

# From Banking Union to Financial Union – overcoming current challenges

Carlos da Silva Costa • Governor

Lisbon, 25 January 2016

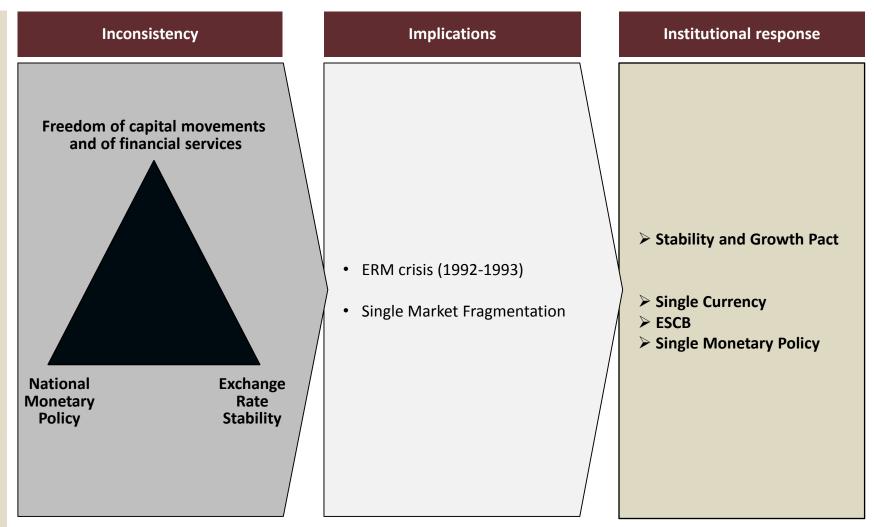




- 1. From the Single Market to Monetary Union
- 2. From Monetary Union to Banking Union
- 3. An incomplete Banking Union
- 4. Towards a fully fledged Financial Union



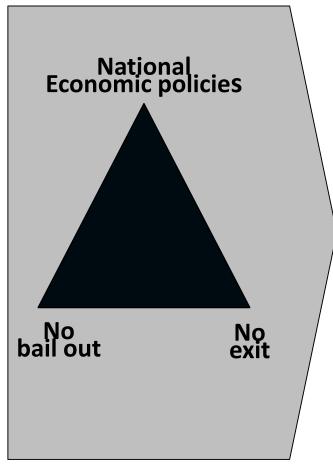
## The Padoa-Schioppa inconsistent triangle





#### The Maastricht inconsistent triangle

## **Inconsistency**



## Challenges

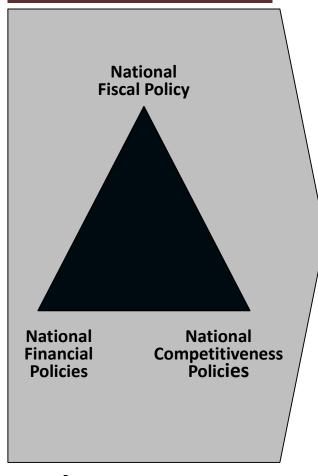
## **Challenges:**

- 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 competiveness paths
- Financial fragmentation
- Bank-sovereign negative feedback loop

## Institutional response

Reinforced Fiscal Framework



Macroeconomic Imbalances Procedure



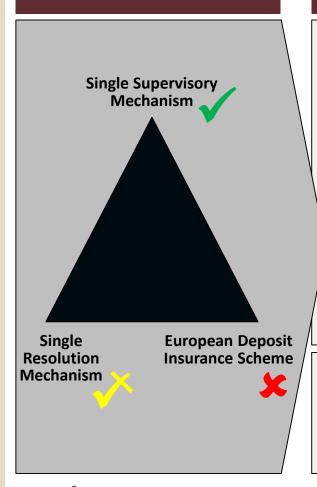
**Banking Union** 



ESM as backstop facility



#### State of play in early 2016



#### **Fundamental flaws**

 The financial stability instruments that support the Banking Union are unfinished (incomplete financing for European resolution, absence of European Deposit Insurance Scheme)

• The European-wide banking network is non-existent.

 High-level decisions are made by different institutions with different mandates.

#### **Implications**

 The bank-sovereign negative feedback loop is not fully addressed.

 Systemic effects are felt at a local level.

Lack of policy coordination.

#### Way forward

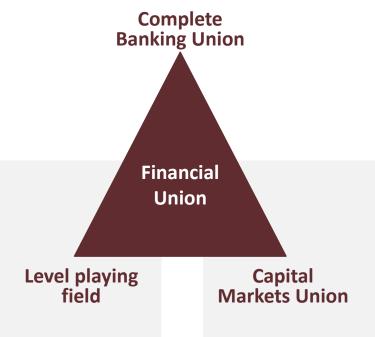
**Complete the Banking Union** 



Establish a true Financial Union



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



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

rulebook.

The legal and institutional

framework needs to be

beyond the single

harmonized further, well



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