Banking Union - annual report 2022

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Kira Marie PETER-HANSEN (Greens/EFA, DK) on Banking Union - Annual Report 2022.

General considerations

Members welcomed the considerable progress made since the 2008 financial crisis thanks to the introduction of the single regulatory framework, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). **European banks are better able to withstand financial shocks** and resolution mechanisms are in place to deal with bank failures without recourse to taxpayers' money.

The report noted the financial, economic and social consequences of the Russian invasion for the European Union, including the worsening of the inflationary trend. While the direct exposure of banks to Ukraine and Russia is limited, there is a risk of indirect fallout for the banking sector. The ECB, the EBA and the competent national authorities are asked to monitor developments related to the war in Ukraine, in particular their impact on EU financial institutions.

Public support measures, coupled with the ECB's monetary policy decisions and regulatory adjustments, have enabled the banking sector to act as a shock absorber for the economic crisis caused by the COVID-19 pandemic. However, Members are concerned that the proportion of **non-performing loans** may increase now that the public support measures put in place as part of the COVID-19 pandemic have been phased out. They also called for the introduction of risk-adjusted limits on dividends and buy-backs to be considered in times of crisis.

Given that interest rates offered to households and SMEs vary widely from one Member State to another, the report called on the EU institutions and bodies to consider measures to **ease the burden on mortgage holders and SMEs** in Member States with higher lending rates, to ensure that all citizens and businesses can access much-needed capital at fair and competitive rates.

Members emphasised the role played by the banking system in supporting the transition to a carbon-neutral economy. They believe that the new geopolitical context increases the need to invest in renewable energies while achieving a socially just transition.

In particular, the report welcomed:

- the SSM's completion of a climate stress test in 2022 and notes the targets set for 2024;

- the adoption of the EBA's binding standards and common templates for banks' disclosures on environmental, social and governance (ESG) risks, as well as the adoption of the directive on the disclosure of sustainability information by companies;

- the ongoing work of the Commission and the ECB on the digital euro: the digital euro must give priority to a high level of privacy and data protection, confidentiality of payment data, cyber-resilience and security;

- the fact that Croatia has become the 20th Member State to join the euro zone;

- the progress made on the digital finance package: consumer protection needs to be strengthened and priority should be given to financial inclusion, including improving digital and financial literacy.

The report stressed the need for a well-functioning **single market for retail financial services**. It deplored the fact that the level and extent of fees and charges levied by financial institutions vary widely within the EU, but also between financial institutions in the same Member State. It called for the consumer protection framework to be improved.

Members deplored the fact that the EU's financial institutions and bodies have not achieved a full gender balance. Women are still under-represented in management positions in the banking and financial services sector.

Monitoring

The report noted that since the beginning of 2022, the Common Equity Tier 1 ratio of SSM banks has decreased to 14.74 % and the liquidity coverage ratio has also decreased to 162.03 %. Members welcomed the fact that the stock of non-performing loans on banks' balance sheets has continued to fall, but are concerned about the deterioration in asset quality due to rising interest rates. Vulnerabilities are building up in certain market segments, particularly in the real estate sector. Banks must retain sufficient capital and liquid assets to withstand the economic repercussions of the Russian war.

Members noted that profitability in the banking sector has risen over the past year to its highest level for 14 years. They stressed the importance of using profits to build up reserves, preserve the stability of the financial system and finance the European economy.

The report stressed the crucial role that banks are called upon to play in the transition to a sustainable economy and in guaranteeing the EU's ability to meet its environmental commitments. However, it points out that financial institutions continue to finance fossil fuel activities, despite evidence that climate change poses a major threat to financial stability.

Stressing the link between **anti-money laundering** and prudential risks, Members urged prudential supervisors to take full account of anti-money laundering risks in their supervisory activities.

Crypto-assets raise new issues and opportunities for the financial system. The report highlighted that certain market events highlight the need for further work in areas such as decentralised finance, cryptocurrency lending activities, cryptocurrency conglomerates and non-fungible tokens.

Resolution

Members noted that for resolution plans to be fully compliant with legal requirements, they must include a full assessment of each bank's resolvability, including whether there are any significant impediments to resolvability and how these impediments can be removed.

They pointed out the need to address the loopholes identified in the crisis management framework. They asked that the public interest assessment be further specified and harmonised in a way that ensures a consistent and predictable application of resolution strategies. They called for greater harmonisation of the treatment of small and medium-size banks and emphasised that resolution tools available to the SRB must be accompanied by access to appropriate financial resources, excluding taxpayers' money.

Deposit insurance

Members deplored the fact that the banking union remains incomplete in the **absence of a European deposit insurance scheme** (EDIS). They argue that EDIS would improve protection for depositors across the EU, regardless of where their bank is located. They support the calls by the Members of the European Parliament responsible for negotiating the EDIS proposal for an ambitious review of the framework for bank crisis management and deposit guarantees (CMDI), which could help to overcome the obstacles to setting up the EDIS. They reiterated their call for the Council to put an end to the current stalemate as a matter of urgency and to work constructively with the Parliament to reach an agreement on EDIS.