



## Another banking union step – but euro crisis still not over

### Far too many details left unclear

European leaders took another step on the tortuous route towards banking union last night. Germany got its way on the time-table – the banking supervision will be implemented some time during 2013 (possibly after the German federal election in the autumn); but France got its way in that the banking union is to be implemented before the fiscal/political union. Germany lost in that pan-European supervision will cover all 6,000 or so banks in the euro area; but this is diluted by leaving much of the supervision of smaller banks to national supervisors, as Germany wanted. No danger, thus, of the politically significant local German banks being threatened.

However, other issues – notably the role played by the bank supervisor in non-euro area countries, how these countries will join the supervision and what influence they will have – are still left unresolved. This is not only a crucial issue for Britain, but also for Sweden with its proportionally large banking system, as well as for some others, eg, Poland. None of these countries is likely to want to take part if they risk being outvoted and/or see the playing field tilted to their disadvantage. Yet without them, in particular without Britain, there will always be a large gap in the international supervision of European financial services.

Nor is it clear if the ESM will be able to take on past bank bailouts – the issue of “legacy assets” – which would have an immediate effect of easing government debt in, eg, Ireland. Much of this is covered by news and blog comments on the summit.

But there is another point that does not seem to be mentioned. This is that Germany still hankers after a cost- and risk-free banking union, one where German money is not squandered on bailing out banks in other countries. This is perhaps not surprising, but it highlights a continued underlying unwillingness to face a much wider and more important issue. This is that for the euro to survive, one of two things needs to happen: Either a political union (that is to say, a fiscal union) has to be implemented. To be fair, there is talk of that and German politicians do seem to want to move ahead on this front. But it is highly unlikely to be acceptable, either in Germany or elsewhere. Alternatively, the strongest country in the monetary union, ie, Germany, has to constantly police the union. That will involve effort and cost – and, judging by the German attitude, these are in increasingly short supply.

Stein Brothers (UK) Ltd.  
Telephone: +44 (0)7768 094 340  
Email: [gabriel.stein@steinbrothers.co.uk](mailto:gabriel.stein@steinbrothers.co.uk)

Any persons or organisations taking decisions on the basis of facts and opinions in this comment do so at their own risk. Stein Brothers (UK) Ltd. accepts no liability whatsoever for the consequences of such decisions. Stein Brothers (UK) Ltd. does not give any form of investment advice and does not accept liability for any losses that arise from positions taken in securities or asset classes.



So while today's announcement marks another step towards greater EA integration, once again, it is far from solving the euro area crisis. President Hollande may say that the worst of the crisis is over; but there is no guarantee whatsoever of that, just as there is no guarantee that the missing details in the banking union will be dealt with in a satisfactory way.

Gabriel Stein

[gabriel.stein@steinbrothers.co.uk](mailto:gabriel.stein@steinbrothers.co.uk)

Gabriel Stein is Managing Director of Stein Brothers (UK) Ltd and Chief Economic Advisor to OMFIF. The views expressed are his own.

Stein Brothers (UK) Ltd.  
Telephone: +44 (0)7768 094 340  
Email: [gabriel.stein@steinbrothers.co.uk](mailto:gabriel.stein@steinbrothers.co.uk)

Any persons or organisations taking decisions on the basis of facts and opinions in this comment do so at their own risk. Stein Brothers (UK) Ltd. accepts no liability whatsoever for the consequences of such decisions. Stein Brothers (UK) Ltd. does not give any form of investment advice and does not accept liability for any losses that arise from positions taken in securities or asset classes.

Registered office: 45 Chesilton Road, London SW6 5AA. Registered in the United Kingdom, registration number 08186233.