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(When) should a non-euro country join the banking union?

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This paper was co-authored by Ansgar Belke, Anna Dobrzańska and Daniel Gros

Agenda

1. Introduction – aim and scope of analysis

2. Potential benefits of opting-in

3. Potential risks of opting-in and possible remedies

4. Conclusions

1. Introduction – aim and scope of analysis

- The option of opting-in to the banking union
- Non-euro area EU countries (focus on CEE)
- Attractiveness of opt-ing in the context of:
  - Robustness of national safety net, structure and stability of the national banking system vs
  - Assessment of banking union's construction
- Opt-in now or join the banking union upon euro adoption?
- Hitherto analyses: Berglöf et al. (2012), Darvas et al. (2013), Kisgergely and Szombati (2014) and IMF (2015) + country assessments

2. Potential benefits of opting-in

- **Increased stability and confidence in the banking system**
- **Increase in quality of supervision and harmonization of supervisory practices**
    - **Countering national bias/forbearance**
    - **The ECB's reputation and credibility ("quality stamp")**
- **Improved home-host relations**
    - **Streamline communication and reduce/internalize coordination problems**
    - **Access to parent bank supervisory data, chance to participate in JSTs**

2. Potential benefits of opting-in

- **Improved political position**
- **Some (limited) reduction of sovereign-bank nexus**
    - **Little room to maneuver in current regulatory framework**
- **Benefits for banks in opt-ins**
    - **Harmonized reporting and lower compliance costs**
    - **Centralized liquidity and capital management**
    - ***Potentially* lower funding costs, risk premia and higher ratings**
- **The SRM is a better solution than multiple national regimes**
    - **Addressing coordination and burden-sharing problems related to cross-border failures**

3. Potential <u>risks</u> of opting-in and possible <u>remedies</u>

- **Limited influence over decision-making process within the SSM**
  - **Supervisory Board ≠ Governing Council**
  - ➢ **<u>Remedy:</u> Change in the TFEU?**
- **Lack access to backstops**
  - ➢ **<u>Remedy:</u> Change in the TFEU and the ESM treaty? Direct recapitalization for <u>all</u> SSM banks? Swap lines between the opt-in NCBs and the ECB?**
- **The SSM might not be more efficient than national supervisor**
  - **Another, centralized supervisory layer + administrative burden**
  - **Operational effectiveness of task division within the SSM and the ECB**
  - ➢ **<u>Remedy:</u> A sound and balanced cooperation framework in practice?**

3. Potential risks of opting-in and possible remedies

- **"Too small to matter" banks in opt-ins and centralized capital and liquidity management**
    - **Risk of dominance of home/group interests**
    - **No possibilities to resort to EBA binding mediation**
    - **Remedy: Increased involvement of national supervisors? Prudent SSM policy of waivers for the application of prudential requirements?**
- **Complicated decision-making process of the SRM**
    - **Remedy: Simplify the procedure and reduce number of parties involved?**

3. Potential risks of opting-in and possible remedies

- **The SRF is not mutualized from the start**
  - **A temporary problem**
  - ➢ **Remedy: Increase the pace of mutualization or contributions? Bridge financing?**
- **Insufficient size of the SRF**
  - ➢ **Remedy: Increase contributions? Pooling resolution and DGS funds?**
- **Lack of single deposit guarantee scheme**
  - ➢ **Remedy: A fully fledged European Deposit Insurance Scheme with well-capitalized single fund?**
- **Other risks**
  - **Opting-out is risky**
  - **Macroprudential policies of the ECB and national authorities**

4. Conclusions

- **Potential benefits, but more imminent risks – unfavorable balance**
- **Different relative importance of benefits/risks among potential opt-ins**
- **Unequal treatment of opt-ins**
- **No “quick fix” remedies and changes in the treaties required**
- **Euro adoption mitigates the majority of risks for opt-ins**
- **Both benefits and risks of permanent “opting-out”**
- **“A banking union for the euro area”?**
- **“First mover” experience needed – peer pressure?**

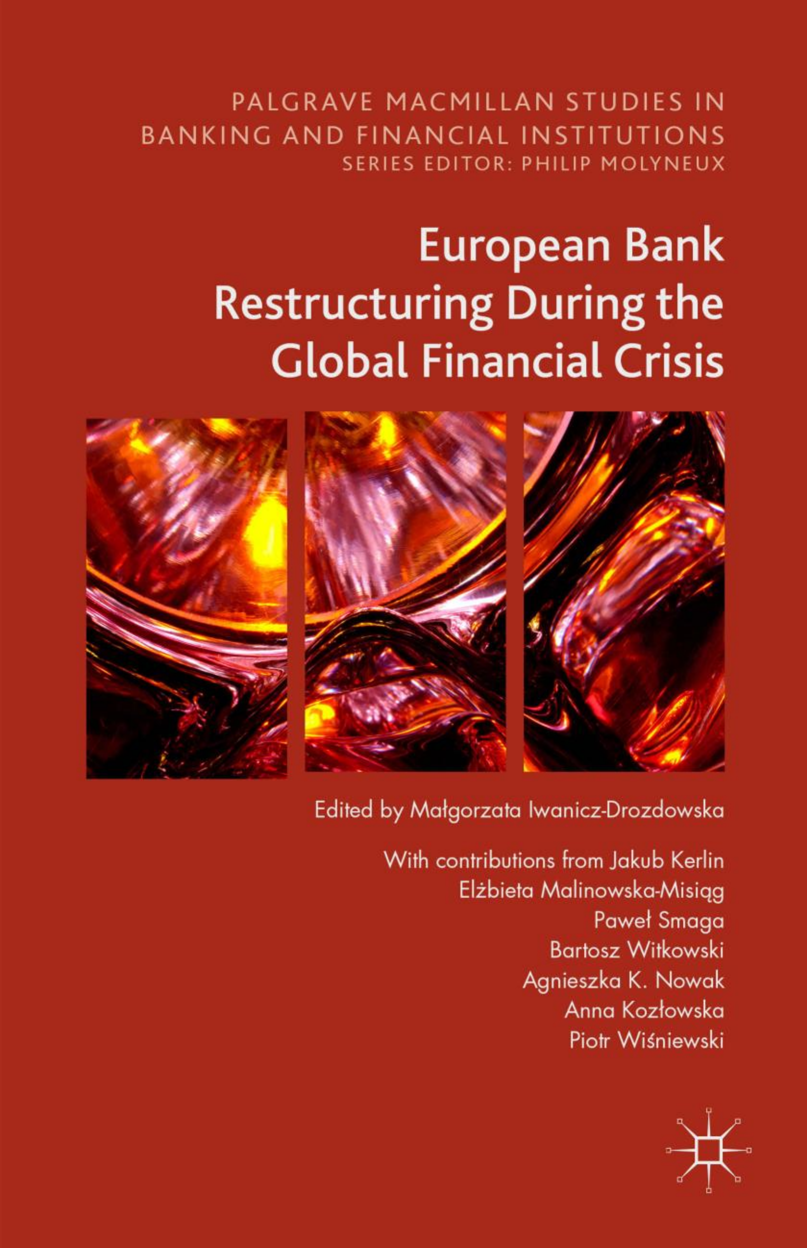
4. Conclusions

- **Opt-in decision depends i.a. on:**
  - **share of foreign ownership in banking system assets**
  - **size of the banking system and presence of SIFIs**
  - **condition of the banking system and crisis experience**
  - **supervisory standards**
  - **financial capacity of national resolution fund**
  - **perspective of euro adoption**
  - **political stance**
- **Non-euro zone countries' assessments:**
  - **opting-out, wait-and-see, willing to opt-in**
- **<u>Periodic reassessment of opt-in option warranted!</u>**

SE, UK

PL, CZ, HU

RO, BU, DK



Thank you for the attention!

Comments?

More on banking union in:

***European Bank Restructuring During the Global Financial Crisis*, Iwanicz-Drozdowska M. (eds.), Palgrave Macmillan, *forthcoming* 2015**

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