Measures to break the Banking Union deadlock

While significant progress has been made with the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the banking union remains incomplete. Persistent national ring-fencing measures, the absence of a European Deposit Insurance Scheme (EDIS), and the lack of fully integrated cross-border banking groups continue to expose structural vulnerabilities. These shortcomings are not merely technical but stem from a deeper political stalemate.

The session explored the underlying reasons behind this lack of progress, reviewed the main achievements and remaining gaps in the EU resolution framework, and discussed practical solutions to advance the completion of the banking union.

1. Political stalemate despite broad consensus

1.1 Four key actors

A public representative noted that four key actors are responsible for the lack of progress on the banking union: the European Commission, the European Parliament, the European Council, and businesses, including banks. The latter often favour a fragmented market, where they enjoy local dominance, over a genuinely integrated single market that could expose them to greater competition but would be economically more efficient. Such attitudes give governments the political justification to block further integration.

The new legislative term has just begun, and the Commission will soon present proposals. Substantial changes are required from Member States in particular, while the industry must clarify its long-term interests.

Simplification should not be seen as a substitute for genuine reform aimed at creating a fully functional single market. Unifying 27 national rules into one framework demands a clear commitment to strengthening the EU — a commitment not universally shared.

1.2 National priorities and the absence of EDIS

This speaker further stressed that broader systemic changes are necessary to make progress. The absence of EDIS complicates decisions on granting waivers. Some Member States are not part of the full banking union, yet they continue to pursue national priorities in negotiations, which makes consensus difficult.

The banking union is intended to reinforce the single market for banks. Failing to complete it results in reduced competition and higher costs for households and businesses. If we are unable to complete this, the EU will struggle to deal with bigger issues. One of the most significant economic errors, however, lies in the absence of a unified energy market, which generates substantial daily costs across Europe. Developing a functional electricity market would be far more complex than building a single market for banking, making the lack of progress in the latter even more illogical.

1.3 Fragmentation without banking union

1.3.1 Breaking the sovereign–bank link

An industry representative emphasised that the debate on the banking union is ultimately about completing the single market. The current EU structure relies on economic actors that are intermediaries for local treasuries, which still exert significant influence over outcomes.

The banking union was designed to break the link between sovereign debt, treasuries, banks, and the financing of the economy — a goal that remains incomplete. The ratification of the amended European Stability Mechanism (ESM) treaty concerning the backstop for the Single Resolution Fund (SRF) has not yet been finalised. The current situation reflects political deadlock rather than technical obstacles.

1.3.2 Channelling the savings horizon toward medium-term investments

An industry representative recalled that the Draghi report estimated that €1.2 trillion of funding capacity within the financial sector — including banks, insurance companies and capital markets — needs to be mobilised. Unlocking this capacity would stimulate growth and competitiveness. The timing is favourable, as the EU appears determined to respond to these challenges. The necessary measures have already been extensively analysed and implementing them could make a significant contribution to economic progress.

2. 10 Years of Crisis Management: From Framework to Credibility

2.1 The resolution framework's credibility

A regulator agreed that a robust regulatory framework is essential to safeguard financial stability. He stressed that the Single Resolution Mechanism (SRM) is relatively recent, only 10 years ago, but it has worked hard to establish trust in the resolution framework.

The effectiveness of the SRM has already been demonstrated through successful resolutions of Banco Popular Español (BPE) and Sberbank, which protected taxpayers and preserved financial stability. Within the structure of a single SSM and SRM comprising a central authority and 21 participants, it is surprising that the home/host divide persists. Each Banking Union country's systemic institutions are under the direct supervision of the SSM as well as the SRM- central bodies and national authorities already work together.

2.2 Supervisory and resolution cooperation and trust are well established

A Central Bank official stressed that trust is fundamental to financial stability, encompassing depositor confidence, interbank trust, and the confidence of stakeholders, including supervisors. From a supervisory and resolution perspective, trust is not the main obstacle: the SSM and SRM are fully operational and aligned around common objectives. The real barriers are political and regulatory.

Before the banking union, there was no integrated supervisory framework. Establishing cooperation among national competent authorities (NCAs) was a core challenge, which has now been met. The existence of a memorandum of understanding between supervisory and resolution teams, joint country visits by the SSM and SRB chairs, and joint testing with institutions illustrate the high level of structured cooperation and information sharing.

NCAs actively contribute to decision-making within the SSM and SRB, including through working groups. The achievements of joint supervisory and resolution teams provide tangible evidence of trust and effective collaboration.

2.3 Legal enforceability and trust

The Chair asked whether legal enforceability is essential for building trust between Member States and regulatory authorities, allowing recourse to the European Court of Justice. An official responded that several ECJ rulings have confirmed the legitimacy of actions taken during past crises. Legal challenges are inevitable in resolution (or liquidation) cases.

Case law contributes to a credible framework. Where appropriate, banks have been allowed to enter liquidation, with authorities obliged to justify their actions.

Again, trust is the keyword. This is why the SRB, and NRAs have a clear strategy to deepen relationships, build trust within and beyond the banking union, and demonstrate a unified commitment to financial stability.

2.4 Rethinking home/host distinctions

This speaker explained that, from a regulatory standpoint, home/host distinctions should not apply within the banking union, where national borders are no longer relevant. The SRM and the SSM are not favouring any particular segment or region; their objective is to build resilience across the banking union, taking proportionality and national specificities into account while fostering trust.

Building trust requires the confidence of both investors and customers, since crises often start with withdrawals. To preserve financial stability, it is essential to show that the mechanism functions effectively and that authorities act in coordination.

A united front is also needed to convey credibility abroad. In fact, there is a ringfencing risk when crises are cross-border. The SSM and SRM are actively engaging with all relevant foreign counterparts to be ready to act in coordination in a cross-border crisis.

3. Completing the banking union

3.1 Unlocking the full benefits

3.1.1 Building for European sovereignty

An industry representative argued for adopting a more outward-looking perspective, similar to the US approach to regulatory reform, which is not merely incremental. While significant progress has been made in the euro area, political deadlock persists, and financial stability remains a matter of trust.

Beyond financial stability and economic growth, European sovereignty must be addressed as a potential way to break the political impasse. Strong European banking and financial institutions are vital to financing internal needs and reducing external dependencies. A strong economy requires strong banks. Building European strength could help overcome current restrictions, including Member States' internal political struggles, while supporting technological advancement.

European sovereignty must also be understood against the backdrop of a more conflict-prone global environment. Bolder measures may be needed to remove the obstacles to creating European financial champions and ensuring that European financing needs are met by European actors. Achieving the necessary scale and profitability is essential to support technological progress and global competitiveness. At present, global competitors are larger and benefit from greater freedom of action.

3.1.2 Protecting consumers and strengthening financial stability

A regulator emphasised the need to complete the banking union. In resolution, we have a simple unified framework. In liquidation instead, harmonisation remains limited to the legal aspects but, economically, depositors are more at risk in countries with worse-funded DGSs. EDIS would address this disparity.

The regulator also added that, beyond EDIS, the crisis management toolkit should be reinforced by liquidity backstops to the Single Resolution Fund. Recent crises have shown that liquidity needs in resolution may be very substantial. The more comprehensive and more flexible is the crisis management toolkit the lower the risk for financial stability.

Harmonization goes hand-in-hand with subsidiarity. From a governance standpoint, it is key to recall that, in a crisis, decision-making is carried out by the SRB together with the NRAs. For example, during the Banco Popular resolution, Spanish and Portuguese authorities participated jointly in the decision-making process.

3.2 The need for a roadmap

3.2.1 Taking a step-by-step approach

The Chair questioned whether a "big bang" approach to implement a comprehensive package before 2028, aligned with the President's timeline, or a more incremental strategy would be most effective.

An industry representative noted that while a comprehensive package is desirable for large banks, it is unlikely. Steady progress can still yield positive outcomes. The SSM and SRB have been successfully established and are functioning well. Home/host distinctions are increasingly artificial, given that joint supervisory teams under the ECB ensure consistent oversight of significant entities.

While the SRB has advanced considerably, a critical gap remains: liquidity backstops during resolution, and EDIS is not yet operational. Given EU governance structures, incremental progress is the most realistic approach, provided steps are taken swiftly.

3.2.2 Overcoming structural obstacles

The Chair highlighted that no major banking crisis has occurred in recent years and that the US is rolling back some regulations. Europe should adopt a more positive view of its own achievements.

A Central Bank official stressed that correctly framing the problem is essential for identifying solutions. Structural impediments — notably the absence of EDIS, the lack of an ESM backstop for the Single Resolution Fund, and hurdles in the CMDI review — hinder progress on both the banking union and single market.

These deficiencies lead to limited use of liquidity waivers, which are the only cross-border waivers available and are granted under strict conditions. In a stressed situation, rather than resolution, a pre-resolution scenario arises, raising the question of burden-sharing, which undermines the purpose of the banking union.

The roadmap can be gradual but must also be comprehensive, addressing capital and liquidity efficiency and simplification, while achieving shared positions on key structural issues. Banking consolidation must also be discussed, focusing on diversifying shareholder bases and building solid structures that enhance stability. Supervisory and resolution frameworks must be consistently applied to all significant subsidiaries and branches.

3.2.3 Respecting national specificities

The Chair noted the upcoming Commission report on the banking union and asked how the project could be completed by 2028.

An official explained that discussions are ongoing at the Eurogroup Working Group. Supervision plays a crucial role in national economies, fostering stability and trust. A gradual approach is needed, underpinned by a clear roadmap.

Home and host responsibilities must be defined, preserving local supervisory influence due to national financing contexts and past taxpayer interventions. Capital allocation must be clarified to ensure appropriate distribution of risks and liabilities. The banking sector needs diversification and sustainable growth, alongside robust capital markets. A holistic approach is required to avoid over-concentration in the strongest Member States.

3.3 EDIS and financial integration

3.3.1 The free movement of capital and liquidity

An industry representative underlined that EDIS is vital for consumers, providing uniform protection through a common funding mechanism. However, facilitating capital and liquidity flows across the eurozone is even more crucial. Cross-border banking groups must manage these resources holistically. Crises often trigger domestic ring-fencing, exacerbating sovereign debt challenges and impacting the economy.

Integration requires removing obstacles, including fragmented consumer protection and taxation rules, and addressing liquidity in resolution, which is essential to preserve critical functions and confidence.

EDIS is positive but insufficient on its own. Integration resembles M&A activity, usually justified by synergies. In the current market, cost synergies are limited, and revenue synergies are not valued, limiting incentives. Preconditions must be created to enable banks to operate within a genuine single market, particularly for SMEs and retail clients.

An industry representative added that EDIS, while not the single most significant factor, remains a crucial missing component. The four pillars of the banking union are unified supervision, a resolution mechanism, EDIS, and financial integration. The first three are tools to achieve the fourth. EDIS would enhance consumer confidence by enabling cross-border account access but would have limited broader impact alone.

3.3.2 Removing ringfencing

An industry representative noted that capital does not flow easily between countries, leading to missed investment opportunities. Removing intra-group capital and liquidity barriers would have a greater immediate effect, as these resources would be pooled.

He warned, however, that insufficient funding of EDIS could undermine trust. In the US, access to Treasury funds, later reimbursed by banks, ensures sufficient funding and preserves confidence. In Europe, funds remain frozen, limiting banks' lending capacity.

3.3.3 A hybrid EDIS model

An official stressed the importance of national economic perspectives and the Commission's role. Support for a hybrid EDIS model dates back to 2017. EDIS, the third pillar, should resume swiftly. Progress has already been made in supervision and taxpayer protection, as seen in Slovenia after the global financial crisis.

The first step is to complete the common backstop to the SRF, followed by a robust regulatory framework clearly allocating home and host responsibilities. Joint visits and a unified supervisory approach are needed to strengthen financial stability.

National DGSs should not bear excessive risks from subsidiaries, provided capital remains at group level. A balance must be struck to avoid contagion between parents and subsidiaries, which can distort competition. Entity-level prudential control remains essential alongside consolidated supervision.

3.3.4 Prioritising EDIS to unlock financial flows

A public representative argued for prioritisation. The EU often struggles to set clear priorities, diluting impact. If EDIS is crucial to unlocking financial flows and fostering competition, it should be given highest priority. Actions that unblock current issues and set direction are welcome, but incremental steps must yield tangible results for financial groups to operate effectively.

3.3.5 The market's need for solutions

A regulator noted that it is important to move towards an EDIS-like solution, even if stopping short of the original proposal. Market evolution calls for a better pan-European deposit protection. For instance, depositors already shop around the EU for better interest rates on deposits. Also, cross-border activities by new banks highlight gaps in consumer awareness and DGS coverage.

A package to address these gaps should be introduced swiftly. Market forces are likely to drive solutions faster than anticipated by some policymakers.