Vienna Initiative seeks new growth model to drive forward innovation in emerging Europe

Group also promotes steps to deepen capital markets and clear up bad loans

The Vienna Initiative, which helped protect the banking system in emerging Europe during the global financial crisis, has now set its sights on a growth model for the region that **drives forward innovation and boosts productivity.**

Its new approach aims to give a fresh impetus to growth in the region and to promote convergence with higher income EU countries.

At a Full Forum meeting of the Vienna Initiative in London, participants also gave their **backing for plans to bolster capital markets in the region**, another key condition for delivering more sustainable, robust growth.

They also identified ways to speed up the resolution of bad loans and discussed how regulatory changes were affecting cross-border banking and how any adverse effects could be mitigated.

The Vienna Initiative was launched during the 2008-09 crisis to shore up the financial sector in emerging Europe and to maintain a flow of credit to the economies of the region.

A private-public platform, it brings together international financial institutions (IFIs), European institutions, regulatory authorities from both host and home countries, as well as major banking groups active in central, eastern and south-eastern Europe (CESEE).

As the region recovered, its work shifted with the launch of the Vienna Initiative 2.0 in 2012 to address remaining challenges in the financial industry, including non-performing loan (NPL) resolution and capital market development.

The new Vienna Initiative focus on innovation intends to increase levels of such vital investment in CESEE, a region dominated by small firms which may require more access to finance and more market structure.

Capital formation and productivity growth has slowed and the quantity and quality of available capital stock is lagging behind that of more prosperous neighbours (*EIB Investment Report*).

Vienna Initiative participants believe "a new, more balanced growth and financing model is needed with a stronger focus on innovation and increased productivity".

A new Vienna Initiative Working Group will investigate the role of various funding sources to support different forms of innovation, with a special emphasis on bank funding. The group will have particular focus on the adoption and adaptation of existing technologies which are new to a firm or local market.

It will also look to strengthen cooperation among IFIs, banks and alternative providers of finance, including the venture capital sector, to meet the investment needs of innovative firms, and to identify market gaps and policy priority areas. The group will present its proposals in April 2019.

Separately, the Vienna Initiative endorsed proposals for the **further development of capital markets** in CESEE, crucial for long-term growth. These proposals are set out in a new report, produced by the Working Group on Capital Markets Union, chaired by the European Commission, and due to be published shortly.

The report stresses that, "better developed capital markets are essential to finance investments from both domestic and foreign sources".

The comprehensive report makes a thorough analysis of capital markets throughout the CESEE region. It assesses the key main challenges for capital market development in selected CESEE countries and offers policy recommendations aimed at realising the potential of local markets in the EU context.

As part of its objective to foster the efficient use of multilateral funding in the CESEE region, the Vienna Initiative has acknowledged the progress made by the working group on financial instruments. The working group summarises the experience of various stakeholders with the financial instruments provided by IFIs, and suggests possible improvements to the existing portfolio of products as well as potential new business areas where further demand for IFI products exists. Its final report will be presented to the Vienna Initiative Steering Committee by October 2018."

At the meeting in London, the Vienna Initiative also welcomed **a continuing drop in NPLs in CESEE**, which was partly supported by the tangible reforms supported by its NPL Initiative.

Looking ahead, the strong European regulatory agenda on NPLs is expected to have positive spill-over effects and step up the pace of NPL resolution in CESEE countries.

In this context, the Vienna Initiative has endorsed the recently published European Banking Authority (EBA) NPL templates, aimed at improving and standardising information on NPLs available to potential investors, which is expected to help bring a somewhat wider range of international NPL investors to markets in the region.