EBCI Vienna Initiative

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European Bank Co-ordination Initiative - Full Forum Meeting

As agreed during the first "Full Forum" meeting in Brussels in September 2009, the second "Full Forum" meeting of the European Bank Coordination Initiative took place in Athens, Greece on March 18/19, 2010. At the conclusion of the meeting, the organizers issued the following statement:

The European Bank Coordination ("Vienna") Initiative, launched at the height of the global financial crisis in January 2009, has been a success and can now broaden its scope to support the region's return to a sustainable growth path. While maintaining parent bank engagement, this will focus on remaining challenges, including excessive reliance on external financing, weak credit growth and large exposures in foreign exchange.

The Initiative has served as an unprecedented public-private sector collective action platform, involving home and host authorities of large cross border groups operating in Emerging Europe, the International Monetary Fund (IMF), the European Commission, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the World Bank Group, and the bank groups. The ECB has been an observer.

The IMF and the European Union have provided extensive balance of payments support packages of over €50 billion, alongside with International Financial Institutions (EBRD, EIB and the World Bank Group) which have committed to make available up to €25 billion under the Joint IFI Action Plan, of which over €19 billion have been delivered. The large bank groups with systemic presence in those countries have committed to maintain their exposure and keep their subsidiaries well capitalized. At the same time, host authorities have pursued appropriate macroeconomic stabilization policies, backed up their deposit insurance schemes, and provided local currency liquidity as needed. Home country authorities have supported the operations of their cross-border banks. Finally, the ECB's policy of enhanced credit support has trickled down through cross border banks to help liquidity outside the euro zone. Foreign banks remain strongly committed to the region.

As a result, the region has weathered the crisis better than expected and recovery is on the way, with some countries already back on a growth path.

The focus of the Initiative can now broaden its scope, by also considering the financial sector challenges in putting all of the region's economies on a strong and sustainable growth path. Most importantly, it will address the twin vulnerability of weak domestic capital markets and limited reliance on domestic sources of finance, on the one hand, and lending in foreign exchange to borrowers without foreign exchange income, on the other hand.

Moreover, it is essential to identify new lending opportunities and instruments to stimulate lending like risk sharing mechanisms. Joint action by the public and private sector can be taken on an individual country basis while taking into account cross-border linkages. Authorities in the region can foster the smooth development of domestic capital markets, *inter alia*, by (i) credibly stabilizing their macroeconomic policies, maintaining low inflation, and creating conditions for sustained recovery, including by a more effective use of EU funds; (ii) developing domestic market infrastructure, instruments, and legal frameworks; and (iii) developing appropriate prudential regulation on foreign currency lending to support the process.

IFIs and European institutions are supporting this process according to their mandate and geographical remit.

Banks also play a vital role in achieving sustainable credit. They have already initiated a number of steps to enhance the operational risk management aspects of their operations in the region.

Banks will support the return of sustainable lending growth, while—macroeconomic and regulatory conditions permitting—substantially intensifying their efforts to reduce vulnerabilities related to foreign currency lending and will work to define and implement best practices to be applied on a country-by-country basis.

To this end, two private–public sector working groups will be set up to discuss appropriate ways to support the absorption of the EU structural funds in the region, and to develop capital markets in local currency. The working groups will be developing forward-looking proposals to be submitted to participants by end-July 2010 and to be discussed in the next Full Forum meeting, which will be held in Brussels.