



# The Banking and Sovereign Debt Crisis

Nicolas Véron

Senior Fellow, Bruegel (Brussels)

Visiting Fellow, Peterson Institute for International Economics (Washington)

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# European Crisis / Global Crisis

- **US crisis resolution 2008-2009**
- **Global Financial Reform / other regions**
- **The European experience so far**
  - Bank crisis management
  - Legislation / regulatory reform
  - Sovereign debt crisis

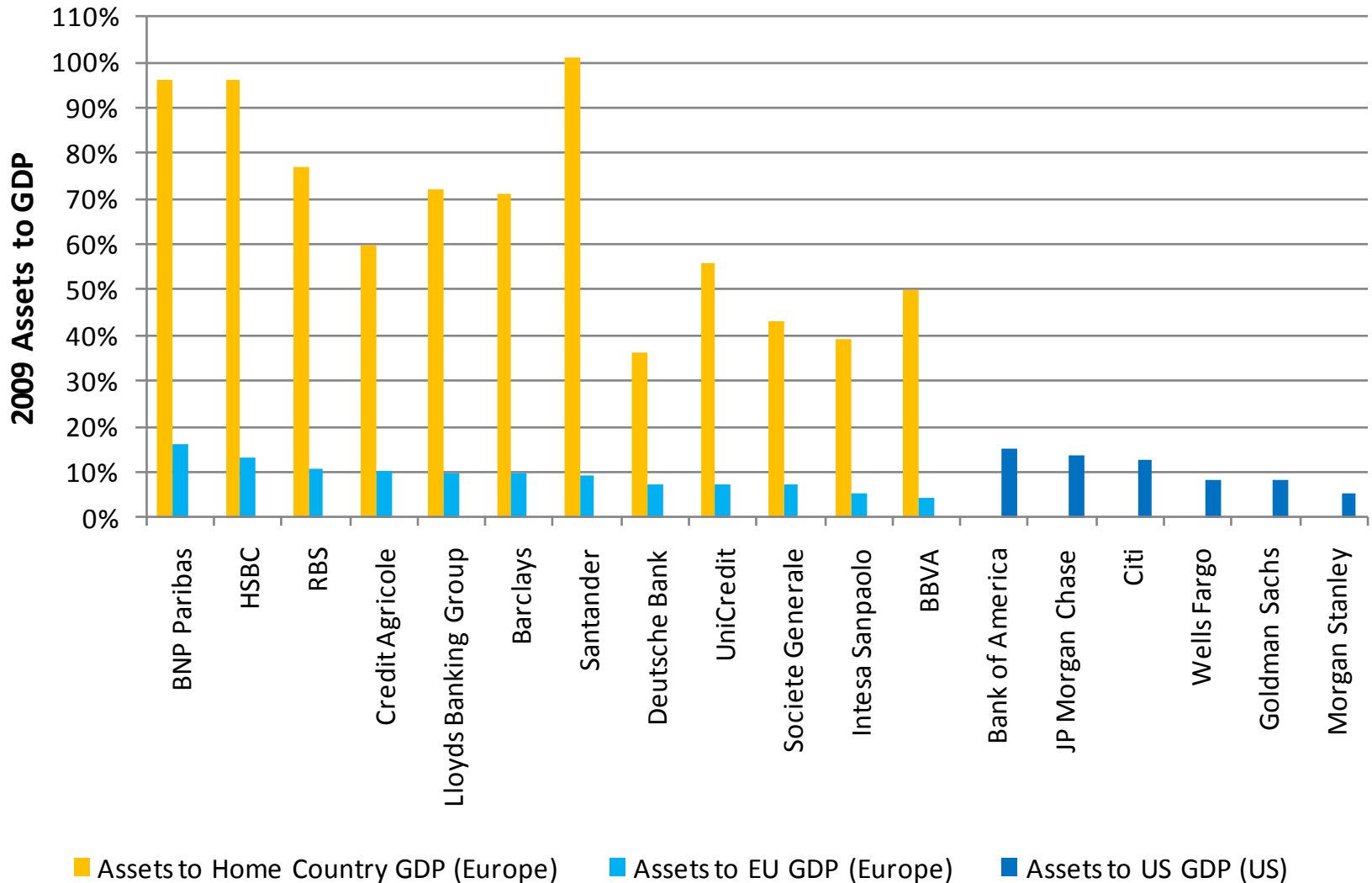


# The Bank / Sovereign Nexus

- **Greece (Spring 2010)**
- **Ireland (Nov 2010)**
- **Recapitalization Plan (27 October 2011)**
  - Sovereign / Banking connection on country-by-country basis
  - Full fair value (for held-to-maturity debt) in capital requirements!
  - No confidence in quality of capital assessments / triage (Dexia)
- **ECB Liquidity Dec 2011**



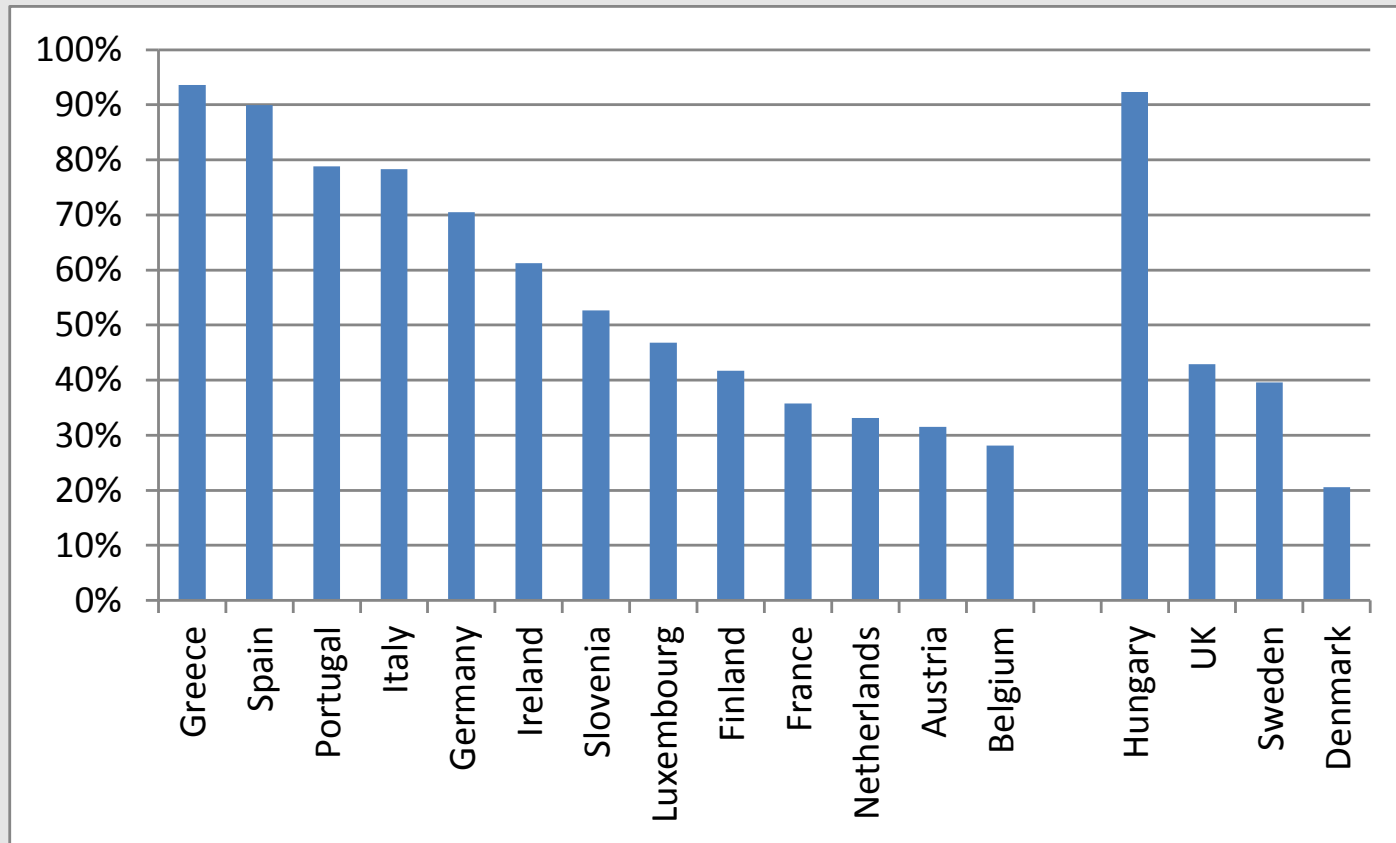
# Systemically Important Financial Institutions: EU vs US



Source: Goldman Sachs Research, author's calculations



# Home Bias in EU Sovereign Debt Portfolios



*Share of home-country sovereign debt in total portfolios of sovereign debt of EU member states among each country's stress-tested banks. Source: 2011 Stress Tests*



# **Crisis Resolution?**

- **Fiscal Federalism**
- **Banking Federalism**
- **EU Institutional Overhaul**
- **Structural Reform / Growth Policies**
- **Timeline?**



# What Now?

- **Revisit Recap Plan?**
- **Basel III**
- **Deposit Insurance backstop**
- **Fiscal framework / reserve asset**
  - The priority discussion now
  - Greece the key precedential case
  - Treaty discussion
- **A transformed European financial system**
  - Consolidation / cross-border mergers
  - Rebalancing / non-bank intermediation
  - Global financial integration, transnational bank supervision/resolution



# Thank You For Your Attention

Nicolas Véron

+32 473 815 372 (Europe) / +1 202 550 0614 (U.S.)

n.veron@bruegel.org

Bruegel: [www.bruegel.org](http://www.bruegel.org)

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