9th ECB Banking Supervision Market Contact Group (BSMCG) meeting

Thursday, 4 September 2025, physical meeting

MEETING SUMMARY

Claudia Buch, Chair of the Supervisory Board, opened the ninth meeting of the BSMCG and outlined the agenda. Ms Buch recalled that the exchanges of views with market participants are an essential component of the market intelligence activities conducted by ECB Banking Supervision to support its assessment of the main risks and vulnerabilities of the banking sector.

1. Rising geoeconomic risks, implications for Europe, financial markets and the banking sector

BSMCG members discussed the impact of global trade tensions on the European economy and financial markets highlighting potential adverse effects of increased uncertainty and geo-economic fragmentation. Members pointed out that while trade disputes have so far negatively affected specific sectors, e.g. U.S. consumer sectors, while European banks have demonstrated resilience, underpinned by their robust fundamentals and resilient profitability. European banks have kept benefitting from positive rating actions, with some participants suggesting that the sector's strength may have been underestimated in the past. European equity markets remained strong despite heightened global uncertainty, benefitting from the still ample liquidity, confidence in the stability of the EU frameworks and rising fiscal spending in some major economies. Some participants questioned whether this strength reflects a disconnect from economic fundamentals, while others pointed to the role of monetary policy easing and increased fiscal spending in supporting valuations.

In this context, participants highlighted significant challenges in Europe, particularly in some of the largest economies traditionally viewed as growth engines for the region. Questions arose about whether the planned fiscal stimulus would lead to significant structural reforms or rather provide only short-term relief. Some members expressed also concerns about the long-term implications of increasing sovereign debt for banks' profitability. At the same time, they expressed concerns that the banking sector could also be negatively affected by potential fiscal austerity. The discussion emphasised further the importance of improving European competitiveness, particularly through initiatives such as the Savings and Investments Union (SIU), which could help unlock growth by integrating capital markets and address structural inefficiencies. Concerns were raised however about the risk of regulatory agendas being delayed or subordinated to political cycles, potentially undermining efforts to improve competitiveness and foster cross-border consolidation in Europe.

Some members also mentioned mergers and acquisitions (M&A) activity as a critical indicator of corporate confidence. While global M&As, led by the United States and Asia, have reached record levels, Europe keeps lagging behind. Participants attributed this gap to structural and regulatory barriers, as well as inefficiencies in the European market. Concerns were also raised regarding adverse effects of excessive political interference. At the same time, members highlighted the benefit of consolidation in strengthening the resilience and competitiveness of the European banking sector.

2. Banks / Non-Bank Financial Intermediaries (NBFIs) interlinkages, growing complexity and rising challenges

The rapid growth of non-bank financial intermediaries (NBFIs) in Europe was a focal point of the discussion. While the size of private credit markets in Europe is still relatively small, participants noted that differences in their regulatory treatment have been a key driver of their recent dynamic expansion. While this growth strengthens Europe’s diversification of financing supply to the real economy, it has also introduces new risks. Complexity and transparency gaps in the NBFI sector were highlighted as a significant concern, particularly regarding leverage, liquidity mismatches, and indirect linkages with banks through shared counterparties.

Regarding interlinkages with banks, some members mentioned that banks have increasingly relied on mechanisms such as synthetic risk transfers (SRT) to manage risk and comply with capital requirements. While these tools have supported resilience, there are concerns about their long-term sustainability and potential hidden vulnerabilities. For example, banks could face refinancing risks, counterparty risks (in the case of unfunded transactions) and legal risks related to structural complexity or regulatory risks, while SRT investors could face credit, liquidity, counterparty or concentration risks.

Participants also debated whether stricter capital requirements for banks have fuelled the rise of NBFIs, creating a competitive imbalance. Some members, however, expressed the view that banks can profit from the rise of private capital markets as it offers them new business opportunities.

Overall, the discussion underscored the need for better regulatory oversight and standardised reporting in the NBFI sector to increase transparency. The lack of proper and comparable data may further mask potential pockets of vulnerabilities, resulting in an underestimation in the assessment of associated risks.

Participants emphasised the importance of risks to be matched by long-term funding and robust risk management practices.

3. Concluding remarks

Ms Buch concluded the meeting by thanking the members for their contribution and active participation in the discussions. The next meeting is planned to take place in early 2026.