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SPEECH

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Dealing With Cross-Border Banking Without Rolling Back Financial Integration

It is an honour for me to have been invited here to the Bank of Greece. Little did I know when I originally planned this visit that Greece would be the country on everyone's lips by the time I got here, given that it is now at the centre of a fiscal crisis in the European Union. Considering that Sweden is one of the European countries that has previously carried out fiscal consolidation of the same order of magnitude as Greece is planning for the next few years, I might have chosen to talk about fiscal consolidation today. But it appears that there is no lack of good advice from the outside world on this topic. I will therefore talk instead about another issue that the financial crisis has revealed to be of some urgency – how to deal with problems arising from cross-border banking.

The global financial crisis and the bailout and failure of several cross-border institutions have raised serious concerns regarding the regulation and supervision of such institutions and crisis management regarding institutions in distress. Possible policy responses to the problems arising from cross-border banking include various ways of limiting banks' abilities to expand abroad. However, such responses would also reduce the potentially positive effects arising from financial integration. The question is then how we can maintain the benefits of financial integration at the same time as we avoid ending up in another crisis such as this one.

It is especially important to answer this question in our respective countries, that is, in Sweden as well as in Greece. Both you and I represent countries with domestic banks that are heavily engaged in cross-border banking activities. In Sweden, the domestic banks conduct roughly half of their lending in international markets, mainly in the other Nordic countries and in Germany. However, over the last five years we have also seen three of our largest banks (SEB, Swedbank and Nordea) capturing substantial market shares in the Baltic States. In some of these countries the Swedish banks account for up to 80 per cent of the domestic banking system.[1] Greek banks are also extensively involved in cross-border banking. National Bank of Greece, for instance, operates subsidiaries in over 20 countries in South-eastern Europe and the Eastern Mediterranean.[2]

[1] In terms of lending the Swedish banks' market shares account for 80 per cent in Estonia, 53 per cent in Latvia and 60 per cent in Lithuania.
[2] National Bank of Greece, Annual Report 2009

I will devote most of this speech to a discussion about the main implications and challenges arising from this new banking structure. Before turning to that, however, I will say a few words about how cross-border banking has developed and describe briefly why we may have seen such a rapid globalisation of the banking sector to begin with. Then I will focus on the need to enhance cross-border cooperation between national authorities. In my view this is the only reasonable way of dealing with cross-border problems without rolling back financial integration.

Recent development of cross-border banking

The structure of the financial services industry has gone through major changes over the past decades. Until some twenty years ago, banks were essentially national entities with most of their activities limited to their home market. Of course, many banks conducted international operations even earlier than this, but those operations primarily focused on wholesale markets and large corporate clients. Smaller companies and consumers have in principle been obliged to use the services offered by domestic banks. Today, banks run businesses across the globe. And through the existence of foreign-based branches and subsidiaries consumers can choose to buy services from banks that are headquartered in a completely different part of the world.

The trend towards more cross-border banking is widespread, but much of the development is driven by large financial institutions in a few countries, notably the US, the UK, France, Germany, Japan and the Netherlands.[3] It has become an especially widespread phenomenon in Europe. In the EU27, foreign affiliates' local claims in local currency as a share of total banking assets increased from on average 9.8 per cent during the period 2001–2003 to 16.9 per cent at the end of 2009. The corresponding increase for other advanced economies[4] was from 4.1 per cent to 5.9 per cent.[5] In 2009, European banks had more than 60 per cent of their total banking assets abroad, compared to approximately 30 per cent for North American banks and 25 per cent for Asian banks.

While a large part of the European banks' international operations take place outside Europe, there is a strong regional component to cross-border banking.[6] There is a clear tendency towards regional clusters in cross-border mergers and acquisition activities in Europe – in particular there seem to be such clusters in the Benelux region, the Nordic-Baltic region and in Southern, Central and Eastern Europe.[7] That geography matters for cross-border banking is shown by simple regression analysis relating the local claims of one country's banks in another country to the size of the home and host economies and the geographical distance between them. Using information on cross-border activities within the EU in 2009 from the Bank for International Settlements shows that, on average, a 10 per cent greater geographical distance between the home and host countries is associated with 14 per cent lower consolidated local claims, controlling for the GDP of the

[3] By the end of 2009 these countries accounted for nearly half of the global banking system measured in terms of gross global cross-border banking assets.
[4] Other advanced economies include the US, Canada, Japan, Australia, New Zealand, and Switzerland.
[5] See Table 1 in Barba Navaretti et al. 2010.
[6] Inside the euro zone, cross-border loans have more than doubled from € 152 billion in 1999 to € 361 billion in 2006, while cross-border deposits have increased from € 221 billion to € 316 billion, respectively (see Heuchemer, Kleimeier and Sander (2008)).
[7] The regional dimension of cross border banking activities was also emphasised in a speech given by José Manuel González-Páramo (24 February 2006).

countries involved.[8] The further countries are located from one another, the less likely it is that their banks will be active in one another's markets.

Many of the banks operating in Central and Eastern Europe originate in Western Europe. Right after the fall of the Soviet Union and the opening up of strictly regulated markets, the presence of foreign banks from Western Europe exploded. Today, many of the countries in the region report foreign ownership in excess of 80 per cent of total banking assets. Also here we see a strong geographical component. A large share of the foreign banking assets in Bulgaria and Romania belongs to Greek banks, a large share of the foreign banking assets in the Czech Republic, Hungary and Slovakia belongs to Austrian banks, a large share of the foreign banking assets in Poland belongs to German banks, and a large share of the foreign banking assets in Estonia, Latvia and Lithuania belongs to Swedish banks.[9]

One reason why cross-border banking is especially widespread in Europe is the efforts that have been made to achieve the long-term goal of creating a single market for financial services. In the early 1990s, a number of legislative reforms aiming to liberalise the financial sector were introduced. Perhaps the most important part of this deregulation process was the Second Banking Directive, which became effective in 1993 and which introduced the single banking license, enabling European banks to operate in any EU member state without the need for local authorisation. In fact one of the first European institutions that benefited from this regulation was the Nordic financial institution Nordea, which was established through cross-border mergers in 1997. Today, Nordea has substantial activities in four of the Nordic countries, and also constitutes a significant part of the financial system in all these countries. Measured in terms of lending, Nordea constitutes the largest bank in Finland, the second largest in Denmark, the third largest in Norway and the fourth largest bank in Sweden.

The transformation of the banking sector towards a more globalised one has become apparent in the current financial crisis. We have experienced several severe financial crises also before cross-border banking became a notable feature of the financial sector, including the Swedish banking crisis in the early 1990s. But this time around dealing with the crisis became even more challenging because of the banks' presence in several jurisdictions, creating a need for cooperation between several national authorities.

Why do banks become multinational?

How can we explain the increase in cross-border banking, in particular in retail banking? The deregulation of previously strictly-regulated markets made cross-border banking possible.[10] But why do banks want to do business in a country

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[8] The estimated simple gravity equation is $lnc_{ij}=4+0.9lnGDP_i+0.8GDP_j-1.4lndist_{ij}$, where lnc_{ij} is the log of consolidated claims of country i's banks in country j, $lnGDP_i$ and $lnGDP_j$ are the logs of GDP in countries i and j, respectively, and $lndist_{ij}$ is the log of the greater circle distance between the capital cities of country i and j. All estimated coefficients are statistically significant at the 1 per cent level. The country sample includes all EU countries for which data on foreign claims by nationality of reporting banks, immediate borrower basis, at the end of September 2009, is available from the Bank for International Settlements. Data on GDP in 2009 have been collected from the International Monetary Fund's World Economic Outlook Database, April 2010. Data on greater circle distance have been collected from www.distancefromto.net.

[9] Based on data on foreign claims by nationality of reporting banks, immediate borrower basis, at the end of September 2009 from the Bank for International Settlements.

[10] Before the single market was introduced, European banks wanting to establish themselves in another member country had to obtain authorization from the supervisory body of each host country.

where they are not completely familiar with the laws, local customs or business practices and where they typically would have to compete with well-established local banks? A bank that decides to enter a foreign market must believe that it can offer something new or better than what is already being provided by local banks.[11]

The driving forces behind the geographical expansion of banks are likely to be in many ways similar to those of other types of business. A bank with a better business model or stronger brand name than the local banks can gain market shares if it gets access to customers, and in retail banking local presence is often necessary. In this sense, the reasons behind banks' decisions to expand their business to foreign markets are not much different from those of goods-producing firms that establish foreign subsidiaries in order to gain better access to their foreign customers.[12] This type of driving force may have been particularly relevant for the expansion of Western European banks in Central and Eastern Europe during their transition to market economies. Western European banks had expertise and know-how that local banks lacked, and by establishing themselves in Central and Eastern Europe – in many cases through the acquisition of local banks – they were able to quickly gain market shares.

Another motive, perhaps more specific to the wholesale operations of banks is to follow the cross-border expansion of clients, sometimes referred to as "the defensive expansion approach".[13] The rationale for this would be to preserve existing banking relationships in the home country. Indeed, many of the European banks entering the US initially did so to provide services for their home-country clients that were starting US operations. Recent bank surveys also show that following clients abroad is still an important element in banks' internationalization strategies.[14]

Another issue is what determines the location choice of a bank that has decided to expand abroad. From what has already been said it is quite clear that we see a similar pattern as in all international transactions – geography matters. Presumably this is mainly due to the fact that geographical proximity is related to familiarity with language and customs, which puts foreign bank at less of a disadvantage *vis-à-vis* local banks. But it could also be due to the higher costs associated with operating activities that are located very far apart.[15]

One might expect, however, that recent advances in communication and information technology would change the premises for cross-border banking. New technology allows banks to provide financial services over the Internet and would therefore seem to reduce the advantages of local presence, at least for certain services. Take for instance the online savings accounts by which banks can attract retail deposits from foreign markets without any physical presence at all. At the same time, improvements in communication technology may lower the costs of

[11] In the literature on determinants of foreign direct investment it has been emphasized that an investing firm needs to have some advantage over a potential local investor in order to overcome the disadvantage of doing business in a foreign environment (see e.g. Dunning 1977).
[12] The standard theory of so-called horizontal foreign direct investment is based on the idea that firms selling in foreign markets face a trade-off between the benefits of concentrating production in one place (because of economies of scale) and the benefits of avoiding costs associated with exporting the good (see e.g. Horstmann and Markusen, 1992, Markusen and Venables, 1998, 2000; for an overview of this literature, see Barba Navaretti and Venables, 2004, Chapter 3).
[13] Williams (2002).
[14] See e.g. "Mapping of large European groups with a significant cross-border banking activity for the year 2008" prepared by the Banking Supervision Committee (restricted edition).
[15] Geographical distance and the presence of a common language have been shown to impact on international investment decisions of banks (see e.g. Buch (2000) and Brevoort and Wolken (2008)).

operating activities located far apart and therefore reduce the advantages of geographical proximity between headquarters and the foreign branches or subsidiaries. Whether this is likely to lead to more or less local presence by foreign banks is difficult to say, but it clearly is a factor that contributes to making banking more globalised.

Consequences of cross-border banking

The increased globalisation of banking has brought both benefits and costs to the economy. For a long time, the benefits have appeared to outweigh the costs, but the recent global financial crisis has put this issue in a new light. I will talk about the economic costs of cross-border banking shortly. But let me first say something about its benefits.

A general problem with the banking sector is that it is highly concentrated, which makes it especially prone to anti-competitive behaviour. An interesting question in itself is why the banking sector is so concentrated. One reason is surely that it is heavily regulated. Regulations create entry and exit barriers. From my viewpoint, however, it also seems as if the mechanisms of banking crises are such that you end up with an even more concentrated banking sector after a crisis than before. When some banks run into difficulties, a common solution is to let them be acquired by a more healthy-looking competitor. In Sweden, we went from seven large banks to only four as a consequence of the acquisitions that occurred in connection with the banking crisis in the early 1990s. Four banks now hold around 80 per cent of the total market. That is a highly concentrated market!

One of the few things that can potentially mitigate anti-competitive behaviour in a concentrated industry is outside competition, or even the threat of outside competition. The entry of new players into local markets may lead to a more competitive environment, generating efficiency gains that can be passed on to consumers. In banking these efficiency gains probably take the form of a greater variety of financial services and lower prices.

Other potential benefits of cross-border banking that deserve to be mentioned are transfers and spillovers of knowledge and know-how. In particular, host countries with weak local banks and a lack of experience with bank supervision might benefit from the transmission of knowledge from foreign banks and supervisory authorities to local counterparts.

Moreover, cross-border banking has the potential to improve financial stability. In light of recent experience, I realise that such a claim is controversial. However, the empirical evidence on this issue is that cross-border banking on balance seems to improve rather than weaken financial stability.[16] First, unlike domestic financial institutions – particularly those in which the government is involved – foreign banks are typically less open to government pressure to lend to "preferred borrowers". Consequently, foreign banks may contribute to an improvement in the overall quality of the loan portfolios. Second, since foreign banks are active in more than one market they usually hold a more geographically-diversified credit portfolio. Therefore they are less likely to be affected by stress in the local market. Third, as affiliates of foreign-owned banks generally have better access to international funding they contribute to less volatile lending over the

[16] See e.g. Navaretti G., Calzolari G., Pozzolo A. and Levi M. (2009), Agénor (2001), Goldberg (2002, 2004, 2008).

local business cycle. For this reason they can serve as a countervailing force to the local business cycle. Finally, as I have already touched upon, foreign bank entry can have a positive impact on the host country authorities, which in turn may induce stricter regulation and improved financial supervision.

For all these reasons foreign banks have the potential to contribute to the overall soundness of local banking systems.

Having said this, I am of course aware that there are also problems associated with cross-border banking. First of all, as has become evident during this crisis, the increasing globalisation of financial markets can create strong contagion effects across markets. Problems in one country tend to spill over to other countries very fast, generating a snowball effect where problems grow along with the costs of handling them.

Furthermore, it has become clear that it can be extremely difficult and costly to deal with distressed banks in a cross-border setting. The reason for this is that there are many stakeholders involved and that the resolution of failing institutions is even more poorly defined at the international level than at the national level. As governments are responsible to their respective parliaments, and ultimately to the voters, there is also a strong tendency to favour national solutions. Because of this we have seen a number of uncoordinated crisis resolutions resulting in exceptional levels of public financial support to the banking sector. The handling of the failures of Fortis and the three Icelandic banks are perhaps the most obvious cases. In the case of Fortis, it is interesting to note that the authorities from the Benelux countries initially reached an agreement to save the group as a whole. However, as liquidity pressures continued and the burden-sharing agreement proved politically unviable the agreement eventually fell apart. In the end, the authorities had no other choice but to divide the bank along national borders – an outcome which most likely became more costly than a joint solution for the group as a whole.

An important factor affecting the authorities' abilities to deal with cross-border banks is how banks choose to organise themselves. The most common way of accessing markets outside the home country is to either establish a foreign based branch or a subsidiary and to offer services through this legal entity. At present these two forms of foreign operations end up being dealt with within different regulatory frameworks. While subsidiaries are independent companies, supervised by domestic authorities, branches follow the single banking licence schemes and are therefore governed by the regulation and supervision that apply in their home country. This means that when a branch experiences financial difficulties, authorities in the host country have to rely on actions taken by authorities in the home country. However, the home country may not always be willing or able to support the parent bank (and indirectly the branch) – especially not in a case where the bank has the larger part of its activities in other countries. After all, such intervention would have to be paid for by the home country's taxpayers. Problems arising from the need to rely on home country regulation and supervision have become evident in the aftermath of the melt-down of the Icelandic banks and the subsequent disagreement between Icelandic, British and Dutch authorities regarding compensation of the customers of Icesave, which was operated as a branch.[17]

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[17] The disagreement between Iceland, on the one hand, and the UK and the Netherlands, on the other, began in October 2008 when Landsbanki failed and was placed into receivership by the Icelandic Financial Supervisory Authority and the Icelandic government made clear that it would not compensate depositors in

Moreover, the incentives for monitoring banks with foreign branches may differ between the home and host countries' authorities. Consider for instance the case where a bank which is relatively small in the home country runs a foreign branch which is systemically important in the host country. The home supervisors, who are responsible for the supervision of the foreign branch, may not think that the bank merits very careful supervision. At the same time the supervisors in the host country, who are responsible for financial stability in the host country, have strong incentives to monitor the bank closely.

A third major issue connected to the increasingly integrated banking sector is the concern that some institutions have become "too big to fail" or "too complex to fail". In principle, however, this concern is not related to whether banks are involved in cross-border activities or not. In practice, banks considered "too big to fail" tend to be banks with cross-border operation simply because multinational banks tend to be big.[18] As we know, the implicit government guarantee of the survival of banks that are "too big to fail" has raised serious concerns about the moral hazard built into the system. Banks that expect to be bailed out if things go badly are likely to be willing to engage in excessive risk-taking in order to maximise their profits.

Policy responses and the importance of effective cooperation

Dealing with these difficulties is a top priority among policy-makers world-wide. A number of proposals on how to deal with large cross-border banks have recently been put forward. Some of them include limiting the size of banking institutions that are considered too big to fail and restricting the scope of their operations. Some suggest that we should consider preventing the banks from operating abroad through branches.

There is no perfect solution. The moral hazard problems generated by banks being "too big to fail" are of course very important and we need to find ways to deal with them. But the nature of these problems is different from the one created by banks' cross-border operations. Just because the biggest banks conduct foreign operations, it is not necessarily the foreign operations that are the problem. Therefore, I will not discuss the problems arising from institutions being "too big to fail" but instead focus on how we can best deal with problems arising from cross-border banking activities.

From a policy perspective, the key problem with cross-border banking is that the regulatory framework for ensuring financial stability has not been adapted to market developments as quickly and as thoroughly as needed. While financial markets have developed beyond national borders, the current legal and institutional frameworks – including regulation, supervision, deposit insurance and crisis resolution – remain national.

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the UK and the Netherlands with Icesave accounts. The British and Dutch governments unilaterally decided to refund savers in their respective countries. Thereafter they entered into negotiations with the Icelandic government demanding repayment of the refunds corresponding to the EU guarantee. Still today no agreement has been reached.

[18] It is a general phenomenon that firms with foreign operations tend to be relatively big and this phenomenon can be explained as the outcome of a selection process where only the most productive firms find it profitable to pay the sunk fixed costs associated with entering new markets through foreign affiliates (see e.g. Helpman, Melitz and Yeaple, (2004)).

The complexity of this problem has aptly been described as the European Financial Trilemma, meaning that the three objectives of global financial stability, financial integration and national financial independence cannot be achieved at the same time.[19] So far, EU member states have chosen to prioritise financial integration and to safeguard national powers. Until the financial crisis, this combination seemed to work well, but only because the financial safety nets were not really put to the test. In connection with the financial crisis, however, policy makers have been forced to realise that financial stability and financial integration cannot be achieved in combination with strictly national policies. And since the costs of financial instability have proved to be too high to be acceptable, a choice between the latter two has to be made.

In this context continuing to safeguard national independence would imply closing borders to foreign financial institutions. Such an option would not only be extremely costly, but also strike a serious blow at the very heart of European integration – the single market. Restrictions on operating abroad through branches has been proposed as a possible way forward, since this would then make all foreign bank affiliates subject to local supervision.[20] It should be noted however that the distinction between branches and subsidiaries is becoming increasingly blurred. To be as efficient as possible, banks often organize themselves along business lines rather than along legal and national lines. As a result, foreign subsidiaries have become less self-contained. This means that we can no longer take for granted that a subsidiary will be able to continue its business much longer than a branch, if the parent bank defaults. Therefore, even if all foreign affiliates were operated as subsidiaries, the national authorities of the home and host countries would still have to be prepared to deal with a crisis in a cross-border setting.

Consequently, finding ways to deal with banking regulation and supervision at the EU level is the only sensible long-term solution. However it is not a simple task. It would involve a supervisory regime that can coordinate national supervision, cross-border crisis management and resolution arrangements that address any conflicts of interest. This will require governments to give up some of their sovereignty – and that is a painful process. Moreover, as the use of public funds can never be completely ruled out, governments will have to agree on how to share any such potential burdens. This may require a set of binding burden-sharing agreements or at least some principles that can be used in case of interventions using public funds. While I think this is doable, I do not think it is realistic to expect that the political commitment required to create such arrangements will arise anytime soon.

Does this mean then that we are stuck with the trilemma? Not necessarily. One possible way forward in the short to medium run is to improve the current frameworks so that they better match the international landscape of financial markets. This can be achieved by the further harmonisation of national procedures for supervision and crisis management, and by preparing for joint actions in one way or another. This of course requires better and more extensive coopera-

[19] Schoenmaker (2010).

[20] A number of non-EU countries with a bank sector that has a high level of foreign ownership, including New Zeeland and Canada, have chosen such an approach. In New Zealand, branches are in principle prohibited. Every systemically important bank has to be registered as a New Zealand company. Canada used to have a similar ban on branches. In 1999, however, the law was amended to admit foreign bank branches, albeit with substantial restrictions. For instance, branches of foreign banks are not allowed to accept deposits of less than $150 000. The purpose of this restriction is to discourage retail banking operations.

tion across national borders. Because cross-border banking has a strong geographical component, enhancing cooperation on a regional basis can be an effective way of proceeding.

We have in fact already taken some steps in this direction. Regarding supervision, EU leaders have been able to agree on an extensive set of reforms that will enhance coordination across member states, including the creation of European supervisory agencies and of a European Systemic Risk Board. In parallel, the EU has set up a number of colleges of supervisors for large cross-border banks, which will ensure that relevant national bank supervisors meet regularly, share information and expose or deal with any cross-border problems.

In the field of crisis management, the attempts to enhance cooperation within the EU can be summarised in a set of non-legally binding Memoranda of Understanding (MoU). The latest MoU, which was signed in 2008, aims at improving cross-border cooperation between all the 27 EU Member States. Obviously, signing a non-legally binding document is not a solution to the complex trilemma discussed here. Nevertheless, the fact that representatives from supervisory authorities, central banks and finance ministries across the entire EU have agreed on a common set of principles for crisis management and resolution is an important starting point for more intense cooperation.

But obviously more has to be done. In my view the actions taken by us in the Nordic-Baltic countries can constitute a promising way forward. We have decided to increase coordination by creating a permanent structure for regional cooperation. This structure takes the form of a so-called cross-border stability group. To the best of my knowledge, it is the first of its kind.

The Nordic cross-border resolution stability group includes 22 stakeholders from eight countries that will meet on a regular basis to share information and discuss financial sector developments. To facilitate coordination we have also agreed on a number of specific and detailed crisis management procedures and prepared for a clear division of roles and responsibilities between the authorities and ministries. Ultimately, this should enhance our preparedness for managing a crisis in any of our common international banking groups.

At the EU level, the member states have recently agreed that countries with common cross-border banking groups shall establish such stability groups in one way or another. As these arrangements will call for extensive information-sharing and more cooperation across jurisdictions they will impose strong demands on the different national authorities involved. But most importantly, they will make it easier to solve cross-border problems within the EU. As Greek banks are heavily engaged in cross-border banking operations, it may be in the Greek authorities' interest to consider setting up such a group.

It is important to emphasise that the establishment of a well-functioning cooperation structure is not something that is done overnight. On the contrary, the establishment of the Nordic-Baltic Cross-Border Stability Group has been an ongoing process for quite some time now. It started already in 2007 when we carried out a Nordic-Baltic crisis management exercise. By trying to manage an imaginary crisis using actual banks and applying the institutional and regulatory structures of the different countries, we learnt from one another and realised the importance of working together.

Cooperation does not come by itself. It requires initiatives and continuous backing. And it takes time. Still, as far as I can see it is currently the only viable way forward in trying to deal with problems arising from cross-border banking in a way that does not lead to a backlash in European financial integration.

What I have said today is fairly uncontroversial both in terms of the analysis of the challenges arising from cross-border banking and the need for joint action. However, despite the fact that opting for national solutions has proved to be a costly strategy in this crisis, some countries still seem to prefer going along this path. I think that is a mistake. I think that at the end of that path awaits financial disintegration with strongly negative consequences for future growth prospects.

Concluding remarks

Let me briefly summarize my main points. The structure of the financial services industry has gone through major changes over the past decades. When the financial crisis hit, governments had to deal with a novel feature in their crisis management – cross-border banks.

Cross-border banking brings potentially many benefits, such as a more competitive banking industry and the transfer of know-how. However, because the EU's long-term objective of creating a single financial market – including an integrated banking system – has never been matched with a single legal and prudential framework, cross-border banks also pose severe problems for the regulatory and supervisory community.

In my view, it would be misguided to conclude from the problems that we have seen during the financial crisis that cross-border banking should be prevented or limited. However, at the same time I do not believe it is very realistic to expect the creation of a single regulatory and supervisory authority at the EU level in the near future. Instead, I think we need to find new forms for cross-border cooperation between national authorities. As it may take some time to achieve effective cooperation at the EU level, I want to strike a blow for cooperation at the regional level. After all, cross-border banking is to a large extent taking place in a regional context. This may not completely prevent problems related to cross-border banking from arising, but I think it is the only reasonable middle way between maintaining financial integration and avoiding the unduly high costs associated with managing cross-border banks in a crisis.

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