

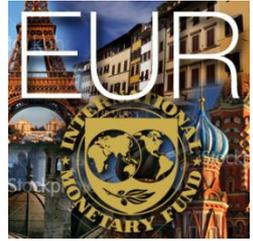
# Opting into the Banking Union before Euro Adoption



OeNB Workshop “Toward a Genuine Economic  
and Monetary Union”

September 10, 2015

# Banking Union before Euro...

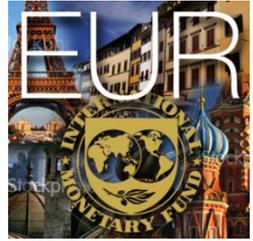


OR



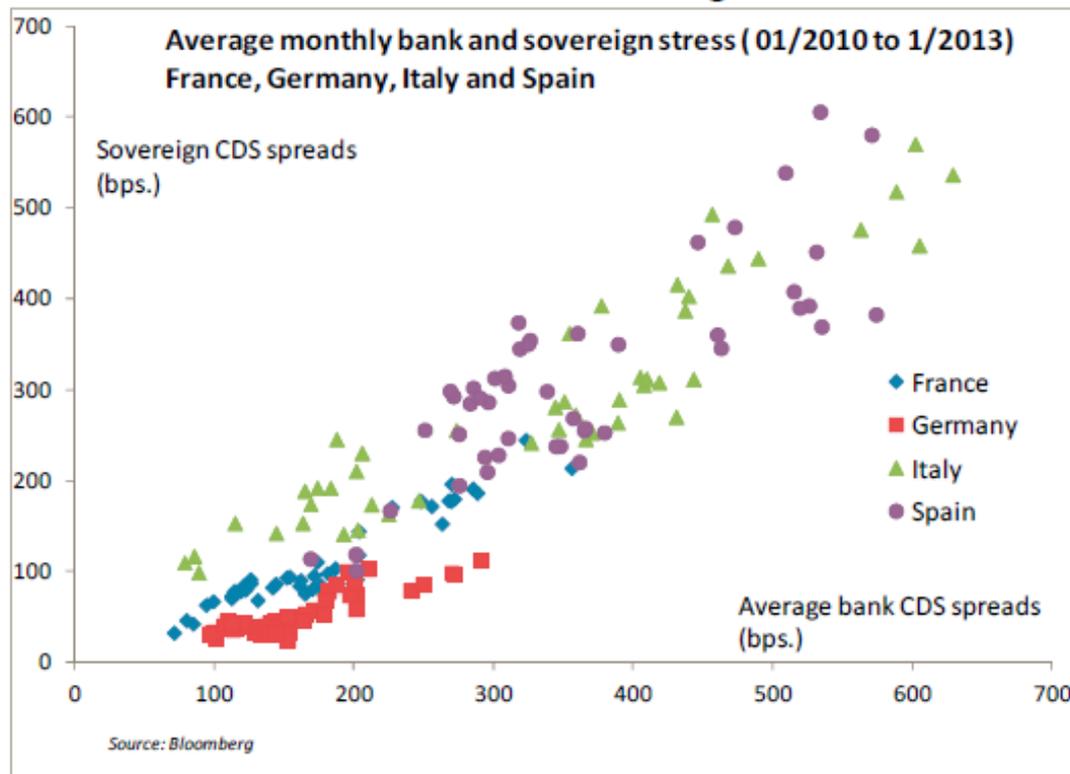
“Banking Union Before Euro Adoption: Flak Jacket or Straitjacket?” <http://blog-imfdirect.imf.org/2015/08/19/banking-union-before-euro-adoption-flak-jacket-or-straitjacket/>

# Banking Union: Rationale

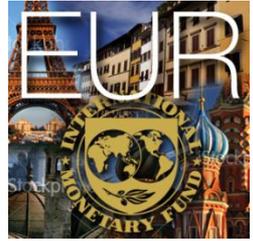


- National mandates for financial oversight
  - Do not internalize cross-border externalities

## Intertwined Bank-Sovereign Stress



# Banking Union: Not Yet Perfect



Common bank supervision



Common bank resolution



Common fiscal backstop



Common deposit guarantee scheme



# Banking Union: ...More so for Opt-ins



Role in SSM governance  
on par with EA members



ECB liquidity support



Common backstop

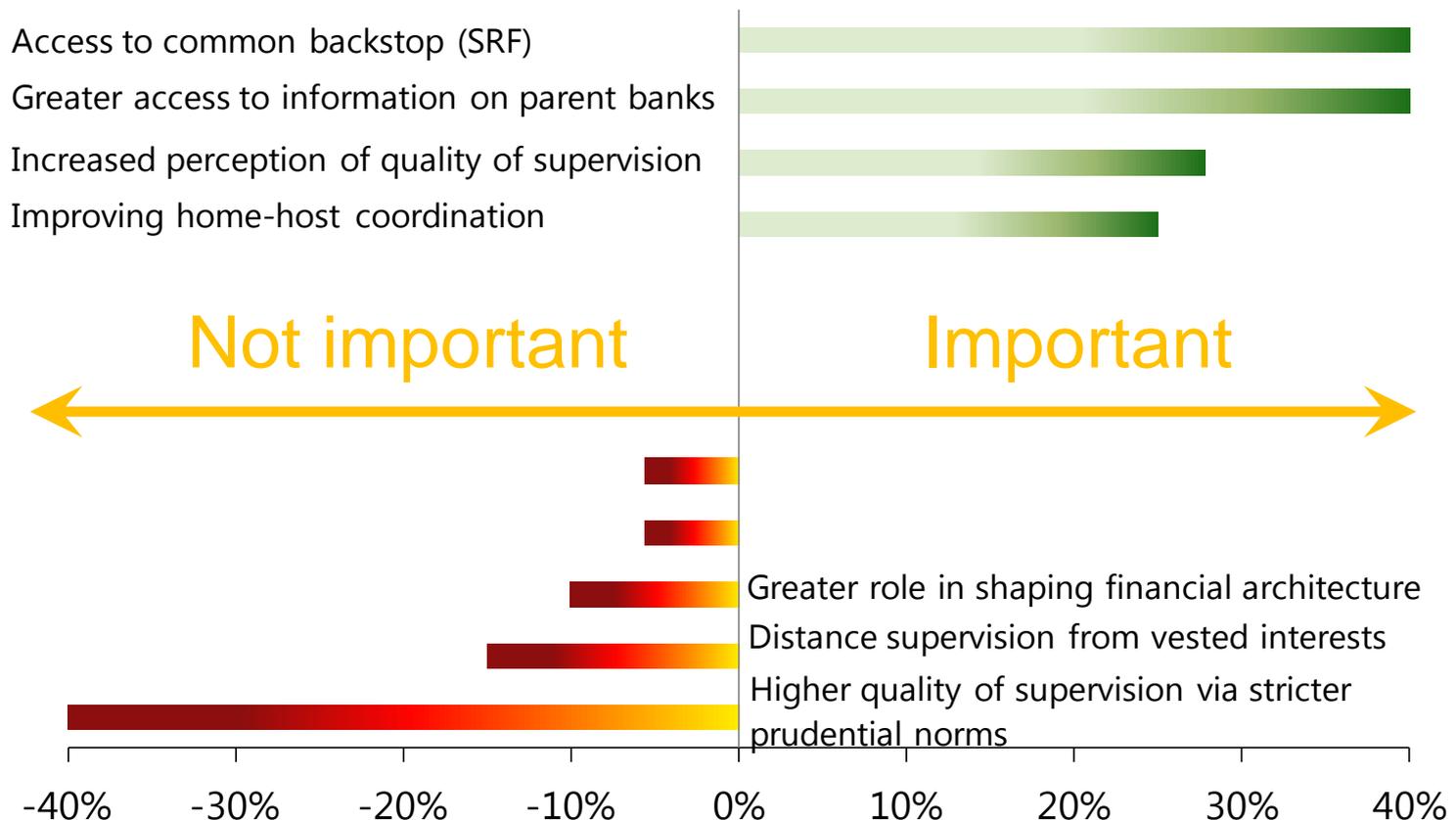




# Survey: Banking Union Pros



## Survey of MOFs and CBs of New Member States: Banking Union Pros (Balance of opinion, percentage points)

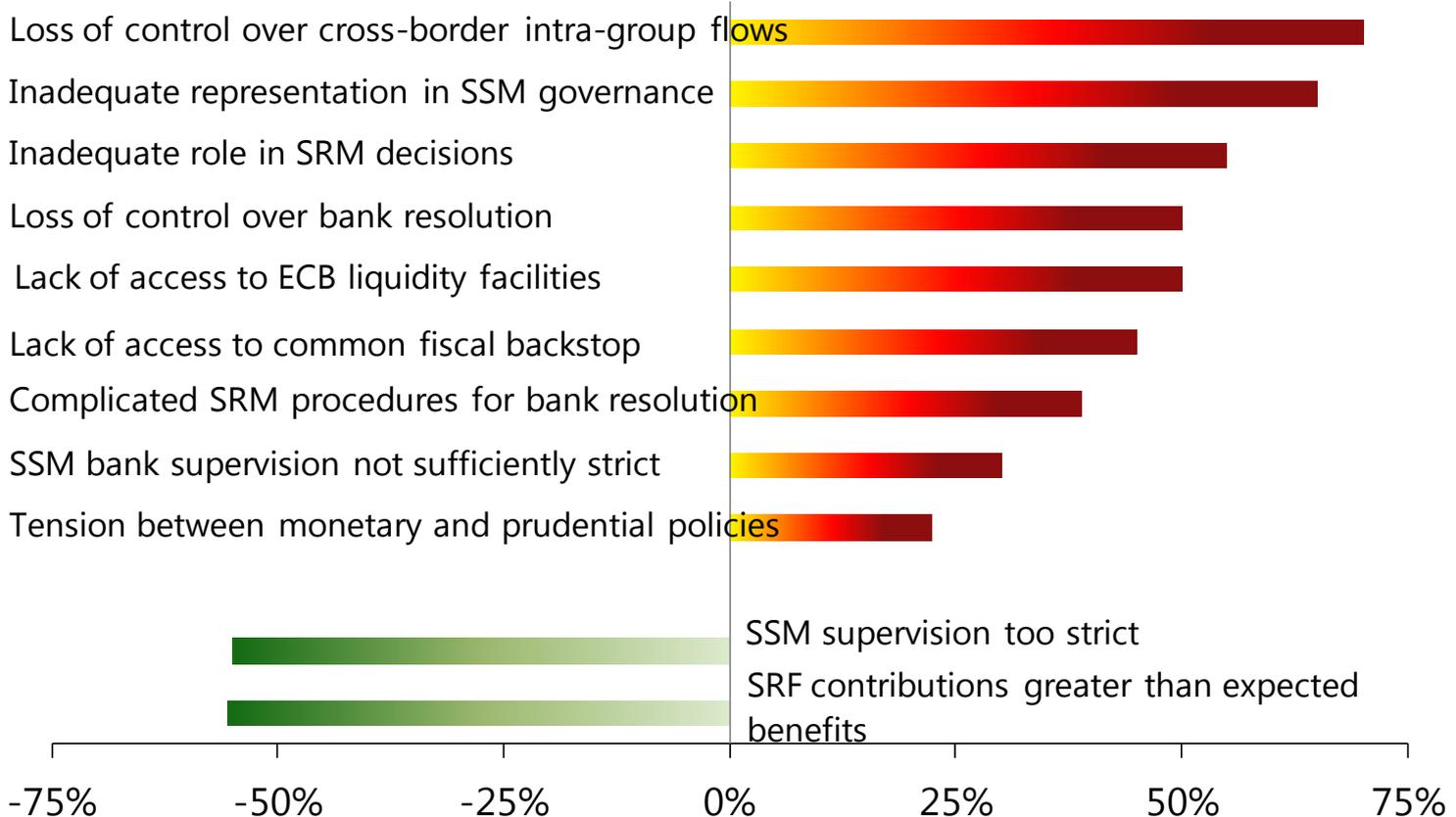


Note: Index constructed as the difference between shares of respondents that think these are important benefits and those who consider them negligible.

# Survey: Banking Union Cons

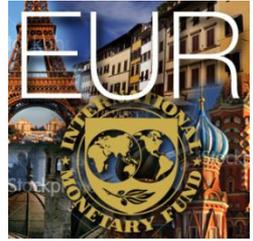


## Survey of MOFs and CBs of New Member States: Banking Union Cons (Balance of opinion, percentage points)



Note: Index constructed as the difference between shares of respondents that think these are important costs and those who consider them negligible.

# Survey: Reflects Policy Trade-offs, Challenges, ...



## ■ Policy trade-offs

- ↓ policy flexibility **vs.** common backstop
- ↓ control over cross-border flows **vs.** ↑ role in parent bank supervision

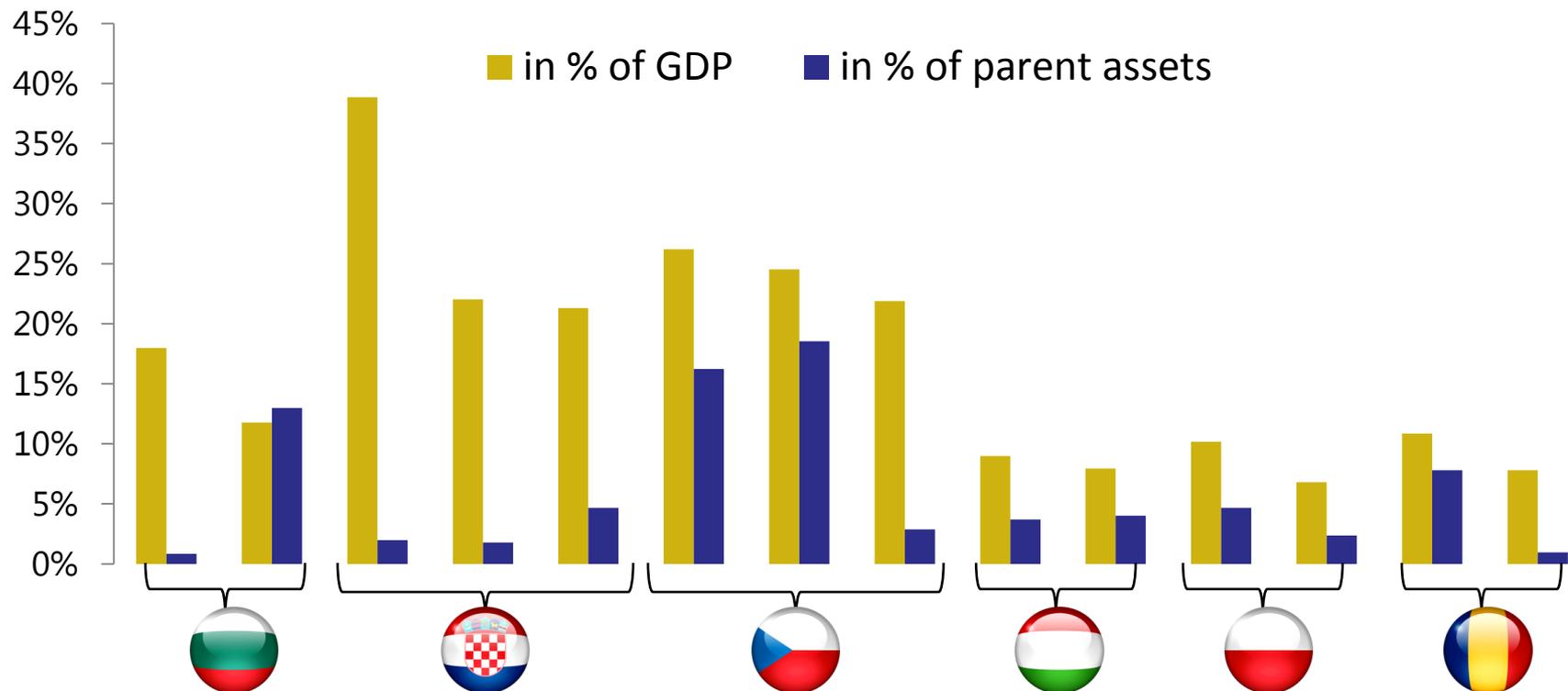
## ■ Coordination challenges

- National monetary/prudential policies **vs.** prudential policies at BU-level

# Survey: ..., and Country Specifics



## Relative Importance of Foreign Subs for Bank Group and Host NMS (Bank assets in % of GDP and parent bank assets)



Note: Each pair of columns represents one of the largest local subsidiaries of foreign parent banks in NMS.

# Banking Union: How to Attract Opt-ins?



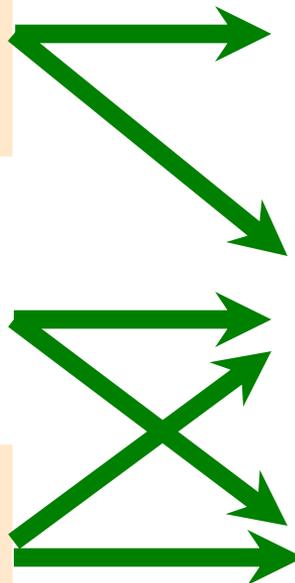
- Better balance **between** ceding decision-making powers **and** risk (burden)-sharing

## Concerns

Reduced ability to ring-fence bank capital and liquidity

Loss of control over decisions on systemic bank closures

Reduced ability of local authorities to mitigate country specific shocks



## Possible Solutions

More leverage in supervisory decisions on parent banks  
*(greater role of opt-ins in SSM/ Executive Board?)*

Access to ECB liquidity support  
*(FX swap lines with the ECB?)*

Access to common fiscal backstop  
*(EU's medium-term BOP facility?)*

# Banking Union: State of Play



- Political agreement on opt-ins equivalent treatment
  - Use of EU BoP facility for bridge-financing of Single Resolution Fund national compartments
- Planned common backstop of SRF
- Building operational track record

# Summary



- Unequal treatment of opt-ins
  - Representation in SSM
  - Common liquidity and capital backstops
- Opting-in attractive
  - Low credibility of national supervisors
  - Inadequate national backstops
- Pledge of equivalent treatment
  - Consideration of partial fiscal backstop
  - Will it be sufficient?