Procedure file

Basic information

INI - Own-initiative procedure	2022/2061(INI)	Procedure completed
Banking Union - annual report 2022 Subject 2.50.04 Banks and credit		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		17/05/2022
		PETER-HANSEN Kira Marie	
		Shadow rapporteur	
		FITZGERALD Frances	
		MARQUES Pedro	
		EROGLU Engin	
		BECK Gunnar	
		ROOKMAKER Dorien	
		GUSMÃO José	
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs	GENTILONI Paolo	

Key events

07/07/2022	Committee referral announced in Parliament		
25/04/2023	Vote in committee		
04/05/2023	Committee report tabled for plenary	A9-0177/2023	Summary
10/07/2023	Debate in Parliament		
11/07/2023	Results of vote in Parliament		

11/07/2023	Decision by Parliament	T9-0270/2023	Summary

Technical information

Procedure reference	2022/2061(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Annual report
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/09123

Documentation gateway

Committee draft report		PE739.749	14/12/2022	EP	
Amendments tabled in committee		PE742.518	20/02/2023	EP	
Committee report tabled for plenary, single reading		A9-0177/2023	04/05/2023	EP	Summary
Text adopted by Parliament, single reading		T9-0270/2023	11/07/2023	EP	Summary
Commission response to text adopted in plenary		SP(2023)526	19/12/2023	EC	

Banking Union - annual report 2022

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.

Banking Union - annual report 2022

The European Parliament adopted by 454 votes to 152, with 16 abstentions, a resolution on the Banking Union - Annual Report 2022.

General considerations

Parliament recalled that the Banking Union is an essential complement to the Economic and Monetary Union and the single market that aligns responsibility for supervision, resolution and funding at EU level, meaning that banks across the euro area abide by the same rule book. It 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 resolution 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. The ECB and the national competent authorities are called on to adopt appropriate supervisory measures to prevent the energy crisis from leading to a financial crisis.

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, Parliament is 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. It also called for the introduction of risk-adjusted limits on dividends and buy-backs to be considered in times of crisis.

Members are concerned by the high level of inflation, standing at 8.4 % for 2022. In reaction to this inflation surge, the ECB decided to raise its main interest rates from 0 % to 3 % for the main refinancing operation rate. Parliament emphasised that the current bout of inflation is mainly a supply-side phenomenon largely owing to external factors, most notably the Russian war against Ukraine and the disruption of supply chains resulting from the COVID-19 crisis, making monetary policy tools less effective at driving down inflation.

Given that interest rates offered to households and SMEs vary widely from one Member State to another, the resolution 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.

In particular, the resolution 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.

Parliament 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.

Supervision

The resolution 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.

Parliament noted that reducing risks on banks balance sheets would contribute to a more stable, strong and economic growthoriented Banking Union. It considered that monitoring the reduction in non-performing loans should remain one of the supervisory priorities, in a balanced way that considers decapitalisation risks and consequences for debtors. The co-legislators are called on to continue developing an adequate framework to address this priority.

Stressing the link between anti-money laundering and prudential risks, Parliament 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 resolution 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.

Parliament called for greater harmonisation of the treatment of small and medium-size banks and emphasised that resolution tools available to the Single Resolution Board must be accompanied by access to appropriate financial resources, excluding taxpayers money.

Deposit insurance

Parliament deplored the fact that the banking union remains incomplete in the absence of a European deposit insurance scheme (EDIS). It argued that EDIS would improve protection for depositors across the EU, regardless of where their bank is located. The resolution recalled that Parliament has a mandate to negotiate on the EDIS and is ready to resume its work to complete it as soon as possible.

Parliament called for a fair risk-sharing mechanism through an EDIS, while continuing the risk reduction trend in all EU countries.

Members supported 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.

Lastly, the resolution acknowledged the different concepts for an EDIS and considered, nonetheless, that any short-term solution should not prevent the establishment of a fully-fledged EDIS that enables loss sharing based on concrete criteria.

Transparency

FITZGERALD Frances	Shadow rapporteur	ECON	03/03/2023	Central Bank of Ireland
GUSMÃO José	Shadow rapporteur	ECON	14/02/2023	Finance Watch