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**The Vienna Initiative/European
Bank Coordination Initiative:
*Assessment and Outlook***

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1. Summary

The Vienna Initiative/European Bank Coordination Initiative (VI/EBCI) is an informal forum. It was launched by the EBRD, the IMF and the Austrian Ministry of Finance at the height of the systemic financial crisis in late 2008/beginning 2009. The aim was to provide the missing setting were all relevant stake holders for crisis management in vulnerable Central- South- and East European Countries (CESEE) could meet, and to initiate joint crisis response.

This paper assesses the results and draws conclusion on the possible future use of this forum in the evolving crisis prevention and management framework of the EU, based on developments up to the first quarter of 2010. The assessment relies on an analysis of the process. The main findings are:

In the periode reviewed the record of the VI/EBCI is very satisfactory, in particular if the difficult institutional framework within which it was launched is taken into account.

The achievements are:

- The VI/EBCI is widely perceived as a successful vehicle for public-private sector coordination in the financial crisis, triggered by the Lehman failure in September 2008.
- It contributed to shorten the perception lag of politicians with regard to the suddenly increased macro-financial risks in the forth quarter of 2008.
- It helped stabilization and recovery in individual countries and it helped to build up mutual trust between the international banks, home and host country authorities and IFIs.

The failures are:

- The attempt to agree on a general framework was not successful. This was not a problem in the short term but makes the platform very vulnerable.
- It was not possible to arrive at a comprehensive common understanding on divisions of tasks and burden sharing in crisis management. However, some elements for such an agreement emerged in the various country meetings.

There are two interrelated arguments for preserving the VI/EBCI as a crisis management tool: There is still no alternative forum were all major stake holders could meet and financial sector and real sector volatilities will remain above normal in the medium term.

The VI/EBCI could also serve well in crisis prevention. It could be used to include non EU member states

in the crisis prevention framework of the EU and it could be used as a laboratory to develop public-private cooperation in securing stable financial markets.

To exploit these potential benefits, two conditions would have to be met: First, to secure future participation of the private sector and second, the interest of the EC and EU Member States to use the VI/EBCI for further deepening integration with non member states.

2. Introduction

Financial integration in the CESEE region is characterized by a specific feature: subsidiaries of a relatively small number of international banks from EU Member States make up for the bulk of the financial sector in most countries. At the same time, these banks are of systemic importance in their home countries.

The international banks had been hit by the international financial crisis since 2007 to varying degrees. CESEE countries were barely hit up to the third quarter of 2008.

At the end of 2008 in many of the CESEE CDS spreads soared, exchange rate plunged and GDP growth decelerated sharply. Hungary and Latvia experienced open macro-financial crisis and macro-financial stability risks were high in several other countries too. Spill over risks to countries with sound macro-economic fundamentals were high, due to the close financial integration in the region (*OeNB, 2009, WIIW, 2009*).

Given the macro-financial outlook, there was an urgent need for crisis management. The key role of international banks in the region necessitated the participation of two groups of stake holders normally not part in such an exercise: the national authorities from the home countries of these banks and these banks themselves.

The existing economic policy coordination fora at EU level were not adequate because of their membership or mandate. The EFC includes Member State governments and national banks but neither EU surveillance authorities nor non member State authorities or international banks. The Memorandum of Understanding between EU Finance Ministries, Surveillance Authorities and National Banks of June 2008 proved inadequate because its mandate and procedures were conceived for dealing with crises in individual banks, and not for wider systemic ones. In addition, countries outside the EU and international banks were not included. The lack of an appropriate coordination forum created a serious risk of policy failure, threatening the financial stability in the region.

3. History

3.1. The initial phase

In late 2008, a group composed of representatives from the IMF, the EBRD and the Austrian Finance Ministry took the lead to create an informal coordination platform for filling the gap mentioned above. To kick start the process, the Austrian Finance Ministry and the Joint Vienna Institute invited to an informal seminar in January 2009. The aim was to develop common views on the economic and financial challenges in the CESEE region and on strategies to tackle them.

The decisive point in the preparatory process was to secure a critical mass of participants. In particular it was essential to secure the participation of the European Commission. This was delicate, given the role and mandate of the Commission. Both imply that it is its task to initiate and lead new coordination instruments in Europe if needed. To get the Commission on board it was necessary to arrive at a common understanding on the scope of the future risks and the need for a coordination platform, complementary to the ones available in the European Union framework, to tackle them. Eventually the Commission came to the conclusion that the proposed discussion was useful and it decided to participate and contribute.

The systematic lobbying by the IMF and the EBRD secured broad participation of the public authorities of most home and host country authorities of international banks¹. Further participants on the side of the IFIs were the World Bank Group and the EIB. In parallel, the investing IFIs, i.e. the EBRD, the EIB and the World Bank/IFC had started a coordination process amongst themselves in the framework of a Joint Action Plan².

In that seminar the EBRD tabled a proposal for an informal discussion/coordination framework (“Vienna Platform”). (*EBRD, I, 2009*). The rationale put forward was threefold: (1) to deal with the collective action problem in crisis management, (2) to send a strong signal to the markets and (3) to allow IFIs to effectively complement each other. It was also suggested to contemplate about keeping the new platform as a forum for public-private sector policy dialogue in a globalized world also after the crisis. There was a broad consensus amongst all participants that clear cut burden sharing agreements were essential to allow quick, coordinated action and to prevent potential free riding by some players. The seminar also contributed to

awareness raising of several participants with regard to the significantly increased macro-financial risks in many countries.

In February 2009, the Austrian Minister of Finance visited four countries: Croatia, Bulgaria, Romania and the Ukraine. The aim was to further enhance this process of awareness raising and to signal the Austrian engagement in tackling the emerging problems.

The discussion on a coordination forum and principles of burden sharing was taken further in a follow-up seminar in March in the JVI in Vienna and thereafter in informal discussions between the promoters of the initiative and the EC. In the margins of the Bretton Woods meetings in April 2009 an agreement on the institutional framework was close, but finally failed, because of disagreement between the IMF and the EC on the details of the governance structure. However, it was agreed to hold country meetings for countries receiving international macro-financial assistance and to rename the initiative into European Bank Coordination Initiative.

Main stumbling blocks on the burden sharing issue were reservations by several countries to enter in any sort of ex ante agreement which would limit their room for manoeuvre and the Commission which was vigilant not to compromise any decision making body of the EU.

3.2. Country meetings

At the beginning of 2009, Romania faced the risks of substantial external financing shortfalls in the rest of the year. Estimates of the financing gap up to the first quarter of 2011 were in a range between 19 bn € and 23 bn € or 7% to 9% of GDP at that time. A crucial assumption in the projections were roll-over rates for maturing foreign currency debt.

Romania started negotiations with the European Commission and the IMF on macro-financial support in late February 2009. Serbia, which was in a similar situation as Romania started negotiations with the IMF on augmenting its SBA in early March 2009.

The IMF and to some extent also the European Commission were wary to substitute decreasing commercial financing with official assistance.

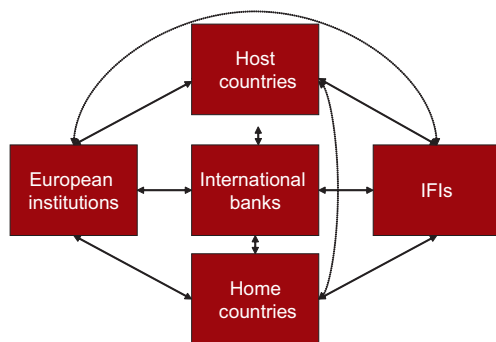
¹ Bulgaria, Croatia, Hungary, Romania, Serbia, Ukraine and Albania, Austria, Belgium, France, Germany, Greece and Italy

² Joint IFI Action Plan in support of banking systems and lending to the real economy in Central and Eastern Europe.

Therefore, they aimed at a commitment of international banks to maintain their exposure in these two countries, i.e a 100% roll-over rate of their maturing receivables. To secure this, the IMF made a roll-over commitment of the international banks a condition precedent for concluding the desired agreements.

The framework conditions for achieving such a commitment were an exact application of the general setting addressed in the two preceding seminars: a viable agreement between the IMF/EC and the two countries was dependent on the mutual consent of several other partners. First, by the international banks who were asked to accept restrictions in their commercial room for manoeuvre. Second, by the home country surveillance authorities of these banks. Third by the finance ministries in the home countries which decided on the terms and conditions of official support to the banks themselves. In the case of distressed home banks

Co-ordination needs



also the EC in its function as competition authority comes into play (see chart).

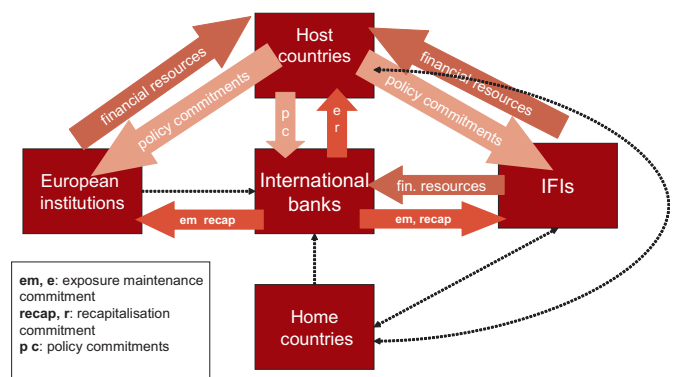
To deal with this situation, the VI/EBCI in the making was used. The IMF and the EBRD together with the European Commission took the lead to arrange country meetings for Romania (26 March, 2009) and Serbia (27 March, 2009). All relevant public, international and private players participated, including all international banks of systemic relevance in the individual country.

The meetings were preceded by informal discussions between IFIs and international banks. These were facilitated by coordination amongst international banks themselves. This process had started already in November 2008. One outcome was a joint letter of leading banks in the region to the EU Presidency and the European Commission to address the problems of the financial sector in individual CESEE countries.

As a result of these meetings the international banks issued joint public statements (IMF I, 2009, IMF II, 2009) which contained two key points: (1) A coordinated commitment to maintain their exposure.

This was made conditional on the orderly implementation of an international support package and on the consent of their home authorities. (2) A pledge to recapitalize their subsidiaries if necessary, based on stress tests by host national banks. These tests were to be conducted according to established IMF methodology. Further, all banks committed their readiness to enter into bilateral commitments with the host national banks, confirming the joint commitments.

Structure of Commitments



These two meetings became a model for the involvement of international banks in internationally supported adjustment programs in the region. The other European countries receiving macro-financial support from the IMF and the EU were Bosnia Herzegovina, Hungary, Latvia and the Ukraine. Meetings for the first three of them were held in May 2009 (Hungary), June 2009 (Bosnia-Herzegovina) and Latvia (Sept 2009). In all three cases banks pledged to maintain exposure, recapitalize their subsidiaries as needed and to confirm their commitments in bilateral letters to the host national bank.

Follow-up meetings to the individual country meetings were held in parallel to milestones in the implementation of the IMF/EC assistance. For Romania this was the IMF board agreement of the SBA on 4 May, 2009. For Hungary, Serbia and Bosnia Herzegovina this were IMF/EC review missions in May 2009 and end 2009 respectively.

In these meetings the implementation of commitments by all players was reviewed. The standard format was as follows: The IMF, the EC and the authorities of the host country reported on the implementation of the international support packages, economic developments, future challenges and national policy measures. Then an exchange of view between the international banks and authorities took place. Finally, mutual commitments were updated, were appropriate, in the light of the reports and the discussions held.

The most detailed and strongest set of bilateral commitments by banks was concluded in the case of Romania: Banks agreed to fully maintain their exposure to the country during the program duration. This pledge was based on detailed technical definitions for monitoring. They further agreed to maintain a capital adequacy ratio of their subsidiaries of at least 10%. The stress test results of the RNB were accepted as basis to determine recapitalization needs. As a concession by Romania and the IFI to the international banks the latter received a shift in the cut off date for the reference exposure from end February to end March 2009 which resulted in a reduction of the reference exposure of about 8%. Letters were signed soon after the follow up meeting in May 2009. Bilateral commitment letters for Serbia and Bosnia Herzegovina largely followed the model of Romania but they did not contain numbers with regard to the capital adequacy ratio.

In the case of Hungary the coordinated bilateral commitments were somewhat more flexible. Banks pledged to maintain at least 95% of their exposure at the start of the crisis, i.e. end September 2008. They agreed to provide the Hungarian Financial Supervisory Authority (HFSA) with data to monitor their global exposure to Hungary. With regard to recapitalisation they made general promises to meet requirements for additional capital without delay. The precise definition of requirements was left open, but banks took note of a possible request by the Hungarian Financial Supervisory Authority to meet higher capital requirements in line with pillar 2 of the Basel II Capital Accord.

There were several reasons for this decrease in the strength of the commitments: Hungary was included in the Vienna Initiative only well after the conclusion of the IMF/EC macro-financial assistance package. Banks put forward that most of them already had bilateral agreements with the Hungarian authorities going beyond the ones proposed, and by that questioned the value added of the exercise. Second, they had reservations against the proliferation of national stress tests and the associated country by country approach. They argued that this would prevent them from a commercially sound allocation of capital within the whole group. Third, they argued that in a shrinking economy the notion of maintaining exposure needed to be redefined because in such an environment adequate business opportunities for banks were lacking.

In the case of Latvia banks finally did not enter into the envisaged bilateral letters. The main reasons for this were probably the late inclusion into the VI/EBCI

framework, the smooth evolvement of the engagement of international banks in the country and the relatively small contribution of the IMF to the overall package.

3.3. Horizontal meetings

In the May 2009 country meetings on Romania and Hungary, international banks had requested a horizontal meeting to deal with the regional dimension of commitments made for individual countries. A first such meeting took place in September 2009 in Brussels and a follow-up thereon in March 2010 in Athens. Participation was comprehensive in both cases: It included the authorities of the five countries where banks had signed joint commitment letters, the home authorities of international banks in the region, 15 international banks, the IFIs, the European Commission and the ECB as an observer. In Athens Poland was represented in addition.³

Topics dealt with in Brussels were general stock taking of the initiative and horizontal aspects of exposure maintenance and capital adequacy.

The focus in Athens was on the future remit of the VI/EBCI. Overall, there was broad consensus on three points: (1) That the initiative had helped to avert a systemic financial crisis in the region, (2) that it should be preserved in the medium term, because the high fragility of the stabilization and recovery under way, (3) that future work could focus on concrete, medium term financial sector challenges.

It was agreed to set up two public private sector working groups. One on the absorption of structural funds in the region and one on the development of local capital markets. Both groups were tasked to develop forward looking proposals and report to a further meeting of the full forum to take place end July 2010 in Brussels.

³ European Commission, EIB, IFC, IMF, World Bank.

List of participants in the meeting in Athens: Hungary, Latvia, Romania, Serbia, Bosnia-Herzegovina, Austria, Belgium, France, Germany, Greece, Italy, The Netherlands, Sweden and Poland.

Alpha Bank, Bayern LB, Erste Group Bank AG; Eurobank EFG, ING Bank, Intesa Sanpaolo, KBC Group, National Bank of Greece, OTB Bank; Piraeus Bank, Raiffeisen International, Skandinaviska Enskilda Banken, Société Générale, Uni Credit, Volksbank International.

4. Assessment

4.1. Background

The straight forward way to assess a forum like the VI/EBCI is to compare outcomes with initial aims. A complementary method would be to compare the results of the present initiative with similar ones in the past. The most suitable candidate in this respect would be public private sector coordination in the aftermath of the Asian crisis in 1997: main similarities were that in both cases external financing needs were driven mainly by the private sector and finance in the boom phase was provided largely by foreign banks (*EBRD, II, 2010*). However, the additional value of such an exercise still would be limited due to remaining differences in the institutional setting, in particular in the business strategies of international banks in the respective region.

4.2. Initial aims

The aim of the promoters of the VI/EBCI was to ignite a comprehensive coordination process amongst all institutions needed for effective crisis management in CESEE countries facing high macro-financial risks.

How this was to be achieved, was a question of secondary importance. However, it was clear that some sort of a new forum or process was needed. It was further clear that the structure had to be flexible on the one hand but adequate for making mutually reliable commitments on the other hand.

The initial approach was to create a structure consisting of two main elements: (1) a forum for national authorities, European institutions and IFIs to deal with horizontal issues. (2) thematic or country specific working groups. In these groups representatives of the banking sector should be included as appropriate. The plan was to broker a general agreement on the division of tasks in managing the crisis. Based thereon coordinated action in particular cases should be implemented.

On operational level, the following points were considered important for dealing with systemic financial stability risks:

- Raising awareness, in particular, of the politicians in vulnerable CESEE countries. Macro-financial risks for countries with weak fundamentals had increased suddenly in the aftermath of the Lehman insolvency. However, perception of these risks often was incomplete in the first month

following the trend break. Therefore, focussing the attention of policy makers on safeguarding against a potential financial crisis was an immediate priority at the beginning of 2009. A key aspect in this context was to secure the timely involvement of the EC and IFIs.

- Keeping banks engaged in the region. The larger part of external financing in the region came from a limited number of international banks. At the same time, most of the international banks involved suffered from the global financial crisis and were in need for public support.
- Avoiding national ring fencing of financial resources. At the peak of the financial crisis, financial markets and institutions were in critical conditions in all countries across Europe. From a short term national perspective attempts to ring fence resources made sense. Cases in point were to prevent resources from national stabilization packages from spilling over to other countries and to prevent profit repatriation from subsidiaries to mother banks. At the same time, such strategies were detrimental to effective crisis management, given the close integration of European financial markets.
- Avoiding discrimination between home banks and subsidiaries of international banks by host countries. Once again, from a short term national perspective a favourable treatment of home banks would have made sense. However, this ran counter the logic of the integrated financial market, creating severe risks both to international banks and host countries.

4.3. Outcomes

In the periode reviewed the results of the VI/EBCI are very satisfactory, in particular if the difficult institutional framework within which the initiative was launched is taken into account.

In the following respects the VI/EBCI was successful:

- The VI/EBCI is widely perceived as a successful vehicle for public-private sector coordination in the financial crisis, triggered by the Lehman failure in September 2008 (*EC, II*). This is in itself the most important positive feature. It was achieved in an iterative process: agendas and aims of individual meetings built on the outcome of previous ones. In addition, they built on informal discussions between meetings, led mostly by the EBRD. There were two decisive elements

for the favourable outcome: The first was the success in gathering of a critical mass of participants in the two preparatory seminars. The second was the success of the first two country meetings on Romania and Serbia in March 2009. This was at a time when the systemic financial crisis was still going on.

- The joint commitments by the banks made public immediately after the meetings were a tangible element in restoring confidence in these two countries. Indirectly, they positively influenced confidence in the region as a whole.
- The VI/EBCI process most likely also contributed to the decision of Romania to enter into negotiations with the EC and the IMF on macroeconomic support for precautionary reasons. To the extent this is correct, it also contributed to awareness raising in a country of considerable importance for the stability of the region as a whole.
- Commitments made in the country meetings were broadly honoured (*EBRD, II, EC, I, IMF, III*). This helped economic stabilization and recovery in the individual countries and also helped to build up mutual trust amongst different players.
 - National authorities broadly lived up to their obligations in internationally supported adjustment programs. There were implementation delays in some cases but finally all agreed measures were taken. All program reviews due until first quarter of 2010 were concluded successfully.
 - Host country surveillance authorities relationship with international banks were broadly in accordance with the understandings made in the individual country meetings. This was confirmed by international banks in the follow up meetings with the individual countries.
 - Banks broadly lived up to their exposure commitments.
- There were positive synergies not expected by participants at the outset: in particular IMF/EC conditionality was enforced by banks, making their exposure maintenance conditional on the compliance of host countries with program conditionality. Further, banks received support from IFIs in safeguarding against discriminatory behaviour by host country supervisory authorities.
- Cooperation in the VI/EBCI framework helped to develop standard procedures for cooperation between the IMF and the EC in providing macro-financial support. This provided a useful basis for formal decisions with regard to this cooperation which were taken by the respective governing authorities of both institutions.

In the two following aspects the VI/EBCI did not live up to initial aims

- The initial attempt to agree on a general framework for the discussion process failed. This was not a problem in the short term; the results of the coordination process on country level were satisfactory. Coordination costs in terms of preparation and holding meetings probably were even lower than with the two-pronged structure, along the lines described above. At the same time, the lack of any agreed structure makes the platform vulnerable and complicates its preservation in the medium term. Why this would be desirable is argued in section 5.
- Second, it was not possible to arrive at a common understanding on division of tasks and burden sharing in crisis management. However, some elements for building such an understanding emerged in the country groups.

In the sequence of these meetings, a standard format for the involvement of the private sector in macro-financial adjustment programs emerged (paragraph 3.2). This relates to their commitments in terms of exposure maintenance and recapitalisation and to the conditions attached to these commitments, i.e. the concessions the banks received in return. Important elements of these conditions were prescriptions to the host supervisory authorities with regard to the modalities of stress testing and dealing with foreign bank subsidiaries more generally. The mutual agreements were enshrined in joint commitment letters and bilateral commitment letters of international banks.

However, there was less progress with regard to the respective roles of home and host finance ministries. The reason is that - fortunately - scenarios of open systemic crisis could be avoided. It is only in such scenarios were home and host finance ministries turn into key players.

4.4. Structural factors influencing the outcome

There were several structural factors relevant for the record of the VI/EBCI, some of them favourable, some of them less so. Together, they go a long way to explain the overall results.

The favourable factors were:

- The threat of a systemic failure of the financial system. All players without exception stood

to loose heavily form a systemic break down, triggered by inefficient crisis management. Therefore, the potential benefit of coordination i.e. damage avoided was very high. This offset both expected coordination costs and the loss of possible benefits from free riding strategies. This factor was probably the most powerful one up to the third quarter of 2009. Then the acute systemic risks to the financial system abated and this point became less relevant.

- The IFI and the EC were able and ready to contribute much higher resources to joint support packages than in comparable previous episodes (IMF III). This gave them a strong position to broker compromises between international banks and home country authorities on the one hand and host country authorities on the other hand.
- The business relations of international banks to their host countries. Bank strategies in the region were focussed on long term profit maximization and growth in their host countries. This implied that they had a strong interest to stay engaged on their own.
- Potential negative signalling effects to financial market participants. Assessment by the IMF, the EC and national authorities are a relevant source of information for financial market participants. This creates the danger of undesired signals to financial markets through leaking information on forward looking risk assessment. In addition, regional discussions on crisis management can trigger spill over effects to countries with sound economic fundamentals.

The less favourable factors were:

- The heterogeneity of interests amongst players.
 - Interests of home and host countries initially were focussed on national costs and benefits. This implied, inter alia, that the interest of home countries in coordinated crisis management varied with the role of their banks in the region. Their interest in coordination also tends to be negatively correlated to economic size.
 - For host countries, the involvement of the EC/IMF in crisis prevention has high domestic policy costs. Therefore, they tend to advocate an observant approach to internationally coordinated crisis management. Such costs are no relevant factor for home countries. For IFIs and in particular for the IMF, international crisis management is a core activity. They gain institutional reputation from their successful involvement.
 - International banks compete for short and long term profits; the latter implying that they compete also for market shares. They desire a liberal regulatory environment not interfering with their business strategies and official support in times of crisis. Macro-financial conditions for them are just part of the market environment.
- Both the EC and the IMF have mandates to support European economies. How these two mandates relate to each other in practical terms was largely uncharted territory at the start of the financial crisis in the CESEE in the third quarter 2008.

5. Conclusions for crisis prevention and management in Europe

There are three interrelated arguments for preserving the VI/EBCI as a crisis management tool:

- The adjusted EU framework for crisis prevention and monitoring will not remedy the institutional characteristics which were the rationale for launching the VI/EBCI. Participation in the EU framework remains to be confined to Member States and European institutions. Finance ministries, national banks and supervisory authorities from non member countries remain excluded. The latter could be invited to supervisory colleges for particular banks, if all participants from the EU agree. Private banks and IFI are also not included.
- The present ownership structure in the financial sector which is characterized by the dominance of a relatively small number of international banks will remain in place also in future. This implies that the participation of international banks in crisis management frameworks for this region will continue to be important.
- Financial sector and real sector volatilities will remain above normal in the medium term. Most probably the absorption of the shock delivered to the European economic system through the financial crisis will take several years.

As described in the text, the structure of the VI/EBCI is volatile. De facto its continuation is dependent on the outcome of each meeting. Therefore, there are only two options to secure its availability in the medium term:

- Either, by using it also as a crisis prevention tool or
- to look for some form of institutional stabilization.

Using the VI/EBCI as a crisis prevention tool could bring value added to the EU in two respects. Both of them are based on the broad range of participants:

- It could be used to include accession candidates and selected neighbourhood countries into the EU-crisis prevention framework.
- It could be used as a laboratory to develop public private cooperation in securing stable financial markets. The participation of private banks allows to complement a regulatory approach with a negotiation/moral suasion approach. This would be valuable, because such a combination is more effective in complex settings than pure regulation. Private sector inputs go far beyond the ones they

would make in consultation processes. This is so because in the VI/EBCI framework they are involved in concrete negotiation situation which is not the case with consultations on new laws and regulations.

To exploit these potential benefits two conditions would have to be met:

- To secure participation of the private sector. To achieve this, three strategic lines could be pursued:
 - To raise awareness of the banks that the risks to the financial sector will remain high and that they will be amongst the primary losers of new turbulences; in other words: that their gains from cooperation in terms of avoiding longer run damage still remains very high.
 - To raise awareness of banks that negotiated solutions for behavioural prescriptions tend to be less costly for them as pure prescriptions.
 - To kick start the process with a topical problem and demonstrate the value added of the approach.
- To better link the VI/EBCI with the EU coordination framework proper. A satisfactory solution to this problem would be relevant for the European integration process more generally.

An option might be to create a small secretariat of the VI/EBCI which would have to be close to the EU institutions. The IMF should play an important role in such a secretariat. It could provide a first hand link up with crisis prevention discussion in the G-20 framework.

It would be critical to keep additional coordination costs to a minimum. Here, innovative solutions would be needed.

Using the VI/EBCI as part in the EU crisis prevention framework would be the most effective way to preserve it. A second best option would be to increase the institutional stability of the process.

One way would be to negotiate general principles amongst all participants. These could build on the features which have evolved in the country meetings. The agreement would have to contain also a trigger mechanisms for calling meetings. Such a general agreement could be further developed into a light version of the horizontal agreement which was envisaged at the time when the initiative was launched.

To secure the stability of the financial system is

of paramount importance. It is important for the preservation of a growth model for the CESEE which is relying on substantial capital imports. Beyond that it is decisive for the long run thriving of the market based economic system as a whole.

The present coordination and crisis prevention framework proved inadequate, to live up to this task, both on global and on EU level. Now reforms are underway. How effective these reforms will be remains to be seen.

The importance of the tasks requires that all possible ways to improve financial stability are seized. To integrate the VI/EBCI process in the EU coordination framework would be such a possibility.

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