OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

ANNUAL REPORT 2008

Stability and Security.

Our Mission Statement

In 2005, the national central banks of the independent Eurosystem (including the OeNB) published a joint mission statement that enshrines the following key objectives and values:

We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.

In pursuing our objectives, we attach utmost importance to credibility, trust, transparency and accountability. We aim for effective communication with the citizens of Europe and the media. We are committed to conducting our relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence.

We jointly contribute, strategically and operationally, to attaining our common goals, with due respect to the principle of decentralisation. We are committed to good governance and to performing our tasks effectively and efficiently, in a spirit of cooperation and teamwork. Drawing on the breadth and depth of our experiences as well as on the exchange of know-how, we aim to strengthen our shared identity, speak with a single voice and exploit synergies, within a framework of clearly defined roles and responsibilities for all members of the Eurosystem.

The OeNB's mission statement complements the Eurosystem's mission statement and transposes it to Austrian requirements. The main messages are:

As the central bank of the Republic of Austria, the OeNB serves the Austrian and European public.

To build and maintain trust in the OeNB, we take pride in performing our tasks professionally, drawing on the high competence and motivation of our employees.

Our products and services are customer oriented to ensure their value to our customers and partners.

Ongoing market-oriented product and process innovation ensures the efficient and cost-effective provision of services in line with sustainability and in particular environmental protection.

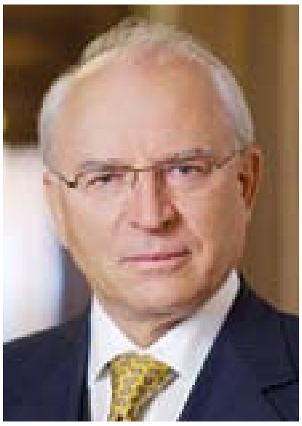
We are cooperative, solution-oriented and reliable partners in our relations with customers and associates.

Our employees' commitment, motivation, creativity, willingness to learn, team spirit and mobility – the success factors of our work now and in the future – are the hallmarks of our working style.

Contents

Editorial close: April 30, 2009

President's Report



After experiencing a long phase of growth, the world economy slipped into a severe recession in 2008. In the second half of the year, the turmoil in financial markets became stronger and increasingly spilled over to the real economy. To counteract the pronounced financial market turbulence, sweeping measures were taken to stabilize the financial system and to support the economy. For the euro area, the stability benefits of having a single currency became clearly evident.

The Oesterreichische Nationalbank (OeNB) itself could not sidestep the impact of the worldwide interest rate and exchange rate developments on its reserve management. The OeNB's operating profit would have been higher than in the previous year, despite the difficult economic environment, if sharp losses in the value of some currencies against the euro had not resulted in marked writedowns on financial assets and positions, and transfers to provisions in respect of monetary policy operations of the Eurosystem had not been made to comply with a decision by the Governing Council of the ECB. Accordingly, the bottom line showed a decrease in the OeNB's operating profit to EUR 47 million in 2008, about one-fifth of the previous year's result. It must be noted from a longer-term perspective that the changes in the legal framework for the OeNB and high profit transfers in previous years have markedly reduced the OeNB's reserves. In the long run, the OeNB's earning power and risk-bearing capacity do have their limits.

Against the background of the financial market turmoil, the ECB and the national central banks have assumed their responsibility for stabilizing the financial system and have provided banks with ample liquidity through monetary policy operations. Accordingly, the financial and economic turmoil substantially increased the workload for many operational areas at the OeNB beyond the areas in charge of financial market supervision and liquidity management. As cases in point, there was a higher need for financial market and monetary analysis, and there was a higher strain on banknote supply and handling capacities. Despite the high demands on performance to handle the financial turmoil, the OeNB nevertheless made progress with important projects: For example, the organizational and human resources prerequisites for implementing the reform of the supervisory framework in 2008 were established; in payment services, the OeNB's clearing system was extended to include payments in the Single Euro Payments Area (SEPA), and financial stability analysis was expanded. In developing a comprehensive risk management system to cover all financial risks, the OeNB put a special emphasis on refining its corporate governance instruments. The OeNB's subsidiaries, which had made strides in improving efficiency and performance in the past years, were able to reinforce their market position and to draw on synergy potentials.

Looking toward the future, preparations for developing a new medium-term corporate strategy were begun with the aim of focusing more intensely on the OeNB's core competences, given the division of labor within the European System of Central Banks (ESCB), and of rendering efficient high-quality services. The OeNB's policy of making efficient use of resources will be continued, and costs as well as human resources will be geared toward new structures.

I would like to thank the members of the Governing Board and the OeNB staff for their excellent work for, and dedication to, both the OeNB and the Eurosystem.

President
Claus J. Raidl

Governor's Report

At its annual Economics Conference in spring 2008, the Oesterreichische Nationalbank (OeNB) took an in-depth look at the first ten years of Economic and Monetary Union (EMU), which, as an economic and political integration scheme, has secured price stability and growth in the euro area for a decade.

In 2008, however, EMU's monetary policymakers faced a great challenge: They had to deal with high inflation rates in the first half of the year, and in fall 2008 were confronted with having to contain the global financial crisis unleashed by the financial turmoil in the wake of the U.S. subprime crisis. The European Central Bank (ECB) reacted quickly and provided markets with ample liquidity. As the crisis evolved, the Governing Council of the ECB cut official interest rates several times to the lowest level since the start of Stage Three of EMU. These measures were complemented by EU governments' bank stabilization plans and economic stimulus packages. While these moves succeeded in largely stabilizing the markets, they could not prevent the real economy from sliding into recession. In the course of the crisis, the euro and Eurosystem cooperation helped protect Europe in general, and Austria in particular, against even more negative repercussions.

The crisis hit Austria's economy at a later point in time and less strongly than it affected other regions. Nevertheless, the sharpest recession since World War II is forecast for Austria for 2009. The spillover of the crisis to some Central, Eastern and Southeastern European countries bears considerable risk potential not just for Austria, but for all of Europe. The rapidly implemented assistance measures of the IMF and the EU have had a stabilizing effect, though.

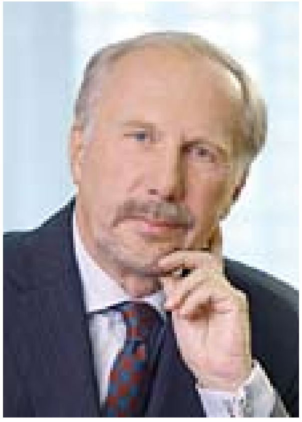
In Austria, the OeNB took decisive and important steps to deal with the crisis, and effectively wielded its national and international contacts to help ensure financial stability. From January 1, 2008, the OeNB assumed an extended role in Austrian banking supervision when the amendment to the Austrian Banking Act went into force. In exercising this function, the OeNB cooperates closely with the Austrian Financial Market Authority (FMA) and the supervisory authorities in other countries.

Financial market reorganization and the reform of the European supervisory landscape represent crucial issues to be resolved. In the long run, a fully integrated internal market and cross-border banking activities will no longer be compatible with a primarily national supervisory approach – the European dimension in enforcing financial market supervision will increasingly take precedence. Furthermore, monetary and economic policymakers face the urgent challenges of maintaining price stability – this includes preventing medium-term deflationary risks – and improving financial stability.

Efficiency and cost consciousness are the business principles underlying all of the OeNB's operations; in its human resources policy, the OeNB is intent on ensuring that its staff is highly qualified, on providing equal opportunity employment and on keeping recruitment procedures transparent.

Coping with the major challenges we faced in 2008 required commitment and expertise on the part of our staff. I would like to explicitly thank our staff for its dedicated efforts and the Governing Board and the General Council for their valuable cooperation. My special thanks go to my predecessor, Klaus Liebscher, who was in office until August 31, 2008, for his collegiality and his helpfulness – these qualities helped secure a smooth transition at the helm of the OeNB.

Governor
Ewald Nowotny



The Year 2008 at a Glance

Before the gradually escalating financial crisis started to tighten its grip on the real economy in autumn 2008, developing into the deepest recession since World War II, the first three quarters of 2008 were marked by high inflation rates. Boosted primarily by sharply increased international energy, commodity and food prices, HICP inflation rates were well above 3% both in Austria and the euro area up until late summer of 2008. Not until toward the end of the year did inflation moderate on the back of tumbling energy and commodity prices.

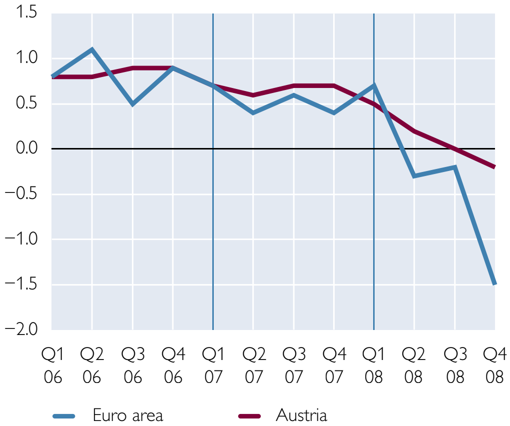
Against this background, the Eurosystem as a whole and the OeNB in particular were facing huge challenges in fulfilling its main objectives – ensuring price stability and maintaining financial stability

- In view of increased inflation expectations, on July 3, 2008, the Governing Council of the ECB raised the key interest rate on the main refinancing operations of the Eurosystem by 25 basis points to 4.25% to dampen price growth and prevent second-round effects, thus ensuring price stability in the medium term.
- After the default of the U.S. investment bank Lehman Brothers in autumn 2008, the financial crisis escalated: What followed was a revaluation of risks, tumbling equity prices and widening corporate bond spreads. A number of financial institutions experienced severe distress and needed government support. The turmoil quickly spread to Europe's financial markets. Confidence in banks diminished and banks' willingness to provide liquidity to each other decreased as money market rates rose. The negative effects spilled over to the real economy. As the U.S. economy entered into recession, in Europe exports, in particular, were plunging. In the euro area, economic growth started to lose some momentum in the second quarter of 2008, and in the fourth quarter of 2008 the pace of growth slowed further to 1.6% (against the previous quarter).
- Responding to these developments, the Eurosystem took swift and flexible as well as to some degree exceptional action, including injecting substantial liquidity into the market, adopting new longer-term refinancing operations, widening the set of eligible collateral and slashing interest rates to fight the crisis and stabilize the financial system. Between October 2008 and April 2009, the ECB Governing Council cut the interest rate on the main refinancing operations by a total of 300 basis points to 1.25%. In taking these measures, the Eurosystem closely cooperated with other major central banks, which also took comprehensive action. Starting in November 2008, retail interest rates (deposit and lending rates) dropped considerably in the euro area and in Austria.
- Monetary policy action to ensure financial stability was supplemented by bank aid packages at the national and concerted support measures at the EU level. In addition, national economic stimulus measures and the EU's European Economic Recovery Plan amounting to a total of EUR 200 billion helped shore up the real economy in Europe. Further support came from the IMF, which provided special aid to a number of Central, Eastern and Southeastern European (CESEE) countries.
- The Austrian government adopted a bank aid package worth EUR 100 billion – well-sized not only compared with similar sets of measures passed by other European countries. To strengthen confidence in the banking

Chart 1

Real GDP

Quarterly change in %

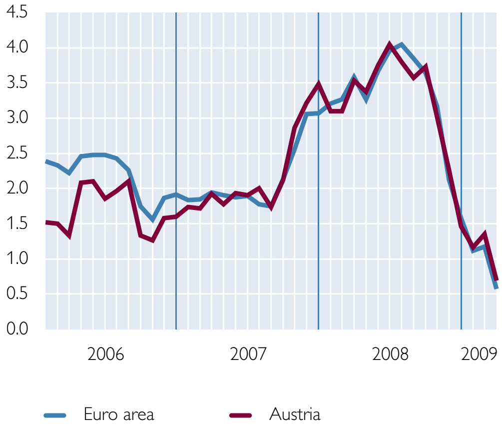


Source: Statistics Austria, WIFO, Eurostat.

Chart 2

HICP Inflation

%



Source: Statistics Austria, Eurostat.

Chart 3

Key Interest and Money Market Rates in the Euro Area

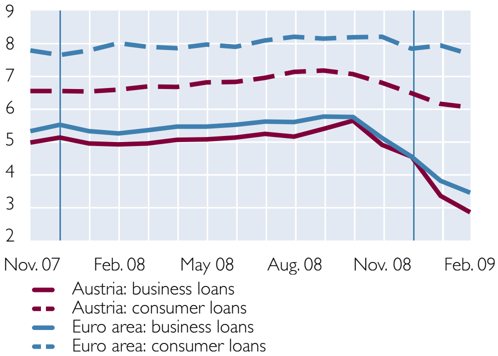
%

Source: Thomson Reuters.

Chart 4

Lending Rates in the Euro Area and in Austria – New Business

%

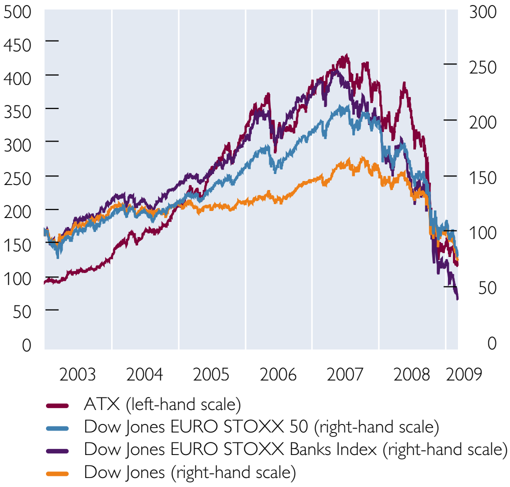


Source: OeNB, ECB.

Chart 5

Stock Price Indices

Indexed January 1, 2003 = 100 *Indexed January 1, 2003 = 100*

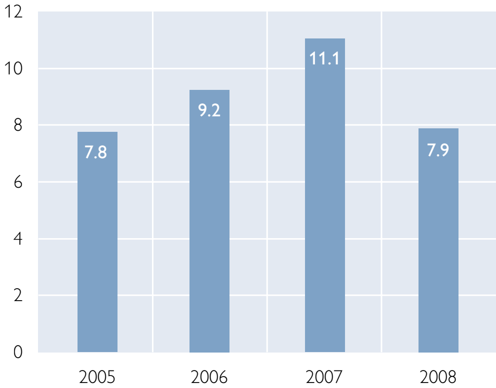


Source: Thomson Reuters, OeNB.

Chart 6

Operating Profit of Austrian Banks[1]

EUR billion



Source: OeNB.

[1] *Consolidated data.*

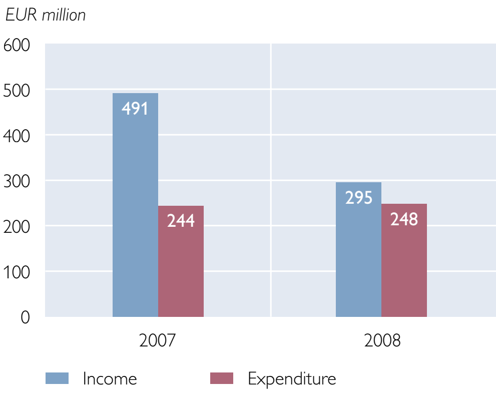
sector, the deposit guarantee scheme was amended to provide unlimited deposit insurance protection on deposits of natural persons until end-2009; from January 1, 2010, on, deposits up to EUR 100,000 will be covered by the scheme. The two stimulus packages and the tax reform measures amount to a total of EUR 5 billion (1.8% of GDP) and will help alleviate the recession in 2009. In 2008, economic growth in Austria came to 1.6%.
- The Austrian banking sector started to feel the impact of the intensified financial turmoil in the second half of 2008. Pretax profits tumbled by more than 50% to EUR 2.4 billion, mainly due to higher risk costs for loans and securities. Consolidated operating profits (including subsidiaries abroad) fell by 29.1% against 2007 to EUR 7.9 billion. Austrian banks operated 69 subsidiaries in 19 CESEE countries. Their exposure to this region is highly diversified and amounted to some EUR 200 billion, three-fourths of which are claims on EU countries. CESEE is of crucial importance not only to Austria but to the EU as a whole, since banks in the EU-15 have an exposure of almost EUR 1,000 billion to the region. The Austrian parent banks continue to provide their subsidiaries with sufficient capital and liquidity, living up to their responsibility as long-term investors and contributing to stabilization in the region.

The OeNB's activities in 2008 included the following highlights

- The OeNB's professional and active crisis management, based on ongoing intense communication with market participants and enhanced exchange of information with the Financial Market Authority and other national and international supervisors, successfully contributed to maintaining financial stability. The new supervisory structure established in 2008 proved effective and efficient.
- Two new reports supplement the set of statistics provided by the OeNB: The liquidity report affords a weekly preview of the liquidity needs of 30 Austrian banks, while a report on new lending at 105 Austrian banks allows a detailed assessment of credit market developments.
- The OeNB continued to invest in the enhancement of its payment systems, which ensure the smooth settlement of payments in both euro and foreign currencies. The systems' stability adds to the security of payments in the Austrian financial market, thereby enhancing market confidence in the provision of liquidity by the OeNB.
- Cash supply by the OeNB continued smoothly, also during a period of heightened cash demand in autumn. The European football championships in June required the OeNB to step up training of cash handlers. The OeNB organized more than 400 training sessions for more than 7,000 persons. The number of counterfeits recorded in 2008 was very low. The damage caused by counterfeits decreased by 12% compared with 2007. In January 2009, Slovakia introduced the euro, joining the euro area as its 16th member. On behalf of the Eurosystem, the OeNB arranged and carried out the delivery of the initially needed amount of euro cash.
- In 2008, the OeNB also expanded its external communications activities. The website *www.oenb.at* now offers an even broader range of information and in 2008 recorded an average 85,000 page impressions a day (2007: 65,000). Raising the public's interest in and knowledge of the increasingly

Chart 7

OeNB: Income and Expenditure



Source: OeNB.

Chart 8

OeNB: Operating Profit of the Year 2007 and 2008

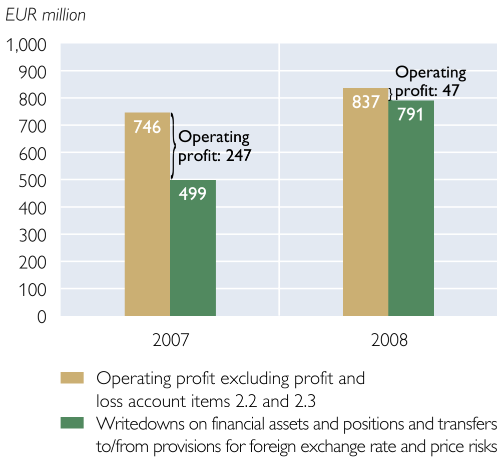


Table 1

Selected OeNB Indicators

	2007	2008
As on December 31	*EUR million*	
Net currency position	12,084	11,700
Banknotes in circulation	18,053	20,297
Total assets	61,946	83,810
Operating profit	247	47
Corporate income tax	62	12
Central government's share of profit	150	28
Profit for the year	17	3
	Absolute figures	
Full-time equivalent staff	917.5	968.2
Intellectual capital indicators		
University graduates (%)	35.6	41.3
OeNB website – number of page impressions a day	64,595	84,651
Queries to OeNB hotlines	38,516	38,829
OeNB newsletter subscriptions	14,985	17,529
OeNB publications	63	68
Cash authentication training courses	393	417
Environmental performance indicators		
Heat consumption (kWh/m^2)	45	52
Electricity consumption (MWh/employee)	7.7	7.5
Consumption of photocopying paper (sheets per employee)	8,669	7,752

Source: OeNB.

complex world of finance as well as providing clear information, which represents a crucial confidence-building measure to support monetary policy, remains the central objective of the OeNB's external communications. In spring 2008, the OeNB's Economics Conference took stock of the first ten years of Economic and Monetary Union (EMU). There was general agreement that EMU fostered macroeconomic convergence in the euro area and contributed to maintaining price stability; specifically in Austria, it generated considerable integration effects and improved Austria's external balance.

The OeNB's operating profit in 2008 was influenced by the following developments

- The OeNB's operating profit, excluding *writedowns on financial assets* (profit and loss account item 2.2) and *transfers to/from provisions for foreign exchange rate and price risks* (profit and loss account item 2.3), increased by EUR 91 million or 12% to EUR 837 million in 2008. *Net interest income* accounted for EUR 816 million (2007: EUR 738 million), the *net result of financial operations* for EUR 154 million (EUR 209 million), *income from equity shares and participating interests* for EUR 91 million (EUR 23 million), *staff costs* for EUR 116 million (EUR 108 million), *administrative expenses* for EUR 82 million (EUR 78 million) and the cost of *banknote production services* for EUR 16 million (EUR 25 million).
- Factoring in *foreign currency and securities writedowns* (EUR 625 million) as well as transfers to *provisions in respect of monetary policy operations of the Eurosystem* (EUR 166 million), the operating profit of the year 2008 amounts to EUR 47 million (2007: EUR 247 million). The 90% *profit share of the central government* came to EUR 28 million (2007: EUR 150 million), while *corporate income tax* amounted to EUR 12 million (2007: EUR 62 million). The *profit for the year* is EUR 3 million (2007: EUR 17 million).
- The OeNB's *net currency position*, which includes both claims and liabilities as well as transactions that are not disclosed in the balance sheet, decreased to EUR 11.7 billion. The decrease by EUR 0.4 billion against December 31, 2007, is attributable transaction-related losses and, in particular, to valuation effects. *Gold and gold receivables* account for EUR 5.6 billion of the net currency position.

The OeNB's Mandate and Responsibilities

Mandate

The Oesterreichische Nationalbank (OeNB) is the central bank of the Republic of Austria and, as such, an integral part of the European System of Central Banks (ESCB) and the Eurosystem. In this capacity, the OeNB acts on the basis of full personal, financial and institutional independence. The OeNB's aims and actions are guided by the fundamental principles security, stability and trust.

The ESCB/Eurosystem, including the OeNB, has a clear statutory mandate to maintain price stability in the euro area in order to preserve purchasing power and to contribute to maintaining financial stability. In addition to these two primary objectives, national central banks are also obligated to support – without prejudice to the primary objective of price stability – the general economic policies (i.e. economic and employment growth) in the European Union and thus also in Austria.

Stability, security and trust are the key principles that guide the OeNB in taking action with a view to ensuring sustainability. The OeNB's strategic objective "excellence in central banking" focuses on four core competences: stability policy, risk management, means of payment and "going east."

Responsibilities

Contributing to monetary policymaking within the Eurosystem

- Participation of the OeNB's Governor in decision-making in the Governing Council and in the General Council of the European Central Bank (ECB)
- Conduct of macroeconomic research and analysis on Austria and countries especially relevant to Austria, in particular Central, Eastern and Southeastern Europe (CESEE)
- Economic forecasting for Austria

Monetary policy operations – reserve management

- Conduct of monetary policy operations with Austrian banks
- Participation in Eurosystem foreign exchange interventions
- Management of the OeNB's own reserve assets and of reserves transferred to the ECB
- Conduct of minimum reserve operations and monitoring of Austrian banks' minimum reserve holdings

Financial stability and banking supervision

- Conduct of banking supervision in cooperation with the Financial Market Authority and of payment system oversight with a view to securing financial stability
- Risk analysis of financial markets and banks to safeguard stability
- Further development of risk management provisions at the macro- and micro-level

Provision of statistics

- Compilation of conclusive, high-quality statistics, above all monetary, interest rate and prudential statistics as well as external statistics (e.g. balance of payments and financial accounts)
- Operation of the Central Credit Register

Cash supply

- Provision of Austrian businesses and consumers with secure banknotes and coins
- Analysis of cash flows to ensure smooth cash circulation

Payments and payment systems

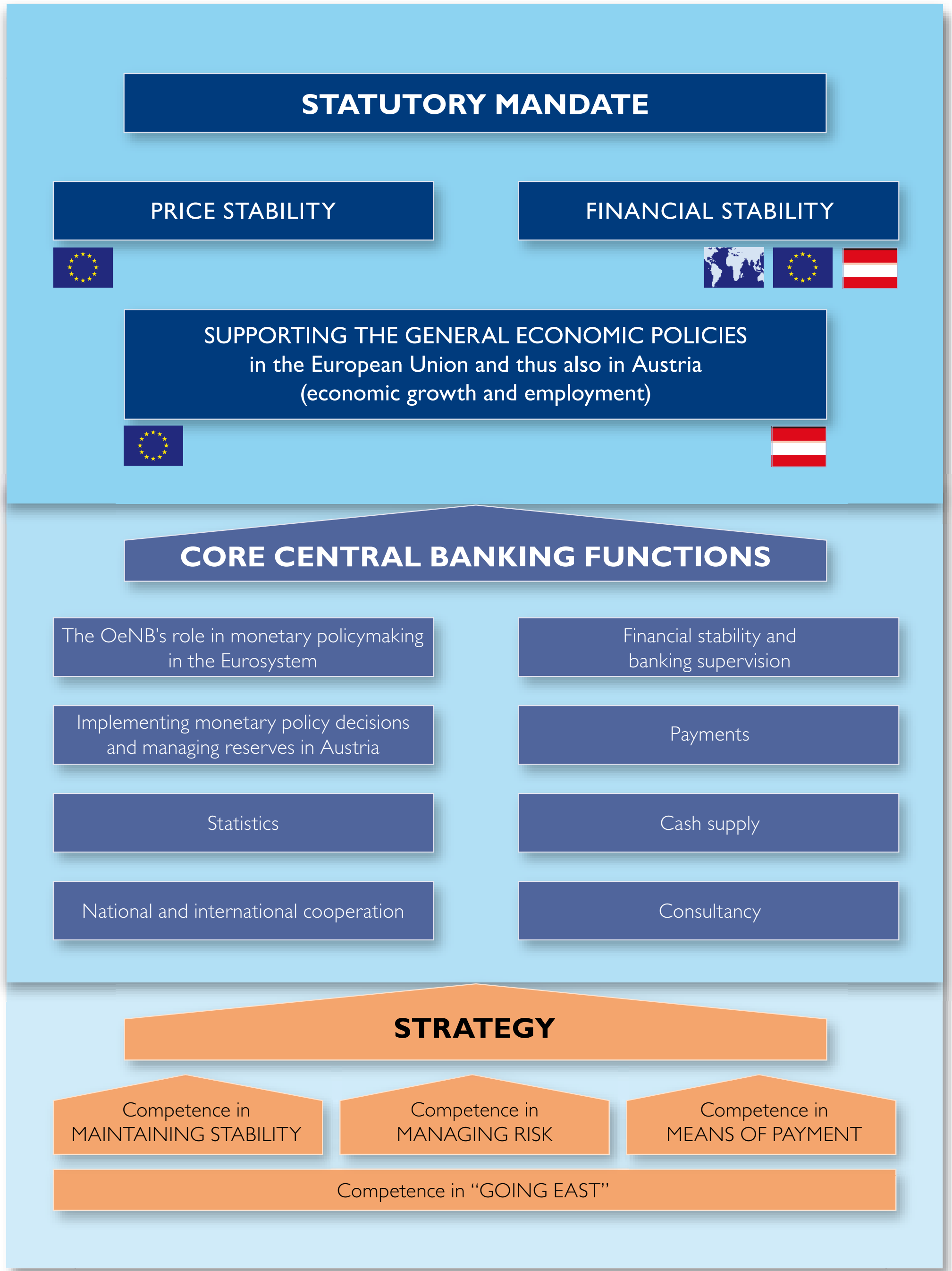
- Provision and promotion of reliable payment systems in Austria and their cross-border integration
- Assessment of global payment innovations and implementation options for Austria

National and international cooperation

- Cooperation with national bodies, e.g. the Financial Market Authority, the Government Debt Committee and the Statistics Advisory Board
- International monetary policy cooperation and participation in international financial institutions (IMF, BIS)

Consultancy

- Drafting of laws and opinions


STATUTORY MANDATE
PRICE STABILITY
FINANCIAL STABILITY
SUPPORTING THE GENERAL ECONOMIC POLICIES
in the European Union and thus also in Austria
(economic growth and employment)
CORE CENTRAL BANKING FUNCTIONS
The OeNB's role in monetary policymaking in the Eurosystem
Financial stability and banking supervision
Implementing monetary policy decisions and managing reserves in Austria
Payments
Statistics
Cash supply
National and international cooperation
Consultancy
STRATEGY
Competence in MAINTAINING STABILITY
Competence in MANAGING RISK
Competence in MEANS OF PAYMENT
Competence in "GOING EAST"

Organization of the OeNB

President
Claus J. Raidl

Office of the General Council
Richard Mader, Head

Vice President
Max Kothbauer

Governing Board (Direktorium)

Central Bank Policy
Ewald Nowotny, Governor

Office of the Governor
Markus Arpa, Head

Internal Audit Division
Wolfgang Winter, Head

Communications Division
Günther Thonabauer, Head

Planning and Controlling Division
Gerhard Hohäuser, Head

Personnel Division
Axel Aspetsberger, Head

Future Unit
Peter Achleitner, Director

Economic Analysis and Research Department
Peter Mooslechner, Director

Economic Analysis Division
Ernest Gnan, Head

Economic Studies Division
Martin Summer, Head

European Affairs and International Financial Organizations Division
Franz Nauschnigg, Head

Foreign Research Division
Doris Ritzberger-Grünwald, Head

Brussels Representative Office
Marlies Stubits-Weidinger, Chief Representative

Accounting, IT and Payment Systems
Wolfgang Duchatczek, Vice Governor

Organization and IT Department
Wolfgang Pernkopf, Director

Organization and IT Governance Division[1]
Wolfgang Ruland, Head

IT Development Division
Reinhard Auer, Head

IT Operations Division
Christoph Martinek, Head

Cashier's Division and Payment Systems Department
Stefan Augustin, Director

Cash and Payment Systems Management Division
Walter Hoffenberg, Head

Cashier's Division
Gerhard Schulz, Head

Payment Systems Division
Andreas Dostal, Head

Printing Office
Gerhard Habitzl, Head

Northern Austria Branch Office
Josef Kienbauer, Branch Manager

Southern Austria Branch Office
Friedrich Fasching, Branch Manager

Western Austria Branch Office
Armin Schneider, Branch Manager

Accounting Department
Friedrich Karrer, Director

Financial Statements and Treasury Risk Monitoring Division
Elisabeth Trost, Head

Accounts Division
Herbert Domes, Head

Governing Board (Direktorium)

Financial Stability, Banking Supervision and Statistics
Andreas Ittner, Executive Director

Financial Stability and Bank Inspections Department
Philip Reading, Director

Financial Markets Analysis and Surveillance Division
Michael Würz, Head

Off-Site Banking Analysis Division
Johannes Turner, Head

On-Site Banking Inspections Division
Gabriela de Raaij, Head

Statistics Department
Aurel Schubert, Director

External Statistics and Financial Accounts Division
Michael Pfeiffer, Head

Supervisory and Monetary Statistics Division
Gerhard Kaltenbeck, Head

Credit Division
Eva-Maria Springauf, Head

Financial Market Operations, Equity Interests and Internal Services
Peter Zöllner, Executive Director

Equity Interest Management Division
Franz Partsch, Head

Anniversary Fund
Wolfgang Höritsch, Head

Legal Division
Hubert Mölzer, Head

Treasury Department
Rudolf Trink, Director

Treasury – Strategy Division
Reinhold Wanka, Head

Treasury – Front Office
Walter Sevcik, Head

Treasury – Back Office
Gerhard Bertagnoli, Head

London Representative Office
Carmencita Nader-Uher, Chief Representative

New York Representative Office
Gerald Fiala, Chief Representative

Internal Services Department
Albert Slavik, Director

Procurement and Technical Services Division
Thomas Reindl, Head

Security Division
Gerhard Valenta, Head

Documentation Management and Communications Services
Bernhard Urban, Head

[1] *Environmental Officer Johann Jachs*
As of April 30, 2009

Ownership Structure and Decision-Making Bodies of the OeNB

The OeNB's Owners

The OeNB is a stock corporation. Its nominal capital totals EUR 12 million; the majority of this sum is held by the Austrian federal government, the remainder by employer organizations as well as banks and insurance corporations. Only Austrian citizens or legal persons or partnerships under commercial law that are based and headquartered in Austria and that are neither directly nor indirectly majority owned by foreigners may be shareholders. The transfer of OeNB shares requires the express approval of the General Meeting (stockholders' meeting). Since May 2006, the Republic of Austria has held 70.3% of the OeNB's capital stock.

Functions of the General Council

The General Council is charged with the supervision of all business not falling within the remit of the European System of Central Banks (ESCB). The General Council is convened by the President, as a rule once a month. Pursuant to Article 20 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act), the General Council shall advise the Governing Board in the conduct of the OeNB's business and in matters of monetary policy. The joint meetings of the General Council and the Governing Board must take place at least once every quarter. General Council approval is required for a number of management decisions, e. g. for starting and discontinuing business lines, establishing and closing down branch offices, as well as acquiring and selling holdings and real property. Also, the General Council must approve appointments of members of supervisory boards and executive bodies of companies in which the OeNB is a shareholder. Appointments to the second management tier of the OeNB itself must likewise be approved by the General Council. Finally, the General Council has the exclusive right of decision on issues detailed in Article 21 paragraph 2 Nationalbank Act, e. g. on drawing up nonbinding tripartite proposals to the Austrian federal government for appointments to the OeNB's Governing Board by the Federal President, on defining general operational principles for all matters not covering the remit of the ESCB, on approving the financial statements for submission to the General Meeting, and on approving the cost estimates for the next financial year.

Composition of the General Council

The General Council consists of the President, one Vice President and twelve other members. Only persons holding Austrian citizenship may be members of the General Council. The President, the Vice President and six other members of the General Council are appointed by the federal government for a term of five years and may be reappointed. The remaining six members are elected by the General Meeting for a term of five years, and may be reelected. Articles 20 through 30 of the Nationalbank Act govern issues pertaining to the General Council.

The General Council of the OeNB comprised the following members on December 31, 2008:

Claus J. Raidl
President

CEO of
Böhler Uddeholm AG

Max Kothbauer
Vice President

Chairman of the
University Board of the
University of Vienna

August Astl
Secretary General
of the Austrian
Chamber of Agriculture

Markus Beyrer
Secretary General of
the Federation of
Austrian Industries

Bernhard Felderer
Director of the
Institute for
Advanced Studies (IHS)

Philip Göth
Deloitte Financial
Services Industry,
Leader Asia
Pacific Region

Elisabeth
Gürtler-Mauthner
Managing Director of Sacher
Hotels Betriebsges.m.b.H.
and Vice President of the
Österreichische Hotelier-
vereinigung (ÖHV)

Erich Hampel
CEO of
Bank Austria

Alfred Hannes
Heinzel
President and CEO of
Heinzel Holding GmbH

Anna Maria
Hochhauser
Secretary General
of the Austrian Federal
Economic Chamber

Johann Marihart
CEO of Agrana
Beteiligungs-AG

Werner Muhm
Director of the Vienna
Chamber of Labour

Walter Rothensteiner
Chairman of the
Managing Board of
Raiffeisen Zentralbank
Österreich AG

Dwora Stein
Federal CEO of the
Union of Salaried
Private Sector
Employees, Graphical
Workers & Journalists

Representatives delegated by the Central Staff Council to participate in negotiations on personnel, social and welfare matters pursuant to Article 22 paragraph 5 of the Federal Act on the Oesterreichische Nationalbank (Nationalbankgesetz 1984):

Martina Gerharter

Central Staff Council Chair

Robert Kocmich

Central Staff Council Deputy Chair

State Commissioner

Thomas Wieser

Director General of the Economic Policy and Financial Markets Directorate General the Federal Ministry of Finance

Deputy State Commissioner

Alfred Lejsek

Head of the Financial Markets Directorate at the Federal Ministry of Finance

Governing Board

The Governing Board is responsible for the overall running of the Oesterreichische Nationalbank (OeNB) and for conducting its business. In pursuing the objectives and tasks of the European System of Central Banks (ESCB), the Governing Board undertakes to act in accordance with the guidelines and instructions of the European Central Bank (ECB). The Governing Board consists of the Governor, the Vice Governor and two other members, all of whom are appointed by the Federal President of Austria based on a proposal of the federal government. Each appointment is for a term of five years, and persons holding office may be reappointed. The Governor of the OeNB is a member of both the Governing Council and the General Council of the ECB. When taking decisions on monetary policy and on other tasks of the ECB and the Eurosystem, the Governor and the Vice Governor are not bound by the decisions of the OeNB's Governing Board or those of the OeNB's General Council, nor are they subject to any other instructions.

Andreas Ittner, Wolfgang Duchatczek, Ewald Nowotny, Peter Zöllner (from left to right)

The Governing Board of the OeNB comprised the following members on December 31, 2008:

Ewald Nowotny
Governor

Wolfgang Duchatczek
Vice Governor

Peter Zöllner
Member of the Governing Board

Andreas Ittner
Member of the Governing Board

For additional information about the Governing Board of the OeNB, see *www.oenb.at*.

Personnel Changes between April 29, 2008, and April 30, 2009

At its session of May 21, 2008, the Austrian Federal Government decided to appoint *Claus J. Raidl*, CEO of Böhler Uddeholm AG, as President of the General Council of the OeNB with effect from September 1, 2008. Claus J. Raidl succeeded *Herbert Schimetschek*, whose term of office ended on August 31, 2008.

At its session of May 21, 2008, the Federal Government also agreed to appoint *Max Kothbauer*, Chairman of the University Board of the University of Vienna, as Vice President of the General Council of the OeNB with effect from September 1, 2008. Max Kothbauer succeeded *Manfred Frey*, whose term as Vice President of the General Council ended on August 31, 2008.

Furthermore, at the same session of May 21, 2008, the Federal Government decided to appoint *Dwora Stein*, Federal CEO of the Union of Salaried Private Sector Employees, Graphical Workers & Journalists, as member of the General Council with effect from September 1, 2008, replacing *Ewald Nowotny* in this position, and to reappoint *August Astl* as member of the General Council with effect from September 8, 2008.

At the constituent meeting of the Central Staff Council of May 21, 2008, *Robert Kocmich* was elected Deputy Chair of the Central Staff Council. Robert Kocmich replaced *Gerhard Kaltenbeck* as representative delegated to the General Council by the Staff Council.

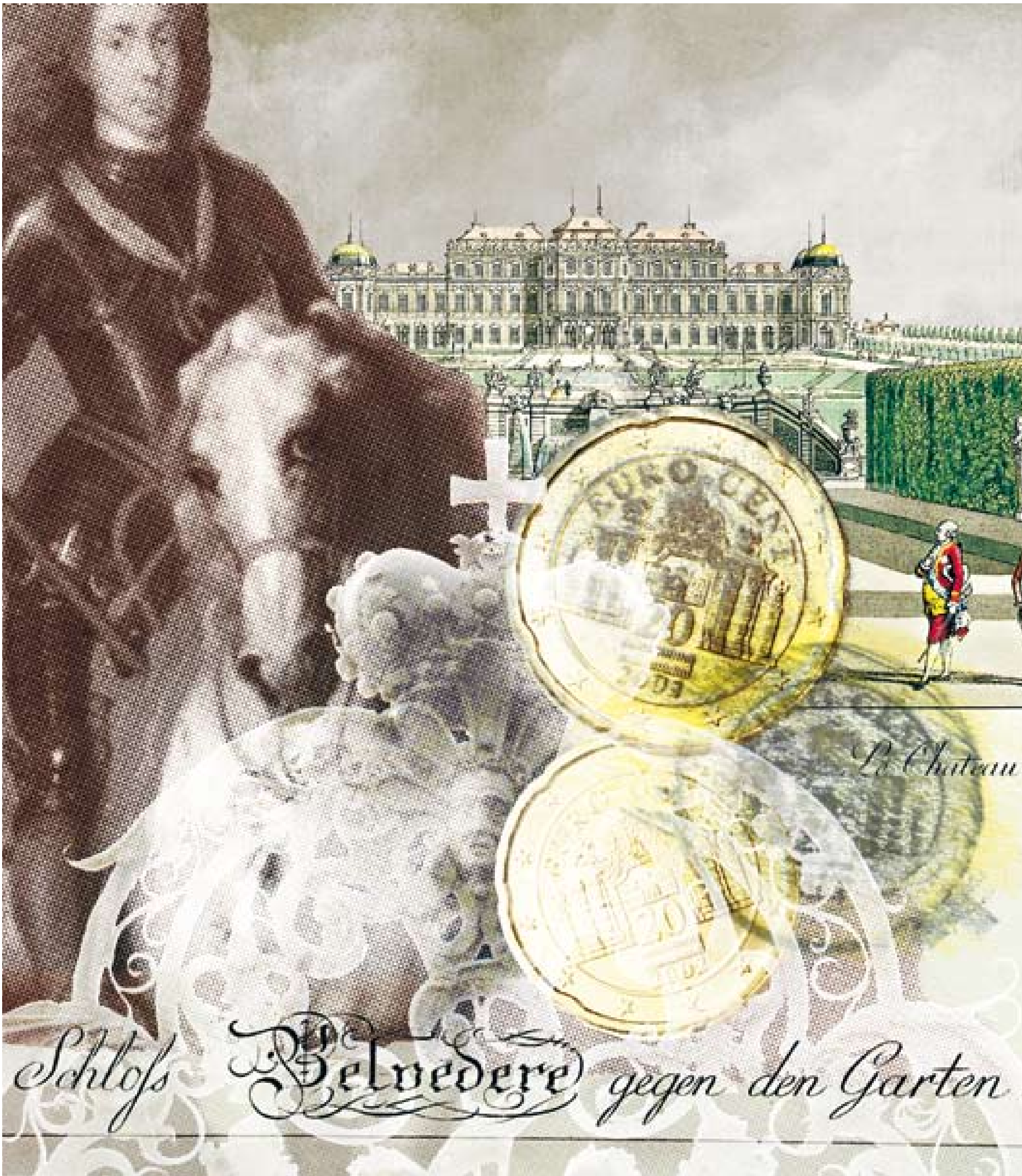
The ordinary General Meeting of May 27, 2008, marked the end of the term of office of General Council member *Gerhard Randa*. *Erich Hampel*, CEO of Bank Austria, was elected as his successor. Moreover, *Anna Maria Hochhauser*, Secretary General of the Austrian Federal Economic Chamber, was elected member of the General Council by the General Meeting to succeed *Manfred Hofmann*, who resigned his seat at the ordinary General Meeting. At the General Meeting, *Markus Beyrer*, Secretary General of the Federation of Austrian Industries, was elected member of the General Council with effect from September 1, 2008, replacing *Max Kothbauer*, who resigned from the General Council with effect from August 31, 2008, owing to his appointment as Vice President.

The President and the Vice President as well as the members of the General Council serve five-year terms.

By virtue of the decree of May 26, 2008, and with effect from September 1, 2008, the Federal President of the Republic of Austria appointed *Ewald Nowotny* as Governor (succeeding *Klaus Liebscher*) and *Andreas Ittner* as Member of the Governing Board of the OeNB (succeeding *Josef Christl*), each for a term of five years. Moreover, *Wolfgang Duchatczek* was reappointed Vice Governor with effect from July 11, 2008, and *Peter Zöllner* was reappointed Member of the Governing Board with effect from July 15, 2008. Both appointments were made for a five-year term.

Governor *Ewald Nowotny* heads the Executive Directorate Central Bank Policy, Vice Governor *Wolfgang Duchatzcek* is in charge of Accounting, IT and Payment Systems, *Peter Zöllner* is responsible for Financial Market Operations, Equity Interests and International Services, and *Andreas Ittner* is head of Financial Stability, Banking Supervision and Statistics.

The Federal Minister of Finance reappointed *Thomas Wieser*, Director General at the Federal Ministry of Finance, to the office of State Commissioner with effect from September 1, 2008.




50
EURO CENT
2002
ARCHITEKTVR

Report of the Governing Board on the Financial Year 2008


EURO
EURO
EURO

Financial and Economic Crisis Puts High Demands on the OeNB's Stability Mandate

In line with its role as an integral part of the Eurosystem, the OeNB has the fundamental objective of ensuring price and financial stability. Throughout 2008, extraordinary efforts were required to fulfill this objective. The OeNB's compliance with its stability mandate was challenged, in particular, by widely diverging economic developments and high rates of inflation until September 2008 and by the financial and economic crisis that dominated the fourth quarter of the reporting year. This chapter presents the most important economic events of both 2008 and the first months of 2009 and gives an overview of the comprehensive economic and monetary policy measures geared to combating the crisis.

Strong Growth and Rising Inflation Rates despite Financial Market Turmoil in First Half of 2008

Financial Market Tensions in the U.S.A. Persist and Weigh Down on Growth in the Euro Area

U.S. measures to fight recession effective at first

The turbulence in U.S. financial markets persisted throughout the first half of 2008. A number of financial institutions fell into distress and governments had to provide support to avoid a chain reaction in the financial system (see box 1). The real estate market continued to experience a decline in house sales and prices. The rising number of loan defaults put a strain on the entire U.S. financial sector and increasingly affected international financial markets. Bad loans caused huge writedowns not only at the lending banks but also at those financial institutions that purchased the loans to create short-term securitized products, and at the insurance companies and hedge funds that bought these products. Uncertainty about the future need for writedowns led to rising distrust in the interbank market.

Euro area growth still healthy in early 2008

Despite these instances of turmoil in U.S. financial markets, there was a general hope that the turbulence would soon start to abate. The Federal Reserve together with the U.S. government took a number of measures to ward off a looming recession. The main objective of these measures was to stimulate consumption, which was suffering not only under negative wealth effects but also under high energy prices and a weakening of the labor market. In the first half of 2008, the Fed cut its key interest rate four times by a total of 225 basis points. At end-January 2008, the U.S. government adopted a first economic stimulus package worth 1% of GDP. The measures showed some effect initially: After rather anemic growth in the first quarter of 2008, the economy expanded by 2.8% (on an annualized basis) in the second quarter of the year. Household consumption was brisk, and exports benefited from the depreciation of the U.S. dollar in the previous few months. Yet the outlook for the coming quarters was downbeat. Consumer confidence continued its steep decline, signaling sluggish consumer spending in the second half of the year.

In the euro area the assumption prevailed in early 2008 that the financial turbulence would be more or less temporary and local in nature. The economic indicators available at that point suggested subdued but continued growth. In the first quarter of 2008 euro area real GDP expanded by 0.7% against the previous quarter. In the same period, industrial production grew at a pace similar to that recorded in the past two years. Capacity utilization had stabilized at a high level, and the labor market showed positive signs too, with unemployment stagnating at 7.2% (Eurostat definition) until March 2008, the lowest level since the introduction of the euro. Continued strong demand from emerging economies to some extent offset weaker demand from the U.S.A.

The second quarter of 2008 saw the onset of the slowdown that various leading indicators had been predicting for one year. The Economic Sentiment Indicator published by the European Commission had started to weaken already in June 2007. The Purchasing Managers' Index (PMI) for manufacturing had been declining since mid-2006 and had dropped to 50 by mid-2008; a level below 50 indicates economic contraction.

Real GDP advanced by a mere 1.4% in the second quarter of 2008 against the same quarter one year ago and even declined by 0.3% quarter on quarter. These figures are in part attributable to temporary balancing factors, as due to the mild winter weather in early 2008 construction was unusually buoyant in the first quarter of the year. Viewed against this background, the huge slump in gross fixed capital formation on the basis of seasonally adjusted data seems less dramatic. Private consumption also edged down somewhat compared with the first quarter of 2008, indicating that consumers were feeling increasingly pessimistic and, as a consequence, gradually reduced spending. Owing to the ongoing appreciation of the euro, exporters continued to lose price competitiveness. In addition, exports suffered under the global economic slowdown and declining world trade.

All in all, timely available data suggested that economic growth had lost momentum but that a dramatic slump was not imminent. According to the June 2008 Eurosystem staff macroeconomic projections, real GDP growth was expected to range between 1.5% and 2.1% in 2008 and between 1.0% and 2.0% in 2009. The uncertainty surrounding the projections was considered to be larger than usual, however.

Growth starts to slow down also in the euro area toward mid-year

Steep Rise in Inflation Poses Challenge to Economic and Monetary Policies in the Euro Area in the First Half of 2008

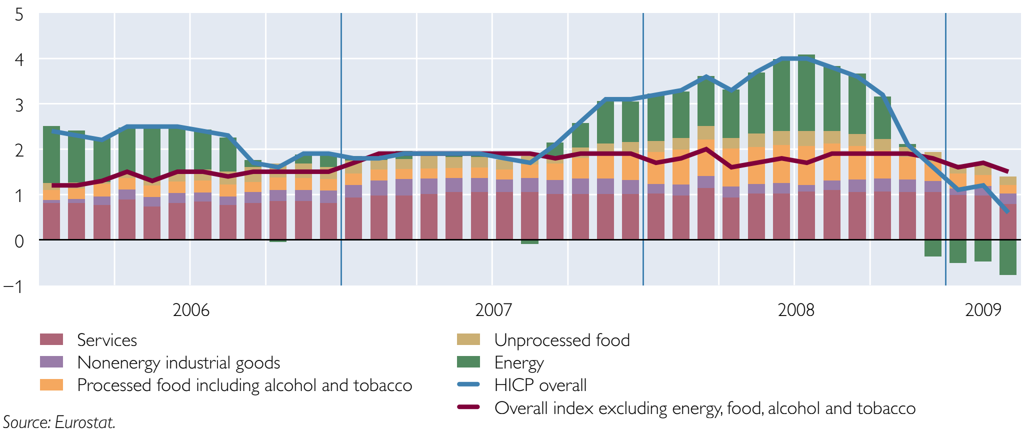
Inflation developments became the focus of attention of economic and monetary policymakers in the first half of 2008. The increase in the Harmonised Index of Consumer Prices (HICP) accelerated continuously, reaching 4.0% in July 2008, a level never seen since the introduction of the single currency. This sharp acceleration of price growth was mainly attributable to the more volatile price components. Energy prices continued their uptrend even though the pace of global growth had already started to slow down. On July 11, 2008, the price of crude oil hit a new record high at more than USD 146 per barrel. The prices of other commodities, too, climbed quickly, in particular food commodity prices. The economic catching-up of major emerging economies such as China and India also increased these countries' demand for high-quality food. As a consequence, arable land, which has been increasingly used to grow corn, soy and cereals for the production of biofuels, became scarce.

Rising energy and food prices push inflation up to 4.0%

Chart 9

HICP Components in the Euro Area

Contribution to annual growth in percentage points (lines in %)



Source: Eurostat.

Factoring out the more volatile price categories provides a picture of much less instability in inflation. Core inflation, which does not include prices of energy and (processed and unprocessed) food, remained broadly unchanged at 1.8% in the course of 2008. Thanks to the dampening effect on inflation triggered by EU enlargement and the globalization of world trade, these figures did not yet mirror the gradually mounting inflation pressures in the labor market. As early as toward end-2007, the past boom period and calls for pay hikes to compensate for high inflation started to feed through to wage settlements, while the cyclical rise in productivity growth strongly pushed up unit labor costs.

Eurosystem raises key interest rates to prevent second-round effects

Monetary policymakers must take into account whether developments in the volatile price components become entrenched and through second-round effects spill over to other inflation components. In fact, up until mid-2008, medium-term inflation expectations increased notably. The continuing high rate of M3 growth (above 10%) supported the assessment of persistently high inflation rates. On the basis of this assessment, the Governing Council of the ECB decided on July 3, 2008, to raise the key interest rate by 25 basis points to 4.25%, which represented the first interest rate change in more than one year. This measure was taken to prevent the emergence of second-round effects, which had already started to appear in unit labor costs and inflation expectations.

Financial Crisis Intensifies in Fall 2008 and Spills Over to the Real Economy

Recession of the U.S. Economy Deepens

In the late summer of 2008 the crisis in U.S. money and financial markets deepened rapidly and started spilling over gradually to other countries and to the real economy. Tensions intensified further when the U.S. investment bank Lehman Brothers filed for bankruptcy protection on September 15, 2008. Concerned about encouraging moral hazard among other financial institutes by bailing out Lehman Brothers, the Federal Reserve and U.S. supervisors decided not to step in; Lehman Brothers went bankrupt. The weeks that followed saw stock prices crash, yet more banks fall into distress, and liquidity dry up in money markets. The U.S. investment bank Merrill Lynch was taken over by Bank of America; and AIG, the largest U.S. insurer, was only able to survive thanks to a Fed loan. A setback in U.S. stock prices, finally, caused the Dow Jones Industrial Average to drop by 35% in 2009, wiping out five years in gains.

In the fourth quarter of 2008, real GDP shrank at an annualized rate of 6.3%, which implies that the U.S. economy had entered a recession. This decline reflected negative growth rates for private consumption, especially purchases of durable goods, as well as for business and real estate investment. Thanks to the launch of substantial economic stimulus packages, public consumption prevented real GDP from contracting even more. Most leading indicators signaled that the recession would deepen even further in the first quarter of 2009. The steep increase in unemployment was ongoing at the beginning of 2009, and the U.S. real estate market was unlikely to have bottomed out, so that consumers must be expected to continue to retrench for the time being.

Massive Downward Revisions of Growth Prospects in the Euro Area

The financial crisis has cascaded through to the real economy in the form of a vicious circle: Liquidity bottlenecks have caused banks to tighten lending conditions for businesses and households, either by raising interest rates or by increasing collateral requirements. At the same time, businesses and households have faced additional financing constraints, as the market value of assets eligible as collateral – real estate and stocks – has dropped sharply as well. The tighter financing conditions, in turn, have had a dampening effect on business investment and consumer demand, and they have also increased the probability of loan defaults. These developments, however, hurt banks, prompting them to tighten their lending conditions further. The vicious circle of vanishing credit lines potentially has much higher repercussions on the real economy in the euro area than in the United States, as banks continue to be the financial intermediary of choice for businesses in the euro area.

The results of the euro area bank lending survey confirm that euro area credit institutions tightened their lending conditions in the second half of 2008. Lending volumes did not start to contract substantially until year-end, though, as companies were able to benefit from existing credit arrangements until then. Yet, even then there were but slight signs of a massive credit crunch (a situation in which it is impossible to get loans for projects that would typically not be subject to financing constraints).

In the latter half of 2008, the impact of the financial crisis on the real economy was gradually becoming evident in the macroeconomic data for the euro area. Real GDP growth continued to decline in the third quarter after having turned negative in the second quarter, dropping 0.3% quarter on quarter in both cases. Technically, the euro area economy had thus entered a recession, which is commonly defined as two consecutive quarters of economic contraction. In the fourth quarter, the downward momentum accelerated, with real GDP contracting 1.6% against the previous quarter.

Recession intensifies and affects all GDP components

By the fourth quarter of 2008, the recession in the euro area had reached all major components of GDP other than public consumption. Decreasing capacity utilization and bleaker earnings outlooks were dampening investment in the corporate sector. At the same time, construction activity declined following downward corrections of real estate prices, above all in Spain and in Ireland. This tendency was strengthened when credit conditions were tightened toward the end of year. The spending propensity of consumers decreased as high inflation rates, declining household wealth due to slumping asset prices, and rising unemployment rates caused disposable incomes to shrink. The number of new passenger car registrations was almost 20% lower in the fourth quarter of 2008 than one year earlier. Furthermore, the saving rate reached the highest level in four years in the third quarter of 2008.

Credit conditions tightened in the euro area

Dwindling demand from the U.S.A. and emerging economies started to affect euro area export performance in the summer – while the lagged effects of the appreciation of the euro in the first half of 2008 continued to weigh on the price competitiveness of exports from the euro area. From early July onward, the euro depreciated massively against the U.S. dollar. The reversal of foreign

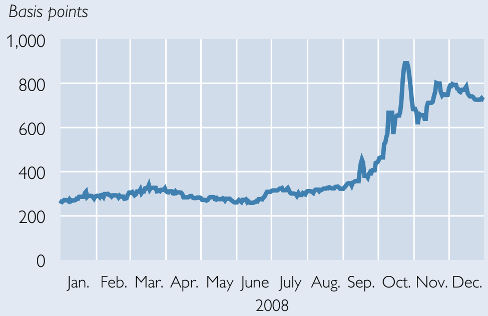
Box 1

Chronology of Major Events in U.S. and European Financial Markets in the Second Half of 2008

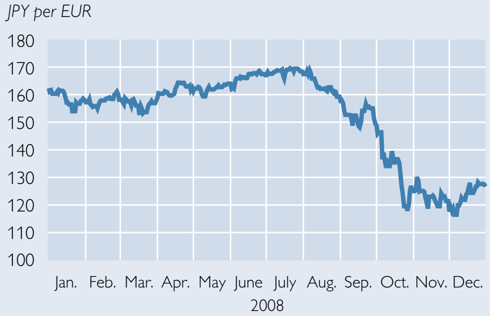
The turmoil that hit international financial markets in the summer of 2007 intensified visibly in the second half of 2008, after things had peaked already in March 2008, when the U.S. authorities helped rescue the U.S. investment bank Bear Stearns by initiating its takeover. This box outlines relevant events and offers some background information:

- *In* ***June/July 2008****, the ongoing downturn in the U.S. real estate market sparked renewed speculation among financial market participants as to whether the two largest government-sponsored mortgage institutions – Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan and Mortgage Corporation) – were indeed adequately capitalized. The U.S. government consequently adopted initial support measures in mid-July 2008.*
- *In* ***early September 2008*** *Fannie Mae and Freddy Mac were put under conservatorship, and further sweeping measures were taken to rescue them, including the provision of explicit government guarantees for their liabilities.*
- *In* ***mid-September 2008*** *the market showed fresh signs of anxiety after another U.S. investment bank, Lehman Brothers, had filed for chapter 11 bankruptcy protection. The ensuing bankruptcy of Lehman Brothers raised uncertainty in international markets considerably, as the company had been a major counterparty in the global credit derivatives and swap market, and as default risks materialized when it went bankrupt. As a result, banks' main refinancing markets dried up. Concerns about counterparty creditworthiness and uncertainty about their own liquidity needs prompted banks to either hoard liquidity or to lend funds only for very short terms, or against collateral. In the unsecured money market, liquidity was scarce for maturities exceeding one week and even dried up completely for longer maturities. Money market funds invested in commercial papers[1] issued by Lehman Brothers also suffered price losses, as did assets in private investors' portfolios all over the world, especially certificates guaranteed by Lehman Brothers. These developments triggered flight-to-liquidity and flight-to-quality episodes, as a result of which stock prices dropped, whereas risk premia increased and lower-interest rate currencies such as the Japanese yen and the Swiss franc appreciated.*

Risk Premia of Emerging Market Government Bonds



Exchange Rate: Japanese Yen against the Euro



Source: Bloomberg; Emerging Markets Global Bonds Spread.

[1] *Commercial papers are short-term debt securities issued by investment-grade issuers. They constitute a separate segment of the money market and may also be issued in the form of asset-backed commercial paper (ABCP) by special investment vehicles (conduits).*

- *The U.S. investment bank Merrill Lynch also suffered from the impaired functioning of the money market and from soaring writedowns, but was ultimately rescued through a takeover by Bank of America. The two remaining U.S. investment banks, Goldman Sachs and Morgan Stanley, finally, filed requests with the Fed to become bank holding companies, giving them above all improved access to the Fed's liquidity operations and allowing them to take deposits from investors.*
- *The uncertainty was further heightened by reports about the liquidity and capital situation of AIG, one of the world's largest insurers. Given its higher exposure to structured credit products, AIG was hit harder by the turmoil than other insurance companies. The Fed came to AIG's rescue with a loan to help the company tide over and strengthen its capital base. In the United Kingdom, Lloyds TSB agreed to merge with Halifax Bank of Scotland (HBOS).*
- *By the* ***end of September 2008****, the crisis had spread to a number of European credit institutions. Market participants raised doubts that the Belgian-Dutch financial group Fortis was adequately capitalized and had sufficient liquidity. The governments of Belgium, France and Luxembourg took action in support of Fortis (and in support of the Belgian-French group Dexia). Next, Germany's Hypo Real Estate encountered serious refinancing difficulties. The British government worked out a rescue plan to nationalize the mortgage lender Bradford & Bingley. The U.S. bank Washington Mutual was taken over in large parts by the U.S. finance group JPMorgan Chase.*
- *By* ***early October 2008,*** *the crisis of confidence had reached private investors, prompting investors in a number of European countries to withdraw larger amounts of cash or transfer deposits from foreign-owned banks or direct banks to domestically owned banks. The government of Iceland nationalized the three largest banks of the country (Kaupthing, Landsbanki and Glitnir), all of which had previously strongly expanded their business activities across Europe. Bonds issued by the three banks had turned virtually worthless, and the Icelandic króna also depreciated sharply, having lost around three-quarters of its value against the euro in the period from October 2007 to October 2008. To help prevent the financial system from collapsing, the IMF granted Iceland emergency capital support. In the EU, governments and central banks responded to the intensification of the financial turmoil in the fall of 2008 by adopting a number of sweeping transitory measures to support the financial sector (see the sections on "The Eurosystem: An Anchor of Stability" and "Economic Policy Measures").*[2]
- *In* ***mid-October 2008,*** *the British government injected fresh capital into the Royal Bank of Scotland and the combined Lloyds TSB-HBOS from its Bank Reconstruction Fund.*
- *At the* ***end of October 2008,*** *the U.S. Treasury bought preferred shares from eight major U.S. banks under its Troubled Asset Relief Program (TARP). The events in the U.S.A. and in Europe as well as rising concerns about the outlook for the real economy and remaining imbalances caused risk premia to rise in emerging economies. In response, institutional investors reduced their positions in emerging market securities, partly also as a result of ongoing outflows from mutual funds.*
- *In* ***November 2008,*** *the support packages for the U.S. bank Citigroup and the U.S. insurer AIG were fine-tuned to meet actual needs. In Germany, the Financial Market Stabilization Fund acquired a silent capital interest in Commerzbank. Stock prices reached new multi-annual record lows in response to the rapid clouding of growth outlooks for the real economy and earnings prospects, which destroyed hopes of a rapid recovery. The Swiss central bank announced that it was going to take over UBS assets worth up to USD 60 billion. Latvia and Portugal each nationalized one domestic bank.*

[2] *These measures are closely aligned with the Declaration on a concerted European action plan of the euro area countries adopted on October 12, 2008, and subsequently endorsed by the European Council.*

- *In **December 2008** the hedge fund industry was rocked by revelations of a giant Ponzi scheme operated by U.S. asset manager Bernard Madoff. Even before this investment fraud was disclosed, the hedge fund sector had come under significant pressure amid the financial crisis. Moreover, investors withdrew capital in response to the bleak performance of many funds. Last but not least, banks tightened their lending conditions for hedge funds and/or cut credit lines.*
- *Despite the intervention of central banks and governments, the crisis of confidence among banks had not yet been fully overcome **by late 2008/early 2009**. The measures taken have, however, contributed to stabilizing the international financial system; no major financial institution has since become insolvent.*

currency flows primarily reflected the role of the U.S. dollar as the key transaction currency in financial markets and its function as a safe haven in economically turbulent times. Following a temporary price correction in December 2008, the depreciation of the euro continued around the turn of the year. Thus, foreign exchange developments prevented an even sharper setback of export activity in the fourth quarter of 2008.

Growth outlooks subject to repeated downward revision

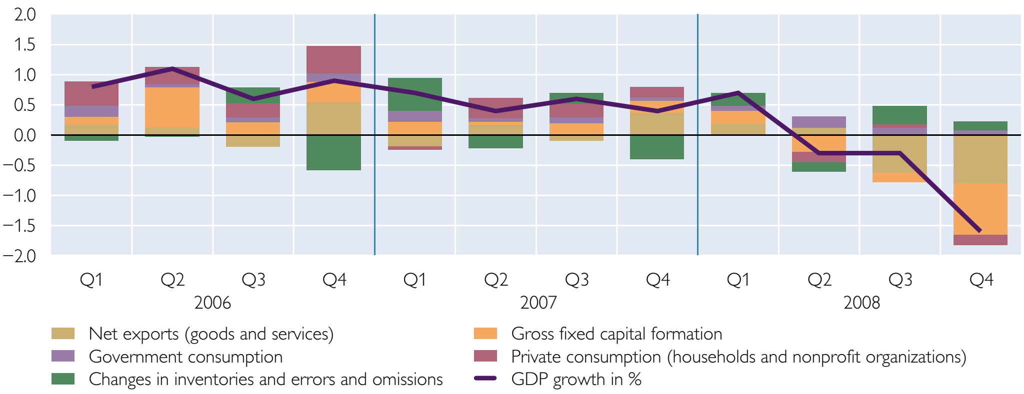
The release of a spate of negative economic data prompted forecasters to revise their growth forecasts downward ever more strongly. Having anticipated 1.5% growth for the euro area for 2009 in the spring of 2008, the European Commission cut back its forecast to 0.1% in its autumn economic outlook. By May 2009, it was already expecting the economy to contract by 4.0%. Over the same period, the inflation outlook for 2009 was revised downward from 2.2% to 0.4%. More generally, it has become evident that the projection models commonly used by major forecasting institutions have all proved inadequate when it came to anticipating the impact of sharply deteriorating financial data on the real economy.

The annual change in euro area inflation peaked at 4.0% in July 2008 before dropping sharply in the second half of the year, reflecting above all the trend reversal in commodity prices. While the price of crude oil had risen by 55% in the first half of 2008, it fell by as much as 75% until the end of the year. This reversal was driven by the

Chart 10

Euro Area Real GDP Growth and Its Components Quarter-on-Quarter Change

Percentage points



Source: Eurostat, OeNB.

softening of demand above all from countries such as China and India, whose dynamic growth had been instrumental in pushing up commodity prices in recent years. The withdrawal of investors from commodity markets further reinforced the price decline. In late 2008/early 2009 crude oil prices stabilized, broadly in line with developments in the prices of other commodities. At the same time, also the less volatile components of inflation embarked on a process of disinflation as a result of dwindling economic activity. The euro area inflation rate measured by the HICP slightly exceeded 1% in the first two months of 2009 (January: 1.1%; February: 1.2%) and subsequently dropped further to 0.6% in March. The decline in inflation supported disposable incomes and thus prevented an even stronger decline in consumer spending.

Sharp reversal in inflation developments

Setback in External Demand and Rising Financing Constraints Cause World Trade to Contract

Up to the early fall of 2008, the broad consensus view was that countries with strong fundamentals and little exposure to U.S. financial markets would remain largely unscathed by the financial crisis, and that the robust momentum of domestic demand would offset the loss of exports to industrialized countries. However, this decoupling hypothesis has been proved wrong because it failed to take adequate account of the web of indirect links in global financial markets. To offset the financial loss resulting from exposures to U.S. markets, investors were forced to pull out of other investments, particularly those in emerging and transformation economies. This unwinding of portfolios caused stock prices and currency rates to drop sharply and moreover reduced the availability of trade credit. As a result, world GDP expanded by just 3.2% in 2008, after having grown by as much as 5.2% in 2007. For 2009, the IMF anticipates the world economy to contract by 1.3% and world trade to plummet by 11% at the time of writing (April 2009).

The slump in growth was pronounced in Asia as well. In Japan, economic activity has contracted since the second quarter of 2008, with the speed of contraction accelerating toward the end of 2008. By the end of the year, industrial confidence had reached levels that were as low as those last seen after the severe banking crisis in 2002. Growth was dampened by both slowing exports – traditionally the key pillar of the Japanese economy – and softening domestic demand. China, the main engine of world growth in recent years, also suffered a strong economic setback in 2008, in response to which the Chinese government adopted substantial economic stimulus packages to counteract a further slowdown in growth. Judging from the first figures for 2009, those packages appear to have been effective: GDP growth has reaccelerated slowly. The IMF expects the Chinese economy to grow by 6.5% in 2009.

Central, Eastern and Southeastern Europe Also Faces Economic Slowdown

Similar to other emerging market economies, the EU Member States in Central, Eastern and Southeastern Europe (CESEE) long proved comparatively resilient to the global financial turmoil that had started in mid-2007. Average growth in the region still amounted to a solid 4.8% in the third quarter of 2008, financial market losses were less pronounced than in other parts of the world, and external financing flows used to cover the (in part substantial) current account deficits did not change

Table 2

Selected Economic and Financial Market Indicators for CESEE Countries

	Real economic growth		Current account balance		Exchange rate development against the euro[1]		Stock market developments	
	2007	2008	2007	2008	January 1, 2008, to September 1, 2008	September 1, 2008, to April 1, 2009[2]	January 1, 2008, to September 1, 2008	September 1, 2008, to April 1, 2009
	Annual change in %		% of GDP		Change in %			
Bulgaria	6.2	6.0	−21.8	−24.3	0.0	0.0	−42.9	−72.3
Czech Republic	6.0	3.2	−1.8	−3.1	7.3	−8.6	−19.1	−48.5
Estonia	6.3	−3.6	−18.1	−9.2	0.0	0.0	−23.4	−52.2
Hungary	1.1	0.5	−6.5	−8.4	6.7	−22.0	−21.2	−46.0
Latvia	10.0	−4.6	−22.5	−13.2	−1.0	−0.8	−13.6	−59.0
Lithuania	8.9	3.1	−14.6	−13.0	0.0	0.0	−16.9	−62.8
Poland	6.7	4.8	−4.7	−5.4	7.6	−26.7	−25.2	−41.0
Romania	6.2	7.1	−13.5	−12.3	2.6	−16.8	−44.2	−55.7
Slovakia	10.4	6.4	−5.4	−6.6	10.7	0.7	−0.2	−24.7
Slovenia	6.8	3.5	−4.2	−5.9	×	×	−35.1	−51.8
Ukraine	7.8	2.7	−4.1	−7.0	8.1	−35.9	−54.0	−57.3
Russia	8.1	5.6	5.3	6.0	−0.2	−19.6	−27.7	−42.4

Source: Eurostat, national central banks, Thomson Reuters.

[1] *Negative values indicate a depreciation.*
[2] *Cutoff date for data on Slovakia: December 31, 2008.*

significantly. The region's resilience was above all attributable to its relatively small direct exposure to the U.S. subprime market.

Financial crisis hits Western Europe in the fall of 2008 …

However, the CESEE region was not altogether spared the repercussions of the global financial turbulence, with the economic downturn in Western Europe leading to slumps in both external demand and external financing and – since mid-September 2008 – tightening conditions in the international financial markets taking their toll. As from fall 2008, financial market developments in the region noticeably trailed the outcomes of previous quarters. Stock prices went down noticeably, government bond yield spreads against the euro area widened, and premiums on credit default swaps (CDS) reached new heights. Numerous local currencies depreciated markedly as international investors grew increasingly risk averse and growth prospects deteriorated. Many financial market segments worsened more in CESEE than in other comparable emerging markets. Having stabilized somewhat in early 2009, markets suffered another round of losses in mid-February. Within a single week, the region's stock indices dropped by more than 10% on average; yield spreads expanded considerably yet again and the value of many local currencies eroded further, reaching long-term lows. There has been some recovery since, and numerous financial market segments have managed to partly offset previous losses.

… and clearly dampens economic activity

Overall growth in the region plunged to 0.9% in the closing quarter of 2008, with economic performance in some countries suffering a contraction against the comparable quarter of the previous year. This downward movement was primarily driven by falling external demand, which – given industry's heavy dependence on exports in these countries – also affected private investment and, subsequently, employment. Breaking the patently positive trend of recent years, unemploy-

Box 2

Financial Crisis: IMF Assists Central, Eastern and Southeastern Europe

Amid the global financial turmoil, many countries found it difficult to cover existing external financing needs. Some countries hence had to turn to the IMF and enter into Stand-By Arrangements (SBAs) to obtain financial assistance.

- ***Hungary:*** *On November 6, 2008, the IMF and Hungary concluded a 17-month Stand-By Arrangement worth EUR 12.3 billion, which was part of a larger stabilization package to which the EU and the World Bank contributed EUR 6.5 billion and EUR 1 billion, respectively. Hungary, in return, committed itself to comprehensive fiscal consolidation measures and succeeded in meeting the agreed budget deficit target for 2008 of 3.4% of GDP. In line with the SBA, the Hungarian government plans to reduce the financing gap to 2.5% of GDP in 2009. Furthermore, the SBA calls for maintaining adequate liquidity and strong levels of capital in the banking system.*
- ***Ukraine:*** *On November 11, 2008, the IMF approved a two-year SBA worth USD 16.4 billion for Ukraine to support the country in its drive to restore financial and economic stability and bolster confidence. The SBA envisages monetary, exchange rate and fiscal policy shifts as well as measures aimed at banking recapitalization.*
- ***Latvia:*** *On December 23, 2008, the IMF concluded a 27-month EUR 1.68 billion SBA for Latvia to buttress the country's current economic consolidation program, restore confidence and support the exchange rate peg of the Latvian lats to the euro. In addition, the EU extended a EUR 3.1 billion loan to Latvia. Another EUR 7.5 billion came from the World Bank, the EBRD and bilateral donor countries (mainly from Scandinavia). Apart from fiscal consolidation, the SBA inter alia calls for measures to restore confidence in the Latvian banking system and to improve competitiveness.*
- ***Belarus:*** *On January 12, 2009, the IMF concluded a 15-month USD 2.46 billion SBA with Belarus to help the country adjust to external shocks. The SBA lays down a number of economic and structural policy requirements and also calls for a depreciation of the Belarusian ruble against the U.S. dollar.*
- ***Serbia:*** *On January 16, 2009, Serbia entered into a precautionary SBA with the IMF about EUR 402.4 million, with the Serbian authorities stressing the fact that they would not draw on IMF resources unless the need arises.*
- ***Romania:*** *On March 25, 2009, Romania and the IMF concluded a two-year SBA worth EUR 12.95 billion. The SBA, which is still subject to approval by the IMF Executive Board, inter alia provides for measures to strengthen fiscal sustainability, secure external financing and shore up confidence. Besides the IMF, the EU contributed an additional EUR 5 billion, the World Bank EUR 1 billion, and the EBRD and other multilateral donors another EUR 1 billion.*

ment rates began to edge up gradually toward the end of 2008. Besides more unfavorable labor market conditions, real estate bubbles bursting in a number of countries, falling stock prices as well as sizeable foreign currency loans in a climate of currency depreciation had a negative impact on private consumption. Tightened credit conditions, in turn, put strains on businesses.

CESEE retains growth edge on euro area despite gloomier prospects

Growth prospects for the coming years have darkened significantly. In its World Ecomomic Outlook of April 2009, the IMF expects economic activity in CESEE to contract by an average 2.9% in 2009. However, uncertainty about economic growth projections is unusually high. Above all, the stronger-than-expected contraction of demand in the main export markets and the decline of capital inflows – including injections from Western European banks into their CESEE subsidiaries – are considered major risks. It is worth noting, however, that CESEE still retains a certain growth edge on the euro area and – at least in the medium term – continues to demonstrate a high growth potential.

Countries with pronounced economic imbalances hit hardest by crisis

Countries with pronounced internal and external imbalances are particularly vulnerable to a deteriorating global environment. Following years of dynamic growth, many CESEE countries now post substantial current account deficits, and price pressures have somewhat chipped away at their competitiveness. Add to that a frequently high external debt burden, which in some countries is characterized by significant currency and maturity mismatches. Further risks emanate from widespread foreign currency loans and the high percentage of short-term debt in the total amount of outstanding debt. Both the financial market turbulence that began in mid-2007 and the escalation of the global financial crisis since mid-September 2008 primarily hit the financial assets of countries that were exposed more heavily owing to their external debt or to their share of domestic foreign currency loans. Among the countries hit hardest were, above all, Hungary, Ukraine, Latvia and Romania, all of which had to call on the IMF for financial assistance at end-2008 or in early 2009. Countries with more favorable fundamentals, by contrast, were affected less by the financial crisis.

Yet, countries with huge negative current account balances or high external debt were not the only ones engulfed by the global financial crisis, with Russia a case in point. There, political uncertainty, falling energy and commodity prices and the worsening of the global economy entailed capital outflows and a marked depreciation of the Russian ruble.

The Effects of the Financial Crisis on the Austrian Financial Market

While Austrian banks did not feel the direct impact of the U.S. subprime crisis strongly, they were naturally affected by the resulting disruptions in financial markets. The banks took partly significant writedowns on securities and posted losses on proprietary trading. Against the backdrop of difficult conditions on international financial markets, fee-based income declined, while risk costs rose, albeit from low levels.

Austrian banks post sharp decline in profits

Austrian banks' unconsolidated operating profits[1] increased by 37.1% to around EUR 9.1 billion. This strong growth was driven by a disproportionate increase in operating income (+17.4%), which was mainly attributable to a rise in income from securities and participating interests by 104% that was largely due to one-off and special effects. Without these effects, Austrian banks' operating profits would have been markedly lower. The pronounced growth of unconsolidated operating income, in combination with a comparatively moderate 5.2% rise in expenses caused the cost-to-income ratio to improve from 62% in 2007 to 55.6% in 2008. Net fee-based income, which had contributed substantially to bank profitability over the past few years, dropped by 10.4% year on year. After recording profits from proprietary trading in the amount of EUR 290 million in 2007, Austrian banks incurred losses of EUR 812 million on this item in 2008. Interest income grew by 11.5%, the highest rate in more than ten years.

[1] *Unconsolidated data are, generally, used to analyze developments in Austria (even though data on income from equity interests also capture part of banks' cross-border transactions).*

The economic slowdown and the financial crisis led to a significant increase in risk costs: Starting from historically low levels, risk costs on loans surged by more than 100% to EUR 4.1 billion, and risk costs on securities amounted to EUR 2.6 billion. As a result, Austrian banks' income from ordinary activities plummeted by 53.5% to EUR 2.4 billion.

Austrian banks' consolidated operating profits, which over the past few years reflected the profitable business in the CESEE region, also declined, dropping by 29.1% to EUR 7.9 billion in 2008. The consolidated end-of-period result (after taxes and minority interests) decreased by about 90% to EUR 0.6 billion, notably because of writedowns and goodwill impairment. Declining profits in combination with business expansions markedly reduced bank performance: The Austrian banking sector's consolidated return on assets (ROA) stood at 0.1% in 2008.

All in all, the liquidity position of Austrian banks is solid thanks to their business model and owing to the fact that their deposit base is broad by international standards. Deposits grew by just under 7% in 2008, which confirms that Austrian banks continue to enjoy a high level of confidence among savers. Uncertainties in the interbank market, however, caused pressure that led to an increase in short-term funding costs. Banks found it exceedingly difficult to obtain longer-term funds in the market without government guarantees. Still, thanks to government measures to enhance confidence and the ECB's repeated reductions of key interest rates, money market tensions had eased somewhat by the end of 2008 and continued to subside up to mid-April 2009.

The risk-bearing capacity of the Austrian banking sector declined somewhat in 2008, inter alia because capital requirements for operational risk were raised. At the end of 2008, the consolidated capital ratio of Austrian banks came to 11.1%, and the consolidated tier 1 capital ratio stood at 7.8%.[2] While these ratios are well above the minimum legal requirements, the market has raised the bar for the amount and quality of capital banks need to hold in the wake of the crisis, thus putting banks under pressure to strengthen their balance sheets and take recapitalization measures.

Weaker economic outlook for CESEE poses a challenge for Austrian banks

The CESEE region is an important market for the Austrian banks and has contributed greatly to their profitability in the past. A recession in the West has repercussions on CESEE economies, too, and thus also poses a challenge for Austrian banks.

Austrian banks have a broad-based presence in the CESEE region: At the end of 2008, they had more than 69 subsidiaries in 19 countries. According to BIS data, Austrian banks' claims on the CESEE region stood at around EUR 200 billion; three-quarters of these claims were on EU countries. While Austrian banks taken together are the largest creditor in the region, a number of banks from other countries have high exposures, too (e.g. Germany or Italy, with some 16% each). The profits from business in CESEE account for a disproportionately high share of the Austrian parent banks' profits.

Austrian banks' risk situation has deteriorated owing to macroeconomic problems in important CESEE markets, e.g. Hungary, Ukraine, Romania and Croatia. In several countries of the region, up to 50% of bank loans are

[2] *Both ratios take account of all types of risk (credit, market and operational risk).*

Chart 11a

Claims on CESEE by Austrian Banking Groups
(Total: EUR 201 billion)

Q3/08; EUR billion (share in %)

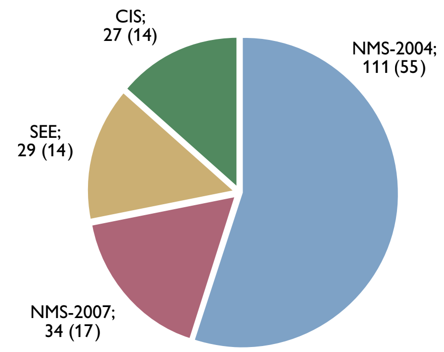
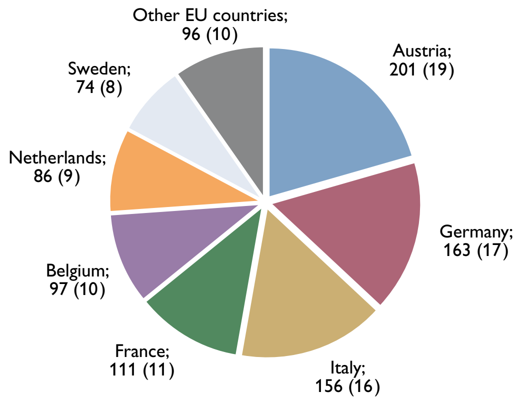


Chart 11b

Claims on CESEE by EU-15 Banks
(Total: EUR 985 billion)

Q3/08, EUR billion (share in %)



Source: BIS.

Note: NMS-2004: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia and Hungary.
NMS-2007: Bulgaria and Romania.
SEE: Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Turkey.
The CIS countries covered are Belarus, Moldova, Russia and Ukraine.

denominated in foreign currencies. The crisis-induced depreciation of several Eastern European currencies has also driven up the default risk on outstanding foreign currency loans.

Generally weak performance of other financial intermediaries

The capital ratio is a key indicator for assessing banks' risk-bearing capacity. Thanks to the Austrian government's bank support package and the efforts undertaken by the banks themselves, the capitalization of Austrian banks is adequate by international standards.

In the course of 2008, deteriorating global economic conditions put pressure on existing macroeconomic imbalances in the CESEE region. Despite these developments, the Austrian parent banks continue to provide their CESEE subsidiaries with sufficient capital and thus contribute to stabilizing the CESEE economies. This confirms Austrian banks' continued commitment to their role as long-term investors in CESEE countries. Even though Austrian banks have a unique investor position in the region, 80% of claims on CESEE are held by banks in other EU Member States, which means that developments in the region are highly significant not only for Austria, but also for the entire EU.

The Austrian insurance industry was also affected by the consequences of the worsening financial turbulence in 2008, with growth decelerating markedly amid worsening economic conditions in 2008. Premium income amounted to EUR 16.3 billion in 2008, up by 2.5% on 2007. The strongest impact was observed in the life insurance segment, where premium income growth was slightly below average at 2.2%. The volume of insurance companies' claims payments rose by a total of 7.7% to around EUR 11.6 billion, mainly driven by maturing life insurance policies and adverse natural events (e.g. storms). Insurance companies hold assets to meet the claims of insurance holders. In 2008, their investment performance came under pressure owing to price losses and especially also to the rise in risk premiums on debt securities markets, as these instruments (e.g. corporate and bank bonds) account for around one-half of the total investment volume.

The development of Austrian mutual funds was subdued in 2008, with price losses totaling 13.4% in 2008 and assets under management dropping by 23% to EUR 126 billion as a result of valuation losses and outflows. Equity funds were affected the most by the incipient financial crisis. The business performance and profitability of Austrian investment companies deteriorated in line with the increasingly difficult business environment for the mutual funds industry. With around 30% of their asset portfolios invested in equities, Austrian pension funds also felt the impact of the financial turbulence. The 6 Austrian industry-wide pension funds and the 13 occupational pension funds recorded losses of 12.9% in 2008.

The Austrian stock market also suffered significant setbacks in 2008. The ATX[3] of Wiener Börse AG dropped by 61.2% and stood at 1,750 points at year-end. This decline, which offset most of the valuation gains recorded in the period from 2003 to end-2007, was mainly ascribable to the marked increase in risk aversion among investors and the rapid deterioration of the economic environment in the second half of 2008. The significant downward revision of the CESEE countries' growth outlook dimmed the profitability prospects of Austrian enterprises operating in the CESEE region and increased uncertainty. The market capitalization of Austrian stocks, which had stood at 58% of GDP in 2007, plunged to slightly more than 18% of GDP in 2008. Raising capital through the stock market was generally difficult in the reporting year. Capital increases amounted to just over EUR 1.3 billion and were mainly attributable to one transaction by a large Austrian insurance company in May 2008.

Increased awareness of risks involved in foreign currency loans

The financial turmoil has also had repercussions on Austrians holding foreign currency loans: Their repayment obligations increased, given adverse exchange rate developments, while at the same time the value of the repayment vehicles[4] they held to pay off the capital decreased amid falling stock prices. Overall, these developments led to a higher awareness of the risk potential inherent in foreign currency loans. The OeNB has promoted risk awareness for years, e.g. by publishing an information folder on this issue.

In December 2008, foreign currency loans accounted for 9.1% of all loans taken out by Austrian nonfinancial corporations and for 30.7% of those taken out by Austrian households. The share of foreign currency lending to both enterprises and households again increased somewhat year on year, mainly because of adverse exchange rate developments, but it remained well below historical record highs. The total volume of foreign currency loans extended by Austrian banks to domestic borrowers climbed by 18.8% to EUR 55.5 billion in 2008. The bulk of this increase, however, was attributable to adverse exchange rate developments vis-à-vis the Swiss franc, the U.S. dollar and the Japanese yen. With a share

[3] *The Austrian Traded Index (ATX) comprises the 20 most liquid and most highly capitalized stocks of the prime market segment at Wiener Börse.*

[4] *A repayment vehicle is used to save up money during the life of a loan and to repay the loan capital at the date of maturity. Endowment insurance contracts, index- and equity-linked life insurance contracts or mutual fund contracts are often used as repayment vehicles.*

Box 3

The Impact of the Financial Crisis on Investment Behavior in Austria

The disruptions in international financial markets that started in mid-2007 have had a significant impact on the investment behavior of Austrian households, banks and enterprises. Decision-making by financial market participants was guided by volatile equity markets, the spillover of the U.S. subprime crisis to Europe and the increasingly difficult situation of major financial institutions.

In 2008, the value of the Austrian household sector's securities portfolio dropped by around 19% due to valuation effects. Stocks were naturally affected the most: their value shrank by around EUR 10.8 billion to less than one-half of the 2007 value. Life insurance and pension fund assets also posted substantial losses (–EUR 2.4 billion). The importance of precautionary saving increased massively against this backdrop, with the saving ratio of the Austrian household sector climbing to around 12.5% of disposable income in 2008 (2007: 11.7%). Domestic deposits accounted for the lion's share of financial asset accumulation (71% or EUR 13.1 billion). In light of the high level of uncertainty, short-term investments were especially popular, as they allow holders to manage their assets flexibly. Debt securities (at EUR 4.6 billion) remained popular, too, whereas quoted shares and mutual fund shares worth some EUR 3.3 billion were sold in 2008.

The high risk aversion among Austrian investors also had an impact on domestic banks' investment and financing activities: Deposit holdings surged by 7% to around EUR 276 billion in 2008. All in all, the financial crisis caused securities investment to go down dramatically in 2008, but this decline was largely offset by growth in loans and deposits.

Notwithstanding the slump in the securities business, the international integration of the Austrian capital market has stagnated but was not reversed in the wake of these developments: Taken together, Austria's cross-border financial assets and liabilities were equivalent to around five-and-a-half times annual GDP. As a result of the financial crisis, however, the steep upward trend of recent years on the back of brisk securities business was temporarily checked, not least because prices tumbled on the Vienna stock exchange, which was unable to decouple from the difficult international stock market environment: In light of their successful business activities on European growth markets, ATX-listed enterprises had become a highly attractive investment option for international investors and had thus absorbed a large volume of foreign capital in recent years, but it took no more than ten months (January to October 2008) for foreign investors to lose the profits they had made during the stock market boom in Vienna in the period from 2003 to 2006 (EUR 26 billion).

In the current crisis, the domestic financial marketplace has profited above all from Austria's euro area membership, which has shielded it from dangerous exchange rate volatility that afflicted some European markets in 2008. Despite the rising importance of European growth markets, the euro area is still the main trade and finance partner region for Austria, accounting for roughly one-half of the country's foreign assets and liabilities. The countries that joined the EU in 2004 and 2007 account for only around one-tenth of Austria's foreign assets.

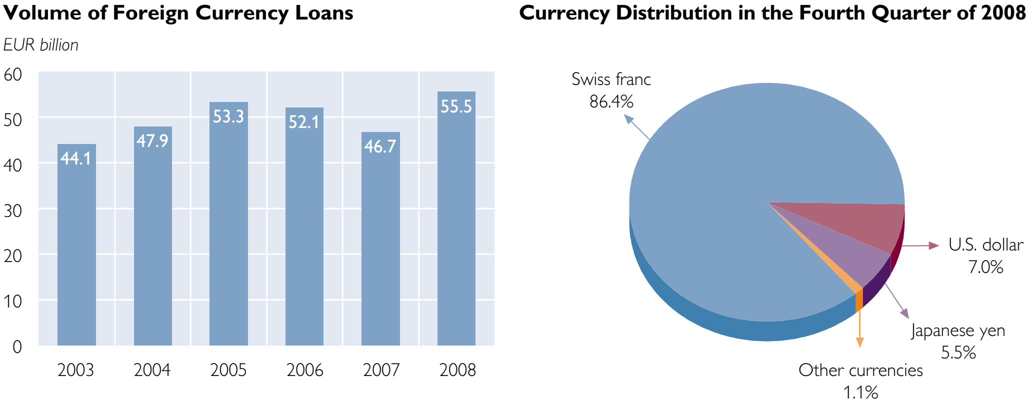
of around 86.4%, the Swiss franc remained the dominant currency.

At the end of 2008, just under 80% of all foreign currency loans to domestic enterprises and households were bullet loans; of these, almost 80% were backed by repayment vehicles. The adverse developments in financial markets sparked a discussion about the asset quality of repayment vehicles. Still, future positive financial market developments may yet offset losses, as most foreign currency loans have more than five years to maturity.

In numerous CESEE countries, foreign currency loans continue to account for a significant percentage of lending. A survey conducted by the OeNB and

Chart 12

Foreign Currency Loans to Austrian Nonbanks



Source: OeNB.

the Austrian Financial Market Authority showed, however, that the share of foreign currency loans extended by Austrian subsidiaries in the CESEE region has dropped slightly in the recent past. The volume outstanding rose by around 30% year on year, reaching EUR 80 billion in 2008. The share of foreign currency loans was exceptionally high in Croatia, Hungary, Romania and Russia. Around one-half of all foreign currency loans were denominated in euro; other than that, the breakdown by currencies varied considerably across countries.

Developments in 2008 clearly highlighted the risks associated with foreign currency loans. The OeNB has called for vigilance about these risks for some time now, and it will continue to closely monitor developments and provide information on these risks in cooperation with Austrian banks.

Economic Growth in Austria Shrinks by Half in 2008, Deepest Post-War Recession Looms Large for 2009

Austrian economy grows by 1.6% in 2008

An analysis of 2008 developments shows that the economic boom came to an end in the second quarter in Austria, as GDP edged up by 0.2%[5] on the first three months of the year. A lower quarter-on-quarter growth rate than that had last been recorded in the second quarter of 2003. The fallout of the global downturn was reflected in Austria's real economy above all from the second half of 2008, with the economy stagnating in the third quarter and contracting by 0.2% in the closing quarter. Exports started to shrink markedly in the second quarter (–0.2% quarter on quarter), losing even more ground in the subsequent (–1.0%) and final quarter of 2008 (–0.8%). Private consumption growth decelerated to a mere 0.4% in the final three months of 2008.

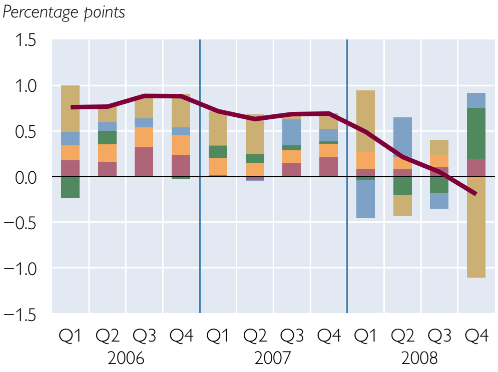
At 1.6%, full-year 2008 GDP growth had been slashed in half compared with the previous years of dynamic expansion: from 2005 to 2007,

[5] *All Austrian national accounts data are real-term as well as seasonally and working day adjusted; growth rates as compared with the previous period. Source: Statistics Austria.*

Chart 13

Contributions to GDP Growth in Austria

(quarter on quarter, seasonally and working day adjusted)

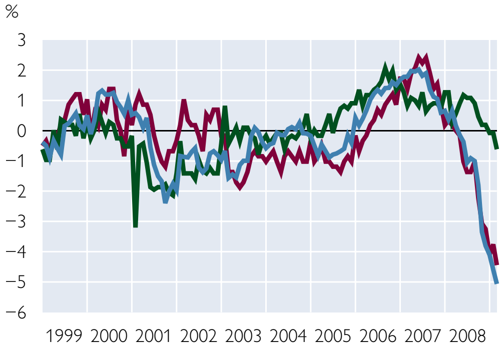


Source: OeNB, WIFO, European Commission.

Chart 14

Development of Selected Confidence Indicators in Austria

(standardized)



Note: Owing to standardization, the various indicators may be presented in a uniform scale (calculated as the differential to the mean – January to December 2008 – divided by the standard deviation – January to December 2008).

Table 3

Economic Indicators for Austria

	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Annual change in %								
Real GDP[1]	3.3	0.9	1.4	0.8	2.5	3.3	3.3	3.0	1.6
HICP inflation rate	2.0	2.3	1.7	1.3	2.0	2.1	1.7	2.2	3.2
	%								
Unemployment rate[2]	3.6	3.6	4.2	4.3	4.9	5.2	4.8	4.4	3.8
Budget balance, % of GDP	−1.7	0	−0.7	−1.4	−4.4	−1.6	−1.6	−0.5	−0.4
Current account balance, % of GDP	−0.7	−0.8	2.7	1.7	2.1	2.0	2.8	3.1	3.5

Source: Statistics Austria, WIFO.

[1] *GDP: real-term, seasonally and working day adjusted.*
[2] *Eurostat definition.*

the Austrian economy had posted annual growth rates of between 3.0% and 3.3%. Despite the drop, Austria still fared significantly better than most other EU Member States in 2008. In Germany and Italy, Austria's two main trading partners, output had already started to contract in the second quarter of 2008; Germany registered GDP growth of –2.1% and Italy of –1.9% in the fourth quarter (quarter on quarter, seasonally adjusted). In light of the troubled external environment, Austria's economic growth stayed astonishingly strong even toward the end of 2008 because exports declined only comparatively moderately and because private consumption increased fairly vigorously. The Austrian economy is likely to have benefited from the extraordinarily buoyant employment growth observed in 2007 and 2008 and, toward end-2008, the clear downtrend in inflation. Furthermore, country-specific factors helped bolster economic growth: Owing to solid order books, construction remained relatively robust, and tourism turned in a stellar performance, with overnight stays climbing by 4.3% in 2008. The tally of 127 million overnight stays was the fourth-best outcome since these statistics have been compiled, in a league with the figures recorded in the early 1990s. The year 2008 even saw a record high of arrivals (32.6 million).

Almost all confidence indicators took a plunge in Austria toward end-2008, in part tumbling to all-time lows and hence even below the levels recorded after the Internet bubble had burst in 2001. Developing along notably sturdier lines, construction confidence was the proverbial silver lining at end-2008.

Having peaked at 4.0% (against the same month of 2007) in June 2008, the HICP was down to 1.5% in December 2008. Annual inflation thus averaged 3.2%, the highest level since 1993. The upward pressure on prices was mainly fueled by the massive global rise in crude oil and commodity prices. As Brent crude oil hit a historical peak of close to USD 146 per barrel at the beginning of July 2008, the prices of many other commodities, above all of food, likewise increased substantially, the latter exacerbated by crop failures and the production of agricultural fuel.

In the final months of 2008, the base effect of the decline in the price of crude oil since October 2008 as well as easing food price pressures substantially dampened inflation. Even though collectively agreed wages registered their sharpest increase in nominal terms (2008: +3.0%) since 1995, the rise in average annual inflation translated into a reduction in real wages.

Employment grows at a record pace despite downturn; unemployment on the rise from end-2008

The labor market benefited significantly from the past economic boom, chalking up the highest employment gains since 1991: 2.3% (measured in terms of paid employment in accordance with the Main Association of Austrian Social Security Institutions). At 3.5%, the unemployment rate (Eurostat definition) was lowest in May 2008. Averaged out over the year, unemployment equaled 3.8%, the lowest yearly rate since 2001. Of the EU-27 group (average 7.0%), Austria posted the third-lowest jobless rate after the Netherlands (2.8%) and Denmark (3.3%).

The marked economic slowdown started to leave its mark on the labor market as of November 2008. Employment growth weakened noticeably on the previous months. Registered unemployment increased again for the first time since February 2006 (+0.9%), while the number of reported vacancies dropped significantly (–11.5%). A further worsening was observed in December 2008, when registered unemployment mounted by 22,000 persons to a total of 287,147 unemployed.

2008 sees highest inflation since 1993

Budget deficit low in 2008

The growth setback weighed only marginally on the development of the budget in 2008: According to the excessive deficit procedure (EDP) report of March 2009, the general government deficit of 2008 remained comparatively small at 0.4% of GDP (2007: 0.5%). Extraordinarily strong employment growth in the first three quarters of 2008 and relatively high inflation favored revenue developments. The effects of measures aimed at mitigating inflationary effects on households and previously agreed tax increases (e.g. of the petroleum tax) were relatively minor in 2008. By contrast, the debt ratio expanded from 59.4% (2007) to 62.5% (2008) of GDP, which was partly due to reserves set up for the bank support package and a capital injection into Hypo Alpe-Adria-Bank.

Sizeable current account surplus

In line with a long-time uptrend, Austria posted a record current account surplus of EUR 9.8 billion or 3.5% of GDP. Austrian exporters still managed to boost exports of goods and services by 3% to close to EUR 164 billion, but in the second half of 2008, the goods account swung into a considerable deficit. Shipments from abroad likewise showed an increment of 3%, rising to some EUR 151 billion. Not for the first time, tourism proved an important pillar of Austria's current account, posting a surplus of around EUR 7 billion in 2008, about one-sixth more than the already excellent 2007 outcome. In the same vein, Austria's financial account also recorded net capital exports of almost EUR 12 billion (2007: EUR 9.3 billion).

Foreign direct investment abroad ran to EUR 19.7 billion in 2008, down from EUR 24.7 billion in 2007. Austrian financial investors channeled record amounts of funds to Germany, which dominated the generally highly diverse group of target regions. Vice versa, inward foreign direct investment, including intragroup loans, came to EUR 9.5 billion in 2008 (2007: EUR 22 billion).

Outlook for 2009: Austria's economy will contract

Developments in early 2009 already signaled significantly negative economic effects. According to the Public Employment Service, registered unemployment rose sharply from January to April 2009 (February: +23.7%, March: +28.8%, April: +25.9%). In addition, payroll employment decreased for the first time in seven years. Joblessness (Eurostat definition) surged to 4.3% in January and amounted to 4.5% each in both February and March 2009. The majority of main confidence indicators continued to trend downward. The declining number of new passenger car registrations (–15.9% in January 2009 and –22.3% in February 2009)[6] and the consumer assessment that is part of the Economic Sentiment Indicator (–21 points in January, –19 in February, –23 in March and –24 in April 2009) suggest a weakening of private consumption year on year. The most recent forecasts released by the IMF and the European Commission paint an extremely bleak picture for Austria's main trading partners in 2009. Demand for Austrian exports is therefore likely to take another marked fall.

The OeNB's full-year 2009 projections envisage the deepest recession since World War II for Austria. According to the OeNB economic indicator of March 2009, real GDP growth is expected to contract by 1.5% in the first and by 0.7% in the second quarter of 2009 (quarter on quarter). The forecast of the Austrian Institute of Economic Research, WIFO, of March 2009 sees Austrian GDP shrinking by 2.2% in 2009 and edging up again slightly by 0.5% in 2010. Labor market conditions will deteriorate markedly, though, with unemployment (Eurostat definition) mounting to 5.0% in 2009 and 5.8% one year later. Inflation is pegged to decline to 0.6% in 2009 and to increase to slightly more than 1% in 2010. In its forecast released in April 2009, the IMF sees the Austrian economy contracting by 3.0% in 2009 and more or less stagnating in 2010, given 0.2% real GDP growth. The outlook

[6] *From April 1 to December 31, 2009, buyers of a new vehicle receive a scrapping incentive worth EUR 1,500 from the Austrian government for cars that were first registered before January 1, 1996. A similar incentive in Germany, which took effect already in January 2009, provided a considerable boost to car purchases.*

Box 4

The OeNB Steps Up the Volume of ERP Loans to Austrian Businesses, Earmarking EUR 210 Million for 2009

Under the European Recovery Program (ERP), the OeNB has been lending support to Austrian businesses since 1948. For 2009, the OeNB has earmarked EUR 210 million (+6% compared with 2008) for this purpose, which means that austria wirtschaftsservice (aws) can disburse ERP funds totaling EUR 600 million to Austrian entrepreneurs in 2009.

In 2008, the OeNB provided around EUR 200 million to 102 businesses, contributing to their total investment volume of EUR 525 million.

All in all, the OeNB has extended, on a revolving basis, low-interest loans equaling some EUR 1 billion to 600 enterprises, which amounts to about one-third of the total ERP lending volume (two-thirds come from the ERP Fund).

From 2004 to 2008, Austrian businesses received about EUR 1.1 billion (some EUR 200 million a year) of ERP funds from the OeNB, which thus made possible an investment volume of almost EUR 2.4 billion (for 468 investment projects). The positive economic effect of these ERP funds was amplified further by enterprises also tapping the EU cofinancing instrument. The low-interest loans were first and foremost geared toward fostering technology-based and innovative future-oriented industries as well as promoting the internationalization of Austrian companies.

for unemployment is, however, much worse (2009: 5.4%; 2010: 6.2%). The inflation rate foreseen by the IMF is similar to that predicted by WIFO.

Since real GDP growth is expected to be revised downward, the OeNB forecast of December 2008 envisaging the general government deficit ratio for 2009 to rise to slightly below 3% of GDP (when taking into account the effect of the economic stimulus measures and of the income tax reform on the budget) has turned out to be too optimistic. While the economic stimulus packages implemented to date and the tax reform (including the family package) are estimated by the OeNB to yield a growth effect of slightly over ½% of GDP, they are, at the same time, expected to cause the general government balance to deteriorate by around 1% of GDP in 2009. Unfavorable economic developments (and the concomitant adverse relationship of interest rate developments and economic growth as well as the decline in the primary balance) together with the predicted increase in the deficit are bound to drive up the general government debt ratio. This ratio will rise further should it become necessary to issue government bonds to fund capital injections to Austrian banks. The April 2009 update of the Austrian stability program pegs the general government deficit at 3.5% of GDP in 2009 (2010: 4.7%) on account of dwindling revenues and rising expenditures.

Monetary and Economic Policy Measures to Support the Financial Market and Shore Up Economic Activity

The Eurosystem: An Anchor of Stability

Like other major central banks around the world, the ECB has taken exceptional measures in response to the financial market disruptions that began in the summer of 2007.[7] When the financial crisis began to spread to more and more financial institutions in the

[7] *See also Jobst, C. 2009. Monetary Policy Implementation during the Crisis in 2007 to 2008. In: Monetary Policy & the Economy Q1/09. OeNB. 53–77. Also available at www.oenb.at.*

Box 5

Fiscal Stimulation in Austria: Two Economic Stimulus Packages and a Tax Reform[1]

In response to the impending economic downturn, the government adopted a stimulus package designed to facilitate access to funding notably for Austrian businesses, and in particular for SMEs, through loans and guarantees. As the economic downturn showed signs of turning into a pronounced contraction, the government agreed on a second stimulus package and decided to bring forward the announced income tax reform. To stimulate private investment demand, the second package also provides for accelerated depreciation up to the end of 2010 and subsidies for renovation projects to raise energy efficiency. In addition, the government has appropriated higher funds for the promotion of research and for regional employment initiatives. Similar to the first stimulus package, the second package envisages stepped-up infrastructure spending by public companies classified to the private sector, namely by the public facility management company (BIG); in the first package, the federal railways (ÖBB) and the highway authority (ASFINAG) had been charged with infrastructure spending. Additional measures adopted in 2009 were the expansion of short-term working arrangements and the implementation of a scrapping incentive.

The measures introduced in 2008 to soften the inflation effects on households' disposable incomes proved useful and adequate, even though the scenario for which they had originally been intended had changed entirely into one of deep recession coupled with sharply decelerating inflation. They consisted above all in (both permanent and temporary) increases of transfer payments (such as pensions and family allowance).

The OeNB expects the measures that have been adopted to date (inflation package, two economic stimulus packages, earlier implementation of the income tax reform, short-term working and scrapping incentive) and that are worth around EUR 6.6 billion (not counting the inflation package: some EUR 5 billion) to result in a positive growth effect in 2009 of about ¾% of GDP (slightly over ½% if the inflation package is factored out) and to translate into some 12,000 additional jobs (close to 9,000 not counting the inflation package).

Volume and Intention of Economic Stimulus Measures Announced in 2008 and 2009

	Volume		Intention
	2009	2010	
	EUR million		
Inflation package			
Reduction of unemployment insurance contributions	300	300	strengthening consumption
Pension increase[1]	300	110	strengthening consumption
Partial abolition of student tuition fees	150	150	strengthening consumption
13th family allowance installment	250	250	strengthening consumption
Reduction of VAT on medication[2]	100	100	strengthening consumption
Increase of long-term care allowances	120	120	strengthening consumption
Federal heating subsidy	30	0	strengthening consumption
Additional exemptions from payroll tax	150	150	strengthening consumption

Note: Volume relative to 2007 (accrual basis). EIB denotes the European Investment Bank, KfW the German development bank Kreditanstalt für Wiederaufbau.

[1] One-off increase in 2009, permanent 0.2 percentage points increase above inflation rate, abolition of one-year waiting period until first pension adjustment.

[2] The bulk of lower VAT revenues is earmarked for health insurance providers.

cont. p. 47

[1] See also Köhler-Töglhofer, W. and L. Reiss. 2009. The Effectiveness of Fiscal Growth and Stimulus Measures in Times of Crisis. In: Monetary Policy & the Economy Q1/09. OeNB. 78–99. Also available at www.oenb.at.

U.S.A., concerns grew that it would affect banks in Europe as well. The complex nature of modern financial products has made it difficult for banks, insurance companies and enterprises to assess their own risk correctly. Financial institutions started to hoard liquidity to be able to meet unexpected fu-

cont. from p. 46

	Volume		Intention
	2009	2010	
	EUR million		
First economic stimulus package			
ÖBB and ASFINAG projects[3]	225	225	infrastructure investment[4]
Increase of credit volume (EIB, KfW, ERP)[3]	500	500	investment incentive
Increase of guarantee lines (AWS)[3]	400	400	investment incentive
Increase in state subsidy for savings plans with building and loan associations	20	20	investment incentive
SME fund for growth projects[3]	40	40	investment incentive
Internationalization initiatives	25	25	export promotion
Broadband drive	10	0	investment incentive
Second economic stimulus package			
BIG projects[3, 5]	355	520	infrastructure investment[4]
Temporary degressive depreciation[6]	250	350	investment incentive
Energy efficiency renovation	100	0	investment incentive
Research facilitation	50	50	investment incentive
Regional job creation programs	75	75	sustain employment, strengthening consumption
Free final preschool kindergarten year	30	70	strengthening consumption
Tax reform including the family package[7]	2.910	3.060	strengthening consumption
Other measures			
Subsidies for short-term working	200	200	sustain employment, strengthening consumption
Scrapping incentive	20	0	strengthening consumption
Total volume	**6.610**	**6.715**	
of which affecting the deficit[8]	**4.095**	**4.758**	

Source: Federal Ministry of Finance, OeNB.

Note: Volume relative to 2007 (accrual basis). EIB denotes the European Investment Bank, KfW the German development bank Kreditanstalt für Wiederaufbau.

[3] Not (or largely not) relevant for general government deficit (Maastricht definition).
[4] Off-budget: in line with ESA 95, not part of the general government sector (and thus not relevant for deficit as defined by the Maastricht methodology).
[5] BIG is in turn granted rent increase of EUR 20 million per year.
[6] Fiscal lag (tax levy lag).
[7] Partial fiscal lag (tax levy lag).
[8] Taking into account the tax levy lag.

ture liquidity needs. At the same time, their uncertainty about other banks' risk situation almost caused interbank liquidity to dry up completely. Financial institutions demanded high risk premiums for long-term interbank loans or were not willing to extend any at all.

The ECB took numerous measures to support the smooth functioning of money markets in this climate of massive uncertainty, and thus contributed decisively to preventing the severe liquidity shortages from causing systemic failure.

In dealing with the financial crisis, the ECB relied mainly on its existing monetary policy framework, both when the turbulence began in the summer of 2007 and when the situation exacerbated in the fall of 2008. This framework was developed by the Eurosystem during the first years of its existence and has been refined and improved over the years.[8] The measures taken when the crisis broke out were primarily aimed at alleviating banks' uncertainty about their future liquidity needs and access to liquidity. To this end, the ECB

[8] *See also ECB. 2008. The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures. November. Also available at www.ecb.int.*

stepped up the frequency of its monetary policy operations, frontloaded liquidity provision within reserve maintenance periods, and shifted the focus of liquidity provision from main refinancing operations to longer-term refinancing operations to accommodate banks' need for longer-term liquidity planning. As a result, the share of liquidity provided via the ECB's longer-term refinancing operations rose from 35% to more than 70%. Providing the forward market with central bank money was a top priority for the ECB, as liquidity shortages in this market segment caused money market rates (LIBOR, EURIBOR) to rise to high levels, a development which has macroeconomic consequences that go far beyond their impact on the money market.[9]

The Eurosystem has taken comprehensive liquidity measures since September 2008

The financial crisis took a dramatic turn for the worse when the U.S. investment bank Lehman Brothers filed for bankruptcy in September 2008. Uncertainty about risks and future liquidity needs intensified, causing a further deterioration in interbank markets and triggering a selloff across all but the safest asset classes.

In response to the crisis, the ECB – like other major central banks – took further extensive measures to ensure that liquidity was available and thus to reduce uncertainty in the financial system. For this purpose, the ECB switched from variable rate tenders to fixed rate tenders with full allotment for both main refinancing operations and longer-term refinancing operations.[10] This policy guarantees that eligible counterparties receive the amount of liquidity they request at the fixed rate announced by the ECB against eligible collateral, which facilitates longer-term liquidity management for them. In addition, on October 15, 2008, the Governing Council of the ECB decided to increase the frequency of longer-term refinancing operations and to expand the list of assets eligible as collateral in Eurosystem credit operations.

The liquidity needs of parts of the banking system were high at times, which is reflected in large bid and allotment amounts under the new tender procedure. In the period from September 9, 2008, to January 20, 2009, the volume of liquidity provided via longer-term refinancing operations jumped from EUR 300 billion to EUR 614 billion. At main refinancing operations, liquidity demand was also often significantly higher (at times more than EUR 350 billion higher) than would have been necessary for banks to fulfill their reserve requirements. In light of the pronounced uncertainty in the interbank market, banks that had more liquidity than they needed to fulfill the minimum reserve requirement chose to park these funds overnight in the ECB's deposit facility. The total amounts deposited came to almost EUR 240 billion. By accepting deposits of banks with excess liquidity on one side and providing banks in need of liquidity with funds against collateral on the other, the ECB temporarily

[9] *These rates have a bearing on the interest rate conditions of many (variable rate) loans. When they rise drastically, people find it much harder to afford variable rate loans, and declining loan demand leads to lower aggregate investment and consumption.*

[10] *When refinancing operations were conducted as variable rate tenders, counterparties had to submit their bids and indicate the interest rate at which they wanted to enter the transaction. This rate had to be above the ECB's minimum bid rate. As several banks were concerned that they might not obtain the amounts of liquidity they needed because of extreme caution in the interbank market, interest rate bids would have been undesirably high if the ECB had continued to rely on variable rate tenders. Fine-tuning operations (i.e. quick tenders), by contrast, are still conducted as variable rate tenders.*

took over the intermediation role of the dysfunctional interbank market.

Another temporary measure to stabilize the money markets consisted in symmetrically narrowing the corridor formed by the two standing facilities, the marginal lending facility and the deposit facility, from 200 to 100 basis points. This measure was in effect until the end of the first reserve maintenance period in 2009.[11]

Internationally coordinated operations supplemented the individual central banks' measures. To prevent U.S. dollar liquidity shortages at the international level, the ECB, the Federal Reserve, the Bank of England and the Swiss National Bank (SNB) announced on October 13, 2008, that they would conduct tenders of U.S. dollar funding at fixed interest rates for full allotment, just like the tenders of the ECB. To this end, the participating central banks set up sizeable reciprocal swap lines. Similar arrangements were agreed for the euro and the Swiss franc at the regional level.

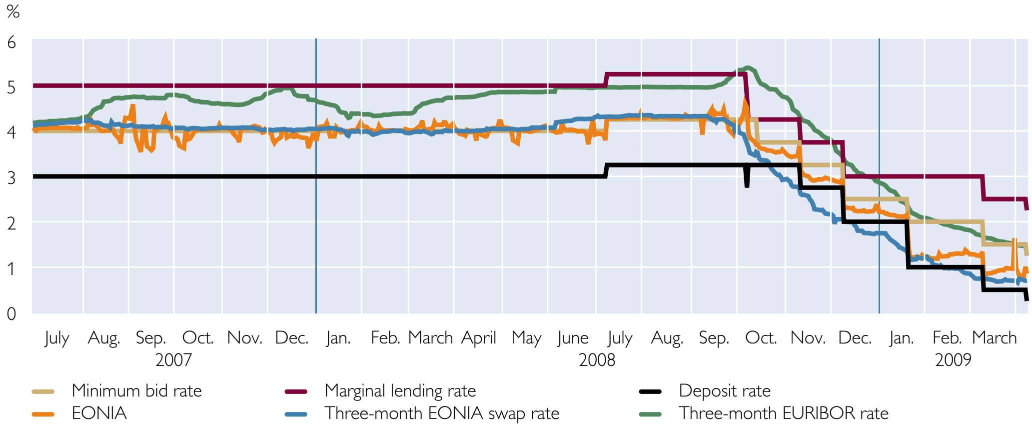
When the financial crisis intensified in September 2008, the outlook for the real economy deteriorated sharply. In response to forecasts of high inflation and amid signs of rising inflation expectations and the second-round effects of wage agreements, the ECB had raised its key interest rate by 25 basis points on July 3, 2008. After that, however, major central banks, including the ECB, began to lower interest rates in several steps when economic growth decelerated sharply and abruptly in the fall of 2008 and price dynamics slowed down markedly, mainly because of plummeting energy and commodity prices as well as rapidly weakening economic conditions. The Governing Council of the ECB decided to reduce the key ECB interest rates by 50 basis points on October 8, 2008, by another 50 basis points on November 6, 2008, by 75 basis points on December 4, 2008, and by 50 basis points on January 15, 2009. Inflation had dropped to rates well below 1% by March 2009 and price stability was expected to be maintained in the medium term, and the growth outlook remained bleak, prompting the Governing Council of the ECB to cut the key ECB interest rates again on March 5, 2009, and on April 2, 2009. The interest rate on the main refinancing operations stood at 1.25% in April 2009, down by 300 basis points from early October 2008.

The ECB was not the only central bank to cut interest rates substantially: The Bank of England slashed its bank rate from 5.0% in early October 2008 to 0.5% on March 5, 2009, and the Bank of Japan reduced its key rate from 0.3% to 0.1% on December 19, 2008. After ten consecutive rate cuts from 5.25% in September 2007 to 2.0% at end-April 2008, the Fed lowered its key interest rates further in three steps in the second half of 2008. At its meeting on December 16, 2008, the Federal Open Market Committee (FOMC) for the first time established a target range for the federal funds rate of 0% to 0.25%, and announced it would keep interest rates at that low level for some time. In addition, the FOMC announced that the Fed would take further unconventional measures to support the functioning of financial markets and stimulate the economy, e.g.

[11] *The relatively favorable remuneration made the deposit facility an even more attractive option and thus strengthened the ECB's intermediation role. When the corridor was widened again in January 2009, recourse to the deposit facility declined significantly and stood at EUR 88 billion in mid-March 2009. Counterparties accessed the marginal lending facility to a much lesser extent and only when required.*

Chart 15

Key Interest Rates and Money Market Rates in the Euro Area



Source: Thomson Reuters.

by purchasing and refinancing mortgage-backed securities and credit card, car and student loans.

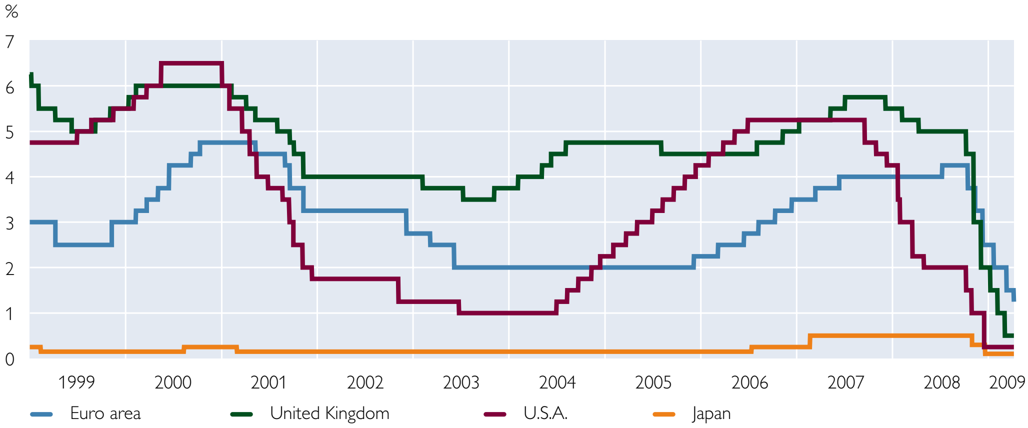
International currency swap lines

The financial crisis also led to substantial U.S. dollar shortages outside the U.S.A. At first, such bottlenecks were observed mainly in Europe, but in the fall of 2008, they suddenly occurred in several regions of the world. To remedy the situation, several central banks set up U.S. dollar swap facilities with the Federal Reserve. Such arrangements allow central banks to provide their counterparties with foreign currency funds they borrow from the central bank issuing that currency. To alleviate U.S. dollar liquidity shortages in the euro area and in Switzerland, the Fed, the ECB and the SNB established U.S. dollar swap lines in December 2007 that have been extended over time. These swap lines allow e.g. euro area banks to obtain additional U.S. dollar liquidity from the ECB against collateral eligible for Eurosystem credit operations; simultaneously, the ECB conducts EUR/USD foreign exchange swaps with the Federal Reserve. From mid-September 2008, the existing U.S. dollar swap lines were expanded and new swap arrangements with many participants (among them the Bank of Japan, the Bank of England and the Reserve Bank of Australia) were set up, so that the number of participating central banks increased substantially. The swap lines facilitate the provision of U.S. dollar liquidity around the globe and in several time zones. As of February 18, 2009, the total liquidity volume provided to central banks through these swaps was USD 375 billion according to the Federal Reserve's balance sheet data.

Currency swap arrangements were also established at the regional level. While some were set up for precautionary reasons, others were used to address actual shortages. In October 2008, for instance, the ECB and the SNB entered into a swap arrangement to ensure the availability of Swiss franc liquidity for Eurosystem counterparties. This measure was aimed especially at supporting small banks that had no direct access to the SNB's operations. That same month, the ECB and Danmarks Nationalbank established a swap line to improve the liquidity situation in the short-term euro markets in Denmark. In addition, the ECB committed to providing Magyar Nemzeti

Chart 16

Key Interest Rates in Selected Countries



Source: Thomson Reuters.

Bank with euro liquidity through a repurchase transaction. In November 2008, the SNB and the ECB agreed on arrangements with Narodowy Bank Polski for the provision of Swiss franc and euro liquidity.

Economic Policy Measures

The global financial crisis and the extent of the measures that had to be taken to cushion its repercussions compelled governments to reassume their role as key economic policymakers. In 2008, governments took far greater steps than simply allowing the automatic stabilizers to work. Monetary policymakers and governments acted in concert in strengthening the European economy. While the governments of the EU Member States implemented measures at the national level, the EU took a leading role as a catalyst for joint action at the European level. A comprehensive economic policy program was adopted to ensure a coordinated approach to supporting the real economy, just like that taken to stabilize the financial markets, thereby maximizing the benefit of the national measures by triggering multiplier effects.

In mid-October 2008, the EU adopted a joint strategy to tackle the financial crisis. The Member States' bank aid packages essentially comprise an increase in deposit guarantee levels, the option of government guarantees on interbank loans as well as capital injections for banks (the details of the Austrian bank support package are described below). Within this joint framework, the Member States have taken national implementation measures.

Financial market support measures: substantial increase in deposit guarantees, bank aid packages

The amendment of deposit guarantee schemes was the first key proposal put forward by the European Commission on October 15, 2008. The new provisions aim at improving depositor protection and maintaining depositor confidence. The Member States agreed to raise the minimum level of coverage for deposits from an initial EUR 20,000 to EUR 50,000 and further to at least EUR 100,000 within one year. Some Member States, including Austria, chose to set an even higher level of coverage. Similarly, the new provisions ensure that deposits are reimbursed up to the coverage level without a deductible, and the period within which depositors must be paid in the event that a bank fails was reduced to three days. Until then, the payout period had been three months with the option of extending it to nine months.

Measures to support the real economy: EUR 200 billion European Economic Recovery Plan launched

One of the most prominent sets of economic policy measures to tackle the crisis is the European Economic Recovery Plan for Growth and Jobs adopted at the European Council meeting on December 11 and 12, 2008. This program was designed as a targeted and temporary fiscal stimulus of about EUR 200 billion or 1.5% of the EU's GDP. Some EUR 170 billion or 1.2% of GDP are to be injected by Member States into their own national economies; another EUR 30 billion or 0.3% of GDP are proposed to come from EU funding and the European Investment Bank (EIB). The primary aim of this package is to provide a framework for short-term measures to stimulate demand, secure jobs and restore confidence in the economy as well as to fund investment measures to promote long-term sustained growth.

The EU's contribution to this plan includes advanced payments of EUR 1.8 billion by the European Social Fund to support employment; another EUR 5 billion will be mobilized to improve energy interconnections and Internet broadband infrastructure. The EIB is to increase its yearly interventions in the EU by some EUR 15 billion, EUR 4.5 billion in cohesion funding will be brought forward, and the scope of the European Globalisation Adjustment Fund will be expanded to enable a more rapid mobilization of funds and the targeted support of employment policies. Furthermore, the European Commission recommends reducing employers' social security contributions (for lower incomes) and permanently cutting value-added tax rates in labor-intensive services.

The Member States on their part have launched a range of crucial measures at the national level that take account of their respective circumstances and that are tailored to the scope for action possible in each state. The European Council emphasized that given the scale of the crisis, an increased coordinated effort would be required within a joint framework. Measures to support demand must be temporary and designed to achieve immediate effects; they must also be geared toward the sectors most affected and most important to the entire economy (e.g. the automotive industry and construction). Depending on each Member State's individual situation, these measures could take the form of increased public spending, appropriate reductions in tax burdens, cuts in social security contributions, support for certain categories of enterprises or direct aid for – in particular low-income – households.

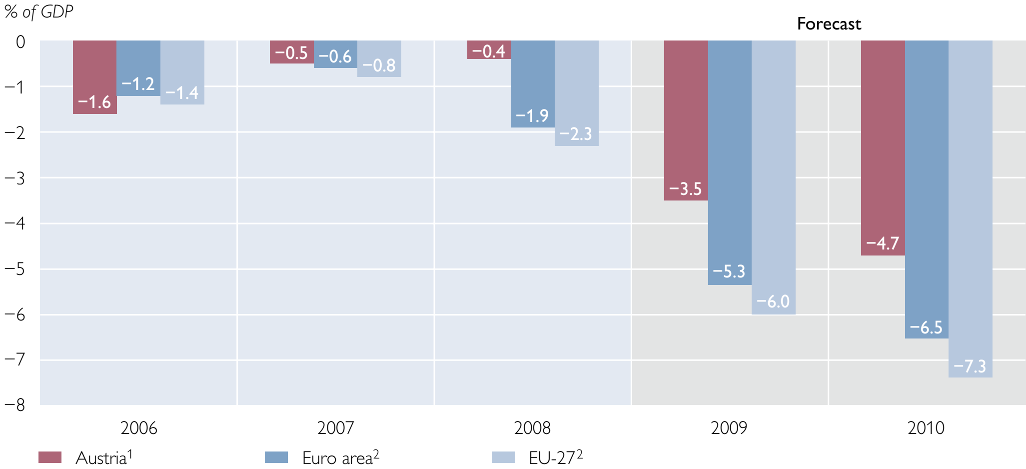
Economic stimulus measures increase pressure on public finances

Against the background of the severe financial and economic crisis, public finances in the EU have come under substantial strain. Tax revenues have declined on the back of sluggish growth, while public spending, e.g. employment benefits, have increased. A number of Member States launched stimulus measures to revive demand and foster the creation of jobs.

In the euro area the aggregate budget deficit expanded considerably from 0.6% of GDP in 2007 to 1.9% of GDP in 2008; in the entire EU, the deficit increased from 0.8% of GDP (2007) to 2.3% of GDP (2008). Analyses by the European Commission show that stimulus measures were launched primarily by Member States with fiscal leeway, low debt ratios or small external imbalances. The Stability and Growth Pact will facilitate the return to solid and sustained public finances after the recession has come to an end and the economy has started to pick up. The measures taken are in general timely,

Chart 17

Budget Balances



Source: Eurostat.

[1] 2009, 2010: Austrian Stability Program of April 2009.
[2] 2009, 2010: European Commission forecast of May 2009.

targeted and temporary. According to the IMF outlook of April 2009, the budget deficit in the euro area is set to expand from 1.9% of GDP (2008) to 5.3% of GDP (2009), and the deficit for the entire EU is projected to increase from 2.3% of GDP (2008) to 6.0% of GDP (2009).

G-20 summit in April 2009 releases further funds

At their summit in London on April 2, 2009, the G-20 agreed to take action to enhance international financial market regulation and supervision. An international financial stability body with a strengthened mandate is to be established; regulatory oversight will be extended to hedge funds and rating agencies. Tax havens must expect sanctions to be taken against them. Also, in its concluding statement, the summit participants announced a reform of the IMF: developing countries are to obtain a greater say, and an early warning system is to be established. Resources available to the IMF will be raised to USD 750 billion. USD 250 billion will be made available to support world trade.

Proactive OeNB Crisis Management Helps Maintain Financial Stability in Austria

Sweeping measures taken to safeguard financial stability in Austria

On October 20, 2008, the Austrian parliament adopted a broad set of measures to support and stabilize the financial sector. Those measures, which are in line with the concerted European action plan to shore up financial markets and for which EUR 100 billion have been earmarked, are designed to protect savers, to restore the normal flow of credit, and to stabilize and strengthen credit institutions as well as insurance companies. The package is conditional on a number of requirements, which are meant to ensure its effectiveness and minimize risks and costs for taxpayers. The framework conditions for those measures have been laid down in two legal acts: the Interbank Market Support Act and the Financial Market Stability Act.[12]

The rationale for the Interbank Market Support Act, which expires on December 31, 2009, was to foster in-

[12] Both acts were promulgated in Federal Law Gazette Part 1 No. 136/2008 and became effective on October 27, 2008.

terbank lending by offering state guarantees up to a total amount of EUR 75 billion. Specifically, the government established a dedicated bank – OeCAG (Oesterreichische Clearingbank AG), which operates with the backing of special state guarantees and became operational on November 14, 2008 – to revive the flow of credit on the short-term interbank market. To also ensure access especially to longer-term funding, the central government, moreover, stands ready to back the issuance of bank bonds with state guarantees.

The Financial Market Stability Act provides for another set of measures worth EUR 15 billion and designed to strengthen the capital base of banks and insurance companies through capital injections, for instance through the provision of participation capital,[13] subject to stringent provisions. Capital interests acquired by the state under this act are managed by FIMBAG (Finanzmarktbeteiligung Aktiengesellschaft), a stock corporation wholly owned by the Austrian state holding company (ÖIAG) and specifically created for this purpose on the initiative of the finance ministry.

As an additional confidence-building measure, the Austrian deposit insurance scheme was enhanced. Until December 31, 2009, all private or business deposits held by natural persons (on savings, current or term deposit accounts or with saving and loan institutions) will be fully insured; from January 1, 2010, deposit insurance will be capped at EUR 100,000. At the same time, deposit insurance for SMEs was raised to EUR 50,000. Finally, the FMA was empowered to prohibit naked short selling[14] and to sanction cases of noncompliance.

Capital injections by the state are subject to the following provisions: Dividends are determined on an ad hoc basis, the minimum rate being 9.3% for "economically sound" banks, as a rule (and 10% for banks that are "not economically sound").[15] Moreover, dividends rise after five years, and capital that is not repaid before the end of the tenth year must be repaid at a rate of 150% of the nominal amount (which implies that the company value must rise accordingly). Payment of dividends to existing shareholders is capped in the case of economically sound banks, unless third parties have subscribed to at least 30% of the participation capital. Banks that are not economically sound, finally, must not pay any dividends at all to existing shareholders.

Furthermore, the provision and use of participation capital is subject to a number of conditions. The capital injection must be put to proper use, i.e. the funds must be lent onward to participants in the real economy at rates that are in conformity with market conditions, and they must not be used to aggressively secure a competitive advantage. Banks, moreover, commit

[13] *Participation capital is a form of equity, which means that it does not have a final maturity date. To ensure the recognition of participation capital as core Tier 1 capital, banks may pay dividends only if such dividends are covered by their annual profit, after allocating reserves, for the previous year. At the time of writing (April 17, 2009) three Austrian banking groups (Hypo Group Alpe Adria, Erste Group Bank AG and Österreichische Volksbanken AG) had entered into a participation capital agreement with the Austrian government.*

[14] *Naked short selling, or naked shorting, refers to the practice of selling securities without having obtained them yet or without having even secured the right to obtain them before the settlement date.*

[15] *The minimum dividend may be lowered to 8% if (1) the principal amount will be repaid at a price of 110 or more, i.e. with a premium of at least 10% based on a corresponding increase of the company value, or (2) if at least 30% of the capital is provided pari passu by private lenders (and if existing shareholders subscribe to no more than one-third of those 30%).*

themselves to review the adequacy of their remuneration schemes. At the same time, they must make sufficient efforts to preserve jobs, and their business models must be sustainable. Last but not least, banks must refrain from transactions and operations that would increase the government's risk.

Compared with the measures taken in other European countries, the Austrian bank stabilization package is fairly large, reflecting the commitment of the Austrian government to safeguard the stability of the Austrian financial center and to sustain the flow of credit.

Being a Eurosystem central bank, the OeNB plays a prominent role in financial crisis management. Its contribution to restoring and preserving financial stability is very important within Austria and at the EU level.

Within Austria, the OeNB works hand in hand with the finance ministry and with the Financial Market Authority. The basic statutory platform ensuring close and successful cooperation among the three institutions is the so-called Financial Market Committee. In addition, the OeNB and the FMA have established a range of bilateral forums at different levels of hierarchy to meet the manifold challenges for banking supervision with the appropriate flexibility.

At the European level, the OeNB cooperates with other national stakeholders, i.e. the central banks, supervisory authorities and finance ministries of other EU countries and non-EU countries.

Multilateral cooperation has been largely institutionalized, the key forums – from the OeNB's perspective – being the Economic and Financial Committee at the EU level and the Governing Council of the ECB, which decides upon monetary policy and liquidity provision within the euro area, at the Eurosystem level.

Smooth and effective crisis management at the OeNB

The proper processes and procedures must be in place in the OeNB to allow it to make efficient contributions to crisis management. Those processes and procedures have been defined in a dedicated financial crisis management manual, which essentially provides for two pillars:

(1) the establishment of a clearing unit for information, which pools all incoming information and coordinates all outgoing information relevant for the OeNB's crisis management;
(2) the pooling of the required expertise in a financial stability core team, consisting of the department heads responsible for financial stability, treasury and payment system issues.

OeNB intensifies dialogue with market participants and supervisory authorities

In response to the turbulence hitting financial markets, the OeNB made sure to communicate closely and on a regular basis with market participants and to intensify the exchange of information with the FMA and with other relevant supervisors. The new supervisory framework that was implemented in Austria in 2008 has proved to be highly effective (see "Banking Supervision Function of the OeNB Reinforced in 2008" in the next chapter). For instance, the OeNB maintained a structured dialogue with banks, a framework that provides for meetings with senior management and discussions on risk management issues as well as CESEE-related issues, etc. In addition to this structured approach, the OeNB also organized ad hoc meetings on special issues with major Austrian banks.

Furthermore, the OeNB carried out a number of ad hoc surveys on selected issues, including structured credit products, foreign currency loans and CESEE risk exposures. In the fourth quarter of 2008, the OeNB developed and launched a new system for analyzing the liquidity situation at Austria's major banks. The OeNB also supports the finance ministry in making decisions to recapitalize banks under the Financial Market Stability Act.

To support the supervision of Austrian banking groups' cross-border activities, the OeNB intensified its contacts with foreign supervisors. Together with the FMA, the OeNB organized supervisory colleges for the biggest Austrian banking groups. Supervisory colleges provide a forum for integrated risk assessments of all supervisors involved, based on arrangements established by the Committee of European Banking Supervisors (CEBS).[16] Other activities in response to market tensions include numerous meetings with the IMF, the EBRD and credit rating agencies as well as the participation of OeNB representatives in ad hoc teleconferences. To put the OeNB's assessments on a sounder basis, staff experts developed stress tests further in 2008. The stress test results are also published in the OeNB's Financial Stability Report, which provides detailed analyses, twice a year, on developments in the financial markets of Austria and the CESEE area. Last but not least, the OeNB organized a workshop at the beginning of 2008, which brought together representatives of national European supervisory authorities, NCBs, the IMF and banks to discuss credit growth in Central, Eastern and Southeastern Europe.

At the EU level, the Ecofin Council revised the financial stability work programs ("roadmaps") originally adopted in October 2007 in response to the financial turbulence in May 2008. The action plans essentially focused on four areas:

(1) improving financial transparency,
(2) enhancing rating standards,
(3) increasing regulatory requirements and risk controls in the financial sector, and
(4) contributing to a smoother functioning of financial markets.

The implementation of the roadmaps has already improved the availability of data on structured products in the EU and has led to changes in the field of accounting standards. Moreover, credit rating agencies will be subject to regulation, too. One of the key purposes of regulatory oversight will be to avoid conflicts of interest in the rating process.

Following up on the conclusions of the Ecofin Council of October 7, 2008, on supporting systemically important financial institutions and restoring confidence in financial markets, the European Council endorsed a concerted action plan on October 12, 2008, in view of the intensified financial crisis. In this action plan, originally an initiative of the euro area countries, the EU Member States committed themselves to coordinating their national efforts to preserve the stability of the financial system and support financial institutions in distress. Moreover, the action plan was ample proof that Europe stands ready to take coordinated and swift action in difficult times, thus sending an important signal.

In the area of macroprudential analysis, the OeNB actively contributes to numerous committees at the European

[16] *CEBS comprises high-ranking representatives of the national central banks and banking supervisory authorities of the EU and the ECB, and is tasked with providing advice to the European Commission, supporting the uniform transposition of EU directives and facilitating the convergence of national supervisory practices. Another purpose of CEBS is to help enhance cooperation among supervisors, including the confidential exchange of information on supervised institutions.*

Box 6

International Initiatives for Preventing Financial Crises in the Future

Financial turmoil dominates international supervisory agenda

Since financial markets were thrown into turmoil in summer 2007, discussions have been ongoing at national and international institutions on how to adequately respond to the unfolding developments and strengthen financial market stability.

The current financial crisis is essentially rooted in the economic boom situation prevailing in recent years, adverse developments in the financial sector and insufficient risk management by market participants. A favorable global economic environment tempted financial market participants to capitalize on short-term investment opportunities and nourished excessive risk-taking, as a result of which debt levels rose. The crisis also brought to light deficiencies in the transparency of and disclosure practices for complex financial instruments, as well misperceptions by rating agencies of the specific risks underlying structured products, which triggered a sweeping loss of confidence in the financial system. Moreover, it evidenced that financial innovations such as structured credit products have failed to diversify risks within the financial system as well as they had been expected to. Finally, the crisis highlighted the necessity of strengthening crisis management and deposit insurance schemes.

At the global level, the public sector responded to the financial crisis by launching important initiatives with a view to restoring confidence, strengthening financial stability and enhancing the supervisory framework:

- *The Financial Stability Forum (FSF), which provides a cooperation platform for major international supervisory and regulatory institutions, finalized a report[1] in April 2006 on enhancing market and institutional resilience. In a follow-up report[2] released in October 2008, the FSF concluded that the proposed measures were being implemented in a coordinated and timely manner. Looking ahead, the FSF saw further need for action, though, with regard to mitigating the procyclical effects of regulatory capital requirements and accounting rules, as well as with a view to better integrating macroeconomic and systemic analysis in the supervisory framework.*
- *The finance ministers and central bank governors of the G-7 countries adopted an action plan[3] on October 10, 2008, aimed at stabilizing financial markets and restoring the flow of credit. Among other things, this action plan called for supporting systemically relevant financial institutions, taking all necessary steps to ensure that financial institutions had broad access to liquidity and recapitalization, as well as ensuring robust deposit insurance and guarantee programs.*
- *The financial crisis and steps toward building a new financial architecture were also on the agenda of a G-20 economic summit in Washington on November 15, 2008, of the leaders of the world's largest economies. At a follow-up meeting in London on April 2, 2009, they agreed on a USD 1,100 billion program of support to restore growth and jobs and to rebuild trust in the financial system. Among other things, world leaders agreed to increase the resources available to the IMF and to other financial institutions. They also agreed to establish a Financial Stability Board that would provide early warning of macroeconomic and financial risks, and to extend regulation and oversight to all systemically important financial institutions, instruments and markets including, for the first time, systemically important hedge funds. Moreover, they pledged to support sustainable compensation schemes, to take action against noncooperative tax havens, to improve accounting standards, and to extend regulatory oversight and registration to credit rating agencies.*

[1] *FSF. 2008. Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience. April 7. (retrieved from www.fsforum.org/publications/r_0804.pdf on April 30, 2009).*

[2] *FSF. 2008. Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience. Follow up on Implementation. October 10 (retrieved from www.fsforum.org/press/pr_081009f.pdf on April 30, 2009).*

[3] *G-7. 2008. G-7 Finance Ministers and Central Bank Governors Plan of Action. October 10 (retrieved from www.ustreas.gov/press/releases/hp1195.htm on April 30, 2009).*

In addition, two private sector initiatives, among others, released important reports:

- *The Institute of International Finance published a report[4] in July 2008 with detailed best practice recommendations.*
- *The Counterparty Risk Management Policy Group published recommendations[5] for the private sector on containing and avoiding systemic risk in the financial sector.*

[4] *IIF. 2008. Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations. July (retrieved from www.iif.com/download.php?id=Osk8Cwl08yw= on April 30, 2009).*

[5] *CRMPG. 2008. Containing Systemic Risk: The Road to Reform. August 6 (retrieved from www.crmpolicygroup.org/docs/CRMPG-III.pdf on April 30, 2009).*

level (such as the Banking Supervision Committee of the ECB) and international institutions (IMF, OECD, etc). The goal of such analyses is to be able to identify systemic risks in a timely manner and to propose appropriate action. The key targets of analysis in 2008 were liquidity stress testing and contingency funding plans, incentives provided by the originate-and-distribute model[17] of banks, risks to the EU banking sector in 2009, credit risk transfer schemes, and measures to reduce procyclical effects in the financial system. Moreover, the OeNB also participates in CEBS meetings, where the effects of the financial crisis were discussed among supervisors.

In October 2008, the European Commission mandated a group of outstanding experts to give advice on how to handle the financial crisis. The High-Level Expert Group on EU Financial Supervision, chaired by former IMF managing director Jacques de Larosière, published its recommendations on the future of European financial regulation and supervision in a report dated February 25, 2009. As a key lesson to be drawn from the financial crisis, the report highlighted the urgent need to upgrade macroprudential supervision in the EU, in order to be able to identify systemic risks in a timely manner. To this effect, a new group, called the European Systemic Risk Council, should be set up under the auspices of the ECB and chaired by the President of the ECB. To improve microprudential supervision, the three EU committees of supervisors in the securities, banking and insurance sectors (CESR, CEBS and CEIOPS) should be converted into EU authorities for the three sectors. These authorities would constitute an integrated network of decentralized supervisors: a European System of Financial Supervision.

The OeNB contributed actively to the debate on enhancing the European supervisory framework, informed by the understanding that progress toward a fully integrated internal market and the evolution of cross-border banking groups is no longer compatible with a primarily national supervisory approach. In the short run, cooperation should therefore be intensified further among the national supervisory authorities by relying more heavily on so-called colleges of supervisors for individual banking groups. In parallel, efforts need to

[17] *Under the "originate to distribute" model, banks ("originators") provide loans to borrowers and thereafter sell ("distribute") them to third-party investors, thus getting them off their books.*

be made to further harmonize the legal framework in the EU. In the longer term, it would be advisable to establish a European System of Banking Supervisors, for which the ESCB might serve as a blueprint. Such a system would need to ensure a level playing field, and it would need to work in a decentralized manner, i.e. the responsibility for fact-finding (on-site inspections and off-site analysis) must remain a decentralized responsibility. The milestones for establishing a European System of Banking Supervisors should be defined in a master plan.


OSTERREICH
EURO

The OeNB in the Service of the Austrian Public and the Economy

The OeNB provides a number of services to the Austrian public and the economy which are characterized by strong customer orientation, high value-added and continuous improvement through innovative products and processes that ensure market proximity. This chapter provides information on key achievements and developments throughout the reporting year and up to April 2009. Like the activities detailed in the previous chapter, the OeNB's work in many of the business areas presented in this chapter has been influenced by the financial and economic crisis and the related measures, reactions and challenges.

Banking Supervision Function of the OeNB Reinforced in 2008

New structure enhances effectiveness of financial market supervision

Efficient prudential supervision is instrumental for the stability of economic systems, as the financial market turmoil in the course of 2008 patently showed. In Austria, the financial supervisory reform in 2008 established the essential prerequisite for keeping step with the rapid evolution of financial markets. In essence, the new banking supervisory structure can be split up into the fact-finding function (overall risk assessment) and the decision-making function (decisions by the prudential authority). The OeNB is in charge of fact finding, the Financial Market Authority (FMA) of decision making. One of the primary aims of the 2008 reform was to determine clear responsibilities and optimize the interfaces between the OeNB and the FMA. The FMA has retained its status as an independent and autonomous integrated financial supervisor;[1] in the area of banking supervision, the FMA is in charge of taking decisions and of conducting official procedures. The OeNB was accorded greater operational responsibility and is now in charge of conducting all on-site inspections of banks. As a basis for these inspections, the FMA and the OeNB set out a joint audit plan for each calendar year.

The OeNB is also responsible for the off-site analysis of individual banks. In fulfilling this function, it is obligated to perform regular analyses of data reported by banks and of other relevant information for banking supervision purposes and for preparing investigations by the supervisory authority. The OeNB must make all analysis results and any relevant information available to the FMA. These findings must contain a clear statement about whether there is a substantial change in the risk situation or any reason to suspect a breach of regulatory provisions. Also, the OeNB must draw up and deliver off-site analyses of banks upon request of the FMA. To ensure the efficiency of the analysis procedure, there is a clear division of processes: First, in the course of basis analysis, all credit institutions are subjected to largely automated screening. Then, in a second step, all banks that are identified as requiring special attention in the basis analysis and on principle all major and joint stock banks undergo detailed business analysis. The entire supervisory process – on-site inspections and off-site analysis – is based on the principle of proportionality, i.e. it takes into account a credit institution's type and size as well as the complexity of its activities.

The supervisory reform has resulted in better cooperation and closer supervisory collaboration, making it possible to take even more timely and efficient prudential measures to strengthen financial stability in Austria. To this end, the number of forums for reconciliation between the OeNB and the FMA was expanded to ensure that both sides receive all the relevant information and to achieve common views. The working process is supported by a joint database. Various reporting data, relevant information resulting from the FMA's supervisory activities as well as data and results of OeNB analyses and inspections are entered into this database. Furthermore, the introduction of Single Points of Contact (SPOC) helped deepen and broaden the dialogue with credit institutions, and standardized talks with representatives of senior

[1] *The concept of integrated financial supervision implies that a single authority is responsible for the supervision of the entire financial sector.*

Box 7

Key Elements of the Redefinition of the OeNB's Banking Supervisory Responsibilities

The 2008 reform of the supervisory framework resulted in closer involvement of the OeNB in banking supervision. The measures required to implement the organizational and substance changes were developed by a joint OeNB-FMA project group. The key issues of the project included:

- ***Adapting the supervisory process to the new distribution of statutory tasks***
  The OeNB and the FMA jointly defined the responsibilities and interfaces for all relevant supervisory processes to eliminate and avoid overlaps and duplications as well as to ensure a consistent information base.
- ***Creating a systematic bank analysis framework***
  The OeNB analyzes the risk exposure of all Austrian credit institutions. In line with the principle of proportionality, major banks and joint stock banks as well as other banks requiring special supervisory attention undergo a more thorough analysis. Approved risk models applied by credit institutions are subjected to a special analysis. A systematic bank analysis conducted by the OeNB is a prerequisite for the FMA to be able to exercise its role as a public authority.
- ***Implementing the joint database as required by law***
  The introduction, at the OeNB, of the electronic filing system in use at the FMA established a joint database that ensures a consistent level of information in banking supervision. The OeNB operates and maintains this database.
- ***Fulfilling the extended mandate to maintain financial stability***
  The OeNB's extended access to data, especially to data from nonbank financial intermediaries, enable new approaches to analysis. Existing analytical models applied to issues that have gained increasing importance in the course of the financial crisis (liquidity, risk assessment of Central, Eastern and Southeastern Europe) have been expanded. In addition, systemic and single bank analyses have been linked more closely.

management of numerous banks are held on a regular basis. Moreover, the OeNB and the FMA are in touch with and regularly confer with all bank auditors of Austrian banks. The structures created under the new supervisory framework have worked very well in practice.

Since the supervisory reform took effect on January 1, 2008, the OeNB's financial stability mandate[2] has been explicitly specified in the Nationalbank Act. To fulfill this mandate, the OeNB has been given access to data of nonbank financial intermediaries, which are used for comprehensive stability analyses. In addition, the OeNB devotes special attention to issues such as the assessment of risk in Central, Eastern and Southeastern Europe (CESEE), risk transfer and liquidity, while stress tests to assess the stability of the financial sector have been refined and enhanced. In early 2008 the OeNB in cooperation with the FMA published a new handbook[3] that provides a thorough description of the new cooperative framework as well as the tasks and responsibilities it entails. It is designed to give supervised credit institutions, supervisory institutions in other countries and the general public an immediate overview of the newly established processes and responsibilities.

[2] *Pursuant to Article 44 Nationalbank Act.*

[3] *FMA and OeNB. 2008. Banking Supervision in Austria. Forthcoming.*

The reform also required a redesign of the OeNB's organizational structure, in particular of the Financial Stability and Bank Inspections Department. The tasks in connection with the supervision of individual banks are carried out primarily by the Off-Site Banking Analysis Division and the On-Site Banking Inspections Division, whereas the Financial Markets Analysis and Surveillance Division conducts analyses of the banking sector and other financial intermediaries, in particular with a focus on financial stability.

About a year after the new framework was put in place, it seems fair to say that in focusing on their respective strengths, both institutions – the OeNB and the FMA – have reached a new level of close and supportive collaboration. Current market developments have highlighted that effective supervision is essential for maintaining financial stability and benefits all market participants.

Implementation of Basel II completed

In line with the relevant Community legislation, all banks in Austria have applied the provisions of the New Basel Capital Accord (Basel II) since early 2008, after the new capital requirements for credit institutions went into force on January 1, 2007. Switching to the new regime had been optional for banks in 2007 but became mandatory in 2008.

In the year under review, the OeNB continued to monitor the implementation of Basel II, thereby providing a major contribution to safeguarding the stability of the Austrian financial sector. According to the new, more risk-sensitive framework, banks have a greater choice in calculating their regulatory capital requirements: next to the standardized approach, advanced approaches can now be applied not only to market risk – as previously – but also to credit risk and operational risk. These advanced approaches enable banks to use internal data and models to calculate their regulatory capital requirements.

Credit institutions applying such approaches to market, credit and operational risk have to prove that their models meet a comprehensive set of qualitative and quantitative requirements. On behalf of the FMA, the OeNB examines and reviews credit institutions' compliance with these requirements before approving the use of the models and – after approval – in the course of ongoing supervision. In the case of cross-border banking groups, the OeNB cooperates closely with local supervisors and central banks.

Basel II aims to establish a comprehensive, continuously evolving risk management framework for banks. One of its key components is the supervisory review process, which represents the so-called second pillar of the capital adequacy regime, next to the minimum capital requirements (pillar 1) and public disclosure requirements (pillar 3). In cooperation with the FMA, the OeNB published a document on the implementation of pillar 2 in Austria,[4] which describes the general criteria and methods applied in the review and assessment of a credit institution's risk management and risk coverage. The publication is to contribute to efficient interaction with the supervised institutions and provide information to the public.

The current financial crisis has shown that notwithstanding the advantages of Basel II, certain aspects, for in-

[4] *OeNB and FMA. 2008. Implementation of Pillar 2 in Austria. Retrieved from http://www.fma.gv.at/cms/op//attachments/5/2/2/CH0473/CMS1217404999171/umsetzung_der_saeule_2_in_oesterreich_en_final_2008.12.02.pdf on April 30, 2009.*

stance risk transfer and procyclicality, need to be refined to take due account of recent experience. A number of European and international bodies are currently working to find a short- and longer-term solution to the problem of procyclicality. First adjustments to Basel II are scheduled to be adopted at the European level as early as in spring 2009.

In 2008, the OeNB continued to fulfill its statutory mandate of payment systems oversight (pursuant to Article 44a of the Nationalbank Act). The OeNB continuously oversees the systemic stability of payment systems operated in Austria and the secure participation of Austrian banks in international payment systems by analyzing payment systems statistics and conducting examinations of individual systems.[5] In 2008, the OeNB's large-value payment system HOAM.AT (Home Accounting Module Austria) was also subjected to an examination. Since HOAM.AT is a component of the ESCB-wide payment system TARGET2, the review was carried out as part of a concerted effort of the Eurosystem, with the Deutsche Bundesbank acting as the secondary examiner. Furthermore, the suitability of the Eurosystem's securities settlement systems and its interfaces (links and relayed links)[6] for use in the Eurosystem's monetary policy operations were assessed. In this context, the OeNB reviewed the Austrian securities settlement system CSD.A (Central Securities Depositories.Austria) of Oesterreichische Kontrollbank and its five links to other European providers. Both HOAM.AT and CSD.A were found to comply with all Eurosystem requirements.

The OeNB also contributed to the development of the "Oversight framework for card payment schemes," which the Governing Council of the ECB adopted in 2008. This framework provides the basis for examining national and cross-border card payment systems within the Eurosystem. The OeNB is going to participate in the joint examination of the four international card payment systems American Express, Diners Club, MasterCard and VISA, which is set to start in 2009.

Austrian financial infrastructure boasts high degree of systemic stability

All in all, the Austrian financial infrastructure showed a high degree of systemic stability in 2008. Disturbances were resolved swiftly and effectively in close cooperation with system operators and therefore did not have any lasting repercussions on the Austrian financial system. In the year under review, the OeNB also analyzed Austrian banks' e-banking systems as regards the effectiveness of their security mechanisms. The results of this analysis provide some guidance as to which security features used today will continue to ensure a high degree of security in the long term and which ones should soon be replaced. Furthermore, they also raise awareness of the safe use of such systems. Finally, with a view to its stability mandate, the OeNB established a platform to foster cooperation with Austrian market participants in the field of business continuity.[7] This platform aims to develop a joint understanding of the issue and to establish the OeNB as a center of excellence. To date, the platform's work has included

[5] *For such examinations, the OeNB is supported by A-SIT (Zentrum für sichere Informationstechnologie – Austria), which has been accredited as an oversight office.*

[6] *Links are contractual and technical arrangements for the transfer of securities between two securities settlement systems; relayed links are such arrangements involving at least three securities settlement services.*

[7] *Arrangements made to avoid disturbances and to maintain the continuity of business operations.*

taking stock of existing business continuity arrangements, which will provide the basis for further analyses and measures.

OeNB Reserve Management amid Difficult Market Environment

The priorities for the management of the OeNB's reserve assets are, in order of importance, security, liquidity and return. Following this established principle since the beginning of the financial turmoil in August 2007 and throughout 2008, when the situation worsened, has proved expedient for the OeNB's reserve management. Total reserves invested by the OeNB's Treasury Department come to around EUR 26 billion (as at end-2008), including i.a. the OeNB's investments in foreign currency, euro and gold.

While the volume of the OeNB's gold holdings remained unchanged at 280 tons in 2008, their value increased markedly, as the gold price went up. Gold holdings are of particular importance in reserve management and may serve as a means of portfolio diversification in times when uncertainty in the financial markets is high. This was also the case in 2008, when the reduction in the value of foreign reserves was nearly offset by a rise in the value of gold.

Aside from managing the OeNB's investments, the OeNB's Treasury Department is also in charge of managing the OeNB's share of foreign reserve assets transferred to the ECB, which are invested on behalf, and for the account, of the ECB in accordance with the latter's rules. These management activities are strictly separated by "Chinese walls" from all other activities carried out by the OeNB's Treasury Department. The value of the related portfolio is equivalent to around EUR 1.2 billion[8]; in line with the ECB's currency specialization model for foreign reserve management, this amount has been invested exclusively in Japanese yen since January 2006.

Adverse market conditions impaired the portfolio performance achieved by OeNB portfolio managers in 2008. OeNB experts had already concluded at an early stage in the financial turmoil (namely in the second half of 2007) that the worrying developments would not be short term. Consequently, strategic portfolio management measures were taken to largely contain the risks that arose from the new market conditions. While particular attention was paid to market risks, which were subject to large swings owing to extremely high volatilities by historical standards for almost all financial instruments (particularly in the foreign exchange and stock markets), another major focus was on credit risks (especially counterparty risks) arising in the money and capital markets.

Given the difficult market environment, OeNB portfolio managers concentrated on collateralizing operations in order to keep credit risk as low as possible. Moreover, special care was taken to purchase only financial instruments with a stable AAA rating. In this context, the OeNB not only obtained information from rating agencies, but also performed its own calculations to assess the credit risk of individual securities sectors, pursuing the overall objective of providing a true and fair picture of the creditworthiness of individual issuers and of counterparties.

[8] *This amount has increased significantly owing to the strong appreciation of the Japanese yen. The ECB has allocated JPY 150 billion to the OeNB for management.*

Apart from reserve management in general, handling the significant expansion of monetary policy operations was a particular challenge for the OeNB's Treasury Department. While the Governing Council of the ECB takes monetary policy decisions (interest rate decisions), the ECB and the Eurosystem NCBs carry out liquidity management. In this area, the OeNB's Treasury Department participates not only in the implementation of all open market operations in general, but also in liquidity-providing U.S. dollar swap lines with the ECB and the Federal Reserve Bank of New York and in U.S. dollar/euro and Swiss franc/euro swap lines, respectively.

At the beginning of 2009, the OeNB's automated tender system (eTender), which was introduced in 2002, was expanded to support foreign currency operations. The OeNB is one of the first national central banks to make an Internet application for all Eurosystem operations accessible to its counterparties – a step that highlights the OeNB's position as an innovative, customer-oriented institution. The OeNB's Treasury Department also played a decisive role in implementing the expansion of the collateral pool the ECB decided in November 2008.

Turbulent Economic Developments Pose New Challenges for OeNB Statistics Services

The current economic and financial crisis highlights how rapidly conditions change for providers of economic statistics and how flexible statistical products often need to be. On the one hand, for example, overnight insolvencies of investment banks with a good international reputation raise a number of statistical questions that need to be competently and quickly answered to enable economic policymakers to react swiftly and effectively. On the other hand, highly aggregated securities statistics are completely unsuitable for analyzing individual creditor relationships and for singling out specific financial products for examination.

In-depth economic understanding requires comprehensive data sets

The OeNB has long recognized the growing demand for microeconomic data and has taken a variety of measures to respond to this need: As a case in point, the OeNB-operated Central Credit Register records credits of EUR 350,000 and above extended by banks to a single borrower. Moreover, information about securities required to draw up the balance of payments or financial accounts statistics can be anonymized to provide a better understanding of the microstructure of e.g. Austria's financial system. To this end, the data on individual securities derived from domestic banks' reports of all their financial operations conducted for their own account or for third parties are fed into a securities database. Banks must also report detailed classification data, e.g. the economic sector to which the account holder belongs. In a next step, all this information is linked to a broad range of up-to-date securities master data, e.g. current and historical prices, issue and redemption dates, interest terms and the like. Some of these data are purchased from commercial data providers. Data quality is optimized by cross-checking direct reports of significant investors.

The OeNB regularly updates data on about 27,000 Austrian-issued securities and roughly 820,000 foreign-issued securities. Over 750 depositaries report both their own investment on a security-by-security basis and anonymized investment data of their customers. Every month, some 2 million new data are added to the data set. These microdata enable the OeNB to answer many important questions related to the financial crisis, as was the case when claims of Austrian investors on debtors of doubtful solvency had to be estimated quickly and for the latest period. On the basis of these data, it was possible to isolate specific securities that had been hit hard by price losses and to gauge their significance for Austria.

The experience gained with microdata provides many pointers for enhancing data quality that may help during critical situations in the future: A higher quality of securities master data and the detailed classification of securities, e.g. by means of codes of Classification of Financial Instruments (CFI codes), help speed up the identification of specific types of securities, such as asset-backed securities.

However, given the lack of international information in national reporting systems, the consistent coverage of ultimate risk, taking into account all aspects of modern finance – including e.g. capital guarantees or hedging – is very limited. Closer international cooperation holds out promise of an improvement in this area. One factor that also plays a role in the lack of international information is that Austrian companies reporting securities holdings are required by law to provide unconsolidated reports, i.e. data exclude holdings of subsidiaries and branches abroad.

National and international cooperation as the key to high-quality economic statistics

The OeNB reacted to the international financial turbulence inter alia by introducing two completely new macroeconomic reports; first, a liquidity report that gives a weekly forecast of the liquidity needs of 30 Austrian banks, and second, a report designed to capture loan developments, namely new lending by 105 Austrian banks. The second report complements standard stock data and provides an enhanced understanding of lending business developments.

Given the already advanced and continuously growing globalization of international finance, cross-border cooperation is pivotal for improving data quality. Important European initiatives have already been taken: The ECB has established a Centralised Securities Database, which stores data for which all euro area countries perform quality assurance. In this context, the OeNB, having acquired expertise with such systems since the early 1990s, acted as a pioneer. In addition, Austria's participation in the CPIS[9] raised the transparency of securities data. These statistics give important insights into the regional classification of foreign holders of Austrian securities.

In recent years, more reliable data on groups of companies with international operations have become crucially important in better capturing and understanding financial transactions within international groups. Here, too, only international or Europe-wide initiatives will be successful: Eurostat is currently working on establishing a EuroGroups-Register. In a first stage, this database will capture data on the major international groups and their corporate structures.

At the national level, the OeNB has been cooperating with other Austrian institutions on financial statistics for some time. In 2002, for instance, the OeNB and Statistics Austria concluded a framework agreement in which both parties laid down the principles governing their cooperation on statistics. Ever since, cooperation has been inten-

[9] *CPIS: Coordinated Portfolio Investment Survey, an initiative of the International Monetary Fund for the international exchange of information on securities.*

sified in many areas. The most important cooperation so far has been on drawing up the balance of payments. In the 2006 reporting year, Statistics Austria assumed the task of compiling the current account. Since then, it has also handled the related reports required from companies and the inclusion and use of administrative and statistical data from other fields. In the meantime, the two institutions have stepped up cooperation in other important areas: The statistical classification in the registers operated by the OeNB and Statistics Austria are coordinated, which markedly improved the consistency of both institutions' statistics. The OeNB supports Statistics Austria in calculating FISIM[10] by providing financial data and information about interest rates. Cooperative arrangements are currently being implemented for Foreign Affiliate Trade Statistics (FATS) statistics, which capture the importance of majority foreign-owned companies for a given economy and thus contribute to the analysis of the global economy. Cooperative efforts have succeeded in making these key statistics available largely by combining data at hand; additional data reports by enterprises were not required. The joint compilation of the financial accounts is a further vital cooperative venture of the OeNB and Statistics Austria.

Further Development of Payment Systems

The OeNB's payment services proved to be an important pillar in handling cashless euro and foreign currency payment transactions for the Austrian financial sector in 2008. The migration from TARGET, the decentralized real-time gross settlement system for the euro, to the Single Shared Platform/TARGET2 (SSP/T2)[11], which had commenced on November 19, 2007, was concluded on May 19, 2008, with the connection of the third migration group, bringing membership to 17 countries. SSP/T2 serves the participating financial institutions as a Europe-wide uniform and efficient settlement platform for euro payments. The OeNB played a leading role as a competent contact for Austrian banks in all matters concerning the migration to the second generation of TARGET. Slovakia also joined TARGET2 when it introduced the euro on January 1, 2009.

Both the foreign currency and euro payment components of the OeNB's payment systems have proved reliable in the financial crisis. The systems' stability has confirmed payment security in the Austrian financial market, thereby enhancing market confidence in the provision of liquidity by the OeNB.

The OeNB's payment systems hence made a major contribution to the stability and security of the Austrian financial market in 2008. In addition, Austrian banks recognized the OeNB as a leading systems developer and reliable cooperation partner.

Single Euro Payments Area (SEPA) Credit Transfer Scheme goes live

Developments in e-payments were marked by continued progress toward a single market. Since the end of January 2008, identical operational conditions have been in place for credit transfers within the entire Single Euro Payments Area comprising the 27 EU Member States, the 3 European Economic Area member countries and Switzerland. In

[10] *FISIM: Financial Intermediation Services Indirectly Measured, i.e. indirect income from banks' financial intermediation services (lending and deposit business) determined on the basis of models.*

[11] *See the glossary on www.oenb.at for additional information about the terms used in this section.*

other words, it no longer makes any difference whether a payment recipient is located in Austria or in another SEPA member country. SEPA payments must, as a rule, carry the beneficiary's International Bank Account Number (IBAN) and the international Bank Identifier Code (BIC) of the receiving bank. BIC and IBAN information is automatically provided on bank account statements; the respective information for recipients is stated e.g. on invoices and is shown on payment orders (receipts) that are currently being introduced to replace all types of money transfer forms by the end of 2010. Customers will have to get used to this new, harmonized process, which has a decisive advantage for them, though: The designated payment services law requires that in the future, payment transfers must not take longer than three days, and this period is scheduled to be reduced to one day later on.

A separate European card scheme is being discussed within the SEPA Cards Framework. Such a system would step up competition as an additional provider next to VISA and MasterCard, and it could provide greater independence as a European system, given e.g. supervisory and data protection considerations. In this connection, a decision of the European Commission stated that intra-EEA multilateral interchange fees[12] for cross-border payment card transactions with MasterCard and Maestro branded debit and consumer credit cards violate EC Treaty rules on restrictive business practices (Article 81). Such fees artificially raise retailers' cost of accepting such payment cards without providing a demonstrable efficiency gain. At the end of March 2008, MasterCard appealed against this decision, but stopped charging interchange fees from June 21, 2008, within the prescribed deadline. The European Commission also initiated formal antitrust proceedings against VISA Europe at the beginning of March 2008.

In November 2009, the third cashless payment instrument next to transfers and card payments will be launched: the SEPA Direct Debit (SDD) schemes. The advantage for consumers is a longer time limit for appeal in the case of disputed or nonauthorized debits (eight weeks after debit) and a specified collection date that lets them know exactly when their account is debited.

All SEPA payment instruments may be used in parallel to already established national payment instruments. But by and by, uniform euro payments are to replace individual national payment schemes.

STEP.AT: The OeNB's active contribution

In 2008, STEP.AT, the clearing platform for regional interbank payments that the OeNB introduced in 2007, was expanded into a SEPA-compliant infrastructure. By switching to the new SEPA transfer, the OeNB acted in line with its precept of actively supporting the Austrian financial market in coping with change management for payment systems. To foster the single market for payments, the OeNB confirmed its support of the SEPA requirements for infrastructure providers to the SEPA decision-making body, the European Payments Council.

In its role as the STEP.AT operator, the OeNB joined the European Automated Clearing House Association (EACHA), a not-for-profit organization whose purpose is to promote SEPA, in 2008. EACHA's support of the SEPA initiative is expressed on the one hand in the exchange of information between

[12] *Per transaction charge levied for every payment made at a point of sale.*

participating infrastructure providers and on the other hand in the definition of standards for bilateral interoperability of individual clearing houses. Interoperability in this context refers to a direct link that connects two clearing houses and thus facilitates a highly efficient bilateral exchange of payments. Starting from this interoperability concept, the OeNB established a bilateral clearing cooperation with the Deutsche Bundesbank in August 2008, and in February 2009 set up a direct connection with the Banca d'Italia, Italy's central bank, and the retail payments processor with which the Banca d'Italia cooperates, Istituto Centrale delle Banche Popolari Italiane. This greatly raised the efficiency of payment transactions with Austria's two main trading partners.

The preparations for the future SEPA direct debit instrument made in 2008 represent first steps to complete the technical infrastructure for the Single Euro Payments Area with a view to ensuring that OeNB interbank clearing services, namely STEP.AT and access to STEP2, the pan-European Automated Clearing House, are fully SEPA-compliant by November 2009 as scheduled. Whereas harmonization of debits in SEPA will not occur until 2009, the cross-border SEPA Credit Transfer Scheme already became a success in 2008, its first year, replacing two-thirds of all standard EU cross-border credit transfer orders,[13] the instrument used up until then.

In 2008, the concept of a bulked payment solution as implemented under STEP.AT and the OeNB's STEP2 access was also adopted for payments resulting from cash deliveries. The OeNB has provided a dedicated platform called STEP.GSA since June 2008 for optimized processing of those payments. Until then, every payment transaction resulting from cash orders and deliveries for GSA, GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H., had been processed and recorded individually. The STEP.GSA system allows for cumulated settlement at specific times of the day, reducing the number of individual settlements and thus reducing costs and the amount of work involved. STEP.GSA harnessed substantial potential for optimization in 2008: its use eliminated some 90% of all cash-related individual settlements.

TARGET2-Securities: the Eurosystem initiative to harmonize securities settlements in central bank money by 2013

The objective of the TARGET2-Securities (T2S) initiative is to provide a harmonized, single European settlement platform offering highly secure delivery versus payment settlement in central bank money for any security. Moreover, T2S will result in greater cost efficiency – in particular for core, borderless and neutral securities and payment settlement services – by overcoming the fragmentation in the European market for securities settlement owing to the use of the Eurosystem IT infrastructure on which central banks provide money accounts and central securities depositories (CSDs) provide securities accounts. Featuring functions like auto-collateralization – an automated intraday credit operation in central bank money when cash is insufficient on the buyer's side – as well as continuous optimization and recycling procedures and settlement during the night, T2S will significantly reduce participants' liquidity needs. The option of settling any EU securities transaction on a single technical platform in real time eliminates participants' financ-

[13] *Cross-Border Credit Transfer in the SWIFT MT103+ format.*

ing risk and makes collateral management more efficient. T2S will hence also contribute importantly to securing financial stability.

The Ecofin Council welcomed the launch of the T2S project, having pointed out that substantial progress was needed in securities clearing and settlement to raise the efficiency and reliability of post-trading services.

According to the European Commission, T2S is of major economic significance and has the potential to make a very significant strategic and economic contribution to strengthening and integrating European securities markets and to fostering economic growth for the benefit of European citizens.

All euro area CSDs are willing to participate in T2S provided that certain conditions are fulfilled. In addition, CSDs in Bulgaria, Denmark, Estonia, Lithuania, Romania, Sweden, Switzerland and the U.K. have indicated that they would participate in T2S. In a letter from the European Banking Federation to the ECB, banks voiced their strong support for T2S. On July 17, 2008, the Governing Council of the ECB decided to launch the T2S project and to provide the resources required for its completion.

In 2008, the OeNB made an important contribution to the Eurosystem T2S initiative by instrumental coordination of T2S activities in Austria, in particular by evaluating user requirements and by elaborating Austrian positions in an ongoing dialogue with market participants.

The OeNB Ensures Stable and Secure Cash Supply

Higher demand for cash in the fall of 2008

In the first three quarters of 2008, euro cash in circulation went up by 7.5% on average against the comparable period of 2007. Against the background of the financial market turmoil, this figure increased markedly in October 2008 owing to cash withdrawals by concerned savers and investors. The Eurosystem put additional cash equivalent to a value of around EUR 35 billion to EUR 40 billion into circulation. Following the announcement by euro area heads of state and government of a concerted action plan of the euro area countries to establish security and protection for financial institutions and their customers, including enhancing retail deposit guarantee protection, the situation relaxed and more cash was returned to the Eurosystem NCBs.

The rise in demand for euro cash stemmed partly from CESEE countries, where the euro is by far the most popular foreign currency for holding reserves or carrying out transactions.[14] As a location where strategic reserves are held, the OeNB contributed significantly to supplying the population in Austria and CESEE with euro cash and has successfully fulfilled its intended role as a cash competence center and logistics hub of the Eurosystem.

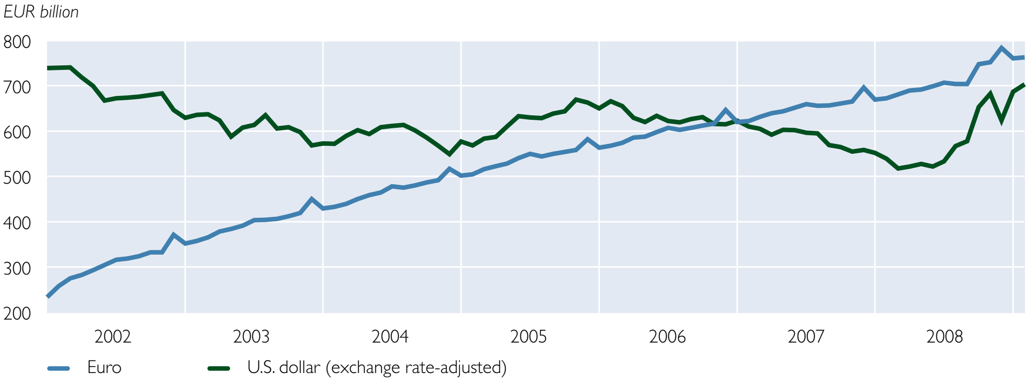
At end-2008, the total number of euro banknotes in circulation stood at 13.1 billion, their total value at EUR 762.8 billion. The overall number of euro coins came to 82 billion, their value to EUR 20.4 billion. The total value of euro cash in circulation thus came to EUR 783.2 billion, which corresponds to a 12.6% increase against end-2007 figures.

Since the euro is the sole legal tender in all euro area countries, the volume of banknotes in circulation within individual euro area countries can only be estimated on the basis of their eco-

[14] *See Dvorsky, S., T. Scheiber and H. Stix. 2008. Euroization in Central, Eastern and Southeastern Europe – First Results from the New OeNB Euro Survey. In: Focus on European Economic Integration 1/08. OeNB. 48–60.*

Chart 18

Value of Euro and U.S. Dollar Cash in Circulation



Source: ECB.

nomic performance and of data on users' preferred means of payment (cash or cashless transactions). According to OeNB estimates, the value of euro cash in circulation in Austria comes to around EUR 21.5 billion.

Despite the pronounced increase in euro cash in circulation, the number of counterfeit banknotes has remained low. 8,082 counterfeit banknotes were recovered from circulation in Austria in 2008, with counterfeit EUR 100 banknotes accounting for more than half (52.9%) of this number. The EUR 774,740 total loss incurred from counterfeits was down by 12% against the previous year.

In a regional breakdown, the incidence of counterfeit banknotes was largest in the greater Vienna area (i.e. Vienna and the surrounding areas of Lower Austria). Together, Vienna and Lower Austria account for 59% of all counterfeits recovered in Austria.

For the general population, the chance of coming across counterfeit banknotes in Austria remains low. This notwithstanding, the OeNB has continued its varied information efforts to keep the Austrian public up to date on currency matters. Next to various campaigns in cooperation with the Austrian media, training sessions and participation in public fairs, the OeNB's public relations campaign features the euro bus, which tours Austria year-round to provide information on the security features of the euro to people everywhere in the country.

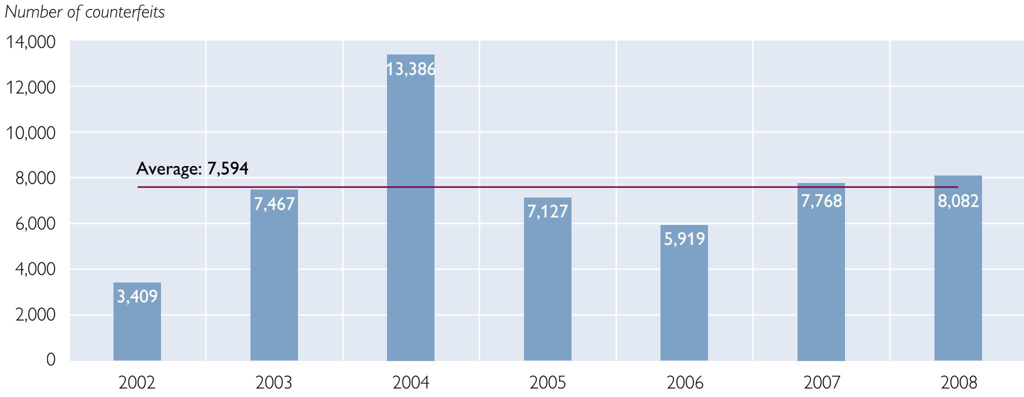
Number of counterfeits in Austria remains low

In the run-up to the European football championship (UEFA EURO 2008™) in Austria and Switzerland, the OeNB stepped up its activities for cash authentication training. In addition to the standard training program, euro information points were established at the Austrian venues of the tournament to help prepare retailers as well as food and beverage service providers for the expected masses of visitors. At these information points, retail and service staff hired especially for the tournament was trained in safe and professional cash handling.

Cash processing plays a key role in the OeNB's efforts to ensure cash security. During the cash processing cycle, banknotes that are returned to the OeNB are checked for authenticity and fitness. Banknotes that do not meet the minimum quality requirements established by the Eurosystem are not put back in circulation. This procedure guarantees that banknotes in circulation meet high quality standards. The better the quality of a banknote, the

Chart 19

Euro Counterfeits Recovered from Circulation in Austria



Source: OeNB.

easier it is to check its security features. In 2008, some 1.3 billion euro banknotes (+14% against 2007) were processed by the cash logistics company GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA) in line with OeNB provisions. At the same time, 1.9 billion euro coins were checked for authenticity and fitness for circulation.

By using the simple FEEL – LOOK – TILT test, everyone can easily identify euro counterfeits without technical aids. Moreover, banknotes and coins can be validated quickly and reliably with technical equipment such as banknote authentication devices, banknote counting and sorting machines, and coin counters. To ensure that these devices can identify all counterfeits, they must be checked and their software must be upgraded at regular intervals. As required by the ECB, manufacturers can have their equipment and special sensors tested free of charge at the OeNB Test Center in Vienna. Test results are made available on the OeNB's and the ECB's websites. In the reporting year, the Test Center examined a total of 188 devices, which is more than twice the number of devices tested in 2007. This makes the OeNB Test Center one of the leading European centers for testing cash processing machines.

Exchange deadline for ATS 50 Ferdinand Raimund banknote expires in 2008

The exchange deadline for the ATS 50 banknote featuring a portrait of Austrian dramatist Ferdinand Raimund expired on August 31, 2008. This banknote was first issued in 1972 and ceased to be legal tender more than 20 years ago on August 31, 1988. A total of 2,643,337 of these banknotes have not been returned to the OeNB. The corresponding balance – some EUR 9.6 million – was transferred to the Austrian Federal Ministry of Finance.

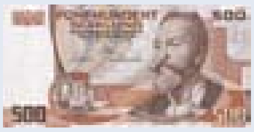
The next banknote to reach its exchange deadline is an ATS 20 banknote featuring a portrait of pioneering railway engineer Carl Ritter von Ghega. This banknote was first issued in 1968 and ceased to be legal tender in 1989. Until September 30, 2009, it can be exchanged for euro free of charge at all OeNB cash offices.

Over the next few years, exchange deadlines will expire for two other schilling banknotes (see Box 8). No deadline has been set for converting the schilling banknotes and coins of the last series; they may be exchanged for euro indefinitely and free of charge at the OeNB, its branch offices or at euro bus stops.

Box 8

Called-In Banknotes and Exchange Deadlines

Denomination: ***ATS 20*** *(4th motiv)*
Portrait (front): ***Carl Ritter von Ghega***
Date of issue: November 4, 1968
Exchange deadline: September 30, 2009



Denomination: ***ATS 500*** *(3rd motif)*
Portrait (front): ***Otto Wagner***
Date of issue: October 20, 1986
Exchange deadline: April 20, 2018

Denomination: ***ATS 1,000*** *(4th motif)*
Portrait (front): ***Erwin Schrödinger***
Date of issue: November 14, 1983
Exchange deadline: April 20, 2018

No exchange deadlines apply to the last series of schilling banknotes issued prior to the introduction of the euro.

Successful euro bus tour in 2008

In spring and summer 2008, the euro bus toured Austria for the seventh time. In the periods from May 2 to May 31, 2008, and July 4 to August 31, 2008, the euro bus made 68 stops throughout Austria. The demand for services during the 2008 euro bus tour indicates that the initiative is still widely popular: 34,518 Austrians exchanged a total of ATS 49.3 million into euro at the euro bus, and more than 55,000 visitors were provided with information on the euro and its security features.

The euro bus has been touring Austria since 2002, and on August 1, 2008, when it stopped in Bregenz, the euro bus crew welcomed its 500,000th visitor.

The *Oesterreichische Banknoten- und Sicherheitsdruck GmbH* (OeBS) is in charge of banknote development (ranging from the draft design to the final product) and also covers areas such as security features and technical equipment for authenticity checks. The OeBS is a 100% OeNB subsidiary. At the Eurosystem level, the OeBS is responsible for the share in euro banknote production annually allocated to Austria on the basis of the OeNB's share in the ECB's capital key.

In 2008, the OeBS was in charge of producing the allocated share of EUR 10 banknotes for the OeNB. In total, the Eurosystem produced 6.4 billion euro banknotes in the reporting year, equivalent to a value of EUR 129 billion. In 2009, the OeBS will contribute to the production of EUR 10 banknotes and EUR 100 banknotes.

The OeNB's cash service subsidiaries

GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA) offers cash processing services (counting, checking for authenticity and fitness, sorting and preparation for delivery) and is in charge of cash logistics (coordination of cash transports) and the sorting of foreign banknotes. Currently, the OeNB holds a majority share of 91.0% in the GSA, while Austrian commercial banks hold most of the remaining 9.0%. The GSA has successfully expanded its activities beyond Austria's borders and has, for instance, been serving Slovenian enterprises since the introduction of the euro in Slovenia.

Table 4

The OeNB's Cash Service Subsidiaries

Oesterreichische Banknoten- und Sicherheitsdruck GmbH	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.	Münze Österreich Aktiengesellschaft
• banknote design and development • banknote printing • development of new technologies	• cash processing • cash logistics • sorting of foreign banknotes	• production of coins and medals • production of semifinished precious metal products • tool production

Münze Österreich Aktiengesellschaft is in charge of producing coins and medals, semifinished precious metal products and tools. It is a 100% OeNB subsidiary. In 2008, Münze Österreich supplied the OeNB with 549 million euro coins (worth EUR 96 million) for circulation.

Clear Communication Creates Trust and Credibility

Supporting monetary policy measures by providing clear information to the general public through confidence-strengthening and image-building initiatives: this was the guiding principle for the OeNB's communications activities in 2008. This strategy has been informed by the understanding that what the general public knows about the OeNB's tasks is highly correlated with the degree of trust it puts into its central bank. While those who consider themselves well informed about the OeNB also overwhelmingly (93%) state that their confidence in the OeNB is high, confidence is less broadly based (53%) among respondents who know little about the central bank.

The OeNB's confidence-strengthening and image-building measures

In an IFES opinion poll conducted in the fourth quarter, 67% of all Austrians above the age of 15 showed great confidence in the OeNB. This figure is in fact even slightly higher than the measure compiled immediately before the international financial crisis intensified (66%). Confidence measures at such levels have consistently put the OeNB in the top league of Austrian institutions.

Building confidence is essential for the OeNB to project a credible image as a guardian of stability and security, and to secure the maintenance of price stability and financial stability, the central bank's primary goals.

The OeNB's information activities in 2008 were designed to solidly anchor public knowledge about the OeNB's major monetary tasks. Key messages on price stability were broadcast with nationwide TV commercials, in two waves with a reach[15] of 69.3% (spring) and 62.8% (fall), respectively.

In addition to the TV campaign, the OeNB also used the print media as a communication channel, running a series of small ads (reach of 78.6%) in

[15] *Defined as the size of the audience reached by the OeNB's message.*

spring, as well as a number of image ads in April, May, June, August and September (reach of 73.4%). The small ads were designed to explain economic and monetary terms in plain German and prompt interested readers to check out the OeNB's website *(www.oenb.at)* for more detailed information.

Furthermore, the OeNB made sure to actively communicate the security features of euro banknotes during the 2008 UEFA European football championship. Specifically, the OeNB ran banknote security ads in media targeting football fans in June 2008, singling out the two denominations on which counterfeiters tend to focus, namely EUR 100 and EUR 200 banknotes.

With a view to increasing the public's knowledge of the OeNB's activities as an integral part of the Eurosystem and as a knowledge-based service provider, specifically knowledge on "The Eurosystem's monetary policy – objectives, strategies and operations," the OeNB runs media partnerships with Austria's major print media. With those information activities, the OeNB reaches more than half of the general public (close to 56% of the Austrian population).

The financial crisis has also had major repercussions on the OeNB's press activities. The number of queries received on individual topics and the number of interviews given by OeNB officials reached new record highs. In 2008, the call center fielded a total of 37,034 queries. Interestingly, the share of phone calls (53.5%) was higher than the share of e-mails (46.5%) for the first time since 2005.

As a special service for interested readers, the OeNB started to post FAQs on the financial and economic crisis on its website in September 2008 (in German). Also in 2008, the OeNB launched a new online series (in German, entitled "Konjunktur aktuell"), which provides reports and analyses on the latest economic developments. The October and December 2008 issues of this series focused specifically on effects of the financial crisis feeding through to the real economy. The number of OeNB web pages viewed on a daily average increased from approximately 65,000 in 2007 to around 85,000 in 2008. Furthermore, the OeNB communicated key messages of major events hosted by various business areas in a total of 158 press releases. Finally, to establish central responsibility for single-voice communication, the OeNB appointed a dedicated press spokesperson in the fall of 2008.

Using communication platforms to create trust

In 2008, the OeNB's event management team organized 261 events, which attracted close to 13,000 domestic or foreign participants. One major area was the organization of international committee meetings of one or more days, on the OeNB's premises. At the OeNB's traditional spring Economics Conference, industry representatives, economic researchers and policymakers met for an exchange of views on the topic "Toward the First Decade of Economic and Monetary Union: Experiences and Perspectives." The annual November Conference on European Economic Integration, which also attracted a sizeable number of international experts, provided insights into "The Integration of European Labor Markets."

Creating trust through quality service

To reach out to Austrians throughout the country and provide on-site information on monetary policy and central banking activities, the OeNB put up information booths for a total of 47 days at regional trade fairs in a total of eight towns (Salzburg, St. Pölten, Wels, Dornbirn, Klagenfurt, Graz, Innsbruck, Vienna). Those events provided an opportunity for the OeNB to showcase its broad range of free publications and brochures.

Two successful exhibitions at the Money Museum

The OeNB's Money Museum counted a record number of visitors (15,738) in 2008, the key attraction being an exhibition featuring a "touch me" gold bar from November 2007 to the end of October 2008. This exhibition was subsequently turned into a traveling exhibition, which made its first stop at the OeNB's Western Austria Branch Office in Innsbruck in the fall of 2008. In 2009, the national tour will take the exhibition to other branch offices as well.

A new corporate design for the OeNB

To mark the 10th anniversary of the ECB as well as the Eurosystem and the euro, the Money Museum launched the exhibition "A Vision Come True – The Way to a Single Currency" in November 2008. Some exhibits had already been prepared for the Economics Conference in spring.

Overall, the Money Museum team hosted 348 guided tours and workshops as well as 67 museum events such as activity programs, family days, theme days and children's university events on a total of 197 opening days, thus bringing over 300,000 people in touch with the OeNB.

Creating trust through the transfer of knowledge

In September 2008 the OeNB started the implementation phase of its ongoing economic and financial literacy project, launched in 2007 to optimize and expand its education programs and resources. The idea is to make the OeNB's expert knowledge accessible through easy-to-use platforms and tools with a view to increasing the economic literacy of the general public. Essentially, the OeNB uses three different channels:

(1) presentations and speeches at a wide range of events;
(2) partnership programs and products facilitating the transfer of knowledge that provide entertainment at the same time (e.g. short videos, school competitions, games); and
(3) the OeNB's website (new features).

With its Euro Kids Tour, finally, the OeNB started a new education program for primary school-age children in September, addressing a total of 203 classes or 4,100 pupils until the end of year. The children were invited to join special presentations on banknote security and the main functions of money in the OeNB's euro bus – topics that their teachers were encouraged to follow up on in class (for further details please refer to our Intellectual Capital Report 2008).

In 2007, the OeNB had launched an initiative to refresh its corporate design, drawing among other things on the results of internal and external surveys, which had confirmed that while the corporate design in place was still a good solution, some modernization would be ideal after 12 years.

The upshot is that the OeNB introduced a new logo in mid-2008, which was subsequently rolled out throughout the OeNB and successfully anchors its image as a modern, transparent and open company.

Enhancing Corporate Governance, Risk Management and Staff Development in Pursuit of Corporate Efficiency

Corporate governance framework expanded

The OeNB has been implementing recognized corporate governance standards voluntarily for years, subject to relevant international rules, the Nationalbank Act, and other provisions specifically applicable to central banks.

Corporate governance frameworks are typically work in progress, also at the OeNB. Progress made in 2008 includes a tightening of the relevant standards for risk management activities. The Financial Statements Division was given an extra role and consequently renamed Financial Statements and Treasury Risk Monitoring Division.

The rationale for this change effective from January 1, 2009, was to provide for a stricter delimitation of competences within the OeNB.

For the same purpose, the compliance function established to prevent insider trading, which has been in place for years, was moved to the Legal Division in 2008. The OeNB's relevant activities are, moreover, supervised by the Financial Market Authority.

The ECB is empowered to check the foreign currency portfolios and the volumes of banknotes and coins that the OeNB holds for the ECB, or to order inspections to be carried out.

The proper conduct of operations has been defined in a range of internal rules and staff regulations, compliance with which is ensured by the respective line managers within their fields of competence. Finally, numerous internal control layers, above all internal auditing, safeguard compliance with external and internal rules (laws and staff regulations) as well as the effectiveness of the internal control system.

In a move to enhance transparency and accessibility further, the OeNB added a previously internal report to its range of economic publications, namely the report on the economic situation that the governor submits to the General Council at regular intervals; this report (German only, entitled "Konjunktur aktuell") has been uploaded onto the OeNB's website, as a rule, two working days after General Council meetings since 2008.

Implementing the OeNB's strategy

The current strategy for the period from 2007 to 2010 – focusing on four core competences, namely maintaining stability, managing risk, handling money and "going east" – served the OeNB well as the financial crisis unfolded, reinforcing the core values stability and security and enabling the OeNB to take effective action by implementing the strategy consistently and translating it into detailed measures.

Cost transparency as a key criterion in decision-making

Given the increasing pressure to improve efficiency, it has become imperative for the OeNB, like other Eurosystem central banks, to know what its products and services cost and to control those costs. In this respect, it is important to know, first, how efficient the OeNB's cost structure is compared to that of other central banks. Second, the OeNB, like other euro area NCBs, must be able to accept the data on the basis of which decisions are taken at the Eurosystem level to ensure maximum cost-benefit efficiency.

The OeNB developed a cost accounting framework tailored to the needs of a modern central bank years ago and has since acquired substantial expertise in the area – knowledge that it has been able to share successfully within the Eurosystem. Hence, the OeNB's vice governor chairs the Eurosystem Committee on Cost Methodology, which assesses costs on the basis of harmonized methodologies.

Measuring operational risk as a contribution to stability

Enhancing the management of operational risk is a key concern for central banks. Having implemented fairly advanced operational risk standards compared with other Eurosystem NCBs, the OeNB has contributed substantially to the development of guidelines and rules for the management of operational risks at central banks in a Eurosystem task force during the past 1½ years. Those guidelines will be rolled out throughout the Eurosystem in 2009. The risk assessments are submitted to the Governing Council of the ECB on an annual basis.

IT solutions for the Eurosystem

The OeNB supports the Eurosystem also by providing key technical services. Among other things, the OeNB's IT function facilitates the conduct of refinancing operations in the euro area, and it supports the EU-wide documentation of banknote falsifications through the development as well as maintenance of high-quality software products. Cooperation within the Eurosystem is to be intensified further in this field to achieve synergies.

Responsibilities for banking supervision redefined

In 2008, the OeNB's mandate was expanded to include additional banking supervisory responsibilities. The framework for off-site banking analysis and on-site banking inspection was redefined and widened at the same time, which necessitated a reorganization of the respective business areas at the OeNB. The new structure reflects the setup of the Austrian banking system (major banks, joint stock banks, regional banks, etc.). In the process of reorganizing the OeNB's banking supervisory function, the Statistics Department was transferred to the Financial Stability, Banking Supervision and Statistics area; moreover, the Credit Division was moved to the Statistics Department. The fact that the preparations for implementing the reorganization needed to be made just when the global financial crisis broke out created an additional challenge.

Always a challenge: staff development

The wider scope of banking supervisory responsibilities required an extra effort in recruiting and integrating new staff. Moreover, there was a need for focused training and further education as well as for selecting and appointing additional line managers. Last but not least, it was necessary to adapt office space plans, all within tight time constraints.

A staff selection tool – hearings – that had already proved its mettle in the past in choosing heads and deputy heads of division was used successfully to select new heads of department and unit. In addition, the OeNB took a number of measures to sharpen the focus and efficiency of training activities (detailed in our Intellectual Capital Report 2008).

In 2008, the OeNB contributed intensively to joint staff development measures and activities to improve job mobility within the ESCB. As a result, OeNB staff has been given the chance to participate in a broader range of training activities provided by the ESCB and to attend seminars organized by CEBS (Committee of European Banking Supervisors). Other measures led to an increase in the number of staff from other NCBs that join the OeNB within the framework of External Work Experience (EWE) programs. EWE stays are job rotations of three or six months at the central bank of other EU Member States during which employees have the chance to gain technical expertise at other NCBs and broaden their cultural horizons at the same time. EWE guidelines and a uniform EU-wide framework have helped institutionalize "staff swaps" between NCBs.

Promoting health at work is central to the OeNB's understanding of corporate responsibility for human ecology. The OeNB is committed to strengthening staff productivity and to enhancing employees' willingness to innovate and take responsibility, for themselves and for their company. Hence, the OeNB's Personnel Division organized a Health Day in 2008, which focused on three themes: diet and lifestyle habits, exercise and ergonomics, as well as stress and relaxation.

Providing equal opportunities is an indispensable feature of sustainable human resources policies. The OeNB therefore makes an effort to create the necessary framework conditions for promoting gender-equal development. Safeguarding equal opportunities is imperative for the organization to make full use of available resources and staff potential (for more details see the OeNB's Intellectual Capital Report 2008).

Measures to protect the environment

A range of "green" measures inspired by EMAS (Eco-Management and Audit Scheme) attest to the OeNB's commitment to sustainable management, making it a role model in Austria. For a summary overview, readers should refer to the OeNB's Environmental Report 2008.

Facilitating excellence in research and academic studies

The OeNB has always considered it very important to help Austrian businesses be competitive. With this concern in mind, the OeNB founded the Anniversary Fund for the Promotion of Scientific Research and Teaching (Jubiläumsfonds – Anniversary Fund) in 1966 to mark the 150th anniversary of the OeNB's establishment. The Anniversary Fund has since provided substantial funding for Austrian researchers for more than 40 years and has become an established and indispensible facilitator of Austrian research, having funded close to 9,000 projects with approximately EUR 707 million by the end of 2008. Grants are, as a rule, specifically earmarked for basic research (projects in applied research used to be eligible up to 2003).

In 2008, the OeNB made direct grants to the tune of some EUR 10.73 million for 168 research projects mainly in economic science and medicine (clinical research), and to a lesser extent also for projects in the social sciences and the humanities. Funds are granted for projects selected on the basis of rigorous criteria, and stringent quality standards apply to the funding process.

The OeNB Anniversary Fund, moreover, provides a forum in which pertinent project results are regularly presented to an expert audience.

In addition, the OeNB granted EUR 3.6 million of basic funding in 2008 to three economic research institutes, the Institute for Advanced Studies (IHS), the Austrian Institute of Economic Research (WIFO) and The Vienna Institute for International Economic Studies (wiiw).

Last but not least, the OeNB funded the National Foundation for Research, Technology and Development (National Foundation) with EUR 50 million in 2008.

Numerous cultural activities

In 2008, the OeNB organized a joint exhibition with the Albertina museum, entitled "Art after 1970," at which it showcased its most valuable holdings of contemporary art. The OeNB's contribution – mainly works by Austrian artists – contrasted paper-based artwork with oil paintings by major Austrian artists who became widely known in the second half of the 20th century, including Christian Ludwig Attersee, Gunter Damisch, Maria Lassnig, Arnulf Rainer, Roman Scheidl and Franz Zadrazil.

Last but not least, an art dealers' committee established under the auspices of the Austrian Federal Economic Chamber granted the OeNB the "OscART 2008" in recognition of its special commitment to art dealing and for its art collection. The committee found the OeNB's art collection to be among the most interesting corporate art collections in Austria. The committee concluded that by focusing specifically on works of art produced in the 1920s and 1930s, and on contemporary art, the OeNB was in a position to provide an in-depth overview of the major themes informing Austrian art. Thus, the OeNB had also assumed the key social responsibility of promoting traditional and contemporary art and of preserving it for future generations.


VENETIA
ROMA
PARIS
LONDON

The OeNB Plays an Active Role in European Integration – EMU at 10

Through national and international cooperation, which above all means intensive work in committees and working groups of Austrian institutions, the Eurosystem and ESCB as well as the EU, and international financial organizations, the OeNB has always been an active driver of European integration. This chapter takes stock of the first ten years of operation of Economic and Monetary Union, highlights the role and key contributions of Eurosystem central banks, including the OeNB, and provides an overview of the impact of integration. It goes on to describe the introduction of euro cash in Slovakia, to which the OeNB contributed by delivering the launch stock of euro banknotes on behalf of the Eurosystem. The chapter concludes with a focus on the role of EU as a key economic policymaker during the financial and economic crisis, and a review of integration progress made in 2008.

The OeNB Takes Stock: A Positive Track Record for EMU and the Euro after the First Ten Years

In spring 2008, the OeNB took stock of ten years of Economic and Monetary Union (EMU) and of the euro at its 36th Economics Conference.[1]

Historical milestone: EMU and the euro

The transition to the third and final stage of EMU on January 1, 1999, and the cash changeover to the euro three years later represented historical milestones for Europe on the way to completing a major economic and political integration project that deepens European cohesion. The introduction of the euro as the single currency in currently 16 countries with some 327 million citizens marks the most comprehensive currency conversion in history. The single monetary policy of the European Central Bank (ECB) and the Eurosystem, established on June 1, 1998, is designed primarily to maintain price stability in the euro area. The Eurosystem joins the forces of expertise from all euro area NCBs, including the OeNB, which has been an integral part of the Eurosystem from its inception. The advent of EMU also fundamentally changed the tasks incumbent on the OeNB, expanding them to include duties within the Eurosystem in addition to functions within Austria.

What have EMU and the euro achieved in the decade from 1999 to 2008?

The euro has changed the macroeconomic environment above and beyond the immediate setting in the euro area member states. The combination of a single monetary policy and national fiscal policies coordinated at the EU level has promoted macroeconomic stability and intra-European convergence. The discrepancies between EMU members' economic growth rates, inflation rates, unemployment rates and budget balances were reduced substantially in the decade following the establishment of EMU. The bouts of exchange rate adjustment that once unsettled European economies have become a thing of the past.

Monetary policy has succeeded in broadly maintaining price stability throughout the decade. Euro area inflation averaged a bit more than 2% from 1999 to 2008, down from 3% in the 1990s and from a high of between 8% and 10% in the 1970s and 1980s. Nominal interest rates declined from 9% in the 1990s and 12% in the 1980s to an average of just over 4% in EMU. Real interest rates in EMU dropped to a level last seen decades ago even in the countries that posted the greatest degree of stability prior to the introduction of the euro.

Fiscal policy efforts following the reform of the Stability and Growth Pact (SGP) in 2005 pushed budget deficits in all euro area countries below 3% and shrank the average euro area general government deficit in 2008 to a low 1,9% of GDP.

The elimination of exchange rate risks and the lower cost of cross-border transactions have had a positive impact on the development of the Internal Market and on the integration of product markets. Moreover, the structural improvements of recent years have made EU economies more resilient to external shocks. While economic growth did not quite measure up to expectations, nearly 18 million new jobs were created in the decade to 2008, and in the first quarter of 2008 the unemployment rate was slashed to the lowest level in years.

[1] *The conference contributions are available in full in the bilingual conference proceedings entitled "36th Economics Conference. Toward the First Decade of Economic and Monetary Union: Experiences and Perspectives." Also available at www.oenb.at.*

Box 9

Eurosystem National Central Banks Play an Instrumental Role in EMU's Success in the First Decade

When the ECB was founded and the third and final stage of EMU began, the national central banks of the EU Member States that have introduced the euro became an integral part of the Eurosystem. Originally encompassing the ECB and 11 NCBs, including the OeNB, the Eurosystem now comprises the ECB and 16 NCBs (since January 1, 2009). The NCBs have remained national institutions, though, which means that, compared with their pre-euro mandates, they have in fact had to take on a range of new tasks. The OeNB's tasks are detailed in "The OeNB's Mandate and Responsibilities" at the beginning of this Annual Report.

The NCBs' long history, their manifold, extensive experience with central banking tasks and the resources with which they accomplish these tasks have made a very valuable contribution to EMU's success. Experts at various NCBs regularly contribute fundamental findings and insights to the ECB and the Eurosystem in a multitude of committees, working groups and research networks. The broad perspective and the profound expertise at individual NCBs serve as the basis for the centralized decision-making of the Governing Council of the ECB and certainly represent an important success factor in the operation of the stability-oriented monetary policy of the Eurosystem and the establishment of the euro as an international currency. The subsidiarity principle of the Eurosystem – decentralization where possible, centralization where expedient and appropriate – has proved its mettle for monetary policy operations during the past ten years. During periods of high market tension such as those flaring up since fall 2008 as a consequence of the financial and economic crisis, the Eurosystem has been able to fulfill its pivotal role as a crisis manager and stability anchor, partly in cooperation with other major central banks. By taking rapid and flexible monetary policy measures, it has helped alleviate money and financial market tensions.

Monetary union and the functioning of the Eurosystem are to be understood as an evolutionary process. In the past ten years, the Eurosystem has learned by doing, and has made enormous progress. This development will continue in the next few years, and will be marked by ongoing change. In the future, the issues will revolve above all around how role patterns within the Eurosystem will change – will there be more centralization, will NCBs specialize further, or will there be stronger cooperation with other European or national institutions (e.g. in banking supervision, or with statistical offices) – and how central banks will implement the lessons of the financial and economic crisis.

EMU has provided the catching-up EU Member States with significant benefits in an environment of macroeconomic stability and of low interest rates, and through the support of cohesion policy and monies from the Structural and Cohesion Funds.

The euro has evolved into the second world currency next to the U.S. dollar and has positioned itself as a high-performance catalyst for financial integration. In 2007, the amount of euro cash in circulation already outpaced its U.S. dollar equivalent. The share of euro-denominated debt securities augmented from 22% in 1999 to 32% in 2007. The share of euro in world foreign exchange markets progressed from 10% to roughly 17%, and the share of euro used as a reserve currency advanced from 18% in 1999 to 25% in 2007. The euro has surpassed the U.S. dollar as the predominant invoicing currency for exports and imports, accounting for 50% (U.S. dollar: 30%).

The euro has proved to have a range of immediate benefits, so that people's initial skepticism soon turned into growing acceptance. Stable prices, more price transparency, low-cost travel, the reduced cost of payments, cheaper loans and, overall, increased economic welfare increasingly hoisted the euro into position as a symbol of social stability, despite the temporary perception that the euro had caused inflation to rise.

EMU yields significant integration advantages for Austria

The euro and EMU have generated considerable welfare gains for Austria as well. Austria has become significantly more competitive and much more attractive as a business location. Economic growth was robust, and was characterized by a stable growth advantage for Austria of roughly half a percentage point against the euro area average in recent years. In an international comparison, the jobless rate was low, and employment grew dynamically throughout most of the period.

Austria's high degree of price stability, the resultant excellent price competitiveness, and economic integration have contributed to Austria's good external performance. The ratio of exports (goods and services in percent of GDP) mounted from 42% in 1999 to 58% in 2008. In recent years, Austria's current account posted a rising surplus of over 3% of GDP. Austria's outward FDI stocks quadrupled from 10% of GDP in 1999 to some 41% of GDP in 2008, about the same percentage as inward FDI. Austria's rate of internationalization – the ratio of total external assets and liabilities to GDP – jumped from 190% in 1998 to 550% in 2007.

The euro as a bulwark against financial and economic crisis

In fall 2008, Europe was broadsided by the financial and economic crisis. Under these difficult circumstances, the euro and the cooperation of the Eurosystem NCBs have acted as a bulwark against even more negative repercussions of shocks on Europe and Austria. Membership in a large monetary union protected the euro area's companies against high exchange rate volatility and preempted competitive devaluation. Attacks on and the depreciation of individual currencies outside the euro area bear witness to the magnitude of the detrimental effects that might have occurred had the single currency not protected the euro area. The euro made it easier for Europe and its economic policy institutions to act quickly,

Table 5

Macroeconomic Developments in EMU

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Ø 1999–2008
Real economic growth	*Annual change in %*										
Euro area	2.9	3.9	1.9	0.9	0.8	2.1	1.7	2.9	2.6	0.8	2.1
Austria	3.3	3.7	0.5	1.6	0.8	2.5	2.9	3.4	3.1	1.8	2.4
Inflation rate	*%*										
Euro area	1.1	2.1	2.3	2.2	2.1	2.1	2.2	2.2	2.1	3.3	2.2
Austria	0.5	2.0	2.3	1.7	1.3	2.0	2.1	1.7	2.2	3.2	1.9
Unemployment rate[1]	*%*										
Euro area	9.1	8.2	7.8	8.3	8.7	8.8	8.9	8.3	7.4	7.5	8.3
Austria	3.9	3.6	3.6	4.2	4.3	4.9	5.2	4.8	4.4	3.8	4.3
Budget deficit	*% of GDP*										
Euro area	–1.3	0.1	–1.8	–2.5	–3.0	–2.9	–2.5	–1.2	–0.6	–1.9	–1.8
Austria	–2.3	–1.7	0.0	–0.7	–1.4	–4.4	–1.6	–1.6	–0.5	–0.4	–1.5

Source: Eurostat, Statistics Austria, Federal Ministry of Finance.

[1] *Eurostat definition.*

Chart 20

Selected External Indicators for Austria

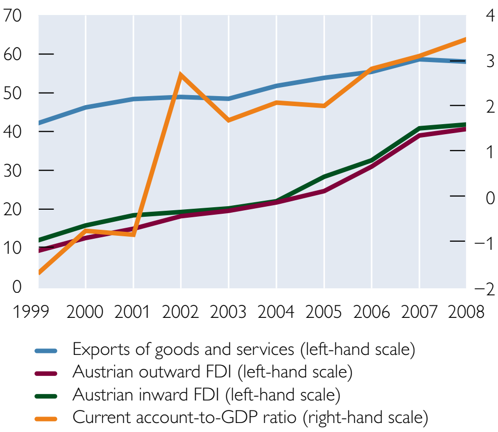
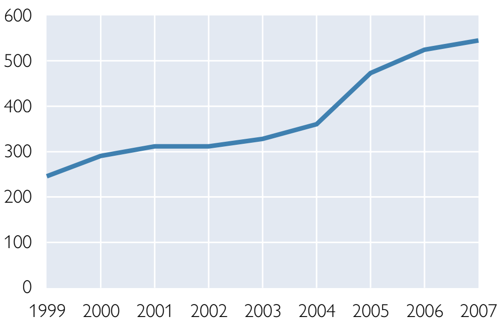


Chart 21

Austrian Internationalization Rate[1]



[1] *Ratio of total external assets and liabilities to GDP.*

Source: OeNB, Statistics Austria, Eurostat.

cogently and decisively, and to cushion the financial sector and the economy against adverse effects. More closely coordinated economic policy and cooperation are also required to efficiently implement the measures on which countries have decided. Overall, the euro has become decisively more attractive for countries outside the euro area, and even euroskeptical countries have begun to seriously consider joining the euro area quickly. As in previous enlargements, countries seeking to become euro area members must prepare diligently for membership.

Monetary and economic policy is geared toward rapidly reestablishing price and financial stability, and at the same time providing the best possible support to sustainable growth and employment. If crisis resolution is successful and the economy can be boosted, albeit at the expense of higher budget deficits, the detrimental impact on the economy should remain limited, though some reduction in growth will be unavoidable. After managing the crisis, it will be important to draw lessons and to take specific action to try to head off a similar worldwide economic recession in the future. Cooperation between central banks and supervisory authorities at the international and European level must be reinforced. Reestablishing financial stability calls on supervisory institutions to enhance confidence in the banking sector, ensure that capital adequacy requirements are observed, prevent a credit crunch, implement supervisory reforms at the national and international level, take recommendations in international action plans seriously, and to quickly take the appropriate measures. As the G-20 have agreed, the priority must be to reform financial markets and products from the ground up in the medium term.

Short- and medium-term challenges awaiting EMU and the euro

After overcoming the crisis and steering the world economy back onto a path of moderate but positive growth, which is expected for 2010, the next objective is to prepare economies in the medium term to tackle the challenges of globalization that had emerged even before the crisis broke out. Globalization offers opportunities for market growth also in the future: Customers stand to benefit from lower prices and greater choice, and manufacturers will profit from efficiency gains. However, globalization also places high demands on the flexibility of euro area member countries. Staying competitive, reducing performance discrepancies and enlisting innovation and human capital as drivers of the economy will become increasingly important.

In addition, due attention must be paid to demographic ageing and its consequences for the sustainability of public finances and social systems. Finally, the role of the euro as an international currency must be strengthened further.

Euro Area Membership Expands to 16 in 2009

On January 1, 2009, Slovakia became the next EU member from among the group that joined in 2004 to introduce the euro after Slovenia had entered the euro area on January 1, 2007, and Malta and Cyprus on January 1, 2008. Thus, the euro area has grown to encompass 16 of the current 27 EU Member States, with the euro now having become legal tender for approximately 327 million EU citizens.

Beyond the euro area, the single European currency plays a significant role in many CESEE countries even today. Numerous countries orient their monetary and exchange rate policies on the single currency. Four EU Member States – Denmark, Estonia, Latvia and Lithuania – currently participate in ERM II, the EU's exchange rate mechanism for non-euro area Member States. Under ERM II, the fluctuations of the external value of these countries' currencies are limited to a multilaterally agreed fluctuation band of ±15% to the euro – with some countries having unilaterally adopted a smaller fluctuation band. Of the ERM II participants, Estonia and Lithuania have pegged their currencies to the euro through currency board systems; as have – beyond ERM II – Bulgaria as well as Bosnia and Herzegovina. In addition, Montenegro and Kosovo have already introduced the euro as legal tender.[2] The euro is also playing an important and growing role in the invoicing of trade and in the capital markets of the area. Moreover, euro use among the CESEE population has become quite widespread, without a legal requirement and irrespective of the exchange rate regime in place. Euro cash holdings, savings and borrowing are not unusual in the region today.[3]

Smooth changeover in Cyprus and Malta

European Commission findings show that the overwhelming majority of Cypriot (95%) and Maltese (90%) citizens consider the euro changeover in their country to have proceeded smoothly and efficiently. As officials scrupulously monitored prices during the changeover, real and perceived price increases were comparatively moderate, a remarkable outcome considering the inflationary pressures in the wake of sharp rises in food and energy prices worldwide in the first half of 2008. Inflation in both countries went up from about 4% at the beginning of 2008 to some 5.5% by July 2008, followed by a marked easing of prices pressures in Cyprus toward the end of the year and a marginal easing in Malta. Eurostat estimated the price ef-

[2] *Montenegro and Kosovo are special cases that need to be seen against the backdrop of the disintegration of former Yugoslavia.*

[3] *See also Dvorsky, S., T. Scheiber and H. Stix. 2008. Euroization in Central, Eastern and Southeastern Europe – First Results from the New OeNB Euro Survey. In: Focus on European Economic Integration 1/08. OeNB. 48–60; and Dvorsky, S., T. Scheiber and H. Stix. 2008. The OeNB Euro Survey in Central, Eastern and Southeastern Europe – The 2008 Spring Wave Update. In: Focus on European Economic Integration 2/08. OeNB. 83–93.*

Box 10

Euro Introduction in Slovakia in 2009 Brings Euro Area Membership to 16

Following the positive assessment of Slovakia's economic convergence in the ECB's and the European Commission's convergence reports of May 7, 2008, and the July 2008 European Council conclusion to welcome Slovakia's entry into the euro area, the Ecofin Council adopted a decision allowing the country to join the euro area on July 8, 2008. On that day, the Ecofin Council also irrevocably fixed the conversion rate of the Slovak koruna at its central parity within ERM II, that is at SKK 30.1260 per euro, after it had been revalued twice (by 8.5% in March 2007 and by 17.6% in May 2008) in the two-year convergence period.

Comparison of Slovak and Euro Area Indicators

	Slovakia		Euro area (EA-15)	
	1999	2008	1999	2008
Population, million	5.4	5.4	306.2	321.5
Population, share of the total euro area population in %	1.8	1.7	×	×
GDP, share of euro area GDP in %	0.3	0.5	×	×
Per capita GDP (at PPP), euro area GDP=100	44.3	63.4	×	×
GDP per employee, euro area GDP=100	49.3	69.4	×	×
Employment rate	58.0	62.3	61.3	66.1
Unemployment rate[1]	16.0	9.5	9.2	7.5

Source: Eurostat.

[1] *Eurostat definition.*

The dual circulation period of koruny and euro (the period during which both currencies were legal tender) was brief, lasting only until January 16, 2009: Slovak commercial banks will exchange legacy currency coins free of charge until June 30, 2009, and banknotes until December 31, 2009. Národná banka Slovenska will exchange koruny for longer periods – coins until December 31, 2013, and banknotes for an unlimited period. Dual pricing was mandated in Slovakia to start on August 24, 2008, and will remain in force until January 1, 2010.

The prerequisite for Slovakia's accession to the euro area was its stability-oriented economic policy, which was supported by structural reforms. Slovakia's achievement of nominal convergence with the euro area when its convergence was assessed in a sufficiently low average inflation rate of 2.2% in the year ending March 2008; in a low and falling budget deficit of 1.9% of GDP in 2007; in a low and decreasing public debt ratio of 29.3% of GDP in 2007; in the convergence of long-term and short-term interest rates; and in a high degree of exchange rate stability during ERM II participation since November 2005.

Slovakia is a small and especially open economy. Because a significant portion of its foreign trade is with other euro area countries, Slovakia stands to benefit more than average from the advantages of the single European currency, these being price stability, the elimination of exchange rate uncertainty, price and cost transparency, lower transaction and information costs and a greater resilience to economic and financial shocks.

The positive effects of the euro manifested themselves clearly already in the second half of 2008: Whereas other countries in the region were caught in the undertow of the international financial crisis and suffered partly massive currency depreciations and substantial losses in other financial market segments, these developments affected Slovakia comparatively less. Throughout most of 2008, the Slovak koruna remained close to its ERM II central parity, and the losses on the country's stock markets as well as the negative impacts on the bond markets were less pronounced than in other countries in the region.

fects of the changeover at 0.2 percentage points to 0.3 percentage points, in line with similar results during earlier enlargement rounds.

OeNB delivers initial euro banknote stock to Slovakia

As in the case of Slovenia, the OeNB made a key contribution to the preparations for the introduction of the euro in Slovakia. On behalf of the Eurosystem, the OeNB performed the physical delivery of euro banknotes to Slovakia from Eurosystem stocks, transporting a total of 196.2 million banknotes weighing nearly 160 tons and worth EUR 8.3 billion from Vienna to Bratislava. This operation confirmed the OeNB's role as a competence center and logistics hub for cash supplies to Central Europe.

The successful cooperation between Národná banka Slovenska and the OeNB has been continued since completion of the euro cash changeover in Slovakia. In connection with the changeover in Slovakia, the OeNB provided the public with the opportunity to exchange Slovak koruny for euro free of charge from January 2, 2009, through February 27, 2009. Austrians eagerly took advantage of this opportunity to exchange a total of SKK 7.4 million, equivalent to nearly EUR 250,000. By comparison, past campaigns resulted in exchanges of Slovene tolar equivalent to EUR 63,000, Maltese lira equivalent to EUR 9,000 and Cyprus pounds equivalent to about EUR 26,000 over OeNB counters.

Europe Becomes more Attractive in Turbulent Times

European integration suffers a blow ...

When the Irish referendum defeated a proposal to enable ratification of the EU's Lisbon Treaty (also known as the Reform Treaty), the European integration process suffered a setback. The Treaty of Lisbon had been designed to allow an enlarged Union of 27 Member States to work more efficiently than under the Treaty of Nice, which will remain in force as long as the Treaty of Lisbon has not been ratified. Recent and prospective enlargements and closer cooperation among Member States in dealing with globalization, a topic that was given additional weight by the international financial turbulence, had made it necessary to reform the legal basis of the European Union.

The Irish government has committed to hold a new referendum at the end of October 2009, holding out the prospect that the Lisbon Treaty could still be ratified in 2009. The Lisbon Treaty will be amended to take account of the Irish concerns: For example, the provision to have one commissioner from every country is to remain in force. Moreover, an additional protocol is to address the Irish concerns e.g. on national tax sovereignty and national foreign and security policy sovereignty.

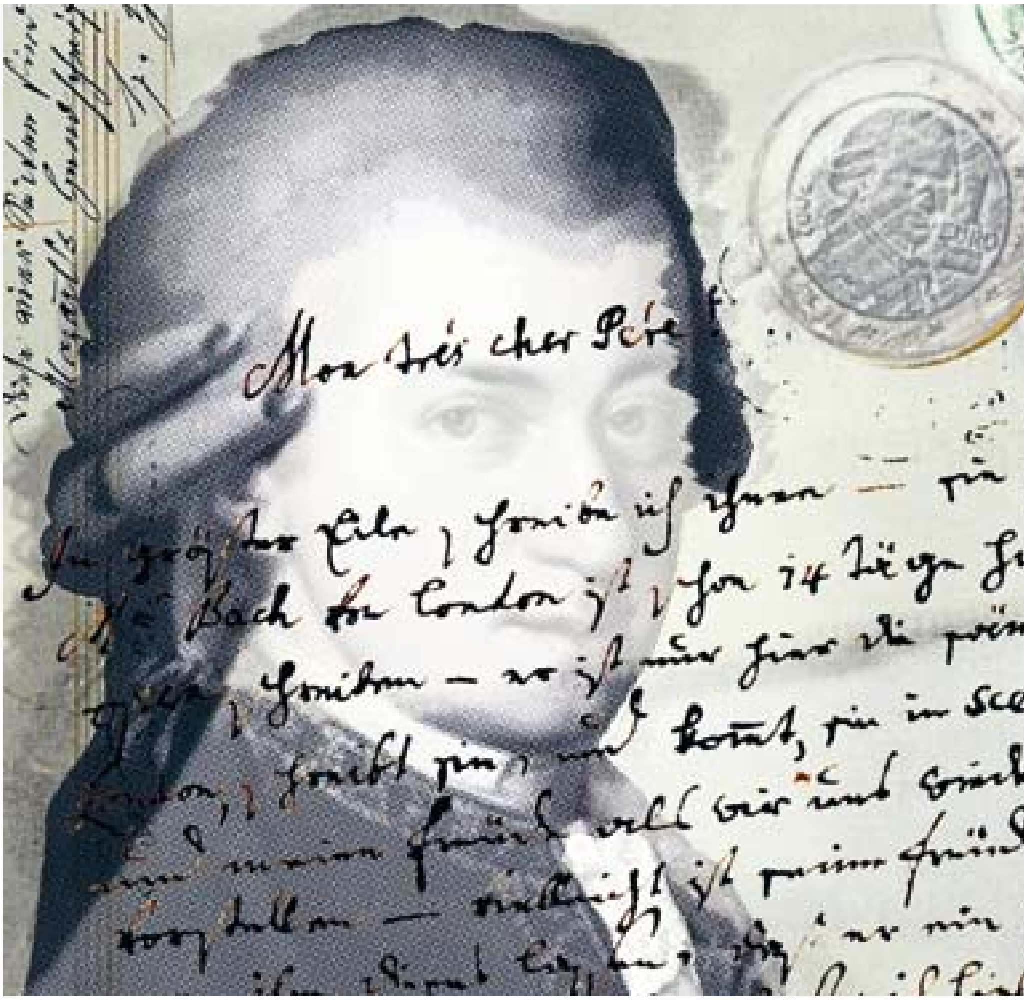
... and ongoing accession talks take baby steps

Among the disadvantages of the Treaty of Nice is that it was conceived for a Union of 27 members, a basis which precludes further enlargement steps. Although enlargement is on the back burner under current conditions, ongoing accession negotiations are being continued, albeit at a more relaxed pace than in previous years. Successful conclusions of accession negotiations with Croatia currently face unresolved problems, as the country has bilateral issues with its neighbors, in particular border disputes. Turkey does not, as yet, meet all of its statutory obligations, with the extension of the existing customs union with the EU to the Member States that have joined since 2004, in particular Cyprus, representing a major sticking point. Therefore, it has not been possible to open the chapters relevant to those restrictions. Moreover, the EU will not close any other chapter provisionally until Turkey has met all of its statutory obligations. The negotiations with FYR Macedonia[4] have yet to be opened.

The EU plays an important role in coordinating the measures to overcome the effects of the financial crisis – a role that has caused EU institutions to be seen in a different light in many EU countries and beyond. As recent Eurobarometer survey results show, EU approval has risen throughout Europe. This trend was also observed in Austria: In fall 2008, 47% of respondents commented that overall, Austria's EU membership had come with advantages, up from 36% in spring 2008.

Public perception of EU positive in general

The European concept of reinforced cooperation to secure peace, democracy and welfare has lost none of its luster, as was evidenced by the submission of Montenegro's application for EU membership to the French EU presidency on December 15, 2008. In addition, the international financial crisis has helped prompt some countries, notably Iceland, to reconsider EU membership and the rapid introduction of the euro soon after. The EU enlargement commissioner has promised Iceland fast-track negotiations if it should decide to apply for EU membership.



[4] *Former Yugoslav Republic of Macedonia.*

Financial Statements of the Oesterreichische Nationalbank for the Year 2008

Balance Sheet as at December 31, 2008

Assets

	December 31, 2008 EUR		December 31, 2007 EUR	
1 Gold and gold receivables		5,595,186,740.59		5,115,322,230.16
2 Claims on non-euro area residents denominated in foreign currency		6,342,189,608.24		7,192,263,013.84
2.1 Receivables from the IMF	486,537,314.85		298,404,783.57	
2.2 Balances with banks, security investments, external loans and other external assets	5,855,652,293.39		6,893,858,230.27	
3 Claims on euro area residents denominated in foreign currency		13,285,502,174.28		1,214,895,722.91
4 Claims on non-euro area residents denominated in euro		1,634,340,267.26		986,597,760.92
4.1 Balances with banks, security investments and loans	1,634,340,267.26		986,597,760.92	
4.2 Claims arising from the credit facility under ERM II	–		–	
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro		22,532,578,926.01		12,694,666,927.00
5.1 Main refinancing operations	9,107,000,000.00		8,703,193,400.00	
5.2 Longer-term refinancing operations	13,408,000,000.00		3,991,473,527.00	
5.3 Fine-tuning reverse operations	–		–	
5.4 Structural reverse operations	–		–	
5.5 Marginal lending facility	17,578,926.01		–	
5.6 Credits related to margin calls	–		–	
6 Other claims on euro area credit institutions denominated in euro		4,400,141,342.24		127,137.61
7 Securities of euro area residents denominated in euro		5,443,030,768.85		4,633,276,301.15
8 General government debt denominated in euro		429,016,902.35		418,632,652.76
9 Intra-Eurosystem claims		14,838,446,938.19		19,964,089,383.19
9.1 Participating interest in the ECB	117,186,925.35		117,186,925.35	
9.2 Claims equivalent to the transfer of foreign reserves	1,161,289,917.84		1,161,289,917.84	
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates[1]	×		×	
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	13,559,970,095.00		18,685,612,540.00	
9.5 Other claims within the Eurosystem (net)	–		–	
10 Items in course of settlement		103,315,453.96		100,875,792.70
11 Other assets		9,206,178,816.89		9,625,388,034.73
11.1 Coins of euro area	139,088,002.73		140,655,390.04	
11.2 Tangible and intangible fixed assets	143,491,285.23		147,686,002.65	
11.3 Other financial assets	6,419,247,144.65		7,719,123,572.90	
11.4 Off balance sheet instruments' revaluation differences	802,976,963.44		18,330,147.18	
11.5 Accruals and prepaid expenses	635,788,855.99		597,241,172.95	
11.6 Sundry	1,065,586,564.85		1,002,351,749.01	
		83,809,927,938.86		**61,946,134,956.97**

[1] *Only an ECB balance sheet item.*

Liabilities

	December 31, 2008 EUR		December 31, 2007 EUR	
1 Banknotes in circulation		20,297,442,750.00		18,052,675,160.00
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		15,642,357,120.43		6,548,091,077.64
2.1 Current accounts (covering the minimum reserve system)	8,018,007,120.43		6,153,091,077.64	
2.2 Deposit facility	7,624,350,000.00		395,000,000.00	
2.3 Fixed-term deposits	–		–	
2.4 Fine-tuning reverse operations	–		–	
2.5 Deposits related to margin calls	–		–	
3 Other liabilities to euro area credit institutions denominated in euro		50,000,000.00		–
4 Debt certificates issued[1]		×		×
5 Liabilities to other euro area residents denominated in euro		80,747,304.17		16,641,252.94
5.1 General government	9,009,060.57		10,799,291.39	
5.2 Other liabilities	71,738,243.60		5,841,961.55	
6 Liabilities to non-euro area residents denominated in euro		2,644,174.38		14,784,546.73
7 Liabilities to euro area residents denominated in foreign currency		63,707.69		75,297.04
8 Liabilities to non-euro area residents denominated in foreign currency		–		676,358,995.05
8.1 Deposits, balances and other liabilities	–		676,358,995.05	
8.2 Liabilities arising from the credit facility under ERM II	–		–	
9 Counterpart of Special Drawing Rights allocated by the IMF		197,808,916.00		192,294,330.00
10 Intra-Eurosystem liabilities		35,662,180,958.91		25,402,201,772.97
10.1 Liabilities equivalent to the transfer of foreign reserves[1]	×		×	
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–		–	
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–		–	
10.4 Other liabilities within the Eurosystem (net)	35,662,180,958.91		25,402,201,772.97	
11 Items in course of settlement		31,055,908.36		24,880,287.43
12 Other liabilities		286,947,950.71		472,953,360.84
12.1 Off balance sheet instruments' revaluation differences	96,184.93		127,028.25	
12.2 Accruals and income collected in advance	87,203,232.95		96,758,969.60	
12.3 Sundry	199,648,532.83		376,067,362.99	
13 Provisions		2,939,422,641.87		2,865,842,350.56
14 Revaluation accounts		4,474,167,545.23		3,529,439,663.09
15 Capital and reserves		4,141,935,883.14		4,133,247,130.46
15.1 Capital	12,000,000.00		12,000,000.00	
15.2 Reserves	4,129,935,883.14		4,121,247,130.46	
16 Profit for the year		3,153,077.97		16,649,732.22
		83,809,927,938.86		**61,946,134,956.97**

[1] *Only an ECB balance sheet item.*

Profit and Loss Account for the Year 2008

	Year ending December 31, 2008 *EUR*		Year ending December 31, 2007 *EUR*	
1.1 Interest income	2,153,886,674.96		1,965,217,752.45	
1.2 Interest expense	−1,338,075,786.78		−1,226,902,981.38	
1 Net interest income		815,810,888.18		738,314,771.07
2.1 Realized gains/losses arising from financial operations	153,924,277.95		209,043,369.30	
2.2 Writedowns on financial assets and positions	−624,694,142.18		−358,375,378.68	
2.3 Transfer to/from provisions for foreign exchange and price risks	−165,908,637.60		−140,914,142.65	
2 Net result of financial operations, writedowns and risk provisions		−636,678,501.83		−290,246,152.03
3.1 Fees and commissions income	5,350,625.97		6,046,573.75	
3.2 Fees and commissions expense	−3,528,815.21		−2,660,943.08	
3 Net income from fees and commissions		1,821,810.76		3,385,630.67
4 Income from equity shares and participating interests		90,725,900.32		22,587,331.09
5 Net result of pooling of monetary income		2,188,422.71		7,316,511.83
6 Other income		20,674,508.80		9,192,225.42
Total net income		294,543,028.94		490,550,318.05
7 Staff costs		−115,989,082.13		−107,521,382.65
8 Administrative expenses		−82,293,823.40		−78,342,634.77
9 Depreciation of tangible and intangible fixed assets		−12,723,721.97		−13,325,311.38
10 Banknote production services		−15,634,152.00		−24,840,729.05
11 Other expenses		−21,189,983.24		−19,857,560.68
Total expenses		−247,830,762.74		−243,887,618.53
		46,712,266.20		**246,662,699.52**
12 Corporate income tax		−11,678,066.55		−61,665,674.88
		35,034,199.65		184,997,024.64
13 Transfers to the pension reserve and central government's share of profit		−31,881,121.68		−168,347,292.42
14 Profit for the year		**3,153,077.97**		**16,649,732.22**

Notes to the Financial Statements 2008

General Notes to the Financial Statements

Legal Framework

The Oesterreichische Nationalbank is obligated (under Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 108/2007 – Nationalbank Act)[1] to prepare its balance sheet and its profit and loss account in conformity with the provisions established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB and of the ECB). These rules are laid down in the Accounting Guideline adopted by the Governing Council of the ECB on November 10, 2006 (accounting guideline).[2] The OeNB's financial statements for the year 2008 were prepared fully in line with the provisions set forth in the accounting guideline. In cases not covered by the accounting guideline, the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence Nationalbank Act were applied. The Nationalbank Act provisions that govern the OeNB's financial reporting (Articles 67 and 69 as well as Article 72 paragraph 1 Nationalbank Act) have remained unchanged from the previous year. Under Article 68 paragraph 3 Nationalbank Act, amended with the 2004 Financial Reporting Amendment Act, the OeNB continued to be exempt from Article 243 paragraph 2 last sentence as well as paragraph 3 items 2 and 5 Commercial Code.

In accordance with Article 67 paragraph 3 Nationalbank Act, the OeNB also continued to be exempt from preparing consolidated financial statements as required under Article 244 et seq. Commercial Code.

The financial statements for the year 2008 were prepared in the format laid down by the Governing Council of the ECB.

On the basis of the accounting guideline as amended, marketable securities classified as held-to-maturity denominated in euro and marketable equity instruments denominated in euro were reclassified from asset item 11.3 *Other financial assets,* either to asset item 4.1 *Claims on non-euro area residents denominated in euro – balances with banks, security investments and loans* or to asset item 7 *Securities of euro area residents denominated in euro* when the financial statements for 2008 were prepared.

Accounting Policies

The OeNB's financial statements are prepared in conformity with the provisions governing the Eurosystem's accounting and reporting operations, which follow accounting principles harmonized by Community law and generally accepted international accounting standards. The key policy provisions are summarized below:

- economic reality and transparency
- prudence
- recognition of post-balance sheet events
- materiality
- going-concern basis
- accruals principle
- consistency and comparability

On the basis of the ECB's Accounting Guideline (ECB/2006/16), foreign exchange transactions, financial instru-

[1] *The Nationalbank Act was amended with effect from January 1, 2008.*

[2] *Guideline of the ECB of 11 December 2008 (ECB/2008/21) amending Guideline ECB/2006/16.*

ments denominated in foreign currency and related accruals must be recorded at trade date (economic approach) while securities transactions (including transactions with equity instruments) denominated in foreign currency may still be recorded according to the cash/settlement approach. Interest accrued in relation to foreign currency transactions, including premiums or discounts, must be recorded on a daily basis from the spot settlement date. To record specific euro-denominated transactions, financial instruments and related accruals, the Eurosystem national central banks (NCBs) may use either the economic or the cash/settlement approach.

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

At year-end, both financial assets and liabilities are revalued at current market prices/rates. This applies equally to transactions that are disclosed in the balance sheet and to transactions that are not.[3] The arbitrage pricing principle is used to value gold interest rate swaps and gold forward interest rate swaps. To this end, the products are split into the components at which these products are traded on international exchanges (LIBOR curve, gold swap rates and gold forward rates).

The revaluation took place on a code-by-code basis for securities and equity instruments and on a currency-by-currency basis for foreign exchange positions.

The prices of master fund shares are calculated daily by the designated custodian bank using established market information systems on the basis of the assets held by the subfunds. The custodian bank's valuation of the subfund assets is crosschecked at least once a week with the respective master fund managers. In the case of illiquid assets or assets with low liquidity, price calculations are not based on established market information systems alone and, moreover, are cleared daily with the master fund managers.

Securities classified as held-to-maturity or nonmarketable securities are valued at cost subject to impairment; any premiums or discounts are amortized.

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

In derogation from general accounting principles and standards, alternative valuation methods may be applied to synthetic instruments; unrealized gains and losses of the instruments combined to form a synthetic instrument are netted at year-end. In such a case, net unrealized gains are recognized in a revaluation account. Net unrealized revaluation losses are taken to the profit and loss account if they exceed previous net revaluation gains registered in the corresponding revaluation account.

The average acquisition cost and the value of each currency position are calculated on the basis of the sum total of the holdings in any one currency, including both asset and liability positions and both on balance sheet items and transactions that are not disclosed in the balance sheet. Own funds invested in foreign exchange assets are treated as a separate currency position under

[3] *Transactions that are not disclosed in the balance sheet are recorded and disclosed separately.*

other financial assets, as are those equity instruments denominated in foreign currency that are to be disclosed under *other financial assets*.

Gains and losses realized in the course of transactions are taken to the profit and loss account. The average cost method is used on a daily basis for gold, foreign currency instruments and securities, to compute the acquisition cost of items sold, having regard to the effect of exchange rate and/or price movements. As a rule, the realized gain or loss is calculated by juxtaposing the sales price of each transaction with the average acquisition cost of all purchases made during the day. In the case of net sales, the calculation of the realized gain or loss is based on the average cost of the respective holding for the preceding day.

Unrealized revaluation gains are not taken to the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses are recognized in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against new unrealized gains in subsequent years. Unrealized losses in any one security, currency or in gold holdings are not netted with unrealized gains in other securities, currencies or gold, since netting is prohibited under the ECB's accounting guideline.

Exchange rate risks are calculated on the basis of the value-at-risk (VaR) method using a confidence interval of 99.0% and a one-year time horizon.

Participating interests are valued on the basis of the net asset value of the respective company.

Tangible and intangible fixed assets are valued at cost less depreciation. Depreciation is calculated on a straight-line basis from the quarter after acquisition throughout the expected economic lifetime of the assets (table 1):

Table 1

Asset	Depreciation period
Computers, related hardware and software, motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Buildings	25 years
Fixed assets costing less than EUR 10,000	no capitalization

Revaluation Differences and Their Treatment in the Financial Statements of December 31, 2008

Table 2

	Realized gains profit and loss account item 2.1 (posted to the profit and loss account)	Realized losses profit and loss account item 2.1 (posted to the profit and loss account)	Unrealized losses profit and loss account item 2.2 (posted to the profit and loss account)	Change in unrealized gains (posted to revaluation accounts)
	EUR million	*EUR million*	*EUR million*	*EUR million*
Gold	0.001	–	–	+479.865
Foreign currency				
Holdings for own account	55.615	56.211	556.313	+121.300
Own funds	0.441	0	–	−0.130
Securities				
Holdings for own account	227.085	69.209	65.593	+239.230
Own funds	8.548	12.346	2.788	+64.504
Participating interests	–	–	–	+35.651
Off balance sheet instruments	–	–	–	−2.059
Total	**291.690**	**137.766**	**624.694**	**+938.361**

Banknotes in Circulation and Intra-Eurosystem Balances

Euro banknotes are issued by the Eurosystem members, which in 2008 comprised the ECB and 15 NCBs.[4] The total value of euro banknotes in circulation is allocated among Eurosystem members on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro *banknotes in circulation*, whereas the remaining 92% have been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the OeNB is disclosed under the balance sheet liability item *banknotes in circulation*.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually put into circulation, as reduced by the banknotes it withdrew from circulation, also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the subitems *intra-Eurosystem claims/intra-Eurosystem liabilities: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see Intra-Eurosystem balances in the notes on accounting policies).

In the first five years following the cash changeover year,[5] the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under item 1 *Net interest income* of the profit and loss account.

The Governing Council of the ECB has decided that the seigniorage income of the ECB arising from the 8% share of euro banknotes allocated to the ECB shall be due to the NCBs in the same financial year it accrues and shall be distributed on the second working day of the following year in the form of an interim distribution of profit. It shall be so distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer part or all of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate and gold price risks. The amount distributed to the OeNB is recognized in the profit and loss account under item 4 *Income from equity shares and participating interests*.

[4] *The Central Bank of Cyprus and the Central Bank of Malta joined the Eurosystem on January 1, 2008.*

[5] *Cyprus and Malta adopted the euro in 2008.*

With respect to 2008, the Governing Council decided at its 258th meeting of December 17 and 18, 2008, that part of this income should be distributed by the ECB. The seigniorage income accruing to the OeNB in line with its relative share of the ECB's subscribed capital for the business year 2008 is recognized in its profit and loss account.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as net single assets or liabilities under *net claims/net liabilities related to the allocation of euro banknotes within the Eurosystem*.

Risk Management

Financial and operational risk incurred in connection with the OeNB's central banking activities have a crucial impact on its financial result and on its ability to continue as a going concern. The OeNB's risk management is based on binding rules; risk is determined by means of recognized procedures, and risk control is guaranteed through continuous monitoring. Moreover, regular reporting procedures have been put in place.

Financial Risk

Financial risk covers a range of collateral-related risks, basically market, credit and liquidity risk. Reserve asset and risk management principles are laid down in a rule book adopted by the OeNB's Governing Board. Reserve assets are invested by the OeNB's Treasury Department in line with defined benchmarks, limits and durations, on the basis of a risk budget set by the Governing Board on proposal of the Risk Committee. The Risk Committee monitors compliance with the risk budget, and the Treasury Department reports regularly to the Governing Board. Strategies for broadening diversification to include new currencies and types of investment must be authorized by the Governing Board. In line with international trends, the OeNB is implementing an integral risk management structure to monitor financial risk in the future.[6]

Market Risk

Market risk is the risk of exposure arising from movements in markets, in particular exchange rate and interest rate changes, as determined by generally recognized VaR calculation models. On proposal of the Investment Committee, the Governing Board of the OeNB adopts a benchmark that reflects e.g. short-term market developments. Exchange rate risk is managed on the basis of individual currency limits, interest rate risk on the basis of duration targets or limits. Moreover, risk is limited by a risk budget set by the Governing Board, compliance with which is monitored with VaR calculations based on a one-year period and a confidence interval of 99.0%.

The actual risk exposure depends on the amount of assets invested, including gold and Special Drawing Rights, as well as on the amount of own funds and earmarked funds invested.

In addition, the OeNB makes provision for ECB and Eurosystem risk commensurate to its relative capital share in the ECB's paid-up capital. The OeNB employs generally recognized VaR calculation models to determine pro rata Eurosystem risk and other market risk not covered by the risk budget.

[6] *A dedicated project was started in April 2008; it is scheduled to be completed in 2009.*

The risk involved in real estate holdings is calculated using the IATX (Immobilien ATX) for real estate stocks.

Credit Risk

Credit risk is the risk of incurring a loss due to the failure of a counterparty. Here, risk management relies on a credit risk limit system which documents current credit risk limits and actual exposure. Moreover, continuous financial market monitoring provides information for expertises. Default rates used to calculate credit risk are taken from Standard & Poor's default matrices.

Liquidity Risk

Liquidity risk is the risk arising from a counterparty's inability to meet its financial obligations in time or in full, or the risk that a counterparty may not have sufficiently liquid funds to meet its obligations. To avoid this risk, the OeNB selects counterparties with the highest credit standing and strictly applies the established limits, with a particular emphasis on security and liquidity. These principles take precedence over profitability considerations.

Other Risks Specific to Central Banks

Apart from the risks described above, NCBs are also subject to other specific risks arising from fulfillment of their mandate. The OeNB is aware of these risks, takes measures to reduce them and makes appropriate provisions.

Operational Risk

Operational risk is the risk of incurring losses due to defects, inadequate procedures or systems, human error or unforeseen events affecting operations. Management of operational risk is provided for by the rules laid down in the OeNB's risk management handbook *ORION – Handbuch Risiko- und Krisenmanagement* (ORION stands for Operationales Risikomanagement in der Oesterreichischen Nationalbank – operational risk management at the Oesterreichische Nationalbank). Risk valua-

Table 3

Financial Risk and Financial Provisions on December 31, 2008

Financial risk *EUR million*		Financial provisions *EUR million*	
Treasury Department risk budget	4,453	2,129	Revaluation accounts[1]
		1,650	Reserve for nondomestic and price risks
		674	Risk provisions
Other financial risks and risks specific to central banks[2]	489	323	Reserve for nondomestic and price risks
		166	Provision in respect of monetary policy operations of the Eurosystem
Total	**4,942**	**4,942**	
Risk arising from real estate holdings – range	59 to 66	Covered by related hidden reserves	

[1] Revaluation accounts are included in financial provisions subject to the prohibition of netting.
[2] Includes credit risk, pro rata Eurosystem risk and other risk.

tion takes into account the impact of various risk scenarios on the OeNB's reputation, on costs, and any resulting losses, and is an ongoing process. Reports are submitted to management every half year.

Table 3 shows financial risk and financial provisions at year-end.

IT Security Policy

IT security policy defines guidelines and provisions to guarantee a high level of security for the development, operation and use of IT systems at the OeNB. The following bodies and persons have key responsibilities in the IT security process:

– The IT Security Forum, a body which provides advice on, coordinates and controls IT security;
– The IT security manager, who is responsible for the technical accuracy of the measures submitted for approval as well as for initiating and implementing the IT security process;
– The IT security experts, who are responsible for drafting and implementing IT security guidelines and IT specifications; and
– The technical experts in charge of the respective products.

Regular tests and reports are part of the framework of IT security policy.

Capital Movements

Table 4

Changes in 2008	December 31, 2007 *EUR million*	Increase *EUR million*	Decrease *EUR million*	December 31, 2008 *EUR million*
I Capital				
Capital (stock)	12.000	–	–	12.000
Profit-smoothing reserve	2.226	–	–	2.226
	14.226	–	–	**14.226**
II Provisions for special business risks				
Reserve for nondomestic and price risks	1,973.263	–	–	1,973.263
	1,973.263	–	–	**1,973.263**
III Capital including reserves and provisions (I + II)	**1,987.489**	–	–	**1,987.489**
IV Supplementary capital (earmarked)				
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
OeNB Anniversary Fund (initial funding)	31.500	–	–	31.500
OeNB Anniversary Fund National Foundation endowment	1,500.000	–	–	1,500.000
Earmarked capital funded with net interest income from ERP loans	614.258	+8.689	–	622.947
	2,145.758	**+8.689**	–	**2,154.447**
Total capital (III + IV)	**4,133.247**	**+8.689**	–	**4,141.936**

Development of the OeNB's Currency Positions in the Financial Year 2008

Table 5

Net currency position (including gold)	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Gold and gold receivables	5,595.187	5,115.322	+479.865	+9.4
Claims on non-euro area residents denominated in foreign currency	6,342.190	7,192.263	−850.073	−11.8
Claims on euro area residents denominated in foreign currency	13,285.502	1,214.896	+12,070.606	n.a.
Other assets	180.649	158.776	+21.873	+13.8
less:				
Liabilities to euro area residents denominated in foreign currency	0.064	0.075	−0.011	−15.4
Liabilities to non-euro area residents denominated in foreign currency	–	676.359	−676.359	−100.0
Counterpart of SDRs allocated by the IMF	197.809	192.294	+5.515	+2.9
Other liabilities	21.142	2.635	+18.507	n.a.
Revaluation accounts[1]	164.578	61.977	+102.601	+165.6
	25,019.935	12,747.917	+12,272.018	+96.3
Transactions that are not disclosed in the balance sheet (net)	−13,320.415	−664.119	−12,656.296	n.a.
Total	**11,699.520**	**12,083.798**	**−384.278**	**−3.2**

[1] *Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities on December 31, 2007, and December 31, 2008.*

Notes to the Balance Sheet

Assets

1 Gold and Gold Receivables

Closing balance	*EUR million*	
December 31, 2008	5,595.187	
December 31, 2007	5,115.322	
Change	+479.865	(+9.4%)

This item comprises the OeNB's holdings of physical and nonphysical gold, which amounted to 9,002,105.635 fine ounces or 279,996.81888 kg of fine gold on December 31, 2008. At a market value of EUR 621.542 per fine ounce (i.e. EUR 19,983.04 per kg of fine gold), the OeNB's gold holdings were worth EUR 5,595.187 million at the balance sheet date.

The valuation on December 31, 2008, resulted in unrealized valuation gains of EUR 479.865 million.

No gold was sold in 2008 (2007: 8.75 tons for EUR 137.220 million).

2 Claims on Non-Euro Area Residents Denominated in Foreign Currency

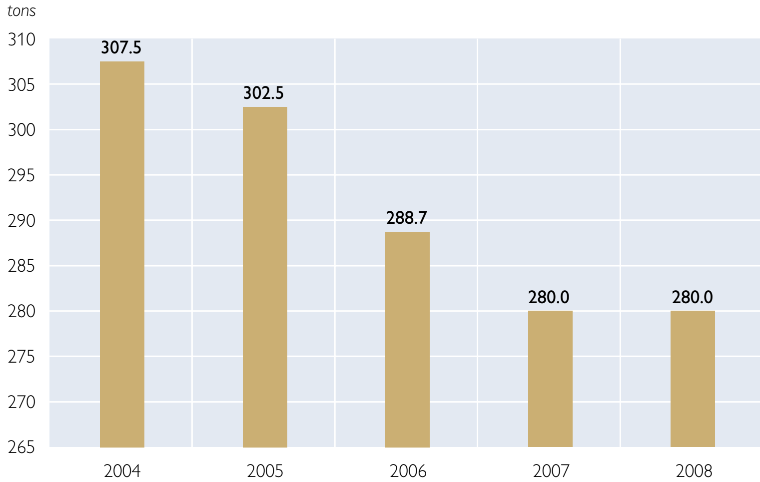
Closing balance	*EUR million*	
December 31, 2008	6,342.190	
December 31, 2007	7,192.263	
Change	−850.073	(−11.8%)

These claims consist of *receivables from the IMF* and claims denominated in foreign currency against non-euro area countries, i.e. counterparties resident outside the euro area.

Table 6 shows the development of *receivables from the IMF.*

Drawings of SDRs on behalf of IMF members as well as transfers by the IMF boosted *receivables from the IMF* by a total of EUR 157.910 million.

The OeNB's Gold Holdings over the Past Five Years



Source: OeNB.

Conversely, repayments by members reduced *receivables from the IMF* by a total of EUR 29.837 million. The changes in *receivables from the IMF*, moreover, reflect valuation changes, net exchange rate losses and book value reconciliation (totaling –EUR 1.002 million).

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2008, this rate hovered between 0.82% and 3.50% per annum, mirroring the prevailing SDR rate.

SDR holdings[7] were recognized in the balance sheet at EUR 219.157 million on December 31, 2008, which is equivalent to SDR 198.4 million. The net increase of holdings by EUR 60.846 million in 2008 resulted from net purchases of SDRs (+EUR 55.682 million), interest credited, above all remunerations of the participation in the IMF (+EUR 2.021 million), and revaluation differences (+EUR 4.106 million).

Principally, the OeNB continues to be obliged under the IMF's Articles of Agreement to provide currency on demand in exchange for SDRs. Members designated by the IMF may use SDRs up to the point at which the OeNB's SDR holdings are three times as high as its net cumulative SDR allocations, which totaled SDR 179.045 million on December 31, 2008.

Other claims against the IMF comprise the OeNB's other contributions to loans under special borrowing arrangements, most recently claims arising from contributions to Emergency Assistance for Natural Disasters (EAND).

Table 6

	December 31, 2008 *EUR million*	December 31, 2007 *EUR million*	Change *EUR million*	 %
Total claims (Austrian quota) equivalent to SDR 1,872.3 million[1]	2,068.517	2,010.850	+57.667	+2.9
less: Balances at the disposal of the IMF	1,808.870	1,878.274	–69.404	–3.7
Receivables from the IMF	259.647	132.576	+127.071	+95.8
SDR holdings	219.157	158.311	+60.846	+38.4
Other claims against the IMF	7.734	7.518	+0.216	+2.9
Total	**486.538**	**298.405**	**+188.133**	**+63.0**

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

[7] *Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account, but on behalf of the Republic of Austria, and to enter the SDRs purchased or allocated gratuitously on the asset side of the balance sheet.*

Table 7

	December 31, 2008	December 31, 2007	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	1,208.018	2,384.334	–1,176.316	–49.3
Securities	4,642.701	4,504.925	+137.776	+3.1
Other external assets	4.933	4.599	+0.334	+7.3
Total	**5,855.652**	**6,893.858**	**–1,038.206**	**–15.1**

Table 8

	December 31, 2008	December 31, 2007	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	13,111.186	699.054	+12,412.132	n.a.
Securities	174.316	515.842	–341.526	–66.2
Total	**13,285.502**	**1,214.896**	**+12,070.606**	**n.a.**

Table 7 shows the *development of balances with banks and security investments, external loans and other external assets.*

Balances with banks outside the euro area include foreign currency deposits on correspondent accounts and overnight funds. *Securities* relate to instruments issued by non-euro area residents.

Moreover, in 2008 the ECB and the OeNB concluded liquidity-providing U.S. dollar swap lines totaling USD 176.9 billion and Swiss franc swap lines coming to CHF 52.2 billion. On the basis of those transactions, USD and CHF funds were auctioned off to Austrian banks against euro and repurchased on maturity, which means that any amounts that were outstanding on the balance sheet date are not shown under balance sheet item 2.1 (see *Notes on Transactions Not Disclosed in the Balance Sheet)*. The amounts outstanding on such swap lines came to USD 5.8 billion and CHF 6.45 billion on December 31, 2008.

3 Claims on Euro Area Residents Denominated in Foreign Currency

Table 8 shows the development of *claims on euro area residents denominated in foreign currency.*

Balances with banks consist mainly of claims amounting to EUR 13,111.098 million that arose from USD 18,247 million of reverse operations with Austrian banks against collateral. This U.S. dollar funding was made available in connection with a EUR/USD swap that the ECB made with the Federal Reserve Bank of New York under the Federal Reserve's Term Auction Facility. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties. These back-to-back swap transactions of the ECB with the OeNB resulted in nonremunerated intra-Eurosystem balances between the ECB and the OeNB reported under liabilities item 10.4 *Other liabilities within the Eurosystem (net).*

Table 9

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	%
Marketable securities other than held-to-maturity	931.581	975.738	−44.157	−4.5
Marketable securities classified as held-to-maturity	699.287	–	+699.287	×
Other investments	3.472	10.860	−7.388	−68.0
Total	**1,634.340**	**986.598**	**+647.742**	**+65.7**

4 Claims on Non-Euro Area Residents Denominated in Euro

Table 9 shows the development of *claims on non-euro area residents denominated in euro* on December 31, 2007, and December 31, 2008.

Changes in *marketable securities classified as held-to-maturity* resulted from the reclassification of such securities from asset item 11.3 *Other financial assets* in compliance with the accounting provisions in force on December 31, 2008 (please refer to the notes under *Legal Framework*). Marketable securities classified as held-to-maturity are assets with fixed or determinable payments and fixed maturity for which there is a positive intent and ability to hold to maturity.

5 Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

Table 10 shows the development of liquidity-providing transactions executed by the OeNB.

5.1 Main Refinancing Operations

Main refinancing operations are regular liquidity-providing reverse transactions carried out by the Eurosystem NCBs with a weekly frequency in the form of standard (variable or fixed rate) tender operations. All counterparties that fulfill the general eligibility criteria may submit bids within a timeframe of 24 hours from the tender announcement.

Table 11 shows the changes in the minimum bid rate on the main refi-

Table 10

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	%
5.1 Main refinancing operations	9,107.000	8,703.193	+403.807	+4.6
5.2 Longer-term refinancing operations	13,408.000	3,991.474	+9,416.526	+235.9
5.3 Fine-tuning reverse operations	–	–	–	–
5.4 Structural reverse operations	–	–	–	–
5.5 Marginal lending facility	17.579	–	+17.579	×
5.6 Credits related to margin calls	–	–	–	–
Total	**22,532.579**	**12,694.667**	**+9,837.912**	**+77.5**

Table 11

Decision of	With effect from	By (percentage points)	To (%)
July 3, 2008	July 9, 2008	+0.25	4.25
October 8, 2008	October 15, 2008	−0.50	3.75
November 6, 2008	November 12, 2008	−0.50	3.25
December 4, 2008	December 10, 2008	−0.75	2.50

nancing operations of the Eurosystem in 2008 as decided by the Governing Council of the ECB.

5.2 Longer-Term Refinancing Operations

Longer-term refinancing operations are regular liquidity-providing reverse transactions with a monthly frequency and a maturity of three months. These operations are aimed at providing counterparties with additional, longer-term refinancing and are executed by the national central banks on the basis of standard tenders. In 2008, longer-term refinancing operations were also conducted with maturities between one and six months. On October 15, 2008, the Governing Council of the ECB decided to carry out all longer-term refinancing operations from October 30, 2008, until end-March 2009 through a fixed rate tender procedure with full allotment. These operations were at volumes of between EUR 20 billion and EUR 135 billion and at maturities of between one and six months.

5.3 Fine-Tuning Reverse Operations

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

In 2008, the volume of such transactions averaged EUR 29.894 million.

5.4 Structural Reverse Operations

In 2008, no such operations were carried out.

5.5 Marginal Lending Facility

The financial sector may use the *marginal lending facility* to obtain overnight liquidity from NCBs at a prespecified interest rate against eligible assets. This facility is intended to satisfy counterparties' temporary liquidity needs. Under normal circumstances, the interest rate on the marginal lending facility provides a ceiling for the overnight interest rate.

Recourse to the marginal lending facility averaged EUR 11.865 million in 2008.

Table 12 shows the changes in the interest rate on the marginal lending facility in 2008 as decided by the Governing Council of the ECB.

6 Other Claims on Euro Area Credit Institutions Denominated in Euro

Closing balance	*EUR million*	
December 31, 2008	4,400.141	
December 31, 2007	0.127	
Change	+4,400.014	(n.a.)

Table 12

Decision of	With effect from	By (percentage points)	To (%)
July 3, 2008	July 9, 2008	+0.25	5.25
October 8, 2008	October 8, 2008	−0.50	4.75
October 8, 2008	October 9, 2008	−0.50	4.25
November 6, 2008	November 12, 2008	−0.50	3.75
December 4, 2008	December 10, 2008	−0.75	3.00

Table 13

	December 31, 2008	December 31, 2007	Change	
	EUR million	EUR million	EUR million	%
Marketable securities other than held-to-maturity	4,077.843	4,633.276	–555.433	–12.0
Marketable securities classified as held-to-maturity	1,365.188	–	+1,365.188	x
Total	**5,443.031**	**4,633.276**	**+809.755**	**+17.5**

This item comprises claims not related to monetary policy operations. The closing balance of December 31, 2008, also includes EUR 4 billion of liquidity provided by the OeNB as lender of last resort.

7 Securities of Euro Area Residents Denominated in Euro

Table 13 shows the development of *securities of euro area residents denominated in euro* on December 31, 2007, and December 31, 2008.

This item covers all marketable securities that are not used in monetary policy operations and that are not part of investment portfolios earmarked for specific purposes. Changes in marketable securities classified as held-to-maturity resulted from the reclassification of such securities from asset item 11.3 *Other financial assets* in compliance with the accounting provisions in force on December 31, 2008 (please refer to the notes under *Legal Framework*). Marketable securities classified as held-to-maturity are assets with fixed or determinable repayment amounts and fixed maturity, for which there is a positive intent and ability to hold to maturity.

Moreover, the figures reflect net sales of securities.

8 General Government Debt Denominated in Euro

Closing balance	EUR million	
December 31, 2008	429.017	
December 31, 2007	418.633	
Change	+10.384	(+2.5%)

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

In theory, the maximum federal liability is the sum total of all silver commemorative coins issued before 1989, minus any coins returned to and paid for by the central government, minus any coins directly withdrawn by the Austrian mint and minus repayments, which are effected by annual installments of EUR 5.814 million. The proceeds from silver recovery, including the interest on the investment of these proceeds by the Austrian mint, are designated for repayment by the contractual deadline (every year on December 15). Any amount outstanding on December 31, 2040, will have to be repaid in the five following years (2041 to 2045) in five equal installments. The federal liability came to EUR 1,182.935 million on December 31, 2008.

The net increase in *general government debt* resulted from returns of silver commemorative coins to the central government in the course of 2008 with a total face value of EUR 17.800 million not offset by redemptions made out of the *central government's share* in the OeNB's profit for the year 2007 or the proceeds from metal recovery (which together totaled EUR 7.416 million).

9 Intra-Eurosystem Claims

Closing balance	*EUR million*	
December 31, 2008	14,838.447	
December 31, 2007	19,964.089	
Change	–5,125.642	(–25.7%)

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

Table 14 shows the development of *intra-Eurosystem claims* on December 31, 2007, and December 31, 2008.

9.1 Participating Interest in the ECB

This subitem shows the share that the OeNB holds in the capital of the ECB. On January 1, 2008, the Central Bank of Cyprus and the Central Bank of Malta joined the Eurosystem. As the key for fully paid-in subscriptions was adjusted to reflect these two NCBs' accession to the Eurosystem, the OeNB's percentage share in the capital of the ECB fell from 2.9002% to 2.8924%. As the shares in the ECB's subscribed capital remained unaltered, no transfers among NCBs were required.

January 1, 2009, marked, first, a regular adjustment of the weights of NCBs' shares in the ECB's capital key, which is required every five years under Article 29.3 of the Statute of the ESCB and of the ECB; and second, the accession of Národná banka Slovenska to the Eurosystem (see also P*ost-Balance Sheet Events*).

See the *Notes on Transactions Not Disclosed in the Balance Sheet* for information about additional capital contributions transferred to the ECB.

9.2 Claims Equivalent to the Transfer of Foreign Reserves

This item represents the OeNB's claims arising from the transfer of foreign reserve assets to the ECB. The claims are denominated in euro at the original conversion rate. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted by 15%.

See the *Notes on Transactions Not Disclosed in the Balance Sheet* for information about additional capital contributions transferred to the ECB.

9.4 Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem

This item reflects the OeNB's claims vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see also *Banknotes in Circulation* and *Intra-Eurosystem Balances*).

Table 14

	December 31, 2008 *EUR million*	December 31, 2007 *EUR million*	Change *EUR million*	%
9.1 Participating Interest in the ECB	117.187	117.187	–	–
9.2 Claims equivalent to the transfer of foreign reserves	1,161.290	1,161.290	–	–
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates[1]	×	×	×	×
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	13,559.970	18,685.612	–5,125.642	–27.4
9.5 Other claims within the Eurosystem (net)	–	–	–	–
Total	**14,838.447**	**19,964.089**	**–5,125.642**	**–25.7**

[1] *Only an ECB balance sheet item.*

Table 15

		December 31, 2008	December 31, 2007	Change	
		EUR million	EUR million	EUR million	%
11.1	Coins of euro area	139.088	140.655	–1.567	–1.1
11.2	Tangible and intangible fixed assets	143.491	147.686	–4.195	–2.8
11.3	Other financial assets	6,419.247	7,719.124	–1,299.877	–16.8
11.4	Off balance sheet instruments' revaluation differences	802.977	18.330	+784.647	n.a.
11.5	Accruals and prepaid expenses	635.789	597.241	+38.548	+6.5
11.6	Sundry	1,065.587	1,002.352	+63.235	+6.3
Total		**9,206.179**	**9,625.388**	**–419.209**	**–4.4**

10 Items in Course of Settlement

This claim results from net float items settled the next year.

11 Other Assets

Table 15 shows the development of *other assets*.

11.1 Coins of Euro Area

This item represents the OeNB's stock of fit coins issued by euro area countries.

11.2 Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets comprise OeNB *premises* and *equipment* (including computers, related hardware and software, and motor vehicles), *tangible real assets* and *intangible fixed assets*.

Table 16 shows the development of *premises*.

Table 16

	EUR million
Cost incurred until December 31, 2007[1]	116.891
Purchases in 2008	0.072
Sales (cost incurred) in 2008	1.056
Accumulated depreciation	34.247
Book value on December 31, 2008	81.660
Book value on December 31, 2007	86.090
Annual depreciation in 2008	4.376

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

A decision was taken on September 26, 2007, to sell bank property (Hotel Miramonte) on the basis of the preceding auction. March 28, 2008, marks the transfer of possession and ownership of the hotel.

Table 17 shows the development of *equipment*.

Table 17

	EUR million
Cost incurred until December 31, 2007	82.847
Purchases in 2008	8.658
Sales (cost incurred) in 2008[1]	9.573
Accumulated depreciation	59.146
Book value on December 31, 2008	22.786
Book value on December 31, 2007	22.556
Annual depreciation in 2008	8.332

[1] *The balance between the book value of the sales and the underlying historical costs less accumulated depreciation is EUR 0.095 million.*

Table 18 shows *tangible real assets* (the OeNB's collection of antique string instruments and the coins of the OeNB's Money Museum).

Table 18

	EUR million
Cost incurred until December 31, 2007	34.550
Purchases in 2008	0.020
Sales (cost incurred) in 2008	–
Accumulated depreciation	1.600
Revaluation	5.494
Book value on December 31, 2008	38.464
Book value on December 31, 2007	38.444
Annual depreciation in 2008	–

On December 31, 2008, the OeNB's collection of valuable instruments was unchanged and encompassed 28 violins, 5 violoncellos and 3 violas. The string instruments are on loan to renowned musicians under the OeNB's cultural promotion program.

Table 19 shows the development of *intangible fixed assets* (right of use).

Table 19

	EUR million
Cost incurred until December 31, 2007	0.720
Purchases in 2008	–
Sales in 2008	–
Accumulated depreciation[1]	0.139
Book value on December 31, 2008	0.581
Book value on December 31, 2007	0.596
Annual depreciation in 2008[1]	0.015

[1] *Depreciation is over a period of 46.75 years.*

11.3 Other Financial Assets

Table 20 shows the development of *other financial assets*.

Of the OeNB's securities portfolio, EUR 1,576.609 million represent investments of pension reserve assets, and another EUR 1,544.774 million reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (of which EUR 1,512.534 million were earmarked as an endowment for the National Foundation for Research, Technology and Development). Under its own funds management, the OeNB had invested EUR 2,398.774 million on the balance sheet date.[8] Among the securities holdings for own account, any marketable securities classified as held-to-maturity were reclassified to asset item 4.1 *Claims on non-euro area residents denominated in euro – balances with banks, security investment and loans* and to asset item 7 *Securities of euro area residents denominated in euro* (see *Legal Framework*) on December 31, 2008, as required under the applicable accounting guideline. Revaluations of the portfolios resulted in unrealized price gains of EUR 94.425 million and unrealized price losses totaling EUR 14.912 million.

Of the *participating interests*, EUR 588.272 million formed part of the own funds portfolio and EUR 313.042 million part of the investment portfolio relating to investments of the pension reserve.

Table 21 shows the development of *participating interests*.

Table 21

	EUR million
Net asset value on December 31, 2007	880.786
Purchases in 2008	–
Sales in 2008 (at book value)	26.412
Annual depreciation in 2008	–
Revaluation in 2008	46.940
Net asset value on December 31, 2008	901.314

Table 20

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	*in %*
Securities	5,520.157	6,181.359	–661.202	–10.7
Participating interests	901.314	880.786	+20.528	+2.3
Other investments	70.035	735.511	–665.476	–90.5
Items in course of settlement	–72.259	–78.532	+6.273	+8.0
Total	**6,419.247**	**7,719.124**	**–1,299.877**	**–16.8**

[8] *The OeNB's own funds shown under liabilities include its capital, the reserve for nondomestic and price risks, the profit-smoothing reserve, earmarked ERP capital and the risk provisions.*

Other investments include investments of the pension reserve (EUR 25.931 million), investments to promote the National Foundation (EUR 8.345 million), investments of the initial OeNB Anniversary Fund (i.e. exclusive of the National Foundation endowment; EUR 28.420 million) and the own funds portfolio (EUR 7.339 million) and consisted mainly of overnight and short-term funds.

11.4 Off Balance Sheet Instruments' Revaluation Differences

Closing balance	EUR million	
December 31, 2008	802.977	
December 31, 2007	18.330	
Change	+784.647	(n.a.)

This item reflects revaluation gains arising on off balance sheet positions (for which an offsetting entry is made under liabilities item 14 *Revaluation accounts*). EUR 2.501 million of the amount shown on December 31, 2008, was attributable to valuation gains on gold interest rate swaps. The remainder results from book value reconciliations and realized gains on forward sales and purchases – mostly EUR/USD swaps with the ECB – totaling EUR 800.476 million.

11.6 Sundry

Table 22 shows the development of *sundry* assets.

Pursuant to Article 3 paragraph 2 of the ERP Fund Act, the OeNB's maximum financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued on a reserve account (EUR 622.947 million on December 31, 2008). The ERP loan portfolio managed by the OeNB thus totaled EUR 964.902 million on December 31, 2008. The provisions governing the extension of loans from this portfolio are laid down in Article 83 Nationalbank Act.

The residual terms of advances on salaries generally exceed one year. All advance payments are secured by life insurance plans.

Other claims came to EUR 33.549 million at December 31, 2008, and mainly comprised advances, accounts receivable and claims arising from day-to-day business.

Table 22

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Claims arising from ERP loans to companies	872.212	880.569	–8.357	–0.9
Money market investment with the Oesterreichische Kontrollbank (OeKB) for ERP lending	92.690	75.644	+17.046	+22.5
ERP loan portfolio managed by the OeNB	964.902	956.213	+8.689	+0.9
Settlement account with the tax authorities	52.640	–	+52.640	×
Schilling coins	7.081	14.144	–7.063	–49.9
Shareholder loans	–	4.032	–4.032	–100.0
Advances on salaries	7.415	7.676	–0.261	–3.4
Other claims	33.549	20.287	+13.262	+65.4
Total	**1,065.587**	**1,002.352**	**+63.235**	**+6.3**

Liabilities

1 Banknotes in Circulation

Closing balance	*EUR million*	
December 31, 2008	20,297.443	
December 31, 2007	18,052.675	
Change	+2,244.768	(+12.4%)

This item reflects the value of euro *banknotes in circulation* allocated to the OeNB. Table 23 shows how this share is calculated and how it developed in 2008.

See the sections *Banknotes in Circulation* and *Intra-Eurosystem Balances* for further explanations on this item.

Table 23

	December 31, 2008 *EUR million*	December 31, 2007 *EUR million*	Change *EUR million*
Total value of euro banknotes actually put in circulation by the OeNB	+6,737.473	−632.937	+7,370.410
Adjusted for:			
Liability resulting from the share of euro banknotes in circulation allocated to the ECB's balance sheet (8%)	−1,765.004	−1,569.902	−195.102
Claims related to the allocation of euro banknotes within the Eurosystem	+15,324.974	+20,255.514	−4,930.540
Net claims related to the allocation of euro banknotes within the Eurosystem	+13,559.970	+18,685.612	−5,125.642
Banknotes in Circulation	**20,297.443**	**18,052.675**	**+2,244.768**

Table 24 shows the annual averages of *banknotes in circulation* during the past five years.

Table 24

	Banknotes in circulation, annual average *EUR million*	Change *EUR million*	 %
2004	11,751	+1,838	+18.5
2005	13,618	+1,867	+15.9
2006	15,128	+1,510	+11.1
2007	16,614	+1,486	+9.8
2008	18,458	+1,844	+11.1

2 Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

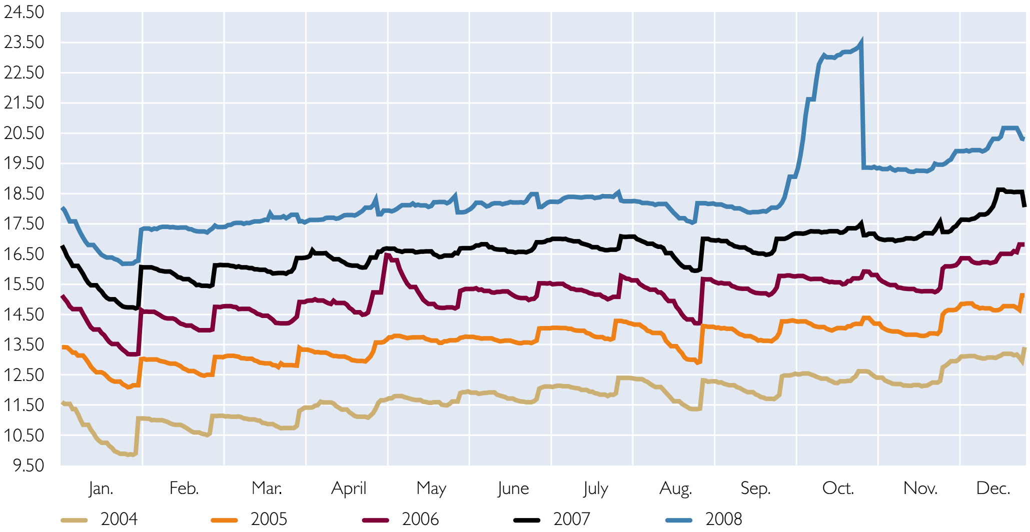
Table 25 shows the development of *liabilities to euro area credit institutions related to monetary policy operations denominated in euro.*

Table 25

	December 31, 2008 *EUR million*	December 31, 2007 *EUR million*	Change *EUR million*	 %
2.1 Current accounts (covering the minimum reserve system)	8,018.007	6,153.091	+1,864.916	+30.3
2.2 Deposit facility	7,624.350	395.000	+7,229.350	n.a.
2.3 Fixed-term deposits	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–
Total	**15,642.357**	**6,548.091**	**+9,094.266**	**+138.9**

The OeNB's Banknotes in Circulation over the Past Five Years

Calendar-day volumes, EUR billion



Source: OeNB.

2.1 Current Accounts (Covering the Minimum Reserve System)

This subitem contains the transaction accounts of credit institutions that are required to hold minimum reserves.

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

2.2 Deposit Facility

The *deposit facility* refers to overnight deposits placed with the OeNB by Austrian banks that access the Eurosystem's liquidity-absorbing standing facility at the prespecified rate. In 2008, the volume of such transactions averaged EUR 1,208.198 million.

Table 26 shows the changes in the interest rate on the deposit facility as decided by the Governing Council of the ECB.

2.3 Fixed-Term Deposits

In 2008, fixed-term deposits of between EUR 87.504 million and EUR 5.0 billion were made at interest rates of between 2.85% per annum and 4.25% per annum.

3 Other Liabilities to Euro Area Credit Institutions Denominated in Euro

This item shows banks' deposits.

Table 26

Decision of	With effect from	By (percentage points)	To (%)
July 3, 2008	July 9, 2008	+0.25	3.25
October 8, 2008	October 8, 2008	−0.50	2.75
October 8, 2008	October 9, 2008	+0.50	3.25
November 6, 2008	November 12, 2008	−0.50	2.75
December 4, 2008	December 10, 2008	−0.75	2.00

5 Liabilities to Other Euro Area Residents Denominated in Euro

Closing balance	EUR million	
December 31, 2008	80.747	
December 31, 2007	16.641	
Change	+64.106	(+385.2%)

This item comprises general government deposits of EUR 9.009 million and current account deposits of credit institutions that are not subject to minimum reserve requirements as well as current account deposits of nonbanks.

6 Liabilities to Non-Euro Area Residents Denominated in Euro

Closing balance	EUR million	
December 31, 2008	2.644	
December 31, 2007	14.785	
Change	–12.141	(–82.1%)

This item comprises euro-denominated liabilities to non-Eurosystem central banks and monetary institutions.

8 Liabilities to non-Euro Area Residents Denominated in Foreign Currency

Closing balance	EUR million	
December 31, 2008	–	
December 31, 2007	676.359	
Change	–676.359	(–100.0%)

9 Counterpart of Special Drawing Rights Allocated by the IMF

Closing balance	EUR million	
December 31, 2008	197.809	
December 31, 2007	192.294	
Change	+5.515	(+2.9%)

This item represents the counterpart in euro of the SDR 179 million allocated gratuitously to the OeNB, measured at current market values at the reporting date. The OeNB was allocated SDRs from 1970 to 1972 and from 1979 to 1981, always on January 1.

10 Intra-Eurosystem Liabilities

Closing balance	EUR million	
December 31, 2008	35,662.181	
December 31, 2007	25,402.202	
Change	+10,259.979	(+40.4%)

This item shows the OeNB's net liabilities arising from transactions with the NCBs participating in TARGET2 and with the ECB. It also comprises the nonremunerated intra-Eurosystem balances between the ECB and the OeNB resulting from EUR/USD and EUR/CHF swap transactions. Moreover, this item covers net claims arising at year-end from the difference between monetary income to be pooled and distributed, and the balances arising from any redistribution of ECB seigniorage income.

The individual bilateral end-of-day balances of the OeNB with the other NCBs are netted by novating them to the respective bilateral account with the ECB. The ECB remunerates the net balance at the prevailing marginal interest rate for the Eurosystem's main refinancing operations.

11 Items in Course of Settlement

This claim results from 2008 net float items settled the next year.

12 Other Liabilities

Table 27 shows the development of *other liabilities*.

12.1 Off Balance Sheet Instruments' Revaluation Differences

Off-balance sheet instruments' revaluation differences subsumes the revaluation losses arising on off balance sheet positions, which are posted to the profit and loss

Table 27

		December 31, 2008	December 31, 2007	Change	
		EUR million	*EUR million*	*EUR million*	*%*
12.1	Off balance sheet instruments' revaluation differences	0.096	0.127	−0.031	−24,3
12.2	Accruals and income collected in advance	87.203	96.759	−9.556	−9.9
12.3	Sundry	199.649	376.067	−176.418	−46.9
Total		**286.948**	**472.953**	**−186.005**	**−39.3**

Table 28

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Central government's share of profit (without dividends)	28.378	149.848	−121.470	−81.1
Liability from schilling banknotes in circulation with an exchange deadline	137.684	150.337	−12.653	−8.4
Earmarked funds of the OeNB Anniversary Fund				
OeNB Anniversary Fund (initial funding)	27.643	25.607	+2.036	+8.0
OeNB Anniversary Fund National Foundation endowment	1.115	46.734	−45.619	−97.6
Other	4.829	3.541	+1.288	+36.4
Total	**199.649**	**376.067**	**−176.418**	**−46.9**

account, and book value reconciliation.

12.3 Sundry

Table 28 shows the development of *sundry* liabilities.

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

The reduction of the subitem *schilling banknotes in circulation with an exchange deadline* is attributable to exchanges of banknotes and to the end of the exchange period for the 50 schilling banknote with the portrait of Ferdinand Raimund. This marked the third schilling banknote for which the exchange period has ended since the introduction of the euro.

According to the General Meeting's decision, EUR 12.580 million of the profit for the year 2007 were apportioned to the *OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching*. Adjusted for the return on investment for 2008 and repayments made, a total of EUR 40.512 million were available for disbursement under the OeNB's Anniversary Fund (initial funding). Of these funds, EUR 12.869 million were paid out in 2008; EUR 19.915 million of the remaining undisbursed funds of EUR 27.643 million have been pledged. In 2008, the General Council voted to allocate an additional EUR 10.735 million to fund 168 projects and EUR 3.579 million to fund three institutes. This means that since funds were first pledged as financial assistance in 1966, a total of EUR 707.285 million have been paid out.

In addition to EUR 1.115 million for the OeNB Anniversary Fund National Foundation endowment, disbursable pro-rata income of EUR 19.765 million is also at the National Foundation's disposal. The sum total of EUR 20.880

million is paid out to the National Foundation the day after the General Meeting.

13 Provisions

Under its initial retirement plan, the OeNB assumed full liability to provide retirement benefits to all employees recruited up to April 30, 1998. To cover this liability, the OeNB is obligated by law to hold a *pension reserve*. Following a change in the retirement plan, staff recruited after May 1, 1998, stands to receive a state pension supplemented by an occupational pension from an externally managed pension fund. For this supplementary pension, the OeNB took out a contract effective May 1, 1999, which also applies retroactively to employees taken on in the 12 months from May 1, 1998. With the OeNB's direct liability to pay retirement benefits now limited to staff recruited before May 1, 1998, the *pension reserve* set up to secure this liability has become a closed system. The OeNB taps this pension reserve to pay out retirement benefits; these augmented by EUR 2.439 million or 2.4% to EUR 103.315 million in 2008. This includes the remuneration of 14 retired board members or their dependents (totaling EUR 4.229 million; 2007: 14 persons at EUR 4.200 million).

In addition to transfers under the Nationalbank Act, the income on investment relating to the *pension reserve* was transferred to the *pension reserve* on December 31, 2008. The *pension reserve* is shown at its actuarial present value, based on a discount rate of 3.25% per annum (December 31, 2007: 3.85% per annum).[9] The financial statements for 2008 reflect the revised mortality

Table 29

	December 31, 2007	Transfer from	Transfer to	December 31, 2008
	EUR million	*EUR million*	*EUR million*	*EUR million*
Pension reserve	1,891.182	−106.640	+31.056	1,815.598
Personnel provisions				
Severance payments	56.125	−2.768	+5.099	58.456
Anniversary bonuses	10.973	−1.275	+1.399	11.097
Residual leave entitlements	9.857	−0.287	+0.881	10.451
Supplementary contributions to pension plans	2.321	–	+1.025	3.346
Other	0.890	–	+0.093	0.983
Statutory or contractual social charges	0.090	−0.090	+0.092	0.092
Salary cost revisions in 2007 and 2008	0.402	−0.402	+0.421	0.421
Provisions				
Financial risk	686.156	−12.124	–	674.032
In respect of monetary policy operations of the Eurosystem	–	–	+165.909	165.909
Schilling banknotes without an exchange deadline	192.850	−6.774	–	186.076
Corporate income tax	11.469	−11.469	–	–
Accounts payable	2.016	−2.016	+1.136	1.136
Accounts payable to subsidiaries	0.883	−0.883	+6.341	6.341
Other	0.628	−0.567	+5.424	5.485
Total	**2,865.842**	**−145.295**	**+218.876**	**2,939.423**

[9] *The discount rate is evaluated annually. It is calculated on the basis of the actual investment yield, taking into account general increases in salaries and expected yields. Marginal deviations in the future need not automatically entail an adjustment of the actuarial rate.*

tables published mid-June 2008[10] as well as the lower discount rate. Together, those changes raised the pension scheme liability by EUR 195.763 million to EUR 2,136.580 million on December 31, 2008. On that date, the amount of pension reserve assets amounted to EUR 1,843.323 million.

Provisions for severance payments and anniversary bonuses are calculated according to actuarial principles; the discount rate of 3.50% per annum is the same as that applied in 2007.

Reflecting the accounting principle of prudence, the Governing Council of the ECB considered it appropriate to establish provisions of EUR 5.736 billion to cover the Eurosystem counterparties' default risk on monetary policy lending operations undertaken in 2008. Pursuant to Article 32.4 of the Statute of the ESCB and of the ECB, these provisions are made by Eurosystem NCBs in proportion to their paid-up shares in the capital of the ECB. In accordance with its 2.89241% paid-up share in the ECB's capital, the OeNB's share of this risk provision came to EUR 165.909 million and is shown under *Provisions in respect of monetary policy operations of the Eurosystem*.

The provision for *schilling banknotes without an exchange deadline* was drawn down for exchanges of schilling banknotes.

No provisions for pending lawsuits were made, as none are expected to have a material impact.

14 Revaluation Accounts

The amounts on the *revaluation accounts* reflect the valuation gains established in the course of the valuation of assets as on December 31, 2008. Those gains are realizable only in the context of future transactions in the respective category or may be used to reverse revaluation losses that may arise in future years. The revaluation gains in each currency cover the risk associated with nondomestic assets (as established with the VaR method).

Table 30 shows the development of *revaluation accounts*.

In line with requirements, the *initial valuation* gains recorded in the opening balance sheet of January 1, 1999, were partly realized during 2008 in the course of sales of underlying assets.

Table 30

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	%
Revaluation accounts				
Gold	3,377.356	2,897.491	+479.865	+16.6
Foreign currency	157.740	36.570	+121.170	+331.3
Securities	394.826	69.602	+325.224	+467.3
Participating interests	276.575	242.411	+34.164	+14.1
Off balance sheet instruments	2.501	4.559	−2.058	−45.1
Total	4,208.998	3,250.633	+958.365	+29.5
Unrealized valuation gains from January 1, 1999 (initial valuation)				
Participating interests	265.170	278.807	−13.637	−4.9
Total	**4,474.168**	**3,529.440**	**+944.728**	**+26.8**

[10] *AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler (actuarial basis for pension insurance published by the Austrian actuaries association AVÖ).*

15 Capital and Reserves

According to Article 8 paragraph 1 Nationalbank Act, the *capital* of the OeNB (liability item 15.1) is EUR 12.000 million and is divided equally into 150,000 registered shares.

Table 31 shows the development of *reserves*.

The *reserve for nondomestic and price risks* serves to cover the risks associated with foreign currency and security prices. The section *Risk Management* contains more information on the OeNB's risk management principles.

Since 2003, the capital of the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching (EUR 1.532 billion) has consisted of its initial funding (EUR 31.5 million) and of an endowment to support the National Foundation (EUR 1.5 billion).

The initial funding of EUR 31.5 million consists of EUR 7.3 million apportioned from the *net income* for the year 1965 in April 1966 and EUR 24.2 million allocated from the *profit for the year* 2002 in May 2003.

The endowment of EUR 1.5 billion for the National Foundation was established in 2003 by earmarking funds reappropriated from the *freely disposable reserve fund* (EUR 545 million) and from the *general reserve fund* (EUR 955 million).

Earmarked ERP capital funded with net interest income from loans represents the cumulative interest income accruing to the OeNB from lending out of the ERP loan portfolio managed by the OeNB. Appropriation of this ERP capital is subject to international law; this item is earmarked exclusively for ERP loans.

Notes on Transactions Not Disclosed in the Balance Sheet

The following financial assets and liabilities of the OeNB were recorded off the balance sheet on December 31, 2008:

- obligation under the IMF's Articles of Agreement to provide currency on demand in exchange for SDRs up to the point at which the OeNB's SDR holdings are three times as high as the amount it has received gratuitously from the IMF, which was equivalent to EUR 374.270 million on December 31, 2008;
- contingent liabilities to the IMF under the *New Arrangements to Borrow*, equivalent to EUR 450.758 million;
- obligation to make a supplementary contribution of EUR 35.481 million to the OeNB's stake in the capital of the Bank for International Settlements (BIS) in Basel consisting of 8,564 shares of SDR 5,000 each;
- forward purchases (EUR 32,096.901 million) and sales (EUR 31,296.425 million) consisting of swaps and euro- as well as foreign currency-

Table 31

	December 31, 2008	December 31, 2007	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Profit-smoothing reserve	2.226	2.226	–	–
Reserve for nondomestic and price risks	1,973.263	1,973.263	–	–
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching	1,531.500	1,531.500	–	–
Earmarked ERP capital funded with net interest income from loans	622.947	614.258	+8.689	+1.4
Total	**4,129.936**	**4,121.247**	**+8.689**	**+0.2**

denominated forward transactions; the forward sales include the *forward liabilities* to the ECB outstanding that arose in connection with the U.S. dollar funding established by Federal Reserve under the Federal Reserve's Term Auction Facility and from a swap line with the ECB and the Swiss National Bank; *forward claims* on Austrian banks resulting from the U.S. dollar funding established by the Federal Reserve with the ECB and from the swap line with the ECB and the Swiss National Bank;

- contingent liabilities arising from the coverage of gold investments (EUR 639.830 million);
- liabilities of EUR 14.117 million from foreign currency investments effected in the OeNB's name for third account;
- repayment obligations to the amount of EUR 7.562 million arising from the interest share on pension contributions paid by OeNB staff members; these are payable on termination of employment contracts;
- contingent liability of EUR 1,007.950 million, equivalent to the OeNB's share of the maximum of EUR 50 billion reserve assets that the ECB may require the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (based on the OeNB's share of 2.0159% in the ECB's subscribed capital as on December 31, 2008);
- contingent liability of EUR 100.795 million, equivalent to the OeNB's share of the ECB's capital of EUR 5 billion, should the ECB increase its capital by such amount under Article 28.1 of the Statute of the ESCB and of the ECB (based on the OeNB's share in the ECB's subscribed capital of 2.0159% on December 31, 2008);
- contingent liabilities of EUR 150.740 million arising from bank guarantees and the like given, and contingent assets of EUR 5.858 million arising from bank guarantees received;
- contingent assets from a guarantee of the Republic of Austria and from a formal obligation totaling EUR 6.3 billion.

At the current juncture, no substantiated figures about the possible material impact on the OeNB of the lawsuit pending against the Republic of Austria in a bankruptcy case can be provided.

Table 32 shows *holdings of derivatives* on December 31, 2008.

Table 32

	Underlying value	Market value gains	Market value losses
	EUR million	*EUR million*	*EUR million*
Gold interest rate swaps			
Sales	159.115	2.405	–

The market values represent the valuation of December 31, 2008, with gains of EUR 2.501 million (entered in the *revaluation accounts*, liability item 14) less a depreciation of EUR 0.096 million effected in previous years.

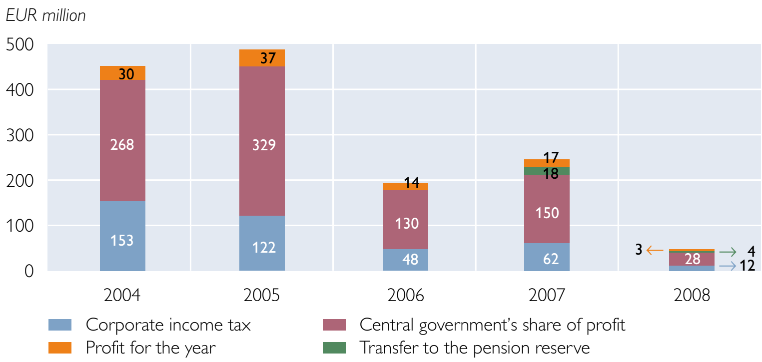
Notes to the Profit and Loss Account

Table 33

	2008 EUR million	2007 EUR million	Change[1] EUR million	%
1 Net interest income	815.811	738.315	+77.496	+10.5
2 Net result of financial operations, writedowns and risk provisions	–636.679	–290.246	+346.433	+119.4
3 Net income from fees and commissions	1.822	3.386	–1.564	–46.2
4 Income from equity shares and participating interests	90.726	22.587	+68.139	+301.7
5 Net result of pooling of monetary income	2.188	7.317	–5.129	–70.1
6 Other income	20.675	9.192	+11.483	+124.9
Total net income	**294.543**	**490.551**	**–196.008**	**–40.0**
7 Staff costs	–115.989	–107.521	+8.468	+7.9
8 Administrative expenses	–82.294	–78.343	+3.951	+5.0
9 Depreciation of tangible and intangible fixed assets	–12.724	–13.325	–0.601	–4.5
10 Banknote production services	–15.634	–24.841	–9.207	–37.1
11 Other expenses	–21.190	–19.858	+1.332	+6.7
Total expenses	**–247.831**	**–243.888**	**+3.943**	**+1.6**
Operating profit	**46.712**	**246.663**	**–199.951**	**–81.1**
12 Corporate income tax	–11.678	–61.666	–49.988	–81.1
	35.034	184.997	–149.963	–81.1
13 Transfers to the pension reserve and central government's share of profit	–31.881	–168.347	–136.466	–81.1
14 Profit for the year	**3.153**	**16.650**	**–13.497**	**–81.1**

[1] *Absolute increase (+) or decrease (–) in the respective item.*

Operating Profit over the Past Five Years



Source: OeNB.

1 Net Interest Income

Net interest income represents the balance of interest income and interest expense.

Net interest income from assets and liabilities denominated in foreign currency totaled EUR 357.413 million (+EUR 24.444 million), that from euro-denominated assets and liabilities came to EUR 393.532 million (+EUR 89.228 million). Monetary policy refinancing operations yielded EUR 482.032 million (+EUR 30.570 million), and the ECB remunerated the transfer of foreign reserves with EUR 40.505 million (+EUR 1.162 million). Income on intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem came to EUR 729.273 million (–EUR 23.671 million). Conversely, EUR 265.856 million (+EUR 39.387 million) were required to remunerate minimum reserves. Interest expenses of EUR 880.737 million (–EUR 65.857 million) resulted from TARGET2 liabilities.

2 Net Result of Financial Operations, Writedowns and Risk Provisions

Realized gains/losses arising from financial operations from day-to-day business result from receivable or payable differences between the acquisition cost and the market value of gold, foreign currency, securities or other transactions.

Net realized gains contracted by EUR 55.119 million to EUR 153.924 million. No gold sales were effected in 2008, whereas in 2007 a total of 8.75 tons of gold had been sold, resulting in realized gains of EUR 117.180 million. Net losses on foreign currency transactions came to EUR 0.154 million (–EUR 224.824 million); net gains on securities transactions to EUR 154.078 million (+EUR 169.705 million).

Writedowns on financial assets and positions largely reflect the decline in market prices of balance sheet items as on December 31, 2008, below the average cost of the respective currencies or securities.

Foreign currency writedowns amounted to EUR 556.313 million (+EUR 263.731 million), securities writedowns to EUR 68.381 million (+EUR 2.671 million).

Transfers to/from provisions for foreign exchange rate and price risks resulted in particular from transfers to *provisions in respect of monetary policy operations of the Eurosystem*.

4 Income from Equity Shares and Participating Interests

Dividend payments of EUR 20.000 million made by Münze Österreich and of EUR 2.353 million made by the BIS for 2007 were disclosed under *income from equity shares and participating interests*.

Oesterreichische Banknoten- und Sicherheitsdruck GmbH paid dividends of EUR 3.500 million in 2008. The sale of the 85% stake of AUSTRIA CARD – Plastikkarten und Ausweissysteme Gesellschaft m.b.H. raised the OeNB's income by EUR 30.000 million. Moreover, in accordance with its 2.8924% share (2008) in the ECB's capital, the OeNB received EUR 34.873 million from the ECB's distributable income on euro banknotes in circulation (seigniorage income).

5 Net Result of Pooling of Monetary Income

The amount of the OeNB's monetary income is determined by measuring the actual annual income that it derives from the earmarkable assets held against its liability base. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB, net intra-Eurosystem claims resulting from TARGET2 transactions and net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; and a limited amount of the OeNB's gold holdings in proportion to its capital key share (gold is considered to generate no income). Where the value of the OeNB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key. The difference between the monetary income pooled by the OeNB in 2008 (EUR 796.103 million) and reallocated to the OeNB (EUR 793.915 million) was the net result arising from the calculation of monetary income.

7 Staff Costs

Salaries, severance payments, and the employer's social security contributions and other statutory or contractual social charges fall under the heading *staff costs*. These costs are reduced by recoveries of salaries.

Salaries rose by EUR 5.188 million (5.9%) net to EUR 93.343 million against the previous year. The OeNB's outlays were reduced by recoveries of salaries totaling EUR 6.884 million for staff members on secondment to subsidiaries and foreign institutions.

The four members of the Governing Board received emoluments totaling EUR 1.060 million (2007: EUR 1.045 million). Table 34 shows a breakdown of these items.

Table 34

	Emoluments *EUR million*
Governor Ewald Nowotny (from September 1, 2008)	0.095
Governor Klaus Liebscher (until August 31, 2008)	0.188
Vice Governor Wolfgang Duchatczek	0.267
Executive Director Peter Zöllner	0.260
Executive Director Andreas Ittner (from September 1, 2008)	0.083
Executive Director Josef Christl (until August 31, 2008)	0.166

With regard to the remuneration of Governing Board members, the Federal Constitutional Act on the Limitation of Remunerations for Public Officials stipulates that the emoluments of the central bank governor must not exceed those of the Austrian Federal Chancellor. The emoluments of the other members of the Governing Board, in turn, must not exceed the emoluments of the Governor of the OeNB. Remuneration in kind (tax value of the private use of company cars, subsidies to health and accident insurance) and other benefits totaled EUR 0.037 million in 2008. Costs of EUR 0.341 million were incurred on account of the retirement of the outgoing governor and another governing board member in 2008, especially in the form of severance payments.

The emoluments of the OeNB's President and Vice President totaled EUR 0.113 million in 2008 (2007: EUR 0.111 million).

Table 35 shows the development of staff in full-time equivalents (FTEs).

Statutory or contractual social charges totaling EUR 14.177 million (+EUR 0.872 million) contain municipal tax payments of EUR 2.792 million, social security contributions of EUR 7.259 million and contributions of EUR 4.146 million to the Family Burden Equalization Fund.

8 Administrative Expenses

Administrative expenses include rent, operating expenses, maintenance and repair costs of EUR 27.756 million (+EUR 1.672 million) as well as banknote processing expenses of EUR 10.227 million (+EUR 0.628 million).

10 Banknote Production Services

Expenses for *banknote production services* result above all from the purchase of euro banknotes from Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS).

Table 35

	December 31[1]			Annual average[1]		
	2008	2007	Change	2008	2007	Change
Staff employed at the OeNB[2]	968.2	917.5	+50.7	939.8	920.3	+19.5
Total	1,136.9	1,082.1	+54.8	1,107.9	1,087.1	+20.8

[1] *Including part-time employees on a pro rata basis.*
[2] *Excluding employees on secondment or leave (such as maternity and parental leave).*

12 Corporate Income Tax

A corporate income tax rate of 25% is to be applied to taxable income under Article 72 Nationalbank Act, which qualifies as income under Article 22 paragraph 1 of the Corporate Income Tax Act.

13 Transfers to the Pension Reserve and Central Government's Share of Profit

Transfers to the pension reserve under Article 69 paragraph 2 Nationalbank Act came to EUR 3.503 million. Under Article 69 paragraph 3 Nationalbank Act, the *central government's share of profit* is 90% of the net income for the year after tax, as in previous years, and amounted to EUR 28.378 million.

Post-Balance Sheet Events

Eurosystem Entry

Pursuant to Article 29.3 of the Statute of the ESCB and of the ECB, the NCBs' weightings in the key for subscription to the ECB's capital are to be adjusted every five years. Such an adjustment was due on January 1, 2009, following the first such adjustment after the establishment of the ECB on January 1, 2004. Moreover, the capital key has since been adjusted twice upon accession of new EU Member States, on May 1, 2004, and on January 1, 2007.

In addition to the scheduled adjustment of the capital key, January 1, 2009, marked the accession of Národná banka Slovenska to the Eurosystem after Slovakia had fulfilled the conditions for euro introduction. As a result of its membership in the Eurosystem pursuant to Article 49.1 of the Statute of the ESCB and of the ECB, the Slovenian NCB was required to fully pay up its share in the ECB's subscribed capital (until then, it had paid up 7% of its shares); and pursuant to Article 30.1 of the Statute of the ESCB and of the ECB, it was obligated to transfer foreign reserve assets to the ECB in an amount corresponding to its subscribed capital share.

Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital key shares of NCBs were adjusted on January 1, 2009 (table 36).

Table 36

Key for Subscription to the ECB's Capital	From January 1, 2008 to December 31, 2008 %	From January 1, 2009 %
Deutsche Bundesbank	20.5211	18.9373
Banque de France	14.3875	14.2212
Banca d'Italia	12.5297	12.4966
Banco de España	7.5498	8.3040
De Nederlandsche Bank	3.8937	3.9882
Nationale Bank van België/Banque Nationale de Belgique	2.4708	2.4256
Oesterreichische Nationalbank	2.0159	1.9417
Bank of Greece	1.8168	1.9649
Banco de Portugal	1.7137	1.7504
Suomen Pankki – Finlands Bank	1.2448	1.2539
Central Bank and Financial Services Authority of Ireland	0.8885	1.1107
Národná banka Slovenska[1]	–	0.6934
Banka Slovenije	0.3194	0.3288
Banque centrale du Luxembourg	0.1575	0.1747
Central Bank of Cyprus	0.1249	0.1369
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0622	0.0632
Total euro area NCBs	**69.6963**	**69.7915**
Bank of England	13.9337	14.5172
Narodowy Bank Polski	4.8748	4.8954
Banca Naţională a României	2.5188	2.4645
Sveriges Riksbank	2.3313	2.2582
Danmarks Nationalbank	1.5138	1.4835
Česká národní banka	1.3880	1.4472
Magyar Nemzeti Bank	1.3141	1.3856
Bulgarian National Bank	0.8833	0.8686
Národná banka Slovenska[1]	0.6765	–
Lietuvos bankas	0.4178	0.4256
Latvijas Banka	0.2813	0.2837
Eesti Pank	0.1703	0.1790
Total non-euro area NCBs	**30.3037**	**30.2085**
Total	**100.0000**	**100.0000**

[1] *Euro area member from January 1, 2009.*

Governing Board (Direktorium)

Governor Ewald Nowotny (from September 1, 2008)
Governor Klaus Liebscher (until August 31, 2008)
Vice Governor Wolfgang Duchatczek
Executive Director Peter Zöllner
Executive Director Andreas Ittner (from September 1, 2008)
Executive Director Josef Christl (until August 31, 2008)

General Council (Generalrat)

President Claus J. Raidl (from September 1, 2008)
President Herbert Schimetschek (until August 31, 2008)
Vice President Max Kothbauer (from September 1, 2008)
Vice President Manfred Frey (until August 31, 2008)
August Astl
Markus Beyrer (from September 1, 2008)
Bernhard Felderer
Philip Göth
Elisabeth Gürtler-Mauthner
Erich Hampel (from May 27, 2008)
Alfred Hannes Heinzel
Anna Maria Hochhauser (from May 27, 2008)
Manfred Hofmann (until May 27, 2008)
Max Kothbauer (until August 31, 2008)
Johann Marihart
Werner Muhm
Ewald Nowotny (until August 31, 2008)
Gerhard Randa (until May 27, 2008)
Walter Rothensteiner
Dwora Stein (from September 1, 2008)

In accordance with Article 22 paragraph 5 Nationalbank Act, the following representatives of the Staff Council participated in discussions on personnel, social and welfare matters: Martina Gerharter, Gerhard Kaltenbeck (until May 21, 2008) and Robert Kocmich (from May 21, 2008).

Vienna, March 16, 2009

Ewald Nowotny | Wolfgang Duchatczek

Peter Zöllner | Andreas Ittner

Audit Opinion

Bestätigungsvermerk der Abschlussprüfer

„Wir haben den um den Anhang erweiterten Jahresabschluss der Oesterreichischen Nationalbank, Wien, für das Geschäftsjahr vom 01. Jänner 2008 bis 31. Dezember 2008 mit einer Bilanzsumme von € 83.809.927.938,86 unter Einbeziehung der Buchführung und des Geschäftsberichts – soweit er sich auf den Jahresabschluss bezieht – geprüft.

Die Buchführung, die Aufstellung und der Inhalt dieses um den Anhang erweiterten Jahresabschlusses sowie des Geschäftsberichts liegen in der Verantwortung der gesetzlichen Vertreter der Gesellschaft.

Dieser um den Anhang erweiterte Jahresabschluss sowie dieser Geschäftsbericht wurden in Übereinstimmung mit den Vorschriften des Nationalbankgesetzes 1984 in der geltenden Fassung und den ergänzenden Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs. 4 des „Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der „Guideline of the European Central Bank of 10 November 2006 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2006/16)" in der Fassung vom 11. Dezember 2008 (ECB/2008/21) erlassenen Vorschriften erstellt.

Der gemäß § 68 Abs. 1 NBG zu erstellende Geschäftsbericht ersetzt den Lagebericht gemäß § 243 UGB.

Unsere Verantwortung besteht in der Abgabe eines Prüfungsurteils zu diesem um den Anhang erweiterten Jahresabschluss auf der Grundlage unserer Prüfung und einer Aussage, ob der Geschäftsbericht – soweit er sich auf den Jahresabschluss bezieht – in Einklang mit dem Jahresabschluss steht.

Wir haben unsere Prüfung unter Beachtung der in Österreich geltenden gesetzlichen Vorschriften und Grundsätze ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern, die Prüfung so zu planen und durchzuführen, dass ein hinreichend sicheres Urteil darüber abgegeben werden kann, ob der um den Anhang erweiterte Jahresabschluss frei von wesentlichen Fehldarstellungen ist, und eine Aussage getroffen werden kann, ob der Geschäftsbericht – soweit er sich auf den Jahresabschluss bezieht – mit dem Jahresabschluss in Einklang steht.

(Fortsetzung des Bestätigungsvermerkes auf der nachfolgenden Seite)

(Fortsetzung des Bestätigungsvermerkes)

Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld der Oesterreichischen Nationalbank sowie die Erwartungen über mögliche Fehler berücksichtigt.

Im Rahmen der Prüfung werden die Nachweise für Beträge und sonstige Angaben in der Buchführung und im Jahresabschluss überwiegend auf Basis von Stichproben beurteilt. Die Prüfung umfasst ferner die Beurteilung der angewandten Rechnungslegungsgrundsätze und der von den gesetzlichen Vertretern vorgenommenen, wesentlichen Schätzungen sowie eine Würdigung der Gesamtaussage des um den Anhang erweiterten Jahresabschlusses. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unser Prüfungsurteil darstellt.

Unsere Prüfung hat zu **keinen Einwendungen** geführt.
Auf Grund der bei der Prüfung gewonnenen Erkenntnisse entspricht der um den Anhang erweiterte Jahresabschluss nach unserer Beurteilung den gesetzlichen Vorschriften des Nationalbankgesetzes 1984 in der geltenden Fassung und den ergänzenden Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs. 4 des „Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der „Guideline of the European Central Bank of 10 November 2006 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2006/16)" in der Fassung vom 11. Dezember 2008 (ECB/2008/21) erlassenen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage des Unternehmens zum 31. Dezember 2008 sowie der Ertragslage des Unternehmens für das Geschäftsjahr vom 01. Jänner 2008 bis 31. Dezember 2008 in Übereinstimmung mit den österreichischen Grundsätzen ordnungsmäßiger Buchführung im Sinne des § 67 Abs. 2 NBG.
Der Geschäftsbericht steht – soweit er sich auf den Jahresabschluss bezieht – in Einklang mit dem Jahresabschluss."

Wien, am 16. März 2009

TPA Horwath Wirtschaftsprüfung GmbH	MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH
Mag. Thomas Schaffer, CPA Wirtschaftsprüfer	Dr. Peter Wundsam Wirtschaftsprüfer

Die Veröffentlichung oder Weitergabe des Jahresabschlusses mit unserem Bestätigungsvermerk darf nur in der von uns bestätigten Fassung erfolgen. Für abweichende Fassungen (zB Verkürzungen) gelten die Bestimmungen des § 281 UGB.

OeNB translation of the external auditors' report from German into English for information purposes. In case of discrepancies, the German text signed by TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH shall prevail.

Audit Opinion

We have audited the Financial Statements of the Oesterreichische Nationalbank in Vienna for the fiscal year from January 1, 2008, to December 31, 2008, (disclosing total assets of EUR 83,809,927,938.86 on the balance sheet date) including the Notes to the Financial Statements, the accounting records and the OeNB's Annual Report, insofar as it refers to the Financial Statements.

The company's management is responsible for the accounting records, the preparation and the content of the Financial Statements including the Notes to the Financial Statements and the Annual Report.

The Financial Statements (including the Notes) and the Annual Report were prepared in accordance with the legal requirements of the Nationalbank Act 1984, as amended, and the supplementary regulations established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2006/16), as amended by the ECB's Guideline of 11 December 2008 (ECB/2008/21).

The Annual Report to be prepared under Article 68 paragraph 1 Nationalbank Act replaces the management report to be drawn up pursuant to Article 243 Commercial Code.

Our responsibility is to express an opinion on these Financial Statements (including the Notes), based on our audit, and to state whether the Annual Report, insofar as it refers to the Financial Statements, is in accordance with the Financial Statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements (including the Notes) are free from material misstatement and whether we can state that the Annual Report, insofar as it refers to the Financial Statements, is in accordance with the Financial Statements.

In determining the audit procedures we considered our knowledge of the OeNB's business, its economic and legal environment as well as the expected occurrence of errors.

An audit involves procedures to obtain evidence about amounts and other disclosures in the accounting records and in the Financial Statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall Financial Statement presentation (including the Notes). We believe that our audit provides a reasonable basis for our opinion.
Our audit did not raise any objections.
In our opinion, which is based on the results of our audit, the Financial Statements (including the Notes) are in accordance with legal requirements of the Nationalbank Act 1984, as amended, and the supplementary regulations established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2006/16), as amended by the ECB's Guideline of 11 December 2008 (ECB/2008/21) and present fairly, in all material respects, the OeNB's financial position as of December 31, 2008, and the results of its operations for the fiscal year from January 1, 2008, to December 31, 2008, in accordance with Austrian Generally Accepted Accounting Principles under Article 67 paragraph 2 Nationalbank Act.
Insofar as the Annual Report refers to the Financial Statements, it is in accordance with the Financial Statements.

Vienna, March 16, 2009

TPA Horwath Wirtschaftsprüfung GmbH	MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH
Thomas Schaffer, CPA external auditor	Peter Wundsam external auditor

The Financial Statements including our audit opinion may be published or distributed only as audited by us. Summaries or excerpts etc. are subject to Article 281 Commercial Code.

Profit for the Year and Proposed Profit Appropriation

With the statutory allocations of the OeNB's profit – including the central government's share of EUR 28.378 million (2007: EUR 149.847 million) – having been made in conformity with Article 69 paragraphs 2 and 3 Nationalbank Act (item 13 of the profit and loss account), the balance sheet and the profit and loss account show a profit for the year 2008 of EUR 3,153,077.97.

On February 25, 2009, the Governing Board endorsed the following profit appropriation proposal to the General Council:

	EUR
to pay a 5% dividend on the OeNB's capital stock of EUR 12 million	600,000.00
to allocate to the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching for promotion by the OeNB	2,553,077.97
	3,153,077.97

Report of the General Council on the Annual Report and the Financial Statements for 2008

The General Council (Generalrat) fulfilled the duties incumbent on it under the Nationalbank Act 1984 by holding regular meetings, by convening subcommittees to examine specific issues and by making informed decisions.

The Governing Board (Direktorium) periodically reported to the General Council on the Oesterreichische Nationalbank's operations and results, on the conditions on the money, capital and foreign exchange markets, on important day-to-day management issues, on all developments of significance for an appraisal of monetary and economic developments, on the arrangements made for auditing the OeNB's finances, and on any other significant dispositions and events affecting the OeNB's operations.

The Financial Statements for the year 2008 were given an unqualified auditor's opinion after examination by the auditors elected at the General Meeting of May 27, 2008, TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH, on the basis of the books and records of the Oesterreichische Nationalbank as well as the information and evidence provided by the Governing Board.

In its meeting of April 30, 2009, the General Council approved the Annual Report of the Governing Board and the Financial Statements for the business year 2008. The General Council submits the Annual Report and moves that the General Meeting approve the Financial Statements of the Oesterreichische Nationalbank for the year 2008 and discharge the General Council and the Governing Board of its responsibilities regarding the preceding business year. Moreover, the General Council requests that the General Meeting approve the allocation of the profit for the year in accordance with the proposal made in the notes to the Financial Statements 2008 (page 132).


EURO CENT
EIN EURO CENT
50
1998

Notes

Abbreviations, Legend

AIG	American International Group
ASFINAG	highway authority Autobahn-Errichtungs- und Finanzierungsgesellschaft
ATS	Austrian schilling
ATX	Austrian Traded Index
aws	austria wirtschaftsservice
BIC	Bank Identifier Code
BIG	public facility management company Bundesimmobiliengesellschaft
BIS	Bank for International Settlements
CDS	credit default swaps
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESEE	Central, Eastern and Southeastern Europe
CESR	Committee of European Securities Regulators
CFI	Classification of Financial Instruments
CIS	Commonwealth of Independent States
CPIS	Coordinated Portfolio Investment Survey
CRMPG	Counterparty Risk Management Policy Group
CSD	Central Securities Depository
EACHA	European Automated Clearing House Association
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
Ecofin	Council of economic and finance ministers
EDP	excessive deficit procedure
EEA	European Economic Area
EIB	European Investment Bank
EMAS	Eco-Management and Audit Scheme
EMU	Economic and Monetary Union
EONIA	Euro OverNight Index Average
ERM II	exchange rate mechanism II
ERP	European Recovery Program
ESCB	European System of Central Banks
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
EWE	External Work Experience
Eurostat	Statistical Office of the European Communities
FAQs	frequently asked questions
FATS	Foreign Affiliate Trade Statistics
FDI	Foreign Direct Investment
Fed	Federal Reserve System
FIMGAB	Finanzmarktbeteiligung Aktiengesellschaft
FISIM	Financial Intermediation Services Indirectly Measured
FMA	Financial Market Authority
FOMC	Federal Open Market Committee
FSF	Financial Stability Forum
FYR Macedonia	Former Yugoslav Republic of Macedonia
G-7	Group of Seven
G-20	Group of Twenty
GDP	gross domestic product
GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.
HBOS	Halifax Bank of Scotland
HOAM.AT	Home Accounting Module Austria
HICP	Harmonised Index of Consumer Prices
IBAN	International Bank Account Number
IHS	Institute for Advanced Studies
IMF	International Monetary Fund
KfW	German development bank Kreditanstalt für Wiederaufbau
LIBOR	London Interbank Offered Rate
NCB	national central bank
OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH
OECD	Organisation for Economic Co-operation and Development
OeCAG	Oesterreichische Clearingbank AG
OeNB	Oesterreichische Nationalbank
ÖBB	federal railways (Österreichische Bundesbahnen)
ÖIAG	Austrian state holding company
ROA	return on assets
SBA	Stand-By Arrangement
SCT	SEPA Credit Transfer
SDD	SEPA Direct Debit
SDR	Special Drawing Right
SEPA	Single Euro Payments Area
SGP	Stability and Growth Pact
SKK	Slovak koruna
SMEs	small and medium-sized enterprises
SNB	Swiss National Bank
STEP.2	Straight Through Euro Payment2
STEP.AT	Straight Through Euro Payment clearing infrastructure of the OeNB
SSP	Single Shared Platform
SSP/T2	Single Shared Platform/TARGET2
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer
TARP	Troubled Asset Relief Program
T2S	TARGET2-Securities
USD	U.S. dollar
WIFO	Austrian Institute of Economic Research
wiiw	The Vienna Institute for International Economic Studies

x	=	No data can be indicated for technical reasons
. .	=	Data not available at the reporting date
0	=	The numerical value is zero or smaller than half of the unit indicated
–	=	The numerical value is zero (legend entry in the Financial Statements only)
n.a.	=	Not applicable (legend entry in the Financial Statements only)

Discrepancies may arise from rounding.

List of Boxes, Charts, Tables and Information on Graphic Design

Report of the Governing Board on the Financial Year 2008

Tables

Financial Statements 2008 of the Oesterreichische Nationalbank

Charts

Tables

Information on Graphic Design

The illustrations show graphically designed collages of euro coin motifs.

Periodical Publications of the Oesterreichische Nationalbank

For further details see *www.oenb.at*

Monetary Policy & the Economy — quarterly

This quarterly publication, issued both in German and English, offers analyses of current cyclical developments, medium-term macroeconomic forecasts and studies on central banking and economic policy topics. It also summarizes the findings of macroeconomic workshops and conferences organized by the OeNB.

Focus on European Economic Integration — quarterly

The Focus on European Economic Integration (FEEI) is a channel for communicating the OeNB's ongoing research on Central, Eastern and Southeastern European (CESEE) countries, thus reflecting a strategic regional research priority of the OeNB. Studies, which are subject to an external refereeing process, deal primarily with macrofinancial and monetary integration, and also include economic country analyses. As from 2009, the FEEI is published quarterly.

Statistiken – Daten & Analysen — quarterly

This publication contains brief reports and analyses focusing on Austrian financial institutions, cross-border transactions and positions as well as financial flows. The contributions are in German, with executive summaries of the analyses in English. The statistical part covers tables and explanatory notes on a wide range of macroeconomic, financial and monetary indicators. The tables and additional information and data are also available on the OeNB's website in both German and English. This series also includes special issues on selected statistics topics published at irregular intervals.

econ.newsletter — quarterly

The quarterly English-language newsletter is published only on the Internet and informs an international readership about selected findings, research topics and activities of the OeNB's Economic Analysis and Research Department. This publication addresses colleagues from other central banks or international institutions, economic policy researchers, decision makers and anyone with an interest in macroeconomics. Furthermore, the newsletter offers information on publications, studies or working papers as well as events (conferences, lectures and workshops).
For further details see *www.oenb.at/econ.newsletter*

Financial Stability Report — semiannual

Issued both in German and English, the Financial Stability Report contains first, a regular analysis of Austrian and international developments with an impact on financial stability and second, studies designed to provide in-depth insights into specific topics related to financial market stability.

Workshops – Proceedings of OeNB Workshops

three to four issues a year

The Proceedings of OeNB Workshops were introduced in 2004 and typically comprise papers presented at OeNB workshops at which national and international experts, including economists, researchers, politicians and journalists, discuss monetary and economic policy issues. Workshop proceedings are generally available in English only.

Working Papers

about ten papers a year

The OeNB's Working Paper series is designed to disseminate, and provide a platform for discussing, findings of OeNB economists or outside contributors on topics which are of special interest to the OeNB. To ensure the high quality of their content, the contributions are subjected to an international refereeing process.

Economics Conference (Conference Proceedings)

annual

The Economics Conference hosted by the OeNB is an international platform for exchanging views and information on monetary and economic policy as well as financial market issues. It convenes central bank representatives, economic policymakers, financial market players, academics and researchers. The conference proceedings comprise all papers presented at the conference.

Conference on European Economic Integration (Conference Proceedings)

annual

This series, published in English by a renowned international publishing house, reflects presentations made at the OeNB's annual conference on Central, Eastern and Southeastern European issues and the ongoing EU enlargement process (formerly East-West Conference).
For further details *see http://ceec.oenb.at*

Annual Report

annual

The Annual Report of the OeNB provides a broad review of Austrian monetary policy, economic conditions, new developments in the financial markets in general and in financial market supervision in particular as well as of the OeNB's changing responsibilities and its role as an international partner in cooperation and dialogue. It also contains the OeNB's financial statements.

Intellectual Capital Report

annual

The Intellectual Capital Report is a review of the OeNB's intellectual capital and its use in the OeNB's business processes and services. The report highlights the interaction between human, relational, structural and innovation capital within the OeNB and reveals the influence of underlying factors. The integrated view of this stock-taking exercise serves to assess the consistency of the OeNB's intellectual capital with its knowledge-based strategic orientation.

Addresses of the Oesterreichische Nationalbank

	Postal address	*Telephone*	*Telex*
Head Office			
Otto-Wagner-Platz 3 1090 Vienna, Austria Internet: *www.oenb.at* E-Mail: *oenb.info@oenb.at*	PO Box 61 1011 Vienna, Austria	(+43-1) 404 20-6666 Fax: (+43-1) 404 20-2398	(1) 114669 natbk (1) 114778 natbk
Branch Offices			
Western Austria Branch Office			
Innsbruck Adamgasse 2 6020 Innsbruck, Austria	Adamgasse 2 6020 Innsbruck, Austria	(+43-512) 594 73-0 Fax: (+43-512) 594 73-99	
Southern Austria Branch Office			
Graz Brockmanngasse 84 8018 Graz, Austria	PO Box 8 8018 Graz, Austria	(+43-316) 81 81 81-0 Fax: (+43-316) 81 81 81-99	
Klagenfurt 10.-Oktober-Straße 13 9020 Klagenfurt, Austria	10.-Oktober-Straße 13 9020 Klagenfurt, Austria	(+43-463) 576 88-0 Fax: (+43-463) 576 88-99	
Northern Austria Branch Office			
Linz Coulinstraße 28 4021 Linz, Austria	PO Box 346 4021 Linz, Austria	(+43-732) 65 26 11-0 Fax: (+43-732) 65 26 11-99	
Salzburg Franz-Josef-Straße 18 5027 Salzburg, Austria	Franz-Josef-Straße 18 5027 Salzburg, Austria	(+43-662) 87 12 01-0 Fax: (+43-662) 87 12 01-99	
Representative Offices			
Oesterreichische Nationalbank London Representative Office Gracechurch Street 48, 5th floor EC3V 0EJ London United Kingdom		(+44-20) 7623-6446 Fax: (+44-20) 7623-6447	
Oesterreichische Nationalbank New York Representative Office 450 Park Avenue, Suite 1202 10022 New York, U.S.A.		(+1-212) 888-2334 Fax: (+1-212) 888-2515	(212) 422509 natb ny
Permanent Representation of Austria to the EU Avenue de Cortenbergh 30 1040 Brussels, Belgium		(+32-2) 285 48-41, -42, -43 Fax: (+32-2) 285 48-48	

The Annual Report of the OeNB provides information about the monetary policy of the Eurosystem and reviews economic developments and developments in financial markets, including payment systems. Furthermore, it details the OeNB's national and international responsibilities and role as well as the broad range of services the OeNB offers. The OeNB's Financial Statements and the Notes to the Financial Statements are an integral part of the Annual Report. Since 2006, the OeNB's Annual Report, Intellectual Capital Report and Environmental Statement have been combined to form the OeNB's Sustainability Report.

Coordination
Manfred Fluch

Contributions
Gernot Ebner, Manfred Fluch, Matthias Fuchs, Johannes Haushofer, Gerhard Havelka, Georg Hubmer, Brigitta Lidauer, Markus Pammer, Anton Schautzer, Josef Schreiner, Maria Antoinette Silgoner, Manfred Zipko

Editorial processing
Alexander Dallinger

Translations
Dagmar Dichtl, Ingrid Haussteiner, Rena Mühldorf, Irene Popenberger, Ingeborg Schuch, Susanne Steinacher

Technical production
Peter Buchegger (design)
Erika Gruber (layout, typesetting)
OeNB Printing Office (production)

Paper
Printed on environmentally friendly paper

Illustrations
Lowe GGK

Detail of painting (p. 24)
Max Weiler (1910–2001) Hand with cowslip (spring), detail, 1948, oil on canvas, 61 x 61 cm, private property, www.maxweiler.at

Inquiries
Oesterreichische Nationalbank, Communications Division
Postal address: PO Box 61, 1011 Vienna, Austria
Phone: (+43-1) 404 20-6666
Fax: (+43-1) 404 20-6698
E-mail: oenb.info@oenb.at

Orders/address management
Oesterreichische Nationalbank, Documentation Management and Communications Services
Postal address: PO Box 61, 1011 Vienna, Austria
Phone: (+43-1) 404 20-2345, Fax: (+43-1) 404 20-2398
E-mail: oenb.publikationen@oenb.at

Imprint
Publisher and editor:
Oesterreichische Nationalbank
Otto-Wagner-Platz 3, 1090 Vienna, Austria
Günther Thonabauer, Communications Division
Internet: www.oenb.at
Printed by: Oesterreichische Nationalbank, 1090 Vienna, Austria

EMAS
Verified environmental management
REG.NO. AT- 000311

DVR 0031577

Vienna, 2009