

European Banking Union: implications for an independent Catalonia

The European Banking Union is a new system of banking supervision and resolution at EU level. Its creation may have gone relatively unnoticed by the public but it's a major step in the process of European integration. In fact, it implies the largest transfer of sovereignty from the national level to the EU since the creation of the euro. For an independent Catalonia, it also represents a unique opportunity to strengthen the stability of its financial system.

The Banking Union was initiated in 2012 as a response to the euro area crisis. It has three main objectives: firstly, that banks and not taxpayers pay the bill for future banking crises; secondly, to break the vicious circle between sovereign and bank fragility; and thirdly, to end the financial fragmentation in the euro area, providing a single interest rate for all borrowers, regardless of the country where they are located. This means: if a Portuguese entrepreneur faces difficulties obtaining a loan at reasonable rates in Portugal, he or she should be able to seek a loan from a bank, for example, in Finland. It therefore aims to achieve a truly European banking sector.

Three key elements form the structure of the Banking Union: a Single Supervisory Mechanism (SSM), which assigns to the European Central Bank (ECB) the task of supervising all banks in the euro area (directly, 130 banks considered systemic and indirectly another 6,000 smaller banks); a Single Resolution Mechanism (SRM), which indicates how to proceed with banks in dif-

ficulty. Namely, clear rules on how bank shareholders and creditors have to be the first to assume losses. If this first "mattress" would not be enough, a new "European Resolution Fund" comes into play, funded by credit institutions – not public money – in order to provide liquidity injections in emergency situations. Thirdly, the national deposit guarantee funds will be strengthened.

What are the implications of the Banking Union for an independent Catalonia?

The Banking Union represents a significant transfer of powers from Spain's cen-

tral bank, the Banco de España, to the ECB. The influence of the Banco de España in the financial supervision and resolution of banks in Catalonia has therefore declined significantly. It also implies the creation of new financial stability structures in Europe, which will strengthen the European financial system, including that of an independent Catalonia. For example, common supervisory rules and a common European resolution mechanism, an improved deposit guarantee system and the creation of a "European resolution fund" funded by the banks themselves – including Catalan

entities – to cover the costs of bank failures.

In this new scenario, the monetary authority of an independent Catalonia (the Central Bank of Catalonia) as National Competent Authority (NCA) would, among other things, co-operate closely with the ECB in the oversight of significant banks (Caixa-Bank and Banc Sabadell), and directly supervise other smaller banks that are not considered systemic from a European perspective.

Above all, the creation of the Banking Union outlines how unthinkable it is to conceive of an independent Catalan state outside the eurozone. This is especially true when considering the economic and financial dimension of Catalonia, its deep integration into European financial markets and the presence in Catalonia of banks considered systemic at the EU level – (Caixa-bank and Banc Sabadell) – which are no longer under the supervision of the Banco de España but of the European Central Bank.



The building of the European Central Bank in Frankfurt./ AFP

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"Artur Mas' secessionist strategy has failed" Mariano Rajoy, Spanish Prime Minister

Almost 50% of the popular vote and an absolute majority in the Catalan parliament can hardly be called a failure, Mr. Rajoy. On the contrary, it seems that the strategy is alive and kicking.