

ANNUAL REPORT 2007



Our 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). 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 primary objective of the Eurosystem, and hence of the OeNB, is to maintain price stability in the euro area and thus to safeguard the euro's purchasing power.

Responsibilities

Contribution to Monetary Policymaking within the Eurosystem

- Participation of the OeNB's Governor in decision-making within the Governing Council and General Council of the European Central Bank (ECB)
- Conduct of extensive economic analysis and research

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 the 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 systems oversight with a view to securing financial stability
- Risk analysis of financial markets and banks

Provision of Statistics

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

Cash Supply

- Provision of Austrian businesses and consumers with secure banknotes and coins and ensuring of smooth cash circulation

Payment Systems

- Provision and promotion of smoothly operating payment systems in Austria and their cross-border integration

National and International Cooperation

- Close cooperation with national bodies, e.g. Financial Market Authority, the Government Debt Committee and the Statistics Advisory Board (Statistikrat)
- Representation in a wide range of bodies of the Eurosystem, the ESCB and the EU
- International monetary policy cooperation and participation in international financial institutions (IMF, BIS)

Consultancy

- Drafting of laws and opinions

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.

Selected Indicators for the OeNB

	2007	2006
Business indicators		
<i>As on December 31</i>		
	<i>EUR thousand</i>	
Net currency position	12,083,798	12,861,283
Banknotes in circulation	18,052,675	16,814,844
Total assets	61,946,135	53,377,876
Operating profit	246,663	192,955
Corporate income tax	61,666	48,239
Central government's share of the OeNB's profit	149,847	130,244
Profit for the year	16,650	14,472
	<i>Absolute figures</i>	
Full-time equivalent staff	917.5	931.7
Intellectual capital indicators		
	<i>Number</i>	
Inquiries to OeNB hotlines	38,516	38,153
Newsletter subscriptions	14,985	14,953
OeNB publications	63	64
Research cooperation projects with external partners	44	44
Working visits to national and international organizations	26	29
Environmental performance indicators		
Heat consumption, kWh/m ²	45	62
Electricity consumption, MWh/employee	7.7	8.0
Paper use, kg/employee	85	136

Source: OeNB.

Organization Chart

President
Herbert Schimetschek

Office of the General Council
Richard Mader

Vice President
Manfred Frey

Governing Board (Direktorium)

Central Bank Policy
Klaus Liebscher, 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

Anniversary Fund
Wolfgang Höritsch, Head

Personnel Division
Axel Aspetsberger, Head

Future Unit
Peter Achleitner, Director

Money, Payment Systems, Accounting and IT
Wolfgang Duchatzek, Vice Governor

Legal Division
Hubert Mölzer, Head

**Payment Systems and
Information Technology Department**
Wolfgang Pernkopf, Director

Information Technology and Payment Systems Strategy Division
Walter Hoffenberg, Head

IT Development Division
Reinhard Auer, Head

IT Operations Division
Erich Schütz, Head

Payment Systems Division
Andreas Dostal, Head

Cashier's Division and Branch Offices Department
Stefan Augustin, Director

Printing Office
Gerhard Habitzi, Head

Cashier's Division
Gerhard Schulz, 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 Division
Elisabeth Trost, Head

Accounts Division
Herbert Domes, Head

Economics and Financial Markets
Josef Christl, Executive Director

Economic Analysis and Research Department
Peter Mooslechner, Director

Economic Analysis Division
Ernest Gnan, Head

Economic Studies Division
Martin Summer, Head

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Financial Organizations Division**
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Foreign Research Division
Doris Ritzberger-Grünwald, Head

Brussels Representative Office
Marlies Stubits-Weidinger, Chief Representative

Paris Representative Office
Konrad Pesendorfer, Chief Representative

Financial Stability and Bank Inspections Department
Andreas Itner, Director

Financial Markets Analysis and Surveillance Division
Michael Würz, Head

Banking Analysis and Inspections Division
Johannes Turner, Head

Credit Division
Franz Richter, Head

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and Statistics**
Peter Zöllner, Executive Director

Equity Interest Management Division
Franz Partsch, 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

Organization and Internal Services Department
Albert Slavik, Director

Organization Division¹
Wolfgang Ruland, Head

Procurement and Technical Services Division
Thomas Reindl, Head

Security Division
Gerhard Valenta, Head

Documentation Management and Communications Services
Bernhard Urban, Head

Statistics Department
Aurel Schubert, Director

Supervisory and Monetary Statistics Division
Gerhard Kaltenbeck, Head

External Statistics and Financial Accounts Division
Michael Pfeiffer, Head

¹ Environmental Officer Johann Jachs
As of April 29, 2008

Economic and Financial Developments

Global Economy Slows Down

In the course of 2007, the U.S. subprime crisis led to financial market turbulence and put a damper on the hitherto robust economy. While particularly the U.S. economy cooled down toward the end of the reporting year, growth remained fairly robust in Japan and Europe. Asia's emerging economies also continued to expand at a solid pace. The same holds true for the Central, Eastern and Southeastern EU Member States, which recorded high growth rates. According to the IMF, the global economy expanded by 4.9% in 2007, which is only slightly less than in 2006. The cooling of the U.S. economy and the Federal Reserve's substantial cuts in interest rates were at the root of the U.S. dollar's slide against the euro, which stood at USD 1.47 at end-December 2007 (January 2007: 1.33 USD/EUR). The strong rise in commodity prices accelerated inflation rates all over the world.

Euro Area: Robust Growth, Improved Labor Market Conditions, Increasing Inflation

In 2007, real economic growth amounted to 2.6% and was therefore 0.2 percentage points lower than in 2006. Particularly in the first half of 2007, strong euro area growth together with risks to price stability prompted interest rate increases of 0.25 percentage points in March and June 2007, respectively. In the second half of 2007, monetary policymakers not only had to cope with inflation topping 3% (annual average 2007: +2.1%), but also with financial market turbulence. In view of the heightened uncertainty, the Governing Council of the ECB decided to leave the key interest rates unchanged. Unemployment in the euro area decreased to 7.4%, thus reaching the lowest level since 1982.

Austria Posts Strongest Growth since 2000, Inflation at 2.2%

Austria's economic performance was highly dynamic in 2007. At 3.4%, real GDP growth in 2007 even eked out a slight increase over 2006 (+3.3%) and reached its highest level since 2000. The Austrian economy has thus again grown significantly more strongly than that of the euro area, with the booming export sector remaining the engine of growth. Austria's real exports of goods and services advanced by about 8%. The number of new jobs augmented by 114,000 between 2005 and 2007. With a jobless rate of 4.4%, Austria posted the fifth-lowest unemployment rate in the EU in 2007. The increase in HICP inflation from 1.7% in 2006 to 3.5% in December 2007 (annual average 2007: 2.2%) was mainly determined by international but partly also by domestic factors. In the same period, Austria's general government budget deficit decreased from 1.5% to 0.5%.

A Successful Year for the Austrian Banking Sector

Compared with banks in other countries, Austrian banks have been only marginally affected by the U.S. subprime crisis. Austrian banks' unconsolidated total assets augmented by about 13% to almost EUR 900 billion in 2007, mainly on the back of banks' foreign activities. Subsidiaries in Central, Eastern and Southeastern Europe contributed substantially to Austrian banks' business and profit growth. In 2007, unconsolidated operating profit advanced by 14.4% to EUR 6.7 billion. As operating income increased more than operating expenses, the cost-to-income ratio dropped significantly, reaching a record low of 62%.

Chart 1

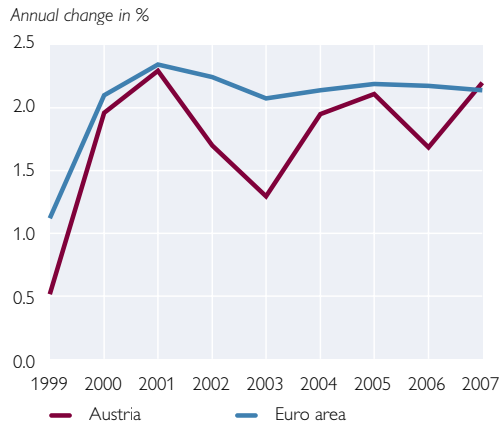
Real GDP



Source: Statistics Austria, Eurostat.

Chart 2

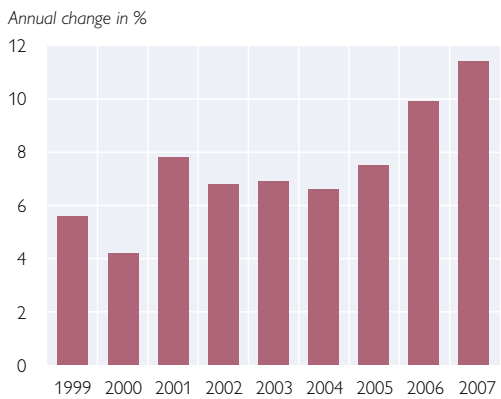
HICP Inflation



Source: Statistics Austria, Eurostat.

Chart 3

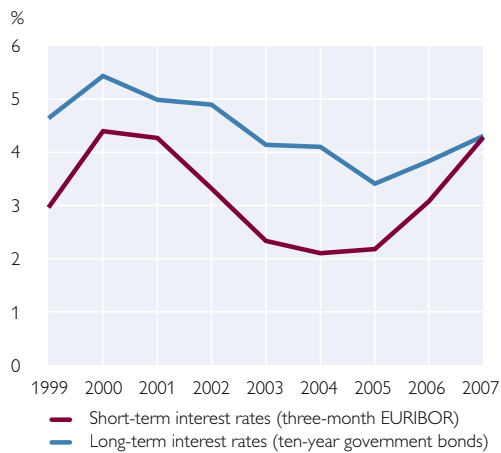
Euro Area: Monetary Aggregate M3



Source: ECB.

Chart 4

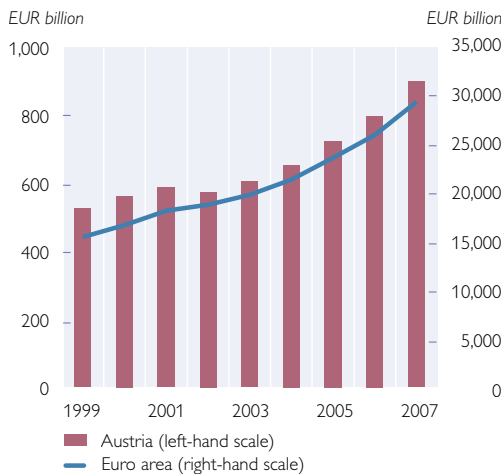
Euro Area: Interest Rates



Source: Thomson Financial.

Chart 5

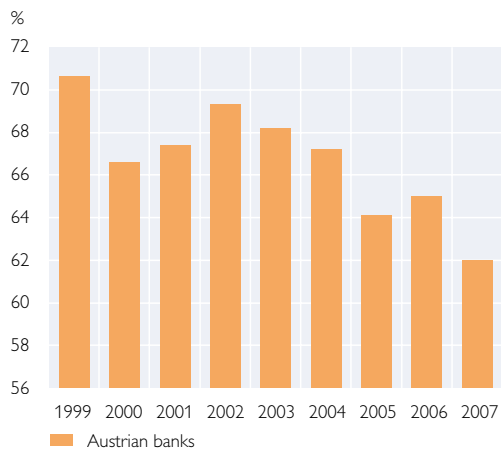
Banks' Total Assets



Source: OeNB, ECB.

Chart 6

Banks' Cost-to-Income Ratio



Source: OeNB.

The Year 2007 for the OeNB

Marked Increase in Operating Profit

Despite the allocation of risk provisions of EUR 407 million, the OeNB's operating profit increased by EUR 54 million or 28% to a total of EUR 247 million in 2007 compared with the previous year. The 90% profit share of the central government came to EUR 150 million (2006: EUR 130 million), while corporate income tax amounted to EUR 62 million (2006: EUR 48 million). The OeNB's profit for the year 2007 of EUR 17 million will be appropriated according to the General Meeting's decision.

Net Income Raised to EUR 491 Million, Expenses Remain Unchanged

Net income came to EUR 491 million (2006: EUR 437 million) as a result of allocations to risk provisions of EUR 407 million (2006: EUR 235 million). Net interest income amounted to EUR 738 million (2006: EUR 568 million), the net result of financial operations, writedowns and risk provisions equaled –EUR 290 million (2006: –EUR 175 million), and income from equity shares and participating interests constituted EUR 23 million (2006: EUR 25 million). Compared with 2006, total expenses were practically unchanged at EUR 244 million. EUR 108 million (2006: EUR 115 million) of this amount were attributable to staff cost, administrative expenses ran to EUR 78 million (2006: EUR 77 million), the cost of banknote production services to EUR 25 million (2006: EUR 25 million), and the depreciation of tangible fixed assets and other expenses made up EUR 33 million (2006: EUR 27 million).

Net Currency Position Down to EUR 12.1 Billion

The OeNB's total net currency position as at December 31, 2007, was EUR 12.1 billion, with gold holdings accounting for EUR 5.1 billion and foreign currency holdings for EUR 7.0 billion. The decrease by EUR 0.8 billion against December 31, 2006, is mainly attributable to valuation effects as well as transaction-related losses.

TARGET2 Launched in November 2007

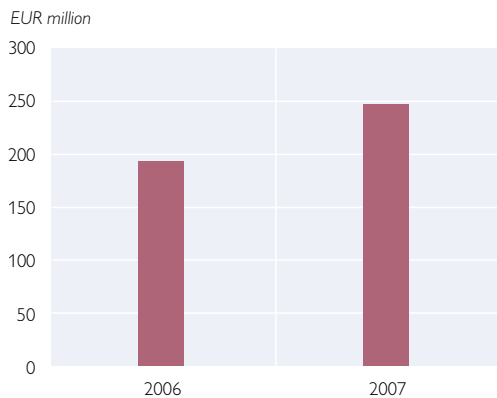
Up to the launch of TARGET2 on November 19, 2007, European payment transactions were handled successfully by TARGET, with the number of payments rising steadily. TARGET2 falls under the responsibility of the Governing Council of the ECB and is used by banks for the settlement of large-value payments in euro. TARGET participants were scheduled to connect to the second-generation payment system in country groups, with the first eight countries, including Austria, migrating their operations on November 19, 2007. In December 2007, the system processed a total of 1,764,987 payments worth EUR 17,488.4 billion. In Austria, 15 banks are direct and 53 banks indirect participants of TARGET2. Around 90% of all Austrian banks may thus be accessed via TARGET2 worldwide.

Cash Processing Volume Remains at a High Level

In 2007, some 1.2 billion banknotes and 1.8 billion coins were processed and checked for their circulation fitness and authenticity, which is about the same volume as in 2006. This high volume attests to the OeNB's commitment and significant contribution to ensuring cash security in Austria. Consequently, counterfeit euro banknotes and coins are quickly and efficiently withdrawn from circulation and are made available to the police for further investigation. At 7,800, the quantity of counterfeit banknotes recovered from circulation in Austria has remained small. Thus, only slightly more than six in one million banknotes processed in Austria were counterfeits.

Chart 7

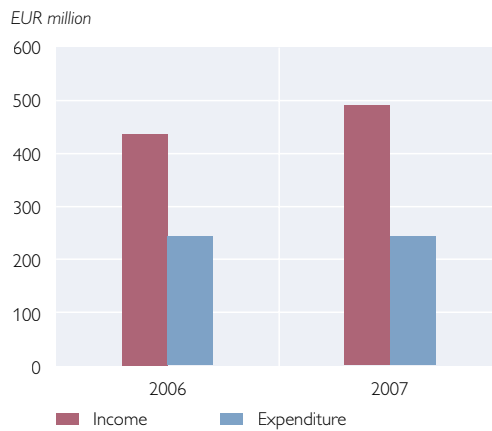
OeNB: Operating Profit



Source: OeNB.

Chart 8

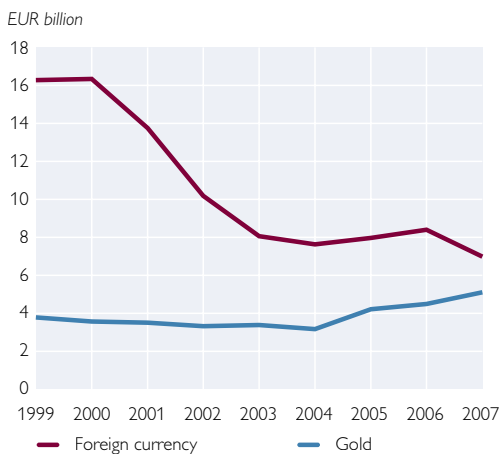
OeNB: Income and Expenditure



Source: OeNB.

Chart 9

OeNB: Net Currency Position



Source: OeNB.

Chart 10

Number of TARGET Transactions

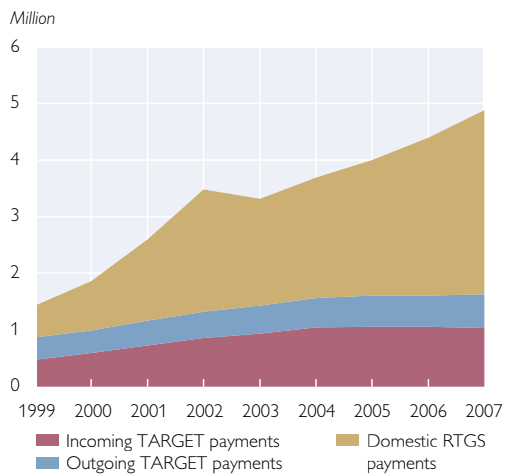
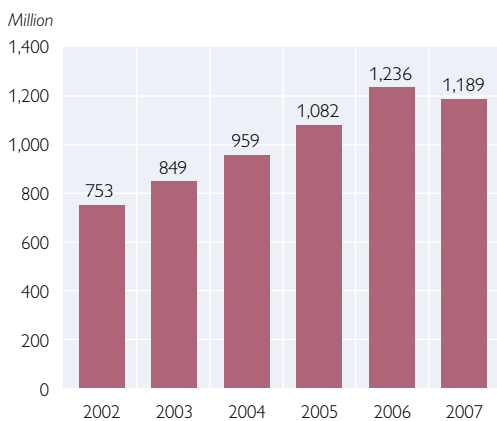


Chart 11

OeNB: Number of Processed Euro Banknotes



Source: OeNB.

In line with the Federal Act on the Oesterreichische Nationalbank, the Annual Report of the OeNB provides information about the monetary policy of the Eurosystem, economic developments, financial markets, payment services and cash services. Furthermore, it details the OeNB's national and international responsibilities and role. The OeNB's Financial Statements and the Notes to the Financial Statements are an integral part of the Annual Report.

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