Banking Union – annual report 2023

2023/2078(INI) - 16/01/2024 - Text adopted by Parliament, single reading

The European Parliament adopted by 375 votes to 115, with 132 abstentions, a resolution on Banking Union - annual report 2023.

The resolution stressed that **Banking Union remains an essential complement to Economic and Monetary Union** (EMU) and thus to the internal market. Parliament recognises the progress made over the last 15 years through the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) and that EU banks are now in a better position to withstand financial shocks. It called for the completion of the Banking Union, and notes that its third pillar, EDIS, is still pending.

General considerations

Parliament called on the Commission to retain the completion of the Banking Union and the Capital Markets Union as **key priorities** for the remainder of its current mandate and for its next mandate. It highlighted that both projects:

- offer households and SMEs, which are still largely reliant on bank credit, broader access to funding;

- foster investments and job creation;

- support the European economy;

- increase financial stability;

- reduce the impact of economic downturns;

- fund the digital transition and the transition to a sustainable economy, and

- unlock the EU's growth potential.

Members considered that EU banks have withstood the impact of Russian aggression and that they play a pivotal role in ensuring the ongoing implementation of and compliance with the sanctions imposed by the EU against Russia in response to the invasion.

Further coordination between banks is needed to avoid circumvention of sanctions. Members noted that total direct banking sector exposures to Russia and Ukraine are limited as banks are currently reducing their exposures, and called on supervisory institutions and the ECB Banking Supervision to help the remaining EU banks operating in Russia to make an orderly exit from the Russian market.

Parliament noted the risks that **'too big to fail'** institutions could entail and noted that financial stability could be increased by a reform of EU G-SIBs that addresses moral hazard risks.

Members consider that an integrated Banking Union must be contingent on a well-functioning **single market for retail financial services**. They regretted the remaining barriers to cross-border retail banking services and calls on the Commission to assess the obstacles and barriers that arise for consumers when availing themselves of retail banking products.

Highlighting that the **interest rates offered to households and SMEs** across the Member States are highly disparate, Parliament urged the EU institutions and bodies to consider measures to improve consumer choice and competition and ease the burden on mortgage holders and SMEs in Member States with higher lending rates.

Members consider that **climate change**, environmental degradation and the transition to a low-carbon economy are factors to be taken into account when assessing the sustainability of banks' balance sheets, as a source of risk potentially impacting investments across regions and sectors.

Noting that the banks' exposures to **domestic sovereign debt** remain high in the Banking Union, Members recalled that one of the main objectives of the Banking Union is to break the link between bank and sovereign risks.

Supervision

Parliament stated that the EU banking sector faces risks following the pandemic and the Russian invasion of Ukraine, particularly in relation to **asset quality deterioration**. Although the non-performing loan (NPL) ratio decreased to 2.24 % in the first quarter of 2023 and has steadily declined since the end of the Great Recession, **further reduction** is needed.

Parliament called on supervisors to continue assessing banks' exposures to interest rate risks stemming from further changes in **interest rate levels**. Members noted that the exposure of banks to interest rate risk depends on their asset structure and business model and awaits the Commission's assessment of the regulatory framework for banks.

They called for **further harmonisation** of the EU regulatory framework, where appropriate, promoting convergence between national authorities and using the supervisory dialogue to assess the evolution of threats to the banking sector.

Stressing that **crypto-assets** create new opportunities and challenges for banks, Parliament awaits the Commission's legislative proposal by 30 June 2025 to introduce dedicated prudential treatment for exposures to crypto assets, taking into account the Basel standards.

Resolution

Parliament welcomed the **Single Resolution Board's** (SRB) approaches to deepening resolvability assessments by developing quality control measures for resolution plans and assessing whether these plans can be implemented at short notice. Members considered that for resolution plans to be fully compliant with the legal requirements, they must include a comprehensive assessment of each bank's resolvability, including whether substantive impediments to resolvability exist and how those impediments can be removed, including changes to a bank's structure and organisation if necessary.

Parliament welcomed that overall banks under the SRB's remit have delivered good progress towards resolvability and in building up loss-absorbing capacity. It expects this positive trend to continue.

The resolution underlined the importance of **protecting creditor hierarchy** in bank resolution and insolvency procedures. Members highlighted the role of the SRB and industry-funded safety nets in protecting taxpayers from paying for bailouts. They believe that contributions to industry-funded safety nets must always be calculated in proportion to the risk that the institution represents.

Deposit insurance

Parliament reiterated Parliament's commitment to working towards an agreement on an EDIS. It called for the co-legislators to work towards the **establishment of an EDIS that is realistic, credible, and solid**. It underlined the need for a fully-fledged EDIS with risk-based contributions that enables loss sharing.