EU Banking Union: Complex Effect for Member States

Eugene Eteris

Rīga Stradiņš University European Studies Faculty,
Regional Economy and Business Department, Latvia

Introduction. The ECB (since the end of 2013 until the end of 2014) will perform a comprehensive assessment (in cooperation with national banking authorities) of the member states' financial institutions with three main aims in mind: bank's transparency, implementing corrective actions and building confidence. This ECB's 12-month assessment process includes an asset quality review (AQR) and stress tests of around 130 credit institutions in 18 eurozone states, covering about 85 per cent of the eurozone banks' assets. It will provide for recapitalization and restructuring of member states' financial institution feasibility, which will prevent possible economic and financial crisis.

Aim. Uncoordinated national responses to the failure of banks have reinforced the link between banks and sovereigns and led to a worrying fragmentation in lending and funding. This fragmentation is particularly damaging within the euro area, where the monetary policy and funding impedes efficient lending to the real economy, jobs and growth. Therefore, the research's target is towards a proper understanding of the connections between the financial institutions and the real economy in Latvia.

Material and methods. The material for the research and the method stem from the analysis of the EU intuitions' documents, in particular those of the Commission and ECB, during the last year. See, for example, ECB's report "ECB starts comprehensive assessment in advance of supervisory role" (23 October 2013): www.ecb.europa.eu.

Results. Building on strong regulatory framework among EU-28, the EU institutions have taken an inclusive approach and proposed a roadmap for the EU banking union potentially open to all EU states but particularly for the 18 eurozone area (with about 6000 banks). Under particular control in Latvia are three banks: ABLV Bank, SEB banka and Swedbank.

In November 2013 (about a year after the Commission's proposal for a single banking supervision mechanism in the euro area (SSM), the corresponding regulation entered into force; the SSM is fully operational in 2014. Therefore, the ECB is taking over a new role of financial supervisor: all EU banks will be under its direct supervision, as well as the banks' balance sheets. Besides, it has recruited high quality supervisory staff while building up a new supervisory structure that integrates national supervisors. Hence, the analysis is presented showing the main features of SSM, as well as that of single resolution mechanism (SRM) to complement the SSM. The latter will ensure that if a bank faces serious difficulties its resolution can be managed efficiently. SRM includes common resolution financing arrangements, including a Single Resolution Fund of about € 60 bln (for direct bank recapitalization). SRM enters into force in January 2015; bail-in and resolution – from January 2016.

Conclusions. Swift progress towards EU banking union, comprising single centralised mechanisms for the supervision, resolution and restructuring of banks, is indispensable to ensure financial stability and growth in the euro area. However, centralization of bank supervision is expected to foster market integration, cross-border bank consolidation and the emergence of a more diverse financial sector with a greater variety of banking and non-bank intermediation business models. Besides, the combination of national banking policy frameworks with the banking union's agenda can create powerful incentives for banking nationalism, which could lead to the promotion of domestic banking champions in the EU financial sector working against competing foreign banks and potential new entrants.