EUROPEAN CENTRAL BANK
EUROSYSTEM

2 July 2024

Summary of Banking Industry Dialogue on 19 June 2024

Participants

- Members of the Governing Council of the ECB or their alternates.
- Representatives of ABN Amro, Banco Santander, Bankinter, Belfius Banque, BNP Paribas, Commerzbank, Crédit Mutuel, Deutsche Bank, Eurobank Ergasias, Landesbank Baden-Württemberg, Société Générale and UniCredit.
- Senior ECB officials from the Directorate General Macroprudential Policy and Financial Stability, Directorates General Market Operations, Directorate General Secretariat, and the Chief Compliance and Governance Officer.

1 - Key threats to euro area financial stability

Euro area financial stability conditions were seen to have benefited from improving economic conditions, but the outlook remains uncertain. The uncertainty mainly stems from possible shocks, notably from geopolitical and political developments, that could have financial instability implications via their impact on the real economy, financial institutions and markets. Bank representatives noted that asset prices in financial markets appear "priced for perfection" and, therefore, are vulnerable to negative surprises.

It was noted that the banking sector has remained resilient but that it is confronted by significant risks. Solvency and profitability have, in general, improved and credit losses have so far been manageable. Cyber risks were seen by bank representatives as a key concern for the banking sector and beyond. In this context, bank representatives called for enhanced cooperation across private and public sectors to strengthen prevention capacities and resilience against cyber-attacks.

In the medium- to longer-term, bank representatives highlighted the need to improve their competitiveness and economies of scale as a key challenge for euro area banks. In this context, bank representatives noted that regulatory developments after the global financial crisis have contributed to building a more robust banking sector but that the current regulatory and supervisory regimes in the euro area do not provide a level playing field compared with banks in other major regions. Completing banking union and building a capital markets union was seen as key to enhancing EU banking sector competitiveness. Bank representatives also called for regulatory clarity regarding the financing of the green transition.

Competitiveness concerns expressed by bank representatives extended beyond the banking sector to the broader European economy. It was noted that the European economy has gradually lost competitiveness, especially vis-à-vis the United States, and there was a need to take action to durably improve economic growth in Europe.

2 - How has the future of the banking sector evolved in recent years?

It was stated that progress has continued to be made towards building a more robust banking sector and that it has a key role to play in supporting the economy. Banks were seen to be well placed to offer solutions to many of the challenges the European economy is facing. In this context, bank representatives highlighted the need to better explain and communicate the value-added banks provide to society, as the public perception of banks in Europe was seen as more negative than in, for example, the United States.

Bank representatives argued that in designing and implementing regulations and supervision, a broader perspective should be taken that focuses on preserving financial stability, while at the same time allowing banks in the euro area to operate in an efficient and competitive manner. Some examples mentioned in this vein included supervisors taking a more top-down holistic approach when deciding how much capital a bank needs and removing undue conservatism in the regulatory framework. This would allow banks to redeploy financial and personnel resources to build a more competitive banking sector by, for example, investing more in technology.

Bank representatives argued that there was scope for mergers and acquisitions (M&A) in the banking sector that can deliver important cost savings through economies of scale, in particular in less concentrated banking markets. However, making further progress towards the completion of the banking union and the capital markets union, as well as overcoming prevailing regulatory and supervisory obstacles, was seen as necessary to facilitate larger-scale M&As within the euro area banking sector, and especially across borders.