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The completion of the Banking Union should aim at improving the profitability and the competitiveness of EU banks

So far the Banking Union (BU) agenda has been focused on building a more resilient banking sector, through stronger prudential requirements, addressing legacy risks, active supervision and preparation of resolution. The ability of the banking sector to continue funding the economy throughout the Covid crisis, supported by pragmatic regulatory and supervisory measures, proves that we have successfully built a resilient banking system. Some progress remains to be seen at individual level, notably on less significant institutions, but overall risk reduction has largely been achieved.

However, risk reduction is not the only challenge facing the EU banking sector. It is not the only criteria to measure the strength and success of our BU. Today, EU banks are facing increased competition, at a time when Europe loses pace both globally and within the Single Market. Their market share has fallen over the last 15 years. Even within the Euro area, cross-border banking activity is on a continuous downward trend. At the same time, although banking groups have to answer the immense funding needs of the twin green and digital transitions, they should be able to invest in their own digitization where there are many potential levers for growth: the EU payments initiative should strengthen the independence of banks and allow them to start (re)conquering important markets. The ongoing development of the regulation on crypto assets should allow EU banks to invest more in the market opportunities offered by this new segment.

Moving forward, we need to address the lack of competitiveness and structural under-profitability of our banking system, which drives a persistent reliance on extraordinary public interventions. In 2019, return on assets was three times lower for EU banks compared to US banks, putting a drag on their ability to rebuild lending capacities to finance the recovery. From a financial stability standpoint, the weak profitability of the EU banking sector is a serious hurdle endangering public finances and market discipline.
Our focus must therefore shift from resilience to competitiveness and strategic autonomy. We should move beyond the "risk reduction-risk sharing" paradigm, which brings more divisions than results, to gather on a vision of a diversified, profitable and attractive EU banking sector. Concretely, this means:

First, fulfilling the promises of the 2nd pillar of the Banking Union (i.e. no more bailouts, better protection of taxpayers, more market discipline and more consolidation). It implies more intrusive supervision for "less significant institutions" which concentrate most vulnerabilities in the current environment. Zombie banks cannot remain on the market at the expense of taxpayers and competitors, it is crucial to reduce overcapacities. If making resolution for more banks means reviewing the conditions to access funding in resolution for banks pursuing such market exit strategies, assorted with adjusted contributions to existing safety nets, this should be envisaged.

Second, we need to reaffirm that we aim for a single jurisdiction in all prudential and regulatory dimensions, taking full advantage of our single currency and BU. It is greatly needed to develop European and international banking groups able to foster the international role of the euro and reap its economic and strategic benefits. Without it, there would be no "Union".. Steps towards this goal – even small – need to be pursued in the shorter run.

Last but not least, we should be careful not to inflict new burdens on the competitiveness of our own sector, especially compared to our competitors' jurisdictions. In the short run, the implementation of the Basel 3 package may put the financing of the EU-recovery at risk. The forthcoming EU Commission proposal must respect the G20/ECOFIN mandate not to induce a significant increase of banks capital requirements. France, with Germany, has proposed ways to achieve this in a compliant way with the Basel agreement, and counts on the Commission to take them into account, especially at a time when US authorities are considering a capital-neutral implementation. It is particularly important not to affect wholesale banking business and market activities: the EU's Capital Market Union cannot succeed without competitive EU banks able to serve corporates' needs globally.