

The cumulative increase of capital requirements can impede the financing of the economy, say European Banks

On the eve of the Basel Committee meeting dedicated to banks' capital requirements, the European Banking Federation (EBF) wishes to stress the importance of high level coordination to ensure that the cumulative impact of all measures be proportionate to the risks involved.

“There are potential adverse consequences to significantly higher capital requirements”, declared Guido Ravoet, Secretary General of the EBF. “The EBF has acknowledged the need for capital increase in some areas of the banking business. It has however expressed its long-standing concern over the multiple areas where capital increases are being considered.”

The EBF has repeatedly warned against the extent to which a capital increase, beyond a certain level of stability, could potentially damage the lending capacity of banks and have perverse effects on the real economy in the long term. This aspect is especially important to the European economy, whose private sector is particularly dependent on bank lending. Bank intermediation finances two-thirds of the European economy, compared to for instance one-third in the US.

The EBF is showing its commitment to a balanced approach by launching a preliminary assessment of the cumulative impact of capital requirement increases on the economy. The EBF hopes to evaluate how the foreseen measures would impact on financial institutions as well as national market structures.

“We want to have a rough estimate of the range of new capital that would need to be raised to preserve the current levels over the regulatory minimum requirements”, explained Ravoet. “We hope to make all stakeholders aware of the consequences of measures before they are adopted, and as the Basel Committee impact assessment becomes clearer, we can contribute to the overall evaluation.”

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Note to the Editor

Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions