Special issue of the *Journal of European Integration* 45(1).
The special issue is available here
https://www.tandfonline.com/toc/geui20/45/1?nav=tocList.

Banking on Europe: Reinforcing the Unstable Pillars of European Banking Union at Ten

Anna-Lena Högenauer, University of Luxembourg; email: anna-lena.högenauer@uni.lu
Lucia Quaglia, University of Bologna; email: lucia.quaglia@unibo.it

Abstract

Banking Union represents one of the most important developments in European integration since the launch of Economic and Monetary Union (EMU) and, hence, is a subject of great relevance to the *Journal of European Integration*. Furthermore, the design of the Banking Union agreed between 2012 and 2014 was a messy compromise among European Union (EU) member states seeking to rebuild confidence in European banking sectors in the aftermath of the international financial crisis and in the midst of the Euro Area's sovereign debt crisis. It is not surprising then that design and operation of Banking Union have sparked lively academic debates and triggered an ever-growing number of publications from different disciplinary backgrounds. The topic of Banking Union is both important and timely. It is important because Banking Union is a core component of economic governance in the EU / Euro Area and it is crucial for financial stability in Europe. It is timely because the Covid-19 pandemic has had far-reaching implications for the financial system, first and foremost the banking sector. A robust and effective Banking Union is central to crisis management and to boosting the real economy in the EU / Euro Area.

A decade after the launch of Banking Union proposals in June 2012 and more than a decade since the outbreak of the worst international financial crisis since the late 1920s, the effective design of EU bank regulation, supervision, support and resolution remains hotly contested, in both academic and policy-making circles. The reinforcement of two of the three pillars of European Banking Union — the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) — still ranks very high on the EU's reform agenda. The successful application of European bank resolution rules and operation of the SRM have met with repeated obstacles and many large European banks lack the funds that would allow them to be resolved without systemic risk. The operation of the SSM has been widely criticized for its insufficient transparency. The creation of the third pillar — the European Deposit Insurance Scheme (EDIS) — remains elusive. Other reforms designed to strengthen the EU's regulatory framework — the so-called single rule book for banks — have met the determined opposition of a number of EU member state governments and powerful bank interests. Thus, for example, the European Commission's proposal for a regulation on bank structural reform was withdrawn in late 2017. Efforts to reinforce the capital position of European banks have been repeatedly watered down and targets postponed. The design and application of European Banking Authority (EBA) bank stress tests have been frequently criticized as inadequate.

At the same time, Banking Union and broader EU efforts to reinforce the governance of European banking have involved a number of successes. Despite its lacunae, the SSM and the transfer of bank supervision powers to the European Central Bank (ECB) can be seen as broadly successful and supervision of the Euro Area's largest banks has improved. The ECB

and EBA's comprehensive assessment of bank balance sheets in 2014 provided an unprecedented overview of the capital position and stability of the Euro Area's largest banks. A range of other legislative and institutional reforms designed to reinforce EU bank regulation and supervision have been adopted — and specifically the revised versions of the Capital Requirements Directive (CRDIV and V) and the Capital Requirements Regulation (CRR I and II) of 2013 and 2019 respectively. The main objectives of these reforms to force banks to hold increased loss-absorbing capital and liquid assets are to make banking safer—and specifically to diminish the systemic effects of losses resulting from high risk bank activities—and to reinforce the ability of supervisory authorities to monitor effectively bank activities. Nonetheless, the degree to which these reforms have achieved or will achieve their stated objectives remains a matter of considerable debate.

This special issue brings together a group of leading political scientists, political economists and legal scholars with well-established publication track records writing on Banking Union and closely-related themes. The aim is to present a range of perspectives on the lacunae and problematic operation of the elements of Banking Union. Specifically, it includes papers examining: the problematic democratic accountability and parliamentary control of banking supervision; the uncertain impact of Banking Union on the EU's financial periphery; the contested conceptualization of moral hazard that has been baked into the main institutions and rules of Banking Union; the insufficiently developed relationship between financial and fiscal stability; the uneasy combination of banking supervision and monetary policy; the need for ongoing harmonisation of the national supervision of banks; the gradual development of a common supervisory culture; and the difficult cooperation of banking supervisors and resolution authorities. Created to tackle one crisis, the institutions and rules of Banking Union have also had to withstand the unprecedented macroeconomic effects of the Covid-19 pandemic. The papers examine the resulting flexible application of the single rulebook for banks by the ECB and the ongoing challenges that the impact of the pandemic will have on bank supervision.

Taken together, the papers of this special issue provide us with a nuanced picture of Banking Union's construction problems, lacunae, and governance structure design faults — with the hindsight of almost a decade of operation and the challenges that the pandemic has created for most European banking sectors. Banking Union resembles an unfinished cathedral. Given its problematic architecture, there remain important stability risks. The papers discuss a range of potential reforms to the elements of Banking Union and, more generally, seek to stimulate questions for future research on EU bank regulation and supervision. By shedding light on a number of difficult issues facing the design and operation of EU supranational regulation and supervision, this special issue seeks to provide a contribution that is of value to both academics and policy makers