BREAKING THE BANKING UNION DEADLOCK

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From achievements to next steps: completing the vision of the banking union

Over a decade since its creation, the European Banking Union remains a cornerstone of Europe's financial architecture, growing in importance amid geopolitical uncertainty. Rising systemic risks and global competition reinforce the need to further consolidate and integrate Europe's financial system. Completion of the Banking Union and progress on the Savings and Investment Union are essential to enhance sustainable growth and resilience across Europe. Instead of looking back on what has been achieved to date, we need to focus on how far Europe remains from its original destination: a fully integrated banking market.

Originally conceived to break the vicious circle between sovereign and banking risk, the Banking Union primarily sought to create a more integrated and resilient financial system. Two central pillars are operational; the third pillar is still incomplete. SSM and SRM heralded an unprecedented transfer of authority from national to European institutions. The SSM now delivers consistent, risk-based supervision of significant banks across participating member states, while the SRM enables the orderly resolution of large, cross-border banking groups in times of crisis. A key objective was to permit the emergence of truly pan-European banks, while also weakening the entrenched link between national fiscal positions and domestic banking sectors.

The Banking Union has yet to realise its full potential. Further efficiency gains could be achieved from cross-border integration. Freer capital and liquidity movement within banking groups would allow resources to flow where needed most, while enhancing competitiveness and resilience. While cross-border capital and liquidity flows are already possible, as several cases successfully demonstrate, broader application of such waivers remains politically sensitive. National authorities still tend to prioritise domestic considerations, driven by concerns about crisis management responsibilities and the lack of a fully mutualised safety net. Against this backdrop, the SRM has significantly reinforced confidence in the effective, consistent and appropriate resolution of European cross-border banks, irrespective of national self-interests. Broad consensus exists that the European banking system is considerably safer than before the Banking Union: supervisory standards are more consistent, resolution planning has matured significantly, and there is improved market confidence in systemic resilience.

Nevertheless, full integration remains a work in progress. The transition from national fragmentation to a real European banking market remains incomplete, for which the missing third pillar, EDIS, will play a decisive role. Intended to complement the SSM and SRM, completing the Banking Union's architecture, EDIS still remains unrealised. Deposit insurance and in particular EDIS have proven political stumbling blocks, as the recent CMDI reform has illustrated: the European Commission's proposal was a significant step forward – however, the final political agreement was substantially more modest. Some progress has been made: national deposit guarantee schemes and resolution tools are more closely aligned, albeit with numerous safeguards and complex conditions. In essence, we have seen a step in the right direction, rather than the originally envisaged transformative leap.

CMDI is one important step, but EDIS' continuing absence raises further national concerns about cross-border institutions converting subsidiaries into branches. "Branchification" shifts responsibility for guaranteeing eligible deposits from the host country's national deposit guarantee scheme to that of the home country, albeit without fully transferring contributions previously paid into the host country's DGS. This reflects the ongoing mismatch between the ambition of a unified banking market and the reality of national constraints. A fully operational EDIS would help resolve these concerns by ensuring a more even distribution of burdens and responsibilities across member states.

Continued political commitment to a common goal brings the EU closer to completing the Banking Union.

The Banking Union has undeniably strengthened financial stability, supervision, and crisis management in Europe. However, stability no longer suffices in a more fragmented geopolitical environment and amid rising global competition. A seamlessly integrated banking landscape — characterised by free intra-group capital and liquidity movement, consistent supervision, and a joint European deposit insurance framework — remains a vision. Continued political commitment, combined with pragmatic progress, will move the EU closer to that goal. But ultimately, only decisive political steps toward completing the Banking Union will unlock its full potential — strengthening stability, enhancing competitiveness, and enabling a truly integrated European banking market.

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Internal barriers, resolvability and banking union integration

The establishment of the single rulebook, together with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), represents a major step forward in European financial integration. These reforms have significantly reduced regulatory fragmentation and enabled banks to operate across borders under a harmonised supervisory and crisis-management framework, thereby strengthening the foundations of the Single Market for financial services.

By law, the Single Resolution Board (SRB) is mandated to act in the interest of all participating Member States. In practice, the SRB and national resolution authorities work side by side on a daily basis and take decisions together, both ex ante in resolution planning and, when needed, in a crisis. This collegial and cooperative approach is critical to ensuring a fair, consistent and effective framework and fostering trust among Banking Union Member States. From that perspective, the distinction between Home and Host countries should fade within the Banking Union, as decisions are taken jointly in the service of European financial stability. Only insolvency laws and deposit guarantee schemes still lack sufficient harmonisation, although the recent CMDI package brings improvements.

Beyond this legal reality, in the last ten years Europe has built strong common supervision and a solid resolution framework. Resolution plans have been developed for all major European lenders, the Single Resolution Fund has reached EUR 80 bn, banks have built substantial loss-absorption buffers and, importantly, resolution in Europe has been shown to work across different Member States.

Moving toward a progressive removal of internal capital and liquidity barriers within cross-border banking groups should be considered to improve efficiency, competitiveness and private risk-sharing in the EU. Intragroup pre-positioning should be reconsidered in a well-integrated Banking Union based on a trusted institutional architecture.

Given the progress achieved in terms of resilience and common governance, one could expect that "host Member States" concerns would diminish. In practice, however, the home-host issue remains relevant, reflecting residual mistrust and the incomplete nature of the overall framework.

This shows that, despite progress, the Banking Union remains incomplete — still lacking a European Deposit Insurance Scheme and a common public liquidity backstop.

One way to achieve further integration and foster trust is to recall that the vast majority of Banking Union groups operate under a Single Point of Entry (SPE) resolution strategy. When the SRM determines that an SPE strategy is appropriate, extensive pre-positioning becomes less relevant for certain banks, as their group can be managed in a crisis as a single entity. As such, some pre-positioning aspects remain relevant, particularly internal MREL, while others driven by supervisory considerations may be less pertinent from a resolution perspective.

Rethinking pre-positioning for SPE groups would not imply a lowering of standards or come at the expense of resilience. On the contrary, it should provide greater flexibility for banks in going concern while preserving the pool of resources available to deploy across the group and increasing the ability of banks and authorities to direct them where and when needed at the moment of resolution.

As said, pre-positioning of MREL and liquidity can be useful depending on the structure and business model of each group. In some cases, the SRM determines that a Multiple Point of Entry resolution strategy is appropriate, reflecting a sufficiently decentralised structure that allows for separate and credible resolution of entities. In such cases, a higher degree of pre-positioning is justified.

This underscores the importance of selecting, together with national authorities, the resolution strategy that best fits each group's structure and ensuring it can be executed effectively. Bank resolutions are inherently complex and uncertain, but decisions are always taken in the interest of the Banking Union as a whole, as shown in the resolution cases to date.

Advancing EU banking integration through trust, resolvability and targeted flexibility.

Since pre-positioning is mainly intended for crisis situations, the SRM — through close and continuous cooperation between the SRB and national authorities — is well placed to assess whether measures are necessary, proportionate and effective in light of the chosen strategy, and to use the flexibility in the current framework to support further integration.

However, legislation influenced by the bad memories of the Global Financial Crisis leaves limited room for manoeuvre. Over time, deeper integration will require targeted Level 1 changes.

Such amendments would acknowledge the progress achieved over the past decade in crisis management and risk reduction, while further integration will depend on strengthening the crisis-management toolkit, notably through improved liquidity in resolution.

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Two key underpinnings for the Banking Union

More than a decade after its launch, the Banking Union remains incomplete. The persistent stalemate is rooted in enduring home–host tensions and a broader sense of insufficient trust in EU-level governance, even though the SSM and SRB have demonstrated their effectiveness. At its core, the home-host dilemma reflects a structural misalignment: EU-level responsibilities have expanded, yet the national legal frameworks that ultimately shape critical decisions on capital, liquidity and crisis management remain largely unchanged. This asymmetry persists across Member States, reinforcing protective incentives for both home and host authorities and limiting the emergence of a genuinely integrated banking landscape. As a result, progress has stalled: cross-border mergers have diminished, operational integration has weakened, and retail banking remains predominantly confined within national borders.

Despite the existence of single supervision and increasingly robust prudential standards, national authorities still foresee situations in which subsidiaries might not receive timely group support, or in which local financial-stability concerns could override the strategies of cross-border banking groups. Without a clear, enforceable and uniformly applied legal foundation for intragroup financial support, legitimate doubts remain on whether capital and liquidity will effectively flow within a banking group under stress. Supervisory convergence alone cannot replace the need for a legal environment that fully enables such mobility, nor can it compensate for the fragmentation embedded in national crisis-management regimes.

A sustainable political agreement must therefore incorporate credible safeguards addressing governance, accountability and risk control. Member States need assurance that common EU rules will not dilute their capacity to preserve financial stability and that cross-border group decisions will remain coherent with legitimate local interests. At the same time, banks require clarity, predictability and an integrated framework that allows efficient management of capital and liquidity across jurisdictions, under both normal conditions and periods of market stress.

Currently, the Bank Recovery and Resolution Directive (BRRD) recognises the possibility to stipulate agreements for intragroup support, but this regime is unappealing for banks – if not almost impossible to apply. This is primarily due to persistent national legislative barriers which, in near-insolvency situations, trigger ring-fencing measures and cast doubt on the contractual enforceability of such arrangements. A promising way forward is the introduction of a dedicated regime for cross-border banking groups. This regime would enable eligible groups to operate under a single, fully harmonised set of rules that coexist with, yet remain distinct from, national frameworks, and are subject to a common European jurisdiction. By establishing common legal foundations and Courts for intragroup support, and aligning creditors treatment within the group, it would eliminate the need for ring-fencing measures and enable the genuine mobility of capital and liquidity that the Banking Union was intended to deliver. Participation would be voluntary but binding, combining flexibility with legal certainty and allowing institutions that seek deeper integration to opt into a coherent EU-level framework.

Importantly, such a regime would not require the immediate, full harmonisation of national insolvency or banking laws—an objective that remains politically complex and institutionally lengthy. Instead, it would create a parallel EU-level option capable of delivering practical integration while respecting national prerogatives. By providing a solid foundation for deeper operational alignment, it would facilitate progress on other essential components of the Banking Union.

In this regard, completing the institutional framework through a common safety net for covered deposits (EDIS) remains crucial to building mutual trust between home and host Member States, ensuring financial stability and deepening market integration. A phased-in approach could reinvigorate the debate, with full mutualization of risks and funds remaining the ultimate objective. Additional deliverables for the Banking Union include a more integrated crisis-management tools and a supervisory framework that moves decisively beyond solo-entity logic.

A regime for intragroup support, coupled with EDIS, should overcome obstacles to cross-border banks.

By offering a structurally sound and politically feasible path forward, the introduction of an ad-hoc European regime for cross-border banking groups – combined with the finalisation of EDIS – could finally bridge the gap between national concerns and Europe's strategic need for a competitive, resilient and truly integrated banking system. It would provide the missing operational cornerstones required to transform the Banking Union from an unfinished project into a functioning reality capable of supporting Europe's long-term economic and financial ambitions.

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The role of the banking union in the current geopolitical context

There is broad consensus that given the recent geopolitical developments and the prevailing global uncertainty, the European Union cannot further delay adopting sufficiently ambitious reforms to strengthen its role in the world economy to, at least, preserve the welfare of European citizens. When uncertainty increases and the rules of the game change, there is no way in which the status-quo can be safely maintained without adapting the strategy to the new environment.

It is generally accepted that two essential ingredients of those reforms are: i) to preserve economic and financial stability in a more uncertain global environment; ii) to foster European strategic autonomy by enhancing its competitiveness.

It is important to realise how a complete and well-functioning banking union would directly support those two strategic goals.

Thus, economic and financial stability require a definitive solution to prevent financial-sovereign feedback loops that have proven in the past highly destabilising for the economic and monetary union. That job was initiated with the creation of the single supervisory (SSM) and resolution (SRM) mechanisms in 2014 and 2015, respectively. Yet, more than a decade later, the job is unfinished as the denationalisation of banks' risk also requires the completion of the banking union with a European deposit insurance scheme (EDIS) and a substantive alleviation of existing constraints for the provision of mutualised external funding to facilitate the resolution of significant banks.

In addition, to make the European economy more autonomous and competitive a much more integrated financial system is needed, and this would certainly benefit from a truly unified and effective regulatory, supervisory and crisis management framework.

As highlighted in the Letta and Draghi reports, the main factor undermining the competitiveness of European banks – like other economic sectors – has been not taking advantage of the opportunities presented by a single, integrated market. The integration of the European banking industry remains very limited. Most European banks remain predominantly domestically focused. Importantly, since the creation of the banking union, the volume of cross-border mergers and cross-border lending and deposit-taking activities has not noticeably increased.

In an environment where technology amplifies economies of scale in the banking business, the insufficient consolidation of the sector hampers the industry's efficiency, profitability and ability to compete in global markets.

Deepening the banking union is key to foster European competitiveness and strategic autonomy.

At present, cross-border mergers often encounter political obstacles. Yet, the root causes of the lack of integration in the European market for banking services are deep and structural. For instance, overcapacity in the sector in several countries leaves little room for new foreign competitors. Additionally, the strong presence of savings and mutual banks – which are typically subject to limited market discipline – in some core European countries weakens market incentives for consolidation.

Yet, the insufficiently unified regulatory framework does also play a role. For example, local subsidiaries of the few pan-European groups must comply not only with obligations imposed on the entire group by home authorities but also with stringent requirements on loss-absorbing capacity and liquidity imposed by host authorities. This ring-fencing prevents these entities from realising efficiency gains through centralised resource management across the group.

Current ring-fencing practices are a direct consequence of the incomplete nature of the banking union. Despite the creation of the SSM and the SRM, there remains a significant risk that the failure of a subsidiary of a foreign bank in a particular jurisdiction would have to be borne by local banks– via, for example, their contributions to national deposit insurance schemes – and, ultimately, taxpayers in that jurisdiction. This justifies host authorities' efforts to mitigate this risk by imposing requirements on local subsidiaries rather than simply relying on uncertain intragroup support. Whether, in absence of a truly common European backstop, some sort of intra-group guarantees could suffice to convince host authorities to give-up current ring-fencing practices is, at best, unclear.

While not a panacea, completing and deepening the banking union appears to be essential to make the European financial system more integrated and resilient to global shocks. Such a step would support both economic and financial stability and the competitiveness of the industry. This requires creating a single deposit insurance scheme – the third pillar of the banking union – and a more effective single resolution mechanism capable of centrally addressing the failure of all significant banks, using mutualised external funds as needed to preserve financial stability.

The views expressed are the author's, and do not necessarily reflect those of the BIS.

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Completing the banking union: a positive agenda for European competitiveness

The Banking Union stands at a strategic crossroads. The post-crisis framework has undeniably strengthened financial stability: European banks are better capitalised, better supervised and more resilient. However, resilience alone is no longer enough.

Competitive EU banking champions would be better suited to support the economy, absorb shocks and export themselves globally. Yet, despite a recent rise in cross-border mergers' attempts, the banking landscape in Europe remains fragmented, preventing the emergence of globally competitive institutions through market-driven integration.

The European Commission's consultation on the competitiveness of the EU banking sector rightly highlights what cross-border banks confront every day.

Fragmentation Is the Structural Weakness

From a large banking group's perspective, the main obstacle is structural fragmentation due to the policy framework. Capital requirements and the resolution framework continue to be applied at individual and sub-consolidated levels, which means that capital and liquidity remain constrained by national barriers. According to ECB and AFME estimates, approximately €225bn of capital and €250bn of liquidity are currently trapped in subsidiaries and could be released through cross-border waivers.

Macroprudential buffers, for example, diverge widely across Member States, creating political borders inside what should ideally be a single jurisdiction. Internal MREL requirements also illustrate the problem clearly: by keeping capital locked within national lines, they prevent balance sheets from functioning on a genuinely European basis. The same dynamic applies to liquidity, due to ring-fencing at sub-consolidated level.

The output floor now risks intensifying this challenge, since the EU opted for a transposition of the output floor at individual level, despite a national option to apply it at consolidated level.

Similarly, the still largely national implementation of AML/KYC rules, despite the ongoing harmonisation with AMLA, continues to hinder economies of scale and cross-border synergies.

The effect is clear: Europe's banks are European in supervision, but too often national in constraint.

A Pragmatic Path Forward

Europe now needs a pragmatic path toward deeper integration, one that strengthens the Single Market without pursuing institutional debates that remain politically unresolved. Integration should not be held hostage to one unresolved pillar, EDIS, which remains elusive.

> **To deliver on a true Banking Union, Europe must finally turn ambition into action.**

First, greater convergence and clearer limits on the inflation of national macroprudential buffers would reinforce the Single Market while preserving high financial stability standards. Europe cannot credibly pursue strategic autonomy while operating with 27 different interpretations of risk calibration.

A second priority is to enable the genuine mobility of capital and liquidity within cross-border groups by removing unnecessary internal MREL constraints, applying waivers more consistently across jurisdictions, and recognising the effectiveness of group-wide risk management. Banks must be able to function as European institutions and deploy their resources where they are most needed.

Third, Europe needs a more coherent and predictable regulatory environment. Stability requires consistent and well-coordinated rules. Reducing duplication, avoiding national gold-plating and ensuring consistency across major reforms would improve predictability for banks and strengthen Europe's competitiveness.

Finally, Europe must offer clarity and predictability on cross-border consolidation. A clearer policy stance on cross-border mergers would send a strong signal that scale is not merely acceptable, but an explicit strategic objective for the Union.

The Political Moment

The next phase of the Banking Union requires political leadership. Europe is redefining its economic model in a more volatile geopolitical environment, where strategic autonomy, defence capacity and industrial resilience depend on integrated financial institutions able to allocate capital efficiently across borders. Fragmentation, by contrast, maintains Europe's dependence on non-EU financial intermediaries. If Europe wants banks capable of financing its strategic agenda and competing globally on equal terms, it must allow them to operate fully as European institutions.

The Commission's competitiveness initiative should therefore mark a turning point: moving from managing fragmentation to dismantling it.

The 1957 Treaty of Rome already called for "the liberalisation of banking and insurance services connected with movements of capital". The 70th anniversary should not be just a commemoration, it should be the breakthrough moment when Europe finally acts.

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Home-host issues in Banking Union: not mere lack of trust

One point of pain of the Banking Union (BU) is home-host relations: lack of trust between the respective member states; so-called liquidity and capital traps; "solo" regulatory approach of host-country subsidiaries of the cross-border banking groups.

Host states are indeed a weaker party in this relation. They must live with quite limited Deposit Guarantee Scheme (DGS) resources. Sometimes a relatively small subsidiary of a foreign bank is of systemic importance in the host state. Missing rules for unconditional and unlimited parent support to the subsidiary in need cause the reluctance to permit liquidity wavers – not surprising.

Local enterprises, especially SMEs, mostly choose traditional local bank loans rather than more sophisticated market instruments. This is and will remain cultural reality in many EU member states, so that we will hardly ever attain the US ratio of capital market vs bank financing. Small banks and cooperatives will long remain important in our economic fabric. This justifies the "solo" regulatory approach to every market participant and explains why instead of winding up, the resolution, initially a "privilege" for significant banks, now becomes a rule for a wider set of mid-sized institutions seen essential both by the politicians and society.

It is untrue that small member states avoid bigger players coming into their market and hence block banking market consolidation and integration issues in the Council. At least in Lithuania just the opposite: several subsidiaries of foreign banks conduct risk-avert policies, and the country badly needs to attract additional players to foster banking competition. This proves difficult, despite very high profitability of locally active banks. Hence ringfencing tools naturally come into play, including preferential rates of contributions to the national DGS. High profits and windfall revenues, on the other hand, prompt local lawmakers to tax them progressively for country defense needs. And for huge defense investment, we had to establish a state-owned National Development Bank, making use of the EU funds and RRF.

So, BU fragmentation is there, but the reasons go far beyond mere trust.

Can EDIS become an "integrator"? Is it an indispensable pillar of the Banking Union building? The answer is far from obvious. Indeed, it can potentially, though not immediately, ensure better risk sharing between the members of the BU, thus alleviating concerns of smaller host countries on sufficiency of their DGS, prompting them to agree to at least partially waving the limits of intra-group liquidity and capital movement and move from the "solo" regulation approach. But there also are different important effects of EDIS.

Recent CMDI compromise has built a strong basis to further the EDIS project.

Indeed, deposit insurance is one of fundamental values in the European banking from the consumer's and societal point of view. The clear proof was (unsuccessful) scandalous attempt to bail-in part of covered deposits in the Cypriot banks crisis in 2013, which became a powerful trigger for legislators to immediately complete SSM and establish SRM in record time.

The consumers care little about the balance of risks in the banking sector, but continuity of the bank services, or in the worst scenario swift recovery of lost deposits, matters a lot. For regulators, this primarily demands to ensure sufficient liquidity, be it in liquidation or resolution cases.

Here we already achieved much. ELA of the ECB, Single Resolution Fund, ESM as its backstop (sadly, with one country still not ratified), a system of national DGSs complemented by diverse Institutional Protection Schemes, with now enhanced mandate to finance resolution (recent CMDI agreement). All this works now; luckily, not too often enacted. In my view, this bridges distinction between the 2nd and 3rd pillars of the BU – merging the two into one common Liquidity in Crisis Mechanism, which needs to be further expanded.

Paradoxically, just resilience of the European banking system, demonstrated so well during COVID-19 and rare recent bank failures, hinders further progress of BU, and EDIS in particular. Political elites lack strong incentives to move fast. Three of the 4 workstreams of the famous Eurogroup 2022 plan were hence scrapped.

But one workstream, the CMDI, was a clear success. It highlighted differences between member states, but at the same time built a strong basis to further the EDIS project. I can envisage incremental progress; reinsurance of national DGSs being among the first steps. Swift adoption of a Regulation on enforceable intra-group guarantees for subsidiaries looks crucial - fully in line with the principle that banking crises should be paid by the industry.

Moving forward makes big sense, even if not able to defragment the BU at once. An inspiring example is the SRM compromise in 2013, which involved an intergovernmental agreement, a cumbersome formula of funds "mutualization", but finally produced clear rules, a potent Single Resolution Fund, and a respected EU agency – Single Resolution Board.