EBCI | Vienna Initiative

Focus on reviving credit growth as external funding withdrawal in emerging Europe picks up

30 July, 2013

The Vienna 2 Initiative Steering Committee[1] met in Luxembourg on 17 July, 2013 to discuss deleveraging trends, work to address asset quality issues in emerging Europe, and the implications for the proposed EU resolution framework on emerging European economies, including non-EU member countries. For the first time, the representatives of major parent bank groups active in emerging Europe were invited to and presented their new role and commitment to the Steering Committee.

External funding reductions pick up in first quarter

The Steering Committee noted in its new Deleveraging Monitor that there were further reductions in external funding from western banks to Central, Eastern, and South Eastern Europe (CESEE) excluding Russia and Turkey during the first quarter of 2013. Furthermore, the forecast provided in the previous Deleveraging Monitor that the second wave of funding reductions that had started in mid-2011 would taper off did not prove correct. In fact, cross-border funding restrictions persist, with significant across countries, due, in part, to the impact of external perceptions of domestic climates. Private sector credit growth remained weak, with the exception of Turkey, and loan-to-deposit ratios declined further. There is a concern that deterioration in market sentiment vis-à-vis emerging market countries that started in late May may intensify funding reductions. The continued close monitoring of deleveraging with an eye for systemic risks to the region will therefore remain very important.

The new EU resolution framework

The Steering Committee discussed the proposed EU resolution framework and decided that it will assess the potential implications for emerging European countries. It aims to submit comments to key European authorities in the autumn.

Focus on non-EU members

The Steering Committee also discussed the implications of the single supervisory mechanism for non-EU countries. While the Banking Union project is progressing for euro zone members, with possibilities for other EU member states to opt-in, non-EU members do not have effective channels for linking to the new single supervisory mechanism, even though their banking sectors are dominantly owned by euro-zone based banks. The Vienna 2 Initiative is preparing a plan for approaching the competent European agencies for an effective coordination between the single supervisory mechanism (SSM) and non-EU members.

[1]The EBRD, EIB, IMF, World Bank Group, and European Commission are members of the Steering Committee as well as Italy, Romania, and Albania which represent home and host authorities respectively and UniCredit, Raiffeisen Bank International, and Eurobank which currently represent the parent banks involved in the Vienna 2 Initiative. The Committee is chaired by Marek Belka, President of the National Bank of Poland.

EBCI Vienna Initiative

Urgency to address high non-performing loans and SME financing

The Steering Committee reiterated the urgent need to deal with rising non-performing loans (NPLs) in the region. The Vienna 2 Initiative will update the recommendations from its Working Group on NPLs and propose strategies to deal with banks risk absorption capacity for new lending. A new working group will be set up to assess current national guarantee schemes and the potential for International Financial Institutions (IFIs) intervention in this area to support small and medium enterprises' (SME) access to finance.

Bank participation in the Steering Committee

The Steering Committee is pleased to announce that parent bank representatives will participate in the Steering Committee, subject to data confidentiality. The next Full Forum meeting of the Vienna 2 Initiative is scheduled for October 21-22, 2013 in Brussels.

***

For additional information and the latest publications visit: www.vienna-initiative.com.

Contacts:

European Commission: Simon O'Connor, Spokesperson for Economic and Monetary Affairs, Tel. +32 (0)2 296 73 59, E-mail: simon.o'connor@ec.europa.eu

EBRD: Anthony Williams, williama@ebrd.com, Press office: Tel: +44 20 7338 7805

EIB: Christof Roche: Email: c.roche@eib.org

IMF: IMF Media Relations: Email: media@imf.org, Tel: 202-623-7100

World Bank Group: Kristyn Schrader-King, Senior Communications Officer, Europe & Central Asia Region, The World Bank, Tel: +1-202-458-2736, Email: Kschrader@worldbank.org