NBP Narodowy Bank Polski

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# Poland and the European Banking Union: First experiences

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# Outline

1. Introduction: Poland and the European Banking Union (EBU)
2. Recent changes in Poland’s financial safety net
3. Changes in the ownership structure of the Polish banking sector - EBU impact
4. Summing up
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# 1. Introduction: Poland and the European Banking Union (EBU)

- So far, none of the non-Euro Area (EA) countries has joined the EBU
- Poland: No formal official position, rather a „wait and see” attitude
- NBP 2014 report *The Economic Challenges of Poland’s Integration with the Euro Area*
  - Chapter 3: a cost-benefit analysis of joining the EBU
- My talks with Polish Financial Supervision Authority and NBP people: monitor very closely EBU developments; crucial experience of the first opt-in country; very good personal relations with SSM staff.
- „First experiences”
  1. Harmonization of Polish domestic regulations with EU requirements
  2. Direct impact of EBU (EA) developments on banking ownership in Poland

# Shortcomings of the EBU from Poland's perspective

- **Imperfect EBU regulations**
  - *The complex decision-making process involving many parties (SRB, European Commission, Council of the EU) is a weakness of the SRM, which in a crisis situation could materialise and thus it discourages countries from joining the banking union.* ***Staying outside the SRM, will enable Poland to undertake its own independent decisions on resolution of local institutions, in accordance with the BRRD.*** (NBP 2014/2015: 95)
- **Under the EBU framework the EU principle of equal treatment is broken in the case of non-EA countries**
  - Lack of access to EU backstops (ECB and ESM financing)
- **Potentially a very dangerous mixture**
  - Until a fully-fledged European Deposit Insurance Scheme is established, any major problem would have to be entirely internally financed by a non-EA country!

# How long should Poland remain outside the EBU?

- Popular opinion among economists (including myself)
  - Poland should opt for the EBU **only when the date of her EA accession is credibly fixed**
  - In practice: 2-3 years before euro adoption
- Deputy PM and FM M. Morawiecki (14 October 2016): „Maybe, if **everything** goes **fantastic** [Poland will join the EA] **in 5-10 years**. (…) We **remain obliged** [to join the EA].”

# 2. Recent changes in Poland’s financial safety net

- Three issues:

A. Financial Stability Committee (FSC) new legislation
B. Bank Guarantee Fund (BGF) new legislation
C. Banking supervision issue

# A. Financial Stability Committee (FSC) new legislation

- Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management
  - Entered into force on 1 November 2015
  - Incorporates into Polish legislation the ESRB *Recommendation on the macroprudential mandate of national authorities* (ESRB/2011/3)
  - Collegial body: comprises heads of the NBP, the Financial Supervision Authority (FSA), the Ministry of Finance and the Bank Guarantee Fund
- FSC has a dual mandate: It is both Polish macroprudential authority and coordinates crisis management actions
  1. Macroprudential supervision activities are chaired by the President of NBP and NBP provides the secretariat for the FSC
     - Financial Stability Department – cooperation with the ESRB
  2. Crisis management activities are chaired by the Minister of Finance and the Ministry of Finance provides the secretariat for the FSC

# B. Bank Guarantee Fund (BGF) new legislation

- Act of 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution (the Act on BGF)
  - Became effective as of 9 October 2016
  - Incorporates into Polish legislation the Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD)
    - Both directives fully implemented
    - The Act on BGF is currently reviewed by the European Commission
- Dual mandate of the BGF

1. Guaranteeing deposits
2. Resolution authority

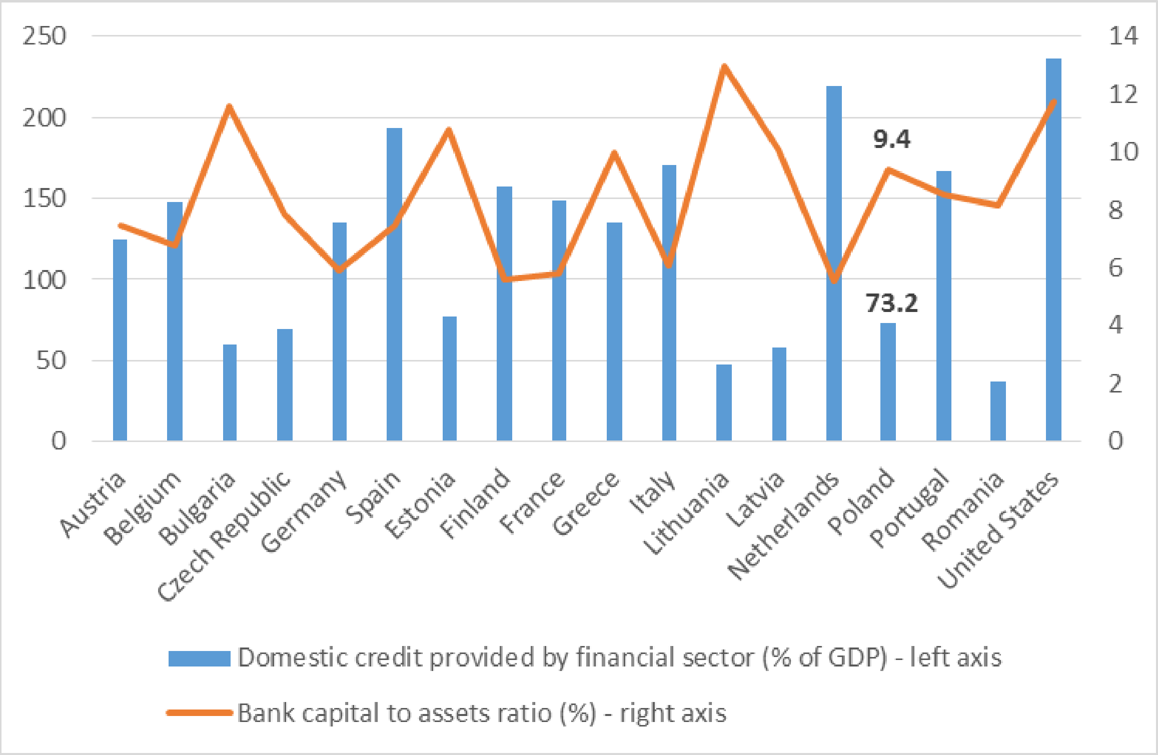
# The BGF – Polish resolution authority

- Combining both guaranteeing deposits and resolution activities „under one roof" is not that common!
  - Most often central banks perform the role of resolution authorities!
  - But exceptions:
    - USA: Federal Deposit Insurance Corporation
    - EU: newly established (Finnish) Financial Stability Authority (*Rahoitusvakausvirasto*)
- Why?
  - Historical legacy:
    - The Act on BGF of 1994 promoted the concept of „risk minimizer", i.e. it allowed the Fund to grant credits to support bank solvency => expertise, transfer of funds facilitated
    - Since 2008 the NBP without banking supervision unit
    - Works on the 2016 Act started already in the autumn of 2011 with the technical advice of the World Bank
  - Economic arguments: The BGF should be the most interested institution in successful resolution as it is responsible for deposit protection (Szczepańska et al. 2015:50)

# Not much experience with BRRD implementation, so far mostly preparatory work

- Polish banking sector is in a good shape despite some recent problems with cooperative banks and credit unions
  - No bank (or credit union) failure during 2007-2014
  - 2015:
    - 8.7% - cooperative banks' assets in total banking sector assets
    - Below 0.8% - credit unions' assets in total banking sector assets
  - Recently European Commission agreed to the possibility of public funds being used for cooperative banks' and credit unions' restructurization
- Resolution plans for all banks are currently devised
  - 12 months since the Act on BGF has become effective
  - Including the design of the minimum requirement for own funds and eligible liabilities (MREL)

# Domestic credit provided by financial sector (% of GDP) and bank capital to assets ratio (%) in selected countries, 2015




Source: World Bank data base (29.XII.2016).

# The MREL question

- Key issue for the effectiveness of the *bail-in* mechanism
- Its level and structure are being discussed
- Structure: At least 30% of MREL requirement should be composed of bank debt instruments (eligible liabilities – mostly bank bonds)
- Poland: The essential part of banking sector liabilities are deposits
  - 2015:
    - All types of deposits – 77.7% (58.5% - non-financial sector’s) of total liabilities
    - All types of debt instruments – 3.6% of total liabilities; mostly purchased by financial institutions
- Bank debt instruments’ market should be developed
  - Demand?, supply (costly!), banks in Poland do not seem to be interested in issuing bonds

# C. Banking supervision issue

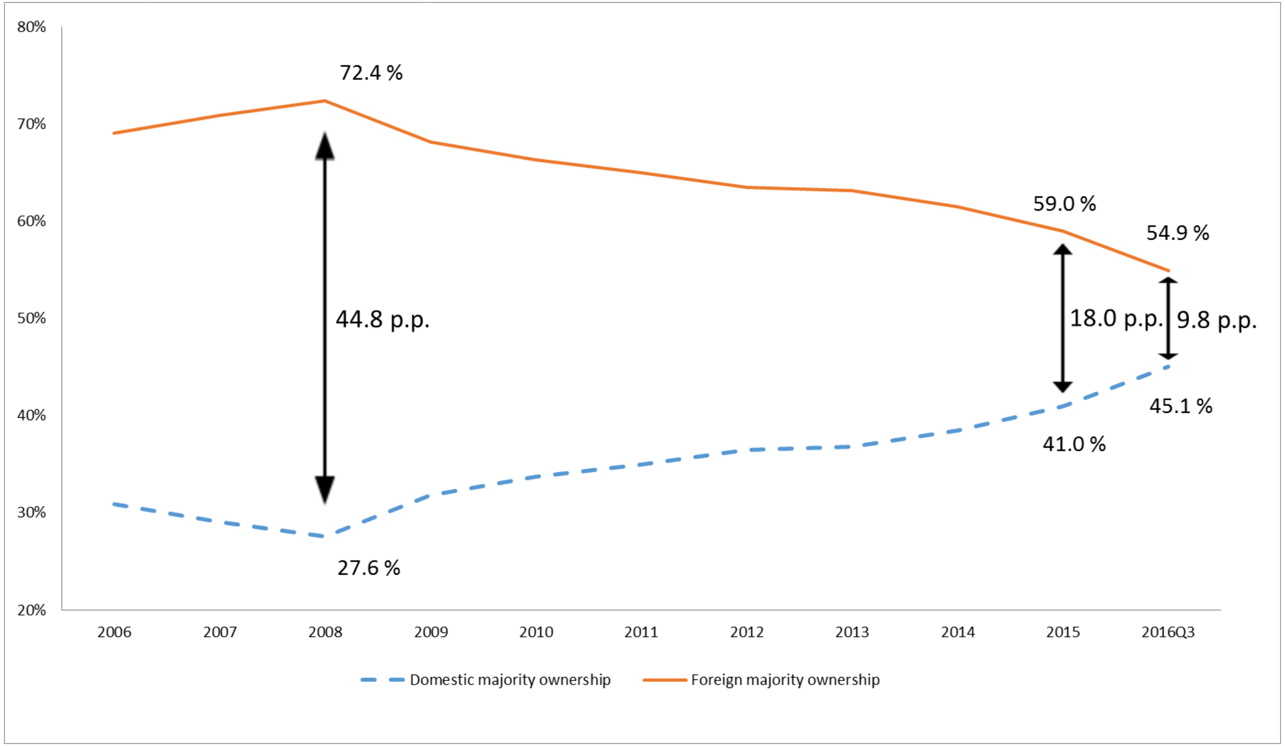
- 2008: Banking supervision was separated from the NBP and transferred to the FSA
- New NBP President, Prof. A. Glapiński (as of  10 June 2016): Banking supervision should return to the central bank
- New law is being worked out
  - „Personal union" between the NBP and the FSA initially?

# 3. Changes in the ownership structure of the Polish banking sector - EBU impact

- In Poland a pronounced change in the ownership structure by the country origin of bank investors is taking place
- Over time the authorities started to stimulate it
- Rationale: foreign-owned banks operating in Poland behaved procyclically during the recent crisis (2009-2011) (Kawalec and Gozdek 2012)
  - „Capital has nationality" => more domestic ownership is needed
- Since 2014 Polish financial institutions are gradually taking over foreign-owned banks, taking advantage of developments in the EBU/EA
  - „Domesticating banks", „repolonization of the banking sector"

# Changing ownership structure of Polish banks, 2006-16(Q3)

(% of total banking sector assets)




Source: NBP (2016:101) and KNF (2016:17).

# Ownership structure of banks in Poland by countries, 2015
(% of total banking sector assets)

| Owners (countries) | Per cent of total |
|---|---|
| Poland | 41.0 |
| Foreign | 59.0 |
| Italy | 10.7 |
| Germany | 10.4 |
| Spain | 9.0 |
| France | 7.2 |
| The Netherlands | 6.7 |
| USA | 5.1 |
| Portugal | 4.2 |
| Austria | 3.5 |
| Other countries | 2.2 |

Source: NBP (2016:102).

# Recent ownership changes

- 2014: Nordea Bank Polska taken over by PKO BP (merged)
  - PKO BP – Polish largest bank, state-controlled
- 2015: Alior Bank taken by PZU (largest, state-controlled, insurer)
- 2016:
  - Alior Bank took over BPH (Bank Przemysłowo-Handlowy)
  - Alior Bank tried to take over (failed) Raiffeisen Bank Polska (owned by Raiffeisen Bank International AG)
  - UniCredit sold a 32.8% stake in PKO SA (Pekao) to PZU and Polish Development Fund (state-run investment fund) with credit assistance from PKO BP
    - PKO SA – second Polish largest bank (in terms of assets)

# Further ownership developments?

- „The process of the repolonization of banks will continue” (PM B. Szydło according to Reuters, 29 December 2016)
- Who is next?
  - Deutsche Bank Polska to be sold? Already rumored by Reuters…
- Will the state-controlled financial institutions have enough available funds to continue the process?

# 4. Summing up

- Poland does not belong to the EBU, but its impact is felt through two main channels
  - Through the new legislation implemented as part of harmonization of EU legislation
    - EBU and related EU directives have had a clear impact on Polish safety net design
  - Through the developments taking place in the banking sectors of the EBU countries
    - Search for capital to address increased capital requirements
    - Strong impact on the ownership changes

# Additional slides

# EU non-EA countries: Selected banking characteristics, 2015 (in %)

| Country | Share of foreign ownership (1) | Size of the banking system (2) | Concentration in the banking sector (3) |
|---|---|---|---|
| Bulgaria | 76.3 | 103.0 | 57.6 |
| Croatia | 90.5 | 131.2 | 72.6 |
| Czech R. | 90.0 | 121.5 | 63.3 |
| Denmark | 12.5 | 327.0 | 67.8 |
| Hungary | 47.0 | 94.4 | 53.4 |
| Poland | 59.0 | 88.0 | 48.6 |
| Romania | 90.5 | 52.7 | 57.8 |
| Sweden | 7.2 | 365.1 | 57.8 |
| United Kingdom | 37.2 | 447.2 | 36.8 |

(1) Percent of banking system assets.
(2) Total banking assets to GDP.
(3) CR5 (share of 5 largest credit institutions in total assets).
Source: Belke et al. (2016:16).

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# Thank you very much!

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