

Bloomberg

Coeure Sees 'Game Changer' Bank Union Taking Shape in '13

By Matthew Brockett - Oct 8, 2012 8:00 PM GMT

European Central Bank Executive Board member Benoit Coeure said policy makers will early next year start building a banking union that will be a "game changer" for the euro area.

"The establishment of a banking union is a key factor in the completion of monetary union, and probably a turning point in the current crisis, with profound repercussions for the financial sector and the real economy alike," Coeure said in a speech in [Frankfurt](#) today. "We are confident that implementation will start as planned with the establishment of" a single supervisory mechanism "in early 2013," he said.



Enlarge image

A euro sign sculpture is seen outside the European Central Bank (ECB) headquarters in Frankfurt. Photographer: Hannelore Foerster/Bloomberg



Oct. 8 (Bloomberg) -- Peter Rosenstreich, chief foreign-exchange strategist at Swissquote Bank SA, discusses the prospects for the euro amid the European Central Bank's bond-buying pledge and U.S. fiscal policy discord. He talks from Geneva with Guy Johnson on Bloomberg Television's "The Pulse." (Source: Bloomberg)

Euro-area governments agreed in June to establish a banking union and asked the ECB to assume the role of a single bank supervisor. Coeure said that in addition to centralized supervision, the banking union should have a common resolution structure and shared [deposit insurance](#).

"These three elements, when operational, would effectively sever the link between banks and sovereigns," he said. "Banks' funding costs should start to indicate again their individual creditworthiness, without the premia that reflect their sovereign's fiscal position or redenomination risk."

While setting up a fully-fledged banking union will take some time, Coeure said the supervision mechanism should enter into force “as early as possible in 2013” and proposals for a resolution structure will also be needed next year.

Policy Transmission

“For monetary policy to work we need an integrated banking system, and to have an integrated banking system we need it to be supervised across the euro area as a whole, which will make it possible to be backstopped by the euro area as a whole,” he said.

Coeure said monetary policy transmission is not working, which is why the ECB plans to buy [government bonds](#) when warranted under its Outright Monetary Transactions program. The ECB will only intervene if the conditions governments sign up to under a bailout from [Europe](#)'s rescue fund are “fully respected,” he said.

“OMTs would not be carried out while a given program is under review, but they would resume after the review period once program compliance has been assured.”

Coeure said the ECB needs to ensure that money is flowing evenly to all parts of the economy so that it functions smoothly. At the same time, “liquidity can become destructive if it gets out of control,” he said.

“The ECB will stand ready to withdraw liquidity when upward risks to medium-term [price stability](#) materialize,” he said.

To contact the reporter on this story: Matthew Brockett in Frankfurt at mbrockett1@bloomberg.net

To contact the editor responsible for this story: Craig Stirling at cstirling1@bloomberg.net