

The politics of an asymmetric Banking Union

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THE POLITICAL ECONOMY OF EUROPEAN BANKING UNION

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Overview

Aim:

to take stock of the setting up and functioning of Banking Union – and its various ‘components’

Key argument:

- Banking Union: incomplete with asymmetric effects
- Mix of supranational, intergovernmental and national competences & powers
- Two competing coalitions influenced the building up of Banking Union and seek to shape its completion (or lack thereof)

The making of an incomplete Banking Union (2012-14)

- **SSM (2014):** *supranationalisation* banking supervision
 - ECB-centric: ECB directly supervises significant banks, ECB+NCA less significant banks
- **SRM (2015):** *hybrid supranational-intergovernmental-national*
 - SRB (EU agency) for banks directly supervised by ECB + cross-border banks, NCA for other banks, SRF, convoluted decision-making
- **EDIS:** not set up
- **Fiscal backstop:** no progress

The functioning of an incomplete Banking Union (2014-)

- **SSM:** ECB directly supervises 120 banks, harmonisation of banking rulebook of significant banks, slower progress non-significant banks (6000)
 - ECB + EBA: comprehensive assessment, AQR, stress test
- **SRM:** SRB & SRF not used so far; 'Sinatra doctrine' in resolution
 - **Austria** (*Heta*)
 - **Portugal** (*Novo Banco*)
 - **ES** (*Mare Nostrum, Bantierra*)
 - **Italy** (*small banks + Monte dei Paschi*)

The asymmetric effects of Banking Union

- **BU** (temporarily) halted the **sovereign debt crisis**
 - BUT without breaking the **'doom loop'** in the periphery
- **Disjunctures**: supervisory decisions taken at euro area level, with risk-sharing mechanisms at national level
 - BUT **moral hazard & past legacies**
- **Political salience of bank resolution, national specificities & Sinatra doctrine**
 - BUT danger for **levelled playing field & financial stability**
- **Mix of competences & powers** in Banking Union: supranational, intergovernmental and national

Competing coalitions in Banking Union

- **ECB + COM:** support for the construction of Banking Union + ‘risk sharing mechanisms’ to be developed
- **France + euro periphery:** support for the construction and completion of Banking Union
- **Germany + Austria, Finland, Netherlands:** keen to set in place control mechanisms but limiting risk sharing
- Long standing competing coalitions in EU economic governance
→ **incomplete & asymmetric EMU**
- *Banking Union to complete EMU, but Banking Union also incomplete !*