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Telos PRIMO PIANO SCALA c

Herbert Stepic is the CEO of the Austrian Banking Financial Group Raiffeisen International. Stepic possesses more than 30 years of experience in international banking and trade finance and is a renowned expert for the CEE Countries, the New Europe. He is the master mind and motor behind the rapid expansion of Raiffeisen International - RZB was the first Western bank to operate in Central and Eastern Europe and today represents one of the main economic/financial entities in that area. Within Raiffeisen's branch in Austria, the country where he was born 62 years ago, Stepic created the Department for Foreign Trade Promotion. He became a member of the RZB Board in 1987 and Vice-President in 1995. Stepic devoted his life to Central and Eastern Europe. On the occasion of his 60th birthday, in 2007, he decided to create the H. Stepic CEE Charity Foundation, whose mission is to provide children, adolescents and young women with a home in the less advantaged regions in Central and Eastern Europe. Just click *here*.

Editorial

The first signs of crisis appeared on 8 August 2007. On 9 August BNP Paribas freezed three funds saying it could no longer value them appropriately and the ECB injected €100 billion into the markets to avoid a liquidity crisis. The FED imitated the ECB, but the only result it achieved was to let panic emerge. The wave of panic found its icon in the queues of clients outside Northern Rock branches on 14 September, seeking to extinguish those deposits the British government declared to be able to guarantee, and in the pictures of Lehman Brothers employees with cardboard boxes on 15 September 2008, leaving the bank as it collapsed. What was left the day after were mugs, caps, thermos flasks and t-shirts: everything on sale on eBay. What a paradox did the crisis reveal! Government is back as a leading actor: the White House announced a $700 billion package, and it will not be left alone. The market is being rescued through an exceptional deployment of public resources. Now that 2 years have passed, some analysts see the turning point coming closer, while others are foreseeing the fourth stage of the crisis, affecting the real economy. Primo Piano Scala c has asked for the opinion of an expert in banking and financial systems, especially those of Central and Eastern Europe, Herbert Stepic. Who knows if he has ever listened to Uprising by Muse, which, according to Bellamy, the group's voice and author, is their "outcry against the financial crisis and the banks' hellhound policy on hedge funds, derivatives and toxic finance". Well, if even a rocker cares about it…

Mariella Palazzolo

Herbert Stepic. **Global Crisis. Optimism reassesed**

Telos: Recent economic indicators across the world suggest that conditions in financial and real markets are stabilising. Do you believe that we can see a light at the end of the tunnel and that the worst may be behind us? Could you mention a few tangible examples of the scenario you think is more likely to take place?

Herbert Stepic: This crisis is not over yet and difficult challenges still lie ahead of us, but I think there are some indications that the worst phase of the current downturn might now be behind us. Some countries in the Central and Eastern Europe (CEE) region, most notably Poland, posted improved economic growth in the second quarter and the decline in industrial production generally appears to have bottomed out. However, it's important to always remember that the CEE countries are not a homogenous group: their differ considerably amongst themselves with regard to their specific economic, fiscal and political conditions. Accordingly, there is also no "one size fits all" scenario that describes how all of the CEE States will experience the recovery phase of this crisis. At the same time, one thing is true for the entire region: CEE will regain its role as Europe's growth engine. Why? Because CEE's convergence process will continue, thanks to the region's attractive productivity growth, tax regimes, education levels, and (partly) currency valuations, to name just a few factors.

More rules, more State, a Global Legal Standard…these seem to be the paths that Governments intend to take. What do you think of this approach?

Regulatory developments are no doubt of great relevance for us, as they help shape the ground rules for the banking industry. I think we should avoid a situation in which too many regulators with similar but different tasks burden banks with excessive stipulations. For example, while stress tests are undoubtedly a good idea, I don't think it's a good idea for five different regulatory entities to implement five stress tests with five different methodologies – the tests' findings will not provide five times of one single test. Undeniably, there is a serious likelihood that regulators will seek to implement a higher degree of regulation as a consequence of the crisis, but this will also reduce their ability to finance the economy in good

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times. Therefore, we have to be aware that the G-20 proposal of "dynamic provisioning" will slow down business cycles. After all, a credit crunch during boom times is not exactly what we need.

The Central and Eastern Europe region is the sick man of emerging markets. In spite of this recurring statement, Eastern Europe based banks kept reassuring about their commitment towards local economies and say they will not shut down the credit inflow. What is your view on such matter?

Admittedly, the region has been hit particularly hard by the global economic turndown. This also reflects the fact that the CEE States are exceptionally dependent on Western Europe for FDI funding and as their primary export market – and, of course, Western Europe itself has faced its sharpest economic decline in more than 70 years. However, all of the large Western banking groups active in CEE have remained in the region and have underlined their commitment to the region's individual markets. This shouldn't surprise anyone – after all, the still massive gap between financial intermediation level in CEE and those in the EU-15 means that the banking sector in CEE continues to offer great potential, especially when viewed from a mid-to long-term perspective. The Western banking groups will continue to cooperate with both the national authorities in CEE and international financial institutions to ensure that banks will retain their vital role in the region's economies and in supporting the viability of the transition process.

Love and credit unions function in the same manner, wrote Pope Benedict XVI in his third encyclical, Charity in Truth, focused on ethics in economy. A Pope from a country where Friedrich Wilhelm Raiffeisen, major of some villages of the German Westerwald, established the first credit co-operative bank in 1862. Transparent and ethical behavior of the banking system has lost credibility. How do you think that banks can act today in a socially responsible manner?

I believe that socially responsible banking is geared towards meeting real and everyday needs that people have both on an individual and common level. Banking should not be targeted at simply exploiting the profit opportunities provided by esoteric financial products with little or no connection to those real needs. With its focus on "bread and butter" banking, Raiffeisen provide its 15 million private individual and corporate customers with financial products and services they really need for replacing a refrigerator, upgrading a waste water treatment plant or erecting a new industrial plant. The fact that values such as solidarity have always stood at the very center of Raiffeisen's business philosophy reflects our group roots in the socially minded saving and credit co-operatives founded in 19th century. We have always believed in the importance of trust and partnership, as well in the necessity of developing and nurturing close relationship with our customers. Being socially responsible also means having a long-term focus which is one more reason why one of our key objectives in these difficult times is to help our customers through the crisis.

The Italian banking system seems to have weathered the financial crisis better than other countries' banking systems. Which are, in your view, the points of strength of Italian banks, especially of Italian saving and cooperative banks?

Like their Austrian counterparts, Italy's banks were not especially exposed to the core causes of financial crisis, such as subprime mortgages in the USA. The Italian banks' general orientation towards domestic lending and their corporate business strong focus on the SME segment also helped to delay and/or blunt the crisis's initial impact. However, the challenges that Italy's banks now face are largely the same as those in Europe's other banking sector: all banks active in the so-called "real-economy" are feeling the impact of the economy's sharp drop over the past year or two in the form of rising volumes of non-performing loans, sharply higher provisioning and lower credit volume growth. As a consequence, Italy's two largest banking groups, which also play a significant role in CEE have seen their net profits drop sharply in a year-on-year comparison but, like us, they have managed to retain positive bottom lines.

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