Banking crises, financial stability and state aid: the experience so far

Workshop, 8th March 2013

This workshop contributed to the policy debate about the next steps beyond the creation of a Single Supervisory Mechanism, starting from the experience of the European Commission in State aid control in bank restructuring.

The first speaker, **Gert-Jan Koopman** (Director for State Aid, European Commission DG COMP), presented an overview of the role of State aid control during the crisis and of the challenges ahead. As far as the legal and logic basis of State aid control is concerned, EU Treaty provisions confer to the Commission the exclusive competence to grant State aid in case of a serious disturbance in the economy. Within this role, the Commission is bound to balance the benefits of financial stability with the consequences of bailing out financial institutions, taking into account the issue of taxpayers' protection. The Commission has to take a careful look at what is necessary to save a financial institution and has an important role which entails the evaluation of whether an orderly resolution of an institution would be less costly than a restructuring. As for the history of State aid control, the speaker claimed that the Commission has been pushed into this role of controller without an alternative. The Commission has basically provided the rules of the game rather than engaging in a proactive practice towards State aid control.

The second speaker, **Peter Praet** (Member of the Executive Board, European Central Bank) discussed the institutional framework that should be designed in view of the creation of the banking union. According to him, it would be important to leverage an institutional framework without neglecting the importance of basic governance principles and building upon the experience gained so far. When setting up such framework, it is important to have clear objectives, the most important being competition and financial stability. While competition is more a microeconomic objective, financial stability has a macroeconomic dimension, and a balance between the two has to be found, as mentioned by Koopman. The speaker also stressed the need to work on clear objectives such as transparency and accountability, and envisaged a strong role for the EU Commission and DG Competition in the future. Finally, he identified three main issues that have to be addressed. The first one related to a directive on resolution that should clarify a framework within which actions can be taken. The second one is the issue of taxpayers' money, with one dimension being the balance between bail-in and bail-out and the other dimension being the evaluation of cross-border cases. The third issue is the articulation between supervision and resolution: according to the speaker's view, it would be more efficient to start with resolution and then deal with the supervisory mechanism. According to the speaker, since 2007 central banks have been confronted with severe liquidity shocks,that triggered rapid reaction but that always involved ambiguity as liquidity can easily turn into insolvency. For this reason, it would be important to have a global view of supervision and to create an institution with a limited mandate, providing liquidity to banks that are solvent for a limited period of time.

The third speaker, **Hans Vijlbrief** (Treasurer-General, Dutch Ministry of Finance) drew insights from the recent experience with the bail in of SNS Reaal, the fourth largest Dutch bank, and emphasized the need for proper instruments and for the creation of a resolution mechanism which would take into account the problem related to national competencies.

Event notes by Francesca Barbiero