

European Bank Coordination “Vienna” Initiative moves to meet new challenges

Unique public/private forum helped stabilise emerging European economies during crisis

The European Bank Coordination "Vienna" Initiative (EBCI) – a unique public and private forum that helped emerging Europe weather the worst of the global economic crisis – is well placed to continue to play an important role in addressing financial sector challenges in the region.

A Full Forum of the EBCI met in Brussels on 16/17 March to review its achievements over the past two years and to map out its strategy for the future.

The group that brings together leading International Financial Institutions (IMF, EBRD, EIB, the World Bank Group), European Institutions (European Commission, ECB as observer) home and host country central banks, regulatory and fiscal authorities as well as the largest western banking groups active in emerging Europe concluded that this special forum should be maintained but modified to address new challenges.

Created at the height of the crisis, the ECBI helped ensure that foreign banks remained engaged in Eastern Europe and that overall commitments remained intact, in conjunction with IMF and EU-led balance of payments support packages and financial sector support by the Joint IFI Action Plan participants.

The group also informed and helped formulate key policy decisions that stabilised the economies of the region. Such decisions included the provision that western government support packages were extended to bank subsidiaries in Eastern Europe and that governments in emerging Europe implemented appropriate macro economic policies to weather the deep crisis. These were key factors in restoring calm to the financial sectors in the region.

The recovery from the crisis is now gaining ground and ensuring a sound financial environment is a key policy concern. Key questions of policy and regulation will have to be addressed. The EBCI can play an important role in dealing with any after-shocks from the global crisis.

The Brussels meeting also reviewed work undertaken by the EBCI since March last year under two private-public sector working groups. One addressed the development of local currency markets and the other the role that banks can play in helping with the absorption of EU funds.

A [report \(122KB - PDF\)](#) from the working group on local capital markets came up with a series of recommendations aimed especially at reducing the dependency of the region on

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foreign currency lending. It concluded that the approach should be country specific but coordinated between the home and host authorities of cross-border groups.

It emphasized that all stakeholders must play a role in order to limit foreign currency lending to unhedged borrowers and develop local capital markets where size permits. Its recommendations included a discontinuation of new foreign currency lending to unhedged borrowers in non-euro foreign currencies, especially in Swiss franc and Japanese yen and mandatory disclosure of the risks of borrowing in foreign exchange in order to enhance consumer protection.

However, such limitations can work only if at the same time the authorities, with support from IFIs as necessary, develop an environment that promotes longer-term savings in local currency to fund local currency lending and develop local capital markets.

A [report \(215KB - PDF\)](#) from the working group on the role of commercial banks in absorbing EU funds noted that absorption rates of EU funds were especially low in some new EU Member states, because of weak institutional capacity, slow generation of projects following EU accession and constraints in co-financing from national sources.

In countries with particularly low absorption rates the report identified a potential role for private banks, for example through the issuance of a letter of comfort and in exploiting the possibilities offered by the JEREMIE programme, an EU initiative that allows EU states to use EU Structural Funds to finance small and medium-sized enterprises (SMEs).

A wider role for banks in the future could be further examined. Pilot projects in Bulgaria and Romania could explore these roles before a more wide-ranging design could be considered in the next budgetary period.

The two reports will be made public and the application of their recommendations will be monitored by the EBCI.

EBCI participants agreed that the two working groups delivered high value added and could serve as a model for the future. In this context, participants have identified two new topics: one on the implications of selected issues of Basel III and another on the challenges of managing non-performing loans.

The format will also be retained in order to address any new financial challenges that may emerge in the future. This implies that regular bilateral country meetings will be organized as needed and a new Full Forum is planned for 2012 in Vienna.