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Austria: IBSG Guarantee Program¹

Claire E. Simon²

Yale Program on Financial Stability Case Study
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Abstract

Following the adoption of a joint framework by euro-area countries in response to the intensifying financial crisis in October 2008, Austria enacted a package of measures including the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG"). In addition to calling for the establishment of a new clearing bank to facilitate interbank lending, IBSG permitted the Austrian government to guarantee debt securities issued by other eligible institutions. Securities issued by eligible institutions with a maturity of three years or less (five years in exceptional circumstances) were eligible for guarantee. According to IBSG, the amount outstanding for all measures taken under the act could not exceed €75 billion. Of this, €4 billion was specifically allocated for guarantees of the clearing bank, Oesterreichische Clearingbank AG (OeCAG). This was subsequently reduced to €50 billion. The guarantee scheme established by IBSG was used by six institutions in addition to OeCAG, for a total of approximately €25 billion (€24.05 billion, CHF 325 million, and ¥20 billion). After being extended by one year the issuance window for guarantees closed on December 31, 2010. None of the participating institutions defaulted on the guaranteed debt. The amount of guaranteed debt outstanding declined steadily, and all had matured by June 2014.

Keywords: credit guarantee, interbank lending, Austria

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.

Cases are available from the *Journal of Financial Crises* at <https://elischolar.library.yale.edu/journal-of-financial-crises/>.

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Austria: IBSG Guarantee Program

At a Glance

In line with a joint action plan for Euro area countries, Austria passed the Interbank Market Support Act (Interbankmarktstärkungsgesetz, "IBSG") to target disruption in the interbank market caused by the intensifying financial crisis. Under IBSG, the government called for the establishment of a clearing bank to facilitate interbank lending which was authorized to receive federal guarantees. In addition, IBSG permitted the Federal Minister of Finance to guarantee newly issued, senior debt securities issued by eligible Austrian institutions.

Through the IBSG guarantee scheme, the government could guarantee securities with a maturity of three years or less (five years in exceptional circumstances) issued by Austrian credit institutions and insurance companies. IBSG capped the amount of guarantees outstanding at €75 billion, with €4 billion reserved for guarantees for the clearing bank. This was subsequently reduced to €50 billion. Participating institutions had to have sustainable business policies and adequate capital ratios and were required to lend to corporate entities and individuals. Additionally, the government would review participants' internal compensation schemes. According to the Ministry of Finance, six credit institutions participated in the program for a total of approximately €25 billion (€24.05 billion, CHF 325 million, and ¥20 billion). The Austrian government charged a fee for participation based on debt maturity and issuer creditworthiness.

After being extended by one year, the program's issuance window closed on December 31, 2010. No institutions participating in the program defaulted. The final security guaranteed under IBSG matured in June 2014, at which point there were no guarantees outstanding.

Summary Evaluation

The limited scholarship on IBSG, which largely focuses on the clearing bank rather than the guarantee scheme, asserts that the measures were successful in reinvigorating, but not completely restoring, the Austrian interbank market.

Summary of Key Terms	
Purpose:	To strengthen the interbank lending market by establishing a set of government guarantees to restore market functionality
Announcement Date	October 27, 2008
Operational Date	October 27, 2008
Date of First Guaranteed Loan Issuance	January 23, 2009
Issuance Window Expiration Date	Originally December 31, 2009; later extended to December 31, 2010
Program Size	€75 billion, €4 billion allocated to clearing bank; subsequently reduced to €50 billion
Usage	Six institutions in total for €24.05 billion, CHF 325 million, and ¥20 billion
Outcomes	No defaults
Notable Features	Part of a package including creation of a clearing bank that could itself receive guarantees

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 <i>Source: Bloomberg</i>
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	\$46,856 in 2007 \$51,709 in 2008 <i>Source: Bloomberg</i>
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 <i>Source: Bloomberg</i>
Size of banking system	\$400.4 billion in total assets in 2007 \$450.0 billion in total assets in 2008 <i>Source: Bloomberg</i>
Size of banking system as a percentage of GDP	102.8% in 2007 104.4% in 2008 <i>Source: Bloomberg</i>
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 <i>Source: World Bank Global Financial Development Database</i>
5-bank concentration of banking system	84.1% of total banking assets in 2007 81.7% of total banking assets in 2008 <i>Source: World Bank Global Financial Development Database</i>

<p>Foreign involvement in banking system</p>	<p>26% of total banking assets in 2007 28% of total banking assets in 2008</p> <p><i>Source: World Bank Global Financial Development Database</i></p>
<p>Government ownership of banking system</p>	<p>0% of banks owned by the state in 2007 0% of banks owned by the state in 2008</p> <p><i>Source: World Bank, Bank Regulation and Supervision Survey</i></p>
<p>Existence of deposit insurance</p>	<p>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</p> <p><i>Source: World Bank Deposit Insurance Dataset</i></p>

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 (). 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.). (Also see Appendix A for more information on the unique conditions in Austria and specific programs adopted in response.)

Program Description

IBSG allowed the Austrian government to guarantee securities issued by Austrian credit institutions and insurance companies. To be eligible for guarantee, securities had to have a maturity of three years or less (five years in exceptional circumstances). According to IBSG, any securities issued pursuant to section 1, paragraph 1, sub-paragraph 10 of the Banking Act could be guaranteed (Republic of Austria 2008). This sub-paragraph defines the ability of credit institutions to “[issue] fixed-income securities for the purpose of investing the proceeds in other banking transactions (miscellaneous securities underwriting business)” (Austrian Financial Market Authority n.d.). Only unsubordinated debt could be guaranteed.

The federal government charged a guarantee fee based on the maturity of the guaranteed debt and the creditworthiness of the issuer. IBSG stipulated that the total amount of guarantees outstanding could not exceed €75 billion, which included €4 billion earmarked for the clearing bank, effectively making the budget for guarantees for existing credit institutions €71 billion (Republic of Austria 2008). This was subsequently reduced to €50 billion. There were individual caps established for each of the individual banks but the criteria for determining these were not explicitly laid out.

To receive guarantees, participating institutions had to have sustainable business policies and adequate capital ratios. Additionally, institutions were required to adhere to other business conditions including lending to corporate entities and individuals, and the government would review their internal compensation schemes (Petrovic and Tutsch 2009). The scheme’s budget was subsequently reduced by €10 billion in 2009 and by €15 billion in 2010 (Federal Ministry of Finance n.d.-b).

Outcomes

In addition to the clearing bank, six credit institutions participated in the government guarantee program (Federal Ministry of Finance n.d.-b). Two of the banks, Erste Bank and Raiffeisenzentralbank AG, were two of the largest banks in Austria (Banks in Austria n.d.).

The maximum amount each institution was eligible to guarantee and the amount they ultimately used is outlined in Figure 1.

Figure 1: Maximum Guarantee Amounts

Credit Institution	Limit	Usage
Erste Bank Group AG	€6 billion	€4 billion and CHF 75 million
Kommunalkredit AG	€6.2 billion, CHF 250 million, ¥20 billion	€6.2 billion, CHF 250 million, ¥20 billion
Österreichische Volksbanken AG	€3 billion	€3 billion
Raiffeisen Zentralbank Österreich AG	€4.25 billion	€4.25 billion
Hypo Alpe-Adria-Bank International AG ¹	€1.35 billion	€1.35 billion
KA Finanz AG	€3.25 billion	€3.25 billion

Sources: Federal Ministry of Finance n.d.-b; Petrovic and Tutsch 2009³

After being extended for one year, the issuance window for IBSG expired on December 31, 2010, at which point no new guarantees could be issued (Federal Ministry of Finance n.d.-b). No participating institutions defaulted on guaranteed debt, and the amount of guarantees outstanding declined steadily before the remaining guaranteed debt matured in June 2014 (European Commission 2016).

³ At the time of publication, the only publicly available data on the usage of the guarantee program appeared in Petrovic and Tutsch's working paper. This paper was published in July 2009, a year and a half before the issuance window closed. Figures have been updated.

II. Key Design Decisions

1. The IBSG guarantees were part of a broader package of measures adopted in response to the financial crisis.

The guarantee scheme was authorized by the €75 billion Interbank Market Support Act (IBSG) established the OeCAG, a clearing bank that could issue government guaranteed debt to facilitate interbank lending and authorized the Minister of Finance to provide guarantees for securities issued by eligible institutions. It was passed alongside the €15 billion Financial Market Stability Act (FinStaG) as part of the Austrian Financial Market Stability Package. FinStaG was a set of measures that authorized the Finance Minister to “recapitalize and strengthen the capital base of credit institutions and insurance companies.” 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 (Federal Ministry of Finance n.d.-a).

2. The Interbank Market Support Act provided the legal basis for the Minister of Finance to provide guarantees to eligible institutions.

The IBSG, which was established to strengthen the interbank market, allowed the Federal Minister of Finance to guarantee securities issued by eligible institutions other than the clearing bank pursuant to Section 66 of the Federal Budget Act (Republic of Austria 2008).

3. European Commission approval was required for the implementation of the guarantee.

On October 31, 2008, a little less than a week after the IBSG was enacted, Austria notified the European Commission of its passage. In a letter dated December 9, the EC notified the Austrian government that though the guarantee scheme constituted state aid under Article 87(1) of the EC Treaty, it was 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).

As discussed in more detail below, the need to structure the guarantee in such a way as to ensure EC approval significantly influenced the design of certain program features.

4. Initially, outstanding guarantees could not exceed €75 billion.

IBSG stipulated that any measures taken by the Austrian government under IBSG could not exceed €75 billion in outstanding funds (Republic of Austria 2008). Of this amount, €4 billion was explicitly earmarked for guaranteeing the losses of the clearing bank, OeCAG. The total budget was reduced by €10 billion in 2009 and by a further €15 billion in 2010, making the new limit €50 billion. (Federal Ministry of Finance n.d.-b).

5. Solvent Austrian credit institutions and insurance companies were eligible to participate.

In correspondence with the European Commission, Austrian authorities committed to limiting participation to institutions with a Tier 1 ratio of at least 7%.

6. The Federal Minister of Finance could issue guarantees for any unsubordinated securities issued pursuant to the Banking Act.

According to IBSG, any securities issued pursuant to section 1, paragraph 1, sub-paragraph 10 of the Banking Act (Republic of Austria 2008) were eligible for the guarantee. This sub-paragraph defines the ability of credit institutions to “[issue] fixed-income securities for the purpose of investing the proceeds in other banking transactions (miscellaneous securities underwriting business)” (Austrian Financial Market Authority n.d.). The European Commission’s decision approving the guarantee program clarified that subordinated debt would not be eligible for the guarantee.

7. Maturities could not exceed three years (five years in exceptional circumstances).

Securities were only eligible for government guarantee if they had a maturity of five years or less (Republic of Austria 2008). In correspondence with the European Commission, Austrian authorities clarified that typically the guarantee would only cover debt with maturities up to 3 years, but that in exceptional circumstances debt with a maturity of up to five years would be eligible. The government does not appear to have established minimum maturity requirements for eligible debt.

8. All currencies appear to have been eligible.

Guarantees were issued on debt denominated in Swiss francs and Japanese yen, as well.

9. Caps were set individually on institutions’ participation.

As evident from the outcome data, caps were established for each participating institution separately (Petrovic and Tutsch 2009). However, it is unclear what criteria were used to determine these caps.

10. Participation fees were assessed according to the maturity of the debt guaranteed and the soundness of the participating institution.

The “Recommendations on Government Guarantees on Bank Debt” set forth on October 20, 2008, by the European Central Bank provided guidance on the fee structures to be imposed by European countries establishing bank debt guarantee programs. Austrian authorities adopted a fee structure consistent with this guidance.

For short-term debt with maturities of up to 12 months, the fee was equal to 50 basis points on an annual basis.

For medium-term debt with maturities of more than 12 months, the total participation fee equaled 50 basis points plus the lesser of either: (1) the median of the five-year credit default swap (CDS) spread of a participant's debt instruments from the period of January 1, 2007, to August 31, 2008, or (2) the median of the five-year CDS spread for debt instruments of the participant's rating category (based on a sample of large Eurosystem banks) over the same date range.

11. Participating institutions agreed to a variety other conditions including lending requirements, job-saving measures, compensation restrictions and restrictions on advertising.

Guidance issued by the European Commission in October 2008 on the creation of credit guarantee programs called for the inclusion in programs of a set of safeguards “to minimize . . . distortions and the potential abuse of the preferential situations of beneficiaries brought about by a State guarantee” and “to avoid moral hazard.” This guidance did not specify exactly what safeguards a program should include but required “an adequate combination” of elements including restrictions on advertising based on the guarantee, balance sheet growth, share buybacks, and executive compensation some of which Austria adopted (European Commission 2008). To receive guarantees, Austrian institutions agreed to a set of behavioral commitments including:

- 1) Using proceeds for the benefit of the real economy through lending at market conditions, particularly to small and medium-size enterprises and households.
- 2) Reviewing corporate compensation systems for appropriateness.
- 3) Taking job-saving measures.
- 4) Taking steps to avoid distortions of competition (e.g., refraining from advertising based on the guarantee).

12. The issuance window for guarantees initially lasted until December 31, 2009 but was extended to December 31, 2010.

Originally, guarantees under IBSG could only be issued until the end of 2009. This issuance window was extended until December 31, 2010 (Federal Ministry of Finance n.d.-b).

III. Evaluation

The limited analyses of IBSG have focused largely on the clearing bank, ignoring the effects of the broader guarantee scheme on other Austrian credit institutions. In their analysis, Schmitz, Weber, and Posch (2009) note that Austrian banks' liquidity risk declined because they were able to borrow larger amounts over longer periods but the interbank market was not fully restored—because liquidity and maturities had not reached pre-crisis levels—following the introduction of the bank package, though they do not disentangle the effects of the two components of IBSG (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).

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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.](#)

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[Austrian Financial Market Stability Package – Overview of crisis response package including IBSG.](#)

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[Austrian Stability Programme for the period 2008 to 2013 \(04/21/09\) – Federal Ministry of Finance report detailing stability program during the financial crisis.](#)

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[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.](#)

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Legal/Regulatory Guidance

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Guarantee of the Republic of Austria Agreement – Template for guarantee agreement from the Federal Ministry of Finance.
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/06_Garantie_f._Einzelemissionen_engl._-_mit_Briefkopf.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.
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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.
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VI. Appendix A

In Europe, the interbank market was hit particularly hard by the 2007–2009 global financial crisis. Unsecured interbank loans carried high premiums, market liquidity dried up, and maturity terms shrank throughout late 2007 and early 2008 before the interbank market largely ceased functioning altogether following the collapse of Lehman Brothers in September (Schmitz, Weber, and Posch 2009, 66). In Austria, financial institutions were affected by exposure to Lehman Brothers and Icelandic banks, as well as 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 €75 billion Interbank Market Support Act (IBSG) and the €15 billion 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. (See Simon 2020 for additional detail on the clearing bank.) Second, it allowed the government to guarantee securities with maturities of three years or less (five in exceptional circumstances) issued by other credit institutions. 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.)

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