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Austria's Oesterreichische Clearingbank AG (OeCAG) (Austria GFC)

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Austria: Oesterreichische Clearingbank AG (OeCAG)[1]

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Yale Program on Financial Stability Case Study
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Abstract

In October 2008, euro-area countries adopted a joint framework to guide national policies combatting the effects of the global financial crisis. In Austria, this led to the enactment of a number of measures and amendments, including the Interbank Market Support Act (Interbankmarktstärkungsgesetz, or IBSG). IBSG called for the establishment of a new clearing bank to facilitate interbank lending. It also permitted the Minister of Finance to guarantee up to €5 billion of short-term securities issued by the clearing bank and to absorb losses of the clearing bank up to €4 billion. The clearing bank, Oesterreichische Clearingbank AG (OeCAG), was owned and capitalized by Austrian banks and was open to participation from all credit institutions and insurance companies. Through regular auctions, OeCAG matched available funds to demands for credit for fixed terms. Over the lifespan of the bank, 310 auctions were conducted in euros and dollars, allotting €22.5 billion and $1.5 billion respectively. After being extended by one year, the guarantee scheme authorized by IBSG expired on December 31, 2010, and OeCAG closed shortly thereafter. None of the government guarantees were triggered.

Keywords: credit guarantee, clearing bank, Austria

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to bank debt guarantee programs.

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Austria: Oesterreichische Clearingbank AG (OeCAG)

At a Glance

Following the declaration of a joint action plan for European Union member states in October 2008, Austria enacted a number of measures in response to the global financial crisis. Included in this framework was the Interbank Market Support Act (Interbankmarktstärkungsgesetz, or IBSG), which targeted disruption in the interbank market. Under IBSG, the Austrian government called for the establishment of a clearing bank that would borrow and lend funds on the interbank market. The clearing bank would be owned by Austrian financial institutions.

Accordingly, Austrian credit institutions established Oesterreichische Clearingbank AG (OeCAG) with €180 million of equity capital raised by the banks. Under IBSG, the government pledged to cover a maximum of €4 billion in OeCAG losses, should loan defaults by the clearing bank's borrowers result in its regulatory capital falling below legally required levels. In addition, OeCAG was permitted to seek government guarantees on its newly issued securities, provided they had a maturity of one year or less. This guarantee was capped at €5 billion.

Summary of Key Terms	
Purpose: To strengthen the interbank lending market by establishing a privately-owned clearing bank with a government guarantee to meet credit demand	
Announcement Date	October 27, 2008
Operational Date	October 27, 2008
Date of First Guaranteed Issuance	N/A
Issuance Window Expiration Date	Originally December 31, 2009; later extended to December 31, 2010
Program Size	€4 billion for loan losses; €5 billion for guarantees of short-term securities
Usage	310 auctions conducted, allotting €22.5 billion and $1.5 billion. No guarantees were triggered
Outcomes	No defaults
Notable Features	Guaranteed debt issued by clearing bank

OeCAG was required to charge market-based fees and interest rates and was subject to a 50-basis-point fee charged for government guarantees.

OeCAG conducted regular auctions to match available deposits with demands for credit. Over the lifespan of the bank, 310 auctions were conducted in euros and dollars, allotting €22.5 billion and $1.5 billion respectively. Following a one-year extension, IBSG expired on December 31, 2010, and OeCAG closed shortly thereafter. None of the government guarantees were triggered.

Summary Evaluation

Evaluations of OeCAG point to declines in liquidity risk as evidence that OeCAG was successful in reinvigorating the interbank market. However, OeCAG alone was not able to restore the Austrian interbank market to its pre-crisis state.

Interbank Market Support Act (IBSG Guarantee Program): Austria Context	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$389.5 billion in 2007 $431.2 billion in 2008 *Source: Bloomberg*
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$46,856 in 2007 $51,709 in 2008 *Source: Bloomberg*
Sovereign credit rating (5-year senior debt)	As of Q4, 2007: Fitch: AAA Moody's: Aaa S&P: AAA As of Q4, 2008: Fitch: AAA Moody's: Aaa S&P: AAA *Source: Bloomberg*
Size of banking system	$400.4 billion in total assets in 2007 $450.0 billion in total assets in 2008 *Source: Bloomberg*
Size of banking system as a percentage of GDP	102.8% in 2007 104.4% in 2008 *Source: Bloomberg*
Size of banking system as a percentage of financial system	Banking system assets equal to 100% of financial system in 2007 Banking system assets equal to 100% of financial system in 2008 *Source: World Bank Global Financial Development Database*
5-bank concentration of banking system	84.1% of total banking assets in 2007 81.7% of total banking assets in 2008 *Source: World Bank Global Financial Development Database*
Foreign involvement in banking system	26% of total banking assets in 2007 28% of total banking assets in 2008 *Source: World Bank Global Financial Development Database*

Government ownership of banking system	0% of banks owned by the state in 2007 0% of banks owned by the state in 2008 *Source: World Bank, Bank Regulation and Supervision Survey*
Existence of deposit insurance	100% (90% for non-individuals) insurance on deposits up to $22,727.00 in 2007 100% (90% for non-individuals) insurance on deposits up to $22,727.00 in 2008 *Source: World Bank Deposit Insurance Dataset*

I. Overview

Background

Problems in the European interbank market were exacerbated by the collapse of Lehman Brothers in September 2008 (Schmitz, Weber, and Posch 2009, 66). A number of unique conditions in Austria caused further disruptions to interbank lending. In response, the Austrian government passed a package of measures related to financial stability. This package included the Interbank Market Support Act (Interbankmarktstärkungsgesetz, or IBSG), which established a State-guaranteed clearing bank and a guarantee scheme for securities issued by other credit institutions, and the Financial Market Stability Act (Finanzmarktstabilitätsgesetz, or FinStaG), which permitted state guarantees for individual institutions as part of a recapitalization process (Republic of Austria 2008). The package was approved by the European Commission (EC) under Article 87(3)(b) of the EC Treaty, which permits State aid that remedies a serious disturbance in a member state's economy (European Commission n.d.). (See Appendix A for more information on the unique conditions in Austria and specific programs adopted in response.)

Program Description

Under IBSG, the scheme allowed the Minister of Finance to guarantee bonds issued by credit institutions and insurance companies with a maximum allowance of €75 billion. Of the €75 billion, €4 billion was explicitly earmarked for absorbing the losses of a new clearing bank specifically established to stimulate the interbank market (Republic of Austria 2008). IBSG stipulated that this new bank would be privately owned by credit institutions or insurance companies. Accordingly, the major Austrian banks established the Oesterreichische Clearingbank AG (OeCAG) and funded it with €180 million in equity. OeCAG's operations were managed by the Oesterreichische Kontrollbank AG (OeKB), which was also owned by the major Austrian banks. OeCAG was open to all credit institutions and insurance companies. It received deposits from banks and insurance companies and could also issue securities to fund itself (potentially with a government guarantee). OeCAG then matched these funds with demands for credit from banks and insurance companies through regular auctions. Its business volume was capped at €10 billion (Kalss 2010, 530).

According to IBSG, the government was authorized to provide two different types of guarantees to the clearing bank. The government would absorb losses of up to €4 billion incurred by OeCAG on funds it lent to borrowing banks and insurance companies. This guarantee would be triggered if a loan default caused OeCAG's regulatory capital to fall below legally required levels, in which case the government would provide enough equity capital to restore the clearing bank's regulatory capital to the required minimum amount. In addition, the government could provide guarantees for securities issued by OeCAG to fund itself. The government was authorized to guarantee up to €5 billion of OeCAG securities with a maturity of one year or less. Like all other credit institutions and insurance companies eligible for state guarantees under IBSG, OeCAG was subject to an additional guarantor fee of 50 basis points (bps) for the assumption of liability by the government (Schmitz, Weber, and Posch 2009, 67).

Outcomes

OeCAG was allowed to close at the end of February 2011 following the expiration of IBSG at the end of 2010. According to the Federal Ministry of Finance, OeCAG "conducted 310 auctions, comprising allotments of €22.5 billion and $1.5 billion," and no government guarantees were triggered (Federal Ministry of Finance n.d.). OeCAG was particularly useful for small banks with limited access to euro money markets and the ECB's open market operations (Schmitz, Weber, and Posch 2009, 69).

II. Key Design Decisions

1. OeCAG was part of a broader package of measures adopted in response to the financial crisis.

OeCAG was authorized by the Interbank Market Support Act (IBSG), which was passed alongside the Financial Market Stability Act (FinStaG) as part of the Austrian Financial Market Stability Package. This package of measures was introduced in response to the joint call from euro-area countries for national legislation aimed at restoring financial market stability (Austrian Financial Market Stability Package). FinStaG's primary authority involved strengthening the capital base of individual credit institutions, including outright capital injections, the acquisition of existing shares, and even the ability to obtain ownership rights of institutions in "exceptional cases".

2. The Interbank Market Support Act provided the legal basis for the Minister of Finance to provide guarantees to and on behalf of a newly established clearing bank.

The IBSG, which was established to strengthen the interbank market, allowed the Federal Minister of Finance to assume liability for "a company established for the exclusive purpose of borrowing funds from credit institutions or insurance companies via the interbank market in its own name and for its own account and loaning these funds to other credit institutions or insurance companies via the interbank market in its own name and for its own account." As part of this liability, the Minister of Finance was authorized to provide guarantees for short-term securities issued as part of these transactions (Republic of Austria 2008).

3. European Commission approval was required for the implementation of the clearing bank and guarantees.

On October 31 2008, a little less than a week after IBSG was enacted, Austria notified the European Commission (EC) of its passage. In a letter dated December 9, 2008 the EC notified the Austrian government that though the guarantees under IBSG constituted state aid under Article 87(1) of the EC Treaty, they were permitted under Article 87(3)(b) of the Treaty (Global Trade Alert 2008). Article 87(3)(b) permits state aid "to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State" (European Commission n.d.). This decision was consistent with an earlier communication published by the EC, which stated that Article 87(3)(b) could be used as a legal basis for aid measures like general schemes to address the financial crisis (European Commission 2008).

4. The total amount of guaranteed securities that OeCAG could issue was capped at €5 billion.

OeCAG obtained the funds used to make loans to borrowing banks and insurance companies by taking deposits via auctions and issuing short-term securities. When issuing short-term securities, the clearing bank could elect for the government to assume liability as a guarantor in an amount capped at €5 billion (Schmitz, Weber, and Posch 2009, 67). In addition, as part of its €75 billion budget for guarantees under IBSG, the Austrian government specifically earmarked €4 billion for absorbing the losses of OeCAG on loans it made to borrowing banks and insurance companies. This guarantee was triggered if a loan default caused OeCAG's regulatory capital to fall below legally required levels, in which case the government would provide enough equity capital to restore the clearing bank's regulatory capital to the required minimum amount.

Though the IBSG budget was reduced over the life of the finance facility, the reductions did not appear to affect the amount pledged to cover OeCAG loan defaults (Federal Ministry of Finance n.d.).

5. OeCAG could issue guaranteed securities, the proceeds of which it could then lend to any Austrian credit institutions and insurance companies.

IBSG stipulated that ownership of the clearing bank "shall be limited to credit institutions, insurance companies or the statutory bodies set up on the professional associations level for the representation of their interest" (Republic of Austria 2008). In accordance with this stipulation, Austrian banks established OeCAG. The clearing bank was funded by €180 million of contributions from the private sector, and its operations were managed by the Oesterreichische Kontrollbank AG (OeKB), the longstanding central securities depository for Austrian institutions, which was also owned by the banks. Although the government did serve as a guarantor, the equity capital funded by the banks was meant to buffer initial loan losses. This in turn could "reduce the potential moral hazard at the expense of the Federal government and the taxpayers" (Kalss 2010, 531).

OeCAG conducted regular auctions at which both sides of the market submitted price and quantity bids. Demands for credit for fixed terms, usually three months and six months, were met only if there was a corresponding offer from the deposit side; the bank did not perform any maturity transformation (Schmitz, Weber, and Posch 2009, 67). IBSG required the clearing bank to "provide its services for a fee and at a lending interest rate, which [would] be in conformity with market conditions" (Republic of Austria 2008).

IBSG stipulated that the clearing bank would borrow funds from credit institutions or insurance companies and loan them in turn to other credit institutions or insurance companies (Republic of Austria).

6. Debt securities issued by OeCAG were eligible for the guarantee.

The proceeds from the guaranteed debt issuances would then be lent to eligible institutions.

7. There was a one-year maturity cap for eligible securities issued by OeCAG.

Securities issued by OeCAG had to have a maturity of one year or less in order to be eligible for the government guarantee (Posch et al 67). The government does not appear to have established minimum maturity requirements for eligible debt.

8. All currencies appear to have been eligible.

Program documents contained no language restricting eligible currencies, and OeCAG appears to have conducted auctions in euros and dollars.

9. There does not appear to have been a per-institution cap on borrowing by the banks and insurance companies eligible to borrow from OeCAG.

Program documents contained no language restricting the amount that an individual institution could borrow from OeCAG.

10. The government charged a 50-basis-point guarantor fee for participation.

Under IBSG, all credit institutions and insurance companies owed the government a fee for its assumption of liability. IBSG explicitly stated that this fee also applied to the clearing bank (Republic of Austria 2008). Austria's approach to fees followed guidance issued by the European Central Bank in "Recommendations on Government Guarantees on Bank Debt" on October 20, 2008. In practice, because the guaranteed securities issued by the OeCAG had to have maturities of one year or less, the flat 50 bps fee was consistent with the ECB's guidance (Schmitz, Weber, and Posch 2009, 67).

11. There do not appear to have been any further conditions for participation.

Program documents contained no discussion of further conditions for borrowing from OeCAG.

12. OeCAG was allowed to close at the end of February 2011 following the expiration of IBSG at the end of 2010.

The guarantee scheme under IBSG expired on December 31, 2010, at which point no new guarantees could be issued by the government. The scheme was extended by a year from its original expiration date of December 31, 2009 (Federal Ministry of Finance n.d.).

III. Evaluation

Assessments of the IBSG and the OeCAG by Austria's central bank and scholars point to a decline in liquidity risk among Austrian banks as evidence that the OeCAG helped reinvigorate the interbank market (Schmitz, Weber, and Posch 2009; Kalss 2010). Schmitz, Weber, and Posch (2009) argue that despite these improvements—reflected in the ability of institutions to borrow larger amounts over longer periods—state guarantees were unable to totally restore the euro interbank market because liquidity and maturities did not reached pre-crisis levels (Schmitz, Weber, and Posch 2009, 67).

In assessing Austria's bank support measures generally, the European Commission has concluded that "despite the significant costs, the use of bank support measures in line with EU State aid rules helped to restructure the Austrian banking sector and preserve financial stability" (European Commission 2016).

IV. References

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V. Key Program Documents

Summary of Program

Measures to Ensure Liquidity of the Interbank Market – *Description of the Interbank Market Support Act and OeCAG.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Measures_to_Ensure_Liquidity_of_the_Interbank_Market_BMF.pdf.

Austrian Stability Programme for the period 2008 to 2013 (04/21/09) – *Federal Ministry of Finance report detailing stability program during the financial crisis.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Austrian_Stability_Programme_Report_0.pdf.

National Rescue Measures in Response to the Current Financial Crisis (July 2009) – *ECB working paper summarizing crisis response measures taken by EU member states, including Austria's guarantee program*. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/National_Rescue_Measures_in_Response_to_the_Current_Financial_Crisis.pdf.

Legal/Regulatory Guidance

136th Federal Act (10/26/08) – *Group of Austrian actions to support the financial system, including the Interbank Market Support Act (IBSG).* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/136th_Federal_Act.pdf.

Communication from the Commission (2008/C 270/02) – *Communication from the European Commission addressing state aid during financial crisis.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Communication_from_EC_State_Aid.pdf.

Key Academic Papers

Measures by the Austrian Regulatory Authorities in Response to the Financial Market Crisis (Kalss 2010) – *Paper analyzing the Austrian government's response to the financial crisis.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Kalss_2010.pdf.

Crisis Management Around the World (Woll 2014) – *Chapter comparing national responses to the financial crisis.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Woll_2014.pdf.

Reports/Assessments

EU Bank Packages: Objectives and Potential Conflicts of Objectives (Schmitz, Weber, and Posch 2009) – *Study by Austria's central bank comparing responses to the financial crisis across the EU.* https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EU_Bank_Packages_%20Objectives_and_Potential_Conflicts_of_Objectives.pdf.

VI. Appendix A

In Europe, the interbank market was hit particularly hard by the global financial crisis. Unsecured interbank loans were charged high premiums, market liquidity dried up, and maturity terms shrunk throughout late 2007 and early 2008 before the interbank market largely ceased functioning following the collapse of Lehman Brothers in September (Schmidt, Weber, and Posch 2009, 66). In Austria, financial institutions were affected by exposure to Lehman Brothers and Icelandic banks as well as by their activity in central and southeast European markets (Kalss 2010, 528).

In response to these conditions, euro-area countries convened at a summit in October 2008. The meeting resulted in a joint action plan calling for national governments to "improve market functioning over longer term maturities" through the introduction of guarantee programs for bank senior debt issuance (Summit of the Euro Area Countries 2008). In Austria, this call was met by the passage of a financial market stability package that contained the Interbank Market Support Act (IBSG) and the Financial Market Stability Act (FinStaG).

IBSG had two main components. First, it called for the establishment of a new, privately owned clearing bank to facilitate interbank lending. The bank, Oesterreichische Clearingbank AG (OeCAG) conducted regular auctions to match available deposits with demands for credit. OeCAG could issue securities guaranteed by the federal government, and the government pledged to cover a certain amount of the clearing bank's losses. Second, it allowed the government to guarantee securities with maturities of five years or less issued by other credit institutions. (See Simon 2020 for more information on the IBSG guarantee scheme.) FinStaG allowed the Federal Minister of Finance to recapitalize and strengthen the capital base of specific credit institutions and insurance companies. (See Simon 2018 for more information on the FinStaG.)