

Priorities for the Vienna Initiative in 2015, by

**Marek Belka, President of NBP, Chairman of the VI Steering Committee
at the Meeting of the Full Forum of the Vienna Initiative**

Brussels, November 13, 2014

Speaking points prepared for delivery (as of November 6th, 2015)

Ladies and Gentlemen, Dear Colleagues,

As many of us know, the Vienna Initiative is a key forum for dialogue among International Financial Institutions, national authorities and the private sector. We have a well-defined framework to share ideas and understanding on how to revive lending in Central, Eastern and Southeastern Europe. Before we take stock of the economic situation in the region, I would like to take stock of our achievements and propose priority tasks for the future.

I am very grateful that it is the European Commission who hosts us today. This is a clear sign of support for our work and the need for it.

So, what have we achieved since our last meeting in 2013?

- We have continued to monitor the deleveraging and credit developments in the region. The reports are produced quarterly. The latest one will be presented later in this session.
- We have provided input to the discussions on the impact of the Banking Union on non-EU countries and non-opt in countries. We have had several meetings with the ECB and EBA on the future cooperation procedures. In this context, the EBA has started the supervisory confidentiality assessments in several countries except for Kosovo and Ukraine. I have asked President Enria to engage also in these two countries.
- We have prepared a report on supporting lending to SMEs in the CESEE region by credit guarantees. It will be delivered today.
- We have organized cross-border banking fora, including tomorrow's Ukraine Financial Forum, where the donor coordination of technical assistance to Ukraine will be discussed.
- We have developed a plan on addressing the level of NPLs in the countries where it is particularly high. We will discuss a plan for country specific actions this afternoon.

You will agree that these are considerable achievements. But what are we going to do next?

There are a number of tasks for the Vienna Initiative, which I would group into three blocs: credit recovery, Banking Union and new funding models.

First, on credit recovery

1. We will continue monitoring deleveraging.

Regulatory requirements, high cost of capital and low profitability make cross-border deleveraging a partially necessary option for capital-strained banks. But some economies of CESEE may need a higher amount of credit than that available under the funding model based on domestic savings.

The Vienna Initiative should assess the impact of a reduction in parent bank funding and the capacity of subsidiaries to mobilize funding on the local market. It should also propose policy actions of the key central banks which may help in mitigating the negative effects of deleveraging. The Vienna Initiative should also start considering what the possible options are for the local banking sectors, should international investors gradually reconsider their strategies in some of the countries.

2. We will work on unblocking NPLs in some economies.

The high level of NPLs drags on bank's capital. The AQR revealed the actual scale of asset quality issues at home countries, and in some economies of CESEE the NPL overhang is already very high.

The blockages to the effective NPL reduction should be addressed in a targeted group of countries. This should be a privately-funded process, conducted in close coordination with the country authorities. The IFIs should play the leading role of a trusted broker, provide the necessary know-how and financing where appropriate, as well as attract potential investors. The first countries have already indicated their interest in starting the process.

3. We will encourage the use of credit guarantees.

There is still some room for improvement in defining the objectives and design of the credit guarantee schemes. I hope that the report to be delivered today will help in promoting the best practices in this regard. The design of guarantees should broaden access to finance, while limiting the adverse selection of high-risk borrowers.

I would encourage the working group to engage in a systematic informative campaign, and the IFIs – to simplify and expand the offer of products, as well as provide advisory services and technical assistance. An EBA-endorsed workshop with regulators on guarantee schemes would also be advisable.

Second, on the Banking Union

1. We will monitor the functioning of the SSM and future EU regulatory initiatives.

The year 2015 will be a kick-off year for the SSM and the year when the operational framework for the SRM will be created. The Vienna Initiative should focus on ensuring

smooth cooperation between the Banking Union and the non-participating countries, as well as striving for the right balance of power between the euro zone and the host jurisdictions in all cooperation structures. It should monitor the evolution of the Banking Union and provide inputs in the future consultations.

The Vienna Initiative should also devote its attention to increase the awareness of the importance of macroprudential policy. While, the macroprudential policy should be left in hands of national regulators, decision-makers should take into account potential spill-over effects.

2. We will assist non-EU countries in deepening cooperation with the EU

Subsidiaries of EU banks often play a systemic role in the European countries that are not members of the European Union. At the same time, they tend to account for a marginal part of the total group assets. From the supervisory and regulatory perspective, the existing channels for cooperation may be insufficient. The Vienna Initiative should leverage its role of a coordination platform with non-EU countries, in particular in Southeastern Europe and Ukraine.

Third, on support for the development of new funding models

1. We will support the development of capital and debt markets in the CESEE.

Market financing tends to be less cyclical than bank lending, therefore a heavy reliance on traditional bank lending exposes companies to tighter financing constraints in times of deleveraging.

Therefore the Vienna Initiative may work on increasing the role of the capital markets in financing investment. It may promote integration of capital markets with appropriate and equal protection of issuers and investors. This would be in line with the creation of the Capital Markets Union - a new EU priority. Practical ideas to foster this objective are a matter for discussion - there are good examples in Western Europe, where an IFI set up an investment vehicle, buying and pooling corporate debt issued by SMEs. Such vehicles could also be founded in the CESEE region, initially as closed funds, but with the ultimate goal to offer investment certificates or shares to other investors. Alternatively, the IFIs could guarantee securities into which SMEs' debt would be bundled. Such a scheme would facilitate the provision of credit through an alternative channel to banks.

Let us use the opportunity of today's forum to discuss these ideas.