KEYNOTE SPEECH

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‘Resilience and competitiveness: an obscure clarity?’



Governor,
Secretary-General,
Ladies and gentlemen,

I would like first of all to thank the ACPR for inviting me to its annual conference, which has become a key event in the calendar of the Paris financial community. I am delighted to bring the perspective of the European Banking Authority (EBA).

The theme chosen for this year’s edition – ‘Competitiveness and resilience: oxymoron or complementarity?’ – raises a fundamental question that urgently calls for an answer. For almost two years, much ink has been spilt on this subject, with the banking industry generally stressing the need to unleash its full potential, and the authorities tending instead to emphasise the need for stability.

Indeed, the term ‘oxymoron’ can itself be seen not only as describing a contradiction but also as evoking a complementarity: that between *ὀξύς (oxýs)*, which in Greek denotes what is sharp, and *μωρός (mōrós)*, what is blunt. An oxymoron is sometimes the most accurate way of describing reality – unless it conceals what it really designates… Corneille gave us a famous example when he wrote of ‘that obscure clarity which falls from the stars’. He was not pointing to a contradiction,

but to a reality that anyone can contemplate: starlight is visible to us only because the night surrounds it.

I would like to try to answer today's question by drawing on these two notions of darkness and light.

Resisting doom and gloom

Allow me to begin with a simple observation, which should be a source of shared satisfaction for both the private and the public sectors: European banks are in excellent health today. And the supply of credit to the economy is anything but rationed. We must therefore resist the narratives of doom and gloom!

The figures speak for themselves. The core capital ratio of European banks exceeds 16%, compared with 13% ten years ago. The quality of their capital is much better. Their liquidity reserves are ample. Their profitability has recovered and has grown faster than their costs. Return on equity is approaching 11%, whereas it was below 7% ten years ago. Over the same period, the share of non-performing loans has fallen from around 5% to 1.6%. The valuation gap between large European banks and their foreign competitors has also narrowed.

This strength has been put to the test – successfully. It has been tested in real life. European banks have weathered a pandemic, an energy crisis, the abrupt return of inflation and rising interest rates without disruption, avoiding the difficulties seen in other jurisdictions, while continuing to lend to the economy. Their strength has also been tested repeatedly in the stress tests that the EBA coordinates every two years with the EU's banking supervisors. Whatever the scenario (*low for long*, a return of inflation, stagflation, geopolitical and trade tensions), the core capital ratio of European banks at a three-year horizon has always remained well above the regulatory minimum.

In other words, European banks are now able to absorb one or more major shocks while continuing to finance households and businesses. This strength matters all the more given that growth in Europe lacks the vigour seen in other regions of the world.

This strength is no accident. It is the result of the efforts made over the past fifteen years: a single rulebook for the whole Union, stronger capital and liquidity requirements, the creation of new institutions – the EBA, the ESRB, the SSM, the SRB and AMLA – and, of course, the efforts of the institutions themselves – under the firm but benevolent guidance of the authorities… – to reinforce their business models and risk management.

That is why I believe we must be careful not to set resilience against competitiveness. Fifteen years of regulatory harmonisation in Europe have killed neither the banks nor growth. The Financial Stability Board says so clearly in the principles it has just put out for international consultation: financial stability is the foundation of sustainable growth, which in turn supports financial stability. Resilience is therefore not achieved at the expense of competitiveness: it is a precondition for it.

Does that mean we should stop there? The answer, of course, is no!

Not settling for chiaroscuro

The question is not only whether our banks can withstand shocks, but whether they are able to finance the Europe of tomorrow – our future – over the long term. In this context, we cannot settle for the status quo, nor be content with Pierre Corneille's chiaroscuro.

Europe's financing needs have never been greater: various reports estimate that EUR 1.2 to 1.3 trillion a year will be needed over the next decade to finance the energy, digital and demographic transitions, as well as defence and security spending.

A very large share of this financing will have to come from banks. Yet the single market for banking services in Europe remains largely incomplete. This fragmentation prevents European banks from achieving sufficient economies of scale. It is indeed paradoxical that their exposures outside the Union are as large as their exposures to other Member States.

Within the Union, banks continue to play a central role in financing households and smaller businesses – they provide more than 80% of it. But this role remains heavily constrained by national borders. European retail banking is very profitable today, as interest rates have risen again and growth remains decent. It is far from certain, however, that this profitability will be sufficient for banks to make the investments they will need in the coming years – in technology in particular – both to serve their customers and to protect themselves against cyber-attacks.

As regards the financing of large corporates, banks still play an important role in Europe, but that role has shrunk markedly over the past decade: they now provide just under half of it. And within that half, the share of large third-country banks is growing steadily. This is hardly surprising, as their balance sheets are much larger than those of European banks, whose share among the world's top 50 banks has fallen from 35% to 20% in fifteen years.

So, although their profitability is excellent today, European banks are already facing – or will soon face – a problem of scale. Admittedly, they manage more assets and have lower costs per employee than their foreign competitors. But they are positioned in less profitable activities, generate less revenue per employee and, relative to the size of their balance sheets, invest two to three times less in new technologies than their US competitors. And this at a time when it is very clear that the resilience of the banking sector is as much technological and operational as it is financial.

Our responsibility is therefore to ensure that our rules protect without hindering.

Avoiding a rude awakening the day after

To continue with the theme of darkness and light, I would therefore be tempted to say that we must hurry to prepare, so that we do not face a rude awakening the day after.

As the European Commission stresses in its Communication of last July, competitiveness is its responsibility, but it also calls for a change in culture – a change in attitude towards risk – on the part of regulators, supervisors and the banks themselves. This is precisely what the EBA is working on with the authorities of the 27 Member States and the European institutions that take part in its governance and work. In the spirit of the Draghi, Letta and Noyer reports, we have chosen to take the initiative and put forward proposals.

For the first time since the Authority was established in 2011, we have launched a comprehensive review of the regulatory and supervisory framework applicable to European banks. The aim is to modernise the prudential rules, simplify the mandatory data submissions by institutions (supervisory reporting), strengthen cooperation between the various competent authorities, and revisit our own methods. We are carrying out this work in full transparency, and you can follow its progress on a dashboard published on our website. Ten of our 21 recommendations have already been finalised. Others will follow by the end of the year, and all of them will feed into the legislative proposals expected in the first quarter of 2027.

I would like to highlight three of our main initiatives.

The first concerns capital requirements. In July 2024, the EBA published a comprehensive mapping of the microprudential, macroprudential and resolution requirements applicable to European banks. It showed that these requirements had developed in parallel, reform after reform, and that together they formed a complex, highly granular framework whose interactions were difficult to grasp, for institutions and authorities alike.

Last June, we published a second report proposing significant simplifications. The aim is not to reduce the overall level of capital, but to improve its consistency and predictability. In practical terms, we propose to clarify the respective roles of Pillar 1 and Pillar 2, to refocus the leverage ratio on its role as a backstop, to merge the countercyclical and systemic risk buffers into a single releasable buffer, and to simplify the European minimum requirement for own funds and eligible liabilities (MREL) by aligning it with the international total loss-absorbing capacity (TLAC) standard. These proposals aim to provide a framework that is clearer for banks and more operational for authorities, particularly in times of stress.

The second initiative I would like to highlight concerns supervision. Since 2014, the EBA Guidelines on the supervisory review and evaluation process (SREP) have been the common reference for European supervisors. They facilitated the launch of the Single Supervisory Mechanism. Ten years of application have confirmed their usefulness, but also the need to simplify them.

Also last June, we therefore published revised Guidelines, which will apply from 1 January 2027. They bring together in a single, shorter text all the provisions on the SREP, including the assessment of ICT risk and the treatment of third-country branches, which were previously covered by separate texts. The Guidelines have been simplified. They clarify how Pillar 1 and Pillar 2 requirements fit together, including with regard to the output floor. They steer supervision more towards significant and emerging risks, with a more direct link between supervisors' findings and the measures they take. For institutions, the objective is greater predictability. Beyond this, we are currently discussing coordination between microprudential, macroprudential and resolution authorities.

The third initiative concerns reporting. The harmonised European framework, which replaced 27 national regimes, was already a major simplification in itself. A first review, in 2021, reduced compliance costs by around 20%. But the burden remained significant, partly because of national requests that continue to be added on top of the rules harmonised at European level.

Last April, we therefore consulted on a package of measures to reduce the number of data points in this harmonised reporting by 50%, even as new requirements come into force, notably under IFRS 18, for ESG risks and under the Fundamental Review of the Trading Book. These proposals aim to strengthen proportionality for small and non-complex institutions. They also integrate into the reporting framework the data currently collected separately for stress tests and benchmarking. They are due to be phased in from September 2027. Finally, we are working on a public register of all data requests, both European and national, to enhance transparency and market discipline.

Alongside these three initiatives, we are pursuing other work: deprioritising around one fifth of the mandates given to us by the legislators, as the Commission encourages us to do; reviewing the credit risk framework and governance; and running a simplified EU-wide stress test in 2027.

Simplifying our rules in order to focus on what matters is necessary. But it will not be enough. If banks are struggling to gain in size and efficiency, it is first and foremost because the single banking market remains fragmented. This fragmentation comes at a cost, which weighs on

resilience as much as on competitiveness. The IMF estimates that removing the obstacles to cross-border banking could raise European GDP by around 2% in the long term.

The European Commission made this issue the centrepiece of its July Communication and announced measures to address it in the first quarter of 2027. The EBA shares this ambition and contributes to it through the analysis and data it provides to the co-legislators.

I would, however, like to stress one last point. Banking market integration is often reduced to the possibility of cross-border mergers. Some are under way, and that is excellent news. But this is not the only path to greater integration. Developing cross-border lending, providing services directly in other Member States and managing groups in a more integrated way – for example through branches – matter just as much. We need to facilitate all of these channels.

This of course requires safeguards to ensure that depositors' interests and financial stability in each Member State are protected in the event of a shock. Trust between home and host authorities is a precondition for integration. Helping to build this trust is one of the EBA's roles. Our Board of Supervisors, which brings together the 27 national authorities and the other relevant European institutions, contributes to it through the common approaches and convergence it recommends.

But we should not expect prudential regulation and supervision to solve everything either. Among the problems still to be resolved is the fragmentation caused by national practices and preferences that remain highly diverse, whether in consumer protection, insolvency law or taxation.

Conclusion

Ladies and gentlemen,

The ACPR has asked us a question that is simple only in appearance. There is indeed a tension between competitiveness and resilience. It will not disappear – nor should it: it is this tension that obliges authorities and institutions alike to keep seeking the right balance. Yet these two requirements complement each other. Resilience gives competitiveness its longevity; competitiveness gives resilience its purpose.

The coming months will be decisive. The Commission's proposals are expected in 2027, and several of our own proposals will start to apply at that point. Not everything needs legislation: adjustments can be made right now, and market forces must also play their full part in this collective effort.

The EBA is playing its full part in these discussions; it is also fully committed to their implementation, together with the authorities of the 27 Member States – first and foremost the ACPR.

Thank you for your attention.