



MEDIA ALERT

'A Solution for Europe's Banking Problem'

by

Adam Posen and Nicolas Véron (Bruegel)

BRUSSELS, 12 June 2009 – Bruegel announces publication of a new Policy Brief, 'A Solution for Europe's Banking Problem', in which co-authors **Adam Posen** and **Nicolas Véron** make the case for a system-wide process of triage and restructuring of continental Europe's banking industry.

They suggest the creation, by those European countries where major banks are headquartered, of a new fiduciary authority or 'European Bank Treuhand' (with reference to Germany's Treuhandanstalt of the early 1990s^[i]). The Treuhand would conduct an objective and consistent assessment of banks' balance sheets, catalyse the recapitalisation and restructuring of those banks found too weak, and hold and manage on behalf of European governments any assets they would need to take over as part of this restructuring process.

Posen and Véron argue that last year's financial shock to Europe's banking system means that a number of banks are currently undercapitalised or insolvent, but there is no transparency as to where the losses are located, leaving financial markets in a state of prolonged dysfunction which cannot be fully compensated for by public intervention. The resulting drag on growth puts Europe at risk of repeating Japan's 'lost decade' experience of the 1990s.

Posen and Véron's proposal for a European Bank Treuhand combines European-level action, national fiscal sovereignty, and market discipline to chart a way out of Europe's current banking stalemate that could be implemented in the next 12 months. It would also buy time for the longer-term debate on Europe's future financial supervisory architecture, which was initiated with the Larosière Report.

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^[i] Created in June 1990, a government-owned but independent trust agency for the privatization of eastern German industry with wide powers of disposal