

# Bank sector outlook 2022: Bracing for transformation

With market conditions expected to normalise further in 2022, European banks will focus on new regulatory developments, including in the fields of crisis management, digitalisation and sustainability



## 1 Bank lending and deposits will continue to grow

On the macro side, things are tentatively moving back to more normal conditions. In step with that, [we expect bank lending and deposit growth to further decelerate in 2022](#), likely even dropping slightly below pre-pandemic trend growth as excess deposits are spent instead of new loans taken out. A worse financial position in some corporate sectors and high cash availability in others may weigh on demand for loans. On the funding side, household deposit inflows will likely diminish further as government support is receding and lockdowns are lifted.

## 2 ECB support for bank funding remains, for now

Meanwhile, [bank funding will remain strongly supported by the European Central Bank](#). Even though we don't expect the terms of Targeted Longer-Term Refinancing Operations to be eased further, we do believe that the TLTRO-III operation will remain an important part of the bank

funding equation. Banks will probably not refinance all of their TLTRO funds after the most favourable interest terms expire in June next year. However, we do expect the partial refinancing of the TLTROs to result in higher bank bond supply in the course of 2022.

### 3 European banks: Let's talk resolution

[Next year will also bring a wave of binding loss absorption requirements](#) to make banks more crisis-proof. At the same time, a review of the industry's crisis management framework is set to start. In the second half of 2022, the European Commission is expected to publish the proposal for the review of the crisis management framework, which may have implications for bank bond spreads and supply. As of January 2022, banks will also face the first extensive wave of binding loss absorption requirements in the form of interim minimum requirements for own funds and eligible liabilities (MREL). Banks are well-positioned to meet the 2022 interim requirements but are expected to have a €42b shortfall for the final binding targets in 2024.

### 4 Digital regulation - information overload

As if banks don't have enough to worry about, [the European digital regulatory calendar is packed with initiatives](#) that will have a profound effect on the banking business model in the near future. We discuss three themes in this article: data, crypto and central bank digital currencies. All three show how the regulatory and institutional framework is a key factor shaping the outlook for banks. Although the regulatory initiatives described will take time to be concluded and implemented, banks would do better to prepare and be ready for them.

### 5 Banks take up gauntlet against climate risks

The European banking sector will also continue to have its work cut out next year [as it strives to meet the sustainability disclosure requirements set by European law](#). These disclosures will give market participants more insight into the environmental and social efforts made by banks. The 'E' in ESG, in particular, will remain in the spotlight, as banks take their first steps towards reporting on the taxonomy compliance of their balance sheets. Meanwhile, the anticipated proposals to expand the taxonomy regulation by social objectives will offer banks new opportunities to direct capital to socially sustainable activities.

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