



Vienna 2 Full Forum Focuses on Deleveraging and Bank Resolution^[1]

The European Bank Coordination (“Vienna”) Initiative held its fifth Full Forum Meeting in Brussels on 9 November, 2012

Olli Rehn, Vice-President of the European Commission, which hosted the event, welcomed the participants: “We are turning the lessons we have learnt from the crisis into practical solutions. The necessary measures, in the area of bank recovery and crisis management and the banking union, impact the relations between home and host country authorities. This is where the Vienna Initiative provides support – by offering a coordination platform and strengthening the voice of host countries.”

Vienna Initiative Steering Committee Chairman, National Bank of Poland President Marek Belka, stressed that decisions taken within the Eurozone had to take into consideration the interests of parties outside the single currency bloc. He stressed that actions taken by authorities in one country should not lead to instability in another jurisdiction and that the banking union should promote not only financial stability, but also ensure equal powers and obligations for all participating parties. A right balance between transfer of supervisory powers and responsibility for financial stability should be safeguarded.

Moderate deleveraging continuing with significant country variation

Recent BIS data as well as Vienna 2’s own banking survey, presented at the meeting, showed that funding withdrawal by western banks vis-à-vis Central Eastern and South Eastern Europe continued at a moderate, but slightly faster pace in Q2 2012 than in Q1 2012 (see new [Deleveraging Monitor](#)). The cumulative funding withdrawal from the region, excluding Russia and Turkey, has been 4 percent of GDP, since mid-2011, with several countries hit significantly harder. The funding withdrawal significantly differs among countries, depending on local conditions. At the same time, credit growth has come to a halt. Tightening credit supply played a role, although weak credit demand is also a driver at the moment. It was emphasized that supply-side constraints encompass both international and domestic factors. It was also noted that funding withdrawal was part of parent bank efforts to diversify funding sources toward more local stable funding. Developing local capital markets was considered particularly important in this regard. Overall, it remains imperative that funding withdrawal takes place in an orderly fashion.

Innovative framework for host country stability

^[1] The meeting brought together banking sector supervisors, central banks and fiscal authorities from host countries in emerging Europe and home countries of major EU cross-border banking groups operating in this region, the representatives of the parent banks as well as officials from the European Commission, the European Bank for Reconstruction and Development, the European Investment Bank, the International Monetary Fund, and the World Bank Group. The European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the Financial Stability Board (FSB) were observers.

As a practical application of the principles of dialogue between the public and private sector embodied in the Vienna Initiative, an innovative Host Country Cross-Border Forum was convened in late October by the Croatian National Bank. It brought together senior management of Croatia's main banks, their parent banking groups, the home regulators and the Croatian regulator, together with representatives from the IFIs to discuss issues relating to the banking system that is predominantly owned by euro zone based bank groups. The constructive and candid discussions contributed to a better understanding of cross-border spillovers and their implications for Croatia's financial system. The Full Forum suggested that other host country authorities might wish to establish similar platforms to engage cross-border stakeholders in their systemically important financial institutions.

Host countries should have larger say in bank resolution

The Full Forum discussed the EU draft directives on recovery and resolution and concluded that host countries should have a clear and decisive say in all matters affecting their domestic financial stability. Specifically, it was deemed imperative that the impact of measures by home countries on host countries is taken into account. Participants stressed the need to further involve host country authorities in the decision-making of supervisory and resolution matters as well as to identify their rights as well as responsibilities. Many participants stressed the importance of keeping macroprudential tools at the national level. Regarding the proposed banking union framework, the Full Forum stressed that a speedy implementation of a full banking union would benefit Europe at large. Many participants would welcome efforts to enhance conditions for "opting in" by non-euro zone countries, both in terms of responsibilities and access to backup facilities.

Accelerate the resolution of non-performing loans

Participants noted that the high level of impaired assets in some countries of emerging Europe constitutes an obstacle to new lending and ultimately to the return to growth. Following the recent Vienna Initiative working group report on non-performing loans (NPLs), implementation workshops were held and NPL workout programs have been put in place in several countries. The Full Forum recommended to swiftly expanding implementation efforts to all countries where NPLs have become a major drag on bank balance sheets.

Welcoming the new Joint IFI Action Plan for Growth

The Full Forum welcomed the just announced Joint IFI Action Plan for Recovery and Growth for CESEE of the EIB, the World Bank Group and the EBRD. The pledged more than EUR 30 billion by the three institutions in 2013-14 should contribute to achieving the objectives of the Vienna 2 Initiative in the affected countries.

The Vienna 2 Initiative Steering Committee is pleased to announce the new website www.vienna-initiative.com. Information on the Initiative including working groups, papers, research, and upcoming events can be found on the site.

[1] The meeting brought together banking sector supervisors, central banks and fiscal authorities from host countries in emerging Europe and home countries of major EU cross-border banking groups operating in this region, the representatives of the parent banks as well as officials from the European Commission, the European Bank for Reconstruction and Development, the European Investment Bank, the International Monetary Fund, and the World Bank Group. The European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the Financial Stability Board (FSB) were observers.
