Christine Lagarde: Welcome address - tenth anniversary of the Single Supervisory Mechanism

Welcome address by Ms Christine Lagarde, President of the European Central Bank, at the event celebrating the tenth anniversary of the Single Supervisory Mechanism, Frankfurt am Main, 6 November 2024.

* * *

It is a pleasure to welcome you to this event celebrating the tenth anniversary of the Single Supervisory Mechanism (SSM).

The SSM became operational ten years ago, almost to the day, on 4 November 2014. It was the most significant step forward in European integration since the introduction of the euro.

If we think back to how the banking sector was faring a decade ago, we can see just how much has changed. The euro crisis had exposed significant weaknesses: low equity buffers, high levels of non-performing loans and deep exposures to domestic sovereigns. Our challenge, as Danièle Nouy said at the time, was to "help rebuild confidence in the balance sheets of SSM area banks" amid a fragmented supervisory landscape.[1]

Today, however, the situation is vastly different. Despite the major shocks that have hit the euro area in recent years, our banking sector is resilient.

The aggregate Common Equity Tier 1 (CET1) ratio rose from 12.7% in 2015 to 15.8% in mid-2024, while the liquidity coverage ratio increased from 138% to 159% over the same period.

The main risks we face today no longer stem from the banks themselves, but from an increasingly volatile external environment. And single supervision allows us to address these risks through a common, forward-looking approach.

So, have we achieved the initial aims of this single supervision?

The achievements of single supervision

If we consider the tumultuous events of the past few years, it is clear that European supervision has exceeded expectations. European banks have become considerably more resilient, providing critical stabilisation during the recent periods of disruption.

In essence, European supervision has successfully addressed what Herman Van Rompuy identified in 2012 as the need to "correct the weakness of the policy infrastructure of the common currency".[2]

First, more rigorous and more uniform supervision has bolstered public confidence, ensuring that bank deposits are seen as equally safe across the euro area, thereby preserving the integrity of our monetary union. Since the start of single supervision, household's cross-border deposits have more than doubled to €151 billion today.[3]

Second, sound banks have ensured that major shocks have not disrupted the effectiveness of monetary policy. Both when we eased policy to avert deflation during the pandemic and when we raised rates rapidly to combat inflation after the pandemic, the banks enabled our policy impulses to be transmitted smoothly across the euro area.

But we must also recognise that these stability-oriented goals, which arose from the conditions that led to the banking union agenda, are not ends in themselves. They are merely the foundation.

Our ultimate aim is for banks to be sound and for the policy framework to be complete, so that they can safely tap into resources from across the euro area and use them to fund innovation, investment and growth.

And it is on this particular objective that Europe is falling short in the transformative era we are living in today.

We are facing a quadruple challenge: decarbonisation, deglobalisation, digitalisation and decoupling. These forces are putting our competitiveness and strategic autonomy to the test.

To emerge stronger, we need massive investment in both physical and human capital. In the EU, an additional €5.4 trillion will be needed between 2025 and 2031 to advance the green transformation, accelerate the digitalisation of our economy and bolster our military defence capabilities.[4]

I have argued previously, and will continue to argue, that deepening Europe's capital markets will be essential for this monumental task.[5] But this is no threat to banks, as they have a vital role to play, too.

The benefits of truly European banks

There are two main ways we can make sure banks contribute.

First, we can strengthen banks' intermediation capacity by building a more integrated banking sector.

Currently, only two banks incorporated in the euro area rank among the ten largest banks in the world, holding the eighth and tenth positions.[6] Moreover, on average, the cross-border exposure of euro area banks is more than one-third higher outside the euro area than within it.[7] This fragmentation makes it more difficult for our banks to serve the European economy effectively. And the obstacles to cross-border banking are substantial.

Therefore, we need to create a single jurisdiction for banks – one that is essentially "country blind" in terms of its regulatory, supervisory and crisis management frameworks. For example, reducing the ring-fencing of capital and liquidity along national lines would allow funds to flow freely within banking groups and facilitate lending across borders. Only then would we be able to harness the benefits of genuine European banking groups in funding the upcoming transformations.

And those benefits are substantial. Truly European banks can effectively diversify their risks across sectors and regions. They have the capacity to lend more at scale and thus handle cross-border financing projects that smaller locally focused banks cannot.

More integrated banks can also play a pivotal role as key capital market makers. This brings me to the second way in which banks can help to improve Europe's financing capacity.

More integrated banks have the critical mass to attract companies across the euro area for stock market listings, debt securities placements, private equity transactions, mergers and acquisitions, and support for international growth.

Moreover, progress in establishing a genuine capital markets union can help to remove the differences in national regulatory frameworks that currently hinder cross-border bank activity, paving the way for a sufficiently large securitisation market. Banks would then be able to transfer risk to investors and unlock additional lending.

To put this into perspective, banks in the United States currently benefit from a securitisation market that is three times the size of Europe's. Even without a state-sponsored framework, safely expanding our own market could unlock tremendous potential within our bank-based financial system.

And robust supervisory standards would be key to ensuring that the risks tied to securitisation are managed effectively.

Conclusion

Let me conclude.

A decade ago, we embarked on a journey to establish European supervision to address the vulnerabilities exposed by the financial crisis and complete our monetary union. It was a bold step, born out of necessity and vision.

Ten years later, it is clear that European banking supervision has not only met, but exceeded, our expectations.

The achievements we are celebrating today are the result of our joint efforts. Many of you have played a pivotal role in this success, and I want to express my deep gratitude for your unwavering commitment and tireless energy.

As we look ahead to the next decade, we must harness this same determination and energy. Our aim is clear: to ensure that European banks are in an even better position to fund the economy. This means creating the conditions for a genuine single banking market – one that allows us to leverage the combined financing power of our banking system to overcome the challenges Europe is facing.

As Benjamin Franklin wisely said, "Energy and persistence conquer all things". We currently need both – and you have both in spades. Thank you.

---

[1] Nouy, D. (2014), "Toward the European Banking Union: achievements and challenges ", speech at the OeNB Economics Conference, Vienna, 12 May.

[2] Reuters (2012), "Euro zone can reach banking union deal quickly: Van Rompuy", 18 June.

[3] Rumpf, M. (2024), "Cross-border deposits: growing trust in the euro area", *The ECB Blog*, ECB, 24 October.

[4] Bouabdallah, O., Dorrucci, E., Hoendervangers, L. and Nerlich, C. (2024), "Mind the gap: Europe's strategic investment needs and how to support them", *The ECB Blog*, ECB, 27 June.

[5] Lagarde, C. (2023), "A Kantian shift for the capital markets union", speech at the European Banking Congress, 17 November.

[6] By assets. See, S&P Global (2024), "The world's largest banks by assets, 2024", 30 April.

[7] Lenoci, F. and Molitor, P. (2024), "Intra-euro area cross-border bank lending: a boost to banking market integration?", *Financial Integration and Structure in the Euro Area*, ECB, June.