

The Banking Union in the context of the EU crisis

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Overview of the presentation

I/ The three pillars of the Banking Union

II/ The strategic purpose of the Banking Union

III/ Unresolved Issues

IV/ Perspectives for the future of Europe

I/ The three pillars of the Banking Union

- A/ ECB as a common supervisory authority of the euro area
 - ECB : direct responsibility for the 200 largest banks,
 - But will have power to deal with small banks if necessary

- B/ Common resolution fund & mechanisms for failing banks

- C/ Common deposit-insurance scheme to prevent bank runs

II/ The strategic purpose of the Banking Union

- Copes with the deficit of bank regulation in the euro area, a major cause of the financial crisis (Larosière Report)
- Brings new mechanisms for financial stability besides existing ECB's instruments (LTRO, OMT) and the European Stability Mechanism
- Creates common instruments for crisis management => micro and macroprudential supervision
- Increases the homogeneity necessary for a Monetary Union (Mundell conditions for Optimal Currency Area) : failure of the « Lamfalussy process » for convergence of supervisory practices

III/ Unresolved issues (1)

- Will the ECB be able to override national supervision of smaller banks ? Potential conflicts between National & European supervisors
- Conflicting targets of ECB : monetary stability vs bank stability
- Who pays when things go wrong for banks in member states ? principle of fiscal responsibility of member states vs principle of the mutualisation of losses in the banking system

III/ Unresolved issues (2)

- Geographical scope of the Banking Union ?
 - Relationships between the ECB (eurozone) and the EBA (EU) ? Competition or cooperation ?
 - The ECB does not control decision-making of EBA
 - EBA is weakened by the new role of ECB as supervisor
 - What about non-euro-members ?
 - Remaining outside the eurozone but inside the EU is it sustainable ?

IV/ Perspectives for the future of Europe (1)

- The Banking Union => sizeable improvement in the regulation & supervision of banks
- The Banking union will not end Europe's crisis
 - Banks are currently under stress
 - The making of the BU will take time
 - The poisonous link between weak sovereigns and weak banks remains intact => the LOLR of the ECB with respect to governments needs clarification
 - No change in the existing business model of banks (Liikanen proposals fall short)

IV/ Perspectives for the European construction (2)

- Banking Union creates political problems :
 - Risk of splitting the EU : exit of Britain ?
 - Risk for democracy : increased power given to the ECB without significant increase in accountability
 - => Need for a renewed ECB mandate enlarged to financial stability
 - ⇒ Need for a renewed definition of ECB independence
 - Accountability of ECB to democratic institutions
 - Cooperation with other entities responsible of economic policy
- Banking Union cannot be considered separately from :
 - Financial reforms => Disarm financial markets
 - Fiscal union => Common EU budget and taxation
 - Political union => Democratic control on banking authorities