EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK
of 19 June 2013
on a special tax on credit institutions
(CON/2013/44)

Introduction and legal basis

On 14 May 2013, the European Central Bank (ECB) received a request from the President of the House of Representatives of the Republic of Cyprus for an opinion on a proposed amendment to the Law on the imposition of a special tax on credit institutions[1] (hereinafter the 'draft law').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the sixth indent of Article 2(1) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions[2], as the draft law relates to rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft law

The draft law aims to create an incentive for credit institutions to lower the interest rates offered on certain deposits. The amendments to Section 4 of the Law on the imposition of a special tax on credit institutions provide for the following:

1.1 An increase in the total special levy on deposits from 0.15% to an aggregate of 0.75%, by providing for an additional special levy of 0.6% on deposits held in euro by credit institutions in Cyprus.

1.2 The additional special levy will be payable only in relation to new deposits made or renewed after 1 July 2013, provided such deposits earn annual interest which exceeds the rate of interest of the marginal lending facility as determined by the ECB, increased by a margin of 1.5%.

1.3 The additional special levy will be payable by the credit institutions to the Inland Revenue of the Republic of Cyprus within 30 days after the end of each quarter starting from 31 October 2013. Within the same time period, each credit institution should submit a declaration with respect to all deposits made or renewed with interest which exceeds the maximum interest as specified above.

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1 Law 84(I)/2011.

2 OJ L 189, 3.7.1998, p. 42.

2. General comments

2.1 As the ECB has stated in earlier opinions[3], taxes on financial institutions should be considered in relation to the dual objective of ensuring a more equitable distribution of the costs arising from their potential failure between taxpayers and the financial sector and of addressing the risks that they pose.

2.2 The ECB notes that the purpose of the draft law differs from that of the law being amended, which was initially enacted for the purpose of: (a) contributing to the Government's short-term budgetary targets; and (b) financing the Independent Financial Stability Fund within the bank resolution framework as part of a fiscal buffer for banking sector risks. Since the draft law creates an incentive for credit institutions to lower the interest rates offered on deposits, the ECB recommends a comprehensive impact assessment of the proposed measure, to ensure that the public benefit from its imposition will outweigh any potential negative implications for banks, their customers and the economy, particularly in view of the circumstances specific to Cyprus following the resolution measures employed recently in the country's banking sector.

2.3 As the ECB has previously pointed out[4], in line with the European Council's conclusions[5], Member States should introduce systems of levies and taxes on financial institutions to ensure fair-burden sharing and to set incentives to contain systemic risks.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 19 June 2013.

[signed]

The President of the ECB

Mario DRAGHI

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3 See Opinions CON/2010/62, paragraph 3.2 and CON/2011/29, paragraph 2.1. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

4 See Opinion CON/2011/29, paragraph 3.1.

5 See conclusions of the European Council of 17 June 2010, p. 6, paragraph 16.