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GERMAN PLAN BRINGS ‘NEW IMPETUS' TO BANKING UNION, EUROGROUP SAYS

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Finance ministers on Thursday (7 November) welcomed a German initiative to unblock proposals for a common bank deposit guarantee scheme in the eurozone, but questioned Berlins request to ask additional capital buffers in return for banks holding sovereign debt.

Today I sensed a fresh new impetus to develop other important avenues to further strengthen the euro, Eurogroup president Mario Centeno told reporters after the Eurogroup meeting late on Thursday (7 November).

The contribution by German finance minister Olaf Scholz was welcomed by all, Centeno explained, admitting however that it is still a difficult discussion.

We will need to move step by step, said the Portuguese finance minister and head of the Eurogroup.

The Eurogroup meeting discussed proposals to unblock the European Deposit Insurance Scheme (EDIS), the banking unions missing piece. It is the most controversial pillar, adding to the single supervisory system and the single resolution mechanism for Europes systemic banks.

Europeans are designing a common umbrella to protect savings of European citizens and small businesses. The objective is to have the same level of protection across Europe for all deposits under [illegible] regardless of the state of national finances or the market perception of national economies.

After almost five years of staunch opposition, Scholz said early this week that Germany was ready to support a watered-down version of EDIS, as a reinsurance scheme of national deposit guarantees.

But his blessing came with a high price, including a new regulatory treatment for sovereign debt that would force European banks to significantly increase their capital provisions.

On his way into the Eurogroup meeting, Scholz insisted that completing the banking union is key for growth and for Europe.

The German finance minister defended his proposal, saying it will help to get the necessary progress so that all over Europe a new debate on the banking union will start.

It will be different from the past because it will be about what will be done in concrete, so we are not doing anything as we do today, he explained

In return for his support to EDIS, Scholz also demanded a harmonisation of national insolvency schemes, further reduction of banks bad loans, and an agreement on a proposal for common corporate consolidated tax base.

Centeno recalled that the Eurogroups technical groups have been working on various fronts related to his proposal since early this year, including the zero-risk weight currently attached to sovereign debt.

The goal is to merge all the contributions and design a roadmap in December for political discussions on a full package to achieve a stable banking union, including EDIS.

Commission passes the ball on sovereign debt rules

European Commission Vice-President Valdis Dombrovskis said on Wednesday (7 March) that he does not intend to amend the regulatory treatment of sovereign debt held by banks following inconclusive discussions at international level.

Centeno however warned that modifying the prudential treatment of the eurozones sovereign debt is a very sensitive issue that Europeans take very seriously and with great caution given its potential impact on the financial markets.

Banks could be forced to seek dozens of billions of euros in order to secure their exposure to public debt, on top of the new capital provisions they will need to implement as from next year following new international standards.

The EUs economic affairs Commissioner, Pierre Moscovici, welcomed the German move. Although he admitted that there were still important divergences among member states, negotiations can now move forward. We can speak about EDIS and we will, the French EU Commissioner said.

After the Eurogroup meeting, he expressed optimism, saying he expected the common deposit guarantee to be introduced in phases. A good system should find the balance between risk-reduction and risk-sharing, he said.

However other ministers expressed scepticism about parts of the package.

Italian Finance minister Roberto Gualtieri welcomed Scholzs attempt to reach an agreement, but said that revisiting the sovereign debt treatment is not an appropriate condition for the completion of the banking union.

It would have a negative impact on the financial sector, he warned.

Moreover, he recalled that there was no agreement at international level in the Basel Committee. Therefore, an unilateral decision by European countries would create unlevelled playing field at global level, he remarked.

Instead, Gualtieri recommended to study this topic in the context of efforts to create a European safe asset. One option is the Commissions proposal to create synthetic eurobonds grouping the sovereign debt of eurozone members.

EU leaders postpone completion of banking union

Despite previous promises to achieve results on eurozone reforms in June, EU leaders postponed until December an agreement on the backstop to wind down failing banks and did not include any date for starting discussions on a European deposit guarantee scheme.

Spains interim Economic Affairs minister, Nadia Calviño, also hailed the German proposal. But she also questioned Germanys request to link the debate with the banks sovereign debt exposure.

We cannot make progress on EDIS conditional on this issue, she said. In her view, both work streams should advance in parallel.

Dutch minister Wopke Hoekstra declined to enter into the controversial details of Scholzs bargain.

But he said that the plan represented a positive step, because a common deposit guarantee system is highly needed to reduce risks in the eurozone.

The next question is how do you ensure the risk reduction that is so dearly needed, he added.

Kaynak/Source: