Banking Union - annual report 2020

2020/2122(INI) - 07/10/2021 - Text adopted by Parliament, single reading

The European Parliament adopted by 495 votes to 100, with 91 abstentions, a resolution on the 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.

Parliament 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 and the need to carefully monitor the issuance of securitised products.

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.

The resolution underlined the exceptional nature of the pandemic and the temporary nature of the relief measures put in place as an initial containment measure to limit economic damage. Stressing that economic support measures must remain tailored to current and expected economic circumstances, Members called for a well**-orchestrated, gradual and targeted shift from pandemic relief to recovery support tools**, including reforms in the Member States through the national recovery and resilience reform plans, as an early or uncoordinated withdrawal of the temporary measures could see the re-emergence of the pre-crisis deficiencies and vulnerabilities of the banking sector.

Members welcomed the acceleration of the digital transition in the banking sector and called on the ECB to further examine the implications of a digital currency for the banking sector and its potential impact on financial stability. They 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 resolution 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 are concerned that as Member States sell increasing volumes of sovereign bonds, the **share of sovereign debt on banks' balance sheets** is also increasing, potentially aggravating the sovereign-bank nexus. Members believe that Next Generation EU will offer high-quality, low-risk European assets by allowing a rebalancing of sovereign bonds on banks' balance sheets.

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. Additional supervisory pressure would be needed to ensure that financial institutions properly disclose climate and environmental risks.

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 resolution 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.