Completing the Banking Union

A crucial project in which competitiveness, stability, and integration go hand-in-hand

"The elements of the Banking Union that have been established - being single supervision at the ECB and the common resolution scheme - have already brought much progress. Completing the Banking Union will deliver further benefits, by allowing banks to allocate savings most efficiently across the EU, proportionate to the local demand for lending.

Deepening of this banking channel would help the parallel allocation channel of market funding, which would be boosted by a well-functioning Capital Markets Union.

Completing the Banking Union would also enable banks to finally and truly become European, allowing cross-border consolidation, thus contributing to stability and strengthening of the sector."

Steven van Rijswijk
CEO ING Group

Europe faces multiple challenges in the years ahead: fostering economic and strategic resilience in a fragmenting world, boosting competitiveness, and navigating the climate and digital transitions, to name but a few. To effectively address these challenges, Europe must maximise local sources of funding; both debt and equity. Banks play a crucial role in this, by mobilising savings via their balance sheet, and by intermediating on capital markets.

This is best achieved when funds can be allocated freely between EU Member States to where they have most impact. This, in turn, would be promoted greatly by establishing a single EU-level "country blind" regime for cross-border banks, and by taking the other remaining steps towards completion of the Banking Union.

The Banking Union is both a financial integration and a financial stability project. By raising supervision and crisis-management of banks to the European level, it offers the opportunity to truly integrate national banking markets. This would create a more efficient allocation of capital to support the real economy, and break down financial barriers between countries that hold back growth.

The Banking Union is a virtuous circle: by improving confidence in financial stability, it promotes European cross-border financial integration, thus boosting competitiveness, supporting financial stability, and so on.

The potential gains of completing the Banking Union have been estimated at a structural increase of 0.3%-0.8% of Eurozone GDP. This loosely translates to a gain to each Eurozone household of between €250 and €750 per year.

Quantifying gains of completing the Banking Union, per year

The European Parliament Research Service has listed and quantified the following gains of completing the Banking Union (EPRS 2023, pp.147-150):

- Establishing a common deposit insurance scheme reduces the need to intervene in case of crisis. It also removes the sovereign-bank "doom loop", which in turn reduces the risk of deposit flight.
- More diversification by banks across the EU would lower loan losses, and in turn allow banks to smooth rather than amplify negative shocks to national economies.
- Finally, consolidation across borders in the European banking sector would foster economies of scale, improving efficiency, stability and competitiveness of the banking system

	€ bn		%GDP		per EZ household	
	min	max	min	max	min	max
Completing Banking Union	40	114	0.3%	0.8%	±€260	±€750
Common deposit insurance	5	35	0.0%	0.2%		
Lower loan losses	6	45	0.0%	0.3%		
Consolidation, economies of scale	29	34	0.2%	0.2%		

The effect of completing the Banking Union on saving and borrowing rates

In a completed Banking Union, households would benefit from the more efficient matching of savings supply with loan demand across borders within the EU. Borrowing and savings rates would converge more across countries, as domestic surpluses or shortages of savings become much less relevant. Instead, funds can be put to work where they are most needed. Tens of millions of Eurozone households might borrow at up to 0.5%-point lower rates or see their savings rate increase by a similar amount. SMEs and corporates that currently pay a country-specific premium, could see their borrowing rates drop by up to 1%-point (based on observed ECB-reported bank interest rate dispersion across Eurozone countries).

Way forward to finalise the Banking Union

A key step that delivers important and tangible benefits would be:

- **A new regime for cross-border lenders**: to speed up the pace of integration and consolidation, the introduction of a fully-fledged EU banking framework for cross-border banking groups, as proposed in an EP-study by Angeloni and endorsed by Draghi in his report, deserves full consideration. Such a "country blind" regime would ensure that banks operating across EU borders can manage their liquidity and capital in an integrated and consolidated way, while also providing a dedicated deposit guarantee scheme and EU macroprudential and resolution regime. This would greatly foster cross-border banking and a single banking market, without compromising on regulatory and supervisory controls.

In parallel to developing a "country blind" regime, other steps to take include:

- **European-level deposit insurance (EDIS)**: a concept under discussion for over a decade, policymakers have so far been unable to converge on a framework, despite considerations of a step-by-step approach. A fully-fledged EDIS is crucial to guarantee that efforts to boost cross-border activities do not weaken the overall euro areas financial resilience, thus encouraging the growth of pan-European banking and greater consolidation in the sector.
- **Liquidity in resolution**: in contrast to the U.S., the Banking Union currently lacks adequate central tools to provide liquidity (loan support) to banks in distress.
- **Deliver on cross-border capital and liquidity waiver**: the gateway to more trust in the banking sector is to establish cross-border liquidity subgroups with clear safeguards for host countries. These can gradually evolve providing more fungibility for banks and their clients.
- **Treatment of sovereign debt**: in order to prevent future "doom loops" of banks and sovereigns concentration, some form of concentration limits might be considered.
- **Pursue a single macroprudential policy**: European banks require treatment according to the same metrics and standards when it comes to macroprudential policy. In order to achieve this the ECB's macroprudential arm needs to strengthen vis-a-vis national authorities, and in addition, the ECB should have the competence to lower buffer requirements. Lastly, the buffer framework needs to be simplified, to avoid overlap and inconsistencies.

Banks are an important source of financing and stand ready to play their part. To mobilise Europe's savings in the best possible way, it is essential to complete the work on the Banking Union - now more than ten years in the making. This will reinforce and accelerate the efforts to build effective European capital markets.

Cross-border banking in particular would be greatly helped by establishing a "country blind" regulatory and supervisory regime for cross-border banks. In addition, financial integration and stability would be bolstered by establishing a common EDIS, as well as the other elements listed above. Taking these steps has clear benefits that transcend banks: improving financial stability, economic dynamism, market diversity and competitiveness, and contributing to income and welfare. Given the challenges Europe faces, this is an opportunity Europe cannot afford to miss. We therefore encourage policymakers to consider and action the necessary steps.

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