Levente Kovács

Bank Taxes in the European Union

SUMMARY: Bank taxes are a result of government measures aimed at managing the consequences of the global economic crisis. During the crisis, governments have recognised the serious impact of the crisis on the banking sector and the fiduciary risk ensuing from the special role banks play in the economy. A number of systemically important banks have been bailed out from public funds as a result. With the relative stabilisation of the financial system, measures aimed at recovering the public funds used for bailout and the creation of bank resolution funds with a view to managing potential future crises without using taxpayer money have come to the forefront. A politically popular method for this has been the imposition of various bank taxes. In the European Union, the imposition of a financial transaction tax has been discussed at several levels as a method enjoying general support. Without waiting for the bureaucratic processes of the EU, and without any impact studies in particular, 17 Member States have imposed bank taxes of some kind or another. The study primarily examines the potential impacts of introducing financial transaction taxes, cautioning decision-makers to exercise restraint in light of the expected economic consequences.

KEYWORDS: bank tax, FTT, Tobin tax, financial transaction tax
JEL CODES: H25, G10, G21, G38

BACKGROUND

Following the outbreak in 2008 of the global economic crisis with its roots in the financial sector, governments were suddenly faced with a twofold task. On one hand, they had to ensure the stability of the financial sector, for which regulation was seen as the most natural method. Although the supervisory authorities, central banks and governments took only belated steps in this direction, the (excessive) regulation presented through intense communication conveyed professional competence and commitment to the general public. The other task ensued from the crisis management method employed by governments early on, and was related to the costs of stabilising systemically important banks. At the outbreak of the crisis, both national governments and EU officials expected a short-lived crisis, and thus did not spare even taxpayer money to mitigate the effects. In this context, significant public funds were used to stabilise the banking sector in several countries. Governments came under intense pressure not just to recover the public funds which had earlier been provided to the banking sector – proclaimed as the culprit for the crisis – but also to punish the banks. According to more cautious and forward-looking opinions, the extra revenue thus raised should be used to create funds (ECB, 4 August 2010), to be utilised during potential future economic recessions for the eventual bailout of banks. It was also argued that the funds could already be used to reduce the financial vulnerability of lesser developed countries.

One of the decisions adopted at the G-20 summit in September 2009 was to request the IMF to launch a broadly-based debate about how

E-mail address: kovacs.levente@bankszovetseg.hu

the burden assumed by governments to reform the banking system could be offset by the financial sector. In its preliminary report of April 2010 finalised in June, (IMF Final Report for the G20, June 2010) the IMF proposed two types of taxes:

❶ The *Financial Stability Contribution* (FSC), a contribution that could be used to support the sector in the future. The contribution proposed was a flat rate, but different rates could also be applied to different types of institutions. This could be converted into a multiple rate scheme in the future, in light of the institutional risks. The IMF did not specify the tax base which would be a key issue and a source of debate for those concerned.

❷ The *Financial Activities Tax* (FAT) would be based on the profit generated by financial institutions and/or on certain remunerations (for example wage costs). This type of tax could also be used for other purposes, including achieving budgetary targets.

In October 2010, the European Commission proposed three types of tax to be imposed on the financial sector for discussion: the FAT, which was originally proposed by the IMF. The Financial Transaction Tax (FTT, generally known as the Tobin tax), widely popular politically on account of its seeming simplicity. And a tax that would be based on the balance sheet of the institutions or certain specific items thereof. In June 2011, the Commission already restricted its proposal to the Council to the FTT. However, it left the door open to initiating the introduction of the other tax types in the future.

At the end of September 2011, the Commission published its proposed draft of the EU Directive introducing the transaction tax (European Commission COM, 2011, 594; 28 September 2011). The draft proposed that the tax be introduced in every Member State, and that a single tax rate be applied everywhere, equivalent to 0.1% for securities and spot FX conversions and 0.01% for derivative transactions. If the directive were to come into force, the deadline for its transposition into the various national legislations would be the end of 2013, followed by the start of the collection of the new tax as of 1 January 2014.

Since the publication of the draft directive, the European Council and ECOFIN have discussed the topic at numerous sessions (European Council, 2011–2012). The issue, however, was taken off the agenda of urgent items because of the debt crisis and the efforts related to developing the fiscal pact.

The method of introducing the FTT proposed by the draft received a mixed reaction from Member States. Primarily Germany and France – forming the axis of the EU – have been in favour of imposing a transaction tax on a broad range of financial and investment products. They have, however, called for a gradual introduction of the tax, which at first would be imposed on shares and bonds traded in secondary markets (excluding government bonds) and potentially on collective forms of investment licensed by the EU, while other, primarily derivative, products would only be taxed at a later stage. Some Member States – most notably the UK – have been critical of the idea of introducing the tax and suggested examining other potential forms of taxation to be imposed on the banking sector. This includes a renewed review of the possible introduction of the FAT. The abolishment of the current VAT exemption of financial services was also proposed for consideration during the current review of the value added tax (VAT) by the European Commission. The possibility of the imposition of other bank taxes and levies by Member States in various forms is also being examined.

THE TOBIN TAX

The idea of the Tobin tax was born in the early 1970s. This was when the convertibility of the US dollar to gold and the pinning of the exchange rate of different currencies to each other came to an end, threatening financial markets with turbulence. One of the potential theoretical tools for sustaining the stability of international financial markets is the Tobin tax, to be imposed on foreign exchange conversion (speculative) financial flows. The tax rate would be based on the transaction amount.

Several attempts to introduce this tax have been made in national markets. In Sweden, for example, the tax was imposed on shares in 1984 and on debt securities in 1989. It resulted in a substantial drop in trading volumes and, accordingly, was completely abolished in 1991. In the United Kingdom, the Tobin tax was imposed on securities issued in Britain and traded on British exchanges in 1974, and has been in use ever since. It has a very restricted base; thus its impact on the market and the budget is negligible. According to professional literature, the Tobin tax cannot be efficient in single states or federations of states. Simultaneous introduction of the tax on a global scale would be required in order for it to be efficient. With the mobility of financial and capital markets today, circumventing its national or regional introduction would be an obvious reaction on the part of the markets.

THE EUROPEAN BANKING INDUSTRY'S CRITICISM OF THE FTT

In relation to the introduction of the FTT, the European Commission highlighted the following main criteria: increasing stability by restraining speculative, non-productive and risky financial transactions in financial markets, the recovery of government funds used to manage the crisis, and the establishment of a mechanism to cover similar future expenditures.

The draft directive for the introduction of the tax identified the following objectives (European Commission COM, 2011, 594; 28 September 2011):

- ensure adequate revenues for the budget,
- the financial sector should make appropriate (proportional and satisfactory) contributions to budgetary revenues (especially in view of the low level of burden borne by the sector due to its value-added tax exemption),
- reduce undesirable market behaviour, thereby stabilising financial markets,
- ensure level playing fields in the European single market by way of a coordinated introduction of these measures.

Concurrently with this, the funds of credit-guarantee institutions should be replenished to reach 0.5–1.5 per cent of guaranteed deposits, and to a level to be defined at a later date (expected to be 1 per cent).

As for the targets set by the European Commission, the Council of Economic and Finance Ministers of the European Union (ECOFIN) is divided. Currently, there seems to be agreement on the need for the banking sector to contribute proportionately to public finances. ECOFIN members also agree that by introducing the FTT across the European Union, the special taxes imposed on the banking sector could be standardised, which would also be justified by the fact that most Member States have used a wide variety of methods to tax the sector. Opinions, however, differ widely on all other topics, including the question of whether the revenue generated by the tax – elevated to the level of the European Union – should or should not be channelled into the EU's budget. Views on the potential impacts of the tax on the banking sector and on economic growth, or on its efficacy as a tool to regulate the market also differ.

The European Banking Federation and the professional association of banks operating in Europe have both expressed their objection to the Tobin tax. The main points are as follows:

The argument made by the Commission according to which financial service providers – primarily due to their value added taxation exemption – have not taken their fair share of the public burden as their taxation does not reach that of companies operating in other sectors is unsubstantiated. An analysis of the topic by PricewaterhouseCoopers (PwC) (PwC, October 2011) – which – among other factors – also took aspects into consideration which had been neglected by the impact assessment prepared by the European Commission earlier (hereinafter: EC) – showed that the amount of the non-refundable VAT actually paid by the EU's banking sector in the 2000–2007 period in half of this period exceeded the amount that the banking sector would have paid under the same title in a non-VAT exempt environment.

A study prepared by the IMF (IMF Final Report for the G20, June, 2010) demonstrated that the payments made by the banking sector under other tax titles have been outstanding in the most developed EU Member States. The fact that the ratio of the corporate tax collected from the financial sector amounts to 20–25 per cent of all of such taxes collected is a case in point. Due to the decline in the profitability of the financial sector, the EC estimated that in 2012 this figure would drop to 18% (European Commission, May 2012).

In addition, as special taxes or contributions have been imposed on the sector in several EU Member States, financial institutions are overtaxed rather than undertaxed.

With the globalisation of financial and capital markets, the desired market effects can only be achieved through a standardised imposition of a tax on a global scale. Otherwise, turnover will move to countries which have not introduced the Tobin tax.

Currently, global regulators are focusing on reforming the financial and capital markets of the United States and the EU. In light of all this, it would be problematic if the FTT were introduced in the EU alone. It is important to remember, however, that today, approximately one quarter of international financial and investment transactions are conducted in emerging markets. These regions may be the winners if the FTT were not globally introduced, because in a globalised financial market, funds and transactions would move to less costly markets (EBF, Economic Perspective on the introduction of the Financial Transaction Tax, March 2011).

The analyses dealing with the transfer effects in the EC's study on the FTT are rather perfunctory. The current impact assessment conducted by the Commission examines trading activities comprehensively, i.e. does not include a product or level specific impact assessment. However, the study acknowledges that a structural fracture may occur in financial and capital markets, with up to as much as 70–90 per cent of certain product and service groups (especially non-standardised OTC derivative transactions) leaving EU markets.

The imposition of the tax may trigger the departure primarily of low-margin products with relatively high turnover. The two most damaging consequences of this development would be its effects on market liquidity and hedging transactions. There is a strong correlation between liquidity and low-margin transactions, and losing these deals could entail the disappearance of liquidity from European financial markets (Csillik – Tarján; Cross-region analysis through a myopic leader-follower model, 2012/2) Conventional hedging transactions also tend to fall into this category. A potential effect of the FTT could be that expensive, complex and riskier transactions remain in the EU's financial markets, while less expensive products accessible to small and medium size enterprises and small investors migrate elsewhere. This may primarily be of concern to medium-size companies involved in export (EBF, Interim Report on the Financial Sector Tax, October, 2011).

Another major push towards migration may be that according to preliminary calculations made by big financial institutions, the tax payable would reach the level of their current profit before tax, which would exert significant pressure on managements to shift activities elsewhere (EBF, Report on the Proposed FTT Directive, January 2012).

The structural fracture would have an obvious impact on employment indicators in the sector, which again would exert downward pressure on economic growth prospects (EBF, Interim Report on the Financial Sector Tax, October, 2011).

Although for the purposes of avoiding the transfer effect, in addition to the principle of "taxation according to the place of trade", there are plans to introduce "taxation according to the place of issuance" as an alternative. Yet this would not have a significant deposit-increasing effect if turnover left the EU.

◗ The burden is unevenly distributed, as market turnover is concentrated in certain financial and capital market hubs.

In the EU, 87 per cent of taxed transactions are executed in the United Kingdom, Germany and France (with 71 per cent of such transactions in the UK). If derivative transactions are not included, concentration is much lower (the first three: UK 34 per cent, Spain 23 per cent and Germany 13 per cent) (EBF, Interim Report on the Financial Sector Tax, October 2011).

◗ Due to the usual transfer effect, it is unclear who will ultimately bear the burden.

◗ Economically it is inefficient, because it does not take account of how well institutions coped with the crisis. Consequently – provided that the tax, as proposed by the IMF, is collected into a financial fund to cover the bank resolution costs of a future crisis – crisis management costs incurred in the past as well as potential future costs would be imposed on the whole of the banking sector without differentiation. This kind of fund-raising based on the principle of solidarity may, however, strengthen the "free rider" attitude in certain market actors.

◗ The timing to introduce the tax is bad, because today (in the period after the nosedive phase of the crisis) any taxation of the financial sector will restrain lending, thus obstructing economic recovery.

In a period when excessive regulation ensuing from the crisis burdens the financial resources of the financial sector in numerous ways (the imposition of additional capital requirements, the replenishment of deposit guarantee funds, the cost implications of more stringent administrative requirements, special taxes, etc.) introducing a new tax payable by shareholders and/or customers of financial institutions will impede economic recovery (Csillik – Tarján, 2009).

◗ It will not facilitate the achievement of the targets set, as the successful recovery of budgetary funds used earlier is doubtful due to the complexities of tax collection. Its stabilisation function, due to the effects discussed earlier, is doubtful. In any event, the best regulatory methods for ensuring stability in financial markets are prudent regulations and the strengthening of the supervisory function.

◗ The methodology used and the results achieved by the impact assessment prepared by the Commission were criticised by the industry on several counts.

According to estimates made by the EC, the introduction of the FTT would reduce the GDP of the whole of the EU by 0.53–1.76 per cent in the long term, the annual effect of which is perhaps negligible. The EC reduced this ratio to 0.28 per cent in its later analyses. The sector received these calculations with doubt, as the method used to take negative effects into account – such as the transfer of products and services, and the restructuring of markets – remained unclear (EBF, Interim Report on the Financial Sector Tax, October, 2011).

It is also unclear why the EC decided to raise its estimated EUR 37 billion of tax revenue disclosed in its earlier report – which by itself amounts to 0.3 per cent of the current GDP of the EU – to EUR 57 billion. The previous estimate also included significant uncertainties of calculation, as the method used was based on the simplified model of a closed economy, and failed to take the tax base-eroding effect of a decreasing GDP into consideration. Further, it also failed to analyse anticipated effects on Member States, product and service groups and different market segments (regulated and OTC). Also, it failed to take into account the tax accumulation effect in the financial infrastructure administering the transaction. As a result of this – and in light of the fact that the number of actors involved in the implementation process will also play a role as only the central clearing house activity would be exempted from taxation – the FTT tax burden associated with a transaction may be multiplied *(see Chart 1)*.

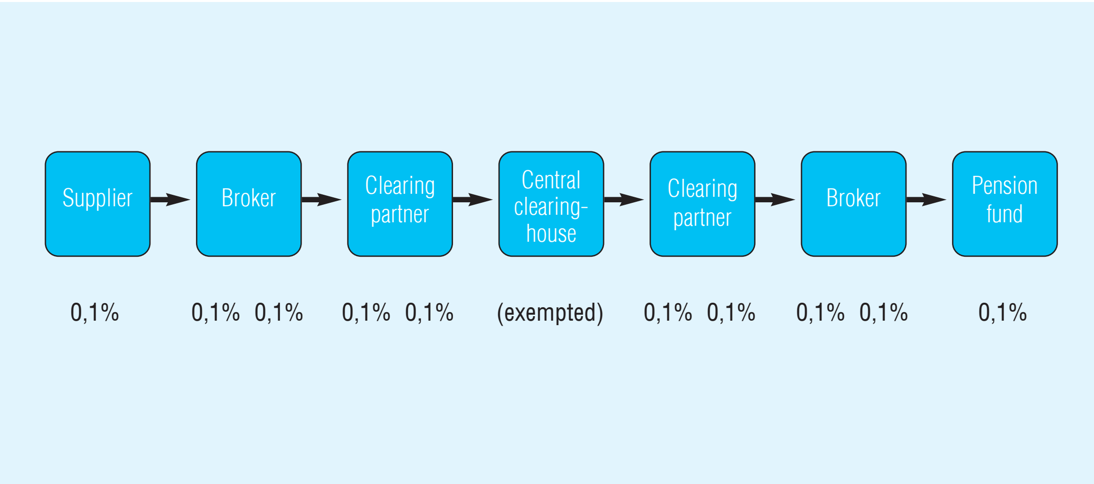
TAXATION IN THE MEMBER STATES OF THE EU

Members have so far been unable to agree on a comprehensive and standardised bank tax in the European Commission. Processes in Brussels – due to their bureaucratic institutional background – are characterised by time-consuming preparations and lengthy decision-making procedures. Without waiting for the bureaucratic processes of the EU, and without any impact studies in particular, 17 Member States have imposed bank taxes of some kind or another in the past one or two years *(see Table 1)*. The wide range of bank taxes used, the sharply different rates, the hurried introduction processes and the lack of consultation with the national banking associations all point to an ad hoc attitude rather than to thorough preparations based on impact assessments.

As demonstrated by *Chart 2*, three basic types have been introduced. The most widely used tax (applied in 15 Member States) is based on specific balance sheet items, while the FTT- and the FAT-type has been introduced in three

Chart 1

TYPICAL PROCESS FOR PURCHASING A PENSION FUND INVESTMENT



Source: Clifford Chance: Financial Transaction Tax: Update, October 2011

Table 1

BANK TAXES AND LEVIES IN THE MEMBER STATES OF THE EUROPEAN UNION

Austria	Tax introduced in 2010, reduced by the equity, the insured deposit portfolio and other liabilities, based on the balance sheet total, imposed in a tier-based manner (up to EUR 1 billion 0 per cent, between EUR 1–20 billion 0.055 per cent, above EUR 20 billion 0.085 per cent); effective as of 1 January 2011. Central budgetary revenue.
Belgium	Flat rate (0.035 per cent) tax reduced by the equity and the insured deposit portfolio, based on the balance sheet total; effective as of 1 January 2012 Central budgetary revenue. Flat rate (0.08 per cent) tax with a tax allowance, based on the portfolio of savings deposit accounts, and a supplementary tax (0.03–0.12 per cent); ordinary tax effective as of 1997, supplementary tax effective as of 2012. Central budgetary revenue.
Cyprus	Flat rate (0.03 per cent) tax reduced by the basic regulatory capital, based on liabilities; approved by Parliament in December 2011. Financial stabilisation fund revenue.
Denmark	Flat rate (10.5 per cent) tax based on wage costs (not including the wage tax related to activities that are subject to VAT), effective as of 2011. Central budgetary revenue.
United Kingdom	Flat rate (0.088 per cent) tax based on total liabilities reduced by the basic regulatory capital, the insured deposit portfolio and other secured and liquid liabilities; effective as of 2011. Central budgetary revenue. Stamp duty: tax based on the turnover of shares in secondary markets at a rate of 0.5 per cent; effective as of 1984. Central budgetary revenue.
France	Tax based on large bonuses (in excess of EUR 27,500) at a rate of 50 per cent, deductible from the corporate tax; effective as of 2010. Special banking innovation fund revenue. Flat rate tax (0.25 per cent) based on the minimum regulatory capital requirement; effective as of 2011. Central budgetary revenue. The FTT's base is the purchase value of the shares of French companies worth over EUR 1 billion in market value, its rate is 0.2 per cent; effective as of 1 August 2012.
Greece	Flat rate (0.6 per cent) tax based on the value of the credit portfolio; effective as of 1975. Central budgetary revenue.
Netherlands	Tax based on total liabilities reduced by the basic and the additional regulatory capital and by the insured deposit portfolio. For short-term liabilities the tax rate is 0.044 per cent, for long term liabilities it is 0.022 per cent. In the event of bonus payments in excess of 25 per cent of the basic wage, the tax rate increases by 10 per cent; effective as of 1 July 2012. Central budgetary revenue.
Latvia	Flat rate (0.036 per cent) tax based on adjusted liabilities; effective as of 1 January 2011. Financial stabilisation fund revenue.
Hungary	Credit institutions contribution: 5 per cent of the interest income earned from the mortgage loan portfolio backed by government subsidy; effective as of 1 January 2007. Central budgetary revenue. Special tax imposed on financial organisations: based on the adjusted balance sheet total of 2009, imposed in two tier-based rates (cut-off value: HUF 50 billion, rates: below the cut-off value: 0.15 per cent, above the cut-off value 0.53 per cent) effective as of 1 July 2010. Central budgetary revenue.

	Financial transaction levy of 0.1 per cent imposed on conventional payment transactions; effective as of 1 January 2013. Central budgetary revenue.
Germany	Tier-based tax reduced by the regulatory capital and by the total sum of non-banking deposits, based on total liabilities (cut off rates in EUR: 300 million, 10 billion, 100 billion, 200 billion, 300 billion; rates: 0.02 per cent; 0.03 per cent, 0.04 per cent, 0.05 per cent, 0.06 per cent); effective as of 1 January 2011. Financial stabilisation fund revenue. Tax based on the nominal value of derivatives, capped (0.0003 per cent, but maximum 20 per cent of net profits). Financial stabilisation fund revenue.
Italy	Tax based on management bonuses over the basic wages of managers, the tax rate is 10 per cent; effective as of July 2010. Financial stabilisation fund revenue. Special tax imposed on production activities which in the case of banks increases their corporate tax by 0.75 per cent. Central budgetary revenue.
Portugal	Flat rate (0.05 per cent) tax based on total liabilities, reduced by the regulatory capital and the insured deposit portfolio. Central budgetary revenue. The tax is based on the nominal value of off-balance sheet (non-hedge) derivatives and the net value of derivatives held for trading, its rate is 0.00015 per cent.
Spain	Tax imposed by autonomous regions, based on the deposit portfolio, (rate ranges from 0.3 to 0.57 per cent); effective as of 2001. Revenue collected by the budget of autonomous regions.
Sweden	Flat rate (0.036 per cent) tax reduced by the equity and a certain subordinated loan capital, based on total liabilities. Financial stabilisation fund revenue.
Slovakia	Flat rate (0.4 per cent) tax reduced by the equity, the insured deposit portfolio and the subordinated loan capital; effective as of 1 January 2012. Revenue collected partly by the budget and partly by the financial stabilisation fund.
Slovenia	Tax based on the balance sheet total reduced by the portfolio of loans granted to non-financial enterprises. Its rate is 0.1 per cent, but the tax allowance provided to non-financial enterprises is to be taken into consideration with a rate of 0.2 per cent; effective as of August 2011. Financial stabilisation fund revenue.

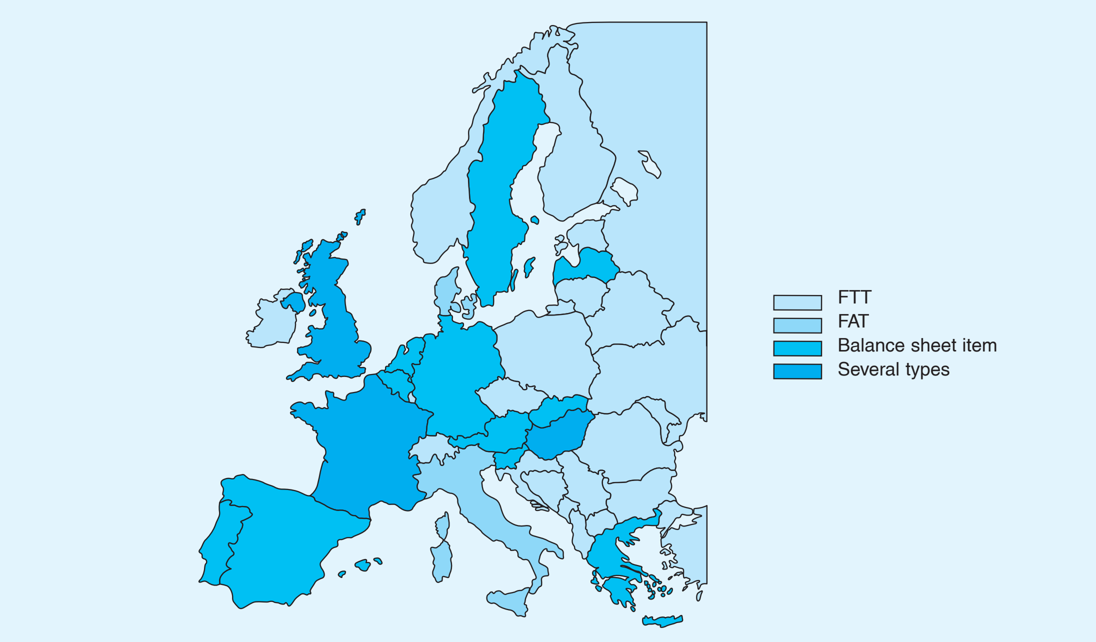
Source: EBF Executive Committee report; Report on Other Regulatory Priorities, 22 June 2012
The table was prepared by: Péter Vass (Hungarian Banking Association)

countries, respectively. In some Member States, these tax types are applied in a mixed way, i.e. two Member States (Hungary and the United Kingdom) use two types, while one Member State (France) uses each of the three different types. Taxation based on a specific balance sheet item has become so widely used probably because this is the form that can be used best for the purposes of planning central budgetary revenues.

Bank taxes are used in different ways. In some countries, such tax revenues are earmarked for special purposes; in other countries they are used to balance the budget, while a third group of countries have used a combination of these two approaches. *Chart 3* illustrates the above information. The graph clearly shows that the Member States generally viewed as more risky use the total amount of this tax revenue to balance their budgets.

Chart 2

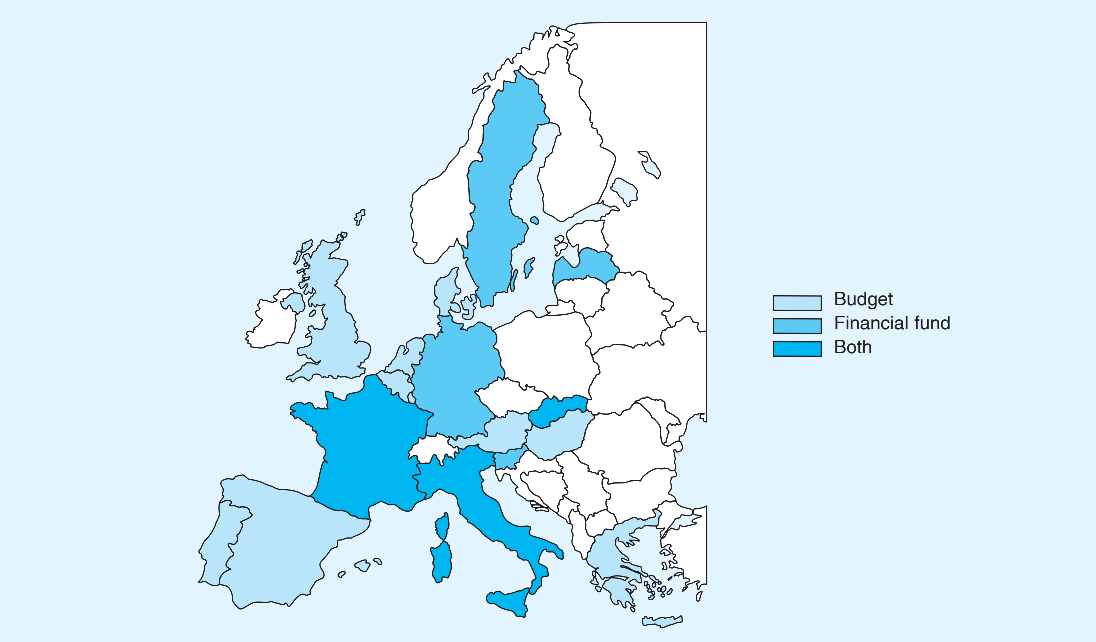
TYPES OF BANK TAX IN THE EUROPEAN UNION



Source: EBF Executive Committee report:, Report on Other Regulatory Priorities, 22 June 2012
Figure prepared by: Márk Fenyő (University of Miskolc)

Chart 3

THE USE OF BANK TAXES IN THE EUROPEAN UNION



Source: EBF Executive Committee report:, Report on Other Regulatory Priorities, 22 June 2012
Figure prepared by: Márk Fenyő (University of Miskolc)

The less indebted countries viewed as more stable, however, have been able to create a separate future fund from the imposition of the bank tax.

In the European Union, Hungary is the country that has selected its crisis management tool kit and designed its series of measures from the broadest range of options, occasionally using methods considered unorthodox. This has drawn the intense attention of both international bodies and the political leadership of several countries. Some EU Member States, and – because of the similarity of its conditions – Slovakia in particular[1] have been increasingly viewing Hungary as a model (MTI, 08:59, 2 August 2012). Other countries and international organisations interpreted this as a way to call the existing European and international legal system, the protection of investors, predictability and – at the end of the day – the present model of economic growth into question (ECB, 4 August 2010).

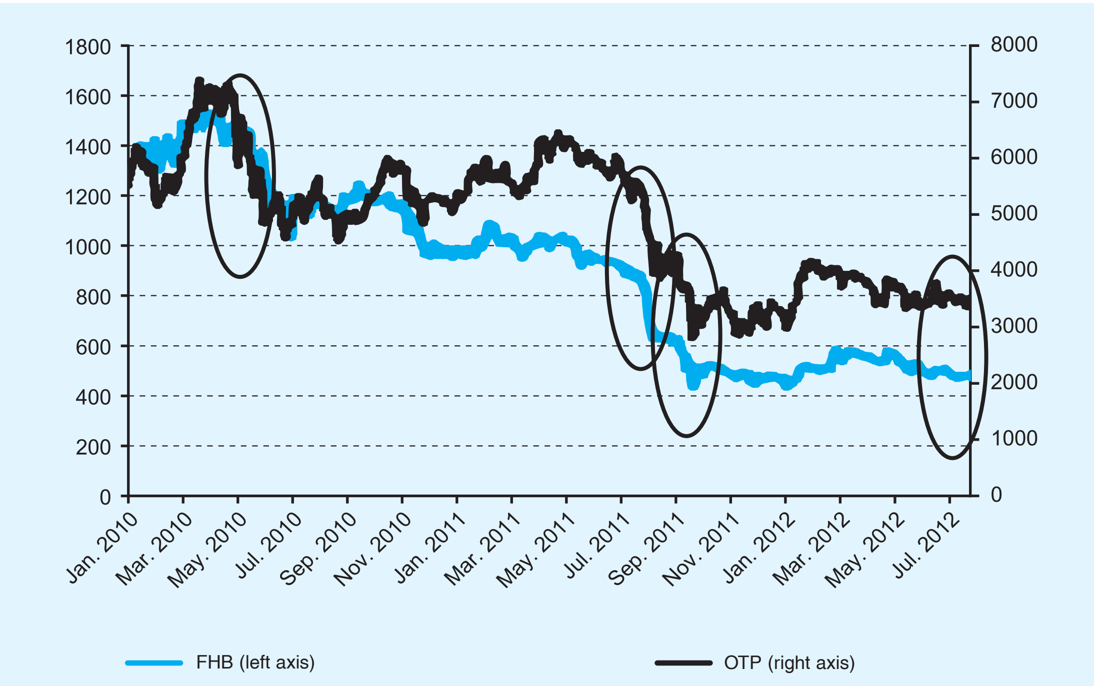
BANK TAXES IN HUNGARY

The first type of bank tax – used in Hungary even today – was introduced in 2008, and was levied on the interest income earned from government subsidised HUF mortgage loans. Its rate is 5 per cent, it is imposed on this type of interest income, and the revenue raised is equivalent to approximately HUF 11 billion p.a. Due to its nature, it is paid proportionately by banks involved in mortgage lending to retail clients.

The second type of tax imposed on financial organisations – in the context of highly intense

Chart 4

CHANGES IN THE SHARE PRICE OF OTP AND FHB TRIGGERED BY THE BANK TAX, THE LOAN INVOLVING AN ACCUMULATION ACCOUNT, THE FINAL REPAYMENT PROGRAMME AND THE TRANSACTION LEVY



Source: Budapest Stock Exchange

government crisis management activities – was introduced in 2010, and its base is the adjusted balance sheet total of 2009. Up to a balance sheet total of HUF 50 billion its rate is 0.15%, above which level (as of 2011) it increases to 0.53 per cent. The total amount collected from the whole banking sector is approximately HUF 120 billion p.a. It is paid by the whole banking sector, and its effects have been especially severe for banks focused on corporate finance, as the usual corporate margins cannot handle a tax content of 0.5 per cent. Its effects on new start-up banks and traditionally very small banks and savings cooperatives have been modest.

Investors immediately included the profit-reducing effect of bank taxes, of the retail FX loan involving an accumulation account[2] and of the final repayment[3] into the price of the shares of banks floated on the stock exchange. The fall in the share prices of OTP and FHB ensuing from these effects amounted to 10–15 per cent each time an announcement was made by these banks. International investor sentiment also played a role in these massive drops. When analysing investor decisions, the fact that these decisions shattered confidence in a predictable legal system must also be taken into consideration, especially in light of the fact that legislative amendments with retroactive effect were also made *(see Chart 4)*.

At the same time, it bears mention that bank taxes and excessive regulation have also had an impact on the activity rate of credit institutions. As the crisis struck, there was a drop in the growth trend of the balance sheet total – corrected by share prices – of credit institutions. Yet in spite of the decline, the balance sheet total indicator continued to grow until the announcement of the bank tax in 2010; it was only at this point that it turned negative (Kovács, The position and challenges of the Hungarian banking sector, 2011–2012). More stringent regulations concerning the capital adequacy ratios of banks in the European Union further exacerbated this trend.

With the idea of the Tobin tax as the point of departure and in light of the intervention opportunities available to the European Union as well as of the revenue needs of the budget, the financial transaction levy was adopted in the summer of 2012. This is primarily a form of taxation levied not on speculative financial and capital market investments but on ordinary bank and postal transfers. Its base is rather broad, and its rate is 0.1 per cent (capped at HUF 6,000). The budget revenue expected from the banking sector is in the range of HUF 130 billion. The final burden to be borne will obviously be determined by the burden-bearing capacity and the market share acquisition intentions of the different institutions. Thus, we expect the levy to be paid partly by the banks and partly by the end-user customers, with the exact proportion depending on customer and product types. The purposes of the Tobin tax and of the financial transaction levy are different. In the case of the Tobin tax, taxation is a means to constrain speculative transactions. On the other hand, the obvious purpose of the transaction levy is to raise budgetary revenues rather than restrain the turnover of financial transactions, although this may be one of its effects (ECB, Opinion on the financial transaction tax, July 24, 2012).

In addition to the bank taxes and extra charges, the profitability of banks has been reduced by the deterioration of their credit portfolios to an even greater extent – caused by the crisis and the decline in the exchange rate – and by the increase of administrative costs ensuing from excessive regulation. With all things considered, the average return on equity in the Hungarian banking sector dropped to 1 per cent in 2010 (Csillik, December 2011). In 2011, the joint effect of impairments related to corporate and retail lending, of the final repayment scheme and of bank taxes was a substantially negative return on equity of minus 10.5 per cent. The first half of 2012 has already shown a few promising signs, and although uncertainties continue to prevail, we can hope that the trend will reverse.

CLOSING REMARKS

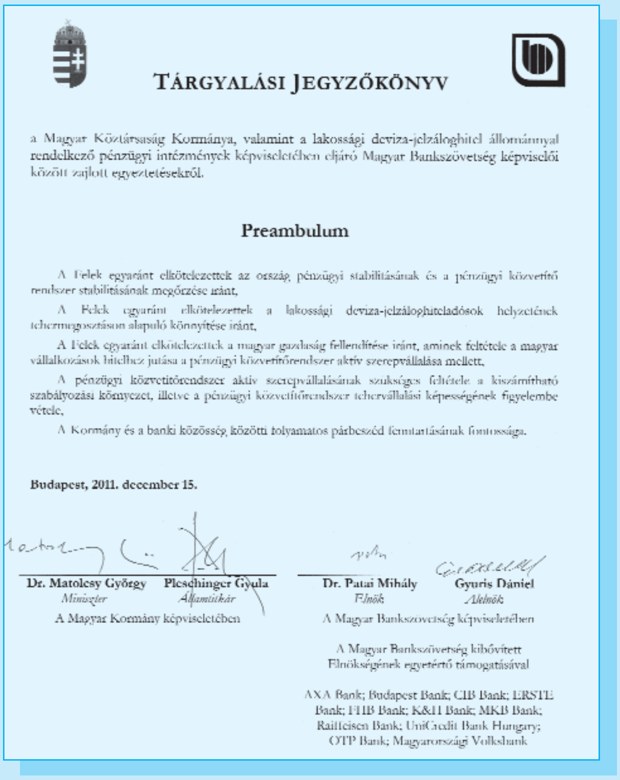
By global standards, the European banking sector is traditionally conservative, in line with long-standing custom. One of the consequences of this has been its dependable and predictable operation. At the same time, its responses to changes and new challenges have been slower and more prudent than in several other industries. In spite of all this it is obviously true that the global economic crisis has fundamentally altered the banking sector's understanding of its role and its attitude to assuming risk and responsibility. In the relations between the banking and the political elite, after a long hiatus the political elite has regained its primacy (Patai, September 30, 2011). Accordingly – perhaps with slight disregard for the generally accepted economic and financial implications of its actions and at times lending too much weight to current political goals – the political elite has been implementing its ideas with less restraint. On more than one occasion it has used the regulation and the taxation of credit institutions without regard to and/or an appropriate assessment of the mechanisms of cause and effect.

The banking sector is the operator of the modern national and global economies. Since the Industrial Revolution – which required an enormous concentration of capital at the time – it has also been the unquestionable force behind it. Economies are fuelled by credit, and financing provided through lending has substantially increased the welfare of humanity for over three centuries now. The banking sector is an integral part of today's economy, with the two working in close interdependence. This is why the banking sector has been prepared to assume every burden necessary to fuel the whole economy, to at least mitigate downturns and – under more fortuitous circumstances – find new development paths. This is also why it has objected to every extra burden that restrains the economy *(see Chart 5)*.

This commitment is also reflected by the meeting minutes and agreements reached by the government and the Banking Association on and after 15 December 2011.

Chart 5

THE PREAMBLE OF THE MINUTES OF THE MEETING BETWEEN THE GOVERNMENT OF THE REPUBLIC OF HUNGARY AND THE HUNGARIAN BANKING ASSOCIATION, 15 DECEMBER 2011



TÁRGYALÁSI JEGYZŐKÖNYV

a Magyar Köztársaság Kormánya, valamint a lakossági deviza-jelzáloghitel állománnyal rendelkező pénzügyi intézmények képviseletében eljáró Magyar Bankszövetség képviselői között zajlott egyeztetésekről.

Preambulum

A Felek egyaránt elkötelezettek az ország pénzügyi stabilitásának és a pénzügyi közvetítő rendszer stabilitásának megőrzése iránt,

A Felek egyaránt elkötelezettek a lakossági deviza-jelzáloghiteladósok helyzetének tehermegosztáson alapuló könnyítése iránt,

A Felek egyaránt elkötelezettek a magyar gazdaság fellendítése iránt, aminek feltétele a magyar vállalkozások hitelhez jutása a pénzügyi közvetítőrendszer aktív szerepvállalása mellett,

A pénzügyi közvetítőrendszer aktív szerepvállalásának szükséges feltétele a kiszámítható szabályozási környezet, illetve a pénzügyi közvetítőrendszer teherválallási képességének figyelembe vétele,

A Kormány és a banki közösség közötti folyamatos párbeszéd fenntartásának fontossága.

Budapest, 2011. december 15.

Dr. Matolcsy György	**Pleschinger Gyula**	**Dr. Patai Mihály**	**Gyuris Dániel**
Miniszter	*Államtitkár*	*Elnök*	*Alelnök*
A Magyar Kormány képviseletében		A Magyar Bankszövetség képviseletében	

A Magyar Bankszövetség kibővített Elnökségének egyetértő támogatásával

AXA Bank; Budapest Bank; CIB Bank; ERSTE Bank; FHB Bank; K&H Bank; MKB Bank; Raiffeisen Bank; UniCredit Bank Hungary; OTP Bank; Magyarországi Volksbank

MINUTES OF UNDERSTANDING

of the negotiations between the Government of the Republic of Hungary, on the one hand, and the representatives of the Hungarian Banking Association, on the other, proceeding on behalf of financial institutions with foreign-exchange denominated mortgage loan portfolios.

Preamble

HAVING REGARD TO both Parties' equal commitment to preserving the financial stability of the country and the stability of the financial intermediary system;

HAVING REGARD TO both Parties' equal commitment to alleviating the situation of distressed mortgage debtors based on the principle of burden sharing;

HAVING REGARD TO both Parties' equal commitment to fostering the recovery of the Hungarian economy, which is conditional on Hungarian enterprises having access to credit through the active participation of the financial intermediary system;

HAVING REGARD TO the fact that a predictable regulatory environment as well as due consideration of the capacity of the financial intermediary system are pre-conditions of the active participation of the financial intermediary system;

HAVING REGARD TO the importance of a sustained continuous dialogue between the Government and the banking community,

Budapest, 15 December **2011**

[Illegible signature]	[Illegible signature]	[Illegible signature]	[Illegible signature]
Dr. György Matolcsy	**Gyula Pleschinger**	**Dr. Mihály Patai**	**Dániel Gyuris**
Minister	Secretary of State	President	Vice-President
On behalf of the Government of the Republic of Hungary		On Behalf of the Hungarian Banking Association	

With the affirmative support of the extended Board of the Hungarian Banking Association

AXA Bank; Budapest Bank; CIB Bank; ERSTE Bank; FHB Bank; K&H Bank; MKB Bank; Raiffeisen Bank; UniCredit Bank Hungary; OTP Bank; Volksbank Hungary

Source: Hungarian Banking Association

Notes

[1] Slovakia followed Hungary's example in imposing a bank tax of a size that is several times the average in the EU.

[2] In addition to the fact that opinions differ on the coercive nature of the method used by the government in terms of introduction, customer interest was also low, which meant that although direct costs were not significant, the indirect costs associated with the preparations and the implementation were substantial.

[3] In addition to immediate losses in the range of hundreds of billions of forints, this also involved the loss of the best clients and the loss of future profit to be earned form the best segments of the credit portfolio.

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