



PRESS RELEASE

Vienna 2 Initiative Steering Committee Discusses Deleveraging, Asset Quality and Implications of Banking Union Plans

The Steering Committee of the Vienna 2 Initiative met in Vienna on 14 January, 2013 to discuss deleveraging trends, asset quality, and next steps towards a banking union in light of the EU Council's decisions in December 2012. Steering Committee members also met with key banking groups operating in Central, Eastern, and South-Eastern Europe in a subsequent meeting, chaired by European Bank for Reconstruction and Development President Sir Suma Chakrabarti. European Investment Bank Vice President Wilhelm Molterer provided the concluding remarks.

Deleveraging moderates with continued variation between countries

The Steering Committee noted that funding withdrawal by Western European banks vis-à-vis Central Eastern and South Eastern Europe (CESEE) continued to moderate in the third quarter of 2012. A recent paper from the *Bank of International Settlements' Quarterly Review* [weblink], which was presented at the meeting, clearly shows that (i) withdrawal of cross-border funding by Western European banks vis-à-vis CESEE has been substantial since 2011; (ii) the decisive factor behind this withdrawal has been home and parent bank factors in the context of the euro area crisis; and (iii) local factors have started to play a role recently. Apart from parent funding, local funding sources started to gain in importance, which resulted in a more moderate deleveraging picture on the consolidated level, although there are limits to these sources of funding given that local capital markets remain underdeveloped. Deleveraging continues to differ greatly between countries over the past 12 months, reflecting both the different severity of pre-crisis build-up of debt and current domestic policy environments in host countries. The Vienna 2's new Deleveraging Monitor has been released with an in-depth analysis of these trends. [weblink].

More action to address high non-performing loans

Participants emphasized the need to tackle urgently asset quality issues and the high-level of non-performing loans (NPLs) in some countries in the region. The Steering Committee welcomed the expansion of the World Bank advisory initiative on NPLs and other IFIs' increasing attention to this issue. In order to avoid a prolonged stagnation of credit and growth because of belated balance sheet clean-ups, it will be critical to clean balance sheets from NPLs, which can act as a drag on new credit provision.

Creation of the Working Group on the European Banking Union

The Steering Committee announced the creation of a working group on the Banking Union. The working group will take stock of the implications of the recent EU Council's decisions for host countries in Central, Eastern, and South-Eastern Europe from the perspective of home and host authorities as well as commercial banks operating in the region, with a particular focus on non-euro countries both within and outside the European Union where euro-zone based cross-border banks are active. Its first progress report is expected by the end of the first quarter of 2013.

For additional information and the latest publications visit: www.vienna-initiative.com.

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