<u>**PAVEL ŠTĚPÁNEK**</u>

## 1. Resolution fund

- We certainly have no intention to challenge the rationale behind the comprehensive set of measures aimed at preventing/resolving the problem of banks in trouble.
- Yet it is important to be aware of the cost to the national economy resulting from the implementation of all the new regulatory measures.
- Our rough estimate is that the annual contribution to the new resolution fund (which is part of the resolution mechanism) will deduct (via a reduction of the available credit supply) from the annual economic growth as much as around 0,3 to 0,4 percentage points – obviously, there are plenty of assumptions behind the calculation method, and according to how these assumptions would be modified, we could get different results, but in all circumstances we would end up with concluding that the economic impact is far from being negligible.
- We need to take into account that by introducing this obligation to our banks, someone is willing to fix something which is/was not broken in our case … actually, our banking industry is rock solid; unlike other banking industries it did not have to be rescued by taxpayers - on the contrary, throughout the entire crisis it has been acting to alleviate the syndromes and consequences of the crisis – this can be demonstrated by statistical data.

## 2. The deposit guarantee scheme

- While we fully understand the concerns and motivations which stood behind the scheme as it was evolving over time (including the current draft directive) I wish to point to one particular consequence of the DGS: we need to point to the fact that the scheme with its current content brought not only benefits (e.g. making deposits in institutions safer), but also some serious concerns resulting from its unintended and unanticipated effects.
- More specifically, I am referring to the moral hazard which is implied by the fact that the depositors lost – thanks (or due) to the scheme - all motives to be concerned about where they put their money, no matter what type of institution it was, what kind of risk profile it had, what its business model was, etc.. Regardless of the fact that financial institutions across sectors can be very different, actually they have motives to ignore this and to seek only one thing – the return (or, if you wish, the interest rate).
- Now this can hardly be corrected by contribution rates differentiated according to the risk profiles of institutions, since one very basic feature of the system – that you can get all of your money back if what you put in was less than 100 k Euros – remains unchanged – as it is the core principle.
- In fact, the scheme - as currently designed – could be actually seen as even motivating – to some extent – a riskier behaviour on the part of some institutions, especially if these were in the less regulated segments of the financial market.

- So, the solution is, in our view, to find a way to motivate depositors to assess more carefully where they put their money. But how to achieve that is another question; the specific solution will or would depend on which particular segment of the market we are referring to…

## 3. The EC proposal for structural measures to improve the resilience of the European credit institutions (the so-called Liikanen 2)

- The proposal has been published a couple of weeks ago but later it was somehow withdrawn from circulation, but it will be re-introduced, in a modified form, once the new commission is appointed – so while it is not immediately on the table, it remains a major issue.
- Actually, it is usually not dealt with as a part of the banking union's 4 pillars, but it is a major proposal which can substantially reshape the structure of the European financial/banking markets.
- Our concern linked to the January version was that – once again – the proposal might mainly be fixing something that was not broken.
- We did not have and still not have the “casino” type of banking; on the contrary, the prevailing feature of our market is very traditional banking, which is very much focused of financing the real economy.
- Yet, if implemented as originally drafted, it would – for instance - severely limit the liquidity of the Czech (local currency) crown market, corporate bond market or covered bond (mortgage bond) market with severe negative repercussions on the respective segments of the economy.
- Also, if retail and trading activities were to be separated into separate entities across consolidated banking groups, this would severely hit the local market, although it is fundamentally sound and well structured to serve the economy.

## 4. Conclusion:

So far, the Czech Republic has opted to remain out of the banking union; and these are my two conclusions in regard to this topic:

- The banking union will still have a significant impact on our local market.
- Therefore, even if the choice was made for us to remain outside the banking union, we still have a great interest in being an active negotiation party in all the discussions and trying to achieve the best that we can in this respect – as if we were a part of the union.

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