

Commercial bank regulation in the European Union

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Doctoral thesis: *The legal regulation of the European Union's financial sector: problems and possible solutions*

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Legal issue in need of research

- ▶ The supervision and regulation of commercial bank operations and their effect on the financial stability of economies in the European Union.

- See also:


- <http://www.ecb.europa.eu/ecb/tasks/stability/html/index.en.html>

Aim and tasks of the research

Aim:

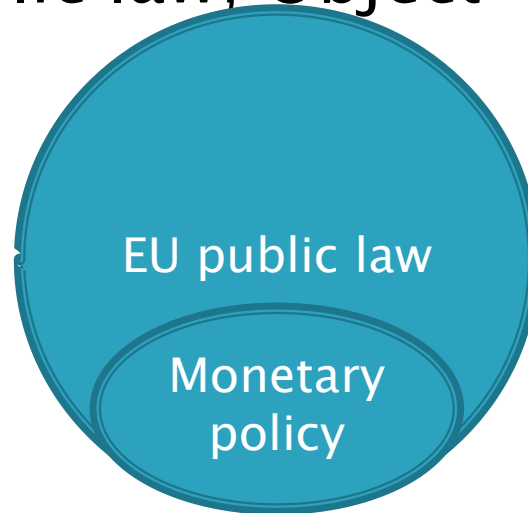
- ▶ Demonstrate the recent developments in the legal framework for commercial banking in the European Union (EU), their possible shortcomings and suggest solutions;

Tasks:

- ▶ Research the contemporary legal basis for commercial banking within the EU;
 - ▶ Research the established scientific conclusions about the banking sector;
 - ▶ Evaluate the considerations for contemporary and future legal regulations.
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Research specification

- ▶ Area -EU public law; Object - monetary policy;

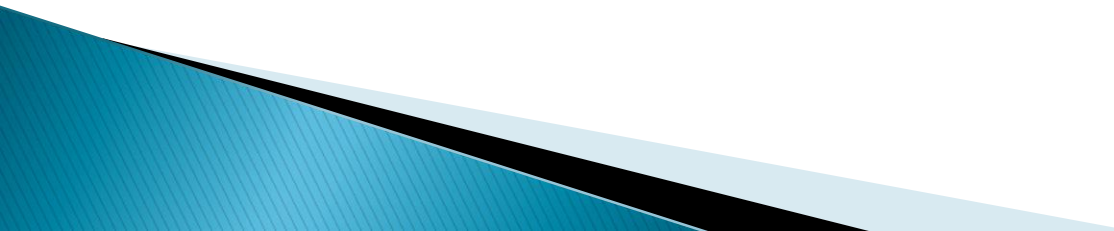


- ▶ Key words: European Union, Banking Union, euro;
- ▶ Journal of Economic Literature (JEL) codes: E51 Money Supply · Credit · Money Multiplier; K23 Regulated Industries and Administrative Law.

Research sources

- ▶ Legal (*inter alia*):
 - Treaty on the EU (Protocol Nr.4, *etc.*);
 - Treaty on the Functioning of the EU (Part six, Title I, Section 6, *etc.*);
 - So called Basel Accords(I–III) for capital adequacy, stress testing and market liquidity risk set by the Basel Committee on Banking Supervision;
 - Council Regulation 1024/2013 and 468/2014 for euro zone supervision and resolution mechanisms.
- ▶ Established research (*inter alia*):
 - Werner R. *Can banks individually create money out of nothing? — The theories and the empirical evidence* (2014) (<http://www.sciencedirect.com/science/article/pii/S1057521914001070>)
 - McLeay M., Radia A., Thomas R. *Money creation in the modern economy* (2014) (<http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1.pdf>)

EU regulation focus areas

- ▶ Euro zone stability with a mechanism for bank supervision and resolution, including the Baltic region;
 - ▶ Capital requirements and liquidity sufficiency of commercial banks in the EU.
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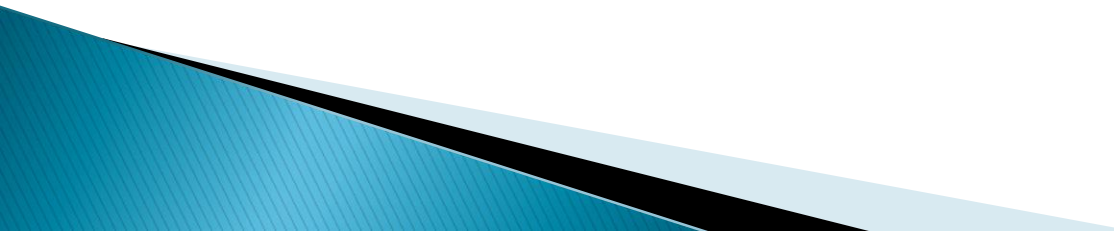
Research focus areas

- ▶ Inflation – popularly misused for price inflation. Inflation is the increase of the money supply in an economy. Price inflation is what occurs after there is more money to buy the same amount of goods (prices rise, i.e., purchasing power of money falls).
- ▶ Seigniorage – The ultimate way of making money – by actually making it, i.e., the right to issue legal tender.
- ▶ German *Giralgeld*, English *demand deposits*, Latvian *bezskaidras naudas noguldījumi*;

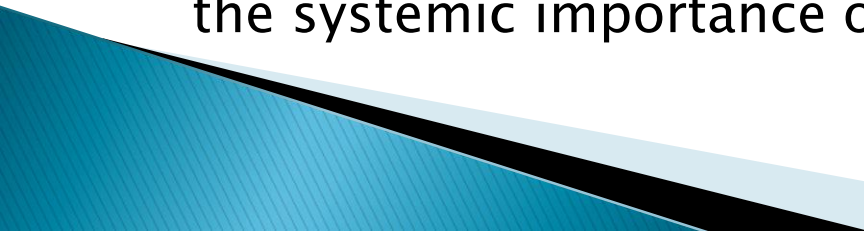
Legal issues

- ▶ The uncontrolled increase in the money supply by the commercial bank sector in the EU.
 - *Since in fact banks are able to create money out of nothing, imposing higher capital requirements on banks will not necessarily enable the prevention of boom–bust cycles and banking crises, since even with higher capital requirements, banks could still continue to expand the money supply, thereby fuelling asset prices, whereby some of this newly created money can be used to increase bank capital. (Werner, 2014)*
- ▶ The sovereignty of nations regarding productivity and purchasing power of money in the EU.
 - *[..]money may continue to be passed between different households and companies each of whom may, in turn, increase their spending. This process — sometimes referred to as the ‘hot potato’ effect — can lead, other things equal, to increased inflationary pressure on the economy. (McLeay..., 2014)*
- ▶ The actual legal need for inflation.

Results

- ▶ The financial troubles in the past were based on two premises – the trust for the banking sector was lost and the so called boom–bust cycle was recognized too late by supervising authorities.
 - ▶ Lack of transparency within central bank operations has historically been an issue for understanding responsibility for the prevention of crises.
 - ▶ A lack of juristic evaluation for the need of the actual financial system where sovereign states borrow from private entities with interest.
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Conclusions

- ▶ The juristic field in the European Union has the democratic responsibility to actually evaluate the necessity for modern day money creation policies in respect to modern technology opportunities.
 - ▶ In order to use prevention as the best approach to financial stability we need to assess the legal actions which can either determine a resolution or actual aggravation of financial difficulties.
 - ▶ The supervising and resolution mechanisms in the European Union do not provide a systemic approach to EU banking, rather a single volatility for participating members because of the systemic importance of money creation in general.
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Future research needs

- ▶ The *democratization* of money creation.
 - For first research roots in Latvia see also Kopa.A. Demokrātiska nauda Latvijā (2014), available: <http://www.labie.lv/wp-content/uploads/2014/11/140901-Demokratiska-nauda-Latvija-AlmaKopa-PDF-ot.pdf>.
- ▶ The enforcement of *qui bono* accountability regulations for monetary policies affecting the general public.

Thank you for your time!



▶ Possibility for:

- Questions;
- Discussions;
- Suggestions;
- etc.

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