Credit Recovery and Banking Union in focus at Vienna Initiative 2 Full Forum

The Vienna Initiative 2 Full Forum met in Brussels on 13 November. Its key focus was to work towards sustained credit recovery by accelerating balance sheet cleaning, reducing non-performing loans (NPLs) and boosting the use of credit enhancement schemes. It also discussed options to enhance cross-border regulatory coordination between the recently-established Single Supervisory Mechanism (SSM) and emerging European countries that are not already members, with a special focus on non-EU countries in South-Eastern Europe (SEE).

The Forum reached the following key conclusions:

- It endorsed a broad NPL Project under which stakeholders, including the authorities, banks, potential investors in distressed assets and International Financial Insitutions (IFIs), will work together in a selected group of countries to accelerate NPL resolution.
- It encouraged an increased use of credit guarantee schemes to enhance credit provision, especially for small and medium sized enterprises (SMEs). Steps to clarify the regulatory treatment for capital relief have been taken.The Forum encouraged IFIs to take a larger role in strengthening credit guarantee schemes, by supporting development of best practices, broadening the offer of credit guarantees, engaging in systematic information campaigns and providing technical assistance.
- It supported efforts by the European Banking Authority (EBA) and other European institutions to develop close regulatory coordination between the institutions of the banking union, including the SSM, and non-EU SEE countries, where euro zone-based cross-border banks are active..

New Deleveraging and Credit Monitor and CESEE Bank Lending Survey

The Vienna Initiative continues to closely monitor cross-border funding flows and credit conditions through two major instruments.

- The latest CESEE Deleveraging and Credit Monitor (DCM) of November 4 showed that bank deleveraging in CESEE slowed in the second quarter of 2014 while credit growth remains subdued.
- Cross-border banks remain committed to the CESEE region but continue to remain selective, reflecting host country conditions. Funding does not seem to be a binding

constraint on lending at the current continued low levels of demand, while credit quality, at both group and local levels is the biggest drag on lending.

NPL Resolution in CESEE

The overhang of high NPLs is a risk to economic growth by constraining credit recovery in several countries of emerging Europe. The ECB's Comprehensive Assessment and stress tests have helped clarify uncertainty about bank balance sheets, and the results highlight the need for reducing NPLs across Europe. The Forum endorsed the blueprint of a broad initiative with country-specific focus in jurisdictions where authorities, banks and IFIs have been working on NPL resolution and where investors have also shown increasing interest. Where necessary, corporate restructuring will be an integral part of this work. A support and monitoring system will be set up at the regional level. Parent banks supporting local subsidiaries are working towards harmonising their approach to out-of-court corporate restructuring to facilitate the process. IFIs along with the European Commission are partners of the NPL Project.

Credit Enhancement Schemes

The Vienna Initiative 2 Working Group on Credit Enhancement Schemes reported on its findings on how to strengthen the role of credit guarantee schemes (CGSs), to support lending, especially for SMEs. The Working Group found strong demand for credit guarantees in CESEE and highlighted the need to strengthen the existing schemes, enhance their effectiveness, and broaden the supply. EU funds and IFIs can play a key role in supporting CGSs. The report recommends that IFIs undertake regular information campaigns about their credit guarantee schemes and provide technical assistance to enhance effectiveness and efficiency of existing instruments. The report also makes specific recommendations to the regulators, namely it suggests that the conditions for regulatory capital relief be clarified. The Working Group initiated the issuance of a guideline by EBA on the capital relief rules and a workshop with regulators on guarantee schemes is planned for the first quarter of 2015.

Improving regulatory coordination between the SSM and non-SMM countries

The operational launch of the SSM on November 4 was a milestone towards moving to an effective cross border supervisory system in Europe's closely integrated financial markets.

The Forum discussed the collaboration between the SSM and SEE countries. The Forum acknowledged the EBA's work to enhance the information sharing between the SSM and non-EU member SEE countries and proposed a possible Memorandum of Understanding (MoU) on cooperation between the SSM and SEE countries for the consideration of the European authorities, including the EBA and ECB.

The Full Forum paid tribute to Ardian Fullani, the former Governor of the Bank of Albania, for the important contribution hemade during his 1-1/2 year-term on the Steering Committee of the Vienna Initiative, during which he represented the interests of non-EU CESEE countries. In line with the principle of rotation for such roles within the Steering Committee, the Full Forum invited Dimitar Bogov, the Governor of the National Bank of the Republic of Macedonia, to assume this position for the next 18 months.

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The Vienna Initiative was established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in Central, Eastern, and South Eastern Europe. The initiative was relaunched as "Vienna 2" in January 2012 in response to renewed risks for the region from the Eurozone crisis. Its focus is now on fostering home and host authority coordination in support of stable cross-border banking and guarding against disorderly deleveraging. Western banking groups continue to play an important role in the Initiative, both by supporting the coordination efforts and doing their own part to avoid disorderly deleveraging.

*Participants included representatives of Albania, Austria, Belgium, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Greece, Hungary, Kosovo, Latvia, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Sweden, and Ukraine; major bank groups operating emerging Europe: Erste, Intesa Sanpaolo, KBC, Raiffeisen, Societe Generale, and Unicredit; as well as the European Commission, the European Council, the EBRD, the EIB, the International Monetary Fund, and the World Bank Group. The EBA, ECB, ESM and the BIS participated as observers.

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