# EMU after 2011
# Good Direction but Lack of Courage

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# EMU: Not Just the Sum of Member States

- ❑ **Incomplete** structure
- ❑ Lack of understanding the urgency of taking into account the **systemic repercussions** of national factors
- ❑ «House in order approach»: necessary but not sufficient
- ❑ 2011: Wake-up call (?)
- ❑ Very high risk but not perceived

# A Paragidmatic Example:
# The Banking Union

- Before 2011:
  - **National** Authorities in charge of supervision
  - No consideration of the systemic risk
  - Examples: Ireland or the Cajas in Spain
- Need to **centralize** the management of such a systemic issue → Already in the 2012: first pillars of the Banking Union

# The First Pillar: The Single Supervisory Mechanism (SSM)

- From **microprudential to macropudential** supervision
- **Centralization** of the Supervision at the **European Level**
  - The **ECB directly supervises** the **'systemic players'** [the 118 significant banks of the participating countries. These banks hold almost 82% of banking assets in the euro area.
- Not Systemic Banks?
  - Still **under National Supervision** but in close cooperation with the ECB that can decide to directly supervise any one of these banks to ensure that high supervisory standards are applied consistently

# The Second Pillar: Single Resolution Mechanism (SRM)

- Ensuring the efficient resolution of failing banks with **minimal costs** for taxpayers and to the real economy
- Creation of a **Single Resolution Fund (SRF),** financed by contributions from banks to pay for resolution measures
- Passage from **bail-outs** to **bail-ins**
- Need to use European Stability Mechanism (ESM) as a backstop (last resort safety net) for the SRF?

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# What about the Third Pillar? European Deposit Insurance Scheme (EDIS)

- So, after the crisis, EMU member states have built successfully and swiftly **two of the three** pillars of the Banking union
- But we have **lost momentum** and we got stuck in the discussion between **Risk Sharing and Risk Reduction**
- Result: Again an **incomplete** (while brilliant) construction that, as it stands, does **not work!**
- EDIS is key to avoid bank runs and foster resilience of the European financial and banking system

# A further example: Stabilization tools?

- Commission’s Proposal: **European Investment Stabilization Function**
- A brand new fund of **30 billion euro**
- Aim: providing **financial assistance** to member states in crisis to **avoid cutting strategic investments**
- **Idiosyncratic** macroeconomic **shocks absorber** in the euro area
- BUT: too little to make a real change – and not sure