

Discussion of Panel 2 EA governance: is it fit to address the next crisis?

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The causes of the crisis and the policy response

Some lessons from the latest crisis

- **Macro-financial imbalances.**
- **Insufficient and inadequate regulation and supervision** of the financial sector – “missing the big picture”.
- **Financial innovation** that turned into toxic complexity.
- **Diverging actions** at national level not taking into account **interdependencies** between financial sectors.
- **Absence of common crisis management** frameworks.

What followed was historically unprecedented

- **Internationally coordinated emergency measures** – central banks and national authorities alike.
- **Overhaul of the rules for the global financial system** agreed within the G20 forum.
- **Genuine institutional shake-up in the EU:**
 - New network of European supervisory bodies
 - New crisis management tools under ESM responsibility
 - Establishment of the Banking Union

The missing parts:
where you agree and where you
disagree

Where you agree and where you disagree

1. Risk sharing and crisis management

- **Completing the BU (EDIS, common backstop):** all presenters agree on the fact that we need it, but not on how we get there.
 - All at once, possibly as part of a RR/RS package? (Guido, Jeromin).
 - Make a RS club and use it as incentive for convergence (André)
- *My take:* No more fragmentation, BU is a common project.

- **Crisis management:** all presenters call for greater role for ESM, but what about governance?
 - More EU/EA/national accountability to Parliaments and/or Governments (André, Jeromin)
 - Make ESM more independent (Guido)
- *My take:* Accountability inevitable and not necessarily incompatible with more independence.

Where you agree and where you disagree

2. Sovereign-bank doom loop

- **Regulatory treatment of sovereign exposures:**
 - Need to reduce bank exposure (André, Jeromin)
 - Concentration charges not helpful; Home bias stabilising during sovereign crises (Guido)
- *My take:* sequencing is crucial to avoid financial instability, should be dealt with at global level and keeping in mind the EMU context.
- **Euro area safe asset:** agree that it is needed.
 - Synthetic safe asset (Jeromin)
 - Seniority structure, color bonds, or indexation to nominal GDP (Guido)
- *My take:* Let's explore all avenues.

Where you agree and where you disagree

3. Fiscal surveillance and fiscal capacity

- **Fiscal rules and surveillance:** all presenters call for stronger rules, but disagree who should be in charge:
 - European Commission or independent arm thereof, more market discipline (André, Jeromin)
 - Independent arm or apolitical body, discipline via costs (Guido)
- *My take:* Do I need to say anything? 😊.

- **Fiscal capacity:**
 - Rainy day fund (Guido, Jeromin)
 - In the longer-term genuine fiscal capacity (Guido)
 - EA fiscal authority in charge of ESM use and fiscal stance (André)
- *My take:* Start with small steps and hope for bigger ones in the future.

Thank you