BANKING UNION CHALLENGES

GIUSEPPE SIANI
Director General for Financial Supervision and Regulation – Banca d'Italia

Financial integration: state of the art and the way forward

Where do we stand?

It is widely recognized that fragmentation in the EU banking market imposes significant costs on banks, hampering the efficient allocation of resources across the EU and limiting the geographical portfolio diversification. Barriers to cross-border banking activities also discourage competition, hence limiting the pressure on banks to innovate and improve their services. Ultimately, fragmentation hinders the banking sector potential to support the real economy and effectively address the current global challenges.

Financial and technological trends are promoting new channels of integration among different markets and across countries: in particular, the traditional banking business has been increasingly complemented by other activities such as asset management, custodian services, payment systems, bancassurance, etc. Moreover, banks and NBFI do not necessarily need to establish subsidiaries, nor enter in M&A, to provide services across borders, given that EU regulation allows authorised institutions to operate throughout the EU, for instance by providing services via digital platforms. Non-EU banks may also establish branches in individual Member States, subject to national laws. Relationships among financial and not-financial entities are increasing to exploit synergies in a technology-oriented environment. This trend indeed boosts the level of integration in the financial system, even though according to a less traditional business model.

EU legislators and competent authorities have made considerable efforts to increase the level of integration in the banking sector, but there are still margins for improvements, for example regarding regulatory divergences on several topics and the incomplete Banking Union (BU) and Capital Markets Union (CMU). Against this backdrop, ring-fencing measures confirm concerns by host Member States that the potential cross-border crises might impact on their domestic depositors and economies, given that home parent companies might fail to support domestic subsidiaries, where needed.

Progress so far...

I would like to remind three of our main achievements at EU level:

1. the creation of the SSM has been a pivotal turning point to enhance a cohesive and consistent business environment across Member States, thus reducing regulatory arbitrage and strengthening banking practices, which in turn built greater confidence among investors, institutions and authorities.
2. The SSM itself has actively promoted integration in the EU banking market through several ad hoc initiatives that can contribute to cross-border operations, such as the supervisory guidelines for cross-border liquidity waivers. Moreover, the SSM published in 2021 its Guide on the prudential treatment of mergers and acquisitions, that clarifies how the SSM assesses merger transactions and the relevant applicable supervisory treatment, in particular for the calibration of the Pillar 2 add-ons post-merger, if any. However, such clarification has not determined the desired fuelling effect.
3. The creation of the Single Resolution Mechanism and the harmonization of banks crisis management arrangements, which have mitigated the risks associated with having a wide range of national crisis management mechanisms, thus providing for an EU more consistent framework for managing the resolution of failing banks.

... and challenges ahead

While recognizing our success on the first two pillars of the BU, it is now time to complete the third pillar through the establishment of EDIS, which would ensure risk sharing across the EU, thus both mitigating concerns of host Member States and reducing the incentives to adopt ring-fencing practices.

The second key issue concerns the current review of the crisis management framework. The ongoing legislative proposal does not seem to go in the direction of significantly expanding the access to the Single Resolution Fund. However, the Council recent compromise broadens the adoption of preventive and alternative measures by DGSs and can therefore be considered positively, albeit sub-optimal, given that it reduces the disorderly piecemeal liquidation scenarios.

The reduction of the banking market fragmentation is intertwined with the creation of the CMU.

Lastly, the reduction of the banking market fragmentation is closely intertwined with the creation of the CMU. While a deeper integration of capital markets would facilitate the provision of cross-border financial services, leading to better access to host jurisdictions by banks, it is also true that the BU is a prerequisite for the CMU as, in the words of Governor Fabio Panetta, "it is difficult to envisage a genuine CMU without the key players being able to operate throughout the euro area". An effective step ahead along the trajectory of fully integrating the EU capital markets is therefore a unique opportunity to trigger a virtuous circle, which would ultimately contribute to decisively addressing the issue of financial fragmentation in the EU, thus reaching a genuine Banking Union.

KERSTIN
AF JOCHNICK
Member of the Supervisory Board – European Central Bank (ECB)

The Banking Union's unfinished business

In a previous contribution, I outlined how better regulation, more efficient supervision, well-capitalised banks and strong institutions had led to a more resilient banking sector during the first ten years of European banking supervision.[1] However, in the context of a monetary union and a single supervisor, one area which has fallen short of expectations is bank integration. While we have seen a fair amount of banking consolidation within national borders over the past decade, cross-border mergers have been more the exception than the rule.

As a result, despite the progress made in several areas, the European banking system remains closer to being a collection of national banking sectors than a truly integrated market. This is problematic because overcoming the fragmentation of the financial system along national lines was one of the main objectives political leaders had in mind when establishing a banking union.

In the following, I will discuss the reasons behind this lack of cross-border integration and what could be done to remedy it in the future.

The importance of the (missing) third pillar

Banks looking to expand beyond national borders have to deal with an array of different regulations across European countries, including in tax, accounting and insolvency regimes as well as in securities markets. Fostering bank integration would therefore require increased harmonisation on these fronts.

While such convergence could take years, perhaps the single largest deterrent to cross-border bank mergers is European rather than national legislation. This is because cross-border capital waivers are not an option under current EU law, so banking groups cannot freely move capital between their subsidiaries in multiple jurisdictions. EU law does provide for cross-border liquidity waivers, however, and the ECB has tried to create an environment in which banks can use this limited leeway in the legislation to this end.[2] But the take-up of this initiative has been lukewarm as some host country authorities still fear that local subsidiaries could be put at a disadvantage compared with their parent entities if the latter experience financial distress. This is where the lack of progress on the third pillar of the banking union – a common insurance scheme for bank deposits – appears to be a major obstacle.

It is therefore safe to say that if such a common deposit insurance scheme were in place, some national authorities would be more likely to allow the free movement of capital and liquidity across borders, which would in turn increase banks' appetite for cross-border mergers.

Harmonising the macroprudential stance

Beyond legal convergence across countries and the creation of a true safety net for bank deposits, prospects of a unified banking market in Europe would also benefit from a more harmonised macroprudential stance in the banking union as a whole. The pandemic brought the question of the usability of banks' buffers to the forefront of the policy agenda. The lessons from that episode appear to have been partly heeded, as national macroprudential authorities have tended to take a more proactive stance towards building banks' buffers in recent years so that they could be released in a countercyclical manner.

However, this increased policy activity has brought about some new challenges. First, there are the level playing field issues, as banks of a similar size and footprint for the banking union as a whole may be subjected to different buffer requirements by their home macroprudential authorities. And second, there is the growing complexity of the framework, because some countries have opted to activate systemic risk buffers (whether across the country or just for specific sectors), while others have not. This has raised some difficult questions about the degree to which macroprudential measures taken in one country should be "reciprocated" by third countries for cross-border banking exposures or exposures through bank branches.

The European banking system remains closer to being a collection of national sectors than a truly integrated market.

Therefore, a union-wide perspective is needed in the macroprudential framework to ensure that this approach is consistent across Member States and potential overlaps are minimised. This can be done without altering the existing balance of competencies between national authorities and the ECB, for example by updating the commonly agreed methodologies for determining banks' macroprudential buffer requirements.

Conclusion

Taken together, the absence of a common insurance scheme for bank deposits and the lack of a union-wide perspective in macroprudential policy have significantly contributed to strengthening the national character of banking systems in recent years. A more concerted policy effort by the different stakeholders will be required if the promise of a truly unified banking market is to be fulfilled.

1. *Af Jochnick, K. (2024), "Financial stability under European banking supervision", contribution for Eurofi magazine, 20 February.*
2. *Enria, A. and Fernandez-Bollo, E. (2020), "Fostering the cross-border integration of banking groups in the banking union", The Supervision Blog, 9 October.*

PETER PALUS
Member of the EFC/EWG & Head of Financial Unit – Permanent Representation of the Slovak Republic to EU

How to cut the Gordian knot of the Banking Union

Most discussions on the home-host issue are currently focused on the fair burden sharing in the event of a bank failure. This is a legitimate and politically sensitive topic, which was made evident in a number of cases, providing important lessons for the future. Still, insufficient attention has been paid to an equally important issue - the role of banks in financing economies, supporting economic growth, and providing macro-stabilization function in host countries, primarily of the Central and Eastern Europe (CEE) region.

There is a growing need to urgently mobilize private resources to achieve our goals linked to green and digital transitions, strengthening Europe's defence and security, as well as to catch up with the USA and China in economic growth. The role of the banking sector during crises was highlighted in recent episodes, especially during the COVID-19 pandemic, where a well-capitalized banking sector played a crucial role in stabilizing the economy, thus fulfilling an important macro-stabilization role. In addition, bank infrastructure was essential in the distribution and implementation of support for businesses and households.

The banking sector in host countries of the CEE region experienced dynamic development after its transformation in the 1990s. Its dominant position, coupled with early negative experiences with quasi-alternative investment opportunities, have not contributed to the creation of the necessary ecosystem for the proper development of the capital market. In Slovakia, for example, the privatization process has had a negative impact, as its implementation preceded the establishment of properly functioning institutions, coupled with a number of scandals with the so-called "non-banks" that took the form of Ponzi schemes. To tackle these early complications, various measures to boost the domestic capital markets have been taken with different success rate among the CEE countries. Yet, a common feature remains - the banks play a key role in the economies, while the banking markets remain concentrated with a significant share held by large European banking groups. We are now faced with a situation where strong and trustworthy banks compete with undeveloped capital markets. As a result, the strategic role of banks in national economies is further increasing, while the variety of financing and investment opportunities for companies and households remains reduced.

Banking union could significantly benefit from greater focus of the CMU on less developed markets.

The current focus on completing the Capital Markets Union (CMU) could be the answer to overcome bank dependence and may also present a unique opportunity to expand the range of financing opportunities. Assuming, of course, that this initiative will also lead to development of smaller, regional capital markets and simultaneously connecting them with the existing infrastructure in the EU. It is important to note, that while the key issue in developed capital markets is scale-up, in less developed markets it is the initial start-up phase. Less developed capital markets would benefit from tools that increase or equalize their attractiveness, such as the harmonization of insolvency frameworks or measures that improve visibility of companies, whereas developed markets would benefit more from measures that bring additional resources, such as securitization relaunch. Of course, there are also many common objectives, especially in terms of reducing bureaucracy, cutting the red tape and simplifying procedures. Importantly however, wider acknowledgement is warranted by the home countries that the Banking union could significantly benefit from greater focus of the CMU on less developed capital markets.

The CMU is certainly not a panacea. The well-known and extensively discussed aspects such as the common understanding of financial stability in the banking sector, amendments to bank recovery and resolution framework, the European Deposit Insurance Scheme, as well as state aid rules and the Regulatory Treatment of Sovereign Exposures are equally important. Nonetheless, a fully-fledged CMU would significantly contribute to reducing dependence on the banking sector. By doing so, the CMU can be the mythical sword that cuts the Gordian knot of the Banking union.

URSKA CVELBAR
Director General, Financial System Department – Ministry of Finance, Slovenia

Banking Union and primary concerns of host countries

The Banking Union brings numerous benefits but also challenges for host countries of banks with parent companies in other EU member states. Properly addressing these concerns will contribute to a more balanced financial environment, strengthen confidence in the banking system, and ensure sustainable economic development for all member states.

Host countries play a crucial role in the Banking Union, as our concern for capital adequacy, liquidity, macro-prudential supervision, competitiveness, and effective bank resolution significantly contributes to the financial stability of the entire EU. The risks of deteriorating the so-called home-host balance not only affect financial stability but also the feasibility of resolution plans, level playing fields, the economy, employment, and access to international institutions. Through the credit rating agencies, these risks also impact funding sources.

In host countries such as Slovenia, foreign-owned banks are essential for financing the economy and providing employment. However, they are not necessarily crucial to the banking groups they belong to. This, in turn, may reduce their willingness to pursue various objectives that are vital for host countries. In this context, it is important to highlight the readiness for adequate recapitalization, sufficient liquidity, and compliance with other prudential requirements, which will, through the supervisory mechanisms of the Banking Union, appropriately prevent the transfer of risks from home countries and enable effective action in times of crisis. Based on various EU-level initiatives, we are also concerned that centralized supervision and resolution mechanisms could negatively impact smaller banks and, consequently, the local economy. We highlight potential insufficient liquidity as a possible negative consequence, which could lead to the insolvency of banks.

Based on the above, host countries aim to ensure sufficient capital and liquidity reserves as well as effective capital and liquidity support in the event of a crisis.

In the area of capital and liquidity requirements, the Commission has previously proposed their waiver at the level of individual banks in the case of cross-border groups. According to the Commission, the introduction of waivers would allow the reallocation of financial resources (capital, liquidity) among member states within the EU at their discretion, enabling operations in individual countries with little or no liquidity and capital while the system of contractual commitments of the group's remaining entities would act as a safeguard to assist a group member in trouble. However, host countries insist on legal safeguards ('level 1 safeguards'). Waivers could increase the likelihood of transferring group problems to subsidiaries and vice versa. Additionally, liquidity and capital waivers would create an unequal competitive position for subsidiary banks compared to local banks, which must fully comply with all requirements.

Host member states insist on the fulfillment of individual, not just consolidated, prudential requirements.

Furthermore, the question arises regarding the rationale for reducing capital requirements for the group and doubts about the efficiency of the banking market. Waivers, such as for additional lending in an overheated real estate market, could have negative consequences for European banking.

Meeting all prudential requirements at the individual bank level is crucial for a healthy and stable banking system in each member state and forms the basis for effective supervision. Consolidated supervision significantly complements individual supervision but does not replace it.

In 2021, the Commission prepared a legislative proposal related to the implementation of Basel III requirements. In this context, it proposed the introduction of an Output Floor for setting capital requirements, where the Output Floor would be applied only on a consolidated basis. Most host countries, including Slovenia, which was then holding the EU Council presidency, strongly opposed this proposal. Subsequently, an agreement was reached to apply the Output Floor at all levels: individual, sub-consolidated, and consolidated.

In the adoption of the so-called Daisy Chain Directive within the CMDI legislative reform, it was important for host countries to maintain the discretion of the national resolution authority to determine the internal MREL (Minimum Requirement for Own Funds and Eligible Liabilities) requirement on a consolidated basis.

In negotiations, host countries also strive for greater influence of national resolution authorities in the management of the Single Resolution Board.

We believe that it is essential to continue advocating for the interests of host countries, which may not always align with the interests of the countries where banking groups are headquartered. This approach is essential for the Banking Union to deliver stability and resilience to the financial system for all its members, which was, in fact, the primary objective of establishing the Banking Union.

RIINA SALPAKARI
Head of Public Affairs
Finland – Nordea Bank AB

A well-functioning internal market needs a macroprudential reform

The EU is heading into the new Commission's term with a significantly revised microprudential framework for banks. The changed prudential rules imply higher capital requirements for many banks using internal models due to decreased risk sensitivity of the prudential framework, which may be further amplified in banks' overall capital requirements due to macroprudential buffers.

Macroprudential requirements is an area of banking regulation where the EU and its member states have gold-plated international standards. Many EU banks have ended up in a situation where significant decisions impacting their capital and business planning are published suddenly, inconsistently, and without including a full analysis of overlaps with other requirements. This unpredictability may make banks more conservative in their lending, constraining the lending capacity to the real economy. It also disincentivises cross-border business models given that each member state has their own macroprudential approach, which can be changed at short notice, adding a degree of uncertainty. Furthermore, there is currently no authority in charge of assessing whether the aggregate capital requirements for a banking group are proportionate to its overall risk picture. All of these elements hamper the development of a true single market with free movement of services.

The EU needs an overhaul of the macroprudential framework. This should be a top priority for the new Commission in order to boost competitiveness for both banks and their customers, to improve on the risk sensitiveness the of banks' capital requirements, and to level the playing field within the EU.

How should this be done? First, The EU should take a hard look at the complexity of the existing framework, especially when compared with global peers. Bringing the rules, and the tools, closer to those set in Basel standards would bring along a more level and predictable playing field. There should also be a more clear pecking order of microprudential and macroprudential measures. The ideal starting point for this would be that risks are covered using microprudential measures as a priority, with macroprudential tools to be used where this is not possible or practical.

Second, for the simplified toolbox, EU level standardisation and decision making should be significantly strengthened. This would mean common metrics and methodologies with clearly prescribed tools available to decision makers, with clear rules on how to map metrics, such as G/O-SII scores, to buffer requirements.

The EU needs an overhaul of the macroprudential framework.

Third, to the extent possible, the actual decision making should be consolidated within the EU/EEA. The current framework prescribes roles for several EU authorities, but the scattered analysis and oversight roles have not led to sufficient convergence of macroprudential decision across the EU/EEA. In particular, there should be more close cooperation between microprudential and macroprudential decision making, since experience shows that same or similar risks can be covered by microprudential and macroprudential measures. The group level supervisor typically has the best information and analysis of the risks faced by a banking group and should have a say in the correct combined buffer level for that group.

There has been much discussion on the need to add releasability to the macroprudential framework. Conceptually, this makes sense. Releasable buffers make the framework more adaptable to changes in business cycles and, in theory, enable banks to adjust their lending capacity to dampen economic cyclicality. But in practice, the positive neutral countercyclical buffer has often come on top of already high structural buffers, adding excessive conservatism to the combined buffer requirements of banks. At the same time, experience from Covid-19 showed that releasing buffers without clear communication on eventual build-up made the use of these buffers undesirable for banks. Thus releasability in itself does not solve anything as long as there isn't sufficient clarity and incentives for banks to make use of it. An eventual reform of the framework should include further releasability, coupled with commensurate downward adjustments of other tools, such as the capital conservation buffer and clear guidance to banks on future build-up.

Novel or evolving risks, such as climate and cyber risks, have also been mentioned in discussions around the macroprudential review. While it is important that all authorities are aware of these risks, it should be noted that the microprudential setup is currently being reformed especially for climate risks. Setting further macroprudential capital requirements based on these risks at this stage would run a high risk of overlaps with Pillar 1 and Pillar 2 requirements. Furthermore, the current framework of national decision making is particularly ill-suited for climate risks, which are cross-border by nature.

CHRISTIAN EDELMANN

Managing Partner Europe – Oliver Wyman (UK)

Why Pan-European banks are now a necessity

Europe faces an array of economic challenges, from the energy and digital transitions to remilitarization. Governments are increasingly constrained by fiscal limits, so private sector financing will be crucial to these efforts.

That would be much more straightforward in the United States, where capital markets cover roughly 70% of all corporate financing needs. But in Europe, the figure is just 30%.

A true Capital Markets Union across Europe would help greatly, but it won't happen overnight. Private credit remains materially less developed than in the United States, and has historically focused more on providing debt financing for buyouts.

That leaves banks. Unfortunately, European banks aren't sized for the task. While their balance sheets have been stable over the past decade, tougher capital requirements have drastically reduced their risk appetite. The balance sheets of the top five US banks are 2.8 times larger than those of their European peers, allowing for more diversification, larger exposures, and greater investment budgets with which to jump to the forefront of technological developments.

Moreover, despite the ever-larger need for pan-European financing, European banks still operate largely within national borders. The top five banks in Europe by assets account for just 34% of the overall market, compared with 75% in the United States.

Europe's failure to foster large banks operating across a pan-European market creates risks. The first: reduced resilience to economic shocks. By restricting capital flows and liquidity across borders, ring fencing practices limit banks' ability to diversify risks and funding.

The second: impaired financial stability. By protecting the borders of national banking systems, ring fencing can create pockets of vulnerability. In crises, insufficient coordination among national authorities can hinder resolution and exacerbate systemic risk.

The third risk: diminished financial strategic autonomy. By operating mainly within national borders, European banks struggle to compete with large non-European firms, particularly in global businesses such as capital markets. History has also shown that during times of crisis these global firms retrench to their home markets.

Many challenges are deeply ingrained in national customs and will be difficult to change overnight. But five are technical in nature and can and should be addressed urgently:

The European Deposit Insurance Scheme. Ongoing proposals to develop a uniform EDIS have been stalled due to concerns of dissimilar risk levels across EU members, hampering integration of balance sheets. A reinsurance-based solution might revive talks.

Authorities must shift from a sole focus on stability, to also considering growth & competitiveness.

Common backstop approach. Work toward this goal must continue. A single resolution mechanism is not yet equipped with an operational backstop fund to supplement the existing Single Resolution Fund in case of contemporaneous resolution of multiple large institutions.

Cross-border liquidity. The GSIB scoring methodology (which includes surcharges depending on the home country) keeps capital ratios higher for cross-border mergers than domestic ones. Impediments also remain to cross-border liquidity transfers within banking groups.

National regulation. The EU regulatory framework allows for variations in domestic regulation of tax, mortgages, customer protection, insolvency, and other areas. For the next EU Commission there might be a few quick wins achievable, such as in corporate or dividend taxation.

Accounting. Unfavourable accounting treatment (such as the implications of recognition of fair value adjustments of loans and bonds portfolios) makes M&A less appealing.

In addition to these technical fixes, a more fundamental change in mindset is required. Authorities and regulators need to shift from prioritizing stability at all costs to also considering growth and competitiveness. We need the strategic will to create truly European banks, accompanied by proper incentives. What if, for example, capital implications were lower for cross-border mergers than for domestic? Imagine if banks operating on a to-be-defined European perimeter (such as providing financing to corporates and sovereigns in more than x markets, with a certain minimum volume level to ensure relevance) could receive capital relief commensurate with their more diversified business model. Likewise, what if a separate backstop for these European banks were created?

Granted, larger banks come with their own risks. Despite the regulatory overhauls since the global financial crisis, none of the victims of last year's banking crises has gone through the resolution process foreseen by the Basel regulations. Hence, this framework remains to be tested in a real case. Nevertheless, if Europe wants to succeed in an increasingly polarized world, radical "top down" action is required.

JOHANNEKE WEITJENS
Global Head of Supervision, Public & Regulatory Affairs – ING Group

Banking Union is a growth engine we cannot afford to ignore

Europe wants to improve its resilience, boost its competitiveness, and navigate the climate and digital transitions. For all these goals, Europe needs to maximise local sources of funding.

As we consider how to do this using private finance, capital markets rightly take centre stage as it is an underused funding source. However, better allocation of bank funding is also an important part of the puzzle. This allocation issue can only be solved by completing Banking Union.

The potential gains of completing Banking Union have been estimated at 0.3%-0.8% of Eurozone GDP by the European Parliament's Research Service (EPRS). [1] The EPRS rightly framed their research as an exercise in "mapping the costs of non-Europe". Missed opportunity, as opposed to direct losses, are too often disregarded in policy debates. To put this into perspective, the EPRS estimation would mean an additional yearly income of €250 and €750 for every Eurozone household, each year. Banking Union is a growth engine that cannot be ignored.

The full promise of Banking Union is that it is both a financial stability and a financial integration project. It provides a stepping stone towards a single market for banking services. This would allow more efficient allocation of capital to support the real economy, break down financial barriers between countries that hold back growth, and boost competitiveness.

It should be noted that non-EU banks, often focused on corporate and investment banking, currently benefit more from the EU internal market, especially post-Brexit. They set up centralised holdings for their operations in the EU from which they grow cross-border provision of services through branches, with fewer local constraints. EU-headquartered banks, typically with large retail operations, remain stuck in a more segmented setup. They tend to be more rooted and systemically relevant for domestic, national, markets.

How do we make progress?

Whereas the capital markets agenda is complex and entails a lot of hard-to-tackle fundamental problems, the road to completing Banking Union is relatively straightforward. In our view, there are both **missing** and **imperfect** pieces of the puzzle that lead to a Banking Union stuck halfway.

On the one hand, there are the infamous and often repeated **missing** pieces of Banking Union:

Creating an EDIS – this will be beneficial for the European saver by promoting cross-border competition for deposits. It will also help alleviate concerns over how losses are allocated between DGSs in a cross-border bank failure.

Liquidity in resolution – a credible EU-level provider of liquidity in resolution would resolve host Member States' concerns and greatly increase the credibility of the Banking Union resolution framework.

On the other hand, Banking Union is also hampered by problems with **imperfect** Banking Union-related legislative framework.

The macro-prudential framework is not fit for Banking Union – the persistent different application of macro-prudential tools, notably buffer requirements, at national level, creates an unlevel playing field between banks in the Banking Union. The regime needs urgent reform with a focus on harmonisation and predictability.

Significant barriers to transferability of funds and instruments – in an imperfect banking union, bank contributions to national DGS cannot be transferred to another Banking Union DGS in case of M&A or changing corporate structures. This is a source of paralysis for cross-border activity. Similarly, there are questions about the transferability of MREL instruments in cross-border mergers.

> **The focus can and should now shift to boosting competition and competitiveness.**

Difficult application of liquidity waivers and capital upstreaming – The CRR allows for liquidity waivers, but in practice this has never happened. Cross-border banks also face challenges when upstreaming capital from fully owned subsidiaries to the group level. In a functioning Banking Union, banks should be able to manage their balance sheets much more centrally, avoiding trapped liquidity and capital within the group.

Boosting the EU's strategic autonomy requires a complete Banking Union, as part of the financing goals behind a Savings & Investment Union. The current framework is sufficiently robust from a prudential perspective. The supervisory setup works very well, as events, or rather lack thereof in the Banking Union, over the past years have demonstrated. The focus can and should now shift to boosting competition and competitiveness by destroying the walls standing between the EU's national banking markets.

1. *[1] EPRS, Increasing European added value in an age of global challenges, Mapping the cost of non-Europe*

   (2022-2032), March 2023, https://www.europarl.europa.eu/RegData/etudes/STUD/2023/734690/EPRS_STU(2023)734690_EN.pdf