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Future Challenges: The Big Picture

So far, the conference has tackled various aspects of the European banking union. Among these aspects were issues of strategy and transition, the potential impact on the role of the European financial system in the global economy, issues of regulatory capture as well as the immediate challenges that the Single Supervisory Mechanism (SSM) brings for banks and regulators. In addition, ongoing balance sheet repair, peers in the U.S., bail-outs and bail-ins dominated the discussion.

This last chapter will bring us to the bigger picture.

During the height of the European debt crisis in 2012, it became clear that the supervisory and financial architecture in place at that time was very vulnerable. Banks and sovereigns were caught in a downward spiral in which banks undermined the financial strength of sovereigns, who in turn undermined the financial strength of national banking systems in a destructive, negative feedback loop. The outcome of an intensive debate, the banking union was meant to be an institutional reform that would be able to break this vicious cycle in a possible future crisis. It was to change the institutional architecture of the monetary union as a whole toward enhanced financial stability. It was to improve the relationship between banks and sovereigns, and it was to reduce the fragmentation of financial markets. Overall, the banking union could play a vital role for the European integration process as a whole. By the way, these expectations have already been partly fulfilled, as the fears about the break-up of the euro, which dominated the public debate during the peak of the crisis, are no longer relevant.

It was clear from the beginning that an endeavor as immense as the banking union would go beyond pure supervision issues and would comprise resolution as well as deposit insurance. In the process, all these factors were discussed and found entry in the new legislation. Will the final outcome of the initial idea be functional and will it be able to deliver?

Critics of the recent agreement on the banking union framework have pointed out that the idea of building a resolution fund at the order of magnitude of only a tiny fraction of the value of banking assets with no further backstops beyond the national level will not be able to defuse the negative spiral between sovereigns and banks in a future crisis. Some have gone so far as to claim that a banking union with the current kind of backstop regime is worse than no banking union at all. Others, among them the European Parliament, supported the agreed framework and wanted it to be implemented as soon as possible.

There are of course other big picture questions, like whether the banking union will change the structure of banking in Europe in the medium term or whether it will change the overall functioning of the monetary union. Is the banking union a structural change that is able to enhance the sustainability of the monetary union?

Doubts and open questions remain. Does the banking union encourage shadow banking and therefore create new systemic risks? What about the non-euro area countries? So far, they have been quite hesitant to join the SSM. At first glance, their membership would increase the impact of the SSM and therefore the attainable stability. But it would also make the institutions and the decision-making processes more complex, which could be counterproductive when things are going wrong and urgent action is needed.

If we wish to see the "big picture," we should ask the "big names" what they have to say. They are not only familiar with the issues in detail, but also know what implications decisions may have, how to avoid negative outcomes and how to promote positive ones. These "big names" have frequently weighed into the public debate with their voices and their expertise.