

Corporate and Household Sectors in Austria: Indebtedness Declines

Corporate Sector Risk Indicators Remain Broadly Stable

Stagnation of the Austrian Economy Comes to a Halt

Declining corporate investment

Falling corporate profits

The Austrian economy remained in the doldrums in the first half of 2013, although since the middle of the year, a number of leading indicators have suggested a recovery of the growth momentum. Austria's sluggish GDP growth performance so far in 2013 reflects above all the difficult external economic conditions. With key markets such as Italy, Hungary, the Czech Republic and Slovenia mired in recession, Austrian export growth was weak. While imports declined, net exports were nonetheless the sole driver of GDP growth on the demand side. In view of high uncertainty, poor sales opportunities and below-average capacity utilization, many enterprises have cur-

tailed or postponed their investment plans so that investment activity has declined on a quarterly basis since the second quarter of 2012. The contraction of gross fixed capital formation was driven in particular by cyclically sensitive investment in equipment. By contrast, housing investment registered positive, albeit listless, growth.

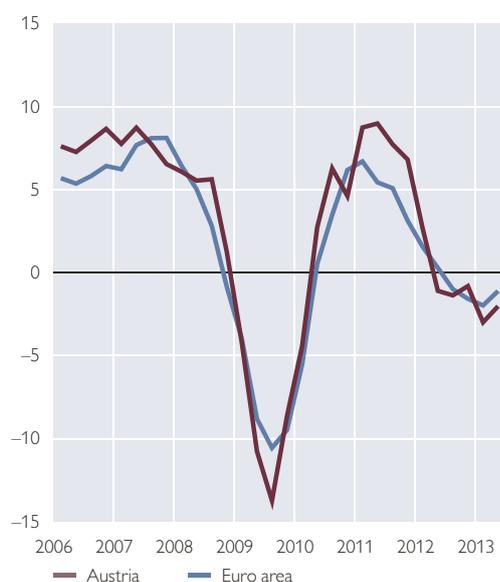
Corporate profitability has been on a downtrend since 2012, reflecting the economic slowdown. While corporate earnings were buoyed by falling raw material prices, wage developments had a dampening impact on corporate profitability in 2012 and the first half of 2013. Gross operating surplus was down 2.0% year on year in nominal terms in the second quarter of 2013 (chart 7). However, low interest rates supported the nonoperational component of corporate profitability. While

Chart 7

Profitability of Nonfinancial Corporations

Gross Operating Surplus

Annual change in %, four-quarter moving average



Profit Ratio

Gross operating surplus in % of gross value added, four-quarter moving average



Source: Statistics Austria, ECB.

the gross operating surplus had already surpassed pre-crisis levels in nominal terms in 2011, in real terms as well as in relation to gross value added of the corporate sector (i.e. the gross profit ratio), it has still failed to reach its pre-crisis highs. The gross profit ratio has been on a downward trend for eight consecutive quarters, falling to 39.0% in the second quarter of 2013 and thus sinking below the levels registered at the height of the crisis. However, it was still higher than the comparative value for the whole euro area.

Bank Lending Loses Momentum

External financing of nonfinancial corporations fell to EUR 1.9 billion¹ in the first half of 2013, less than one-fifth of the corresponding 2012 figure according to financial accounts data. This distinct slowdown might reflect high recourse to internal financing as well as lower financing needs due to reduced investment.

Domestic bank loans accounted for around one-third of the Austrian corporate sector's external financing in the first half of 2013, almost twice the comparable 2012 figure. However, since the second half of 2012, the growth of bank loans has continuously lost momentum. According to MFI balance sheet statistics, the annual growth rate of Austrian bank lending to nonfinancial corporations (adjusted for reclassifications, valuation changes and exchange rate effects) fell from 3.4% in nominal terms in August 2012 to a mere 0.5% in September 2013 (chart 8), implying a real decrease.² This slowing may be pinpointed mainly to lending at shorter maturities (up to

one year), while loans with longer maturities on which loan growth had rested in the past continued to record positive rates. Despite this deceleration, lending to the Austrian corporate sector could so far escape the reduction witnessed in the euro area as a whole, where the nominal growth rate has been negative since the first half of 2012.

The slowdown in lending was driven by both supply- and demand-side factors. Credit standards for corporate loans had been tightened slightly but continuously by Austrian banks between the second half of 2011 and the second quarter of 2013; in the third quarter of 2013, credit standards remained unchanged according to the Austrian results of the euro area bank lending survey (BLS). This tightening affected large firms somewhat more than small and medium-sized enterprises. The factors behind the more stringent lending policies were costs related to banks' capital position as well as banks' heightened risk concerns, reflecting the economic slowdown. At the same time, the banks surveyed in the BLS noted a slight but continuous decline in corporate loan demand, which came to a halt only in the third quarter of 2013. On the one hand, this decline in demand can be explained by lower funding requirements for fixed investment and falling capacity utilization rates. On the other hand, companies increasingly accessed other sources of finance, such as corporate bonds, as is explained below. Moreover, companies still relied to a considerable extent on internal sources of finance, as they dispose of sizeable amounts of cash to

Tighter credit standards

Bank loans decrease in real terms

¹ Adjusted for foreign-controlled holdings in special purpose entities (SPEs).

² At the cutoff date, financial accounts data were available up to the second quarter of 2013. Therefore, the figures on growth contribution presented here refer to the first half of 2013. More recent developments of financing flows are discussed using data from the MFI balance sheet statistics and the securities issues statistics.

Slight increase
in bond yields

finance their activities: Corporate bank deposits had expanded vigorously in 2012, although their growth slowed down in 2013 to reach 1.5% year on year in September 2013.

Lending rates
decrease

Thus, it looks as if tighter credit standards have so far affected terms and conditions rather than volumes of bank loans. Stronger risk discrimination by banks resulted in wider margins on riskier loans, in part dampening the reduction of financing costs stemming from monetary policy easing. In response to the four ECB interest rate cuts of November 2011, December 2011, July 2012 and May 2013 (by 0.25 percentage points each) and the associated decline in money market rates, corporate lending rates declined by 99 basis points to 1.78% between October 2011 and September 2013.³ While interest rates fell for all loan volumes and maturities, the decrease was more pronounced for short-term loans and for larger loans (with a volume of more than EUR 1 million).

Bond Financing Exceeds Volume of New Bank Lending

The amount of new bonds issued by Austrian nonfinancial corporations had continued to exceed new bank lending in net terms up to the second quarter of 2013, although their annual growth rate slowed down in the course of this year and – due to high redemptions in that month – fell to 2.4% in nominal terms in September 2013 (according to the securities issues statistics). The ongoing recourse to bonds undoubtedly broadens the corporate sector's financing sources, although this funding option is available only to a limited number of mostly larger companies, a

considerable share of which are majority-owned by the public sector.

After having contracted in 2012 and the first months of 2013, corporate bond yields started to rebound slightly between June and September 2013. Increases were quite uniform across ratings. Yields on AA-rated corporate bonds rose by 68 basis points, those on BBB-rated bonds by 58 basis points, mainly as a result of rising government bond yields. Thus, the spread against long-term German bonds remained broadly constant, reflecting the increased risk appetite of investors. But in a longer-term perspective, financing conditions in the bond market remained favorable, as yields on BBB-rated bonds were 289 basis points and AA-rated bonds yields 186 basis points lower than in October 2011.⁴

Lower Recourse to Trade Credit

The net volume of trade credit drawn by domestic companies decreased by EUR 0.1 billion in the first half of 2013. One reason might be that as a key element of firms' working capital, trade credit develops broadly along the business cycle, another one the fact that in a low interest environment, it becomes comparatively more expensive. At the same time – given its relatively informal form and comparatively high cost – increased recourse to trade finance might be correlated with financial distress, possibly caused by restricted access to other forms of finance. Thus, the lower use of trade credit may also be an indication that bank credit standards, which had been tightened in 2012 and the first half of 2013, were not so restrictive as to drive firms into this kind of finance.

³ The interest rate cut of November 2013 has not yet been reflected in the lending rates available so far.

⁴ Euro area figures are used here, as no time series is available for yields on Austrian corporate bonds.

Key Elements of Nonfinancial Corporations' Financing: Volumes and Conditions

Loans: Volumes

Annual change in %¹



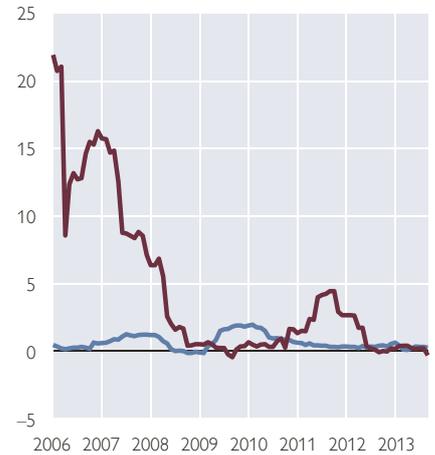
Bonds: Volumes

Annual change in %



Quoted Stocks: Volumes

Annual change in %



Loans: Interest Rates

%



Bonds: Yields

%



Quoted Stocks: Earnings Yield

%



— Austria — Euro area — AA corporate bonds — BBB corporate bonds

Source: OeNB, ECB, Thomson Reuters, Wiener Börse AG.

¹ Adjusted for reclassifications, changes in valuation and exchange rate effects.

High Share of Equity

In the first half of this year, almost three quarters of the external financing of nonfinancial corporations came in the form of equity. Financing via listed stocks continued to be affected by the crisis and accounted for just 3% of external financing in the first half of 2013. Netting new listings, capital increases and delistings, the net issuance

of capital on the stock exchange amounted to EUR 0.2 billion in the first nine months of 2013 according to securities issues statistics. So the vast majority of the equity raised in the first half of 2013 came in the form of unquoted shares and other equity instruments (EUR 1.3 billion) – mostly from foreign strategic investors.

Stock market financing still affected by the crisis

Variable rate loans
imply interest rate
risk

Measured by the earnings yield (i.e. the inverse of the price-to-earnings ratio) of the ATX, the cost of raising capital on the Austrian stock market fell slightly in the first three quarters of 2013 from 7.0% in December 2012 to 6.8 in October 2013, after the sharp drop seen in 2012 (from 11.6% in December 2011). But as there were virtually no new issues, this cost was mostly a notional figure.

Corporate Sector's Debt Servicing Capacity Remains Broadly Stable

Debt-to equity ratio
increases slightly

Mirroring the strong slowdown in external financing, corporate debt (in terms of total loans and bonds) fell by 0.3% in the four quarters to June 2013. In net terms, enterprises continued to substitute short-term for long-term funding. Long-term financing instruments, which account for more than 85% of outstanding debt, still grew, albeit at a considerably slower pace, while short-term financing diminished in absolute terms from 2012. However, although the growth rate of corporate debt was negative, as corporate earnings declined more strongly, the ratio of corporate debt to gross operating surplus rose slightly, by 9 percentage points, to 542% in the first half of 2013, implying a virtually stable sustainability of corporate debt (chart 9). Thus, the ratio of corporate debt to the gross operating surplus remained considerably above its pre-crisis levels. The debt-to-equity ratio, however, came down slightly to 118% at mid-2013. Both the debt-to-income ratio and the debt-to-equity ratio are currently higher in Austria than in the euro area, which not only highlights the importance of debt financing in Austria but also reflects the ongoing deleveraging of the corporate sector in a number of euro area countries. The share of equity

Falling insolvencies

in the Austrian corporate sector's total liabilities rose slightly from 42.7% at end-2012 to 43.0% in mid-2013.

The low interest rate environment continued to support firms' ability to service their debt. In the first half of 2013, the fraction of corporate earnings (gross operating surplus) that had to be spent on interest payments for bank loans continued to diminish slightly. This decline was reinforced by the very high share of variable rate loans in Austria. While for this reason Austrian companies currently have lower interest expenses than their euro area peers, their exposure to interest rate risk is considerably higher. Thus, a rebound of the interest rate level could create a noticeable burden, especially for highly indebted companies.

The exposure of the corporate sector to foreign exchange risk, which was never as high as that of the household sector, was reduced further in the first three quarters of 2013, as the share of foreign currency loans declined by almost 1 percentage point (nearly 4 percentage points since 2010) to 5.5% and was thus only less than 1 percentage point higher than in the euro area at the end of September 2013.

The number of corporate insolvencies was 5.2% lower in the third quarter of 2013 than in the comparable 2012 period (based on a moving four-quarter sum to account for seasonality); it also dropped markedly in relation to the number of existing companies. This development could be partly due to the moderate development of debt financing and the low interest rate level, which makes debt servicing easier even for highly indebted companies; partly, it might also be because insolvencies usually lag cyclical movements. However, insolvency liabilities rose markedly due to a large-scale bankruptcy.

Risk Indicators for Nonfinancial Corporations

Debt

% of gross operating surplus



Debt-to-Equity Ratio¹

%



Interest Expenses²

% of gross operating surplus



Variable Rate Loans

% of total new lending



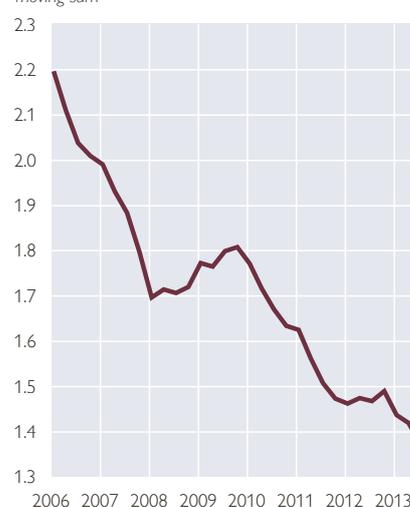
Foreign Currency Loans

% of total loans



Insolvencies

Number of insolvencies in % of companies, four-quarter moving sum



Source: OeNB, ECB, Eurostat, KSV 1870.

¹ Austria: Equity without SPEs.

² Euro area: euro loans only.

Households' Foreign Currency Debt Remains a Concern Despite Marked Reductions

Real Income Decreases

Despite the sluggish economic momentum, the Austrian labor market has registered a rise in employment in 2013 so far. Yet real disposable household

income fell in the first half of 2013, reflecting weak real wage growth as well as a decline in property income. This, in turn, constrained personal consumption. At the same time, the savings rate declined in the first half of 2013. On the one hand, the low interest rate environment may have reduced

Low saving ratio

the attractiveness of saving. On the other hand, the decline in the saving ratio may reflect the languid development of property income – the portion of disposable income that is more likely to be saved than labor income.

Household Financial Investment Declines

After the slight rebound in 2012, financial investment by households⁵ continued to recede in the first half of 2013 and, at EUR 2.3 billion, was 12.9% lower than in the second half of 2012 – and less than one-quarter of the pre-crisis peak value recorded in 2007 (chart 10).

In the first half of 2013, households pulled EUR 0.9 billion out of their bank accounts in net terms. Looking at the maturity structure, deposits with longer maturities have declined in 2013 so far, whereas large inflows into overnight deposits were recorded. This shift to shorter maturities suggests that

households have a high preference for liquid funds; it may also be connected to the moderate opportunity cost resulting from low interest rates. Broken down by types of deposit, demand and time deposits continued to grow while savings accounts decreased on balance. Deposits at building and loan associations represented the only exception: They rose by 3.8% in the third quarter of 2013 on the back of the comparatively attractive interest rates for building loan contracts.

Households' net financial investment in capital market assets remained positive in the first half of 2013, although it fell to EUR 0.6 billion (against EUR 1.0 billion in the second half of 2012). Households reduced their holdings of long-term debt securities but increased their holdings of mutual fund shares. Additionally, households slightly increased direct holdings of equities, both because the interest paid on deposits was low and because share

Capital market investment remains positive in the first half of 2013

Bank deposits of households fall

Chart 10

Changes in Households' Financial Assets

Determinants of Changes in Financial Assets



Components of Financial Investment



⁵ Nonprofit institutions serving households are not included here.

prices recovered in international markets in the course of 2013.

At EUR 0.7 billion, investment in life insurance and pension funds still had a stabilizing effect on financial investment in the first half of 2013, accounting for roughly one-third of financial investment in this period. However, a large share of inflows into these instruments was not the result of current investment decisions, but – given the long maturities and commitment periods – reflected past decisions. Demand for funded pension instruments is a key factor in this context. Moreover, life insurance policies are often used as repayment vehicles for foreign currency bullet loans.

After recording (unrealized) valuation gains in their securities portfolios in 2012, Austrian households registered (equally unrealized) valuation losses in the first half of 2013. Coming to EUR 1.3 billion, these losses were equivalent to 1.3% of households' securities holdings 12 months earlier. Quoted stocks, debt securities and mutual fund shares registered (unrealized) valuation losses of roughly the same dimension. Totaling financial investment, valuation losses and other changes, households' financial assets rose by EUR 1.0 billion in the first six months of 2013.

Weak Lending Growth in 2013

Growth of bank lending to households has been subdued in 2013 so far even if annual growth rates, which had contracted continually for almost two years, recovered slightly since the middle of this year. In September 2013, bank loans to households (adjusted for reclassifications, valuation changes and exchange rate effects) increased by a mere 0.8% in nominal terms, implying a fall in real terms.

A breakdown by currencies shows that euro-denominated loans continued

to expand briskly (September 2013: 5.0%), while foreign currency loans continued to decrease by double-digit rates – in September 2013, they had fallen by 12.3% year on year. Broken down by loan purpose (chart 11), the slowdown in loan growth was driven by a decline in consumer loans as well as other loans, which both contracted by 1.1% in September 2013 year on year. Housing loans still grew by 2.1% year on year, and since April 2013, their growth rates have stabilized. The favorable financing conditions probably still supported the dynamics of housing loans, and households might have needed more funding to purchase real estate, as housing prices have been on the rise in Austria (see below). Other housing market indicators, however, pointed to a downturn in credit demand. Although no current data on newly completed housing projects are available, the considerable fall in the number of residential building permits last year (–12.6% over the previous year) suggests a reduction in construction activity, although the number of residential building permits rebounded quite strongly in the first half of 2013.

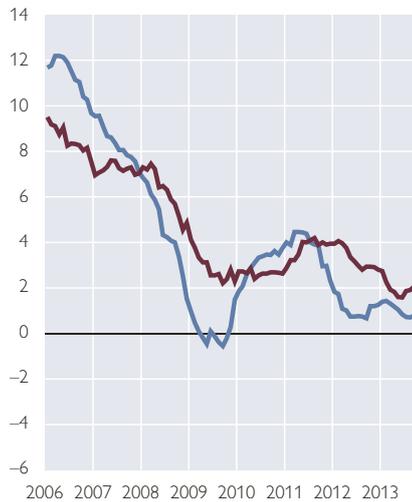
Loan conditions remained favorable. Interest rates for short-term loans (up to one year) stood at 2.84% in September 2013, 0.70 percentage points below their October 2011 level, reflecting the key interest rate cuts of November 2011, December 2011, July 2012 and May 2013 and the associated decline in money market rates. Looking at data across the entire maturity band, interest rates on new housing loans stood at 2.49% in September 2013, which was 0.55 percentage points lower than the value recorded in October 2011. In the same period, interest rates on consumer loans dropped by 0.28 percentage points to 4.85%.

Life insurance investment has a stabilizing effect

(Unrealized) valuation losses

Financing conditions remain favorable

Foreign currency loans continue to decline

MFI Loans to Households: Volumes and Conditions**Housing Loans: Volumes**Annual change in %¹**Consumer Loans: Volumes**Annual change in %¹**Other Loans: Volumes**Annual change in %¹**Housing Loans: Interest Rates**

%

**Consumer Loans: Interest Rates**

%

**Other Loans: Interest Rates**

%



— Austria — Euro area

Source: OeNB, ECB.

¹ Adjusted for reclassifications, valuation changes and exchange rate effects.**Household debt falls slightly****Households' Currency and Interest Rate Risks**

By international comparison, the indebtedness of Austrian households is rather low. At mid-2013, total household liabilities stood at EUR 166.9 billion according to financial accounts data, down by 1.0% in nominal terms

from the 2012 year-end value. As a percentage of net disposable income, household debt amounted to 93.4% (+0.7 percentage points from end-2012; see chart 12). The debt ratio of households in Austria thus remained lower than in the euro area as a whole (105.5%).

Given the combination of moderate debt growth and low interest rates, household interest expenses remained subdued. They amounted to 2.0% of disposable income in the first half of 2013, about 2 percentage points less than in 2008, before interest rates began to fall. One factor that accelerated this decline was the high share of variable rate loans: In the third quarter of 2013, 89.4% of new loans were granted with an initial rate fixation period of up to one year, which is a very high share by international comparison. Therefore, when the ECB lowered its key interest rates during the crisis, lending rates in Austria were reduced at a faster

rate than those in the euro area; in addition, retail rates in Austria have generally been below euro area rates in recent years. Moreover, loan quality may have also played a role, given the comparatively modest indebtedness of Austrian households.

The still high proportion of foreign currency loans in total loans remains a major risk factor for the financial position of Austrian households. Although the share of foreign currency loans in total loans has fallen by more than 9 percentage points since 2008, 21.2% of the total loan volume to Austrian households was still denominated in foreign currency in the third quarter of

Interest expenses decrease further

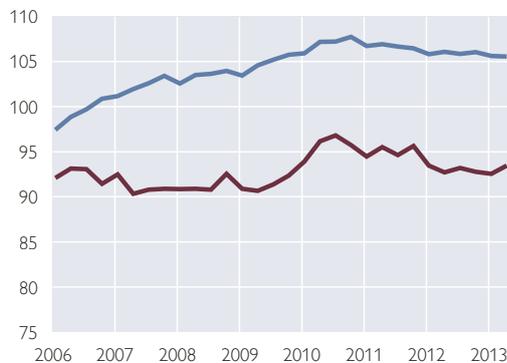
Share of foreign currency loans drops rapidly

Chart 12

Household Risk Indicators

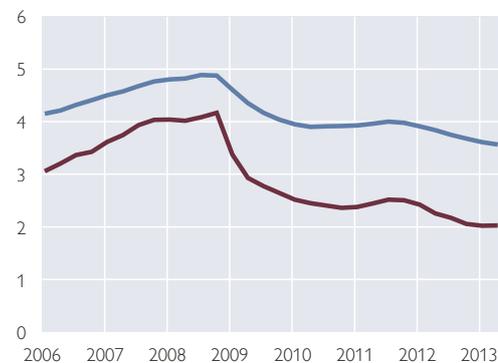
Liabilities

% of disposable income



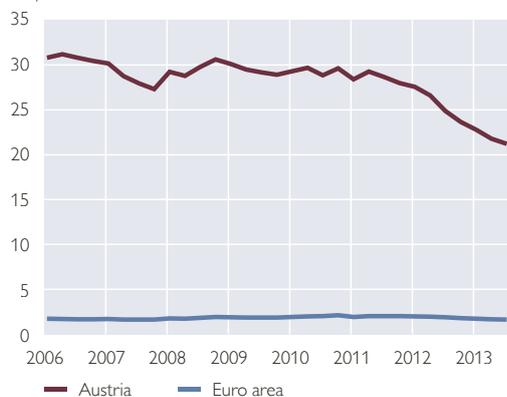
Interest Expenses

% of disposable income



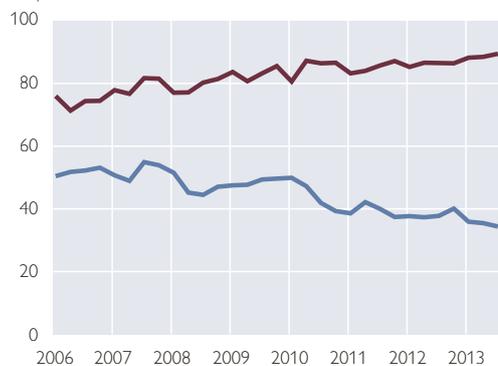
Foreign Currency Loans

% of total loans



Variable Rate Loans

% of total new loans



Source: OeNB, Statistics Austria, ECB, Eurostat.

Note: Figures for the euro area represent only the interest rate expense on euro-denominated loans.

2013. This considerable reduction highlights the effectiveness of the Austrian Financial Market Authority's minimum standards for granting and managing foreign currency loans, which aim at substantially limiting new foreign currency lending to households.⁶ Almost 95% of the foreign currency loans outstanding were denominated in Swiss francs, around 5% in Japanese yen. Since September 2011, when the Swiss National Bank set a maximum exchange rate of CHF 1.20 to the euro, the appreciation of the Swiss franc had come to a halt.

Residential Property Prices Continue to Rise

In the first half of 2013, prices in the Austrian residential property market continued to rise, albeit at a slightly slower pace than last year. In Vienna, where price hikes had been especially pronounced, prices surged 8.3% year on year, while in Austria without Vienna, the price increase was 3.4%. Since 2007, residential property prices in Austria have soared by almost 37% between 2007 and the second quarter of 2013, which contrasts with a slight reduction of residential property prices in the whole euro area (chart 13). To some degree, the price increases in Austria reflect a catching-up, as prices

had been virtually flat in the years before 2007. Other factors behind these price developments were increased demand due to immigration and possibly also a flight to real assets.

Thus residential property price increases in Austria not only far surpassed the rate of general price increases by far but also the rise in net disposable income, reducing the affordability of housing notwithstanding the interest rate reductions of the past years. From an investor's perspective, the rising ratio of property prices to rents in Vienna indicates a decreasing yield on property investments, implying that factors other than pure yield considerations played a role.

While the developments of residential property prices – in Austria in general and in Vienna in particular – certainly merit closer attention from a financial stability view, a number of factors might put these developments into perspective somewhat: Growth rates of mortgage loans were moderate during the price hikes, and household debt is low in an international comparison. Moreover, the construction sector is not inflated, as the share of housing investment in GDP has risen only very moderately since the onset of the price increases.⁷

⁶ In January 2013, the Austrian Financial Market Authority (FMA) published a new version of its *Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles*. Prepared in cooperation with the OeNB, the new version specifies more stringent guidelines for dealing with foreign currency loans.

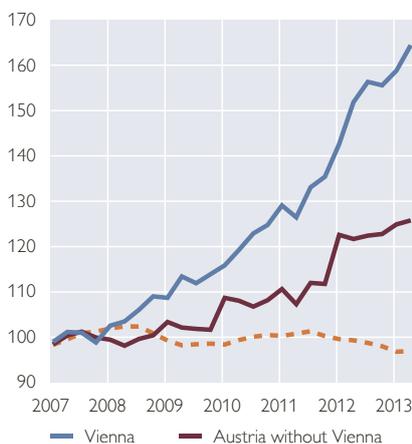
⁷ For a more detailed analysis of the Austrian residential property market, see Schneider, M. 2013. *Are Recent Increases of Residential Property Prices in Vienna and Austria justified by Fundamentals?* In: *Monetary Policy and the Economy Q4/13*.

Chart 13

Residential Property Price Indicators

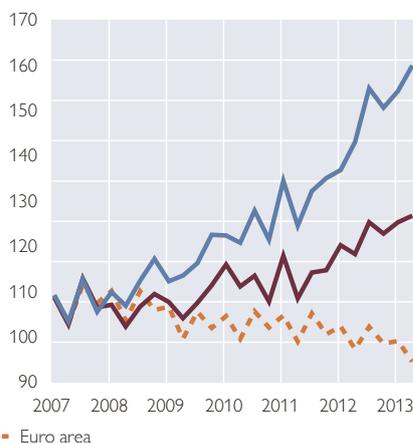
Residential Property Price Index

2007=100



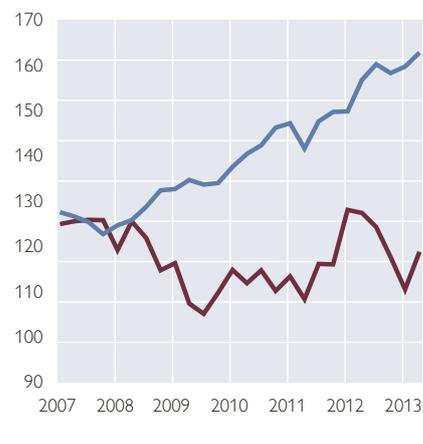
Index in Terms of Net Disposable Income¹

2007=100



Index in Terms of Rents²

2007=100



Source: OeNB, Vienna Technical University, ECB, Statistics Austria.

¹ Residential property price index divided by index of net disposable income of households.² Residential property price index divided by index of apartment rents.

Box 1

Austria's Fiscal Advisory Council Will Be Part of the Newly Established Governance System in the EU

The Strengthened Fiscal Surveillance Framework of the European Union

The newly implemented fiscal framework of the EU for preventing and correcting excessive government deficits in the Member States consists of a complex system of preventive and gradual enforcement mechanisms that include multidimensional fiscal rules and surveillance procedures at the EU level as well as at the national level. According to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union as well as Directive 2011/85/EU and Regulation (EU) No 473/2013 (the "Two-Pack"), compliance with prudent fiscal policymaking is to be supported by country-specific numerical fiscal rules, transparency requirements, standards for budgetary frameworks, common timelines and independent bodies at the national level. Fiscal councils (independent bodies) at the national level "shall ... provide public assessments with respect to national fiscal rules", among other things related to significant deviation from the medium-term budgetary objective or the budget adjustment path toward it, and with respect to budgetary forecasts of the government authorities, as stipulated in Article 4(4) and Article 5 of Regulation (EU) No 473/2013. According to Article 4(4) of Regulation (EU) No 473/2013, the national medium-term fiscal plans and draft budgets have to be based on independent macroeconomic forecasts, and the budgetary forecasts have to be produced or endorsed by independent fiscal councils. Austria's multidimensional numerical fiscal rules were established by the Austrian Stability Pact of 2012, with headline and structural budgetary limits, expenditure limits and public debt limits at the central and subnational levels of the state. Strong, country-specific numerical fiscal rules consistent with the budgetary objectives at the EU level and independent fiscal councils are seen as cornerstones of the strengthened EU budgetary surveillance framework.

Austria's Fiscal Advisory Council (Fiskalrat)

In Austria, the Government Debt Committee, which was established in 1970 and hosted by the OeNB from 1997, was endowed with fiscal monitoring functions in accordance with EU law. The Government Debt Committee has recently been renamed and is now the Fiscal Advisory Council ("the Council"). It was constituted in November 2013 in accordance with the Federal Law Gazette I No. 149/2013 (adopted in July 2013). Its mandate is broad and comprehensive: The Council has the formal legitimation to comment and make recommendations on all matters of fiscal policy and on other matters of the general orientation of economic policy insofar as it is related to fiscal policy.

Tasks According to the Austrian Federal Law Establishing the Fiscal Advisory Council (No. 149/2013)

The Council has to take part in governing the public debt of all levels of government (i.e. central government, provinces and municipalities) and the social security funds in Austria with the following main duties:

- Assessing the current fiscal situation and compliance with the national fiscal rules with an outlook for the future;
- Analyzing the economic effects of financial operations in connection with the indebtedness;
- Analyzing the sustainability and the quality of budgetary policies;
- Providing recommendations and reports on the fiscal policies, taking economic and financial market conditions, the national fiscal rules, the EU regulations and Austria's fiscal policy objectives into consideration;
- Contributing to shaping public opinion in connection with its tasks.

Institutional Setting of the Fiscal Advisory Council

The institutional design of the Council will be similar to that of the Government Debt Committee. The Council also has 15 members and 15 deputy members, three of them without voting rights. Six members are appointed by the federal government (among them the Council's president). The Austrian Federal Economic Chamber and the Austrian Federal Chamber of Labour nominate three members each. The nominees without voting rights are delegated from the Conference of Provincial Governors and from the associations of cities and municipalities. Furthermore, representatives of the OeNB and the Parliamentary Budget Office are entitled to take part in every meeting of the Council in an advisory capacity. Since 1970, the body and its predecessor have had four presidents, all of them university professors of economics. Members of the Fiscal Advisory Council must be recognized specialists in the fields of fiscal and budgetary matters. Under the new law, they are not permitted to request or take instructions from the body by which they have been appointed or from any other organization. All members of the Council will be appointed for a period of six years (four years for the predecessor body). Resolutions are passed by a simple majority. In the event of a tie, the Chairperson has the casting vote. The Council establishes its own rules of procedure; it may install subcommittees and nominate additional experts. The Council's staff is provided by the OeNB, and the Council is organized as a separate unit in the Economic Analysis Division.