EU BANKING COMPETITIVENESS



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A single market for banking and advancing the Banking Union - prerequisites of the competitiveness agenda

Advancing the Banking Union and creating a genuine Single Market in banking that facilitates cross-border integration are two necessary elements of the competitiveness agenda. Integration drives competitiveness, and credible safeguards make deeper integration possible. When complemented by a less complex and even more proportionality-driven regulatory framework that respects the diversity of the EU banking sector, this can strengthen the efficiency, capacity and global competitiveness of European banks. At a time of demanding geopolitical environment, it is essential that European banks have the ability to mobilise resources efficiently to finance the EU strategic priorities: such as sustainable growth, innovation, defence and security.

The debate around further advancing the Banking Union should start by taking stock of the achievements and the existing safety nets and tools to protect deposits as we move away from a narrow focus on risk mutualisation and positions formed a decade ago. Europe's banking sector has become more resilient and profitable, yet it remains highly fragmented along national borders. This requires a shift in perspective. The Banking Union should be viewed as the foundation for removing fragmentation that prevents European banks from competing globally and financing Europe's investment needs. It is not a mechanism to mutualise risks accumulated in the past. Euro area banks are now all equally resilient and well supervised.

We need to build a framework in which cross-border banking groups can manage resources more effectively across the Union, while being subject to appropriate consolidated requirements. This will help reduce funding costs by enhancing diversification and achieving greater scale, while increasing lending capacity and improving return on equity through enhanced operational efficiency. The framework should consider the diversity of cross-border groups. Banks and supervisors should also ensure resilience at individual entity level.

Integration also supports resilience: geographically diversified banks are less exposed to country-specific shocks, and a more connected European banking system is better equipped to absorb stress, including local stress.

Effective allocation of funds must be matched by credible safeguards for Member States' economies and resources in the event of deteriorating conditions. The SSM and SRM, supported by the single rulebook, already provide strong guarantees. Large cross-border banks under their direct remit, holding three quarters of the covered deposits in the Banking Union, have appropriate loss-absorbing capacity and potential access to the Single Resolution Fund. This already ensures a high degree of loss mutualisation within the banking sector. However, additional measures, including a common deposit insurance mechanism, that builds on this progress and on the fact that deposits are always protected up to 100 000 EUR, are still needed. It is necessary to improve the predictability of group resolution strategies, provide credible and predictable backstop funding mechanisms for liquidity in resolution, and ensure that the failure of a cross-border group would not create distortions in individual Member States or liabilities to DGSs and national budgets.

A genuine Single Market in banking is about a further connected banking system, not a more uniform one. Europe's diverse banking landscape must be preserved, with all banks and their clients benefiting from the Single Market, regardless of their size, risk and business model. Small and non-complex banks should benefit from less burdensome and more proportionate rules that reflect their specificities while maintaining financial stability. To ensure that the different nature and role of smaller domestically focused banks are considered also in times of crisis, any common deposit protection mechanism should recognise the existing arrangements for protecting their depositors and build on the fully funded and well-functioning deposit guarantee schemes, while reinforcing their firepower.

A strong competitiveness agenda also requires tackling unnecessary regulatory complexity. In many cases, this complexity is itself a product of fragmentation: divergent national requirements, duplicated reporting, differing supervisory practices and overlapping requirements all impose extra costs on banks and reduce efficiency. Simplification and integration should therefore be seen as complementary objectives. A more integrated market can support a simpler and more coherent framework, just as a less complex regulatory environment can facilitate cross-border banking.

Conclusion

Europe needs a banking market in which fragmentation and complexity are reduced, cross-border integration is matched by credible safeguards and proportionality, especially for small and non-complex banks, is enhanced. If this balance is achieved, the result will not simply be a more profitable banking sector, but a more innovative, resilient and competitive European economy.



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Competitiveness: finding the right path

The competitiveness of European banks is a strategic priority. In a context marked by geopolitical uncertainty, weaker macroeconomic conditions, rising digital, environmental and demographic challenges, Europe must ensure its banking sector supports sustainable economic growth.

Competitiveness and resilience strengthen each other. The regulatory reforms introduced after the global financial crisis have greatly reinforced EU banks and built a solid base of confidence. Yet resilience now needs to extend beyond traditional financial indicators. While strong capital and liquidity buffers remain vital, banks also need to strengthen their operational capacities to meet the challenges brought by digital transformation.

The competitiveness agenda should allow European banks to operate more efficiently while maintaining financial stability. Streamlining regulation, improving supervisory convergence, supporting supervisory judgement, and completing the Single Market will bring real benefits.

The EBA is actively working on this. We have deprioritized 15% of our own mandates and published consultations on critical areas such as own funds, credit risk, governance and remuneration, ESG and resolution. In April, we proposed to reduce the datapoints in harmonised reporting by 50% and are building a comprehensive repository of EU national data collections to foster transparency by the end of the year. Last June, we announced a simplified approach for the 2027 EU-wide stress-test, and proposed simplifications to the micro, macro and resolution capital stacks.

The goal is not to reduce prudential standards or weaken safeguards. Rather, it is to avoid duplication, improve proportionality, ensure consistent application, and make rules easier to understand and apply.

The EBA is committed to international standards and the final implementation of Basel III. As required by EU legislators, the EBA monitors regulatory and supervisory developments in 26 non-EU jurisdictions, including shifts in prudential approaches and possible differences in Basel III implementation. The competitiveness of European banking depends on consistent, transparent, and internationally recognised rules. At the same time, implementation should remain proportionate and sensitive to the specific features of the European banking model, to avoid unintended impacts on the financing of the economy.

A competitive European banking sector also needs a regulatory framework that supports innovation. Digital transformation is reshaping financial services, with artificial intelligence, cloud computing and advanced data analytics opening new paths for efficiency and customer value. European banks are investing in these technologies. Regulation must ensure that innovation goes hand in hand with proper management of risks linked to cybersecurity, operational resilience and governance.

The diversity of the European banking sector is another key strength. Institutions vary in size, geography and business models, and this diversity helps sustain a stable financial ecosystem. A competitive framework must apply proportionality effectively while keeping a fair playing field for all institutions.

The EBA is actively working on improving the efficiency of bank rules.

Looking forward, the competitiveness of the EU economy and of EU banks will benefit from prudential rules which are strong enough to preserve trust, yet flexible enough to encourage innovation and growth. Now, there is so much banking regulation can do: competitiveness also hinges on completing a single market which remains very fragmented in many areas that are beyond the remit of bank regulators and supervisors.



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An ambitious European package for banking competitiveness

Europe's banks are entering a new phase of competition. US institutions benefit from a vast and integrated home market, while regulatory easing across the Atlantic may widen existing gaps. At the same time, neobanks, payment platforms, crypto-asset firms and BigTech companies are expanding into financial services. This competition is welcome when it promotes innovation. But it also exposes a structural weakness: European banks still operate in a fragmented market and under a complex framework, while remaining central to financing Europe's economy and strategic priorities.

The European Commission's recent report on banking competitiveness provides a useful basis for action. Its message is clear: banks are more resilient, but the Single Market remains incomplete and the prudential and regulatory framework is not sufficiently adapted to the specific characteristics and financing needs of the EU. The question is not only about improving the competitiveness of the banking sector, but how to build a banking sector that is resilient and strong enough to support growth and fill the European competitiveness gap. In the past years, despite the implementation of the Banking Union, consolidation has taken place largely within national borders, cross-border activity remains limited, and European groups cannot freely allocate capital and liquidity across the Banking Union as efficiently as their international competitors. The challenge is therefore to overcome fragmentation without weakening financial stability. Europe needs an ambitious political package combining integration of the European banking market, simplification of the framework and a genuine international level playing field.

First, cross-border banking groups should be able to manage capital and liquidity more effectively at consolidated level. Solo requirements and national ring-fencing should be reduced for sound groups subject to consolidated European supervision and intragroup support arrangements. This would support diversification, scale and a better allocation of financing. But greater mobility must be matched by adequate safeguards for host Member States. Intragroup support arrangements should ensure that subsidiaries can meet their obligations. European authorities must also be able to act early and provide liquidity in resolution. This is the political bargain Europe must now strike: greater capital and liquidity mobility in exchange for robust group-support mechanisms, stronger crisis-management tools and credible European deposit protection. Mutualisation cannot precede risk control, but national safeguards cannot indefinitely justify fragmentation.

Second, the EU should ensure a credible international level playing field, avoid unnecessary increases in overall requirements and make targeted adjustments where its rules penalise low-risk or strategically important activities. Basel III international implementation is increasingly uneven, while European banks face global competition in investment banking, market-making, trade finance and specialised lending. Priority areas to work on include the treatment of unrated corporates and low-risk mortgages under the output floor, market and counterparty credit risks, as well as infrastructure, project and trade finance. Europe should remain committed to international cooperation, but it cannot ignore divergences that weaken European banks' capacity to finance the economy.

Third, the prudential and resolution framework must be simplified without compromising financial stability. The objective is not deregulation. It is to remove overlaps and gold-plating, improve the predictability of Pillar 2 and macroprudential requirements, streamline the interaction between capital and resolution buffers, and strengthen oversight of Level 2 and Level 3 rules. A simpler framework should remain risk-based, preserve the Single Rulebook and avoid creating a separate regime for smaller banks that would fragment the market.

> Europe needs an ambitious package combining integration, simplification and level playing field.

The Commission has delivered an in-depth diagnosis; it must now convert it into a comprehensive legislative package with a clear architecture and timetable. Member States and the European Parliament must then negotiate it with the level of ambition required. Banking competitiveness will not be restored by lowering standards or maintaining national barriers. Instead, it will be strengthened by building a European market in which resilience, integration and fair competition reinforce one another – ultimately benefiting of the broader European economy.



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Political realities of risk reduction

Adapting European regulatory frameworks to economic reality is an urgent imperative. As demonstrated during the COVID-19 crisis, EU decision-making can move swiftly when aligned around shared goals. Today, Poland is actively working to accelerate private capital flows into the real economy. Together with five fellow Member States we take part in discussion on how to inject new momentum into stalled EU decision-making around the joint goals as set in the Savings and Investment Union.

The European banking sector is part of the challenge. Banks supply roughly 80% of European companies 'external financing needs. Though it is necessary to increase the non-banking flows of capital into the economy, banks will remain the primary engine of economic growth. Therefore, the European banking sector needs to be operating at a genuine European scale.

Completing the Banking Union, anchored by a Single Rulebook, unified supervision under the Single Supervisory Mechanism, and resolution via the Single Resolution Mechanism is a vital structural lever. Yet the architecture remains incomplete without equal depositor protection. While a European Deposit Insurance Scheme (EDIS) would reinforce trust, political realities however demand that common insurance progress through consensual risk reduction rather than unconditional risk-sharing.

Nonregulatory friction

Historically, integration debates focused too heavily on prudential rules as the chief cause of fragmentation. In practice, the main bottlenecks stem from non-prudential friction: divergent national insolvency procedures, varied mortgage and contract laws, collateral enforcement frameworks, and consumer protection rules.

European Central Bank (ECB) statistics reveal that direct cross-border corporate lending remains stuck at roughly 8%, with cross-border retail loans hovering near a negligible 1%. Overcoming these non-prudential barriers will allow the Single Market to integrate organically, as demonstrated by pan-European digital neobanks scaling across borders.

Among other relevant questions is the host-country perspective. Maintaining capital and liquidity requirements at the individual legal entity level remains a non-negotiable safeguard for financial stability.

Pre-positioned local loss-absorbing capacity is essential to protect depositors and investors locally. Discarding this established home-host balance through cross-border waivers would grant parent entities discretionary freedom to reallocate resources away from subsidiaries during stress, exposing host economies. Capital held in local subsidiaries is neither "trapped" nor non-productive; localized buffers function as vital shock absorbers that sustained credit flows during the COVID-19 shock far better than a hyper-centralized model.

Moreover, enhancing competitiveness must not serve as a pretext for deregulation or dismantling essential prudential safeguards. European institutions navigated recent periods of global macro-volatility with remarkable resilience precisely because the EU's post-2008 prudential framework held firm. High standards are not a burden; they are a competitive asset and a shield for the real economy.

Enhancing competitiveness must not serve as a pretext for dismantling essential prudential safeguard.

Rather than eroding safety nets, Europe's agenda must deliver decisive administrative reform. The complexity of the regulatory stack—where Level 2 and Level 3 technical acts create redundant mandates—generates severe operational burdens. European co-legislators should deliver on the European Commission's target of a 25% reduction in administrative and reporting weights. Smart simplification must make proportionality rules genuinely operable for small institutions, streamline redundant Pillar 3 disclosures, eliminate risk double-counting, and revise the punitive prudential capital treatment of software investments under the Capital Requirements Regulation (CRR), which currently handicaps European digital innovation relative to global peers.

Unlocking capital requires confronting obstacles beyond EU legislative mandates, including cultural risk aversion and deeply rooted national tax, administrative, and judicial systems. Jointly focusing on redundancy, cooperation of conduct authorities and legal clarity is needed more than grand strategies.



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EU banking sector: getting the diagnosis right and acting accordingly

The European Commission's recent communication on the Competitiveness of the Banking Sector is encouraging. It contains many elements of diagnosis with which EU banks can agree and which have long featured in our advocacy.

The banking industry's role and importance for the EU economy are recognised. As banks structurally provide about 75% of financing in the EU, a strong banking system is key to effectively finance the EU priorities of economic growth and strategic autonomy across the energy transition, defence and innovation. These essential areas will require an increase of about €1.2bn in annual funding flows compared to historical figures in the EU. In this context, the Commission clearly endorses the need for a dynamic banking sector that champions growth.

EU banks' strength and resilience are acknowledged: the structural regulatory and institutional reforms implemented since the Global Financial Crisis have resulted in a banking sector with historically high capital and liquidity positions as well as solid asset quality, and which is closely supervised and equipped with actionable crisis management mechanisms. So much so that faced with several real-world stress events, "banks acted as shock absorbers rather than amplifiers of economic stress".

Building on this, the Commission opens the way for a comprehensive legislative package to address the competitiveness challenges identified. Several relevant and welcome directions are outlined. However, something is still missing to enable us to uphold Commissioner Albuquerque's words: *"We need to acknowledge that resilience without economic growth is not sustainable, that risk-taking is an essential ingredient to innovation and growth".*

What we need is for EU policymakers to admit that preserving resilience and financial stability does not mean further accumulation of prudential capital in the banking system, whether through regulatory rules, supervisory discretion or national macroprudential measures. Although more capital always sounds reassuring in case extreme scenarios should unfold, there is no point in continuing to enhance the unprecedented levels of safety already achieved. Growth requires the best use of banks' capital resources: they must be deployed to serve the economy rather than sterilized for the sake of further increasing prudential ratios. As a matter of common sense, this is also why the spurious principle enshrined by the ECB that better-capitalised banks will lend more to the economy must be discarded once and for all when considering the way forward.

There seems to be some acknowledgment of this, as the Commission says in its report that EU implementation of international standards may have disproportionate effects on certain activities or banks and suggests reassessing some capital requirements (e.g. functioning of the output floor, market risk requirements, treatment of specialized lending and proprietary software), admitting the link between ill-calibrated EU requirements and limitations in banks' ability to develop financing activities. But the Commission remains wary of the idea that pressure on capital requirements should cease across the board and presents any potential reduction as an incidental by-product of simplification measures rather than as an acceptable lever to achieve growth.

EU policymakers and regulators miss the point when they dismiss initiatives taken by their US or UK counterparts as risky deregulation. What matters is how those countries choose to optimise the right levers to meet their objectives in terms of both financial stability and the financing of their economies. This direction (which relies on the relaxation of unwarranted capital requirements and refocusing of supervisory priorities, underpinned by endorsed secondary mandates in competitiveness and growth) is the one the EU should now decisively embrace, notwithstanding the reluctance of backward-looking and conservative forces persistently stalling growth.

Addressing unnecessary complexities in the prudential framework, supporting a more integrated EU banking market and cross-border activities as well as reducing the reporting burden are commendable ideas. But as long as there is no clear admission that deployment of banks' capital is a key driver of its own competitiveness, the EU will fall short of the urgent and necessary reforms.

We need a clear admission that deployment of banks' capital is a key driver of EU competitiveness.

The Commission's diagnosis that Europe requires a "culture change" is useful but must now be boldly translated into actions. Giving the EBA a formal growth and competitiveness mandate and framing the discretion of supervisory authorities through Level 1 rules combined with enhanced accountability mechanisms are prerequisites to meeting this challenge.



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Scale without borders: completing Europe's Banking Union

Europe's banking sector is resilient, and this we have seen demonstrated in many ways over the past decade. However, resilience is not the same as competitive. The post-crisis reforms were necessary and have served Europe well. Banks are better capitalised, supervision is stronger and resolution planning is more credible than before 2008. Yet the framework that has helped to protect the wider financial system must also help it finance Europe's future.

The competitiveness debate should not be reduced to a choice between stability and growth. Europe needs both. The better question is whether capital, liquidity, technology and talent can be deployed efficiently across the Union. Too often, the answer remains no.

Completing the Banking Union and creating a genuine Single Market in Banking would not remove every obstacle. Consumer protection rules, tax, insolvency regimes and other national frameworks still create friction for cross-border activity. These reforms will take time, but that should not delay progress where it is already possible: prudential barriers, national ring-fencing and unnecessary regulatory frictions should be addressed as a priority.

The reason is simple. Scale matters. Banks face rising fixed costs from technology, cyber resilience, operational resilience, data, reporting and regulatory change. They also compete with large global institutions and increasingly sophisticated digital players. In a fragmented market, those costs are duplicated across entities, jurisdictions and supervisory processes. In an integrated market, they can be spread across a larger customer base.

This is not only a question for shareholders. Scale benefits society too. More efficient banks can invest in new services, support cross-border firms, and share some efficiency gains through more competitive pricing and broader product choice. A Single Market in Banking should be seen as part of Europe's growth agenda and a necessary complement to the Savings and Investment Union, not as a narrow sectoral project.

The unfinished Banking Union is the central obstacle. The Single Supervisory Mechanism and Single Resolution Mechanism created common institutions, but national boundaries still matter in practice. Capital and liquidity can remain trapped within subsidiaries, when they could be used more productively elsewhere. This weakens the economic logic of cross-border consolidation and limits the emergence of genuinely pan-European banks.

A complete Banking Union would change that calculation. A credible common framework, including a lasting solution on deposit insurance, would strengthen trust between Member States and supervisors. It would also support greater capital and liquidity mobility within well-managed banking groups. Without that trust, national authorities will continue to protect local resources. With it, Europe can begin to treat cross-border groups as European institutions rather than collections of national balance sheets.

This is where the Banking Union and the Single Market must interact. The Banking Union supplies the institutional architecture: common supervision, credible resolution and shared confidence. The Single Market supplies the economic outcome: banks able to operate, allocate resources and serve customers across borders with fewer artificial constraints. **The Banking Union is the platform; the Single Market is the prize.**

Prudential simplification should support the same objective. Europe's capital framework has accumulated layers of buffers, add-ons and requirements over time. European Banking Authority analysis has highlighted the complexity created by overlapping going-concern and gone-concern capital stacks, national buffers and interaction of risk-based and leverage-based measures. Simplifying these layers, without weakening resilience, would improve transparency and free management capacity for lending, investment and innovation.

The point is not deregulation for its own sake. Europe should preserve the resilience it has built. But resilience is strongest when rules are coherent, predictable and risk-based. If capital cannot move efficiently within banking groups, if buffers are duplicated, and if supervision rewards local containment over European efficiency, the system becomes safer in appearance but less capable in practice.

The Banking Union is the platform; the Single Market is the prize.

Europe has the ingredients for a globally competitive banking sector: large markets, deep savings, strong institutions and sophisticated customers. What it lacks is a sufficiently integrated operating environment. If the European Union wants banks to finance its strategic ambitions, compete internationally and serve customers better, it must enable them to scale beyond borders.