Meeting with H E Enrico Letta, Auberge de Castille, Valletta
Monday 8 January, 2024

The thoughts I wish to share echo very much the discussion that took place last November in Madrid at a Board Meeting of the European Banking Federation which I was attending and where we were honoured by Mr Letta's presence.

As a general comment, I would say that despite the challenging global geopolitical and economic environment, European banks have continued to show remarkable resilience and play a major role as a source of finance. This is thanks to a sound capital and liquidity base, as well as a strong risk culture, which has enabled them to continue contributing to the European economy by supporting their clients and financing businesses and households – as even the worst times of the pandemic demonstrated.

However, recent crises have also highlighted Europe's vulnerabilities in defence, security, energy, and supply chains, accelerating its competitive decline against the US and Asia. This is a very important source of concern as competitiveness fosters growth, and well-being. It is also essential for servicing the debt of states and companies, financing the green transition, investing in digital innovation and (cyber)security, and supporting an aging population. These require trillions of euros a year and will be paramount for Europe's continued prosperity and strategic sovereignty in the coming decades.

Currently, banks in Europe are the primary source of investment funding, so it is obviously essential not to limit the banks' financing capabilities, especially through heavy, and disproportionate regulatory and capital constraints. On the contrary, it is necessary to support the development of a robust, resilient, profitable and competitive banking sector within a dramatically changing environment. This is crucial for the progress of Europe because banks will continue to finance the lion's share at least for the next years to come.

But banks alone will not be able to finance all the needs, nor will governments, especially considering their state of indebtedness - a more significant portion needs to come from private capital. Consequently, Europe must create conditions to attract long-term private capital to a much greater extent and make better progress with the Capital Markets Union. To retain and restore its competitiveness, Europe needs to boost its financing capabilities while, in a world increasingly marked by conflict and the formation of blocs, focus on financial autonomy.

In sum, Europe needs to continue developing its financial sector, including a capable and effective banking industry and a significant deepening of capital markets backed by a more flexible and future-proof regulatory framework. Failing to do so, Europe risks not being able to finance its sustainable transformation and keep up with technological advancement. Focusing closer on the euro area, a further cause for concern is the fragmentation of the banking sector along national lines where, unfortunately, the situation did not change significantly after the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism. This leaves the banking sector, by and large, a collection of national banking sectors. The need to establish a European Deposit Insurance Scheme (EDIS), which would complete the transfer of the whole safety net to the European level, and progress in the cross-border integration of banking business, both of which would play a significant role in strengthening local financial stability, remains as great as ever.

To conclude, for a small island state yet fully integrated into the European fabric, these are also the concerns of our banks and further emphasised given the characteristics of our market and the inherent concentrations that it presents.

Marcel Cassar