

Banking Union: The Perspective of One Non-SSM Member State

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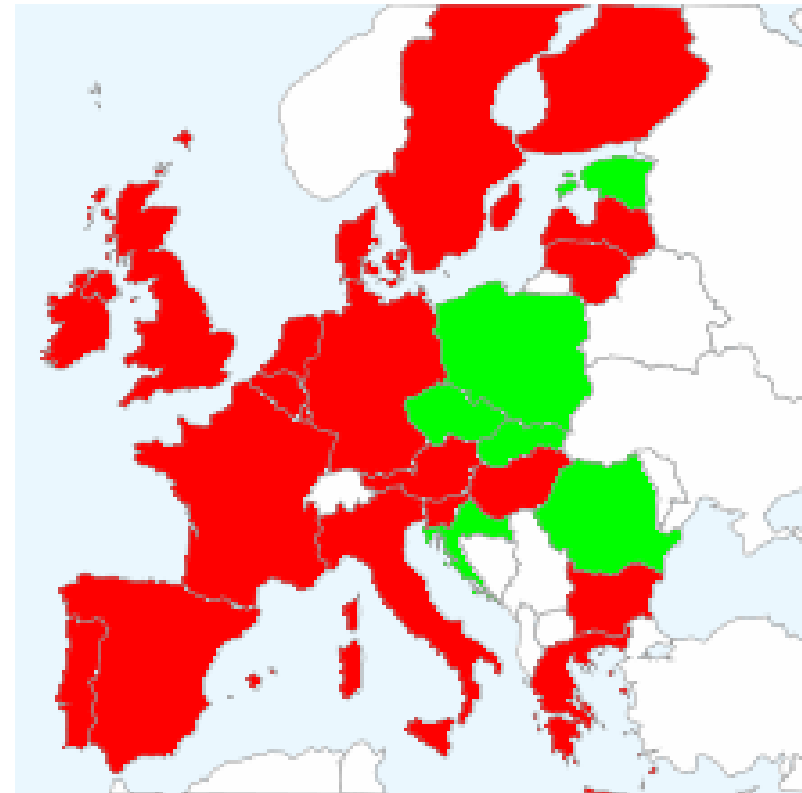
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- **A key source of funding** for the Czech economy.
 - Loans-to-other instruments ratio 2:1.
- **Highly concentrated** (TOP4 = 57% of the sector's assets).
- **91% of bank assets foreign-owned.**
 - Parents mostly in the euro area (BE, AT, FR, IT, ...).
 - Most subsidiaries wholly owned.
 - Little scope for supervisory "home bias".
- **Highly capitalized with capital of high quality**
 - CET1 ratio = 17.1%.
 - T1 + T2 ratio = 17.7%.

Therefore MREL a big issue in CZ

- No public support/aid in the crisis

Map of EU Member States where state aid was provided to the financial sector in 2008–2015 (in red)



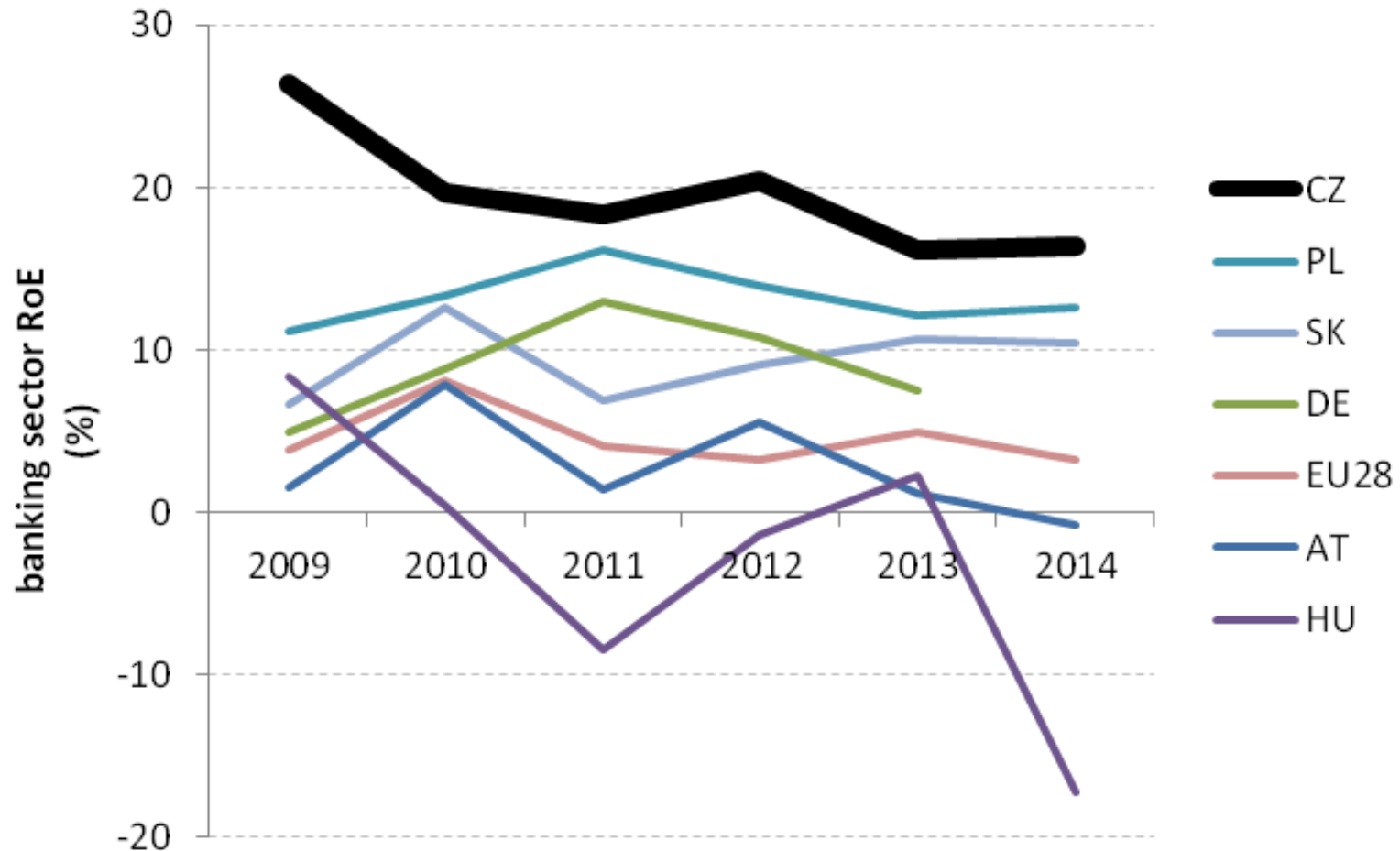
Malta

Cyprus

Source: European Commission.
Customizable map: www.aneki.com.

- The Czech Republic has not joined the Vienna Initiative.

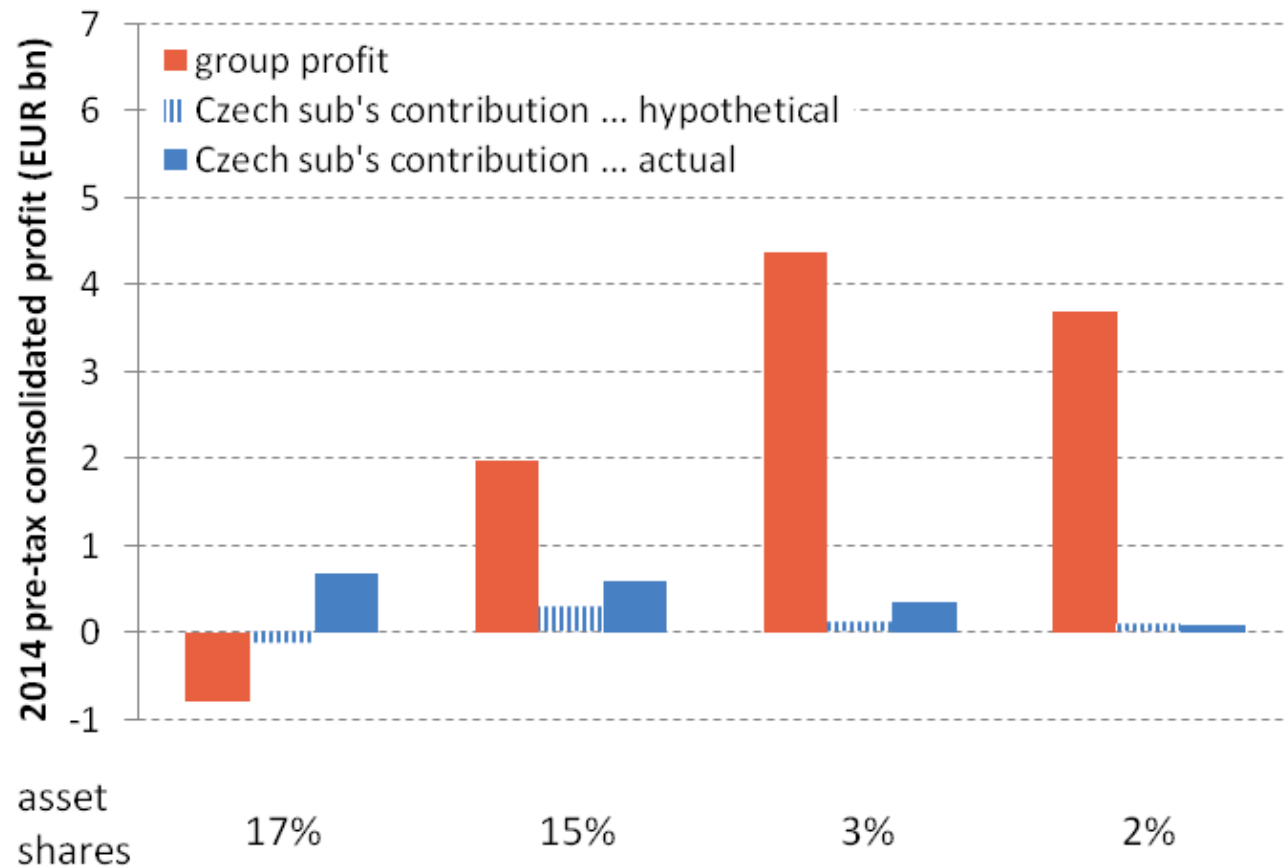
- The sector has been very profitable in the EU context



Source: IMF, ECB, own calculation.

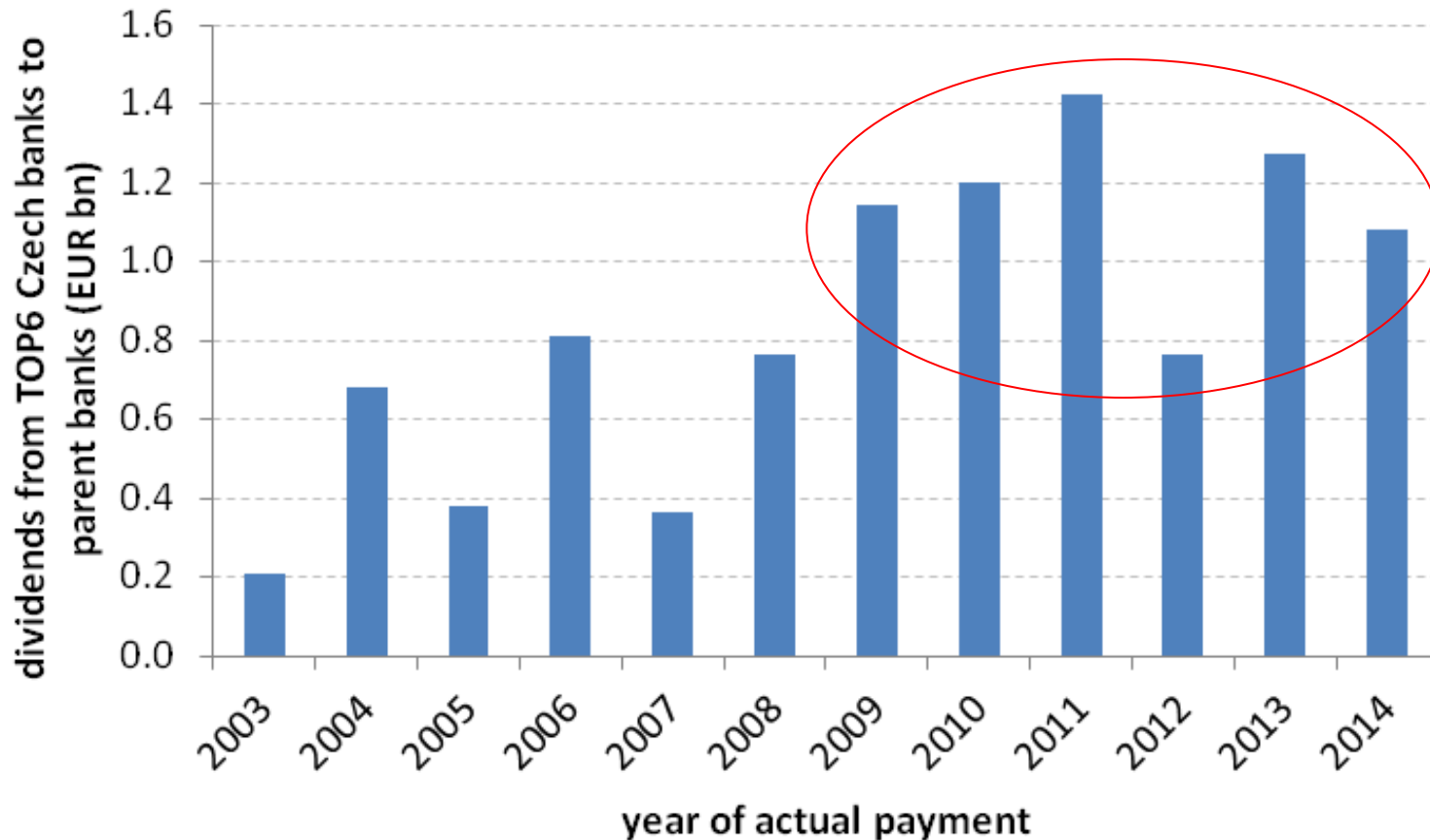
For the EU28 average, the national RoEs are weighted by the value of national banking sector assets.

- TOP4 Czech subsidiaries have been contributing a significant part of their groups' profits.



Source: Bankscope, own calculations.

- The sector has been **capital-generating** (even throughout the crisis), not **capital-consuming**.



Public perception of the sector is slightly different compared to other EU countries (less pressure for special levies + taxes)

- Entering the SSM means transferring **powers** (direct supervision, supervisory colleges, EBA), not necessarily **responsibilities** and **costs** in bad times
- For EA countries, this transfer is somewhat neutralized by ultimate power/burden-sharing within the ECB + ESM. This is not the case for non-EA countries, despite the SSM voting rules
- For EA countries, BU membership makes much more sense:
i) single monetary policy + ii) single lender of last resort + **iii) single supervision** + **iv) single resolution (SRF)** + v) single backstop (ESM)

Complete equality among EA and non-EA members within the BU probably unachievable

- One of the aims of the BU was to eliminate **regulatory “home bias.”** But the ownership structure of the Czech banking sector implies little scope for such bias (CNB seen as being rather tough on small **domestic credit unions – the story of moral hazard in the making**).
- The BU was meant to break **the vicious circle between banks and public finances.** But the agreed burden-sharing within the BU is rather too small to achieve this: SRF’s ultimate target EUR 55bn vs. total bank assets of about EUR 31tn (yet bridge financing for the SRF is still unclear...)
- Additional stability and resilience for the domestic sector due to the BU? (CZ in a creditor, not a debtor position)

On the other hand:

- Political reasons for the government to enter.
- Ownership structure would suggest there might be a reason to enter.
- Sitting at the SSM table is of some value (but only of limited value, as key banks are above the EUR 30bn equivalent = direct SSM supervision anyway + SB members required to act in the EU interest, not in the interest of their home country)

For all these reasons the Czech government has decided not apply for close cooperation with the SSM at the moment
= “wait and see” approach.

- The decision was based upon:

“Impact Study of Participation or Non-Participation of the Czech Republic in the Banking Union: Summary Report”

- 135 pages.
- Prepared by the Ministry of Finance in cooperation with the Ministry of Foreign Affairs, the Office of the Government and the Czech National Bank.
- Discussed by the Czech government on 9 February 2015.

http://www.mfcr.cz/assets/cs/media/Studie_2015-02_BU-studie-dopadu-shrnuti-EN-material-po-vlade.pdf

- The government plans to review the issue every 12 months.

In the meantime, the CNB will cooperate intensively with the SSM as its key partner in numerous areas:

- Communication in supervisory colleges.
- Exchange of information.
- Data reporting.
- Possible joint inspections.
- Improving supervisory practices (supervisory manual).

Thank you.