6 Banking supervisory competencies in Central and Eastern Europe countries in the context of a banking union in the European Union

Introduction

The aim of the article is to emphasize the relations between CEE and Western European banking sectors in the light of the efforts to create a pan-European banking architecture called a banking union. EU member countries are interested in closer banking sector cooperation and integration from a regulatory point of view. This interest in banking union is based on developed cross-border banking integration in the EU member states. However, CEE countries and their banking sectors are more homogenous than banking markets in Western Europe. The quantity of 50 to 80% of banking sector assets in Central and Eastern Europe are foreign-owned and ownership is concentrated in a few countries. In contrast, in Western Europe, the participation of foreign ownership ratios in the banking sectors are within the range of only 10–30%. It affects many implications to the implementation of regulatory basis and the attitude to a supervisory over the banking sector. With reference to this description it is stated a hypothesis that the concern of CEE countries banking supervisory is strongly connected with the presence of foreign capital in the banking sector and thus the regulations implemented by a banking union should be implemented upon the approval of consultancy of host countries supervisory.

The article is basing on descriptive analysis based on monographs, research of consultancy agencies and regulations concerning the banking union.

1. The structure and fundamentals of a banking union

The formal name of a banking union is named as an integrated financial framework. The assumptions of a banking union are including such components as: a unified European system of banking supervision, a common framework for the orderly restructuring and liquidation of banks, as well as European deposit guarantee system covering national deposit guarantee schemes operating on the basis of common standards.[1]

In 2009 there was prepared Report of Jacques de Larosiere Group on Financial Supervision, which indicated both inaccuracies of supervision in the European Union, as well as proposals to strengthen the supervisory arrangements of the financial system. Illustrations of the allegations in the content of the report included: lack of effective macro-prudential supervision, the existence of significant differences in the competences of supervisory authorities in the EU countries, as well as the lack of cooperation and procedures in crisis situations.[2] The European Union intended to adopt a single banking supervisory system, which could provide, in case of any turbulences in the financial markets, the recapitalization of European banks. Important competences will be settled in the European Central Bank (ECB), being the institution in charge of supervision of all banks from the euro area. The countries outside the euro area might also voluntarily follow the mechanism.

Due to the deficiencies revealed in the de Larosiere Report within the institutional and regulatory environment The Group proposed the establishment of new supervisory bodies in the European Union. As a result of the proposed changes from the beginning of January 2011 European System of Financial Supervisors started to function, consisting of:[3]

– European Systemic Risk Board (ESBR),
– European Supervisory Authorities (ESA), including the European Banking Authority (EBA), the European Insurance and

[1] H. van Rompuy, *W kierunku faktycznej unii gospodarczej i walutowej*, Sprawozdanie przewodniczącego Rady Europejskiej, www.consilium.europa.eu, Europejski Bank Centralny, Bruksela 2012; Ośrodek Informacji i Dokumentacji Europejskiej, http://oide.sejm.gov.pl/oide (8.07.2014).

[2] *Report of the High-Level Group on Financial Supervision Chaired by Jacques de Larosiere*, European Commission, Brussels, http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf (25.02.2009).

[3] Ośrodek Informacji i Dokumentacji Europejskiej, http://oide.sejm.gov.pl/oide (9.07.2014).

Occupational Pensions Authority (EIOPA) and the European Supervisory Authority Securities and Markets Authority (ESMA),
- Joint Committee of European Supervisory Authorities (Joint Commitee).

The beginning of the process of a banking union creation is dated in 2012, when the idea of establishing an integrated financial framework, covering all Member States, was presented at the meeting of the European Council. According to the proposed concept it was planned to create new rules for the financial safety net, including uniform rules for restructuring and controlled liquidation and bankruptcy of banks (*banking resolution*).[4]

In November 2014 the European Central Bank (ECB) will become the main supervisory institution of about 120 institutions called SIFIs, what means being a supervisor of banks in the countries and these members of EU that opt-in to be a member of the banking union. The countries which might not probably be the members of a banking union are Great Britain and Denmark, which had chosen an *opt-out clause* from the eurozone and may still have the possibility not to enter the banking union as well. All the other eurozone countries will be obligatory members of a banking union.

The first and conceivably most important pillar of the banking union is a unified European system of banking supervision (Single Supervision Mechanism – SSM).[5] This system is to operate observation and investigation at European level and at national level. The national level retains the existing powers in relation to national institutions, but because of the frequent occurrence of cross-border capital relationships between credit institutions, the ultimate responsibility for the proper activity of the institution with international links will be transferred to the European level. In this manner, an attempt to design a system that can guarantee throughout the European Union emergency application of prudential norms adequate to the challenges, as well as the control and prevention of risk, particularly aimed at liquidity and capital adequacy.

[4] *Ibidem*.
[5] *European Stability Mechanism*, www.esm.europa.eu (20.07.2014).

Particular attention was retained to the question how to rescue failing banks through joint guarantee deposits or funds.[6]

There are some tools at disposal, if the institution is too big to fail or it is not possible to transfer its assets. There is a *bail-in* procedure (depreciation or conversion obligations), which is also a tool of redemption obligations and an instrument converting commitments to equities. In the case of large systemically important institutions, these would be most effective tools, particularly in situations where purchasing the assets by another bank or transfer of liabilities would appear impossible. After having registered losses by the shareholders of the bank, due to lack of capital, bank's liabilities to subordinated creditors may be redeemed. In other words, the debt of the bank may be obsoleted. It is a base of such tools like: *bail-in*, redemption of commitments and others. In this case, it is recommended to use quantitative indicators, such as capital adequacy ratio or capital deficit, being the initiative factors for redemption of commitments for a group of creditors. Process of initiation of orderly liquidation shall be highly objective and in no case may be discretionary, as it could encourage the emergence of legal problems.[7] There are also other instruments known as contingent convertible debt, which are compulsorily convertible bonds. This means that even before the bank is close to insolvency, there are some forms of bonds issued by the bank, which, according to the agreement, can be converted into shares if the bank's capital falls below certain level. These forms of bonds belong to the category of predefined instruments. There are also plans for an orderly liquidation and rehabilitation programs, which would be mandatory in the case of systemically important institutions financial statements. In the case of events with a high scale of systemic risk, the Ministry of Finance and Financial Stability Committee could, if necessary, support the banking

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[6] Ośrodek Informacji i Dokumentacji Europejskiej, http://oide.sejm.gov.pl/oide (20.07.2014).

[7] See J. Pruski, *Perspektywy resolution w Polsce*, in: *Procedura restrukturyzacji i uporządkowanej likwidacji banku – doświadczenia światowe, rozwiązania dla UE i dla Polski*, Zeszyty BRE-CASE 2012, nr 123, pp. 19–20.

system, but this new approach is the one in which the financial market is precisely to take on the risks according to pre-defined rules.[8]

The second pillar of a banking union is referring to a deposit guarantee system, which will enhance the credibility of existing solutions and enhanced security guarantees deposits of all credit institutions operating in the EU.[9]

The third element of a banking union, accompanying significantly the previous two, is the European system of restructuring and arranged liquidation of banks (*banking resolution*). It has been settled within the framework of the Banking Recovery and Resolution Directive (BRR), the resolution concerning an orderly bankruptcy and liquidation of banks. This system is designed to standardize the process of carrying out the liquidation of the credit institution demonstrating liquidity problems, including an indication of the payer financing the decommissioning process. The process of orderly liquidation is projected to work under the supervision of a joint body of the restructuring and fiscal security in the euro area, which is the European Stability Mechanism (ESM).[10]

The problem of resolution and controlled liquidation of banks might be observed in 2014 on the example of Banco Espirito Santo in Portugal, which announced 3.6 bln EUR loss in 2014. As the consequence its shares lost value of about 75% from the primary basis. There was concluded then the resolution procedurę of division this bank into two entities: healthy assets will be absorbed by a new entity Novo Banco and the problematic ones will stay in the old one, which will be recapitalized by a Portuguese government with a 4.9 bln EUR with the usage of bridge financing.

In 2013 it was reminded the priority for the EU, which was deepening the economic and monetary integration.[11] Therefore within the

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[8] *Ibidem*.

[9] K. Waliszewski, *Koncepcja unii bankowej – szanse i zagrożenia dla sektora banków komercyjnych w Polsce*, in: *Unia bankowa*, ed. M. Zaleska, Difin, Warszawa 2013, pp. 34–36; H. van Rompuy, *op.cit*.

[10] European Stability Mechanism, www.esm.europa.eu.

[11] *Letter by President of the European Council Herman van Rompuy to the Members of the European Council*, Council of the European Union, www.consilium.

framework of financial integration it is needed reaching the end of the legislative process for a single supervisory mechanism which is of fundamental importance for ensuring the financial stability of the EU, together with the single mechanism for the arranged restructuring and liquidation of banks. As a consequence of determining such an aim, the European Parliament, the EU Council and the European Central Bank have entered into an agreement on the practical principles of accountability and oversight over the performance of the tasks entrusted to the ECB in the context of a single supervisory mechanism.

On 15th April 2014 the European Parliament adopted legislation that formally regulated banking union structure. These were: the Directive on resolution,[12] Regulation establishing a Council which is responsible for the orderly liquidation processes in banks under the supervision of the fund with the ECB and finance processes (Single Bank Resolution Fund – SBRD) and the Directive on the harmonization of deposit guarantee schemes (Deposit Guarantee Scheme – DGS).[13] Framework regulation on the single supervisory mechanism came into force on 15th May 2014.[14]

From the point of view of a single institutional supervisory, the SSM sets up the European Central Bank and the national supervisory authorities. European banking supervision exercised by the ECB carries both benefits and some risks. On the one hand, it is emphasized the independence of the body, which is the European Central Bank, but it is also

europa.eu/uedocs/cms_data/docs/pressdata/en/ec/140073.pdf, Brussels, 13 December 2013.

[12] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No. 1093/2010, and (EU) No 648/2012, of the European Parliament and of the Council, OJ UE. L 173/90, 12 June 2014.

[13] Directive 2014/49/UE of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes, OJ UE. L 173/149, 12 June 2014.

[14] Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (*ECB/2014/17*), OJ UE. L 141, 14 May 2014.

indicated a risk of conflict of interest relating to the simultaneous conduct of monetary policy and supervision by this authority for different jurisdictions.

2. The problem of Systemically Important Financial Institutions

Observation of the integrated financial framework will be exercised especially over credit institutions operating in the euro zone, which are important from the point of view of financial stability of the EU. Consequently, this means taking, within a European banking supervision, the control over the institutions, called *Systemically Important Financial Institutions* (SIFIs). Criteria for recognition of such institutions as systemically important point that these institutions should:

- have assets of more than 30 billion EUR, or assets higher than 5 billion EUR but at the same time exceeding 20% of GDP of the home country,
- be deemed relevant by the ECB at the request of the national supervisory authority because of the size of assets, being important for the national economy or the EU economy, or because of the cross-border nature of the activity,
- receive support from the EFSF (European Financial Stability Facility – EFSF) and European Stability Mechanism (European Stability Mechanism – ESM), or at least inferred for such financial help instruments.

Notwithstanding the above criteria, ECB has to supervise the three most important credit institutions in each of the member countries participating the banking union. European banking supervision will be covering approximately 150 credit institutions, representing approximately 80% of the assets of the banking sector of the euro area.

Among the twenty European largest banks classified as SIFIs, as many as five banks are registered in Great Britain (these are HSBC, Barclays, Royal Bank of Scotland, Lloyds and Standard Chartered), four in France (BNP Paribas, Societe Generale, Credit Agricole and BPCE), two in Spain (Santander and BBVA), two in the Netherlands (ING and

Rabobank), two in Switzerland (UBS and Credit Suisse) and Italy (UniCredit and Intesa Saopaulo). One bank comes from Germany (Deutsche Bank) and one from Sweden (Nordea).

This picture indicates a problem of governing by supervisory the banks, headquarters of which are not obviously registered in the euro zone. Among the twenty institutions with the largest assets only eight have parent entities registered outside the euro area, or even outside the European Union, like it is in the example of Switzerland. Assets of these very big eight institutions from outside of euro area (from Great Britain, Sweden and Switzerland) are totally making value of the 10.52 trillion EUR, what gives or 40.9% of the total assets of this group of credit institutions. The value of assets of the twenty largest SIFIs is shown in Figure 1.

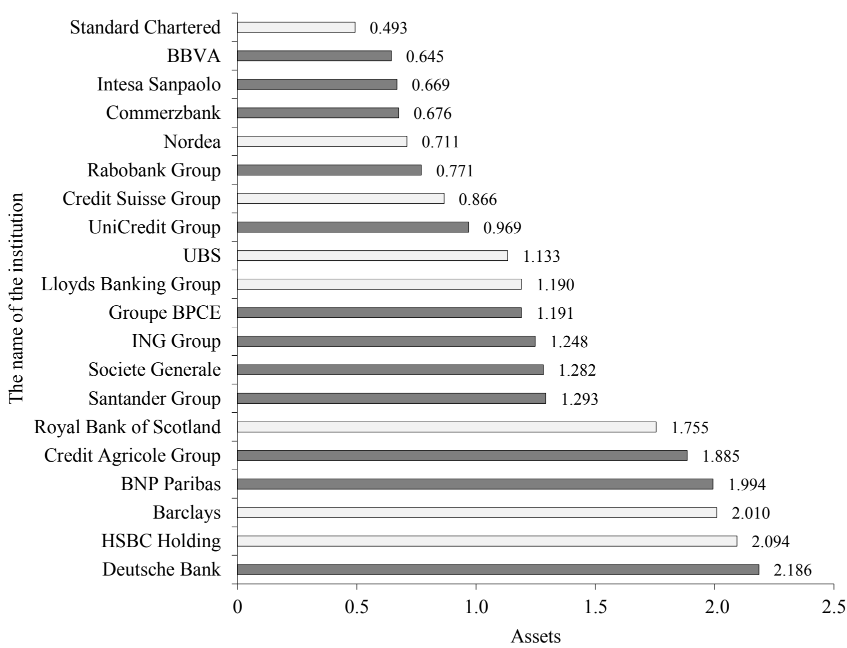

Figure 1. The most important SIFIs in Europe by assets value (trillion EUR)

Source: Thomson Reuters database upon the agreement with University of Gdańsk (30.06.2014).

The dark fields in this Figure show the assets owned by banks operating within the euro area and the light fields cover the banks which are having headquarters outside euro area and within the area they are operating by branches and subsidiaries. Among the largest banks operating in Europe listed in Figure 1, in terms of assets, it is worth noting the involvement in Central and Eastern Europe such institutions as UniCredit (this banking corporation is having engaged 120.1 bln EUR in the banking sector of the CEE countries), Societe Generale (EUR 76 bln EUR), ING (38.2 bln EUR), Santander (28.5 bln EUR), Commerzbank (27.1 bln EUR) and BNP Paribas (16.0 bln EUR). The share of these banks in total banking sector assets are documenting the importance of the creation of a banking union in cooperation of supervisors from CEE countries. The share of assets operated in CEE compared with th total assets of a banking group being engaged is shown in Figure 2. The largest participation may be observed in case of UniCredit Group, which presence in CEE may be estimated as over 12% of all the assets. The other biggest groups, though greatly visible in these countries, did not invest at such high level and their participation in the region is covering about 3–5% of total assets (Societe Generale, Commerzbank, ING Group). In case of Santander

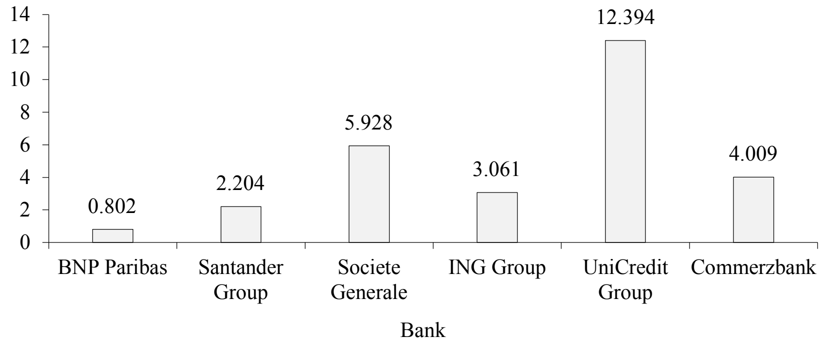

Figure 2. Share of assets operated in CEE vs. total assets of a banking group (%) in 2012

Source: own calculations based on *Raiffeisen Banking Report2014*, Raiffeisen Research, www.raiffeisenresearch.at, May 2014; Thomson Reuters (30.06.2014).

data is not covering the buyout of BZ WBK from Allied Irish Bank in Poland, therefore the level shown for 2012 is furthermore underestimated.

Expansion in the region was also provided for many years by two Austrian banks, Erste Bank (having engagement of 79.3 bln EUR in CEE banking sectors) and Raiffeisen Bank (80.9 bln EUR). These two institutions which were placed in the ranking of the largest systemically important financial institutions at much lower position.[15]

3. Home country control vs. host country control

The European Central Bank will supervise the banks from the euro area, with the support of national supervisory authorities, which on behalf of the Supervisory Board and the Governing Council of the ECB will coordinate the design and implementation of supervisory decisions. Relating to the establishment of a single supervisory mechanism, the ECB shall be legally responsible in terms of controlling all credit institutions within the banking union, and therefore will also have the power to take over the oversight of each bank in the euro zone. Since 1st January 2014, all banks in the euro zone are the subject to supervision at the European level.

The creation of a banking union, however, is based on particular assumptions, which remain the possibility of cooperation of the ECB with the relevant supervisory authorities of countries existing outside the euro area, but wanting to be the members of a banking union. In such a case at least two conditions must be encountered by these countries. The first one is the announcement by a country to other Member States, the European Commission and the Authority that there will be sent the application relating to cooperate with the ECB. The second condition concerns the adaptation of a given Member State its national law and regulations to ensure that any action taken by the competent national authority will meet any measures and procedures required by the ECB in relation to credit institutions.

It should be also clearly noted that the accession of countries existing outside the euro zone to the European banking supervision does not mean any access to instruments in the liquidity provided by the European

[15] *Raiffeisen Banking Report 2014...* (10.06.2014).

Central Bank and the funds from the ESM, which simply means that the countries of the euro area and non-euro area will not be treated in the same way. However, the introduction of the ECB as the parent supervisory authority is projected to reduce the negative effects of the occurrence of a conflict between *home country control* in contrary to *host country control*, which will be particularly present in the supervision of financial conglomerates.

However, this problem cannot be eliminated completely, since not all countries probably decide to cooperate with the ECB. Some countries, especially in the region of Central and Eastern Europe did not enter a banking union, moreover, even many of them did not enter the euro zone. However, only Great Britain and Denmark have the right to remain outside the euro area under *the opt-out clause*, and thus ultimately supervision should be extended to all EU countries. In cases where the banking sector of the country will not be under the supervision of the banking union, the European Central Bank will seek to sign a Memorandum of Understanding with the supervisory authorities of the host countries, commercial banks established in the EU, and the representatives of the supervision of the host countries may be represented in a single supervisory mechanism.

Within the scope of its competence, the European Central Bank has the authority for the activities specified in the Regulation of the European Council of 6th December 2013.[16] In particular, the ECB will be responsible for issuing and receiving licenses to credit institutions, evaluation of transactions for the purchase or sale of blocks of shares in credit institutions, supervising the compliance with the requirements of capital adequacy, liquidity, or leverage ratio, supervision of financial conglomerates, stress testing, the implementation of measures of early intervention procedures (if the institutions do not meet them or will soon probably not meet the regulatory capital requirements, it includes

[16] Decision 2014/477/EU of the European Central Bank of 2 July 2014 on the provision to the European Central Bank of supervisory data reported to the national competent authorities by the supervised entities pursuant to Commission Implementing Regulation (EU) No. 680/2014 (ECB/2014/29), OJ L 214, 19 July 2014, p. 34–37.

a request for corrective action).[17] It is worth noting that the inspections refer not only to financial institutions themselves, but also to entities that provide services to them in the context of outsourcing. However, certain issues, such as the protection of clients of credit institutions, anti-money laundering supervision or payment services remain the responsibility in charge of national supervisors.[18]

Meanwhile, concrete agreements on banks' capitalization, the unification of the systems for the resolution of bank crisis and deposit guarantee schemes are being expected. The banking union is still under construction, therefore it is understandable that regulators express some doubts towards resolution planning and details of the integration. It is underlined especially with reference to international context of a process as it involves a great effort of cooperation from governments and regulatory authorities.

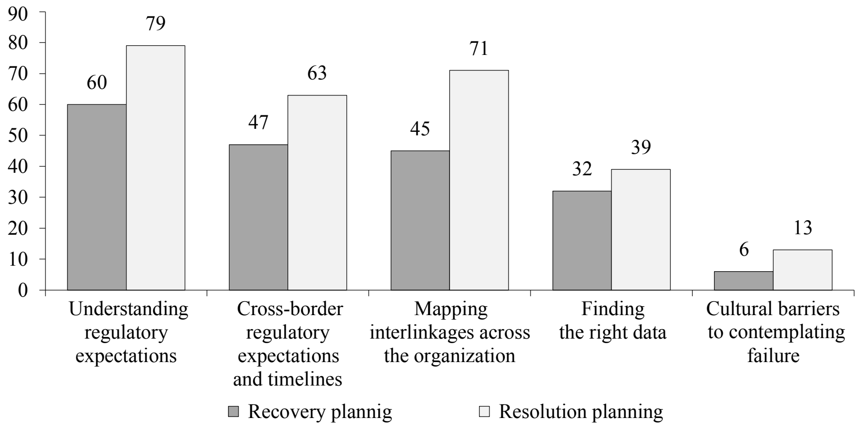

Figure 3. Main challenges of recovery and resolution planning in financial institutions (%)

Source: B. Schlich, P. Jackson, *Remaking Financial Services: Risk Management Five Years after the Crisis. A Survey of Major Financial Institutions*, Ernst & Young and Institute of International Finance, www.ey.com, pp. 60–64 (18.07. 2014).

[17] *Ibidem*.
[18] *Ibidem*.

At Figure 3 it is shown what are the main challenges of recovery and resolution planning included in the banking union scenario and adjustment of the institutions.

The institutions are trying to follow and understand the expectations of regulators and it is the main focus of their preventive activities. Many banks (at Figure 3 we see 45% concerning recovery planning and 71% resolution planning) are trying to find relations between organizations' units in order to map how complex are group structures. As many as 47%, concerning recovery planning, and 63%, referring to resolution planning, are focused on cross-border regulatory expectations and timelines. They are also looking for sources of efficiency in case of restructuring and try to find out what has to be changed within the structure of organization and try to assess the actions. In the opinion of many managers in the banks, it is a great value in such activities, especially concerning recovery plans, because it forces the banks to think about their risk in a different perspective.[19] Many executives indicated, however, the time and cost needed to extract and submit data. Establishing national resolution funds is estimated at absorbing the level of at least 1% of covered deposits by 2025, what mean the value of 75 bln in the EU.[20] Mapping interlinkages across the group and building the connections between recovery and resolution planning and stress-testing or other activities in banks is perceived as a particular challenge as well as focusing on worst scenario, which is a difficulty in building an organization culture. Furthermore, one of the greatest challenges it is evaluating what assumptions to make about cooperation between global regulators and how institutions will be affected by different jurisdictions.[21]

4. Banking union and financial integration

A banking union is intended to lead to greater integration between the financial markets of the EU, however, it does not provide equal rights and

[19] B. Schlich, P. Jackson, *op.cit.*, pp. 60–64 (18.07.2014).

[20] *Evolving Banking Regulation. Is the End at Sight?*, EMA Edition, February 2014, KPMG, www.kpmg.com, p. 16 (14.07.2014).

[21] B. Schlich, P. Jackson, *op.cit.*

duties. The proposal presented by the European Commission highlights the fact that the countries existing outside the euro area will be able to proceed to an integrated system of banking supervision within the procedure of a close cooperation (called also enhanced cooperation), which specifically means participation in a union without voting rights in the process of making important decisions.

The creation of a banking union enabling simply different range of participation, giving the terms of full rights, including the right to vote and decide on important issues relating to banking supervision only to euro zone countries, can cause a lot of implications for the countries of Central and Eastern Europe. Introduced division may adversely affect the level of integration of financial markets, in particular the level of integration of the banking sector between EU countries. Conceptually, a banking sector integration should lead to a reduction in the cost of capital, increase in the supply of credit, diversification of asymmetric shocks, the availability of financial services to consumers and enhancement of the competitiveness of the banking sector.[22]

However, the level of integration of the banking sector is performed very slowly, especially in the retail banking segment, what is affected, among others, by the effect of attachment to the local market (*home bias*), and there is also observed a particularly low level of integration of the banking sector between new and old Member States.[23]

The ownership structure of banks in CEE countries is dominated by the bank capital in which the majority shareholders are those enumerated as the main ones in other EU countries. The transformation of banking supervision and shifting the decision-making of individual supervisory institutions from the national to the EU level will mean the implementation of centralized management of both liquidity and capital adequacy at the group level.

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[22] A. Hryckiewicz, M. Pawłowska, *Czy nowy nadzór spełni swoje zadanie? Zmiany w nadzorze finansowym w Europie oraz ich konsekwencje dla Polski*, Narodowy Bank Polski, Materiały i Studia, z. 289, Warszawa 2013, p. 24.

[23] M. Baltzer, L. Capiello, R.A. de Santis, S. Magnelli, *Measuring Financial Integration in New EU Member States*, European Central Bank, Occasional Paper nr 81, www.ecb.europa.eu/pub/pdf/scpops/ecbocp81.pdf (25.07.2014).

The share of foreign banks in total banking sector assets in CEE countries is much higher than in the euro area and it is approximately at the level of 75% (in the euro zone it is approximately 10–30%). There is also supposed a clear connection related to the debt of home banks and their parent companies and subsidiaries in the CEE countries in the interbank market. Dependence of branches of foreign banks in CEE countries from home banks' funding was the highest in the Baltic countries, especially in Estonia, and Slovakia (it was estimated at the level about 60 and 70% of GDP adequately).[24] Capital support prearranged for banks subsidiaries by the parent companies is a part of contribution to the maintenance a good financial situation by banking institutions in CEE. In this regard it is worth mentioning that there were examples when supervisory authority enquired the parent banks in 2009 stopping dividends in companies-daughters to strengthen their capital adequacy ratio.[25] The dependence of domestic institutions from foreign capital can be assessed positively by depositors, if the situation of the parent company is perceived positively. If the parent entity are rated positively or are having high guarantees, a subsidiary may also participate in the affirmative outcome of it, which may confidently affect the quality, stability and the level of deposits. Such situation may be observed for example in the case of stabilization actions of the ECB in relation to foreign banks, while negative signals about the financial situation of the parent bank may also result in withdrawal of deposits from banks-daughters.[26]

5. Banking union – benefits and costs for CEE countries

Among the benefits associated with participation in the banking union it should be mentioned increase in safety system and financial stability of

[24] Europejski Bank Centralny, www.ecb.europa.eu/ssm (28.07.2014).

[25] *Raport o stabilności systemu finansowego w 2009 roku*, Narodowy Bank Polski, Warszawa 2010, www.nbp.pl (14.07.2014).

[26] K. Jackowicz, O. Kowalewski, Ł. Kozłowski, *Do Depositors React to the Conditions of Banks' Foreign Owners? The Univariate Evidence from Central European Countries*, Studia Ekonomiczne, Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach nr 109, Katowice 2012, pp. 137–144.

the Member States of the European Union. An important element may be also the fact that the countries, in which there are operating banks with foreign capital, will have one partner in supervisory which will be European Central Bank, instead of formerly existing cooperation with several national supervisors. This implication of a banking union may become especially important in the case of problems in the functioning of transnational banking institutions. In this context a very important aspect will be the distribution of the home countries and host participation in responsibility and costs. Thus the transfer of supervisory powers to the EU level strongly requires the transfer of fiscal responsibility, what requires providing a clear answer to the question, who will pay the cost of maintaining the stability of the single financial market in the EU.[27]

If non-euro zone countries, especially in Central and Eastern Europe, will not be covered by the mechanism of the single banking supervision, anyhow a banking union will affect the banks in these countries due to the high share of foreign capital in the banking sector assets. However, there is a risk that EU countries that do not take the cooperation within the banking union, may begin to be marginalized and perceived as a country of a poorer rating, less safe, what concisely can influence and transform profitability debt of these countries.[28]

An important aspect is also the availability of funds, provided by the ESM and ECB. Banks in the euro zone may, according to the objectives of the bank, count on the support of the ECB's liquidity and capital support from the ESM, and the support of this type is not provided for non-eurozone countries. The issue of unequal treatment of these groups of countries is repeatedly raised by countries existing outside the euro area in the context of a dilemma: to join or not to join an integrated financial framework. There is no mechanism to protect these countries from the adverse consequences of decisions regarding them. The impact of

[27] L. Pawłowicz, *Unia bankowa – sukces czy klęska jednolitego rynku usług finansowych*, "Zarządzanie i Finanse" vol. 11, nr 2, Wydawnictwo Uniwersytetu Gdańskiego, Sopot 2013, pp. 457–467.

[28] W. Kwaśniak, *Skutki dla polskiego systemu bankowego i polskiej gospodarki po wprowadzeniu unii bankowej*, in: *Unia bankowa – skutki dla UE, strefy euro i dla Polski*, Zeszyty BRE Bank-CASE 2012, nr 123, p. 31.

turbulences in euro area countries to these ones not being the members of a banking union, might be transmitted indirectly through the participation of foreign capital in the banking sector, and decisions adequate to their situation might be commenced without their consent. Is also indicated the probability of the specific risks related to the option of free transfer of liquid assets in cross-border banking groups, between parent banks and subsidiaries. It may cause a destabilization processes of financial markets, particularly in the host countries.[29]

In addition, there are known examples from the times of crisis, when foreign banks exited the foreign market through the sale of assets of subsidiaries (for example the sale of shares in BZ WBK from Allied Irish Bank or disinvestment of KBC from Romania). In some cases, this may cause a deepening of the crisis in the country or its transmission from home country to the country of a parent bank subsidiary.

Among CEE countries the most eager to support the idea was Romania. This country's national central bank supported the initiative concerning the setting up of a single banking supervisory system in terms that the future banking union offered equal privileges to all EU countries, no matter if they are inside or outside the euro area. National supervisory authorities of Romania declared that they would continue to play a key role with reference to daily supervisory activities and concerning preparation and implementing the ECB decisions.[30]

Conclusions

In summary, the banking union is an important stage of economic integration of the European Union. However, the benefits and costs associated with the accession of CEE countries to the banking union should be considered in the long-term, especially since many aspects of its functioning is still not precise from the point of view of these countries. Moreover, staying outside the banking union may be perceived nega-

[29] K. Waliszewski, *op.cit.*, pp. 44–47.

[30] The Romanian Banking Association, www.arb.ro/en/proiecte/uniunea-bancara.html (30.06.2014).

tively by investors and cause a deepening division within the euro area countries and these ones which are not related within a banking and fiscal union. Besides it might generate consequences in terms of the impact on the profitability of the debt securities of countries outside of these agreements, as well as the availability of funding liquidity in the banking sector. The difference is similarly the way of support by the lender of last instance (in the banking union it will be in charge of the ECB, in countries outside the euro area national central banks will be responsible regarding this issue). Another important aspect is also the scale of the funding operation of a banking union, what could decide about the rationality of participation by non-euro countries.[31] The priority for the CEE countries will have to be strengthening the stability of the banking sector and the banking supervision.

The question is if in Central and Eastern Europe countries may in some way help and prevent the eurozone crisis. If there is observed deterioration in the euro zone, it will affect the countries of CEE, which are very strongly commercially and financially associated with the economies in Western Europe. The CEE financial systems, with the special focus on a banking system, should generally reduce their sensitivity and have more autonomy in their actions, so it might implicate the easier way to survive the turmoil. This requires maintaining the safe levels of government debt, because in terms of liquidity problems in the financial markets, the countries would have a problem with financing the borrowing needs. The levels of foreign exchange reserves should be sufficient as well, and banking systems healthy, with low level of non-performing loans and adequate amount of capital. In such terms, even if they experience a large shock, its effects will be limited. Suitable buffers in the economy are very important.

Joining the banking union is a disputable idea for CEE countries and the benefits are still not certain, as it is still not found out what this idea is in the details. The banking union is certainly needed for the euro area,

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[31] A. Raczko, *Unia bankowa z perspektywy wspólnej polityki pieniężnej w strefie euro*, in: *Unia bankowa – skutki dla UE, strefy euro i dla Polski*, Zeszyty BRE-CASE 2012, nr 123, p. 12.

to make a remedy for its problems, but beyond the boundaries of the eurozone it is not so obvious. It depends on the details of the proposal and in the opinion of some economists and regulators the union should be designed first to the details and at that point to widespread and respond to the prevailing conditions in CEE countries.[32]

At the beginning of the transformation CEE countries attained many benefits of foreign banks entry and have developed very much. However, parent banks of the institutions operating in CEE region are under pressure. The issue of supervision should therefore be properly regulated in Poland and other countries in the region, and it has to be discussed at the international level. The Vienna Initiative was to answer the question of how to create the model of cross-border banking in the light of a different experience. It is the case at which CEE countries have to pay attention if banking union would go beyond the boundaries of the euro area.

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[32] *Evolving Banking Regulation...*, pp. 15–17.

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