



BANCO DE PORTUGAL
EUROSISTEMA

From Banking Union to Financial Union – overcoming current challenges

Carlos da Silva Costa • **Governor**

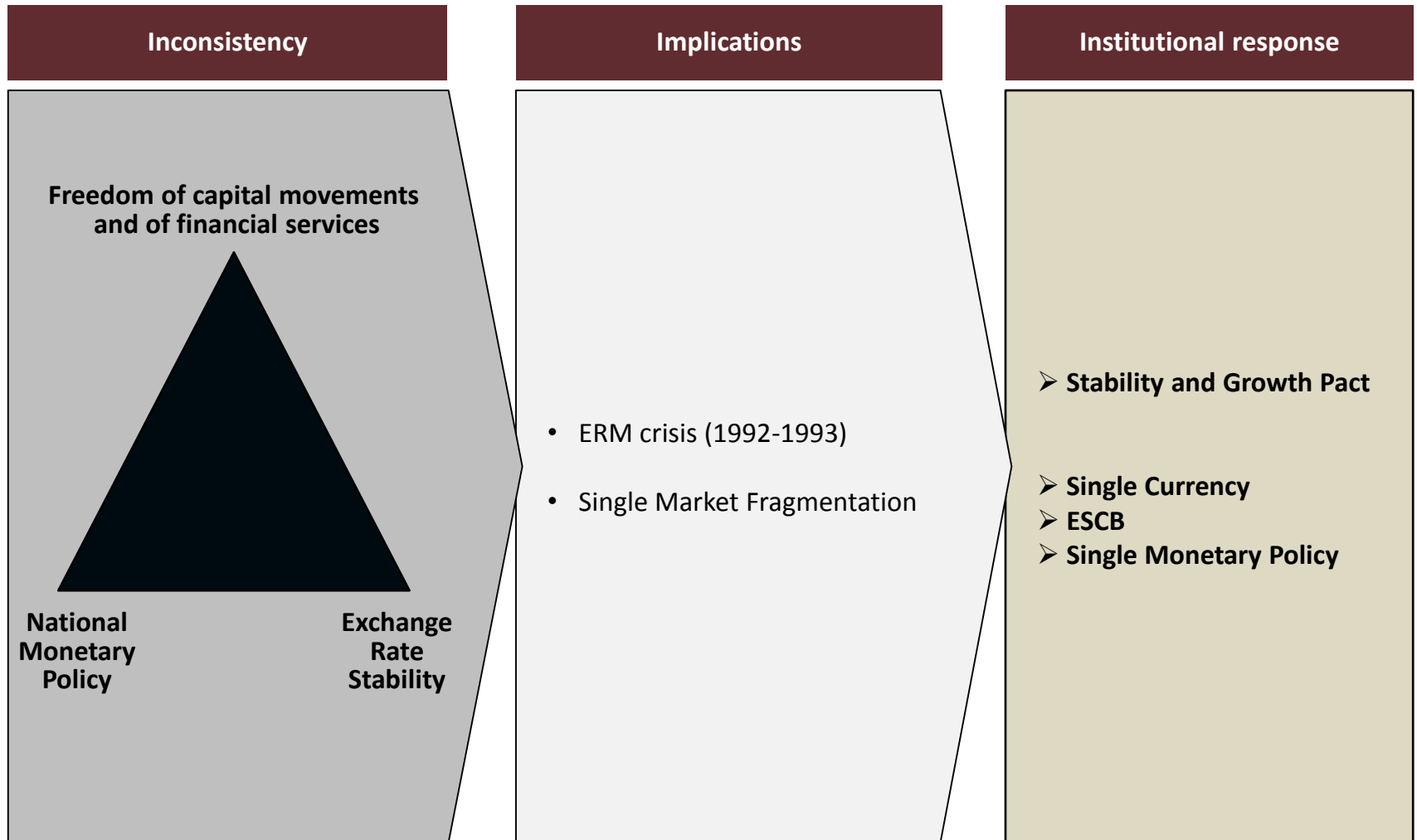
Lisbon, 25 January 2016



1. From the Single Market to Monetary Union
2. From Monetary Union to Banking Union
3. An incomplete Banking Union
4. Towards a fully fledged Financial Union



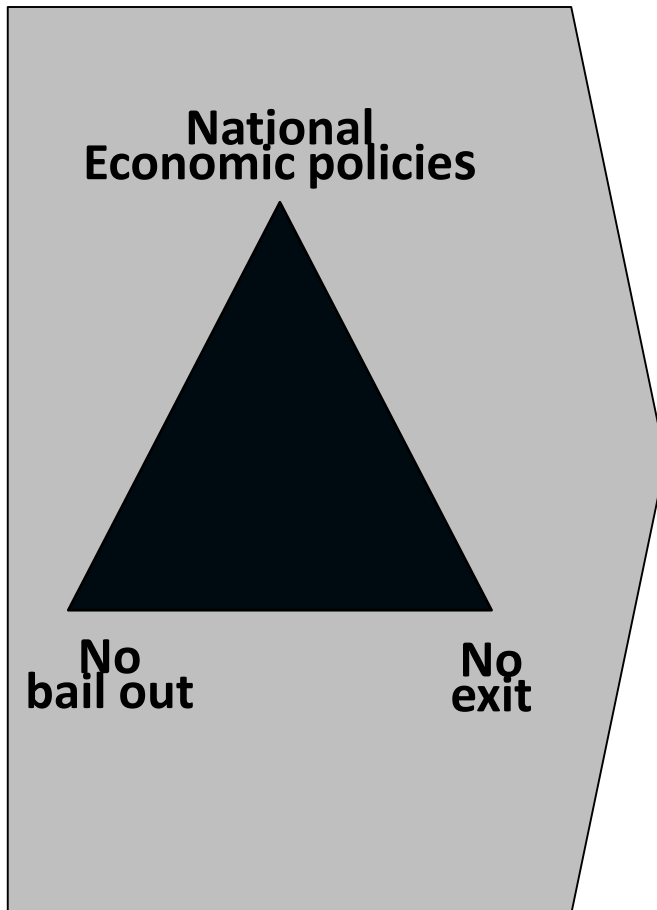
The Padoa-Schioppa inconsistent triangle





The Maastricht inconsistent triangle

Inconsistency



Challenges

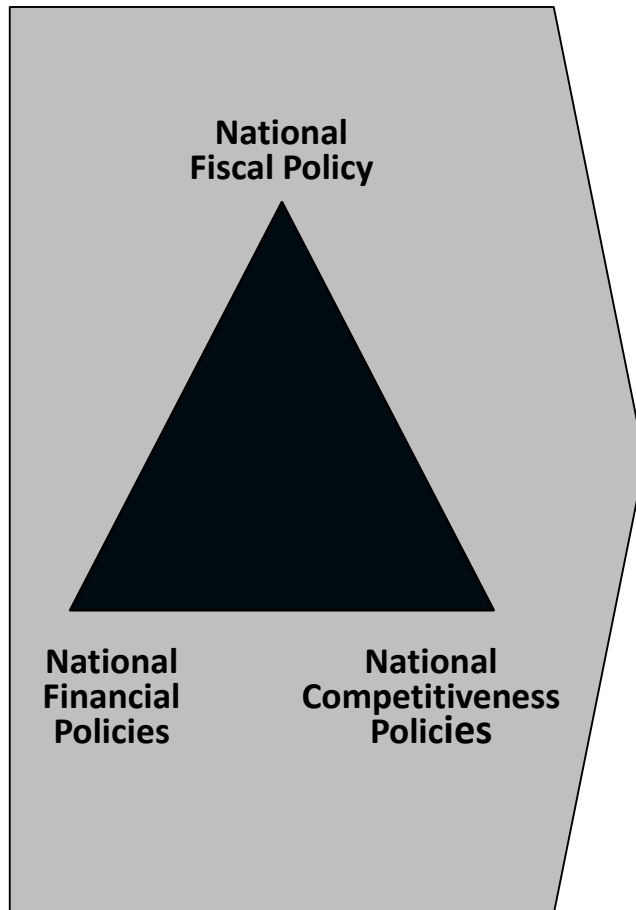
Challenges:

- Prepare to live together in a sustainable way with different national preferences
- Preserve capacity to deal with asymmetric shocks and asymmetric effects of common shocks
- Discipline fiscal policies



The Maastricht inconsistent triangle (cont.)

Inconsistency



Implications

- Excessive deficits and Sovereign debt overhang
- Different national competitiveness paths
- Financial fragmentation
- Bank-sovereign negative feedback loop

Institutional response

Reinforced Fiscal Framework



Macroeconomic Imbalances Procedure



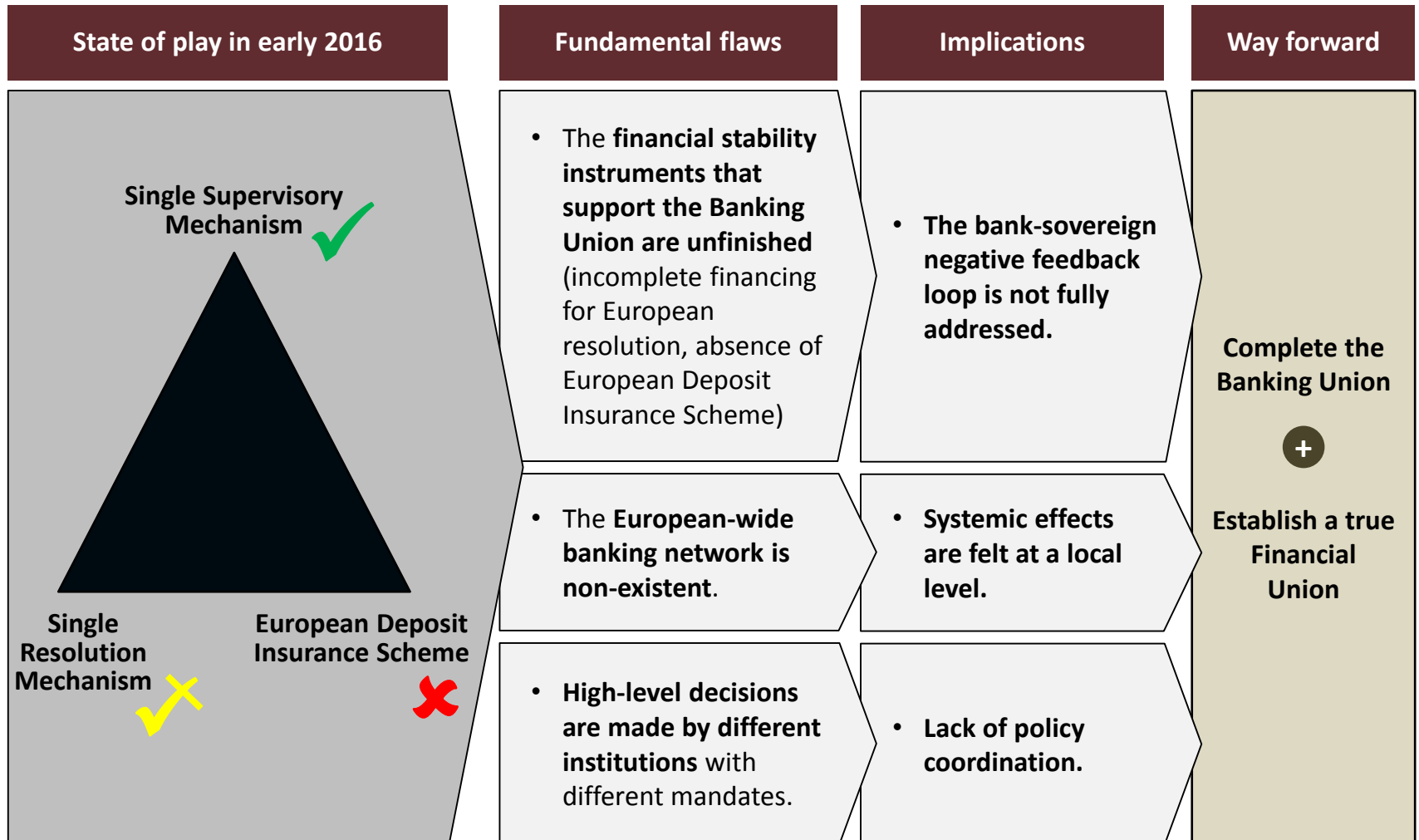
Banking Union



ESM as backstop facility



3. An incomplete Banking Union





4. Towards a fully fledged Financial Union

A fully fledged Financial Union is fundamental for a deeper Economic and Monetary Union.

**Complete
Banking Union**

**Financial
Union**

The legal and institutional framework needs to be harmonized further, well beyond the single rulebook.

**Level playing
field**

**Capital
Markets Union**

Deeper integration of capital markets allows for greater risk-sharing and stronger shock absorption, while also supporting growth financing.



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