

# 15 Years with the Euro

—Integration of Financial Markets in Europe—

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At the end of the World War II, after having been the war's main battle field, the economies of most European countries had suffered serious damages. Especially the economies of Germany, France and Italy had faced severe destruction. Amid the quickly approaching Cold War, West Europeans wanted to recover their pre-war status of one of the world economy centres. On May 9, 1950 the French foreign minister at that time Robert Schuman presented a plan to pool together the French and German basic industries under a European High Authorities; the European Coal and Steel Community. Agreed upon in the Treaty of Paris signed on April 18, 1951, the ECSC was launched in 1952 as the "first step in the federation of Europe" said by Schuman declaration on 9 May 1950. But Europe's leaders wanted to go further and, after difficult negotiations in Messina, Germany, France, and Italy together with Belgium, Netherlands and Luxembourg signed the Treaty of Rome on March 25, 1957. The Treaty that went into force since 1958 expanded the earlier cooperation within the ECSC and created the new institution, the European Economic Community. At the same time the six member countries established also the European Atomic Energy Community known as EURATOM that coordinated the development of nuclear power industry on the continent. It stood in a sharp contrast to the attempt to create a free trade association led by the United Kingdom that concluded in establishing the European Free Trade Association with the treaty signed in Stockholm on January 4, 1960.

The economic integration promoted by the EU covers both functional and spatial aspects as the integration of regional economies into a national one. In this context the European integration includes the gradual elimination of economic frontiers between independent states. The main objectives of such an integration process are of economic nature; for instance achieving higher growth rates and prosperity but it includes also political objectives of reducing the probability of armed conflicts among partners, the safeguard for democracy and the respect for human rights.

1992-1993 currency crisis in Europe is a very important one because it has shown for the first time the urgency of having a response measures to solve the financial problems on the European market and preventing the occurrence of another crisis. The crisis also illustrated the well-known impossibility to maintain at the same time fixed exchange rate, free capital movement and an independent monetary policy (the impossible trinity). Together with the recent sovereign debt crisis in Europe the 1990s crisis provides some important lessons to be learned in the context of a monetary integration. We can roughly generate two groups of the reasons that triggered the crises.

The maximum benefit of the banks' integration in the euro zone is separating sovereign risk and bank risk effectively. It can build a solid foundation of reestablishing the financial market. First of all, this kind of European integration by using the form of banking union, will bring the most effective improvement: banks

will not be allowed to hold the its own country' s government bonds as many as before. From the political point of view, the union may require governments to give up part of its sovereignty, but in comparison of giving up more fiscal policy decision rights, entrust the task to an independent European institution: ECB, it will be better received by governments and people.

The adoption of Basel III showed that banks and financial supervision system has been taking a great change. The health of banking system and sufficient ability to resist risk will reduce the chance of systemic financial crisis created by singleness financial system. And this is a important condition to respond to financial crisis in future. In this sense, the bank paid a short period pains for the stable development of the European banking industry for a long time.

Along with the establishment of European baking union, it will make a contribution to resolve the debt crisis and restore the status of euro and establish a set of crisis avoidance mechanism. With the completion of banking union, the process of European integration in the economic level will reach a new height.