

REGULATORY POLICY STANCE

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EFR MEETING

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The views expressed here are those of the author and not necessarily those of the Banco de España or the Eurosystem

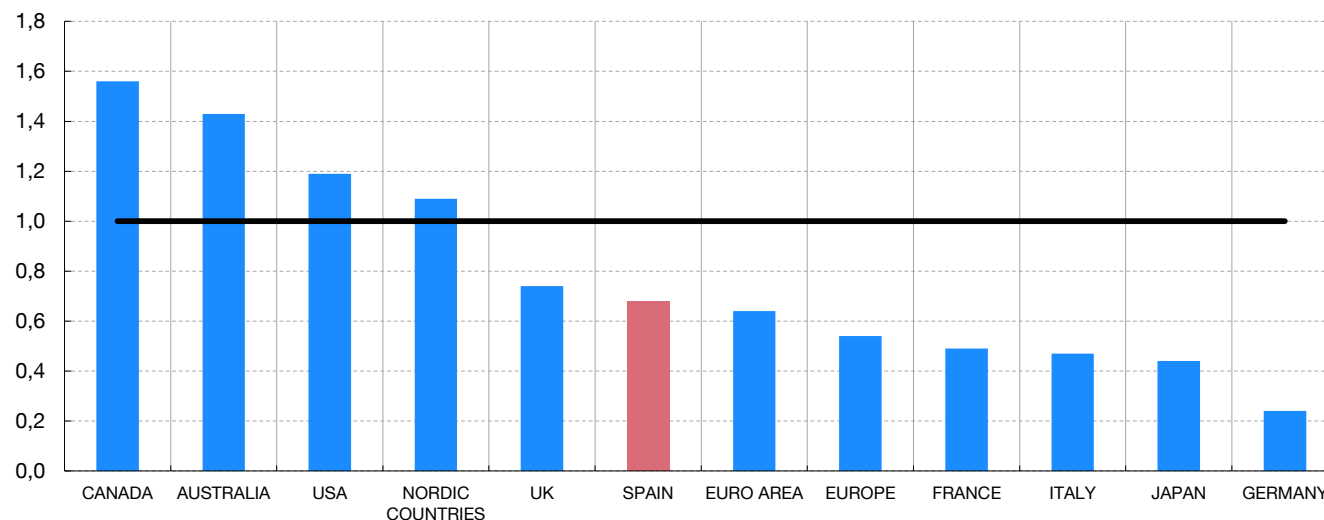
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PRICE-TO-BOOK-VALUE



- Price to book ratios of Banking Union's banks are far below those of banks in other regions
- Banking Union current lower profit prospects:
 - margins expectations, legacy assets, low efficiency ratios
 - overcapacity
 - new agile competitors entering into the market

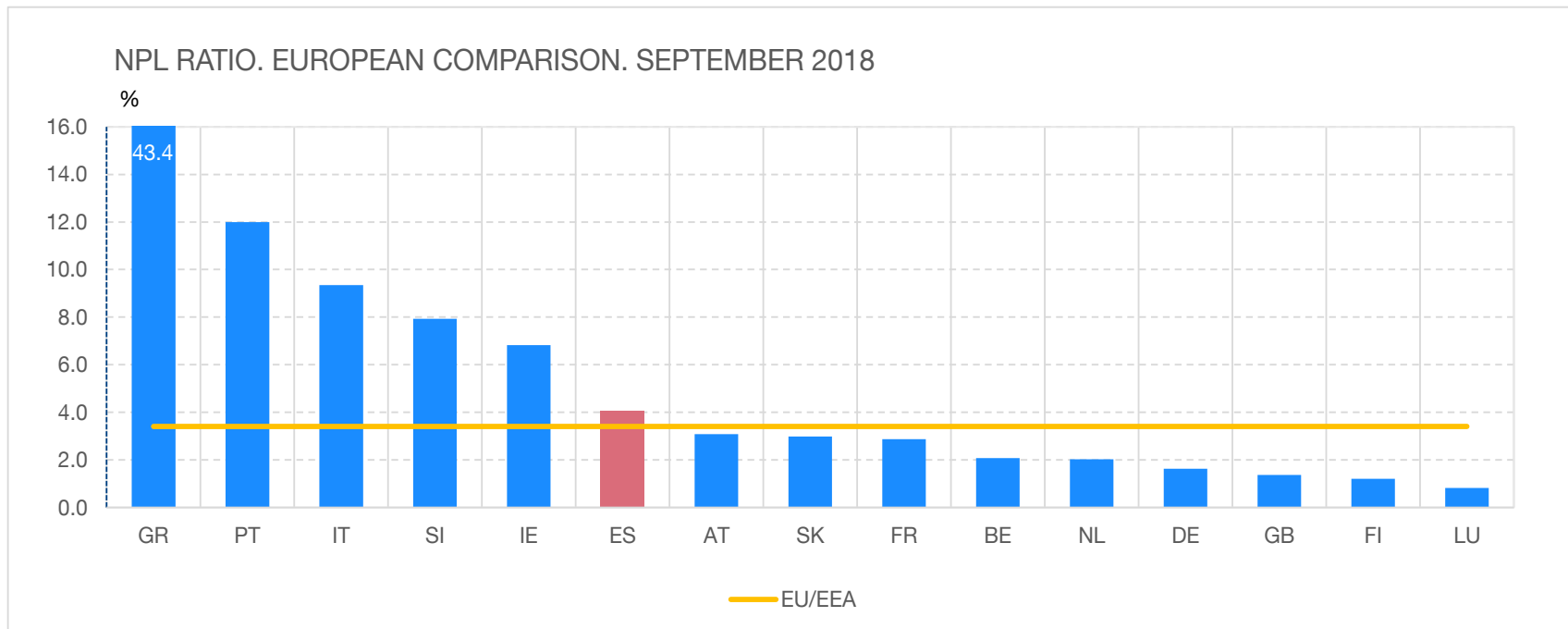
PRICE-TO-BOOK-VALUE OF THE BANKING SECTOR. 31 December 2018



SOURCE: Datastream.



- Diversification of business abroad can be a useful measure to reduce banking risks
- Risk reduction as a result of risk diversification (e.g. risk sharing across geographies)

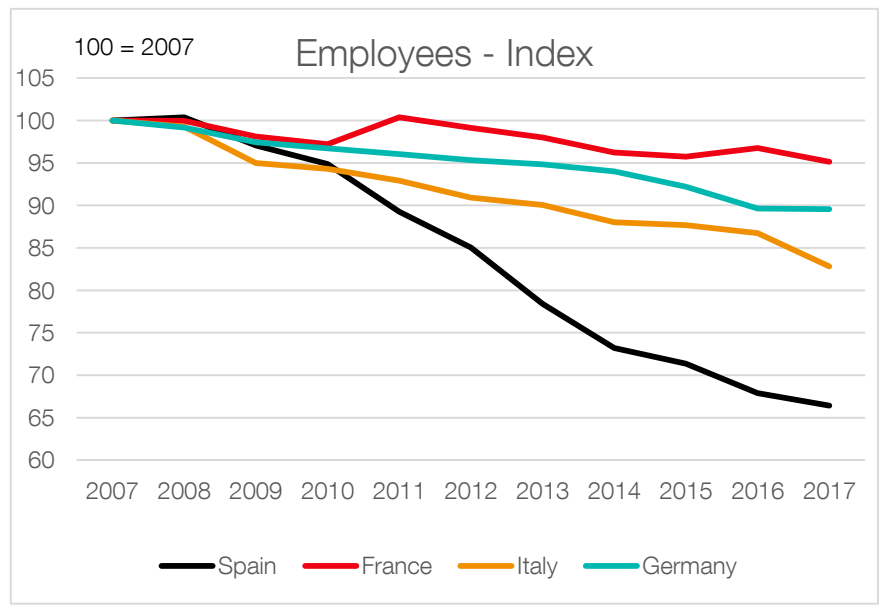
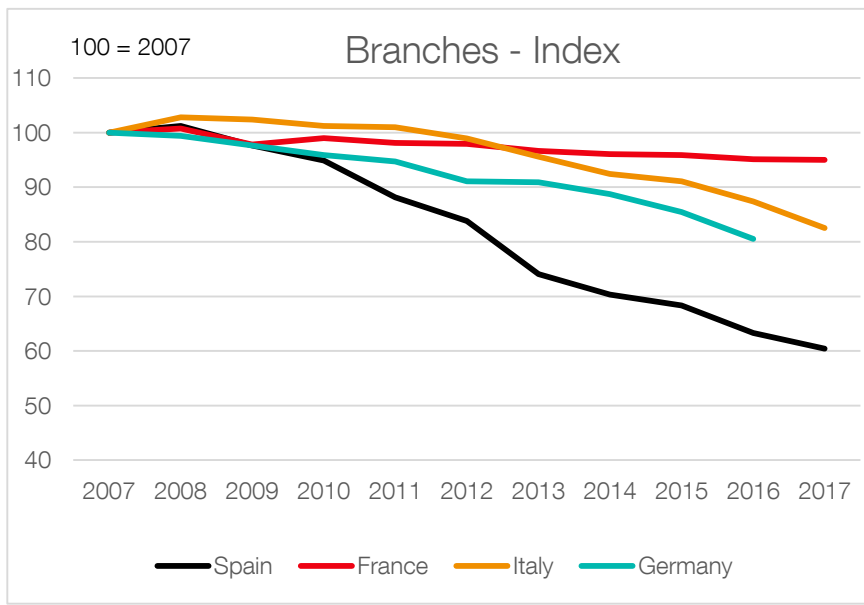


SOURCE: European Banking Authority (Risk Dash Board)

EXCESS CAPACITY REDUCTION



- Significant excess capacity in large banking sectors...
- ...with market-sheltered institutions that make difficult bank consolidation



SOURCE: European Central Bank



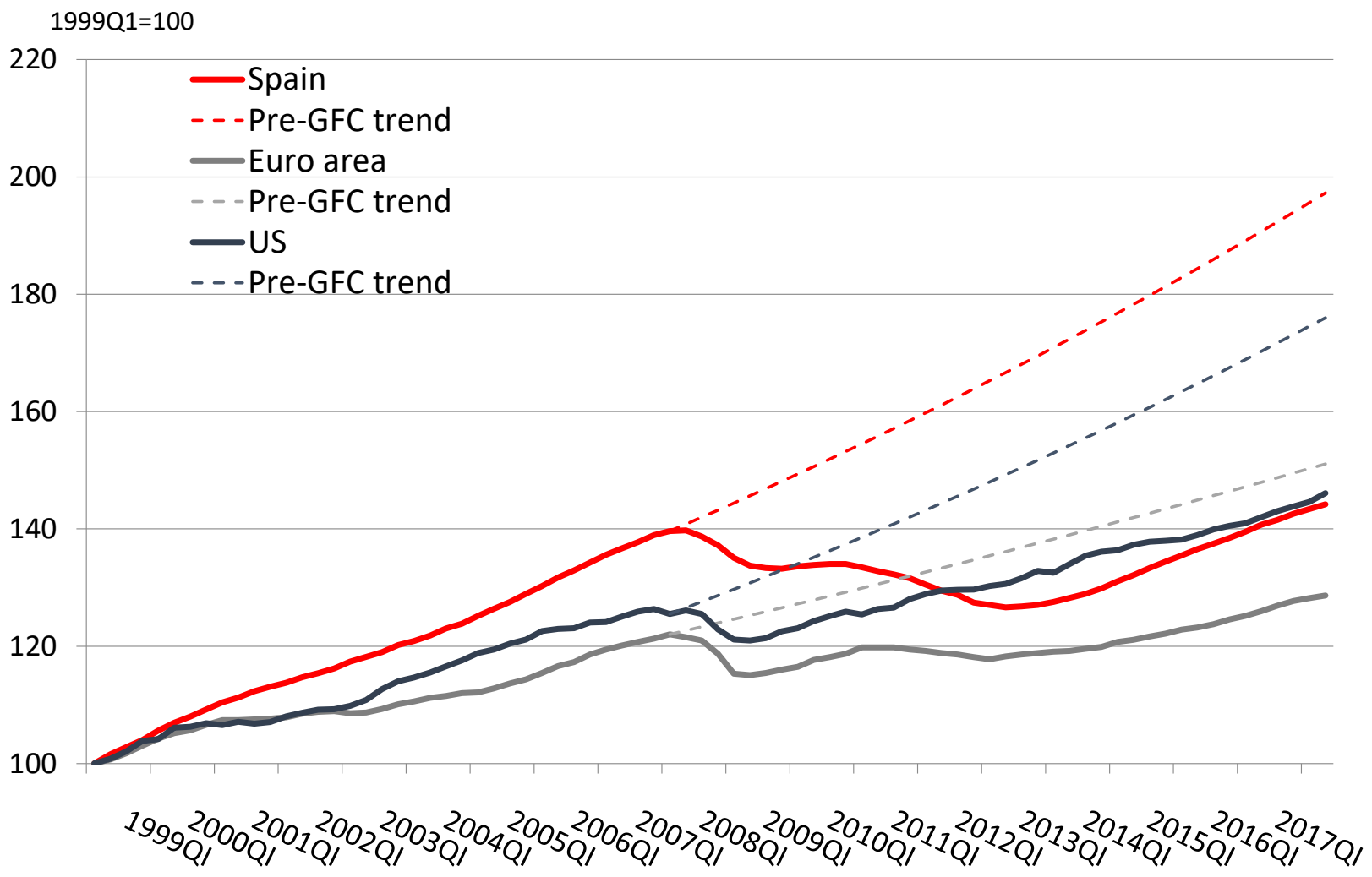
- Finalization of Basel 3 package in December 2017
- FRTB also finalized, entering into force January 2022
- No appetite for further reforms
- Focus on timely and consistent implementation of reforms as well as on evaluation of impacts and consequences
- No further appetite at FSB level, only fine tuning at most
- All in all, a sense of regulatory pause is widespread among many jurisdictions, as substantial change has been achieved the last ten years



- Timely implementation of Basel 3 package (e.g. CRDV, CRR2) as well as BRRD2, plus the following CRDVI, CRR3...
- Translation of international agreements, that took a long time to be achieved
- Eliminating of goldplating in some jurisdictions should not be understood as deregulation efforts
- A race to the bottom in banking regulation would be a mistake
- Very lax regulatory environment and the subsequent banking crisis had a long-lasting effect on the economy, the welfare of societies, and the reputation of the banking sector
- Quest for high level and high quality of capital should remain an objective worth pursuing for central banks, banking regulators and supervisors, as well as for all bank stakeholders

OUTPUT LOSSES and THE FINANCIAL CRISIS

Real GDP



Source: Eurostat and BEL



- Regulatory policy should, neither forget the lessons of the last financial crisis, nor stifle banks' business models,...
- ... which have been the engines of growth in Europe for many decades by providing funding to sovereigns, large corporates, SMEs, individual entrepreneurs and families
- A reasonable balance needs to be struck between enhancing the solvency of European banks and, at the same time, allowing for a recovery in the economy supported by bank lending



- Still different lending cycles among European countries call for diversity in macroprudential measures, in particular for the CCyB and the systemic capital buffers
- Similarly, different access to capital markets, depending on the business model of European banks and their size, calls for a thorough implementation of necessary MREL requirements...
- ... so that banks can reinforce their financial position without putting at risk their provision of banking services
- TLAC vs MREL? A sign of a more general regulatory scope problem in Europe?
- Proportionality could be the answer? What does proportionality mean exactly?



- Last but not least, completing **simultaneously** the risk-reduction and the risk-sharing in the Banking Union should be a key regulatory policy priority,...
- ...so that regulation can contribute significantly to reduce the vulnerabilities of European banks and, importantly,...
- ...to cement further the Banking Union, completing the roof of the institutional building before the next rainy season arrives

- A significant risk reduction has already happened while significant risk sharing is still missing



- Banking Union based on three pillars
 - Single supervision: SSM up and running
 - Single resolution: SRB up and running
 - European Deposit Insurance System: missing

- Need to develop a (large enough) backstop for the Single Resolution Fund at the European level

- Need to agree on a calendar for a fully-fledged EDIS



THANK YOU

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