# Eurozone banks need capital buffers kept high for system resilience, ECB says in latest report

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''Recent initiatives to impose taxes on banks may have negative repercussions for financial stability, as they make it harder for banks to accumulate capital,'' the ECB said in the report, published yesterday.

Macroprudential authorities also need to ensure that additional capital buffers are available for use during times of trouble, the ECB said, stressing a need to safeguard the banking sector's resilience across different parts of the financial cycle.

The central bank cautioned that growing vulnerabilities in the real economy can lead to the impairment of asset quality of banks and that lower lending volumes coupled with rising funding costs may create additional risks for their profitability.

''To preserve resilience from a more structural perspective, euro-area banks need to carefully manage the implications of climate change and should also address the risks posed by the digitalization of the financial industry,'' the ECB said.

Another key example of risk that it gave was the commercial property sector, which could face a sustained slowdown over the long term creating a potential threat for banks and investors.

Higher interest rates feeding through the corporate debt market may limit the debt servicing capacity of companies with high debt and low interest coverage ratio, the ECB cautioned, adding that interest expenses are expected to increase further with successive repricing of the loan stock.

On non-bank financial institutions, also known as the shadow banking sector, the ECB called for a comprehensive set of policy measures aimed at fixing structural vulnerabilities and enhancing the liquidity preparedness of market participants in view of the sector's vulnerability to adverse macro-financial developments.

More broadly, the ECB said sound risk management practices, supervisory framework and internal governance by banks remain crucial to safeguard them against financial shocks, all of which made a strong case for a strict EU implementation of new capital norms known as Basel III, or in the EU as Basel 4.

The three EU legislative institutions came to a provisional deal in June on the latest Basel Committee on Banking Supervision standards, which affect how banks calculate capital requirements. The final agreement erodes certain parts of the standards agreed at the committee in December 2017, with the aim of easing capital increases for EU lenders.

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