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“Unlocking the potential of a fully integrated Banking Union”

Presentation of the Banking Union Annual Report

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Madam President, the Banking Union Annual Report 2020 assesses the situation in the European banking sector and effectiveness of the regulatory measures already in place. It calls for action on missing elements of the system but also considers how unfinished architecture undermines the functionality of the already-existing European Banking Union framework.

The focus of regulators, supervisors, central banks, but also legislators, has been on ensuring, on the one hand, the resilience of the banking sector, and on the other, its contribution to the recovery and growth of the real economy. Overall, most European banks have been weathering the crisis well. The two pillars of the Banking Union, the Single Supervisory and the Resolution Mechanism, as well as the robust regulatory framework put in place following the global financial crisis, have made the banking sector better prepared and more resilient to shocks. The temporary regulatory and supervisory relief granted to banks and the capital conservation practices that were applied increased the banks’ capacity to withstand the shock and continue financing the economy. Indeed, one can say that this time around, banks could have been considered as being part of the solution and not a part of the problem.

However, in spite of economic policy response with a concerted implementation of fiscal, monetary and prudential measures on an unprecedented scale, economic uncertainty is not gone. European supervisors diligently keep monitoring the situation, especially as public support, including for credit institutions, will be gradually subsiding.

Within the single market, as recovery from the impact of COVID proceeds, enhanced integration and consolidation in the banking sector becomes all the more important. Unfortunately, cross-border activity and banks’ appetite to consolidate have remained low. Actually, since the creation of the Banking Union, the degree of cross-border exposures of banks has not increased. A centralisation of tools and funding at EU level would reduce fragmentation and increase the credibility of the overall Banking Union, thereby further enhancing financial stability.

Banking Union should provide a fully-fledged framework, with the rules facilitating the free movement of liquidity and capital across the Union, making cross-border activity easier for all banks by bringing down the regulatory obstacles that still impede the emergence of a true single market for financial services in the Union.

The lack of a harmonised bank insolvency framework poses challenges to the Banking Union, leading in particular to the inconsistent application of the resolution regime in different Member States. Completing Banking Union is fundamental for the long-term sustainability of the system. In absence of a Common Deposit Insurance Scheme, capital and liquidity remain largely fragmented in individual Member States, as banks are reluctant to move liquidity.

A proper risk assessment and capital allocation within the Union and within European cross-border banking groups needs the foundation of a Common Deposit Insurance Scheme. Common standards and solid safeguards for large-scale depositors, as well as ensuring the resolvability of cross-border groups, would provide confidence in the markets. This is particularly needed in the post-pandemic context, where different speeds of recovery are observed across the Union.

The European Commission has been reviewing the Bank Crisis Management and Deposit Insurance Framework. The review has been focused on addressing deficiencies in the current framework, in particular related to filling the gap between the resolution framework at European level and national solvency procedures. This is an important concern in relation to small and medium-sized banks, which play an important role in financing the European economy.

A complete Banking Union, as well as increased cross-border activity and consolidation, would allow European banks to grow inside the single market and benefit from economies of scale, reducing their costs and thus improving their competitiveness on a global level.

The Eurogroup's current efforts to agree on a step-by-step and time-bound work plan on the issues that need to be resolved in order to complete the Banking Union are still inconclusive. My understanding is that completing the Banking Union remains a priority for the European Commission, as it is for this House – as the report makes clear. Unlocking the potential for fully-integrated Banking Union would allow us to better respond to needs and expectations of the citizens and emerge stronger globally. I also trust that a complete Banking Union would provide an important boost to the Capital Markets Union.

The European Parliament remains committed to enhance its efforts and act together with the Council and with the European Commission in reaching an agreement on the remaining issues in the European banking sector, an important contributor to economic and social development. And I'd like to use this opportunity to thank all the colleagues with whom we worked together on this report for their commitment, but also for their ambition.