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Full Forum Meeting of the European Bank Coordination "Vienna 2.0" Initiative

Public-private forum boosts coordination to support financial sector stability in emerging Europe

Stability of the financial sector and ensuring orderly credit conditions in emerging Europe are in the shared interest of the private sector and home and host countries. To this effect, principles to avoid disorderly deleveraging in emerging Europe were agreed by officials and private sector banks at a meeting in Brussels (Annex). The agreement aims to better coordinate banking sector regulation and supervision and to contain negative spill-overs between the euro area and emerging Europe. It emphasises the central role of European institutions and the international financial institutions in facilitating this coordination.

These basic principles adopted at the meeting on 12/13 March of the fourth Full Forum of the European Bank Coordination ("Vienna") Initiative aim at boosting coordination between host and home countries on cross-border banking activities.

Hosted by the European Commission, the meeting brought together banking sector regulators and supervisors, central banks and fiscal authorities from host countries in emerging Europe and home countries of major cross-border banking groups. The meeting was also attended by representatives of the banks and officials from EU institutions, (the European Banking Authority, the European Systemic Risk Board), the International Monetary Fund, European Bank for Reconstruction and Development, European Investment Bank and the World Bank Group. The European Central Bank and Bank for International Settlements participated as observers.

The Vienna Initiative was originally launched in 2009 at the height of the global financial crisis to help maintain financial sector stability in emerging Europe, including by encouraging cross-border banking groups to maintain their exposure to the region and adequate solvency levels for their subsidiaries. The second phase of its activities is a response to renewed risks to the region stemming from the international environment.

The meeting this week in Brussels outlined responsibilities for key stakeholders, specifically with a view to improving ex-ante coordination.

The European institutions should play a central role in supervisory coordination, macroprudential oversight and mediation among national authorities.

International Financial Institutions should support the implementation of the agreed principles by their involvement in surveillance, data collection, policy advice and financial support.

Banking groups active in the region and national as well as European authorities should cooperate closely in efforts to maintain credit conditions consistent with sustainable economic growth, according to the proposals.

As implementation of the proposals is crucial to their success, a Steering Committee will be responsible for converting the principles into operational recommendations.

The Full Forum also considered the reports of its two Working Groups, one on the impact of Basel III rules on emerging Europe and the other on the resolution of non-performing loans (NPLs). The report on Basel III highlights a number of implications of the new rules for emerging markets, particularly in the liquidity management area, and offers several recommendations to address them. The report points out that future regulation and calibration should better take account of the emerging market perspective and market development needs.

The report on NPLs finds that possibilities exist for stimulating resolution to support recovery. The Working Group on the resolution of NPLs calls for a pro-active cooperative approach to deal with the NPL problem with distinctive roles for each stakeholder: the relevant country authorities should press ahead with removing burdensome regulatory, tax and legal impediments to NPL resolution identified in the report; regulators should tighten supervision appropriately so as to eliminate incentives to let NPLs linger; banks should step up their collective effort to speed up NPL resolution; and avenues for out-of-court debt restructuring and corporate rehabilitation negotiations between debtors and creditors should be explored.

The reports were adopted and will shortly be made public on the websites of the participating IFIs and the European Commission. The participants commended the reports' high quality that reconfirms the usefulness of the European Bank Coordination Initiative's private-public platform in analysing and informing policy makers of region-wide systemic issues.

ANNEX

Basic Principles for Home-Host Authority Coordination Under Vienna 2.0

As parts of the European banking sector undergo a process of deleveraging, it is important to recall that stability of the financial sector and orderly credit conditions in CESEE are in the shared interest of the private sector and home and host country authorities. The following interconnected principles are designed to enhance cooperation and coordination among the various stakeholders so as to help ensure mutually beneficial outcomes even in times of global financial stress and a shifting financial-sector landscape.

1) Principle of free allocation of liquidity and capital consistent with safeguarding financial stability. The commitment to free movement of bank liquidity and capital in accordance with the Treaty for EU members is reaffirmed. In this context, ex-ante coordination of financial

stability measures among home and host authorities is essential, especially in conditions of financial market stress.

2) Principle of matching the supervisory framework with the cross-border integration of financial markets: Arrangements for cross-border supervision need to be made compatible with the integrated financial markets across Europe. Mechanisms should be adopted to involve jurisdictions outside the EU where European banking groups are active.

3) Principle of fiscal authority cooperation: Supervisory coordination must be accompanied by coordination among the fiscal authorities, particularly with regards to crisis management and resolution issues.

4) Principle of considering spill-overs from national actions. Supervisors, central banks, and fiscal authorities must take account of the implications of their actions for other national jurisdictions and for the European financial system as a whole.

5) Principle of the central role of European institutions: The European Commission should play its role in promoting an EU single and stable market in financial services. The European Supervisory Authorities should play a central role in supervisory cooperation and mediate among country authorities. The European Systemic Risk Board should play a key role in macroprudential oversight.

6) Principle of private sector engagement. Banking groups active in the region should cooperate actively with national authorities in efforts to promote financial stability, orderly credit conditions and sustainable cross-border banking.

7) Principle of IFIs involvement. International organizations, internalizing the impact of cross-border spillovers, should promote adjustment to more robust financial systems. They can assist the implementation of these principles through their surveillance, mediation, timely data collection, and financial support functions.

8) Principle of focus on implementation. Participants are committed to the structured implementation of these principles. A Steering Committee will report on the proposed approach to operationalize these principles.