

*Financial cooperation between
China and the Czech Republic:
CNB view*

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*China-Czech Financial Cooperation Forum
under the Belt and Road Initiative*

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China and Czech Republic: meetings on multiple levels

- Monetary policy area
 - ◆ Regular governors meetings at BIS in Basel: once every 2 months
 - ◆ IMF annual meetings: spring and autumn
 - ◆ Central Bank Governors Club of Central Asia, Black Sea Region and Balkan Countries: twice a year



- Banking supervision area
 - ◆ CNB visits to China Banking Regulatory Commission (latest: in May 2015)
 - ◆ Basel Consultative Group as supervisory authority for smaller jurisdictions (subgroup of Basel Committee on Banking Supervision)
 - ◆ Many meetings on expert level

Representatives of the Chinese and Czech financial sectors meet regularly at various forums

Belt and Road Initiative

- Belt and Road Initiative was intended by Chinese government to provide capital, talent, information and other resources
- Belt and Road Initiative creates potential for mutually beneficial economic cooperation between China and Czech Republic
- **Czech Republic ⇒ China:** financial literacy programmes to promote community's understanding of finance, credit record, personal/family well-being, risk management, high corporate compliance standards and responsible lending practices to ensure that financial risks are well managed and controlled
- **China ⇒ Czech Republic:** FDI into real economy and financial sector

Both sides benefit from cooperation, trade, sharing experience and knowledge, and utilising comparative advantages

Memorandum of Understanding

- MoU between CBRC and CNB on supervision of banking institutions came into force in Jan 2010
- Sharing of supervisory information and enhanced supervisory cooperation
 - ◆ Approval and granting of banking licences
 - ◆ Conduct of supervision (provision of answers to justified questions; prior notification of penalties, enforcement and remedial measures where large financial losses are likely to occur, etc.)
 - ◆ On-site inspections (prior notification, option of agreement between authorities on way to perform inspections (who/when/how), exchange of opinions on inspection findings, etc.)
 - ◆ Manner and extent of sharing of confidential information
 - ◆ Intensive cooperation (daily where necessary)



The MoU was one of the first to be signed between the CBRC and an EU supervisory authority; supervisory cooperation is long-term

Statement of Cooperation on Crisis Management (Enlargement of MoU)

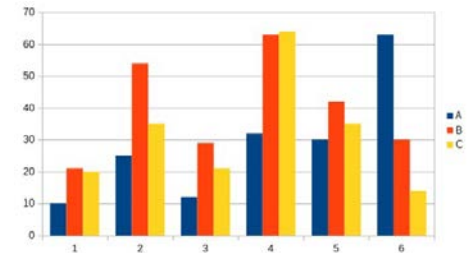
- Financial crisis resulted in initiative to enlarge MoU to include crisis management
- Enlargement expresses will of CBRC and CNB (as national authorities with resolution powers) to cooperate on finding solutions where cross-border bank subsidiaries and branches and their head offices or parent banks are threatened by crisis
- Internal exchange of information and cooperation in supervision of PPF/HC Group, as we supervise whole group on consolidated basis
- Intensive cooperation on licensing and notification of Bank of China branch in Prague
- CNB is prepared to further refine Statement of Cooperation on Crisis Management, e.g. in area of resolution plans and deposit insurance

Today's signing of the Enlargement of the MoU is a further major step in enhancing our cooperation



Czech financial market in 2015: facts

- Czech financial sector (180% of GDP, USD 325 bn) is dominated by banking sector (115% of GDP, 23 licensed banks)
- Domestic banking sector is fully integrated into EU banking sector – major banks are owned by parent banks from EU
- Traditional conservative banking predominates (collection of deposits and provision of loans to private sector; dominant share of transactions with domestic entities in domestic currency; housing loans make up largest part of bank credit portfolio)
- Capital ratio currently close to 18%
- LTD ratio around 80%
- RoE higher than 11%



Banks in the Czech Republic are conservative, stable, profitable and resilient to shocks

Czech experience with financial sector: historical lessons

- Privatisation of most banks and financial companies
- Functioning banking sector is key to development of market economy
- Implementation of international regulatory and supervisory standards
- Openness of financial sector (to foreign knowledge, financial innovations, competitive pressures)
- High quality supervision of financial market:
 - ◆ Independent
 - ◆ Integrated
 - ◆ Highly qualified
 - ◆ Adequately financed
- Advanced micro- and macroprudential regulation (buffers, collateral)



CNB lessons from crisis: integration of supervision of the entire financial market into the CNB proved to be highly beneficial in facing the financial crisis

How can financial sector support economy?

- Securitisation and collateralisation (e.g. ABS – asset backed securities):
 - ◆ Proved very useful in advanced market economies
 - ◆ Could be helpful during economic transformation and restructuring
 - ◆ But: risky if not properly applied
- If securitisation (ABS) are to be helpful:
 - ◆ Need to be one element of consistent framework
 - ◆ Need to be as transparent and understandable as possible both for investors and for financial market supervisor
 - ◆ Good quality assets only

Advanced financial instruments can contribute to the real economy if they are part of a consistent framework

CBRC and CNB: outline of future cooperation

- Multilateral workshops/expert teams/working groups/task forces
- Bilateral sharing of information/expertise/experience:
 - ◆ Banking
 - ◆ Non-banking
 - ◆ Insurance
 - ◆ Capital market
- Collaboration on international level:
 - ◆ Basel Consultative Group
 - ◆ World Bank
 - ◆ IMF



Laozi (Lao-c'): "A journey of a thousand miles begins with a single step"; I believe we have taken the first step on our journey of cooperation

Thank you



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