Conference on European Economic integration

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Question 1

What does the World Bank do to make CESEE more resilient?
Financial Sector Advisory Center (FinSAC)

Objective:
“to help ECA financial regulators strengthen financial stability”

How?
• Tailored Technical Assistance
• Analytical output
• Regional conferences and workshops
Geographic focus

Authorities from

<table>
<thead>
<tr>
<th>EU candidates and potential candidates</th>
<th>EU member states</th>
<th>EU neighboring countries</th>
<th>Central Asian countries</th>
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Thematic focus

Four pillars

Macro prudential  Micro prudential  Recovery & Resolution  Consumer Protection and Financial Literacy
Question 2

What remains to be done to remove financial sector legacies that result from the downturn of the financial cycle since 2008?
Pillar 1: Macro prudential framework

- Institutional
- Policy tools
- Capacity building
- Crisis preparedness
Pillar 2: Micro-prudential framework

- NPL reduction
- CRD IV
- Information sharing
NPL ratios in SEE: high and/or rising, with the possible exception of Kosovo

Bank Nonperforming Loans to Total Loans, %

Source: IMF FSI and national authorities

NPL definitions not directly comparable
Pillar 3: Recovery and Resolution

- Underfunded deposit insurance regimes
- Legal uncertainty remains
- Untested bank resolution frameworks
Pillar 4: Consumer Protection & Financial Literacy

- Legal and regulatory frameworks
- Institutional arrangements
- Information disclosure
- Dispute resolution
- Financial education
Question 3

What are your thoughts on the policy responses across the EU and their implications for CESEE?
Overall

• Slow process, regular slippage in timelines
• “Third countries”
• Tensions between home and host interests remain
• Many authorities will remain in charge of banking supervision
• Asset quality review
Banking Union
Sequencing of integration

Instruments and powers
Responsibility
Territorial approaches as a result of sequencing of integration

- Single Rule Book
- Single supervisory mechanism
- Single Resolution mechanism and fund
- Single deposit protection

Fragmentation
Key challenges

- Macro-prudential frameworks not yet fully functioning
- Mechanisms for reducing the stock and flow of NPLs are not yet fully in place
- Loan classification and provisioning requirements will eventually need to become more standardized
- Impact of CRD IV to be estimated and buffers to be implemented
- Bank resolution authority and deposit insurance schemes are in process of being modernized