



EUROPEAN CENTRAL BANK

EUROSYSTEM

Resilience, integration and competitiveness: building the future of European banking

Tenth annual conference of the
European Systemic Risk Board

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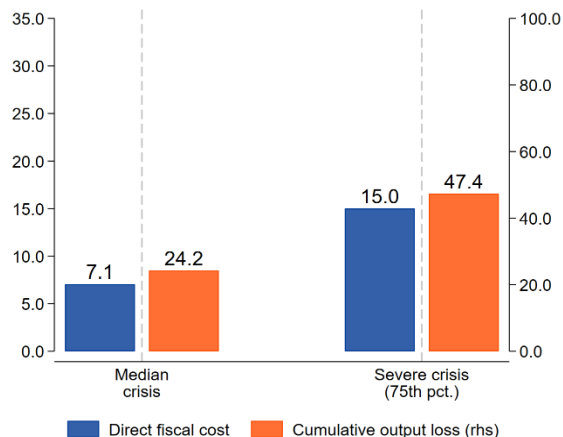


Insufficient capital and liquidity entail high economic costs

- Systemic banking crises impose substantial fiscal costs: the median cost of a crisis is around 7% of GDP, rising to 15% at the 75th percentile
- Fiscal costs capture only part of the damage: financial crises also entail broader and potentially persistent losses in output, employment and investment

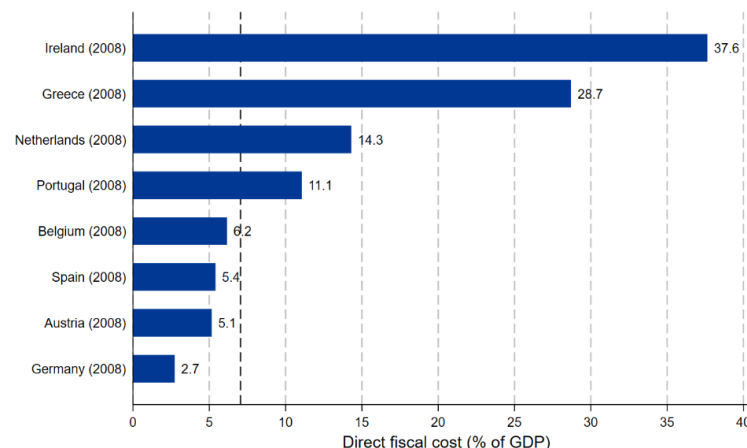
Fiscal and output costs across banking crises

(left-hand scale: direct fiscal cost as a percentage of GDP; right-hand scale: cumulative output losses as a percentage of trend GDP)



Fiscal cost of the global financial crisis in selected euro area countries

(direct fiscal cost as a percentage of GDP)

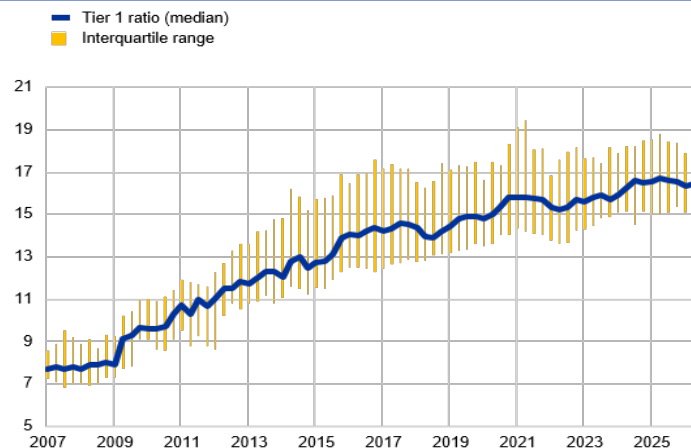


Notes: The bars show the median and 75th percentiles of direct fiscal costs and cumulative output losses across systemic banking crises. Fiscal costs are outlays directly related to restructuring the financial sector. Cumulative output losses are measured over the crisis year and the subsequent three years relative to pre-crisis trend GDP. The dashed line indicates the median fiscal cost across all systemic banking crises in the database (7.1% of GDP). Source: Laeven and Valencia (2026), Systemic Banking Crises Database, 1970-2025.

Euro area banks are well capitalised and profitable

- Euro area banks are well positioned to withstand possible systemic shocks. Capital ratios have been increasing for years, reaching record levels
- Banks' profitability is at historical highs, well above their cost of equity
- Overall, return on equity has increased as banks have accumulated capital

Euro area banks' Tier 1 capital ratio (percentages)



Return on equity and cost of equity (percentages)



Notes: In the left-hand chart, the sample comprises up to 112 institutions. The chart shows the Tier 1 capital ratio, as the CET1 capital ratio was introduced only in 2010 as part of the Basel III framework. National regulatory bodies began implementing the CET1 standards in 2013. Owing to regulatory changes which affected the definition of Tier 1 capital and risk-weighted assets, data are not fully comparable over time. In the right-hand chart, the lines show median values for the group of banks. The sample comprises up to 77 significant institutions.

Bank valuations improve as resilience enables bigger profit distributions

- Euro area bank equity valuations have been increasing since the start of monetary policy normalisation, supported by sustained profitability, low cost of risk and expectations of higher dividends
- Payouts to shareholders have increased concurrently with capital generation

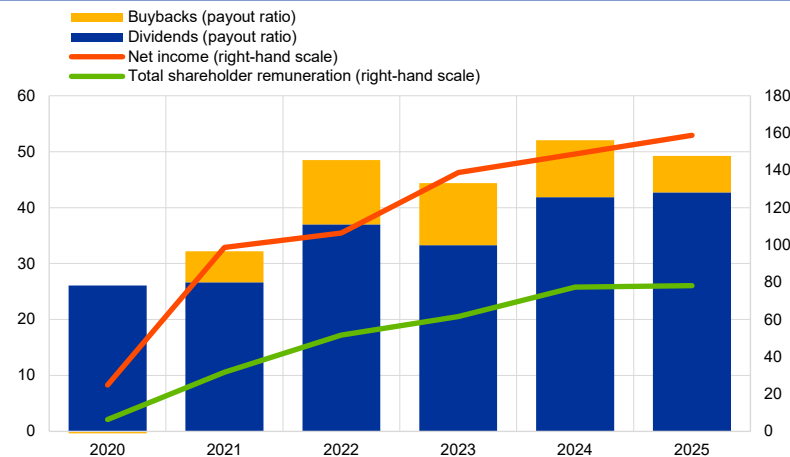
Bank price-to-book ratio

(percentages)



Bank shareholder remuneration

(left-hand side: percentages; right-hand side: EUR billions)



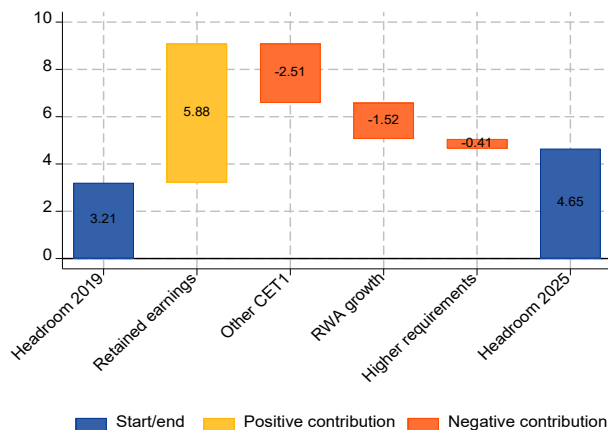
Notes: The left-hand chart is based on the EURO STOXX Banks index. In the right-hand chart, total shareholder remuneration is calculated as total dividends, share buybacks and share issuance over net income. The blue (dividends) and yellow (buybacks) bars sum up to the total payout ratio for a given year.

Capital does not appear to be a binding constraint for lending

- Banks have generated capital well in excess of regulatory needs, building up sizeable headroom
- Capital is not reported by banks to be constraining credit supply, while demand remains subdued
- When banks are already well capitalised and profitable, lower capital requirements can lead to higher voluntary buffers or capital distributions rather than more lending

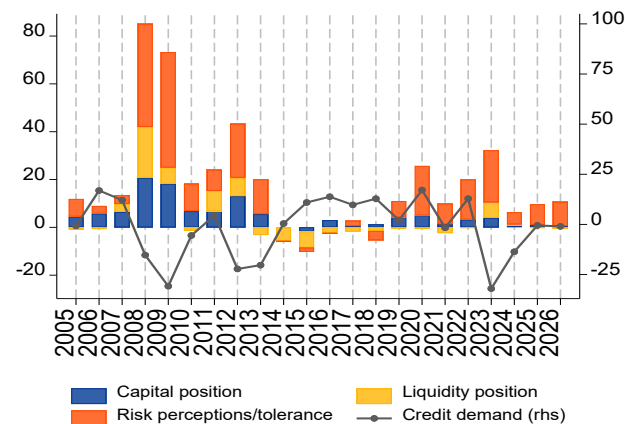
Drivers of capital headroom since 2019

(percentage points of 2019 risk-weighted assets)



Factors affecting banks' credit standards

(net percentages of banks)



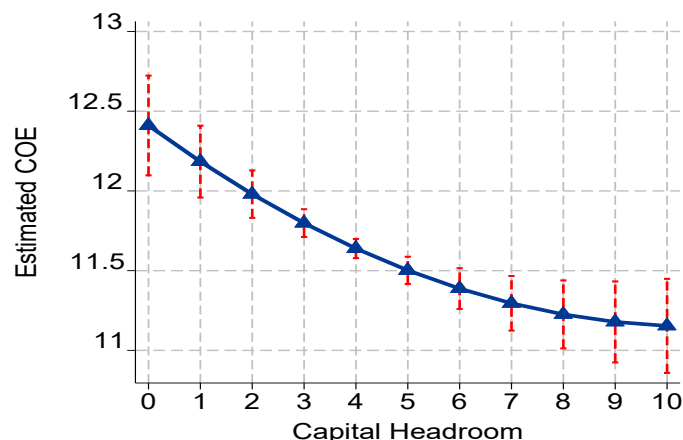
Notes: The left-hand chart decomposes the change in aggregate capital headroom of a balanced sample of euro area significant and less significant institutions between the fourth quarter of 2019 and the fourth quarter of 2025. Capital headroom is defined as the CET1 ratio minus CET1 requirements and is expressed as a percentage of initial risk-weighted assets (RWA). Retained earnings captures cumulative profits net of distributions. Other CET1 reflects all remaining changes in CET1 capital not attributable to retained earnings, such as deductions and share buybacks. RWA growth measures the increase in capital needs arising from balance-sheet expansion and changes in risk exposure. "Higher requirements" captures the additional capital absorbed by increases in regulatory capital requirements. The right-hand chart relates to the euro area bank lending survey. It shows the changes in credit standards applied to the approval of loans or credit lines to enterprises and contributing factors. Net percentages are defined as the difference between the sum of the percentages of banks responding, "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Capital position" refers to "banks' capital and the costs related to banks' capital position", and liquidity position to "liquidity position" in the survey. "Risk perceptions" is the simple average of survey results relating to "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk related to the collateral demanded". Risk tolerance refers to the impact of bank's risk tolerance.

Higher bank capitalisation increases lending capacity and reduces cost of equity

- Investors favour strong capital positions, which translate into a lower cost of equity (COE)
- Better-capitalised banks are more able to meet heightened credit demand when financing needs surge

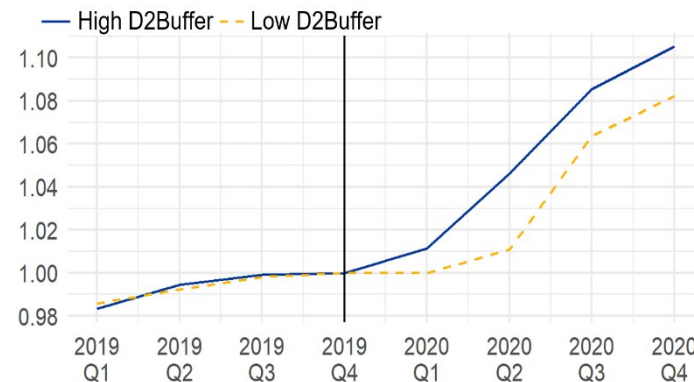
Estimated association between banks' capital headroom and cost of equity

(x-axis: capital headroom, percentages; y-axis: estimated cost of equity, percentages)



Lending by low and high capital headroom banks before and after the pandemic

(lending volume: 2019=1)



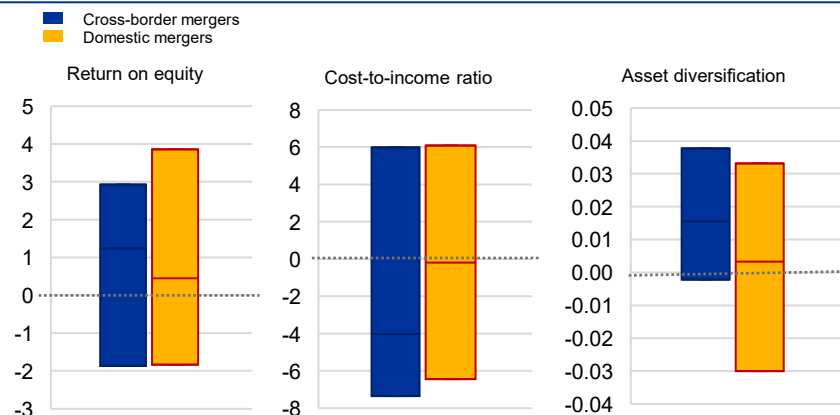
Notes. The left-hand chart shows the estimated cost of equity across different levels of capital headroom, which is defined as the distance between a bank's CET1 ratio and its capital requirements. Estimates are based on the empirical non-linear relationship between capital headroom and banks' cost of equity. Vertical bars indicate 95% confidence intervals. The right-hand chart shows the evolution of lending by banks according to their capital headroom over the combined buffer requirements, normalised to 1 in the fourth quarter of 2019 (black vertical line). Banks with higher capital headroom (above 3%) increased lending more strongly following the onset of the COVID-19 pandemic.

Consolidation can support bank performance

- Consolidation can boost profitability, improve cost efficiency and increase diversification
- Higher market concentration is associated with higher net interest margins

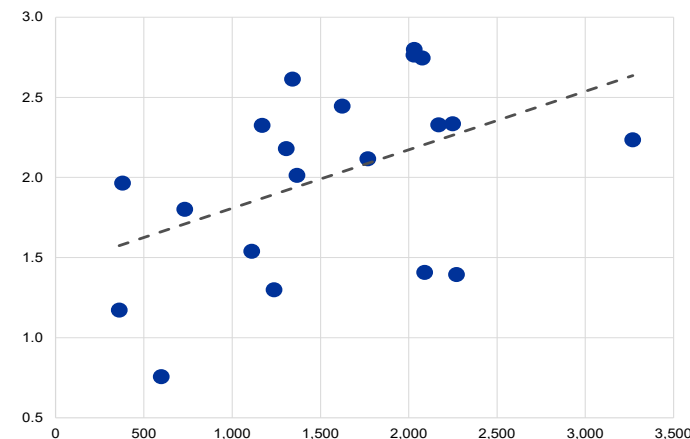
Changes in key bank metrics following M&As

(percentage points)



Net interest margin versus market concentration

(y-axis: percentages; x-axis: Herfindahl-Hirschman Index)

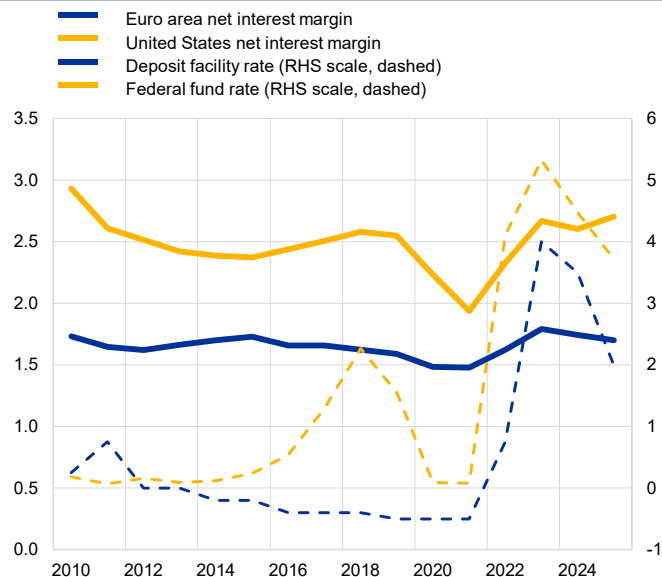


Notes: In the left-hand chart, asset diversification is computed as 1 minus the sum of the squares of the loan share and non-loan share over total assets. The sample covers 234 M&As in euro area from 1999 to 2021. The change is computed as difference between post-merger variables taken as the average of t+1 and t+2 and pre-merger variables taken at t-2. To filter out underlying industry trends, a control group (all banks that were not subject to any M&A activities over the sample period) is used to demean the pre- and post-merger ratios. Pre-merger ratios are obtained by weighting ratios of acquirers and targets by their total assets. In the right-hand, the chart is based on 2025 data for all banks in a country. Each dot represents a euro area country. The Herfindahl-Hirschman index is computed using data for bank total assets.

US banks rely more on fee and commission as well as trading income

- Euro area bank net interest margins are structurally lower
- US banks rely more heavily on non-interest income as deeper capital markets and the larger scale of asset and wealth management activities generate fee income

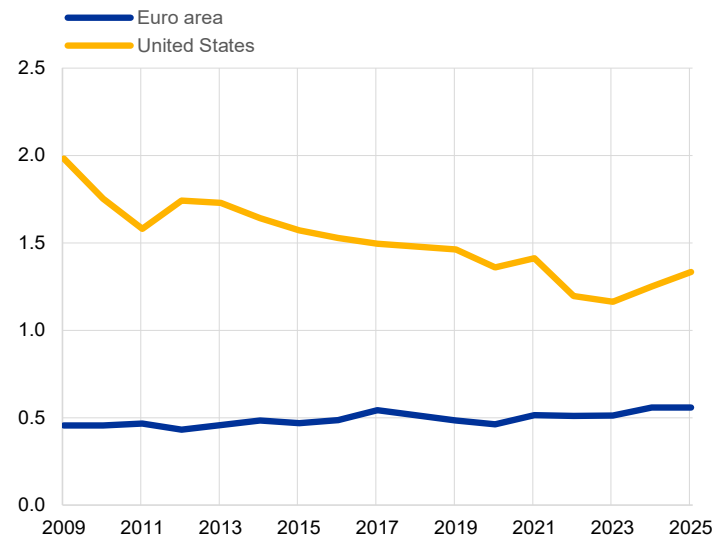
Euro area and US bank net interest margins and policy rates (percentages)



Sources: Bloomberg and ECB calculations.

Notes: Values computed over the whole sample. Based on a sample of up to 45 euro area significant institutions and 30 US bank holding groups with more than €100 billion in total assets.

Euro area and US bank net fee and commission income over total assets (percentages)

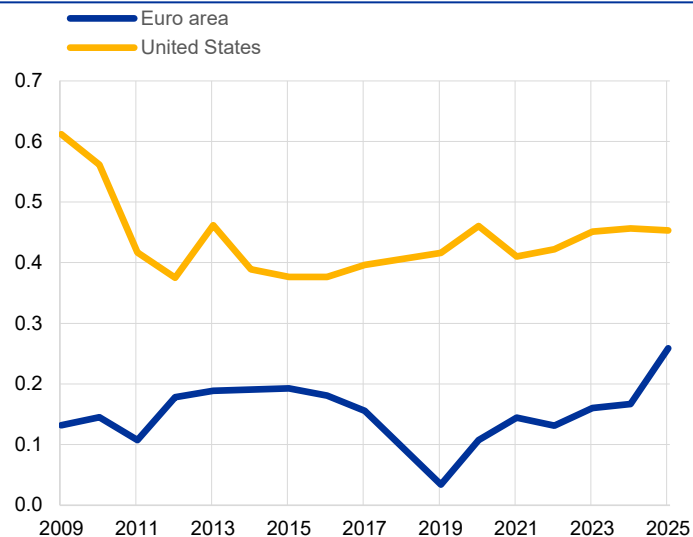


US banks hold a higher market share in global investment banking activities

- US banks rely more heavily trading income benefiting from deeper capital markets
- US banks have a more significant footprint in the international debt capital and syndicated lending markets

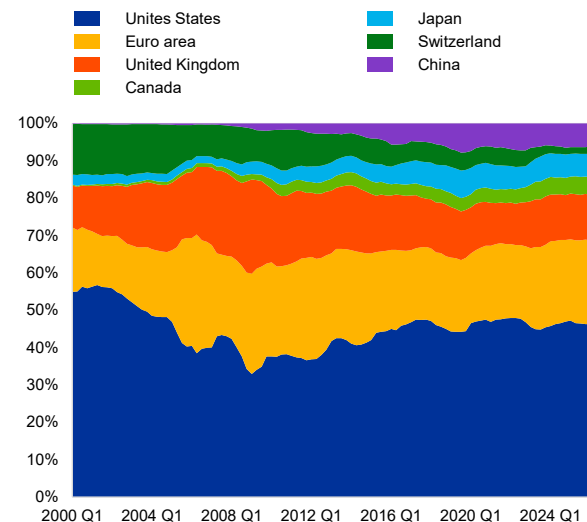
Euro area and US bank trading account profit and losses over total assets

(percentages)



Share of US and euro area banks in debt capital markets bookrunning

(percentages)



Sources: Bloomberg and ECB calculations; Dealogic and ECB calculations.

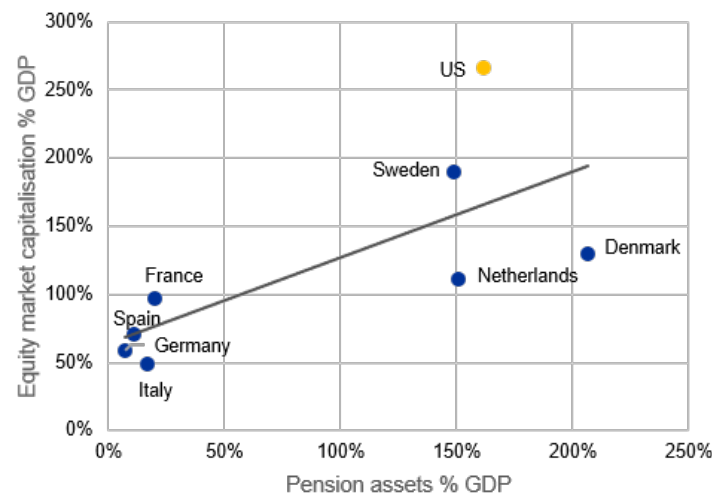
Notes: Values computed over the whole sample. Based on a sample of up to 45 euro area significant institutions and 30 US bank holding groups with more than €100 billion in total assets. Right hand side: based on a sample comprising the top 50 global dealmakers.

Countries with larger pension pools tend to have deeper capital markets

- The large pool of pension fund assets in the United States provides a deep and stable source of long-term capital
- Stronger funded pension systems in Europe would play an important role in deepening EU capital markets

Pension assets and equity market capitalization as a percentage of GDP

(percentages)



Sources: OECD, Bloomberg and ECB calculations.

Note: Pension assets market for retirement including public pension reserve funds. Market capitalisation valuations at end September 2026. Values in relation to 2025 GDP.

European financial integration is the answer to the banking competitiveness question

It requires:

- Completing the banking union, with the euro area treated as a single jurisdiction
- Advancing the capital markets union, with harmonisation of insolvency rules, taxation, funded pension systems