



MAREK BELKA

President of the National Bank of Poland

Jean-Claude Trichet, former President, ECB

I give the floor now to Marek Belka, who can address the view of the 28 and not only of the 18 if he wishes, and all other remarks will be welcome.

Marek Belka, President, National Bank of Poland

Thank you. I cannot add anything to the process of actually building up the banking union. This is very much in the hands of Benoît and his colleagues at the ECB, so I will restrict myself to giving remarks as a moderately-informed outsider who is part of some of the processes within the European Union.

You have to realise that Poland is a country in which certain features of the international banking sector have developed. Contrary to most major European countries, 65% of the banking sector in Poland is foreign-owned or managed internationally and only one-third is comprised of banks that are headquartered in Poland, some of which are owned by Polish capital and some of which are internationally owned. Still, we could imagine that this is what a European banking sector should look like after the creation of a true banking union, a situation in which domestic banks are not a handy tool for the economic policy of the state.

How did happen that we started talking about banking union? Of course, this is the reaction to the crisis and the first instinctive idea was to do something in the way of fiscal union. There was no appetite for that. The idea of banking union gained traction because the idea of fiscal union could not take off. I can remember the moment when the now-infamous Bankia was about to be recapitalised by the Spanish Treasury and discussion about banking union intensified, and we know why.

In Poland, we tend to be a little bit cynical about the idea of banking union. It is a second-best solution, but it makes perfect sense because of the role of banks in Europe's financial sector and because financial sector seems to be highly integrated. You can do a lot by dealing with banks and leading them into banking union. What kind of questions we ask when we look at what is going on regarding banking union? The first question to be asked is which crisis we are going to solve with banking union – the one that we are now slowly coming out of or future one/s? Basically, the question is to what extent the developments around banking union institutions are dealing with legacy debts. The second question is whether the Eurozone countries are prepared to face the political and economic consequences of a true banking union. The third question is whether or not the banking union is petrifying the present faulty structure of the European financial sector. Let me quickly sketch out the answers for these three questions.

First, what crisis are we going to solve? The major objective of the banking union is to break the sovereign-bank nexus. Without it we would have deeper fragmentation which reinforces divergence in the Eurozone leading to major problems, including even greater problems for the existence of the euro than we currently have. Everybody knows that to break that link, the costs of cleaning up failed banks must be shifted from national budgets onto somewhere else, with creditors sharing the burden. Second, we also know that to break this nexus the banks should reduce their exposure to sovereign debt issued by their home state. We are moving slowly on both accounts, or at least on the first one.

Clearly, we are building institutions the function of which is to avoid future crises and build a European monetary and economic union that will last for decades; but we are less prepared to deal with the current crisis, which is not to say that the issues of the current crisis are not partially tackled. For example, if we truly clean up the European banking sector it would mean a partial elimination of legacy debt that is stuck in the banks. Therefore, the answer here is not enthusiastic but clearly positive to some extent.

The second question is whether the Eurozone countries are prepared to face the political and economic consequences of banking union. If we are to have a true banking union it cannot be that we continue with national banking systems dominated by a few national banks. Those banks engage in international activities both inside and



outside Europe, but we do not have pan-European banks. The bank that comes closest to the notion of a pan-European bank is UniCredit and it is almost entirely due to the eastward enlargement of the European Union. The only other country outside of Italy where UniCredit has a major operation is Germany, and we know how difficult that is to stomach for some.

We know from our own experience that if there is to be a real banking union the banks should be European, not national, but this is not easy. We have lived through the crisis over the last years and we saw that those international banks are very efficient in providing financing. As a matter of fact, Europe was the only region in the global economy where capital flowed downhill, stimulating growth, but also causing bubbles. However, during the crisis in 2009/2010 we have compared the Warsaw-headquartered and the foreign-headquartered banks. The first did not behave at all procyclically while the others were extremely procyclical. That is because the risk management was centralised and operated according to rules which were completely out of line with the situation in our country. And the conditions in Poland happened to be much better than outside. Therefore, there are upsides and downsides to such a situation, but we probably understand it better than those countries that do have national banking sectors. The question is whether other countries, such as France, Spain, the Netherlands, Italy, Germany, are prepared to have banks that are truly international. I do not know what is the answer to that.

The third question is whether the banking union would petrify the current faulty domination of banks in the financial sector. Here, I think the answer is yes.

These are a number of remarks from someone who looks at banking union with the highest hopes because, in a sense, we have already experienced some of its consequences, both good and bad.