



EUROPEAN CENTRAL BANK

EUROSYSTEM

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European Central Bank

Discussion of “Banking Union and the ECB” by Hugo Rodriguez

Florence, 10 May 2018

The views expressed here are those of the presenter and do not necessarily reflect those of the European Central Bank or the Eurosystem.

1. Design issues of EMU

- Assessment of the framework before and after the establishment of the Banking Union. (Yiatrou, 2016; Monti and Petit, 2016; Amttenbring and Markakist, 2017).

2. On the new roles and instruments of the ECB

- Bank supervision: Trade-off between market discipline and financial stability (Jungherr, 2016).
- Discussion about the appropriate instruments (Fed's TALF programme and the ABS market -> Gaballo and Marimon, 2016)

3. On the possibility of conflicts with national authorities

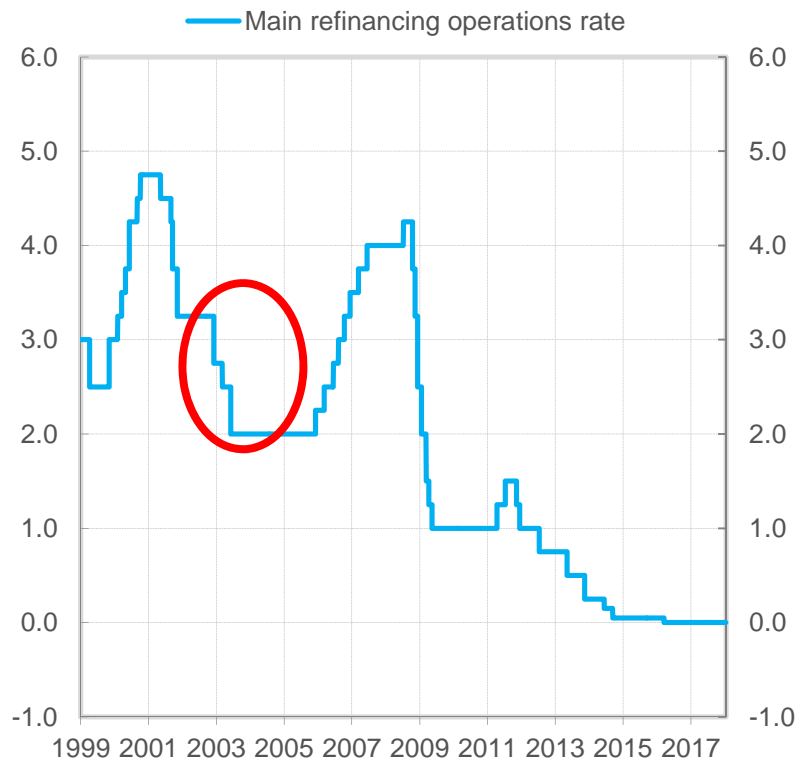
- Reviewability and scope for juridification
- ELA

Focus of my discussion: Banking union and monetary policy transmission.

Bank lending conditions and policy rates before the crisis

Policy rate on main refinancing operations

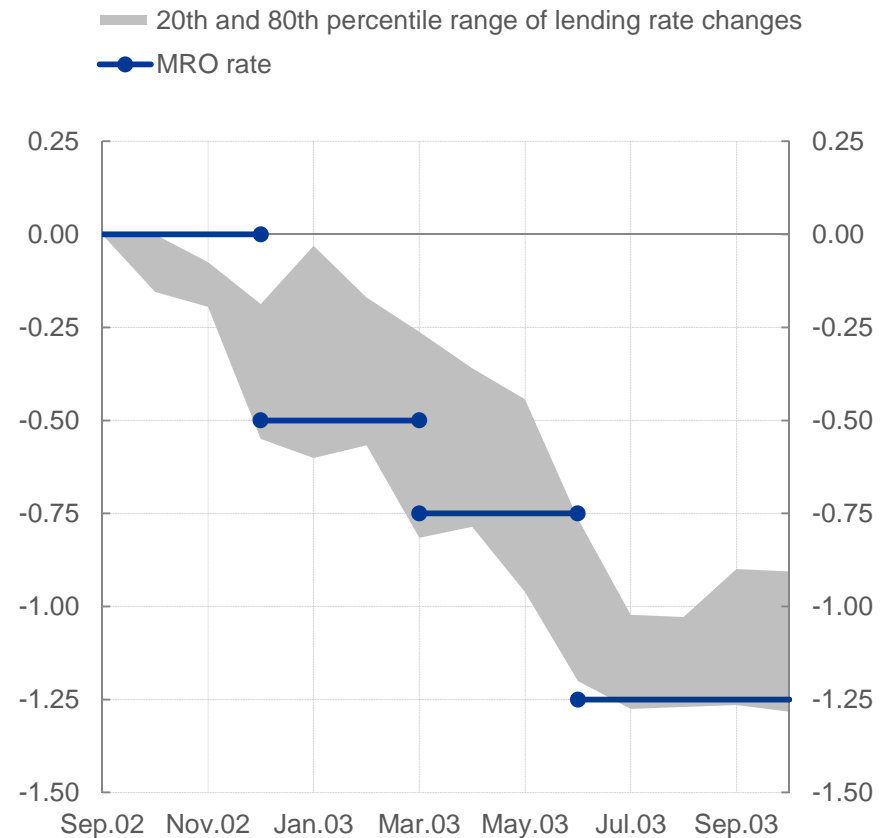
1999-2018



Source: ECB.

Reduction in MRO rate and development in bank lending rates

(2002-2003 easing cycle)

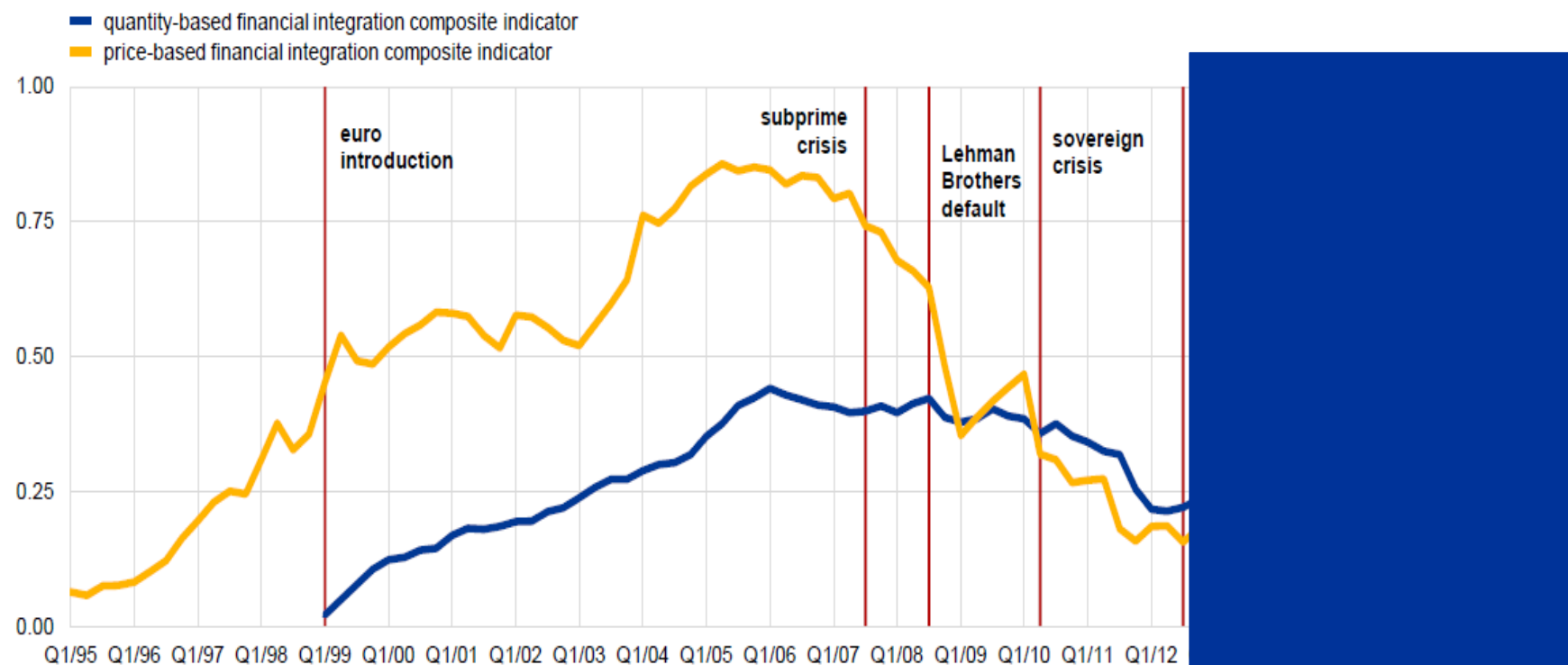


Sources: Reuters, ECB calculations.

Notes: The grey range defines the 20th to 80th percentile of short-term bank lending rates for small-sized loans (<€1mln) to NFCs.

Financial Integration

Price-based and quantity-based composite indicators of financial integration



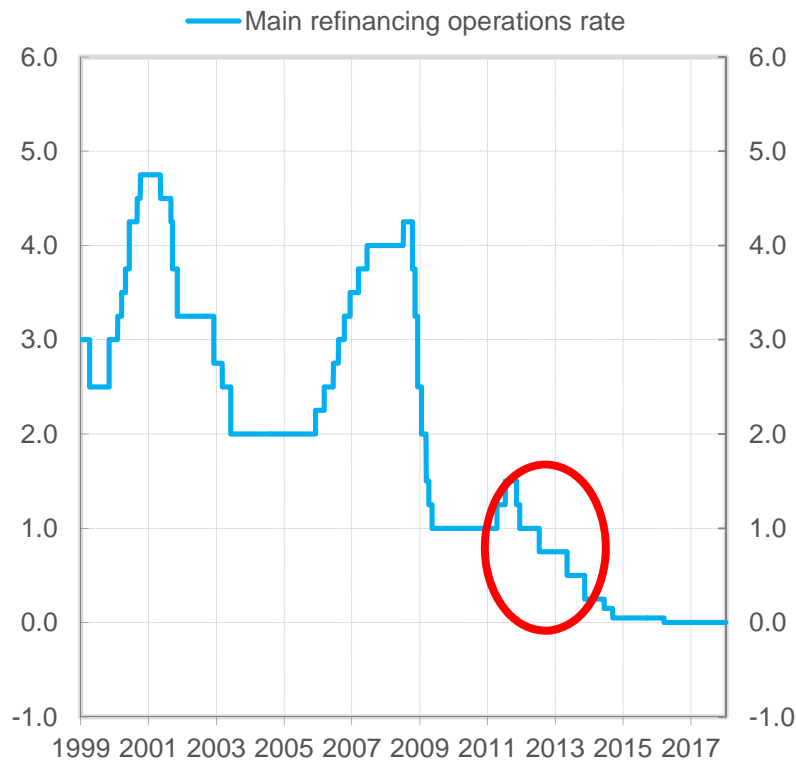
Sources: ECB and ECB calculations.

Notes: The price-based composite indicator aggregates ten indicators covering the period from the first quarter of 1995 to the fourth quarter of 2017, while the quantity-based composite indicator aggregates five indicators available from the first quarter of 1999 to the third quarter of 2017. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration. For a detailed description of the indicators and their input data, see the Statistical annex.

Bank lending conditions and policy rates during the crisis

Policy rate on main refinancing operations

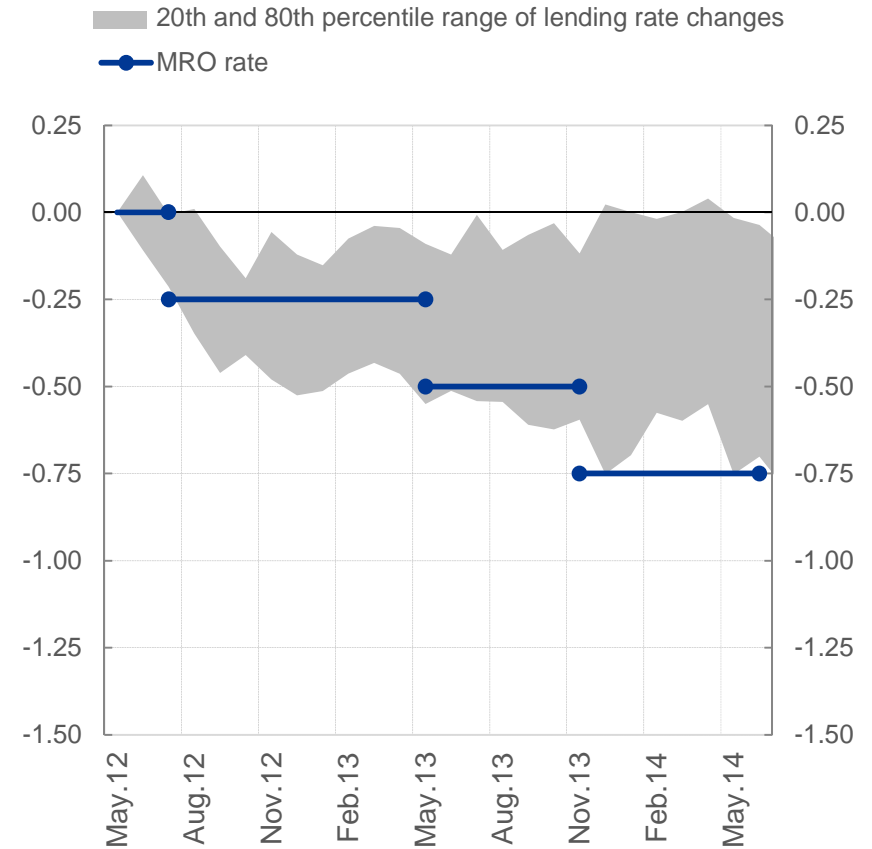
1999-2018



Source: ECB.

Reduction in MRO rate and development in bank lending rates

(2012-2014 easing cycle)

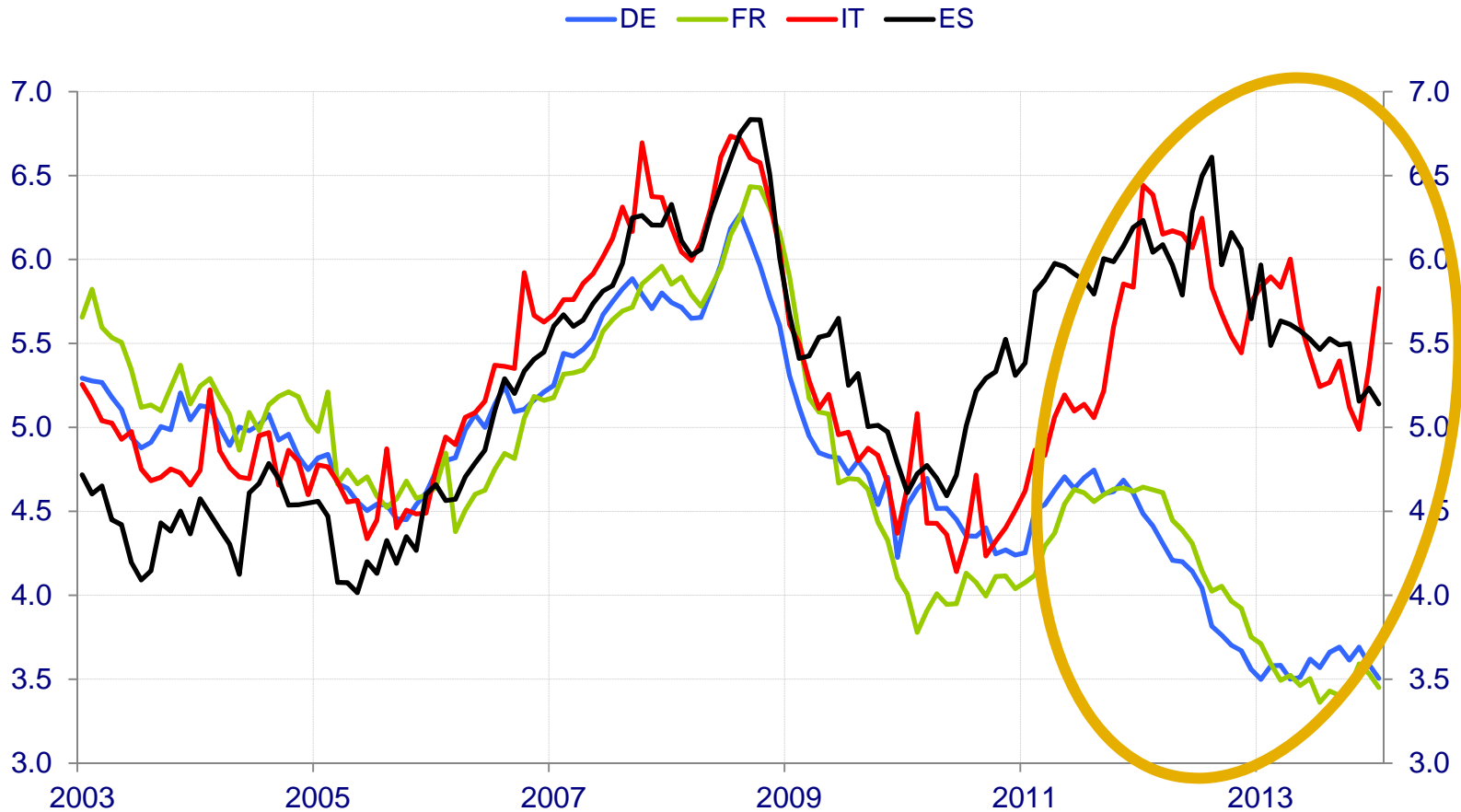


Sources: Reuters, ECB calculations.

Notes: The grey range defines the 20th to 80th percentile of short-term bank lending rates for small-sized loans (<€1mln) to NFCs.

Impaired transmission mechanism

Bank lending rates to companies (percentage per annum, loans up to EUR 1 million)

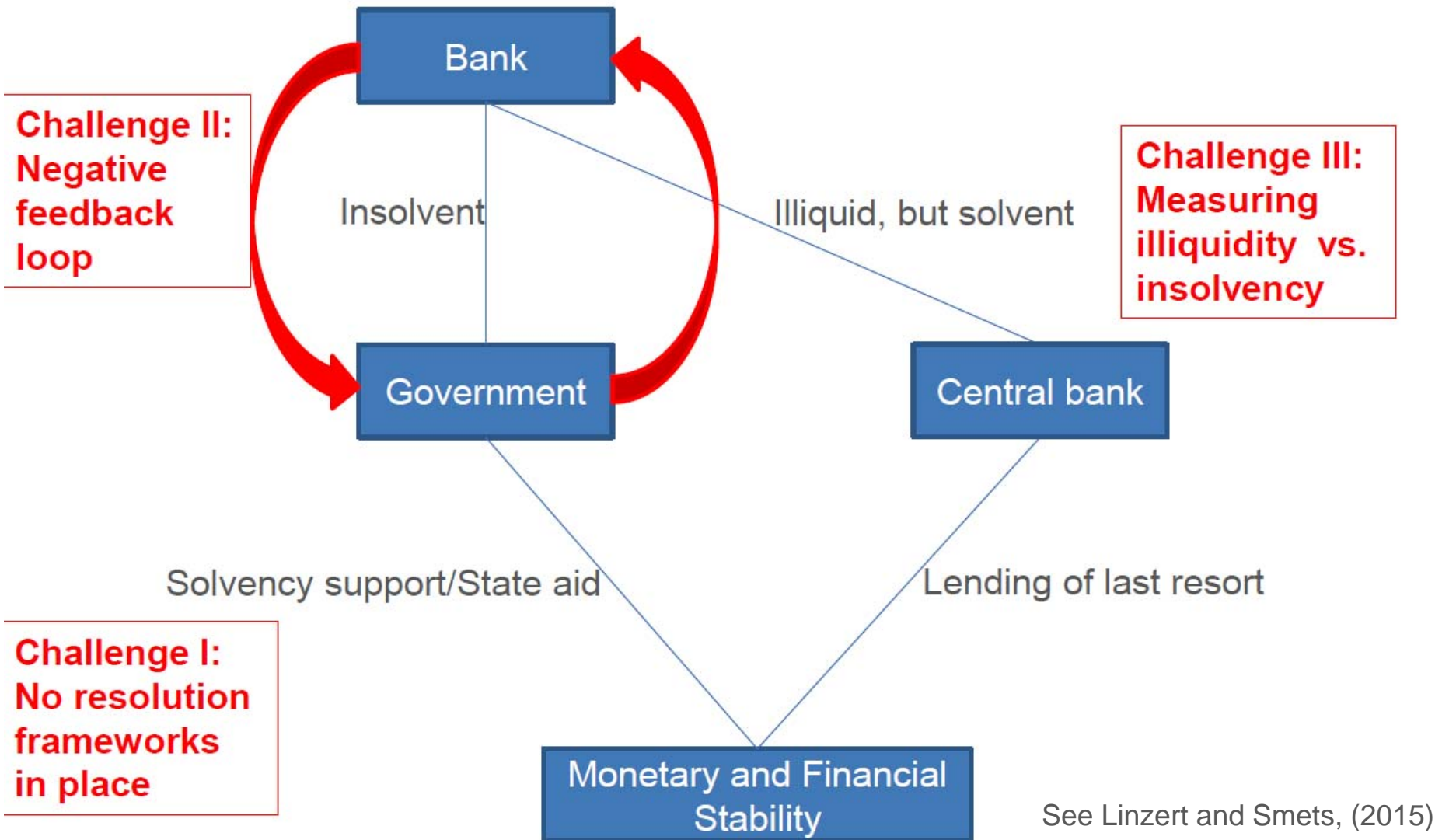


Source: MIR database

Latest observation: January 2014.

Note: loans with maturity between 1 and 5 years.

Challenges for the ECB



Financial sector agenda: Restoring resilience

Pillars of a European banking union



Robust and resilient framework aiming at:

- *preventing future banking crises*
- *ensuring orderly resolution of banks in the event of a bank failure*
- *breaking nexus between banks and sovereigns*

Financial sector agenda: Restoring resilience

Regulatory initiatives towards a European banking union

SSM Regulation

- Establishes SSM
- Supervision of all banks in participating Member States by ECB and NCAs

- In force since 3 Nov 2013
- SSM operational since 4 Nov 2014

BRRD

- Framework for resolution of credit institutions and investment firms
- Harmonised tools and powers relating to prevention, early intervention and resolution for all EU Member States

- In force since 2 Jul 2014
- Applies to MS since 1 Jan 2015
- Bail-in provisions applicable as of 1 Jan 2016

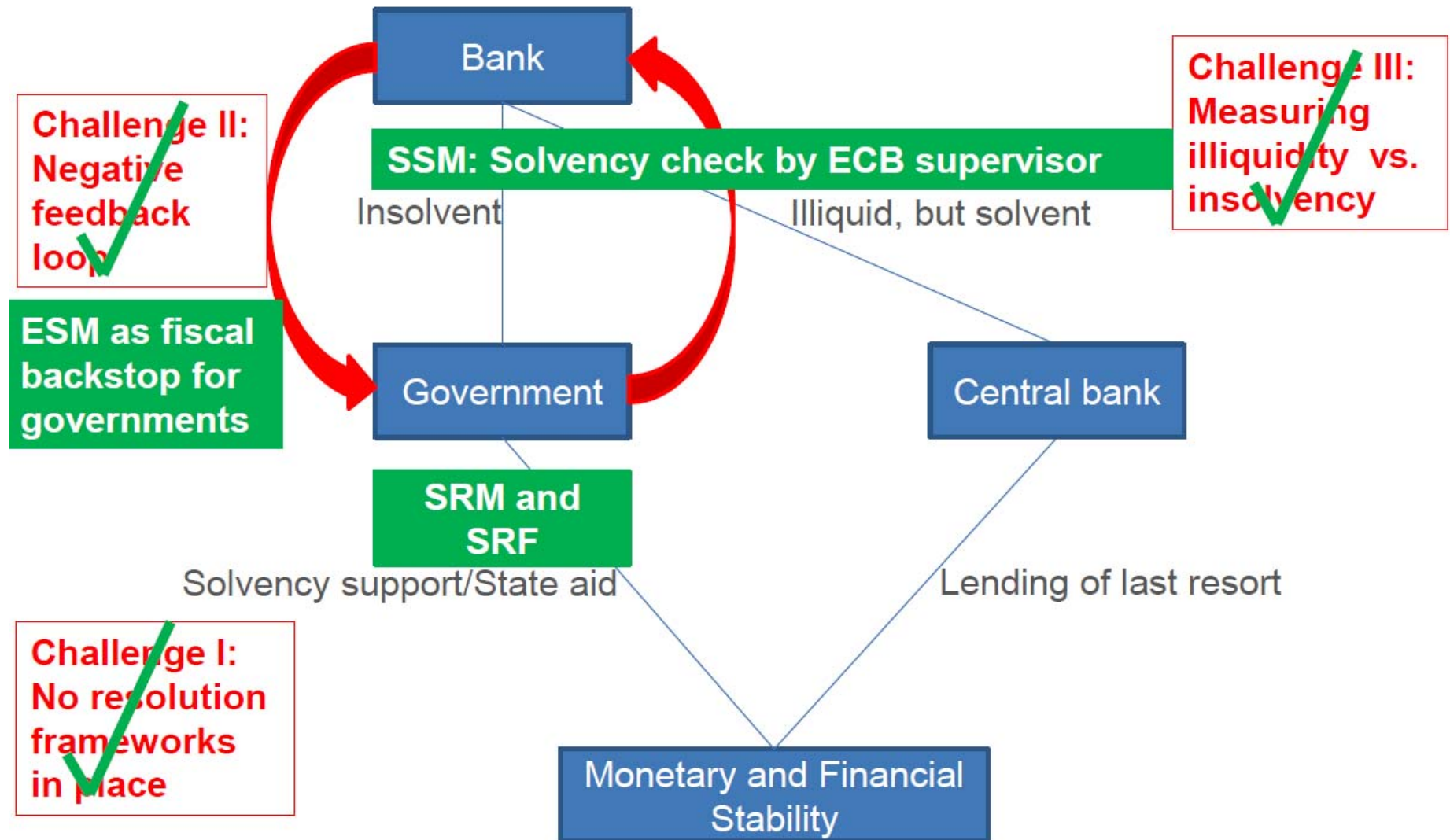
SRM Regulation

- Establishes single system for efficient and harmonised resolution of banks within the SSM
- Single Resolution Board (SRB) and Single Resolution Fund (SRF)

- In force since 19 Aug 2014
- SRF applicable as of 1 Jan 2016

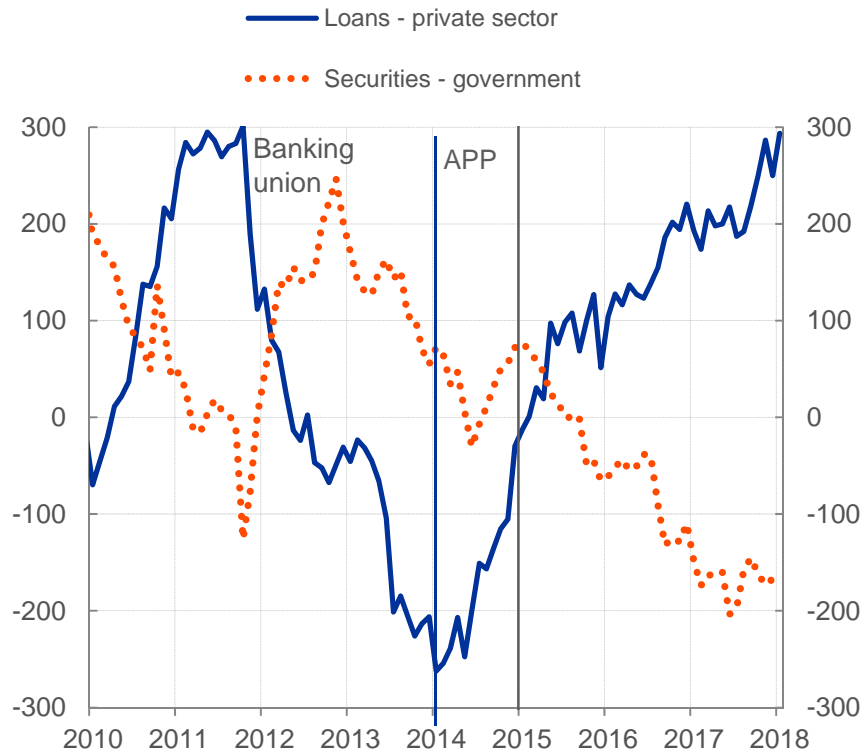
Source: ECB, Annual Report 2014.

Banking union and crisis challenges



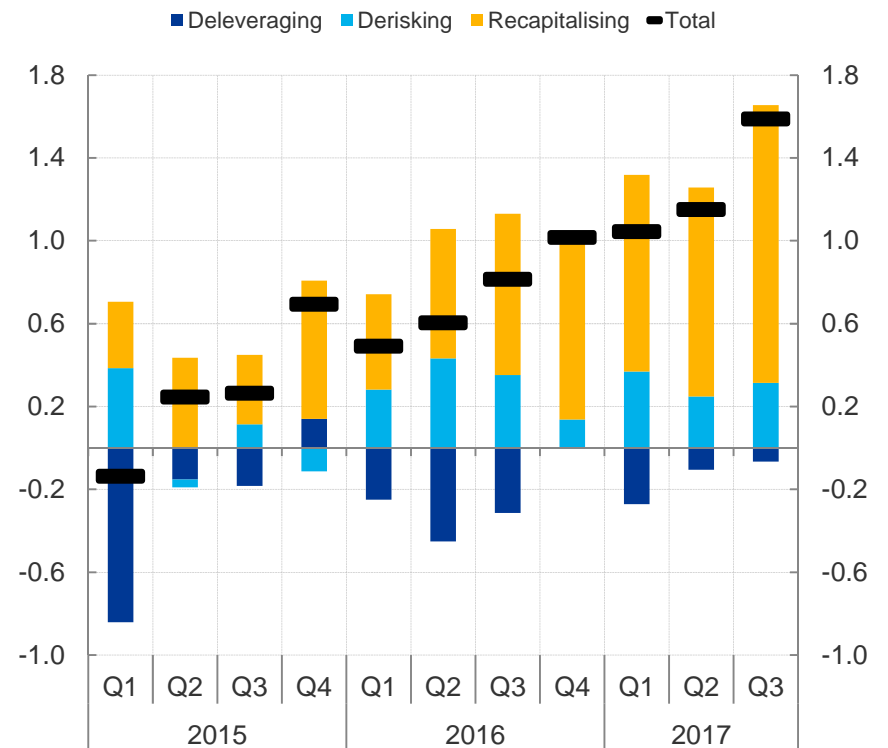
Unconventional monetary policies and the banking sector

Bank credit components
(12-month flows in EUR bn, nsa)



Sources: BSI (ECB).
Latest observation: January 2018.

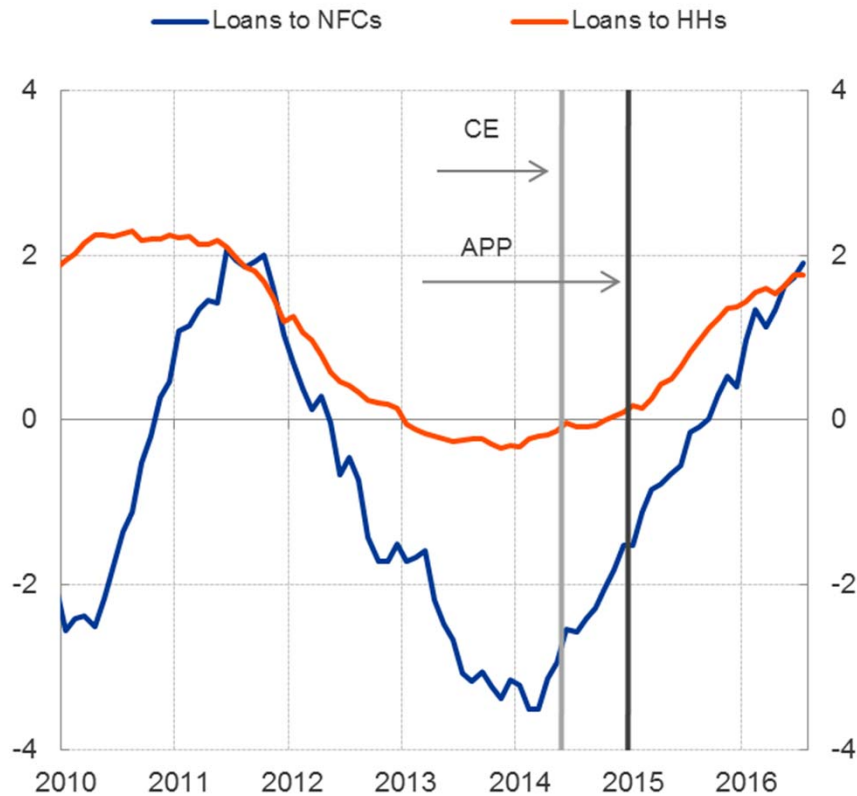
Change in CET 1 capital ratios and its factors
(cumulated changes since 2014 Q4, percentage point contributions)



Sources: ECB, ECB calculations.
Notes: Based on a balanced sample of 199 institutions under the supervision of the ECB. Sample means weighted by total assets. Deleveraging refers to changes in total assets. Derisking refers to changes in average risk weights. Recapitalising refers to changes in the amount of bank capital.

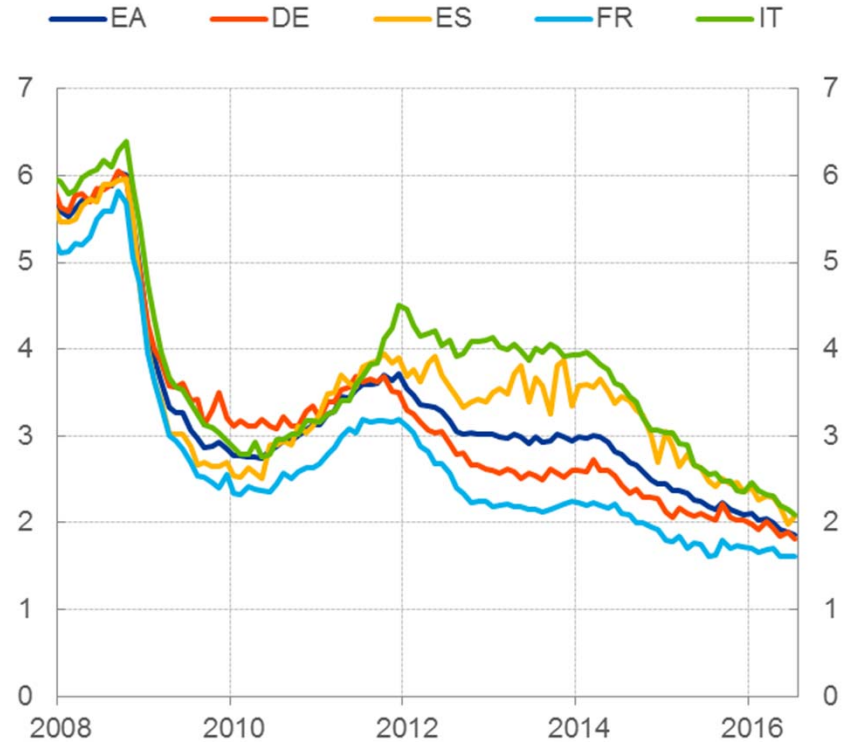
Credit developments and lending rates

MFI loans to the non-financial private sector
(annual percentage changes)



Notes: Data are adjusted for sales and securitisation.
Latest observation: January 2016.

Composite lending rate for NFCs
(% per annum; 3-months moving averages)

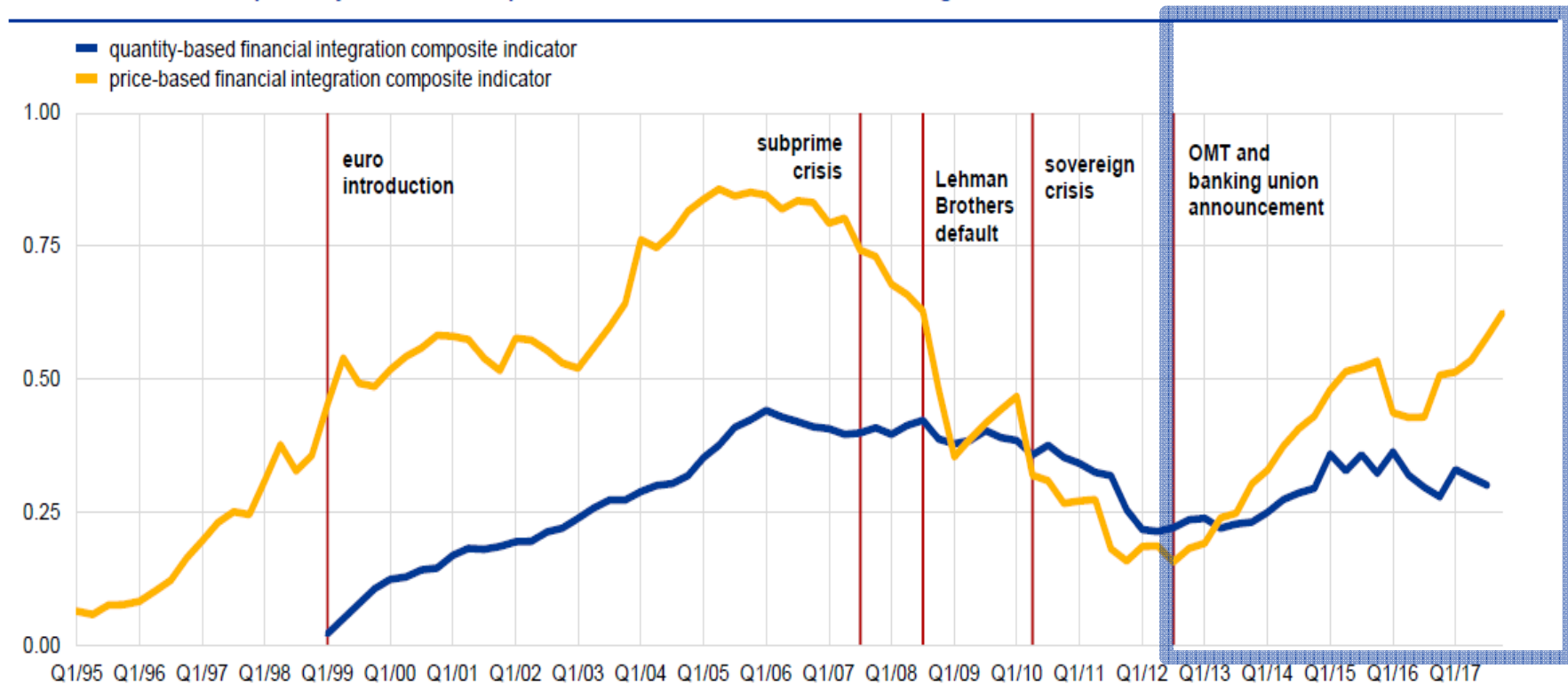


Source: ECB.

Notes: The composite indicator of the cost of borrowing is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes. Latest observation: January 2016.

Financial Integration

Price-based and quantity-based composite indicators of financial integration



Sources: ECB and ECB calculations.

Notes: The price-based composite indicator aggregates ten indicators covering the period from the first quarter of 1995 to the fourth quarter of 2017, while the quantity-based composite indicator aggregates five indicators available from the first quarter of 1999 to the third quarter of 2017. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration. For a detailed description of the indicators and their input data, see the Statistical annex.

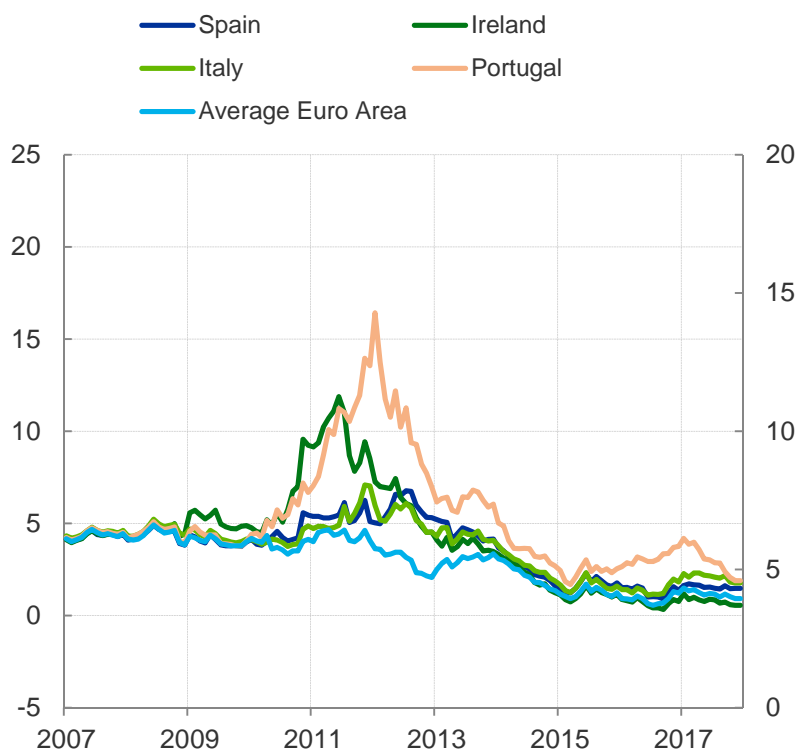


Thank you!

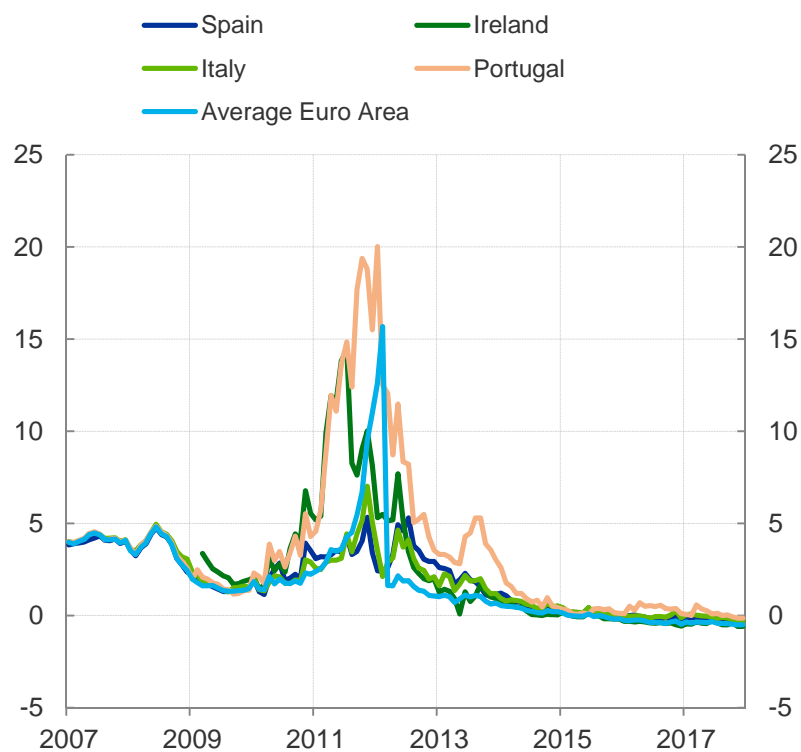
Sovereign debt crisis

European government bond yields (annual percentages)

2-year maturity



10-year maturity



Sources: Thomson Reuters and ECB calculations.

Note: The series are based on end-of-month data. The data used for the Average Euro Area is based on euro area changing composition. The first observation for Ireland series of 2Y yields is March 2009

Latest observation: 31 December 2017.