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Austria Needs to Dispose of Nationalized Bank Assets - IMF

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VIENNA--Austria needs to take further steps to strengthen its banking system, including increasing **capital** buffers, creating a bank resolution scheme and winding down all the nationalized banks, even if it means taking a hit to the public budget, the head of the International Monetary Fund's annual review committee for Austria said Monday.

Enrica Detragiache, Article IV Mission Chief for Austria, said it can be expected that Austria's nationalized banks may need further monetary aid. One of those banks the IMF is concerned about is the nationalized bank **Hypo Alpe-Adria** Bank AG, Ms Detragiache said.

"What I'm trying to say is that in getting this bank out of the government's hands, if you want, more losses are likely to surface as a result from this process. Now there's a question of how quickly; what is the pace of these disposals?," Ms. Detragiache said.

Austria has been at odds with the European Union about the timeline for restructuring **Hypo Alpe-Adria**. In March, Joaquin Almunia warned that he may **require** the bank to repay the over 2 billion euros (\$2.6 billion) in state aid it has received if Austria doesn't improve its restructuring plan for the bank. The Austrian Finance Ministry said Monday Austria had submitted over the weekend a new restructuring plan that foresees Hypo's Austrian bank being sold in 2013, stopping all new business in the Italian subsidiary starting this month and selling the south-eastern banking network by the middle of 2015.

Ms Detragiache added that the wind-down process has been slow up to now as the government hoped the economies where the bank operated would improve. Instead the situation has deteriorated, she said.

Banks held in government hands tend to see their assets deteriorate, she said; "hence our recommendation to be more proactive and downsize."

Austria's central bank governor Ewald Nowotny, who is also a member of the European Central Bank's governing council, said, "It would be a misunderstanding to interpret the IMF as saying don't worry about the budget...It is always important to be aware," adding that it is important to keep costs for taxpayers low.

The strongest recommendation for Austria the IMF's Financial Sector Assessment Program Mission Chief Nicolas Blancher said, was to create a bank resolution scheme.

"While a common EU framework is the ultimate goal, in the interim the Austrian authorities should put in place a bank resolution regime consistent with international best practices and already-agreed elements of the forthcoming EU directive," the report's preliminary conclusions said.

Overall, Mr. Blancher said that Austria's banking system appears resilient, but faces some challenges. He added "We think there is room for increasing **capital** buffers."

Among some of the other recommendations from the IMF to Austria were to reallocate cash transfers as part of family benefits to child care facilities in order to increase women's participation in the labor force.

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