



## Q&amp;A

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## Europe at a crossroads: competitiveness, sovereignty and the future of finance

Why does Europe continue to lag behind the United States and China in productivity, investment and innovation? Which strategic sectors and policy priorities should Europe focus on to strengthen competitiveness and economic sovereignty?

Allow me first to look at what the Eurozone has going for it. The Eurozone is currently the only developed market jurisdiction with sound public finances: its public deficit is around 3% vs more or less 6% for the US and China; its public debt is stable around 90%, whereas the US's public debt is above 120% of GDP and China's is at 90% and increasing fast. Most of the gap, in terms of productivity gain, investments – especially in tech – and innovation is due to this divergence of fiscal policies over the past five years.

Now, it is clear that the EU lags behind in several strategic sectors, which weigh on its competitiveness and its productivity.

This requires a comprehensive set of public policies with a clear objective to restore sovereignty in some key sectors. For too long Europe has forgotten the fact that “dependency leads to downgrade” has its equivalent: sovereignty leads to upgrade and competitiveness. Among key sectors, I can mention defense of course but also digital, energy, agriculture and finance, including payments.

As regards the banking sector, it's amazing to see all the barriers within Europe to cross border consolidations on behalf of national strategic concerns, while, at the same time, policymakers seem unconcerned about European banks losing market share on their own domestic market year after year. Regulatory divergence contributes to deepen this competitiveness gap: over the past decade, significant US banks have delivered an average ROE of 10.5%, compared with just 6.7% for European banks.

In an increasingly fragmented and competitive global environment, how do you assess Europe's current position in the international financial system? In your view, what are the key national and European factors that strengthen or constrain Europe's competitiveness compared with other major economic regions?

The European financial and banking sector is healthy. It has proven its resilience over the last years, during which it overcame many crises.

However, it still suffers from several weaknesses:

Complexity is the first one, which means more costly administrative burdens and higher refinancing costs, both factors destroying competitiveness. Allow me to take concrete examples :

- Regarding the MREL: When you have to explain to investors the subordinated MREL, the total MREL requirement and the difference with TLAC, it takes 20 minutes. The investor understands it for the next one hour and the day after only keeps in mind that « Europe is complex »;
- The multiple layers of capital buffers applicable to GSIB and DSIB are so intricate that even myself I am unable to explain this complexity,
- and there are many others.

Secondly, supervisors lack a risk-based approach, combined with a lack of effective arbitration process. We are often required to spend millions to measure accurately risks that can easily be demonstrated to be close to zero. The current Administrative Board of Review should be reassessed to be more pragmatic, efficient and transparent in case of disagreement. The CJEU is not an option for deciding on technical matters!

Thirdly, we already mentioned it, European banking landscape remains too fragmented due to internal barriers that are keeping capital and liquidity trapped at country level.

And last but not least, further increases in capital requirements are coming! We welcome the European initiative on simplification, but European Authorities keep repeating that simplification does not mean lower requirements. We can debate at length on the current level playing field across jurisdictions, but while authorities consider that European banks are well capitalised, we are the only major jurisdiction where requirements will continue to raise with the phase-in in of the output floor.

We should not miss the opportunity of the report planned in 2026 by the European Commission on the competitiveness of the banking sector, to address these key concerns. The Savings and Investment Union initiatives will also be decisive steps for more integrated financial markets in Europe.

### Tokenised finance is developing rapidly across jurisdictions. How should Europe position itself to support innovation while preserving monetary sovereignty and financial stability? What implications could tokenisation — including euro stablecoins and tokenised deposits — have for European banks and the structure of financial markets?

While digitalisation has been at the heart of the client journey for years, especially (but not only) for retail, tokenisation finance is a new ecosystem that offers large perspectives. It opens doors to more in-interrupted financial services, that is why the European financial industry must invest now to keep the pace of innovation and lead the transition.

First, it is critical to develop stablecoins in euros, as a stake of European sovereignty; this objective is in the hands of the private actors, and MICA brings a robust European framework for safe issuance. Stablecoins are offering the possibility of new rails of payments, in open networks, for tokenised assets. For the time being, 99% of the market is in USD and 95% of the use cases concern speculation on cryptocurrencies. But new use cases are emerging, for instance around instant settlements of tokenised funds. That's why, to avoid further dollarisation of the economy, European actors need to develop euro stablecoins, in order to ensure sovereignty for different forms of assets anchored to our currency.

We have to be conscious, however, that stablecoins are also a potential threat for commercial banks. If the very granular and diversified deposit base of our clients move to stablecoins for their daily settlements, the stability of our deposit base will be jeopardised. And without this stability we will not be able anymore to provide long term funding to the economy. That is why as a bank, we are also eager to develop a tokenised form of deposits, in order to support the needs of our clients for optimising and securing their cash management by providing solutions with lower time constraints. That would be the best way to benefit from tokenisation, with at the same time integrating it in our banking ecosystem and keeping the deposits in our balance sheet, which is key to enable effective funding of the real economy. In this regard, it is key to maintain the absence of remuneration of stablecoins. The challenge we are facing is to adapt our legacy information system to switch to a continuous liquidity management and operation processing.

But stablecoins could also be a threat for Central Banks and thus for monetary sovereignty if an ecosystem of instant settlements develop itself through these new instruments outside of Central Banks. Reflexions and analysis on how this new ecosystem has to be regulated are not over hopefully!

### How do you appreciate the transformation in the payments landscape, especially in the context of European sovereignty? What opportunities could European financial institutions seize?

Sovereignty in payments in Europe is a must have! No doubt about it. US, China, Brazil, Russia are sovereign in payments whereas so far, we are not. The real question is how? The Digital Euro might appear as a potential answer to payment sovereignty, however the industry is raising alerts.

First on its potential impact on deposit collection; the industry is asking in this regard for a low holding limit. If the purpose is sovereignty in payments, a payment account opened with 0.1 € is sufficient. There is absolutely no need to open a current account with a holding limit of 3000 €. If the digital euro pursues another objective, it has to be explained transparently, highlighting its associated costs. Second, on its costs for the overall economy, including professionals, SMEs, large corporates that will have to adapt their system to this new legal money. Third, on its efficiency itself if foreign actors can operate it. I want to underline here that the industry is working hard on a fully sovereign private solution called WERO, operated by EPI in association with the EuroPA consortium.

The other challenge for European authorities is to modernise the financial settlement infrastructures of the Eurosystem in order to make 24/7 payments available to the whole chain and limit alternative inter-bank settlement solutions to develop. The Eurosystem should provide 24/7 central bank money access, and grant remuneration of bank accounts during week-ends, in order to make tokenisation economically viable. The Pontes and Appia projects, launched by the European Central Bank, will be a key milestone for using central bank money to settle financial transactions in a tokenised form, and in the medium term embed the token technology in the Eurosystem itself.

Finally, regulators should enable deposit tokens at scale. Banks need security on the fact that deposits recorded on blockchain are considered as regular deposits and as a banking product from a legal point of view, not falling under the MICA regulation. These products should also have the same treatments for liquidity management and prudential ratios as well as being protected by the DGSD directive as they remain basically deposits.

As a conclusion, we are entering a new world where all stakeholders, both private and public ones, must be involved, to benefit from the full potential of tokenisation. Policymakers have a key role to play to support the revolution that is ahead of us.