



# DE-RISKING THE FUTURE OF EUROPE

REFORMING THE MACROFINANCIAL ARCHITECTURE

---

## Completing the Banking Union

**Nicolas Véron** – Bruegel & Peterson  
Institute for International Economics

---

*Wednesday 11 September 2019*

#deriskingEU   
#deepeningEMU

**London School of Economics**  
*Old Building - Houghton Street, London*

# RATIONALE

## It's All About the Bank-Sovereign Vicious Circle

- Main engine of the euro area crisis
- Persists despite major 2012-2014 reforms
- Further efforts should allow for
  - Sovereign credit event without financial meltdown
  - Systemic financial crisis without sovereign default
  - Far more remote possibility of euro area exit
- Semantics: “completing the banking union” = breaking the vicious circle
  - i.e. decorrelation of credit conditions from sovereign creditworthiness (not elimination of all national tweaks)

#deriskingEU   
#deepeningEMU



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

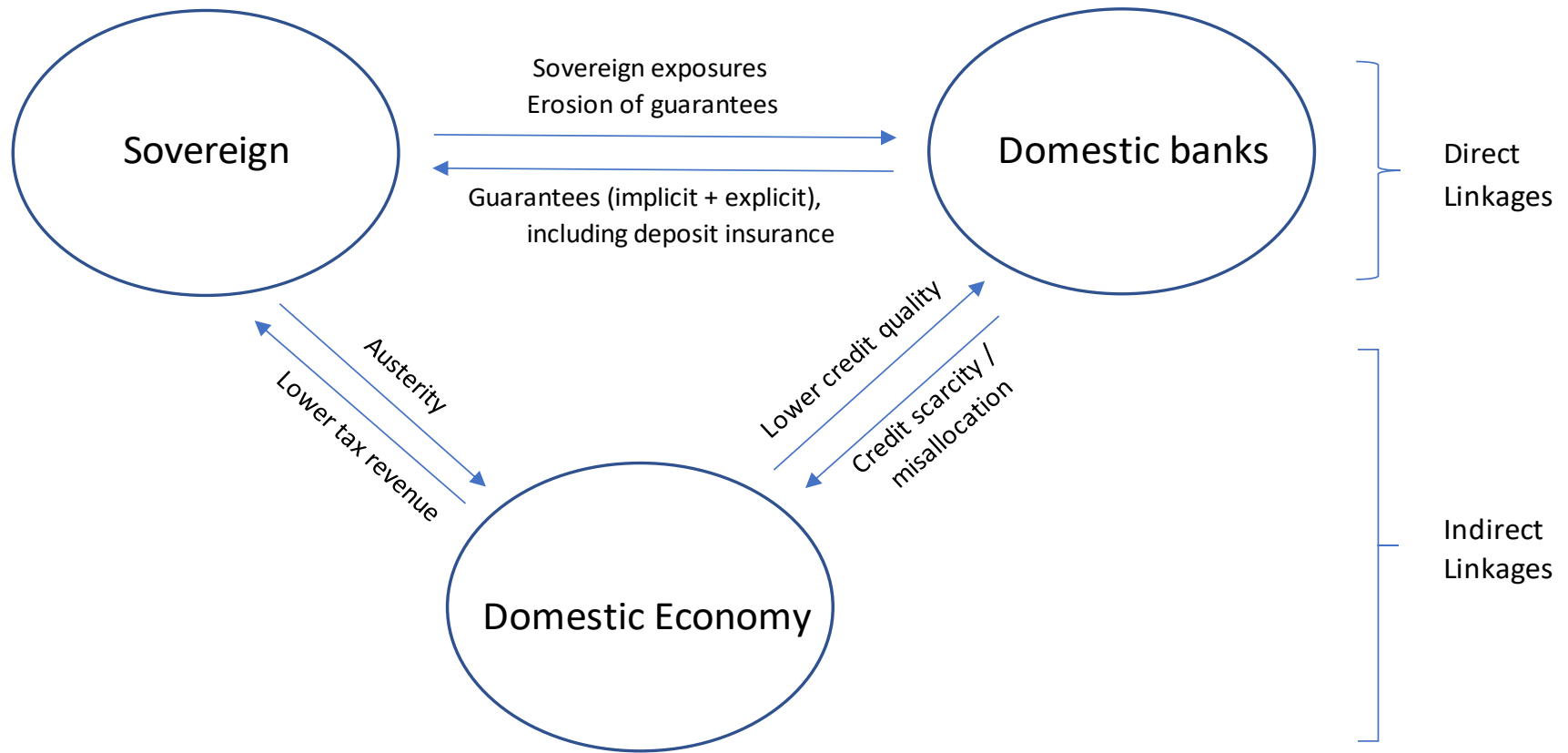


FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES  
FONDATION EUROPÉENNE  
D'ÉTUDES PROGRESSISTES



# VICIOUS CIRCLE

## Standard Depiction (based on Blanchard 2011)



# AGENDA

## A Policy Package that's Ambitious but Achievable

- Limitation of concentrated sovereign exposures
  - “Pillar-1” capital regulation / concentration charges
- Guarantees equalized and pooled at union level
  - Single deposit guarantee system
  - Single predictable regime for non-viable banks
  - Less permissive state aid regime on idiosyncratic failures
  - Instruments for systemic crisis intervention
- Removal of cross-border barriers
  - Seamless management of capital and liquidity inside the banking union

# SCOPE

## Will That Banking Union Package Be Enough?

- Safe Assets / Fiscal Union?
  - Not necessary for completion of the banking union
  - Raise major issues of political consent
- Capital Markets Union?
  - Long-standing single market project
  - Banking union is an enabler
  - Start with capital markets infrastructure / supervision
- Financial system integrity
  - Urgent reform of Anti-Money Laundering supervision

# PROSPECTS

## It's Less Utopian Than It Sounds

- Analytical & rhetorical consensus
  - Need to “break the doom loop”
- Lower salience of “risk reduction” narrative
  - Reduced NPL volumes & reduced sovereign spreads
- Less concern about loss of sovereign market access from sovereign concentration charges
- Awareness of recklessness of status quo
  - Reminder from 2018 Italian sequence

## NEW COMMISSION

### Ursula von der Leyen's Political Guidelines (16 July 2019)

“I will also focus on completing the Banking Union. This includes a common backstop to the Single Resolution Fund, a last-resort insurance measure in the event of a bank resolution. To ensure people have peace of mind when it comes to the safety of their bank deposits, we need a **European Deposit Insurance Scheme**. These are the missing elements of the Banking Union which we should find agreement on as swiftly as possible. I will also put forward measures for a robust bank resolution and insolvency framework.”

#deriskingEU   
#deepeningEMU



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■



FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES  
FONDATION EUROPÉENNE  
D'ÉTUDES PROGRESSISTES







# DE-RISKING THE FUTURE OF EUROPE

REFORMING THE MACROFINANCIAL ARCHITECTURE

---

# THANKS!

**FMG**  
Financial Markets Group  
RESEARCH CENTRE

**LSE** THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

**UWE  
Bristol** University  
of the  
West of  
England

**RUC**  
Roskilde University

FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES  
FONDATION EUROPÉENNE  
D'ÉTUDES PROGRESSISTES

