

4. Banking Union: barriers and other issues

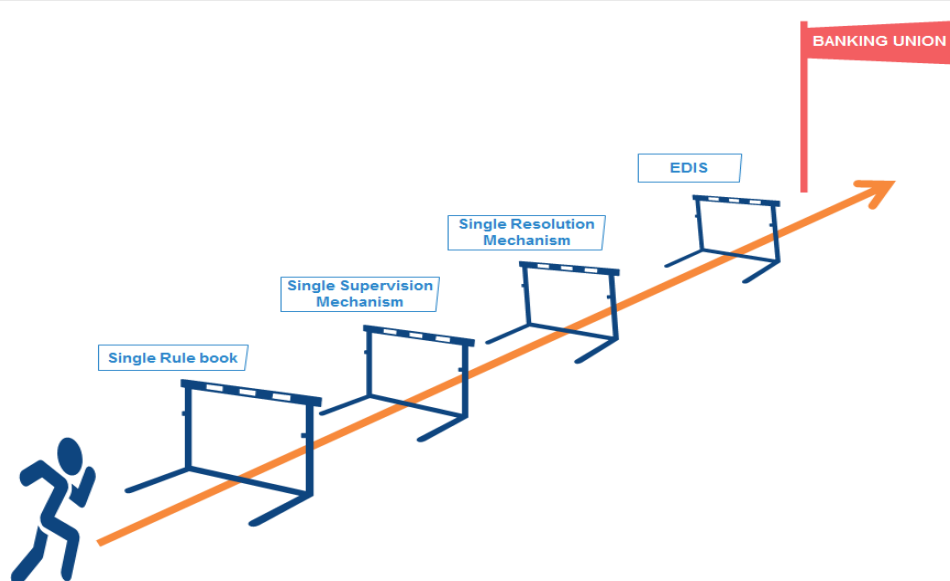
Halfway there

The Banking Union is one of the tools most relevant to achieving financial integration in the Eurozone and to breaking the doom-loop between sovereigns and banks. Given its importance we need to improve it, as there are barriers to overcome. Furthermore, the project is only half-completed, since some key elements are still missing.

Since its launch in June 2012, the BU has shaped up to be the most significant transformation caused by the financial crisis in Europe, not only regarding economic structure, but also from a political perspective. It marks a sea change in the nature of European integration and the balance between Member States and European institutions.

This new institutional architecture has been successfully launched in record time. A key structure of the Banking Union was put in place with the creation of a new single supervisor in the European Central Bank (ECB), known as the Single Supervisory Mechanism (SSM), and the Single Resolution Mechanism (SRM) for resolution and recovery tasks. Nevertheless, after three years in existence the BU is not progressing as expected and remains mid-stream. Among the main elements of the BU (Single Rulebook, SSM, SRM and a single deposit guarantee scheme), only the first three are operational with some drawbacks still to overcome, as the recent resolution cases in Spain and Italy have shown. The last pillar of the BU, the European Deposit Insurance Scheme (EDIS) is still missing and the time is ripe for the EU authorities to finish this off.

Figure 4.1 Banking Union: Halfway there



Source: BBVA Research

A quick and comprehensive review must be conducted of the barriers currently preventing the smooth functioning of the various different pillars. These are hampering efforts to further progress as regards the BU, which calls for re-examination of how the BU is being effectively implemented.

In this regard, the main barriers standing in the way of smooth functioning of the different pillars are:

- 1. The Single Rule Book must be truly “single”.** The European Commission has to guarantee harmonised application of EU law in all member states, and to improve some of the current procedures.
- 2. Supervision.** A lot of progress has been made on supervision, promoting a unique culture for supervision via the SSM. Yet **domestic divergences and discretionary action must be avoided if we want to consolidate the supervisory framework in place. This relates to the first issue.**
- 3. The resolution framework must eliminate loopholes that do not respect its spirit, in order to consolidate the idea that taxpayers should not bear the cost of a crisis.** Additionally, it would be advisable to buttress the financial resources of the Single Resolution Fund (SRF) by creating a public backstop.
- 4. The BU will remain fragile unless real steps are taken to include a common fiscal backstop for the SRF and to create an EDIS.**

As the BU is a key project for the future of the EMU that cannot be taken for granted, its development will require stamina and leadership from several key players. There is an urgent need to close the loopholes in the Single Rulebook and in supervision without holding up progress on resolution and EDIS, where much remains to be done.

The SSM and SRB will need to be exemplary in terms of effectiveness, fairness, transparency and accountability, not to mention in their technical competence and integrity, and be able to navigate political constraints skilfully, without compromising their basic policy principles.

In short, to complete the BU there are key issues pending, such as a backstop for the SRF and EDIS. Nonetheless, we need not only to finish off what we started, but also to consolidate the framework we have developed so far.

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