Eurozone and the Banking Union

14th March 2014
Venue: Institute of International Relations, Nerudova 3, Prague 1

On March 14th the Institute of International Relations (IIR) hosted an exclusive and insightful discussion about the economic and financial future of the European Union. Petr Kratochvíl, the director of the IIR, expressed the opinion that although the current attention in international politics is drawn to the Ukrainian question, the banking union is still a top-notch issue in the EU agenda. Indeed, if Europe wants to have a common foreign policy, it is similarly important for the Union to have a common economic direction.

In the first panel the high-profile speakers outlined the pros and cons of the current reforms in the Eurozone, also analyzing the costs and benefits of joining it for external countries. This was especially the case for Mr. Domonkos, an associate professor at the Budapest Business School, and Mr. Urban, from the Czech Ministry of Finance. They both argued about the benefits of joining the Eurozone, while still mentioning the need for a stronger cooperation and a retrieval of trust from external investors. Less hopeful, though, was the pragmatic view expressed by Jan Frait from the Czech National Bank. Mr. Frait showed how, despite a slight increase in their willingness to work together, the Euro members are still far from enacting a wide and sound growth. In particular, he pointed out the wide imbalance between the cash injection forecasted by new initiatives, such as the bail-in programmes or the Single Resolution Mechanism (SRM), and the amount of debts issued by European banks.

In the second panel, the speakers focused more on the legal bases of the new agreements and on the positions of states such as Bulgaria, Poland and Romania on a possible access to the Eurozone. The main argument made for the legal critique of the banking union was driven by the question whether this was another agreement that came out of the EU primary law or not, which left room for panellists such as Mr. Beneš to express their concerns about the issue. Similarly, the uncertainty of the EU's current situation has been said to undermine the possibilities of other countries joining it, as the panellists Georgy Ganev from the Bulgarian Centre of Liberal Strategies and Patryk Toporowski from the Polish Institute of International Affairs pointed out. This tendency, furthermore, was confirmed by Ms. Ivan from the Romanian Expert Forum, who highlighted how Romania has been forced to postpone its plans to adopt the single currency, just as Bulgaria and Poland were.

Finally, in the third panel the speakers debated about the implications of having a banking union and its repercussions for the single countries, whose banking systems vary widely from each other. In this regard Peter Goliaš from the Slovak Institute for Social and Economic Reforms pointed out how the different regulations of Euro members and other EU countries can hinder the correct functioning of the banking union, setting barriers to its full potential. Also, he highlighted how banks within the Union have historically faced problems of undercapitalization that are still present today, as well as a moral hazard issue which has led depositors to act less cautiously. Such problems were confirmed by Jan Jedlička, the Head of the EU Office in the Czech Republic, who underlined how the lack of a sound banking union led to crises such as those in Cyprus and Iceland. The Managing Director of the Czech Banking Association Pavel Štěpánek then delved into some possible drawbacks of the banking union. Indeed, according to him further regulation would lead to less flexibility, but flexibility is precisely what is needed given the current diversity and fragmentation of the banking systems within the EU.

What emerged from the meeting was the idea that the European countries seem to be willing to proceed further with the economic integration, but it is still unclear to what extent and at what pace their governments will want to do that. However, the speakers appeared to agree on the idea that the earlier and faster the integration happens, the less painful it will be to recover from the crisis.