EBCI | Vienna Initiative

VIENNA INITIATIVE 2
MISSION STATEMENT

The financial crisis has brought conflicts of interest between the banking sector's home and host countries sharply into focus. Countries where foreign banks' subsidiaries or branches are systemic face particular challenges in safeguarding financial stability and ensuring adequate credit supply for their economies. The countries of Central, Eastern and Southeastern Europe (CESEE) are important hosts to foreign banks headquartered predominantly in Western Europe. The ongoing eurozone crisis has highlighted the risk of disorderly deleveraging of western parent banks vis-à-vis their affiliates in CESEE and difficulties in cooperation between home and host country authorities.

Against this background, it is the objective of the Vienna Initiative 2 to help:

- **Avoid disorderly deleveraging**, which could jeopardize financial stability in host countries and ultimately hurt home and host country economies alike. The objective is not to prevent deleveraging in general. Some deleveraging is beneficial, leading to more stable funding structures, reduced external debt, or stronger bank owners. It is large-scale, unanticipated rapid deleveraging that creates systemic risks and unduly curtails overall funding of CESEE banks that one needs to guard against;

- **Ensure that potential cross-border financial stability issues are resolved**. The multi-jurisdictional setting is prone to gaps, overlaps, competing objectives and conflicts of interest among authorities, all of which demands attention. In addition banking groups would benefit from progress in this area as it would strengthen the conditions for stable and well-functioning cross-border banking;

- **Achieve policy actions, notably in the supervisory area, that are taken in the best joint interest of home and host countries**. This requires mutual recognition of concerns by home and host countries, ensuring that host authorities have an appropriate voice, and fostering an atmosphere of trust amongst all relevant parties. The issues of bank resolution also call for the participation in discussions and potential involvement of authorities beyond supervisors and central banks, notably the fiscal authorities responsible for taxpayers´ money.

The Vienna Initiative 2 builds on the success of the Vienna Initiative 1, which was established at the height of the global financial crisis of 2008/09. It again uses a private-public sector platform, which brings together key International Financial Institutions, the European Commission and relevant EU institutions, the principal cross-border banking groups, and home and host country authorities, complementing other initiatives. Its geographical coverage extends beyond the European Union (EU) and also includes other CESEE counties with a substantial presence of western banks—instances where cross-border arrangements are naturally much less developed than inside the EU. While the Vienna Initiative 1 was focused on western banking groups maintaining exposure to their CESEE affiliates and providing capital and liquidity as needed, the Vienna Initiative 2 is, in addition to the private sector participation, mainly geared towards authorities, encouraging them to cooperate. Nonetheless the private sector has an important role to play, both in terms of helping identify concrete steps to improve coordination of authorities and in terms of working itself to avoid disorderly deleveraging

The work within the Vienna Initiative 2 aims for practical results by monitoring of, and reporting on, the deleveraging process and by setting up temporary structures where private and public sector decision makers meet to exchange experience and discuss appropriate actions. Within such structures, peer pressure may be used to help resolve common problems. Drawing practical conclusions from the experience of the host countries and proposing action on those conclusions is also within the remit of the Vienna Initiative 2. Finally, discussions of macro-prudential issues should also be a part of the work. New regulatory development, such as the Commission resolution proposal and the banking union will be observed.

* BACKGROUND ON THE VIENNA INITIATIVE

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 CESEE. The initiative was re-launched 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.