4,210 million, a slight increase compared with the result of the analogous 1998 period (–EUR 3,190 million).

The higher current account deficit was primarily traceable to outflows in the income subaccount (–EUR 1,140 million). The deficit on goods and services, by contrast, improved by EUR 170 million to EUR 840 million.

The *euro area as a whole* reported a positive current account balance of EUR 34,600 million in the first three quarters of 1999. *Austria*, by contrast, posted current account deficits vis-à-vis both the *extra-euro area*²⁾ (–EUR 270 million) and the *euro area* (–EUR 3,940 million).

The development of the individual subaccounts of the Austrian current account in the reporting period was very different from that registered in the corresponding 1998 period.

1.1 Goods

Since goods imports (+7%) grew by 2 percentage points faster than goods exports (+5%), the *merchandise trade* deficit widened in the first three quarters of 1999.³⁾

The comparatively strong growth of imports can be ascribed chiefly to the mounting volume of equipment spending and to higher demand for consumer goods. As regards exports, the relatively subdued economic activity of major trading partners had a dampening effect.

1 *Transaction-based balance. Date of going to press: February 15, 2000. As of the beginning of 1999, the Austrian balance of payments figures published in Focus on Austria are based on the currency unit euro, using the irrevocable conversion rate of EUR 1 = ATS 13.7603. In the OeNB's statistical monthly (Focus on Statistics: HYPERLINK http://www.oenb.co.at/stat-monatsheft/englisch/start_p.htm), the data are given in both euros and schillings.*

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

3 *Unlike the monthly cash balance, the transaction-based balance for the first three quarters makes use of the foreign trade data released by Statistics Austria to calculate merchandise statistics. The corresponding merchandise payments show an expansion of 4% each for both exports and imports. The difference between the goods flows and the corresponding payments is indicated in the subitem unclassified transactions of the services subaccount (–EUR 960 million).*

The analysis of foreign trade by *geographic area*¹⁾ reveals in particular an expansion of the deficit vis-à-vis Germany by EUR 1,050 million to EUR 4,850 million (see table 2). Trade with central and eastern European countries – markets in which Austria would traditionally score surpluses – also worsened, with the positive balance shrinking by EUR 80 million to EUR 1,590 million. Trade with the U.S.A. and Japan posted hefty growth rates, which drove the deficit with these two countries even further up.

Broken down by *commodity categories*, raw materials and food were the only items to register improved results, whereas all other categories recorded a deterioration. The deficit on the balance of consumer and capital goods widened by some EUR 540 million for each category; the shortfall on the balance of semimanufactured goods went up by EUR 340 million (see table 3).

1.2 Services

The satisfactory performance of the services balance continued unabated. The surplus on the services subaccount surged by EUR 1,100 million to EUR 2,530 million in the first three quarters of 1999.

1.2.1 Travel

Although the recovery of the travel industry, which started in the winter season of 1997/98 (see “Balance of Payments in the First Half of 1999“), lost some steam in the course of the summer of 1999, the encouraging results in early 1999 continue to ensure a substantial increase in the surplus of the *travel balance* in the first three quarters of 1999 (see table 4).

The number of *overnight stays by foreign tourists* rose by 1.7% in the period under review (see table 5), with the expansion concentrating on the first quarter due to the early Easter date. In the months June, August and September, by contrast, overnight stays were on the decrease. The strongest gains in overnight stays were recorded for several of the countries of origin that are vital to Austrian tourism – namely Belgium, the Netherlands and the United Kingdom – and for guests from dynamic growth markets such as Poland, Hungary and the Czech Republic. Setbacks were reported above all for France and Russia.

Foreign exchange receipts progressed by 2.9% to EUR 8,280 million and thus only at a slightly more rapid pace than overnight stays. In view of a less-than-1% price increase in travel exports, this outcome was still tantamount to a real-term expansion of receipts per overnight stay. Revenues from international passenger transport, which previously formed part of the travel account, soared by 15.9% to EUR 1,200 million. *Austrians’ travel expenses* in the first three quarters of 1999 dropped by 1.9% or EUR 130 million to some EUR 6,660 million. At EUR 560 million, expenses in passenger transport also fell by comparison to the corresponding 1998 period (–2.4%). The Austrian tourism sector’s improved price competitiveness very likely played a crucial role in Austrians’ growing preference for vacationing at home (+3.6% overnight stays). As receipts and

1 Statistics Austria: foreign trade statistics.

expenditures developed in opposite directions, the travel account picked up substantially by EUR 370 million to EUR 1,620 million. The surplus on international passenger transport was also boosted significantly (+EUR 180 million).

1.2.2 Other Services Items

The balance on other services (excluding travel and international passenger transport) turned from a deficit of EUR 270 million into a surplus of EUR 280 million in the review period, primarily on account of an improvement of unclassified transactions from –EUR 1,385 million to –EUR 960 million. Moreover, the balance on merchanting deteriorated severely, while government and communications services worsened slightly. The remaining items generally posted better results, with operational leasing and royalties and license fees being of particular interest (the latter due to diminished expenses).

1.3 Income

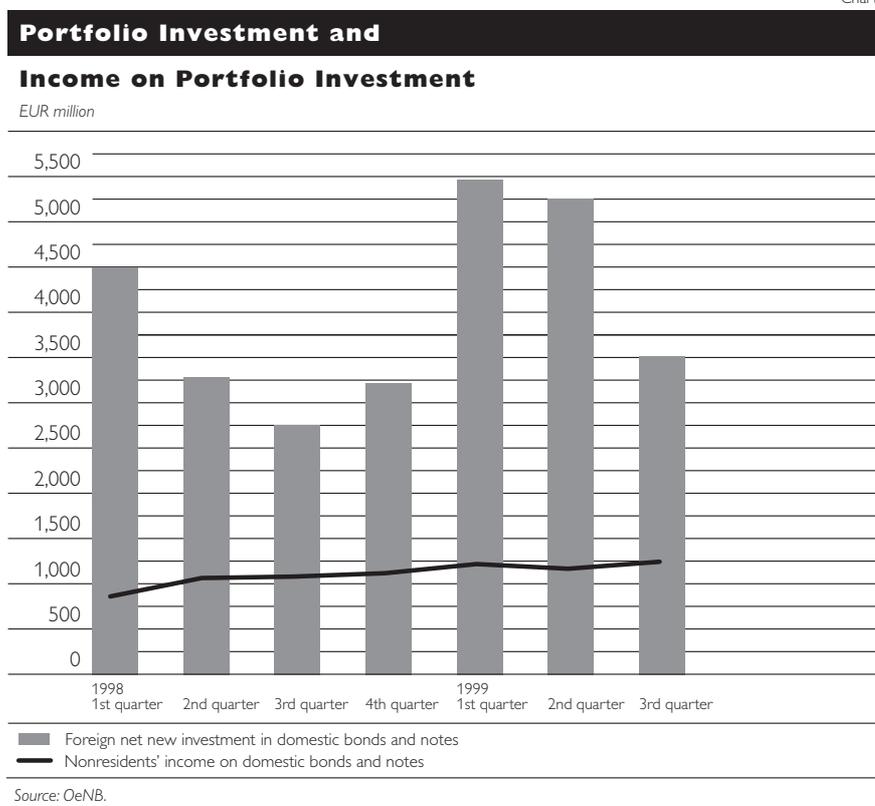
In the first three quarters of 1999, the income subaccount was in deficit by EUR 1,810 million, up by EUR 1,140 million year on year.

Income from the item *compensation of employees* resulted in a surplus of approximately EUR 370 million in the first three quarters of 1999, just as in the corresponding 1998 period. Austrian investors received EUR 260 million less in *investment income* (see table 6) in the review period than one year before, whereas an additional EUR 890 million went to nonresidents investing in Austria. Hence, the balance on investment income worsened by almost EUR 1,150 million compared with the analogous 1998 period, with portfolio investment income accounting for some EUR 520 million and income on other investment for roughly EUR 620 million.

In the first three quarters of 1999, Austrian net income on active direct investment came to EUR 750 million and thus some EUR 110 million more than one year earlier. Since passive direct investment income also rose by EUR 110 million to EUR 1,660 million, the balance on *direct investment income* remained in deficit by EUR 910 million.

Due to the massive cross-border portfolio investment in both directions in the past few years, portfolio investment income has come to play an increasingly important role in the investment income item. Income from investment abroad reached EUR 2,430 million in the first three quarters of 1999, whereas expenditure on liabilities to foreign investors came to EUR 3,900 million, which resulted in a net shortfall of EUR 1,470 million. (As at December 31, 1998, Austria had posted a negative investment position from securities, as measured by the international investment position, totaling EUR 53.7 billion). In particular payments to nonresidents from portfolio investment surged on the year-earlier period (+20%) in the wake of massive sales of domestic debt securities abroad (especially of general government issues). More than 90% of Austria's total liabilities under the item investment income can be traced to interest payments on bonds and notes.

Chart 1



A second major factor in the development of interest income on portfolio investment is the high volatility of interest rate derivatives, which are also subsumed under this item. The surplus of this subitem came to EUR 270 million in the first three quarters of 1999, down by EUR 190 million compared with the corresponding 1998 period.

A geographical breakdown of income on portfolio investment illustrates the preferences of Austrian investors: Some 43% of the income from foreign securities stemmed from the euro area, approximately 25 percentage points thereof from German issues. With 28% of total income on portfolio investment, the Americas – above all the U.S.A. – constituted the second investment focus. On the liabilities side, Austrian issuers paid interest mainly to investors from the euro area (45%), followed by creditors from European countries outside the EU (particularly Switzerland) and from the U.S.A. This means that Austria registered an investment income deficit vis-à-vis the other euro area countries of –EUR 695 million.

The item *income on other investment* covers all types of investment income that classify neither as income on direct investment nor as income on portfolio investment. It comprises income traceable to the investment and collection of deposits, to borrowing and lending operations and to the investment of reserve assets. In this category, the volume of Austrian investment abroad exceeded that of foreign investment in Austria, which led to a favorable balance of this investment income subitem.

In the period under review, net income on other investment came to EUR 191 million, a decrease by EUR 620 million compared with the year

before. The surplus on the balance of Austrian cross-border claims and liabilities contracted, calculated on the basis of transactions, by EUR 5,880 million in 1999 (level as at end-1998: about EUR 23,500 million), which also trimmed the corresponding income component. Due to the reserve asset redefinition following the introduction of the euro, securities claims denominated in euro or traceable to issuers from the euro area were subsumed under the heading of portfolio investment, which caused a reduction of assets in the form of official reserves. Consequently, the corresponding income forms part of the item income on portfolio investment. Moreover, the OeNB transferred part of its reserve assets to the ECB following the introduction of the euro.

1.4 Current Transfers

At –EUR 1,260 million, *net general government current transfers* – the key item of this subaccount – remained virtually unchanged from the corresponding period one year earlier. The transactions with the EU contained in this item ran to –EUR 1,060 million on balance, an increase of EUR 180 million on the first three quarters of 1998. Austria's contribution to the EU budget came to EUR 1,730 million in the reporting period, while its receipts (excluding EU subsidies to infrastructure projects) totaled EUR 670 million.

The shortfall on *private sector transfers*, by contrast, sank from EUR 350 million to EUR 290 million, which was primarily attributable to a lower volume of taxes and fees paid by Austrians.

2 Capital Account

The *capital account* closed with a deficit of EUR 110 million in the period under review (first three quarters of 1998: EUR 100 million).

Capital transfers in kind showed diverging sectoral developments. The *general government's* capital transfers in kind encompass in particular those receipts from the EU that are earmarked for infrastructure programs and consequently do not fall under the heading current transfers. They came to EUR 140 million in the first three quarters of 1999, compared with EUR 120 million one year before. The *private sector's* capital transfers in kind closed with a shortfall of EUR 270 million by comparison to EUR 160 million in the analogous 1998 period, mainly on account of stepped-up debt forgiveness.

3 Financial Account

Austrian cross-border capital flows on the assets side, based on transactions (see table 7), reached a value of EUR 36,150 million, with some 63% of total net new investment going into other member countries of the euro area and another 20% into other EU member countries. This means that capital movements – after their expansion in the first six months of the year – continued to advance in the third quarter of 1999 compared with the year-earlier period, with the focus still on investment in the euro area. In the same period, Austria's *total external liabilities* came to around EUR 40,730 million, which was also tantamount to a hefty increase of

cross-border capital inflows. Thus, capital flows on both the assets and the liabilities side surpassed the total 1998 results by roughly 100%.

The expansion of cross-border capital movements in both directions was essentially determined by massive portfolio investment in the form of bonds and notes, Austrian banks' short-term deposits and loans and the OeNB's financial investment that is not related to reserve asset management.

A breakdown by *interest-bearing versus risk capital-oriented financial instruments* for the third quarter of 1999 showed, as in the first two quarters, interest-bearing investment to account for a proportion of more than 85%, with regard to both purchases/sales of financial assets and borrowing/lending operations.

A *breakdown by maturity* also confirms the outcome of the first half of 1999. About two thirds of total Austrian cross-border investment abroad involved long-term foreign securities, while more than half of foreign investors' additional capital flows into Austria were traceable to short-term financial assets (in particular deposits and money market instruments).

The development of *cross-border capital movements broken down by Austrian economic sectors* was as follows:

With the introduction of the euro, the OeNB's investment activities that went beyond the management of Austria's reserve assets became increasingly important. Notably the OeNB's clearing-house role with respect to TARGET payments, which fall under the heading "other investment, sight and time deposits, monetary authorities," left its imprint on the central bank's cross-border capital transactions. In the period under review, the OeNB posted net capital imports on the order of EUR 7,640 million. *Banks* invested – by comparison to the year 1998 as a whole – to a larger degree in securities and loans, while refinancing themselves primarily by issuing debt securities and money market instruments and by accepting short-term deposits. All in all, banks exported capital to the amount of EUR 1,070 million in the first three quarters of 1999. The consolidated outcome of the sectors OeNB and banks shows that their liabilities augmented by EUR 6,560 million on balance in the survey period. *General government*, in particular central government, added to its liabilities vis-à-vis the rest of the world almost exclusively through its net sales of money market instruments and bonds, with net capital imports coming to EUR 11,700 million.

These capital inflows were in contrast with capital exports of the category *other sectors* (comprising other financial institutions such as investment companies, insurance companies and pension funds as well as nonfinancial corporations and households), whose net claims vis-à-vis nonresidents expanded further to EUR 14,050 million, primarily on account of the steep rise in purchases of foreign securities by institutional investors.

The balance of the capital movements of all domestic sectors based on increased claims on nonresidents and the further expansion of liabilities vis-à-vis nonresidents resulted in a net capital import of EUR 4,220 million in the period under review, with the third quarter accounting for EUR 2,530 million. Including transactions posted under errors and omissions, total capital imports of EUR 4,330 million resulted in the compensation of

Financial Account by Sectors

	1998 ¹⁾	1st to 3rd quarter 1999 ¹⁾	3rd quarter 1999 ²⁾
<i>EUR million, net</i>			
Financial account			
Assets, total	-17,055	-36,148	-13,733
Liabilities, total	+21,790	+40,372	+16,266
Net	+ 4,735	+ 4,224	+ 2,533
Sectoral breakdown			
OeNB			
Assets	- 3,461	- 523	- 200
Liabilities	x	+ 8,159	+ 3,251
Net	- 3,461	+ 7,636	+ 3,051
General government			
Assets	- 633	- 448	- 57
Liabilities	+11,291	+12,154	+ 3,463
Net	+10,658	+11,706	+ 3,520
Banks			
Assets	- 3,638	-17,598	- 8,611
Liabilities	+ 4,848	+16,523	+ 8,700
Net	+ 1,210	- 1,075	+ 89
Other sectors			
Assets	- 9,323	-17,581	- 4,981
Liabilities	+ 5,651	+ 3,537	+ 852
Net	- 3,672	-14,044	- 4,129
<i>Memorandum item:</i>			
<i>OeNB und Banks</i>			
Assets	- 7,099	-18,121	- 8,811
Liabilities	+ 4,848	+24,682	+11,951
Net	- 2,251	+ 6,561	+ 3,140
Unclassified transactions (Errors and omissions)			
Net	- 421	+ 101	- 360
Financial deficit/surplus	+ 4,314	+ 4,325	+ 2,173

Source: OeNB.

¹⁾ Revised data.

²⁾ Preliminary data.

the financial deficit, which was above all the outcome of a current account deficit.

The expansion of Austrian cross-border capital flows on the assets side, based on transactions, and the rise in Austria's transaction-based external liabilities (both measured by the international investment position) came to some 20% each in the first three quarters of 1999.

3.1 Direct Investment

According to the OeNB's balance-of-payments statistics, Austrian outward direct investment activity continues unabated from the first half of 1999, whereas inward direct investment remains virtually unaltered at the same high level.

Austria's net capital exports under the heading *outward direct investment* amounted to EUR 2,410 million and thus fell only EUR 50 million short of the total 1998 value – this means that 1999 will very likely see a new all-time high. The net investments in equity holdings (including premises and buildings) on the order of EUR 1,910 million ensued from outward

investment to the amount of EUR 2,260 million (gross) and outward disinvestment totaling EUR 350 million. The marked improvement of the earnings situation of Austrian subsidiaries abroad over the last few years led to reinvested earnings to the amount of EUR 490 million in the first nine months of 1999. The volume of loans between Austrian investors and their affiliated enterprises rose by only EUR 20 million, however. Thus, Austrian enterprises stepped up outward investment significantly for the fourth time in a row.

Eastern Europe accounted for nearly 40% of the total volume of outward direct investment in the survey period, namely EUR 920 million. Like in 1998, the Czech Republic attracted the bulk of investment in central and eastern Europe, followed by Poland, Russia, Hungary and Slovenia. Investment in Russia was in part due to factors such as covering of losses or recapitalization in order to hedge long-term investments. 36% of total direct investment activity was focused on the EU (EUR 860 million), with Germany, Sweden, the United Kingdom and France dominating the picture. Investment outside Europe to the tune of EUR 530 million (i.e. more than 20% of total direct investment) also exceeded the totals of most years since 1992. As regards the sectoral breakdown, asset-side direct investment was recorded for a broad range of industries, in particular banking, building materials, chemicals, trade and engineering.

Inward direct investment in the first nine months of 1999 was not on a par with Austrian direct investment abroad. With EUR 2,470 million, the volume of net acquisitions by foreign companies of Austrian equity capital was marginally above Austrian outward direct investment, but trailed the exceptional 1998 outcome of EUR 5,320 million perceptibly. Inward acquisitions of EUR 1,500 million (gross) were recorded alongside inward disinvestment of EUR 350 million (gross). Thus, net investments in equity holdings (including premises and buildings) ran to EUR 1,150 million. According to preliminary calculations, reinvested earnings came to EUR 1,320 million, while the repatriation of foreign investors' other claims on their Austrian subsidiaries led to minimal disinvestment.

In spite of a large number of individual investment projects, 85% of total inward direct investment can be traced to only five countries, namely Germany, Australia, the United States, Hungary and Switzerland. As in most of the previous years, Germany was the number-one investor with EUR 1,110 million, i.e. nearly 45% of the total capital invested. Hungary's hefty outward flows to Austria (EUR 250 million) were largely due to losses being covered. Switzerland benefited from its role as a prime location for holding companies. From a sectoral viewpoint, investment activity continued to be carried by telecommunications.

3.2 Portfolio Investment

Cross-border purchases and sales of securities skyrocketed in the period under review. While the year 1998 had already been characterized by a continued uptrend in cross-border portfolio investment by comparison to the preceding years, the survey period saw almost a doubling of the funds invested by domestic buyers compared with the year 1998 as a whole. The

main factor responsible for this spending spree was Austrian investors' desire to restructure their portfolios on the basis of the new currency, i.e. to make use of foreign securities denominated in "domestic" currency. Simultaneously, Austrian issuers succeeded in placing their securities both in the euro area and with nonresidents, which applied in particular to issues launched by the Republic of Austria.

In the first two quarters of 1999, the volume of foreign securities acquired by Austrian investors exceeded sales of domestic issues abroad, which resulted in net capital exports totaling EUR 3,060 million. The third quarter of 1999, by contrast, saw purchases by Austrian investors drop sharply, leading to net capital imports to the amount of EUR 2,080 million.

The factors influencing transactions on international capital markets were as follows:¹⁾

- Rise in yields of EUR- and USD-denominated bonds and notes and continued increase of equity indices in Europe, Japan and the U.S.A.
- Marginal contraction of issuing activity in medium and long-term paper, counterbalanced by a stronger performance with regard to money market instruments in the third quarter of 1999; more issues were launched in the first three quarters of 1999 than in the year 1998 as a whole; in the third quarter, fear of the "millennium bug" caused issuers to float securities ahead of schedule.
- Financial institutions accounting for the lion's share of issues; extremely lively activity in the area of corporate bonds; by contrast, marked decrease in the volume of government issues both in the U.S.A. and Europe.
- As regards international issuance in the third quarter, euro securities were for the first time more important than USD issues. 68% of the euro issues could be ascribed to the euro area.
- Major single issues included – apart from government bonds – U.S. corporate bonds, German "Jumbo-Pfandbriefe" and an Italian bond launched for financing the takeover of Telecom Italia.

Austrian Investors' Portfolio Investment Abroad

Domestic investors acquired foreign securities amounting to EUR 19,300 million (transaction value), with the third quarter accounting for EUR 4,050 million thereof. 72% of total net new investment in foreign securities can be traced to other euro area countries, another 16% to the remaining EU Member States. Domestic investors showed a clear predilection for debt securities, whereas stocks did not prove particularly attractive, in spite of rising market capitalization. The stronger focus on investment in foreign securities and the geographical distribution thus reflected the development in the euro area, although stronger portfolio shifts towards equity securities were noticeable in other euro area countries.

In the first three quarters of 1999, domestic investors bought EUR 2,770 million worth of *foreign equity securities*, which was close to 60% of the total 1998 value.

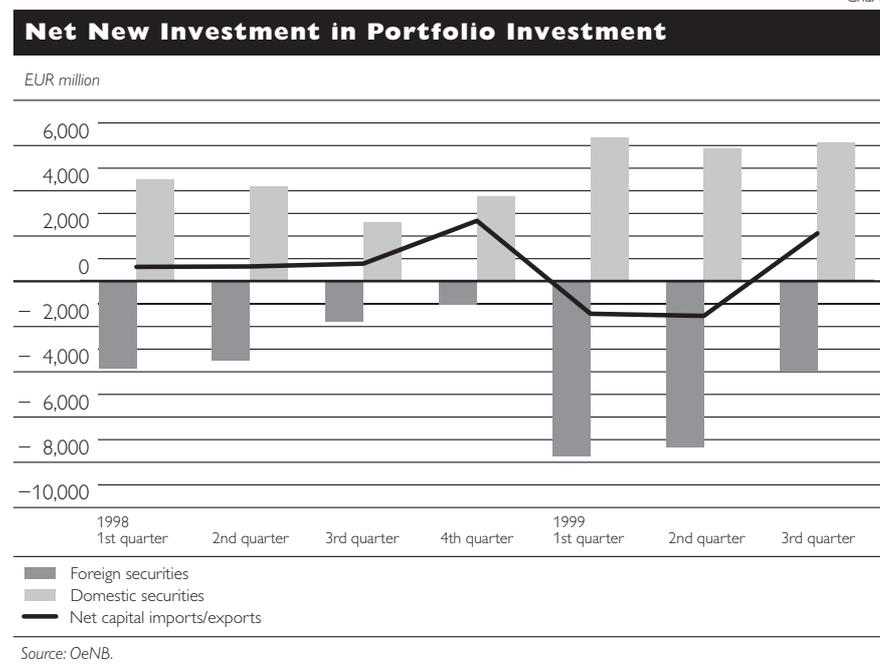
¹ See also BIS Quarterly Review "International Banking and Financial Market Developments," November 1999.

An analysis of the two securities subgroups foreign shares and shares of foreign mutual funds in the period under review shows that residents purchased *foreign shares* to the amount of EUR 1,380 million, with most of the purchases effected in the first quarter. Austrian investors primarily went for listed shares of the sectors finance, manufacturing and technology.

In the first three quarters of 1999, Austrians put some EUR 1,410 million into *shares of foreign mutual funds*, mainly balanced funds and euro-denominated equity funds.

Purchases of *foreign money market funds* continued to be of minor importance, in spite of livelier issuing activity in the third quarter of 1999. *Foreign bonds and notes*, by contrast, were snapped up greedily by domestic investors (in particular banks, insurance companies, investment companies and pension funds), with purchases focusing on the euro area. In the first three quarters of 1999, domestic investors expanded their portfolios by EUR 16,080 million (based on transactions), with *issues launched in the euro area* being responsible for somewhat more than 75%. A key role with respect to investment in the euro area was played by German issuers' debt securities (roughly 50% of total net new investment), with domestic investors having increasing recourse to the growing supply of Pfandbriefe, in addition to government bonds. Securities floated in Belgium and the Netherlands also held strong appeal. A *breakdown by currencies* shows that domestic investors put their money predominantly into euro-denominated issues (88% of total net new investment), in spite of higher U.S. yields and a rising USD exchange rate vis-à-vis the euro.

Chart 2



Portfolio Investment in Austria

In the period under review, nonresident net portfolio investment in Austrian securities came to about EUR 18,300 million, which was tantamount to a rise by some 30% compared with the level as of end-1998. Both equity securities and debt securities were more sought after by foreign investors than in 1998. The high net sales of government bonds in particular were indicative of the attractiveness of Austrian securities abroad, given the new framework provided by the euro.

In the first three quarters of 1999, *domestic equity securities* worth around EUR 1,690 million changed into nonresidents' hands, more than half thereof in the second quarter of 1999. *Austrian shares* – above all listed banks, industrials and utilities – accounted for some EUR 590 million of this amount.

In the survey period, nonresidents bought *shares of Austrian mutual funds* – for the most part fixed income and balanced funds – totaling some EUR 1,100 million, with most of the business occurring in the second quarter of 1999.

In the first three quarters of 1999, net sales of *domestic bonds and notes and money market instruments* came to EUR 14,280 million and EUR 2,340 million, respectively, an aggregate increase of 20% on 1998 as a whole. Half of this volume was very likely absorbed by investors in the euro area, the rest went to British and Japanese banks. A *sectoral breakdown of issuers* illustrates – as in 1998 – the dominating position of *general government*. The total transaction value of general government issues acquired by nonresidents came to EUR 12,140 million. Foreign investors took a particular liking to bonds floated by the Republic of Austria by means of tender procedure or as syndicated loans and considered benchmark issues for the Austrian capital market.

Tender and Syndicated Loans

in the First Three Quarters of 1999¹⁾

	ISIN	EUR million
3.9% Federal government bond 1998–2005/3	AT0000384524	1,598
4.125% Federal government bond 1999–2014/1	AT0000384748	642
6.25% Federal government bond 1997–2027/6	AT0000383864	1,529
4% Federal government bond 1999–2009/2	AT0000384821	1,934
3.4% Federal government bond 1999–2004/3	AT0000384862	2,522
4.3% Federal government bond 1999–2003/2	AT0000384359	1,073
Total		9,298

Source: OeNB.

¹⁾ Transactions values: + = sale abroad.

Apart from long-term securities, the *Austrian Treasury Bills* issued by the Republic of Austria met with a very favorable response on the part of foreign investors. About 90% of the Federal bonds acquired by nonresidents were denominated in euro, with Swiss franc and Japanese yen issues accounting for the rest.

The *bonds and money market instruments issued by banks* and purchased by nonresidents amounted to EUR 4,830 million. Apart from the traditionally

high proportion of USD-denominated securities, banks also sold Swiss franc issues abroad with the aim of refinancing domestic Swiss franc loans.

Foreign sales of *corporate bonds* developed in the opposite direction, as marginal net inflows were recorded. As opposed to other euro area countries, no increase in the number of such bonds is noticeable in Austria.

The relatively strong demand for money market instruments in the third quarter – compared with the total absorption of domestic debt securities abroad, may have been due to the uncertainty about the future course of interest rates, which was first observed in the second half of the year.

3.3 Other Investment

The other investment account (deposits, loans including trade credits and financial leasing and repurchase agreements as well as other financial assets and liabilities) posted capital imports to the tune of EUR 3,910 million in the survey period. These capital imports derive primarily from “offsetting entries“ with regard to autonomous financial transactions and, to a lesser extent, from current and capital account transactions, which are channeled through bank and OeNB accounts. In this context, TARGET transactions represented a crucial factor, forming part of the OeNB’s¹⁾ other investment account.

The *sectors OeNB and banks* accounted for net capital imports on the order of EUR 5,060 million, whereas domestic nonbanks (general government and other sectors) were net exporters of capital totaling EUR 1,150 million, due to time deposit investments and lending to nonresidents. The other investment account also includes settlements under the cash management system of group enterprises, which have gained in importance after the introduction of the euro.

The capital imports effected by the *sectors OeNB and banks with residents of the extra-euro area* came to EUR 5,830 million, with some 75% ascribable to the U.S.A.

The Austrian balance-of-payments data show that domestic banks extended approximately EUR 3,340 million worth of long-term credit to foreign borrowers in the first three quarters of 1999, almost double the volume compared with the corresponding 1998 period. The lion’s share of this amount went to EMU member countries, to Switzerland/Liechtenstein and to eastern and central European countries, in particular Poland, Slovenia and Croatia. Claims on Russia contracted, by contrast, in line with the international trend. A look at the situation in international banking also shows that the syndicated loan market involving nonbanks experienced a revival in the period under review, primarily on account of the global restructuring process in the corporate sector. Interbank business, by contrast, was cut back or replaced by acquisitions of debt instruments. Credit business with emerging markets was on the upswing, in particular as far as Asia was concerned, as the economic situation in this region improved.

1 Item: Other investment, liabilities, sight and time deposits, monetary authorities sector.

3.4 Reserve Assets

Based on transactions, Austria's reserve assets diminished by EUR 1,870 million in the first three quarters of 1999. The crucial factor in this decrease was the transfer of part of the OeNB's reserve assets to the ECB (EUR 1,180 million) in accordance with the EU Treaty, which was effected at the beginning of the year.

4 Annex

Table 1

	1st to 3rd quarter		Annual change
	1998 ¹⁾	1999 ²⁾	
	EUR million		
Current account	-3,191	-4,209	-1,018
Goods, services and income	-1,679	-2,654	- 975
Goods and services	-1,008	- 840	+ 168
Goods	-2,447	-3,376	- 929
Services	+1,438	+2,535	+1,097
<i>thereof:</i>			
<i>Travel</i>	+1,250	+1,617	+ 367
<i>Construction services</i>	+ 156	+ 192	+ 36
<i>Financial services</i>	+ 37	+ 63	+ 26
<i>Royalties and license fees</i>	- 458	- 350	+ 108
<i>Other business services</i>	+ 875	+ 839	- 36
<i>Government services, n.i.e.</i>	+ 252	+ 210	- 42
<i>Unclassified transactions</i>	-1,385	+ 962	+ 423
Income	- 671	-1,814	-1,143
Compensation of employees	+ 373	+ 376	+ 3
Investment income	-1,043	-2,189	-1,146
Current transfers	-1,512	-1,555	- 43
General government	-1,163	-1,263	- 100
Private sector	- 349	- 292	+ 57
Capital and financial account	+5,135	+4,108	-1,027
Capital account	- 104	- 114	- 10
General government	+ 67	+ 125	+ 58
Private sector	- 160	- 271	- 111
Acquisition/disposal of nonproduced, nonfinancial assets	- 11	+ 33	+ 44
Financial account	+5,238	+4,221	-1,017
Direct investment	+1,014	+ 56	- 958
Portfolio investment	+1,947	- 984	-2,931
Other investment	+2,219	+3,913	+1,694
Financial derivatives	- 178	- 629	- 451
Reserve assets ³⁾	+ 236	+1,866	+1,630
Errors and omissions	-1,944	+ 101	+2,045

Source: OeNB.

¹⁾ Revised data.

²⁾ Provisional data.

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

Table 2

Merchandise Exports and Imports as Recorded

in the Foreign Trade Statistics

Goods by geographic area

	1st to 3rd quarter 1999						
	Exports			Imports		Balance	
	Annual change	Share of total exports	Annual change	Share of total imports		Annual change	
	%				EUR million		
OECD	+ 5.8	77.5	+ 7.2	81.9	-5,683	- 803	
EU	+ 3.6	63.3	+ 6.3	69.2	-5,764	-1,038	
EMU	+ 3.4	56.7	+ 6.3	63.9	-6,088	-1,033	
thereof:							
Germany	+ 3.3	35.4	+ 8.2	42.1	-4,850	-1,052	
Italy	+ 0.7	8.5	+ 2.8	7.8	- 66	- 77	
France	+ 7.2	4.5	+ 9.0	5.0	- 427	- 65	
CEECs ¹⁾	+ 2.0	16.1	+ 4.2	11.3	+1,587	- 81	
U.S.A.	+19.0	4.5	+18.0	5.3	- 587	- 76	
Japan	+37.6	1.2	+17.4	2.6	- 751	- 47	
Total	+ 5.0	100.0	+ 6.7	100.0	-4,585	- 942	

Source: Statistics Austria.

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

Table 3

Merchandise Exports and Imports as Recorded

in the Foreign Trade Statistics

Goods by commodity category

	Exports			Imports			Balance	
	1st to 3rd quarter 1999	Annual change		1st to 3rd quarter 1999	Annual change		1st to 3rd quarter 1999	Annual change
	EUR million		%	EUR million		%	EUR million	
Foodstuffs	2,069	+ 209	+11.2	2,606	+ 43	+ 1.7	- 537	+ 166
Raw materials	1,965	+ 167	+ 9.3	3,643	- 50	- 1.3	-1,678	+ 217
thereof: energy (SITC 3)	409	+ 30	+ 7.9	1,837	- 85	- 4.4	-1,429	+ 115
Semimanufactured goods	6,260	- 696	-10.0	6,045	- 353	- 5.5	+ 215	- 342
Manufactured goods	33,468	+2,344	+ 7.5	36,094	+3,427	+10.5	-2,626	-1,083
Capital goods	11,705	+ 852	+ 7.9	12,228	+1,392	+12.8	- 523	- 540
Consumer goods	21,763	+1,492	+ 7.4	23,867	+2,035	+ 9.3	-2,104	- 543
Miscellaneous manufactured articles	98	x	x	57	x	x	+ 41	x
Total	43,860	+2,103	+ 5.0	48,446	+3,045	+ 6.7	-4,585	- 942

Source: Statistics Austria.

Table 4

	1st to 3rd quarter		Annual change	
	1998 ¹⁾	1999 ²⁾		%
	EUR million			
Travel				
Receipts	8,043	8,280	+ 237	+ 2.9
Expenses	6,793	6,663	- 130	- 1.9
Balance	1,250	1,617	+ 367	+29.4
International passenger transport				
Receipts	1,035	1,200	+ 165	+15.9
Expenses	579	564	- 15	- 2.6
Balance	456	636	+ 180	+39.5
	1,000			%
Foreign tourist bednights	70,500	71,705	+1,204	+ 1.7

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

Table 5

	1st to 3rd quarter 1999			
	Overnight stays	Annual change	Share	
	1,000	%		
Germany	45,908	+ 57	+ 0.1	64.0
Netherlands	6,507	+ 446	+ 7.4	9.1
United Kingdom	2,485	+ 116	+ 4.9	3.5
Belgium, Luxembourg	2,091	+ 97	+ 4.9	2.9
Switzerland, Liechtenstein	2,345	- 23	- 1.0	3.3
Sweden	568	+ 9	+ 1.5	0.8
France	1,560	- 158	- 9.2	2.2
Italy	2,286	- 14	- 1.6	1.5
Spain	389	- 22	- 5.4	0.5
Finland	157	+ 15	+10.9	0.2
U.S.A.	1,290	- 16	- 1.3	1.8
Japan	453	+ 5	+ 1.1	0.6
Hungary	587	+ 54	+10.2	0.8
Slovakia	114	+ 9	+ 8.7	0.2
Czech Republic	593	+ 50	+ 9.1	0.8
Poland	702	+ 93	+15.3	1.0
Commonwealth of Independent States	266	- 55	-17.2	0.4
Slovenia	171	+ 0	- 0.1	0.2
Croatia	198	+ 5	+ 2.7	0.3
Other Countries	3,035	+ 429	+16.5	4.2
Total	71,705	+1,204	+ 1.7	100.0
Memorandum item: Austrian tourists	25,755	+ 886	+ 3.6	x

Source: Statistics Austria.

BALANCE OF PAYMENTS
IN THE FIRST THREE QUARTERS OF 1999

Table 6

	1st to 3rd quarter		Annual change
	1998 ¹⁾	1999 ²⁾	
<i>EUR million</i>			
Investment income receipts	6,597	6,340	- 256
Investment income payments	7,640	8,530	+ 890
Net investment income ³⁾	-1,043	-2,189	-1,146
Net direct investment income ³⁾	- 909	- 912	- 3
Income on direct investment abroad	640	751	+ 111
Income on direct investment in Austria	1,549	1,662	+ 114
Net portfolio investment income ³⁾	- 945	-1,469	- 524
Income on foreign equity securities	152	212	+ 60
Income on domestic equity securities	202	203	+ 1
Income on foreign debt securities	1,672	1,914	+ 242
Income on domestic debt securities	2,942	3,571	+ 629
Income on foreign money market instruments	14	29	+ 16
Income on domestic money market instruments	97	120	+ 23
Financial derivatives on interest rate contracts, net	+ 459	+ 271	- 187
Net other investment income ³⁾	+ 811	+ 191	- 620
Income on other investment, assets ⁴⁾	3,661	3,164	- 498
Income on other investment, liabilities	2,850	2,973	+ 122

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

Table 7

Financial Account			
(including change in reserve assets)	1998 ¹⁾	1st to 3rd quarter 1999 ²⁾	3rd quarter 1999 ²⁾
	<i>EUR million, net</i>		
Financial account	+ 4,735	+ 4,221	+2,532
Assets	-17,056	-36,149	-13,733
Liabilities	+21,791	+40,370	+16,266
Direct investment	+ 2,866	+ 56	- 398
Direct investment abroad	- 2,457	- 2,411	- 959
Equity capital	- 1,903	- 1,906	- 763
Reinvested earnings	- 547	- 486	- 182
Other capital	- 7	- 20	- 15
Direct investment in Austria	+ 5,323	+ 2,467	+ 561
Equity capital	+ 3,844	+ 1,148	+ 264
Reinvested earnings	+ 1,300	+ 1,322	+ 298
Other capital	+ 180	- 4	- 1
Portfolio investment	+ 4,583	- 984	+ 2,078
Portfolio investment in foreign securities	-10,339	-19,288	- 4,052
Equity securities	- 4,633	- 2,774	- 399
Bonds and notes	- 6,033	-16,074	- 3,586
Money market instruments	+ 327	- 440	- 67
Portfolio investment in domestic securities	+14,921	+18,304	+ 6,131
Equity securities	+ 908	+ 1,689	+ 403
Bonds and notes	+13,806	+14,276	+ 3,529
Money market instruments	+ 208	+2,339	+ 2,199
Other investment	+ 640	+ 3,913	+ 1,634
Assets	- 989	-15,624	- 8,004
Trade credits	+ 641	+ 125	+ 142
Loans	- 4,808	- 8,351	- 3,261
Currency and deposits	+ 3,211	- 6,307	- 4,787
Other assets	- 33	- 1,092	- 98
Liabilities	+ 1,629	-19,537	+ 9,638
Trade credits	- 266	- 38	- 8
Loans	+ 60	+ 324	- 198
Currency and deposits	+ 1,526	-19,159	+ 9,670
Other liabilities	+ 308	- 91	- 174
Financial derivatives	- 439	- 629	- 712
Assets	- 356	- 692	- 648
Liabilities	- 83	+ 62	+ 64
Reserve assets³⁾	- 2,914	- 1,866	- 70

Source: OeNB.

¹⁾ Revised data.

²⁾ Provisional data

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

S T U D I E S

The Austrian Supervisory Risk Assessment System

Johannes Turner

I Introduction

To evaluate the soundness of the financial sector, banking supervisory authorities the world over have been gathering data from credit institutions for years. Faced with a tradeoff between reporting efficiency and effectiveness, supervisory authorities endeavor to strike a balance in their data gathering approach: While narrowing down the information requested from banks to the absolute minimum is in line with efficiency, reporting is effective if it enables supervisors to glean the key information from a wealth of data. As supervisors may not necessarily pinpoint a priori which data could prove critical to the examination of a particular bank, most countries have given preference to a comprehensive reporting system backed up by a complex technical infrastructure. Naturally, it takes a sophisticated analytical framework to cull the essential information from an expansive base of collected data. Ideally, such analysis tools would search the credit institutions' returns for potential problems, flagging institutions that warrant supervisory attention. Numerous international systems bear the misnomer "early warning system," even though hardly a single one of them provides an advance prediction of the likelihood or timing of failure of institutions (see also point 3).

In general, international risk assessment systems may be classified as one of the following three types:

1. Data management systems

Data management systems are used for recording, storing, validating and filtering data (including time series) reported by banks. Such systems produce the key input for analysis. Validation routines and plausibility checks may and should be activated for importing data. These features notwithstanding, data management systems should not be confused with analysis systems.

2. Data analysis systems

The design of analysis systems is rather complex, and such systems may differ in the way they are implemented by the various supervisory authorities (integrated, formalized, modular, etc.). To allow for meaningful analysis, it is key to use validated data for aggregating, comparing and evaluating banks. In principle, only quantitative information may be fed into these systems. Incorporating qualitative information has proven too difficult, as such data tend to be subjective, incomparable and do not lend themselves for calculations.

3. Trend analysis/Forecasting tools

One traditionally associates trend analysis with the field of econometrics. As too many microfactors produce too much noise, crowding out potential trends, microeconomic model calculations for individual banks have not turned out useful for supervisory purposes.

For analytical purposes, the majority of supervisory authorities operate systems described under point 2. As in most other countries, Austria's tools are directly integrated into the supervisory process and function as

information systems for bank supervisors. None of the European analysis tools may be classified as an early warning system capable of computing meaningful default probabilities from the data basis; larger countries have, however, started to conduct such exercises.

2 The Austrian Supervisory Risk Assessment System

2.1 Overview

One of the tasks of the OeNB is to perform a global observation and analysis of how the business of financial intermediaries, in particular the banking sector, develops, as these data (e.g. on deposits and credits) provide significant monetary policy indicators. More importantly, the banking system in its entirety constitutes a key factor for the confidence the domestic financial market inspires at the national and international levels, something which is of the essence in the context of a stability-oriented monetary policy. Apart from this important *macroprudential function*, the Austrian Banking Act stipulates that the OeNB assist the Federal Ministry for Finance, which is the banking supervisory authority, in its *micro-oversight* of individual institutions. Under the provisions of this Act, the OeNB shall "...notify observations and findings of a fundamental nature, or of particular importance, to the Federal Ministry for Finance..." (Article 79 para 1 Banking Act). The data (in particular the monthly returns and quarterly reports) furnished by the commercial banks under Article 74 Banking Act are used as the basis for such analysis, as well as for statistical processing of global information.

Analyzing a large number of credit institutions in a systematic and reliable fashion, while at the same time keeping resources at a reasonable level, is only feasible when computer-assisted systems help limit in-depth monitoring to cases with the highest risk probability. To this end, the OeNB's Banking Analysis and Inspections Division designed and tested a set of modular systems, which have been in use by supervisors for some time now.

The core systems of this modular framework are:

1. Ratio and Filtering System
2. CAMEL Rating
3. Quick Info
4. Major Bank/Branch Office Analysis
5. Consolidated Sectoral Breakdown
6. Performance Analysis of the 30 largest banks

Any analysis of an individual bank starts out from a set of basic data. Through aggregating, filtering and processing, the wealth of data contained in the monthly and quarterly returns of close to 1,000 banks becomes amenable to systematic analysis.

The modular risk assessment system has been developed to:

- allow for an in-depth and all-encompassing analysis of individual banks with regard to balance sheet structure and developments in earnings and risk profiles. Individual bank performance may be presented in an aggregated, standardized format and compared to competitor institutions of the same peer group;

- automatically detect distinct trends, or deviations from the general trend, so that any undesired developments of individual banks may be diagnosed at an early stage.

2.2 Peer Groups

To meet the above objectives, Austria's credit institutions had to be grouped by similarity of structure in what is referred to as peer groups. Two requirements necessitated this grouping: banks' long-term wish to find out where they stand relative to competitors, and the need to identify distinctive isolated trends which differed from the peer group.

The question consequently arose according to which criteria the banks should be grouped:

- While any analysis that takes differences in size as a parameter (balance sheet comparison) may provide interesting insights of a general nature, problems of greater specificity remain undetected in this approach. In the light of various structural differences, both a juxtaposition of small and large-sized banks, and a comparison of institutions of similar size, are problematic in several respects.
- Analysis based on intrasectoral comparisons equally failed to produce the desired results because of marked differences with regard to size and structure.

This called for the introduction of a new method of classification. Grouping banks by their business structure is not a new idea; moreover, this method harbors a number of problems:

- the need to determine the level of breakdown required for analysis;
- the need for fairly stable results over several periods;
- and the need for group classification to be simple, easy to understand and to verify.

To avoid distortions in the subsequent breakdown, some banks, due to their special status, had to be classified in special groups heuristically (i.e. by conceptual assumption) a priori.

- All *large banks* with a balance sheet total in excess of EUR 2 billion were grouped together as Peer Group 1.
- All *foreign banks* (foreign assets of more than 30% of the balance sheet total) that did not fall in the group of large banks constituted Peer Group 2.
- All *specialized banks* (those of the special purpose bank sector, including building and loans associations and sectoral investment banks and investment companies) were grouped under Peer Group 3. For internal purposes, this rather heterogeneous category is divided into more homogeneous subgroups (investment companies, banks specializing in car leasing, loan guarantee cooperatives and housing banks).

The remaining banks were classified by taking the balance sheet structure as a grouping criterion. The liabilities side of the balance sheet proved too blunt an instrument for differentiation; notably because savings deposits tend to correlate strongly with the balance sheet total, this breakdown would have been too close to the balance-sheet-total criterion. Therefore it was agreed to use the assets side as a grouping criterion.

Except for off-balance-sheet business, the assets side gives a fairly true reflection of a bank's risk potential. The relation between domestic interbank claims (DIC) and claims on domestic nonbanks (CDNB) was used as a group membership criterion. This parameter covers approximately 85% of the balance sheet volume.

Initial attempts to form groups that were strictly delimited by these two criteria (different intervals for each criterion, which were merged later) produced inhomogeneous groups, since too many similar banks could fall into different groups. In other words, this approach lacked the desired quality of separation ("power function").

Tests using multivariate statistical procedures such as cluster analysis (grouping of objects on the basis of multiple criteria), though producing better results, lacked practicability and transparency, not least with regard to the annually required recalculation. However, these exercises were instrumental in discovering the present, near optimum, solution. A simple heuristic grouping procedure was inferred from the graphic visualization of the cluster analysis approach: a strata-based model, in which both above-mentioned variables were used as combined (instead of consecutive) power criteria.

Power function testing by means of variance analyses and other procedures showed that the heuristic approach deviated only slightly from the optimized cluster approach, while allowing for far greater ease of handling and improved result stability over a period of several years.

This new classification generates groups of banks which are characterized by a trend of growing domestic interbank business and, concurrently, decreasing domestic nonbank transactions. Correlation between the two parameters is about 93%. While Peer Group 4 consists mostly of banks with claims on nonbanks, Group 9 is made up only of banks with claims almost exclusively arising from interbank business.

The new breakdown prevents similar banks from qualifying for more than two different groups (improved power function).

Peer Group	Designation	Number of banks		Definition		
		1999	2000			
1	Large banks	30	30	Balance sheet total >EUR 2 billion		
2	Foreign banks	37	41			
3	Specialized banks	91	90	Foreign assets in % of the balance sheet total >30% Heuristically defined		
4		22	31		CDNB - 2* DIC > 60%	
5		186	204		CDNB - 2* DIC > 35%	
6		216	188		CDNB - 2* DIC > 15%	
7		142	127		CDNB - 2* DIC > 0%	
8		172	167		CDNB - 2* DIC > -30%	
9		74	72		CDNB - 2* DIC <= -30%	
Total		Banks, total	970		950	

Source: OeNB.

CDNB: Claims on domestic nonbanks in % of the balance sheet total.

DIC: Domestic interbank claims in % of the balance sheet total.

The multiplication factor 2 in the above table for domestic interbank claims (DIC) was introduced as a weighting factor to offset size-linked differences against claims on domestic nonbanks (CDNB).

From the data contained in the December monthly return, group membership is recalculated annually for the next following year.

2.3 The Ratio and Filtering System

With banks of a similar structure, intersectoral grouping allows for a comparison of balance sheet and earnings data, and of ratios. Moreover, this comparative approach enables supervisors to review individual banks against their new groups (and not against the inhomogeneous sector, as in the past), and thus to document trends against the corresponding peer group.

The OeNB has developed, among other systems, a ratio and filtering system designed to compare certain peer groups of credit institutions, i.e. banks with a similar business structure. Above all, this system examines the continuity of a bank's business as it develops over time and the conformity of the balance sheet structure and of the earnings situation with peer group data. Major deviations from peer group trends must not, however, be interpreted as "early warning indicators," but should instead only be seen as a trigger of a closer probe into the structure and development of the bank under review in given business segments.

In this context, deviations of any bank against its peer group are calculated for 15 ratios, which are subject to periodic review. If a bank leaves a defined target range, the system flags that bank. When a bank remains persistently outside the peer group trend, but always within a specific target range of its own, flagging is canceled, assuming that – despite its untypical group behavior – the institution under review is developing without problems, or that this particular development is already known.

The following 15 ratios are currently taken into consideration:

4 business development ratios

BR5000101 Balance sheet total growth

BR5000102 Off-balance-sheet business growth

BR5000103 Direct credits to the nonbank private sector in % of total direct credits

BR5000104 Off-balance-sheet business in % of the balance sheet total

7 earnings development ratios

BR5000250 Net interest income in % of the balance sheet total

BR5000250 Schilling/euro interest spread

BR5000250 Foreign currency interest spread

BR5000248 Operating result in % of the balance sheet total

BR5000244 Operating result per employee

BR5000245 Annual result including risk provision in % of core capital

BR5000246 Annual result including risk provision in % of the balance sheet total

4 risk development ratios

BR5000301 Value adjustments in % of loans

BR5000243 Risk cost in % of the expected annual result including risk provisions

BR5000305 Maturity mismatches (based on residual maturities)

BR5000306 Fixed-interest mismatches/gap analysis

To calculate a bank's deviations from its peer group per ratio, two types of deviation criteria may be used:

1. Static deviation criteria
2. Dynamic deviation criteria

While dynamic deviation criteria automatically adjust to predefined ratios, which vary over several periods, due to statistical values, the static criteria remain constant.

ad 1) Static deviation criteria

The following three deviation indicators are applied to the static deviation criteria:

Absolute ranges: A bank is excluded from the calculation of the peer group mean value if the value of its ratio lies outside the defined value range. This is to ensure that the mean value is not skewed by outliers and that the calculated statistics are reliable.

Ranges around the peer group mean value: All of a bank's ratio values are compared to the corresponding peer group mean values. The bank is considered "normal" and is not flagged if its ratios stay within the defined ranges. Whenever a ratio is out of range, the procedure described in the following paragraph is applied.

Fluctuation ranges around a bank's individual ratio values: Whenever one of the ratios lies outside the ranges around the peer group mean value, the values of this particular ratio are put to a retrospective one-year comparison. If a ratio deviates from the individual fluctuation range just once, the filtering system flags the institution for closer monitoring.

Absolute ranges are given in absolute figures. For the other two ranges it is possible to predefine either an absolute value (a specific predefined percentage) or a relative reference value (deviation from the peer group mean in %).

ad 2) Dynamic deviation criteria

When dynamic ranges are used, which is the rule, the following formula is applied to calculate the deviations per credit institution and per ratio in a standardized manner:

$$\varepsilon = \frac{\chi - \mu}{\sigma}$$

with:

ε : deviation

χ : bank's ratio value

μ : peer group ratio value

σ : standard deviation of ratio values within the peer group

In sum, this formula is applied to each bank twice. Following the first-time application, any bank whose deviation exceeds a predefined value is excluded from the recalculation. Just like the absolute ranges for static criteria, this is to ensure greater data reliability. After the second run (as calculated with the new mean values and standard deviations) banks whose value lies outside a predefined range are reported. The delimiters, which

vary slightly depending on the ratio, denote a range of about $[-1.5; +1.5]$. Assuming normal distributions, probabilistic assumptions on filtering efficiency may be made on the basis of these delimiters.

How effectively the filtering system works, depends on peer group homogeneity, and on the quality of the defined ratios and ranges, since the number of banks being filtered should be neither excessively high nor excessively low.

By focusing on a few key elements and items, and by clearly delimiting potential cases of analysis, the filtering system improves analytical efficiency considerably. Banks flagged for in-depth analysis are displayed in a matrix (bank x ratio) both with a simple mark and the respective ratio value including the deviation criterion to make further processing easier. Efforts to automate further steps (automatic trigger of quick inquiries as of a user-definable number of flags) are currently underway to support individual business-management analyses, depending on the bank and ratio, and to enable the supervisors to assess various deviations separately (strengths and weaknesses, breaks in development).

Peer group deviations may, of course, also indicate a “positive” trend. Put differently, the filtering system by itself cannot determine unambiguously whether a deviation is to be rated as positive or negative (e.g. growth of off-balance-sheet business). This is why follow-up analysis, which cannot be automated, is significant in assessing the filtered outcome.

2.4 CAMEL Rating

Several years ago the Federal Reserve, the U.S. central bank, designed a system for rating banks, which has become known under the acronym CAMEL. This rating system, as adapted to the Austrian banking structure, serves as an additional useful vehicle for assessing banks’ overall condition and performance. The CAMEL system produces a composite rating of the following component areas:

C	Capital adequacy	equity ratio
A	Asset quality	risk weighting as in the prudential report of the external auditor
M	Management administration	not yet implemented
E	Earnings	annual result before risk provisions in % of core capital
L	Liquidity	LI 1 measure pursuant to Article 25 Austrian Banking Act

Based on supervisory reporting data, the Austrian CAMEL rating system ranks each bank according to its ratio values in each of the four component areas (management capability is excluded). Credit institutions are sorted and rated by each individual component rating. The various ratings are then weighted and summed, resulting in an average mean composite rating.

When interpreting the rank a bank is assigned for each ratio, supervisors have to bear in mind that, for instance, a low equity ratio may result in a poor rating, even though the bank conforms with minimum regulatory capital requirements.

As it is difficult to evaluate management quality based on supervisory reporting data, this component area has not yet been considered. The ratios are calculated on the basis of yearend data, and the same ratings are accorded to values set a priori (e.g. the LI 1 liquidity measure is set at 10% for banks not required to maintain liquidity reserves).

Capital adequacy:

This ratio is computed from the equity ratios reported by the banks.

Asset quality:

This ratio is computed based on data stemming from the external auditor's prudential report. Assets are weighted relative to the entire loan portfolio as follows: Loans which according to the external auditor require supervisory attention are factored in at a 0.5 weight, and nonperforming and problem assets are accorded a weight of 1. Low ratio values attest to banks' sound risk profiles.

According to the OeNB's methodology, the asset quality component rating emphasizes bad loans by means of assigning greater weight to them and this ratio helps avoid redundancies (capital) by using the loan portfolio as divisor.

Return on equity (RoE):

The RoE ratio reflects the relationship of the annual result before risk provisions as reported quarterly to core capital and evaluates the level, quality and sources of earnings.

Risk provisions were not factored into overall computations, as they could distort results and potential losses are already considered in the asset quality component rating.

Liquidity:

The fourth component ratio corresponds to the liquidity of the first degree measure (LI 1) as defined in Article 25 Austrian Banking Act. The liquidity ratio of banks not subject to the liquidity requirement was set at 10%.

The OeNB plans to adapt this ratio to increase its informative value, since the LI 1 ratio does not really cover the intended range. It remains to be seen which level of quality may be attained by means of alternative liquidity calculations, which are currently field tested across the European Union.

Composite rating:

The CAMEL composite rating reflects an average of the individual component ratings, where the RoE ratio is assigned a weight of 3, capital adequacy and liquidity are accorded the weight $\frac{1}{2}$ each, and asset quality is weighted at 2. This weighting is to take due account of the overall relevance and distribution of the individual ratios.

This system allows for comparing bank ratings within a federal land, within a sector or within a peer group. A composite rating entails less

accurate data and smoothing of the individual evaluation factors. Also, potential risk provisions are left unconsidered in such an analysis for lack of background information. The objectivity of the data is also somewhat compromised by the asset quality ratio, since the classification by external auditors of loans into various risk categories in their prudential reports is strongly influenced by subjective criteria, which is why differing standards may apply to banks' ratings. For this reason this rating should be used to preselect problem banks and then access more detailed information via the Quick Info feature in a second step.

2.5 Other Modules

In addition, the reported data are used for other periodic, computer-assisted analyses.

The Quick Info module represents the most important analytical tool offering supervisors instant access to fundamental information on banks. At the press of a button, supervisors may access all pertinent data (balance sheet, income statement, large exposures, ratios, securities portfolios, etc.), which the system displays in a report. What is more, comparative peer group, sectoral and global (all banks) analyses are presented in a neat format. The display of time series supports the analysis of developments and trends.

The Quick Info provides access to:

- Primary data (bank address, management, external auditor, etc.)
- Balance sheet/balance sheet trends
- Deposit/lending trends
- Portfolio statistics
- Off-balance sheet transactions
- Solvency
- Earnings
- Ratios
- Large exposures
- Major loans register
- Sovereign risk
- External auditor's comments in the prudential report.

The Performance Analysis of the 30 largest banks (ranking based on various earnings ratios) and the Major Bank /Branch Office analyses offering consolidated sectoral results (rough auxiliary reduction of intersectoral relations) for the multi-tier sectors merit mention as additional analytical tools. During consolidation, domestic equity stakes in banks are subtracted from participations on the assets side as well as from the equity capital on the liabilities side. Claims on the head office are subtracted from the claims item and from liabilities to banks. This is done on the assumption that both the ownership structure and interbank business have more or less only an intrasectoral dimension. The same amount is deducted on both the assets and liabilities side to make for symmetry in the balance sheet.

3 Limitations of Current Analytical Methods

Neither Austria's supervisory risk assessment system nor any of the international analysis systems known to the author qualify as early warning systems for lack of signaling capacity for early warning purposes.

The reasons are obvious:

- Lag between the time when the data are delivered and the period the data actually refer to: individual items are sometimes forwarded at a delay of up to six months.
- Data quality may be verified through plausibility checks, but only to a limited extent. While it is possible to run checksum verification (e.g. on maturities), individual “thereof” positions may only be validated according to the timeline.
- Even though descriptive instructions accompany report forms, banks may interpret individual positions differently (definition, valuation).
- As banking analysis is not capable of recording and flagging data nonstop, gaps might arise in the system (too many banks with diverse characteristics).
- It is difficult to infer certain tendencies from data only; rather, on-site examinations are necessary. Even external auditors de facto verify banks' adequacy of accounting and compliance with laws and regulations only once a year, and in doing so are dependent on the information the banks provide themselves. It may happen that dubious transactions are either not detected at all or too late.
- Lack of background information; data alone are sometimes not conclusive: Value adjustments are a case in point. High individual value adjustments could be ascribable to tax considerations or problem loans; low specific provisions might be traceable to poor earnings or safe lendings.

As the calculations and analyses described above always rely on “historical” data, Austria's supervisory risk assessment system is not an early warning system in the sense of a predictive forecasting tool. Given the timelag between data origin and analysis (some ratios are based on banks' quarterly returns), banking supervisors may only react at a delay to sudden changes, which often do not become evident in the routine reporting process. However, the system enables supervisors to monitor irregularities, development breaks, structural vulnerabilities as well as strengths or general negative trends with regard to individual banks in a more efficient manner and access pertinent data instantly via the filtering system. Therefore the analytical framework at the disposal of Austrian supervisors, just like any automated analysis tool, allows for highly specific inquiries on the available data pool, representing a prerequisite for in-depth, efficient analysis.

4 Concluding Remarks

Austria's supervisory risk assessment system stands its ground compared to its international and European counterparts. In this context, it is noteworthy that Austria's banking supervision authorities – as opposed to those of other countries – started to conduct on-site examinations as late as

in 1994. Only then did the competent authorities gain access to more detailed and fundamental qualitative information on the banking industry.

As a dynamic analytical tool, the risk assessment system will be developed further, to account for any legal amendments and international harmonizations and to incorporate functional and technical enhancements, and should, thus, not be regarded as complete in its current form.

The findings produced with the help of the risk assessment system serve supervisory purposes and as classified information are not disclosed to the public. However, the methodology used as well as highly anonymized results may, upon request, be made available. (For more information, contact Johannes Turner at johannes.turner@oenb.at or +43-1-404 20 ext. 3234.)

Abbreviations

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

Legend

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

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

Official Announcements of the Oesterreichische Nationalbank

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

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

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

Council Regulations of the European Communities

Published in the
Official Journal
of the
European
Communities

Minimum Reserve Regulations

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

List of Reports, Summaries, and Studies¹⁾

Published in
"Focus on Austria"

Oesterreichische Nationalbank and Selected Monetary Aggregates

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

Official Announcements Regarding the Foreign Exchange Law and Minimum Reserve Requirements – see preceding page	
Calendar of Monetary Highlights	1/1999
Calendar of Monetary Highlights	2/1999
Calendar of Monetary and Economic Highlights	3/1999
The Possibilities and Limitations of Monetary Policy – Results of the OeNB's 27th Economics Conference	3/1999
Calendar of Monetary and Economic Highlights	4/1999
Calendar of Monetary and Economic Highlights	1/2000

Austrian Financial Institutions

Money and Credit in 1998	1/1999
Money and Credit in the First Quarter of 1999	2/1999
Austria's Major Loans Register in 1998	2/1999
Money and Credit in the First Half of 1999	3/1999
Money and Credit in the First Three Quarters of 1999	4/1999
Money and Credit in 1999	1/2000
The Austrian Supervisory Risk Assessment System	1/2000

Interest Rates

An International Comparison of Term Structures – Estimations Using the OeNB Model	1/1999
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1 For a comprehensive list of reports, summaries and studies hitherto published please refer to issue no. 4/1999 of "Focus on Austria."

Published in
"Focus on Austria"**Austrian Real Economy**

Economic Background	1/1999
Financial Assets and Liabilities of Enterprises and Households in the Year 1995 to 1997	1/1999
Economic Outlook for Austria from 1999 to 2001	2/1999
Economic Background	2/1999
Economic Background	3/1999
Financial Accounts in Accordance with ESA 95 – Financial Assets and Liabilities of the Sectors of the Austrian Economy; First Release of Data for the Years 1995 to 1997	3/1999
Economic Outlook for Austria from 1999 to 2001 Fall 1999	4/1999
Impact of the Recent Upturn in Crude Oil Prices on Inflation in Austria – A Comparison with Historic Supply Shocks	4/1999
Economic Background	1/2000
Financial Accounts in Accordance with ESA 95 Financial Assets and Liabilities of the Sectors of the Austrian Economy Results for 1998	1/2000

External Sector

Balance of Payments in the First Three Quarters of 1998	1/1999
Austria's International Investment Position in 1997	1/1999
Special Survey on the Regional Allocation of Nonresident Securities Held by Residents as of December 31, 1997	1/1999
Balance of Payments for the Year 1998	2/1999
New Concept of the Austrian Balance of Portfolio Investment Austrian Outward and Inward Direct Investment at the End of 1997	2/1999
Balance of Payments in the First Quarter of 1999	3/1999
Austria's International Investment Position in 1998	3/1999
Balance of Payments in the First Half of 1999	4/1999
Austrian Outward and Inward Direct Investment in 1997	4/1999
1997 Coordinated Portfolio Investment Survey	4/1999
Balance of Payments in the First Three Quarters of 1999	1/2000

Economic and Monetary Union

Harmonized Indices of Consumer Prices – Progress and Unresolved Problems in Measuring Inflation	2/1999
Economic Policy Co-operation in EMU: European Economic Policy Challenges	2/1999
Effects of the Euro on the Stability of Austrian Banks	3/1999
The Austrian Banks at the Beginning of Monetary Union – The Effects of Monetary Union on the Austrian Banking System from a Macroeconomic Perspective	3/1999

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
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 ¹⁾
Erneuerung durch Integration – 175 Jahre Oesterreichische Nationalbank	1991
Striking a Balance – 175 Years of Austrian National Bank	1991
Transparente Dispositionen – Liberalisierter Devisenverkehr unter Beachtung internationaler Publizitätsverpflichtungen	1991
Ausgeglichene Position – Die neue Präsentation der österreichischen Zahlungsbilanz	1992
Aktive Bilanz – Ein Jahr vollständig liberalisierter Devisenverkehr in Österreich	1992
Economic Consequences of Soviet Disintegration (Bergsten Conference Vienna 1992)	1993
Neuorientierung – Internationale Vermögensposition und Außenwirtschaftliche Investitionsbilanz Österreichs	1993 ¹⁾
Bankwesengesetz 1993	1994 ¹⁾

¹ Out of print.

Other Publications (cont.)

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

Videos

Wie Mozart entsteht (banknote security)	1990
The Evolution of W. A. Mozart (English version of "Wie Mozart entsteht")	1995
Bank der Banken (tasks and functions of the OeNB)	1991
The Banks' Bank (English version of "Bank der Banken")	1991

¹ Out of print.

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

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

1 Out of print.

List of the Topics

Published

Discussed in the Working Papers

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

1 Out of print.

List of the Topics		Published
Discussed in the Working Papers		
No. 25	Sources of Currency Crises: An Empirical Analysis	1998
No. 26	Structural Budget Deficits and Sustainability of Fiscal Positions in the European Union	1998
No. 27 ¹⁾	Trends in European Productivity: Implications for Real Exchange Rates, Real Interest Rates and Inflation Differentials	1998
No. 28	What Do We Really Know About Real Exchange Rates?	1998
No. 29	Goods Arbitrage and Real Exchange Rate Stationarity	1998
No. 30	The Great Appreciation, the Great Depreciation, and the Purchasing Power Parity Hypothesis	1998
No. 31	The Usual Suspects? Productivity and Demand Shocks and Asian Pacific Real Exchange Rates	1998
No. 32	Price Level Convergence Among United States Cities: Lessons for the European Central Bank	1998
No. 33	Core Inflation in selected European Union Countries	1998
No. 34	The impact of EMU on European unemployment	1998
No. 35	Room for Manoeuvre of Economic Policy in the EU Countries – Are there Costs of Joining EMU?	1998
No. 36	Heterogeneities within Industries and Structure-Performance Models	1998
No. 37	Estimation of the Term Structure of Interest Rates A Parametric Approach	1999
No. 38	On the Real Effects of Monetary Policy: Central Banker's View	1999
No. 39	Democracy and Markets: The Case of Exchange Rates	1999
No. 40	Central Banks in European Emerging Market Economies in the 1990s	2000
No. 41	Is there a Credit Channel in Austria? The Impact of Monetary Policy on Firms' Investment Decisions	2000

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