



Economic and Financial Affairs Council (ECOFIN)

Topic 1: The Struggle to Complete and Strengthen the EU's Banking Union.

President: Karim Al Shurafa



President's Letter

Dear Delegates,

It is my honor to welcome you all to the Economic and Financial Affairs Council (ECOFIN). This committee carries a special weight, as the issues we face are not only technical, but deeply tied to the future stability and prosperity of our world. From shaping fair fiscal rules to strengthening financial systems, and from addressing crises to unlocking investment in green and digital growth, the work you do here will reflect diplomacy at its best.

ECOFIN stands out as one of the greatest committees because it sits at the heart of global economic decision-making. With Europe long serving as a center of trade, finance, and innovation, the discussions we hold here go far beyond numbers, they shape how economies interact, how crises are managed, and how cooperation is built across borders. The influence of this committee reflects the reality that when Europe acts together, it has the power to guide not only its own future but also the direction of the global economy.

As your President, my role is to guide and support you in creating meaningful debate that is fair, respectful, and productive. You will find that ECOFIN thrives when every voice is heard whether you are representing a large economy or a small one, your ideas matter. I encourage you to step forward, take risks in your arguments, and most importantly, work

with one another. True diplomacy is not about speaking the loudest, but about building bridges, negotiating differences, and finding solutions that leave no member behind.

This committee will challenge you, but it will also reward you. The rules of procedure, the pace of debate, and the responsibility of resolution-writing are all here to test your skill and focus. But remember you are not alone in this process. Alongside the chairing panel, I am committed to making sure every delegate has the tools, guidance, and support they need to succeed.

Yours sincerely,

Karim Al Shurafa

President of ECOFIN



Terminology

- **Banking Union (BU):** A framework of laws and institutions established by the European Union to stabilize and strengthen the EU's banking sector.
- **Eurozone:** The economic region formed by those member countries of the European Union that have adopted the euro.
- **Bank-Sovereign Vicious Circle:** A self-renewing loop in which a nation's banks and its governments become mutually vulnerable to one another's financial crises/distress.
- **European Central Bank (ECB):** The central bank for the euro area, that includes nations in the EU that have adopted the Euro as their currency.
- **Austerity:** Difficult economic conditions created by government measures to reduce public expenditure, i.e. strict government-imposed economic policies to reduce public debts and budget deficits.
- **Fiscal Compact:** The fiscal chapter of the TSCG (2012) designed to improve Eurozone economic governance and fiscal discipline in the EU.

- **Sovereigns:** Individual member states and their governments acting as independent economic authorities.
- **Single Supervisory Mechanism (SSM):** The centralized banking supervision system in the EU, led by the ECB, with the aim of protecting the security of European banks. It is the first pillar of BU.
- **Single Resolution Mechanism (SRM):** Second pillar of BU, resolves failing banks within the EU to maintain financial stability and minimize costs of taxpayers.
- **Single Resolution Board (SRB):** An independent agency that serves as the authority for the resolving of failing banks in the EU.
- **European Deposit Insurance Scheme (EDIS):** The intended third pillar of BU, a proposal for a system across Europe to guarantee bank deposits up to €100,000 in the case of a failing bank.
- **Single Resolution Fund (SRF):** Emergency fund established to manage failing banks without using taxpayer money.

- **Sovereign Debt:** The amount of money that a country's government has borrowed, typically issued as bonds denominated in a reserve currency.
- **European Stability Mechanism (ESM):** An international financial institution established by European governments to provide conditional financial assistance to member states facing economic difficulties that risk the financial stability of the euro area as a whole.
- **Crisis Management and Deposit Insurance (CMDI):** A framework designed to handle failing banks by ensuring depositor protection, financial stability, and reducing the need for the usage of taxpayers' money for bailouts.
- **Bailouts:** The act of giving financial assistance to a failing business or economy to save it from collapse.

History and timeline of events

The European Union (EU) began building the Banking Union (BU) in 2011-2012 following the Eurozone crisis in 2009. The goal was to end the “bank-sovereign vicious circle” (also called the doom loop) and create integration within the European financial system. Although the EU has made significant progress, the BU remains unfinished, due to technical and political disagreements between member states, and a lack of consensus. The BU is built upon three significant pillars, with the third being incomplete.

- **1999 Euro Implementation:** In 1999, the Euro was implemented by eleven European nations; Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The European Central Bank (ECB) controls the EU’s monetary policy.
- **The 2008 Global Financial Crisis:** The 2008 Global Financial Crisis (also called the Panic of 2008) was a crisis that began in the United States due to falling housing prices and an extensive number of borrowers unable to repay their loans. Although this began in the US, it quickly spread to a global level due to interconnected financial markets. Ireland was the first economy to collapse within Europe.

- **The Eurozone Crisis of 2009:** Greece's high budget deficit is revealed (113% of GDP with a deficit of 13.6% GDP, differing from the reported 6.7%) resulting in a fall of credit ratings and a severe decline across EU economies, contributing to severe unemployment.
- **2010:** Portugal, Spain, and other nations experience severe market crashes as investors demand higher interest rates and the debt value increases. Greece and Ireland received a bailout, while Spain and Portugal implemented austerity measures.
- **2011:** The crisis grows more severe, as many nations struggle with debt. Portugal requests a bailout.
- **2012:** Greece receives a second bailout, and the EU implements a fiscal compact. Spain and Cyprus request bailouts, as the crisis continues to deteriorate and attempts to be solved. Leaders commit to solving the doom loop between banks and sovereigns, establishing the core objective of the BU.
- **2013:** The European Parliament approves the legal framework of the Single Supervisory Mechanism (SSM).

- **2014:** The Single Resolution Mechanism (SRM) Regulation enters into force and the SRM Intergovernmental Agreement (IGA) is signed. The SSM becomes fully operational, and the ECB takes the supervisory role over Europe's largest banks. The first pillar of the BU is complete, financial stability is strengthened.
- **2015:** The SRM enters into force, as the Single Resolution Board (SRB) begins work, setting mechanisms for managing failing banks and deeming the second pillar of the BU partially operational. The European Commission formally submits a legislative proposal for the European Deposit Insurance Scheme (EDIS), officially beginning the struggle for the completion of the BU and formation of the third pillar.
- **2016:** The Single Resolution Fund (SRM) becomes an operational tool for the SRM, and receives contributions from banks to minimize taxpayer risks. The ECOFIN Council agrees on a blueprint for the completion of the BU, starting political discussions on EDIS and formalizing the "risk-reduction first" stance.
- **2018-2019:** The debate on reducing banks' risks of a sovereign debt remains unsolved, and the "doom-loop" is not yet exterminated.
- **2020:** Bulgaria and Croatia join the SSM while closely working with the ECB.

- **2023:** The SRF reaches its target size of 1% of covered deposits, ensuring that it has sufficient capacities to manage bank failures in an organized way, while protecting taxpayers and financial stability.
- **2024:** Discussions between EU member states on finalizing key elements of their BU, such as European Stability Mechanism (ESM) support for the SRF and Crisis Management and Deposit Insurance (CMDI) framework, persist.



Current situation

Today, the EU faces persistent obstacles in finalizing and deepening its Banking Union. Crisis management and deposit insurance remain politically and legally contested, with member states hesitant to pool financial risks at the EU level. Banking nationalism continues to dominate, as governments often prioritize the protection of their domestic institutions over collective stability, preventing full market integration. Furthermore, unequal sovereign exposures, where banks remain heavily invested in their own governments' debt, pose a critical risk. This so-called “doom loop” links national banks and sovereign debt in a cycle of mutual vulnerability, threatening to reignite crises reminiscent of 2008–2012.

Without further integration, the EU's financial system risks fragmentation, instability, and insufficient resilience to future shocks. This incomplete Banking Union undermines investor confidence, complicates monetary policy transmission, and slows progress toward a truly unified capital market.

How is this relevant to ECOFIN?

The completion and deepening of the EU Banking Union is directly relevant to ECOFIN, as it intersects with key economic and financial policy responsibilities of EU finance ministers and broader international financial stability concerns. ECOFIN plays a central role in coordinating national financial policies, monitoring fiscal risks, and implementing frameworks for crisis management and banking regulation. The persistence of national banking priorities and the incomplete integration of deposit insurance mechanisms highlight the need for discussion, guidance, and potential recommendations at the ECOFIN level.

Failure to resolve these structural and regulatory issues could amplify systemic risks, affecting not only eurozone member states but also neighboring EU economies and international financial markets. ECOFIN's involvement is crucial to ensure that policies promoting market integration, risk-sharing, and crisis preparedness are implemented efficiently, reducing the likelihood of a renewed sovereign-bank doom loop similar to the 2008 financial crisis.

Parties involved

- **The European Union (EU):** Regulates, supervises, and resolves banking issues in Europe, aiming to ensure financial stability and strengthen the Economic and Monetary Union (EMU).
- **The European Commission (DG FISMA):** Proposes and steers the big rules (like the recent crisis-management update) and keeps pushing to finish the Banking Union.
- **European Central Bank / Single Supervisory Mechanism (SSM):** The main bank supervisor for the euro area, working together with national supervisors to keep banks safe and consistent across countries.
- **National Competent Authorities (NCAs):** Each country's own supervisors that team up with the ECB; they directly watch over smaller banks and help with authorizations.
- **Single Resolution Board (SRB):** The “fix-it” authority that handles failing banks so problems don't spill over to the wider economy or taxpayers.

- **National Resolution Authorities (NRAs):** Country-level partners that carry out resolution work locally and coordinate with the SRB.
- **European Parliament (ECON):** Co-writes the laws with the Council and recently helped land the new CMDI deal to make handling bank failures easier, especially for smaller banks.
- **Eurogroup:** Euro-area finance ministers who coordinate euro-specific banking issues and help build political consensus.
- **European Banking Authority (EBA):** Writes detailed rulebooks, runs EU-wide stress tests, and oversees how national deposit-guarantee schemes are tested.
- **European Systemic Risk Board (ESRB):** The macro-risk “radar” that warns about system-wide threats and recommends policy responses.
- **National Deposit Guarantee Schemes (DGSs):** National safety nets that protect deposits up to €100,000; they are the base layer today.
- **“Pro-integration” member-state bloc (notably France, Italy, Spain):** Wants fuller risk-sharing (including EDIS) to finally break the bank–sovereign loop.

Guiding questions

- Why was the Banking Union created in the first place, and what problems was it meant to solve?
- How did the 2008 financial crisis and the Eurozone debt crisis expose weaknesses in Europe's banking system?
- What role does the European Central Bank play in supervising banks, and why is a common referee important?
- Why has the plan for a European Deposit Insurance Scheme (EDIS) not yet been agreed on?
- How does the “doom loop” between banks and governments still threaten financial stability today?
- Why would a banking crisis in one country (like Portugal or Greece) matter for the rest of Europe?
- What are the arguments of countries that want “risk reduction first” before sharing deposit protection?

Written structure of a policy paper

1. **Thematic focus** → Preambulatory clauses that tackle the main issue and provide a summary of the delegates' stance + action plan.
2. **Operative clauses** → Numbered and kept relatively short.
 - Action statements.
 - Legislation references or new legislation proposed.
 - Subclauses are optional; it is recommended to keep them short.
 - Must use the appropriate economic and financial terms.
3. **Evaluation** → Maintenance and upkeep, contains technical details that are not mentioned in the operative clauses.
 - Monitoring Mechanisms.
 - Timelines.
 - Reporting requirements (When? How often? To who? Why?)

[Draft Policy Paper \(Resolution\) – ECOFIN Committee.pdf](#)

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