Banking sector

The Eurozone banking system has continued to strengthen itself during 2015, in a context characterised by periods of volatility in the financial markets. The sector has improved in loss absorption capacity, as well as in solvency and profitability, but it is still facing significant challenges related to the weak macroeconomic recovery in a low interest rate environment.

This analysis coincides with the conclusions of exercises in banking transparency published at the end of November by the European Banking Authority (EBA). The objective of this exercise is to raise the level of understanding of European banking, permitting the comparisons of the positioning of individual institutions as well as banking sectors by country via multiple homogenous indicators. It should be noted that this is the second exercise in transparency published by the EBA, which covers 105 banking groups of 21 EU countries (in addition to Norway), almost 70% of the total banking assets in the EU, according to information dated June 2015. The results show that, in general, EU banks have continued to strengthen their capital positions throughout the last year (CET1 ratio has grown from 12.1% to 12.6%), mainly due to capital increases and locking in profit, instead of a reduction in risk weighted assets. The quality of assets and the levels of profitability also improved, although from low levels. For value added, the study shows that leverage in Spanish banking is lower than the European average, and that there is greater coverage of impaired assets, efficiency and profitability. However, levels of NPL's and solvency are worse.

In 2015 work has continued on the Banking Union process and on the construction of capital markets in Europe, topics which are detailed below.

Regulatory environment

Banking Union

The euro crisis has proved that to guarantee long term sustainability of the Monetary Union it a truly integrated banking system is necessary. With this aim, in 2014 the process to create Banking Union was started, which is based on three pillars:

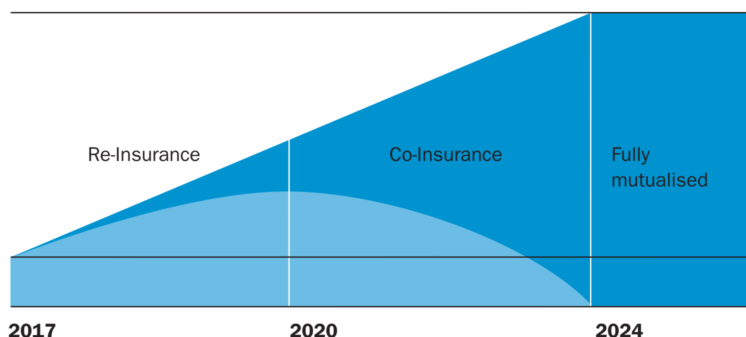
— Single Supervisory Mechanism (SSM), by which all institutions are subject to the same level of supervision.
— Single Resolution Mechanism (SRM), and its corresponding Resolution Fund, which dictates how to manage institutions in difficulty.
— European Deposit Guarantee Mechanism (EDIS – European Deposit Insurance Scheme), which should equally guarantee deposits from all institutions, independently of their country of origin.

Pillar 1 of Banking Union, SSM, has been fully effective since November 2014, whereas Pillar 2, SRM, will become fully effective from 1 January 2016. Pillar 3, the Single Deposits Mechanism, has gained relevance due to the European Commission's new proposal for its creation.

In this respect, the European Commission maintains that whilst Deposit Guarantee Funds (DGF) continue to be national, the Banking Union's ultimate objective to break the link between banking and sovereign risk cannot be achieved. The objective is that the security of deposits should not depend on the country where the bank's headquarters are located, and should depend on the management and solidity of the institution. Therefore, this proposal represents a very significant step forward in completing Banking Union. However, it should be noted that the proposal faces opposition from Germany, who does not consider the mutualisation of more risks to be appropriate, without the countries financial systems first having fully recovered.

The European Commission's proposal on the European Deposit Guarantee Scheme consists of three phases:

— "Re-insurance" phase (2017-2019), in which national Deposit Guarantee Funds can only access common European funds when they have exhausted their own resources, and only up to 20% of the funds required will be covered.



G13 Evolution of European Deposit Insurance Scheme (EDIS)