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The eurozone banking system: a sector undergoing transformation

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This policy brief offers a description of the changes that the banking systems of the eurozone have been exposed to in recent years in terms of both their structure and regulatory framework, with particular attention to the European banking union, the most important project to have been initiated in the last thirty years. It then analyses the basic features that characterise these systems today and identifies the main challenges they face in the immediate future.

1. The impact of the crisis

The banking crisis, which in turn triggered the financial crisis, has reduced the census of banks in the Eurozone from a total of 6,774 credit institutions in 2008 to 5,614 today. As Figure 1 shows, the countries hit hardest by the crisis (Cyprus, Greece and Spain) are those in which the reduction in the census has been most marked; in contrast, in Latvia and Estonia the number of banks has increased significantly in these years.

This reduction in the census has led to a consequent increase in the concentration of the eurozone banking system, where the five biggest banks now account for 48 per cent of the market, four points more than in 2008 (Figure 2). Yet, despite this, marked differences are still to be found between countries, with the largest (given that they tend to have more diversified banking systems than the rest) presenting the lowest levels of concentration. The importance of Austria's savings banks and the high number of foreign banks operating in Luxembourg explain the comparatively low levels of concentration in these two countries despite their size.

Figure 1. Credit institutions (% variation 2008-14)

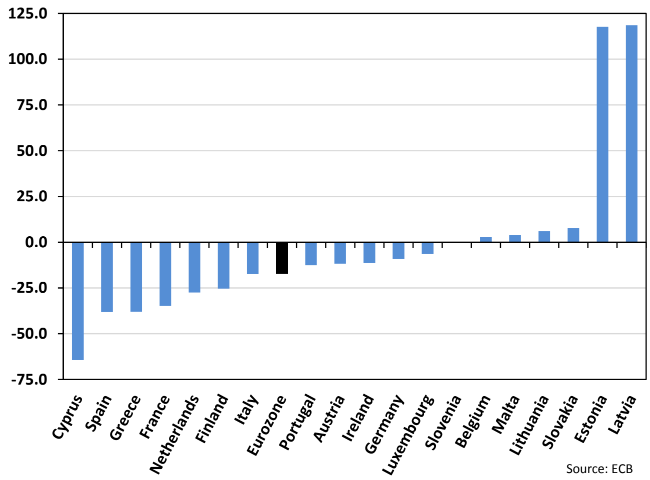
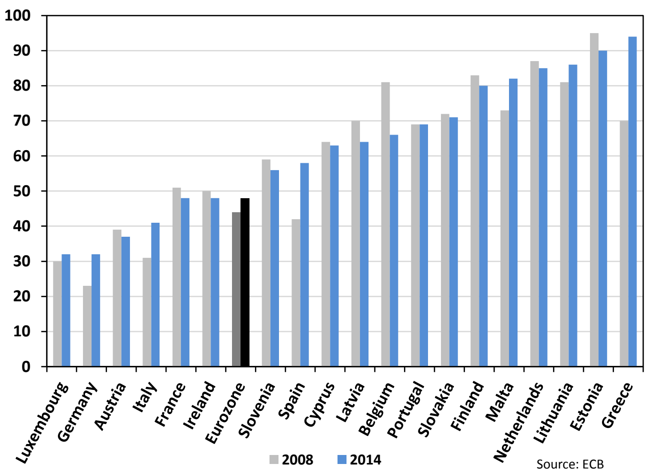
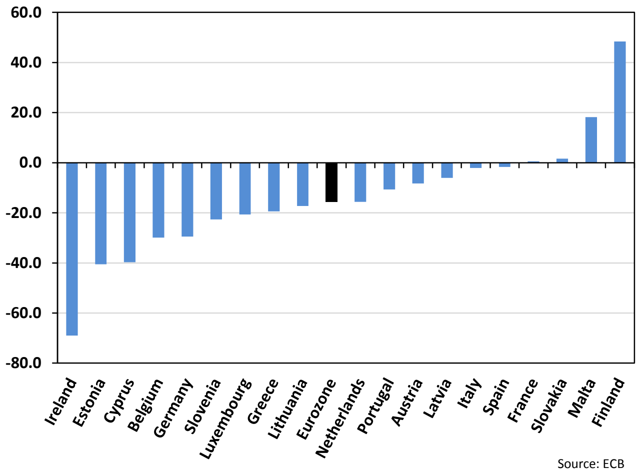


Figure 2. Degree of concentration of the banking system (% of all assets in the hands of the five biggest banks)



The crisis has also reduced the size of the banks' balance sheets. Ireland, where most toxic assets have been transferred to its *bad bank* (the National Asset Management Agency), is the country in which the loss has been most dramatic (a spectacular 70%). Estonia (due to the restructuring of a foreign banking group) and Cyprus have also seen their balances fall significantly, contrasting with the situation in Finland and Malta where the balances have grown (Figure 3).

Figure 3. Total banking system assets (% variation 2008-14)



Loans are the asset type to have suffered most, reflecting the increase in default rates, the fall in levels of economic activity, a lack of credit demand and the urgent need shown by many entities to reduce levels of indebtedness. The practically guaranteed margin provided by sovereign debt purchases explain, in contrast, the gain in positions enjoyed in the balance sheet by security portfolios. In terms of liabilities, and given the freezing of wholesale markets and the decline in customer deposits, in recent years the European Central Bank (ECB) has become the main source of funding for banks in the eurozone.

This fall in the number of credit institutions, lower levels of economic activity, the slimming-down plans imposed on institutions bailed out using public funds, the necessary elimination of overlapping functions following mergers and the loss of importance of the bank branch as a channel for customer relations all account for the reductions in banking structures (Figures 4 and 5). Thus, between 2008 and 2014, 29,000 branch offices were closed in the eurozone and more than 200,000 jobs were eliminated. Half of this adjustment in terms of offices (and a third in terms of jobs) is attributable to Spain, which remains, despite everything, along with Cyprus, as the country with most branches per capita.

Figure 4. Credit institutions. Branches (% variation 2008-14)

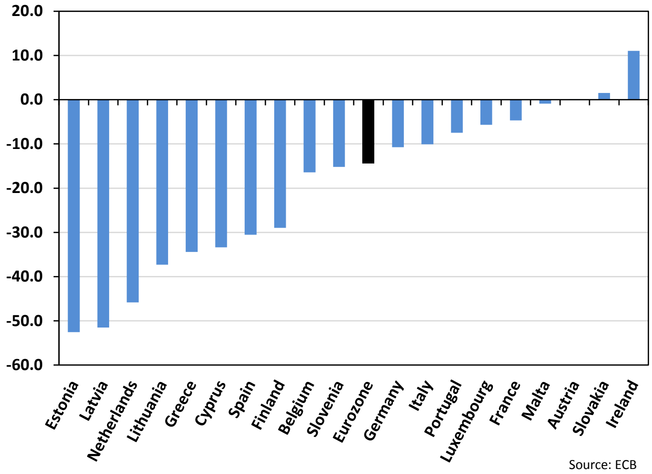
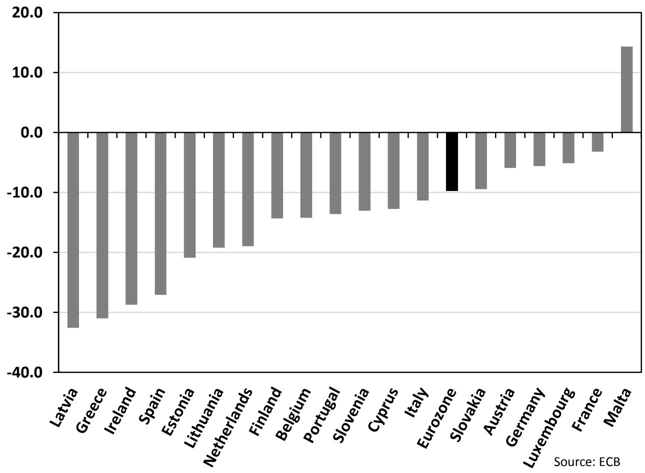
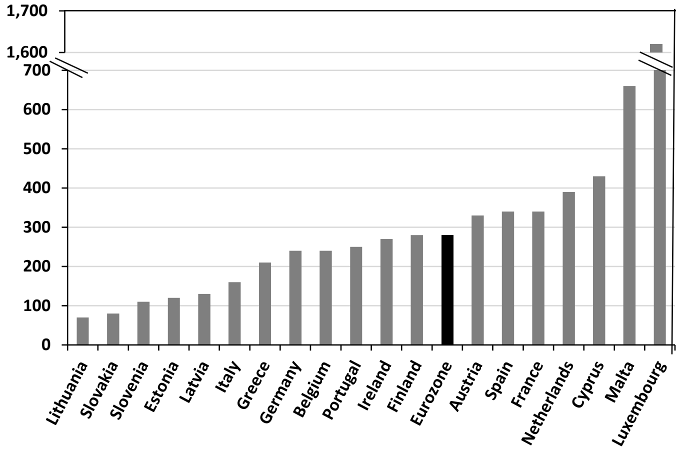


Figure 5. Credit institutions. Employees (% variation 2008-14)



Despite all this, the eurozone banking system remains very big and it continues to be the main source of financing for firms and the main destination for savings in many of the eurozone countries, especially those lying in the European periphery. The existence of differences in accounting standards, the development of the so-called "shadow banking" system and the non-inclusion in the statistics of the US banking system of Government-Sponsored Entities (most notably, Fannie Mae and Freddie Mac) are other factors that account for the relatively smaller size of the US banking system, where banking assets represent 95 per cent of GDP compared to 250 and 233 per cent of GDP, respectively, in the whole of the eurozone and Japan. In countries such as Luxembourg, Malta and Cyprus the size of the banking system is in fact abnormally large relative to their economies (Figure 6). They are, needless to say, countries that have chosen to overspecialise in finance, introducing for this purpose highly flexible regulatory frameworks and/or exploiting to the full their tax advantages. In contrast, and in keeping with their low income levels, the relative size of the banking systems in the Baltic States is small.

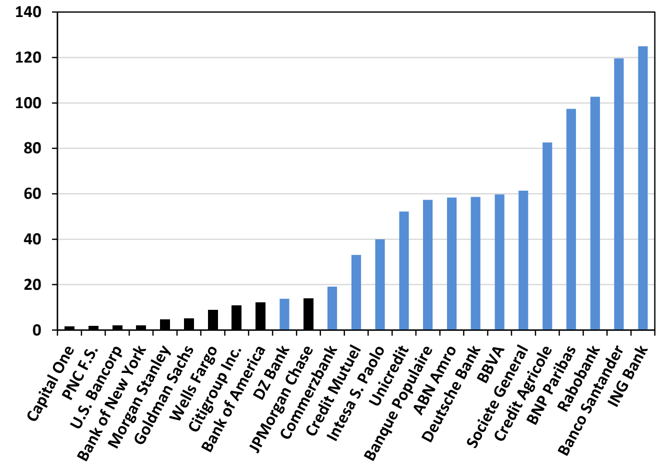
Figure 6. Banking system assets, 2014 (% of GDP)



Source:ECB

Due in large measure to the preponderance on the European continent of the universal banking model, the eurozone's big banks are also much larger than their US counterparts (Figure 7). Unlike in the United States, where the Federal Deposit Insurance Corporation (FDIC) has won itself a deserved reputation as a liquidator of troubled entities, the European governments have preferred to promote their integration with other entities, thus furthering the growth of Europe's big banks. It is also true that if we were to take the eurozone as our point of reference, rather than the country of origin, the size of the big European banks would be similar to that of their US counterparts.

Figure 7. Assets of the big banks of the eurozone and the United States 2014 (in % of GDP of country of origin)



Source: Bruegel and The Banker

For some authors (including, for example, Langfield and Pagano, 2015), the size achieved by the banks in Europe, together with the growing concentration of Europe's banking systems, is especially harmful, because it ends up generating more systemic risk and lower economic growth. These two phenomena occur as a result of an amplification mechanism determined by the banks' leverage, which sees them increase and misallocate credit in periods when asset prices rise and ration it when prices fall. Reducing the (implicit or explicit) subsidies that the big banks receive (by requiring higher levels of capital and/or forcing them to separate their activities) are some of the measures that should be taken from this perspective to improve the financing of the business sector and to kick-start economic growth. We will return to this question later.

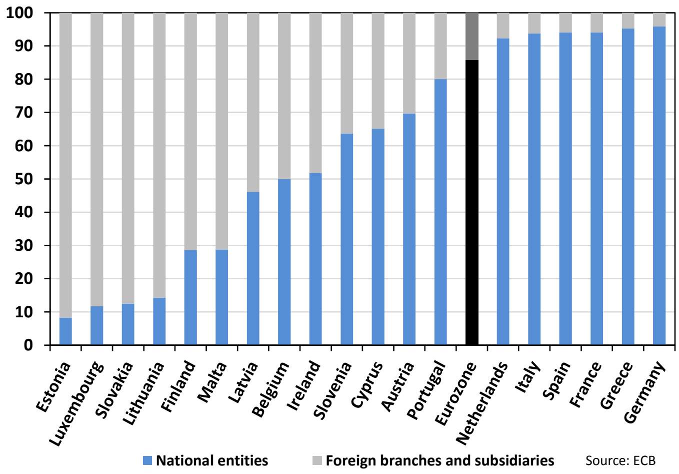
1.1. *Back home*

The sovereign debt crisis interrupted this process of increasing integration that the European banking systems had presented since the mid-eighties, and which had been accentuated with the introduction of the single currency. At the height of 2007, the European banks had a higher degree of internationalisation than their American and Japanese counterparts. What is also true is that this higher degree of integration was basically a reflection of the increase in loans between entities on the interbank market. These loans, which would end up feeding the creation of financial bubbles, have a strong pro-cyclical character and can be quickly reversed if, as was the case, trust is lost in the debtor country or there is an increase in preference for liquidity.

In addition to reducing their exposure in the interbank market, the major European banking groups have also reduced their "physical" presence abroad by selling off assets and/or shutting down their operational networks. They have also withdrawn from business segments outside the hard core of their activity, such as securitisation or operations in wholesale markets, because, among other reasons, the new regulatory requirements make them less attractive.

The 'homecoming' of the big European banks has accentuated one of the features of the eurozone main banking systems, namely, the hegemony enjoyed in them by domestic entities (Figure 8). In contrast, the market share of foreign banks in the rest of the eurozone is considerable. There are several reasons accounting for their dominant position in many of these countries: the interest in penetrating markets (such as that of the Baltic States) with a huge potential for development, the advantages of having a presence in the major banking centres of the eurozone (Luxembourg, Malta, Ireland) and the high degree of banking integration that exists in countries such as Belgium and Finland with their neighbours.

Figure 8. Structure of the banking system, 2014 (in %)



1.2. Changes in the regulatory framework

El The high volume of public funds that had to be mobilised to save Western banking systems led the major international organisations to promote far-reaching reforms of the financial system's regulatory framework. The aim, in short, was to prevent the recurrence of a similar situation, or failing that, to at least introduce mechanisms that might mitigate its most detrimental effects. The enforcement of a higher (and better) level of equity requirements, maintaining liquidity buffers, strengthening the monitoring of "systemic entities" and providing greater controls over derivative instruments are just some of the measures that have been adopted to this end in recent years.

In the European Union, the inconsistency of the financial integration-national regulation divide was at last recognised. It was time to take steps towards the creation of supranational bodies, and this was precisely what the De Larosière Report proposed when calling for the creation of a European Systemic Risk Board and the conversion of the Committees on Banking, Insurance and Values, which had been created shortly after the introduction of the euro, into enhanced "Authorities". The report also argued, however, that the responsibility for micro-prudential supervision should be exercised at national level, since transfer them to the ECB could generate conflicts of interest with monetary policy.

The European Union has also provided itself with "common" tools for dealing with banking crises, introducing for this purpose the Bank Resolution and Recovery Directive. To the extent that it incorporates the "bail-in" principle, that is, obliging private creditors to assume a share of the losses caused by banking crises, it is expected to reduce the burden on taxpayers. The new directive also specifies the order of priority in assuming losses, thus facilitating the application of homogeneous criteria for bank bailouts in all the countries of the eurozone. However, as the losses become distributed throughout the system, the bail-in can also have a contagious effect, which is why some consider it a grave mistake (see, for example, De Grauwe, 2013).

The bail-in, although important, is only part of the resolution mechanism for entities in crisis. Funded by contributions from banks, a resolution fund is also established. This fund comes into action once losses have been imposed on private creditors equivalent to 8% of the total liabilities of the institution in crisis, and may cover a maximum of an additional 5% of losses. Once this limit has been reached, and whenever possible, losses would continue to be imposed on creditors.

The crisis also highlighted the design problems of the monetary union. The threat that the problems of the banks would have to be resolved by their country of origin ended up generating, as we well know, sovereign risk crises. The likelihood of the private debt problem becoming –via bank bailouts– a public debt problem increased, given the absence of additional support from a structure higher than that of the country itself. The inflated public debt portfolios held by banks in turn generated doubts about their solvency, setting in motion the perverse loop between bank and sovereign risk that almost put paid to the single currency. In mid-2012 the monetary union was in fact a mere union of banknotes, in which the banks of the countries on the periphery could not finance themselves on the interbank market at the interest rates set by the ECB, as the cost of financing was now determined by the differential between the returns on their public debt and that of German bonds.

To put paid to this situation meant action had to be taken outside the prevailing framework of coordination between the EU national authorities. What was needed was to transfer the powers of regulation and supervision to supranational bodies. Against this backdrop, in mid-2012, the European Union launched a bid to move towards the creation of a banking union, which culminated in the European summit in December 2012, at which time a roadmap and a precise timetable were drawn up regarding the specific measures to be implemented.

Three years on, the progress made has been notable. In November 2014, the Single Supervisory Mechanism (SSM) came into operation, the new authority of prudential supervision in the eurozone. Comprising the ECB and the national supervisory authorities, it is expected to improve the quality of supervision and, perhaps more importantly, prevent regulatory capture, that is, that a country's most important institutions, precisely because of their importance, end up conditioning the decisions of the supervisory bodies. The ECB has been assigned the direct supervision of the most important entities (123 banking groups representing around 82 per cent of the eurozone's banking assets), a move that has not been without its critics, given its lack of legal coverage (the mechanism is not provided for in the founding treaties of the EMU), the doubts raised in some quarters concerning its ability to act effectively (given that the ECB is now the main creditor of entities in crisis) and the potential conflict of interest with its monetary policy. The remaining entities (some 3,500) will be supervised by their national authorities following the criteria laid down by the ECB. In formal terms, it provides a model of integrated supervision, but at the same time of decentralised execution.

For obvious reasons, the crises of the eurozone banks need to be treated with uniform criteria. A newly created body –the Single Resolution Mechanism (SRM)– will therefore decide what to do with insolvent banks. Made up of representatives of the ECB, the European Commission and the Member States, it can also impose losses on shareholders and unsecured creditors, sell off part of the business, create a bridge bank for the temporary transfer of bank assets and transfer impaired assets to an asset management vehicle or *bad bank*. In line with the provisions of the aforementioned Bank Resolution and Recovery Directive, and financed like the SSM with contributions from the banks, it has also been agreed to build up over eight years a single resolution fund with a target size equal to 1% of covered deposits (that is, around 55,000 million euros).

The change with respect to the previous situation, which has seen the creation of the SSM and the SRM, has been enormous and it is no exaggeration to say that this is the most important regulatory change of the last thirty years. However, it is also clear that some things need to be improved. The existence of a single rulebook is, for instance, more formal than real. In fact, the SSM itself has detected the existence of at least 150 important issues on which the States continue to enjoy a certain degree of discretion when implementing EU directives. Such discrepancies hinder and call into question the consistency of exercises comparing risk and solvency levels.

The incorporation of both national and supranational elements in the SSM means advantage can be taken of the experience and better understanding that the national authorities have of their banking systems, while ensuring equal treatment between entities. Yet, it is also a source of asymmetries that may end up generating conflicts. The mismatch between the geographical area in which the entities operate and the action of the SSM may also give rise to problems (see, for example, Hüttl and Schoenmaker, 2016). Indeed, there are banks operating in the eurozone that have their origins elsewhere in the EU, in countries in which the big banks of the eurozone also have a presence.

Justified, in formal terms, by the need to avoid conflicts of interests, the existence of two supranational authorities (the SSM and the SRM), with elements of overlapping powers, makes it difficult to rule out the possibility of disagreements regarding the measures to be implemented. The "physical" separation of the headquarters of the two bodies (in Frankfurt and Brussels, respectively) does not exactly facilitate decision-making either, especially if the time available to do so is limited.

A lack of solidarity (who should bear the costs of the crisis) has also conditioned the design of decision-making mechanisms, which are complex and rife with voting systems that provide for State vetoes on not particularly objective grounds. Suspicions about the sharing of costs also account for the small size of the Resolution Fund. As has been argued, if the banks that were rescued had maintained the capital levels that are now required and if, as the new EU rules provide for, they had imposed losses on most of their creditors, the amount of capital that would have had to have been injected into the system would have been quite small (De Groen and Gros, 2015). It is also true also that the

Fund may borrow in the market and request extraordinary payments from the banks. Unlike the US Federal Deposit Insurance Corporation, which has secured a line of credit for 100,000 million dollars from the Treasury, the Fund will not have any public backing nor will it be able to count on the guarantee of the States.

The lack of solidarity has also hindered the implementation of a full banking union and, more specifically, the creation of a pan-European deposit insurance scheme. It is unlikely that the SRM would decide to close down a large credit institution and so have to pay the covered deposits. It is also true that there is already a harmonised system of deposit insurance in all the EU countries. In contrast, the link between sovereign risk and bank risk will not be entirely broken if there is no supranational mechanism of coverage.

However, what is beyond all doubt is that the new regulatory framework is more intrusive than the previous one, as it impacts all basic aspects of the management of banks under its protection (governance, risk policy, size, distribution of profits, etc.).

1.3. Loss of reputation

The huge volume of public resources that had to be mobilised to avoid the banking crisis, the losses suffered by a large number of savers due to the poor marketing of various financial products and the excesses committed by some high ranking officials have badly eroded the reputation of the banks. Recovering public confidence in the banks will take time, time that should be used to forge a different kind of customer-bank relationship from that which has existed to date, characterised by what was virtually a blind trust in the entity.

For obvious reasons the crisis has also eroded confidence in the supervisory bodies and in those responsible for monitoring banking practices. The design and operation of the supervisory systems need to be rethought, increasing the means available to them, their autonomy and capacity to intervene. In all circumstances, what must be avoided is that the logical concern for the solvency of the entities that the supervisors must show prevents or hinders their offering adequate protection to retail savers.

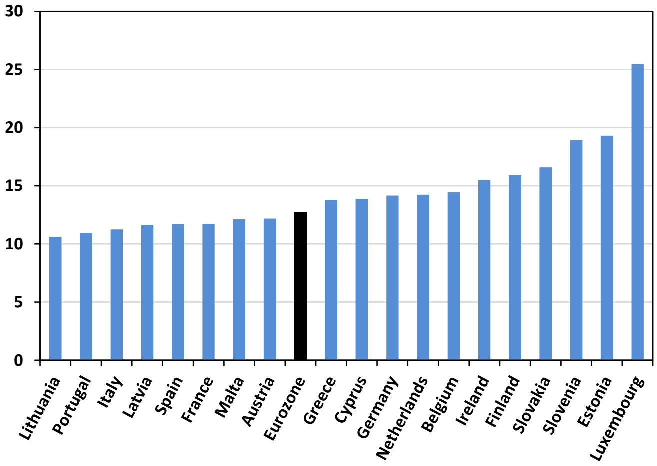
2. Current situation: strengthening solvency and progress in banking union

In addition to reducing the size of their balance sheets, the eurozone banks are also seeking to improve their quality. In some countries, such as Ireland, important steps have been taken towards addressing the problem of “toxic” assets, creating for this purpose ad hoc structures such as the *bad bank*. In others, above all those that have prioritised integration as a way of saving bankrupt entities, the banks still hold significant amounts of bad assets on their balance sheets, which obviously makes it difficult for them to be active in granting new credit. In fact, this business has only started to grow again in Germany, the Baltic States and Malta.

Under pressure from the main international regulators, the eurozone banks have significantly increased both the volume and quality of their own resources. The ECB has not only hardened the required standards, but has imposed different requirements for each entity depending on their risk profile. At the end of 2014, the highest quality capital ratio, that of common equity tier 1 (CET1), stood at an aggregate level of 12.7%, similar to that presented by the US banks and almost twice the minimum level required for 2019 (7%). There are of course marked differences between countries, with Lithuania (10.6%), Portugal (10.9%), Italy (11.2%) and Spain (11.8%) presenting the lowest relative levels, and Luxembourg (22.3%), Estonia (19.3%) and Slovenia (18.9%) the highest (Figure 9). The existence of a certain degree of discretion in calculating risk-weighted assets distorts comparisons of CET1 ratios. In terms of the leverage ratio, which relates the level of capital with the unweighted balance, Spain in fact ranks among the best in the eurozone, with a ratio of 5.7%, one point more than the European mean and almost twice the level that will be required after 2018.

In relation to the banking union, steps continue to be taken towards creating a common culture of supervision based on best practices. The SRM has advanced on two fronts: the design of restructuring/resolution plans and the definition of the minimum requirement of eligible liabilities (MREL) needed to absorb losses that European credit institutions will have to maintain to implement a bail-in.

Figure 9. Common equity tier 1 (CET1) ratio, 2014 (in %)



Source: ECB

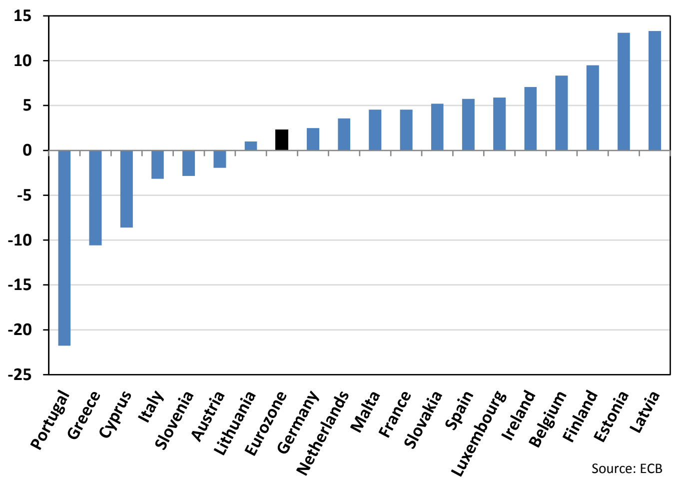
Conscious of the need to complete the banking union, at the end of 2015, the European Commission presented a legislative proposal leading to the creation of a pan-European deposit insurance scheme. Aware of the resistance that such an initiative would provoke, it proposed gradually progressing towards this goal, which would not come into effect until 2024, by which date the insurance would cover all depositors in the eurozone. Germany, needless to say, considers the Commission's proposal "unacceptable". Before the degree of risk mutualisation can be increased, they claim, it is necessary to strengthen discipline and the degree of responsibility of the member countries. Limiting the volume of public debt that banks can hold on their balance sheets (thus preventing treasuries in difficulty from propping themselves up on their banking systems) and modifying the regulation of public debt (that is, allowing public debt to be restructured in those countries that have lost access to markets) are two measures the German government believe should be taken as a precondition to taking any steps towards the pooling of risks. Needless to say, the result of this battle of wills will determine whether we end up with a banking union of "straw" or of "bricks and mortar" (Gual, 2013).

On 1 January 2016, the EU bail-in directive finally took effect. However, given the turbulence suffered by the financial markets at the beginning of this year (caused by doubts about the solvency of Deutsche Bank and the inclusion of Portugal's Espirito Santo senior bonds in the country's *bad bank*), it is yet to be seen whether the Resolution Council dare apply *avant la lettre* the bail-in if the banks in crisis are big and/or systemic. The procedures agreed between the Italian government and the European Commission for restructuring the Italian banking system, as well as reinforcing the previous idea (since it will not impose any releases on investors), also show that the big States continue to oppose decisions being taken about their banking system or one of their big banks by a supranational authority.

3. Future perspectives: consolidating and redefining the business model

The improvement in economic conditions, the stagnation of levels of indebtedness (and what that entails in lower provisioning needs), lower liability costs and the increase in commissions have allowed the European banks to present positive rates of return in the last two financial years (Figure 10). Current levels are still, however, lower than those existing before the crisis and lower than those presented by the US banks. In many cases, the rate of return is even lower than the cost of capital. Some systems, such as those of Portugal, Greece and Cyprus, where some banks have recently undergone restructuring, continue to report losses.

Figure 10. Return on equity, 2014 (in %)



Source: ECB

Factors of both a cyclical and structural nature will continue to put downward pressure on profit levels in the coming years. The slow growth rate of the eurozone economies, increasing competition to control the most lucrative segments of business, low interest rates and, just as importantly, forecasts that these rates are set to remain low for some time are the main factors. The factors that enabled the banks to record high rates of return in the recent past (namely, high levels of leverage, cheap and abundant wholesale funding and high profit expectations in the real estate and securitisation sectors) have disappeared never to return.

Against this backdrop, many analysts argue that the eurozone still has an excess banking capacity and they call for the increased consolidation of the sector. This view is shared by those now responsible for supervising banking in the eurozone, despite an awareness that consolidation will increase the concentration of the banking system and the number of systemic entities. The new European regulations for the resolution of institutions in crisis, and more specifically the application of the bail-in principle, reduce some of the scale benefits (including being 'too big to fail'), and it is no longer clear that bank returns in the near future will correlate with size.

In addition to making the management of their hypothetical difficulties more complex, the increasing size of the banks (to the extent that this might generate a corresponding concentration of credit supply focused on large customers) could end up hindering the financing of small and medium-sized firms. It should come as no surprise, therefore, that the European Commission has launched a number of initiatives to increase and diversify the sources of funding of such firms given the important position they occupy in European production. The most important of these is the promoting of a single market for capital. The aim is to achieve a situation in which all market participants with the same characteristics are treated in a similar manner and are able to carry out their activity in similar conditions.

Presented by Commissioner Jonathan Hill in late September 2015, the plan includes measures to facilitate the securitisation of loans and investment in infrastructure. There is, however, a marked contrast between this highly ambitious objective and the incremental nature of the proposed plan of action. The most important measure, the harmonisation of insolvency law, remains very vague and could well end up being irrelevant. Meanwhile, the main obstacles to market integration (for example, the existence of different accounting systems, the fragmentation of infrastructure and the existence of incompatible tax systems) remain unchanged.

The big banks' opposition to the project, and the considerable importance that anti-market and/or anti-capitalist rhetoric continues to have in countries such as France and Italy, explain in part the project's lack of ambition. An additional, and more convincing, explanation (Veron, 2015) is that the Commission, in seeking to keep the UK within the project, has chosen not to support substantial changes to the status quo centred on the national authorities and agencies. The announcement at this time of changes to the institutional framework (such as, the creation of a single supervisor) constituting a possible loss of autonomy, would, claim the Commission's experts, only fuel the arguments of those wishing to abandon the European Union. In addition to making a sustained and consistent effort, a little bit of luck will be needed to successfully complete the creation of a European capital market. Indeed, in the specific case of the Eurozone, this project, rather than an improvement, should be considered a necessity, since implementing a single monetary policy in an area where the operating and financial structures are quite disparate is, at best, risky.

The markets are not, however, the only source of business funding that currently exists in the eurozone. The strict regulatory requirements placed on the banking system *stricto sensu* has favoured the development of the so-called "shadow banking" system, that is, it has enabled other intermediaries – basically investment funds and vehicles – to provide similar services to those of the traditional commercial banks, such as financing the productive sector. Indeed, these intermediaries today hold assets in the eurozone's non-financial sector equal in value to 3.2 trillion euros and, more importantly, have granted loans to non-financial corporations and households to the tune of 1.3 trillion euros.

Technological advances have, for their part, facilitated the emergence of new competitors, characterised precisely by their use of this technology. Much more agile and subject to far fewer regulations than the traditional banks, these "new banks" offer their customers direct access to capital markets via systems of crowdfunding or direct lending. They are also able to satisfy many of their users' financial services needs (e.g., the placement of savings, payment systems and financial advice), and they can do so much more cheaply than traditional banks, as they do not have to capitalise costly structures.

To the extent that they contribute to reducing the cost of financial services, expand the sources of corporate financing and displace the risk from activities that enjoy de facto public support to others in which private investors can assume the losses, the above developments have to be considered beneficial. It is, however, also true that concentrating risk in agents ill prepared to cope with tense situations may end up generating episodes of financial instability. Recall that such agents do not have access to the liquidity provided by central banks and they tend to have high levels of leverage.

In addition to calling on the regulators to ensure that competition is conducted on equal terms, the banks are redefining their organisational and business models in order to adapt to the new environment in which they find themselves. Ultimately, it is a question of their being ready to serve the new generation of digital customers, who demand immediate responses and the ability to operate and conduct business 24 hours a day, while satisfying the demands of the rest of their customer base, the requirements of the regulators and the interests of shareholders. The challenge is of course great and it is to be seen whether all currently existing entities remain viable in the medium term.

6. Summary and conclusions

In recent years, the eurozone banking system has undergone a significant transformation, with the financial crisis of course being the main generator of these changes. Besides being responsible for the marked reduction in the number of operating entities, it has forced banks to downsize their balance sheets, staffing needs and operational networks.

Although the gradual expansion of the major European banking groups and the creation of the euro called into question the maintenance of national systems of regulation and supervision in the sector, it was not until the outbreak of the financial crisis that, driven by necessity and the urgency of events, the decision was taken to create supranational structures, most notably the banking union. Since then, progress has been significant, especially in the field of crisis prevention (both bank regulation and supervision). In contrast, key elements of crisis management, such as deposit insurance, remain poorly developed.

In this institutional framework, many believe that Basel III has fallen short and argue that the levels of capital required of banks (especially global and/or systemic entities) should be raised further. The banks, in contrast, claim they have made considerable efforts in recent years and argue that the reduction in capital consumption resulting from loans to small and medium-sized enterprises could serve as a catalyst for the concession of higher credit volumes and, in this way, promote greater economic growth. The ECB, in addition to stressing the lack of any empirical evidence to support the negative impact on growth of increased capital levels, argues that loans to small and medium-sized enterprises consume more capital as the likelihood of default is also higher. Even if the higher capital requirements following the crisis have had a negative impact on bank lending, the ECB claims that the benefits of having a more robust and better capitalised banking system far outweigh the short-term costs.

However, all parties are agreed on the necessity of reducing the scope for discretion that continues to exist in the eurozone when calculating risk-weighted assets and, therefore, the banks’ capital needs. Requiring credit institutions to use a small number of portfolio-type assets in their internal models, to place restrictions on the modeling of portfolios and to demand capital surcharges above and beyond those imposed by the standard model are just some of the measures being considered for the near future to improve comparability and the sensitivity of the banks’ risk assessment models.

Much more solvent now than before the crisis, the eurozone banks today face a series of challenges (including, lower rates of return, increased regulatory pressure, technological advances and growing competition) that are forcing them to change their business models. At the same time, the regulators face the corresponding challenge of reconciling the pursuit of financial stability and improving sources of corporate finance.

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