

## **Special Meeting of the European Bank Coordination “Vienna” Initiative**

### **Official side of the public/private forum met to co-ordinate policies vis-à-vis emerging European economies**

Public sector officials from within the European Bank Coordination "Vienna" Initiative met in Vienna on 16 January with the aim to enhance the coordination of national policies that could impact the economies of emerging Europe.

The meeting brought together supervisors, central banks and fiscal authorities from host and home countries of major cross-border banks, as well as officials from EU institutions (the European Commission, the EBA, the ESRB) and International Financial Institutions (IMF, EBRD, EIB, and the World Bank Group). The ECB participated as observer.

The purpose of the meeting was to exchange views on how to better co-ordinate national policies in order to avoid adverse cross-border effects in the context of the ongoing bank deleveraging in advanced Europe and to support transition toward a more sustainable banking model in emerging Europe.

The European Bank Coordination Initiative launched in early 2009 helped preserve financial sector stability in emerging Europe at the height of the global financial crisis. Cross-border banking groups maintained their exposures in emerging Europe and recapitalized their subsidiaries under programs supported by the IMF and the EU with positive spillovers to other countries in the region. On this basis, the participation of the private sector in the Vienna Initiative was successful. With systemic risks abating during 2010, the focus shifted towards analyzing issues of regional relevance in public-private working groups, such as increasing the use of local currency and developing local capital markets, managing non-performing loans and assessing the impact of Basel III in emerging Europe.

The euro zone crisis has led to renewed risks in the financial sectors of emerging Europe since mid-2011. Market tensions notably in equity and funding markets have resulted in significant deleveraging pressures in most countries. In order to respond to intensified funding strains and limited market access, several home and host regulators have tightened liquidity provisions.

The public sector parties within the European Bank Coordination Initiative are keen to cooperate to avoid the emergence of uncoordinated and competing policy responses in Europe's closely integrated financial markets. They emphasize the need for coordination and effective dialogue in a regional context between home and host country authorities - including regulators, central banks and fiscal authorities - for which the Vienna Initiative offers a forum complementing EU frameworks. In the absence of coordination, excessive and disorderly deleveraging as well as a credit crunch may be the outcome. Although the

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circumstances are different from 2008/9, there is a similar need for collective action to avoid suboptimal outcomes: this is Vienna 2.0.

It is important that *home country authorities* internalize the cross-border effects on EU and non-EU countries in formulating their measures, and coordinate the implementation of macro-prudential/regulatory policies and their communication with host authorities. In particular, the recapitalization plans of international banks submitted to the EBA should be scrutinized by the supervisory colleges for their systemic impact on host economies, taking into account ESRB's focus on systemic risks.

*Host authorities* should further the development of local sources of funding as market size permits so that banks can reduce excessive reliance on capital inflows. Information sharing between *home and host authorities* should be stepped up to avoid unnecessary ring fencing of liquidity. Furthermore, in particular, in the event of sales of systemically important subsidiaries, home and host authorities should share information and take each other's concerns into account.

The *international institutions* will assess the impact of the aggregate recapitalization plans on the host countries to identify systemic risks and advise on policy actions. They should stand ready to provide external assistance and financial support to banks in host countries within their mandate and balance sheet capacities. They pledge to collaborate closely to maximize their impact.

The official sector participants of the European Bank Coordination Initiative will elaborate the modalities of these principles in the near future building on existing EU frameworks and ongoing work and to ensure their effective implementation by inviting major cross-border banks to future meetings. The first such meeting will be hosted by the EC in Brussels in the near future.