Banking Union - annual report 2020

2020/2122(INI) - 26/07/2021 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted an own-initiative report by Danuta Maria HÜBNER (EPP, PL) on Banking Union - Annual Report 2020.

Members pointed out that the Banking Union has put in place the institutional framework for further market integration, through the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), but that the European Deposit Insurance Scheme (EDIS), the third pillar of the Banking Union, is still pending.

The benefits of the Banking Union

Members welcomed the entry of Bulgaria and Croatia into the Banking Union, as well as the discussions in Denmark and Sweden on the possibility of these two countries entering the Banking Union. While banks have been more resilient in responding to the current crisis because they are better capitalised and less leveraged than a decade ago, Members stated that the banking sector is characterised by certain structural inefficiencies that may be exacerbated by the current crisis and that more needs to be done to **reduce the high levels of non-performing loans** that persist in some financial institutions.

The report found that a fully operational Banking Union, together with a fully integrated and strong capital markets union, would contribute to the resilience of the European economy, support the functioning of Economic and Monetary Union and strengthen the international role of the euro. In this context, it stressed the need for a level playing field to ensure that SMEs are not disadvantaged in their access to finance.

The Commission is called upon to make further efforts to better align financial market activity with **sustainability objectives** and social, environmental and governance criteria and to continue its efforts in the field of sustainable finance.

Members considered that a strengthened approach to cooperation between the SSM and the CRU is particularly important to ensure that appropriate action is taken in a timely manner. They stressed the **vital contribution to addressing the crisis** of temporary measures such as public guarantee schemes, moratoria on loan repayments for borrowers in financial difficulty, the central banks' liquidity programmes and the ECB's targeted longer-term refinancing operations (TLTRO), asset purchase programme (APP) and pandemic emergency purchase programme (PEPP).

The report stressed that these extraordinary temporary measures should be accompanied by measures to mitigate market and economic distortions. The Commission and national and European supervisory authorities are urged to prepare for a likely deterioration in the quality of banks' assets.

Members welcomed the acceleration of the **digital transition** in the banking sector, which should be pursued in full respect of consumers' rights and should safeguard financial inclusion.

The report welcomed the ECB's work on the **digital euro** and called on the ECB to further analyse the implications of a digital currency for the banking sector and its potential impact on financial stability. It welcomed the objective of a digital euro operating alongside cash as a secure and competitive digital payment instrument.

Supervision

Stressing the importance of improving the transparency and predictability of European banking supervision, Members noted that **sound credit risk management** should remain a key priority for the SSM.

The report recognised that the COVID-19 crisis increases the risk of a further build-up of non-performing loans which could reach levels as high as EUR 1.4 trillion by the end of 2022. It stressed that ensuring the proper and timely management of deteriorated asset quality on banks' balance sheets will be key to preventing a build-up of non-performing loans in the short term.

Members recognise the role played by banks in **supporting businesses and the real economy** during the pandemic in some Member States. Banks should diligently assess the financial soundness and viability of businesses, proactively engage with distressed debtors to manage their exposures, and offer financing and viable restructuring or suitable alternative options to viable sectors and companies, especially SMEs, to ensure that defaults are prevented where possible and that businesses and consumers are not at risk of over-indebtedness.

The report stressed the importance of **protecting consumer rights**, particularly regarding unfair and aggressive terms and practices, bank fees, transparency of product costs, profitability and risks. It also stressed the importance of strong internal governance structures within banks as well as stress testing to build confidence.

Resolution

Members trust that the introduction of a **backstop** to the SRF in 2022, two years earlier than originally envisaged, in the form of a revolving credit line from the European Stability Mechanism (ESM) will strengthen the crisis management framework and is an important step towards completing the Banking Union.

The report welcomed the fact that, although the SRB was not required to take resolution measures in 2020, it nevertheless collaborated with the SSM in cases close to the crisis. It stressed the need to facilitate the liquidation of banks in whose resolution the SRB or the national resolution authority assess that there is no public interest. It also suggested that resolution should work for more banks, especially medium-sized banks.

Deposit insurance

Members stressed the importance of depositors across the Banking Union enjoying the same level of protection for their savings wherever their bank is located. They stressed that the implementation of the DGSD, guaranteeing up to EUR 100 000 in banking deposits, aims to contribute to a higher level of deposit protection.

The Commission is called on to take further steps to **relaunch the negotiations** on the EDIS through a roadmap-based work plan.