The Dynamics of European Banking Union: The Process of Its Making and Its Role in Future Financial and Economic Integration

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Introduction

With halftime already over in preparation for European Banking Union (EBU), a dissection of how it is taking shape and options for its future development seems warranted. The decision of the European Council on 29 June 2012 vastly focused and accelerated the efforts of political decision-makers, legislators and financial experts at a euro area (and EU) level, justifying the assessment that EBU may be seen a quantum leap in European financial integration, corresponding to monetary integration in EMU (Veron 2013). There are, however, controversial approaches to defining the role of EBU in European economic and political integration. At one end of the spectrum, which we dub the 'missing link' view, is the assessment of EBU as a tool for stabilising EMU through disentangling monetary and fiscal policy (see Breuss 2012). At the opposite end, which we call the 'bridgehead' view, EBU is deemed a step into the new territory of fiscal, economic and political integration (Veron 2013).

These approaches shape perceptions of EBU in different, albeit complementary ways: the missing link approach focuses on removing the inconsistencies of fiscal and monetary demands on banks, while the bridgehead approach focuses on the process dynamics in the design and adaptation of individual building blocks. The following analysis of the 'dynamics of EBU in the making' aims to combine both views, showing the interaction between processes and outcomes in the design of EBU despite national constraints, sector interests and the evolving global environment. This type of approach demands a comprehensive perception of EBU supplanting that commonly presented in recent literature on the issue, which focuses either on the role of EBU in overcoming the economic and financial crisis or on the efficiency of its elements such as the single supervisory mechanism (SSM).[2]

Such a wider angle view relates to EBU as a project, making it possible to draw on textbook literature on project management. In this context a project is undertaken in work stages like (1) definition of goals, (2) designing solutions, (3) implementation, (4) evaluation and adaptation. This view inspires us to look at EBU from three different perspectives:

a) The functional perspective, which defines EBU by its functions as a missing link for stabilising EMU against the background of the doom loop of economic downturn, fiscal vulnerability and pressure on the banking sector.
b) The institutional perspective, which defines EBU by its core elements, namely: a single rule book, a single supervisory mechanism, a single resolution mechanism and deposit insurance.
c) The structural perspective, which defines EBU by its impact on structural features of individual banks and of (hitherto) national banking systems.

These three perspectives of EBU highlight its multifaceted and dynamic character. They can be regarded as complementary and successive by nature, with functions defining institutional design and institutions shaping banking structures. However, there are process overlaps. The design of institutions, for instance, might feedback into the definition of functions, extending or narrowing the scope of EBU. In addition, each of the perspectives can be regarded as reflecting a certain pattern of processes such as succession, simultaneity and recursive action.

This article deals with the adoption of EBU as a process, exploring the interaction of process and results,

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[2] The more comprehensive angle also draws on speeches like Mersch (2013), but has found little resonance in the literature on the topic.

in other words: how the nature of EBU is to be reflected in the timing of its adoption. To this end, the paper will focus on each of the three perspectives in terms of their logical sequence, functions, elements and structural impact. It concludes by dealing with constraints on the further development of EBU.

EBU by functions – interaction of problem perceptions and defining solutions

It was the objectives, reflected by functions, which ultimately led to the initiation of the EBU project, and which will be a decisive driver of its scope and speed of implementation in the future. The starting point for a functional definition of EBU is the introductory sentence of the European summit statement dated 29 June 2012 that states: "it is imperative to break the vicious circle between banks and sovereigns". The statement can be seen as a snapshot of an evolving perception of the nature of what had been widely dubbed the 'crisis of the euro'. This perception placed banking stress at the beginning of a causal chain of events, which since 2008 had vastly amplified the economic downturn, caused fiscal blowouts, thus jeopardising the effectiveness of the financial system in the euro area and ultimately threatening the functioning of monetary policy.[3]

Reflecting on the causal chain and the ensuing dynamic of the crisis enables us to prioritise the functions of EBU in the following way:

1. Stabilise banks in securing adequate capital and trust on the part of economic agents, if necessary through fiscal backstops (EFSF/ESM).
2. Assure the efficiency of monetary policy, including credit flows, in restoring the integrity of the money market and the capital market.
3. Break the sovereign-bank nexus by subjecting banks to a single governance regime, hence reducing the scope of national governments to use banks for national political objectives.
4. Reduce the risk of individual country strains and asymmetric shocks becoming systemic in the future through a binding delineation of fiscal policy and monetary policy (Speyer 2013; Breuss 2012).

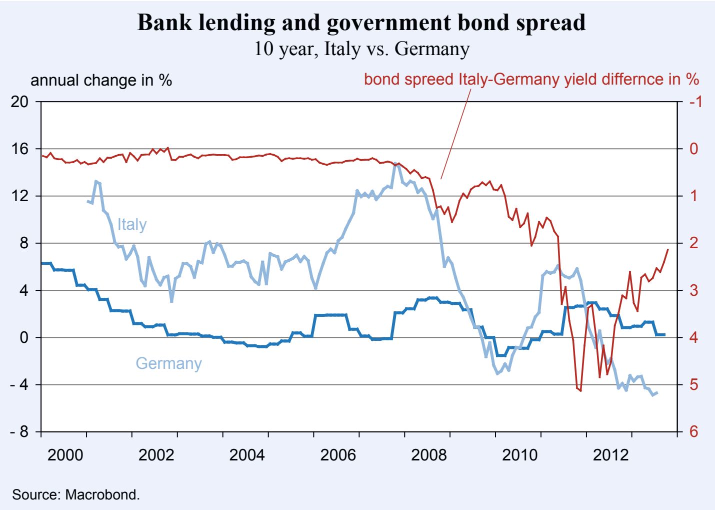
It has to be said that these functions cannot be regarded as given in a sense of defining a blueprint for EBU. Instead, they should be viewed as a result of interactive processes, in which initial perceptions of the problems shaped political responses. As these responses were regarded as inadequate or insufficient by capital markets and economic agents, causing a sharp setback to the euro area's economies and revealing structural weaknesses, politicians saw themselves compelled to adjust their problem definitions, and hence their responses, both in terms of scale and scope. These dynamics can be shown in practice by the chronology and the key moments of the global financial crisis and the euro crisis, which have unfolded since 2007/8: (1) initially in September 2008, after the collapse of the US bank Lehman Bros., the main threat to European economies was diagnosed as banking stress, which was dealt with by the introduction of national safety nets. This helped to stabilise national banking sectors, but was not enough to tackle the wider fallout of the financial crisis in terms of loss of trust in the viability of monetary-fiscal governance, as fiscal strains on Greece and other euro members became acute. (2) In May 2010, with Greece's loss of investment grade status, political decision-makers started to perceive the European crisis as systemic for euro area finances and monetary policy (Credit Suisse 2010), and responded by establishing the EFSF, which can be regarded as a cooperative solution. This approach proved to be insufficient, particularly as its stabilising effect was countered by the Franco-German agreement in October 2010 to apply the principle of bailing-in investors in restructuring banks.[4] As shown in Figure 1, the ensuing cessation of capital flows to the euro area periphery, visible in burgeoning yield spreads between national government bonds and contracting loan provision in the periphery, highlighted the need for a wider definition of the euro area crisis, (3) leading to the agreement of June 2012 to establish EBU.

This, by nature, can be regarded as a genuinely European approach to tackling the nexus of banks and sovereigns. At the time of writing, establishing EBU institutions seems to be generally on track (see following section) as the ECB prepares for its new role as SSM central supervisor (see also Veron 2013) embarking on preparatory routines such as risk assess-

[3] This perspective is held, for example, by the German Supervisory Council in its annual statement of 2012, but the statement stops short of the last conclusion, which had been made by ECB presidents Trichet and Draghi to justify their policy actions (OMT).

[4] According to Bastasin (2012) the switch to the bail in principle was a key driver of government bond spreads, effectively forcing Ireland to revert to the EFSF.

Figure 1



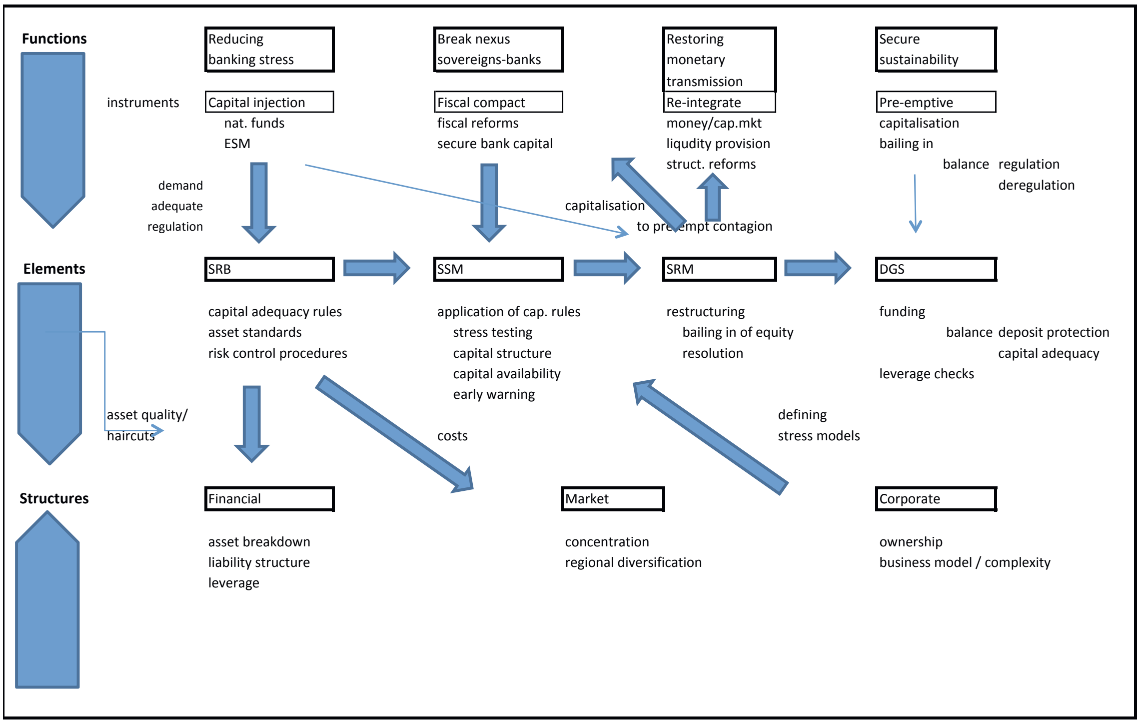
ment, asset quality and stress tests.[5] However, even if the preparation phase is completed successfully – the key test is to be seen in the willingness of national governments to abide by any ECB demands for additional capital – this may be just the starting point of breaking the sovereign bank nexus. In contrast to the view widely held in literature on this topic that breaking the sovereign-bank-nexus principally requires recourse to European fiscal backstops, we would emphasise that it is at least equally important for national governments to actively pursue separation. This would imply that governments waive national banking rules and preferential treatment of domestic banks in pursuing financial transactions.[6] The result might be a decoupling in bond yields between banks and governments. (4) Finally, pre-empting asymmetric shocks to individual euro area economies either *per se* or by preventing them from spreading to the euro area as a whole (the last of the above-mentioned functions) is likely to be diagnosed and treated in a European context. This function will probably undergo a significant change in perception – and political solutions – in the context of introducing the Basle III (SRB) rules on capital requirements and following the changing banking structure after the start of EBU. In effect, the change in the governance and structure of the European banking system is likely to drive new policies and institutions as implied by Veron (2013). The connection between the functions of EBU, its institutions and its impact on banking structures is to be visualised in the following graph.

[5] The ECB President Draghi on the preparation of his bank for SSM on 28 October 2013.

[6] Recent experience points in the opposite direction, with Spanish and Italian banks boosting their holdings of national government bonds.

Figure 2

European Banking Union as a system and interactive processes



EBU elements in the making – interactions between legislation and operation

So far the process of EBU adoption seems to follow a perfect functional logic: the above-mentioned functions worked as guiding principles for shaping the institutional framework of EBU, which so far has been adopted in a logical sequence of its constituent elements:

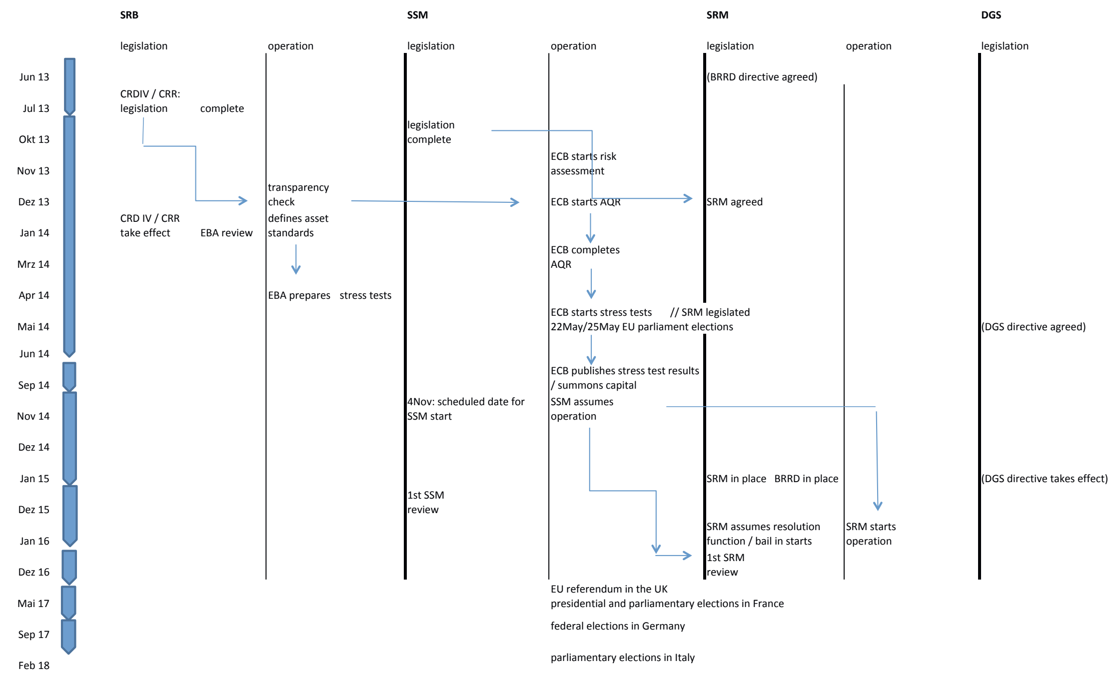
- The single rulebook (in short: SRB) for EU governance, run by the EBA, consists of the regulation of CRDIV/CRR legislated in June 2013; it will take effect in January 2014;
- As regards the single supervisory mechanism, based on the ECB, a supervisory board and a mediation panel, regulation had been legislated in October 2013. This allows the ECB to start building structures and processes in preparation for its assuming direct supervisory responsibilities for 128 banks in the euro area in November 2014;[7]
- As regards the single resolution mechanism (SRM), an agreement had been achieved by the European Council decision of 19 December 2013, committing to the start date 1 January 2016 for resolution functions;[8] and
- As regards the deposit guarantee scheme (DGS) function, the process of revising the respective EU directive of 1994/2009 with respect to further harmonisation is under way. This might help link the DGS function to EBU at a later stage.

This sequence perceives adoption merely as legislation, a perception which would be adequate in the context of a sound constitutional basis. However, the legal base of EBU – apart from EMU – is not by constitutional arrangement, but by legal provisions within the scope of existing treaties. As the governing treaties of the EU (TEU, TFEU) did not provide explicitly for EBU, establishing it would have required either a treaty change or expansive interpretation of existing treaty provisions. The latter had been chosen by the EU council, invoking Art. 127(6) for the SSM and 114(1) for the SRM, in order to allow a fast track legislation process according to Art. 14–16 TEU. This strategy, while facilitating the legislation process, confines EBU adoption – i.e. the assignment of tasks and powers – to existing institutions, such as the EBA, the ECB, the European Commission or the ESM. As these were not made for EBU, their adequacy will have to be 'life tested' in practical operations. The results of this life experience are then likely to demand revision of the arrangement, making legislation and

[7] A concise account of the design of the SSM is given by Speyer (2013).
[8] EU Council (2013), press release17602/13.

Figure 3

Adoption of EBU elements – timing and interaction



( ) = single market related.
Source: EU Commission, Deutsche Bank.

operation of EBU interactive processes, as reflected by Figure 3.[9]

Perceiving EBU adoption as interactive process strands of legislation and operational practice warrants dissecting both strands separately for each of the four elements. Below we look at 'cross fertilisation', in which operational experience with one element shapes the design of other elements, as can be exemplified by the impact that SSM operational requirements have on the design (hence legislation) of the SRM.

Along the lines set out by the treaties[10] legislation for each of the four core elements can be modelled by four stages with an overlap between the elements: (1) drafting proposals for the design of the core elements (EU Commission); (2) negotiating an agreement in political bodies (Ecofin/Euro Group); (3) authorising the agreement (European Council); and (4) legislation by national parliaments and the European Parliament.

As for the SRB legislation had come to a completion in June/July 2013 by the adoption in parliaments. As for SSM legislation, it had gone through the proposal, negotiating and authorisation phases by December 2012 and had been completed in October 2013. As for the SRM, stage 1 of legislation (proposals) was completed in July 2013, while stages 2 and 3 (negotiation and authorisation) were completed in December 2013. Final legislation (stage 4) is to be passed by May 2014. As for DGS, legislation of a new directive is currently single market related with a Commission proposal (stage 1) proposed for end of January 2014. However, the funding requirements of the SRM and potential funding synergies between DGS and SRM may warrant bringing both functions together under the auspices of EBU.

In terms of the operational process, EBU elements may be implemented successively: the ECB recently embarked upon the preparatory stage for the SSM by setting up structures in the scope of SSM regulation Art. 26, and outlining and initiating processes. For the EBA, the operational phase had already started by running the rule book and supporting the ECB in its asset quality review. This phase of regular operations will start for the SSM with the handover, scheduled for 4 November 2014 (or at a later date to be set by the ECB).

[9] This explains the complicated institutional setting of the SSM: (1) a supervisory board, which is the body to prepare decisions, (2) the ECB governing council, which ultimately endorses/rejects the proposal and (3) a mediation panel (Begg 2012; Speyer 2013).
[10] Art. 289, 293 and 294 TFEU.

The preparatory phase of the SSM, spanning the period from legislation (15 October 2013) to the envisaged handover date (4 November 2014) can be seen as a life test for the effectiveness of cooperation arrangements within the SSM. This particularly concerns the willingness of national authorities to provide the ECB with complete and impartial information on the state of 'their' banking institutes and the willingness of the governments to fill possible capital gaps, discerned by the ECB on the basis of its pre-handover routines – of risk review, balance sheet review and stress tests (Veron 2013).[11] Ideally, the efficiency of SSM regulation can be tested by governments' willingness to meet not only capital requests but – if the ECB discerns a substantial capital shortfall – to accept the closure or merging of 'their' institutes involved. In other words: the ECB would start off in its role as central supervisor with a clean slate of banks with sound balance sheets.

Such perfectly cooperative behaviour, and hence acceptance of the ECB as central supervisor, might not only go against the grain of previous practice, it may force the national authorities to reveal and accept responsibility for their own shortcomings in the past.[12] Hence it seems more realistic that the ECB will either have to lower its own goalposts for capital adequacy, or face an 'uphill struggle' in invoking full disclosure and cooperation from national authorities based on Art. 9(1) of SSM regulation. A further safeguard for the ECB might be its ability to draw on the EBA and its expertise as regulator and counterpart to national authorities. Ultimately, it might threaten to postpone the handover date, which could be regarded as a strong signal of insufficient cooperation by the markets.

Operational experience of the ECB, both pre-handover and post-handover, will feed back into the design process of EBU – hence legislation – in various ways: firstly, through scheduled review of SSM regulation itself. According to Art. 32 SSM regulation the current arrangements in terms of tasks, cooperation, powers and institutions will be reviewed by 31 December 2015. This makes the first year of ECB regular operations a life test of the effectiveness of the regulatory set up. Ultimately, this will be measured against fulfilling the functions described above, notably that of securing or restoring monetary transmis-

[11] Veron (2013) describes this process as 'triage'.
[12] The announcement by the Spanish government on 27 November, which would allow banks to convert tax claims to tax credits, is indicative for the power struggle going on behind the scenes.

sion across the euro area. The review will be initiated by the EU commission and might lead to a revision along the lines of the EU legislation procedure set out in Art. 294 TFEU. Secondly, as the review not only affects cooperation between ECB and national authorities, but also between the ECB and the EBA, it might also reveal shortcomings in the working of the EBA and exert pressure for a revision of the SRB. Thirdly, the review may impact the design of the SRM, as reflected in the European Council's agreement of 19 December 2013.

Legislation of the SRM, invoking Art. 114(1) TFEU), had been driven by the requirements set out by the ECB, hence it can be regarded as a direct result of SSM adoption. An essential part of the agreement on the SRM had been accomplished by the EU agreement on the bank resolution and restructuring directive BRRD, which sets out the instruments for resolution, namely: (1) sale of business units; (2) asset separation; and (3) establishing a bridge institution for 'good bank assets' and a bad bank for ailing parts; as well as (4) bailing in according to a 'cascade' of holders of equity, debt and deposits.[13]

The impact that the ECB's bracing for assuming its supervisory role had on SRM legislation can be shown in key features:[14]

- The design of the resolution board: five euro area representatives together with the representatives of national authorities in plenary session – reflects the composition of the SSM supervisory board.
- Discriminating between plenary sessions of the resolution board – for decisions on funding – and executive sessions – in which actual resolution decisions are taken – and confining executive sessions to representatives of the euro area and those states concerned strikes a balance between national and euro area interests.
- The universe of banks covered by the SRM will be, in principle, identical to the 128 banks directly supervised by the SSM. In addition it will be directly responsible for cross boarder banks. All other banks fall into the direct realm of national authorities.
- By building a European Resolution Fund over ten years through bank levies of 1 percent, SRM funding is likely to circumvent the problem of legacy losses. Providing for bridge financing from national sources and the ESM in the build-up period is regarded as an indispensable condition for the effectiveness of SSM operation.
- Synchronising the start date for SRM operation (resolution functions) and the bail-in provisions for 1 January 2016 provides a coherent base for funding.

In terms of the operational phase, setting the operational start date for the SRM at 1 January 2016, or one year after SRM regulation becomes effective, will have two beneficial effects. Firstly, preparing the operational phase of the SRM will almost seamlessly follow the preparation phase of the SSM, which ends in November 2014. This will facilitate the build-up of the mechanism, incorporating experience gained in building the SSM. Secondly, it spares the SRM from being overwhelmed by a wave of undercapitalised banks to be restructured singled out in the pre-handover phase of the SSM.

It is nevertheless far from certain that the SRM assumes its resolution function in an environment of little acute bank stress, in which restructuring or resolution decisions are taken infrequently. The scale of restructuring revealed by pre-EBU banking review,[15] the disclosure hurdles stated above, and the time needed to execute restructuring might imply that a substantial part of the EBU-related wave of banking consolidation will fall into the responsibility of the SRM. Of particular interest will be the ability of the SRM to invoke the bailing in principle, highlighting the wider ramifications of its operations in terms of funding requirements and fostering structural consolidation of the euro area banking system.

The funding aspect is likely to link the SRM to deposit insurance DGS, the final element of EBU. Currently there seems a sharp contrast between politicians, who confine EBU to the above-mentioned elements and academic research, which sees DGS as an integral element of banking union (Schoenmaker 2013; Speyer 2013). It seems telling that on 17 December 2013 EU Commissioner Michel Barnier announced that the council agreed on a revision of the DGS directive dating from 1994 making cross reference to the agreement on the BRRD. On top of the agreement on a common guaranteed coverage of 100k euros (already achieved in the 1994 (2009 DGS directive), the re-

[13] In particular by privileging secured deposits to senior bonds as from January 2018 the BRRD deviates from current practice of equal rank of both financial instruments (Speyer 2013).
[14] For details of the SRM proposal agreed see EU Commission press release 17602/2013.
[15] According to Price Waterhouse Cooper (2013), the additional tier 1 capital needed for the EU banks to meet the CRDIV/CRR requirements by 2015 is estimated at 180 billion euros (75 percent of this applies to euro area banks).

vamped directive will provide a shortening of repayment deadlines to depositors of failed banks from 20 days to 7 days by 2024 and ex-ante funding schemes of 0.8 percent of deposits covered (by 2024).[16]

As hinted by central bank representatives and demanded by academic research due to practice in other large jurisdictions such as the United States, it seems logical to bring DGS funding under the fold of SRM, since indemnifying the depositors of failed banks is one of the key cost blocks of banking resolution. Although a few hurdles to sufficient harmonisation in national DGS rules still have to be cleared – such as agreeing on which categories of deposits will be eligible for protection and accounting for group specific DGS – the logic of EBU in terms of funding seems to point to common DGS rules.

A more comprehensive solution would consist of merging funding for SRM and DGS as suggested by Schoenmaker and Gross (2013). Although such a solution, dubbed EDIRA (European Deposit Insurance and Resolution Authority), seems convincing in terms of simplicity and cost savings – banks would have to contribute 1.5 percent of their liabilities (0.15 percent p.a.) instead of 1.8 percent – its adoption does not seem possible without constitutional change. It remains to be seen whether the operational experience with EBU together with the political interest of decision-makers (in justifying economic reforms, for instance) will be convincing enough to overcome current reservations to treaty changes in the EU Council.

To sum up: EBU adoption, rather than relying on strict application of legislated solutions, can be regarded as a process of trial and error, in which legislation and applied practice are to be regarded as interactive processes, with practical experience feeding back – and forward – into the design of EBU constituents leading to a redefinition of its scope and functions.

EBU by structures – authorities interacting with structural change

The regime change in euro area banking governance implied by EBU is likely to impact the structure of component national banking systems, as it is reflected in the banking structures report of the ECB (ECB 2013) in various ways. These changes concern different aspects of banking activity relating to banks' financial structures, markets and corporate settings. Changing these features is likely to feed back to the system of EBU governance, altering its scope and the nature of its operations.

1. Financial structures

- On the funding side, EBU authorities' key challenge will be to prompt banks to boost equity capital. At six percent of total liabilities, equity capital on average met the requirements of Basle III as regards core capital, but still fell short of the goal of eight percent set by the ECB. Boosting the share of loss absorbing capital is to help protect deposits, which at a share of 46 percent of liabilities on average for all euro area, are the banks' main funding source.
- On the asset side, making banks align loan exposure (55 percent of total assets) to long-term economic performance, prompting them to reduce the holding of government bonds and – in the interest of overcoming market fragmentation – to boost exposure to the wholesale market will be key challenges for EBU authorities.
- As regards financial ratios, the high cost to income ratios in Germany and France (70 percent) and low (loan loss) cover ratios will be matters of concern to EBU authorities, indicating that downsizing has not yet been sufficient, notably in the wake of past asset bubbles.[17]

2. Corporate features: ownership

- One of the corporate features that are of particular interest to EBU authorities will be ownership, given its impact on variables, which are key to governance such as: (1) stability of the capital base, hence resilience to stress, (2) proximity to governments and (3) functioning of the single market. The banking universe can be discriminated by ownership into three groups: private banks, public banks and cooperative banks. Additionally private banks' ownership models might be divided by their core shareholders into institutional banks – with institutional investors holding 25 percent or more of the equity capital – and private investors – with the top ten private investors holding at least a similar share. The first model of private banks seems to prevail in Spain and France, while the latter prevails in Italy.
- For EBU authorities the model of savings banks and cooperative banks has the merit of a more sta-

[16] Exceptions will apply to nations with concentrated banking systems and allowances of 30 percent will be made for commitments

[17] See High Level Banking Group on Reforming the EU Banking Sector (2012); ECB Banking Structures Report (2013).

ble investor base, but seems prone to government influence – at least in the case of public banks. The model of a stable investor base, prevalent in Germany, has been vindicated in the last two recessions, as it had been savings banks and cooperative banks, whose lending helped avoid a credit crunch, whereas it is the notion of often observed proximity to local governments, which might reflect negatively on breaking the bank sovereign nexus.
- As regards the model of private banks – in particular those with core holdings of institutional investors – it is investors' demand for returns that might drive performance, but also the higher risk-taking of these institutes. Hence in terms of EBU functions, for the EBU authorities both models seem to have their merits, even in an environment of accelerating structural adjustment in terms of downsizing, deleveraging and market concentration.

3. Market features
The structural diversity of national banking markets in terms of size, concentration and international exposure is to pose a key challenge to EBU authorities, which can be exemplified as follows:

- Accommodating the downsizing of offshore centres like Ireland, Luxemburg and Malta in the wake of the eroding prospects of regulatory arbitrage,[18]
- Gauging risk and cover ratios for network banking systems like German savings banks or French cooperative banks, which are comparable to branch institutes,[19]
- Meeting the conflicting demands of cross border banks (like Deutsche Bank and BNP Paribas) and regional institutes (like German and Spanish savings banks). Not privileging one group – as might be possible by different practices of national supervisors and the ECB – while at the same time not obviating EBU related tendencies for concentration might imply a dilemma for EBU authorities.

Legislation in pursuit of the further development of EBU

Even after the handover of governance to EBU institutions, the institutional architecture of EBU will be provisional (see also Veron 2013). This regards the organisational arrangement within the institutions – such as the distribution of powers between national supervisors and the ECB within the SSM – as well as the choice of the institutions as such, their scope and their powers. Establishing a permanent arrangement regarding restructuring/resolution and bringing the DGS function into the fold of EBU will involve further practical challenges.

There is a cascade of legal options available in pursuit of a more permanent EBU arrangement:

1. The first option is the scheduled review of the institutional arrangement within the SSM according to Art. 32 SSM regulation by 31 December 2015 and every three years thereafter. This review will follow the standard procedure of Art. 294 TFEU with the Commission initiating the process and the Council and Parliament completing legislation. A similar arrangement might be expected as regards the SRM. Experience of this process will indicate the chances of pursuing more profound legal changes along the other two options.
2. The next option would be a change in the institutional setting for EBU, notably establishing a separate SRM authority and a European DGS authority including fund(s) for these two elements. To this end, a change in the treaties, or more specifically the TFEU, seems warranted. Such a change could happen by a so-called 'simplified revision procedure' according to Art. 48(6). This demands approval by member states according to their constitutional requirements – usually by national parliaments, in some states by referendums.[20] Even the simplified revision procedure, while acceptable to euro area governments, may face major political resistance from countries not participating in the euro (outs) as seen in the event of the fiscal compact, whose adoption as EU law was prevented by Britain's veto. Given the sensitivity of the Britain to financial issues, a veto by the Britain seems a distinct risk –particularly in the run-up to the 2017 referendum.
3. The ultimate and most encompassing change would concern the scope of EBU in the context of monetary, fiscal and political union. Linking the EBU to such a wider context, making banking policy an exclusive competence of the EU would require the 'ordinary revision procedure' of Art. 48(2)

[18] These can be discerned by bank balance sheet to GDP ratios of up to 1,000 percent in contrast to 350 percent for the euro area average.
[19] Germany with a market share of 30 percent for the largest five and just 20 branches vs. 120 in Spain reflects the prevalence of public banks. The GCEE (2013) makes the risk of banking groups a major focus in its annual report.

[20] Such an undertaking is occasionally compared to legislating the ESM in February 2012, or the so-called fiscal compact in March 2012, but was seen as too intrusive to be pursued in the standard legislation procedure as was the case with the ESM – see also Veron (2013).

to 48(5). This would, in turn, usually call for a European convention, assembling representatives of national parliaments and the European parliament, national governments and the EU commission. However, this option, although pursued by the German government, seems to be meeting with little support against a backdrop of strong Eurosceptic undercurrents across the euro area countries. Hence it does not seem available at least until early 2018, after the EU referendum in Britain and national elections in the three largest EU economies. These events may bring significant changes to the political landscape by either unveiling new options or calling past achievements into question.

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