

Europe Express **European banking union**

A road map to nowhere

Eurozone struggles to salvage hopes for stalled Banking Union



Domestic politics have scuppered the EU's attempts to put in place the last regulatory pieces for its largest financial districts © Getty Images

Valentina Pop, Europe Express editor JUNE 17 2021

Good morning and welcome to Europe Express.

With eurozone finance ministers huddling in Luxembourg today, we look at why it is proving so difficult for the EU to complete its **Banking Union**, a project born in the aftermath of the sovereign debt crisis a decade ago.

And as on every Thursday, we profile a figure worth watching — or re-watching. This week the spotlight is on federalist grandee **Guy Verhofstadt**, whose latest incarnation as co-chair of the Conference on the Future of Europe is a perfect metaphor for the EU's halfhearted attempt at grassroots democracy.

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Banking union, interrupted

When Paschal Donohoe, Irish finance minister, took over the presidency of the eurogroup, he placed the stalled Banking Union project at the heart of his mandate.

A meeting of EU finance ministers in Luxembourg this week is likely to confirm just what a daunting challenge that represents, writes **Sam Fleming** in Brussels.

Donohoe's goal has been to get member states to sign up to a detailed work plan, setting out their ambitions for advancing the project on multiple fronts.

But the EU's influential capitals lack any appetite to make bold — or even incremental — moves at present. The risk is that the project will continue to drift even as leaders gear up for their next euro summit this month.

Donohoe has sought to intensify work in four critical, intertwined areas:

- 1 Plans to create a eurozone-wide bank deposit insurance scheme
- 2 Tackling the link between banks and their countries' sovereign debt
- 3 Improving the region's crisis management framework
- 4 Furthering cross-market integration

What makes the project so difficult is the interlinked nature of these tasks. Any advance requires bold jumps on multiple fronts. But Europe's political barometer is not favourable to athletic leaps.

Most importantly, Germany is going to the polls in September and politicians there have little appetite for embracing divisive policies such as EDIS during election season.

Italy, which has repeatedly clashed with Germany on Banking Union matters, also has little incentive to make big offers given the possibility of a radical change of direction in Berlin.

Policymaking in the Netherlands, meanwhile, has been hobbled by the absence of a coalition government. "The next few months are going to be quite challenging in terms of engaging in any big political decision-making — in any field of EU integration," said one senior EU official.

Donohoe's goal has been to come up with an ambitious Banking Union work plan that provides meaningful guidance, not a fuzzy statement packed with inoffensive generalities. Absent the former, officials suspect it would be better to table nothing at all for the time being and keep working away.

Continued inertia would hardly be a novel phenomenon. An attempt in late 2019

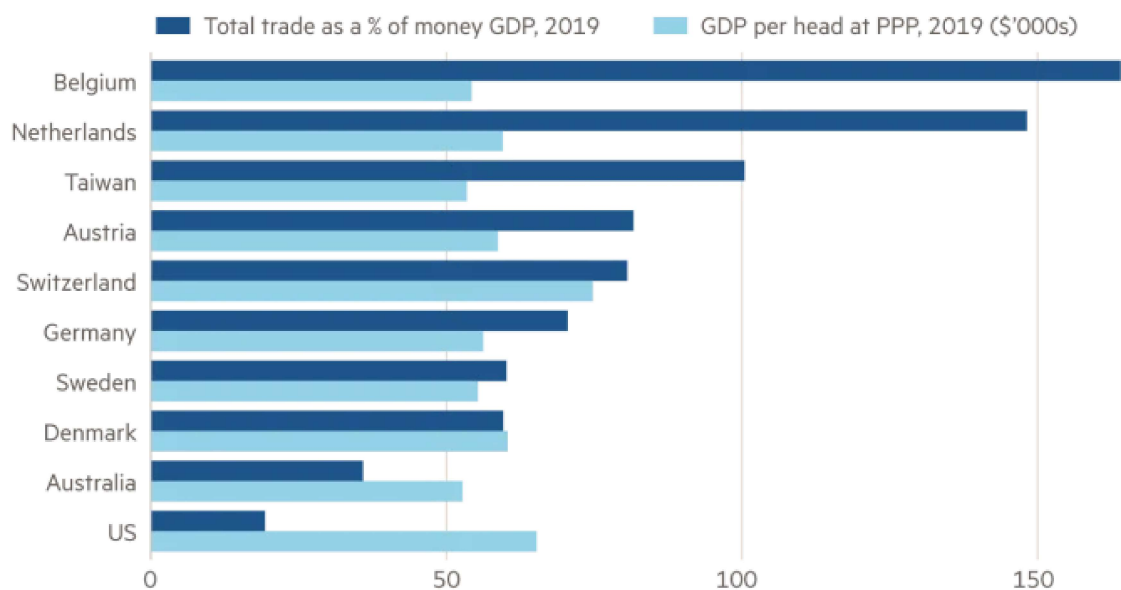
by German finance minister Olaf Scholz to end the “continuous gridlock” over the issue quickly foundered after it was overtaken by the Covid-19 crisis.

But it remains a huge piece of unfinished business stemming from the last crisis. The question remains the same: if not now, when?

Chart du jour: Vulnerable free trade squad

Most rich countries are small and very open to trade

Trade ratios of the richest countries*, 2019



* Measured in GDP per head in purchasing power parity. Excludes oil exporters, countries with <5m population and countries whose GDP is distorted by foreign profits
Sources: IMF; FT calculations

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Small European nations that are big champions of free trade stand to lose the most from US-driven protectionism. The prosperity of Germany, and of most smaller high-income countries, hinges on trade, writes [the FT's Martin Wolf](#).

The EU's nearly man

This weekend, Strasbourg will host the inaugural plenary session of the EU's Conference on the Future of Europe, where one familiar Brussels figure will be taking centre stage: Guy Verhofstadt.

Despite the best attempts of EU leaders such as Angela Merkel to prevent the former Belgian prime minister from [leading the conference outright](#), the 68-year-old MEP has managed to become the face of an exercise designed to engage citizens in deciding the future direction of the union, write **Mehreen Khan** and **Jim Brunsden** in Brussels.