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Conference opening speech

Europe and Eurozone are experiencing a deep crisis and the need for structural reforms of the EU banking sector is the subject of political and academic debate.

Financial integration in Europe had progressed significantly in the years prior to the financial crisis, albeit mainly in the wholesale markets. The realization of a single European Market and the removal of remaining barriers for its completion had formed the most important tasks of the integration process put up by the Financial Services Action Plan, in the end of the last century. However, the international financial crisis has placed a sharp halt to the financial integration process, and created a harsh fragmentation in the single financial market.

The threat of such segmentation is particularly pertinent to the banking sector. There is a risk of re-emergence of the pre-monetary union home bias in banking, which may lead to retrenchment of banks as activities confined within the national borders. The crisis has shown that, while there are clear benefits arising from financial integration, that also carries financial stability risks in the absence of strong governance and institutional frameworks. The financial crisis has also adversely affected the net wealth of European households, reflecting a combination of higher unemployment, low or stagnant wage growth, recession and poverty.

Given the severity of the crisis, one may have expected a rapid restructuring of the banking sector, including a reduction in the capacity and the exit from the market of the weakest banks. However, the restructuring of the entire EU banking sector has so far progressed in a painfully slow pace.

Eurozone's financial crisis led to a unique and unprecedented fragmentation of the single European financial services market. Banks refocus on the needs of the domestic market, where business opportunities are limited by definition. The new reality poses a serious impediment to the recovery and return to growth of the distressed Eurozone economies.

The ongoing bank restructuring and bank recapitalisation reforms, which are the topics of this conference, are very important steps in tackling the financial and sovereign debt crisis in Europe.

Implementation of the Bank Restructuring and Recapitalisation proposal would enhance the likelihood that banks can be wound down in an orderly fashion and without any impact on other market participants. Recovery and resolution plans will indicate specific problems in the resolution of a bank – deriving from a bank's structure or from other elements. The reform objective is to create a safer, sounder, more transparent and more responsible financial system, operating for the cohesion of the economy and society as a whole and capable to finance the real economy, as it forms an indispensable precondition for sustainable growth.

The new bank recapitalisation scheme, as announced in the Euro area's Summit of June 29 has to be realized through European direct investments, in order to break the vicious circle between banks and sovereigns. A banking union and a pan-European Deposit Guarantee Scheme are further requirements towards the establishment of a genuine economic and monetary union. Such innovations are a core prerequisite for the restoration of level playing field in the European financial services market and, consequently, for the healthy development of the banking sector, so that it would be able to finance the real economy. Bank recapitalisation could chop the two most threatening heads of the Lernaean Hydra: the sovereign debt/banking crisis and the recession spiral. Bank recapitalization would pave the way for realistic growth conditions which constitute a genuine prerequisite for the implementation of the Eurozone recovery plans, not just in the periphery, but in the entire euro area, as well.