

Improving the competitiveness of the EU banking sector

Improving the competitiveness of the EU banking sector is a key policy priority. While European banks are sound and resilient, structural challenges, such as fragmentation, insufficient scale and regulatory complexity, continue to constrain their global positioning. Discussions focused on the drivers of this competitiveness gap and the policy responses required to address it, particularly in the context of the Savings and Investments Union (SIU).

1. Defining and assessing the EU banking competitiveness gap

1.1 Understanding the drivers of EU banking competitiveness: structural constraints and definitional ambiguities

The Chair noted that the share performance of the EU banking sector has outperformed the wider market recently. The return on equity of European banks is comparable to that of US banks. However, while European banks dominate traditional banking markets, they lag behind their US counterparts in capital market activities. It remains unclear to what extent the performance of the European banking sector reflects broader characteristics of the European environment, such as lower growth in traditional markets, greater fragmentation and a lower level of capital market activity. Prudential requirements have also been identified as a potential contributor to competitiveness challenges.

The notion of competitiveness itself is not straightforward. It may refer to performance in capital markets, the market share of European banks in specific activities, or the level of competition within the sector. It may also relate to market concentration, traditionally used by competition authorities as an indicator of competitive dynamics.

1.2 Banking competitiveness as a strategic imperative for Europe: a widening gap despite strong fundamentals

An official emphasised that competitiveness is a strategic imperative for policymakers. A strong banking sector will be essential to achieve Europe's ambitions in areas such as defence, energy and industrial sovereignty. Strategic autonomy is also a crucial consideration. Sectors such as payments and digital services have become dominated by foreign players. This must be avoided in the banking sector. Competitiveness should be understood as the ability to compete sustainably and efficiently, going beyond profitability alone. While European banks are generally healthy and profitable, their market capitalisation remains lower than that of their global competitors, and their market share has declined significantly in key strategic segments, including

corporate financing, equity issuance, M&A advisory and market services.

The forthcoming European Commission report is expected to analyse the drivers of the competitiveness gap. These may include a less favourable macroeconomic and financial environment, differences in market structures, fragmentation within the EU, technological and innovation gaps, and regulatory differences. While prudential requirements are unlikely to be the primary driver, growing divergence with the US, particularly with respect to Basel requirements, is a concern.

1.3 Understanding the EU banking competitiveness gap: a holistic, open and evidence-based assessment

A policymaker highlighted the consensus among speakers that banks are in a strong position. In addition, they are increasingly resolvable in the event of a crisis, reflecting the strength of the regulatory framework, including the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Nevertheless, serious concerns remain, notably the competitiveness gap and the risks associated with the lack of a level playing field.

1.3.1 An open and evidence-based assessment of the competitiveness gap

A policymaker indicated that the European Commission consultation aims to develop a comprehensive understanding of the drivers of the competitiveness gap before identifying appropriate policy responses to these challenges. Factors driving the competitiveness gap may include low growth, low interest rates, excessive regulatory burden, insufficient scale and efficiency and fragmentation. The Commission is explicitly seeking quantitative, evidence-based contributions to the consultation, rather than political or policy statements. Previous criticism has suggested that the regulatory framework sometimes lacks a holistic perspective. The current approach therefore aims to assess all dimensions jointly, including micro-prudential, macroprudential and resolution frameworks.

1.3.2 Key priorities: simplification, market integration and scale

A policymaker stated that simplification should not be equated with deregulation but is instead about reducing unnecessary complexity in the legal framework. It remains unclear whether reducing or simplifying capital requirements would improve competitiveness. Divergent national practices make cross-border activity difficult. Completing the banking union, particularly through the establishment of a common deposit insurance scheme as its third pillar, is therefore essential to foster trust and support the development of a true internal market in banking. Scale is another key consideration. Consolidation should be encouraged, enabling European banks to compete more effectively at the global level.

2. Structural drivers of the competitiveness gap: fragmentation, regulation and scale

Building on this initial assessment, discussions then focused on the structural drivers of the competitiveness gap, particularly fragmentation, regulatory complexity and constraints on scale.

2.1 Beyond interest rates: structural drivers of EU banks' lower profitability

A regulator emphasised the importance of understanding the drivers of the lower profitability of European banks compared to their US counterpart, and the extent to which this gap can be attributed to the European prudential framework or other factors. A 2019 Federal Reserve study concluded that around 30% of the gap could be explained by differences in interest rates, suggesting that the remaining 70% is driven by other structural factors. Although the global environment has evolved since then, these findings indicate that non-monetary factors remain highly relevant. These factors include fragmentation, the lack of a harmonised framework for certain market activities, such as securitisation, and the traditional focus of European banks on retail banking, where increased competition leads to lower margins than in investment or corporate banking.

2.2 The illusion of a single rulebook: hidden barriers to integration in EU banking

An industry representative highlighted that fragmentation remains the key constraint for EU bank's competitiveness, despite the existence of a theoretical single rulebook. Regulation also plays a role. Progress on the SIU must be complemented by the completion of the banking union. Although the focus is often on institutional elements, such as a common deposit insurance scheme, barriers within the single market also need to be addressed. In addition to cross-border merger and acquisition (M&A), the digital provision of cross-border services could play a key role in deepening both the banking union and the single market. However, this potential is constrained by the divergent application of theoretically common rules across member states, in areas such as digital onboarding, Strong Customer Authentication or data protection requirements. In practice, a true single rulebook does not exist.

2.3 The incomplete banking union: measuring fragmentation and advancing integration

A regulator pointed to the incomplete banking union and commented that banking requires a certain level of scale to operate effectively, although new technologies are changing how this scale can be achieved. While some promising consolidation operations and cross-border transactions have taken place in recent years, fragmentation continues to limit efficiency and scale. A key question is how to measure the cost of the incompleteness of the banking union. Institutions such as the International Monetary Fund (IMF) have attempted to approximate these costs, including by comparing them to trade barriers.

Action should focus on two key areas. Firstly, market participants should be encouraged to maintain and

further strengthen the momentum towards harmonisation. Secondly, in line with recommendation 18 of the European Banking Authority (EBA) report published in October 2025, a regular assessment should periodically assess the effectiveness and appropriateness of the regulatory framework.

An industry representative indicated that, from the perspective of most banks, regulation and supervision have the greatest impact on competition, outweighing fragmentation and other more cyclical elements.

An industry representative suggested that the competitiveness of the banking sector is shaped by three important dynamics: macro growth, market design and prudential calibration. Improvements in these areas would enhance profitability without compromising stability. Although lower capital requirements are not being requested, increased requirements increase divergence from other jurisdictions and impact on the competitive landscape. A transition from a largely national, event-driven regulatory approach to a more systemic, EU-wide framework would enable European banks and ecosystems to scale more effectively across borders.

2.4 Capital constraints and competitiveness: the burden on EU banks

The Chair noted that there is a broad consensus that the low market share of European banks in the market-based finance area is concerning.

An industry representative stated that, rather than theoretical debates about how stringent US versus EU capital frameworks are, evidence shows that EU banks suffer from higher and ever-growing capital constraints. The average capital ratio for US banks and even only US global systemically important banks (G-SIBs) is 13%, compared to 16% for SSM-managed EU banks and 14.5% for EU G-SIBs. This clear discrepancy reduces their capacity to lend and participate in capital markets in the EU. The Chair noted that comparing capital requirements between regulatory systems is complex, but on the basis of best estimates, including from the ECB and PRA, the largest EU banks would have higher capital requirements under the US rules.

2.4.1 Rising capital constraints and regulatory complexity

An industry representative noted that unpredictability in capital requirements arises from discretionary supervisory decisions and frequent gold plating. In addition, complex capital stacks with binding constraints interact with each other, particularly the multiple maximum distributable amount (MDA) triggers and demanding minimum requirements for own funds and eligible liabilities (MREL).

Over the previous 10 years, outstanding loans in the eurozone have increased at a compound annual growth rate (CAGR) of slightly less than 1.5%. During the same period, the eurozone's gross domestic product (GDP) has grown by a similar low amount. Lending is a vital source of credit for economic growth. If bank lending is constrained, the EU economy will not thrive. By contrast, US bank loans to businesses and households increased by 5.5% in 2025, up from an average rate of 3% over the

previous years. This is likely the result of regulatory reforms in the US at the beginning of 2025.

A 2025 study of 15 major EU banks revealed that, between 2021 and 2024, 90% of their retained earnings were allocated to supervisory add-ons and buffer increases. This left just 10% of organic growth for lending, and market participation as well because any activity linked to capital markets must comply with excessive risk-weighted asset requirements. These constraints need to be addressed to improve the banking sector's capacity to finance the European economy.

2.4.2 Impacts on lending capacity and proposals for reform

An industry representative noted that the Financial Times described the recent Fed proposals as a slashing of capital rules in order to boost lending in the US. While there is no appetite in Europe to slash capital rules, the excessive regulation, i.e. above the Basel agreements? must be eliminated. An important step would be a Commission-facilitated workshop exploring how to eliminate gold plating, particularly with regard to capital markets requirements, market risk and different types of counterparty risk requirements.

2.5 From regulatory comparisons to simplification: strengthening the EU banking framework

A regulator underlined the need to be careful when comparing the EU versus the US regulatory framework. He shared that the EBA is running some analysis on such comparison. There are also structural differences between the EU and the US. For instance, US banks can transfer some of their assets to government-sponsored enterprises (GSEs) and securitise them. This is not currently possible in the EU but is included in the SIU proposal and would significantly benefit the financing of the EU economy.

The decreasing market share of banks in market-based activities is a long-term trend, not merely the result of recent conditions. While competitive funding could be beneficial, other considerations besides pricing efficiency must be taken into account. The focus should be on removing excessive complexity. This will require a collective effort from the EBA, SSM and SRB, with assistance from the Commission.

3. Policy responses: from fragmentation to scale and integration

Against this backdrop, panellists discussed the policy responses required to address these challenges and strengthen the competitiveness of the EU banking sector.

3.1 From fragmentation to scale: the SIU as a catalyst for mobilising savings and transforming Europe's financial system

A policymaker emphasised that the SIU represents a shift from the original Capital Markets Union (CMU) approach, reflecting a growing recognition of the complementarity

between banking and capital markets. 10 years on, progress on the CMU remains insufficient. In particular, there is a clear disconnect between the strong political support expressed at the highest level for both the capital markets union and the banking union and the outcomes of negotiations in the Council and the Parliament. While there was initially a perception that capital markets could be developed at the expense of banks, it is now widely acknowledged that progress in one area reinforces progress in the other.

The SIU aims to address fragmentation and support scaling up across capital markets, as well as in trade and post-trade activities. However, moving towards more centralised supervision in capital markets will only be feasible if accompanied by the establishment of a genuine single rulebook. Although Europe is not a small region, in the context of capital markets it continues to operate as if it were composed of 27 separate markets. It is striking that an economy with one of the highest savings rates globally is still unable to efficiently finance its companies and strategic priorities.

An industry representative shared that growing up in Romania demonstrated how fragile prosperity can be. Europe has great potential, but must lead by example, invest in resilience and take responsibility for the future.

3.1.1 Structural obstacles to scale: fragmentation, complexity and underutilised savings

An industry representative stated that a number of obstacles require attention. First, national supervision, insolvency regimes and post-trade systems result in fragmented capital markets, which directly impacts financing costs and liquidity, making it more difficult to scale up. Secondly, Europe's high level of savings does not flow into the economy, which reduces opportunities for risk transfer and increases dependency on bank balance sheets. Thirdly, the complexities of gold plating, overlapping rules and national overlays slow down processes and create fixed costs for distribution platforms and intermediation activities. Fourthly, limited consolidation and an incomplete banking union have resulted in subscale institutions that struggle to optimise resources at a group level.

The current reporting requirements are an example of the issues caused by fragmentation. The reporting requirements for exchange-traded derivatives mean that ABN AMRO must report 6 billion data fields on a daily basis, whereas US competitors face a much smaller reporting burden. This excessive reporting burden has limited economic value.

3.1.2 The role of the SIU: scaling Europe's ecosystem and mobilising capital

An industry representative advised that Europe's advantages, such as excellent universities, strong research, ambitious entrepreneurs and vibrant hubs, should be scaled across borders to transform local excellence into a strong, resilient European ecosystem. The SIU can play an instrumental role by facilitating scaling, reducing fragmentation and mobilising savings. Capital and banking markets are complementary. Europe will need to undergo multiple integrated transitions, including those relating to energy, security, technology

and mobility. Completing the capital markets union, accelerating securitisation, and calibrating prudential buffers appropriately will enable the banking sector to direct more capital towards financing these transitions and building a stronger Europe.

The Chair suggested that, although the system is very complex, this should not necessarily result in higher capital requirements.

3.2 Scale, governance and regulation: towards a more integrated EU financial framework

An industry representative noted that scale is a critical issue. Regulatory barriers extend well beyond financial regulation, with fiscal, labour, tax and insolvency frameworks also constraining firms' scalability and access to capital markets. A more holistic approach is needed. Recent initiatives, such as the Competitiveness Lab, the 28th Regime and a stronger role for ESMA are very welcome. The introduction of a secondary objective for EU supervisory authorities related to competitiveness or growth, similar to the UK framework, could improve transparency and accountability, and align the mandate of these agencies with the priorities of the Commission and the Eurogroup. The importance of non-bank financial institutions (NBFIs) is growing and there is therefore a risk of regulatory arbitrage. This could be addressed by greater transparency and enhanced global coordination through standard setters such as the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO).

3.3 Targeted reforms to strengthen scale, integration and the level playing field

An official advised that, rather than following the US into a deregulation agenda, the resilient, well-supervised and well-capitalised banking sector that has been developed over the past 15 years must be preserved. The focus should be on targeted reforms to enable banks to compete without compromising stability. Requirements should be tailored to the level of risk and support the real economy while removing the gold plating of Basel standards in Europe. Capital rules should be simplified, and the decision-making process for levels 2 and 3 measures should be streamlined. Lastly, a better integration of the European market should ensure that banks are able to scale up and operate cross-border, both with the EU and globally.

3.4 Reforming finance without weakening banks: ensuring complementarity, stability and ambition

An official observed that European banks will benefit from the reforms proposed by the European Commission under the Single Market Agenda (SMA), particularly those relating to securitisation, market infrastructures and supervision. Co-legislators must aim to reach a swift agreement that maintains the high level of ambition needed to overcome the obstacles that banks face in the current environment.

The value of traditional banking should not be forgotten. Recent challenges in semi-liquid and private credit funds in the US have emphasised the vital role of banks in transforming liquidity. Market-based and traditional balance-sheet banking are both necessary and

complementary. A resilient and competitive banking sector and a level playing field in both markets must be preserved.

A regulator suggested that relaxing prudential requirements should not be the priority as other factors may have more impact on competitiveness. The prudential framework has proven its worth in recent years.

Conclusion

Discussions highlighted a broad consensus on the need to strengthen the competitiveness of the EU banking sector by addressing key structural constraints, notably fragmentation, insufficient scale and regulatory complexity. Panellists also emphasised that enhancing competitiveness should not come at the expense of financial stability, which remains a core strength of the European framework. However, views diverged on the relative importance of specific drivers, such as the role of regulation versus market structure, and the appropriate policy responses. Some panellists highlighted the need to alleviate regulatory constraints, while others pointed to fragmentation and lack of scale as the primary obstacles.

Overall, there was a shared recognition that improving competitiveness will require a more integrated and efficient European financial system. Delivering on this objective will depend on the EU's ability to translate strong political ambition into coherent, timely and sufficiently ambitious reforms, notably in the context of the SIU.