Basel III rules could damage the real economy

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Video to press conference

Basel III to constrain SME lending. Erste Group warns of credit crunch

Participation capital was a good deal for Republic of Austria

Nowadays banks need around EUR 100,000 in capital to cover a EUR 5 million loan to an Austrian company of average creditworthiness. However, under the new Basel III the capital requirements will be three times as high - the amount of core capital that banks will have to hold in relation to loans to customers will increase from two to seven percent, while government bonds will not require any additional capital. This is only one example of how the new Basel III rules will hinder lending to the real economy in contrast to other investment activities. "This is not a matter that concerns only banks, as these regulations will damage the economy and negatively affect the competitiveness of countries with a high density of SMEs. But before that happens, policy-makers and business leaders in Austria, in Brussels and, indeed, across Central and Eastern Europe, have to do something about it," stated Andreas Treichl, CEO of Erste Group at a press conference today in Vienna. “It is late, but not too late,” he added.

As of 2013, Basel III will be implemented in a phased-in process. In December 2010, the final version of the Basel III regulations was published, which is now to be implemented throughout the EU. Erste Group aims to represent Austria’s and Central and Eastern Europe’s interests in this implementation process and requests that politicians take decisive and joint action in this regard. “Strengthening equity ratios is good, tightening liquidity requirements is good, but discriminating against loans to businesses is not good, “said Treichl.

“During the crisis we did not have a credit crunch, but the current version of the rules will lead to a credit crunch,” warned Treichl. This will ultimately have a negative effect on the economy and our prosperity. It is precisely in CEE that we have a high density of SMEs and close relations between banks and businesses. Additionally, access to the capital markets is not easy in Austria and CEE. Little is left of the original ideas of the G7 at the height of the financial crisis in 2008 of bringing banks back to their original business model, because the burden on the “real banking business” are high, argued the Erste Group CEO. Moreover, small institutions such as savings banks and cooperative banks will be at a disadvantage under the new rules. Retail banks will have to reduce their lending to clients in CEE.

Treichl: “Participation capital was a good deal for the Republic of Austria”
Treichl also commented: “We did not cause the crisis. And the investments in the banks were ultimately a good deal for Austria. Erste Group alone will have paid to the Republic of Austria almost EUR 400 million in interest for the state capital by the end of 2011. Even if I deduct the costs incurred by the state, its net return is still EUR 280 million."

And the measures also had a much more important effect: Erste Bank and Sparkassen granted a total of EUR 7.8 billion in new loans in Austria in 2010 and thus fuelled the recovery of the domestic economy. In 2009 the amount was similar. When accepting the state participation capital, Erste Bank had originally promised to make at least EUR six billion in new loans available to the domestic economy in the years 2009 to 2011. This promise was more than honored just two years later.

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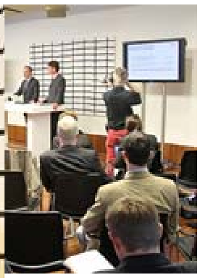

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