

Completing the Banking Union is a priority

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Next week's Euro Summit is a great opportunity for Member States to move ahead with the strengthening of the Economic and Monetary Union (EMU), many parts of which still remain to be developed. Prominent among these are completing the Banking Union and defining the future role of the European Stability Mechanism (ESM), two fundamental components of an EMU able to weather future crises.

Since 2014 the EU has been working on the construction of a genuine Banking Union. Much progress has been made, in very little time, in harmonising a European system of regulation, supervision and resolution for banks. However the protection of depositors remains under national sovereignty, and a complete Banking Union will not be achieved until a European Deposit Insurance Scheme (EDIS) and a backstop for the Single Resolution Fund have been developed.

The problem is that at present the parties are divided. On the one hand, some countries believe that it is necessary first to make progress on reducing the risks inherited from the crisis before then negotiating measures leading to their mutualisation (particularly the EDIS). And on the other hand we have visions such as those of the peripheral countries, which insist that the priority is to complete the Banking Union by means of a completely mutualised EDIS and a mechanism of support for the Single Resolution Fund.

At the end of April, in the midst of this debate, the Spanish government published a document in favour of strengthening the EMU, calling for the June Summit to agree a specific deadline for the entry into force of the complete, fully mutualised EDIS with a backstop. This deadline would be subject to EU institutions making sure that there are no non-provisioned material exposures prior to the Banking Union in financial institutions.

This would allow the EDIS to be designed in two stages. The first would be reinsurance, which would not involve risk sharing. And the second would be the configuration of a common, mutualised EDIS, in which the contributions of the various banks would have to be based on their level of risk.

As for the Resolution Fund, we advocate the creation of a backstop to reinforce its credibility, to ensure that there are sufficient resources available in case of a potential systemic banking crisis, and also covered by non-discretionary activation rules.

Lastly, Spain's position is that it supports incorporating the ESM into the EU's institutional framework, since it would be a key instrument for preserving financial stability, providing financial assistance to Member States with problems in accessing markets. Furthermore it would become the backstop for the Banking Union.

These last two measures were agreed this week by the Franco-German axis, which said nothing about the EDIS however. An agreement between Berlin and Paris is not sufficient for a final EU-wide pact, but it could set the route for the negotiations, and by leaving the EDIS out it could lead it to be delayed for longer than previously expected.

Completing the Banking Union with an EDIS is essential if we are to avoid fragmentation in the markets and reversals to the progress achieved. It must be acknowledged that much has been achieved so far with the measures for reducing risks. Despite this, we must continue to move ahead, especially on NPLs, in parallel with the measures aimed at mutualising risks.

Much work still remains to be done. In the short term, the priority is financial integration, completing the Banking Union and the Capital Markets Union and subsequently moving ahead towards an economic union, which will eventually pave the way for new fiscal instruments. For all these reasons, it is essential that next week in the Euro Summit clear progress be made and a timetable, as precise as possible, be established for developing the backstop for the resolution fund, putting the EDIS into operation and redefining the role of the ESM.

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