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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH CLAUDIA BUCH, CHAIR OF THE SUPERVISORY BOARD OF THE EUROPEAN CENTRAL BANK

BRUSSELS

THURSDAY, 27 MARCH 2025

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IN THE CHAIR: AURORE LALUCQ
President

1-0002-5000
(The public hearing opened at 10:06)

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Chair. – We now move to our public hearing with Claudia Buch, the Chair of the Supervisory Board of the ECB.

Welcome, Ms Buch, to this hearing. It's very important for us to have this kind of exchange, especially in this complex time.

As always, your first hearing of the year will be dedicated to the presentation of the ECB's annual report on the SSM. This is in line with the accountability requirement enshrined in the SSM Regulation. According to the procedure foreseen in the Interinstitutional Agreement between Parliament and the ECB, a confidential version of the draft report has already been made available to interested members, and is now also publicly available on the ECB website.

This year's report covers the ECB's supervisory activities in 2024. I understand that you will address, in addition, the following issue: banking sector resilience and structural reform and possible simplification of the current regulatory framework.

So, you will start with your opening statement – for five minutes, as always, though I think it can be a little bit more if needed.

There will then be a Q&A session with the members of the ECON Committee.

The floor is yours.

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Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much, Madam Chair. Dear members of the ECON Committee of the European Parliament, it's always a pleasure to be here, and today to present the annual report on ECB banking supervision, as the Chair said, for last year. But last year is also special in the sense that it marks the tenth anniversary of the SSM, which has really a clear mandate to contribute to the safety and soundness of banks.

If we take stock, 15 years after the global financial crisis, the European sovereign debt crisis, Europe can really look back on a decade of financial stability and this is a crucial foundation for the real economy, for the competitiveness of European firms.

So if you think what happens during financial crises, which have occurred repeatedly throughout history, driven by excessive risk taking, insufficient regulation and weak supervision, then you note that these financial crises come at enormous cost – economic, social, political, fiscal – and these effects can persist for many years.

So to mitigate the likelihood and the impact of financial crisis, a comprehensive package of banking sector reforms has been implemented, and the evidence is quite clear: the European banking sector is more resilient, and these benefits outweigh potential unintended side effects on lending and growth. And, as I've said, these benefits are clearly visible in Europe. The European banking sector has a solid capital and liquidity position, with a risk-weighted CET1 ratio of 15.7 % – that's end 2024 data – and an unweighted leverage ratio of 5.8 %.

Banks adjusted well to the more restrictive monetary policy environment, and bank profitability benefited from higher interest rates. When we look at bank asset quality, it remains solid, although we see that weaker growth and higher interest rates may increase risks. So, as of now, the non-performing loans ratio stands at 2.3 % – so well below the level ten years ago. But it's particularly banks' exposures to small and medium-sized enterprises and to commercial real estate that have become riskier, and this is also – not only but to a large extent – due to the fact that these sectors are sensitive to higher interest rates.

So that means looking ahead. European banks face stronger headwinds requiring continued financial and operational resilience due to geopolitical risks, climate and environmental risks, cyber-risks, and these are really focus areas for European supervision.

Let me just give you some examples – there's more in the report of course.

First, we are monitoring how banks address their exposure to geopolitical risk. What's important is that geopolitical risk is affecting them through all traditional risk categories. Operational risk is one focus area, because the incidence and also the severity of cyber-attacks has increased. So we conducted a cyber-resilience stress test last year, and we work with the banks to strengthen their preparedness against successful cyber-attacks. Since January this year, as you know, the Digital Operational Resilience Act (DORA) is effective, and we implemented together with other authorities to strengthen the IT security of banks and to reduce risks related to outsourcing.

Second area: reliable information systems are essential for both banks and supervisors to monitor risks effectively. Yet we see that many banks still face shortcomings, and to address these we have published a guide to clarify our supervisory expectations.

The third example is climate and nature-related risks, which, we must say, banks have made notable strides to improve their risk management and governance arrangements, and we monitor the progress in these areas. There's an important aspect related to data, because banks need high-quality client and asset-specific data, and therefore robust and efficient sustainability-related reporting requirements for corporates are key.

So these are just a few examples of how the current framework has allowed us to keep banks stable, to enhance bank resilience and also at the same time to shift focus on new drivers of risks. I would argue that we would argue that this is actually a significant achievement.
At the same time, we remain committed to reducing undue complexities that hinder our ability to keep banks sound and safe. Clearly, simplification cannot come at the expense of resilience, and we have an effective framework in order to maintain financial stability without impeding

growth. But there's always scope for improvement and we see this in three areas – and I would like to go through supervision reporting and also regulation.

First – and I've talked about this before here in this group – in order to deliver our supervision as efficiently and effectively as possible, we have reformed our SREP process – the Supervisory Review and Evaluation Process. We've decided upon this last year and we're now implementing, so full implementation will be next year. This will allow us to be more focused on relevant risks and also ensure that banks remediate deficiencies that we have identified swiftly.

We are also improving our administrative procedures. So we're currently piloting a fast track approval process of risk transfers and securitisation, while maintaining a strong focus on relevant risks. The second area for simplification is scope to reduce reporting costs by harmonising reporting schemes, improving information systems and also better information sharing. So we very much welcome the political agreement that has been achieved on better data sharing and financial services. We have many initiatives that go exactly in that direction. The first is the Integrated Reporting Framework, or IReF, which will integrate prudential and statistical reporting. We are working with the EBA and the industry in the Joint Bank Reporting Committee also to reduce reporting costs and with AMLA, the new Anti-Money Laundering Authority, we're currently working on a memorandum of understanding which will also include data sharing arrangements.

The third area that I mentioned is regulation, so clearly a potential simplification of regulation, as I said, must not be mistaken for deregulation. Lowering standards would ultimately leave risks unaddressed, and it may even incentivise high-risk practices with, in the end, little benefit also for the real economy.

So to make sure that simplification does not come at the expense of resilience, I think it's important to have any discussion on potential changes in regulatory standards to be guided by sound evidence and cost-benefit analysis. So we are not the regulator, but of course we contribute our expertise to such a discussion.

So let me summarise. Europe needs, and Europe has, a strong supervisory and regulatory framework. We need this to ensure financial stability to protect the real economy in times of stress and to keep deposits safe. This holds, in particular, in light of the currently high level of uncertainty. We see low risk premia on markets despite heightened geopolitical risk and this, of course, increases the vulnerability of the financial sector to adverse shocks and spill-overs.

We need resilient banks that can withstand shocks and continue delivering services to the real economy. Weakening prudential standards, in contrast, may harm the competitive position of European firms. Instead, what's needed, I think, is to remove national barriers to the single market, to implement structural policies that can promote growth and innovation. One element of this, which is important also for the banks, is the capital markets union, because that has the potential to remove or to harmonise national rules that also imposed impose costs on cross-border activities for banks.

Not least – but we've mentioned this year several times already – we need improvements to the crisis management and deposit insurance framework to better deal with bank failures to protect depositors. So, completing the banking union, including with the European deposit insurance scheme, is important and a key priority to strengthen financial stability.

1-0005-0000

Hanna Gronkiewicz-Waltz (PPE). – Thank you, Madam Chair. I will speak in Polish because it's a question which is very important for Polish public opinion. It's a political question about geopolitical risk.

Despite the ongoing war between Russia and Ukraine, which has been going on for three years now, and the sanctions imposed at the time, several major European banks, such as Raiffeisen Bank International, UniCredit and OTP Bank, are still operating in Russia as if the sanctions were not in force. I believe that sanctions are only effective when they are actually applied.

As an illustration, Raiffeisen Bank handles around 30 % of foreign payments and is considered a systemically important bank in the country. What measures have the European supervisory authorities – as the banking supervisory authority – been taking in the past and at present to restrict activities in order to apply the sanctions that have been imposed on Russia by governments?

1-0007-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for the question. First of all, let me say that, as prudential supervisors, we are not the sanction authority. It's not our mandate to impose sanctions and to follow through. But of course, this is not saying that sanctions are not relevant for us, because they're relevant for the banks; the banks have to comply. There can be reputational risk. There can be legal risks associated with it, and banks also need to make sure this is the core, the bread and butter of our work. They need to make sure that they have risk management systems in place, which also, of course, need to consider the ability to control the risks if they operate in a difficult political environment.

So this is why we have – and I'm not, as usual, discussing the cases of individual banks – generally, after the invasion of Russia into Ukraine, started a vulnerability analysis to see whether European banks are exposed to the types of risks that I've just mentioned, and then we've also given clear supervisory expectations and also decisions to the banks as to how we expect them to withdraw from activities in the region, from Russia in particular. We've also enforced the decisions to the extent that they were needed. In the meantime, banks have exited the market, and the overall exposures have been reduced by roughly two thirds. So we've seen an effect of these measures. Of course, we follow through with the individual banks to make sure that they comply with our decisions and with the supervisory expectations.

1-0008-0000

Jonás Fernández (S&D). – I essentially wanted to refer to the geopolitical risks that you have mentioned. We read this morning that the European Central Bank could be analysing or doubting the Federal Reserve’s commitments to providing liquidity between central banks. I don't know if you have any comments on this.

At any rate, I would also like to ask you about the geopolitical risks arising from the absence of a regulatory framework and the Trump Administration's public promotion of stablecoins. We in Europe certainly have a regulatory framework, the MiCA, which, by the way, is not being applied in exactly the same way in all the Member States, and we have some cases, as in France, with some uncertainty. But obviously stablecoins are a problem of financial stability and banking stability. As I say, in Europe this issue has been more or less sorted out, but what is coming from across the Atlantic threatens financial stability in Europe.

I would also like to ask you, following on from the debate on stablecoins, to what extent the digital euro could help. Because you know that there are some people, some voices, who believe that the digital euro could also generate problems in terms of banking stability. Some of us believe that the digital euro could avoid banking stability problems worse than those we could see if the wave of stablecoins continues to grow.

1-0009-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for the questions. Let me start with geopolitical risk and the media reports that you refer to related to the Federal Reserve and what's happening in the US. I've also seen those reports. I would not put too much weight into it, and I'm not exactly sure where this is coming from.

What I can say from our side is that we have very good cooperation, and we continue to cooperate well with our colleagues in the US and generally in the international community. Of course, liquidity risk and also foreign exchange risk is something that we address as a routine part of our supervisory assessments with regard to the banks. But this is not a specific new development; this is something that we've always done. We've recently published also a blog on how the banks should adjust to the new monetary policy environment. But this is business as usual, I would say. As I said, we continue and we will cooperate very closely also with our US counterparts.

Then you mentioned the lack of a regulatory framework and also discussions around certain instruments such as crypto-assets, stablecoins, this whole area, and what we can do. So let me make a more general statement about crypto-coins and crypto-assets as a whole which, I think, first of all need a global regulatory framework because many of these instruments are really borderless, so they're not just affecting one jurisdiction.

I've always thought that, to the extent that there's risks embedded in crypto-assets, and this could also become systemic through high leverage, through conflicts of interest, and so forth, we also need a good international framework to deal with these risks. This is being discussed in the G20 Financial Stability Board, and this includes preventive measures to be taken. It also implies that we need information about these crypto-markets so that we can understand the risks and then respond appropriately.

I think the European MiCA Regulation is exactly the right type of framework, as this is also distinguishing backed and unbacked crypto-assets, which have different risks attached to them, and is also imposing certain reporting requirements. So I think this is clearly the direction of travel.

Now, of course, we look very carefully at what's being discussed in other jurisdictions – and you've mentioned the US – and so far the exposure, direct exposure, of the European banks, because we've taken a very prudential and vigilant approach to this, the exposure of European banks to these types of assets, is limited. But, of course, if there's potential deregulation or lack of regulation in other jurisdictions, this imposes competitive pressure also on European banks, so we monitor this very closely and then – but this is not for us to decide, but for the regulator, of course – if we feel that there's spill-overs from less regulated markets elsewhere, then also maybe European regulation needs to respond to that. But this is clearly something we monitor very closely because of the potential systemic risk issues which require preventive action.

To some extent, your last question, on the digital euro, is linked to that because I think the digital euro is a response from the official side, from central banks, and this holds for digital currencies in general, to developments in digital payments. So there's of course lots of providers of digital payment solutions in the private sector, and I think central banks need to respond to that for many different reasons, also to have a stable, secure means of payment that is provided by the public sector, and we very closely cooperate from the supervisory side. We have the separation principle, but we cooperate very closely with our colleagues on the central banking side to make sure that the concerns that I sometimes hear where this might undermine the business models of banks, it might threaten the profitability of banks, I think these concerns are not really founded in the facts of how the digital euro is designed.

I think, quite to the contrary, the digital euro will have benefits for the banking sector because the banks will remain the key intermediary with which the central bank interacts. We are very closely cooperating with the colleagues on the central banking side to make sure that we understand the concerns that are there, that we address them through the design features of the digital euro. I think it's a key element of the response to the developments we see in digital payments.

1-0010-0000

Enikő Győri (PfE). – Thank you so much, Madam Buch, for being with us this morning. Walking along the same lines, of course, we know how difficult it is to strike the proper balance between a solid, stable banking system – because we all suffered the consequences of the crisis in this respect from the year 2008 – and competitiveness.

This is how I come to our evergreen subject, which is Basel III – it's not the first time we've talked about it, and for sure not the last time, and we know that we postponed the introduction and the Brits did the same – we were with an ECON delegation in London, we discussed it with them – and we don't know what will happen overseas, but I would say I am 99 % sure that they will not introduce it.

Now we are in the middle of the public consultation on the trading books and, of course, we don't know the outcome. For me, it's a bit controversial to have a public consultation on trading books when people don't even understand what 'trading book' means. Anyhow, let's hope that at least the experts and the bankers will answer and participate in this public consultation.

I know that you have always been a fierce supporter of Basel III. What is your opinion now, under these changed circumstances? And let's suppose that the US will not be on board, how will it affect European banks' competitiveness in the longer run?

My second question, again on the digital euro: I have recently seen three reports with quite frightening figures and statements – one by the Italian Banking Association, another one by the Federal Association of German Community Banks, and the third one by the European Banking Federation itself – speaking about very high costs and very important problems with the digital euro. So my question here is, when you analyse the risks – and you mentioned so many risks – wouldn't you involve the digital euro among these risks?

1-0011-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for these questions. I hope I can do justice to the different elements. So yes, you mentioned there's a balance that we need to strike between resilience and competitiveness. I'm strongly convinced that the two actually go hand in hand. So, in the end, having a strong banking sector that has sufficient buffers that it can use also in times of stress, I mean this is the best service we can do to the real economy, because what we don't want to have is that nobody knows when the next crisis strikes – we all hope that it doesn't, but of course we don't know.

I think the worst that can happen is if then the banks are not in the position to buffer these shocks if they have to cut lending to the real economy. So we need to make sure that the banks are able to support the real economy also in times of stress, and this is exactly what resilience is about. So maybe we should sometimes explain what resilience actually means –it's exactly that ability of the banks to lend. In that sense, I mean if I say I'm convinced and it's not just my kind of feeling or my predisposition, but this is also what you see in a lot of studies that have been done, it's that these two things are not really in contradiction.

So in that sense, I think it's actually a very strong and very positive signal that Europe is sending also to the rest of the world that we are implementing Basel now, from the beginning of this year on, that the banking package, the Basel reform, is being implemented in Europe, and all that we see and all the feedback that we get from the banks is that this also doesn't put their business at risk. They can very well deal with these changes. I think we're also addressing relevant risks, and I'll come to the FRTB and to market risk in a minute.

I think this is, if you look at the broader scheme of things, a very positive signal that Europe sends to the rest of the world. I think personally that it's not in the interest also of other jurisdictions to undermine, to weaken the Basel framework, because banks that operate globally also need a stable regulatory framework, a trusted framework. And this is exactly what Basel gives; it gives minimum standards, and then all the jurisdictions, of course, need to implement it locally.

So in that sense then I think now shedding doubts on whether or not Europe would implement would lead to more regulatory uncertainty and may have negative impacts. Now on that specific element of the FRTB, as we all know, the Commission still has the option to postpone the implementation by one year, has the option to go for one more year, and there's a consultation ongoing. I have always said we stand ready to provide all the evidence that we have from the banks to this discussion that is happening.

It's not for me to decide, or for us to decide, whether the Commission uses this additional year, but for me there are two elements that are important. One is market risk is relevant, and we need to address market risk and the FRTB does exactly that. So as I said, we all don't know right now – the markets are relatively tranquil – but we also have over-valuations, we know that risk sentiment can change, so we need to take market risk into account. The sector needs to be resilient: if there's areas where we can improve, in terms of the technical implementation, I think this is clearly something where we would be pragmatic, but I would distinguish these two things because we also see that many of the banks report already under the FRTB, and we need to also acknowledge the efforts that have been made there. So this is also something the banks have implemented.

On the digital Euro, I can be relatively brief. I also see the studies coming from the industry. I mentioned in my response to the earlier question that, of course, that we listen very carefully to what the industry says, and we do our own assessments. We work very closely with the colleagues on the central banking side. We also do our own outreach to the banks. We collect data, evidence from them, to understand what the impacts of the digital euro would be and we don't see this risk that you have been describing, that there might be liquidity outflows or that there might be financial stability risks. Quite to the contrary, I think the banks, if they develop business models around the digital euro, it would rather come to their benefit than to their detriment.

1-0012-0000

Giovanni Crosetto (ECR). – Madam Chair, Ms Buch, we have seen that the governors of the central banks of Italy, France, Germany and Spain sent a letter to Commissioner Albuquerque asking him to ensure that the complexity of EU regulations does not become an obstacle to achieving our objectives, referring, among other things, to the omnibus package. You will be well aware of this too, Ms Buch, as you were in copy.

We have read that your Vice-Chair said on the same topic that rather than reducing this complexity by lowering regulatory requirements, it would be more effective to achieve simplification through European harmonisation. And I think you have delivered a similar line of reasoning.

Specifically, your Vice-Chair is concerned that this could deprive banks of the information they need from companies in order to assess their exposure to climate change risks. This is because we know that the omnibus package provides for a relaxation of reporting requirements for companies, exempting them from providing certain non-financial data and information.

The risk – and here comes my question – is that banks and financial institutions remain subject to expectations based on the previous regulatory environment, in terms of ranking and portfolio management of customers, while companies will no longer be obliged to provide the same amount of data, making it impossible for banks to meet those expectations.

Ms Buch, what does the Supervisory Board intend to do to avoid this problem, which has also been highlighted by the four governors of the main central banks?

1-0013-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you. Yes, of course, I'm aware of the initiative that you that you mentioned. And it's not just the letter that you mentioned, but there's a broad discussion around simplification. And, as I've said, nobody can be against simplification in the sense that whatever we do to ensure that the sectors sound safe and resilient, can we do it in a more efficient and effective way?

And this is exactly the philosophy behind the big reform that we have decided in the Supervisory Board to improve our procedures that I mentioned earlier. So we decided last year, and we now run it basically through all our activities. We check: can we do this – whatever we do – can we do it in a in a better way? So we're certainly not against that. Quite the contrary, this is something that we're doing already.

I would really warn against simplification that is in the end a synonym for deregulation. So to have weaker standards and to weaken the resilience of the system for the reasons that I've mentioned. I think in the end that would not also be beneficial for the real economy.

So it may be that it leads to a short boom. But then in the end, we need to then assess, as has been repeated many times in history, we need to pick up the problems later on down the road.

So this is why we had a very constructive dialogue along these three dimensions. I think it is also important to keep supervision, reporting requirements and regulations separate. Because we are not the regulator, we can only provide evidence to that discussion.

So I think what you refer to, also what the Vice-Chair said, is also the discussion around the omnibus and the climate-related reporting. So let me give you a little bit of an update on what we've done there and where also the banks stand.

So, as you know, we started this work on climate- and nature-related risks in 2019, 2020, so a couple of years ago, understanding where the banks are in terms of the management of these risks. So we are not the climate policy-makers, but we need to understand, the banks need to understand, the risks they are exposed to. And I think now over the years we've worked very well with the banks.

Many banks really comply with our supervisory expectations. How should they manage climate and nature related risks? Do they have the right frameworks in place? But what the banks need for that risk management is data from their corporate clients because they don't know what the exposure is. They don't have it in their own information systems. They need the data from the corporate sector. So this is why it's so important for banks first and foremost, and then also for us, that there's good climate-related reporting.

Now, in the spirit of what I've said earlier, we can fully understand that there's discussions around can this climate-related reporting, can it be simplified, can it be streamlined, and what can be done? But the point that we are making and also the Vice-Chair made is that: be aware that if this simplification goes too far, and this can be in terms of what is the reporting threshold, what's the type of information. So all this is under discussion. Be aware of the fact that maybe then if it goes too far, the banks don't have sufficient information to inform their risk management system.

So this is something that is really important, because the banks have made a lot of efforts, and they've invested in these information systems and they need sufficient information. So in that again there's a trade-off in that space. We are very open to be pragmatic and to see what can be done. But one also needs to be very careful that we don't jeopardise the progress that has been made.

1-0014-0000

Gaetano Pedulla' (The Left). – Madam Buch, you have told us very clearly about the ever-increasing risks that you see on the horizon for the financial system. You have talked about geopolitical risks, data risks and cyber risks. Well, but you are certainly aware of this, we see that you are following a case that is somewhat unusual in Europe.

Italy is currently experiencing a record number of inter-bank operations, acquisitions, mergers constituting real bank risk, with smaller banks trying to buy out larger banks. There is the case of Monte dei Paschi di Siena, which up until recently had been in a bail-out procedure and which, with the support of the government, is now trying to acquire one of the largest banks in northern Italy, Mediobanca, with implications for the big insurance system.

You have told us that the aim of supervision is to ensure that banks are resilient and that they can provide services, loans and business services. But if the system starts unravelling, as we are seeing, as is the case in Italy, do you not think, without entering into the specific cases of individual institutions, that as a supervisory body you should put a stop to this situation, which is liable to get out of hand?

1-0015-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you for your question. And indeed we all read the newspapers. The Italian situation is interesting not only there but, as you mentioned, the names of specific banks. Everything that I say is not related to these specific cases. As you know, I can't talk about individual banks here.

Let me also say a little bit why I think these discussions around mergers and acquisitions, both domestic and cross-border, are happening. I think this is one of the responses of the banking sector to the increasing digitalisation of financial services. To build scale, to make use of the single market to enlarge operations.

So I think we've seen a very long period where there hasn't been a lot of merger and acquisition activity. And if you look at the 90s or the early 2000s, there was much more activity. So I think we are returning to a phase where we see more of this. And, actually in the context of the single market, this is perhaps even something that can be expected.

So there can be beneficial effects for the banks in terms of building scale, diversification. But, of course, from the prudential perspective, sometimes I hear my colleagues say 'we are paid for being worried', not only that, but, of course, we also need to think about the risks that can be included. So it can be, of course, that the management of a complex financial institution is difficult. There can be execution risk. So these things need to be balanced.

Now, the regulator gives us a very clear role, what we do in terms of approvals of qualified holdings procedures. So this is Article 23, if I'm not mistaken. Yes. And it clearly says: please you as the SSM assess these mergers and acquisitions to qualified holdings from a prudential perspective.

So we are not the competition authority, but we look at what is the prudential situation. How does the potential merger and acquisition affect the prudential criteria for the acquirer and for the target? What is the governance structure of the combined entity? Then also are there risks related to anti-money laundering and so forth, where of course we depend also on the input from other authorities?

So this is a very clear role that we have. And what I've always said is that we really stick to this mandate. I think this is crucially important because we don't have a political mandate and we can't take political decisions. And we also look at domestic versus cross-border mergers. Neutral in the sense that we apply the same type of criteria. And certainly nothing that we do would stand in the way of also cross-border activity, but we take a very neutral approach.

And I think this is important in the difficult context in which these discussions sometimes take place, that we have a very clear role and mandate here.

1-0016-0000

Marco Falcone (PPE). – Madam Buch, in recent times, all the European statistical indicators have pointed to the banking system showing signs of slowing down when it comes to providing liquidity in the market.

Yet, there is a counter-trend – that of cooperative credit and the world of cooperative banks. Locally-based small and medium-sized community banks continue to provide good levels of credit to consumers, households and businesses, albeit small ones.

Cooperative credit plays a major role in society. Community banks, if I take Italy as an example, are often present in inland areas and in the most remote areas. Unfortunately, cooperative banks are now being subjected to very strict, very stringent controls and to rules that generate unsustainable, totally avoidable costs.

It would therefore seem essential to make both supervisory action and the burdens imposed on community-based banks proportionate, in order to prevent these banks from being by lumped together with big groups. How do you think that cooperative institutions can be protected and the specific role they play at local level assured?

1-0017-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you very much for the question, because it also allows me a bit to explain how we also cooperate with the national authorities when it comes to the oversight. Most of the banks are supposed to speak about the smaller banks.

The co-operative banks are so-called 'less significant banks', and they're not under our direct supervision, but, of course, we have an oversight function, and we cooperate very closely with the national competent authorities, including the Italian colleagues, to make sure that also here we apply the same standards and that we understand what is happening in the system.

And one of the same standards that we apply, and this is clearly embedded in all our activities, is proportionality. So proportionality not just in terms of size – because we can also have small banks which are very risky – so proportionality also always means 'proportionate to the risk of a certain entity'.

And I can assure you that we have very good discussions with colleagues on what we can do to, at the same time, have stringent, clear, harmonised rules across Europe, but also take into account that there's different types of entities which require different types of intensity of supervision.

So that is clearly ... I mentioned we want to be as efficient and effective as possible. But proportionality is always an overarching theme of what we are doing.

As to the substance of your question in terms of the lending activities – and this is actually something that we observe in many European countries – the quite fast credit growth that we've seen in the past has slowed down in some countries. And I think it's always very useful to think about both the demand-side and the supply-side drivers of this.

So clearly from the demand side –, and others have mentioned the high degree of uncertainty we have currently – so that, of course, has an impact on the willingness of firms to invest, the demand for loans and all that. And also maybe individual households would consider whether to take out another mortgage loan or not.

So this whole uncertainty – economic uncertainty – is clearly suppressing demand for loans, together with the fact that, of course, now interest rates are still higher than they used to be a couple of years ago. So these are both demand-side factors.

But this is not to say that we shouldn't also think about the supply side and what happens in the banking sector. And this is where the point that I mentioned earlier is important: that the European banks are well capitalised, and that includes also the smaller, less significant institutions. So, in that sense, there's no constraint from the supply side that they couldn't lend more.

But of course the banks also have become more risk-sensitive. They also see geopolitical risks. And so it's a natural adjustment that they consider: how risky is this type of investment? They might tighten credit constraints if they see issues there. But I wouldn't say that what we do because our approach has not changed, no.

So if you see currently, maybe, a slowdown in lending, our approach is always the same. So this is not, in that sense, driven by tighter regulation or anything. But it's really a response to the difficult environment that we see around us.

1-0018-0000

Eero Heinäluoma (S&D). – So, Madam Buch, thank you for your very clear statements today to the committee. It seems so that there is an increase in discussion concerning the relationship between the capital requirements and the possibilities for growth. And there are increasing calls for the lowering of capital requirements for banks. We have noticed the concerns expressed by an ECB board member last week on this trend.

You were quite clear also in on your presentation today about the risk of deregulation, which is this trend coming mainly, I would say, from the USA and from the new USA administration. I would be interested to hear your viewpoint and the SSM’s viewpoint: are the European capital requirements and lack of funding holding back EU growth? Or is this phenomenon mainly the normal thing where bank owners are interested in getting a little bit more income from their shares and from their ownership?

1-0019-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – Thank you for the question. My very clear answer to that is that, no, I don't think that the supervision we implement, the capital requirements are holding back growth in Europe.

So that is very clear, and I've said it and some of the responses to the questions already: the banks have sufficient capital buffers to lend to the real economy to support growth and innovation. So we don't have any evidence that there could be supply-side constraints in terms of lending to the real economy.

When you look at how capital requirements have evolved over time, I think this is also interesting, then you notice that there have been fairly stable over time. So there's changes in the composition of the overall capital stack. So when you go back to the period of 2020, when COVID hit, there were relatively little macroprudential buffers in place, the countercyclical capital buffer in particular. So that was released to give the lending space in a very difficult situation to the banking sector to lend to the real economy.

But that wasn't sufficient, so we also relaxed the microprudential requirements in that time. So the system was able to breathe. I mean this is what we wanted to achieve after the global financial crisis, to have breathing space in the system if you want to have these buffers. Meanwhile, the buffers have been have been built up, but not to a level which would be higher than prior to the COVID pandemic.

The composition has changed a little bit, so now we have more macroprudential buffers in the system. Again, nobody wants that the next crisis hits. So when I'm saying this, it sounds like this is a likely scenario, but there's a high degree of uncertainty. So we simply don't know when these buffers are needed.

So the requirements have been relatively stable over time with the change in the composition. And I don't think this is an impediment to growth. I mean, and that's what I said briefly in my introductory statement: so what really drives growth and innovation is policies which are not in our remit, but it's policies which lead to a more integrated single market, which incentivise innovation, which also deal with the educational system. So all the things that are in the Draghi report, for example.

So these are really the drivers for growth. And I think it would be really detrimental now to think about ‘well if we just relax the capital requirements a little bit then we might get more growth’. Maybe this this could lead to a temporary increase in growth and lending, but we've seen many, many times throughout history where this leads to: namely typically to financial crises, which have extremely long-lasting effects. So, when you look at the evidence, financial crises have extremely long-lasting effects on growth, on fiscal policy and so forth.

So I think we really need to stay the course. And it's in the end, I think it's good for the competitiveness of the European real economy if we have strong banks that can support them.

At the same time – and I mentioned briefly the Capital Markets Union project or Savings and Investment Union – I think we also need to think about equity finance. Because for innovation and growth we can't just have bank lending, but we need equity finance which is complementary to bank lending, venture capital also for example.

1-0019-5000

Catch-the-eye procedure

1-0020-0000

Jussi Saramo (The Left). – Thank you, Madam Chair. And thank you, Madam Buch. As already asked by my colleague a few days ago, Reuters reported that ECB officials are concerned about the ability to rely on the Federal Reserve for dollars. And you answer that risk analysing is business as usual, which is, of course, good to hear for us.

But the situation is all but usual now. The global financial system is a dollar-based system, and the Fed is essentially the world's central bank. And a scenario in which the Trump administration really pressures Europe, turning the dollar swap lines into a geopolitical weapon, we cannot rule it out. So that's really something other than business as usual. And it can't be something that really surprises us.

So how vulnerable do you think is the European banking system in this regard? And is there a special analysis and special activities to mitigate these risks? Thank you.

1-0021-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – No, thank you for the question and, maybe, for giving me the opportunity to specify. So when I say 'business as usual', since at least since last year, but even earlier – because geopolitical risk has not been on the agenda of the Supervisory Board or ECB supervision since last year, but there we made it more specific – we have a framework for addressing the geopolitical risk. So, in the meantime, analysing geopolitical risk is our ‘business as usual’.

So this is what I meant to say and, of course, what I said earlier is that liquidity risk assessment is part and parcel of our SREP process, and including foreign exchange risk. But yes, we work very closely with the banks to implement our geopolitical risk framework, where we're saying that this is not kind of a new risk that we have identified, but it's really affecting banks through all traditional risk channels: credit risk, liquidity risk, operational risk, and so forth.

And in that sense, we are working very closely with the banks, in particular the internationally active banks. It's not just US dollar funding, but it's many areas where they depend on third-party providers, where they're exposed to risks on global markets. So we work with them very closely to make sure they have frameworks in place in their capital planning, in their liquidity planning, that they can address these types of risks.

So this is unfortunately our new business as usual, yes.

1-0021-5000

(End of catch-the-eye procedure)

1-0022-0000

Chair. – Thank you, Ms Buch. I don't know if you want to have some words for the concluding remarks?

1-0023-0000

Claudia Buch, *Chair of the Supervisory Board of the ECB***.** – I had some remarks prepared, but basically they would repeat what I've said before.

In a nutshell, I think now the European banking sector is in good shape, but we should also be very vigilant that this is maybe something that could be like a prevention paradox, that if supervision, if regulation, is working well, then of course we tend to forget the benefits of a stable financial system. So I think we need to always bring this forward.

In the end, I think what we do is also not just about keeping banks deposits sound and safe, but it's also beneficial for the real economy.

1-0024-0000

Chair. – Thank you very much, Ms Buch. I think we should also remember that Silicon Valley Bank went bankrupt just over a year ago, that it represented only 0.05% of global assets – which is very little – and that it ended with the bankruptcy of Credit Suisse. At European level, however, the rest of our system was able to cope with this crisis.

We should also remember that your institution’s 2024 report stressed that European banks were in perfect health and highly competitive.

1-0025-0000

(The public hearing closed at 10:59)