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# Banks Outlook 2024: Banks in a world of higher for longer

From TLTROs to European Taxonomy, capital requirements to commercial real estate, and bond supply to ESG, we've got banks covered in our comprehensive look at the challenges and opportunities facing financial institutions next year. Download our full PDF report below



## Executive summary

**Life after TLTROs:** *Bank liquidity and funding will be tested in 2024.*

The final tranches of the European Central Bank's targeted longer-term refinancing operations (TLTRO-III) will mature in the course of 2024. The existing liquidity buffers will likely be used to absorb part of the further LTRO runoff. We see a higher risk for increased bank bond issuance, notably for Italian and German banks.

**European Taxonomy:** *Now the banking sector is gearing up for more disclosures.*

The second Taxonomy disclosures for banks include a variety of methodologies hindering comparability. Calculation differences aside, banks slightly improved their eligibility ratio with an average of 30% for 2022, 2pp above 2021. More banks reported

their eligible asset share over their covered assets, in line with GAR requirements starting in 2024.

### **What banks can expect from the capital requirements regulation review:**

Talks over banks' capital requirements aren't new, and 2024 promises to be no different. Once the final CRR III policy has been approved, banks will need to take a range of actions to implement it before January 2025. A delay in the final policy or national regulators' preferential treatment position could result in a sequencing issue for European banks.

### **Why commercial real estate concerns haven't subsided for banks just yet:**

The softness in the commercial real estate market is not a concern of the past yet. Nordic banks remain most exposed to the CRE sector, but when it comes to climate change transition risks, these assets do not appear to be among the most vulnerable in Europe.

### **Five factors driving bank bond supply next year:**

2023 has been a very significant year for bank bond supply, but we don't expect supply to turn lower in 2024. We expect bank bond supply to remain high in 2024, reaching €455bn. The five major drivers for bank bond issuance for 2024 are

1. At best, sluggish lending volumes
2. Less reliable deposit developments
3. End of the ECB funding support for banks
4. Bond redemptions remain broadly stable, and
5. Bail-in senior markets reaching a more mature stage.

### **ESG supply by banks set to stay strong in 2024:**

ESG primary market activity by banks is set to remain strong in 2024 but isn't likely to be quite as prosperous as in 2023 due to slower lending growth. At €75bn, sustainable supply will still be lively, though, as banks will remain resourceful in identifying new assets suitable for ESG issuance.

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