Lessons for Asia from Europe's Financial Integration

Douglas J. Elliott
The Brookings Institution

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delliott@brookings.edu; www.brookings.edu

Outline of the paper

- Europe’s financial systems versus Asian ones
- Europe’s initial situation
- Implications of the move to a “Single Market”
- Implications of the move to monetary union
- Impact of the Euro Crisis
- Current state of agreement on banking union
- Unresolved issues in banking union
- Lessons for Asia

Key elements of Banking Union

- Integrated regulations ("single rule book")
- Integrated supervision
- Integrated mechanisms to resolve banks
- Integrated deposit guarantee systems

Unresolved issues in Banking Union

- Division of *actual* supervisory responsibilities between ECB and national authorities
- Coverage of non-bank institutions and markets
- Who will handle bank resolutions?
- How will deposit guarantee systems be coordinated? One body, reinsurance, or what?
- How will losses in resolutions be split?
- Coordination of supervision and resolution
- What happens with the UK?

Some lessons for Asia

- Financial systems *can* be integrated
- Currency union had major, unforeseen effects
- National macroprudential policies are critical
- “Single market” requires regional supervision
- Currency union forces *much* greater integration
- Role of regional central bank would be critical
- Economic nationalism is dangerous in a crisis
- Close financial integration requires careful coordination of all aspects of government roles

One overall lesson

- Do NOT integrate unless you mean it!
- The worst approach is the one Europe used. They integrated in the politically easy ways, without taking the necessary supporting steps
- Various levels of harmonization or integration are feasible. Choose the one you want and make sure to take all the required steps to make it work