Vienna Initiative – moving to a new phase

European Bank
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The European Bank Coordination "Vienna" Initiative (EBCI) was launched at the height of the financial crisis to provide a framework for coordinating the crisis management and crisis resolution of financial sector issues that were highlighted by the economic downturn and involved large cross-border bank groups systemically important in the emerging Europe region.

Created in January 2009 it brought together public and private sector stakeholders of EU-based cross-border bank groups present in emerging Europe, including:

- international financial institutions (International Monetary Fund, the EBRD, European Investment Bank and the World Bank)
- European institutions (European Commission and the European Central Bank as observer)
- home and host country regulatory and fiscal authorities of large cross–border bank groups
- the largest banking groups operating in the EBRD region.

The EBRD was a lead founder of the Initiative, using its unique relationships with the private sector as well as governments and its mandate to promote transition and development through the private sector. Since its launch, the Vienna Initiative has held several general policy and country-specific meetings and events in pursuit of its aims.

The Vienna Initiative's aims are to:

- prevent a large-scale and uncoordinated withdrawal of cross-border bank groups from the region – this could have triggered systemic bank crises not only in individual countries but in the region as a whole
- ensure that parent bank groups publicly commit to maintain their exposures and recapitalise their subsidiaries, as part of the overall balance-of-payments support to countries where IMF/EC macroeconomic support programmes have become necessary (Bosnia and Herzegovina, Hungary, Latvia, Romania and Serbia)
- ensure that national support packages of cross-border bank groups benefit their subsidiaries in emerging Europe and avoid a home bias in dealing with Europe's banks
- agree on basic crisis management and crisis resolution principles in the region. Host country authorities are responsible for appropriate macroeconomic policies; liquidity support in local currency irrespective of bank ownership; and supporting their deposit insurance schemes. Parent bank groups – and the home country authorities behind them – are responsible for providing funding in foreign exchange and recapitalising subsidiaries
- strengthen cross-border regulatory cooperation and information sharing in the context of IMF/EC-supported programmes and beyond.

As such, the Vienna Initiative has provided a coordination framework to deal with problems arising from the crisis by agreeing to coordinated solutions and so avoiding an uncoordinated and unilateral crisis response.

Record to date

The Vienna Initiative has successfully completed its crisis-management phase.

- **It has helped resolve the "prisoner's dilemma".** For crisis cases, external sustainability could only be assured if foreign banks remained engaged in the countries in which their subsidiaries work. In IMF/EU programme countries exposure commitment by foreign banks provided for private sector involvement in the stabilisation process.
- **Commitments were upheld.** Parent banks maintained the agreed exposure limits. This was critical particularly as the crisis proved to be worse and the recovery took longer than expected. Subsidiaries were also recapitalised according to stress-test results.
- **Over time consultations allowed for "controlled" deleveraging.** During regular reviews exposure commitments were reduced on a country-by-country basis. This permitted banks to increase room to manage liquidity internationally while still supporting external sustainability.
- **The Vienna Initiative informed as well as supported policy decisions in both home and host countries.** For example, banking sector support packages of home country authorities were allowed for use in the subsidiaries of bank groups; monetary policy tools in host countries such as reserve requirements could be loosened to address weak demand with the assurances that additional liquidity will not be used for capital flight, creating pressure on the exchange rate.

- **The Vienna Initiative was also used to examine issues that benefit from joint private-public sector assessments.** The first two subjects were the development of local currency and capital markets and the role banks can play in helping with the absorption of EU structural funds. The recommendations of the ensuing reports have been published.

Applicability to other regions

The unique public-private sector coordination framework of the Vienna Initiative can be applied to other regions where collective action problems are significant and where coordinated action by the private and public sectors can bring additional benefits.

Joint IFI Action Plan

In order to underpin the Vienna Initiative's efforts to coordinate crisis response, national and international support packages and policy dialogue among key stakeholders in the region, three IFIs – the EBRD, the EIB and the World Bank Group – launched a Joint IFI Action Plan in support of banking systems and lending to the real economy in central and eastern Europe in February 2009.

The objective of this Plan was to support banking sector stability and lending to the real economy in crisis-hit central and eastern Europe, with a joint financing plan of up to €24.5 billion for 2009-10. The IFIs committed to deploy rapid assistance in a coordinated manner, according to each institution's policy and product remit.

In fact the three institutions far exceeded their original targets for financing, in response to the deeper impact of the crisis than had been originally envisaged. The total amount provided under the Joint IFI Action Plan was over €33 billion by end-2010.

The three institutions involved believe this successful spirit of cooperation should be preserved for the future and potentially used in other regions.

A refocused Vienna Initiative can be an effective platform for addressing financial stability challenges in emerging Europe.

- **It captures a unique geographical area** (countries with common risks, common private sector actors, both within and outside the European Union). The emerging institutional regulatory and supervisory framework will not fully cover this group of countries.
- **With the renewed convergence financial policy challenges will return.** For emerging Europe, there are critical forward-looking regulatory questions that need to be addressed to avoid a recurrence of past risks. These include, among others, issues of foreign currency-based lending, adequate speed of credit growth and related micro – and macro-prudential issues.
- **"Vienna Plus" can also enhance the effectiveness of international financial institution (IFI) involvement in the region.** During the crisis the Vienna Initiative helped the coordination among official sectors, regional authorities and IFIs involved in financial stability in the region. This greatly enhanced transparency and allowed better focus and targeted advice and should continue.

Building on its effective private/public cooperation the Vienna Initiative has moved to a new phase. It acts as a network and a virtual think-tank bringing the full set of stakeholders together that share an interest in financial stability and development in the region. It can also serve as a basis for knowledge exchange among countries in the region and provide a venue for multilateral home/host coordination. Building on the successful experience of the two working groups set up last year, the Vienna Initiative will now specifically address two key issues and look for solutions. These include the impact on the region of the latest global regulatory standards on bank capital adequacy and liquidity agreed by the Basel Committee on Banking Supervision and the challenges emerging Europe faces in managing non-performing loans.

New phase: "Vienna Plus"

Recovery from the crisis is now gaining ground – while ensuring a sound financial environment remains a key policy concern. The Vienna Initiative's stakeholders decided to transform the Initiative so that it plays an important role in helping with crisis prevention, while remaining available to deal with any aftershocks from the global crisis.

More information on the Vienna Initiative
www.ebrd.com/pages/about/workwith/ifi.shtml