Breaking the Banking Union Deadlock: Challenges and Paths to a Holistic Solution

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Abstract

More than a decade after its establishment, the Banking Union remains institutionally incomplete, while its prudential and supervisory framework has become increasingly complex and fragmented, with a growing reliance on supervisory judgement, making it more difficult to operate efficiently. Despite numerous legislative initiatives and technical reforms, progress has remained limited. This paper argues that the persistence of the Banking Union deadlock reflects not a lack of technical solutions, but an incomplete understanding of its underlying institutional causes.

The prevailing debate treats banking market fragmentation, regulatory complexity, prudential proportionality, the implementation of international standards and the competitiveness of European banks as separate policy challenges. This paper develops an original perspective by showing that these issues are different manifestations of the same institutional dynamics. Supervision and resolution have been Europeanised without fully aligning the incentives of authorities that continue to bear largely national financial stability and fiscal responsibilities. Combined with persistent economic and fiscal divergences across Member States, this institutional asymmetry undermines the mutual trust required to relax national safeguards and perpetuates the home-host dilemma.

The resulting institutional equilibrium creates incentives for ring-fencing, solo prudential requirements, supervisory conservatism and the progressive accumulation of regulatory safeguards. While individually justified, these measures collectively reduce the efficiency of cross-border banking groups, increase regulatory complexity and hinder financial integration, thereby reinforcing the very conditions that sustain the Banking Union deadlock.

Building on this diagnosis, the paper argues that breaking the deadlock requires a comprehensive and indivisible political package combining completion of the Banking Union with improvements to its prudential and supervisory framework. Only such a holistic approach can resolve the main issues by addressing the concerns and aligning the incentives of all stakeholders, demonstrating that a genuine Banking Union can generate tangible benefits for each of them.

The package combines stronger common safeguards – including a European Deposit Insurance Scheme (EDIS), a credible European liquidity framework in resolution and legally enforceable intragroup support mechanisms – with operational freedom for cross-border banking groups. It also advocates a simpler and more proportionate prudential framework that better reflects the diversity of Europe's banking sector, including a periodic reassessment of cumulative prudential requirements, a review of the growing reliance on Pillar 2 measures, the establishment of a Prudential Efficiency Review Panel, and a more effective implementation of international standards that better reflects the specificities of the European economy.

Finally, the paper argues that durable progress also depends on continued fiscal responsibility and greater economic convergence among Member States, thereby strengthening the mutual trust on which a genuine Banking Union ultimately depends. Only such a comprehensive package can credibly break the Banking Union deadlock by aligning incentives, restoring mutual trust and enabling genuinely integrated European banking groups to emerge. Reaching such an agreement, however, will ultimately require the political willingness of Member States to allow the common European interest to prevail over national interests.

Introduction

The Banking Union is one of the European Union's most ambitious integration projects since the creation of the euro. Yet, unlike the Economic and Monetary Union, it was not considered by the Maastricht Treaty. It emerged only in response to the sovereign debt crisis of 2010-2012, when the close interdependence between sovereigns and domestic banking systems threatened the stability of the monetary union[1]. The crisis demonstrated that a single currency could not function sustainably without a common framework for banking supervision and crisis management.

In little more than a decade, the European Union has made remarkable progress. The Single Supervisory Mechanism (SSM) has centralised the prudential supervision of the Euro area's largest banking groups under the European Central Bank, while the Single Resolution Mechanism (SRM) has created a common framework for managing bank failures and preserving financial stability. Together, they have significantly strengthened the resilience of the European banking system and enhanced the consistency of banking supervision across participating Member States.

Recent policy discussions, notably the European Commission's Communication on the Competitiveness of the Banking Sector and the Single Market in Banking, have considerably broadened the debate. The Communication rightly recognises that banking market fragmentation, regulatory complexity, prudential proportionality and the competitiveness of European banks are closely interconnected challenges. This paper shares that diagnosis but proposes a broader interpretation. It argues that these challenges are not simply parallel policy agendas but different manifestations of the same institutional asymmetry that continues to shape the Banking Union.

More than fifteen years after its creation, the Banking Union therefore remains both incomplete and institutionally constrained. Important building blocks – including a common European Deposit Insurance Scheme (EDIS) and a fully operational framework for liquidity in resolution – are still missing. At the same time, the prudential framework relevant to the Euro area's largest banking groups has progressively become more complex. The cumulative interaction between minimum capital requirements, Pillar 2 requirements, macroprudential buffers, resolution requirements and supervisory expectations has generated **a gradual accumulation of prudential safeguards.**

While each individual measure may be justified when considered in isolation, the framework has proved considerably more effective at introducing additional safeguards than at periodically reassessing whether the cumulative stock of requirements remains coherent, proportionate and consistent with Europe's broader objectives of financial integration and competitiveness. The growing importance of institution-specific supervisory requirements, particularly under Pillar 2, illustrates this broader evolution. Although supervisory judgement is an essential component of effective supervision, its increasing role raises legitimate questions about transparency, predictability, international comparability and the cumulative impact of prudential requirements on banks' capacity to compete and allocate capital efficiently across borders. As a result, European banks continue to operate within a regulatory environment that remains largely shaped by national considerations despite the existence of common European institutions.

This apparent paradox reflects a deeper institutional asymmetry. Unlike the Eurosystem, which functions as a genuinely integrated federal system in which national central banks operate as constituent parts of a single institutional framework, the Banking Union has developed according to a different model. European supervisory and resolution authorities coexist with national competent authorities, national resolution authorities and national governments, which continue to bear significant responsibilities for financial stability, crisis management and, ultimately, potential fiscal consequences. Supervision and resolution have therefore been Europeanised without fully Europeanising the incentives under which public authorities continue to operate.

This institutional asymmetry lies at the heart of the Banking Union's defining challenge: the home-host dilemma. Home authorities naturally seek to supervise banking groups on a consolidated basis and to allow capital and liquidity to circulate efficiently within integrated groups. Host authorities, by contrast, remain responsible for protecting domestic financial stability, depositors and, ultimately, national public finances. As long as these responsibilities remain predominantly national, nationally oriented behaviour – including ring-fencing, solo prudential requirements and the gradual accumulation of additional prudential safeguards – remains a rational response to nationally borne risks. Individually, such safeguards often represent prudent supervisory responses. Collectively, however, they generate an accumulation of prudential requirements that progressively overburdens the regulatory framework, constrains the efficient management of cross-border banking groups and contributes to increasing regulatory complexity.

1. In response to the EU sovereign debt crisis of 2011-2012, the European Union launched the Banking Union project in 2012 with four foundational objectives: "to safeguard financial stability, deliver a safer banking sector, reduce the sovereign-bank nexus and protect taxpayers from the cost of bank failures." Originally conceived to break the vicious circle between sovereign and banking risk, the Banking Union sought to create "a more integrated and resilient financial system" and to enable "the emergence of truly pan-European banks, while also weakening the entrenched link between national fiscal positions and domestic banking sectors." The Banking Union currently covers 21 Eurozone countries and remains open to other EU Member States.

This diagnosis also changes the way the Banking Union should be understood. Its objective is not, by itself, to create a fully integrated European banking market. Such integration will continue to depend on broader progress in areas such as insolvency law, taxation, company law, consumer protection and economic convergence. Rather, the Banking Union should create the institutional conditions under which supervisors, resolution authorities and governments can progressively move away from nationally driven safeguards towards a more coherent, proportionate and integrated regulatory framework. Resolving the home-host dilemma would therefore not automatically eliminate market fragmentation. It would, however, fundamentally transform the regulatory environment in which European banks operate, making greater cross-border integration, prudential simplification, more effective implementation of international standards and stronger competitiveness institutionally and politically achievable.

The prolonged stalemate of the Banking Union should therefore not be interpreted simply as a failure of political will. It reflects the legitimate concerns of all stakeholders. Host Member States seek credible safeguards before accepting greater integration. Home authorities wish to preserve the integrity and efficiency of cross-border banking groups. Smaller, cooperative and mutual banks seek reassurance that deeper integration will continue to respect the diversity of European banking models and the principle of proportionality[2]. Banking groups themselves seek a framework that allows them to allocate capital and liquidity more efficiently while ensuring that prudential requirements remain coherent, proportionate and predictable over time. Lasting progress will therefore require more than completing the Banking Union's missing institutional building blocks. It will require a political compromise capable of changing the incentives of all stakeholders while strengthening both financial stability and mutual trust.

This perspective also changes the relationship between the Banking Union and Europe's broader banking agenda. Banking market integration, prudential simplification, proportionality, the implementation of international prudential standards, the competitiveness of European banks and the objectives of the Savings and Investments Union should no longer be regarded as separate policy agendas. They are all influenced by the same institutional incentives. None of these objectives can be fully achieved as long as the home-host dilemma continues to encourage the accumulation of prudential safeguards. Conversely, addressing that asymmetry would create the institutional conditions for a more coherent prudential framework and unlock meaningful progress across all these policy areas.

Against this background, this paper argues that the priority is not to pursue a succession of isolated legislative initiatives but to negotiate a comprehensive political package capable of restoring mutual confidence among Member States. Such a package would combine stronger common safeguards – including the completion of EDIS, a credible European liquidity framework in resolution, effective intragroup financial support mechanisms and appropriate governance reforms – with freedom for cross-border banking groups to manage capital and liquidity, together with a more coherent, proportionate and periodically reassessed prudential framework. These reforms should not be viewed as independent initiatives but as mutually reinforcing components of a single political compromise capable of reducing fragmentation, reversing the cumulative accumulation of prudential safeguards where no longer justified, and strengthening the competitiveness of the European banking sector.

Ultimately, the Banking Union should not be judged solely by whether its institutional architecture is formally complete. Nor should it be expected, on its own, to deliver a fully integrated European banking market. Its success should instead be measured by its ability to transform the regulatory environment in which European banks operate reducing the structural incentives for regulatory fragmentation, allowing prudential requirements to evolve in a more coherent and proportionate manner, facilitating the efficient management of cross-border banking groups and thereby strengthening the competitiveness of Europe's banking sector and its capacity to finance the continent's long-term economic ambitions.

1. The Banking Union: The Common Thread Across Europe's Banking Challenges

More than a decade after the establishment of the Banking Union, the European banking sector has become significantly more resilient. Banks are better capitalised, supervision and resolution have been profoundly strengthened, and financial stability has improved considerably. Yet European banks continue to face a number of major structural challenges that constrain their ability to finance the European economy and to compete internationally.

2. Proportionality means adapting the intensity and complexity of prudential and supervisory requirements to the size, risk profile, business model, complexity and degree of international activity of an institution, while preserving financial stability and the integrity of the Single Rulebook.

These challenges are generally analysed separately. They include the incomplete nature of the Banking Union, the persistent fragmentation of the European banking market, the growing complexity of the prudential, supervisory and resolution framework, and the need to ensure that the implementation of international prudential standards better reflects the specific characteristics of Europe's predominantly bank-based financial system.

This chapter argues that these four challenges are closely interconnected. Rather than constituting separate policy agendas, they reflect different dimensions of the same underlying issue: the incomplete integration of the European banking market. It also argues that the Banking Union has progressively become the common thread linking these challenges. Completing the Banking Union is therefore no longer simply an institutional objective; it has become an essential condition for reducing fragmentation, simplifying the regulatory framework, better adapting prudential standards to European specificities and, ultimately, strengthening the competitiveness and financing capacity of the European banking sector.

1.1 The four main challenges facing European banks

European banks currently face four major structural challenges that are often analysed separately but are closely interconnected. The first is the incomplete Banking Union. The second is the persistent fragmentation of banking activities along national lines. The third is the growing cumulative complexity of the prudential, supervisory and resolution framework. The fourth concerns the implementation of international prudential standards, which does not always sufficiently reflect the structural characteristics of Europe's predominantly bank-based financial system.

Taken together, these challenges increasingly determine the ability of European banks to compete internationally, to finance households and businesses efficiently, to support the Savings and Investments Union and, more broadly, to contribute to Europe's strategic autonomy. Their importance therefore extends well beyond the banking sector itself. They directly affect the competitiveness, resilience and long-term growth potential of the European economy.

1.1.1 An incomplete Banking Union

The three-pillar architecture: what exists, what is still missing

The conception of the Banking Union relied on three pillars: "the first one is supervision, the second one is resolution, and the third one – which is still a matter of discussion among Member States – is the creation of the European Deposit Insurance Scheme (EDIS)[3]."

What exists. The first pillar is the Single Supervisory Mechanism (SSM), fully established in November 2014, "a system of banking supervision comprising the ECB and national authorities, directly supervising the most significant banks of the Euro area[4]." The second pillar is the Single Resolution Mechanism (SRM), operational since January 2016, "which objective is to protect financial stability and the taxpayer by planning for and managing bank failures[5]." The Single Resolution Fund (SRF) is now fully built up at approximately EUR80 billion and is backstopped by the European Stability Mechanism (ESM). As D. Laboureix, Chair of the Single Resolution Board, recalls: "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 EUR80 bn, banks have built substantial loss-absorption buffers and, importantly, resolution in Europe has been shown to work across different Member States[6]."

What is missing. The third pillar, the European Deposit Insurance Scheme (EDIS), remains unrealised. As H. Ettl puts it: "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[7]."

Beyond EDIS, two additional elements are missing: the liquidity backstop to the Single Resolution Fund and the arrangements for liquidity in resolution.

Indeed, although the Single Resolution Fund provides a common mechanism to support bank resolution, the revised ESM Treaty – which would enable the common fiscal backstop to the Single Resolution Fund – has still not entered into force, as it remains subject to ratification by Italy.

Similarly, the Banking Union still lacks a comprehensive European framework for providing

3. *Ibid.*
4. *Ibid.*
5. *Ibid.*
6. D. Laboureix, "Internal barriers, resolvability and banking union integration", in Breaking the Banking Union deadlock, Eurofi Nicosia, Magazine 2026.
7. H. Ettl, "From achievements to next steps: completing the vision of the banking union", in Breaking the Banking Union Deadlock, Eurofi Nicosia, Magazine 2026, p. 144.

liquidity to banks in resolution. While there is broad agreement on the need for such arrangements, designing them remains challenging because of unresolved questions regarding the allocation of financial risks, the respective roles of central banks and fiscal authorities, the availability of eligible collateral and the appropriate institutional framework for providing temporary liquidity in resolution. These remaining gaps continue to weaken the credibility of the resolution framework and reinforce the incentives of national authorities to rely on domestic safeguards.

What does a true Banking Union really mean?

According to many banking professionals, there is a fundamental difference in perspective between the banking sector and public decision-makers regarding what the Banking Union is ultimately expected to deliver[8]. Public authorities have traditionally focused on completing its institutional architecture through the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the missing deposit insurance pillar. By contrast, banking practitioners argue that the objective should be to create the conditions for a more integrated European banking market by enabling cross-border banking groups to allocate capital and liquidity more efficiently across the Union and to operate on a genuinely pan-European basis. From this perspective, completing the institutional architecture, while necessary, would not in itself remove the remaining prudential, legal and economic barriers that continue to fragment the European banking market.

The success of the Banking Union should therefore not be assessed solely by the completion of its institutional architecture, but also by its ability to reduce unnecessary fragmentation, enable cross-border banking groups to operate more efficiently across the Union and deliver the economic benefits expected from a more integrated European banking market. Completing the Banking Union will therefore require not only the establishment of its missing third pillar (*see Chapter 4*), but also the removal of the remaining legal, prudential and operational barriers that continue to prevent banking groups from functioning as genuinely European institutions.

Only by combining institutional completion with effective economic integration will the Banking Union achieve its original purpose: enabling European banking groups to operate seamlessly across the Union while strengthening financial stability, improving the financing of the European economy and enhancing the quality and diversity of banking services available to households and businesses.

1.1.2 *A fragmented European banking market*

Despite the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism, the European banking market remains largely fragmented along national lines. Banking groups continue to organise much of their capital, liquidity and business activities at national level, cross-border consolidation remains limited, and the concentration that has taken place has occurred primarily within national markets rather than across borders.

This fragmentation stems from two distinct but mutually reinforcing sources. The first is prudential fragmentation, resulting from domestic ring-fencing practices. The second is the structural fragmentation, reflecting the absence of harmonisation of the legal, fiscal and consumer protection frameworks governing retail banking markets.

The first driver of fragmentation is ring-fencing. Ring-fencing materialises when host authorities take regulatory and supervisory action in order to secure resources within their own jurisdictions. National ring-fencing policies[9] are applied to capital, liquidity, the output floor, leverage ratios and MREL liabilities Although the SSM has centralised prudential supervision for significant institutions, national authorities continue to exercise important supervisory, macroprudential and crisis-management responsibilities. Consequently, the distinction between home and host interests – and the influence of national considerations – has not disappeared and continues to shape supervisory, prudential and resolution practices across the Banking Union. In such a context, subsidiaries of cross-border groups operating in the banking union are mainly governed by national rules.

This ring-fencing is both a consequence of the incompleteness of the Banking Union and an obstacle to its deepening: as long as Member States do not fully trust the common mechanisms of supervision, resolution and deposit insurance, they will continue to protect their national interests, holding back the realisation of a genuine single banking market. Banks must furthermore deal with a patchwork of national authorities' different views on macroprudential rules and conduct[10].

8. D. Cahen; The euro is in danger, Odile Jacob, September 2025.
9. Ring-fencing policies occur when host countries take regulatory and supervisory action in order to secure bank financial resources within their own jurisdictions.
10. D. Cahen and A. Valroff, "Banking Union: what way out of the current deadlock?", Eurofi Regulatory Update, February 2024, p. 107.

These gaps are not merely technical; they reflect a deeper political deadlock. Some Member States are reluctant to share financial risks without further progress on risk reduction; others argue that greater integration is impossible without concrete mutual support mechanisms. This persistent tension has led to years of stalemate, weakening both the credibility and the effectiveness of the Banking Union.

The second driver of fragmentation is the absence of harmonisation of the non-prudential framework, which fragments the retail market even where no supervisor intervenes. Banking products themselves remain largely national: banks in Spain, Italy and Germany predominantly offer variable-rate mortgages and are therefore directly affected by rising ECB rates, whereas French banks mostly offer fixed rates; markets differ in consumer preferences for mortgage types, in legal requirements on consumer protection and collateral enforcement, and in national credit reference schemes[11]. As the European Commission explains, "differences in taxation, borrower protection, or anti money laundering provisions at Member State level result in bank-specific entry and adjustment costs that discourage cross-border banking"[12], and there is no single EU-wide loan registry as in the United States. These differences prevent banks from sharing processes and systems across borders and deny them scale advantages when entering new European markets.

As P. Montagner observes, "consumer protection frameworks, insolvency regimes, tax systems, labour regulations and banking product structures differ significantly across member states. As a result, retail banking remains fundamentally local because the underlying legal and economic infrastructure is still national"; such differences also prevent banks from leveraging their European presence efficiently[13]. The distance to a single banking market is thus considerable, and the national practice of ring-fencing illustrates the very lack of cooperation that stands in the way of a True Banking Union, making progress towards the single market harder still. Ring-fencing and the absence of harmonisation together produce the fragmentation of the EU banking landscape; the cost of the first, and the remedies to both, are examined in the chapters that follow.

Consequently, the level of cross-border deposits and loans remains negligible, a little above 1%, a figure that has barely moved since the single supervision was established in 2014; direct cross-border loans to non-financial corporations, at 10% in May 2023, have edged up to about 16% today, an evolution that remains extremely slow for a banking union[14]. Savings collected in one Member State are still overwhelmingly intermediated in that Member State: for households and firms, the Banking Union has not yet changed the geography of banking.

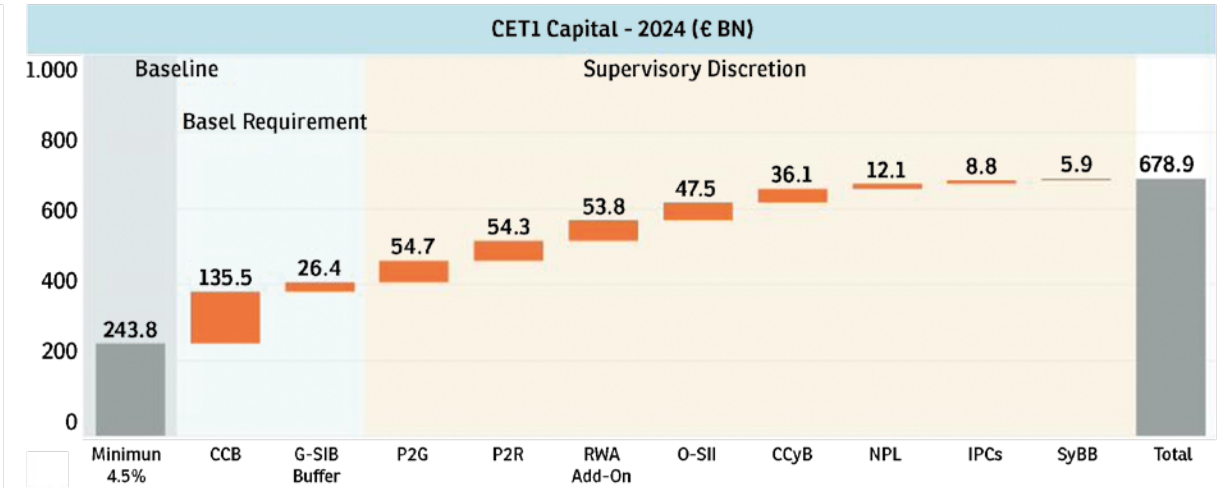
1.1.3 An increasingly complex prudential and supervisory framework

The fragmentation of the European banking market is not the only source of inefficiency in the EU banking sector. It is compounded by a second, closely related challenge: the cumulative complexity of the prudential, supervisory and resolution framework itself. While each regulatory reform introduced over the past decade has pursued legitimate public policy objectives and contributed to strengthening financial stability, their successive accumulation has progressively made the overall framework more difficult to understand, implement and supervise. Today, complexity stems less from individual prudential rules than from their cumulative interaction.

This growing complexity is no longer only an academic or regulatory concern. In recent years, several leaders of Europe's largest banking groups have publicly questioned the evolution of the EU supervisory framework, particularly the expanding role of institution-specific Pillar 2 requirements. While fully recognising the importance of supervisory judgement, they argue that Pillar 2 requirements have become less transparent, less predictable for both banks and investors and increasingly disconnected from internationally agreed prudential standards. They also point out that, unlike Pillar 1 requirements, **Pillar 2 measures tend to accumulate over time and are only rarely reduced when banks' capital positions, governance or risk profiles improve,** creating the perception of a one-way prudential ratchet. This debate has also revived comparisons with the United States, where supervisory judgement remains an essential tool but Pillar 2-type capital requirements play a significantly more limited role within the overall prudential framework. Some banking leaders therefore question whether the current balance between harmonised regulation and institution-specific supervisory requirements remains appropriate for Europe.

11. D. Cahen and A. Valroff, "Banking Union: what way out of the current deadlock?", op. cit., p. 107; D. Cahen and A. Valroff, "Banking fragmentation issues in the EU", op. cit., p. 16.
12. European Commission, quoted in D. Cahen and A. Valroff, "Banking Union: what way out of the current deadlock?", op. cit., p. 107.
13. P. Montagner, speech at the SSM Senior Forum organised by A&O Shearman, Kronberg im Taunus, 24 June 2026.
14. *Ibid.*, p. 14-15 (cross-border loans and deposits of households a little above 1%; direct cross-border loans to non-financial corporations at 10% in May 2023); European Commission, draft Communication on the competitiveness of the EU banking sector, 2026, citing ECB data (approximately 16% for non-financial corporations).

CHART 1.
Incremental impact on required CET1 capital from Basel and supervisory items, 2024 (EUR bn)



Source: GBI and GARP, EBF Capital Demand Study, 2025 (15 large EU banks).

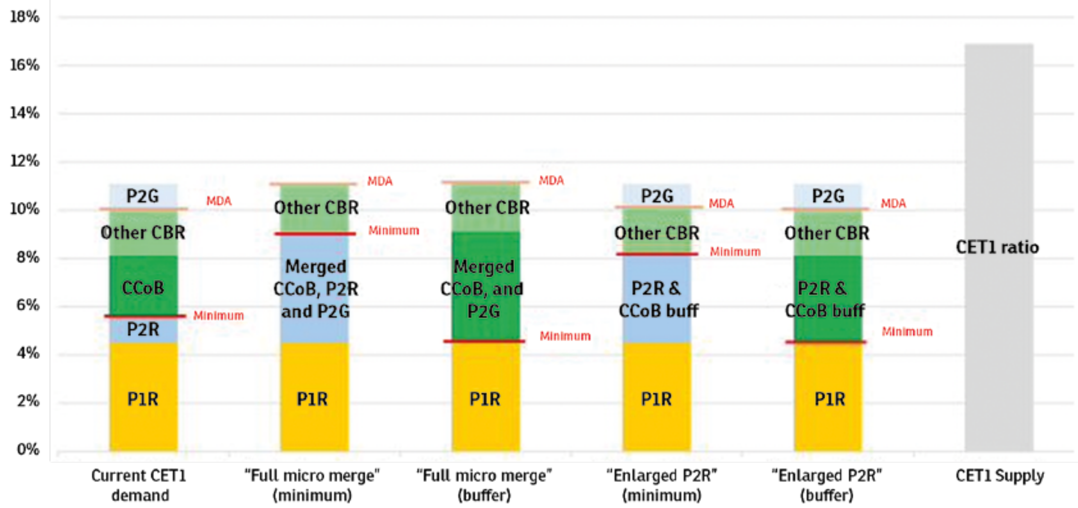
This evolution is particularly noteworthy because, despite the significant strengthening of banks' capital positions and profitability since the creation of the Banking Union, institution-specific supervisory requirements have not followed the same downward trajectory. This has fuelled the perception that Pillar 2 requirements increasingly operate as a cumulative supervisory overlay rather than as a genuinely risk-sensitive instrument. Beyond its prudential implications, this evolution also has consequences for market valuations. Because Pillar 2 requirements are determined through the annual supervisory review process and depend on supervisory judgement, investors cannot anticipate with the same degree of certainty the capital requirements that will apply in future years. This reduces the predictability of banks' future capital positions, distributable profits and capital management policies. By contrast, Pillar 1 requirements are largely rule-based and therefore more transparent and predictable. The comparatively greater reliance on supervisory judgement in the European framework may therefore contribute to a higher degree of regulatory uncertainty than in jurisdictions such as the United States, where institution-specific supervisory capital requirements play a more limited role.

This complexity has two complementary dimensions. The first is vertical, reflecting the progressive layering of prudential requirements. The CET1 requirement alone combines the Pillar 1 minimum requirement, institution-specific Pillar 2 Requirements (P2R), the capital conservation buffer, G-SII or O-SII buffers, the systemic risk buffer and the countercyclical capital buffer, with Pillar 2 Guidance (P2G) expected on top. Depending on their profile, institutions may simultaneously face as many as ten distinct regulatory constraints, including the risk-based capital stack, the leverage ratio, TLAC, MREL and subordinated MREL requirements. These layers are established for different purposes, by different authorities and with different legal consequences in the event of non-compliance. As a result, the same underlying risks may be addressed several times through different prudential instruments.

This issue is illustrated by the interaction between supervisory initiatives and Pillar 2 requirements. Following the ECB's Targeted Review of Internal Models (TRIM), changes to banks' internal models resulted in higher risk-weighted assets and therefore stronger Pillar 1 capital requirements for a number of institutions. However, market participants have questioned whether the corresponding Pillar 2 requirements were always reassessed to fully reflect this strengthened Pillar 1 coverage. Whether or not this was justified in individual cases, the example illustrates a broader governance challenge: when prudential requirements evolve through different regulatory and supervisory channels, there should be a systematic mechanism to assess whether the same underlying risk continues to be addressed more than once. **Yet no authority today has an explicit mandate to assess the cumulative interaction of the overall framework, to determine whether successive prudential measures have rendered earlier overlays redundant, or to ensure that unnecessary overlaps are systematically identified and removed.**

The cumulative effect of this layering is measurable. For the fifteen large EU banking groups participating in a recent industry benchmarking study, the minimum CET1 requirement of 4.5% represented

CHART 2. Average CET1 stack in the EU currently and impact of merged approaches



Source: Supervisory reporting. Size-weighted averages of EU banking sector (2689 institutions at highest level of consolidation in EU/EEA). Layers in green are buffer requirements subject to MDA. "Other CBR" refers to O-SII/G-II CCyB and SyRB buffers which are assumed to remain unchanged. The CET ratio is after deduction of parts of T1 and TC minima not met by AT1/T2

EUR243.8 billion of capital in 2024. Basel capital buffers increased this requirement by 66%, to EUR405.7 billion, while supervisory and discretionary adjustments increased it by a further 67%, bringing the overall CET1 requirement to EUR678.9 billion. Particularly striking is the growth of the discretionary component, which increased from EUR171 billion in 2021 to EUR273 billion in 2024, whereas the Basel minimum requirements remained broadly unchanged.

The second dimension of complexity is horizontal, reflecting the multiplicity of institutions involved in designing and calibrating the framework. The SSM and the national competent authorities determine Pillar 2 Requirements and Guidance; national designated authorities calibrate macroprudential buffers; the Single Resolution Board and national resolution authorities determine MREL; the European Banking Authority and the European Systemic Risk Board develop methodologies and technical standards; while the European co-legislators regularly add new legislative requirements, often accompanied by national options and discretions. Each authority understandably focuses on its own mandate and calibrates its own layer of the framework.

However, no institution is currently responsible for maintaining a holistic view of the cumulative interaction between the microprudential, macroprudential and resolution frameworks. As the EBA itself has observed, the European framework has become considerably more complex than those of other major jurisdictions, notably the United States, Switzerland and Japan, where several EU-specific components – such as P2R, P2G, the systemic risk buffer and the generalised use of MREL – either do not exist or play a much more limited role.

These two forms of complexity are not independent; they reinforce one another. A significant part of today's cumulative complexity results directly from the incomplete nature of the Banking Union itself. National discretions, divergent macroprudential requirements, home-host considerations and the continued application of prudential and resolution requirements at solo or sub-consolidated level inevitably generate additional layers of capital, liquidity, reporting and supervisory obligations. Fragmentation therefore does not simply coexist with complexity; it actively contributes to creating it. As discussed in the previous chapter, the persistence of the home-host dilemma encourages ring-fencing practices and nationally based prudential safeguards, which in turn increase the number of requirements applicable to cross-border banking groups.

At the same time, complexity also reflects broader governance issues. Successive reforms have strengthened individual components of the prudential framework without always considering their cumulative interaction. While each authority is responsible for safeguarding financial stability within its own mandate, no institution currently has explicit responsibility for assessing whether the overall framework remains coherent, proportionate and free from unnecessary overlaps. The challenge is therefore no longer simply to simplify individual prudential requirements, but to ensure that the prudential, macroprudential and resolution frameworks operate as a coherent whole.

Meaningful simplification cannot therefore be reduced to removing individual rules or lowering prudential standards. Rather, it requires improving the overall governance of the regulatory framework, strengthening proportionality, reducing unnecessary overlaps and addressing the structural sources of complexity, including the fragmentation of the Banking Union itself. Completing the Banking Union would not, by itself, eliminate all regulatory complexity. However, by reducing national discretions, limiting ring-fencing practices and allowing a more genuinely group-based application of prudential and resolution requirements, it could significantly contribute to a simpler, more coherent and more proportionate regulatory framework. The remaining sources of complexity – notably those stemming from the coexistence of multiple European and national authorities and from the cumulative layering of prudential requirements – would nevertheless require additional governance reforms and a more holistic approach to future regulatory design.

The growing complexity of the banking prudential framework should also be assessed against the broader evolution of the financial system. Over the past decade, the prolonged period of exceptionally low interest rates encouraged a significant expansion of non-bank financial intermediaries (NBFIs), as investors increasingly searched for yield outside the banking sector. This has diversified sources of finance and strengthened market-based intermediation, but it has also shifted an increasing share of financial activity towards entities operating under prudential frameworks that differ substantially from those applicable to banks. This evolution suggests that prudential policy should increasingly adopt a system-wide perspective. Strengthening the resilience of banks remains essential, but the cumulative calibration of banking requirements should also be assessed in light of developments across the wider financial system, so as to preserve both financial stability and the competitiveness of Europe's bank-based financing model.

1.1.4 An implementation of Basel standards that does not always sufficiently reflect Europe's bank-based financial system

More than fifteen years after the global financial crisis, Basel III remains the cornerstone of the international prudential framework for banks.

The Communication of the EU Commission recognises that international prudential standards may not always sufficiently reflect the structural characteristics of the European financial system and that their implementation should better take account of EU specificities. Unlike the US, where capital markets play the dominant role in financing the economy, the EU remains predominantly bank-based, with a much higher share of unrated corporates, SMEs, residential mortgage lending, infrastructure and project finance, and trade finance.

European banks therefore play a much larger role in financing households, SMEs, unrated corporates and infrastructure projects, while also remaining key intermediaries in supporting the development of European capital markets. This raises the question of whether prudential standards calibrated primarily around globally active banking systems and market-based financing adequately capture the characteristics and financing needs of the European economy.

Where international prudential standards do not adequately reflect these structural differences, they may unintentionally constrain the capacity of European banks to finance the sectors that are most important for the European economy. Higher capital requirements on activities such as lending to unrated corporates, SMEs, residential mortgages, infrastructure or project finance may increase the cost of financing these sectors or reduce banks' incentives to develop them. At the same time, European banks compete internationally with institutions operating in financial systems that rely much more heavily on capital markets and whose business models are therefore less affected by these calibrations. Ensuring that the implementation of international standards appropriately reflects the specific characteristics of the European financial system is therefore not only a question of regulatory consistency but also of maintaining a level playing field and preserving the international competitiveness of European banks.

More fundamentally, the issue goes beyond the competitiveness of the banking sector itself. In a financial system where banks remain the principal providers of credit to households and businesses, the calibration of prudential requirements directly influences Europe's capacity to finance investment, innovation, the green and digital transitions, defence and strategic autonomy. Better reflecting the specific characteristics of the European financial system in the implementation of international prudential standards is therefore also a question of supporting the competitiveness and long-term growth of the European economy.

Basel III should not, be viewed solely as a constraint imposed on Europe's bank-based model. It continues to function as a common international floor from which national authorities and supervisors may depart in either direction. The relevant question is therefore not only whether the Basel framework should better reflect European specificities, but also how much of today's cumulative prudential burden originates from

Basel itself, as opposed to decisions taken within the European Union's own multi-layered prudential architecture. From this perspective, better reflecting Europe's bank-based financial system cannot be achieved solely through adjustments to Basel III. It also requires addressing the national and supervisory sources of divergence that continue to arise within the EU's prudential framework, not least because the Banking Union remains institutionally incomplete.

1.2 Why the Banking Union has become the common thread

The four challenges presented above are frequently discussed as distinct policy issues. Yet they increasingly appear to be different manifestations of the same underlying problem: the incomplete integration of the European banking market and the persistent lack of mutual trust between Member States.

This section argues that the Banking Union has progressively become the common thread linking Europe's wider banking reform agenda. The improvement of the efficiency of the Banking Union's framework and its completion is no longer simply one objective among others. It has become an enabling condition for addressing banking market fragmentation, reducing unnecessary regulatory complexity, better reflecting European specificities in the implementation of international prudential standards and, ultimately, strengthening the competitiveness and financing capacity of the European banking sector.

1.2.1 The competitiveness imperative

More than a decade after its launch, the completion of the Banking Union has acquired renewed urgency. Originally conceived as a response to the sovereign debt crisis and as a means of strengthening financial stability, it has progressively become a central element of Europe's broader competitiveness agenda. The debate is no longer confined to banking supervision or crisis management. It now affects Europe's capacity to build internationally competitive banking groups capable of financing investment, innovation, the green and digital transitions, defence and strategic autonomy. This evolution also reflects changes in the international environment. European banks now compete with institutions operating in much larger and more integrated domestic markets, particularly in the United States, where the combination of a genuine single banking market, deeper capital markets and recent deregulatory initiatives provide significant competitive advantages.

This renewed focus on competitiveness reflects a changing international environment. Although European banks have become significantly more resilient since the global financial crisis, they continue to lag behind their main international competitors in terms of scale and market valuation. As of May 2026, no Euro area bank ranked among the world's ten largest banks by market capitalisation, whereas four of the top ten were US institutions, led by JP Morgan Chase with a market capitalisation of approximately USD811 billion. Over the past decade, US banks have also gained around 10 percentage points of global market share at the expense of European banks, including both EU and UK/Swiss institutions. This performance reflects not only differences in business models but also the advantages of operating within a vast, deep and genuinely integrated domestic financial market supported by a single legal framework. Recent deregulatory initiatives in the United States may further reinforce these competitive advantages.

Overall, the competitiveness of the EU banking sector depends on the strength of the European economy itself, including its growth, productivity and investment performance. Macroeconomic conditions further shape the divergence between the performance of US and EU banks. Europe's growth outlook remains structurally weaker than that of the United States, with lower productivity growth and fewer large-scale, high-growth investment opportunities. Interest-rate dynamics, including differences in pass-through mechanisms and the prevalence of variable – versus fixed-rate lending models, also influence profitability patterns and the distribution of "profit pools" across Member States.

These structural features may impose limits on scale and returns that regulatory reform alone cannot overcome. However, a genuine Banking Union would improve the competitiveness of EU banks (*as explained in Chapter 2*).

1.2.2 The interdependence between the Banking Union and Europe's other banking reforms

At first sight, the major challenges currently facing European banks may appear largely independent. Completing the Banking Union, reducing the fragmentation of the European banking market, simplifying the prudential and supervisory framework, and ensuring that the implementation of international prudential standards adequately reflects the specific characteristics of Europe's predominantly bank-based financial system are generally discussed as separate policy agendas.

These challenges are closely interconnected. They all ultimately depend on the same underlying political condition: a greater willingness of Member States to cooperate, to share risks and to place greater trust in common European institutions.

The incompleteness of the Banking Union illustrates this relationship most clearly. As long as Member States remain reluctant to mutualise certain financial risks, host authorities will continue to rely on national safeguards and ring-fencing practices, preventing banking groups from operating efficiently across borders. The resulting fragmentation not only limits the emergence of a more integrated European banking market but also contributes to the growing complexity of the prudential, supervisory and resolution framework by encouraging the multiplication of national discretions, solo-level requirements and overlapping prudential safeguards.

The same logic extends beyond the Banking Union itself. A meaningful simplification of the European prudential framework requires supervisors and public authorities to be confident that reducing unnecessary overlaps or granting greater flexibility at group level will not weaken financial stability. Similarly, adapting the implementation of international prudential standards to better reflect the characteristics of Europe's bank-based financial system requires Member States to reach a common assessment of risks and to accept that European specificities can legitimately be taken into account within the Basel framework. Without sufficient political trust, governments are unlikely to support reforms that could be perceived domestically as weakening prudential safeguards or favouring banks.

These four structural challenges therefore ultimately converge towards a common economic outcome: the international competitiveness of the European banking sector. Banking fragmentation reduces economies of scale and limits the emergence of pan-European banking groups; excessive regulatory complexity increases compliance costs and constrains managerial resources; and an implementation of international prudential standards that does not always sufficiently reflect Europe's bank-based financial system may weaken the capacity of European banks to finance the economy while competing on equal terms with institutions operating in other major jurisdictions. Together, these factors affect not only the efficiency and profitability of European banks but also their ability to support investment, innovation and long-term growth across the European economy.

The Banking Union has therefore become much more than one reform among many. It has become the common thread linking Europe's wider banking agenda. Completing the Banking Union is no longer simply about finalising its institutional architecture. It has become a prerequisite for reducing fragmentation, simplifying the prudential framework, enabling a better adaptation of international prudential standards to European specificities and, ultimately, strengthening the competitiveness, resilience and financing capacity of the European banking sector.

The central question is therefore no longer simply how to complete the Banking Union itself. It is whether Europe can realistically achieve any of these broader objectives without first restoring the mutual trust and political cooperation between Member States that remain the essential preconditions for deeper banking integration.

2. The Benefits of the Banking Union: Realised Achievements and Potential Gains

The Banking Union is often assessed through the reforms that remain incomplete. This chapter adopts a different perspective. It first examines what the Banking Union has already delivered before analysing the economic, regulatory and strategic benefits that remain unrealised because the project itself remains unfinished. A fundamental distinction must therefore be drawn. Some benefits are already observable and directly attributable to the institutional architecture established since 2014. Others remain potential because they depend on the completion of a True Banking Union. The gap between the two represents the opportunity cost of the current institutional settlement and provides the rationale for the comprehensive political package proposed in Chapter IV.

As J. Mejino-López and N. Véron observe in a study for the European Parliament, capital and loss-absorption requirements “are very complex in the EU and particularly in the Euro area, primarily because of the awkward coexistence of national and European decision-makers beyond the SSM, not least in the macro-prudential area[15]."

2.1 Benefits already delivered by the Banking Union

More than a decade after its establishment, the Banking Union has already delivered substantial and largely undisputed benefits. Although its architecture remains incomplete, it has profoundly transformed the governance of banking supervision

15. J. Mejino-López and N. Véron, “EU Banking Sector & Competitiveness: Framing the Policy Debate", study requested by the ECON Committee of the European Parliament, PE 764.188, May 2025, executive summary.

and crisis management in the Euro area and has significantly strengthened the resilience of the European banking sector. These achievements constitute the institutional and prudential foundations upon which any further deepening of the Banking Union must build.

2.1.1 Institutional achievements

The first tangible achievement of the Banking Union has been the establishment of a genuinely European framework for banking supervision and crisis management. The creation of the Single Supervisory Mechanism (SSM) in 2014 and the Single Resolution Mechanism (SRM) in 2016 represented an unprecedented transfer of supervisory and resolution responsibilities from the national to the European level, constituting one of the most significant advances in European economic integration since the creation of the euro.

Today, 110 significant banking groups are directly supervised according to common prudential standards under the responsibility of the European Central Bank[16], while bank failures are managed through a common European resolution framework supported by the Single Resolution Fund and its common public backstop. These reforms have substantially reduced supervisory fragmentation, strengthened consistency in supervisory and resolution practices and reinforced confidence in the stability of the European banking system.

As Dominique Laboureix, Chair of the Single Resolution Board, has underlined, Europe has now built "strong common supervision and a solid resolution framework."[17] Resolution plans have been prepared for all major banking groups, banks have accumulated substantial loss-absorbing capacity, the Single Resolution Fund has reached approximately EUR80 billion and the European resolution framework has demonstrated its operational credibility across several Member States. These institutional achievements are no longer reversible; they constitute the bedrock upon which any assessment of the Banking Union's remaining shortcomings must be built.

2.1.2 Greater resilience and financial stability

The second major achievement of the Banking Union has been the remarkable strengthening of the resilience of the European banking sector. Since the establishment of the SSM, European banks have substantially improved their capital, liquidity and governance positions while significantly reducing legacy vulnerabilities inherited from the global financial crisis and the sovereign debt crisis.

Recent data published by the European Banking Authority confirm that European banks continue to operate from a position of considerable strength despite an increasingly uncertain geopolitical and macro-financial environment. Capital ratios remain close to historical highs, liquidity buffers remain well above regulatory minima and profitability has remained resilient. These figures are more than prudential indicators; they describe a banking sector that is structurally more resilient than at any point since the Banking Union was established.

As Claudia Buch, Chair of the ECB's Supervisory Board, has emphasised, this resilience is both financial and operational[18]. It reflects not only banks' strengthened capacity to absorb shocks through higher capital and liquidity buffers but also their increasing ability to withstand cyber threats, operational disruptions, sanctions-related risks and financial crime.

Most importantly, this resilience has been demonstrated in practice. The European banking system successfully weathered the Covid-19 pandemic, the energy crisis following Russia's invasion of Ukraine and the banking turmoil experienced in the United States and Switzerland in 2023 without experiencing systemic disruption within the Euro area. Legacy vulnerabilities have also been substantially reduced. Greece, for example, has reduced its non-performing exposure ratio from almost 50% in 2016 to just above 3% today[19]. These developments illustrate the extent to which the Banking Union has contributed to restore confidence in the European banking sector and strengthening financial stability.

These achievements should not be underestimated. They demonstrate that the Banking Union has largely fulfilled its original objective of strengthening financial stability and reinforcing confidence in the European banking system. Yet they also highlight the limits of what has been achieved so far. Most of the economic, regulatory and strategic benefits originally associated with the Banking Union depend on a degree of market integration that the current institutional framework has not yet delivered. These unrealised benefits represent both the opportunity cost of an unfinished Banking Union and the rationale for completing it.

16. The ECB directly supervises around 110 significant banking groups, representing approximately 82% of total banking assets in the Euro area. Around 1,900 less significant institutions remain under the day-to-day supervision of national competent authorities, under the oversight of the ECB.
17. D. Laboureix, "Internal barriers, resolvability and banking union integration", in Breaking the Banking Union Deadlock, Eurofi Nicosia, Magazine 2026, p. 145.
18. ECB Annual Report on supervisory activities 2025, March 2026, as presented by C. Buch, Chair of the Supervisory Board of the ECB.
19. Y. Stournaras, "Banking and financial outlook for Greece and Europe in 2026", speech, February 2026.

2.2 The unrealised benefits of a true Banking Union

2.2.1 Economic benefits

A True Banking Union generates economic benefits through three mutually reinforcing channels: better risk sharing, better allocation of capital, more integrated banking markets. Together these three mechanisms strengthen the SIU and European competitiveness.

A better functioning Economic and Monetary Union through stronger private risk sharing

One of the most important economic justifications for completing the Banking Union lies in its contribution to the functioning of Economic and Monetary Union itself. In a monetary union, where fiscal stabilisation remains largely national, private risk sharing through integrated banking and capital markets constitutes the principal mechanism for absorbing asymmetric economic shocks.

This objective was already central to the original rationale of the Banking Union. As J.-M. Andrès, D. Cahen and M. Truchet explain[20]: "The Banking Union should contribute to a stronger and better functioning Economic and Monetary Union by improving the transmission of monetary policy, fostering a more efficient allocation of financial resources across the Euro area and strengthening private risk sharing in a monetary union that lacks a genuine supranational fiscal stabilisation capacity."

The comparison with the United States illustrates the scale of the challenge. Around 80% of asymmetric shocks are absorbed through integrated banking and capital markets in the United States, whereas only around 20% are smoothed through private financial channels in the European Union, the remainder being absorbed mainly through national fiscal stabilisers. Despite the progress achieved since the creation of the Banking Union, empirical evidence continues to show that a large proportion of regional shocks in the Euro area remains unsmoothed, illustrating the persistence of financial fragmentation and the limited capacity of private financial markets to absorb country-specific shocks.

The economic mechanism is straightforward. As as D. Cahen and A. Valroff explain, banking integration complements capital market integration by allowing cross-border banking groups to delink local credit supply from local economic conditions[21]. Losses incurred in one Member State can be compensated by profits generated elsewhere in the Union, allowing banks to continue lending to sound borrowers even during local downturns. By contrast, nationally fragmented banking systems tend to amplify economic shocks because domestic banks frequently reduce lending precisely when financing needs are greatest.

Progress towards deeper and more integrated securitisation markets in Europe would facilitate the transfer and diversification of credit risks across Member States, thereby strengthening the ability of the European financial system to absorb asymmetric shocks. At the same time, by transferring part of the credit risk to capital market investors, securitisation could release regulatory capital and create additional lending capacity for banks, supporting the financing of households, businesses and the green and digital transitions. Banking Union and the Savings and Investments Union should therefore be seen as mutually reinforcing components of a more resilient and integrated European financial system (*see also 2.23*).

A True Banking Union would therefore considerably strengthen one of the principal adjustment mechanisms of Economic and Monetary Union. By increasing private risk sharing, it would reduce the dependence of Member States on public intervention during crises while weakening the bank-sovereign nexus that has historically amplified financial instability in the Euro area.

A more efficient allocation of capital, liquidity and savings across Europe

The second major economic benefit concerns the allocation of financial resources across the European economy.

Today, despite more than ten years of Banking Union, Europe's banking market remains remarkably fragmented. Cross-border household deposits and lending still represent little more than 1% of total banking activity within the Euro area, while direct cross-border lending to non-financial corporations has increased only gradually, from around 10% in 2023 to approximately 16% today. Savings collected in one Member State continue overwhelmingly to finance investment in that same Member State.

These figures reflect the persistence of national ring-fencing practices. Cross-border banking groups continue to operate largely as collections of national subsidiaries rather than as genuinely integrated European banking groups. Capital, liquidity, MREL resources, leverage constraints and increasingly the Basel output floor continue to be managed at solo or sub-consolidated level under the influence of host authorities.

20. J.M. Andrès, D. Cahen & M. Truchet, "Optimising the Banking Union", Eurofi Regulatory Update, April 2018.
21. D. Cahen (with A. Valroff), "Banking fragmentation issues in the EU", Eurofi Regulatory Update, Santiago, September 2023, p. 38.

The economic cost of this fragmentation is substantial. Resources that could otherwise finance investment remain trapped within individual legal entities. Several ECB analyses estimate that tens of billions of euros of capital and liquidity remain immobilised within national subsidiaries because of prudential constraints and ring-fencing practices. Under an appropriate framework combining legally enforceable intragroup support, effective group supervision and credible safeguards for host jurisdictions, a significant proportion of these resources could be redeployed towards productive investment across the Union.

Fernando Restoy summarises the problem particularly well[22]: "In an environment where technology amplifies economies of scale in banking, insufficient consolidation hampers efficiency, profitability and the ability of European banks to compete globally. Ring-fencing prevents banking groups from realising efficiency gains through centralised management of capital and liquidity."

The benefits extend well beyond banking groups themselves. A more integrated Banking Union would improve the allocation of Europe's abundant savings by allowing surplus savings accumulated in one Member State to finance productive investment opportunities elsewhere in the Union.

Evidence provided by several large European cross-border banking groups confirms that these costs are not merely theoretical. Some institutions report having abandoned local expansion projects or acquisition opportunities because the additional capital and liquidity requirements imposed by host authorities rendered such investments economically unattractive.

Towards a more integrated banking market supporting Europe's competitiveness

The economic benefits of a True Banking Union would extend far beyond banking groups themselves. By reducing prudential fragmentation and facilitating cross-border integration, it would promote greater competition, stronger economies of scale and more efficient banking intermediation throughout the Union. Larger and better integrated banking groups would be better positioned to finance households, SMEs, infrastructure projects, innovation, defence and the green and digital transitions.

A completed Banking Union would not, by itself, establish a genuine Single Market for banking. Important non-prudential barriers – including differences in insolvency law, taxation, consumer protection, anti-money laundering frameworks and mortgage legislation – would continue to fragment retail banking markets but significant progress towards a genuine Banking Union would contribute to a virtuous dynamic toward this goal.

The Banking Union also constitutes a necessary foundation for the Savings and Investments Union. Without sufficiently integrated European banking groups capable of operating efficiently across borders, Europe's considerable savings will continue to be intermediated predominantly within national markets or increasingly by non-European financial institutions.

The strategic implications are significant. Today, European banks account for less than half of investment banking activities carried out in Europe, while the growing role of non-European intermediaries exposes the European economy to the risk of capital outflows during periods of market stress. Strengthening genuinely European banking groups would therefore contribute not only to financial integration but also to Europe's strategic autonomy and long-term economic resilience.

Ultimately, the economic benefits of a True Banking Union converge towards a single objective: improving the capacity of the European financial system to allocate savings more efficiently, finance productive investment wherever it is most needed and support sustainable long-term growth across the Union. These benefits would extend well beyond the banking sector itself. They would strengthen Economic and Monetary Union, reinforce the Savings and Investments Union, improve Europe's strategic autonomy and contribute directly to the competitiveness of the European economy.

2.2.2 Regulatory benefits

A simpler and more coherent regulatory and supervisory framework

One of the least recognised but potentially most significant benefits of a True Banking Union would be a simpler, more coherent and more proportionate EU regulatory and supervisory framework.

As discussed in Chapter I, the current framework has become increasingly complex through the cumulative interaction of the microprudential, macroprudential and resolution regimes. Institutions must simultaneously comply with multiple layers of capital requirements, leverage constraints, MREL, liquidity requirements, the Basel output floor and various distribution restrictions. These requirements are calibrated by different European and national authorities, often independently of one another, and are further complicated by numerous national options and discretions.

22. F. Restoy, "The role of the banking union in the current geopolitical context", in Breaking the Banking Union Deadlock, Eurofi Nicosia, Magazine 2026, p. 146.

However, an important part of this complexity is not inherent to prudential regulation itself. It reflects the incomplete nature of the Banking Union. As long as Member States remain reluctant to rely fully on European supervision and common crisis-management arrangements, national authorities have strong incentives to maintain additional safeguards at solo or sub-consolidated level through ring-fencing practices, national discretions and overlapping prudential requirements.

Completing the Banking Union would therefore simplify the framework not through deregulation but through integration. A greater reliance on consolidated supervision, legally enforceable intragroup support mechanisms and freer movements of capital and liquidity within cross-border banking groups would reduce the need for many of today's duplicated prudential constraints. Greater trust between Member States would also allow a gradual reduction in national discretions and facilitate a more coherent articulation between the microprudential, macroprudential and resolution frameworks.

This would also create the political conditions for a more proportionate prudential regime. A comprehensive political agreement on the completion of the Banking Union could combine deeper integration for large cross-border banking groups with a more proportionate regulatory framework for domestic, cooperative, mutualist and smaller institutions, while preserving key national specificities such as Institutional Protection Schemes. In this respect, integration and proportionality should not be regarded as competing objectives but as two complementary components of the same political package.

Such simplification should not, however, be confused with a weakening of prudential standards. As Claudia Buch has repeatedly stressed, any simplification of the regulatory framework must preserve the resilience of the European banking system. The objective is therefore not less regulation, but better regulation: a framework that is simpler, more coherent, more proportionate and less fragmented while maintaining a high level of financial stability.

The remaining sources of complexity – particularly those resulting from the cumulative interaction between the microprudential, macroprudential and resolution frameworks – would nevertheless require additional governance reforms. Completing the Banking Union would therefore not eliminate every aspect of regulatory complexity, but it would remove one of its principal structural causes and create the conditions for a more holistic and coherent approach to prudential regulation.

2.2.3 Strategic benefits

A Necessary Foundation for the Savings and Investments Union

The completion of the Banking Union has become a strategic priority not only for the banking sector itself but also for the success of the European Union's broader Savings and Investments Union (SIU).

A fragmented banking market inevitably fragments banking groups. Conversely, a True Banking Union would create the conditions for the emergence of genuinely European banking groups capable of competing globally, accompanying European companies throughout the Single Market and internationally, and financing the large-scale investments required for Europe's green and digital transitions, defence and strategic autonomy.

Although the SIU seeks to mobilise Europe's abundant private savings towards productive investment, its success cannot rely exclusively on deeper capital markets. Europe remains a predominantly bank-based financial system in which banks continue to play the central role in collecting household savings, financing businesses and supporting the development of capital markets themselves.

As Vítor Constâncio already argued when discussing the synergies between Banking Union and Capital Markets Union[23], the two projects are complementary rather than competing. A Banking Union strengthens the resilience of the banking sector, facilitates cross-border consolidation, enhances cross-border credit markets and reduces intermediation costs, while integrated capital markets diversify sources of finance and strengthen private risk sharing. Together they create a more integrated European financial system capable of allocating savings more efficiently across the Union.

More recently, the Savings and Investments Union has explicitly recognised this complementarity. The objective is no longer simply to develop capital markets but to create an integrated financial ecosystem capable of transforming Europe's considerable stock of private savings into productive investment supporting innovation, digitalisation, defence, decarbonisation and strategic autonomy. This objective cannot be fully achieved if Europe's banking market remains fragmented along national lines.

23. V. Constâncio, "Synergies between banking union and capital markets union", keynote speech at the joint conference of the European Commission and the European Central Bank on European Financial Integration, Brussels, 19 May 2017.

A True Banking Union would therefore constitute one of the institutional foundations of the SIU. Better integrated banking groups would facilitate the cross-border mobilisation of savings, complement capital markets, improve the allocation of financial resources and strengthen the financing capacity of the European economy.

Strengthening Europe's strategic autonomy

A second strategic benefit concerns Europe's financial sovereignty. The fragmentation of the European banking market has limited the emergence of banking groups able to compete globally and support European strategic priorities. Consequently, a growing share of financial intermediation within Europe is undertaken by non-European institutions, particularly in wholesale and investment banking activities.

This dependence creates strategic vulnerabilities. During periods of financial stress, internationally active non-European institutions may naturally reallocate capital and liquidity towards their domestic markets or other jurisdictions, reducing their capacity to support the financing needs of the European economy. A stronger network of genuinely pan-European banking groups would therefore reinforce Europe's financial resilience and reduce its dependence on external financial intermediaries. Completing the Banking Union would thus contribute not only to financial integration but also to Europe's broader objectives of strategic autonomy, economic security and resilience.

Strengthening the international competitiveness of European banks

Finally, a True Banking Union would strengthen the international competitiveness of European banks by removing one of the principal structural disadvantages that distinguishes Europe from other major jurisdictions.

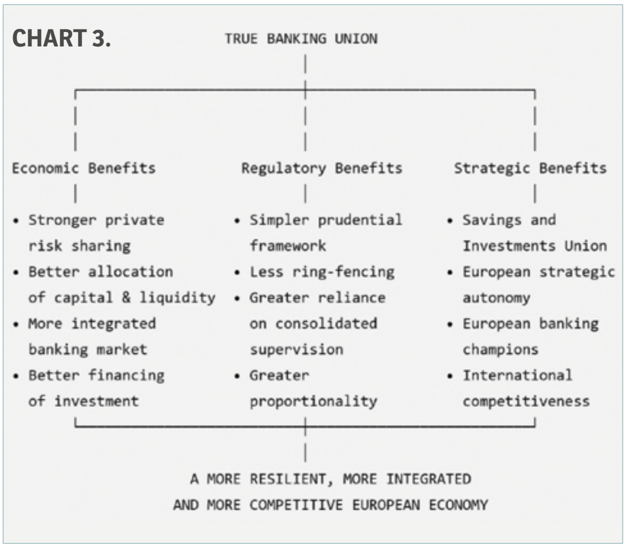
As discussed in Chapter I, the competitiveness gap between European and US banks reflects several structural factors. However, one important handicap is specific to Europe: the fragmentation of prudential requirements, the persistence of ring-fencing practices and the duplication of capital and liquidity constraints across national subsidiaries.

Progressively, removing internal capital and liquidity barriers within cross-border banking groups would improve efficiency, competitiveness and private risk sharing across the Union.

The issue is therefore not primarily one of deregulation. Recent ECB analysis suggests that stronger capitalisation does not necessarily reduce banks' efficiency or competitiveness. Europe's competitive disadvantage instead stems largely from the fragmentation of its banking market and the incomplete nature of the Banking Union. Completing the Banking Union would therefore represent Europe's principal structural response to growing international competition, while targeted adaptations of the Basel framework to European specificities would constitute an important complementary reform rather than a substitute.

The economic, regulatory and strategic benefits discussed above should not be viewed as separate or competing outcomes. They are closely interconnected and reinforce one another. A True Banking Union would simultaneously strengthen the functioning of Economic and Monetary Union, simplify the prudential framework and reinforce Europe's strategic capacity to mobilise savings, finance investment and compete internationally. Together, these mutually reinforcing effects explain why completing the Banking Union has progressively become one of the central pillars of Europe's broader competitiveness agenda.

CHART 3.



2.3 Who benefits from a true Banking Union?

The benefits of a True Banking Union would not accrue uniformly. They differ according to the characteristics, responsibilities and interests of the various stakeholders involved. Understanding this distribution of benefits is essential for identifying the conditions under which a comprehensive political agreement could eventually emerge.

A successful Banking Union is therefore not a zero-sum game between home and host countries, large and small banks, or European and national authorities. Properly designed, it can generate benefits for all stakeholders, provided that deeper integration is accompanied by credible safeguards addressing their legitimate concerns.

2.3.1 Large cross-border banking groups

Large cross-border banking groups would be the primary operational beneficiaries of a True Banking Union. Greater freedom to allocate capital and liquidity within the group, legally enforceable intragroup support mechanisms, reduced ring-fencing practices and greater reliance on consolidated supervision would improve balance-sheet management, reduce funding and compliance costs and facilitate cross-border expansion. These gains would strengthen profitability, increase lending capacity and improve the ability of European banking groups to compete internationally.

2.3.2 Host Member States

Host Member States are often perceived as the principal losers from deeper banking integration because they fear losing control over capital and liquidity held within their jurisdictions. In reality, a properly designed Banking Union could also generate substantial benefits for host countries.

A credible framework combining legally enforceable intragroup support, a European deposit insurance dimension, effective liquidity arrangements in resolution and stronger European crisis-management mechanisms would provide host authorities with greater assurance that local subsidiaries would continue to receive adequate financial support during periods of stress. Better diversified cross-border banking groups would also improve the financing of local economies while strengthening private risk sharing within the Monetary Union. The objective is therefore not to eliminate safeguards for host countries, but to replace national safeguards with credible European safeguards.

2.3.3 Domestic, cooperative, mutualist and smaller banks

Domestic, cooperative, mutualist and smaller institutions would benefit from a different set of reforms than large cross-border banking groups. For these institutions, whose activities remain primarily domestic and relationship-based, the principal gains would come less from greater cross-border integration than from a more proportionate, predictable and business-model-sensitive prudential and supervisory framework.

The diversity of the European banking sector constitutes one of its structural strengths. The coexistence of large commercial banks, cooperative and mutualist groups, regional and local institutions, specialised banks and digital players contributes to financial stability, competition, financial inclusion and the financing of households, SMEs and local economies. It also reduces concentration risk by allowing different ownership structures and business models to coexist within the European financial system. Completing the Banking Union should therefore reinforce this diversity rather than unintentionally encouraging the convergence of all institutions towards a single shareholder-owned banking model.

This implies that a comprehensive political agreement on the Banking Union should be accompanied by meaningful progress on proportionality. Prudential, supervisory, reporting and resolution requirements should better reflect differences in size, complexity, ownership structure and business model. Supervisory practices should also become more sensitive to the specific characteristics of cooperative and mutualist institutions, whose governance arrangements, capital formation mechanisms and profitability objectives differ fundamentally from those of listed commercial banks. Lower shareholder-driven profitability should not automatically be interpreted as evidence of weaker business models, nor should supervisory benchmarks systematically reflect the characteristics of listed commercial banks.

The preservation of Institutional Protection Schemes (IPS) should remain an essential component of any political agreement. IPS have demonstrated their contribution to financial stability and represent a cornerstone of several national banking systems. Likewise, the costs associated with deeper integration should not fall disproportionately on institutions that derive only limited direct benefits from greater cross-border banking integration.

More fundamentally, deeper European integration and greater banking diversity should not be regarded as competing objectives. On the contrary, they should reinforce one another. A True Banking Union should enable large cross-border banking groups to operate more efficiently across Europe while allowing cooperative, mutualist, regional and smaller institutions to continue fulfilling their distinctive economic role under a genuinely proportionate supervisory framework. In this sense, integration and proportionality should form two complementary pillars of the same political agreement rather than two separate policy agendas.

2.3.4 Supervisory and resolution authorities

European and national supervisory and resolution authorities would also benefit from a more coherent institutional framework. Greater reliance on consolidated supervision would reduce the need for overlapping prudential safeguards, facilitate a more consistent interaction between the microprudential, macroprudential and resolution frameworks and allow authorities to focus more effectively on risks at group level rather than on the protection of individual legal entities. Resolution planning would also become more credible through clearer intragroup support arrangements and improved liquidity management in resolution.

2.3.5 Member States and public finances

Member States collectively would benefit from stronger private risk sharing within Economic and Monetary Union. By enabling cross-border banking groups to absorb shocks across jurisdictions, a True Banking Union would reduce the reliance on national fiscal intervention during financial crises, weaken the bank-sovereign nexus and improve the resilience of the Euro area as a whole. Better financial integration would therefore complement, rather than replace, sound national fiscal policies.

2.3.6 European households, businesses and the wider economy

Ultimately, the main beneficiaries would be European households, businesses and the wider economy. A more integrated banking market would promote greater competition, improve the quality and diversity of banking services, foster innovation and facilitate access to more diversified sources of finance for households and firms. Better allocation of savings and capital across borders would strengthen investment, productivity and long-term growth throughout the Union.

More broadly, a True Banking Union would reinforce the Savings and Investments Union, support Europe's strategic autonomy and strengthen the international competitiveness of the European financial system. Its benefits would therefore extend well beyond the banking sector itself.

2.3.7 A common interest requiring differentiated safeguards

Recognising that these benefits differ across stakeholders is essential for understanding why completing the Banking Union has proved politically difficult. The issue is not whether a True Banking Union creates value – it clearly does – but how that value is distributed and under which institutional safeguards.

A comprehensive political agreement should therefore ensure that each category of stakeholders perceives tangible benefits while seeing its legitimate concerns adequately addressed. For host Member States, this requires credible European safeguards able to replace national ring-fencing. For domestic, cooperative, mutualist and smaller institutions, it requires a genuine proportionality agenda together with the preservation of Institutional Protection Schemes. For large cross-border banking groups, it means allowing genuine group-based supervision and the freer movement of capital and liquidity within banking groups.

Completing the Banking Union should therefore not be viewed as a choice between deeper European integration and the preservation of national banking diversity. A well-designed Banking Union should deliver both: greater integration where scale creates value, and greater proportionality where diversity strengthens financial stability and the financing of the European economy. This balance lies at the heart of the comprehensive political package discussed in Chapter 4.

2.4. The opportunity cost of an unfinished Banking Union

The previous sections have distinguished between the benefits already delivered by the Banking Union and those that remain unrealised. These unrealised benefits are not merely hypothetical. Their absence already imposes measurable economic, regulatory and strategic costs on European banks, on the European economy and, ultimately, on financial stability itself.

The cost of an unfinished Banking Union should therefore not be measured solely by the reforms that have yet to be adopted. It should also be assessed through the resources that remain immobilised, the duplication of prudential requirements, the business opportunities that are forgone and the reduced capacity of the European banking system to respond efficiently during periods of stress. In this sense, the Banking Union deadlock already has a tangible opportunity cost.

2.4.1 Trapped capital and liquidity

The most visible manifestation of this opportunity cost concerns the immobilisation of capital and liquidity within national subsidiaries.

The Banking Union currently operates in a hybrid institutional framework in which supervision and resolution have largely been centralised while capital and liquidity continue to be managed largely within national legal entities. The result is not excessive prudence but duplicated prudence: similar prudential safeguards are applied simultaneously at consolidated, sub-consolidated and solo levels because Member States are not yet prepared to rely fully on common European mechanisms.

The clearest illustration concerns liquidity. At Eurofi in Ljubljana in 2021, Andrea Enria[24] estimated that, of the EUR418 billion of high-quality liquid assets held by non-domestic subsidiaries of significant institutions, around EUR221 billion were immobilised by solo Liquidity Coverage Ratio requirements and a further EUR34 billion by host-country limits on intragroup large exposures. In total, approximately EUR250 billion of liquid assets remained trapped within national subsidiaries. Even if all existing regulatory waivers were fully used, almost EUR140 billion would remain trapped because several Member States continue to apply national large-exposure constraints.

More recently, the European Commission, relying on ECB estimates, concluded that approximately EUR230 billion of high-quality liquid assets could potentially be released if these structural constraints were removed. The order of magnitude therefore remains remarkably consistent across successive analyses.

Capital mobility is affected in a similar way. The joint non-paper published by France, Italy and Spain estimates that approximately EUR225 billion of regulatory capital, including around EUR180 billion of CET1, is currently held within cross-border subsidiaries. The issue is not that this capital is economically unproductive, but rather that it cannot be reallocated efficiently within banking groups according to changing financing needs.

2.4.2 Higher regulatory and funding costs

The opportunity cost of fragmentation extends well beyond trapped resources. It also generates significant regulatory and funding costs.

Large cross-border banking groups must comply simultaneously with multiple national prudential constraints governing liquidity, capital, leverage, MREL and large exposures. Internal MREL requirements frequently require each material subsidiary to issue loss-absorbing instruments subscribed by the parent institution, multiplying issuance programmes, legal structures, operational teams and compliance costs throughout the group. European MREL requirements often exceed the international TLAC standard while remaining fragmented across legal entities.

Large-exposure limits also continue to constrain the circulation of liquidity within groups. In many jurisdictions, intragroup exposures remain subject to national limits that differ across Member States and across financial products. Banking groups consequently report that several billions of euros of liquidity remain idle each year solely because of these prudential constraints.

Macroprudential requirements further reinforce these costs. Similar risks are often addressed simultaneously through Pillar 2 requirements, systemic risk buffers, countercyclical buffers and other national macroprudential instruments. Differences in national calibrations may therefore produce materially different prudential outcomes for institutions with otherwise comparable risk profiles.

These additional costs do not primarily reflect higher prudential standards. They result from the fragmented application of those standards across multiple legal entities and jurisdictions.

2.4.3 Lost business opportunities

Fragmentation also carries a less visible but equally important economic cost by discouraging investment, expansion and cross-border consolidation.

Several major European banking groups report having abandoned local development projects or acquisition opportunities because additional capital and liquidity requirements imposed by host authorities significantly reduced their expected profitability. Ring-fencing therefore not only immobilises existing resources; it also discourages future investment and limits the emergence of genuinely European banking groups.

As Fernando Restoy has observed, this fragmentation prevents banks from realising the efficiency gains associated with integrated balance-sheet management at a time when technological investment increasingly rewards scale. The cost is therefore measured not only in trapped capital but also in lost opportunities for innovation, digitalisation and cross-border expansion.

2.4.4 Lower resilience in periods of stress

Perhaps the greatest cost cannot be measured through static balance-sheet indicators. It materialises precisely when banking groups need flexibility most.

During periods of financial stress, integrated banking groups should be able to transfer capital and liquidity rapidly towards subsidiaries facing losses or liquidity outflows. Under the current architecture, however, fragmentation often prevents such reallocations. Resources remain trapped within national entities precisely when they are most needed elsewhere within the group.

Paradoxically, arrangements originally designed to protect national financial stability may therefore

24. A. Enria, "How can we make the most of an incomplete banking union?", speech at the Eurofi Financial Forum, Ljubljana, 9 September 2021.

reduce the resilience of the European banking system as a whole. The true cost of fragmentation lies not in the level of prudential requirements themselves but in the absence of mutual trust allowing these resources to be managed efficiently at consolidated level.

The opportunity cost of an unfinished Banking Union extends well beyond trapped capital and liquidity. It encompasses higher compliance and funding costs, forgone investment opportunities, less efficient balance-sheet management and a reduced capacity to absorb economic shocks. More fundamentally, it reflects Europe's inability to exploit the full economic potential of its banking sector. Resources remain fragmented, banking groups continue to operate largely along national lines, and the European economy forgoes efficiency gains, stronger private risk sharing and better financing of investment. Completing the Banking Union is therefore not simply about finalising an institutional architecture. It is about removing one of the principal structural obstacles to a more integrated, more competitive and more resilient European financial system.

3. Why the Banking Union Remains Incomplete: A Hierarchy of Five Problems

The persistent incompleteness of the Banking Union is often attributed to a lack of political will or to protectionist reflexes among Member States. This chapter adopts a different perspective. It argues that the current deadlock is largely the rational consequence of an incomplete institutional architecture operating in a context of persistent fiscal and economic divergences.

The five problems analysed below do not constitute an independent list of obstacles but successive links in the same causal chain. At its origin lies the sovereign-bank nexus that the Banking Union was originally designed to break. Yet this nexus continues to be sustained by divergent fiscal trajectories across Member States, which undermine mutual trust and make risk-sharing politically difficult. This lack of trust is reflected institutionally in a Banking Union that remains only partially federal, where supervision has been Europeanised while legal responsibility for financial stability remains largely national. The resulting solo approach encourages ring-fencing and other forms of market fragmentation, which ultimately prevent the emergence of a genuinely integrated European banking market.

Understanding this chain is essential because problems reinforce each other. The Banking Union therefore remains incomplete not because one reform is missing but because each unresolved issue perpetuates the others. This diagnosis also explains why isolated technical reforms are unlikely to succeed and why the comprehensive political package proposed in Chapter IV has become necessary.

3.1 The sovereign-bank nexus

The Banking Union was launched explicitly to break the doom loop between banks and their national sovereigns that had amplified the 2011–2012-Euro area crisis. That founding objective, recalled in Chapter I, was the original raison d'être of the project, not market integration or the creation of a single retail space; and it is on this primary test that the Banking Union has only partially succeeded.

The numbers tell a clear story. According to the EBA's Risk Assessment Report of December 2025, EU/EEA banks reported about EUR4 tn of sovereign exposures as of June 2025, a 14% increase year on year, with the ratio of sovereign exposures to CET1 reaching 226%, the highest level since the onset of the pandemic; in several jurisdictions banks report sovereign exposures exceeding 300% of their capital[25].

The domestic intensity of the sovereign-bank nexus remains significant. ECB C33 data at end-2025 show that domestic general government exposures held by banks in their home jurisdiction amount to approximately 1.8 times CET1 capital in Italy, 1.3 times in France and 0.7 times in Germany[26]. The directional trend is one of partial and uneven diversification: 45% of EU/EEA banks' sovereign exposures were still allocated to their home country as of June 2025, down from 53% in June 2018, while exposures to other EU/EEA sovereigns rose from 25% to 31%[27]. As C. Buch observes, the relative home bias of the large banks under European supervision has declined over the Banking Union's first decade[28]; the aggregate figure, however, conceals national realities that remain very

25. European Banking Authority, Risk Assessment Report - December 2025, p. 11 and p. 24. EU/EEA banks reported about EUR4 tn of sovereign exposures as of June 2025 (a 14% year-on-year increase); the ratio of sovereign exposures to CET1 stood at 226%, the highest level since the onset of the pandemic.

26. ECB, C33 statistical data on banks' holdings of domestic general government debt, end-2025, cited separately from the EBA aggregate. Domestic general government exposure equivalent to about 1.8 times CET1 in Italy, about 1.3 times in France and about 0.7 times in Germany.

27. European Banking Authority, 2025 EU-wide Transparency Exercise, published 4 December 2025 (119 banks, 25 EU/EEA countries, reference date 30 June 2025); EBA, Risk Assessment Report - December 2025, p. 23-24.

28. Eurofi High Level Seminar 2026, summary of the session "Breaking the Banking Union deadlock".

TABLE 1.
Domestic sovereign exposure and fiscal position, selected Member States

Member State	Domestic sovereign / total assets	Domestic sovereign / CET1	Public debt (% of GDP)
Italy	c. 10.8%	c. 180%	c. 138%
France	c. 6.5%	c. 130%	c. 114%
Germany	c. 3.6%	c. 70%	c. 66%

Source: ECB, C33 statistical data (sovereign exposures), end-2025; Eurostat, government debt, Q1 2025. Figures preceded by "c." are approximate. The intensity of the nexus tracks the fiscal position. EU/EEA total sovereign exposures stood at about EUR4 tn, or 226% of CET1, as of June 2025 (EBA).

different, as the ECB C33 data above show, and the nexus binds precisely where it is strongest.

This relative progress coexists with deterioration in absolute terms. Strongly rising public debt, in Germany where 2025 issuance is projected to exceed EUR143 bn[29], and the high-debt trajectories of Italy and France, mechanically increase the volume of sovereign exposures on domestic balance sheets. The geographical concentration of the loop, moreover, remains a structural reality.

The ECB's Financial Stability Review of November 2025 warns that investors' perceptions of risk have focused on the deteriorating trajectory of fiscal fundamentals in France[30], whose ten-year OAT-Bund spread widened to about 80 basis points in September 2025, the highest reached since the dissolution of the National Assembly in June 2024[31], a striking convergence with Italian levels. As D. Cahen and A. Valroff observe, the persistence of the loop is "not the result of a dysfunction of the SSM or the SRB, but the consequence of fiscal slippage in some countries that have been exacerbated by the Covid-19 crisis[32]." Crucially, a bank that holds its own sovereign's debt is only as safe as that sovereign's public finances: the danger of the nexus is a direct function of fiscal trajectories. The founding mission of the Banking Union has therefore not been achieved, and the fiscal divergence that drives the nexus is the subject of Problem 5.

3.2 The central bank-sovereign nexus

The 2% inflation target pursued by central banks has pushed them to maintain very accommodative financing conditions, and asymmetric monetary policies over the past 20 years. Central Banks, and the ECB in particular, have not tightened monetary conditions when the crisis was over, between 2015 and 2022. The massive increase in central banks' total assets and the expansion of the monetary base in non-crisis times illustrates this asymmetry.

We reminded previously that the sovereign-bank nexus decreased between 2015 and 2019. The counterpart of such decrease has been an increase of the Eurosystem balance sheet due to the QE policy of the ECB. Thus, there is a stronger central bank-sovereign nexus. From January 2015 to early March 2020, a total of EUR2.66 tn of public and private securities were purchased by the Eurosystem, corresponding to nearly 20% of the 2019 Eurozone's GDP. This brought the value of the ECB's balance sheet to EUR4.7 tn, *i.e.*, 39.1% of the 2019 GDP. Between 2014 and mid-2022, the ECB's balance sheet increased from 21.2% of the Eurozone's GDP to 73.8% (*see Chart 15*). That is a EUR6.8 tn rise towards the record of EUR8.83 tn as of end-May 2022. When the pandemic struck in March 2020, the key financing rate of the ECB could not be lowered further, leaving little room for maneuver. Substantial monetary policy accommodation was emphasized over the course of 2020 and 2021 to counter the negative impact of the pandemic on the inflation outlook. Thus, as one can see on Chart 15, the size of the Eurosystem's balance sheet as a share of the Eurozone's GDP more than doubled compared to its size after the GFC and the EU sovereign debt crisis.

Considering the ECB's action, the Governing Council decided in March 2020 to launch the Pandemic Emergency Purchase Program (PEPP) of up to EUR750 bn until the end of 2020, on top of the EUR120 bn in extra purchases as part of the already existing APP. Following the end of the net purchases under the PEPP in March 2022, the Eurosystem continued buying securities as part of the APP. Since March 2023, the ECB has been reducing its sovereign bond holdings. From March to June 2023, the APP portfolio decreased by an average of €15 billion per month, as the Eurosystem did not reinvest all the principal payments from maturing

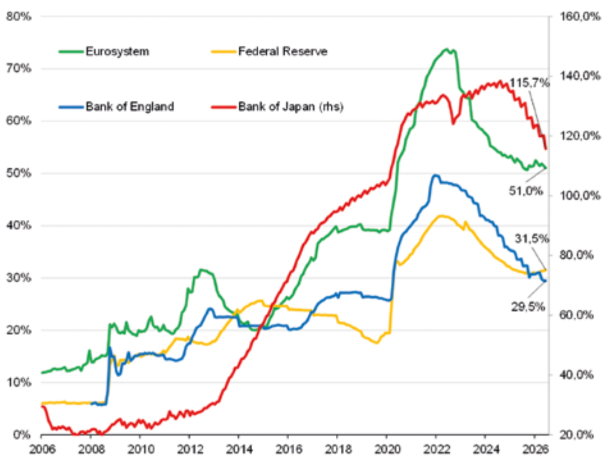
29. EBA, Risk Assessment Report - December 2025, p. 18, citing the German Federal Ministry of Finance: German borrowing in 2025 projected to exceed EUR143 bn by year-end.
30. European Central Bank, Financial Stability Review, November 2025.
31. Eurostat, government debt data, Q1 2025; OMFIF, "Putting a price on French political turmoil", October 2025; MarketAxess data on the OAT-Bund spread, reaching approximately 80 basis points in early September 2025.
32. D. Cahen and A. Valroff, "Banking Union: what way out of the current deadlock?", Eurofi Regulatory Update, February 2024, p. 106.

securities. From July 2023 onwards, the Eurosystem decided to stop reinvesting redemptions under the APP. This has accelerated the reduction in securities holdings to an average of €25 billion per month. Since July 2024, the stock of bonds held under the PEPP has fallen by an average of €12 billion per month.

The ECB started to slow down the pace of asset purchases in March 2022. Indeed, net purchases under the APP ceased on 1 July 2022. The Eurosystem has then had a leading role in public debt monetization during the Covid-19 crisis, as its government securities purchases amounted to most of government debt issuance (*see Chart 12*). Charts 13 and 14 show the growing share of government debt held by National Central Banks (NCBs). The latter has been increasing continuously since 2015, when the ECB started its APP. Between January 2015 and December 2019, the share of public debt held by the Eurosystem grew from 4.4% to 19.5%.

The purchase of sovereign bonds since 2015 has led the Eurosystem to hold more than a third of the Euro area's public debt outstanding in 2022. More than two and a half years after quantitative tightening began in March 2023, the Eurosystem's share of Euro area public debt has fallen by 10 percentage points to reach 23% in December 2025. Despite this recent decline, the Eurosystem still holds a larger share of public debt than before the pandemic (19.5% in December 2019), retaining a meaningful footprint in Euro area sovereign debt markets that attests to the persistence of the Central Bank-sovereign loop. In December 2025,

CHART 4.
Central Banks' Total Assets Relative to GDP, %



Source : Ekonomics, *based on national central banks data*
Notes : Last data are from December 2025; the ratio is calculated on the basis of the 2019 nominal GDP for all the data since 2019. Last observation from June 2026.

the Eurosystem held 19.2% of French government debt and 18.1% of Italian government debt. More than 25% of Portuguese (27.1%), German (28.6%) and Dutch (33.3%) government debt remained on the Eurosystem's balance sheet.

Most importantly, it highlights that the linkages between governments and banks are now extended to central banks. This sheds a special light on the independence of central banks, as NCBs own a growing and significant share of the national government debts and have de facto become the agents of fiscal policies.

3.3 A structural institutional asymmetry: a federal Eurosystem and a non-federal Banking Union

3.3.1 A structural institutional asymmetry

If the home-host dilemma persists, it is not for lack of European ambition at the level of the SSM or the SRB. Both institutions function effectively within the mandates conferred upon them, and national competent authorities (NCAs) participate fully in their governance, through the SSM's Supervisory Board, where each Member State is represented, and through the SRB's plenary and executive sessions. The dilemma persists because the European supervisory architecture rests on a non-federal foundation: national authorities retain their own legal mandates, so the home-host tension cannot be dissolved by supervisory cooperation alone.

The persistence of the home-host dilemma is therefore not primarily a supervisory issue but an institutional one. It reflects a structural asymmetry between a federal Eurosystem and a non-federal banking supervisory and resolution framework.

In the field of monetary policy, the Eurosystem operates as a fully integrated, federal system. National central banks (NCBs) are conceived as integral parts of the Eurosystem: when implementing the single monetary policy, they act on behalf of the European Central Bank and may receive direct instructions from its Executive Board. Their national mandates are subsumed into the Eurosystem's framework, and the Treaty itself organises this federal integration.

The architecture of European banking supervision and resolution is, by design, different. As the ECB's own legal staff have observed, "the SSM appears to be a less integrated system than the Eurosystem since the NCAs do not legally form its 'integral parts'"[33]. National competent authorities are not

33. C. Zilioli and K.-P. Wojcik, "The Eurosystem and the Single Supervisory Mechanism: institutional continuity under constitutional constraints", ECB Legal Working Paper Series No 17, June 2018: "the SSM appears to be a less integrated system than the Eurosystem since the NCAs do not legally form its 'integral parts'."

branches or operational arms of the ECB; they remain national authorities with their own legal mandates, accountability frameworks and supervisory responsibilities extending well beyond the SSM. The same observation applies, mutatis mutandis, to the relationship between the SRB and national resolution authorities.

This is not an institutional flaw to be condemned: in many respects it reflects the legitimate distribution of competences in a Union of Member States. But it has direct operational consequences. Two authorities with overlapping but distinct mandates, one acting in the European interest, one accountable to a national jurisdiction, will inevitably overlap, produce additional layers of requirements and, in stress situations, trigger ring-fencing reflexes. As S. Cappiello observes, the home-host tensions that perpetuate this fragmentation are not the result of bad faith but of a structural misalignment: "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[34]."

The economic rationale behind a genuine Banking Union is therefore not limited to improve the efficiency of banking groups. It is to create the conditions for capital and liquidity to circulate more freely across the Euro area, strengthen private risk-sharing, reduce financial fragmentation and improve the financing of the European economy. These objectives cannot be fully achieved as long as the institutional asymmetry between a federal monetary union and a non-federal banking framework continues to encourage nationally based supervisory and resolution responses. As J.-M. Andrès, D. Cahen and M. Truchet emphasised already in 2018, the emergence of transnational banking groups "would notably help Eurozone excess savings to circulate across borders to parts of Europe where the most attractive investment opportunities exist[35]" and would "increase private risk sharing[36]" within the Union.

The Banking Union did not form part of the original architecture of Economic and Monetary Union. It was created only after the Euro area sovereign debt crisis had exposed the weaknesses of a monetary union operating without an integrated framework for banking supervision and crisis management. However, unlike Monetary Union – which rests on genuinely federal institutions – the Banking Union was constructed as a hybrid system in which European responsibilities coexist with nationally anchored legal mandates. This institutional asymmetry continues to shape the functioning of the Banking Union and remains one of the fundamental explanations for the persistence of the home-host dilemma.

This institutional distinction also shapes the incentives under which supervisory authorities operate. While members of the Supervisory Board and the SRB are required to act in the European interest when exercising their responsibilities within those bodies, national competent authorities continue to perform important functions under national law, including preserving domestic financial stability and supervising institutions outside the scope of the Banking Union. As a result, European and national perspectives inevitably coexist within the overall supervisory architecture. This is not a question of conflicting loyalties but a consequence of the legal allocation of responsibilities.

Institutional design matters because it shapes incentives. As long as supervisory and resolution responsibilities continue to combine European decision-making with nationally anchored legal responsibilities, authorities will naturally remain inclined to take domestic financial stability considerations into account alongside European objectives.

3.3.2 The solo approach: the operational consequence

The third problem is the architecture of the prudential framework itself: the solo approach, under which cross-border groups are treated not as single entities but as a sum of separate subsidiaries. Its mechanism was set out in Chapter I and its cost quantified in Chapter II: each subsidiary meets liquidity, capital, MREL and output-floor requirements on its own, so the sum of solo constraints exceeds the consolidated level, and resources cannot move to where they are needed.

The solo approach is therefore not simply a prudential technique. It is the operational consequence of a Banking Union whose institutional architecture remains only partially federal. As long as capital and liquidity continue to be managed primarily through nationally supervised legal

34. S. Cappiello, "Two key underpinnings for the Banking Union", in Breaking the Banking Union deadlock, Eurofi Nicosia, 2026, Magazine.
35. J.-M. Andrès, D. Cahen and M. Truchet, op. cit., Annex, p. 2.
36. D. Cahen and A. Valroff, "Banking fragmentation issues in the EU", op. cit., p. 39.

entities, ring-fencing will remain the rational response of national authorities.

3.4 Market fragmentation, ring-fencing and government interference

The institutional architecture described in the previous section has direct operational consequences. As long as financial stability, crisis management and fiscal responsibilities remain largely organised at national level, national authorities have strong incentives to protect their domestic banking systems. This national bias manifests itself in two complementary ways. First, through prudential fragmentation, reflected in ring-fencing practices that restrict the free movement of capital, liquidity and loss-absorbing resources within cross-border banking groups.

Second, through political fragmentation, whereby governments continue to intervene in, or seek to influence, major cross-border banking transactions in order to safeguard national economic and financial interests. These two forms of fragmentation are not isolated deviations from the spirit of the Banking Union; they are the operational consequences of an institutional framework in which supervisory responsibilities have been partly Europeanised while financial risks and political accountability remain largely national.

3.4.1 Ring-fencing: subsidiaries of cross-border groups are mainly governed by national rules

As D. Cahen and A. Valroff put it, “ring-fencing is when host authorities take regulatory and supervisory action in order to secure resources within their own jurisdictions. There are no host supervisors anymore in the banking union, but the distinction between home and host authorities and the 'national bias' still exist for banks operating across borders[37]."

Indeed, “national regulators still fear that capital and liquidity could be trapped in individual Member States or inadequately allocated from their own viewpoint if a pan-European banking group fails. This perception is particularly acute in countries that are strongly dependent on banks part of groups headquartered in other countries for the financing of their economies[38]."

Ring-fencing policies are applied to capital, liquidity and MREL liabilities. The obstacles to the integrated management of bank capital and liquidity within cross-border groups remain persistent and fragment banking markets: recognised in 2013 by CRD4, capital and liquidity waivers remain at the discretion of national supervisors, which are most often reluctant to use them, so that in practice all capital and liquidity ratios are applied at both solo and (sub-)consolidated levels, notwithstanding the possibility of waivers allowed by the legislation[39]. Ever more funds must moreover be pre-positioned at subsidiaries: internal MREL is now required for all institutions and financial holding companies with a balance sheet exceeding EUR5 bn, so that pre-positioned resources are not available for re-allocation within groups if and when necessary; several host authorities submit dividend distributions from subsidiaries to their approval; and host countries can, most of the time successfully, obtain increased Pillar 2 Requirements for subsidiaries of the same European banking group[40].

The root causes of these practices have been identified and continue to exist. First, ring-fencing is deeply rooted in a general lack of trust, mainly due to the economic and fiscal divergences between the largest Member States, which also prevent the creation of an EU safe asset that would enhance the diversification of risks. Second, the bad memories of the EU sovereign debt crisis in several Member States, such as Belgium, where foreign banks took over national leading banks. Third, host authorities are concerned with ensuring the financing of their national economic activities, and for some of them especially their public deficits[41]. Beneath these causes lies a governance grievance: host countries consider that their concerns regarding burden-sharing and the way cross-border resolutions would be handled are often dismissed, and they ring-fence to protect themselves[42].

3.4.2 Government interference: a political fragmentation by Member States

To ring-fencing must be added a second, distinct mechanism that has come into sharp focus: direct political interference by Member States in cross-border transactions, well-illustrated by the UniCredit-Commerzbank case of 2025-2026. Having built a stake of just under 30% in Germany’s second-largest listed lender, UniCredit launched in May 2026 an all-share offer for the remainder, valuing the bank at more than EUR35 bn. The German Chancellor and Commerzbank’s management fiercely opposed the tie-up, the former describing the approach as “hostile" and “aggressive" and

37. D. Cahen and A. Valroff, “Banking fragmentation issues in the EU", op. cit., p. 14-15.
38. D. Cahen and A. Valroff, “Banking fragmentation issues in the EU", Eurofi Regulatory Update, September 2023, section 1.1.2, p. 15-16.
39. *Ibid.*, section 1.1.2, p. 16.
40. *Ibid.*, section 1.1.2, p. 16.
41. *Ibid.*, section 1.1.3.
42. *Ibid.*, section 3 ("Host countries concerns are often dismissed, leading them to ring-fence in order to protect themselves").

adding that, while Germany needed larger banks, “this does not mean that every type of takeover is welcome"[43]. The ECB criticised the position publicly. As L. de Guindos declared in May 2026: “It’s very difficult for governments to argue that they are in favour of the savings and investments union if they then say ‘Well, no, we are against this specific transaction’. (...) It’s not only relevant in this specific example, it’s happening everywhere. Such moves go against the spirit of a single market and undermine the credibility of the savings and investment union[44]."

On the doctrinal level he formulated, almost word for word, the conceptual cornerstone of a True Banking Union as defined in Chapter I: “we recommend considering the Euro area as a single jurisdiction, with free movement of capital and shares, and a common deposit guarantee[45]"; and on the economic rationale he added that “a real European large bank could compete with the American ones. Valuations would be much higher, and cheaper funding would become possible[46]."

At first sight, the resistance looks like protectionism, and in part it is. But beneath it lies a rational core that the single-market discourse tends to obscure. To absorb a systemically important national bank into a group headquartered in another Member State is to tie that bank, and the deposits it holds, to the home sovereign of the acquiring group. Through the home-host nexus, a future deterioration of that sovereign’s public finances would reach the acquired subsidiary and the host economy, which would be left to manage the fallout with no binding assurance of group support and no European deposit guarantee. A State that hesitates before letting its second-largest bank pass under the control of a group domiciled in a far more heavily indebted State is therefore not acting irrationally: it is responding to a risk that the incompleteness of the Banking Union leaves unaddressed. The fiscal mechanism behind this is developed as Problem 5.

What must be named here is the political fact it produces: a genuine deficit of cooperation between Member States, and it should be stated plainly. The economics point towards integration; the practice defends national perimeters, because governments do not trust that, in a crisis, resources will flow and burdens will be shared. Ring-fencing by supervisors and interference by governments are, in the end, two faces of the same rational distrust, and it is that distrust, rather than any shortage of technical solutions, that keeps the Banking Union incomplete. How trust might be rebuilt, through fiscal convergence and binding European safeguards, is the subject of Chapter IV.

3.5 Economic divergences and differences in banking-system structures

The fifth problem is both economic and structural. Unlike the preceding sections, which examined the institutional and operational mechanisms through which fragmentation is maintained, this section focuses on the underlying conditions that shape Member States' preferences and their willingness to deepen integration. Fiscal divergences, differences in banking-system structures and heterogeneous macroprudential frameworks do not directly create fragmentation; rather, they sustain the lack of mutual trust that makes fragmentation a rational outcome. They explain why completing the Banking Union ultimately requires not only institutional reforms but also a political agreement capable of reconciling risk reduction, risk sharing and respect for legitimate national specificities.

3.5.1 Fiscal and macroeconomic divergence: the deep driver

The most fundamental obstacle to a fully integrated Banking Union remains the divergence of fiscal trajectories across Member States. Several countries continue to combine high public debt with persistent budget deficits, while others have maintained comparatively stronger fiscal positions. Italy's public debt remains around 138% of GDP, France's around 118% and Belgium's above 100%, whereas Germany and the Netherlands maintain significantly lower debt ratios[47]. Even more important than the stock of debt are current fiscal trajectories: while Italy has significantly reduced its annual deficit despite its high debt ratio, France remains subject to the Excessive Deficit Procedure because of its persistently large fiscal deficit.

These divergences have two direct implications for the Banking Union. First, they perpetuate the sovereign-bank nexus. High public deficits require continued sovereign debt issuance, a significant share of which continues to be absorbed by domestic banks. Second, they prevent the emergence of a genuinely European safe asset. As long as Member States differ substantially in their fiscal positions, they remain reluctant to mutualise sovereign risks,

43. O. Storbeck, “Top ECB official attacks German opposition to UniCredit’s bid for Commerzbank", Financial Times, 11 May 2026.
44. L. de Guindos, interview with the Financial Times, 11 May 2026.
45. *Ibid.*
46. *Ibid.*
47. Eurostat, government debt data, Q1 2026.

leaving banks dependent on their domestic sovereign debt as the principal risk-free asset.

Fiscal divergence therefore explains why the sovereign-bank nexus analysed in Problem 1 continues to generate concern and why the resistance to deeper cross-border banking integration described as Problem 4 remains rational. The mechanism can be illustrated through a deliberately simplified scenario. If a highly indebted Member State were to experience acute fiscal stress, its domestic banking system would immediately be affected through its holdings of national sovereign debt. Within an integrated cross-border banking group, this shock could then be transmitted through capital and liquidity links to subsidiaries located in other Member States. Host authorities would consequently find part of their own financial stability exposed to fiscal risks over which they exercise no control. From their perspective, maintaining prudential safeguards and exercising caution towards cross-border consolidation is therefore a rational response rather than a rejection of European integration.

This diagnosis has two important implications. First, restoring trust between Member States cannot rely exclusively on further risk reduction nor exclusively on greater risk sharing. Both must advance together. Second, fiscal convergence remains an essential condition for completing the Banking Union, but it cannot by itself resolve the current deadlock. Without credible European safeguards able at reassuring both home and host authorities, greater fiscal convergence alone is unlikely to generate the degree of trust required for deeper banking integration. The comprehensive package discussed in Chapter IV is designed precisely to reconcile these two dimensions.

3.5.2 Structural diversity of European banking systems

A second factor shaping national preferences is the structural diversity of European banking systems. Banking markets differ considerably across Member States in terms of ownership structures, business models and the role played by cooperative, mutual and savings banks. In several countries, these institutions remain major providers of credit to households, SMEs and local communities and therefore constitute an essential component of the domestic financial system.

This diversity should not be regarded as an obstacle to European integration. On the contrary, preserving a diversity of business models contributes to the resilience, competitiveness and financing capacity of the European banking sector. However, it also shapes national regulatory preferences and helps explain why some Member States attach particular importance to proportionality, the preservation of institutional protection schemes and the continued recognition of individual legal entities within banking groups.

Distinguishing between legitimate structural diversity, which should be preserved, and unnecessary market fragmentation, which should progressively be removed, is therefore essential when designing and applying the European prudential framework. The Commission has recognised that, despite existing proportionality provisions, many prudential and supervisory requirements continue to apply with insufficient differentiation according to institutions' size, complexity and business model, generating unnecessary complexity and administrative burdens.

This issue is particularly acute for cooperative and mutual institutions. These institutions have distinctive ownership, governance and capital-formation features. They are not driven by external shareholder remuneration in the same way as listed commercial banks; they rely heavily on retained earnings; many are organised through decentralised or federated structures; and their business models are often based on long-term customer relationships, local anchoring and member value.

Many of these institutions therefore argue that supervisory expectations, SREP peer-group methodologies, profitability benchmarks, cost-efficiency assessments and governance standards should be better adapted to their specific characteristics, as these frameworks still often reflect, explicitly or implicitly, the features of shareholder-owned commercial banks. Similar concerns have been raised in earlier Eurofi discussions, notably in relation to profitability measurement, governance, digitalisation and resolution planning for cooperative and mutual banking models.

3.5.3 Macroprudential divergence as an additional source of fragmentation

Over the past decade, the EU macroprudential framework has significantly strengthened the resilience of the European banking sector. Within this decentralised framework, national authorities are responsible for setting macroprudential measures to reflect the specificities of their banking sectors and economic cycles, using a range of instruments including capital buffers, risk-weight measures and borrower-based measures. Among these instruments, capital buffers have become the cornerstone of the framework, increasing banks' loss-absorbing capacity and helping preserve the supply of credit during periods of severe stress.

Over time, however, the framework has become increasingly complex, with a growing number of instruments, heterogeneous national implementation and significant differences in calibration across Member States. Part of this diversity is legitimate: national authorities calibrate certain instruments, notably countercyclical and systemic risk buffers, to reflect genuine differences in financial structures and systemic risk across Member States, and some degree of differentiation is therefore both expected and desirable. Yet, it has also raised questions about transparency, proportionality, comparability and the overall coherence of the framework. As the Commission itself notes, the current framework suffers from limited predictability and consistency, owing not only to differences in national calibration but also to the absence of a harmonised EU methodology and to a multilayered governance involving both EU and national authorities.

The difficulty arises when national methodologies, supervisory practices and the cumulative interaction of prudential instruments lead comparable institutions to face materially different capital requirements. Differences in the calibration of Pillar 2 measures, systemic buffers and other macroprudential instruments, combined with the cumulative stacking of prudential requirements, contribute to de facto capital ring-fencing and reinforce the fragmentation previously analysed.

TABLE 2.
Sources of the increase in CET1 requirements for 15 banks (2021–2024)

Required CET1 (EUR bn)	2021	2024	Change
Basel minimum	229.4	243.8	+6%
Supervisory & macroprudential components	c. 170	c. 280	c. +65%

Source: GBI, EBF and GARP Capital Demand Benchmarking Study (2025)

Industry benchmarking illustrates this phenomenon. Between 2021 and 2024, the increase in required CET1 capital for major European banking groups resulted overwhelmingly from supervisory and macroprudential add-ons, while the Basel minimum requirements remained broadly stable.

The issue is therefore not national differentiation as such but the absence of a sufficiently coherent European framework ensuring that each risk is captured once, calibrated consistently and without generating unnecessary overlaps or de facto ring-fencing. Completing the Banking Union would not eliminate macroprudential policies, but it would create the conditions for a more coherent, proportionate and genuinely European application of prudential requirements.

3.6 Cross-cutting factors reinforcing the deadlock

Several additional factors reinforce the five structural problems analysed above.

First, the current framework still lacks a legally enforceable intragroup support mechanism. The optional arrangements provided by the Bank Recovery and Resolution Directive have proved largely ineffective in practice because their application ultimately depends on national legal frameworks. As long as host authorities cannot rely on legally binding commitments ensuring the transfer of capital and liquidity within cross-border groups during periods of stress, they have strong incentives to maintain ex ante ring-fencing.

Second, despite the Europeanisation of supervision and resolution, the legal framework governing company law, insolvency, creditor hierarchies and several aspects of crisis management remain largely national. This supervisory-legal asymmetry limits the practical effectiveness of European decisions and constrains the free movement of resources within banking groups even where supervisors agree on the appropriate course of action.

Finally, questions continue to be raised regarding several aspects of the governance of the SSM and the SRB. Host authorities participate fully in their governance structures, yet several Member States remain unconvinced that their concerns regarding burden-sharing, liquidity in resolution and the practical management of cross-border crises are sufficiently reflected in European decision-making. These concerns should not be dismissed as a simple lack of trust. They identify concrete governance issues that a comprehensive Banking Union package should explicitly address.

Taken together, these five structural problems, reinforced by the institutional and legal gaps described above, explain why the Banking Union remains incomplete. They do not reveal a lack of political ambition or an unwillingness to cooperate. Rather, they describe the rational equilibrium of an institutional framework in which supervision has been partly Europeanised while fiscal responsibility, financial stability and political accountability remain largely national. Under such conditions, nationally oriented behaviour – including ring-fencing, solo-level prudential requirements and caution towards cross-border banking integration – remains the rational response to nationally borne risks.

This diagnosis also explains why isolated technical reforms are unlikely to succeed. Completing the Banking Union requires changing the institutional incentives that currently encourage national protection rather than European integration. The comprehensive package proposed in Chapter IV is designed precisely to address these structural causes simultaneously by combining stronger risk reduction, credible risk-sharing mechanisms, greater proportionality and a governance framework capable of restoring mutual trust between Member States.

4. The Way Forward: A Comprehensive and Indivisible Package

The analysis developed in the previous chapters points towards a clear conclusion. Since the different sources of fragmentation reinforce one another, no isolated reform can resolve the deadlock. What is required is a comprehensive legislative package capable to simultaneously address the institutional, prudential, legal and political dimensions of the home-host dilemma.

That's why such an agreement must address the concerns of host states and be built on the tangible benefits that a completed banking union would bring them. Beyond stronger financial stability through more credible European safeguards, these benefits should include more efficient financing of their economies, a broader and more competitive banking offer for households and businesses, greater availability of cross-border banking services, improved financing capacity for investment and growth, and stronger private risk-sharing across borders.

The proposed package is not designed as a single institutional objective. It is designed around political acceptability. Every stakeholder must obtain a tangible benefit while seeing its principal concern addressed. This is the only way to overcome the equilibrium of mutual distrust analysed in Chapter III. Indeed, since large cross-border banking groups are absent in most Member States, the agreement must guarantee real proportionality for small and medium-sized banks and preserve Europe's diversity of business models. Without these safeguards, these states will not come on board.

The objective of this EU agreement is the free movement of capital and liquidity within cross-border banking groups, which is another way of saying that those groups must be recognised in European law and treated as operating in a single jurisdiction rather than as a sum of national subsidiaries. The objective cannot be reached without resolving the home-host dilemma, and the home-host dilemma cannot be resolved piece by piece.

It requires the comprehensive legislative package that D. Cahen proposed in 'The Euro is in Danger', to be put by the European Commission to the Council of Finance Ministers on the basis of a detailed analysis of the benefits of a completed Banking Union and of the costs of inaction, and resting on three components: an unconditional and legally binding internal support mechanism for cross-border banking groups; a European Deposit Insurance Scheme, conditional on the full legal recognition of those groups; and the settlement of the questions that remain open, foremost among them liquidity in resolution, the ratification of the ESM backstop to the Single Resolution Fund and the completion of the crisis management framework[48].

Completing the package successfully depends on three inseparable conditions. The first is that it must address the concerns of the host Member States completely, since their fear of being left without resources in a local crisis is the true engine of ring-fencing and therefore of fragmentation. The second is that it must offer something to the banks that are not among the hundred or so groups supervised by the SSM, in the form of a proportionality that is effective rather than declaratory. The third is that it must not cross the lines that should not be crossed: the institutional protection schemes are preserved, the diversity of European banking models is reaffirmed, and the costs of integration are not loaded onto institutions that would not benefit directly from it.

One condition governs all the others. Risk sharing on this scale will not be granted, and would not be sound if it were, unless the overindebted Member States restore sustainable public finances and the economies of the Union converge. Without that convergence the package remains a wish, and it is on this point, far more than on any technical difficulty, that completion has repeatedly failed.

The stakes are broader than completing Banking Union. Europe currently pursues three major objectives in banking policy that may appear as separate agendas – completing the Single Market for banking, simplifying the prudential framework,

48. D. Cahen, The Euro is in Danger: Key priorities for rebuilding a Europe focused on growth, p. 281-282.

and strengthening the competitiveness of European banks. All three depend on the same political precondition: greater cooperation and mutual trust between Member States.

As long as Member States remain reluctant to share risks, host authorities will continue to rely on national safeguards and ring-fencing practices, supervisors will have limited incentive to reduce prudential requirements or simplify the regulatory framework, and governments will remain politically cautious about reforms that could be perceived domestically as weakening financial stability or favouring banks. The same lack of political consensus constrains efforts to adapt international prudential standards to the specific characteristics of the European banking system.

Without genuine cooperation among Member States, the single banking market, the Savings and Investments Union, regulatory simplification and the recalibration of Basel standards will all remain out of reach. However, securing this agreement would set a virtuous dynamic in motion across the wider European banking agenda. The Banking Union deadlock is therefore not a secondary issue – it is the priority for the future of the EU banking sector.

4.1 An EU comprehensive legislative package to break the deadlock

To address this impasse, the European Commission should propose a comprehensive legislative package to the Council of Finance Ministers (Ecofin).

Three principles should govern any attempt to complete the Banking Union. First, cross-border banking groups should be recognised as genuinely integrated European entities rather than as a collection of national subsidiaries. Second, no component of the Banking Union can be completed in isolation; the package must remain indivisible because every concession is conditional upon another. Third, further risk sharing must continue to progress together with risk reduction and fiscal convergence.

The starting point of this package must be the recognition of transnational banking groups as integrated entities operating in a single jurisdiction. **They would no longer be regulated and supervised as a sum of subsidiaries subject to different rules and operating in different jurisdictions, but treated as single entities from an operational, regulatory, and prudential perspective.**

Building on this recognition, the package should include three components:

- **An unconditional and legally binding internal support mechanism for cross-border banking groups.** Parent companies would be required to support subsidiaries in distress using internal group funds, as specified in their recovery plans. These plans would include predefined triggers (*e.g.* if a subsidiary's liquidity ratio falls below X%, the parent company would inject Y billion in liquidity) and would be approved by the European supervisor, ensuring the parent holds adequate capital.
- **A European liquidity backstop for the Single Resolution Fund.** Crucially, Italy must also ratify the revised treaty enabling the European Stability Mechanism (ESM) to act as a safety net for the Single Resolution Fund (SRF), which intervenes when a failing bank exhausts its own resources. Furthermore, a comprehensive **European framework for providing liquidity to banks in resolution** must be set up.
- **A European Deposit Insurance Scheme (EDIS), to be implemented in so far as – and if and only if – it is accompanied by the full legal recognition of cross-border banking groups**. This would ensure that prudential regulation and supervision are carried out on a consolidated basis, and that capital can circulate freely within banking groups.

In other words, banks will only support a shared European deposit guarantee scheme if they are assured that internal capital mobility within their group will be safeguarded. EDIS[49] should neither intend to weaken effective national mechanisms such as Institutional Protection Schemes (IPS)[50], nor impose premature mutualisation of losses. Rather, it would serve as a last-resort safety net, activated only when all prior lines of defence – including IPS – have been exhausted. This approach ensures that all Member States – including those with robust systems like Germany – can be confident that European solidarity will not come at the expense of their institutional autonomy.

This balance only holds if the package is adopted as a whole: each component loses the very safeguard that makes it acceptable to the others once taken separately. This indivisibility is not a drafting

49. Guaranteed deposits in the Eurozone are estimated at around 7,000 to 8,000 billion euros. However, the institutions directly supervised by the SSM, whichaccount for roughly three quarters of these deposits, are subject to the European resolution framework, including bail-in requirements, MREL and the Single Resolution Fund. Consequently, the design and target size of a European Deposit Insurance Scheme should reflect not only the volume of covered deposits but also the significantly lower probability that deposit insurance would be called upon for institutions benefiting from this comprehensive resolution framework. Banks' contributions could continue to be phased in over a period of eight to ten years on a risk-based basis.

50. Institutional protection schemes are contractual arrangements, often within the same cooperative or mutual group, whereby credit institutions support one another to ensure their solvency and liquidity.

preference – it follows directly from the mapping above. Each concession is conditional on the others: host countries lift ring-fencing only because they obtain binding support, a backstop and EDIS; banks accept contributions only because they obtain the lifting of ring-fencing and the end of duplication; creditor states accept risk-sharing only because it is matched by fiscal discipline; smaller banks accept the framework only because their proportionality and protection schemes are guaranteed. Remove any one component and a party's concern goes unanswered, its red line is crossed, and it blocks the rest. A partial Banking Union is not a smaller version of the whole; it is a broken bargain.

As EU leaders have stated that the Banking Union is vital to financial stability and to the smooth functioning of the Economic and Monetary Union (EMU), adopting this proposal would send a strong political signal. It would mark renewed consensus in favour of deeper financial integration and greater European financial sovereignty.

4.2 What the package offers to the banks that are not under the remit of the SSM and the SRB

Most Member States have no large cross-border banking group of their own. For them, the package's core promise – the free movement of capital and liquidity within cross-border groups – delivers no direct benefit. Their support is nonetheless indispensable, since the package requires unanimity among finance ministers. It can only be secured if the package offers these states, and the smaller and non-complex banks that make up the bulk of their banking sector, guarantees of their own: real proportionality, and a supervisory framework that reflects their business models rather than penalising them for not fitting a template built for large shareholder-owned groups.

4.2.1 Improving proportionality to facilitate the adoption of such an agreement

For small and non-complex banks, the concern is one of scale: compliance costs designed for large, internationally active banks fall disproportionately on institutions with far smaller balance sheets, and the incremental adjustments granted over the years have not corrected this asymmetry. The Commission itself now presents the diversity of the European banking sector as a competitive advantage that requires a proportionate application of the framework and calls on authorities to explain how proportionality relieves the administrative burden borne by small and non-complex banks[51]. Proportionality is therefore not a concession appended to the package. It is one of the conditions of its adoption.

The Commission's Communication of 17 July 2026 proposes a dedicated CRR regime allowing small and less complex banks to be more clearly identified within the regulatory framework, irrespective of their legal and organisational structure – a formulation that implicitly targets cooperative and network-based banking groups, whose structure currently complicates their qualification as small and non-complex institutions (SNCIs). The Commission has also signalled a likely revision of the current SNCI thresholds, which several Member States consider too low and insufficiently adjusted to inflation.

The Commission's regime would extend across the prudential, macroprudential and resolution dimensions simultaneously, while explicitly preserving risk-based requirements rather than replacing them. The proposal would also extend to Level 2 and Level 3 measures, tasking the EBA with reducing the number of technical standards, guidelines and processes applicable to small and less complex banks – directly addressing concerns that supervisory soft law has become a de facto fourth layer of regulation. Finally, the Commission has committed to pursuing its dialogue with the SSM and the SRB on the practical application of proportionality to institutions that meet the default significance criteria under the SSM Regulation, but whose individual circumstances might justify remaining outside direct European supervision.

In any case, a credible proportionality agenda should not come at the expense of financial stability. Institutions whose failure could have significant consequences for national financial stability should continue to comply with appropriate prudential and resolution requirements, including adequate MREL where justified. Access to the Single Resolution Fund should also remain subject to prior bail-in of at least 8% of total liabilities and own funds (TLOF): taxpayers and DGSs should not subsidize banks that do not have sufficient MREL, and the moral hazard issue caused by "free riders" must be avoided[52].

Lastly, proportionality should focus on eliminating unnecessary complexity and administrative burdens for genuinely smaller and less risky institutions, while preserving a high level of resilience across the banking sector.

51. See the Commission Communication on the competitiveness of the banking sector and the Single Market in banking. The Commission is expected to invite regulators, supervisors, resolution and macroprudential authorities to embed proportionality more clearly and to explain how it relieves the administrative burden on small and non-complex banks, and on other banks with relatively simple and prudent business models.

52. D. Cahen and A. Valroff, "Banking fragmentation issues in the EU", Eurofi Regulatory Update, September 2023, section 3.2.1.

4.2.2 Regulatory and supervisory measures to demonstrate the commitment to business model diversity in Europe

This attachment to business model diversity reflects a European asset, not an untidiness to be resolved: diversity increases the resilience and financing capacity of the system and serves customers that a single standardised model would not reach. Sufficient profitability is essential to every bank, but profitability cannot be the sole compass of supervision. On both counts the principle is the same, and it is what makes the package acceptable to institutions that will not benefit directly from cross-border integration: the costs of that integration must not be loaded onto them.

Cooperative and mutualist banks have consistently raised the same concern: that a framework designed for shareholder-owned commercial banks is applied to them by default, rather than adapted to what they are. Cooperative and mutualist groups do not remunerate external shareholders; they build capital primarily through retained earnings; they are organised in decentralised or federated structures; and their business rests on long-term customer relationships, local anchoring and member value.

This is not a marginal concern: it runs through supervisory expectations, SREP peer groups, profitability benchmarks, cost-efficiency assessments and governance standards, all of which continue to reflect, explicitly or implicitly, the characteristics of shareholder-owned commercial banks. The consequence is direct: a lower return on equity is liable to be read as a business-model weakness, when it is in fact the mechanical result of an ownership structure that does not remunerate external shareholders in the same way.

The package answers this concern by committing to recalibrate supervision itself, rather than asking cooperative and mutualist banks to conform to a template that does not fit them. SREP peer groups, profitability benchmarks and JST judgement should be redesigned to reflect different ownership and governance models. The indicators used to assess these institutions should include their capacity to generate retained earnings, the stability of their deposit base, their capacity to lend to local economies and their resilience through the cycle – evidence that cooperative and mutualist banks are best placed to provide, and that justifies differentiated supervisory treatment without amounting to preferential treatment or a lowering of prudential standards.

The same holds for the digital transition, where the scale required to invest in cloud infrastructure, cyber security, artificial intelligence and payments pushes towards standardisation, and where the ability of cooperative and mutualist networks to mutualise those capabilities while preserving local autonomy and member-based governance will determine whether digitalisation renews the diversity of European banking or erodes it.

TABLE 3.
How the package answers each party

Party	Concern or red line	What the package provides
Host countries	Resources may not flow in a local crisis; fear of being left alone	Binding intragroup support; European liquidity backstop; EDIS; meaningful association in governance
Home countries of large groups	Capital, liquidity and internal MREL immobilised by ring-fencing	Progressive lifting of sub-consolidated requirements once the safeguards are credible
Large cross-border banks	Capital, liquidity and MREL trapped and duplicated	Single-jurisdiction recognition; removal of duplicated requirements; free movement of resources
Smaller, cooperative and mutualist banks	Loss of proportionality; supervisory benchmarks built for shareholder-owned banks; threat to institutional protection schemes	A simpler regime for small and non-complex banks; supervision that reflects cooperative and mutualist models; IPS maintained as a prior line of defence; costs of integration not loaded onto them
Creditor Member States	Underwriting the fiscal slippage of others	Fiscal-discipline precondition; treatment of sovereign exposures if convergence fails
Supervisors and resolution authorities	Fragmented view; overlapping requirements; contested governance	Clarified SSM and SRB governance; simplification; an authority for the aggregate stack ("Prudential Efficiency Review Panel")
Depositors and the EU economy	Uneven depositor protection; fragmented market; lost competitiveness	EDIS; single banking market and merger synergies; the Savings and Investments Union

4.3 A package that answers everyone's concerns

The components above are not a series of concessions to one camp. Taken together they form a balanced settlement in which every constituency identified in this paper obtains an answer to its central concern and a guarantee on its red line. The mapping is set out below.

Two red lines deserve emphasis, because the whole settlement turns on them. The first is the host countries' assurance that they will not be left alone in a local crisis: the intragroup support mechanism, the liquidity backstop and EDIS exist precisely to provide it, and the clarified governance ensures their authorities are meaningfully associated with the decisions that affect them. The second is the proportionality of the framework for smaller, cooperative and mutualist banks and the preservation of their institutional protection schemes: the package must not load the costs of integration onto institutions that would not benefit directly from it. A settlement that respects both red lines is one that every party can sign.

4.4 Establishing a prudential efficiency review panel

The growing accumulation of microprudential, macroprudential and resolution requirements stemming either from both Pillar 1 and Pillar 2, national or EU levels, illustrates the need for a more holistic assessment of the European prudential framework outcomes. While each authority pursues legitimate objectives within its own mandate, no institution is currently responsible for assessing the cumulative impact of prudential and resolution requirements on banks' resilience, competitiveness, market integration and their capacity to finance the European economy.

The European Commission, supported by the European Banking Authority (EBA) and the European Systemic Risk Board (ESRB), should therefore establish a small and independent **Prudential Efficiency Review Panel** composed of highly respected former supervisors, central bankers, academics and market practitioners. Such a panel could include former Chairs of the ECB Supervisory Board, former EBA Chairs, former central bank governors and other recognised experts with extensive supervisory, regulatory and financial market experience.

In particular, the Panel could:

Ex post:

- assess the cumulative impact of microprudential, macroprudential and resolution requirements and its added value and efficiency regarding the EU prudential framework.
- identify overlaps, inconsistencies and obsolete requirements across the different regulatory pillars.
- recommend simplifications or recalibrations where different measures address broadly similar risks.
- assess regularly the impact of the EU prudential and supervisory framework on the competitiveness of European banks, both within the Single Market and internationally, and report publicly on developments affecting the level playing field.

Ax ante : develop a **Prudential Efficiency Check**, to be systematically applied before any significant new prudential or resolution measure is introduced. Under such a **Prudential Efficiency Check**, every significant regulatory initiative should be required to answer a limited number of questions:

- what new prudential or financial stability risk does the measure address?
- is this risk already covered, in whole or in part, by existing microprudential, macroprudential or resolution requirements?
- what is its cumulative impact on banks' capital, liquidity, reporting obligations, operational complexity and lending capacity?
- could an existing requirement be simplified, recalibrated or removed to offset the additional burden?

This would introduce a genuine **"one in, one review"** principle into European banking regulation, ensuring that regulatory complexity is actively managed rather than continuously accumulating.

The Panel would not interfere with day-to-day supervisory decisions or institution-specific capital requirements, which should remain the responsibility of the competent supervisory and resolution authorities.

Rather, it would provide an independent, system-wide assessment of the overall coherence of the prudential framework individual and system-wide outcomes and advise the Commission on the cumulative impact of significant regulatory initiatives before they are adopted.

And rather than allowing the cumulative prudential stack to grow without an explicit benchmark, the Panel could periodically assess, using supervisory stress tests and other forward-looking risk assessments, the aggregate level of capital necessary to ensure a high degree of resilience. This assessment would not constitute a binding cap on institution-specific requirements but would provide a system-wide benchmark against which the cumulative impact of microprudential, macroprudential and resolution requirements could be evaluated. Where the aggregate prudential stack materially exceeds this benchmark, particularly because several layers of requirements address broadly similar risks, the Panel could recommend recalibrations or simplifications in order to avoid unnecessary overlaps, while fully preserving financial stability and banks' capacity to finance the economy.

The Panel's recommendations should be made public. The European Commission, together with the relevant European banking authorities, should be expected to respond within a reasonable period, indicating whether and how the recommendations will be implemented or, where appropriate, explaining the reasons for not doing so.

By introducing an independent assessment of the cumulative impact of prudential regulation across all regulatory pillars, such a mechanism would strengthen the efficiency and consistency of European banking regulation and help ensure that future reforms enhance financial stability without unnecessarily increasing complexity or undermining the competitiveness and integration of the European banking sector.

4.5 The condition that governs the package: Sound public finances

The restoration of sustainable public finances in the overindebted Member States is the keystone on which the entire package rests. As S. Cappiello stresses, fiscal discipline and macroeconomic convergence remain a precondition for any genuinely European banking integration[53]; and as D. Cahen argues, fiscally virtuous countries will not, in the current context, additionally incur the risks of others' slippage[54]. Indeed, without sustainable adjustment, neither EDIS nor the intragroup support mechanism nor any backstop can fully break the sovereign-bank loop, because in those cases the loop runs through fiscal fundamentals that no banking architecture can neutralise. Sound policy is, in the end, the best way to break the nexus, and breaking it is what lets every other part of the package work. The point bears stating plainly, because it conditions everything else: without the correction of excessive imbalances and a symmetrical convergence of the economies of the Union, risk sharing on the scale this package requires will not be granted, and the completion of the Banking Union will remain a wish.

Baron Louis, Minister of Finance in France said to his government around 1820: "Faites-moi de la bonne politique et je vous ferai de la bonne finance", which can be translated as "Make good policies, and I will bring you good finance." We could say under his tutelage and inspiration: "Do the structural reforms, eliminate excessive disequilibria, converge our economies symmetrically, show a little more kindness on risk sharing and I will bring you Banking Union."

Conclusion

The analysis developed in this paper suggests that the future of the Banking Union depends less on identifying additional technical reforms than on changing the institutional incentives that continue to shape supervisory and political behaviour. As long as the home-host dilemma remains unresolved, the rational response of public authorities will continue to be the gradual accumulation of prudential safeguards, regulatory fragmentation and constraints on the efficient management of cross-border banking groups. The Banking Union will therefore remain caught in a cycle where each new risk tends to generate additional safeguards, while the conditions for periodically reassessing the cumulative stock of prudential requirements remain limited.

The challenge is therefore not simply to complete the Banking Union by adding its remaining institutional building blocks. It is to create the conditions under which trust between Member States can progressively replace the need for nationally driven safeguards. Only under these conditions can the prudential framework evolve towards greater coherence, proportionality and predictability while preserving the high standards of financial stability that the Banking Union has successfully established over the past decade.

As Jean Monnet understood from the outset of European integration, durable progress is built through cooperation between Member States around concrete objectives that gradually create mutual confidence and align national interests. The Banking Union should follow the same method. Rather than pursuing a comprehensive federal blueprint or relying on successive isolated legislative initiatives, policymakers should seek a negotiated package that combines stronger common safeguards with greater operational freedom for cross-border banking groups. Such a compromise would not eliminate national concerns,

53. S. Cappiello, op. cit.
54. D. Cahen, The Euro is in Danger, op. cit., p. 282.

but it could progressively transform them into a shared European interest.

This also explains why the different policy debates currently shaping the European banking agenda should not be treated in isolation. The completion of the Banking Union, prudential simplification, proportionality, the implementation of international prudential standards, the competitiveness of European banks and the objectives of the Savings and Investments Union are often presented as distinct policy agendas. In reality, they all depend, to a significant extent, on the same institutional precondition: resolving the home-host dilemma and creating a framework in which supervisors and public authorities can progressively rely less on nationally driven safeguards and more on common European mechanisms.

At the same time, institutional integration cannot be entirely disconnected from economic realities. The greater the convergence of Member States' economic structures, fiscal positions and financial systems, the easier it becomes to mutualise risks and deepen financial integration. Conversely, persistent economic divergences inevitably reinforce national preferences, increase reliance on domestic safeguards and reduce the willingness to share responsibilities. Institutional reform and economic convergence must therefore continue to advance together.

The Banking Union should therefore not be regarded as an end, nor should its success be measured solely by the formal completion of its institutional architecture. Nor, on its own, can it create a fully integrated European banking market, which will continue to depend on broader legal, fiscal and economic convergence across Member States. Its essential contribution lies elsewhere: in its capacity to transform the regulatory environment in which European banks operate. By progressively resolving the home-host dilemma, Europe can move away from the cumulative accumulation of prudential safeguards towards a framework that is more coherent, more proportionate and more predictable, while preserving financial stability.

Such a transformation would not solve every structural obstacle to banking market integration. It would, however, remove one of the most important institutional barriers that today constrains the efficient allocation of capital and liquidity, limits cross-border banking activity, increases regulatory complexity and weakens the international competitiveness of European banks. In doing so, it would create the institutional conditions under which Europe's broader objectives – stronger competitiveness, a simpler prudential framework, a more effective Savings and Investments Union and a deeper Single Market for financial services – could progressively reinforce one another rather than remain parallel policy ambitions.

Ultimately, the Banking Union should be judged not simply by whether it is completed, but by whether it succeeds in changing the incentives that shape supervisory, regulatory and political behaviour across Europe. If it achieves that objective, it will not only strengthen financial stability but also provide the institutional foundation for a more integrated, more competitive and more resilient European banking sector capable of supporting the Union's long-term economic ambitions.

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In his comments on this paper, Jacques de Larosière raised a fundamental question underlying this analysis: **if a genuine Banking Union is both possible and beneficial, why has it still not materialised?** His observation points to a central conclusion of this paper: the forces encouraging national particularism continue to prevail over the willingness to pursue a common European objective.

Two obstacles appear particularly important.

The first is **ring-fencing**. By constraining the optimal allocation of banking resources and compartmentalising capital and liquidity requirements along national lines, ring-fencing fundamentally obstructs the emergence of genuinely integrated European banking groups. Yet these practices do not result simply from national protectionism. They reflect legitimate concerns about financial stability, depositor protection and the potential fiscal consequences of banking crises, particularly among smaller host Member States. The experience of previous crises has reinforced these concerns and the resulting lack of mutual trust.

Overcoming them therefore requires credible European safeguards. The package proposed in this paper – combining stronger loss-absorbing capacity, EDIS, effective liquidity arrangements in resolution, credible intragroup support mechanisms and greater freedom for capital and liquidity to circulate within banking groups – is intended precisely to rebuild that confidence. In an exceptional systemic crisis, however, a broader question would inevitably arise if private loss-absorbing capacity and all existing European resolution resources had been exhausted. Ultimately, a fully credible European banking framework may require the capacity to mobilise European public resources as a genuine last resort. Whether Member States would be prepared to accept such an ultimate European backstop is itself a measure of their political willingness to achieve a genuine Banking Union.

The second obstacle is the **progressive accumulation and complexity of banking regulation and supervision.** Successive requirements originating from different European and national authorities have created a framework in which individually justified measures can accumulate without sufficient reassessment of their combined effects. The result is a prudential architecture whose complexity can reduce predictability, constrain banks' capacity to allocate resources efficiently and increasingly weigh on their international competitiveness.

The objective should not be deregulation. The strengthening of European banks' capital, liquidity and resilience since the global financial crisis is a major achievement that must be preserved. The challenge is rather to simplify the framework intelligently: removing unnecessary overlaps, periodically reassessing accumulated requirements, improving the predictability of supervisory measures and ensuring that the prudential framework remains proportionate to risks and adapted to the diversity of European banking models, without compromising financial stability or the level playing field.

This requires going beyond useful but incremental simplification initiatives. The Prudential Efficiency Review Panel proposed in this paper could contribute to that objective by providing an independent assessment of the cumulative impact of prudential and supervisory requirements, regularly reviewing their implications for the competitiveness of European banks within the Single Market and internationally, and identifying requirements that have become redundant or disproportionate. Its recommendations should be public and should receive a formal response from the Commission and the relevant European banking authorities.

The diagnosis of this paper is therefore **fundamentally optimistic.** The principal obstacles to a genuine Banking Union have been identified, and the instruments required to overcome them largely exist or can be created. The difficulty is no longer primarily to identify additional technical solutions, but to generate the political willingness to address the underlying institutional incentives and accept the corresponding sharing of responsibilities.

In this respect, the broadly supportive response of banking institutions, across different sizes and business models, to the analysis and proposals developed in this paper is encouraging. A genuine Banking Union should not be conceived as benefiting one category of Member States or banks at the expense of another. Its political sustainability ultimately depends on demonstrating that a more integrated, simpler and more efficient framework can provide tangible benefits to all participants while preserving financial stability.

The remaining question is therefore not whether a genuine Banking Union is possible, but whether Europe is willing to make the institutional and political choices required to achieve it.