Oesterreichische Nationalbank

Eurosystem

Speeches by President Herbert Schimetschek and Governor Klaus Liebscher

at the General Meeting
of the Oesterreichische Nationalbank
on May 13, 2004

Speeches by President Herbert Schimetschek and Governor Klaus Liebscher

at the General Meeting of the Oesterreichische Nationalbank on May 13, 2004

Speech by President Herbert Schimetschek

Difficult Environment for Eurosystem National Central Banks

The euro area economy recovered in 2003 after three years of very weak economic activity, and economic agents' optimism improved steadily. Governor Liebscher will provide you with a more detailed account; I will simply clarify the main economic determinants of business developments.

The *decline in interest rates to a historically low level and the strong appreciation of the euro against the U.S. dollar faced the Eurosystem national central banks (NCBs)* with difficult economic conditions (see chart 1). In an environment of highly volatile financial markets, central banks' annual profits are subject to large fluctuations.

The fact that the European Central Bank (ECB) had to make large-scale withdrawals from its general reserve fund to offset the loss it incurred demonstrates just how difficult 2003 was for central banks. A number of Eurosystem NCBs, among them the Deutsche Bundesbank and the Belgian and Finnish central banks, again suffered significant profit setbacks.

The OeNB posted a profit of EUR 713 million before taxes for the year 2003 (see chart 2). While this amount is only half as high as the profit of the year 2002, it is close to the long-term average after the record results of the past few years.

This *decline in profits is largely attributable to the diminished scope to achieve profits on foreign currency sales and to realize exchange rate gains* in addition to reduced interest income in the wake of lower interest rate levels. Moreover, no further sales were allowed under the Central Bank Gold Agreement, and the effects of the euro cash changeover had come to an end. In addition, income on capital investments, for example in the ECB, decreased, and the endowment for the National Foundation for Research, Technology and Development (National Foundation) reduced the OeNB's profits.

The reduction of the OeNB's gold and foreign currencies by more than half must also be taken into account for a long-term comparison of profits. This investment strategy was implemented at the right time and in line with market capacities; it also proved successful overall by comparison to the strategies of the OeNB's Eurosystem partners.

However, now the scope for gold and foreign currency sales and for the realization of price and exchange rate gains is limited. This circumstance is compounded by the risk emanating from high volatility on the financial markets. Hedging interest rate and foreign currency risk, for example, may require enormous reserves. In this context, let me recall that in the past two financial years alone revaluation reserves of over EUR 2 billion were needed to cover valuation losses. *Against this background, realistic profit expectations will have to be lower in the future.*

Financial Statements for 2003

I will restrict my presentation of the Financial Statements for 2003 to the main changes from the economic perspective in the balance sheet and in the profit and loss account. The 2003 Annual Report contains a more detailed analysis.

Total assets amounted to EUR 29.3 billion in 2003 (2002: EUR 33.7 billion).

Gold holdings posted under assets totaled 317 tons with a market value of approximately EUR 3.4 billion. *By 2002, the OeNB had already taken full* *advantage of the scope to sell gold under the Central Bank Gold Agreement (valid until 2004), so that no more gold sales could be made in 2003.* From September 2004, up to 2,500 tons of gold may be sold under a new agreement to which the OeNB is a party.

On the topic of gold policy, I would like to draw your attention to the fact that the OeNB *has halved its gold holdings since the beginning of the 1990s*, taking due account of monetary policy exigencies and profit considerations (see chart 3). *Moreover, the OeNB began to invest its gold reserves for profit earlier* than many other NCBs. 76% of the OeNB's gold holdings are invested in interest-bearing time deposits and swap transactions.

On the *liabilities side*, two important changes to reserves were made in 2003:

First, the *OeNB contributed extensively to funding the National Foundation for Research, Technology and Development* (see chart 4).

In implementing the legal powers inherent in the Act on the Establishment of the National Foundation for Research, Technology and Development, the extraordinary General Meeting of December 11, 2003, decided to *release EUR 955 million from the general reserve fund and EUR 545 million from the freely disposable reserve fund and to transfer these amounts retroactively as of January 1, 2003, to the reserves of the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching.*

Second, it was necessary to release reserves to cover the OeNB's risks (see chart 5).

In a first step, this release served to hedge *exchange rate risk*, as the decline in exchange rates against the euro entailed massive valuation losses of foreign currency holdings. After *EUR 0.4 billion* of *revaluation reserves* had been reversed, *EUR 0.7 billion* were released from the *reserve fund for exchange risks.* Furthermore, security price losses necessitated the release of EUR 14 million from the reserve for nondomestic and price risks.

Interest and exchange rate developments also severely affected the ECB's profits. To offset its loss, the ECB not only released its reserves in the year 2003, it also decided not to distribute the ECB's income from its share of euro banknotes (seigniorage) to the NCBs. The OeNB succeeded in fully offsetting the EUR 20 million of undistributed profit through releases from the reserve for nondomestic and price risks set up for this purpose.

Risk hedging against changes in the gold price, interest rates and exchange rates is to be undertaken on the basis of Value-at-Risk model (VaR) calculations. Let me point out that in 2003 the size of reserves was nearly unchanged from 2002 (see chart 6).

As the developments of recent years have patently shown, adverse economic conditions may very quickly compel NCBs to release large portions of their reserves. This is why the OeNB, too, must hold adequate reserves as a protection against such risks.

I would now like to present the *profit and loss account*. The following principal changes to income and expenses may be highlighted (see chart 7):

At EUR 0.9 billion, *total net income* is 47.3 % lower than it was in 2002.

Interest income is one of the main sources of central bank profit. *Net interest income* fell by *EUR 127 million* or 21.4% to *EUR 467 million*, mainly as a result of the decline in interest rates (see chart 8). Moreover, funding provided to promote the National Foundation reduced interest income by EUR 48 million.

Realized gains from financial operations (gold, foreign exchange and security transactions) represent a further important source of central bank profit. *Despite the prevailing difficult market conditions,* these transactions produced net income of *EUR 345 million*. The reduction in profit by nearly 60% compared with 2002 may be ascribed above all to the fact that no more gold sales were possible under the Central Bank Gold Agreement of 1999, as I already mentioned. Besides, there was only a limited margin for exchange rate gains in view of the high foreign currency sales during the preceding years and the weakness of foreign currencies against the euro. In this context, I should like to point out that net reserve assets have been deliberately reduced by more than half since the beginning of Stage Three of Economic and Monetary Union (see chart 9).

The greater *use of derivatives ensures the success of this investment strategy* for gold and foreign exchange holdings.

Income from equity shares and participating interests contracted by *almost 60%* compared with 2002, declining to *EUR 101 million. The lion's share of the income consisted of profit disbursed by Münze Österreich AG.* However, this profit still stems from the production of the launch stock of euro coins in 2002. The *profit disbursed by the ECB,* which is also contained in income from equity shares, *sank by more than half to EUR 18 million*.

The OeNB received *EUR 11 million net* of monetary income for 2003.

Expenses (see chart 10) *declined by EUR 36 million* or 14% *to EUR 219 million* from 2002. *Thus the OeNB succeeded in reducing expenses by nearly a quarter in the past two years.* Apart from lower expenses for euro banknote procurement in 2003, savings realized on administrative expenses contributed to the decrease in expenses. Despite the rise in salaries in line with collective agreements, staff cost was reduced marginally.

Staff was *cut by a capacity of 17 to a capacity of 947* (see chart 11) in 2003.

On the basis of the profit before taxes of EUR 713 million, the central government received corporate income taxes of EUR 242 million and a 90% profit share of EUR 424 million after taxes (see chart 12). *Consequently, the central government receives a total of 93.4%, i.e. EUR 666 million, of the 2003 operating profit*. The central government's share of 2003 profit, which is 53% lower than the 2002 share, is in line with the long-term average. In view of the difficult economic environment and above all compared with the sharply reduced profits or even losses of other Eurosystem central banks, this operating profit is certainly noteworthy. *All in all, the OeNB has transferred to the central government 0.6% of GDP annually, or a total EUR 6.4 billion, since the beginning of Stage Three of EMU in the form of corporate income tax and profit*. In addition, from its remaining profit, the OeNB provided EUR 297 million for research grants.

The profit for the year comes to EUR 47.2 million. The following proposal is made to the General Meeting for the appropriation of profit: to use *EUR 1.2 million* to pay the maximum dividend of 10% on the OeNB's capital stock of EUR 12 million, to allocate *EUR 12.6 million* as funds for promotion by the OeNB to the *OeNB Anniversary Fund for the Promotion of*

Scientific Research and Teaching, and to allocate an additional *EUR 4.3 million* to the Leopold Collection on the basis of the promotion contract concluded between the *Leopold Museum Private Foundation* and the OeNB in 1994. Moreover, the *National Foundation is to receive an endowment of EUR 26.9 million* as a contribution to the sum of EUR 75 million envisaged as an annual contribution of the OeNB to the profit of the National Foundation. The remainder of the profit for the year 2003, *EUR 2.2 million,* shall be transferred to a *reserve for retained earnings* which may be released in lean economic years.

Customer Orientation and Efficiency Are Prime Corporate Objectives of the OeNB

As the OeNB had substantially streamlined its corporate structures at an early point in time, it had a good starting position for cooperation within the European System of Central Banks (ESCB) from the very outset. On this basis, the Oesterreichische Nationalbank has achieved high esteem within the Eurosystem since the start of monetary union and has implemented the milestones up to and including the introduction of euro notes and coins in an exemplary fashion.

The OeNB made great strides in all business areas in the year under review. The *cofinancing model for the National Foundation jointly* developed with the Federal Ministry of Finance represented a *special success.* This model is a *major step toward guaranteeing the long-term funding of business-oriented basic research.* I would like to take this opportunity to thank the OeNB's shareholders for their support. This model of research promotion has also met with great international acclaim. It is quite remarkable that other euro area countries have begun to discuss similar research funding models.

Apart from *implementing its investment strategy with success under quite difficult framework conditions,* the OeNB also moved forward with important work on *Basel II* and *cooperation on prudential supervision of the financial system.* Moreover, the *OeNB's branches were reorganized in line with a regional structure model,* and *notable progress was achieved on payment systems projects* of considerable economic importance.

I am proud to note that the staff and management of the Oesterreichische Nationalbank have fulfilled their manifold tasks, which range from cooperation within the ESCB to the implementation of monetary policy to the production of state-of-the-art means of payment, with enormous expertise and enthusiasm. *The consistently high degree of trust the public has exhibited in the OeNB as an institution is proof that people recognize the OeNB's achievements, and it represents a sound basis for the OeNB to continue its successful activities within the Eurosystem* (see chart 13).

I should like to thank the OeNB's staff for its efforts and the staff council for its support.

The year 2003 was also marked by great changes for the OeNB's top management. Let me express my sincere gratitude for their excellent work to Gertrude Tumpel-Gugerell, Vice Governor of the OeNB until mid-2003 and now Member of the Executive Board of the European Central Bank, and Adolf Wala, who retired from his position as President of the OeNB in mid-2003. The new members of the OeNB's Governing

Board and of the General Council have quickly become familiar with their duties and their briefs in these management bodies. I would like to thank the members of the Governing Board, headed by Governor Klaus Liebscher, for their outstanding handling of their executive mandates in the OeNB and in the ESCB.

Also, let me show my deep appreciation to the members of the General Council for having supported principal adjustments and comprehensive projects, and for having provided for a positive and cooperative climate.

Governor Liebscher, the floor is yours for your statement.

Speech by Governor Klaus Liebscher

International Economy Rebounds from mid-2003; Euro Area Recovery at a Modest Pace

Leaving the trough behind, the global economy gained strong momentum in 2003 (see chart 14). Worldwide real GDP appears to have expanded by a marked 3.7% in 2003 and is expected to grow at an accelerated pace of 4½% in 2004. The global upturn is especially pronounced in the U.S.A., the oil exporting countries and Asia, including Japan and above all China, and in the new Member States of the EU. Expansionary global fiscal and monetary policy stances, favorable financing conditions and a pronounced rally on international equity markets have been bolstering this upswing.

In the euro area and in the EU, signs of an economic recovery have been mounting since mid-2003. Growth was mainly driven by stepped-up exports in the third quarter and by stronger investment in the last quarter of 2003. Economic sentiment indicators have been signaling a rise in confidence since mid-2003. The macroeconomic forecasts released so far suggest that the recovery of real economic activity in the euro area has continued into 2004, albeit at a modest pace. Latest data underpin the expectation of the gradual recovery in the euro area to continue and strengthen over time. *The conditions for such a recovery, i.e. a favorable external environment, cheap financing conditions, improvements in corporate earnings and growth in real disposable income, are in place.*

However, the conjunctural indicators available still provide mixed evidence. The U.S. twin deficit and the sudden and sharp exchange rate fluctuations (see chart 15) reflect international macroeconomic imbalances and could affect the sustainability of the global recovery over the medium term. The recent jump of raw materials and oil prices may dampen output and pose an upside risk to prices. Moreover, the largest European economies remain in weak shape.

Uncertainties surrounding fiscal policy and structural reforms in some euro area countries seem to have contributed to preventing a more vigorous improvement in consumer confidence. *A continued commitment to and greater clarity about the content and timing of these crucial reforms,* supported by a better understanding of their necessity and benefits for all citizens, would *help to resolve this uncertainty* and thereby mitigate the associated risks for the euro area economy.

Credible Eurosystem Monetary Policy Ensures Price Stability and Purchasing Power

The Eurosystem cut the key interest rates in two moves in 2003 (see chart 16). The minimum bid rate for main refinancing operations has since stood at a historically very low 2%. With risk premiums down and equity prices clearly advancing, *financing conditions in the euro area are highly favorable.*

In spring 2003, the Governing Council of the ECB *confirmed its monetary policy strategy, modifying some aspects in the light of experience gained so far* (see chart 17). It spelled out specifically that price stability was to be understood as a rise in the Harmonised Index of Consumer Prices (HICP) on average in the euro area of below, but close to 2% over the medium term. The two pillars of monetary policy analysis were refined further. Economic analysis, which is designed to examine price developments over the short term, now places a greater emphasis on various projection instruments. Monetary analysis is meant to flag risks to inflation predominantly over a longer horizon. The two pillars of the monetary policy strategy complement each other and provide for checks for mutual consistency.

The Eurosystem, on balance, met its monetary policy target of HICP *inflation of below, but close to 2% over the medium term* between 1999 and 2003 (see chart 18). Forecasters envisage euro area inflation to average below 2% in 2004 and 2005. Economic agents' moderate inflation expectations indicate that the price stability objective is credible also for the future. Monetary policy is thus making its optimal contribution to monetary and macroeconomic stability, confidence and sustainable growth.

Europe Needs Sound Public Finances

Confidence and appropriate incentives for growth must be generated especially in other economic policy domains as well. With regard to fiscal policies, there is *increased reason for concern*. In 2003, several euro area countries missed the targets specified in the Stability and Growth Pact (see chart 19). On the basis of the latest Commission forecasts, the average euro area budgetary position is not expected to improve much this year or next. A growing number of countries are likely to report significant imbalances, while fiscal consolidation efforts might fall short of commitments. *It is essential that all countries concerned undertake credible measures,* which should be part of a comprehensive reform strategy. This would underpin the ongoing economic upswing by boosting confidence in sound public finances and by improving the prospects for future economic growth.

Swift Implementation of the Lisbon Strategy in the Member States

Promoting long-term economic growth and employment ranks among the most pressing economic policy challenges in Europe. The EU's Lisbon strategy agreed upon in 2000 comprises an effective set of structural policy measures (see chart 20). Since 2000 a number of EU Member States have indeed made great strides in delivering the Lisbon strategy.

What comes to mind are the liberalization of electricity and gas markets, the Financial Services Action Plan, the upgrading of the powers of independent competition authorities as well as pension and labor market reforms implemented by a range of Member States.

Nevertheless, the overall speed of reform has to be stepped up. The credibility of the reform process in the eyes of experts and market players needs to be enhanced. It is essential for Governments to fully convince citizens of the favorable consequences of forward-looking reforms, namely higher growth and more jobs. As a result, positive confidence effects that should in principle be expected from structural reforms should more easily materialize.

The Brussels European Council of March 25 and 26, 2004, thus justly launched two *initiatives to speed up the reform process*. For one thing, the need was stressed for the agreed reforms to be implemented rapidly at the national level. Moreover, the European Council called upon the Member States to build Reform Partnerships involving the social partners, civil society and the public authorities to generate greater support and advocacy for change.

Austria's Economy Grows Faster than the Euro Area Average

A small and open economy, *Austria is dependent on international economic developments.* The economic weakness in the euro area, most strikingly in Germany and Italy, has hit the Austrian economy head on. Still, in 2003, buttressed by the federal government's economic stimulus and location development packages and the envisaged enlargement of the EU, Austria notably outperformed its main trading partners and the euro area as a whole in terms of real GDP growth.

The OeNB economic indicator of April 2004 forecasts quarterly growth rates of 0.4% both in the first and second quarter 2004, compared with 0.6% and 1.0% year on year (see chart 21). The euro's strength notwithstanding, the OeNB thus remains *cautiously optimistic about the outlook for the first half of this year.*

This positive assessment is attributable mainly to the improved prospects for both the global economy and Austria's Central and Eastern European neighbors, the low inflation rate and exceptionally favorable financing conditions, the rebound in loan growth, particularly strong replacement investment as well as the above-mentioned economic growth measures of the Austrian government. In terms of *price stability, Austria is* among the *leading* euro area countries (see chart 22). Austria's HICP inflation averaged 1.3% in 2003. Inflation is expected to mount slightly in 2004, with the energy tax hike driving up inflation temporarily by 0.2 percentage point. Inflation will remain well below 2%, though.

Austria clearly outperforms the euro area average also in terms of its deficit and unemployment ratios.

Austrian Budget Deficit Below Euro Area Average; Tax Cuts Are Welcomed but Should Be Accompanied by Spending Cuts

Having pursued *successful fiscal consolidation* in recent years, Austria has shown that improving the structural budget balance need not entail below-average growth (see chart 23).

The *tax relief* brought about by the two stages of the tax reform has proven *appropriate* in the light of Austria's high public spending-to-GDP ratio and strengthens Austria's position as a business location.

This notwithstanding, the deficit ratio rises at least temporarily for lack of supplementary spending cuts. *It is vital to keep the target of a balanced budget in focus.* A great *potential of budget spending cuts* is yet to be unlocked, for instance, by raising the effectiveness of the social security system and subsidy policy. Moreover, there is hope that the Austrian Convention succeeds in efficiently redefining the powers of and financial relationships between the central, state and local governments.

Austrian Financial Market Scores Very Well in IMF's Financial Sector Assessment Program

The International Monetary Fund (IMF) conducted a comprehensive assessment of the Austrian financial market under its Financial Sector Assessment Program (FSAP) in 2003 (see chart 24). The final report including the main results is scheduled to be published in summer 2004.

According to the preliminary results, *compliance with international supervisory standards in the banking, insurance and securities sectors* as well as with the standards relating to money laundering is generally very high. The integrated approach in supervision is in line with the international trend, and the *Financial Market Authority (FMA) and the OeNB have been cooperating smoothly.*

The *banking sector is stable and resilient to shocks,* as has been confirmed by the stress tests conducted by the OeNB in cooperation with the IMF. The financial sector has been faring well despite the difficult economic environment. The early expansion of Austrian credit institutions into Central and Eastern Europe has significantly contributed to offsetting weak profitability in the home market. The report expressly commended the Austrian government's measures to strengthen the third pillar of retirement provision and to promote the capital market.

The IMF, however, also *called for further measures* to improve banks' profitability at home and suggested implementing structural changes to the deposit insurance system and improving corporate governance. Furthermore, the IMF recommended that banks' and borrowers' risks associated with foreign currency loans be regularly monitored in the future as well.

Austria Must Continue Its Successful Economic Reform Program

The IMF, the OECD and the European Commission confirm the numerous reforms implemented in Austria (see chart 25). The reduction of the role of the state, the re-establishment of sound public finances, liberalization and the promotion of entrepreneurship as well as of research and development are set to stimulate growth in the long run. In particular the overhauling of the statutory pension scheme and the tax reform were lauded.

However, further measures are needed, e.g. to boost the employment ratio. Moreover, competition in the service industries should be intensified and the role of the newly established competition authority should be strengthened. Furthermore, the efficiency of the education and training system should be raised and the principle of lifelong learning should be applied on a large scale.

From a strategic perspective, *continuing the path of reform is crucial* to Austria's prosperity and competitiveness in the global arena.

EU Enlargement Marks a Milestone for European Integration and a Great Opportunity for Austria

The May 1 enlargement of the EU has given *a powerful momentum to the European integration process* (see chart 26). This enlargement was the most significant ever in terms of the number of countries and their total population (some 74 million).

The new Member States' nominal GDP amounts to around 5% of the GDP of the EU-15, but their per capita income in terms of purchasing power parity equals still only some 50% of the EU average. While most of the new Member States have already succeeded in substantially reducing inflation, transition in general is still under way. The current account deficits, some of which are very high, reflect the economic catching-up process. These countries will also still have to make great efforts to consolidate their budgets.

On May 1, 2004, the national central banks (NCBs) of the new Member States also joined the European System of Central Banks (ESCB) (see chart 27). Their central bank governors are now members of the *General Council of the ECB*. The Eurosystem, by contrast, has remained unaffected by the enlargement, since the new Member States will not be represented in the Governing Council of the ECB until they have adopted the euro in accordance with the relevant criteria.

In line with the principle of equal treatment, to introduce the euro, the new Member States must *go through several stages* (see chart 28). This process, which sets in with the entry into the EU, enables a Member State to participate in the exchange rate mechanism II (ERM II) and eventually leads up to sustainable compliance with economic and legal convergence criteria. The decision as to when to join ERM II is generally at the discretion of a new Member State, and the appropriate time will be assessed individually for each country depending on its overall economic situation. Here, *proceeding cautiously* seems to be in the interest of both the new Member States and the euro area, as the speed of integration should not come at the expense of its quality.

EU enlargement opens up a wealth of opportunities for Austria (see chart 29). Most of the trade and investment barriers restricting access to the new Member States were abolished years before the enlargement date May 1, 2004. Austria's close economic ties and intensified trade links in this region, especially with the four neighboring countries Hungary, Slovenia, the Czech Republic and Slovakia as well as with Poland provide ample proof of this. These countries account for some 12% of Austria's exports. In 2003, the Central and Eastern European countries were the destination of 45% of Austria's outward direct investment, with Austrian banks remaining a key force in the internationalization of Austrian business.

The enlargement is set to provide a fresh impetus, not only by eliminating persisting trade barriers, but in particular also by boosting growth in the new Member States, which should, in turn, benefit Austria's exports and tourist industry. These positive effects will, however, not arise automatically, but will depend on structural change in the Austrian economy coupled with stepped-up innovative capacity and technological leadership. Last but not least, it will be necessary to develop the infrastructure linking Austria with its neighbors to unlock agglomeration effects and thus secure prosperity.

The OeNB continues to be well positioned in the ESCB and in the Eurosystem, and continues to enjoy a *high degree of acceptance among the Austrian population and business community.* Moreover, my colleagues on the Governing Board of the OeNB and I are proud that our bank has managed to post a remarkable operating result for 2003 in the face of very difficult framework conditions affecting all NCBs in the euro area.

I should therefore like to *thank* the entire staff of the OeNB, my colleagues on the Governing Board, the members of the Staff Council, the President and Vice President as well as all members of the General Council of the OeNB *for their excellent work and support* that has contributed to the OeNB's overall performance and fine reputation. Here, I would also like to recall the invaluable service of former President Adolf Wala and former Vice Governor Getrude Tumpel-Gugerell, who joined the Executive Board of the ECB in June 2003.

The *OeNB* will strive to live up to the great confidence placed in it and remain committed to serving as a *modern and efficient service provider* and to maintaining its *dialogue with the public, business community and policymakers.*

Annex[1]

General Meeting of the Oesterreichische Nationalbank

Vienna, May 13, 2004

Chart 1

Interest Rate and Exchange Rate

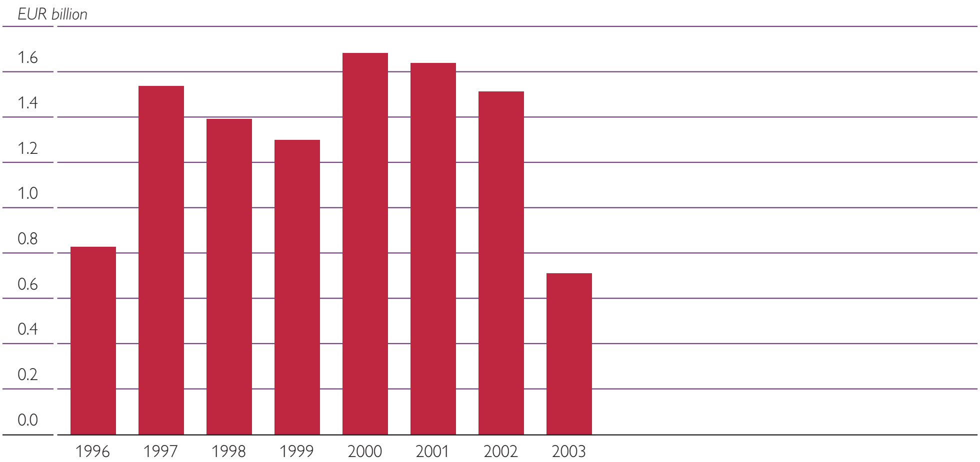
U.S. dollar/euro
JP Morgan Broad Bond Index 1 to 5 years

Source: OeNB, BIS.

[1] *Editorial close: May 10, 2004.*

Chart 2

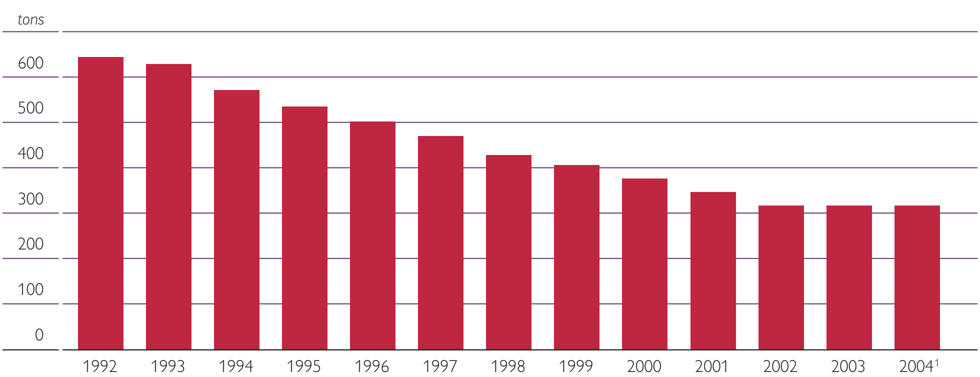
Operating Profit



Source: OeNB.

Chart 3

Gold Holdings

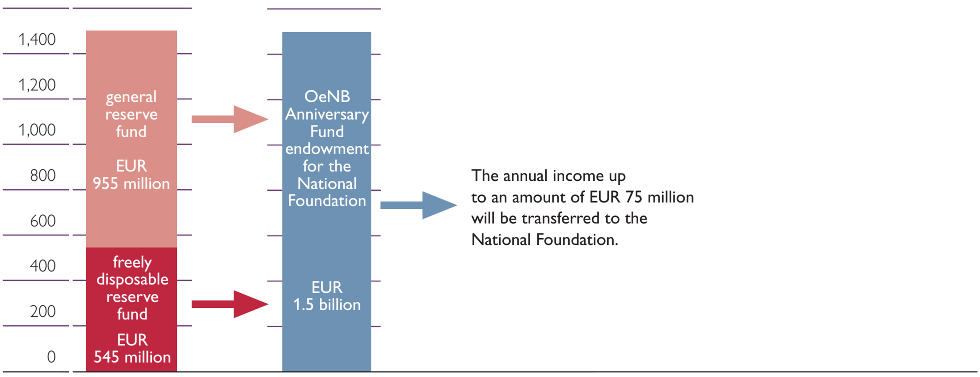


Source: OeNB.

[1] *as at the end of April 2004.*

Chart 4

National Foundation for Research, Technology and Development

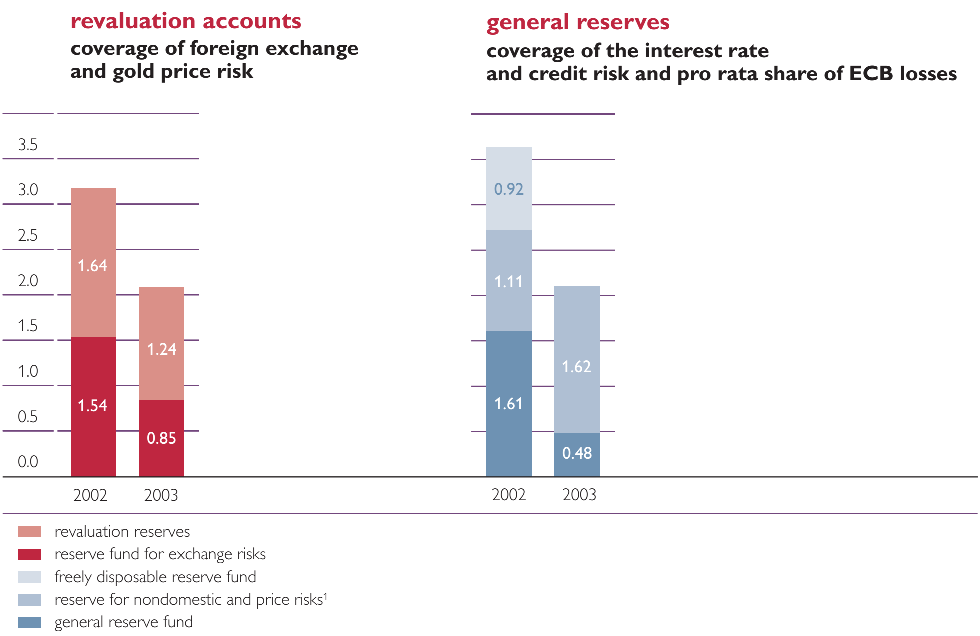


Source: OeNB.

Chart 5

Revaluation Accounts and General Reserves

EUR billion

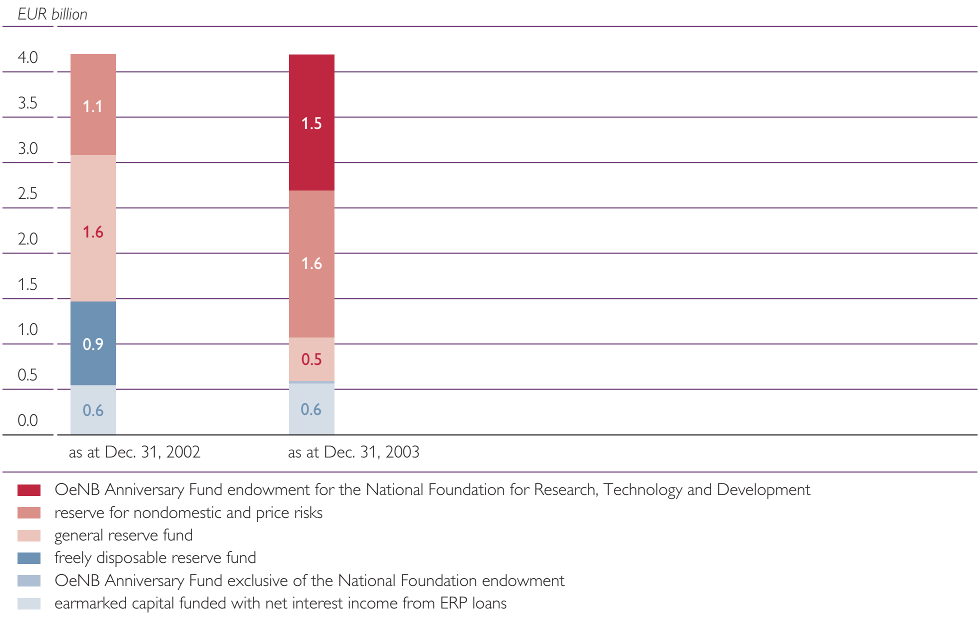


Source: OeNB.

[1] Used for the first time from 2003 to hedge exchange rate risk not covered by the revaluation accounts and the reserve fund for exchange risks.

Chart 6

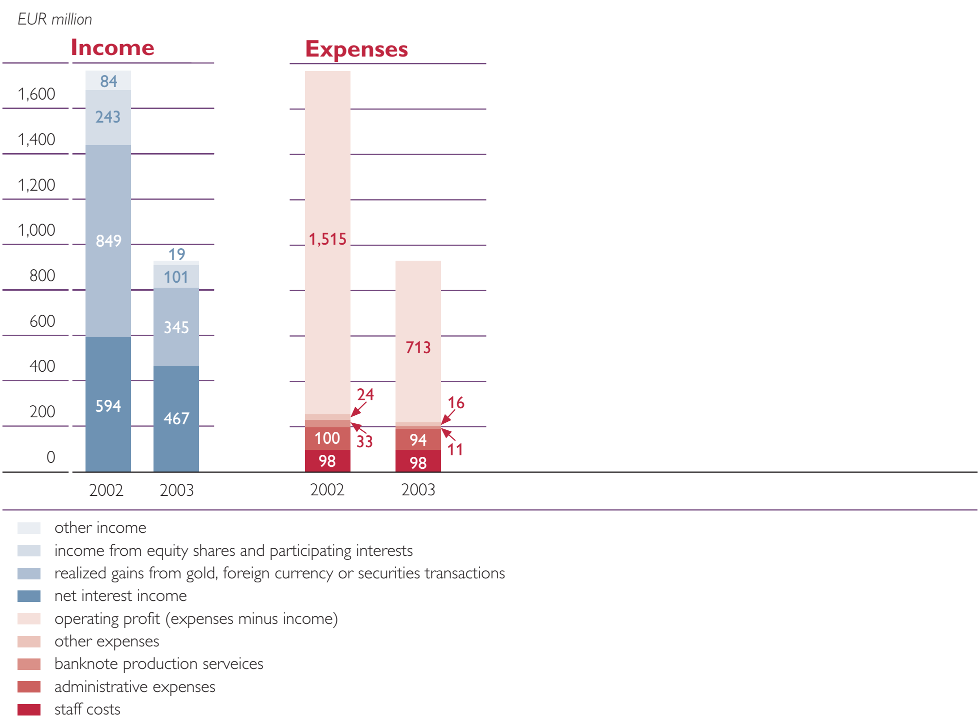
General Reserves



Source: OeNB.

Chart 7

Income



Source: OeNB.

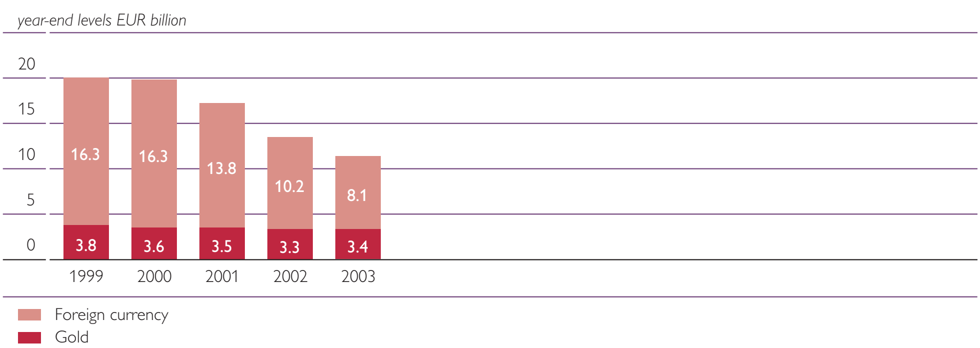
Chart 8

Net Interest Income and Interest Rate Developments

Source: OeNB, JP Morgan.

Chart 9

Net Reserve Assets



Source: OeNB.

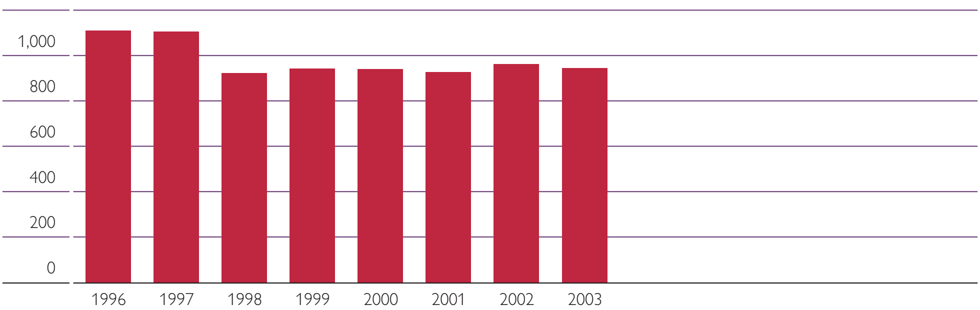
Chart 10

Expenses

Source: OeNB.

Chart 11

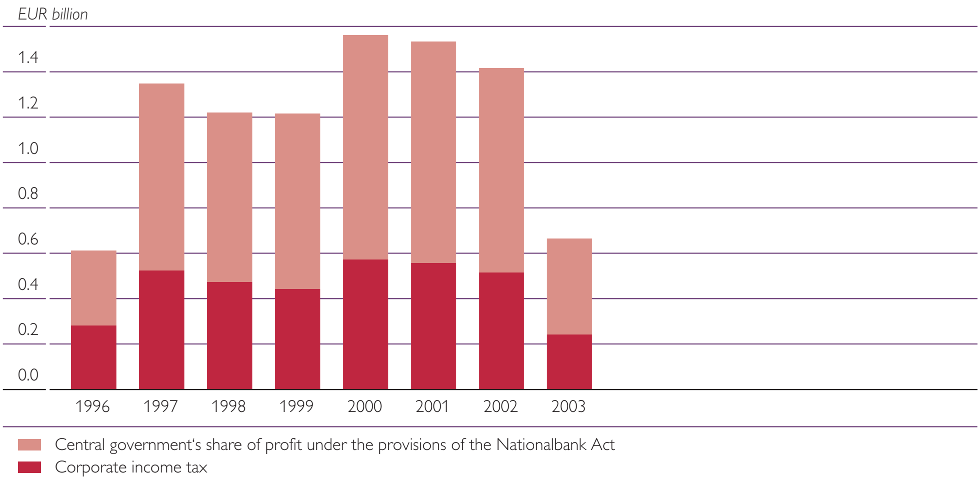
Staff Capacity – staff directly employed by the OeNB at year-end



Source: OeNB.

Chart 12

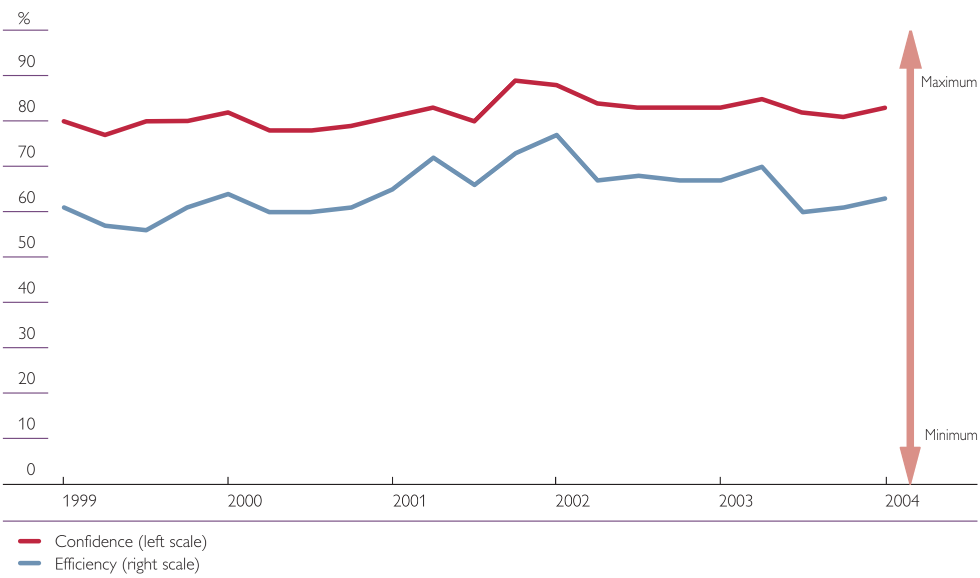
Central Government's Share of the OeNB's Profit



Source: OeNB.

Chart 13

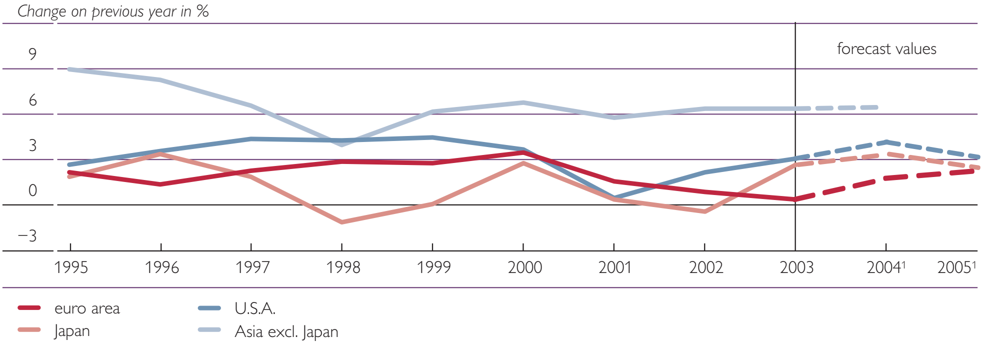
Public Confidence in the OeNB



Source: IFES.

Chart 14

Real Gross Domestic Product: International Economic Recovery



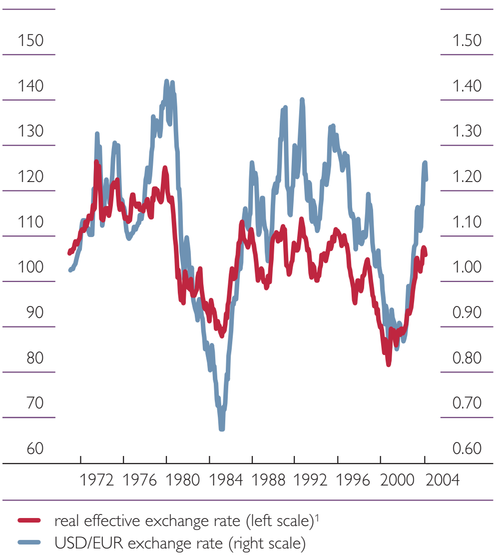
Source: Eurostat; Asia, excl. Japan: IMF, September 2003 World Economic Outlook.

[1] Spring forecast of the European Commission of April 2004. Asia excl. Japan: September 2003 World Economic Outlook of the IMF.

Chart 15

International Imbalances and Raw Materials Prices Carry Risk

Euro Exchange Rate

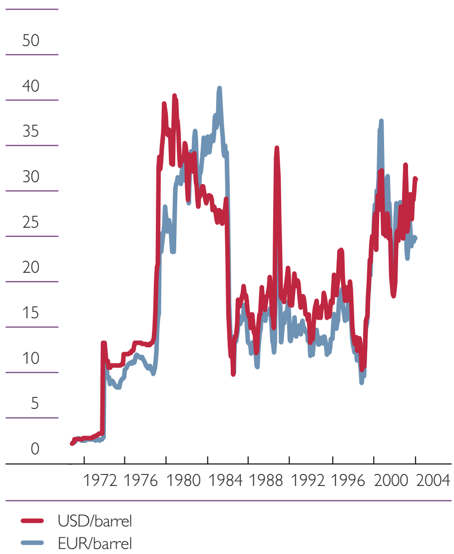


Source: OeNB, BIS.

[1] 1999 Q1 = 100

Basis: Consumer prices, a rise indicates an appreciation of the euro.

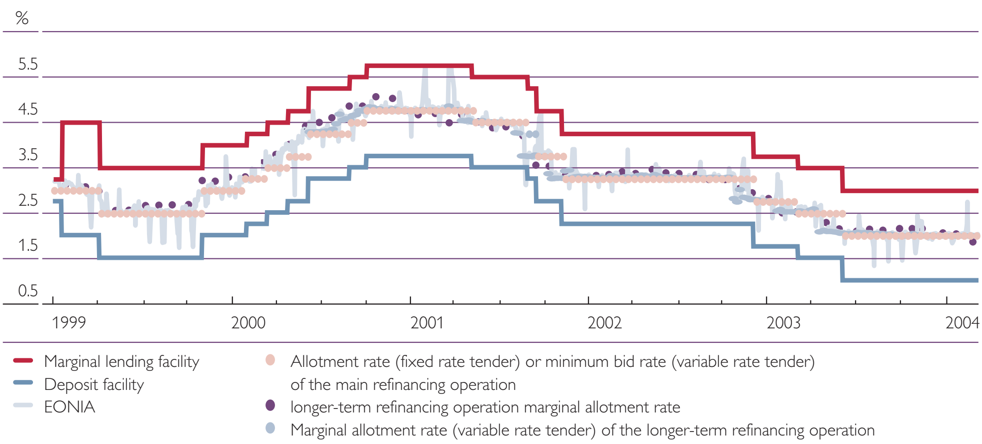
Oil Prices



Source: IMF.

Chart 16

Historically Low Interest Rate Level in the Euro Area



Source: ECB.

Chart 17

The stability-oriented monetary policy strategy of the ECB

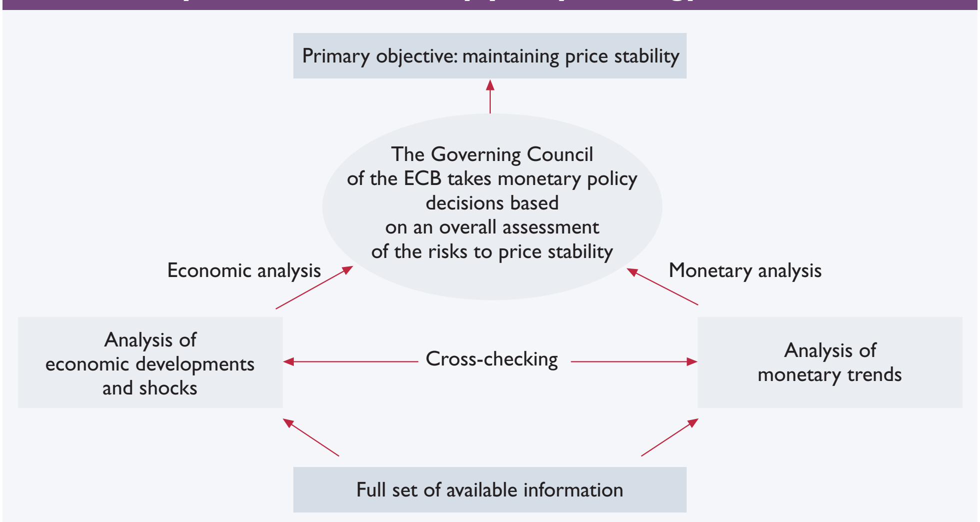
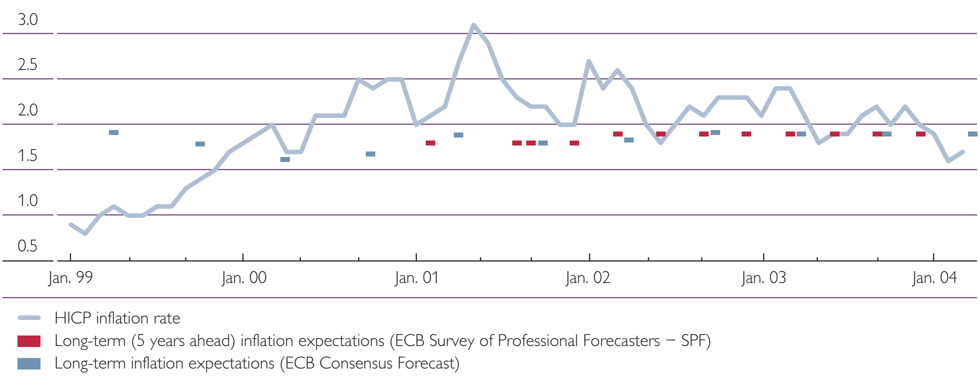


Chart 18

Inflation Decline and Stable Low Inflation Expectations in the Euro Area

change on previous year in %

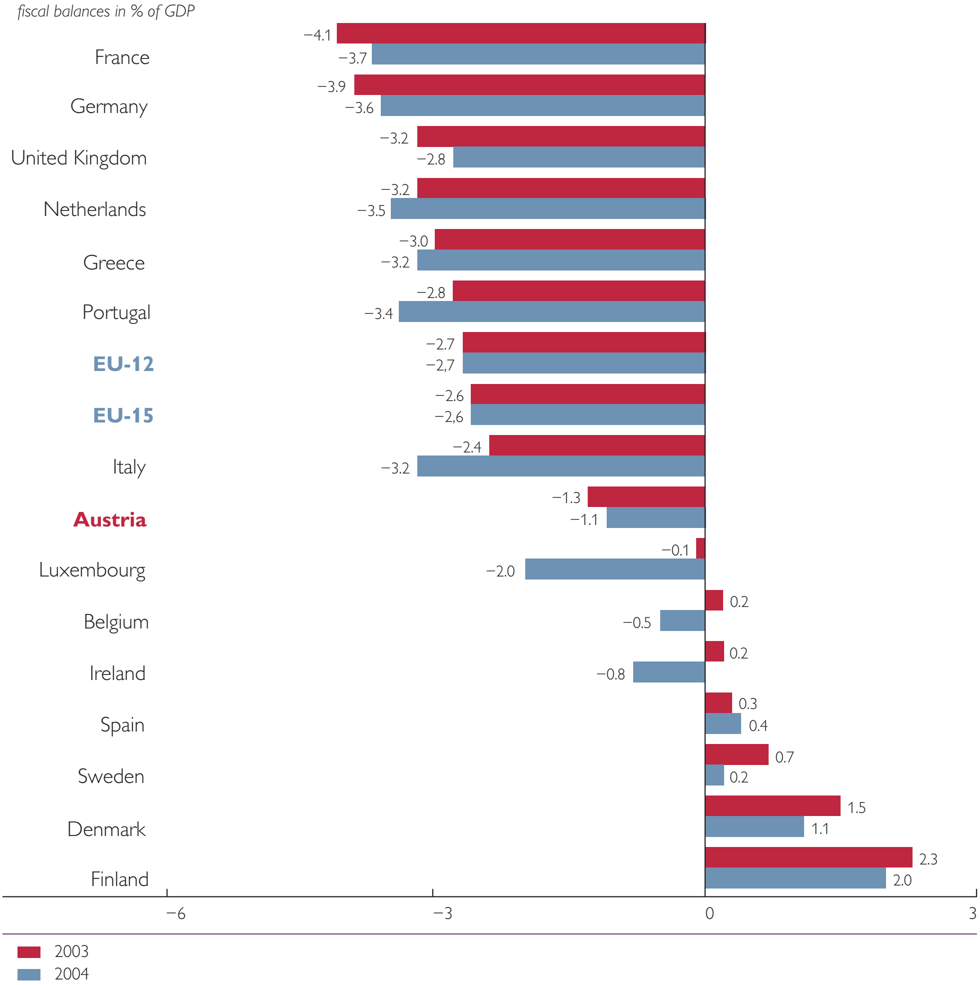


Source: ECB, Consensus Economics Inc., Eurostat.

Chart 19

Deficits Ratios of Several Member States above 3% of GDP

fiscal balances in % of GDP



Source: Spring 2004 Forecast of the European Commission; 2003 figures for Austria according to Statistics Austria (incl. swaps).

Chart 20

Swifter Progress in Implementing the Lisbon Strategy

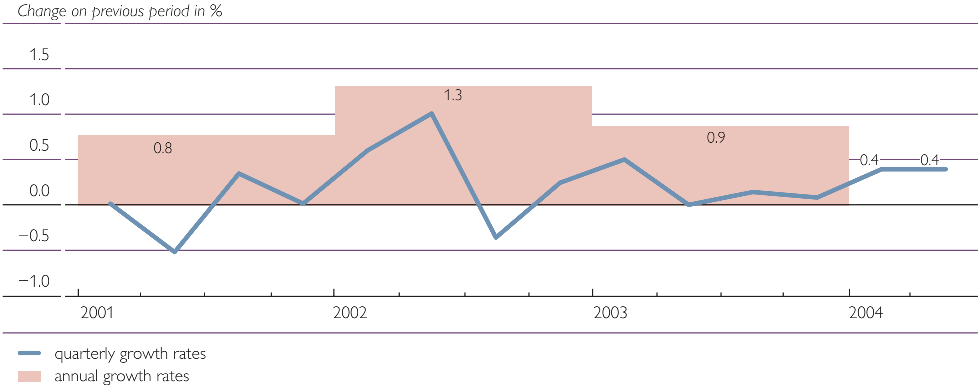
Swifter Progress in Implementing the
Lisbon Strategy
"EU to be the most dynamic knowledge-based economy in the world by 2010"

- implementation at the Member State level
  - **"national growth strategies"**
- increase acceptance of reforms
  - **"Reform Partnerships"** (social partners, civil society, public authorities)

Chart 21

OeNB Economic Indicator Signals Moderate Upswing

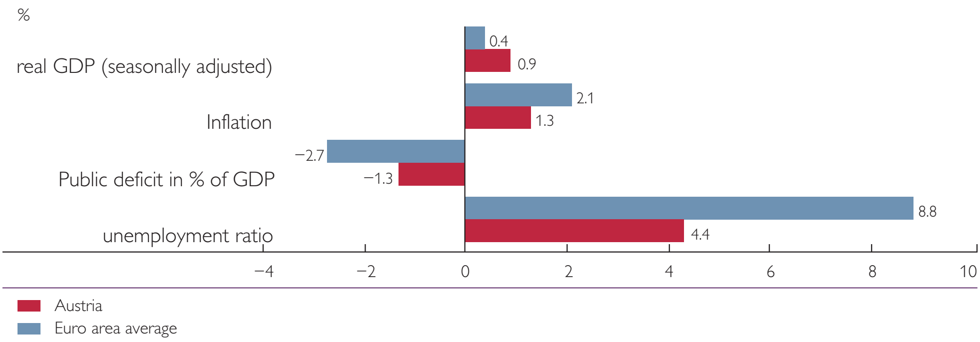
Change on previous period in %



Source: OeNB.

Chart 22

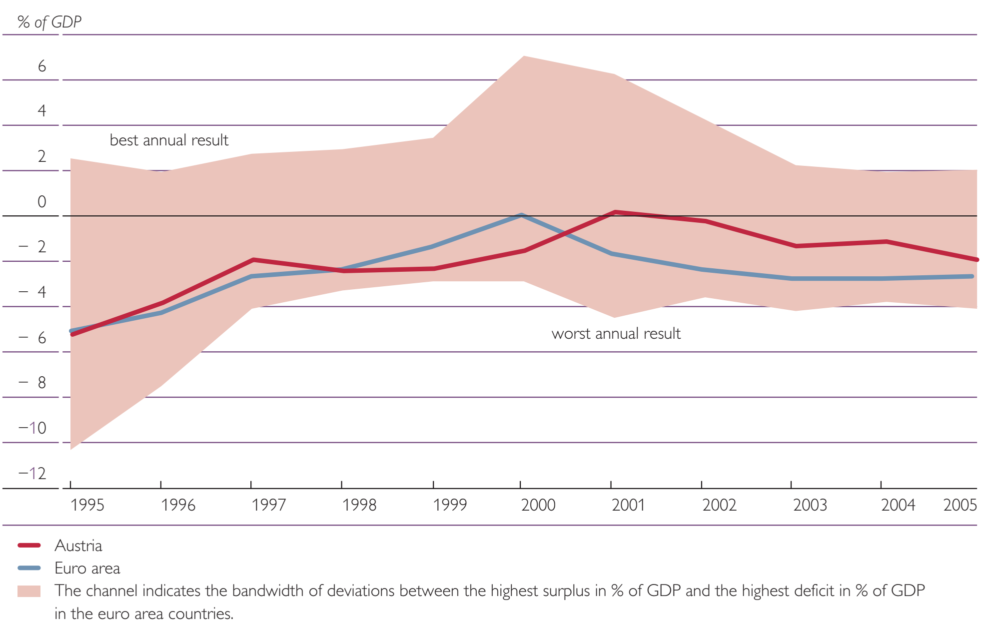
Main Economic Indicators in 2003:
Austria Outperforms Euro Area Average



Source: Eurostat, Statistics Austria, OeNB.

Chart 23

Government Budget Balances in the Euro Area



Source: Austria up to 2003: Statistics Austria (incl. swaps); 2004 to 2005: 2004 Spring Forecast of the European Commission.
Euro area up to 1997: Data Pocket Book/Eurostat; as of 1998: European Commission;
2004 and 2005: 2004 Spring Forecast of the European Commission.

Chart 24

FSAP: IMF Commends Austrian Financial System

IMF assessment:
- high degree of compliance with international supervisory standards
- single supervisory agency in line with international trend
- stress tests confirm banking sector stability
- successful eastward expansion of Austrian banks
- strengthening of the third pillar of retirement provision (individual retirement provision) and capital market promotion measures explicitly lauded

IMF recommendations:
- improve profitability on the home market
- adapt deposit insurance and corporate governance provisions
- monitor risk of foreign currency loans carefully

Chart 25

Austria Must Continue Reforms

IMF, OECD and European Commission commend Austrian reforms:
- privatization, liberalization
- R&D promotion
- pension reform
- tax reform

Challenges
- raise employment ratio
- continue liberalization and strengthen competition authority
- improve efficiency of training and continuing education programs

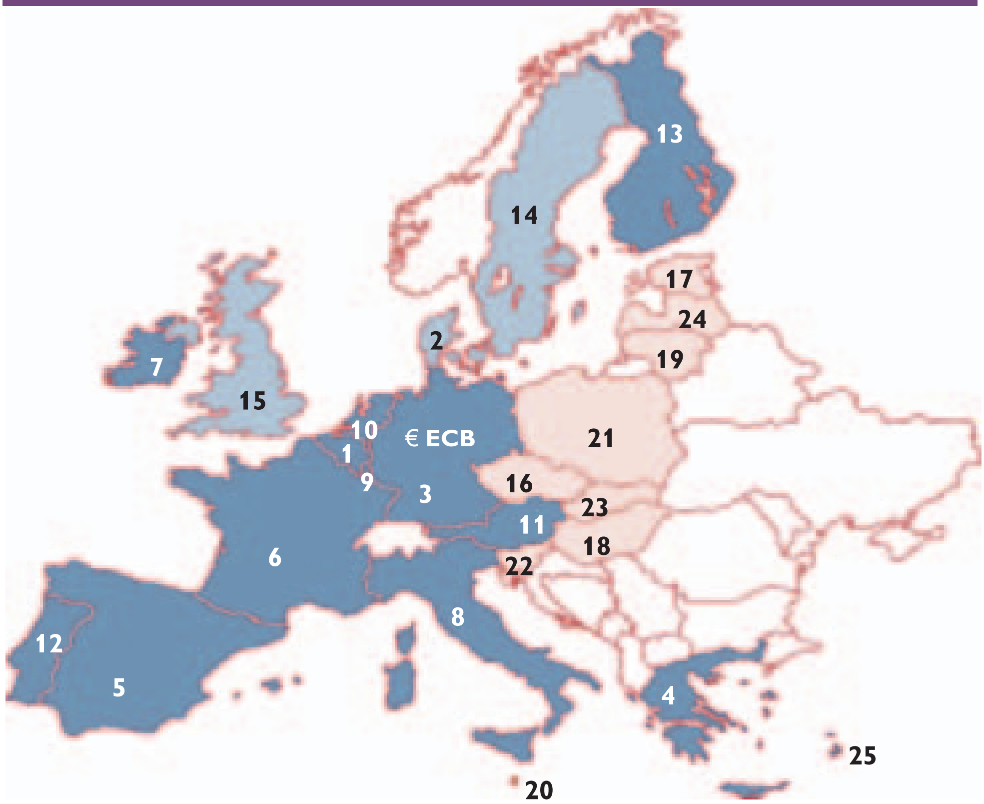
Chart 26

EU Enlargement Marks Milestone in European Integration

Source: Eurostat.

Chart 27

The European System of Central Banks (ESCB)



1 Nationale Bank van België
2 Danmarks Nationalbank
3 Deutsche Bundesbank
4 Bank of Greece
5 Banco de España
6 Banque de France
7 Central Bank of Ireland
8 Banca d'Italia
9 Banque centrale du Luxembourg
10 De Nederlandsche Bank
11 Oesterreichische Nationalbank
12 Banco de Portugal
13 Suomen Pankki
14 Sveriges Riksbank
15 Bank of England
16 Česká národní banka
17 Eesti Pank
18 Magyar Nemzeti Bank
19 Lietuvos bankas
20 Bank Centrali ta'Malta
21 Narodowy Bank Polski
22 Banka Slovenije
23 Národná banka Slovenska
24 Latvijas Banka
25 Central Bank of Cyprus

Chart 28

Monetary integration of New Member States in Three Stages

Stage 1: EU membership
- cooperation in the coordination of EU economic policy, convergence programs, adherence to the Stability and Growth Pact
- participation of the NCBs in the ESCB but not in the Eurosystem
- exchange rate policy "a matter of common interest"

Stage 2: ERM II
- right, but not obligation, to apply for membership in ERM II
- appropriate time to join to be assessed individually for each country
- central rate subject to multilateral agreement

Stage 3: introduction of the euro
- fulfillment of the legal and economic convergence criteria
- exchange rate criterion: adherence to the normal bands of the European Monetary System's exchange rate mechanism without serious strains and without lowering the central rate for at least two years prior to the convergence assessment
- principle of equal treatment

Chart 29

Austria is a leading investor in several new Member States

2002	Austria's investor ranking	Austria's percentage share in total direct investment in this country %
Slovenia	1	29.9
Slovakia	3	14.6
Hungary[1]	3	11.1
Czech Republic[1]	3	10.0
Poland	6	3.6
Estonia	10	0.4
Latvia	11	0.9
Lithuania	11	0.3

Source: WIIW, WIFO.

[1] Werte von 2001.

These five countries account for some 12% of Austria's exports.

In 2003 45% of Austrian direct investment went to Central and Eastern Europe.