European Bank Competitiveness

Enabling banks to play a greater role financing European growth – Q&A

1. **Is this just the banking industry asking for deregulation under the cover of competitiveness?**

   No, the report is not calling for lower minimum standards, weaker supervision or a reversal of post-crisis safeguards.

   The argument is about recalibration and modernisation. Since the financial crisis, Europe has built a much more resilient banking sector. However, successive layers of capital, liquidity, reporting and supervisory requirements have created complexities and duplication. The question now is whether the cumulative framework remains proportionate to risk and aligned with Europe's strategic priorities.

   The objective is not deregulation, it is better regulation, preserving resilience while removing unnecessary constraints on productive investment.

2. **Why are banks so important if Europe wants deeper capital markets?**

   Banks and capital market activity should not be seen as alternatives; they are mutually reinforcing.

   Banks originate assets, assess and price risk, provide liquidity, support issuance, and connect borrowers with investors. A strong banking sector is essential to develop deeper capital markets and a more effective Savings and Investment Union. Banks are central to building a fully functioning financing continuum to ensure projects are priced appropriately according to their risk profiles, and that risk can be allocated to the right hands. Europe has significant savings, so developing these transmission mechanisms is crucial to financing Europe's investment needs.

   Europe's financial system remains heavily bank-centric, and therefore best placed in the short term to mobilise and deploy capital at the scale and speed required to meet Europe's investment needs. Deeper and more integrated capital markets are crucial to meeting Europe's long-term financing needs, but their development through implementation of Saving and Investment Union proposals will take time.

3. **Why is the investment gap estimated at €1.4 trillion, rather than the €800 billion figure in the Draghi report?**

   The €800 billion figure reflected the investment gap estimated in the Draghi Report at the time of publication.

   More recent analysis by the ECB has put annual investment needs at around €1.2 trillion. Our estimate of approximately €1.4 trillion reflects higher defence spending, continued energy transition investment, and a broader range of social and environmental priorities that are published but were not fully captured in the original estimate. The true figure may be higher still, as some strategically important sectors and investment needs are not yet fully reflected in these estimates.

   That said, the precise number is less important than the overall scale and direction of travel. The key point is that Europe's investment needs are rising, not falling. Accelerating AI adoption, growing demand for data centres, investment in energy infrastructure, and increasing geopolitical uncertainty are all contributing to both the scale and urgency of the challenge.

4. **What types of investments are captured in the different financing need categories?**

Energy transition	Defence	Social
Green transport	Equipment	Long-term care
Residential	Munitions	Affordable housing
Power plants	Infra. & logistics	Health
Power grids	Cyber & space	Education
Tertiary	R&D	
Industrial		

Digital	Environment
Communication networks	Agriculture
AI	Protection of resources
Semiconductors	Bioenergy
Cloud	Fisheries
Digital skills	Irrigation
Digital green tech	Agrifood
NextGen internet	Forestry
Cybersecurity	Bio-industries
HPC, Graphene, Quantum	
Common data spaces	

Note the sector breakdown draws on published EU investment needs estimates and should be considered indicative. The defence allocation is an authors' estimate based on the estimated distribution of defence spending. Innovation is intended to capture emerging and disruptive technologies distinct from digital infrastructure. Investment requirements for AI and related infrastructure may be increasing faster than these figures suggest. The categories are representative and intended for comparative illustration only; other relevant sectors may not be shown.

5. **EU banks are now more profitable, so why does the report claim they are constrained?**

Profitability and lending capacity are not the same thing.

Banks do not lend simply because they are profitable. They lend where individual transactions generate an acceptable risk-adjusted return after taking account of funding costs, expected losses, capital requirements, liquidity requirements and operational costs.

The challenge highlighted in this report is that much of the financing Europe needs—such as infrastructure, energy transition, digital investment and other long-duration projects—is concentrated in assets that are capital-intensive, longer-dated and often higher risk. As a result, these exposures consume significant amounts of capital and liquidity, increasing the return required for lending to remain economically attractive.

At the same time, rising regulatory capital requirements have absorbed a significant share of banks' earnings in recent years. An EBF report (based on a study of 15 European banks) found that increases in capital requirements between 2021 and 2024 consumed more than 90% of cumulative retained earnings growth, leaving less than 10% available to support additional balance-sheet expansion.

As a result, the issue is not whether European banks are profitable. The issue is whether the current framework provides sufficient capacity and incentives for banks to deploy capital into the types of long-term, capital-intensive financing that Europe increasingly requires.

The report's argument is therefore not that banks lack profitability, but that Europe needs a financing framework that better supports the mobilisation of bank balance sheets alongside capital markets and institutional investors to meet the continent's investment ambitions.

6. Would recalibrating capital requirements not make the banking system less safe?

Not if it is done carefully, transparently and based on evidence.

The report does not propose removing core safeguards. Minimum capital requirements, liquidity rules, resolution frameworks and risk-based supervision would remain in place.

The argument is that some parts of the current framework overlap or reduce the usability of capital buffers in stress. A simpler and more coherent capital stack can support both resilience and lending capacity. The aim is a framework that is robust, usable and proportionate.

7. The ECB has suggested EU banks might face higher requirements under US rules. Does this not undermine the report's argument?

No. Structural and regulatory differences across the US and EU drive the asset composition of banks, biasing this analysis. For example, US banks can offload mortgages to Fannie Mae and Freddie Mac and through liquid securitisation markets, significantly reducing the portion of mortgages held on their balance sheet, EU banks are required to partially deduct software assets from CET1 capital, disincentivising investment.

Furthermore, the ECB analysis did not consider the impact of the implementation of the output floor in Europe and the recent US bank capital proposals, which would significantly reduce US banks' capital requirements. Our analysis suggests EU Globally Systemically Important Bank (G-SIB) capital requirements would increase by 12% following full implementation of the Basel output floor. In contrast, we expect US G-SIB capital requirements would fall by 8-10% once all relevant rules are finalised.

8. What is the output floor, and why does it matter?

The output floor limits the capital benefit banks can receive from using internal models by requiring modelled risk-weighted assets to be no lower than a set percentage of the standardised approach.

The report does not call for abandoning the output floor. It calls for policymakers to assess whether its calibration and transitional arrangements remain appropriate, particularly given how other jurisdictions are implementing the broader Basel framework.

The report estimates that full implementation of the output floor could increase EU G-SIB risk-weighted assets by around 12%, potentially reducing lending capacity by €450–600 billion. That makes it a material issue for Europe's investment agenda.

9. Why does the report focus on the complexity of the EU capital stack?

The report argues that the issue is not only the level of capital, but the increasing complexity of the framework. Over time, multiple regulatory layers, supervisory measures and national discretions have accumulated, creating overlaps and reducing predictability.

This matters because lending decisions are based on risk-adjusted returns. Complex and overlapping requirements can increase the capital consumed by certain types of lending, particularly the long-term, capital-intensive investments Europe increasingly needs.

The report therefore calls for a targeted review of the capital stack to improve consistency, transparency and proportionality, while preserving the resilience gains achieved since the financial crisis.

10. How much additional lending capacity could the recommendations release?

The report provides several estimates to illustrate the potential impact of the recommendations.

Capping the O-SII buffer at 1% (the minimum G-SIB buffer) could release approximately €50 billion of CET1 capital and support around €300–400 billion of additional lending capacity.

Removing the Systemic Risk Buffer could release approximately €19–29 billion of capital and support around €120–230 billion of additional lending capacity.

Removing the software deduction could release approximately €18–35 billion of CET1 capital and support around €140–220 billion of additional lending capacity.

AFME estimates more than €225bn of capital and €250bn of liquidity is trapped in subsidiaries because cross-border waivers are not fully available.

European Capital Markets Institute (ECMI) estimates that a stronger EU securitisation market could support an additional annual €130 to €320 billion of lending.

These figures should not be treated as perfectly additive. They address different constraints, affect different banks and depend on demand, risk weights and banks' target capital ratios. But they show that targeted recalibration could have a meaningful impact.

11. Why is securitisation covered given the June 2025 proposals from the European Commission?

Securitisation is one of the few tools that can address two problems at once: it allows banks to recycle capital into new lending, and it allows institutional investors to take exposures that match their risk appetite and investment horizon.

Europe's securitisation market remains much smaller and less effective than the US market. The report highlights this as a major constraint on the financing continuum.

Recent securitisation proposals represent an important step forward, but fall short of the changes required for banks and investors, and risk being a missed opportunity for Europe.

For banks, the reductions in prudential requirements remain limited, or are offset by added complexity. Risk-weight floors and formulae for resilient securitisation should allow genuine capital relief for high-quality portfolios, including mortgages. Otherwise, banks will have limited economic incentive to originate transactions even where investor appetite exists. This is particularly important for residential mortgages, where the framework should recognise unfunded credit protections provided by insurers and reinsurers in the highest-quality Simple, Transparent and Standardised synthetic securitisations.

The report calls for Europe to adopt a holistic approach to reviewing the securitisation framework and accelerate progress to enable securitisation to play a larger role in financing strategic investment.

19. Would fewer, larger banks increase too-big-to-fail risk?

Larger and more diversified banking groups can benefit from broader funding sources and greater geographic diversification, improving resilience and enhancing capacity to absorb shocks.

Europe's post-crisis resolution framework (including the Single Resolution Mechanism, loss-absorption through bail-in and MREL requirements, recovery and resolution planning) is designed precisely to address the too-big-to-fail risk and preserve financial stability in the event of a failing institution.

20. What is the single most important takeaway?

Competitive European banks are imperative to Europe's future growth, resilience, competitiveness, and prosperity. Policymakers, regulators, supervisors and banks must work together to close Europe's €1.4 trillion annual investment gap. This requires modernising the approach to bank supervision and regulation to ensure the financing continuum functions effectively at scale.

Qualifications, assumptions, and limiting conditions

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