Macroprudential framework review

This session highlighted the broad agreement on the need to reform the EU macroprudential framework. While Europe's macroprudential system has become more robust since the global financial crisis (GFC), it remains overly complex, fragmented and inconsistent. The speakers called for stronger coordination between micro and macro level supervisors, simplification through the merging of buffers and clearer governance within the existing institutional framework. Some participants suggested that the European Systemic Risk Board (ESRB) could play a coordinating role to foster consistency across jurisdictions. Ultimately, the aim is to move from a defensive stability agenda to a more competitive and resilient European framework that supports sustainable growth in an increasingly uncertain global environment.

1. A fragmented, uneven and inconsistent framework

1.1 Inconsistent buffer calibration and decentralised decision making

A central bank official noted that the measures introduced to strengthen the macroprudential framework after the GFC have created a system that has so far proved resilient. However, there is still room for improvement. The use of divergent methodologies across EU countries might result in overlapping buffer applications, while decentralised decision-making could be problematic. It should be possible to reconcile country-specific circumstances with a harmonised EU approach, yet national specificities and harmonisation often fail to align. Following the pandemic, national competent authorities (NCAs) adopted a more proactive stance towards cyclical buffers but approaches still differ markedly across member states. Some countries apply systemic risk buffers (SyRBs) to all assets, others only to certain classes, and some do not use them at all. This creates a level-playing-field issue: banks of comparable size and footprint in the EU face varying buffer requirements depending on their jurisdiction. As the European Commission has observed, these divergences cannot be fully justified by country-specific factors such as market size or concentration.

1.2 NCAs are best placed to tailor macroprudential measures to local circumstances

A central bank official argued that regulatory authorities possess an appropriate range of tools to address systemic, structural, general and sectoral risks. These include the countercyclical capital buffer (CCyB), the SyRB, and buffers for global and regional systemically important banks (G-SIBs and R-SIBs). EU legislation also provides additional instruments, such as higher risk weights for banks exposed to real estate or using standardised models, and increased loss-given-default (LGD) parameters for those employing internal models. In addition, some member states have introduced borrower-based measures (BBMs) under national law. BBMs, being more intrusive, can be difficult to activate.

A central bank official firmly rejected the idea that macroprudential tools should not be applied at national level. The EU comprises highly diverse economies with differing financial cycles; these tools must therefore be calibrated nationally. Nevertheless, the process for activating such measures can be cumbersome and excessively lengthy. It is important to rely on robust indicators, sound methodologies and transparency. However, imposing uniform methodologies or common trigger events would effectively create two conflicting rulebooks. Indicators rarely capture the full picture. Rules across jurisdictions should therefore be consistent but not identical.

1.3 Fragmented architecture and overlapping tools

A regulator explained that the effectiveness of the current macroprudential framework comes at the cost of growing complexity. In theory, microprudential tools address institution-specific risks, while macroprudential tools target systemic vulnerabilities. In practice, these risks often overlap. The capital conservation buffer (CCoB) and the buffers for global and other systemically important institutions (G-SIIs and O-SIIs) straddle both micro and macroprudential objectives. As these buffers are non-releasable, they can overlap with SyRBs and generate redundancy. To prevent the framework from hindering banking union and cross-border consolidation, several issues must be addressed. The redesign of the O-SII framework remains incomplete: the methodology does not adequately distinguish between systemic risk at national and EU levels, creating overlaps and discouraging cross-border integration. In addition, the longstanding home-host debate and the absence of capital and liquidity waivers continue to fragment the system. Although the SSM is now a decade old, significant ring-fencing persists. Without resolving these issues, progress on banking union will remain elusive.

1.4 Excessive and fragmented rules erode investor confidence and cross border growth

An industry representative observed that while most speakers at the conference avoided mentioning deregulation or the reduction of capital requirements, there are legitimate reasons to consider such measures. Capital requirements remain excessive. Banks devote considerable resources to intricate regulatory tasks; at OTP Bank, for example, 15–20 employees work exclusively on Pillar 2 calculations. In many cases, these efforts yield limited tangible benefit, with multiple policy instruments addressing the same underlying risks.

To illustrate this, this speaker cited a European country that introduced borrower-based debt-to-income (DTI) measures in July, initially welcomed by the industry. Yet within nine months, the Pillar 2 requirement will rise by

10%, the CCyB to 2%, and the minimum requirement for own funds and eligible liabilities (MREL) by 5%. Over five years, the capital adequacy ratio (CAR) will increase by three percentage points and MREL by 9.5%, alongside additional macroprudential measures. The same risk is therefore being addressed through multiple, overlapping policies. Aside from the parent company, few investors are likely to invest in a bank facing such stringent requirements.

While the current macroprudential framework has strengthened financial stability in Europe, its complexity, overlapping instruments and inconsistent national applications are undermining its efficiency. The next step is not to reinvent the system but to simplify it, ensuring prudential measures are proportionate and predictable. This will require closer coordination between micro- and macro-supervisors, consistent methodologies and clearer governance within the existing institutional structure, potentially with a stronger coordinating role for the ESRB. The ultimate goal is to create a framework that is easier to apply, transparent for market participants and supportive of the banking union's integration objectives.

2. Towards a simpler, coherent and predictable framework

2.1 Visibility and accountability

An industry representative explained that his institution, a well-established and successful bank, is currently subject to tens of macroprudential measures. Uncertainty remains a key challenge for the industry, as there is limited visibility on the evolving requirements. The Basel framework does not envisage such complexity. The EU has created an unnecessarily intricate system that was originally intended to address inconsistencies in the use of microprudential tools by national supervisors. The banking union has since resolved most of these discrepancies and the microprudential framework is now highly effective. However, the numerous checks and balances introduced to manage this complexity have not prevented divergent buffer rates from emerging across Europe.

2.2 Stronger coordination between microprudential and macroprudential supervisors

A regulator agreed that stronger coordination is required between microprudential and macroprudential supervisors, as well as between domestic and European authorities. Without such coordination, the macroprudential framework risks operating in isolation. The Eurosystem is working to prevent siloed approaches, simplify the framework and enhance efficiency, but varying organisational structures among national macroprudential authorities make this difficult.

A central bank official added that microprudential and macroprudential supervision are inseparable. The key lesson from the GFC is that microprudential oversight alone is insufficient. The creation of the SSM marked a major step forward, leading to greater coordination than ever before. The system functions effectively, but further streamlining is now needed.

2.3 Building a more coherent and predictable macroprudential framework

2.3.1 Simplification, not deregulation

A central bank official stressed that financial stability remains the top priority for supervisors, as competitiveness cannot exist without it. Industry representatives often advocate reducing macroprudential buffers, yet extensive empirical evidence shows that these buffers have minimal price effects in normal times but substantial deleveraging impacts during crises. Nevertheless, the issue of complexity deserves attention. Central banks have submitted proposals within the ECB High-Level Task Force on Simplification to address this. Simplifying the capital framework—for instance by reorganising the capital stack—could help. Reducing the administrative burden on firms should be part of this agenda. The goal must be simplification, not deregulation.

2.3.2 Merging buffers

A Central Bank official noted that there is merit in the proposal to merge the CCyB and A central bank official supported the idea of merging the CCyB and SyRB, which would maintain overall neutrality while allowing the creation of sectoral buffers. Some proposals also suggest procedural simplification, such as using indicators. However, the methodology for the G-SIB buffer remains difficult to apply and may require review at the Bank for International Settlements (BIS). Enhancing predictability will contribute to simplicity. A regulator concurred that merging the CCyB and SyRB would benefit both supervisors and banks.

2.3.3 Aligning methodologies

A regulator observed that the reciprocation regime is currently complex, cumbersome and time-consuming. A common methodology for calibrating macroprudential buffers—clear, transparent and capable of accommodating national specificities—is needed. Borrower-based measures (BBMs) illustrate this balance well: they are highly effective tools grounded in local circumstances. The framework must recognise genuine structural differences between economies and banking systems.

2.4 To prevent overlaps, a single authority should oversee aggregate capital

An industry representative observed that policymakers and regulators have few incentives to avoid overlaps and redundant requirements. Supervisors do not always assess whether new measures are truly justified or whether they risk creating duplication.

There are too many incentives to approve additional measures, and too few to reject potential overlaps or unnecessary requirements. Because no single authority is tasked with assessing the aggregate level of capital requirements, the cumulative burden continues to grow, with regulators shifting responsibility among themselves.

A single body should assess a bank's aggregate risk profile and total capital needs. There is particular uncertainty around accountability for avoiding overlaps between Pillar 1 and Pillar 2 requirements. These issues can severely affect banks with cross-border business models. In summary, the EU's macroprudential regulatory framework remains fragmented and uncoordinated. It limits banks' capacity to finance growth and constrains cross-border consolidation. Greater ambition is needed to address these shortcomings.

2.5 Strengthening the ESRB and moving to collaborative supervision

A central bank official observed that enhanced coordination of macroprudential policy across the EU would improve the consistency and predictability of supervisory actions. Achieving greater convergence will require shared criteria, methodologies and approaches, supported by closer dialogue between national and European authorities. The ESRB could assume a stronger coordinating and discussion role to foster consistency across jurisdictions, even though its recommendations are non-binding. An extension of its mandate should therefore be considered.

Several speakers highlighted the importance of improving cooperation and flexibility within the existing institutional setup rather than creating new layers of governance. Supervisors often express requirements as percentages, while banks think in absolute monetary terms—illustrating the need for a holistic dialogue that enables aggregate capital assessments and avoids unintended consequences. Greater flexibility in supervisory interactions could foster mutual understanding and reduce rigidities. In the longer term, legislative clarification may be required to ensure a simpler and more transparent framework. Decisions on the necessity of specific tools and the design of releasable buffers remain for policymakers. Many speakers also stressed that completing the banking union and implementing the output floor would help build a more coherent and predictable environment.

The same speaker concluded that Europe's stability and prosperity rely on joint resilience. In an increasingly complex geopolitical landscape, strengthening cooperation and mutual trust between EU institutions and member states will be essential to preserve financial stability and support sustainable growth. Beyond a simpler and more coherent macroprudential system, the next challenge is to ensure that the prudential framework actively supports competitiveness, growth and resilience in a changing global environment. Several speakers emphasised that reducing complexity and improving coordination are only initial steps. The EU needs a more ambitious approach that aligns macroprudential policy with broader economic objectives, ensuring that regulation enhances—rather than constrains—the banking sector's capacity to finance the economy. This shift from a defensive mindset to a proactive, growth-oriented agenda is vital for Europe to remain strong and competitive on the global stage.

3. Building an ambitious, competitive and resilient European framework

3.1 Simplifying and reforming the EU macroprudential framework will restore competitiveness and support growth

3.1.1 From complexity to competitiveness: making Europe's framework fit for growth

A central bank official noted that growing complexity, overlapping requirements and heterogeneity in bank buffers could be generating competitive distortions. An industry representative stressed that competitiveness is neither embedded in EU regulation nor part of the remit of supervisory authorities. The industry would welcome a shift from rhetoric to tangible action. European policymakers often acknowledge the need to enhance competitiveness, yet progress remains limited. Meanwhile, the US, the UK and China are consolidating and gaining strength. The time to act is now.

3.1.2 Refocusing on competitiveness to strengthen Europe's financial system

A central bank official explained that his Central bank supports merging the CCyB and SyRB into a single buffer, noting that reciprocity could be ensured through a legal clarification of the neutral positive CCyB rate. Public authorities should also consider more decisive steps to address excessive complexity. The Central bank has proposed separating the principles of going and gone concern, which, with limited clarification, could simplify the framework significantly. Competitiveness must become a shared priority for all stakeholders, not only financial stability authorities. The complexity of EU legislation is evident, and broader competitiveness discussions must also consider labour costs and tax systems. To make progress, Europe must first define what competitiveness means in practical terms. This concept should form a central part of all EU financial policy deliberations.

3.1.3 Reforming the macroprudential framework to strengthen Europe's competitiveness

An industry representative welcomed the recognition among many stakeholders of the need for change. Europe must demonstrate greater ambition. It is characteristic of the European approach to fine-tune regulation while other jurisdictions strengthen and consolidate. The lack of consolidation in the European banking sector reflects a prudential system that no longer functions effectively. A comprehensive reform of the macroprudential framework would signal the necessary level of ambition.

Macroprudential tools should only be deployed when risks cannot be addressed by microprudential means, and authorities should be required to demonstrate this through quantitative analysis. Greater centralisation and harmonisation of metrics, activation criteria and calibration methods are essential to ensure convergence. However, the framework should be reformed from a strategic, not procedural, starting point. Beginning with the details would risk leaving European banks further behind their global peers.

3.2 Beyond capital buffers: building resilience against cyber and emerging risks

An industry representative observed that cyber risk, while formally addressed within the microprudential framework as an operational risk, remains largely theoretical in practice. A severe cyber incident could disrupt a bank's operations, but the microprudential safeguards in place make it unlikely to trigger a broader credit or liquidity crisis. Other institutions would also be affected, yet such exposures are unlikely to be systemic.

A central bank official added that the focus should be on strengthening resilience through enhanced cooperation between public authorities and the private sector. In this regard, borrower-based measures (BBMs) could serve as particularly effective instruments.

3.3 Coordinated and capped buffers: seeing the bigger picture

An industry representative stressed the importance of close coordination among supervisors in calibrating and combining buffers, both within the microprudential and resolution frameworks. There is no reason to hesitate in introducing an aggregate cap on macroprudential buffers, provided it supports coherence and proportionality. What matters most is to take a holistic view of the system and to act without delay.