



EUROPEAN COMMISSION

**Report on the minimum guarantee level of
Deposit Guarantee Schemes Directive
94/19/EC**

Executive Summary

The Commission is reviewing Directive 94/19/EC on Deposit Guarantee Schemes (DGS). The Commission intends to come forward with a Communication, including appropriate policy recommendations, in mid-2006. One item to be considered for possible revision is the minimum amount guaranteed to depositors, should their deposits become unavailable from credit institutions (deposits' minimum guarantee level).

Regarding the choice of the minimum guarantee level of 20,000 EUR, the Directive states that "on the one hand the minimum guarantee (...) should not leave too great a proportion of deposits without protection in the interest both of consumer protection and of the stability of the financial system." But the Directive also states that "on the other hand, it would not be appropriate to impose throughout the Community a level of protection which might in certain cases have the effect of encouraging the unsound management of credit institutions".

The EU average guarantee level has decreased over time in real terms, essentially due to the erosive effects of inflation in those countries which in 1995 had a guarantee level higher than the harmonised minimum. Furthermore, the levels of coverage expressed in real terms have converged over time in the EU-15 area. The enlargement process has somewhat inverted this phenomenon due to the very different economic significance of deposit guarantee in new Member States compared to EU-15 countries.

There was already a certain level of inequality in the protection of deposits embedded in the levels of coverage chosen across Member States already in 1995 (and thereafter) under the present framework. Also for this reason, simple rules of adjustments of the guarantee levels chosen in 1995 do not seem able to deliver a truly "harmonised protection" of deposits across all Member States.

It is not evident how in the present situation where the insured / insurable deposits ratio ranges between minimum values close to 0% to maximum values close to 100% (on the basis both of aggregated data and of estimated deposits distributions) fulfil both objectives of "not leav(ing) too great a proportion of deposits without protection" and "not encouraging the unsound management of credit institutions" overall for the EU.

The objective of covering a percentage of insurable deposits in all countries within a common (harmonized) interval by means of guarantee levels which might also instrumentally differ in nominal terms in each Member State might represent one viable option for the future. Further debate on the precise objectives pursued with the harmonization of the deposits' minimum guarantee level and work on the consequences of any decision to revise the current 20,000 EUR level are however much needed steps before any future policy decision on the minimum guarantee level can be taken.

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1. Introduction

The Commission is reviewing Directive 94/19/EC on Deposit Guarantee Schemes (DGS) and conducting a broad ranging consultation published on the DG Internal Market website.¹ The Commission intends to come forward with a Communication on the Directive, with appropriate policy recommendations, in mid-2006. One item to be considered for possible revision is the minimum amount depositors are guaranteed for, should their deposits become unavailable from credit institutions (deposits' minimum guarantee level). The purpose of this report is to describe the current situation and the effects, in view of the objectives of Directive 94/19/EC, of the guarantee levels now in place across Member States, as well as to perform an analysis of the effects of possible changes of the deposits' minimum guarantee level, so as to inform future policy decisions.²

1.1 Background to the Directive's 20,000 EUR minimum guarantee level

In 1994, the European Union adopted Directive 94/19/EC on Deposit Guarantee Schemes achieving minimum harmonization of deposit protection policies across Member States. As stated in the Directive, "deposit protection is an essential element in the completion of the internal market and an indispensable supplement to the system of supervision of credit institutions". Deposit protection is achieved by requiring every credit institution to join a DGS. Each DGS in its turn guarantees any depositor up to an amount of the minimum level which is currently set at 20,000 EUR.

Regarding the choice of the minimum guarantee level of 20,000 EUR, the Directive states that "on the one hand the minimum guarantee (...) should not leave too great a proportion of deposits without protection in the interest both of consumer protection and of the stability of the financial system." But the Directive also states that "on the other hand, it would not be appropriate to impose throughout the Community a level of protection which might in certain cases have the effect of encouraging the unsound management of credit institutions".

In the Directive proposal COM(92)188 final it can be also read that "without direct empirical evidence on the size and distribution of accounts, it seemed reasonable to try to establish a minimum level of coverage in the Community, based roughly on the levels of coverage now (i.e. 1992) chosen by guarantee schemes in Member States. If the two Member States with extremely high levels of coverage (Germany and Italy) are

¹ For the full text of the consultation paper: http://europa.eu.int/comm/internal_market/bank/guarantee/index_en.htm

² This document has been prepared by the Banking and Financial Conglomerates Unit of Directorate General Internal Market assisted by the Applied Statistics Group (IPSC) of the Ispra Joint Research Centre. The Commission would like to acknowledge the important help in setting up the excel workbook instrumental to the data gathering exercise received from Prof. De Lisa from Cagliari University and of Mr. Moretti from the Italian Deposit Guarantee Scheme. The valuable assistance in establishing a methodology for estimating deposits distributions from Ms. Fornasari of Prometeia is also acknowledged.

excluded, together with those where there is no protection at all (Greece and Portugal), the median of the existing levels is approximately 15,000 ECU, which is why this figure has been chosen". Further to an amendment during the legislative process, the minimum guarantee level was raised to 20,000 ECU so that the Directive finally states that "it would appear reasonable to set the harmonized minimum guarantee level at 20,000 ECU".

A transitional period was agreed from 01/01/1994 to 31/12/1999, during which Member States could maintain an existing guarantee level between 15,000 EUR and 20,000 EUR (Art. 7.1). Since the implementation of the agreed minimum guarantee level of 20,000 EUR, no changes have been made to the minimum guarantee level in the Directive. In fact, Article 7.5 states that "the minimum guarantee level is reviewed once every five years" and that the first review should not take place before 2005. The Directive also states that "if appropriate, the Commission shall submit to the European Parliament and to the Council a proposal for a Directive to adjust the amount" of the minimum guarantee level.

1.2 Purpose and structure of the report

The purpose of this report is to assess the effects, in view of the objectives of the Directive, of the guarantee levels now present across Member States; as well as to perform an analysis on possible modifications of the minimum guarantee level, so as to inform any decision on such a matter. Both the analyses of the current situation and of the effects of alternative minimum guarantee levels ideally need to be performed knowing the distribution of deposits per Member State. In view of this, a data gathering exercise was organised by the Commission in spring 2005 to collect relevant information from each Member States' DGS, designed to allow the construction of the needed deposits distributions. Although most of the Member States could provide some aggregate information on deposits, Member States have not generally been able to supply data on the distributions of deposits. To overcome this problem, deposits distributions have been proxied by means of a "related" macroeconomic variable, whose distribution is readily available: household disposable income. The use of estimates presents some obvious drawbacks, but at the present stage it represents the only way to perform a detailed analysis of the present situation and of the effects of alternative guarantee levels.

The report is organised as follows. Section 2 focuses on the analysis that can be done on the basis of deposits' aggregated data only.³ Section 3 briefly presents the methodology employed to estimate the distributions of deposits. Section 4 describes the effects of selective alternative minimum guarantee levels. Section 5 sets out the main policy conclusions that can be drawn from this exercise.

³ The Commission has gathered aggregated data in part via the data gathering exercise with DGS and in part from other sources. The analysis based on aggregated data does not incorporate the assumptions needed to estimate deposits distributions, but of course its depth is limited.

2. Analysis of aggregated data

All the analyses in this report are based on the concepts of “total deposits”, “insurable deposits” and “insured deposits”. “Total deposits” represent basically all deposits considered in Directive 94/19/EC.⁴ Not all deposits are however eligible to be guaranteed according to the Directive. Some types of deposits (such as interbank deposits) are excluded from the guarantee in all Member States⁵, while some other types of deposits (such as deposits by public entities) are considered as not eligible by national discretion in some Member States.⁶ In this report we define “insurable deposits” as all those deposits which are eligible for being insured/guaranteed by DGS across Member States.⁷ “Insured deposits” are finally the part of insurable deposits that fall (even for the pro-quota amount) under the minimum guarantee level applied in each Member State.⁸

This section presents an analysis of the effects of the minimum guarantee level set by Directive 94/19/EC using the only data - aggregated data on guarantee levels and deposits - that are currently available to the Commission without using estimates for the distribution of deposits⁹.

2.1 Guarantee level

Table 1 presents the evolution of the guarantee levels in EU Member States from end 1993 to end 2004¹⁰. Note that Estonia, Latvia and Lithuania agreed a transitional phase to gradually increase their guarantee

⁴ Article 1.1 of Directive 94/14/EC defines deposit as “any credit balance which results from funds left in the account or from temporary situations deriving from normal banking transactions and which a credit institution must repay under the legal and contractual conditions applicable, and any debt evidenced by a certificate issued by a credit institution (...)”. In this report we refer to deposits under Art. 1.1 as “total deposits”.

⁵ Article 2 excludes from any repayment by guarantee schemes “deposits made by other credit institutions on their behalf or for their own account”, “all instruments which would fall within the definition of own funds” for credit institutions, and “deposits arising out of transactions in connection with which there has been a criminal conviction for money laundering”.

⁶ Article 7.2 states that “Member States may provide that certain depositors or deposits shall be excluded from guarantee or shall be granted a lower level of guarantee”. The list of possible exclusions is listed in Annex I to the Directive. Among those, exclusions for deposits from financial institutions, public sector, insurances, collective investment undertakings and pension funds, and finally for deposits which are in currencies other than those of the Member State or EUR are the most relevant. It should also be noted the possibility for Member States to exclude “deposits by companies which are of such a size that they are not permitted to draw up abridged balance sheets”, i.e. which are not small enterprises.

⁷ More precisely, insurable deposits are given by the difference between deposits under Art. 1.1 and the sum of deposits under Art. 2 and Art. 7.2 (as applied in each Member State).

⁸ If for example a deposit consists of EUR 35,000, it is eligible for insurance and the minimum guarantee level is EUR 20,000, the deposit will be considered for EUR 35,000 in the insurable deposits and for EUR 20,000 in the insured deposits.

⁹ The data presented in this Section have been collected both from Member States and from other official sources such as Eurostat. Raw data on total, insurable and insured deposits can be found in Annex B.

¹⁰ Data are from national DGS for all the countries except for Germany for which the guarantee level is obtained from R. Gropp and J. Vesala, “Deposit insurance and moral hazard: does the counterfactual matter?”, European Central Bank Working Paper n. 47, March 2001

level up to 20,000 EUR by 01/01/2008¹¹. Note also that the guarantee levels shown in Table 1 are gross of coinsurance practices in place across Member States.¹²

Table 1: Evolution of the guarantee levels from end 1993 to end 2004 (EUR)

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Austria	-	14,535	18,895	18,895	18,895	18,895	20,000	20,000	20,000	20,000	20,000	20,000
Belgium	-	-	15,000	15,000	15,000	15,000	15,000	20,000	20,000	20,000	20,000	20,000
Czech Rep.												25,000
Cyprus												20,000
Denmark	33,099	33,412	41,122	40,287	39,851	40,275	40,305	40,198	40,342	40,383	40,296	40,329
Estonia												6,391
Finland	-	-	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
France	-	-	60,980	60,980	60,980	60,980	60,980	60,980	60,980	60,980	60,980	60,980
Germany	-	-	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Greece	-	-	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Hungary												26,651
Ireland	13,200	13,200	15,000	15,000	15,000	15,000	15,000	20,000	20,000	20,000	20,000	20,000
Italy	413,166	413,166	413,166	413,166	103,291	103,291	103,291	103,291	103,291	103,291	103,291	103,291
Latvia												8,597
Lithuania												14,481
Luxembourg	12,395	12,395	12,395	12,395	15,000	15,000	15,000	20,000	20,000	20,000	20,000	20,000
Malta												20,000
Netherlands	17,400	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Poland												22,500
Portugal	-	33,750	33,750	33,750	33,750	33,750	25,000	25,000	25,000	25,000	25,000	25,000
Slovenia												25,025
Slovakia												20,000
Spain	9,015	9,015	14,093	14,093	14,093	14,093	15,000	20,000	20,000	20,000	20,000	20,000
Sweden	-	-	28,745	28,975	28,629	26,349	29,197	28,308	26,878	27,314	27,533	27,714
UK	26,486	25,411	23,606	27,127	29,996	28,350	32,170	32,046	52,095	48,732	44,977	44,961

¹¹ Estonia shall ensure that its DGS provides for cover of not less than 6,391 EUR until 31/12/2005, and for not less than 12,782 EUR from 01/01/2006 to 31/12/2007. Latvia shall ensure that its DGS provides for cover of not less than 10,000 EUR until 31/12/2005 (LVL 6,000 are currently the guaranteed amount), and for not less than 15,000 EUR from 01/01/2006 to 31/12/2007. Lithuania shall ensure that its DGS provides for cover of not less than 14,481 EUR until 31/12/2006, and for not less than 17,377 EUR from 01/01/2007 to 31/12/2007.

¹² Coinsurance is the mechanism by which depositors are insured not for the whole amounts of their deposits up to the guarantee level, but only for a certain percentage of them. There is a 10% ceiling in the Directive on the percentage of the amount of deposits outside the protection of DGS. In particular, coinsurance takes place in Germany, Cyprus, Czech Republic, Hungary, Estonia, Ireland, Malta, Lithuania, Slovakia (90% guarantee and up to the guarantee level), and Poland (100% guarantee up to 1,000 EUR, and 90% guarantee for sums between 1.000 and 22,500 EUR)

The analysis has been concentrated on years 1995, 1999 and 2003. Year 1995 is relevant as the first year after implementation of the Directive. Year 1999 is also relevant as the year at the end of the transitional period set by the Directive. Year 2003 is finally the most recent year for which data on deposits are available and as close as possible to the moment (1 May 2004) at which the EU enlarged to 25 Member States.¹³

Table 2 presents the EU statistics of the guarantee levels for 1995, 1999 and 2003, both in nominal and 1995 prices. The mean and the standard deviation (StDev) are weighted on the basis of insurable deposits¹⁴.

Table 2: Statistics on the EU-15, EU-25 and EU new Member States guarantee levels at nominal values and at 1995 prices

	EU-15 1995 Nominal Prices	EU-15 1999 Nominal Prices	EU-15 1999 1995 Prices	EU-15 2003 Nominal Prices	EU-15 2003 1995 Prices	EU-25 2003 Nominal Prices	EU NMS 2003 Nominal Prices
Weighted Mean	32,267	34,780	33,072	38,774	33,543	38,330	22,612
Weighted StDev	25,165	24,702	22,774	24,696	20,364	24,175	4,163
Min	12,395	15,000	13,657	20,000	14,378	6,391	6,391
1st quartile	16,948	17,500	15,406	20,000	16,752	20,000	15,861
Median	20,000	20,000	19,239	20,000	18,199	20,000	20,000
3rd quartile	31,248	30,684	28,979	33,915	29,226	25,025	24,376
Max	103,291	103,291	93,958	103,291	84,873	103,291	26,651

The above table shows the following four trends in the guarantee level for the EU-15 area:

1. The average level of coverage has increased over time: the weighted mean has increased both in nominal and (although much less markedly) in real terms.
2. The differences across EU-15 Member States guarantee levels, as shown by the weighted standard deviation, have decreased in real terms.
3. Inflation has eroded the real value of the guarantee levels higher than the harmonised minimum (as it happened for example in Italy and France, the Member States with the highest levels of coverage).
4. The enlargement to 10 NMS in 2004 has left substantially unchanged the average level of coverage due to the small volume of insurable deposits in the new Member States. Enlargement

¹³ Note that in the 2003 analysis, the guarantee levels for the 10 new Member States (NMS) refer in fact to end 2004 since they were modified substantially immediately after their accession to the EU. Note also that in order to have more meaningful comparisons in EU statistics (for example for standard deviations) the guarantee level for Italy before 1996 has been considered constant at the level it took after 1996.

¹⁴ The weighted standard deviation is computed as $StDev = \sqrt{\frac{\sum w_i (x_i - \bar{x}_w)^2}{n \cdot \%_i}}$ where \bar{x}_w is the weighted mean.

has also left substantially unchanged for 2003 the dispersion (the standard deviation) of the guarantee level in the EU-25 area compared to the EU-15 area.

Figure 1 shows the guarantee levels applied in EU-15 countries for 1995, 1999 and in EU-25 countries in 2003. The size of each point in the graph depends, consistent with the statistics just presented above, on the amount of insurable deposits in each Member State. Both the guarantee levels and the insurable deposits are shown in nominal values.

Figure 1: Guarantee levels set by EU-25 countries in 1995, 1999 and 2003 at nominal values (in 1995 and 1999 only EU-15 countries)

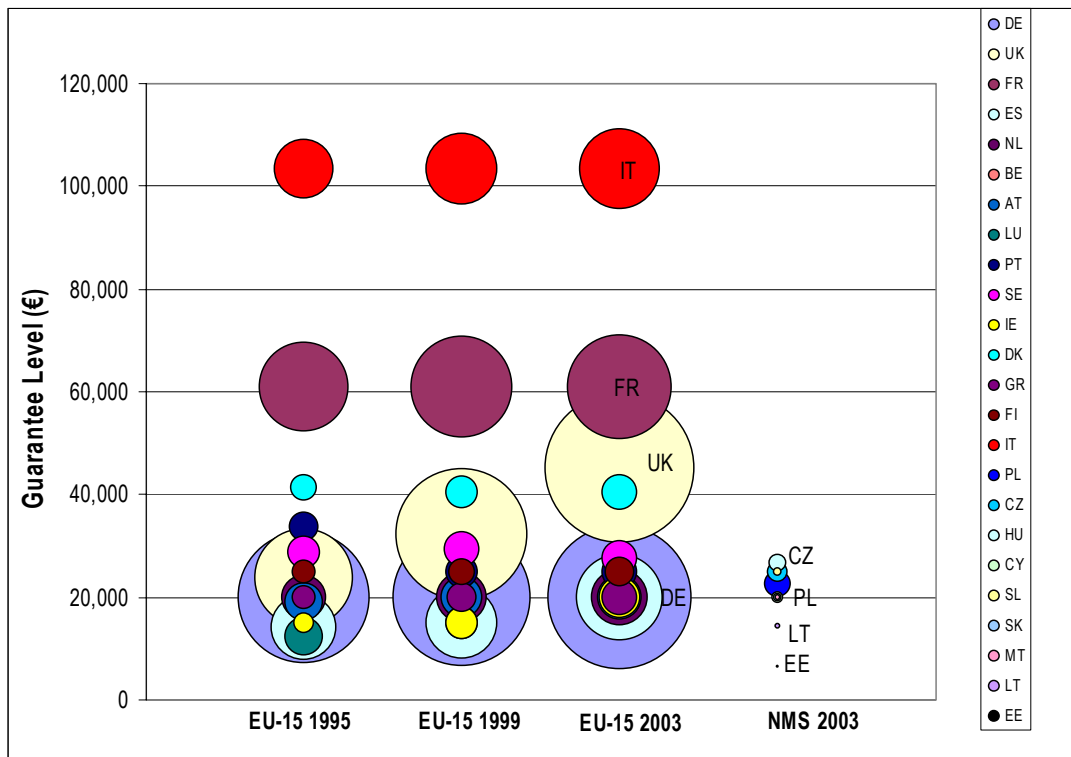


Figure 1 shows that the guarantee level has moderately increased in nominal terms over time for most countries, especially for those countries that in 1995 had a level of coverage guarantee below 20,000 EUR. The UK shows however a marked increase in the guarantee level (from €23,606 to €44,977) both due to an actual increase in the guarantee level from 20,000 GBP in 1995 to 31,700 GBP in 2003 as well as due to the appreciation of the GBP against the EUR. Regarding the NMS, Figure 1 highlights their limited size in terms of insurable deposits and that their guarantee levels are broadly in line (except for Baltic countries with transitional clauses) with the lower guarantee levels applied in EU-15 Member States

In order to show the evolution of guarantee levels over time in real terms, Figure 2 presents the same data in Figure 1 for EU-15 countries at 1995 prices (in real terms), i.e. net of the effect of inflation on the guarantee levels¹⁵.

Figure 2: Guarantee levels at 1995 prices set by EU-15 countries in 1995, 1999 and 2003

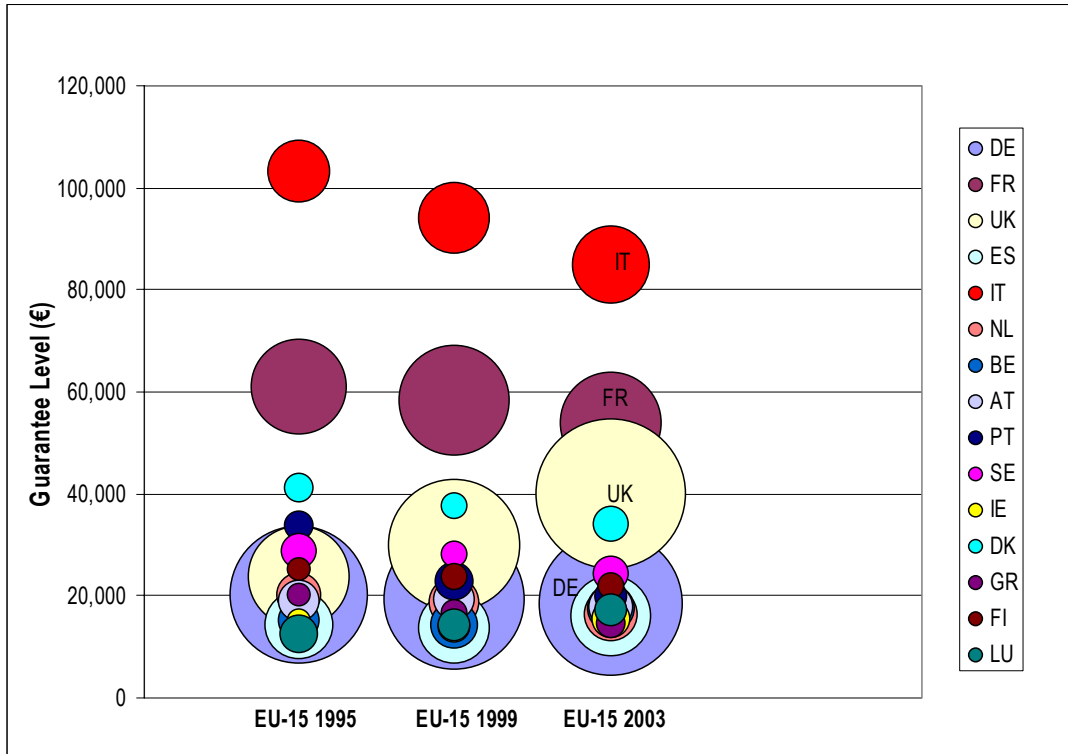


Figure 2 also shows some clear trends. The first regards the dispersion of the guarantee level in the various EU Member States. In 1995, the distribution of guarantee levels applied by different countries was more spread out; in 1999 and more clearly in 2003, the guarantee levels set by EU-15 countries were more closely grouped. The second trend regards a materially “horizontal trend” in real terms in the guarantee level for those EU-15 countries with the lower guarantee levels. Two effects tend in fact to compensate each other. On the one hand the Directive brings all EU-15 countries to a minimum guarantee level of 20,000 EUR only at the end of 1999 due to the presence of a transitional period. On the other hand inflation erodes over time a part of the real value of the guarantee level for all countries. The upward impulse of the transitional period roughly seems to compensate the effect of inflation for countries constrained by the transitional period at the lower end of the guarantee level distribution, so that they show a relatively stable

¹⁵ It should be noticed that exchange rates have, as well as inflation, an effect on the guarantee level. In fact, whenever the exchange rate varies between the EUR and the local currency in which the guarantee level is specified, the guarantee level for that country in EUR terms varies too. It is of course also possible to sterilise for the change in exchange rates, but Figure 2 only sterilises inflation effects on guarantee levels.

guarantee level over time. The third trend relates to those countries such as Italy and France not constrained by the transitional period and/or the minimum guarantee level, that show a considerable reduction over time in the real value of the guarantee levels provided. Finally, the fourth trend is the substantial increase, also in real terms, of the guarantee level in the UK due to the reasons mentioned above.

2.2 Guarantee level / per capita GDP ratio

From the previous analysis, it is evident that Directive 94/19/EC had an important impact in converging guarantee levels across Member States. That analysis has however not considered the evolution over time of the broad economic environment (except in part for the effect of inflation on the guarantee levels) prevailing across Member States. It is necessary to turn to an analysis encompassing an indicator of the economic conditions prevailing in each country, in order to be able to confirm whether or not the harmonisation in the level of coverage has created a convergence or a divergence of the conditions in which the guarantee of deposits has operated across Member States.

For this purpose, an analysis based on the ratio of the guarantee levels over per capita GDP in nominal values for EU-15 countries in 1995, 1999 and for EU-25 countries in 2003 was carried out. The use of such ratio is not unusual in the analysis of the economic conditions under which DGS operate.¹⁶

Table 3 presents EU statistics on the guarantee level / per capita GDP ratio where Member States weights are proportional to their insurable deposits..¹⁷

Table 3: Statistics on the guarantee level / per capita GDP ratio for EU-15, EU-25 and NMS

	EU-15 1995 Nominal Prices	EU-15 1999 Nominal Prices	EU-15 2003 Nominal Prices	EU-25 2003 Nominal Prices	EU NMS 2003 Nominal Prices
Weighted Mean	1.842	1.606	1.557	1.609	3.463
Weighted StDev	1.695	1.276	1.078	1.112	1.206
Min	0.367	0.346	0.376	0.376	1.065
1st quartile	0.912	0.808	0.739	0.906	1.924
Median	1.276	1.068	0.924	1.439	2.564
3rd quartile	1.963	1.610	1.555	2.373	3.567
Max	7.075	5.380	4.570	4.688	4.688

¹⁶ It can for example be found in the United States Federal Insurance Deposit Corporation Option Paper of August 2000 (available at http://www.fdic.gov/deposit/insurance/initiative/Options_080700m.pdf) and in IMF working papers on this subject, such as Garcia G. (1999): Deposit Insurance: a survey of actual and best practices, IMF Working Paper WP/99/54

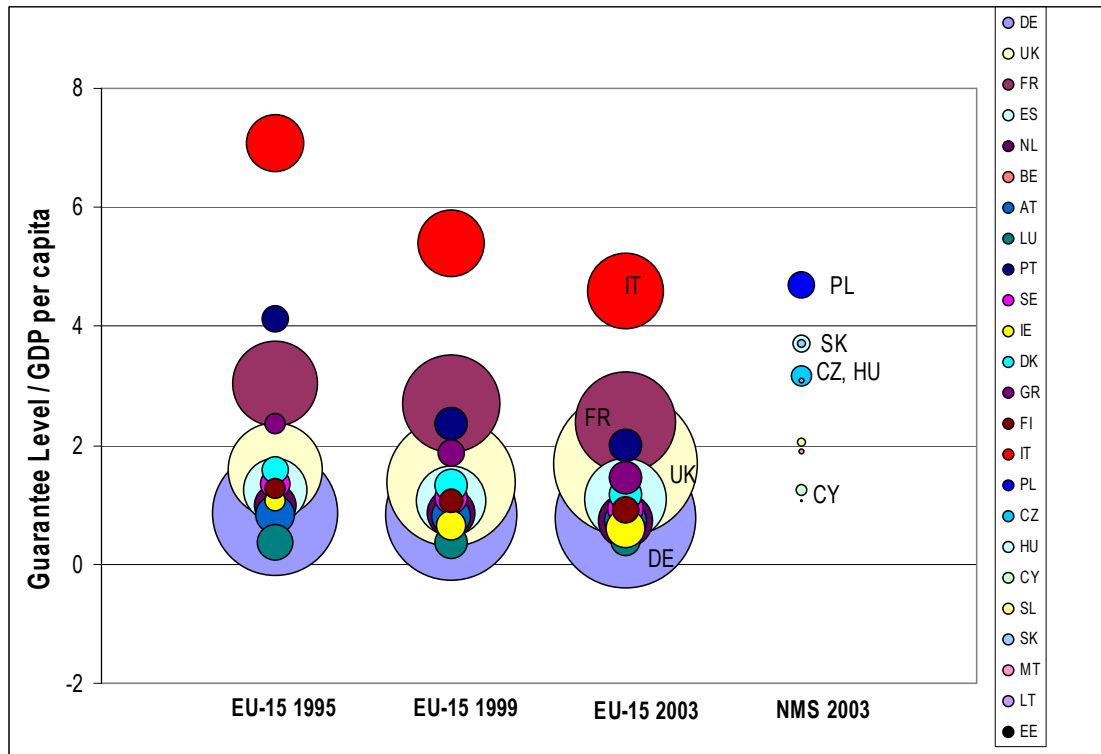
¹⁷ Raw data on per capita GDP and guarantee level / per capita GDP ratio in nominal values can be found in Annex B.

Comparing Table 3 with Table 2, the following conclusions can be drawn:

1. Both Table 2 and Table 3 highlight the reduction in real terms in the dispersion across Member States of the minimum guarantee level.
2. It is however possible to see that in per capita GDP terms the average guarantee level tends not to increase for EU-15 Member States - as we could see in Table 2 both (more) at nominal and (much less) at 1995 prices - but to significantly decrease.
3. While in Table 2 the guarantee level in NMS was on average lower than in the EU-15 area in 2003, in per capita GDP terms the guarantee level in NMS is much higher than in EU-15 countries.
4. Set against per capita GDP, NMS bring a slight but meaningful increase in the dispersion of the guarantee level in the EU-25 area compared to the EU-15 area.

The same considerations become evident also looking at Figure 3, which presents graphically the ratio of the guarantee levels over the per capita GDP.

Figure 3: Guarantee level / per capita GDP ratio for EU-25 countries in 1995, 1999 and 2003 (in 1995 and 1999 only the EU-15 countries)



It is in particular worth noting that (in line with the second conclusion above) in the UK the ratio tends to be stable over time in per capita GDP terms (and not to increase as seen in Figure 2).

2.3 Insured deposits / insurable deposits ratio

The two analyses presented above give an indication of how the guarantee level has changed over time gross and net of inflation across Member States and of how such changes relate to the changes in the economic conditions in the various Member States (captured via the per capita GDP ratio indicator). Neither say much however about the effect that the guarantee levels existing in the various Member States have had in guaranteeing deposits. It is therefore necessary at this point to turn to an indicator of this effect such as the ratio between insured and insurable deposits.

Table 4 shows the ratio of insured over insurable amount of deposits for those countries which have provided such data.¹⁸

Table 4: Insured / insurable deposits ratio

	1995	1999	2003		1995	1999	2003
Austria ¹⁹	64.59%	71.57%	81.40%	Latvia			9.39%
Belgium	-	-	-	Lithuania			54.67%
Czech Rep.			-	Luxembourg	2.10%	4.90%	5.17%
Cyprus ²⁰			20.00%	Malta			51.55%
Denmark	60.13%	51.26%	48.06%	Netherlands	-	-	-
Estonia			26.95%	Poland			85.00%
Finland ²¹	70.84%	56.57%	49.86%	Portugal ⁹	55.00%	55.00%	54.34%
France	-	-	-	Slovakia			97.14%
Germany	-	-	-	Slovenia			60.62%
Greece ²²	33.57%	28.00%	30.00%	Spain	-	-	31.25%
Hungary			48.52%	Sweden	49.42%	45.94%	46.25%
Ireland	-	-	-	UK	-	-	-
Italy	87.65%	80.75%	76.25%				

Table 5 presents EU statistics for the ratio of insured over insurable deposits computed using the data listed in Table 4, but of course only for those countries that provided data (some 30% of the European Union in terms of the amount of insurable deposits).

¹⁸ Data on insurable deposits are either provided by national DGS or estimated using Eurostat, according to the methodology explained in Annex B; data for insured deposits are from national DGS ('-' indicates that the figure is not available).

¹⁹ The average ratio of 2 out of 5 DGS is applied, since data is incomplete.

²⁰ Only one DGS provided data on the ratio.

²¹ A trend ratio is estimated to obtain the 1995 ratio for Finland (for which there was no 1995 data).

²² A trend ratio is estimated to obtain the 1995 ratio for Greece (for which there was no 1995 data).

Table 5: Statistics on the insured / insurable deposits ratio

	EU-15 1995 Nominal Prices	EU-15 1999 Nominal Prices	EU-15 2003 Nominal Prices	EU-25 2003 Nominal Prices	EU NMS 2003 Nominal Prices
Weighted Mean	59.76%	59.49%	50.86%	51.83%	64.02%
Weighted StDev	26.11%	21.91%	21.24%	22.41%	24.54%
Min	2.10%	4.90%	5.17%	5.17%	9.39%
1st quartile	45.46%	41.46%	31.25%	30.31%	26.95%
Median	57.57%	53.13%	48.06%	49.19%	51.55%
3rd quartile	66.15%	60.32%	54.34%	59.14%	60.62%
Max	87.65%	80.75%	81.40%	97.14%	97.14%

Table 5 presents statistics that are obviously only indicative, as they are based on a small subset of Member States. It is however important to stress that Table 5 does appear to confirm the analysis performed on the basis of the guarantee level / per capita GDP ratio. In fact:

1. As the average guarantee level decreases over time in per capita GDP terms, the weighted mean of the insured over insurable ratio also decreases over time in the EU-15 area.
2. As the dispersion of the guarantee level decreases over time in per capita GDP terms, the weighted standard deviation of the insured over insurable ratio also decreases over time in the EU-15 area.
3. As the average guarantee level in New Member States is higher than in EU-15 Member States in per capita GDP terms in 2003, the weighted average of the insured over insurable ratio is also higher in New Member States than in EU-15 Member States in 2003.
4. The NMS have brought for 2003 a slight but meaningful increase in the dispersion of the guarantee level both in per capita GDP terms and for the insured over insurable deposits ratio.

2.4 Conclusions of the analysis on aggregated data

The analysis on the basis of aggregated data leads to a number of important conclusions:

1. The EU average guarantee level decreases over time in real terms as shown both by the per capita GDP analysis and the insured over insurable ratio analysis.²³
2. The level of coverage expressed in real terms (1995 prices, per capita GDP ratio, insured / insurable deposits ratio) has converged over time in the EU-15 area, essentially due to the erosive effect of inflation on those countries which in 1995 had a guarantee level higher than the

²³ Only the appreciation of the GBP on the EUR does not bring to the same conclusion in the 1995 prices analysis

harmonised minimum. The enlargement process has however somehow inverted this phenomenon due to the very different economic significance of deposit guarantee in new Member States compared to EU-15 countries.

3. Only the UK, which has over time substantially increased the level of coverage, has been able to maintain a level of coverage materially constant compared to the general economic conditions (as indicated by per capita GDP).
4. EU-15 Member States and New Member States protect deposits with not too dissimilar guarantee levels which, however, have a different significance in economic terms (per capita GDP ratio and insured / insurable deposits ratio), with deposits that are *de facto* much more protected in the New Member States in 2003 than they were in 1995 in the EU-15 Member States.

3. Analysis on estimated distributions of deposits

The analyses in Section 2 are not sufficient to evaluate the impact of possible modifications of the minimum guarantee level on the insured over insurable deposits ratios across Member States. For this, it is necessary to examine the distribution of insurable deposits in terms of both number and amount of deposits (and this for each Member State) at one's disposal.

The data gathering exercise launched by the Commission in spring 2005 aimed also at the collection of the data necessary to build such distributions²⁴, but national DGS could not - generally speaking - provide the necessary information.²⁵

Since the data set was very incomplete as far as deposits distributions were concerned, and since data on the distribution of deposits are not available from other official sources the Commission, in an attempt to assess the effects of any potential change in the minimum guarantee level set by the Directive, has instead proceeded by an estimation (proxy) of the distribution of insurable and insured deposits via the distribution of another "related" macroeconomic variable. The methodology followed is briefly summarized in the next subparagraph and more extensively explained in Annex C.

²⁴ For a detailed explanation of the structure of the data gathering exercise refer to Annex A.

²⁵ For an overview of the aggregated data and distributions of deposits collected from national DGS, refer to Table B.2 in Annex B

3.1 Estimation of insurable and insured deposits distributions

The choice of the proxy variable is a key decision that strongly influences the results of the following analysis, since the shape of the distribution of the proxy variable is the key driver of the shape of the deposits distribution. Given the data available at EU level²⁶, the variable chosen to proxy the distribution of insurable deposits has been households' disposable income²⁷. The behaviour and the distribution of this variable is clearly linked to the behaviour and the distribution of deposits since part of disposable income goes to household savings and part of these savings is placed into deposits. There are however important statistical reasons indicating that the estimated distributions, even if still useful for the purposes of the present analysis, should only be considered as very rough and preliminary:²⁸

1. Disposable income only refers to households while the directive allows also deposits from corporates to be insured.
2. Disposable income is a flow variable, i.e. a variable referring to a single year, while deposits are a stock variable, i.e. a variable cumulated over time.²⁹
3. To derive the distributions of insurable deposits from the distribution of household income, one should ideally estimate first the part of income which is saved and then the portion of it allocated to deposits, differentiating for each bucket in which the income distribution is disaggregated. However, the lack of data on the saving and deposit propensity per income bucket, has not allowed any of this and it has become necessary to assume the same saving and deposit propensity for all income buckets in a country in a given year.

In practice, given the distribution of households' disposable income, a rescaling factor for a given country and a given year equal to the ratio between the total insurable deposit and the total household income has been applied, so the estimated distributions match the aggregated values of the insurable deposits across countries and across years.

This methodology has allowed an estimation (even if very rough and preliminary) of the amount of insurable deposits distribution, but it has not provided any information on the distribution of the number of deposits, which is however required in its turn to derive the insured deposits distribution as well as to perform any scenario analysis of different deposits guarantee levels. To obtain a view on the distributions of the number of deposits the minimum, maximum or average number of deposits in each bucket has been estimated by

²⁶ See Annex D.

²⁷ Household's disposable income is defined as the difference between the total household income and direct taxes, compulsory fees and fines.

²⁸ For more detailed considerations of the drawbacks of household's disposable income as proxy variable for insurable deposits refer to Annex C.

²⁹ In fact, the distribution of deposits should be derived from the distribution of wealth (a stock variable too), but the distribution of such variable is unfortunately not currently available at European level.

dividing the bucket total amount of insurable deposits by the upper bound, the lower bound or the average bucket value as appropriate.³⁰

3.2 Insurable and insured deposits: the estimated distributions

For EU-15 Member States, Figures 4 and 5 show in the left column the estimated distributions of insurable (total bars) and insured (lined parts of the bars) deposits; and on the right column the difference between the two. Figure 4 shows deposits distributions at their nominal values; Figure 5 shows them at 1995 prices. Both figures show, consistent with the analyses of aggregated data, that there has been over time a decrease in the part of insurable deposits actually subject to insurance: over time, the part of deposits not insured increases both in nominal and in real (1995 prices) terms. The increase in the deposits not protected by DGS not only affects very high deposits, but more widely and uniformly affects all deposits above the guarantee level prevailing across Member States.

³⁰ Note that in this way it has been assumed that the amount of insurable deposits is uniformly distributed inside each bucket, i.e. that each bucket is composed by a number of deposits with equal amount. For further details, refer to Annex C.

Figure 4: Estimated distributions of total EU-15 insurable and insured deposits, nominal values

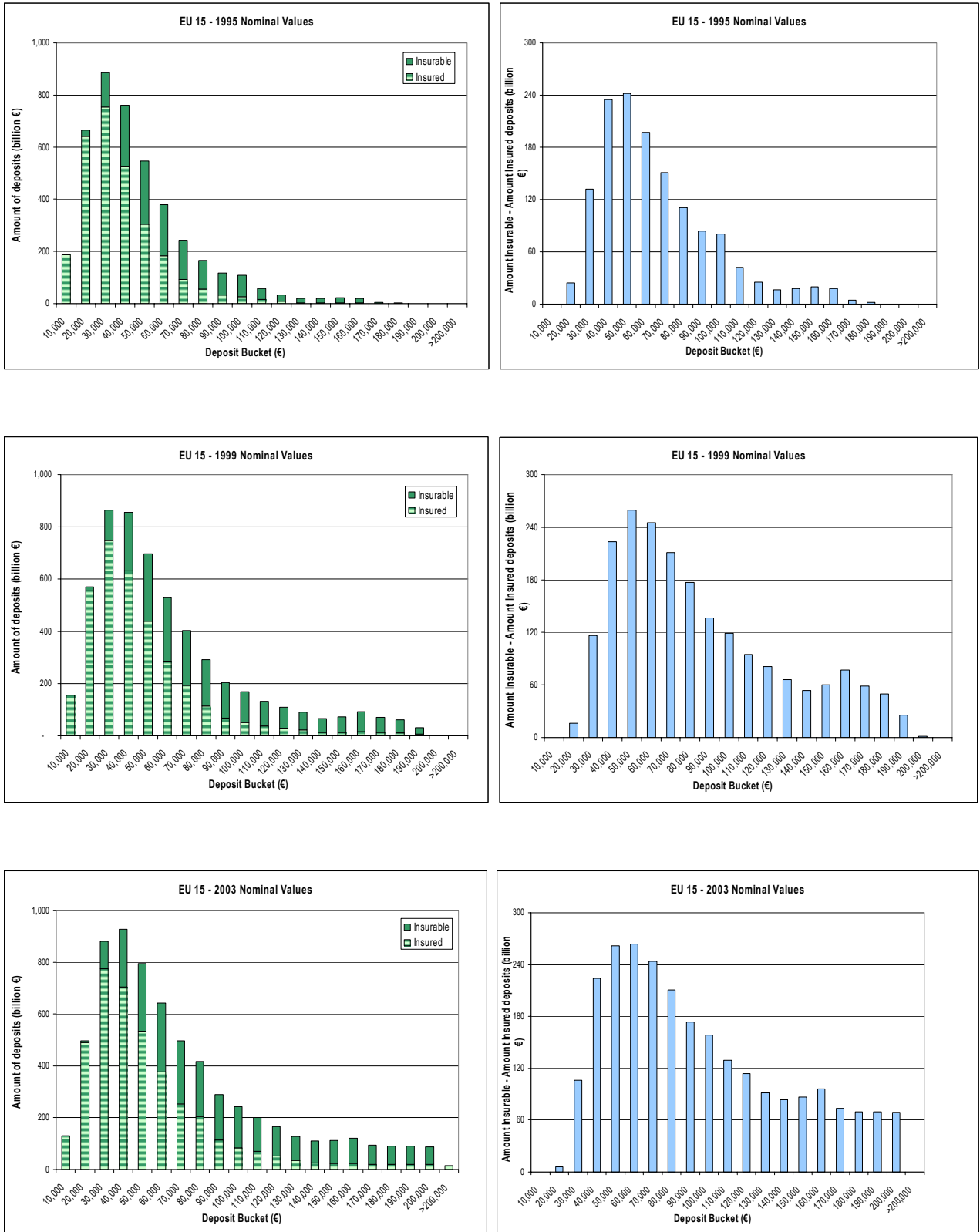


Figure 5: Estimated distributions of total EU-15 insurable and insured deposits, 1995 prices

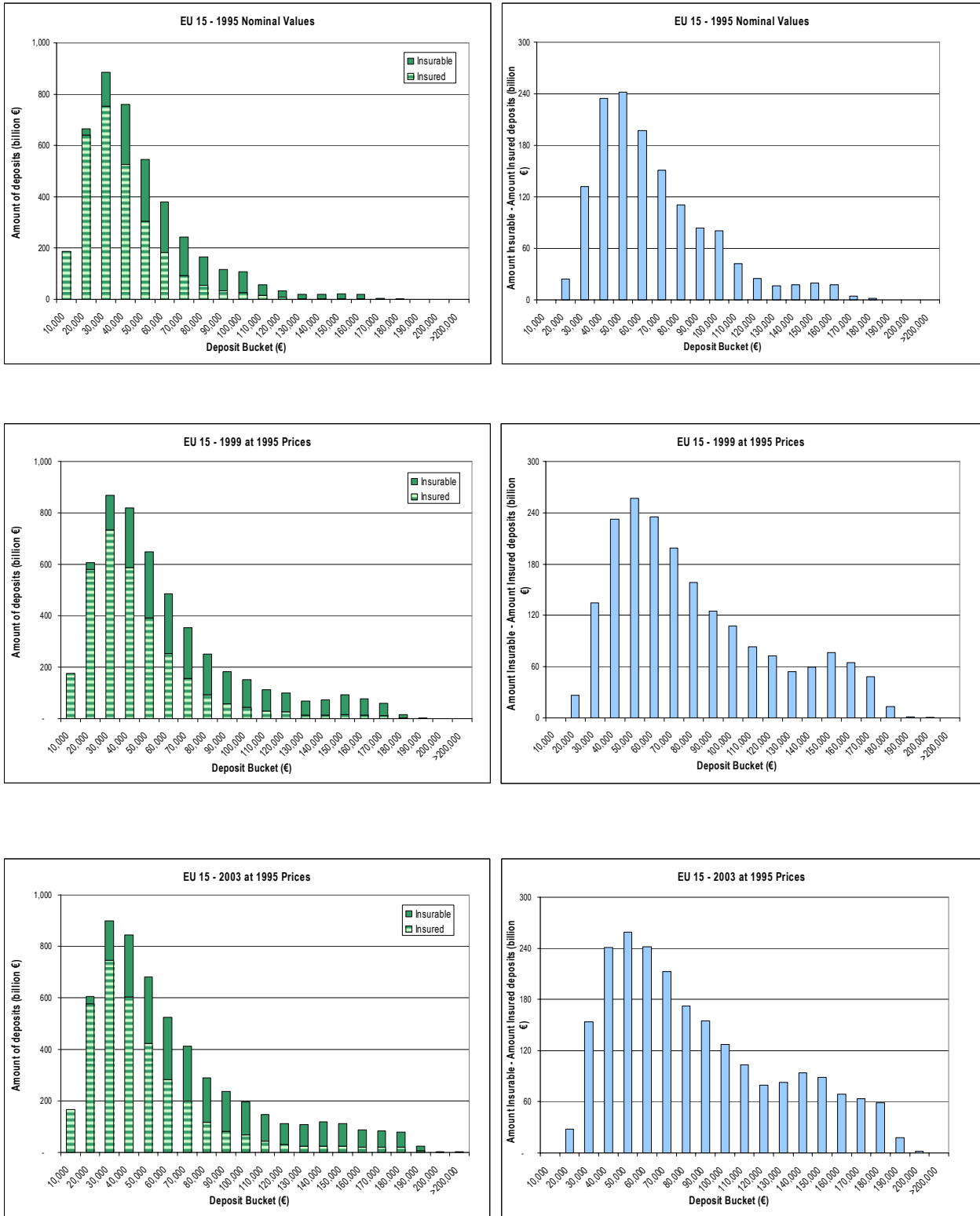
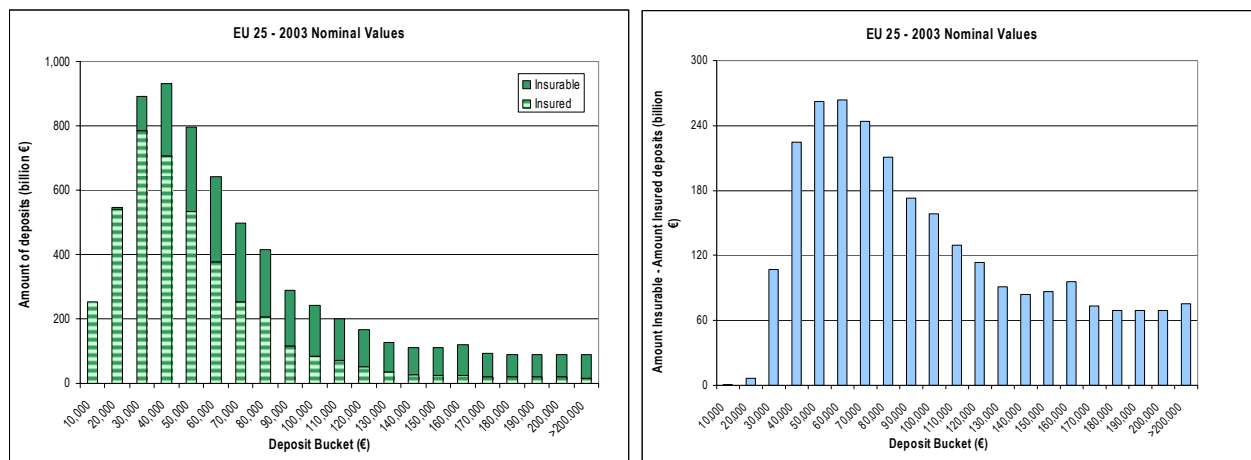


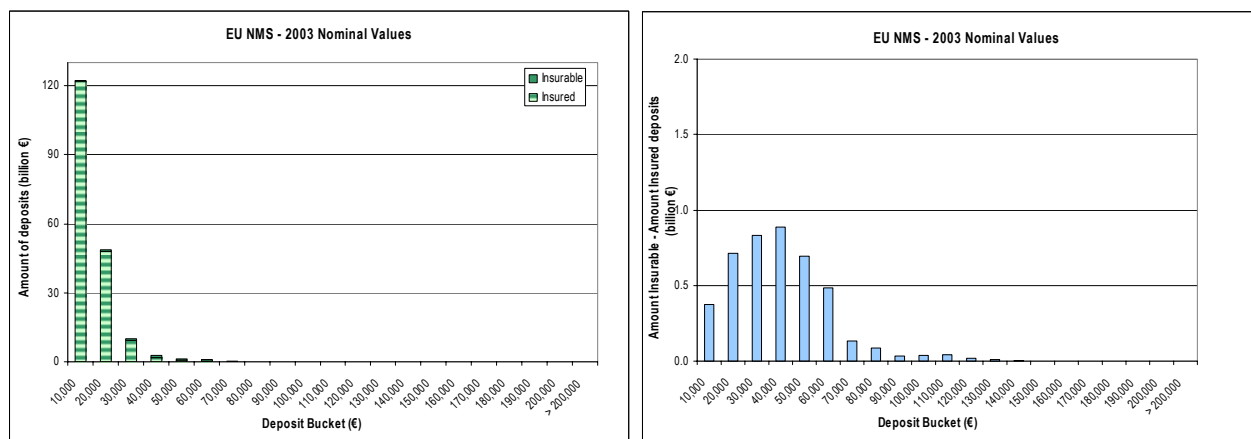
Figure 6 allows a comparison for 2003 of the distributions of deposits for the EU-25 area with that for EU-15 are of Figure 4. The size of new Member States is so small compared to the size of EU-15 Member States that the overall picture does not change when considering the EU-25 instead of the EU-15 Member States.

Figure 6: Distributions of insurable and insured deposits for EU- 25 in 2003, nominal values



However, when we look in Figure 7 at the distributions of deposits for new Member States, it becomes immediately evident, and in line with the analyses of aggregated data, that the guarantee of deposits is much more important and pervasive in new Member States than in EU-15 Member States

Figure 7: Distributions of insurable and insured deposits for EU NMS in 2003, nominal values



The availability of deposits distributions (even if only estimated) allows performing an analysis of the insured over insurable deposits ratio with a more complete set of Member States than the one presented, only for some countries, in paragraph 2.3. Table 6 presents the mean and standard deviations of the insured / insurable deposits ratios that can be estimated from the estimated distributions.

Table 6: Statistics for the estimated insured / insurable deposits ratios - all Member States included

	EU-15 1995 Nominal Prices	EU-15 1999 Nominal Prices	EU-15 2003 Nominal Prices	EU-25 2003 Nominal Prices	EU NMS 2003 Nominal Prices
Weighted Mean	66.90%	62.01%	60.60%	61.62%	95.19%
Weighted StDev	20.59%	21.84%	21.89%	22.17%	16.53%
Min	38.28%	20.92%	18.32%	18.32%	77.45%
1st quartile	51.25%	49.79%	46.42%	55.69%	97.59%
Median	77.11%	67.76%	63.43%	77.45%	98.39%
3rd quartile	89.88%	81.92%	81.73%	98.39%	98.47%
Max	100.00%	100.00%	100.00%	100.00%	99.75%

Table 6 conveys the following messages:

1. The average insured / insurable deposits ratio has progressively diminished over time in the EU-15 Member States as more and more deposits fall above the guarantee levels established in the various EU-15 Member States.
2. The insured / insurable deposits ratio is substantially higher in EU new Member States than in the EU-15 Member States
3. The enlargement of the European Union has increased (slightly but meaningfully) the differences in the percentage of insurable deposits actually subject to insurance across Member States
4. Some EU-15 countries have experienced a serious decrease in the insured / insurable deposits ratio

4. Scenario analysis

The main advantage of having (estimated) distributions of insurable and insured deposits available is the possibility to construct simulations (scenarios) of the effects that changes in the minimum guarantee level across Member States would have.

Different scenarios can be developed in order to respond to different policy questions. In particular, the three scenarios which have been developed so far and which are presented in this subparagraph give, in the opinion of the Commission, some indications as what the main issues should be that the EU must consider when addressing the potential revision of the minimum guarantee level for deposit insurance.

4.1 Scenario 1: 20,000 EUR guarantee level in all Member States

In this scenario it has been considered what would happen if the guarantee level were set exactly at 20,000 EUR (not to a minimum of EUR 20,000) for all Member States. Figures 8 and 9 show the deposits distribution for 2003 for EU-15 and EU-25 Member States: the light shaded columns indicate the distribution of the difference between insurable and insured deposits with the present guarantee levels; and the dark shaded columns indicate the same distribution with a uniform 20,000 EUR guarantee level set in all Member States.

Figure 8: Distribution of the difference between insurable and insured deposits for EU-15 in Scenario 1, compared to the estimated distribution for 2003, nominal values

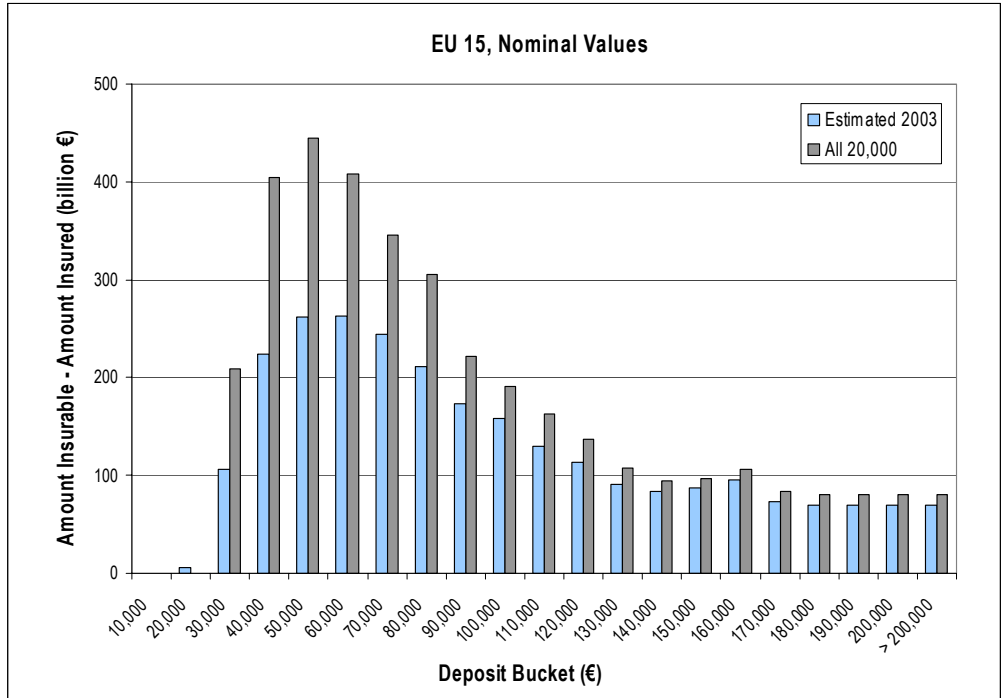
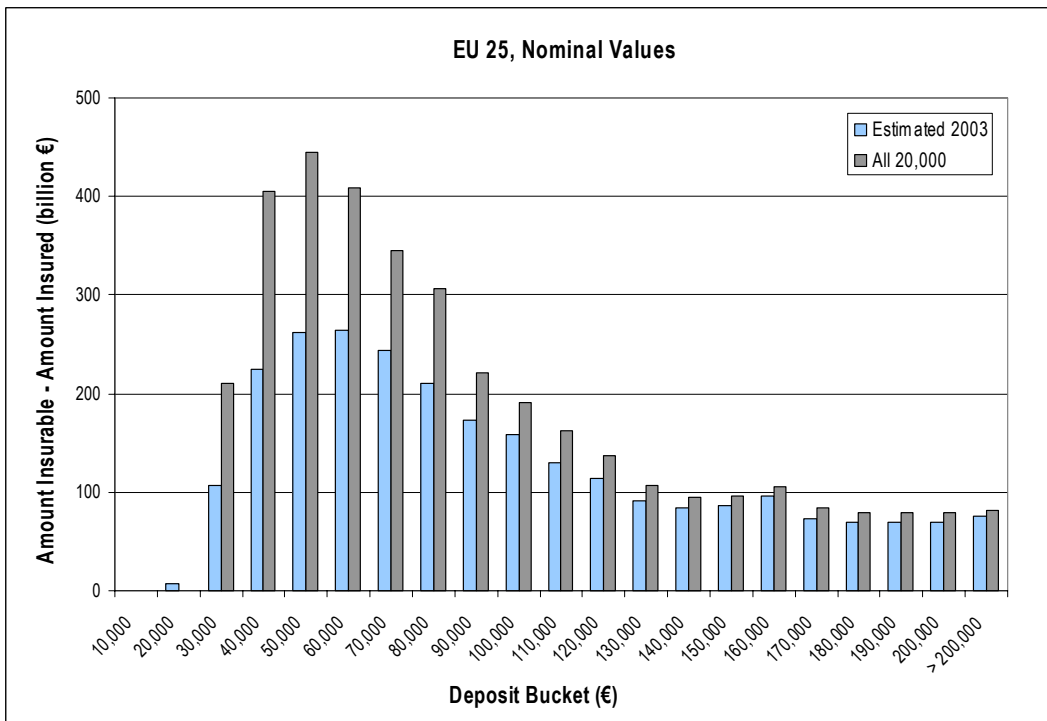


Figure 9: Distribution of the difference between insurable and insured deposits for EU-25 in Scenario 1, compared to the estimated distribution for 2003, nominal values



A full harmonization to 20,000 EUR of the guarantee level for deposits increases the amount of deposits falling outside the guarantee level, with a very important effect for deposits falling between 30,000 EUR and

100,000 EUR. The picture does not change substantially between EU-15 and EU-25 Member States as most deposits going beyond the guarantee level are to be found in EU-15 Member States such as Italy and France with higher coverage levels.

Regarding the comparison across countries, Table 7 shows the statistics on the ratio of insured over insurable amount of deposits.

Table 7: Statistics for the insured / insurable deposits ratios for aggregated data, estimated and Scenario 1 distributions in 2003 for EU-15 and EU-25

	EU-15 2003 Aggr.	EU-15 2003 Estim.	EU-15 2003 Scen. 1	EU-25 2003 Aggr.	EU-25 2003 Estim.	EU-25 2003 Scen. 1	EU NMS 2003 Aggr.	EU NMS 2003 Estim.	EU NMS 2003 Scen. 1
Weighted Mean	50.86%	60.60%	44.86%	51.83%	61.62%	46.30%	62.02%	95.19%	97.49%
Weighted StDev	21.24%	21.89%	14.38%	22.41%	22.17%	16.51%	24.54%	16.53%	1.61%
Min	5.17%	18.32%	18.32%	5.17%	18.32%	18.32%	9.39%	77.45%	92.24%
1st quartile	31.25%	46.42%	43.89%	30.31%	55.69%	46.79%	26.95%	97.59%	97.02%
Median	48.06%	63.43%	48.95%	49.19%	77.45%	62.71%	51.55%	98.39%	97.99%
3rd quartile	54.34%	81.73%	60.31%	59.14%	98.39%	97.25%	60.62%	98.47%	98.46%
Max	81.40%	100.00%	97.04%	97.14%	100.00%	100.00%	97.14%	99.75%	100.00%

On the basis of Scenario 1, the following two main phenomena would emerge:³¹

1. EU-15 Member States would see a substantial decrease in the average insured / insurable deposits ratio; while new Member States would not see any significant variation.
2. The dispersion of the insured / insurable deposits ratio decreases substantially across EU-15 Member States and dramatically in new Member States.

The main conclusion that can be drawn is that a full harmonization of the guarantee level to 20,000 EUR would decrease the insured / insurable deposits ratio in the European Union, and it would create an important difference between EU-15 Member States and EU new Member States, as in the first set of countries the ratio would probably be less than half than in the second set of countries.

4.2 Scenario 2: inflation adjusted guarantee levels

In this scenario, guarantee levels are adjusted in line with inflation in each Member State: the guarantee level in each Member State is modified to account for the inflation from end 1995 to end 2003.³²

Figures 10 and 11 show the distribution of the difference between insurable and insured deposits in the current situation and under Scenario 2.

³¹ It is important to stress that the comparisons between the ratios of the estimated distributions and those from the aggregated data clearly show how the estimated deposits distributions are only preliminary. However, it is still possible to give to the scenario analysis a certain value due to the possibility it has to highlight important trends in a "what-if" context.

³² Only EU-15 Member States guarantee levels have been adjusted for inflation.

Figure 10: Distribution of the difference between insurable and insured deposits for EU-15 in Scenario 2, compared to the estimated distribution for 2003, nominal values

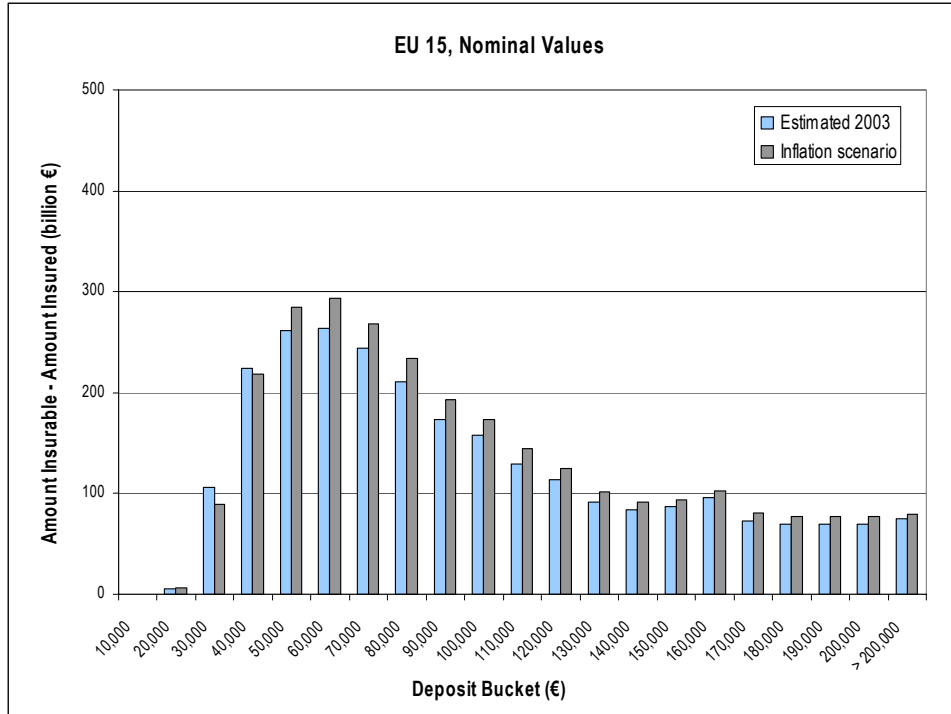
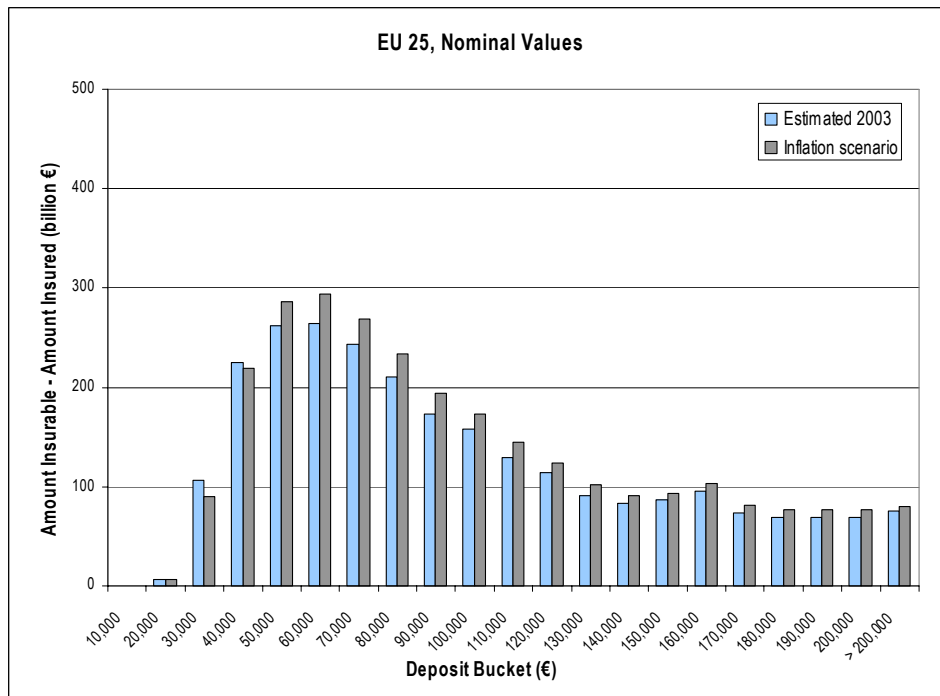


Figure 11: Distribution of the difference between insurable and insured deposits for EU-25 in Scenario 2, compared to the estimated distribution for 2003, nominal values



The comparison between 2003 current and scenario 2 (inflation adjusted) guarantee levels shows a slight overall increase in the difference between insurable and insured deposits. This is shown in Table 8 where the guarantee levels that would prevail under Scenario 2 are compared to the current 2003 guarantee levels for each Member State.

Table 8: Actual and Scenario 2 (inflation adjusted) guarantee levels in 2003

Country	Actual Guarantee Level (EUR)	Scenario 2 Guarantee Level (EUR)	Country	Actual Guarantee Level (EUR)	Scenario 2 Guarantee Level (EUR)
Austria	20,000	21,199	Latvia	8,597	8,597
Belgium	20,000	17,147	Lithuania	14,481	14,481
Czech Rep.	25,000	25,000	Luxembourg	20,000	14,433
Cyprus	20,000	20,000	Malta	20,000	20,000
Denmark	40,296	48,557	Netherlands	20,000	24,498
Estonia	6,391	6,391	Poland	22,500	22,500
Finland	25,000	28,717	Portugal	25,000	42,495
France	60,980	68,955	Slovakia	20,000	20,000
Germany	20,000	21,979	Slovenia	25,000	25,000
Greece	20,000	27,820	Spain	20,000	17,591
Hungary	26,651	26,651	Sweden	27,533	32,534
Ireland	20,000	19,360	UK	44,977	26,564
Italy	103,291	125,706			

For most EU-15 Member States the inflation-adjusted guarantee level for 2003 is higher than the current guarantee level in 2003. Note however that in Luxembourg, Ireland, Belgium and Spain the guarantee levels after accounting for inflation are below 20,000 EUR due to the transitional period up to 1999 in those countries. It should also be noted that in the UK, the actual guarantee level has increased substantially beyond the scenario 2 inflation adjusted figure.

Table 9 shows the statistics on the guarantee level for EU-15 and EU-25 Member States.

Table 9: Statistics on actual and Scenario 2 guarantee levels for EU-15 and EU-25 in 2003

	EU-15 2003 Actual	EU-15 2003 Scen. 2	EU-25 2003 Actual	EU-25 2003 Scen. 2
Weighted Mean	38,774	37,681	38,330	37,267
Weighted StDev	24,696	30,996	24,175	30,252
Min	20,000	14,433	6,391	6,391
1st quartile	20,000	20,279	20,000	19,360
Median	20,000	26,564	20,000	22,500
3rd quartile	33,915	37,515	25,025	27,820
Max	103,291	125,706	103,291	125,706

Scenario 2 would not seem to have dramatic effects on the average coverage level. It would however increase substantially the dispersion (standard deviation) between the guarantee levels both across EU-15 and EU-25 Member States. There is a clear reason behind this second effect: the higher (adjusted for inflation) guarantee levels in those countries such as France and Italy that had very high coverage levels already in 1995, and the lower guarantee level in the UK due to the adjustments which took place (not taken into account in scenario 2) between 1995 and 2003 coupled with the appreciation of the GBP.

Table 10 finally presents the statistics for the insured – insurable deposits ratio for EU-15 and EU-25 Member States.

Table 10: Statistics for the insured / insurable deposits ratios for aggregated data, estimated and Scenario 2 distributions in 2003 for EU-15 and EU-25

	EU-15 2003 Aggregated	EU-15 2003 Estimated	EU-15 2003 Scenario 2	EU-25 2003 Aggregated	EU-25 2003 Estimated	EU-25 2003 Scenario 2
Weighted Mean	50.86%	60.60%	57.45%	51.83%	61.62%	58.55%
Weighted StDev	21.24%	21.89%	25.47%	22.41%	22.17%	25.67%
Min	5.17%	18.32%	17.76%	5.17%	18.32%	17.76%
1st quartile	31.25%	46.42%	44.48%	30.31%	55.69%	57.85%
Median	48.06%	63.43%	70.13%	49.19%	77.45%	83.53%
3rd quartile	54.34%	81.73%	87.62%	59.14%	98.39%	98.39%
Max	81.40%	100.00%	100.00%	97.14%	100.00%	100.00%

The adjustment for inflation would not substantially modify the EU-15 and EU-25 average insured / insurable deposits ratio, confirming the impression stemming from the above table and figures. However, as for the

coverage level, it is possible to estimate a substantial increase in the dispersion in the insured / insurable deposits ratio.

The main conclusion that can be drawn from this scenario is that the adjustment to the guarantee level resulting from the transitional period of the Directive as well as the adjustment which took place in the UK have by and large modified the average level of coverage in the EU in a similar manner to the adjustment which would have taken place with an automatic adjustment on the basis of inflation. Such automatic inflation adjustment would have however increased the dispersion in the way in which deposits are covered by the guarantee level in the EU, as countries with the higher coverage levels would experience even higher coverage levels today, and countries such as the UK, would have seen a guarantee level much lower than the actual one, as the appreciation of the GBP and the *una tantum* increases decided in that country would have not taken place.

4.3 Scenario 3: constant guarantee level / per capita GDP ratio

In this third scenario, the EU-15 guarantee levels are adjusted on a GDP per capita basis: the guarantee levels for EU-15 are modified so that the guarantee level over per capita GDP ratio is equal to the value it had at the end of 1995 in each country.

Figures 12 and 13 show the difference between insurable and insured deposits under the current and the scenario 3 (per capita GDP adjusted) guarantee levels.

Figure 12: Distribution of the difference between insurable and insured deposits for EU-15 in Scenario 3, compared to the estimated distribution for 2003, nominal values

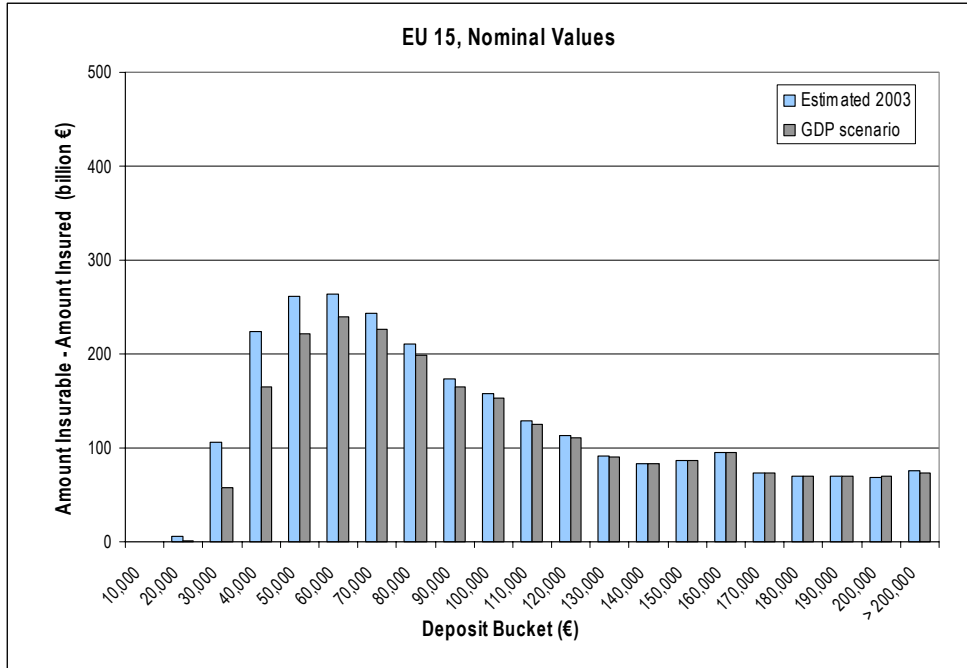
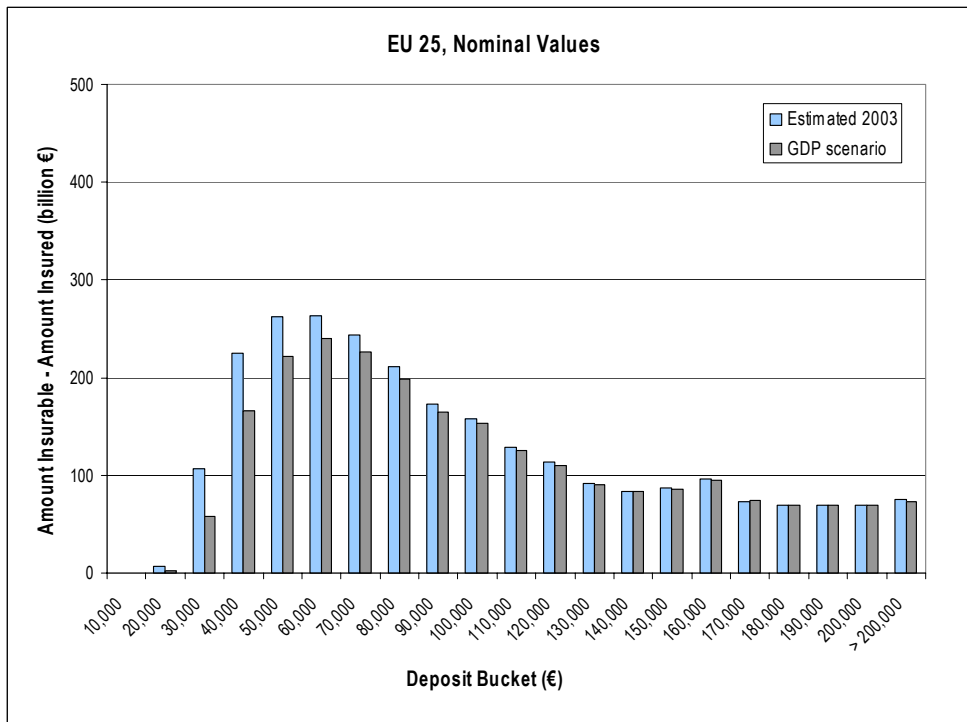


Figure 13: Distribution of the difference between insurable and insured deposits for EU-25 in Scenario 3, compared to the estimated distribution for 2003, nominal values



Scenario 3 would reduce, in a quite balanced way, the difference between insurable and insured deposits throughout the deposits distribution. The explanation for this can be found in Table 11, which presents the comparison for 2003 between actual and Scenario 3 (per capita GDP adjusted) guarantee levels in each Member State.³³

Table 11: Actual and Scenario 3 guarantee levels in 2003

Country	Actual Guarantee level (EUR)	Scenario 3 Guarantee Level (EUR)	Country	Actual Guarantee level (EUR)	Scenario 3 guarantee level (EUR)
Austria	20,000	22,903	Latvia	8,597	8,597
Belgium	20,000	18,660	Lithuania	14,481	14,481
Czech Rep.	25,000	25,000	Luxembourg	20,000	19,509
Cyprus	20,000	20,000	Malta	20,000	20,000
Denmark	40,296	54,256	Netherlands	20,000	27,317
Estonia	6,391	6,391	Poland	22,500	22,500
Finland	25,000	35,204	Portugal	25,000	51,448
France	60,980	77,583	Slovakia	20,000	20,000
Germany	20,000	22,203	Slovenia	25,000	25,000
Greece	20,000	32,706	Spain	20,000	22,994
Hungary	26,651	26,651	Sweden	27,533	39,841
Ireland	20,000	35,957	UK	44,977	42,333
Italy	103,291	159,889			

Under Scenario 3 almost all EU-15 Member States show a (per capita GDP adjusted) guarantee level higher than the actual 2003 guarantee level. It is also important to note that, compared to Scenario 2, guarantee levels are generally higher so that, for example, only Belgium and Luxembourg, would still stay below the 20,000 EUR level.

Table 12 shows the statistics on the actual and Scenario 3 guarantee levels for EU-15 and EU-25 Member States for 2003.

³³ For an overview of the coverage levels needed in each member State so as to have the guarantee level / per capita GDP weighted average ratio prevailing in EU-15 in 1995, please refer to Annex C.

Table 12: Statistics on the actual and Scenario 3 guarantee levels for EU-15 and EU-25 in 2003

	EU-15 2003 Actual	EU-15 2003 Scenario 3	EU-25 2003 Actual	EU-25 2003 Scenario 3
Weighted Mean	38,774	47,200	38,330	46,526
Weighted StDev	24,696	38,493	24,175	37,660
Min	20,000	18,660	6,391	6,391
1 st quartile	20,000	22,948	20,000	20,000
Median	20,000	35,204	20,000	25,000
3 rd quartile	33,915	46,891	25,025	35,957
Max	103,291	159,889	103,291	159,889

The adjustment to per capita GDP would result in a significant increase in the average coverage level and in the differences across Member States in the coverage level (increase in the StDev), both for EU-15 and EU-25 Member States. The reasons behind the increase in the dispersion in the guarantee levels are similar to the case of Scenario 2 (Italy and France with a substantially higher guarantee level) but with a noteworthy difference for the UK, where the Scenario 3 adjustment creates a guarantee level very close to the actual one for 2003.

Table 13 finally presents the statistics for the insured / insurable deposits ratio for EU-15 and EU-25 Member States.

Table 13: Statistics for the insured / insurable deposits ratios for aggregated data, estimated and Scenario 3 distributions in 2003 for EU-15 and EU-25

	EU-15 2003 Aggregated	EU-15 2003 Estimated	EU-15 2003 Scenario 3	EU-25 2003 Aggregated	EU-25 2003 Estimated	EU-25 2003 Scenario 3
Weighted Mean	50.86%	60.60%	63.36%	51.83%	61.62%	64.30%
Weighted StDev	21.24%	21.89%	21.40%	22.41%	22.17%	21.59%
Min	5.17%	18.32%	30.46%	5.17%	18.32%	30.46%
1 st quartile	31.25%	46.42%	51.22%	30.31%	55.69%	60.54%
Median	48.06%	63.43%	63.02%	49.19%	77.45%	84.74%
3 rd quartile	54.34%	81.73%	85.81%	59.14%	98.39%	98.39%
Max	81.40%	100.00%	100.00%	97.14%	100.00%	100.00%

The Scenario 3 adjustment increases to a certain extent the insured / insurable deposits ratio, but at the same time does not increase (or even reduces) its dispersion. Both the minimum and the first quartile in the distribution increase, implying that those EU-15 countries where the present level of coverage shows a

particularly low insured / insurable deposits ratio would particularly benefit from a Scenario 3 type of adjustment.

5. Policy Conclusions

In this report we have seen how the EU average guarantee level has decreased over time in real terms, essentially due to the erosive effects of inflation in those countries which in 1995 had a guarantee level higher than the harmonised minimum, and to the general increase in economic activity. The transitional period, with coverage levels between 15,000 EUR and 20,000 EUR in place until 1999, has however somewhat limited this effect.

Furthermore, it has been shown how the levels of coverage expressed in real terms have converged over time in the EU-15 area. The enlargement process has to a certain extent inverted this phenomenon due to the very different economic significance of deposit guarantee in new Member States compared to EU-15 countries. In fact, EU-15 Member States and new Member States protect deposits with not too dissimilar guarantee levels which, however, have a different significance in economic terms, with deposits that are *de facto* much more protected in the new Member States in 2003 than they were in 1995 in the EU-15 Member States.

Against this background, confirmed both by the aggregated data and by the estimated distributions of deposits, the analysis of Scenario 1 - where the same 20,000 EUR guarantee level is set in all Member States - shows that the pursuit of truly harmonised conditions for the protection of deposits is not achieved by simply fixing a single guarantee level for all countries. Doing so, on the contrary, increases the dispersion in the way in which deposits are effectively protected in the various Member States.

There was a certain level of inequality in the protection of deposits embedded in the levels of coverage chosen across Member States already in 1995 (and thereafter) under the present framework. Also for this reason, simple rules of adjustment of the guarantee levels chosen in 1995 do not seem able to deliver a truly harmonised protection of deposits across all Member States, although an adjustment on the basis of the development of economic activity such as per capita GDP (Scenario 3) seems to deliver a stronger harmonisation than an adjustment based on inflation (Scenario 2).

The Deposit Guarantee Directive states that “the minimum guarantee (...) should not leave too great a proportion of deposits without protection in the interest both of consumer protection and of the stability of the financial system.” It is not evident that this has been achieved across all Member States under the present framework, where the insured / insurable deposits ratio ranges between minimum values close to 0% to maximum values close to 100% (on the basis both of aggregated data and of estimated deposits distributions).

The objective of covering a percentage of insurable deposits in all countries within a common (harmonized) interval by means of guarantee levels which might also instrumentally differ in nominal terms in each Member State might represent one viable option for the future in line with the spirit of the Directive. Such a

possibility requires however a refinement of the work done to estimate the deposits distributions, which at the moment are – although useful for the present report - not sufficiently accurate for such a policy decision. Further work would therefore be useful on this as well as other alternative scenarios, combined with quantitative analysis as to the cost implications of possible changes to the current guarantee levels.

The Directive also states that “it would not be appropriate to impose throughout the Community a level of protection which might in certain cases have the effect of encouraging the unsound management of credit institutions”. Also this objective does not seem to have been fully obtained under the present framework for the following reasons.

First, it is difficult to imagine how, if almost all insurable deposits are *de facto* subject to deposit insurance in some countries (especially NMS), the guarantee level is not encouraging such unsound management. One solution could, once more, be the definition of different coverage levels compatible in all countries with a common range in the insured / insurable deposits ratio, although the resulting nominal differences between guarantee levels across Member States might not then fulfil the Internal Market objectives in the Directive.

Second, until now the guarantee level of deposit insurance has not been harmonised in the EU on the basis of any agreed theoretically sound conceptual link between the level of the deposit protection and the analysis of the risk that credit institutions run to have an incentive to be unsoundly managed. Only an analysis of the relationships that exist between deposit insurance and the other main regulatory measures that affect credit institutions could face the task and deliver an appropriate response to such a problem.

It must be finally stressed that any quantitative analysis of the type carried out can not easily explain whether qualitative targets have been met – as these objectives were not sufficiently clearly expressed in the Directive in the first place. Further clarification about what should be the objectives for the regulation at EU level of guarantee schemes in the future would be useful.