

IMPROVING THE COMPETITIVENESS OF THE EU BANKING SECTOR



UGO BASSI

Director, Banking, Insurance and Financial Crime,
DG for Financial Stability, Financial Services and
Capital Markets Union – European Commission

Strengthening Europe's banking competitiveness in a fragmented world

Europe's banking sector stands at a pivotal moment. By many objective indicators, it is resilient and profitable. Capital and liquidity buffers have strengthened significantly over the past decade, and recent stress tests confirmed the sector's capacity to withstand severe shocks. In recent years, banks have reported solid returns, accompanied by record dividend distributions and share buy-backs. The implementation of Basel III illustrates the EU's commitment to timely and faithful application of internationally agreed standards. This is a necessary condition for international credibility. Resilience and profitability are therefore not in question.

Competitiveness is not measured by robustness alone. EU banks are valued much less than their international peers because they operate in a fragmented environment. Indeed, the European banking landscape remains structurally fragmented along national lines, despite the creation of the Banking Union. Cross-border consolidation and the seamless provision of services across Member States remain limited. Divergent national insolvency regimes, taxation frameworks, application of prudential requirements and supervisory practices, and Government interference continue to constrain scale and efficiency. Compared with competitors in the United States, European banks operate in a less integrated home market, which affects cost structures, profitability, market valuations and global positioning—particularly in capital markets and trading activities where international competition is intense.

The EU has chosen a robust framework that ensures stability, and this has proven its value during a recent succession of stress episodes. Simplification and proportionality can and should be pursued where rules are unduly complex or duplicative, as highlighted by recommendations from the ECB and other stakeholders. Yet we should be clear: Europe's challenge is not primarily excessive resilience, but excessive fragmentation and insufficient integration. Unduly complex rules can be streamlined, but gains for the competitiveness of European banks and the EU economy will remain limited without removing barriers to cross-border banking.

This is why the Commission will publish in 2026 a comprehensive report on the competitiveness of the banking system in the Single Market, in the context of the Savings and Investments Union. In preparing the report, the Commission has launched a targeted consultation, seeking input from

stakeholders on numerous aspects: prudential and supervisory frameworks, crisis management, digitalisation, governance, proportionality, banks' ability to finance innovation and the green and digital transitions, as well as barriers to cross-border services and market fragmentation. The objective is to develop a forward-looking reform agenda tailored to Europe's specific needs.

In today's geopolitical environment, we cannot afford a banking sector that is below par on international competitiveness. Banks are essential to financing strategic priorities: defence, energy security, industrial transformation and technological sovereignty. A fragmented and sub-scale banking system risks misallocation of capital, weaker cross-border financing and lower growth. Strategic autonomy requires strong domestic financial intermediaries capable of mobilising savings at scale and allocating them efficiently across the Union.

Competitiveness and resilience are not opposing objectives.

Three fronts worth highlighting: deepening the Single Market in banking by removing unjustified cross-border barriers and fostering supervisory convergence; completing the Banking Union, including renewed thinking on how to ensure better and more efficient protection of depositors that reflects the situation of the banking sector today and strengthens depositor confidence and trust across Member States; and preserving a level playing field internationally. On the FRTB, coordinated implementation across jurisdictions remains essential to avoid market fragmentation and a race to the bottom, while ensuring EU banks are not placed at a competitive disadvantage.

Competitiveness and resilience are not opposing objectives. A financially stable, well-integrated and proportionate framework is the foundation for a stronger European banking sector. By combining targeted simplification with decisive market integration and a commitment to international consistency, Europe can build a banking system that not only withstands shocks, but actively drives growth, investment and strategic autonomy across the Union.



FRANÇOIS-LOUIS MICHAUD

Executive Director – European Banking Authority (EBA)

Towards a more market-based EU financial system – challenge or opportunity?

Recent global geopolitical developments have highlighted the necessity of resilience, strategic autonomy and efficiency of regional financial sectors. One avenue to achieve this is to strengthen domestic market-based financial systems and infrastructures, as a complement to banking, thus providing EU economies with several financing engines and lowering dependence on foreign jurisdictions operating under comparable models.

The objective of the Savings and Investment Union (SIU) is to mobilise the large pool of retail savings in the EU and channel it to productive investment, thus fostering EU's competitiveness. This is particularly relevant for capital to finance innovation, an area where private sector solutions have remained elusive and which banks have been reluctant to enter, due to either regulatory constraints or the need to set up specific infrastructures and expertise. Urgent needs for investment in security and defense, digitalisation, and environmental transition also call for flexible long-term financing solutions which should be financially attractive to savers.

How can banks contribute to this objective? In many ways! In fact, banks can massively contribute to the SIU.

Banks can be expected to remain the primary interface with retail savers and therefore in intermediating funds from low-yielding savings deposits to longer-term investments. Specifically, it is envisaged that banks will operate the Savings and Investment Accounts offering retail customers access to diversified investment portfolios. Moreover, through their branch networks and digital platforms, banks are well placed to promote financial literacy. Finally, from the point of view of the EU strategic investment objectives, banks can facilitate retail co-investment to priority projects alongside EU and national public lenders and issuers.

Beyond retail, banks can help connect non-financial firms with capital markets, also offering various combinations of lending and market-based financing instruments at the various stages of non-financial firms' business development. To do this, EU banks will benefit from the forthcoming securitisation rules which will free-up balance sheet capacity for new lending. Safe securitised products will in turn provide new investment opportunities for long-term investors. Last but not least, internationally active banks can help channel cross-border investment funds to the EU economy, thus further scaling up EU capital markets. All these activities, if properly embraced, would bring new revenues opportunities - both interest and non-interest bearing.

A key enabler for banks to effectively contribute to the SIU will be that they effectively and safely balance the

opportunities and challenges of innovation (digital and AI in particular), to retain their competitive edge vis-à-vis non-bank competitors.

A second pre-requisite is that the regulatory and supervisory framework in the EU is fit for purpose. With this in mind, the EBA has published a list of 21 recommendations for an in-depth review of the efficiency in October 2025 and is actively addressing everything that is in its direct remit. After close to 15 years of active regulatory action, it is indeed necessary to pause and assess what works well, could be simplified, or should be completed.

EU banks can massively contribute to the Savings and Investment Union.

A key question is whether there is a trade-off between efficiency and stability. Building up resilience over the past decade was essential for EU banks to provide stable financing in the EU and help economic agents to absorb shocks. Against that background, it was important to implement Basel III rules in Europe. While international comparisons suggest that large EU banks, so far, are not at a disadvantage vis-à-vis competitors from other major jurisdictions due to different starting points, future developments will need to be carefully assessed and inform EU's responses. For smaller EU banks, discussions are ongoing about the current Small and Non-Significant Institutions regime and the possibility for further proportionality in the application of the rules without compromising resilience.

The EU banking sector should anyway already consider the existing potential of the single market and of digitalisation to reap the full benefits of the scale and diversification opportunities they offer. Recent months have particularly highlighted investor confidence in the EU banking sector, which now benefits from higher valuations and price-to-book ratios which compare more favourably with international peers.



JACEK JASTRZĘBSKI

Chair of the Board – Polish Financial
Supervision Authority

On the indispensability of the banking sector and market-based financing

The evolving architecture of the global financial system increasingly reflects the growing importance of market-based finance. However, financial systems thrive on diversity and a proper mix of different elements is not a one-size-fits-all solution. Depending on history and the level of development some economies might be very well served by the financial system that remains firmly bank-centred. In Poland, although developing other elements over the long-run might be beneficial, there are no strong indications that this structural feature will fundamentally change in the near future.

Policymakers should recognise complementarity of banking and market-based finance. Banks retain advantages in relationship lending and delegated monitoring, while markets excel at price discovery and risk sharing. However, that two models can be present within one institution. Currently in Poland a key dimension of banks' engagement with market-based finance emerges on the liabilities side of their balance sheets. Supervisory and regulatory frameworks (like e.g. MREL) and the development of the covered bond market require banks to act as frequent issuers of debt securities. Regular participation in capital markets strengthens banks' internal expertise in structuring issuance programmes, managing investor relations and navigating disclosure standards. Such know-how can be transferred to the benefit of non-financial corporates that are considering their own bond offerings and can use bank bonds as benchmarks. In this sense, banks can act as bridges between traditional relationship-based finance and the discipline of public markets.

The asset side of banks' balance sheets requires a nuanced assessment, though. In an economy at our current stage of development, only a limited group of non-financial firms is able to issue bonds in volumes large enough to sustain liquid secondary market trading. Many mid-sized corporates could consider to issue debt securities. Low volumes would make any trading on secondary markets almost non-existent, though. Relying on primary buyers (most likely banks) that hold this paper to maturity could hardly be considered market-based finance. Equating the mere existence of bonds with genuine market intermediation would be misleading. A "function over form" approach is a better guide.

The need for substantial infrastructure investment further illustrates why bank-based financing will remain indispensable. Such deals are typically structured as project finance transactions. In such settings, bank consortia often provide the most efficient framework for financing and monitoring. Attempting to force these projects into purely market-based structures may increase costs and reduce flexibility, particularly during early construction phases.

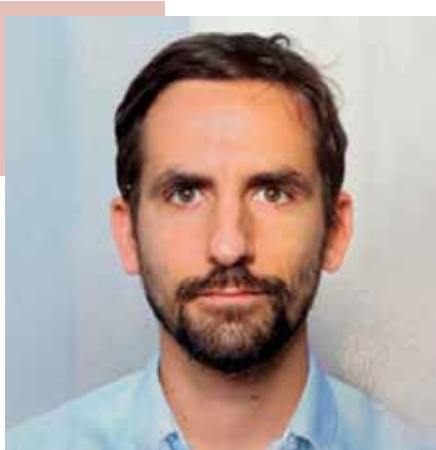
The proximity of banks to clients generates clear advantages also for households. Retail lending is inherently information-intensive. Here, the benefits of market-based finance are likely to be indirect rather than direct. Securitisation or covered bonds allow banks to refinance loan portfolios, freeing up balance-sheet capacity while preserving underwriting standards. Properly designed, these mechanisms can strengthen financial stability by diversifying funding sources without weakening the close connection between lenders and borrowers that underpins prudent risk management.

Interestingly, the segment where market-based finance may have the most transformative impact is the SME sector. However, the link here is indirect. Leasing and factoring companies, often operating within banking groups, can issue bonds to institutional investors to finance their activities. Through this channel, capital market funding ultimately reaches smaller firms that would otherwise rely exclusively on bank credit. Such hybrid models demonstrate how market instruments and banking expertise can work together.

**Banking competitiveness depends on
serving client needs with a prudent
balance of market solutions.**

In conclusion, the increasing global prominence of market-based finance does not diminish the central role of banks in our financial ecosystem. Instead, it reshapes that role. Banks act as issuers, intermediaries and knowledge hubs, indirectly supporting the gradual development of domestic capital markets while continuing to provide relationship-driven financing to corporates, infrastructure projects, households and SMEs.

The objective for supervisors is not to promote one model at the expense of another, but to ensure that both evolve in a balanced and resilient manner. A pragmatic approach –recognising structural characteristics of our economy and focusing on the real economic function of financial instruments – will allow the banking sector and capital markets to reinforce each other in supporting sustainable growth.



DOMINIQUE CHAUBON

Head of Banking Affairs – Direction Générale Du Trésor

Restoring competitiveness via level playing field, simplicity and integration

Europe's prudential and supervisory framework has delivered the core mission it was designed for: a banking sector that is more resilient, and a safer financial system. Competitiveness is now a strategic concern in its own right. In a prolonged low-rate environment, and in a world where major jurisdictions are diverging in their implementation of Basel III, the EU must avoid a situation where resilience is achieved at the price of structural underperformance in the most internationally contested segments of banking.

This concern is not new. Over the past decade, Europe's banking sector has faced a gradual erosion of global market share and valuation, reflecting deep structural constraints: a still-fragmented internal market, more constrained economic and financial conditions, and a prudential framework that is often perceived as complex and less predictable. At the same time, market-based finance has expanded rapidly worldwide. Non-bank intermediaries, frequently headquartered outside the EU, have gained ground in several segments of capital markets and cross-border financing. This can enhance funding diversification, but it may also weaken the position of EU banks in strategic activities, while relocating parts of the risk chain to areas where EU transparency and safeguards are less consistent. In Europe, where banks still provide most of fundings for corporates, households and administrations, banking competitiveness is key not only to make the European economy more competitive, but also to support its strategic autonomy.

In this context, the European Commission's report on banking competitiveness expected in autumn 2026 is a major political milestone. It should move beyond a procedural focus and address the structural levers needed to restore Europe's capacity to finance its economy and support investment. Three priorities should guide the debate and follow-up initiatives: a fair international level playing field, simplification and rationalisation of the prudential framework, and reduced fragmentation through deeper integration of the European banking market.

First, Europe must secure a fair international level playing field in internationally contested activities. As implementation of global standards diverges, differences in requirements and supervisory expectations can create a lasting competitive gap. This is particularly relevant for capital markets and cross-border activities, where competition is global and mobile. The EU should remain committed to high standards, while ensuring openness is reciprocal and competition is not distorted by asymmetric implementation or uneven treatment of internationally active banking groups. A credible level playing field also supports financial stability by limiting incentives to relocate risk and activity to less demanding environments.

Second, Europe should pursue targeted, coherent and stability-preserving simplification. Over time, layered requirements and an expanding body of technical standards have increased complexity and compliance costs. Simplification should focus on outcomes: a clearer articulation between micro-prudential requirements, macro-prudential buffers and resolution expectations, fewer redundancies, and more readable capital and liquidity buffers, so banks and investors can better assess resilience and allocate resources efficiently. Strong supervision remains indispensable, but it should be predictable and grounded in clear legal bases and stable methodologies to support long-term planning and financing capacity.

Competitiveness requires scale, and scale requires integration.

Third, competitiveness requires scale, and scale requires integration. Persistent ring-fencing and national constraints on the movement of capital and liquidity within cross-border groups continue to hinder the emergence of truly European banking champions. Fragmentation also weakens the single market's ability to offer seamless financing solutions to households and firms, and limits Europe's capacity to support major investment needs. Progress in market integration, combined with steps that enable safe intra-group management of capital and liquidity and make cross-border consolidation more predictable, would help rebuild trust and unlock economies of scale.

In this context, the European Parliament has a key role to play as co-legislator and agenda-setter. It can help ensure that the Commission's report, and any follow-up initiatives, tackle these three priorities explicitly and move in a coherent direction. Europe's competitiveness challenge will not be solved by choosing between stability and growth, but by delivering both through fairness, simplicity and integration.



SANTIAGO FERNÁNDEZ DE LIS

Head of Regulation – BBVA

Competitiveness and growth mandates in the EU

One of the main areas of debate in the European Union discussions around simplification of financial regulation is whether to explicitly incorporate competitiveness, efficiency, or contribution to growth as objectives of the regulatory agencies, following the UK example. Indeed, the UK 2023 reform explicitly mandated that financial regulators, such as the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), consider competitiveness and growth as secondary objectives when setting their policies. This legislative requirement implies that regulators are obliged to weigh the impact of new rules on the sector's ability to contribute to the domestic economy and compete internationally against the primary goal of maintaining financial stability. In the EU, following the Letta and Draghi reports, several official communications have stressed the importance of competitiveness as a policy objective, including the mandate letters from President von der Leyen to several Commissioners or the EU Council conclusions of December 2025. This contrasts with the lack of mention to this objective in the mandates of EU regulatory and supervisory agencies.

Including competitiveness in the mandate of regulators/supervisors would balance their incentives.

A central point of contention in this debate is the relationship between financial stability, on the one hand, and objectives like efficiency, competitiveness and growth, on the other. Some voices in the European Central Bank (ECB) and the Single Supervisory Mechanism (SSM), posit that their main contribution to growth and efficiency is simply the fulfillment of their core mandate of ensuring financial stability. This reasoning, while fundamentally true in the long term, overlooks the crucial trade-offs in the short-term, where the absolute pursuit of financial stability can inhibit efficiency, competitiveness and growth. Embedding competitiveness as a secondary objective would not weaken financial stability; on the contrary, a vibrant financial system will ensure resilience. As with the ECB's monetary policy mandate — where price stability is the primary objective, but broader economic objectives are also taken into account — supervisors can preserve resilience while systematically assessing the broader consequences of their policies on economic growth.

The debate often centers on whether financial agencies already treat efficiency and growth as implicit objectives, as they are aware of their broader economic context. However, experience suggests that this is not necessarily the case, as regulators and

supervisors face asymmetric incentives, in the sense that they are far more likely to be criticized for the failure of a bank than for the difficult to substantiate impact of her policies in terms of slow growth or high intermediation margins.

The explicit inclusion of competitiveness and/or efficiency as secondary objectives for EU regulatory and supervisory agencies should be accompanied by a significant strengthening of the impact assessment process across all stages of the regulatory lifecycle. This assessment should use quantifiable metrics, be part of the policy formation process since the earliest conceptual stages and include a mechanism for robust, independent review. The introduction of a “Level o” test at the genesis of any new regulatory initiative, as recently suggested by the Danish Presidency, is fundamental to ensure that the burden of proof lies on the need to regulate.

In conclusion, **including contribution to growth in the mandate of EU financial regulators and supervisors would balance their incentives.** By learning from the UK experience, ensuring consistency with high-level political goals, moving from implicit to explicit mandates, enforcing rigorous impact assessments, and structuring the mandate with primary/secondary objectives, the EU can foster a financial system that is not only safe but is also a powerful engine for pan-European prosperity. The forthcoming European Commission report on the competitiveness of the banking sector in the Single Market provides a timely opportunity to translate these principles into concrete reform. Simplification must now move from diagnosis to implementation.



PHILIPPE BORDENAVE

Senior Executive Advisor to General Management
and the Chair of the Board – BNP Paribas

Europe's urgent need for a banking omnibus

The EU is at a decisive moment, with rising international competition and accelerating geopolitical tensions putting at risk its global position and its core business and social models. One of the main challenges is to restore growth into its sluggish economy.

In its latest consultation the Commission's rightly recognises that a strong banking sector is a prerequisite for a strong European economy and sovereignty, with banks providing nearly 80% of external corporate financing.

But the problem lies in that even though EU banks are now resilient, they have been constrained to an unnecessary degree by an overly complex regulatory framework shaped after the 2008 crisis and continuously expanded. They are now profitable but restricted from growing and doing their job, which is to provide the lifeblood of the EU economy.

This is illustrated by the low increase during the last decade of their total credit outstandings which grew by only 10%¹ (less than 1% per year on average !), while their core capital has increased 45%² in the same period. The fact is that nearly all their net capital generation has been allocated to ever increasing capital requirements, in stark contrast with other jurisdictions.

Estimates of Europe's additional annual financing needs to meet its strategic objectives over the next five years average €1,000 billion, and some recent studies indicate that bank financing could only account for 15% of this demand, i.e. less than Private Credit at 20% and Capital Markets at 55%. Overall, this situation entails additional costs and volatility for the European economy, as well as potential threats to Europe's sovereignty.

So, how can we solve this problem? The answer lies in true simplification, not deregulating but removing the excess regulation which in Europe has gone way above and beyond Basel.

Europe needs to go back to the spirit and the letter of Basel, no less, but crucially no more either. To achieve this, the first priority must be to eliminate EU gold-plating at all levels. European legislators, national authorities, and EU institutions must systematically review where EU law or supervisory practice exceeds Basel standards.

In this regard, one key priority is aligning MREL with TLAC. MREL has evolved into a complex, duplicative European overlay to the TLAC standard, and has by construction followed the upward trend of EU banks' capital. Harmonisation would simplify issuance instruments, lower funding costs, increase transparency for investors, and reduce reliance on US

markets for the largest banks. Another priority is addressing gold-plating of accounting standards by EU supervisors. The current approach to Prudential Valuation Adjustments, for example, produces conservative overlays that exceed actual valuation risk, particularly in deep and liquid markets. Let's stick back to International, EU endorsed accounting principles as applied by banks worldwide and reviewed by supervised auditors. Similarly, the prudential deduction of investments in software from CET1 capital penalizes EU banks and is counter-productive for their digital transition: technology is indeed core productive capital.

It is high time that all supervisors be aligned with EU critical imperatives of sustainable growth.

Mandatory regulatory provisioning add-ons for non-performing loans is another area where gold-plating outweighs prudence. While the objective of timely provision is obviously sound, it must be reminded that this is already carefully analysed by banks, their auditors and supervisors. Automatic deductions regardless of collateral quality or recovery prospects are therefore completely unjustified and weigh on European banks.

From a practical standpoint, there is therefore an urgent need for a 'banking omnibus' that will cover all the fundamental issues impacting the competitive future of European banks. This omnibus should enshrine competitiveness, agility and accountability in EU regulations at all levels including shadow "level 3" regulation. It is high time that all supervisors be aligned with EU critical imperatives of sustainable growth, as it has already been well understood in most other jurisdictions including the US and the UK. Maybe is the corresponding formal adjustment of the ESAs and SSM mandates necessary?

Only then will the banking sector be put in a position to grow significantly its commitments to European corporates and to fully contribute to a more dynamic economic growth in Europe.

1. BNP Paribas calculations based on ECB datasets
2. EBA Dashboard Q3 2025