Q&A

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Europe's banks are strong. Let them lend.

Which elements of the Commission's reform agenda would deliver the greatest competitiveness gains for EU banks, in a context of US banking deregulation, weaker macroeconomic conditions and intensifying competition from digital players?

The real issue is not the competitiveness of banks per se, but that of the European economy.

European SMEs and corporates need strong and competitive banks to finance innovation and growth. As investment needs could reach €1.2–1.4 trillion annually, upwards of Draghi's €800 billion estimate, slowing growth, limited fiscal space and rising public debt make private financing essential. Indeed, 80% of euro area corporate debt depends on banks' balance sheets. Banks provide €2.6 trillion outstanding loans to EU SMEs, which represent the vast majority of EU businesses. Moreover, European banks remain among the most resilient worldwide, with a capacity to withstand negative shocks demonstrated through the latest EBA stress test.

European banks have faced a persisting profitability gap relative to their US counterparts of around 4 percentage points on average over the last decade. Assuming a 50% payout rate, this gap could represent €330 billion euros additional lending capacity. More profitable banks are not only more resilient, they are better able to support growth. And Crédit Agricole Group, as a leading actor in Europe, fully intends to play its role in the financing of the EU's competitiveness goals.

But banks in Europe face a growing regulatory burden that weighs on both competitiveness and lending capacity for businesses, infrastructure and housing. The priority should be to reconnect capital requirements to observed risk, starting with the Basel III output floor, which would, if implemented, reduce financing capacity for EU G-SIBS by as much as €400–600 billion.

At the same time, Europe cannot rely on banks alone. It also needs more integrated capital markets to finance innovation, defence, and green and digital transitions, and to strengthen its economic sovereignty.

Building a genuine Savings and Investments Union is therefore important to deepen capital markets, mobilise private capital and diversify sources of financing. The securitisation reform is a key building block of the SIU, but the criteria remain too restrictive for residential mortgages, despite Europe lacking both a deep mortgage securitisation market. We need deeper and more integrated capital markets, larger long-term liquidity pools and stronger institutional investors. Pension reforms across Member States would help to develop investment offering. Unlike the US, where pension funds channel a larger share of household savings into productive investment, Europe still lacks sufficient long-term saving vehicles.

To what extent are long-standing industry concerns regarding the Basel treatment of unrated corporates, mortgage lending, trade finance and infrastructure finance justified? What targeted adjustments could be made quickly without weakening resilience?

These concerns are justified. When capital requirements become less risk-sensitive, they unnecessarily constrain lending and economic financing.

The output floor is one of the main Basel III measures. Its initial objective was to limit excessive reductions in capital requirements generated by internal models. However, in practice, rather than applying a constraint solely to capital requirements generated by these internal models, the final formula also incorporates capital requirements calculated under the Standardised Approaches. As a result, the impact of the output floor depends not only on underlying risk but also on the regulatory composition of banks' balance sheets, which is contrary to the Basel principle "same risk, same capital requirements". Mortgage lending is a clear example. Banks with riskier portfolios may be barely affected by the output floor, while lower-risk portfolios can see their capital requirements increase significantly. By weakening the relationship between capital requirements and underlying risk, the output floor reduces the informational value and credibility of prudential capital ratios.

Transitional measures recognise, on the other hand, the low-risk nature of certain mortgage exposures through a lower risk-weight, but they are due to expire by 2032. And this will inevitably impact access to housing. Housing affordability is primarily a supply-side issue that should be addressed through planning reform and increased construction while maintaining access to credit and home ownership, not through increased prudential requirements.

Freezing the output floor at 65%, its planned 2028 level, and making the current transitional measures permanent for banks using internal models would be a pragmatic way to keep capital requirements aligned with risk, avoid unnecessary capital burdens and maintain banks' ability to finance the real economy.

Beyond this, the Commission should consider necessary targeted adjustments on trade finance and specialised lending. These exposures support sectors that are critical to Europe's economic and strategic interests, from energy and transport infrastructure to globally competitive industries such as aerospace.

Naturally, efforts must be consistent across the entire framework: any adjustments to Pillar 1 should not be offset by higher supervisory expectations.

The Commission now has an important opportunity to translate the ambitions of its July 2026 Communication into concrete measures, precisely at a time when we are competing with a US sector moving towards lower requirements and a UK system operating under an explicit competitiveness mandate.

How can Europe simultaneously achieve a genuine Banking Union, a truly integrated Single Market for banking, and a simpler banking regulatory and supervisory framework? Are these objectives compatible?

The current Banking Union remains incomplete. Capital and liquidity continue to be trapped at national level. Ring-fencing practices fragment the single market, reduce balance-sheet efficiency and create permanent costs for cross-border banking groups. This fragmentation contributes to regulatory complexity.

As a result, simplification and integration are complementary. A genuinely integrated banking market would naturally allow part of today's complexity to be removed.

Ultimately, Europe cannot expect globally competitive banks in the long-term while maintaining a fragmented internal market. The EU should deepen integration by reducing capital and liquidity trapping and expanding the use of waivers. Trust has already been built through the SSM, SRM and common backstops. The remaining obstacle is political, not institutional. The home-host dilemma should therefore not be a precondition for reform.

Yet, this is a long-term objective while the major impact will come now from the prudential adjustments and first the output floor. That is why, most importantly, policymakers should act on the prudential framework in priority.

The simplification agenda, as in removing overlapping requirements, duplicative reporting, is also welcome to remove administrative burden but less likely to lead to a massive positive impact on the EU competitiveness goals.

How should Europe manage the tension between reducing dependency on non-European payment infrastructures and preserving the benefits of global schemes? What is the expected role of the digital euro?

Europe should avoid framing this as a choice between sovereignty and openness. The objective should be strategic autonomy, not strategic isolation.

Global card schemes and payment platforms have delivered efficiency, innovation and international acceptance but it may have increased our dependence on non-European infrastructures. The appropriate response is to strengthen European capabilities while maintaining interoperability with global solutions.

Banks should play a central role in this strategy, but the framework must allow them to issue and distribute innovative digital forms of money, including tokenised deposits and euro-denominated digital payment instruments, under clear and proportionate rules. Otherwise, the EU's long-term strategic autonomy in digital finance could be weakened.

The digital euro should be managed very carefully. If not well designed, it could weaken incentives to invest in and scale up private payment solutions, thereby undermining already operational, innovative, private-sector initiatives. Wero, for instance, provides a European sovereign payment solution, with a larger geographical scope and additional functionalities planned over the coming years. Through interoperability agreements with other European payment schemes, it could reach more than 135 million users across 14 markets by 2027.

The EU's objective should be a diversified European payments ecosystem combining global reach, European resilience and technological innovation. In the same way that Europe's competitiveness agenda requires competitive banks, its digital sovereignty agenda requires strong European payment systems operating alongside global platforms.