

Vienna Initiative, 10 Years On, Makes Case for Deeper Financial Integration in Emerging Europe

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The case for deeper financial integration in emerging Europe remains strong as the Vienna Initiative marks a decade since its launch as a unique public-private forum that helped the region weather the worst of the global economic crisis.

The founding members and partners of the initiative gathered in Vienna on 27 and 28 March to reflect on the achievements of the successful multinational coordination model that was instrumental in preserving financial stability in the region.

Ewald Nowotny, Governor of the Austrian National Bank and the host of the anniversary meeting said: “This event is not only an opportunity to celebrate. It is also an incentive to keep up with the good work. The Vienna Initiative will continue to preserve financial stability by providing substantial input to international discussions, propel financial integration and enhance growth in countries of central, eastern and south eastern Europe.”

An agreement in 2009 between policy makers and the banking industry ensured that foreign banks continued to maintain exposure and fund their subsidiaries in central, eastern and south eastern Europe (CESEE), helping avert banking crises as economies experienced a sharp downturn.

An orderly debt reduction gave the countries time to build alternative sources of funding including domestic deposits. It also supported a shift from foreign to local currency lending in some countries and sped up the resolution of fast-rising non-performing loans.

The Vienna Initiative brings together leading International Financial Institutions (IMF, EBRD, EIB, the World Bank Group), European Institutions (European Commission, ECB as observer) home and host country central banks, regulatory and fiscal authorities as well as the largest EU banking groups active in emerging Europe.

Cross-border Banking

The anniversary meeting has called for deeper financial integration as a means to a new, more balanced growth model with a stronger focus on financing innovation and supporting SMEs, as well as measures to act on climate change.

Evidence from CESEE shows that cross-border banking benefits economic growth. The direct positive effect of financial integration on growth outweighs the indirect negative effect of higher risk of contagion.

Even though economic growth remains mostly on track in the region, risks persist. These include global trade tensions, continued geopolitical instability and high corporate debt levels.

The Vienna Initiative will continue coordination between policymakers and bankers to address the remaining and future challenges, including the resolution of bad debt, regulatory reform, deepening financial integration, availability of funding for innovation and mobilizing private sector's contribution to climate and energy goals.

Boris Vujčić, Governor of the Croatian National Bank and Chair of the Vienna Initiative, added: “The Vienna Initiative undoubtedly helped to prevent a disorderly deleveraging in CESEE at the peak of the global financial crisis. Ever since, it has promoted well-functioning and stability of cross-border banking by providing seminal setting for all stakeholders, home and host authorities, banks, European institutions and IFIs.

“Going forward, the Vienna Initiative will continue to serve as a platform open for ideas and policy actions that will be taken in the best interest of all the stakeholders.”

Full Forum

The anniversary conference was combined with this year's annual Full Forum meeting in which the different work streams presented ongoing work:

- The CESEE Bank Lending Survey sees an improving landscape wherein slightly upbeat expectations prevail. Although country differences remain significant, the appeal of the CESEE strategy for international banking groups is reflected in increased regional profitability.
- Credit quality continues to improve in the region. Since the launch of the NPL Initiative, bad debt volumes in CESEE have gradually decreased. The fall in NPLs was particularly strong in Albania, Croatia, Hungary, Montenegro and Serbia.
- The final report of the working group on IFI financial products supporting investment in the region found that IFIs have been playing an important role in supporting access to finance of the private sector. IFIs could play a catalytic role in the transition of the region's economies towards a new growth model. For that, better and more accessible data on IFI activity and product supply could help reach clients and stakeholders in the region.

- Compliance with the minimum requirement for own funds and eligible liabilities (MREL) targets may pose challenges for the banks operating in the region in the coming years. The Vienna Initiative offers a framework for reflecting on potential solutions that bring together the interests of home and host countries.

The Full Forum also addressed the impact of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) on banking in CESEE. The World Bank and the IMF presented the evolution of regulatory and supervisory approaches as well as the importance of effectiveness. The availability of sustainable finance in the region was a special focus as participants discussed the conclusions of the Central Banks' Network for Greening Financial Systems.