

The competitiveness of the European banking sector

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1 Introduction

Ladies and gentlemen,

Hold fast, sit sure – this is the motto of The Worshipful Company of Saddlers, formed in the year 1395, which has its home in this very building. Saddlers help those on the move by providing some security – to sit sure – though riders have to do their part as well – holding fast.

It is quite easy for me to relate to this motto. Not because I was a horseman – certainly not! But as a central banker, I see solid connections to the job of a saddler.

Providing a safe and reliable environment in which people can achieve their goals – that’s what we central bankers strive for, too. Central banks play a vital role in creating and safeguarding such an environment, and, specifically, enabling the financial sector to face new challenges.

How firmly are European banks sitting in the saddle? How are they faring in the race against their non-European competitors? And what could be done for an even smoother ride?

Let’s look at these questions in turn.

2 The status quo: how do European banks fare?

European banks are “sitting sure” in the saddle nowadays, even in the face of “bucking” economic and financial conditions. Neither the pandemic nor the banking turmoil in 2023[1] threw them off – a remarkable turnaround compared with their performance during the great financial crisis.

How did this happen? The evidence is abundantly clear. Soundly capitalised banks are better banks.

Analyses conducted by the Basel Committee[2], the ECB[3], and the Bundesbank[4] show that the post-crisis reforms have stabilised the sector, rebuilt confidence, reduced taxpayer risks, ensured more reliable lending and thus strengthened GDP growth over the cycle.

That leaves the question of how European banks are holding up in the competition against their non-European counterparts.

First of all, competition between European and non-European banks is rarer than one might assume. Our banking supervision experts have analysed cross-border connections to determine where, for

example, German and US banks are in direct competition. The finding: German and US banks rarely compete in local lending markets.

Competition exists in investment banking and trading; there, globally active large banks compete internationally. However, these activities account for a much smaller share of total capital requirements compared with traditional lending. In Germany, competition for corporate loans primarily occurs between German and European banks – not between German banks and large US institutions.

Still, a comparison between European and non-European banks can be illuminating. In many respects, US banks – and to some degree also UK banks – generally outperform their European counterparts on the continent. Specifically, they have consistently higher net interest margins or higher market valuations, as measured by the price-to-book ratio.[5]

Since the global financial crisis and the European sovereign debt crisis, European banks have made significant progress in this respect as well. The share of non-performing loans is declining, and so is the cost-to-income ratio.[6]

3 Enhancing competitiveness in the European banking landscape

But what can explain the remaining differences in performance between European and non-European banks? ECB[7] and Bundesbank[8] researchers have looked at whether higher levels of capital hamper banks' efficiency. The answer is no.

On the contrary, they found that higher levels of capital lower both interest rate expenses and the volatility of earnings. This allows banks to reduce their funding premia, which drives up profitability.

But EU banks do face structural challenges. While the United States and in particular US investment banks benefit from deep and liquid capital markets and a highly integrated financial system, Europe's financial system remains more fragmented, both across banking markets and capital markets.

This makes it more difficult to allocate capital efficiently and to reap economies of scale. The diverse and complex regulatory requirements across European countries add to these structural inefficiencies.[9]

Thus, while the European banking sector is resilient, it is held back by structural inefficiencies. To overcome them, both banks and European policymakers will have to do their part.

Let me mention three specific points today, two on the policy side, one on the banking side.

Currently, improving the EU financial system and simplifying banking regulation are two main goals being pursued to support competitiveness, stronger integration and effective supervision of the European banking sector.

First, the financial system can and should become more integrated, and – given the enormous investment needs – it should increase its financing capacity.

Measures I have in mind include:

- strengthening venture capital and securitisation markets;
- stronger participation of EU residents in capital market investments;
- better cross-border provision of financial services;
- as well as measures for more harmonised and integrated supervision of EU market infrastructures.

Together, these measures will facilitate a more efficient financial system. This will also allow a better channelling of funds into productive investments within the continent. Overall, it will make the EU economy more competitive.

A more efficient and integrated capital market will also directly benefit the EU banking sector. US banks profit a lot from a more integrated domestic capital market, as it leads to significant economies of scale, for example in securities issuances, mergers and acquisitions or in asset management.

This is another reason why advancing EU capital markets in the context of the Savings and Investments Union is of central importance.

Second, simplifying the regulatory requirements for banks in the EU is a high priority on the European agenda. The Bundesbank proposes simplifying capital requirements and introducing special EU rules for small banks.

The European Commission plans to present new legislative proposals to improve and simplify the regulatory framework for the EU banking sector in the first quarter of 2027.

The focus of the European Commission's proposals is on deepening market integration, for example through capital and liquidity waivers. Such waivers tend to benefit larger banks operating across borders.

But our banking landscape ranges from globally active major banks to small institutions operating at national or regional level.

This diversity reflects the financing needs of Europe's heterogeneous economy that comprises large companies, many "hidden champions" and small businesses. The prudential framework should be neutral towards different business models.

This is why, in our view, proposals for greater integration should be adequately matched by proposals for greater proportionality for smaller banks.

These banks have small balance sheets, are less complex and have a lower risk profile. We need regulatory, reporting and supervisory requirements that are more commensurate with this profile, but that also maintain the same high prudential standards. Europe should therefore move beyond limited adjustments and significantly simplify the regulatory framework.

My third and last point is on non-bank financial institutions (NBFIs).

Since the global financial crisis and the resulting introduction of higher capital requirements for

banks, NBFIs have grown rapidly. They now hold one-half of all financial assets – internationally and in Europe, too.

The NBFI sector can provide a welcome booster of funding for the real economy in Europe. And with the Savings and Investment Union, policymakers are seeking ways to support that, especially for start-ups, scale-ups or small and medium enterprises.

However, NBFIs can also pose a risk to financial stability. The NBFI sector is highly interconnected with the banking sector – inside and outside of Europe. Take German banks for example: 14 % of their total assets consist of claims against domestic and foreign NBFIs.[10]

When NBFIs use this capital to grant private credit, these indirect exposures can create a risk for banks due to their lack of transparency. As a result, strong risk management by banks is necessary, including a stricter loan assessment.

4 Conclusion

Let me conclude by returning to the motto of the Saddlers: *Hold fast, sit sure*.

Just like a well-crafted saddle provides security and stability for the rider, we must ensure that Europe's banks are firmly seated and well-equipped for the race ahead. The path may be challenging but by improving the EU financial system and simplifying regulation, we can and are already helping our banks to "sit sure".

Their task of "holding fast" can be achieved by managing new risks and creating innovative business models.

Thank you for your attention.

Footnotes:

1. Economic Governance and EMU Scrutiny Unit (EGOV), Directorate-General for Economy, Transformation and Industry, J. Mejino-López and N. Véron, R. Mazzocchi, K. G. Spitzer and D. Boldi (eds.) (2025), EU Banking Sector & Competitiveness, p. 33.
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3. Budnik, K., I. Dimitrov, J. Gross, M. Lampe and M. Volk (2021), "Macroeconomic impact of Basel III finalisation on the euro area", Macprudential Bulletin, No 14, European Central Bank, July.
4. Deutsche Bundesbank (2026), "Resilience rather than deregulation: Why sound regulation ensures growth", Resilience rather than deregulation: Why sound regulation ensures growth, July.
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6. Ibid.
7. Behn, M. and A. Reghezza (2025), "Capital requirements: a pillar or a burden for bank competitiveness?", ECB *Occasional Paper Series*, No 376, October 2025.
8. Buchholz, M., A. Loeffler and P. Sigel (2025), Do Capital Requirements and Their International Differences Affect Banks' Profitability? Deutsche Bundesbank Discussion Paper No. 31/2025.
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