

The 2007 to 2009 financial crisis resulted in the re-emergence of the debate on financial regulation and its relationships with other macroeconomic policies, particularly monetary policy. In Europe, the financial crisis was followed by the sovereign debt crisis, as the bail-out of the financial sector put strains on public finances in several countries. The sequence of events called for a strengthening of the union, ranging from a common framework for supervisory policies that could minimise the risk of unforeseen bank or country defaults to a common resolution mechanism that could set equal rules across countries and reduce ex ante misincentives to risk-taking and moral hazard.

This analysis of the state of and prospects for financial regulation examines the lending and saving behaviour of banks and households, as well as their borrowing activities, in order to understand the conflicting priorities and complicated decisions involved in the development and implementation of financial legislation.