

EBA Chairperson introductory statement; Annual hearing of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament

24 October 2022

Introductory statement by the EBA Chairperson José Manuel Campa

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Honourable Chairwoman, honourable Members of the European Parliament, thank you for the invitation to speak to you today.

The human suffering as result from the Russian invasion of Ukraine is on our minds. After almost eight months of war, we see the economic repercussions: pick-up of inflation and high energy prices are hitting European citizens with a cost-of-living crisis and economic growth is decelerating. Meanwhile the hottest summer in Europe on record was a strong reminder that we need to fast-track our transition towards net zero targets and a more sustainable economy.

Our written statement submitted to the EP gives extensive account of the EBA achievements over the last 12 months. So let me focus my remarks on the situation of banks today and the role for the EBA looking at the next 12 months ahead.

Looking at the situation of banks in Europe:

Let's review the situation of the EU banking sector.

To start with the good news: We continue to see that regulatory and supervisory efforts over the last years have paid off. Banks have proven so far to be resilient to the macro environment (starting with COVID until today) with robust capital ratios and ample liquidity buffers. Reporting data for the second quarter has confirmed this pattern. Capital levels remain above 15% of CET1 ratio and liquidity coverage ratios and long term funding ratios are well above regulatory requirements.

Now, the bad news: the increasingly deteriorating macro outlook, Higher and more persistent inflation, with rising interest rate, will impact the sector. We already see early signs of asset quality weakening, funding conditions are worsening, and financial volatility continues. As we see these developments, I sense we may be at the beginning rather than at the end of an economic downturn of uncertain depth and duration. This will put a strain on citizens and the economy at large and in banks as well.

We will monitor closely the evolution of the sector, including with another EU Wide stress test in the first half of next year.

But at the same time, we need to continue with our ambition to tackle the important long term issues. And let me highlight three.

Let me outline three work priorities for the EBA in the next 12 months.

A strong, unified single market

First, the completion of the single rule good and the fostering of the single market remains more relevant than ever. The EBA's core mission is to foster the unified European market in banking and payment services – not only resilient 27 separate markets. With the finalisation of the implementation of Basel III in the EU we have the opportunity at our fingertips to close pending gaps in the framework. Our most recent Monitoring Report¹ has revealed that lower than expected additional investments are needed for cater for the full implementation of Basel III. In the absence of the fully-fledged Banking Union, and given the difficulties to make progress in that direction, this faithful implementation must remain a priority.

The EBA mission for a single market is equally important when it comes to consumers. It is an area where we have to keep up the pace with technological innovations and learn from

¹ EBA Report on Basel III Monitoring (data as of December 2021) (EBA/REP/2022/21), September 2022. [Available here.](#)
Data: full implementation would result in an average increase of 15.0% of the current Tier1 minimum required capital of EU banks at full implementation in 2028. To comply with the new framework, EU banks would need EUR 1.2 billion of additional Tier 1 capital.

best practices. This is especially high on our agenda as times of economically difficult situations lie ahead of us. This is when citizens need more, not less protection.

A more sustainable future

The second long term area of focus is sustainability. The EBA contributed last year to the net zero objective by enhancing transparency on ESG data. Our pillar 3 disclosure hub is helping to put the taxonomy into practice. With better disclosure and information, banks may better embed ESG risks, and we can better monitor their progress on transition plans. Furthermore, by forcing banks to disclose we are demanding them to also ask their clients for sustainability related information on their activities and new investments for which they require bank financing. This way banks will also act as a catalysts to foster action from many companies and SMEs in all industries, encouraging them to enhance their knowledge and their sustainability awareness.

The discussion on the prudential framework around ESG is also on our agenda. It is important that the urgency to act on climate change does not compromise the risk-based fundamentals of our framework. On the contrary, we should build on the existing framework to enhance it and ensure that ESG risks are adequately reflected in the prudential framework.

Make the EBA fit for the future

Finally, new digital players with data-driven business models challenge us to think regulation and supervision differently. We need to think about the implications of these technologies being applied to the provision of banking services and of the new actors coming to provide these services. As EBA we are currently doing the necessary adjustments internally to fulfil the new supervisory and oversight roles in the context of the new mandates provided by DORA and MICA.

When it comes to AML/CFT, our assessments have shown that we are on the right trajectory and that our efforts in capacity building are resulting fruitful. Up to now, the EBA has set up a holistic regulatory framework to tackle ML/TF risks comprehensively, encompassing all sectors and all stages of a financial institution's life cycle. It is important that the new regulatory and supervisory framework to tackle AML/TF risks is put in place in Europe. As the AMLA will take up its work, we stand ready to share our insights and technical expertise while we will continue to contribute on the prudential matters of AML/CFT.

Let me conclude:

Geopolitical escalation risk, changing macro-economic conditions, digital innovations and pressing sustainability concerns are a reminder that we need to keep a constant eye on changes so as to calibrate the EBA's efforts to the benefit of EU citizens and our economy. As EBA we are committed to our mission and to delivering on our mandates given by you and the colegislators, we offer our expertise and forum of exchange to continue our work in close dialogue with you.

Thank you for your attention.