

EBCI / Vienna Initiative

WHAT NEXT?

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The strengths of the Vienna Initiative/ EBCI

- Helped prevent banking and exchange rate crises in EM Europe at the height of the global financial crisis
- Leveraged each player's incentives to develop a generally agreed consensus:
 - Home authorities extended bank support to Eastern European subsidiaries;
 - Host authorities committed to sound macro-financial policies and DI;
 - IFIs and EU provided massive balance of payments support and bank support in a complementary way;
 - Banks maintained exposures and recapitalised subsidiaries.
- The consensus-building carried over into the local currency and the EU structural fund working groups



Key elements of success

- Unique composition: a private-public platform for coordination and consensus building
 - Process itself is as important as its outcome
- Informing decision-makers of other fora
- Governance: flexible ('ad hoc') with some light informal structure
- Combination of coordination + investment



An example of new type task: The local currency working group

- All stakeholders contribute to good outcome:
- Process was important for internalising other stakeholders' views on which to build consensus:
 - Banks agreed to discontinue the riskiest forms of lending in FX;
 - Regulators agreed to gradual shifts towards local currency lending contingent on market development and in a coordinated manner;
 - IFIs agreed on supporting local currency development, including through bond issuance.
- Successful test for this type of work



The way forward:

Option 1 – Continue with modified mandate

- Discontinue the country-specific meetings on exposures
- Modify remit to focus on regularly identified emerging issues: location of bank capital; post-crisis balance sheet cleanup; bank levy etc.
- Modify governance slightly to match remit
 - Small Steering Committee with representatives of home and host authorities, banks, EU, IMF, EBRD, other IFIs to discuss emerging issues and identify topics of mutual interest;
 - Full Forum discusses and, subject to endorsement, publishes the results



The way forward:

Option 2 – Exit

- Declare victory in the press release for this Full Forum and pronounce that the Initiative have fulfilled its purpose
- But maintain readiness for rapid resuscitation of the Initiative should the need arise in this region or another.



Pros and cons

- **Option 1:**

- + Continued consensus-building through joint work
- + Unique value to inform policy makers
- + Regional coverage complements other for a
- + Can be used in other regions if the need arises
- As recovery gets underway, increasingly diverging interests weakens commitment to consensus-building
- Consensus-building in working groups is resource consuming

- **Option 2:**

- + Legacy of high credibility of a successful PSI
- + Participants already meet in several other fora and topics can overlap
- An avenue for consensus-building with proven success is lost.



On balance :

Option 1 in during the next year





Let's discuss!

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