

Written overview for the exchange of views of the Chair of the Supervisory Board of the ECB with the Eurogroup on 12 November 2025

Thank you very much for the opportunity to update you on the situation in the euro area banking sector. Since the start of the banking union, the sector has become more robust, leading to increased trust and market confidence. Better regulation, better supervision¹, and better risk management of banks are behind these developments, which have clear benefits for the real economy. In a challenging environment, Europe needs to maintain strong regulatory and supervisory standards. Strengthening the Single Market can support simplification, competitiveness and integration. At the same time, we are committed to reducing undue complexities by reforming the way we conduct supervision.

The resilience of euro area banks

The most recent data confirm the financial soundness of the euro area banking sector. The capitalisation of euro area banks is solid, with a Common Equity Tier 1 (CET1) capital ratio of 16% in the second quarter of 2025.² Banks have robust liquidity positions. Asset quality remains sound, with a non-performing loan ratio of 1.9%, less than a third of the level ten years ago.³ Strong profitability, supported by higher interest rates, is reflected in higher valuations of European banks' shares.

The euro area banking sector has remained resilient in the face of recent shocks. During the COVID-19 pandemic and the energy crisis, as well as in more recent years, euro area economies have gone through recessionary periods. In typical recessions, loan losses increase and bank capital decreases. This has not happened in recent years. Banks' stronger capital positions have clearly been key in maintaining financial stability. But the resilience of the banking sector also benefited from the fiscal policy support provided to households and firms during difficult times. Moreover, the robust labour market in euro area economies played a role as it supported the financial situation of households.

Maintaining the resilience of the banking sector is key to ensuring a stable supply of services to households and firms, including during times of stress.

¹ The recent IMF Financial Sector Assessment Program (FSAP) of the euro area highlights the quality of the supervision carried out by the Single Supervisory Mechanism (SSM). [Euro Area Policies, Financial System Stability Assessment](#), IMF, 2025

² Data refer to significant institutions under the direct supervision of the ECB. See the [list of supervised entities](#) on the ECB's banking supervision website.

³ In the second quarter of 2015, the comparable number was 7.5%. These ratios include cash balances at central banks and other demand deposits. The non-performing loan (NPL) ratio excluding cash balances at central banks and other demand deposits stood at 2.2% in the second quarter of 2025.



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Geopolitical risks and stress testing

The environment in which euro area banks operate remains challenging. Geopolitical risks are heightened. The competitive landscape is changing rapidly, and risks from the non-bank financial sector could spill over to banks. Risks to Euro Area economic growth may have become more balanced, but trade tensions pose downside risks.⁴ So far, negative effects of higher tariffs have not had an impact on the financial situation of firms or the quality of banks' assets. Nevertheless, we are closely monitoring the evolution of non-performing loans, lending standards and provisioning of banks.⁵

This year's EBA stress test shows that the euro area banking sector has sufficient buffers against a common, adverse geopolitical shock scenario.⁶ This stress test analysed the effects of a common adverse scenario with higher tariffs, lower growth and market disruptions. Losses and non-performing loans would be higher compared with the 2023 stress test, but the sector's current strong profitability would buffer some of these losses. On aggregate, the stressed capital position of euro area banks would therefore be stronger than two years ago. However, 24 of the 96 banks in the sample would be subject to dividend restrictions in the hypothetical adverse scenario. The stress test results feed into our supervisory assessments, and we provide guidance on banks' capital buffers and adopt qualitative measures if we see deficiencies in banks' risk management.

In next year's thematic stress test, we will focus on bank-specific geopolitical risk scenarios.⁷ We will ask banks to run a reverse stress test to analyse which specific geopolitical risk events would severely impair their solvency. This exercise will largely rely on banks' internal risk management tools. It will provide information about bank-specific vulnerabilities to geopolitical risks, and we will follow up with targeted supervisory measures if needed.

Digitalisation and bank profitability

To remain competitive, banks need to respond to the digitalisation of financial services. Several euro area banks are exploring the possibility of issuing stablecoins. Banks are using artificial intelligence to become more operationally efficient, improve credit risk management processes and provide better services. Many banks are relying on third-party providers to deliver innovative technologies.

⁴ Estimates of growth projections of 1.2% in 2025 and 1.0% in 2026. See Lagarde, C. (2025), "[Hearing of the Committee on Economic and Monetary Affairs of the European Parliament](#)", Strasbourg, 6 October.

⁵ The NPL ratio excluding cash balances declined slightly to 2.2% in the second quarter of 2025, but with differences across countries and asset classes. The NPL ratio for loans collateralised by commercial immovable property stood at 4.6%, compared with 4.5% in the first quarter of 2025. At the country level, this ratio increased from 5.9% to 6.4% in Germany, from 3.5% to 3.6% in France and from 4.7% to 4.8% in Austria over the same period.

⁶ This year's stress test was coordinated by the European Banking Authority in cooperation with the European Systemic Risk Board, the ECB and national competent authorities, and was conducted on a sample of 51 banks. A further 45 significant institutions directly supervised by the ECB participated in a parallel stress test coordinated by the ECB. See ECB (2025), "[Stress test shows that euro area banking sector is resilient against severe economic downturn scenario](#)", *press release*, 1 August.

⁷ Buch, C. (2025), "[Stress tests in uncertain times: assessing banks' resilience to external shocks](#)", *The Supervision Blog*, ECB, 5 September.



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Such financial innovations can benefit banks and their customers, but they also entail risks. Greater dependence on outsourcing and increased threats of cyberattacks increase risks. Interconnections with non-bank financial intermediaries such as private markets can create mechanisms through which shocks are amplified. Furthermore, the emergence of stablecoins and crypto-assets increases risks to financial stability. Addressing bank-specific vulnerabilities in these areas is therefore a key focus for ECB Banking Supervision.

Thanks to good levels of profitability, banks currently have opportunities to strengthen their resilience and competitiveness. In order to compete with non-bank providers of financial services, they will need to make long-term investments in IT and cyber resilience. They should therefore withstand pressure to pursue short-term risk-taking and pay-out strategies.

Maintaining solid capital buffers strengthens banks' long-term business models and their ability to provide services to the real economy. This is particularly relevant at the current juncture, as fiscal space is becoming more constrained. Strong capital and liquidity buffers are a strategic competitive advantage for banks, as the Chair of the Basel Committee on Banking Supervision recently highlighted.⁸

A recent analysis from the ECB shows that sound capital regulation does not impair the competitiveness of banks.⁹ According to that analysis, capital requirements are not a key determinant of banks' profit efficiency. Banks' profit efficiency even increases with the level of capital up to a certain threshold, estimated to be well above the current level of capital requirements for euro area banks. Banks operating in countries with stronger industrial productivity and banks being larger, having better asset quality and having a more retail-oriented business model are more profit efficient.

Enhancing supervisory efficiency and effectiveness

ECB supervision is responding to the new risk environment as well.¹⁰ We are reforming our supervisory procedures with three key objectives:

- enhancing efficiency by streamlining supervisory processes and decision-making, using technological innovation such as AI tools, and by removing undue complexity in the interactions between banks and supervisors;
- enhancing effectiveness by communicating clearly with banks on the main deficiencies we identify and escalating supervisory action as needed;
- enhancing the focus on relevant risks by refining supervisory activities to continue addressing bank-specific vulnerabilities in a proportionate manner.

⁸ Thedéen, E. (2025), "[Resilience pays: the strategic value of regulation and supervision](#)", keynote speech at the Eurofi Financial Forum, Copenhagen, 19 September.

⁹ Behn, M. and Reghezza, A. (2025), "[Capital requirements: a pillar or a burden for bank competitiveness?](#)", *Occasional Paper Series*, No 376, ECB.

¹⁰ See the [FAQ on the SREP of tomorrow](#) on the ECB's banking supervision website.



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This reform programme is currently being rolled out, and key elements are already in place. It encompasses all relevant supervisory activities, including on-site inspections, and is accompanied by specific measures to adapt the supervisory culture across European banking supervision to the reform objectives. This work feeds into the ECB's High-Level Task Force on Simplification.¹¹

To complement our efforts, further institutional reforms would strengthen financial stability and cross-border competition. Currently, the ability of euro area banks to build pan-European business models and to scale up is constrained by the incomplete banking union and the proliferation of national rules affecting the banking sector. A smaller home market and lower IT investments are two factors contributing to the lower profitability of euro area banks compared with those in the United States.¹² Generally, comparisons of bank profitability across countries need to take into account differences in the macroeconomic environment and the structure of the financial system in which the banks operate.

Strengthening the Single Market and the banking union

Completing the banking union supports integration and financial stability. The ECB welcomes the recent agreement on crisis management and deposit insurance (CMDI) as it improves the management of stress episodes at mid-sized banks. But CMDI is by no means a substitute for a European deposit insurance scheme (EDIS). EDIS is needed to provide common protection to European savers, support pan-European business models, and improve risk-sharing.

Harmonisation is the key to simplification and integration.¹³ The capital markets union can be a catalyst, and it promises a double dividend. It will reduce frictions to the movement of capital within the EU and enable better access to equity finance. Bank lending is not always well suited to the needs of young, high-risk firms. In order to catch up technologically, these firms need access to risk capital, and to investors with networks and experience. Similarly, large long-term investment projects by established firms require access to a liquid and robust market for equity finance.

¹¹ See "[What is the ECB High-Level Task Force on Simplification?](#)" on the ECB's website. The High-Level Task Force was also presented at the Financial Stability Table on 11-12 September and the Financial Services Committee on 2-3 October.

¹² 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.

¹³ The IMF recently highlighted the need to even out differences in the national laws and regulations applicable to banks in its FSAP for the euro area.