

SSM: non-Euro Area Member State Perspective

Ivan Zahrádka, Czech National Bank
Technology Uni Berlin/EuroPOLIS
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Financial crisis aftermath:

- loss of market and mutual **confidence**
- vicious circle between banks and public finances (←stress in bank funding ↔stress in sovereign funding)
- increase in home country **bias**
 - lending less across border
- risk of contagion and doubts about sustainability of the euro
- consequences for **jobs and growth**

➔ The idea of a centralized supervision originated in threats to the integrity of the single currency. The possibility for non-EA MSs to join was an afterthought to reconcile this with EU single market integrity (with all the related institutional drawbacks).

- **Financial stability**
 - single strong supervision/no regulatory home bias
 - consistent and effective prevention/solution of bank failures
 - breaking of link between banks and sovereigns
- **Integrated internal market for banking services**
 - deepening financial integration
 - reversal of the current trend of market fragmentation
 - levelling of playing field
- **Economic growth**
 - more integrated financial sector to provide funding
 - improvement in credit conditions for weaker countries
 - effective/proper transmission of monetary policy

➔ **BU might benefit states with less stable fiscal situations, problems in their financial sectors and difficulties with financing their economies. These benefits are not seen relevant to the CZ.**

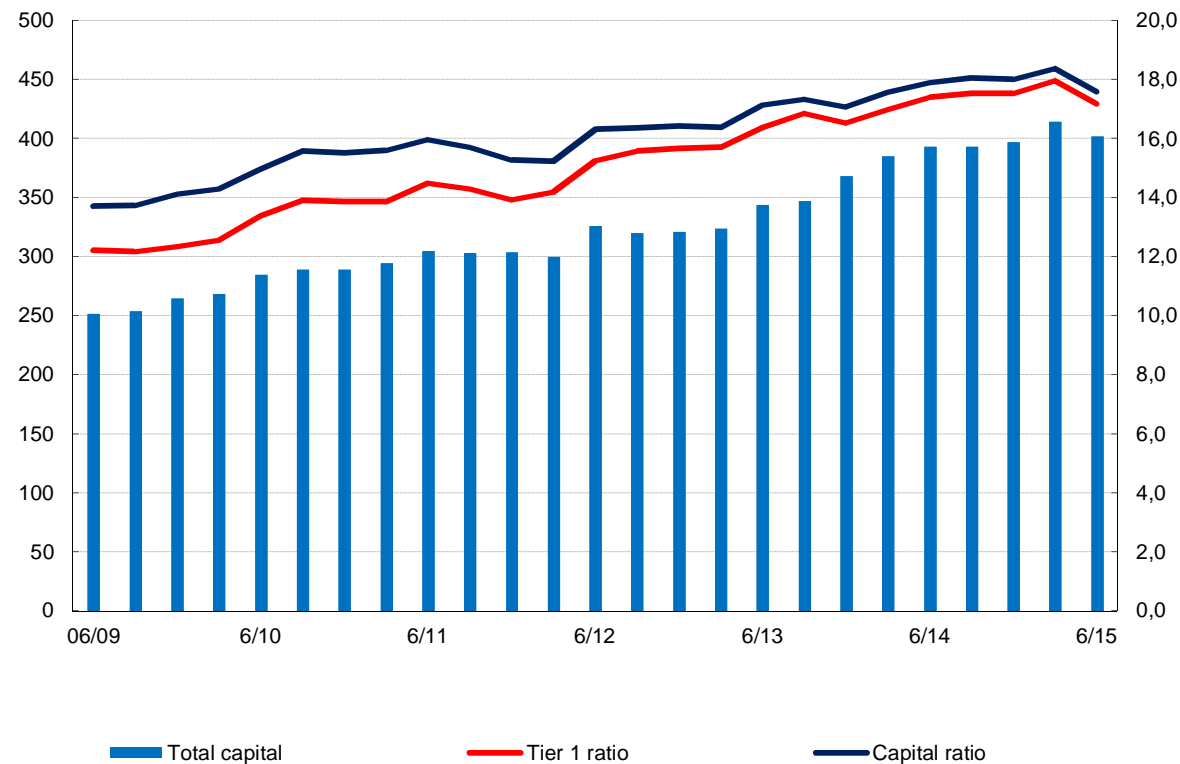
- **key source of funding for the CZ economy**
 - loans to other instruments 2:1
 - deposits/loans (clients) ~ 130% (LTD ~ sub 80%)
 - resident deposits > 95% & dominated by households
- **highly concentrated**
 - 4 largest banks = 57% of bank assets
- **owned from abroad**
 - foreigners control more than 91% of banks assets
 - mother banks = mostly EA banks (BE, AT, FR, IT,...)
 - most subsidiaries have 1 owner
 - little room for supervisory „home bias in favor of domestic banks“

- highly capitalized + capital of high quality
- solid liquidity position
- level of troubled assets rel. low
- high profitability in the EU context
- generating capital (even throughout the crisis)
- no public support/aid during the crisis

→ Good results for all financial soundness and stability indicators - on European scale.

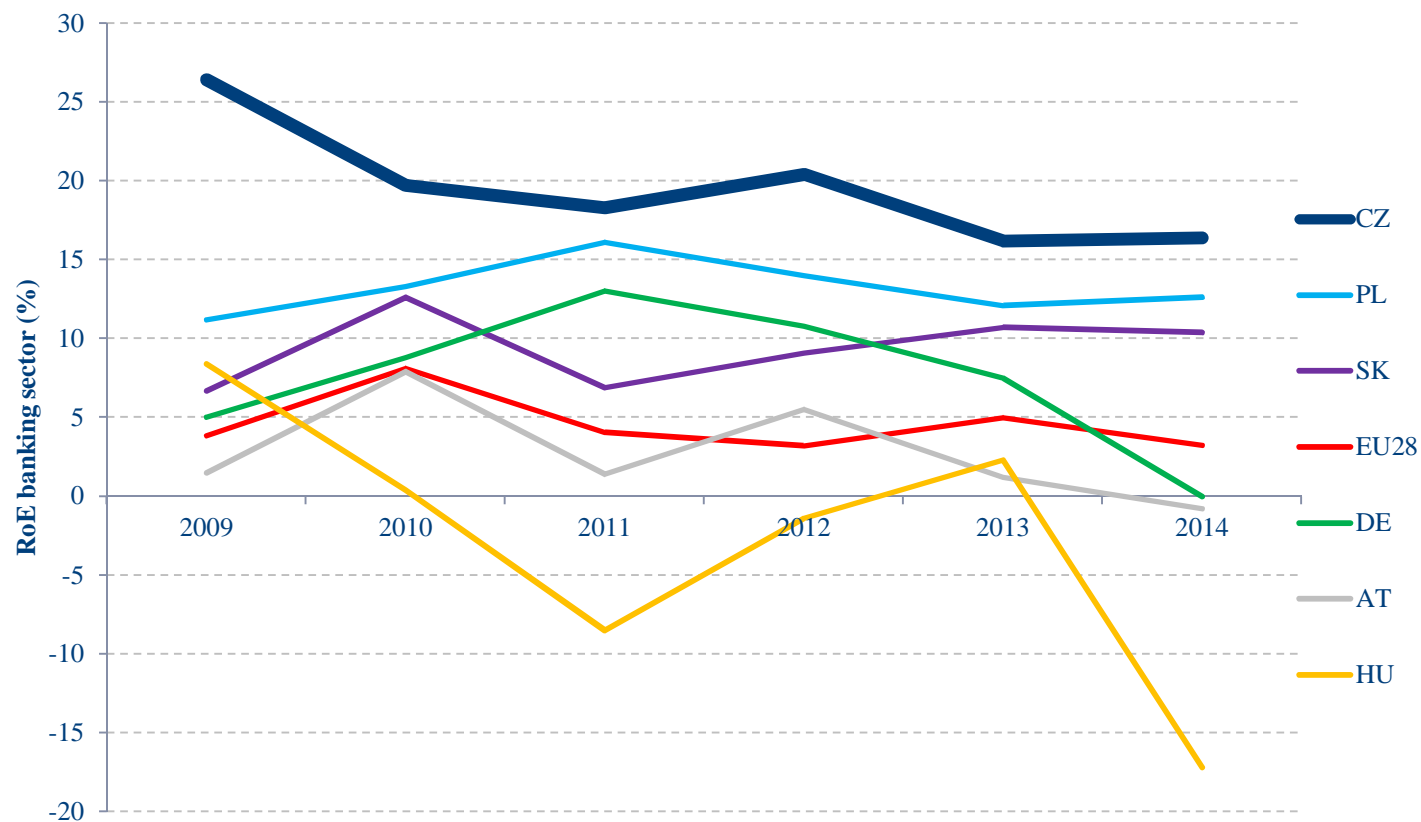
➔ highly capitalized + high quality (CET1 = 17,1%;
T1 +T2 ratio = 17,7%; T1 represents 97,4% of total reg. Cap)

Regulatory capital and Tier 1 ratio
(bn CZK)



Source: CNB

→ high profitability in the EU context



Source: IMF, ECB, CNB calculations

→ generating capital (even throughout the crisis)

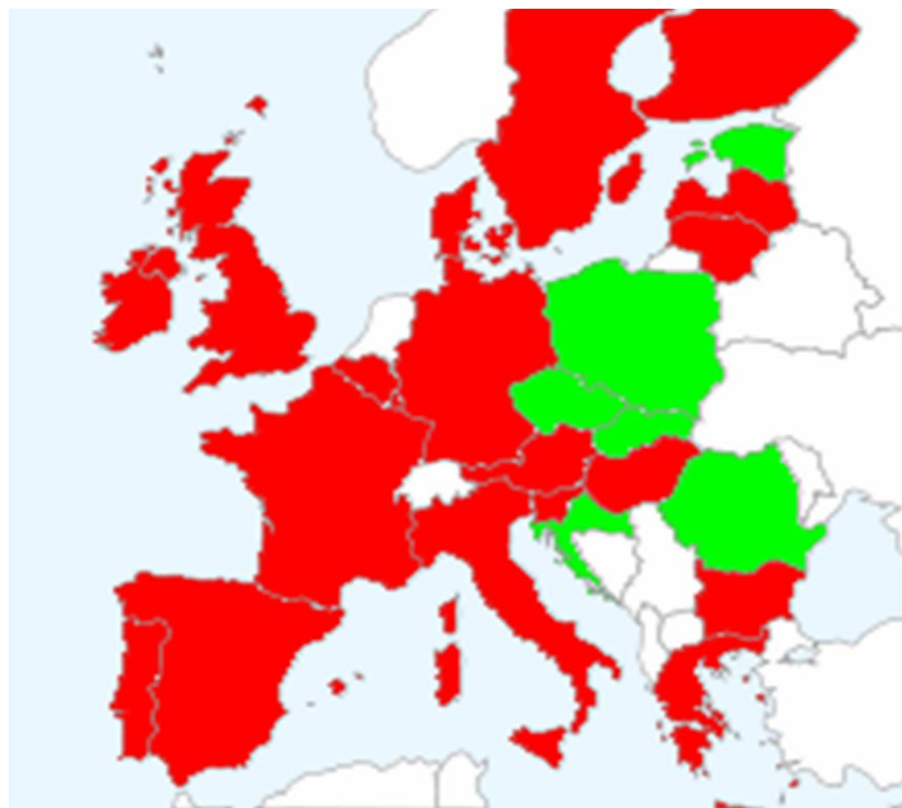


Source: CNB

→ no public support/aid during the crisis

map of EU Member States
with state aid to their
financial sectors
between 2008-2015 (red)

- CZ has not joined the
so called Vienna Initiative



Data Source: EC

→ the situation of the CZ economy differs from MS whose
banking sectors became destabilized during the crisis

From the **perspective of a non EA MS**, the single supervisory system **should** lead to:

- improvements in supervision in some EA MS
 - increase in **independence** of the supervisory function
 - increase in **coherence of application of rules**
 - better **enforcement of rules** (incl. across borders within the monetary union)
- reduction in the **number of interventions** to support EA banks in the future
- the creation of conditions for the future use of **direct recapitalization of individual banks** through the assistance of the EA MS' joint intervention mechanism **ESM**

→ **Competent authorities are not supposed to fail in their roles and responsibilities. Their independence as supervisors is not supposed to be compromised by other, non-prudential considerations, let alone contribute to instability in the monetary union. Lesson learned.**

From the **perspective of a non EA MS**, participation in SSM automatically implies participation in all the BU pillars, mainly

- **Bank Resolution:**
 - new single restructuring mechanism and Fund (SRM Regulation) – **EA+/agreed**
 - common European backstop for the SRF – **EA+/not agreed**
- **Deposit insurance:**
 - single deposit guarantee scheme and Fund - **EA+/not agreed**

→ **Decision-making on how to prevent and resolve crises beyond control of CZ authorities, but with national-based financing involvement** (small size of the SRF, national-based bridge financing; no access to ESM, nor to ECB liquidity; high probability of financing bank problems in other countries,...).

The following **risks must be assessed** before any decision:

- **Precedence** of banking group and/or EU interests above individual entity/national interests.
- Possible **fiscal impact** due to possible mismatch between bank losses and insufficient financial means in the SRF.
- Rise of **moral hazard** (debts and losses will be always covered by common resources).
- Loss of **inherent responsibility** for financial stability at local level.
- Centralized supervision and resolution could **end up inefficient** against current assumptions.

The following **risks must be assessed** before any decision:

- The **ability of banks to lend to the Czech economy** could be limited.
- Day-to-day **supervision** of Czech banks **could be compromised** by ECB focus on other cross-border banks
- The **accountability and transparency** of supervision in relation to the CZ Parliament and the public **would be weakened**.
- The willingness of MS to mutually cover losses in individual countries is low - **EU is not fiscal union**.

Recommendations of the “Impact Study of Participation or Non-Participation of the Czech Republic in the Banking Union”

- prepared by the MoF in coop with the MoForeign Affairs, the Office of the Govt and the CNB
- 132 pages + Summary Report (available also in EN)
- chapter4 deals with banking **supervision, regulation and financial stability**
 - times of financial **stability** (28 criteria)
 - times of financial **instability** (7 criteria)
 - **costs** associated with participation (3 criteria)
 - each factor classified: **in favour/neutral/against** the entry of the CZ to the SSM under the current condition

➔ The Impact Study finds that entry into SSM can not be seen as being beneficial under the current conditions.

The CZ **has decided** not to apply for close cooperation with the SSM (not to enter into the BU)

“ govt decision based on recommendations of the *“Impact Study of Participation or Non-Participation of the Czech Republic in the Banking Union”*:

“ **Rec1: not to enter under current conditions**

“ **Rec2: re-evaluate in the 18 months horizon**

“ study discussed by the CZ govt on 9 Feb 2015

“ study published on 10 Mar 2015 on the MoF website

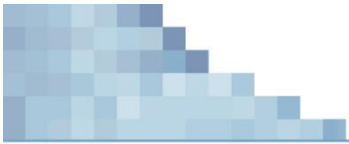
<http://www.mfcr.cz/cs/soukromy-sektor/bankovnictvi-a-platebni-sluzby/bankovnictvi/zakladni-informace/2015/studie-dopadu-ucasti-ci-neucasti-cr-v-ba-20801>

➔ The CZ govt will re-evaluate the particular aspects and impacts of the CZ non-entry in the 12 months horizon as entry into BU not seen as being beneficial under the current conditions.

Some challenges for non- EA Member State outside the BU

- application of harmonized regulation, supervisory standards and resolution procedures (EU single rule book)
- independent and effective supervision/resolution of banking sector
- conduct of regular stringent stress tests to ensure financial stability
- effective functioning of supervisory and resolution colleges for cross-border solutions
- maintenance of balanced relations with the ECB
- provision of reliable and effective national backstop arrangements

→ The SSM regarded as the CNB' key partner in numerous areas. The CNB will cooperate intensively on a frequent basis. Effective cooperation has always been a priority for the CNB.



Thank you for your attention

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Ivan Zahrádka

Director

Intl Co-operation Division

Regulation Department

ivan.zahradka@cnb.cz