

Banking Supervision in the European Union

Der-Chin Horng

Abstract

Banking supervision plays a crucial role in the EU's banking liberalization programme, as set out in the Second Banking Directive, which entered into force on 1 January 1993. As the European financial system becomes more complex and integrated, the potential economic and financial costs of a banking crisis are likely to be greater, because the scope for triggering system contagion will be wider. This suggests that banking supervision is necessary for the stability, safety and soundness of the European financial system. The challenge for the EU then, is to build a regulatory system that harnesses the benefits of market liberalization, but also protects fair competition and economic stability. This can be achieved by implementing liberalization where possible, and regulation where necessary. Consequently, the EU's banking liberalization is actually a process involving deregulation as well as re-regulation. This paper provides a comprehensive study of EU banking supervision. The following core issues will be examined in turn: the concept and meaning of EU banking supervision; the legal aspects of banking supervision; the structure, measures and practices of banking supervision; and the role and implications of EU banking supervision on both regional and international financial systems.

Key Words: European Union, European Central Bank, banking supervision, the Banking Advisory Committee, the Banking Supervision Committee

