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A Banking Union for a stronger Europe

For a successful European economy that can tackle the challenges of the 21st century, such as digitisation and the transition towards a less carbon-intensive growth model, substantial investments will be needed - by the public sector as well as by the private sector. Those investments require financing via capital markets and bank lending alike. Well-functioning and competitive capital markets and European banks as well as a Single Market for banking and financial services are a prerequisite for that. Arguably, such a Single Market must contain a Banking Union and in turn banking groups that are truly active across the entire Single Market.

Over the past couple of years, we have made quite some progress towards that goal: We have established a single rulebook, effective supervisors such as the European Banking Authority and the Single Supervisory Committee, have set up a resolution regime and agreed on high standards for deposit protection. This already sets an effective framework for the Banking Union, but we also need to acknowledge that European markets are still somewhat fragmented and that the Banking Union is not yet complete.

So what could the next steps towards the completion of the Banking Union look like? To put it quite clearly, a fully mutualised EDIS is not a prerequisite for the completion of the Banking Union. Having high common standards for deposit protection as well as certain safeguards in place however is important. These objectives can also be achieved by a reinsurance scheme that provides liquidity between national systems in times of crisis. Other than being the logical evolutionary step, a reinsurance scheme seems to be more viable politically in both the Council and the Parliament as well.

In order to allow for an informed, fact-based and sensible discussion about the way forward, the Commission would be well-advised to finally adopt its implementation report of the existing Deposit Guarantee Scheme Directive that was already due in summer of 2019. A thorough assessment of the status quo of the implementation that also identifies possible problem areas could lift the discussion on more solid ground.

At the same time, risk reduction measures in the banking system should continue. A framework that would facilitate selling and buying of non-performing loans on secondary markets is still missing, which prevents banks from cleaning up their balance sheets. Progress on that front is therefore urgently needed. The same goes for the issue of the regulatory treatment of sovereign exposures. As long as sovereign bonds are treated as essentially risk-free assets, the doom loop of failing banks and failing states cannot be effectively broken.

There are other elements that are holding back the Banking Union though: the lack of a harmonised bank insolvency framework poses challenges for the Banking Union in general and the resolution regime in particular. After all, the resolution regime works on the basis of the “no creditor worse off” principle, which uses the respective national insolvency regime as a reference point. As long as there is no progress with regards to the harmonisation of insolvency law, we will not be able to get rid of the inconsistencies in the resolution regime.

An established Banking Union should make cross-border activity easier for all banks. Increased cross-border activity should therefore allow European banks to grow inside the Single Market and benefit from economies of scale thus improving their competitiveness on a global level. Internationally competitive European banks are in turn an important factor for an export-focussed model of economic growth and therefore for the competitiveness of the European economy as a whole. Therefore, there is much to win if we get the Banking Union right. ●