



## Symposium Introduction

# Global Banking, Financial Stability, and Post-Crisis Policy Challenges Symposium

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The Symposium on ‘Global Banking, Financial Stability, and Post-Crisis Policy Challenges’ was held on 1 February 2013 on the premises of the Maastricht University. The symposium forms the concluding event of a 3-year project on ‘Determinants and dynamics of the geography of global banking: the role of economic, cultural and political factors’ directed by Stefanie Kleimeier and Harald Sander and jointly funded by the Dutch and German Science Foundations, NWO and DFG, respectively. The symposium was conducted in cooperation with and sponsored by NWO, the European Centre for Corporate Engagement at the Maastricht University, the Graduate School of Business and Economics of the Maastricht University, and the Institute of Global Business and Society of the Cologne University of Applied Sciences.

This symposium brought together leading experts and practitioners from academia, industry, and regulatory bodies with the intention to discuss recent advances in research on banking globalization and financial stability and to exchange views on urgent policy and regulatory issues to balance the



cost and benefits of global banking. To this end, a series of panel discussions were held during the symposium.<sup>1</sup> The first panel, featuring Ralph De Haas from the European Bank for Reconstruction and Development, Professor Brian Lucey from Trinity College Dublin, and Robert McCauley from the Bank of International Settlements, debated the drivers of globalization and de-globalization of banking before and after the crisis, respectively. In the second panel, Maria Nieto of the Bank of Spain, Freddy Van den Spiegel, Advisor to BNP Paribas Fortis, and Professor Paul Wachtel from New York University, discussed the implications of global banking for financial stability from their respective different perspectives as central bankers, practitioners, and academics. In the final panel, Cinzia Alcidi of the Centre for European Policy Studies in Brussels, Professor Ansgar Belke from the University of Duisburg-Essen & Monetary Expert Panel EU Parliament, Professor Iftekhar Hasan of Fordham University, Hans-Helmut Kotz from Harvard University and former Director of the Deutsche Bundesbank, and Professor Dirk Schoenmaker of the Duisenberg School of Finance at University of Amsterdam debated the policy lessons from the financial crisis. The symposium was attended by a large and actively participating audience of both, academics and practitioners.

For this symposium in *Comparative Economic Studies* (CES), we have asked the panelists to reflect on the Maastricht discussions and share their views on the lessons learned from the financial crisis of 2008 with the broader audience in the profession as well as with policymakers and an interested civil society. We are grateful to the panelists, who have invested their scarce and valuable time to contribute to this special edition and to go through the rigorous review process of CES. Special thanks are due to CES and its editors, in particular Professor Paul Wachtel, for making this special issue possible.

A rapid globalization process of international finance is one the major characteristics of the economic environment in the last decade, with global banking as a major driver and the most volatile component of global finance. Although financial globalization has been praised for improving the global allocation of capital, the financial crisis of 2007/2008 and the subsequent Eurozone crisis have clearly revealed the threats to financial stability associated with banking globalization. How to reap the benefits from financial globalization without compromising financial stability? Theoretically, there is a strong case for global coordination of macroeconomic policies and establishing global institutions, such as a global deposit insurance scheme, an international lender of last resort, a global common regulatory body, and a

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<sup>1</sup> The program of the symposium is available via the European Centre for Corporate Engagement website at <http://www.corporate-engagement.com/event/28>. Here you also find links to two interviews taken on the day of the symposium with two panelists, Paul Wachtel and Hans-Helmut Kotz.



global bankruptcy regime. In a well-known recent report on global banking, the Committee on International Economic Policy and Reform (2012), has argued that such ‘first-best solutions’ may be difficult to achieve in the global political environment. The recent experience in the Eurozone clearly shows the national resistance to supranational solutions, such as the European banking union or a common European deposit insurance scheme. One of the panelists, Dirk Schoenmaker, has framed this problem in terms of a ‘financial stability trilemma’ that states that one cannot have financial stability, national banking supervision, and integrated financial markets at the same time (Schoenmaker, 2013). Consequently, without proper first-best regulation and policy coordination, second-best solutions are needed, which may include the whole gamut from cautious monetary and fiscal policies to macro-prudential instruments, to direct restraints or controls of cross-border banking.

The papers and views presented in this volume can be interpreted in the context of this trilemma. The article by Robert McCauley on *De-internationalizing global banking?* starts from the observation that the decentralized ‘multinational model’ of global banking has demonstrated a greater resilience toward shocks in global wholesale funding market than the ‘international model’ of cross-border lending and borrowing. However, he also cautions that the “multinational banking model itself has mutated under the force of crisis at home”. Thus he sees a case for international cooperation in regulation and supervision where Basel standards form the minima and warns against cases of fragmentation where some jurisdictions demand less than international standards. The case for coordinating banking supervision and regulation across borders is also made by Ralph De Haas in his paper on *The dark and the bright sight of global banking: A (somewhat) cautionary tale from emerging Europe*. He reviews the benefits and risks of global banking especially from recent experiences in emerging Europe and argues that the magnitude of the impact of the 2007/2008 financial crisis on systemically relevant foreign bank subsidiaries was under-appreciated. He therefore concludes from the European experience that we need to re-assess the role that multinational banks play in many emerging markets, and that not only ownership structure matters for lending stability, but also – and arguably as much as the latter – the use of short-term wholesale funding of banks. Freddy van den Spiegel reviews the regulatory ‘pressures’ emanating from the trilemma in his paper *Can we make global banks safer? A practitioner’s view*. He starts from the observation that regulators are aiming at three objectives at the same time: reducing interconnectivity, addressing the ‘too big to fail’ problem, and splitting retail banking activities from wholesale market activities. He cautions that these three objectives may lead to incoherent results if they are not sufficiently coordinated. While he is particularly critical on separating retail from



wholesale activities, he welcomes Basel III and macro-prudential supervision. However, he remains skeptical that globally can be achieved within a reasonable time horizon what the Eurozone is trying to establish on a regional level, a banking union. The interaction of national and supranational regulation and policy intervention in the context of a severely affected banking market is addressed by Brian Lucey, Charles Larkin and Constantin Gurdgiev in their paper *Learning from the Irish experience – A clinical case study in banking failure*. They argue in favor of a de-internationalized banking system/market by promoting competitive, deposit-base-funded banks with more locally anchored lending in order to reduce the risk of a funding crisis and contagion. However, they caution that the concentration in Irish banking, which will eventually emerge from policy decisions taken after the collapse of the Irish banking system, may entail the risk of a second crisis. The final paper by Ansgar Belke and Florian Verheyen also focuses on the potential risks for financial stability resulting from crisis containment policies. However, their focus is – much in the tradition of German central banking and economic policymaking – on the role of central banking for providing the base of economic and financial stability. In their account of *The low interest rate environment, global liquidity spillovers and challenges for monetary policy ahead*, they argue that keeping interest rates low for a prolonged period may have negative side effects, in particular in terms of deferred bank balance sheet repair and excess liquidity creation, which may lay the foundation for a future bubble. Thus the authors suggest a well-communicated exit from unconventional monetary policies. It is in this respect that they argue in favor of a careful global coordination of monetary policies among the major central banks.

All papers presented in this special issue clearly show that policymakers will ultimately have to decide how much global (or for the Eurozone – regional) banking we can afford without compromising financial stability under a realistic assessment of how much global and regional cooperation and regulation we can reasonably expect in the years to come.

## REFERENCES

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- Committee on International Economic Policy and Reform. 2012: *Banks and cross-border capital flows: Policy challenges and regulatory responses*. Brookings: Washington DC, September.
- Schoenmaker, D. 2013: *Governance of international banking: The financial trilemma*. Oxford University Press: New York.