

Boštjan Vasle: Address - Single Supervisory Mechanism (SSM) supervisory board's strategic retreat

Address by Mr Boštjan Vasle, Governor of Bank of the Slovenia, at the official dinner of the Single Supervisory Mechanism (SSM) supervisory board's strategic retreat, Ljubljana, 10 October 2024.

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Members of the Supervisory Board, dear colleagues, ladies and gentlemen, good evening and welcome at the Ljubljana castle. It is a great privilege and pleasure to welcome you here tonight for the Supervisory Board's strategic retreat.

Since Banka Slovenije is also hosting this year's External monetary policy meeting next week, Slovenia will be the meeting place for both supervisory and monetary policy arms of the Eurosystem in a short span of seven days.

Fittingly, this year also marks the 20th anniversary of Slovenia's accession to the EU, a crucial milestone that allowed us to engage in the economic and monetary union and reap the rewards of our pan-European partnership.

As many interesting – formal and informal – discussions will be taking place over the next days, let me seize this opportunity and briefly reflect on the events of recent years and challenges awaiting us in the future.

A decade ago, we were navigating our way out of a major European banking crisis with dire consequences for the financial sectors and whole economies. This has also placed a heavy burden on the taxpayers. Various forms of fiscal assistance to the financial sector increased the public debt in the euro area by almost 5% of GDP, and in the most affected countries by 3-4 times more.

In Slovenia, where we have faced the deepest economic and banking crisis since independence, the fiscal burden was one of the biggest. The banking crises had far-reaching consequences beyond the economic sphere and some of the legal processes still remain ongoing.

With the need for better regulation and supervision of the euro area demonstrated clearly by these events, the idea of an EU's supranational bank supervisory body became a reality in 2014.

This November we will commemorate the 10th anniversary of SSM and we appreciate the opportunity to acknowledge and celebrate this important occasion with you all tonight in Ljubljana.

By shifting from highly fragmented national banking supervision systems to a unified European approach, we greatly advanced the EU integration and also helped to strengthen the idea of the euro area.

As a consequence of these developments today, the euro area banks are better positioned to absorb potential losses and weather adverse shocks than a decade ago.

To mention just a few parameters:

- Common equity tier 1 ratio of significant institutions rose from close to 13% in 2015 to almost 16% today.
- Aggregate liquidity coverage ratio is now further above the regulatory minimum.
- Quality of banks' assets has also improved significantly with the share of nonperforming loans of SI's somewhat above 2%, well below 7% observed in 2015.

At the same time, I am well aware that other policy measures have also contributed to banks' resilience.

European banking sector has also indirectly benefited from strong policy support, which has helped shield the real economy from adverse shocks and more directly, sequencing of our monetary policy measures has impacted banks balance sheets in a substantive way as well.

Against such backdrop, our attention has shifted towards medium-term challenges. And I would like to highlight three areas, which are of particular importance.

The first one to mention – and not necessarily the priority one – is related to the architecture of the EU and euro area. The SSM was established on the premises of a broader institutional framework, which is the economic and monetary union complemented by a three-pillar banking union as well as capital markets union.

While much has been achieved on the first two pillars, the third pillar and with it the whole banking union remain incomplete.

At the same time, progress is needed on capital markets union. The past decade was a decade of intense discussions and while several attempts were made to implement it, unfortunately, we have not progress beyond discussions and attempts.

The second challenge I would like to mention is related to fast-changing environment the banks are operating in. Digitalization of society in the last decade has been astonishing. And more recently, AI technologies are rapidly evolving their applications and gaining users.

It is not just banks that must adapt to a speedily digitalizing society, including financial sector Supervision and supervisors need to evolve as well.

We must ensure we are equipped with the right tools and skills for the future.

The third topic which demands our increased attention is climate risk. What is astonishing is a rapid change in the tone of the debate in the past decade. If we were faced with a lot of skepticism in the early days, the debate has now almost completely changed – from analysis of the problem to discussion of the solutions. The hard work of the ECB, SSM and the NCAS in this area is widely recognized and I can proudly say that Banka Slovenije is also participating to the best of our ability in the efforts to the green the financial sector.

Of course, the new risks we are facing do not mean that the classic ones have just disappeared. The uncertain macro-financial environment, coupled with persistent geopolitical tensions continues to shape the outlook for the European banking sector.

Hopefully, the relaxed atmosphere we have created will contribute to open discussions. But before getting back to meetings tomorrow, please enjoy the evening and dinner in Ljubljana together.

Thank you.