



Austria central bank highlighted risks of cancelling Hypo debt-report

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SPIELBERG, Austria, June 21 (Reuters) - Austria's central bank warned the government of the risks of wiping out debt held by investors in state bank **Hypo Alpe Adria**, but did not try to influence a law on it unveiled last week, National Bank Governor Ewald Nowotny was quoted as saying.

Austria broke new ground for debt markets by deciding to cancel 890 million euros (\$1.2 billion) of subordinated **Hypo Alpe Adria** debt held by investors, despite guarantees by the bank's home province of Carinthia.

The one-off move aims to ensure that investors - not just taxpayers who have pumped 5.5 billion euros into Hypo so far - share the costs of winding down the stricken lender, officials say, but it has shaken confidence in Austria's credibility.

Nowotny, who had been a vocal opponent of letting Hypo go bust, has come under fire from bankers for not doing more to head off the legislation that could take force in August.

"It is apparent that involving creditors can be risky, as the OeNB (central bank) pointed out in its comment (on the law)," Nowotny said in an interview with Profil magazine.

"The OeNB stressed the special need for comprehensive information about the special character of the proposed measures," he added in the interview, excerpts of which were released ahead of publication on Monday.

He said the central bank was not involved in drawing up the law, but was asked only to comment on issues of financial market stability and capital markets.

In Hypo's case "there are no perfect solutions. This is rather a matter of the lesser evil".

Austria had to nationalise Hypo in 2009 after its breakneck expansion at home and in the Balkans - fuelled by overly generous Carinthian debt guarantees - drove it to the brink of insolvency.

It is now being broken up, with most assets parked in a "bad bank" that will drive state debt and deficits higher this year.

Ratings agency Moody's on Friday downgraded several Austrian banks, citing the government's "unprecedented" step that raised questions about public backstops for lenders.

(\$1 = 0.7366 Euros) (Reporting by Michael Shields; Editing by Sophie Hares)

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