

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, 2 July 2026

Euro area banks are facing a complex institutional framework. Reforms are needed to reduce undue complexities in regulation and supervision, removing frictions that could impede growth. At the same time, European banks are facing a complex risk environment. Safeguarding the resilience of banks as a foundation for sustainable growth is thus equally important.

The European Parliament's recent views on the banking union, together with the European Commission's upcoming report on the EU banking sector, offer an opportunity to outline a reform agenda to further strengthen the system.^[1]

The ECB and the Eurosystem have contributed to this debate.^[2] A key element of their contributions is their call to further promote the integration of the Single Market and complete the banking union, while preserving strong supervisory and regulatory standards. Two recent developments – the materialisation of geopolitical risks and the challenges posed by frontier AI models – underline the importance of these contributions.

Geopolitical risk and resilience

Geopolitical risks have materialised in the form of military conflicts and higher tariffs. Growth forecasts have been revised downward, and corporate insolvencies have risen.

It is too early to tell how geopolitical risks affect banks' balance sheets. Current financial indicators of the euro area banking sector remain robust, with strong capitalisation and low levels of non-performing loans.

But weaker growth may take several quarters, or even years, to translate into weaker asset quality.^[3] Credit risks related to geopolitical developments thus need to be monitored carefully.

Banks therefore need to assess how recent shocks and more structural changes could affect borrowers, collateral values and their own loss-absorbing capacity over time. They need to consider that more limited fiscal space can constrain public authorities' capacity to buffer shocks. Robust capital positions remain essential for banks to absorb shocks, service the economy and promote growth.

Concerns that adequate capital requirements may undermine banks' competitiveness or lending are not borne out by the evidence.^[4] Higher capital requirements since the financial crisis have not impaired banks' ability to lend to the economy. To the contrary, strong capital positions are essential for banks to withstand shocks while continuing to provide financing to households and firms.^[5] There is no indication of credit supply being constrained by bank capital requirements.^[6] Moreover, the banking sector has sufficient capital headroom and payout ratios of around 50%.

European capital requirements are generally aligned with the Basel framework and are broadly comparable to those applied in other major jurisdictions. Overall requirements for the most loss-absorbing form of capital, Common Equity Tier 1, remain largely unchanged in 2026 relative to 2019. During the pandemic, capital requirements were lowered; since then, total requirements have increased moderately as macroprudential buffers have been built up that can be released in times of stress.

Cyber risks, artificial intelligence and operational resilience

One key driver of banks' competitiveness is their ability to further develop sustainable digital business models. Operational resilience requires balancing the risks and benefits of digital innovation, including the use of artificial intelligence (AI) tools. More than 85% of banks under European banking supervision use such tools, and over 40% of banks consider at least one AI use case to be highly relevant to their business.^[7]

The development of new frontier large language models could challenge banks' cyber defences.^[8] The speed, scale and accessibility of advanced cyber tools are increasing, and the response time available to defenders is shrinking. Moreover, the critical infrastructure on which banks depend – including cloud services, telecommunications networks, payment systems and electricity supplies – could become the target of cyberattacks. To maintain trust in their operations, banks must thus be able to respond effectively to cyber incidents, protect data, and maintain critical services.

Banks' management bodies must take clear ownership of this issue. The challenges posed by new generations of AI models require strong IT governance, effective cyber risk management and sound outsourcing arrangements.

Cyber and IT resilience require adequate resources. Banks have strengthened their capabilities over recent years. But responding to the new threat environment and further strengthening operational resilience will require sustained, multi-year investment in IT systems and sufficient staffing. Current strong profitability gives banks scope to make the necessary investments.

European banking supervision supports banks' risk management by providing guidance, disseminating good practices and focusing on remediation of supervisory findings. Cyber and operational resilience has been a supervisory priority for several years now. Since it entered into force in 2025, the Digital Operational Resilience Act (DORA) has established an oversight framework for critical service providers and requires banks to manage the related risks. Through the ECB's cyber resilience stress test, on-site

inspections and threat-led penetration tests, we have identified weaknesses in the implementation of essential cybersecurity measures.^[9] Besides remediating these weaknesses, banks need to assess their level of preparedness, close remaining gaps in cybersecurity and update crisis management processes.

Strengthening integration and competition while safeguarding resilience

The evolving risk environment requires an acceleration of the European reform agenda which strengthens integration, competition, and thereby growth, while safeguarding resilience.

The ECB's High-Level Task Force has proposed ways to simplify the EU's capital framework that preserve microprudential, macroprudential and resolution functions.^[10] Pillar 2 requirements and guidance remain essential to address bank-specific risks not fully captured by Pillar 1; prudential backstops such as the leverage ratio and the Basel output floor safeguard against risks being underestimated in a highly uncertain environment.

But the current framework can be improved – without weakening resilience. The number of macroprudential buffers in the stack can be reduced, and their implementation can be further harmonised. As regards microprudential requirements, the ECB's new methodology to calculate Pillar 2 requirements provides more clarity on the interaction between Pillar 1 and Pillar 2 requirements and helps avoid unwarranted overlaps.^[11] The new P2R methodology is one element of a comprehensive reform, which I have described in previous hearings.^[12]

The reforms of European banking supervision are well on track. Tangible improvements for banks include clearer priorities, targeted communication on supervisory findings and faster decision-making. On-site inspections are becoming more targeted and risk-based. This year, we are reviewing supervisory guides, clarifying their non-binding nature where needed and phasing out guides that have been superseded.^[13] We are further enhancing the proportionality of supervision and reporting for small and non-complex institutions.

As part of the overall reform agenda, the banking union should be completed. It has made the banking sector more resilient and less dependent on national fiscal resources. While the bank-sovereign nexus is not currently a prudential concern, the underlying channels through which it could re-emerge do still exist.^[14] Yet, insured deposits remain protected by national schemes. A well-designed European deposit insurance scheme would help ensure that all deposits are protected equally, strengthen confidence, further weaken the bank-sovereign nexus and support integration. Within the banking union, capital and liquidity should be able to move across borders, subject to safeguards that ensure transfers within groups can be made also in times of stress. In addition, further harmonising national rules that may create barriers to the Single Market would enable banks to develop cross-border business models that require sufficient scale.

Ultimately, these reforms would support an integrated banking sector in which banks can provide services across the Single Market. This would promote both risk-sharing and growth.

We therefore welcome reflections on the future of the EU banking sector and look forward to productive discussions ahead.

1.

See European Commission (2026), [Targeted consultation on the competitiveness of the EU banking sector](#), 11 February and [European Parliament resolution of 30 April 2026 on Banking Union – annual report 2025](#).

2.

See ECB (2025), [Simplification of the European prudential regulatory, supervisory and reporting framework](#), 11 December and ECB (2026), [Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector](#), April.

3.

Ari, A., Chen, S. and Ratnovski, L. (2021), [“The dynamics of non-performing loans during banking crises: A new database with post-COVID-19 implications”](#), *Journal of Banking & Finance*, Volume 133, December. For recent information on vulnerabilities and the outlook for corporate non-performing loans, see also Bednarek, P. et al. (2026), [“Rising bankruptcies, resilient loan books: unpacking euro area corporate credit risk”](#), *Financial Stability Review*, ECB, May.

4.

Dzezulskis, S., Libertucci, M. and McPhilemy, S. (2026), [“Understanding the banking sector capital framework in the European Union”](#), *Occasional Paper Series*, No 387, ECB, Frankfurt am Main, April.

5.

See [Basel Committee on Banking Supervision \(2022\), Evaluation of the impact and efficacy of the Basel III reforms](#), 14 December; 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, Frankfurt am Main, 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.

6.

See the ECB’s [April 2026 euro area bank lending survey](#). As regards the first quarter of 2026, banks reported that their funding costs and balance sheet constraints had a broadly neutral impact on credit standards, similar as in previous quarters, reflecting banks’ overall solid capital positions. A net tightening of credit standards was mainly related to perceived risks to the economic outlook and a lower risk tolerance of banks.

7.

See Elderson, F. (2026), “[Strengthening operational resilience for the age of AI](#)”, keynote speech at the Goldman Sachs European Financials Conference 2026, 3 June; and Singh, S., Schupbach, A., Asiala, A. and Siwecki, D.A. (2025), “[AI’s impact on banking: use cases for credit scoring and fraud detection](#)”, *Supervision Newsletter*, ECB, 20 November.

8.

See Elderson, F. (2026), op. cit.

9.

This includes vulnerability scanning, testing, or identity and access management, hardening, network segmentation and IT change management. For details, see ECB (2025), “[Aggregated results of the 2025 SREP](#)”.

10.

ECB (2025) [Simplification of the European prudential regulatory, supervisory and reporting framework](#).

See also Basel Committee on Banking Supervision (2024), [Core Principles for effective banking supervision](#) and Viñals, J. et al. (2010), “[The Making of Good Supervision: Learning to Say “No”](#)”, *IMF Staff Position Note*, No SPN/10/08, International Monetary Fund, May.

11.

See Buch, C. (2025), “[Reviewing the Pillar 2 requirement methodology](#)”, *The Supervision Blog*, ECB, 11 March.

12.

See Buch, C. (2026), “[Hearing of the Committee on Economic and Monetary Affairs of the European Parliament](#)”, introductory statement, 18 March; Buch, C. (2025), “[Hearing of the Committee on Economic and Monetary Affairs of the European Parliament](#)”, introductory statement, 13 October; and Buch, C.

(2024), "[Hearing of the Committee on Economic and Monetary Affairs of the European Parliament](#)", introductory statement, 18 November.

13.

See Elderson, F. (2026), "[Simpler guidance, more effective supervision](#)", *The Supervision Blog*, ECB, 26 June.

14.

Buch, C. (2026), "[The bank-sovereign nexus: securing progress by completing the banking union](#)", speech at AFME European Financial Integration Conference, 19 May.

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