Poland and the European Banking Union: First experiences

Berlin / 9 January 2017
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
  ■ 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

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)

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

<table>
<thead>
<tr>
<th>Owners (countries)</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>41.0</td>
</tr>
<tr>
<td>Foreign</td>
<td>59.0</td>
</tr>
<tr>
<td>Italy</td>
<td>10.7</td>
</tr>
<tr>
<td>Germany</td>
<td>10.4</td>
</tr>
<tr>
<td>Spain</td>
<td>9.0</td>
</tr>
<tr>
<td>France</td>
<td>7.2</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>6.7</td>
</tr>
<tr>
<td>USA</td>
<td>5.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>4.2</td>
</tr>
<tr>
<td>Austria</td>
<td>3.5</td>
</tr>
<tr>
<td>Other countries</td>
<td>2.2</td>
</tr>
</tbody>
</table>

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 %)

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

(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).
References


NBP (2016): Rozwój systemu finansowego w Polsce w 2015 r. [The development of the Polish financial system in 2015], Warsaw.


Sokal Z. (2016): Resolution będzie ostatecznością [Resolution will be the last instance], Obserwatorfinansowy.pl, 22.XI.2016.

Thank you very much!
NBP

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