



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Europe – Recovery and Growth

Univ.-Prof. Dr. Ewald Nowotny

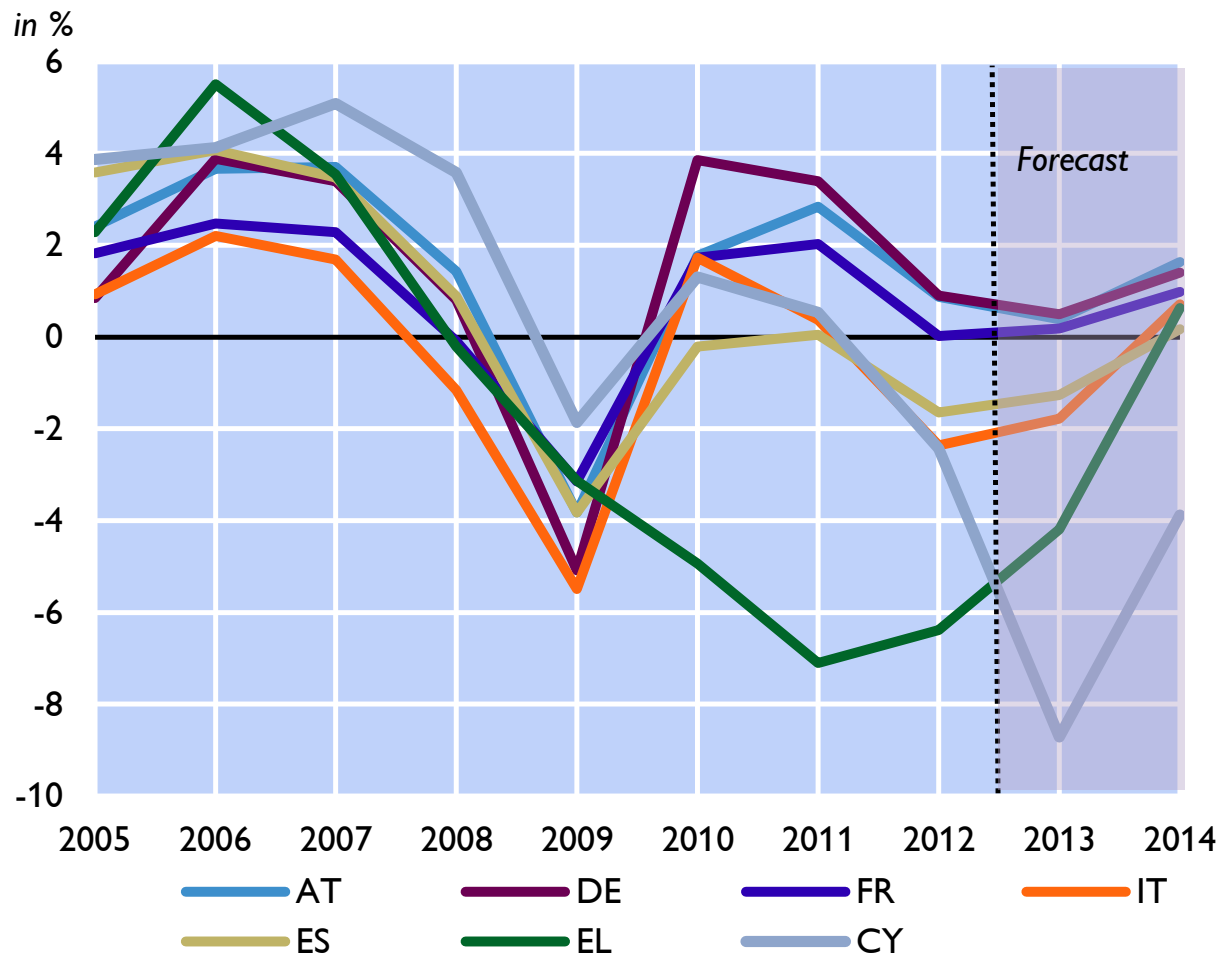
Governor
Oesterreichische Nationalbank

Euromoney Conference
14-15 January 2014, Vienna

www.oenb.at

Heterogeneous Recovery in Europe

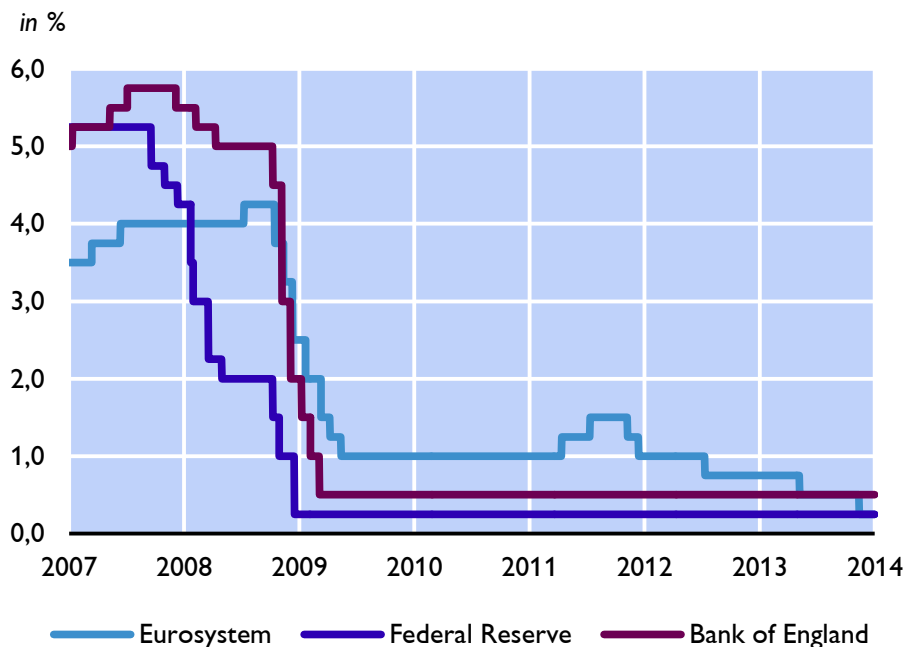
GDP Growth in the Euro Area



Source: IMF WEO, October 2013.

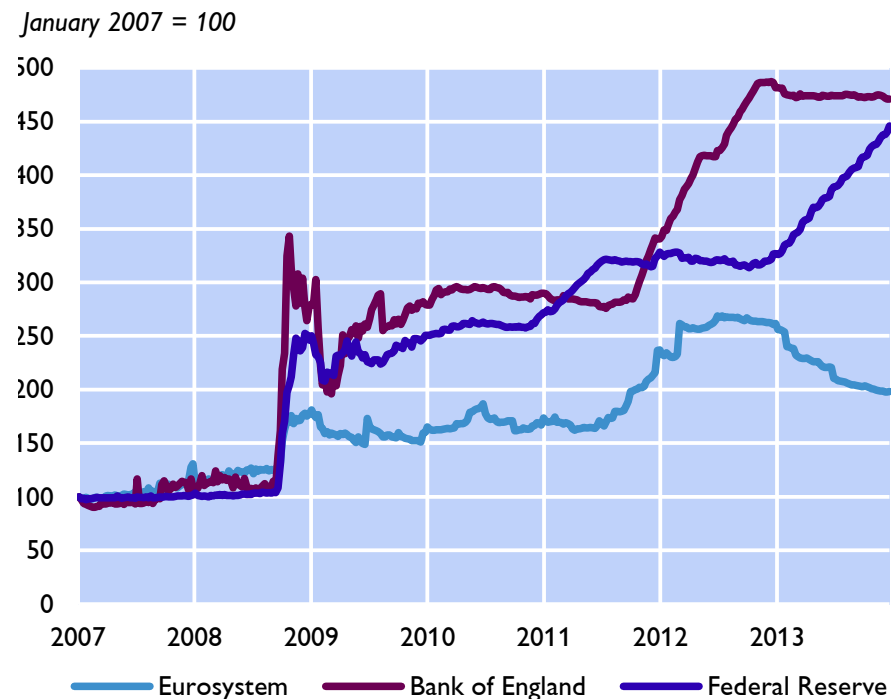
Monetary Policy Has Contributed to Recovery

Monetary Policy Rates



Source: Thomson Reuters.

Central Bank Balance Sheets

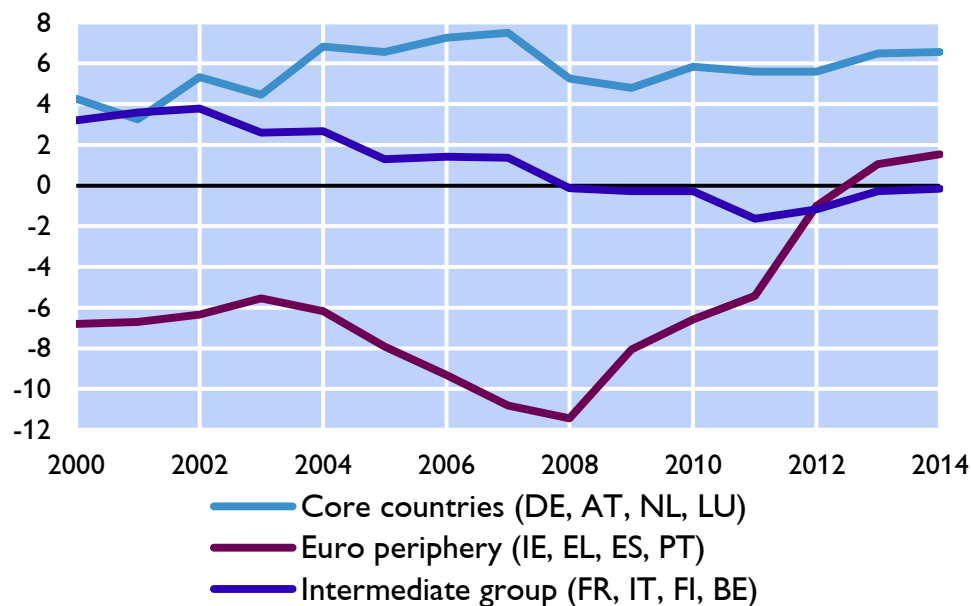


Source: Thomson Reuters.

Rebalancing is Underway...

Current Account Rebalancing

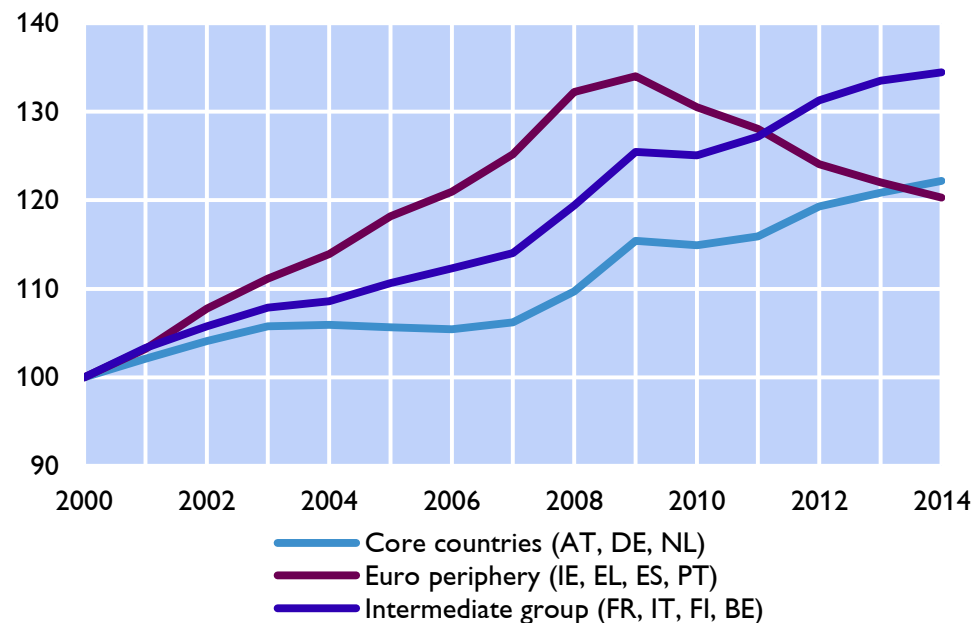
in % of GDP



Source: AMECO; forecast of the European Commission.

Unit Labor Costs Rebalancing

2000=100

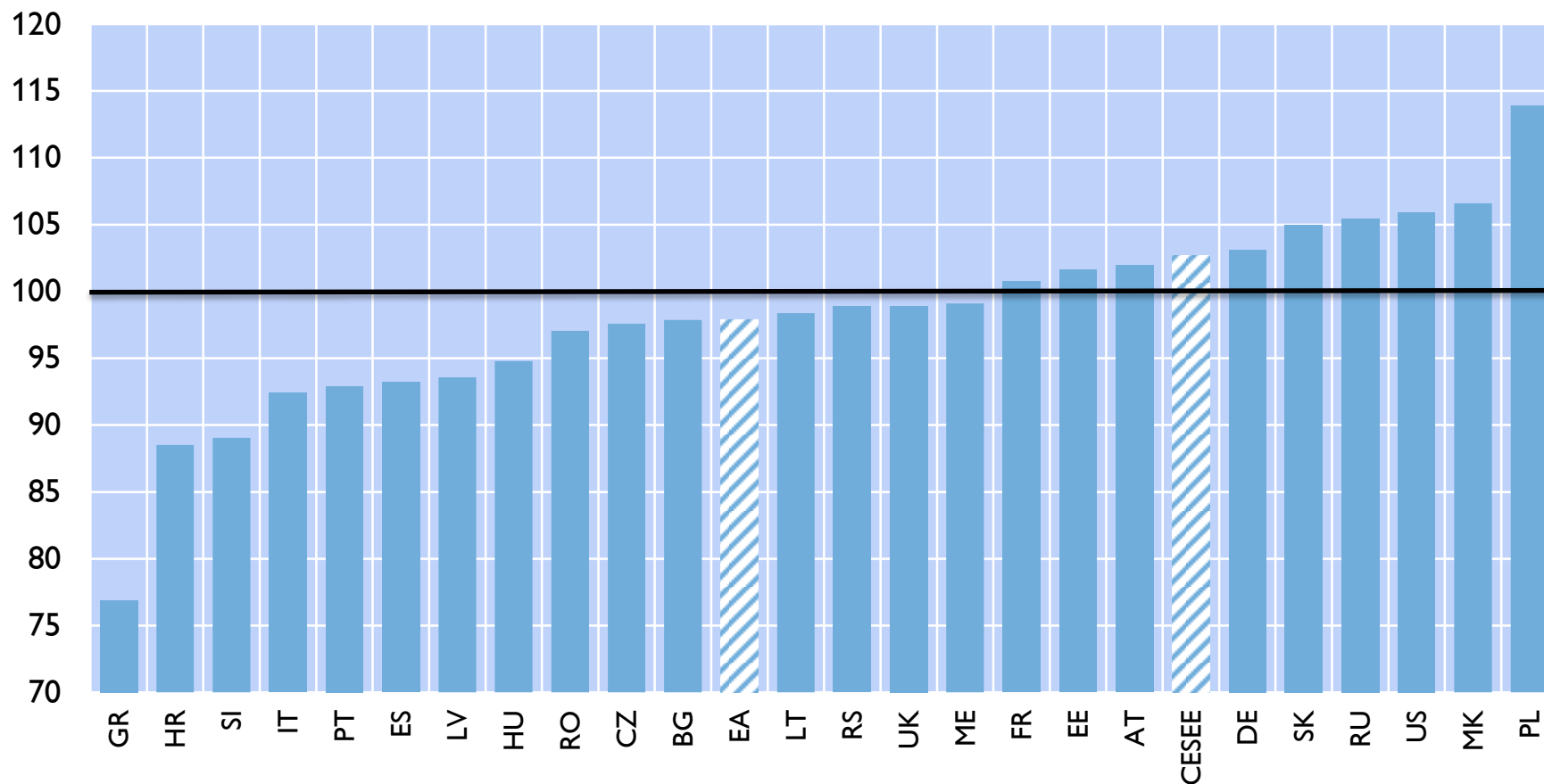


Source: Eurostat; forecast of the European Commission

Impact of the crisis on output still very much felt in 2013

Economic Output: 2013 vs. 2008

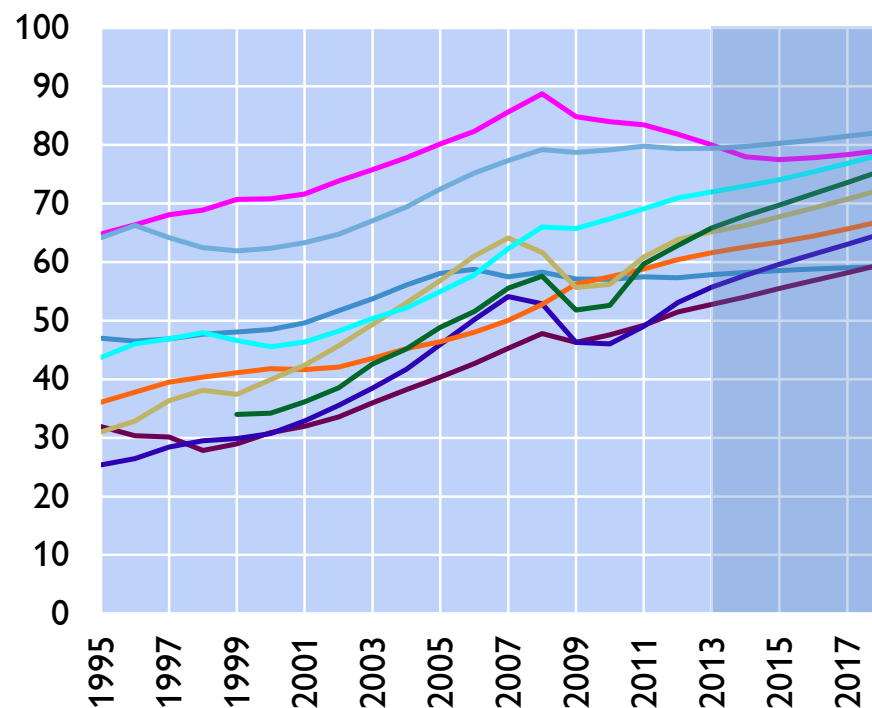
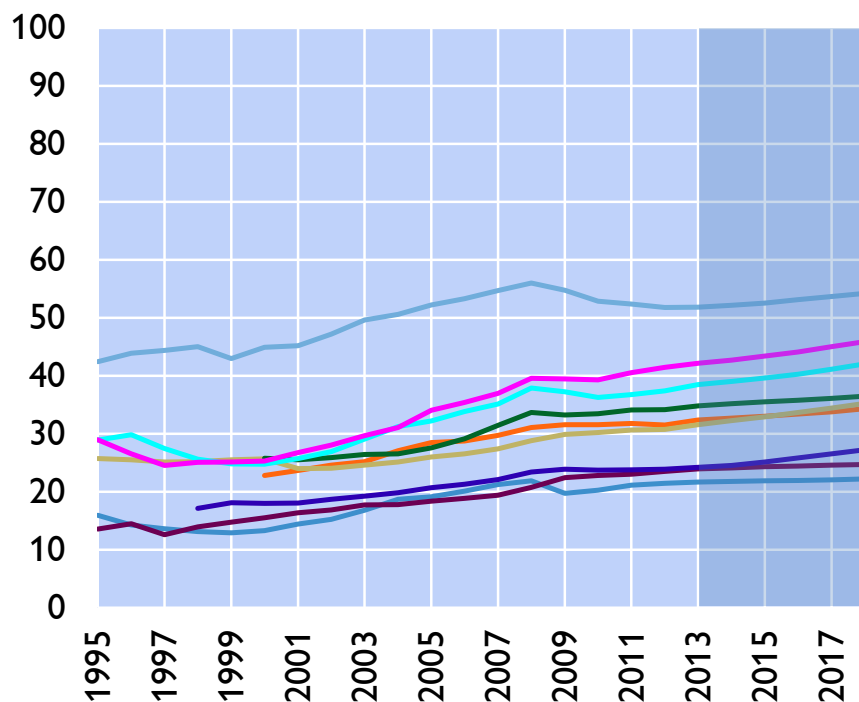
2008 = 100



Source: IMF, Eurostat.

Catching-up lost substantial speed...

GDP per capita (at PPP) of selected CESEE countries in percent of the EA average



- Ukraine
- Bosnia and Herzegovina
- FYR Macedonia
- Romania
- Croatia
- Albania
- Serbia
- Montenegro
- Bulgaria

- Hungary
- Latvia
- Estonia
- Slovak Republic
- Czech Republic
- Russia
- Poland
- Lithuania
- Slovenia

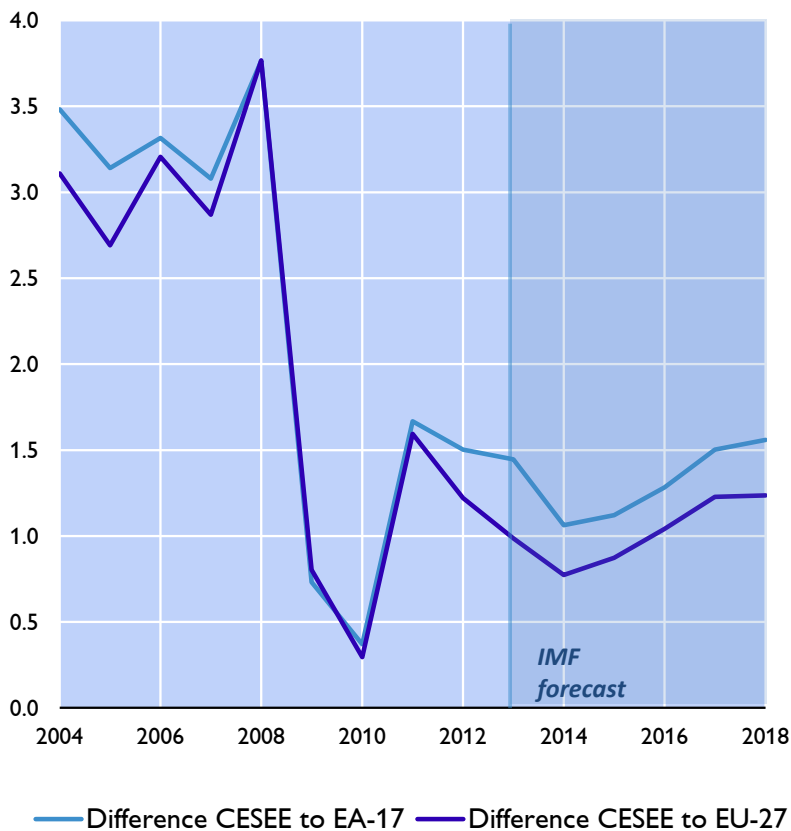
Source: IMF.

...and full convergence will not be reached before 2050

Convergence between CESEE-11 and the Euro area

GDP growth differential

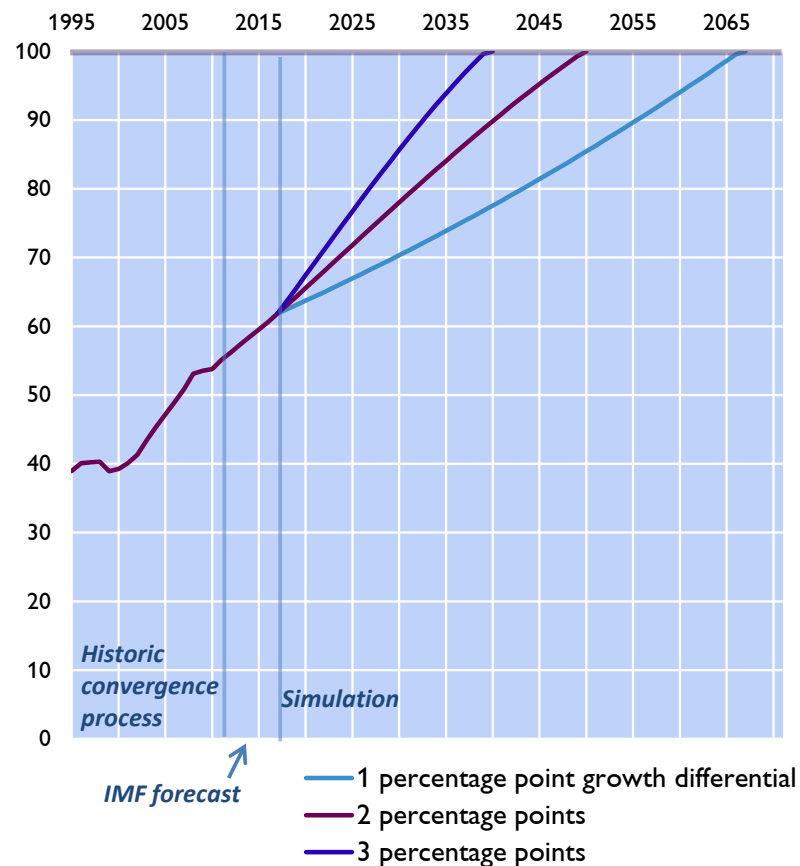
Year-on-year change in %



Sources: OeNB, IMF World Economic Outlook October 2013.

Simulated convergence paths

per capita GDP at PPP in % of Euro area (EA-12)



European Banking Union takes shape

Single Supervisory Mechanism (“SSM”)

- ECB as competent authority in the banking supervision
- Consistent application of supervisory tools for crisis management within the SSM

Single Resolution Mechanism (“SRM”)

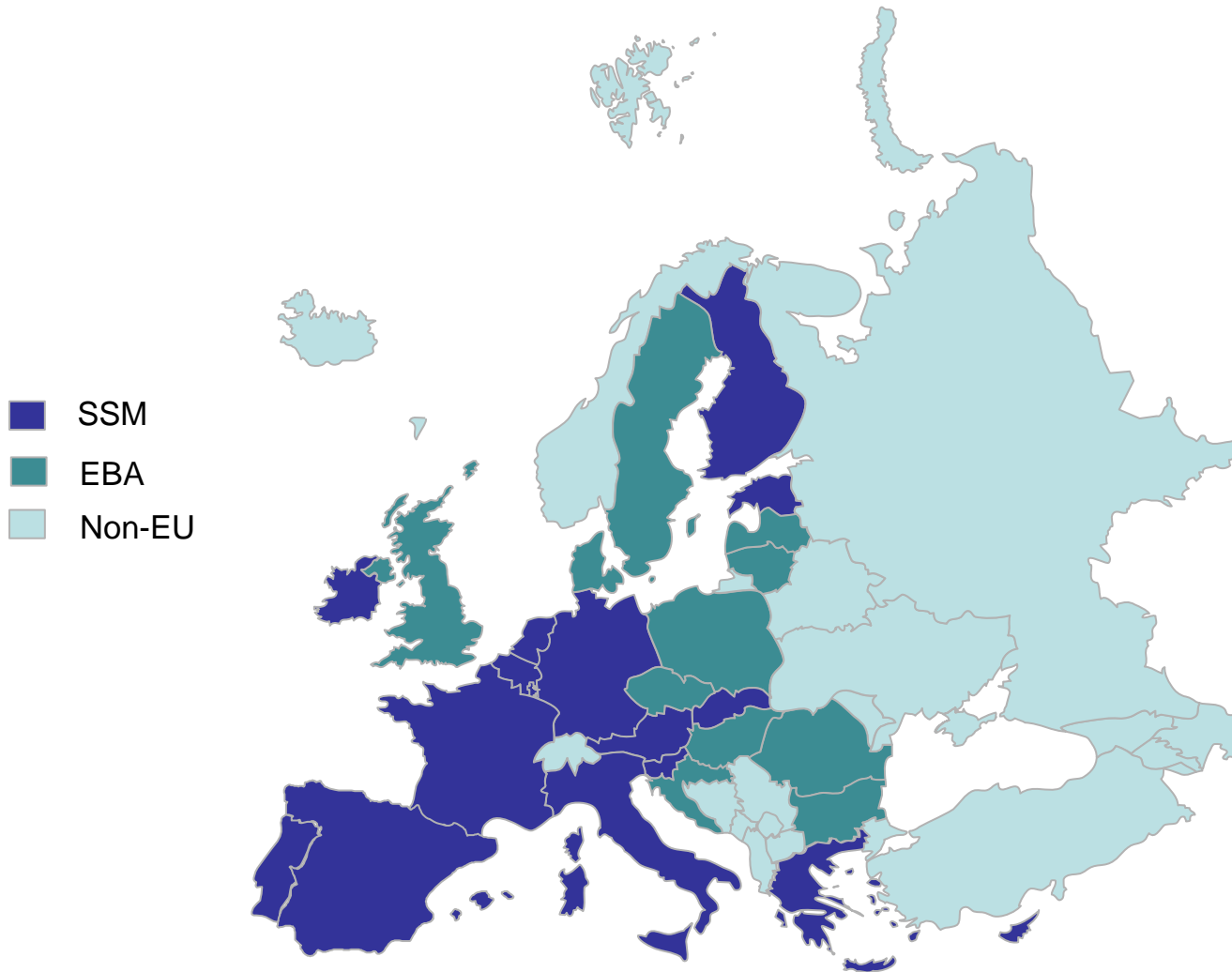
- Implementation of one central European authority
- Establishment of resolution funds in member states financed by banks
- “Preparatory” activities to start in 2015

Deposit Guarantee Scheme (“DGS”)

- All deposits under 100,000 Euro are guaranteed and DGS will be partly pre-funded



Different regulatory regimes throughout Europe make coordination a challenge



Challenges

Different regulatory regimes challenges supervisory coordination

Euro Area:

- **SSM requires strong coordination between ECB and NCAs**
- **SRM only available to SSM banks**

Non-Euro EU:

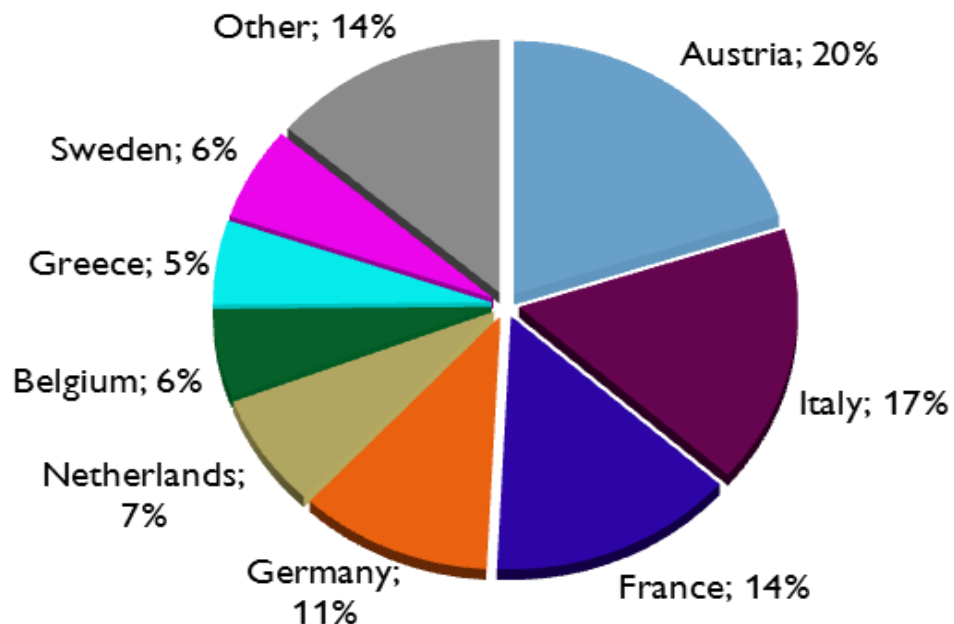
- **Some countries will potentially opt into SSM**
- **For remainder, EBA as overarching authority**

Non-EU:

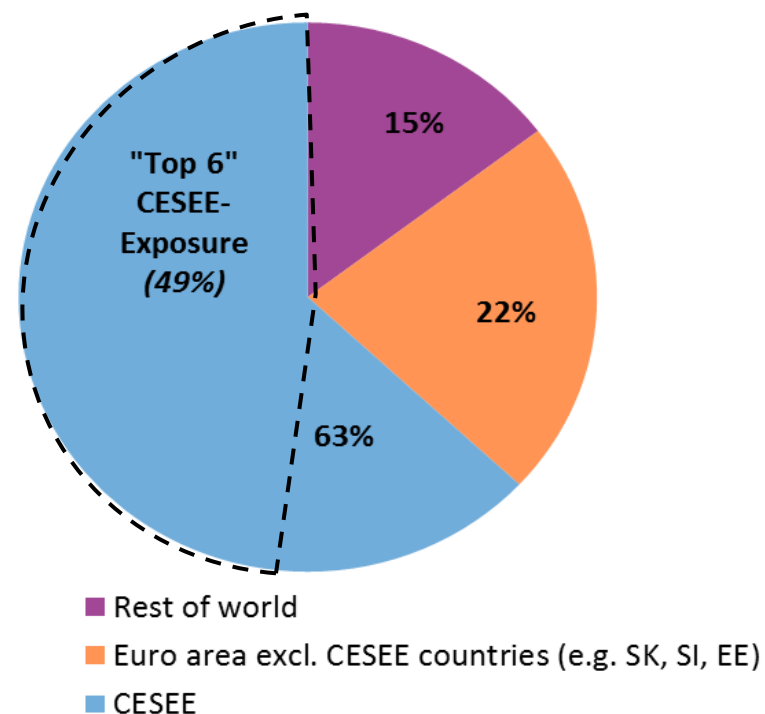
- **Partial MoUs with NCAs but heterogeneous regulations**

A larger part of cross-border exposures does not fall under the scope of the SSM

EU-15 banks' shares in total exposure to CESEE (foreign claims)



Distribution of AT banks' foreign claims according to regions



„Top 6“ countries according to exposure size:
CZ, SK, RU, HR, RO, HU

Source: BIS, OeNB. All numbers as of mid-2013.

The „Vienna Initiative” can provide a bridge between EU- and non-EU countries...

Public/private cooperation:

- IFIs (IMF, EBRD, EIB, World Bank)
- European Commission and ECB
- Home and host regulators
- Large banking groups

Objective:

- Maintaining of European banks’ exposure in the region

Follow up:

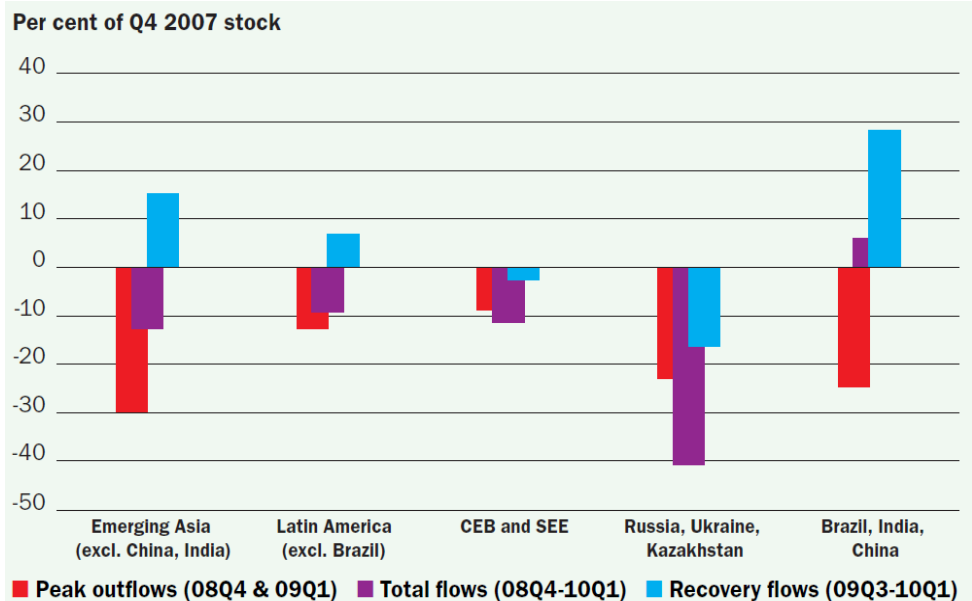
- Development of local currency and capital markets
- Role of banks in absorbing EU structural funds
- Impact of new regulatory standards
- Management of NPLs

Results of an IMF working paper “Foreign Banks and the Vienna Initiative: Turning Sinners into Saints?”, 2012

- Banks committed to the VI:
 - Foreign banks that participated in the Vienna Initiative were relatively stable lenders
- **VI banks did not retrench from non-VI countries**
- **Rather positive spill-over effects to non-VI countries**

...as it proved to be successful in avoiding disorderly deleveraging in the CESEE region.

Cross-border bank lending to emerging markets

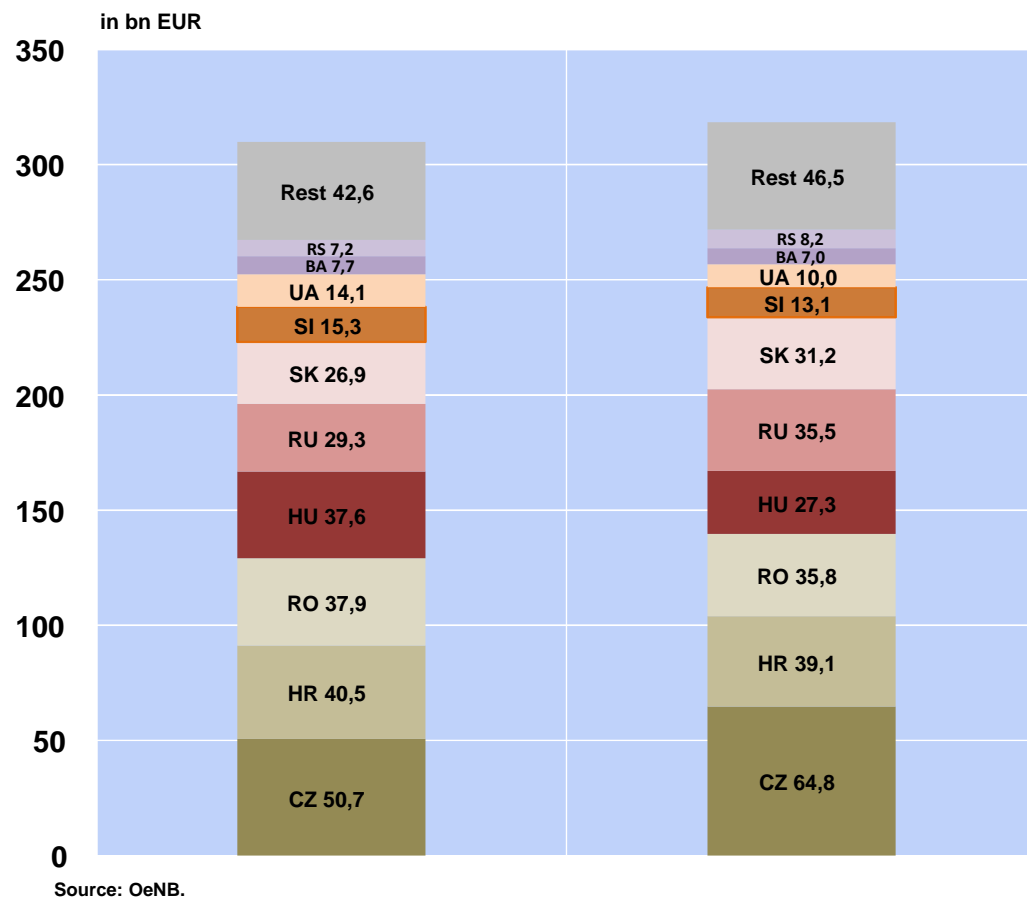


■ Peak outflows (08Q4 & 09Q1)
 ■ Total flows (08Q4-10Q1)
 ■ Recovery flows (09Q3-10Q1)

Sources: Bank for International Settlements locational statistics, Table 6A.
 Note: Peak outflows are defined as the sum of exchange rate-adjusted changes in BIS cross-border bank assets in the crisis quarters Q4 2008 and Q1 2009. Recovery flows are defined as the sum of exchange rate-adjusted changes in BIS cross-border bank assets ("flows") in the period Q3 2009 to Q1 2010. Total flows are defined as the sum of exchange rate adjusted changes in BIS cross-border bank assets from Q4 2008 to Q1 2010. All three measures are normalised with end-2007 stocks of cross-border bank assets held in the regions.

Source: EBRD Transition Report 2010

Development of Austrian banks' CESEE Exposure (FX adjusted) (2009/Q1 vs. 2013/Q2)



Source: OeNB.