**Keynote Speech by**

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**at the Meeting of the Full Forum of Vienna Initiative**
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As prepared for delivery

Ladies and Gentlemen, Dear Colleagues,

Welcome to the meeting of the Full Forum of Vienna Initiative 2, hosted and organized – as the previous one in March 2012 – by the European Commission. It is very notable that it is the Commission that hosts today's meeting. I am particularly glad that this gathering was opened by Olli Rehn, Vice-President of the European Commission and member of the Commission for Economic and Monetary Affairs and the Euro.

Olli has kindly briefed us about the progress in policy initiatives strengthening the economic fundamentals of the European Union. The first politically feasible target in this process is enactment and implementation of the banking union, starting from the Single Supervisory Mechanism (SSM). The SSM, at this stage, focuses on the Eurozone countries. The focus on the Eurozone is fully understandable, as the current problems in the European banking sector are strongly interconnected with fiscal problems in some Eurozone countries. That is why we need decisive actions to break a negative feedback loop between banking and sovereign risk in Eurozone.

The banking union is the most recent policy response to euro area weaknesses and we believe it will be an effective remedy to the current crisis. It should be underscored that the successful creation of banking union is beneficial for the rest of Europe. It gives a chance to reduce spillover effects, support stability of the euro area and diminish unfounded fears of its break-up. But even as the rest of Europe whishes success to the banking union project, the interests of countries outside the Eurozone should not be neglected in the process.

**Let me try to summarize what these interests are.**

<u>First, actions taken by authorities in one country should not lead to instability in another jurisdiction.</u> This relates to actions of the supervision as well as the resolution authorities. Some assurances are already considered in the EU regulations' proposals but we need a strong say in safeguarding the stability of our domestic financial systems. Our countries are mostly hosting subsidiaries and branches of the cross-border banking groups from the EU. These subsidiaries and branches are often of local systemic importance. Therefore, to carry the responsibility for domestic financial stability, local supervisors must be able to exert influence on the behavior of these systemic institutions.

Second, macro-prudential policy should be in the remit of national authorities. Heterogeneity of local financial systems, and still unsynchronized economic cycles require an adequate local framework for macro-prudential policy. To this end, the current regulatory proposal on banking union raises important questions: (1) would a single international institution (i.e. ECB) be able to effectively address country-specific risks and set different values for macro-prudential instruments? (2) Would it be able to take into account specific circumstances in jurisdictions that entered into voluntary cooperation agreement?

Third, the banking union should promote not only financial stability, but also ensure equal rights and obligations for all participating parties. That would require that the banking union is based on the following principles: i) Keeping a right balance between the transfer of supervisory powers and responsibility for financial stability, ii) Ensuring equal rights and responsibilities for all countries participating in the banking union: for those who are obliged to be in, i.e. those in the Eurozone, and those who opt for it.

Fourth, adequate cooperation mechanisms between the SSM countries and those that decide to remain outside the Supervisory Mechanism should be created. It is in mutual interest to limit any contagion effects as stability of subsidiaries in host countries is also in the interest of countries in the banking union, where parent companies are located.

Fifth, avoiding negative home bias of banks. Banks that were European in quiet times have become national in crisis times. And they were encouraged to cut cross-border lending. This is lethal for the integrity of the common European financial market.

Sixth, deleveraging is in some circumstances a natural process during the crisis, but it has to be properly managed not to become excessive or disorderly. Deleveraging decisions should be based on economic rationale not the geographical location of assets.

**For a stable cross-border financial system in Europe we need action.**

More integration is needed for the economic success of our Continent. The integration should start with a wide and deep integration of the countries in the Eurozone which would be in line with their decision to rely on a single monetary policy. For the rest of Europe (and the Eurozone as well), that means mainly structural integration: removal of trade barriers, ensuring a free flow of labor and services.

The closer integration shall begin with the Eurozone first. That relates to a common deposit guarantees scheme and crisis management procedures, including resolution. The supervisory, deposit guarantee and resolution functions are closely interconnected that is why they should be dealt with together, albeit with proper sequencing, in countries that have access to the European Stability Mechanism. However, the countries with independent monetary policy should have discretion in applying the common (i.e. Eurozone) rules.

A better understanding of the positive and negative effects of financial integration on economic growth is needed. This understanding cannot be built only by the bureaucrats or bankers. It must be based on knowledge and experience sharing both between the public and the private sectors, where both host and home countries' interests are properly accounted for.

**How do I see the role of the Vienna Initiative in these actions?**

I am fully aware that the magnitude of economic problems in the Eurozone is much larger than in our cases, therefore it might be difficult to see and realize the policy spillovers and overlook our problems. A reminder should be coming from Vienna Initiative 2.

The Initiative should promote an open and constructive dialogue between home and host countries, by providing a forum for exchange of views and it should aim at securing the proper position of the CEE countries in the discussions on the shape of the banking union.

The process of reconfiguration of Europe after the crisis is an opportunity for the CEE countries to take the adequate position in Europe and I hope that Vienna Initiative 2 stands ready to deliver the best out of this opportunity.

**What have we done so far in this regard?**

What has been done since the last Full Forum in March is in line with the eight principles approved by the Full Forum in March.

According to the task conferred by the Full Forum on the Steering Committee, these principles were firstly converted into Mission Statement of the Vienna Initiative approved during the July meeting of the Steering Committee in Warsaw.

The Steering Committee has submitted observations and proposals on cross-border supervisory practices to the EBA, the ECB and the European Commission. These observations focus on the critical aspects of home-host cooperation, which are of particular importance for host countries in Central, Eastern, and South-eastern Europe where locally systemic affiliates of foreign banks operate. The aim was to provide input for the designing of the supervisory framework for Europe and to communicate systemic concerns of host countries. I am sure you have all read these observations and proposals.

The Steering Committee is also preparing detailed comments on the new bank resolution proposal for submission to the relevant European authorities.

The IFIs are producing regular deleveraging reports.

**With this, I think, we may proceed with the agenda of the meeting.**