DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

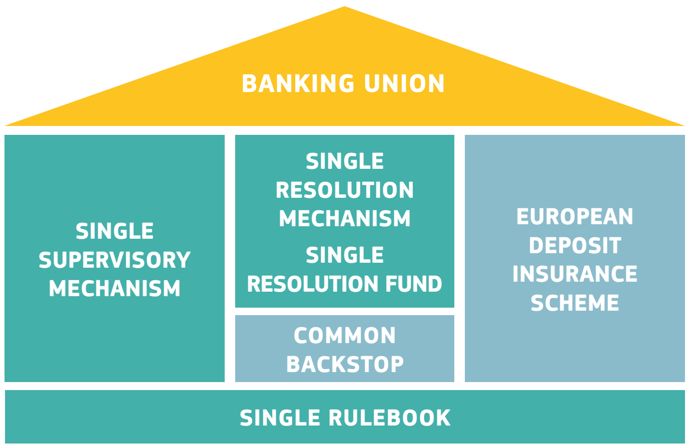
Update ahead of the Euro Summit of December 2018

#FutureofEurope

BANKING UNION: MAKING OUR FINANCIAL SYSTEM EVEN STRONGER

The Juncker Commission has from the start worked to put the EU banking sector on an even sounder footing for future generations, with rock-solid banks that perform their indispensable role in financing the economy and supporting growth.

Within the context of the roadmap set out by the Commission on 6 December 2017 for the deepening of Europe's Economic and Monetary Union, and in line with the Leaders' Agenda, one of the most immediate priorities is to complete the Banking Union and put in place all building blocks for a Capital Markets Union by the European elections of May 2019.



This also means ensuring that taxpayers are not the first in line to bail out ailing banks, as well as keeping EU citizens' money safe, no matter where they live. Both the European Parliament and Council have reaffirmed the importance of the Banking Union with a view to its completion.

The Banking Union should be achieved by risk reduction and risk sharing in parallel. Financial stability has been considerably reinforced in recent years, and risk reduction in the EU banking sector is continuing at a sustained pace. Recently, an agreement was reached on the comprehensive set of reforms that the Commission proposed in 2016 to further strengthen the resilience and the resolvability of EU banks.

"A continuing priority is to finish fixing the problems of our banking sector and to boost private investment. I have been a strong supporter of the development of stricter controls on banks through a Single Supervisory Mechanism and a Single Resolution Mechanism with a Single Resolution Fund that will be built up progressively. My Commission will be active and vigilant in ensuring that we implement the new supervisory and resolution rules fully, making European banks more robust so that they can get back to lending to the real economy."

European Commission President Jean-Claude Juncker,
Political Guidelines for the next Commission, 15 July 2014

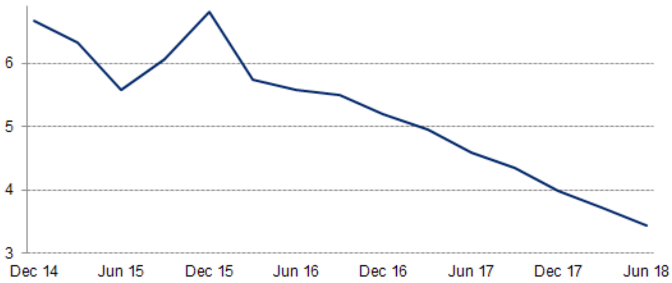
REDUCING RISKS: NPLs CONTINUE TO DECLINE

Non-performing loans (NPLs) ratios in the EU continue to decline at a sustained pace, approaching pre-crisis levels. Addressing the remaining stock of NPLs and minimising their future accumulation is essential for the completion of the Banking Union and the reinforcement of the Economic and Monetary Union (EMU).

	Non-performing loans in % of total loans in selected countries		
	Q2 2017	Q2 2018	% change
Cyprus	33.4	28.1	-16.0%
Spain	5.3	4.1	-21.7%
Greece	46.9	44.9	-4.2%
Ireland	11.6	8.5	-27.0%
Italy	12.2	10.0	-18.3%
Portugal	15.5	11.7	-24.5%
Slovenia	11.4	7.4	-34.7%
European Union	4.6	3.4	-25.3%

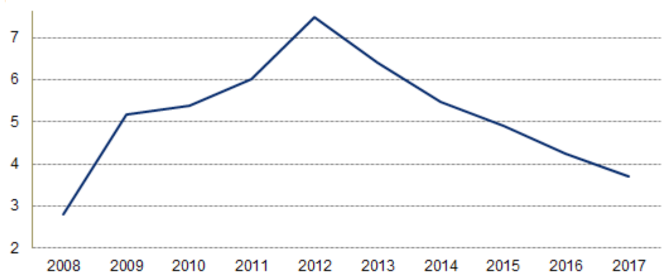
Source: European Central Bank

Non-performing loans in the EU since the Juncker Commission took office (%)



Source: European Central Bank

Non-performing loans in the EU since the outbreak of the crisis (%)

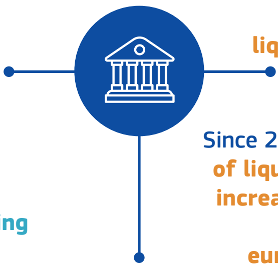


Source: World Bank

BANKS HAVE INCREASED THEIR RESILIENCE TO FINANCIAL SHOCKS

Over a decade on from the financial crisis, European banks are stronger, safer and more secure.

EUROPEAN BANKS



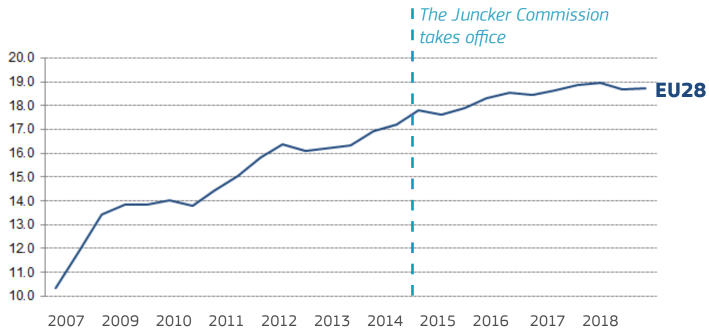
...are **better capitalised:** Capital ratio is approaching **20%** for EU banks, almost **doubling** since 2007

...have **higher liquidity buffers**

Since 2014 the **stock of liquid assets** has **increased by € 812 billion for euro area banks**

...and therefore are better **equipped to finance the real economy and withstand economic shocks**

EU banks' total capital ratio, in %



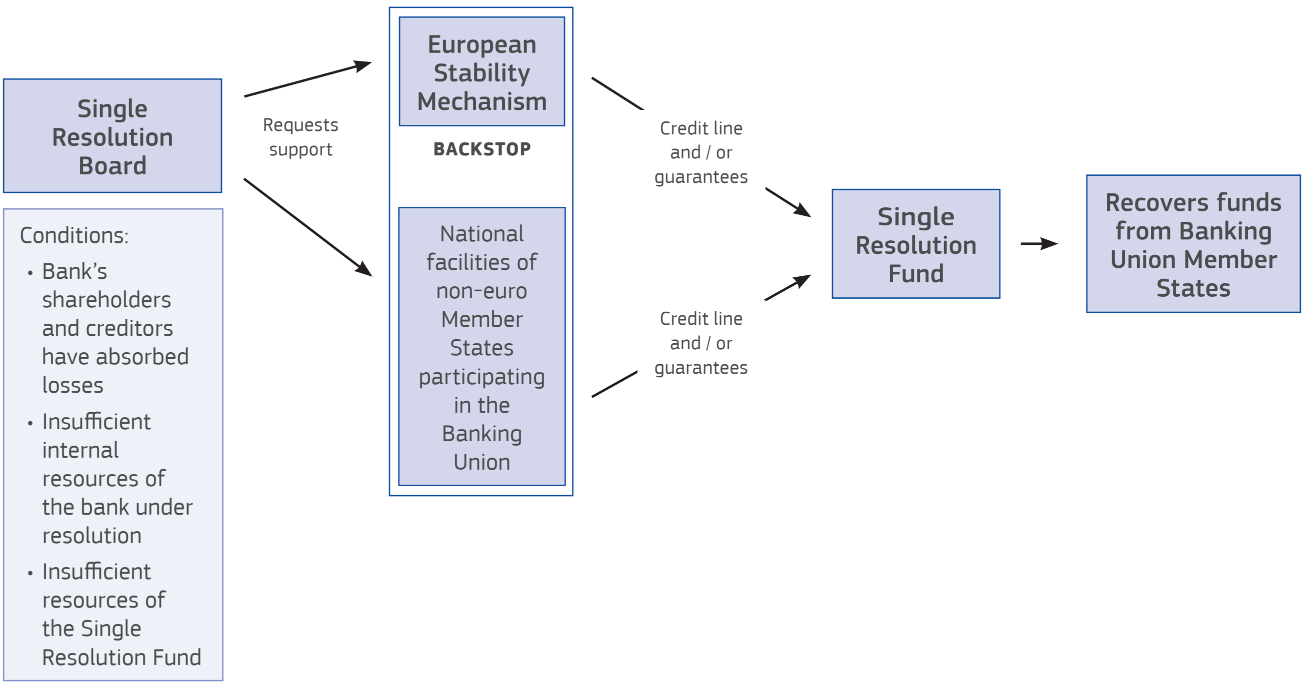
Source: European Central Bank

A COMMON BACKSTOP TO THE SINGLE RESOLUTION FUND

A final agreement on a backstop to the Single Resolution Fund for the Banking Union is now necessary. The backstop should be credible and readily available to use. It would be fiscally neutral, activated as last-resort insurance in the event of a bank resolution and reinforce confidence in the banking system.

Heads of State or Government have already agreed that the backstop should be provided by the European Stability Mechanism. The recent agreement by euro area Finance Ministers on the terms of reference for the backstop increases the credibility of the Fund. It also provides for an earlier introduction than foreseen if sufficient progress is made in risk reduction. This paves the way for a final agreement by the Leaders at the December Euro Summit.

HOW WILL THE BACKSTOP WORK?



THE EUROPEAN DEPOSIT INSURANCE SCHEME (EDIS)

More intensive political engagement is needed on the **European Deposit Insurance Scheme**. This would further strengthen the protection of savers across the Banking Union, no matter where their deposits are located.

Putting in place - over time - a common deposit protection scheme is essential for increased trust and resilience of the banking system and the common currency. Work needs to be sped up on the roadmap for beginning political negotiations on the European Deposit Insurance Scheme.

EDIS provides a stronger and more uniform degree of insurance cover for all retail depositors in the Banking Union

WHAT THE COMMISSION HAS PROPOSED IN OCTOBER 2017:

- More gradual introduction of EDIS.
- Reinsurance would only provide liquidity to national deposit guarantee systems, while national deposit guarantee systems have to cover losses.
- The transition from reinsurance to co-insurance would be conditional on sufficient reduction in banks' non-performing loans.
- Under co-insurance, EDIS' coverage of losses would gradually increase.

COMPLETING THE BANKING UNION

Already in place SINGLE RULEBOOK	***Already in place*** IN THE BANKING UNION	***In progress***
Capital and liquidity requirements make banks more stable		Common backstop for the Single Resolution Fund
Governance rules (incl. on remuneration) set the right incentives	Banks supervised by the Single Supervisory Mechanism at the European Central Bank	European Deposit Insurance Scheme
Strong supervision of banks	Single Resolution Mechanism can resolve banks	Equipping banks better to reduce stock of non-performing loans
Disclosure rules to improve transparency	Banks pre-finance Single Resolution Fund to avoid costs for taxpayers	Enabling banks to prevent accumulation of non-performing loans in the future
Improved protection for depositors through national deposit insurance systems		Clarifying supervisors' powers to address non-performing loans
Common rules for managing failing banks		More transparency on non-performing loans
Banking Package: further enhancements of capital and liquidity requirements		Large investment firms to be supervised by Single Supervisory Mechanism
		Private-sector risk sharing through sovereign bond-backed securities

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
European Deposit Insurance Scheme (EDIS)	*Further strengthening the protection of bank depositors across the Banking Union.*	🟠	🟠
November 2016 Banking Package	*Reinforcing the banking Single Rulebook with further risk-reducing measures and rules to foster banks' infrastructure investment.*	🟢	🟢
A backstop for the Banking Union	*Making the agreed backstop for the Single Resolution Fund part of the European Stability Mechanism.*	🟡	🟡
Further reduction of non-performing loans on EU banks' balance sheets	*Package of initiatives to further reduce non-performing loans, complementing previous actions.*	🟡	🟡

🟡 Swift agreement possible by following normal procedures
🟠 Agreement possible if strong political commitment from all EU institutions
🟢 Agreement reached