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, 15 July 2025*

Thank you very much for the opportunity to exchange views with you today and to provide an update on the European banking sector.

I would like to focus on two recent developments. The first concerns the recent tariff announcements and the uncertain impact on banks. The second is the ongoing discussion about how reducing the complexity of the regulatory and supervisory framework can contribute to growth and competitiveness.

Maintaining financial sector resilience and strengthening the Single Market should guide how Europe responds to these developments. We welcome the European Parliament's focus on resilience in its resolution on banking union.[1] Improved regulation and supervision have strengthened the European banking sector, thus promoting banks' ability to lend to the real economy and take risks. At the same time, further harmonisation of relevant national rules would reduce complexity and promote banking market integration.

Let me start by discussing how the recent tariff announcements could affect banks. The announcements and subsequent market reaction show how quickly heightened geopolitical risks can change the environment in which banks operate.

The initial market reaction to the announcements was relatively short-lived. Financial market activity spiked, resulting in higher volatility and margin calls. Banks' funding spreads temporarily widened but remain far from historical peaks. But although the financial system has so far remained resilient, we are closely monitoring potential spillovers from non-bank financial intermediaries to banks, especially given the currently high degree of geopolitical uncertainty.

The longer-term implications of higher tariffs for bank balance sheets will only become apparent over time. Higher tariffs slow down trade and can have a negative impact on growth and the financial health of firms. There is considerable uncertainty regarding how these effects will play out. While it is too early to see a deterioration in asset quality, credit risk and banks' provisioning needs may increase.[2] Banks must ensure that they have sufficient buffers to cope with adverse developments. The European stress test assesses banks' resilience under a common adverse scenario driven by geopolitical tensions, including higher tariffs, with the focus on the effects of an overall deteriorating macroeconomic environment.[3] In addition, banks need to assess their clients' exposures to higher tariffs and more fragile global value chains.

Generally, the European banking sector remains well capitalised and liquid. At the end of 2024 significant institutions had an aggregate Common Equity Tier 1 ratio of 15.9% and the leverage ratio stood at 5.9%. Liquidity buffers have remained largely stable.[4] Profitability remained robust in 2024, with an average return on equity of 9.9%, compared with 5.5% during the low interest rate period between mid-2015 and mid-2022. Preliminary data for the first quarter of 2025 suggest that profitability and funding conditions have remained broadly stable.

Yet there are initial signs of a deterioration in asset quality. The ratio of Stage 2 loans, which signals an increase in credit risk, had risen to nearly 10% by the end of 2024 compared with 8.4% in 2020.[5] The share of non-performing loans remains relatively stable at around 2%, although there are pockets of vulnerabilities, particularly in loans secured by commercial real estate.[6]

The need for banks to maintain strong fundamentals guides European banking supervision's priorities.[7]

First, banks should strengthen their ability to withstand immediate macro-financial threats and severe geopolitical shocks. Geopolitical risk is not new, but it affects all traditional risk areas and requires the attention of banks' management and boards. Several ongoing supervisory initiatives address banks' management of geopolitical risk.[8] In the 2026 thematic stress test exercise, we will follow up on this year's stress test by asking banks to assess which firm-specific geopolitical risk scenarios could severely impact their solvency.[9]

Second, banks should remedy persistent material shortcomings in an effective and timely manner. In particular, we focus on addressing deficiencies in banks' internal information systems, which are a prerequisite for sound decision-making.[10] Improvements in this area should allow banks to better manage risks and, at the same time, reduce their regulatory reporting costs.

Third, banks should strengthen their digitalisation strategies to remain competitive and manage their IT and cyber risks well. Digitalisation creates opportunities for non-banks to enter market segments traditionally occupied by banks. Rapidly evolving markets for crypto-assets and payment services are an example of this, with the corresponding risks being amplified by diverging global standards. In addition, banks' exposures to private market funds have grown in a rather complex way that may impede effective risk management.[11]

These supervisory priorities ensure that banks' capitalisation is commensurate with the risks they take. Macroprudential policy complements our work by ensuring that sufficient buffers are available in case banking sector or macro-financial conditions deteriorate.[12] Banks take risks to finance the economy, and they need buffers if risks materialise. Resilient banks can manage and deal with risks without putting the stability of the financial system at risk.

The second development that has shaped discussions about banks over the past few months concerns how to maintain resilience while simplifying the supervisory and regulatory framework. Heightened risks call for both strong risk management standards and the removal of undue complexities, which impede the ability to respond swiftly to new developments.

We are thus reforming supervision to make it more efficient and effective while maintaining a clear focus on relevant risks.[13] Streamlining our procedures will lead to tangible benefits for banks in terms of faster and more targeted supervisory action. Reform of the Supervisory Review and Evaluation Process (SREP), which I have presented here during previous hearings[14], is a core component. The objectives of this reform programme guide all our supervisory activities, including on-site inspections. We are making the decision-making process on capital-related decisions, approvals of securitisations and authorisations faster and more risk-based, including through the use of digital tools. We are reducing the complexity of internal model approvals and the stress-testing process. And last but not least, we are mapping reporting requirements to identify and remove overlaps and increase proportionality. We anchor the objectives of this reform in European banking supervision culture, and we are closely monitoring the progress made.[15]

Our work is guided by one key principle: simplification should not weaken standards. Lowering resilience would be a dangerous road to go down. It would risk jeopardising the achievements made since the global financial crisis.

Resilience and growth go hand in hand. During the global financial crisis, a weakly capitalised banking sector dragged the real economy down. Since then, resilience has improved and excessive leverage has been reduced, which has supported the real economy's recovery. Banks remain vigilant to emerging risks and have been tightening credit standards since 2022 in response to higher interest rates and increased risks. That being said, there are no indications of credit supply constraints at an aggregate level related to bank capital requirements.[16] The stronger capitalisation of European banks has in fact contributed to financial stability. This is no small achievement, given that Europe's economy has suffered several shocks in the last ten years.

Looking ahead, deepening the Single Market and completing banking union is the most promising way to sustain growth and stability. We very much welcome the European Parliament's call to complete banking union, including the creation of a European deposit insurance scheme. The lack of an integrated banking market prevents banks from developing pan-European business models and strengthening their long-term profitability.[17]

Regulatory harmonisation would contribute to simplification. Many rules related to bank governance, accounting or insolvency legislation differ across Member States because the laws enacting EU directives take national specificities into account, which adds to the complexity. While the ECB has harmonised options and discretions within European banking supervision, EU law allows Member States to have different rules at the national level. This fragmentation not only makes supervision complex but impedes the cross-border activity of banks.

ECB banking supervision stands ready to support this reform agenda and to deliver on our mandate. Our objective is effective, efficient and fully risk-based supervision, but we need the support of legislators and regulatory authorities to simplify reporting and regulatory frameworks.[18] Although the ECB is not a regulatory authority, we can contribute our expertise. Any changes made to the framework should be based on sound impact assessments and have the clear objective of maintaining the level of resilience that we have achieved so far.

Thank you very much.

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1.

European Parliament (2025), *European Parliament resolution of 8 May 2025 on Banking Union – annual report 2024*, 8 May; ECB (2025), "Feedback on the European Parliament's resolution on Banking Union - annual report 2024", 9 July.

2.

ECB (2025), "Asset quality deterioration has remained contained, but credit risk and provisioning needs are likely to increase", *Financial Stability Review*, May.

3.

ECB (2025), "ECB to stress test 96 euro area banks in 2025", *press release*, 20 January; EBA (2025), "The EBA launches its 2025 EU-wide stress test", *press release*, 20 January.

4.

The aggregate liquidity coverage ratio stood at 158% and the net stable funding ratio at 127% at the end of 2024.

5.

Stage 2 loans include assets that have shown a significant increase in credit risk since initial recognition.

6.

The non-performing loan ratio secured by commercial real estate stood at 4.6% at the end of 2024.

7.

ECB (2025), *Supervisory priorities 2025-27*.

8.

Buch, C. (2024), "Global rifts and financial shifts: supervising banks in an era of geopolitical instability", speech at the eighth European Systemic Risk Board (ESRB) annual conference on "New Frontiers in Macroprudential Policy", Frankfurt, 26 September.

9.

This reverse stress test will be conducted in the context of banks' internal capital adequacy assessment process.

10.

For more information on risk data aggregation and reporting, see ECB (2025), "Sound risk data reporting: key to better decision-making and resilience", *Supervision Newsletter*, 19 February.

11.

Buch, C. (2025), "Hidden leverage and blind spots: addressing banks' exposures to private market funds", *The Supervision Blog*, ECB, 3 June.

12.

The ECB Governing Council recently stated that the current priority for macroprudential policy is to preserve bank resilience. See ECB (2025), "Governing Council statement on macroprudential policies", 7 July.

13.

Buch, C. (2025), "Simplification without deregulation: European supervision, regulation and reporting in a changing environment", speech at the Goldman Sachs European Financials Conference, Berlin, 11 June. Further information on ongoing initiatives aimed at simplifying processes for banks can be found in ECB (2025), "Benefits from advanced technology infrastructure in supervision", *Supervision Newsletter*, 14 May; ECB (2025), "SREP reform: towards more efficient and effective supervision", *Supervision Newsletter*, 14 May; and ECB (2025), "ICAAP: enhanced supervisory assessment for stronger capital management in banks", *Supervision Newsletter*, 14 May.

14.

Buch, C. (2025), "Introductory statement at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament", Brussels, 27 March; Buch, C. (2024), "Introductory statement at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament", Brussels, 18 November.

15.

Buch, C. (2025), "Simplification without deregulation: European supervision, regulation and reporting in a changing environment", speech at the Goldman Sachs European Financials Conference, Berlin, 11 June; Elderson, F. (2024), "Preparing for the next decade of European banking supervision: risk-focused, impactful and legally sound", speech at the "10 years SSM and beyond" event organised by Allen & Overy, Frankfurt, 27 June; and ECB (2025), "SREP reform: towards more efficient and effective supervision", *Supervision Newsletter*, 14 May.

16.

See ECB (2025), "Governing Council statement on macroprudential policies", 7 July. See also the results of the Euro area bank lending survey, particularly from the third quarter of 2022 onwards. The results of the survey are broadly consistent with the results of the ECB's Survey on the access to finance of enterprises (SAFE). See also a comparison of the results of the two surveys in Dimou, M., Ferrando, A., Köhler-Ulbrich, P. and Rariga, J. (2025), "Insights from banks and firms on euro area credit conditions: a comparison based on ECB surveys", *Economic Bulletin*, Issue 2, ECB.

17.

Majino-López, J. and Véron, N. (2025), *EU Banking Sector & Competitiveness: Framing the Policy Debate*, European Parliament, May; Beck, T., Bruno, B. and Carletti, E. (2025), *How have European banks developed along different dimensions of international competitiveness?*, European Parliament, April; Heider, F., Krahnen, J.P., Schlegel, J. and Pelizzon, L. (2025), *How have European banks developed along different dimensions of international competitiveness?*, European Parliament, April; Di Vito, L., Martín Fuentes, N. and Matos Leite, J. (2023), "Understanding the profitability gap between euro area and US global systemically important banks", *Occasional Paper Series*, No 327, ECB, August.

18.

Buch, C. (2025), "Introductory statement at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament", Brussels, 27 March.