Mojmír Hampl: The EU banking industry

Speaking points by Mr Mojmír Hampl, Vice Governor of the Czech National Bank, at the European Economic Congress "Section: Banking Industry in the EU", Katowice, 15 May 2012.

*   *   *

"Dzen dobry" – this is unfortunately the only thing I can credibly say in Polish, so the rest will be in my imperfect English.

Thanks to the organizers for the invitation and for the opportunity to participate in such a distinguished panel. It is my first time here and I can only hope not the last one after I finish my presentation. Given the time constraints I will focus on a just a couple of quick points to stimulate the debate.

My key point is: Let's not repeat the same mistakes again and again. What I mean is this: Since the onset of the current crisis there has been a constant push for a more pan-European, or "federal-like", approach to the regulation, supervision and potentially also resolution of the financial industry in the EU. The famous de Larosière report and all its consequences, such as the three new pan-European supervisory agencies, are just direct results of this push and this way of thinking.

Some may recall that the Czech authorities were quite reluctant to accept this approach and also the final compromise which brought these agencies into existence, and we believe we had good reasons for this.

Despite all the European convergence and integration, financial systems in different EU member states still look and work very differently. Trying to administer them from a single centre according to a single set of rules might be like trying, say, to feed all the animals in a zoo with a single type of food.

As an illustration: the recent ECFIN Retail Banking Survey says:

- in Austria almost 100% of house purchasing loans feature variable interest rates, while in France the share is only about 10%.
- countries differ substantially in the share of owner-occupied housing and therefore in the importance of the mortgage market;
- they differ in how intensively they use electronic means of payment;
- in the significance of building societies and credit unions;
- in tax and other incentives that the government provides for certain types of financial transactions;
- in the extent to which local banks trade in various non-plain vanilla products such as derivatives;
- in the share of subsidiaries and branches of foreign financial institutions and, more generally, in ownership structure
- in the loan-to-deposit ratio, which varies from roughly 70% in some countries to more than 200% in others;
- in the degree of local market concentration;

etc.

There are many more examples, some of them influenced by long-term developments, some by entrenched behavioural differences and habits.

To apply – or even try to apply – a federal or pan-European approach to such a diversified financial system requires, in my eyes, a key precondition: to have a functioning European federation in the first place. If that is not possible then we should not try to create half-baked pan-European solutions here in the area of banking – an area which is arguably more sensitive in many aspects than that of fiscal policy and fiscal transfers.

If we are not careful enough, we risk repeating the difficulties of the single currency project. The euro is a currency without a state. This means nobody knows who should pay what to whom in bad times. It is for good times only. And we now all know very well that this is the biggest shortcoming of the whole project.

Some believe that cross-border integration is good per se, without any conditions. I tend to believe – not least because of the current crisis – that cross-border integration of national financial systems is welcome only if EACH of the national systems alone is and can be sufficiently sound and stable.

That's why we at the Czech National Bank are so nervous about this tendency to continue separating the powers of supervisory and regulatory authorities from their responsibilities in the area of financial regulation. These powers are gradually shifting in small steps towards those who have no direct responsibility and no pots of money to pay should things go wrong in the future. And such a system is not sustainable for future bad times.

I believe this is a concern shared by policy-makers not only in our country, but also in other EU countries (such as here in Poland) and I hope that the coalition of like-minded states has the potential to grow over time.

So let me repeat: until we have a full-fledged EU federation we should not build a half-baked one in the area of EU banking. And I strongly advise paying attention to the rules being prepared by the European Commission (for instance the Crisis and Resolution Mechanisms), which have the potential to be out of line with this proposed approach.