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Coordinator:

Napoleon POP, PhD

Candidate:

Florian Gheorghe LIBOCOR

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Banking Union:

foundation, necessity, efficiency

Coordinator:

Napoleon POP, PhD

Candidate:

Florian Gheorghe LIBOCOR

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SUMMARY

The process of building the Banking Union is a certain step towards strengthening the Economic and Monetary Union, consolidating the single market, restoration of confidence in the euro and a defining element of the new economic governance framework of the European Union. After a considerable expansion, the consolidation of the European institutions, to complete the process of reforming the governance framework, is an essential action for the functioning of the European Union. Clearly the actions at local level of each Member State are fundamental to the effectiveness of such actions, but the efficiency of each action counts on its intention and capability to follow a common European vision.

Although achieving price stability is the fundamental objective for most central banks, the central bankers' discussions continue to mention also other targets, such as the stability of production and employment, financial market stability, interest rate stability, stability of the exchange rate market and , last but not least, economic growth. Economics textbooks show that in the long run there is no inconsistency whatsoever between the other goals that are the subject of discussions and price stability.

However, there are often short-term conflicts between output stability and interest-rate stability, consequences of the manifestation of the overheating phenomenon. Settling this dispute is possible, amongst others, by accepting that there are two possible approaches: *hierarchical approach*, which states that price stability is the fundamental objective and considers that its implementation will lead to the achievement of other objectives (adopted by the central banks of England, Canada, New Zealand and the EU-ECB) and *dual approach*, which aims at achieving two simultaneous objectives of equal importance (price stability and maximum employment) which will lead to achieving the objective of output stability (adopted by the Fed). Finally, given the complexity of the monetary policy, the variety of opinions, contradictions and relationships of independence or interdependence, there are always concerns and questions regarding the relationship between monetary policy and economic development.

The financial crisis of 2007-2009 impacted the European economy severely and emphasized the importance of strengthening the European Union, a functional but still incomplete project. The Banking Union is a defining element of the new framework for the EU's economic governance, alongside the Fiscal Pact, the Mechanism for identifying macroeconomic imbalances and the

European Stability Mechanism.

The construction of the Banking Union starts from a common base represented by the unique framework regulations ("Single Rulebook). The unique framework regulation, unlike the supervisory and resolution mechanisms, is covering the entire EU economy. One of the main advantages of the unique regulation is to ensure the equivalently treatment of the problems which may arise and the prevention of the regulatory arbitrage. The structure is completed by the three pillars which are represented by the Single Supervisory Mechanism, the Single Resolution Mechanism and the Deposit Guarantee Scheme. An active and operational supervisory mechanism involves a comprehensive banks' assessment in terms of the ECB’s criteria and consists in carrying out the three-phased exercises aimed at assessing risk, assessing the quality of assets (which is based on the outcome of the risk assessment) and stress test (which is based on the result of evaluation of the quality of the assets). The Deposit Guarantee Scheme will be achieved, in a first stage, in the form of a harmonized schemes guaranteeing deposits, due to difficulties (e.g. political divergences on the subject of financing costs to guarantee unique schema) of building a unique guarantee schemes.

The creation of the Banking Union and the new package of rules for the European financial system marks a crucial stage in the process of economic and monetary integration, impedes funding contributors to future operations to rescue banks, supports restoring and enhancing of the financial stability and, consequently, facilitates the financing of the real economy by the financial sector, the absorption of the unwaged labor force and economic development.

The high level of fragmentation of the European financial sector and thus the lending process puts a demanding control over access to finance in economies with an acute need for funding. The creation of a single framework for banking supervision would only have minimal chances to eliminate the interdependence between consistently indebted governments and banks, to alleviate funding costs in those countries and lead, ultimately, to defragmenting the lending process. The lack of coordination regarding the response actions of Member States when state banks find themselves in difficulty (bankruptcy) emphasizes the phenomenon of fragmentation, damaging the financing real sector of economy and hence economic recovery and growth.

Both economic theory and empirical observations show that the objective of price stability, defined in economic literature, by consensus, as "when money maintains its value over time and their speed of rotation is insignificant" (Isarescu, 2009), is a long-term target, hard to reach, especially when it is put under the load of other objectives related to financing agriculture, the energy sector and the budget deficit etc, which can be solved through policies managed by governments. From this observation it can be concluded that efforts to achieve the targets of monetary policy in the long run may be eroded by interference from the political factor, whose vision horizon is subjective in nature and insufficient in duration.

The level of autonomy of the monetary authority or the idea that a central bank can or should be independent, were consistent topics of discussion for the political class over time. The origin of these disputes can be identified relatively simple to the point that the knowledge and understanding of what can and must do a central bank splits from the "goodwill" of the political factor to oversee and supervise the conduct of monetary policy in order to achieve its own objectives. Following the reasoning in support or opposing the idea of independence of the monetary authority, we can identify two important elements that need to be carefully evaluated: the business cycle and the long-term strategy.

While it is obvious that the duration of an economic development cycle cannot be restricted or limited to the duration of a political cycle, or that the implementation of a strategy for long-term development involves the killing of political targets in the short term, there is still no global consensus regarding the global monetary authority's independence, although public support in this respect has increased lately.

The contribution that the monetary authorities can bring, in order to achieve and maintain the financial stability, is a result of how this is defined. A broad definition, involving the overall stability of the financial system, stresses the importance of prudential supervision and systemic risk management. If financial stability is defined narrowly, as the expression of a relatively stable level of interest rate, it emphasizes the importance of monetary policy and indicates the default probability of a compromise tension between the fundamental objective of price stability and the financial stability objective.

Whatever the situation, maintaining financial stability involves identifying the main risks and vulnerabilities in the financial system such as inefficiency in resource allocation, incorrect assessment or mismanagement of financial risks (Papademos, 2009).

Romania has evaluated the option to join the Banking Union through some realities that take into account the current circumstances and prospects of European integration as a whole. Entering the Banking Union is a natural choice, suggested and supported by the structure of the banking system in Romania, where the euro zone banks hold a substantial majority (over 70%) of the net assets and the banking system capital.

There are also risks related to joining the Banking Union, not necessarily related to the moment of joining, to the importance of economic size or to the depth of the financial sector and is aimed at countries that joined: i) - the risk of being irrelevant ("alignment risk" / "too small to count") that reflects the concern of the members of the Union Banking to be put in a position where to accept binding general conditions, that may prove impartial or not calibrated properly, without the possibility of accessing any derogation clause or corrective initiatives and ii) - the risk of isolation ("misalignment risk" / "too late to count") by not participating to an organization which will anyway affect the financial system, regardless of whether the state in question will be or not a member of this organization.

Adhering to the Banking Union may have the effect of a training course for the financial system regarding the adoption of the euro, milestone that needs an effective preparation of the economy, because it marks the beginning of a new competitive process. Considering this, joining the Banking Union "will be able to consolidate the financial stability, strengthen confidence in the banking sector and support a sustainable loan and economic activity growth" (Isarescu, 2014).