

SPEECH

Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Claudia Buch, Chair of the Supervisory Board of the ECB, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Brussels, 18 March 2026

Thank you very much for inviting me to present the ECB's Annual Report on supervisory activities for 2025.^[1] The year was characterised by two main developments.

First, European banks have entered this phase of heightened geopolitical uncertainty with robust short-term indicators and strong capitalisation, while medium to long-term risks remain elevated.

Second, and in light of this, European banking supervision is further strengthening its risk-based approach. We are focusing on the most material risks with the aim of preserving the sector's resilience, and we are streamlining our supervisory activities to become more efficient and effective.^[2] Our Annual Report provides information on the comprehensive reform of European supervision that is currently underway.

The euro area banking sector continues to show solid levels of capitalisation, with significant institutions having an aggregate Common Equity Tier 1 (CET1) ratio of around 16%.^[3] There are no significant signs of deterioration in asset quality at the system level, as the share of non-performing loans remains relatively stable at around 2%. But there are limited pockets of vulnerability in segments such as commercial real estate and lending to small and medium-sized enterprises^[4], and banks need to monitor exposures to sectors and firms that are particularly vulnerable to heightened risks. This is crucially important in the current geopolitical context, where the ongoing conflict in the Middle East adds layers of uncertainty and volatility to economic forecasts, has market impact, and could impair credit quality. This may impact banks' balance sheets at a later stage.

The euro area banking sector displays no difficulties in complying with the requirements of the revised Capital Requirements Regulation (CRR III), which transposes the Basel III rules into European law and has applied since last year. The data collected for the EU-wide stress test show that the average impact in 2025 was close to zero.^[5] This is consistent with ex ante impact assessments conducted by the European Banking Authority. Phase-in arrangements, transitional provisions and banks' balance sheet adjustments have ensured a smooth transition to the new framework.

Fully implementing Basel III should thus remain a policy priority: it maintains an international level playing field, ensures banks are better capitalised and strengthens financial stability.

In the current highly uncertain environment, safeguarding resilience remains key: appropriately capitalised and more resilient banks can better respond to evolving risks. They are in a better position to take risks, maintain lending and support households and firms during periods of stress – rather than amplifying downturns.^[6] Importantly, good resilience strengthens rather than impairs banks' efficiency or competitiveness.^[7]

In maintaining resilience, micro- and macroprudential measures complement each other. Microprudential supervision addresses risks affecting individual banks. It needs the support of macroprudential policies to address increased financial stability risks.^[8] Resilient banks are essential in a macroeconomic environment in which fiscal policy will have less space to buffer shocks to the economy than it did in the past. Strong capital buffers and credible resolution regimes protect taxpayers from bearing the costs of financial instability.

Risks and uncertainties are indeed heightened as trade tensions and macroeconomic uncertainty can be transmitted to the banking sector. Weaker growth dynamics and elevated uncertainty could dampen loan demand, increase credit losses and put bank capital under pressure.^[9]

Our supervisory priorities thus aim at safeguarding banks' resilience in two ways.

First, we are addressing banks' resilience to heightened geopolitical risk and macroeconomic uncertainty. The 2025 EU-wide stress test found that the euro area banking sector would be able to absorb losses in a downturn scenario caused by geopolitical frictions and protectionist measures.^[10] The scenario was common to all banks; the resulting capital depletion thus differed across banks. This year, we are reversing this set up. We are asking banks to identify geopolitical risk events that could lead to a depletion in CET1 capital of at least 300 basis points, and to set out the preventive measures they can take to reduce this impact.^[11]

Moreover, we are assessing whether banks' loan underwriting standards remain commensurate with underlying risks. As banks come out of a period with relatively low losses and face intensifying competition, including from non-banks, lending terms may weaken. While there is no clear evidence of a widespread deterioration in standards, the available data are incomplete. This prevents banks from benchmarking their own policies against those of the market. We will be exploring banks' underwriting practices more closely, in a proportionate manner, to better understand emerging trends at an early stage.^[12]

Our second priority addresses banks' operational resilience. Banks are facing increasing competition from non-bank providers of digital payments services. They are using artificial intelligence tools to improve the provision of financial services and enhance efficiency. Many need to further improve their risk data aggregation capabilities. And they are also facing more severe and more frequent cyberattacks. Many banks outsource critical services. All of this requires sound investments in IT and digitalisation to remain

competitive. Thanks to their good levels of profitability, banks have a window of opportunity to make these investments.

In addition, we are adjusting the way in which we conduct supervision – to be more efficient, effective and risk-focused. Across all our activities, we are streamlining routine processes for low-risk activities while more deeply scrutinising complex issues and higher, potentially systemic, risks.^[13] Let me highlight a few elements that are described in more detail in our Annual Report.

Stress testing, which is currently very data and resource-intensive, is an example. We are working closely with the European Banking Authority (EBA) to reduce the size of data templates. Similarly, the additional supervisory reporting we collect each year as part of our assessment of individual banks has been reduced by approximately 20%.

We are further standardising processes such as capital-related decisions, internal model approvals, fit and proper assessments, and onsite inspections. This allows cases that do not significantly affect banks' resilience to be approved more quickly, while complex, higher-risk cases can command greater attention. A risk-based approach covers about 90% of the ECB's decisions on authorisations and qualifying holding procedures. Adding to the benefits of standardisation, we are digitalising our key processes over time.

This year, we are developing a more proportionate approach for small and non-complex institutions regarding supervision and reporting, including the frequency and depth of supervisory assessments and stress testing.^[14] In addition, we are streamlining our supervisory guides to make the information more accessible and to once again underline their non-binding nature.

Our two-pronged approach – streamlining supervision and safeguarding resilience – improves banks' ability to respond to a changing external environment. Additional policy steps are needed, though, to ensure that Europe's banking sector can continue playing its role in supporting growth and stability.

Strengthening the Single Market can have positive implications for banks' resilience and competitiveness. Removing barriers to the cross-border provision of services and harmonising rules would allow banks to better reap economies of scale and diversify their activities.^[15]

We thus welcome the European Commission's package on market integration, including its proposals to strengthen centralised supervision of significant capital market participants. European banking supervision stands ready to support this discussion with its technical expertise. The Commission has recently launched a targeted consultation on the competitiveness of the EU banking sector, to which we are actively contributing.

Moreover, completing the banking union would promote integration and further improve crisis preparedness. This includes a common system of deposit protection and a robust European liquidity backstop for banks in resolution. Strong supervision and credible resolution regimes support resilient business models and sustain investor confidence. Together, they ensure that banks can innovate and compete successfully while remaining safe and sound, and those which do not have sustainable business models can exit the market without putting financial stability at risk.

1.

ECB (2026), [ECB Annual Report on supervisory activities 2025](#), 18 March.

2.

For more details, see ECB (2025), [Streamlining supervision, safeguarding resilience](#), December.

3.

Throughout 2025, profitability remained robust, with return on equity at around 10%, the leverage ratio slightly below 6% and liquidity buffers remaining stable with the liquidity coverage ratio standing at around 160%.

4.

See ECB (2025), [Financial Stability Review](#) (in particular Section 3.3 Asset quality remains sound in aggregate, but some sectors and countries have seen a slight deterioration)

5.

See EBA (2024), [Basel III monitoring exercise results based on data as of 31 December 2023](#), October.

The EBA's impact assessment finds that the average increase in Tier 1 requirements resulting from the European implementation of the Basel package is below 4% until 2030, and below 8% in 2033 when transitional provisions are lifted. This estimate is an upper bound as it is based on static balance sheet assumptions, whereas in reality banks dynamically adjust their exposures over time. Other recent contributions suggest that the impact of Basel III is shrinking. See, for instance, Esho, N. (2025), "[Just get it done](#)", remarks at the 20th high-level meeting on financial stability and regulatory and supervisory priorities, 10 December.

6.

For recent studies on the link between capital and lending, as well as reviews of the literature, see Buchholz, M., Loeffler, A. and Sigel, P. (2025), "[Do capital requirements and their international differences affect banks' profitability?](#)", *Discussion Papers*, No 31/2025, Deutsche Bundesbank, 4 November; Cappelletti, G. et al. (2019), "[Impact of higher capital buffers on banks' lending and risk-taking: evidence from the euro area experiments](#)", *Working Paper Series*, No 2292, ECB, June; and Kapan, T. and Minoiu, C. (2013), "[Balance Sheet Strength and Bank Lending During the Global Financial Crisis](#)", *Working Paper Series*, No 2013/102, International Monetary Fund, 8 May. The Bank for International Settlements' Financial Regulation Assessment: Meta Exercise ([FRAME](#)) contains studies on the effects of capital and liquidity regulation as well as the too-big-to-fail reforms. See Boissay, F., Cantú, C., Claessens,

S. and Villegas, A. (2019), "[Impact of financial regulations: insights from an online repository of studies](#)", *BIS Quarterly Review*, Bank for International Settlements, 5 March.

7.

Buch, C. (2026), "[Banks and competitiveness: promoting competition, protecting resilience](#)", contribution prepared for the Forum on Financial Supervision (LSE), 23 February.

8.

See, for instance, the ECB's 2025 [Financial Stability Review](#) (in particular Section 3.5 Preserving bank resilience continues to be the primary goal of macroprudential policy in an uncertain environment) and the [Governing Council statement on macroprudential policies](#) of 7 July 2025.

9.

These dynamics have also been reflected in a recent joint European Systemic Risk Board/ECB report, which underscores the value of integrating geopolitical risk considerations into our monitoring tools. See ECB and ESRB (2026), [Financial stability risks from geoeconomic fragmentation](#), January.

10.

ECB (2025), [2025 stress test of euro area banks – final results](#), August

11.

ECB (2025), "[ECB to assess banks' stress testing capabilities to capture geopolitical risk](#)", press release, 12 December.

12.

For more on this topic, see Donnery, S. (2026), "[Sound credit, sustainable growth](#)", *The Supervision Blog*, ECB, 24 February.

13.

For details, see ECB (2025), [Streamlining supervision, safeguarding resilience](#), December.

14.

Small and non-complex institutions are institutions with less than €5 billion in total assets. Under the EU framework they are subject to certain simplified requirements.

15.

For evidence showing that European banks are operating at an inefficient scale, see Andreeva, D., Grodzicki, M., Móré, C. and Reghezza, A. (2019), "[Euro area bank profitability: where can consolidation help?](#)", *Financial Stability Review*, ECB, November.

CONTACT

European Central Bank

Directorate General Communications

- > Sonnemannstrasse 20
- > 60314 Frankfurt am Main, Germany
- > [+49 69 1344 7455](tel:+496913447455)
- > media@ecb.europa.eu

Reproduction is permitted provided that the source is acknowledged.

Media contacts

Copyright 2026,
European Central Bank