

VIENNA ECONOMIC TALKS – The Financial Market Crisis: Effects and Implications for South-Eastern Europe

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Vienna Economic Forum organised in cooperation with Oesterreichische Nationalbank on 27 February 2009 Vienna Economic Talks – The Financial Market Crisis: Effects and Implications for South-Eastern Europe.

The meeting was opened by Dr. Erhard Busek, President of Vienna Economic Forum and Dr. Peter Zöllner, Director of Oesterreichische Nationalbank, who in his Welcome Statement said he was glad to see Oesterreichische Nationalbank as the host of such an important meeting of the region of South-Eastern Europe and to welcome many Governors of the region of Vienna Economic Forum.

Secretary General Ambassador Dr. Elena Kirtcheva in her Statement was proud to introduce the newly created Vienna Economic Forum Governors Committee.

The Governors Committee was established with the official support from the Governors of the Member Countries of Vienna Economic Forum with the aim to encourage the meeting and cooperation of the institutions and persons, whose positions, capacities and knowledge are in demand today.

The Sessions in the first half of the day were

- ◆ *Session 1: Global Financial Market Crisis: Spill-over Effects on CESEE Economies*

- ◆ *Session 2: Financial and Banking Sector Developments in CESEE*

In the afternoon the *Panel Discussion: "The Financial Market Crisis: Current Challenges and Future Perspectives"* was moderated by Dr. Erhard Busek. He underlined the importance of such a meeting to increase the exchange of experience amongst experts and clearly define a strategy.

In the *Round Table with the Governors of the National Banks of the Region of South-East Europe*, Members of the Governors Committee of Vienna Economic Forum, Vienna Economic Forum could welcome the following Governors of the region:

- ◆ Ewald Nowotny, Governor, Oesterreichische Nationalbank
- ◆ Ardian Fullani, Governor, National Bank of Albania
- ◆ Ivan Iskrov, Governor, National Bank of Bulgaria
- ◆ Petar Goshev, Governor, National Bank of the Republic of Macedonia
- ◆ Ljubiša Krgovic, Governor, National Bank of Montenegro
- ◆ Victor Cibotaru, First Vice Governor, National Bank of the Republic of Moldova

The concept of cooperation is the concept of Vienna Economic Forum which has been successfully experienced

in the last five years since its founding. Following the wish of many participants of the meeting for further cooperation, Ambassador Dr. Kirtcheva stated she is convinced that cooperation is the key word, and the need for cooperation, especially in times like these, is even more evident. And this meeting should be only the beginning of a series of meetings on current topics which require close cooperation and further development. Vienna Economic Forum remains committed organising such meetings.

In the following a summary of statements is provided which were given at the Round Table and the following Q+A session.

Summary

Ewald Nowotny

Governor, Oesterreichische Nationalbank

General Remarks

The main tasks of the OeNB center on contributing to a stability-oriented monetary policy within the Eurosystem, safeguarding financial stability in Austria and supplying the general public and the business community in Austria with high-quality, i.e. counterfeit-proof, cash. In addition, the OeNB manages reserve assets, i.e. gold and foreign exchange holdings, with a view to backing the euro in times of crisis, draws up economic analyses, compiles statistical data, is active in international organizations and is responsible for payment systems oversight. Furthermore, the OeNB operates a payment system for the euro, promotes knowledge and understanding among the general public and decision makers owing to its comprehensive communication policy, and supports research in Austria.

"Security, stability and trust" encapsulates the guiding principles the Oesterreichische Nationalbank has been committed to in serving Austria and Europe alike.

There is a world before and after "Lehman". In the world after "Lehman" there will have to be discussions about a new business model, and this is the model where we have to expect growth rates that are not as big as they have been in the past, where we had yearly growth rates in lending of up to 50 per cent and even more in some countries. This is something that



will not happen again, but there will be a business model where foreign currency lending will play a much smaller role. The Oesterreichische Nationalbank always had a critical view of foreign currency lending. There is room for adjustment, we also have the chances and if we take all of this together I think we can foresee a banking system in the region which will not be as dynamic as it has been, but perhaps will offer the chances for a long-term stable growth.

Recently the Economist gave an overview of the region with a result that there will be a severe recession, but no meltdown and no default scenario. It is very important to see that it is misleading to have any doomsday perspectives. It is important to see that this is a region with long-term positive growth perspectives and where there is room for economic policy. Also the indebtedness of those countries is in most cases rather small so that if we have a combination of international policy plus internal policy – where both sides will be active – I am very optimistic about the perspective for this region. My wish is that the European Union would pay more attention to its neighbourhood policy.

Q+A Remarks

We have a new legal basis in Austria, so that banking supervision is mainly concentrated with the Central Bank whereas insurance supervision and some of the legal part is with the Financial Market Authority. In this whole context we distinguish two sides, one is what we call macroprudential supervision – the macroeconomic part of it – and we have seen that this is of increasing importance because the main problems we experience now come as effects from this side. The second part of it is the direct banking supervision, where we have a special challenge in Austria because we have many banks that are mother banks and home banks for the region. The institution of colleges is interesting, where the supervisors from the home countries and the host countries get together for specific banking groups. We have just recently finished one group for Romania and this is a very good element for cooperation between home and host country. Up to now we see the results are quite positive.

Ardian Fullani

Governor, National Bank of Albania

General Remarks

The Bank of Albania is the only institution in the Republic of Albania responsible for designing, compiling, approving and implementing the monetary policy. This policy is designed in view of fulfilling the main target of the

Bank of Albania: achievement and maintaining of price stability.

Q+A Remarks

Albania did not rely on foreign funds and we did not have any hot money because we have been very careful. We adopted the law on the banking sector two years ago and we changed five main regulations concerning the governance, transparency, risk management and internal control.

Our ratio is 50:50 deposit – lending and what we got during this situation that gives us a better situation is reorganising the whole package of supervision and we do not see any problem limiting the exposure to single creditors. We are very satisfied on this issue and we have plenty of liquidity. The only thing we are asking for is not to order banks to stop lending. We have seen a slow-down in December and in January and we have been in open discussion with the banks and with the Governors of specific countries.

We ordered the banks to lower the ratio between lending and deposit. We stopped banks which began to lend in Yen and in Swiss Francs.

Our regulation is among the tightest ones, we can now afford to loosen the regulations. We do not need only funds or separate attendance, but we need a group approach as a region, on the issues of financial stability and monetary policy. It is also very important to receive more action, transparency and speed, if we want to restore credibility in the market. Most important: we have to be part of the solution.

Ivan Iskrov

Governor, National Bank of Bulgaria

General Remarks

The primary objective of the BNB is to maintain price stability. It is compliant with that of the ESCB. Prior to Bulgaria's membership in the EMU and the euro area, the BNB has to achieve its primary objective by maintaining the fixed exchange rate of the lev to the euro and the banking system stability. Following the introduction of the euro, the BNB primary objective will be achieved through Bank participation in euro area's monetary policy formulation and implementation. The maintenance of the banking system stability is the national central bank's main responsibility and intermediate objective with a view to the sustained role of the banking sector in the process of money supply. The BNB is pursuing an active policy of communication with the public for elucidating its primary objective, thus ensuring high degree of public confidence.

Somehow it is mysterious that western media and analysts look at the CEE and SEE region as if it would be a homogenous block. Please always differentiate when looking at the region. One cannot throw all countries into one basket, one has to take a close look at a specific country and then to decide if there are problems or not. Furthermore all observers should take a long term perspective! If today London based institutions issue one warning after another, one should keep in mind that if Austrian banks would not have been invested that much in SEE region, where then would be the investment opportunities for western investment banks? Bulgaria does not need financial support at all. What Bulgaria needs is equal treatment and honest information on the country.

Q+A Remarks

The question about regulations and the possible direction is very interesting. In the field of banking supervision and regulations the banking system of Central and Eastern Europe is not catching up, but much more advanced – because of the reforms we made under the prescriptions and support by the World Bank and the IMF. In Bulgaria regulations are tougher than here. So we are now in the position to loosen, not to tighten the regulations. Because of the crisis in Bulgaria in 1996 we lost a lot of banks and finance companies, a lot of GDP etc. Then it was also forbidden in Bulgaria for the banks to go to the Supreme Court and to appeal the decisions of the supervisors. From January 1st, 2007, when we joined the European Union, this was regarded by Brussels as not democratic and should be changed. Now, if you come to our country, you have the right to go to the Supreme Court to appeal the decisions.

We have the same experience as the US now. And then we tightened the regulations, and now we need to loosen these regulations again. When the discussion now is how to regulate and to tighten the market, we are in a completely different situation. We do not need money, our reserves are 36% of GDP, compared with the average in the EU which is 10 or less than 10%.

Austria is a very important Eurozone country, and historically plays the role as a bridge between the West and the East, which is an important approach.

Petar Goshev

Governor, National Bank of the Republic of Macedonia

General Remarks

According to the law on the National Bank of the Republic of Macedonia, the National Bank shall perform the following functions:

- ◆ establish and conduct the monetary policy;
- ◆ regulate the liquidity in the international payments;
- ◆ establish and conduct the Denar exchange rate policy;
- ◆ handle and manage the foreign exchange reserves;
- ◆ regulate the payment system;
- ◆ grant founding and operating license to a bank and a savings house and supervise the banks and savings houses;
- ◆ grant a license for performing services of prompt money transfer and supervise the operations of the entities performing services of prompt money transfer in accordance with a law;
- ◆ grant operating license to foreign exchange bureaus and supervise their operations in accordance with a law;
- ◆ issue banknotes and coins;
- ◆ perform activities for the account of the central government and the government administration bodies.

The Central Bank's transparency is guaranteed by the following provisions and activities:

- ◆ Appointing and relieving from office of the governor (Article 70, Law on the National Bank of the Republic of Macedonia);
- ◆ The authorized committees of the Assembly of the Republic of Macedonia call a meeting with the governor at least once in six months in order to obtain information about the operations of the National Bank (Article 55-a, Law on the National Bank of the Republic of Macedonia);
- ◆ Submission of the semi-annual and the annual report on the operations, semi-annual and annual report on the supervision and the undertaken measures against banks and savings houses and semi-annual and annual report on managing the foreign exchange reserves of the National Bank to the Assembly of the Republic of Macedonia. The National Bank of the Republic of Macedonia is obliged to publish all these reports within six months from the date of expiry of the period for which the reports were prepared (Article 55, Law on the National Bank of the Republic of Macedonia)
- ◆ Publication of the monetary policy objectives;
- ◆ Publication of the monetary policy intermediary target (nominal exchange rate of the Denar against the Euro);
- ◆ Transparency in conducting the monetary policy (explanation of measures and changes);
- ◆ Compulsory publication of the Decisions of the National Bank of the

Republic of Macedonia Council in the Official Gazette of the Republic of Macedonia (Article 65, Law on the National Bank of the Republic of Macedonia);

- ◆ Publication of the audit report on the Annual statement of the National Bank, (Article 94, Law on the National Bank of the Republic of Macedonia);
- ◆ Timely processing and dissemination of information (Articles 40 and 41, Law on the National Bank of the Republic of Macedonia).

Q+A Remarks

G20 has a big responsibility. My message is not to make pictures, but to address regional imbalances, to find a sustainable way to finish the devaluation process, which also belongs to the big causes of this financial crisis, and we should think in medium-term effects and not in short-term effects.

Ljubiša Krgovic

Governor, National Bank of Montenegro

General Remarks

Central Bank of Montenegro is the main monetary authority in Montenegro. The Parliament of Montenegro at its session held on 22 October 2008, enacted the Law on Measures for the Protection of the Banking System, providing the guarantees of the Government for household and companies' deposits. This shall increase confidence into the banking system.

Q+A Remarks

The big investor in the finance sector in Montenegro is Hungary. The biggest Bank of Montenegro is owned by OTP and the telecommunication company is sold to the Hungarian Telecom. For our aluminium industry there is a Russian influence, which was in that case the only solution for the indebted company, where the EBRD had advised us to sell this company. Many Russians bought some land in Montenegro, but also people from other countries, and they did not invest in an economic activity like in a hotel. When you compare the picture of investors in Montenegro, Russians are one of the biggest, but indeed Hungarians are the biggest investors.

Maybe our message can be that we need to be included in all efforts to stop the crisis and to speed up accession.

Victor Cibotaru

First Vice Governor, National Bank of the Republic of Moldova

General Remarks

In 1991, in accordance with the legislation, a two-level banking system was

formed. Within this system the National Bank of Moldova acts as central bank, but it is not involved in commercial banking. In June and July 1995 the Parliament adopted two Laws on the National Bank of Moldova and on Financial Institutions.

These laws provide stipulations meant to strengthen the NBM role in working out and implementing the monetary and foreign exchange policies and to ensure a stable and sustainable financial system. The National Bank is responsible for the authorization, the supervision and the regulation of financial institutions' activity. These attributions are exercised taking into account the Core Principles of Basel Committee for an efficient banking supervision.

The licenses, including for transactions with significant interests held within the banks' capital, are issued only in case the National Bank is fully convinced that the authorized persons will display a stable financial situation and will activate in compliance with the legal prudential requirements, including the requirements related to the qualification, the experience and the reputation of their administrators and owners.

The prudential regulation determines the maximum indices and the positions to be observed by banks with reference to their assets, risk-weighted assets, off-balance articles and various capital and reserves categories. Banks are obliged to harmonize the terms and the interests on assets and liabilities, not to surpass the unsecured positions in foreign currency, to maintain liquid resources within the required limits referred to the value of assets or of liabilities.

The internal control systems of the banks are targeted towards the protection of the interests of depositors, shareholders and customers by ensuring the observance of the enforced laws, the regulation of the conflicts of interest, the thorough use of incomes for profits increase, conducting authorized expenditures according to their destination, adequate protection of assets, correct entering of liabilities and mitigation of risks.

The observance by banks of prudential requirements and the evaluation of risks related to their activity is monitored both within on-site and off-site controls. The National Bank of Moldova is vested with substantial rights through the enforced legislation to intervene in the banks' activity for remedial purposes. ◆

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