EUROPEAN CENTRAL BANK
EUROSYSTEM

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Summary of Banking Industry Dialogue on 6 April 2016 in Frankfurt am Main

Participants

- Members of the Governing Council of the ECB (or their alternates)
- Senior ECB officials from the Directorate General Macroprudential Policy and Financial Stability and Directorate General Communications, and the ECB's Chief Compliance and Governance Officer
- Representatives of Banco Comercial Português SA, Banco Santander SA, Bank of Cyprus, Bank of Ireland, CaixaBank, Crédit Agricole Group, Crédit Mutuel, Deutsche Bank AG, Erste Group Bank AG, KBC Group NV, National Bank of Greece SA, Nordea Bank AB, Nova Ljubljanska Banka d.d., Société Générale SA

Economic and financial market conditions

Participants exchanged views on: i) the economic outlook; ii) financial market developments; and ii) the functioning of the euro money market.

Participating banks highlighted the negative impact on banks of the weak economic environment and the volatility observed in financial markets at the beginning of the year. Weak credit growth was seen as being caused mainly by subdued demand from borrowers rather than supply impediments in the banking sector. The ECB's new series of targeted longer-term refinancing operations (TLTRO II) was seen as helpful in addressing remaining bank lending supply restrictions. Nevertheless, participating banks highlighted the need for banks in the euro area to return to higher levels of profitability if they were to support economic recovery. Many banks were seen as needing to transform their business models in order to improve profitability, while it was felt that regulators should provide greater clarity on remaining bank regulatory dossiers to reduce uncertainty about future requirements. Despite the growing importance of financial technology, participating banks stressed that banks would remain the main credit providers and would therefore maintain their important role in supporting growth in the EU. They also remarked that clarity on final bank capital requirements is essential for banks to be able to focus on their role as credit providers.

Regarding the functioning of the money market, participating banks highlighted that significant changes have occurred in the nature of euro money markets since the onset of the global financial crisis, driven by financial regulation, monetary policy measures and banks' evolving business models. Following central bank action that started in 2007 amid liquidity shortfalls in banks, central banks were now seen as effectively being the “money market makers” in the world and were expected to continue playing this role for some time.

Participating Governing Council members highlighted the importance of the ongoing EURIBOR reform process and called on banks to remain committed to the process and to support the transition to the new methodology.

Risks for financial stability and macroprudential policy issues

Participants had an exchange of views on: i) main financial stability risks; ii) the outlook for euro area banks and; iii) the effectiveness of macroprudential policies.

Participating banks in general agreed that the main risks to euro area financial stability identified in the November 2015 ECB Financial Stability Review remained significant. Regarding the risks stemming from weak profitability prospects for banks, participating banks highlighted the negative impact of:
i) low/negative policy rates; ii) remaining asset quality problems in some countries; and iii) financial regulation, where regulators were in some cases seen to have gone too far with the regulatory overhaul following the global financial crisis. Participating banks called on regulators to calibrate and finalise remaining regulatory dossiers as soon as possible, so as to limit additional requirements on banks, allowing them to complete the implementation phase. It was seen as important to ensure a consistent implementation of the regulatory and resolution frameworks across the EU countries, including, for example, the implementation of the Bank Recovery and Resolution Directive (BRRD) and the calculation of the Maximum Distributable Amount (MDA). The importance of reviving the European securitisation markets was also mentioned. To this end, there was a need to adjust the very high capital charges implemented for all securitisations in the wake of the crisis, recognising that simple and transparent securitisations performed distinctly better than other types of securitisation.

There was broad agreement that the current low levels of bank profitability would be unsustainable if they were to remain suppressed for a prolonged period of time, as, for several banks, the return on equity remained below their cost of equity. Investors in banks did not expect returns on equity to revert to the very high pre-crisis levels (often above 15%), but some were expecting a re-normalisation of returns of equity (at levels of around 10%). Participating banks saw this as being possible to achieve, although for many banks this would not be in the near future.

Participating banks highlighted concerns regarding low global trade levels and called on regulators to work towards safe and efficient functioning of correspondent banking relationships (where banks can access financial services in different jurisdictions and provide cross-border payment services to their customers, supporting international trade and financial inclusion).