

Financial Services Policies and Politics in the EU: An Update

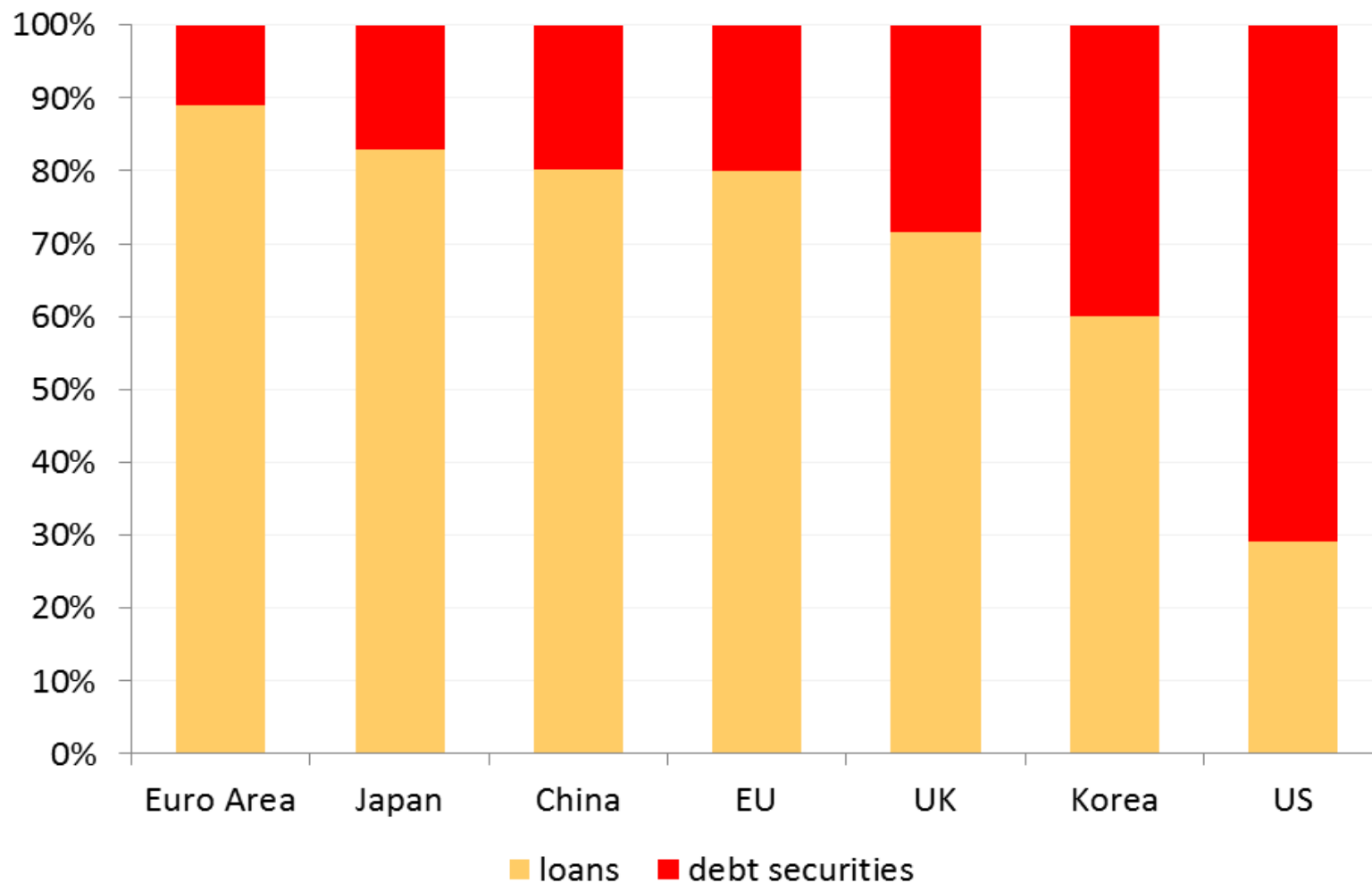
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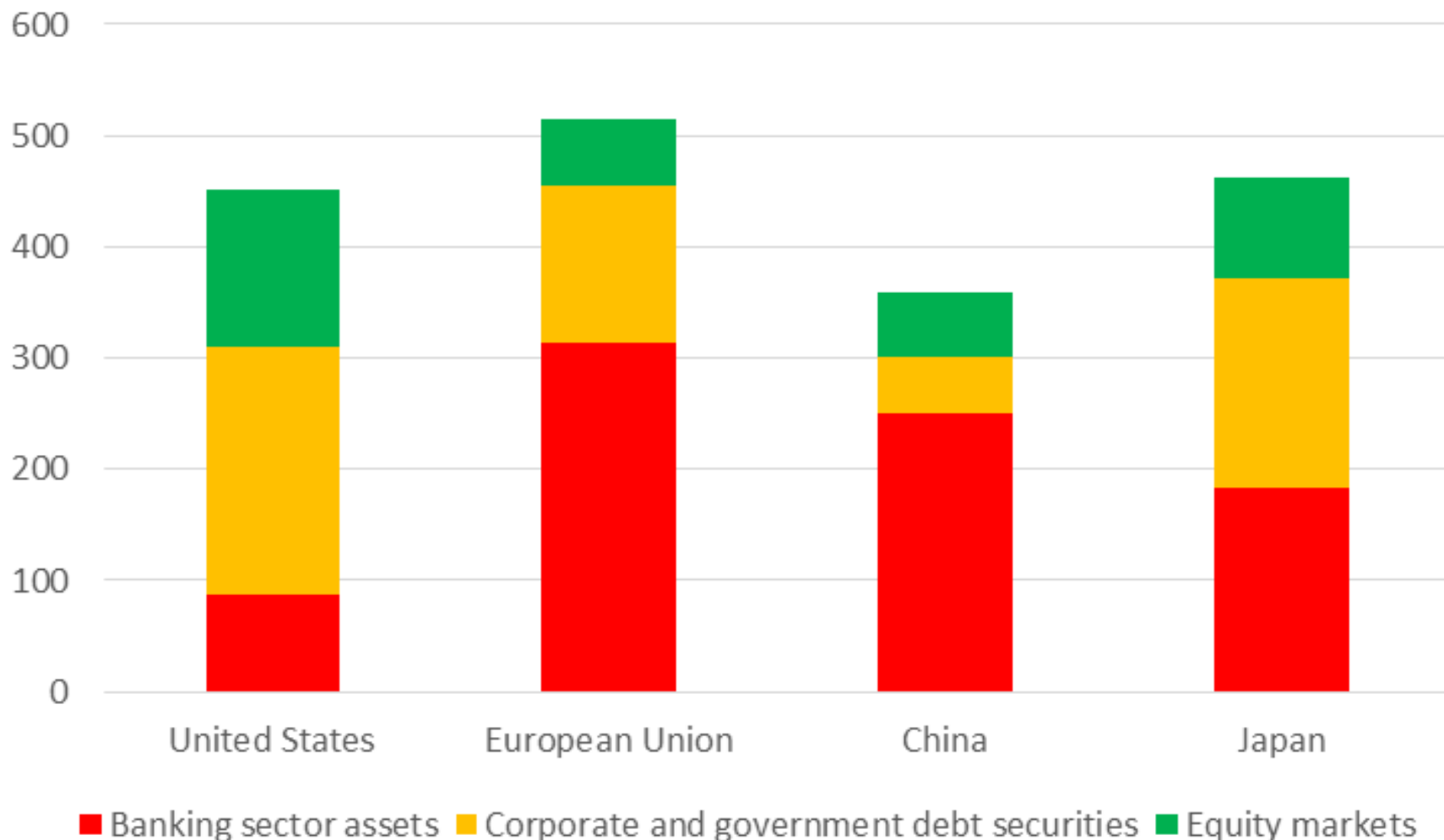
Bank Dominance in the EU



Percentage of total debt of non-financial companies, latest available year.

Source: Merler & Véron (2015), Figure 1

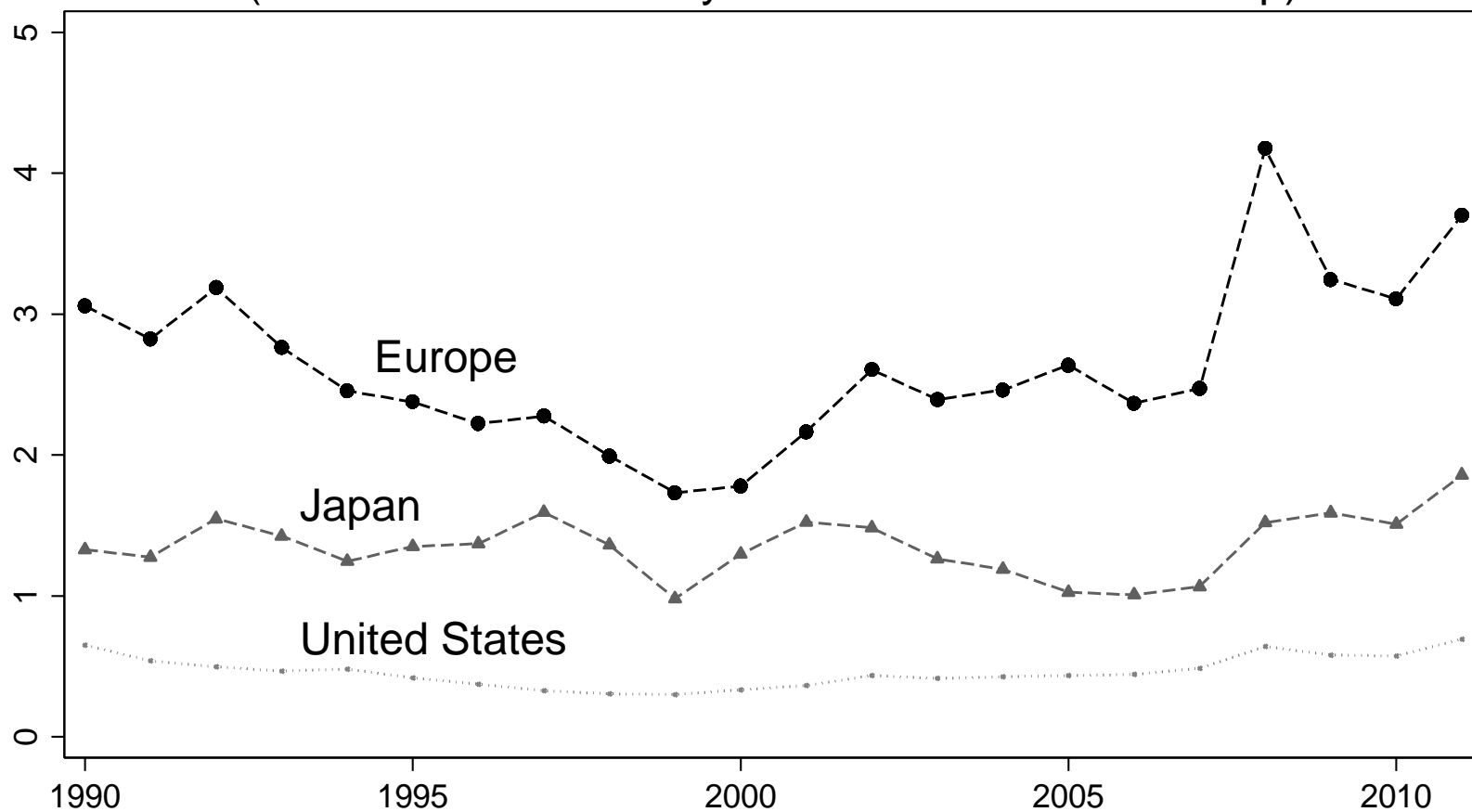
Bank Dominance in the EU



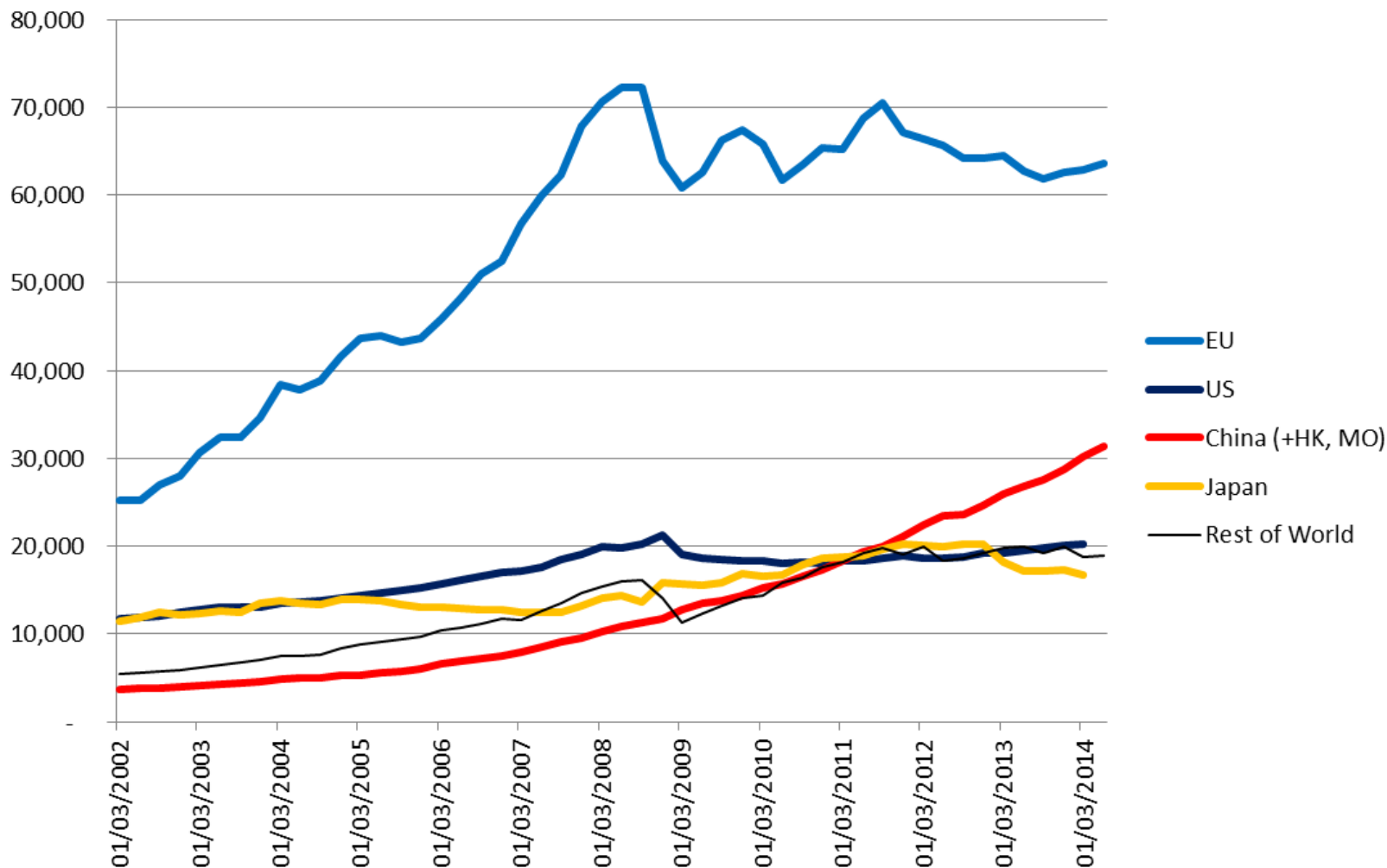
Amounts outstanding, Percentage of GDP. Source: Véron & Wolff (2015), Figure 1

Bank Dominance in the EU

Bank-market ratio
(bank assets divided by stock and bond market cap)



Bank Dominance in the EU



Total banking assets, source IMF/IFS. 16 out of 30 “Global Systemically Important Banks” listed by the Financial Stability Board (Nov. 2014) are from Europe, of which 14 from the EU ⁵

The EU Agenda: BU+CMU

▪ **Banking Union**

- Euro Area(+)
- Implementation underway by SSM
- Many question marks on SRM
- New legislation to come, not announced yet

▪ **Capital Markets Union**

- EU28
- Welcome change of tone
- Limited policy content (so far)

The EU Agenda: More

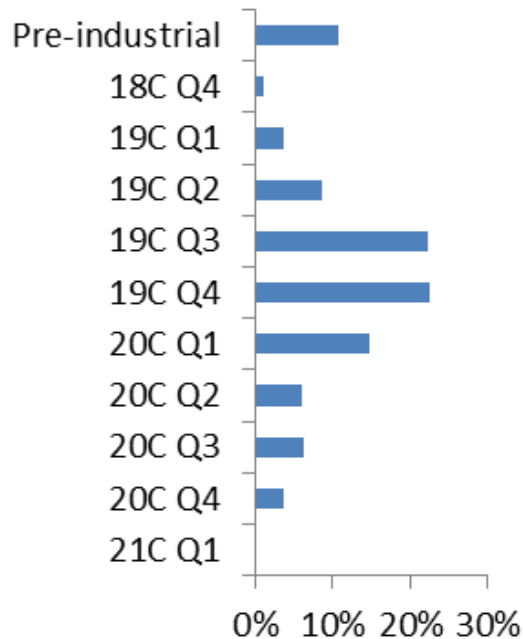
- **DG FISMA (ex-MARKT) is always busy...**
 - Banking Structural Reform
 - CCP resolution, MiFID/MiFIR, EMIR...
- **... and it's not alone in Brussels**
 - DG COMP & bank restructuring
 - DG COMP & bank taxation???
 - Financial Transaction Tax
 - Implementation of “BEPS” agreement brokered by OECD
 - Data privacy issues & implications for finance

A Change of Model

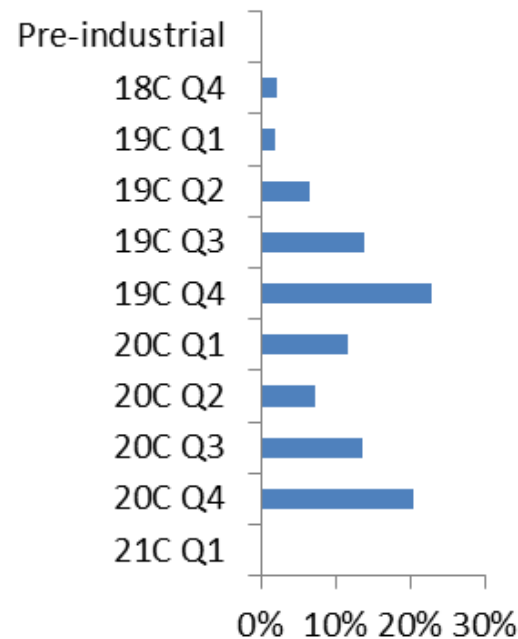
- **Both BU and CMU are convergence to US**
 - Lessons from crisis management / resolution
 - Bail-in not bail-out, except when systemic risk
 - Less relationship-based, more data-driven supervision
 - Continent-wide integration
 - More role for markets
- **But “bank bias” still pervasive**
 - Many tensions unresolved
 - Conflicts to come

Europe vs. US: High-Growth Firms

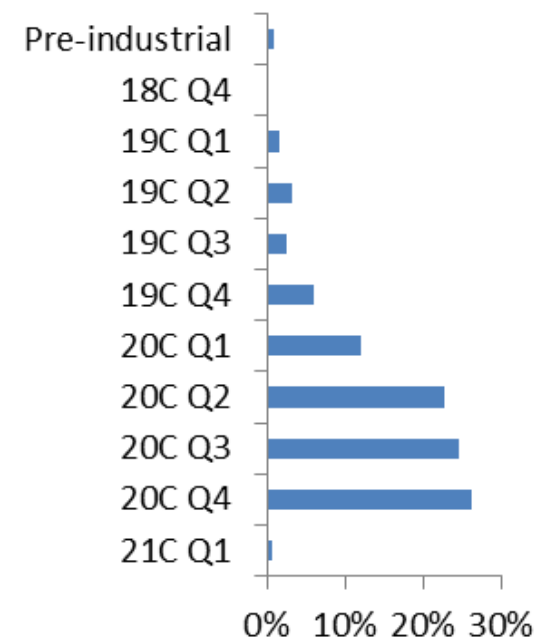
Europe



United States



Emerging



Share of aggregate market cap of FT Global 500 companies (as of September 2012), by demographic cohort and region of headquarters. Unpublished results based on Véron (2008)

The Institutional Issue

- **Lots of recent institution-building**
 - EBA, EIOPA, ESMA, ESRB, SSM, SRB, ESM
 - Complexity from EU / BU area / Euro area
 - 51 national authorities still members of ESAs
 - Relationships / turf far from settled
- **CMU stance: no institutional change**
 - But fragmented regulatory enforcement prevents market integration
 - Challenge in other regulated services sectors too

Financial Services Politics

- **Juncker's growth policy package**
 - Cyclical: investment initiative ("Juncker Plan")
 - Structural: CMU, Energy U, Digital Single Market
- **Positive agenda with UK**
 - Referendum context
 - UK-centric communication on CMU
- **Multiple tensions**
 - Sovereignty + national turf
 - Special interests
 - Ideological divides

Outlook and Open Questions

- **Banking Union is where the action is**
 - Supervisory decisions, deleveraging, M&A
 - Gradual shift on e.g. ring-fencing, exposure caps
 - Legislative loose ends (national + EU levels)
 - Debate on more risk-pooling (deposit insurance)
- **Stabilization on other market segments**
 - Quasi-freeze until UK referendum
 - Review on “cumulative impact”
- **Sterling / Euro zone divide?**
- **Commitment to international standards?**

Thank You For Your Attention

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