



# European Banking Union?

## Thinking about the Next Steps

Nicolas Véron

Senior Fellow, Bruegel (Brussels)

Visiting Fellow, Peterson Institute for International Economics (Washington)

Lisbon, June 29, 2012



# Pieces of the puzzle...

- **ESAs / EBA**
- **CRD4 / CRR**
- **Crisis Management & Resolution**
- **All the rest (EMIR, MiFID, CRAs, .....)**
- **Crisis impact / Banking Union**



# Why Banking Union?

- **Single market / Stability**

- Race to the bottom
- No resolution framework

- **Euro Crisis**

- Systemic fragility since 2007/08: impact on euro crisis management
  - Greece, Ireland
- Sovereign/Banking feedback “Doom Loop”
  - Financial repression
  - Greece, Portugal, Italy
  - Only really emerged in 2011



# Banking Union vs Other Unions

- **Clearer picture emerged ca. Summer 2011**
- **Combined crises**
  - Banking crisis
  - Fiscal crisis
  - Political crisis
  - Economic / competitiveness crisis
- **Fiscal Union: Merkel Nov 2011, Fiscal Compact Dec 2011**
- **Banking Union: IMF / ECB / Van Rompuy Apr 2012**
- **Political Union: (Trichet Jun 2011) / Merkel Jun 2012**
  - “Controls” to match commitments
- **Now all components are on the table**



# **Karel's Last Slide (before conclusion)**

- **European Supervisor**
- **Resolution Authority (and Deposit Insurance)**
- **Future role of EBA**
- **Diversity of banking models**
- **Macroprudential / Microprudential**
- **Relationship with State Aid Authorities**



# 1. European Supervisor

- **Scope: E-SIFIs or more?**
  - Include all banks to suppress the “doom loop”
- **Eurozone or broader?**
  - Both possible; Eurozone simpler
- **Relation with European Commission, EBA**
  - Autonomous institution
- **Relations with ECB**
  - ECB anchoring role
  - But: skills; supervision vs monetary policy; supervision vs resolution authority; supervisory failures; (outs;) governance
- **Sanctions**
  - Indispensable powers



## 2. Resolution Authority

- **Short-term vs Long-term**

- **Short-term**

- Ad hoc; legislation possible but limited scope
- Track record of temporary structures, including Swedish BSA
- Scope: system-wide?
  - Case for country-by-country approach
  - Interbank market, investor perceptions
  - Bail-outs vs bail-ins
- Relationship with ESM, Member states
  - Ad hoc burden sharing
- Relationship with ECB



## 2. Resolution Authority (continued)

- **Resolution authority: long-term**

- Link with supervision
- Link with deposit insurance
- Link with fiscal union (even with bail-in)
- Accountability / political union

- **Deposit Insurance**

- Short-term: deposit reinsurance by ESM?
  - But creates unsustainable moral hazard
- Long term: hybrid, or fully federal (doom loop)
  - Fiscal backing needed anyway → fiscal union (tail risks scenarios)





### 3. Future Role of EBA

- **Regulation**
- **Consumer protection?**
- **Crisis management?**
- **Supervisory reporting**
- **Dispute resolutions**
  - Largely (but not only) a UK question
  - To be monitored...



## 4. Diversity of Banking Models

- **No one-size-fits-all (cf EBA)**
- **Supervisory centralization / decentralization**
  - Small banks should be supervised locally
  - Not everything in Frankfurt; possible continuity for national bodies
  - Centralized authority vs centralized operations
- **But changes are inevitable**
  - Single rulebook – e.g. capital under Basel III
  - Deposit insurance – e.g. Germany
- **Larger question: future of European financial system**
  - Banking Union / financial union?
  - Development of capital markets, ESMA...
  - Insurance / asset management / conglomerates
- **Deleveraging, development of non-bank credit**



## 5. Macroprudential / microprudential

- **Macroprudential policy still in infancy**
- **Case for sub-European level (= national?)**
- **But beware of fragmentation**
  - e.g. risk-weighting of assets



## 6. Relation with State Aid Authority

- **Competition policy part of banking policy (in broad sense)**
- **Remaining scope for intervention by member states?**
  - Protection, guarantees, special treatment
  - Financial repression



# **Thank You For Your Attention**

Nicolas Véron

+32 473 815 372 (Europe) / +1 202 550 0614 (U.S.)

n.veron@bruegel.org / nveron@piie.com

Bruegel: [www.bruegel.org](http://www.bruegel.org)

Peterson Institute: [www.piie.com](http://www.piie.com)