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BANKING UNION
The supranational solution to the crisis in the euro area

The previous crises taking place in the European Communities and, later on, also the European Union (for example, the crisis of the so called empty chair or the constitutional crisis) show that the solutions employed not only alleviated or even obviated these crises, but also deepened the integration in comparison to the prior situation. As a result, the development of the European Union is a rising parabola, which means not only that the level of integration in the phase after the crisis, or the peaks of the parabola, were located on an increasingly higher level of integration (in comparison to the previous crises), but this phenomenon is also visible in the case of depression (subsequent crises). This poses a question of whether the current crisis in the euro area, which is *de facto* a crisis of public debt (depression of the parabola), would follow the same logic of the integration process. This depends on the adopted solutions. One of them is the Banking Union, planned since 2013, sometimes referred to as the Financial Market Union or Banking and Budget Union.

Since banks turned out not to be very resistant to crises and susceptible to the overuse of their independence, at the same time constituting a strongly fragmented regime (both at the national and European level), the idea to move the control over them from the national level to a European (supranational) regulator may be an adequate reaction. In spring 2012, the European Commission (EC) initiated intensive works over the projects of legal acts concerning the Banking Union for 17 countries of the euro area. On 12 September 2012, these projects were published by the EC in a compressed package.

One of the components of the Banking Union is a uniform supervisory mechanism based on the taking over of the control over the banks in the euro area by the European Central Bank (ECB) - previously, this supervision was the responsibility of national bodies. The supervisory powers within the Banking Union will be concentrated in the ECB. Hence, the Banking Union seems to be another element of the financial supervision system implemented by the EU as a result of the debt crisis. In 2011, four supervisory bodies were created to coordinate the actions of national regulatory bodies and guarantee the consistent use of EU regulations (these are: the European Systemic Risk Board, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority). While in the euro area the "financial sovereignty" of the participating countries is smaller than that of countries from outside the area, the implementation of the mentioned supervisory bodies creating the European financial supervision system limited the national competences even further.

The Banking Union, with the central role of the supranational ECB, which would receive the new competences with the beginning of 2013 (e.g. 1) creating a common bank supervisory body, 2) giving banks and credit institutions licenses to operate, 3) controlling capital requirements, also by means of uniform regulations concerning capital reserves in banks, 4) supervising financial conglomerates, 5) coordinating repair activities by means of increasing the capabilities of banks to restructure or even closing the weakest banks which cannot be restructured, 6) introducing a common deposit guarantee system and 7) implementing uniform regulations concerning the bankruptcy of banks), is not a regular form of coordination, but of deep integration at the supranational level, which is supposed to be a reaction to the debt crisis at the national level (Greece, Spain, Cyprus). What is important is that initially the ECB supervision would cover only those banks, which have already received aid from public means or applied for such aid. Only from 2014 would it cover all banks within the euro area. It may, therefore, happen that weak banks will be eliminated in the name of the restructuring and reform of the whole financial sector and, at the same time, restoring its credibility. If we add the plans of introducing a rescue fund for banks (which would be a sort of deposit guarantee) and the implementation of a system of stricter coordination of tax and spending policy, the attempt of a comprehensive, but also supranational (common) integration of the banking sector becomes clearly visible. At the time of country debt balancing, banks may become a safe place to locate investments and, therefore, be used to alleviate the debt crisis. Moreover, it is necessary to remember that, at the micro level, the central banks in the euro area could be used for supervision. So far they have been "removed" from this function, because the original banking legislation had not been very successful in relation to the preventive and reformative actions aimed at weak banks. If that happened, it would mean a significant change in the planned supervision logic and a degree of deregulation through the simplification of the regulatory regime. If this is accompanied by the process of safe consolidation of banks, the expected outcome, together with the creation of a European banking market (including the Banking Union) would be complete.

The uniform banking supervision system could be joined by countries from outside the euro area on the basis of "closer cooperation". However, the European Commission emphasizes that these countries would not become members of the Banking Union. This position is understandable because the ECB does not have sufficient competences outside the euro area. In practice, this sort of participation of countries from outside the euro area in certain forms of the supervisory mechanism would not allow for their partaking in the decision-making process of the Banking Union (no right to vote). Despite that, the future Banking Union will exert influence on banks in countries which are not members of the euro area through:

1) ownership relationships, subsidiaries, branch banks, single group banks, etc.;

2) new ECB supervision especially towards branch banks (in this case the supervision may be transferred from the capitals of countries from outside the euro area to the European Central Bank);

3) influence over a part or even the whole banking system of countries from outside the euro area;

4) recapitalizing branch banks and subsidiaries, but also - unfortunately - through the potential withdrawal of capital from these banks in order to stabilize its own position or the euro currency;

5) possible realocation of bank deposits by companies or citizens from countries outside the euro area to banks operating within this area, which will be covered from 2013 by guarantees of the new euro area rescue fund - the European Stability Mechanism (ESM). Its precursor, the European Financial Stability Facility (EFSF) is already operational. But supervision, which is repeated like a "mantra" when talking about the Banking Union, is supposed to be the condition for the direct recapitalization of the ESM banks.

This is the simulated catalog of the potential side effects of the Banking Union.

In this context, but also in a situation in which such an Union would not be created, the European banks should take into consideration the possibility of using the following three solutions:

1) create a network of bank connections in order to manage the requirements of EU and national regulators in such a way, as to be able to properly adjust to the new regulatory architecture (the banking regulation regime) and prepare adequate reactions to the risk infrastructure;

3) rebuild their credibility and properly utilize the right to plan solutions and undertake preventive measures;

3) create a common philosophy based on following substantive rules - the foundation of the banking business. This will be a great challenge, because such a solution is not completely in complicity with the national supervisory traditions.

Undoubtedly, the above-mentioned economic solutions, which were implemented in 2011, as well as those still being planned (the Banking Union and Fiscal Union) are a clear proof that the European Union after the crisis will be even stronger and more integrated that before. The next peak of the parabola of the EU development will be located even higher (closer economic and currency union) in comparison to the similar solutions in previous crises and even to the state of the EU from before the current crisis. The neofunctional spill-over effect is, therefore, also generated during the time of crisis and many examples show that the dissemination of integration to new areas is one of two slightly distant reactions for crisis (the first one is closing in state borders, the other - the deepening of integration).

However, the implementation of the Banking Union will require time, because this type of solution implies changes in the legal systems of the countries in the euro area. If there appeared difficulties in the implementation process of the mentioned Union, the countries which are most determined to perform this project may try to implement it without signing a treaty (such cases have already taken place in the European history, for example the Schengen Agreement or the Prüm Convention, but these solutions were later on implemented to the legislation of the Community).

Therefore, the reactions to the debt crisis in the euro area (at the national level) are supranational solutions, which did not appear in the proposed areas of the EU. Undoubtedly they will deepen integration, however, mainly within the euro area, with the exclusion of the 10 member states still using their national currencies. This deepening of integration, sectoral in substance and partial in quantity, may actually be conducive to the creation of a circle of countries integrating at a faster rate than the others. On the other hand, the fact that some countries are not members of the euro area and the Schengen Agreement results in there already being different integration rates and circles within the EU. This state of affairs seems to be permanent.

Crises, regardless of their provenance, usually result in countries closing in their state borders or restore the inclination to use the old and well-tried intergovernmental solutions. It is similar in the European Union. The one thing that makes it different from the outside world is that the end of a crisis is accompanied by supranational solutions, which has specific meaning in the multilevel governing system. The following two facts prove that the Banking Union is going to be a supranational solution:

1) supranational institutions are going to be crucial in its implementation (the European Commission as its initiator and guardian of the EU legislation, the European Central Bank as the main supervisory institution of the Banking Union).

2) the supervision over banks will be uniform, with common parameters, led by supranational institutions; the principles of the banking union constitute a common mechanism with top-down regulations (the European regulatory regime in the banking system).

The propositions of Herman van Rompuy, concerning of reform of the communitisation of the debts of the euro area countries through an adequate fund (joint responsibility for the debt) or the much more difficult implementation of eurobonds, are going in the same direction. The possible emission of eurobonds could have a positive influence on the debt of the countries in the euro area which are in the middle of restructuring reforms. Even if these propositions have little chance of being carried out, the tendency is rather clear - communitisation, which in practice means a supranational approach. It is important to point out that the ECB has already agreed to an unlimited purchase of the bonds of the countries of the euro area if they apply for the EU aid. For the Germans, which are not in favor of the bonds, an alternative solution could be a solidarity mechanism, a sort of “budget for the euro area”, but mainly a subvention mechanism for countries undergoing difficult structural reforms.

The current crisis in the euro area is an opportunity for closer and deeper integration and even for the implementation of federal solutions in the EU. According to many economists, this is a better solution than the potential fall of the euro area, which would bring stagnation and significant changes in markets after an initial shock.

The multidimensionality of the planned reforms in the EU financial system, especially in the euro area, is supposed to be based on merging the Banking Union with the

Fiscal Pact (which is supposed to be the basis for the future Fiscal Union). Apart from that, such a Banking and Fiscal Union would create a new European regulatory regime and a uniform mechanism for banking settlements, mainly for the euro area. It would also be a transition to the next and, more importantly, new phase of integration, which would have the parameters of banking and fiscal federalism in the euro area.

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