DESCRIPTION FOR THE GENERAL PUBLIC

The financial crisis of 2007–08 has shown that bank risky operations may cause dramatic consequences for economies. These are not only because of banks' losses and significant public resources needed to spend for bailing out the banks but also because banks' bankruptcies bring significant social and economic consequences all over the world. Resultantly, many proposals have emerged how to protect the banking sector against such future turbulences and to discourage banks from taking on too high risk. One of the proposals, recently heavily debated has been an introduction of bank levy. Proponents of this reform argue that designed as a Pigouvian tax by taxing short-term funding while stable funding as equity and deposits exclude from levy will discourage banks from risky activities. Others claim that bank levy allows to tax possible economic rents enjoyed by the financial sector due to implicit and explicit state guarantees. Moreover, additional levies could also offset tax distortions due to the fact that financial services are exempt from VAT and lend themselves to fiscal optimization. Recently, many countries decided to apply this regulatory instrument though the taxation scheme differs between the countries. For example, some European countries such as Austria, Belgium, Cyprus, Germany, Netherlands, Latvia, Portugal, Romania, Slovakia, Sweden and United Kingdom decided to introduce the bank levy on bank liabilities, while Poland (2016) and Hungary (2010) on bank asset. While levy design is still subject of a legislative debate increased number of countries are considering its introduction.

This recent trend in leving bank operation has raised a question on how it will affect the performance and activity of domestic banking systems. Taxing bank operation could disrupt bank activities and negatively affect the economic situation of these countries. Many economists, credit rating agencies as well as bankers warned against the negative consequences coming from the introduction of bank levy. Especially, bank levy on bank asset has been strongly criticised the media. For example, European Central Bank argued that "*proposed bank tax could have negative consequences for the provision of credit and financial stability and should be analysed thoroughly before being introduced and may give financial institutions an incentive to change their risk profile by restructuring their portfolios in favour of riskier products, by making use of off-balance sheet activities and/or by transferring their assets abroad.*"

Therefore, as the first purpose of my thesis would be to examine how bank levy influences banking sector performance as well as operation. Theoretically, the tax levy should decrease banks' performance and activity. However, in practice the effect can be mitigated by several factors, for example banks may transfer the tax burden onto their clients by increasing the lending rates. Moreover, in this research project it will be checked if bank levy introduction limits the risks from the activities. Furthermore, recently economists put attention to the fact that banks, in order to prevent from increasing the tax expenditures, limit their activity on the interbank market at the end of the accounting period and the maturity of loans on interbank market may also be shortened. Resultantly, the third purpose of this research project is to see how bank tax influences on activity on the interbank market.

So far, according to the author's best knowledge, the comparative analysis in the context of the risks, profits and the interbank market between the economies as well as between different types of bank tax has not been carried out. This analysis will be the most important result of this research project. The results will bring important contribution to both policymakers and academic debate. From a regulatory perspective it will show how effective are the proposed and implemented solution in a banking sector. From academic context it extends very limited literature on the effects of tax levy. So far, the literature mostly covers the effect of bank levy on liabilities explored mainly at the individual country level. Moreover, it is very important also from the citizens perspective- as is well known, the banking sector has a significant impact on the economy, which was confirmed during the 2007-08 crisis.