

NBP

Narodowy Bank Polski

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The European Banking Union from the Perspective of a Non-Euroarea Country: The Example of Poland

Berlin / 16 November 2015



Outline of talk

- Overview of the situation in non-Euroarea (EA) countries
 - Poland: Official position regarding the Banking Union (BU)
 - NBP 2014 report
 - Benefits and risks of opting-in
 - Essence of the problem
 - What now?
 - Summing up: A personal opinion on when Poland should join the BU
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„So far, non-Euro Member State has joined the SSM” (EC, 22 October 2015)

Country	Position on BU	Comment
Bulgaria	Yes	In the context of its target to join the EA
Croatia	No	Governor Vujčić’s statement as of mid-2013; „no rush”
Czech Republic	No	„Wait-and-see”; „Cautious support”; internal reports on BU every year
Denmark	Yes	Referendum needed
Hungary	No	„Wait-and-see”
Poland	No	No formal official position; „wait and see”
Romania	Yes	In the context of its target to join the EA in 2019
Sweden	No	In practice an opt-out country; not signed the IGA
United Kingdom	No	Opt-out country; not signed the IGA

Poland has no formal official position on BU accession, only an official strategy to join the EA (MF 2014 and 2015): „get ready and see”

- Based on four conditions (pillars):
 1. ...targeting **sustainable fulfilment of the convergence criteria** in the Polish economic policy framework, with particular focus on **fiscal discipline**.
 2. ...implementation of **additional measures aimed at strengthening the potential** of the Polish economy, including **institutional** measures.
 3. ...thorough preparation of the **technical and organisational** aspects of the process.
 4. ...**stabilisation of the situation in the EA**, especially confirming the actual **effectiveness of the adopted reforms and the completeness of the institutional architecture**... (...) ...the actual effectiveness of the new solutions, and thus the benefits of their implementation, **will be revealed only during their practical operation**.
 - BU is never mentioned!!
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Poland: Official situation regarding the BU

- Joining the BU is a political decision which must be made by the Polish government
 - So far, the government has **not announced its official position on the BU**
 - But semi-official documents were published
 - Particularly, the NBP 2014 report *The economic challenges of Poland's integration with the euro area* (NBP 2014/2015)
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The economic challenges of Poland's integration with the EA **(NBP 2014/2015)**

- Published in November 2014, i.e. at the time when relevant regulations were known, but there was no practical experience! => **emphasis on regulation analysis**
 - One chapter (3rd) entitled „*Financial integration: the banking union*” in part I of the document...
 - ...entitled „*Stengthening of euro area institutions*”
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Final conclusions on BU in NBP (2014/2015:102)

- *...the weaknesses of the BU negatively impact the cost-benefits analysis of establishing close cooperation with the ECB. ...unequal positions of countries participating in the BU, depending on their EA membership, result in a lack of cohesiveness of the pan-European mechanisms and limited influence of opt-in countries on the decision-making process within the SSM as well as a lack of access to capital support from the ESM. (...)*
...the gradual mutualisation of the resolution fund and the abandonment of the creation of a single deposit guarantee scheme are additional shortcomings of the BU.
-

Clearly, opting-in may bring some benefits...

- Increased stability, confidence in the banking system and risk-sharing mechanisms
 - Increase in quality of supervision and harmonization of supervisory practices that would counter any national bias
 - Improved home-host relations by streamlining communication and reducing coordination problems
 - Access to parent bank supervisory data and a chance to participate in Joint Supervisory Teams
 - Improved political position on the EU fora
 - For banks in opt-in countries BU provides harmonized reporting and may lower compliance costs
 - Addressing coordination and burden-sharing problems related to cross-border resolution
-

... but also potential risks

- Limited influence of opt-in countries over the SSM decision-making process
 - Lack of access to the ECB and the ESM funding
 - Risk of insufficient “added value” of the SSM over national supervisory framework
 - Risk that banks in opt-in countries will be considered “too small to matter” and home country interests will prevail over national financial stability concerns in opt-ins
 - Complicated and time-consuming decision-making process of the SRM that involves too many parties to assure a resolution
 - SRF not having a sufficient size and not being mutualized from the beginning
 - Lack of European Deposit Guarantee (Insurance) Scheme
 - Risks connected with opt-ing out (market reaction, discretion in recoupment of SRM contributions when leaving the BU)
-

And some costs are additionally involved when joining the BU

- Two types of costs to be borne by banks:
 1. **Administrative** fees
 2. **Contributions** to funds
(next slide)

 - **Additional costs** for banks: it has been observed that there is an **increasing number of staff** in departments responsible for contacts with supervision authorities in countries under ECB's surveillance (Radzikowski 2015).
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BU: Key characteristics of different bank fees and contributions

	Administrative fees		Contributions to funds		
	ECB	SRB	SRF	NRF	NDGF
Fee calculation	Group level	Group level	Individual level	Individual level	Individual level
Criteria	Size + Risk profile	Size ¹⁾	Size + Risk profile	Size + Risk profile	Size ²⁾
Base/Coverage	SSM	SRM	SRM	National	National
Target	Full cost coverage	Full cost coverage	1% of covered deposits	1% of covered deposits	0.8% of covered deposits
Starting date	4 November 2014	17 August 2014	1 January 2016	1 January 2015	n.a.
Period	Annually	Annually	Annually (2016-2024)	Annually (2015(-2024)) ³⁾	Annually (until 2024)
Legislation	COM & ECB Regulations	SRMR/DA	SRMR/IA	BRRD/DA	DGSD

Source: Országhová, Mišková (2015:16).

Boiling down the BU problem from Poland's perspective

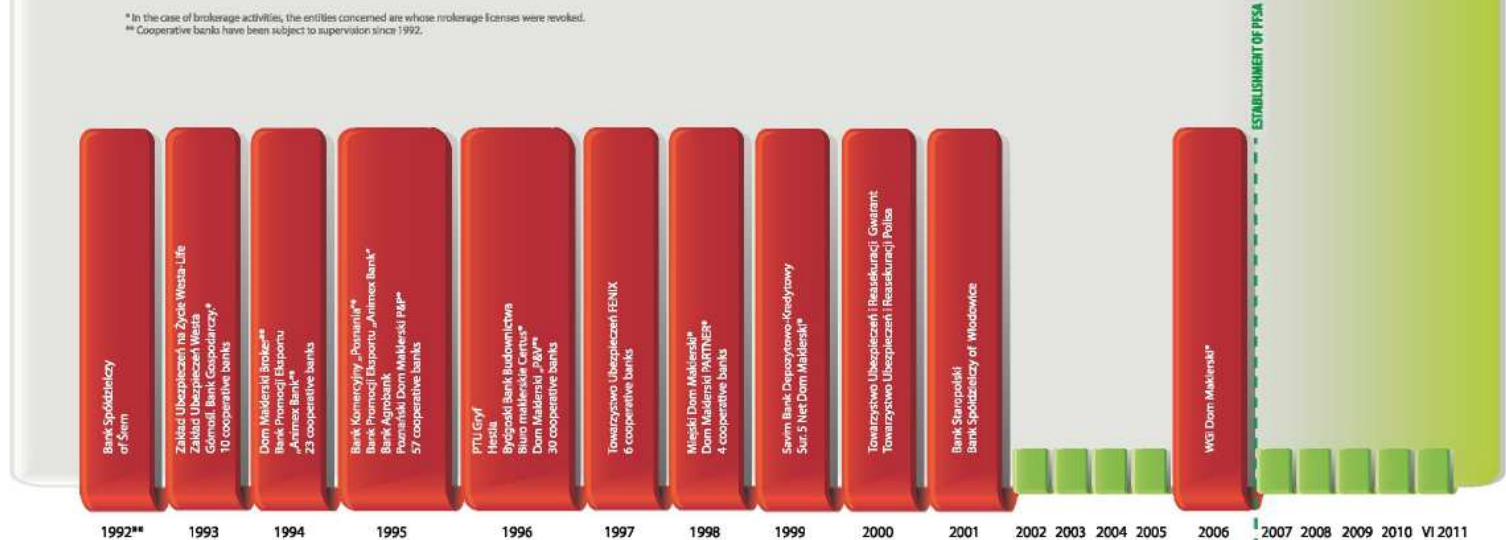
- **Original sin:** BU designed in a hurry (in 2012) as an anti-crisis measure, under the existing Treaties framework => **Under the BU framework the EU principle of equal treatment is broken in the case of non-EA countries!!**
 1. Regulations resulting in an unequal status of EA and non-EA countries which can lead to sub-optimal decisions for the second group
 2. Results in lack of access to the ECB and the ESM financing
 - Summing up (1+2): **a very dangerous mixture!!**
 - Until a fully-fledged EDIS is established, any major problem would have to be entirely internally financed by a non-EA country!
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Boiling down the BU problem...

- Whereas the Polish banking (financial!) system has been in the 2000+ period:
 - Very safe
 - Virtually no bankruptcies
 - Very efficient Polish Financial Services Authority and Bank Guarantee Fund
 - Stable
 - Macrostability proved in the 2008+ period
 - Growth oriented
 - IMF (2015) research
-

BANKRUPTCIES OF FINANCIAL INSTITUTIONS AFTER 1990

* In the case of brokerage activities, the entities concerned are whose brokerage licenses were revoked.
 ** Cooperative banks have been subject to supervision since 1992.



Cooperative banks declared bankrupt
 (CB - cooperative bank)

- 1992**
- CB of Śrem (resumed operations in 1995)
- 1993**
- CB of Kozalin
 - CB of Sompalno
 - CB of Tuchów
 - CB of Szczerzowa
 - CB of Kramsk
 - CB of Kolbudy, registered office in Lubiew
 - CB of Strumień
 - CB of Międzyk Pławstowe
 - CB of Raciechowice
 - CB of Opatowiec

- 1994**
- CB of Janowiec Kościelny
 - CB of Wierzbias
 - CB of Rajsko
 - CB of Sianów
 - CB of Jedlina Letniska
 - CB of Grabowo on Prośna
 - CB of Nowogrodziec
 - CB of Wasilków
 - CB of Koszów
 - CB of Czarna Białostocka
 - CB of Niedzwieda
 - CB of Wiecznia Kościelna
 - CB of Borzęcin
 - CB of Kalisz
 - CB Rozmitosia of Poznań
 - CB of Swarzędz
 - CB of Saczaniec
 - CB of Mąkoszyce
 - CB of Godziszewo
 - CB of Cisk
 - CB of Piekary Śląskie
 - CB of Tarnów
 - CB of Strześć Kujawski

- 1995**
- CB of Kętrzyn
 - CB Szymbieliszki Urzęd of Częstochowa
 - CB of Częstochowa
 - CB of Ormeta
 - CB of Olikszt
 - CB of Ujście
 - CB of Trzcianka
 - CB of Nowicz
 - CB of Pila
 - CB of Ojrzeń
 - CB of Bolesławiec
 - CB of Sulechów
 - CB of Skupnik
 - CB of Ryglin
 - CB of Dobas
 - CB of Opalenica
 - CB of Chęciny
 - CB of Łucko
 - CB of Budzisz
 - CB of Wisła

- CB of Tarnówek
- CB of Wielec
- CB of Zapolice
- CB of Buk
- CB of Bojanów
- CB of Regimin
- CB of Strzelce Opolskie
- CB of Szlona
- CB of Bojadly
- CB of Polajewo
- CB of Kluczbork
- CB of Wieruszyca
- CB of Biela Płaka
- CB of Chocień
- CB of Zbrosławice
- CB of Dobromierz, registered office in Rożtoka
- CB of Pleszewo
- CB of Zbójna
- CB of Wozniak Śląskie

- CB of Tuchów
- CB of Jelenia Góra
- CB of Skarżysko
- CB of Soles Kujawski
- CB of Drużbice
- CB of Gnojno
- CB of Kraszyna
- CB of Żerków
- CB of Lutomerz, registered office in Konstantynowo
- CB of Potęgowo
- CB of Lębork
- CB of Pleszmin
- CB of Zakrzewo, registered office in Bilgoraj
- CB of Jaraczewo
- CB of Lanigty
- CB of Wypolnica
- CB of Kozienice

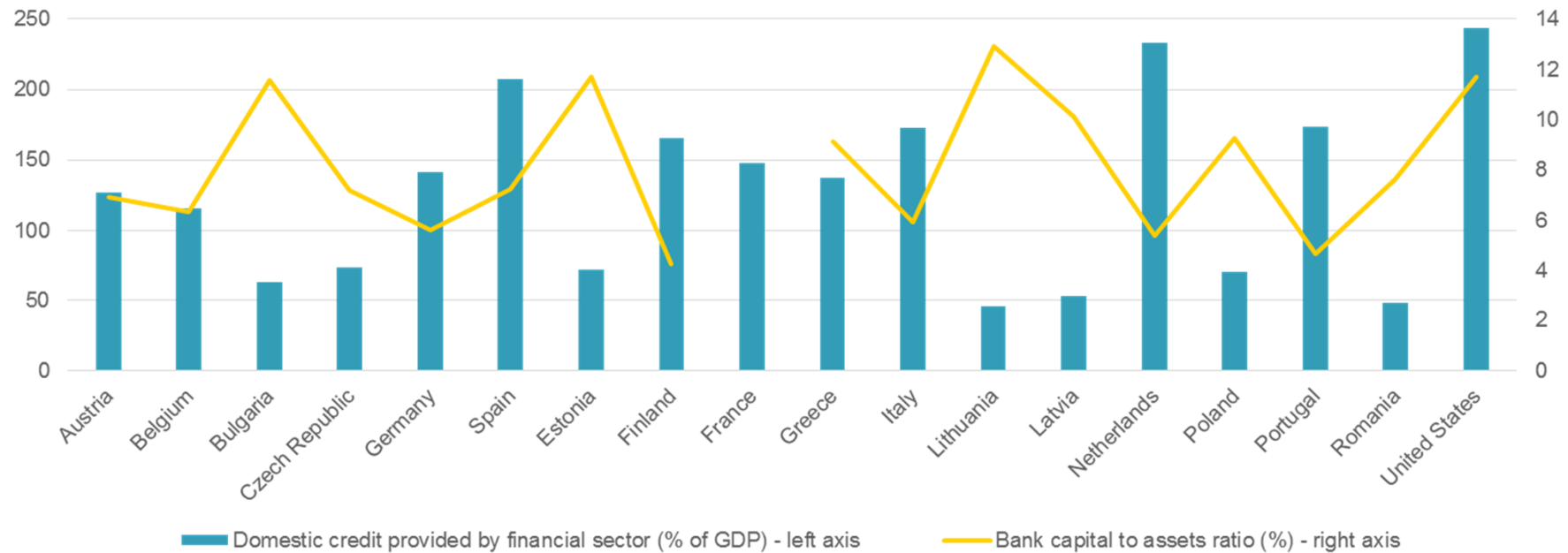
- 1996**
- CB of Pilawa
 - CB of Bogdaniec
 - CB of Deszczno
 - CB of Rejowiec Fabryczny
 - CB of Smoltdno
 - CB of Grandów
 - CB of Gryfów Śląski
 - CB of Ziębice
 - CB of Łobez
 - CB of Dąbrowa Górnicza
 - CB of Bilsandów
 - CB of Sępólno Krajewskie
 - CB of Nowe Miasto on Pilica
 - CB of Jastków
 - CB of Wąsosz
 - CB of Pęciszewo
 - CB of Międzygórze
 - CB of Kroszka
 - CB of Piotrków Trybunalski
 - CB of Łądek Zdrój

- CB of Serock
- CB of Słowierzyn
- CB of Konopnica
- CB of Gospodarstwo of Ślewa
- CB of Luburze
- CB of Rudnik
- CB of Dębno Lubuskie
- CB of Niemprachowice
- CB of Gorzków

- 1997**
- CB of Kamień Pomorski
 - CB of Przybiernów
 - CB of Łęczyca
 - CB of Dubienka
 - CB of Kąkolbrzeg
 - CB of Cieków Kolonia
- 1998**
- CB Pruchnik
 - CB Wądróż Wielkie
 - CB Ostrowice
 - CB of Resk
- 2001**
- CB of Włodowice

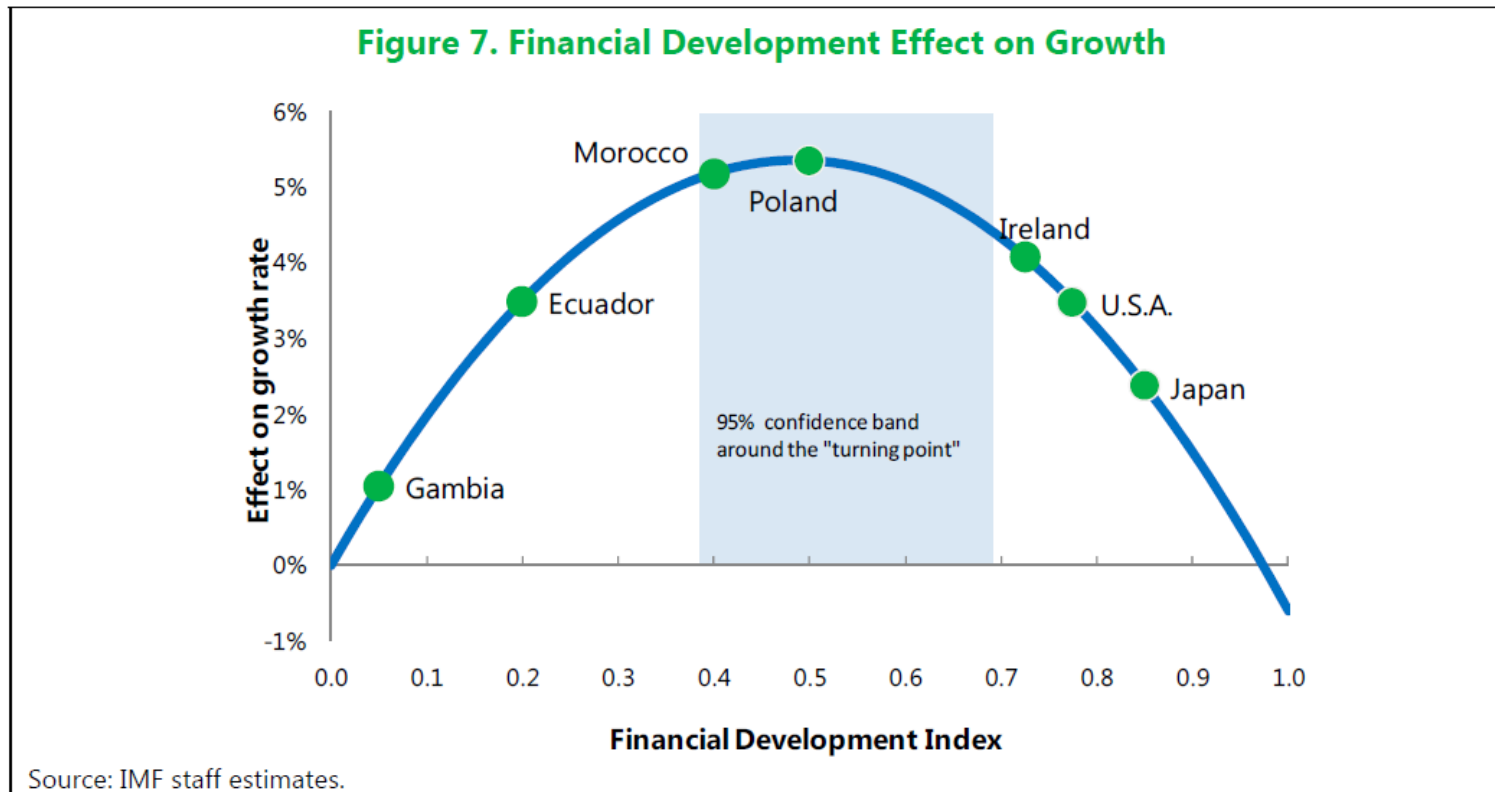
Source: KNF (2011:5).

Domestic credit provided by financial sector (% of GDP) and bank capital to assets ratio (%) in selected countries (2014)



Source: World Bank data base (8.XI.2015).

Stable and Growth Oriented Financial System in Poland



Source: IMF (2015:16).

Thus, a very basic question emerges:

Why risk joining the BU?

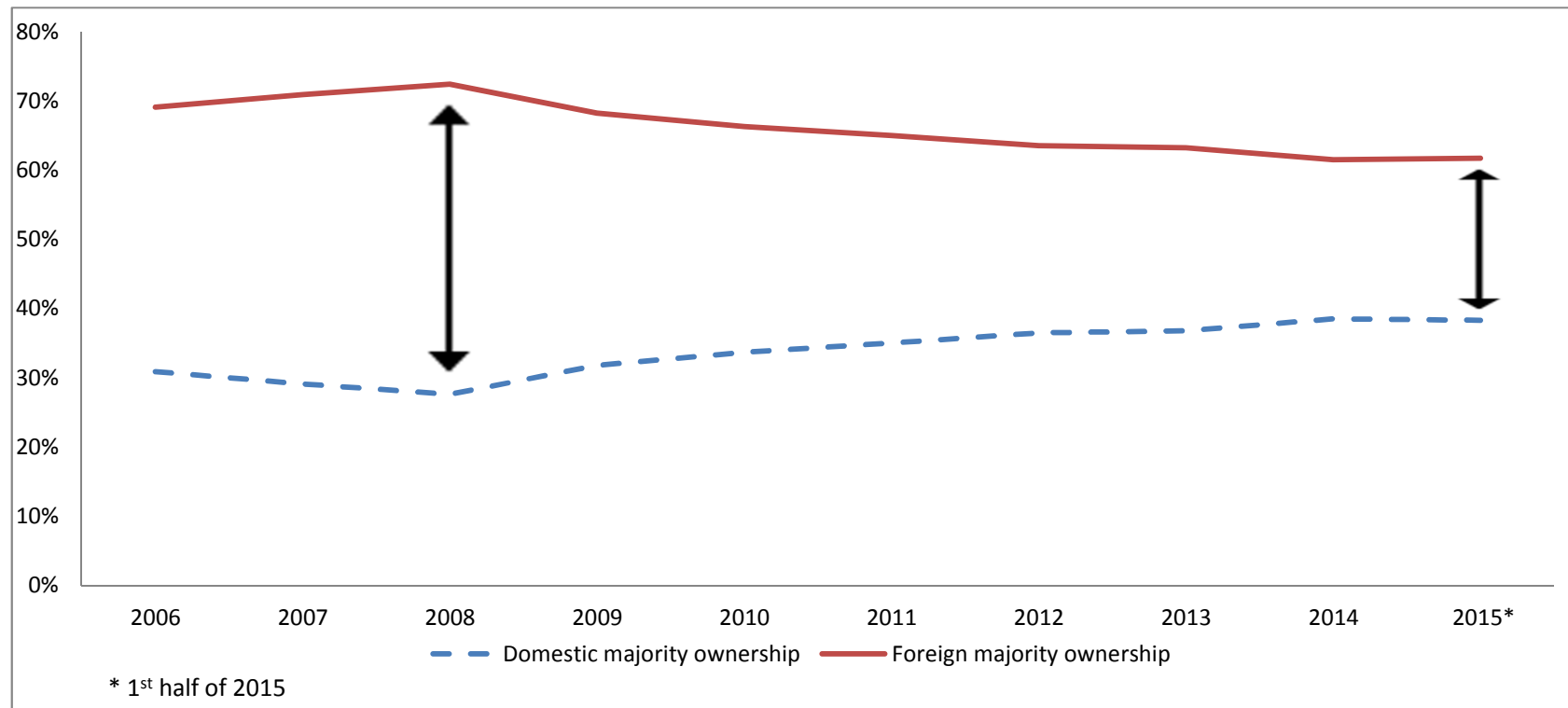
What now, then?

- „Wait and see” attitude? Conservative approach?
 - But not that passive!
 - E.g. NBP (2014/2015:88): *...from the perspective of a country remaining outside the SSM, an **enhanced role of the ESRB is perceived as a desirable direction of reforms**. This would allow,..., to ensure better coordination of macro-prudential policy between countries inside and outside the SSM. => **The role of the ESRB should be strengthened, as well as its resources, and its independence from the ECB should be increased.***
 - My talks with PFSA and NBP people: **monitor very closely BU developments**; crucial experience of the first opt-in country; very good personal relations with SSM staff.
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What now,...

- Other proposals. Realistic?
 - E.g. Kawalec (2015:53-54): *Based on what we know today, the recommendation for Poland would be **to stay out of the BU as long as it is not a EA member state**. Poland should oppose solutions which limit the powers of the Polish banking supervision or constrain Poland's ability to apply macroprudential measures. Furthermore, Poland should:*
 1. *Impose limitations preventing overbanking and excessive concentration of the Polish banking industry.*
 2. **Pursue a strategy of „domesticating” banks** in order to largely increase the share of locally controlled banks in the assets of the sector.
-

Poland: changing ownership structure of Polish banks, 2006-15(H1)



Source: NBP data base (6.XI.2015).

Summing up: A personal opinion on when Poland should join the BU

How long should Poland remain outside the BU?

- Personal opinion
 - Poland should opt for the BU **only when the date of her EA accession is credibly fixed**
 - In practice: 2-3 years before euro adoption
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Thank you very much!

We protect the value of money



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