

## **Banking Union: A New Step towards Completing the Economic and Monetary Union**

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**Abstract :** The single rulebook together with the Single Supervisory Mechanism and the Single Resolution Mechanism - as two main pillars of the banking union, represent important steps towards completing the Economic and Monetary Union. It should provide a consistent application of common rules and administrative standards for supervision, recovery and resolution of banks - with the final aim that a former practice of the bail-out is replaced with the bail-in system through which bank failures will be resolved by their own funds, i.e. with minimal costs for taxpayers and real economy. It has to reduce the financial fragmentation recorded in the years of crisis as the result of divergent behaviors in risk premium, lending activities, and interest rates between the core and the periphery. In addition, it should strengthen the effectiveness of monetary transmission channels, in particular the credit channels and overflows of liquidity on the single interbank money market. However, contrary to all the positive expectations related to the future functioning of the banking union, low and unbalanced economic growth rates remain a challenge for the maintenance of financial stability in the euro area, and this problem cannot be resolved just by a single supervision. In many countries bank assets exceed their GDP by several times, and large banks are still a matter of concern because of their systemic importance for individual countries and the euro zone as a whole. The creation of the SSM and the SRM should increase transparency of the banking system in the euro area and restore confidence that have been disturbed during the depression. It would provide a new opportunity to strengthen economic and financial systems in the peripheral countries. On the other hand, there is a potential threat that future focus of the ECB, resolution mechanism and other relevant institutions will be extremely oriented to the large and significant banks (whereby one half of them operate in the core and most important euro area countries), while it is questionable to what extent the common resolution funds will be used for rescue of less important institutions.

**Keywords :** banking union, financial integration, single supervision mechanism (SSM)

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