



EUROPEAN CENTRAL BANK

EUROSYSTEM

Consultation on the competitiveness of the EU banking sector

Eurosystem response

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Outline

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1

Background

The European Commission closed a consultation on the competitiveness of the EU banking sector in April 2026.

- ❑ **The European Commission plans to deliver a report on the EU banking sector in 2026.**
 - Article 518c of the Capital Requirements Regulation (CRR) requires the Commission to assess the overall situation of the banking system in the Single Market by 2028.
 - That report shall take stock of the post-Global Financial Crisis reforms and assess whether these ensure an adequate level of depositor protection and safeguard financial stability.
 - The Commission brought this work forward to 2026 and launched a [stakeholder consultation](#).

- ❑ **The Eurosystem provided a response to this consultation on 14 April, based on previous recommendations of the ECB Governing Council's High-Level Task Force**

Banks' competitiveness is shaped by their business models and the institutional environment.

- ❑ **More competitive banks can provide better services at lower costs than their competitors.**
 - Competitiveness is *not* a feature of a banking *system*, but rather of individual banks.
 - Competitiveness should be broadly defined, not focus on profitability or share prices.
- ❑ **Banks can compete from a position of strength if they are...**
 - ... more efficient
 - ... better capitalised
 - ... have a sustainable business model, including sound governance and risk management.
- ❑ **The institutional framework should ensure fair competition and allow for banks that cannot compete successfully to safely leave the market.**

European banks operate in a challenging environment and need sustainable business models to remain fit for the future.



Heightened **geopolitical risks** can negatively affect the financial and operational resilience of banks.



The **digitalisation** of financial services provides opportunities for banks while exposing them to heightened competition and risks such as cyberattacks.



Lack of harmonisation of relevant rules and an incomplete banking union leads to fragmentation, limits scale, and weakens risk sharing.

The Eurosystem supports a reform agenda that promotes integration while maintaining resilience based on three pillars.

1

The Banking Union should be treated as a **single jurisdiction** for financial regulation.

2

Resilience is a prerequisite for sustainable growth and should be preserved.

3

Undue complexities in the regulatory framework should be reduced.

The ECB's High-Level Task for on Simplification identified four principles to underpin the reform agenda.

1

Resilience should be maintained.

2

Effectiveness in **meeting prudential objectives** needs to be ensured.

3

European **harmonisation** and **financial integration** should be fostered.

4

International cooperation should be upheld.

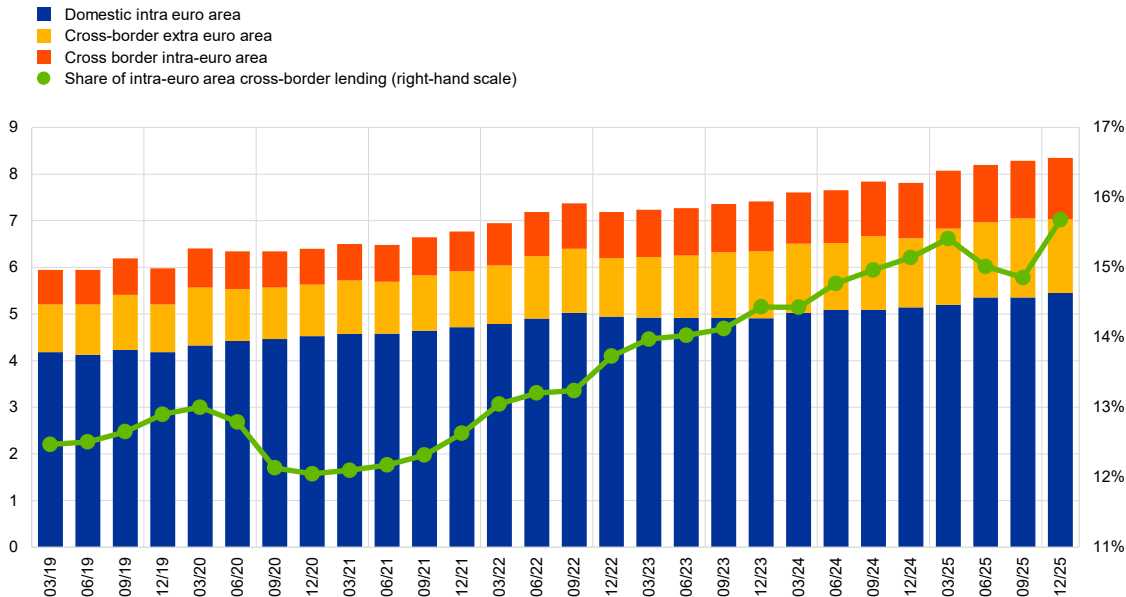
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Treating the Banking
Union as a single
jurisdiction

Cross-border bank lending has edged up, but banking markets remain predominantly domestic.

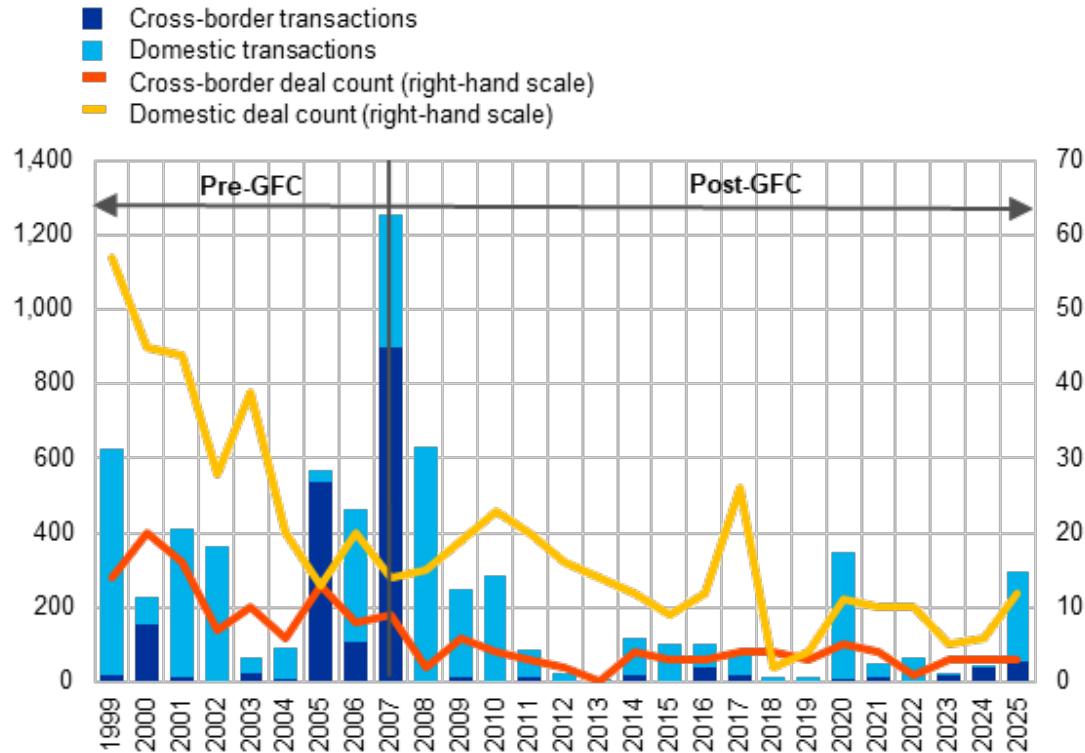
Bank lending by euro area-domiciled credit institutions to corporates

(Q1 2019 – Q4 2025; outstanding nominal exposures in EUR trillions (left-hand scale); percentage of total lending by euro area banks to corporates (right-hand scale))



Sources: ECB (AnaCredit) and ECB calculations. The analysis includes non-financial corporates (ESA Sector S11) and financial arms of non-financial corporates (ESA Sectors 125, 126 and 127).

Merger activity in the euro area has slowed since the global financial crisis.



Treating the Banking Union as a single jurisdiction for financial regulation can promote integration.

- ❑ **The Single Rulebook harmonises banking regulation – but many rules differ across countries.**
 - This increases the cost for banks of operating outside their home market.
 - The Capital Requirements Regulation includes about 130 options and discretions.
 - A recent [ECB analysis](#) finds that Single Market obstacles are equivalent to an ad valorem tariff of around 95% when compared to domestic trade.

- ❑ **Regarding the Banking Union as a single jurisdiction would require ...**
 - Refocusing banking rules from directives to directly applicable regulations
 - Harmonising relevant legislation such as on insolvency or mortgages
 - Implementing Capital Markets Union
 - Allowing capital and liquidity to flow freely within cross-border groups, with adequate safeguards.

Completing the Banking Union can promote further integration and improve crisis preparedness.

- ❑ **A European Deposit Insurance Scheme (EDIS) would...**
 - provide the same level of protection for all insured depositors
 - improve risk-sharing
 - further weaken the bank-sovereign nexus
 - remove obstacles for banks to operate across borders.

- ❑ **EDIS needs to be complemented by closing remaining gaps in the resolution framework:**
 - A framework for liquidity in resolution should be established.
 - Ratifying the revised Treaty Establishing the European Stability Mechanism (ESM Treaty) would allow the ESM to act as a backstop to the Single Resolution Fund.
 - Improving crisis management and deposit insurance (CMDI) was an important step but is not a substitute for EDIS.

3

Maintaining resilience
as a prerequisite for
sustainable growth

Post-crisis reforms have strengthened resilience and restored confidence in euro area banks.

❑ Reforms have achieved their objective of enhancing the banking sector's resilience.

- The capitalisation of euro area banks increased from 12.7% in 2015 to 16.1% in 2025*; the leverage ratio has increased to 6%.
- On aggregate, banks hold comfortable levels of liquidity.
- Levels of non-performing loans have declined significantly.

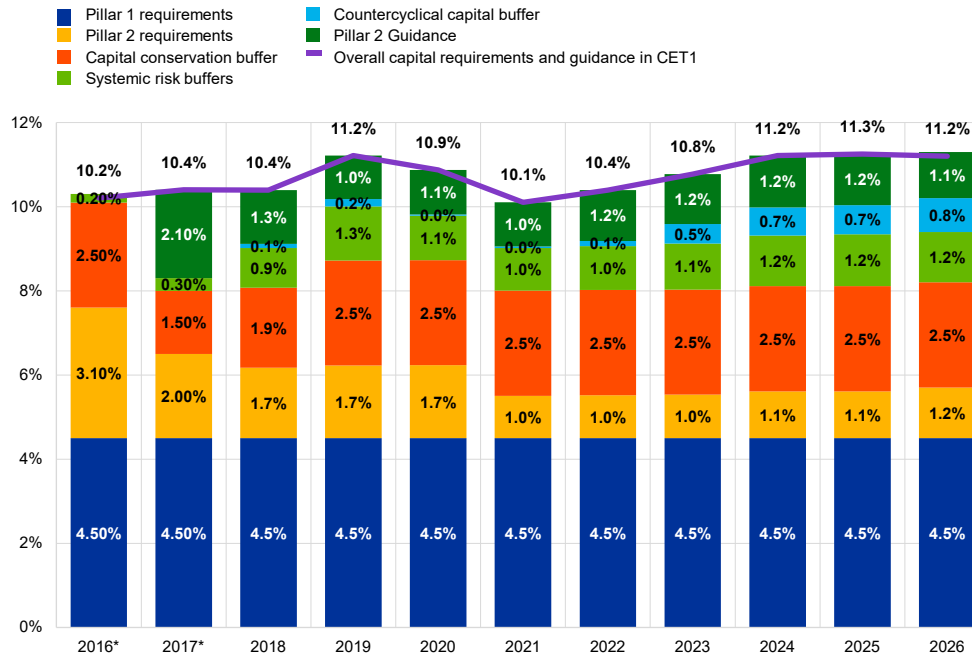
❑ Evaluations show no signs of material unintended side effects.

- Better capitalised banks can take more risks and lend more, particularly in times of stress.
- Longer-term effects of stronger resilience for growth are clearly positive.
- Financial crises, in contrast, have long-lasting economic, social and fiscal costs.

❑ Resilience is key, given the increased risks and limited fiscal space to buffer shocks.

Over the past decade, capital requirements have remained broadly stable, with a shift towards releasable macroprudential buffers.

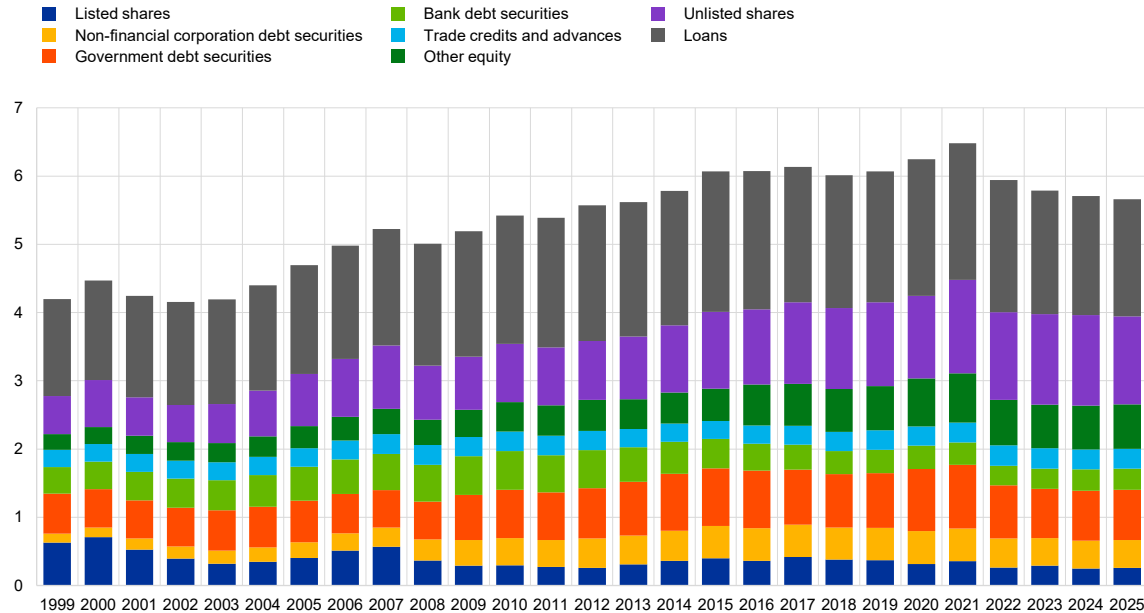
Aggregate CET1 requirements and Pillar 2 guidance
(percentages of risk-weighted assets (RWAs))



Banks have remained the most important source of funding for European corporates.

Financing of the euro area economy

(annual data: 1999-2025; ratio to nominal GDP)



4

Tackling undue complexities in the prudential framework

The ECB's High-Level Task Force on Simplification made proposals to reduce undue complexities while maintaining resilience.



Regulation

- ✓ Reduce number of capital stack elements
- ✓ Adjust design or role of capital instruments
- ✓ Dedicated, prudent and simpler regime for smaller banks
- ✓ Automatic macroprudential reciprocation of more standardised macroprudential tools
- ✓ Align MREL and TLAC frameworks more closely
- ✓ Switch focus from directives to regulations and streamline level 2/3 acts
- ✓ Simplify EU stress test
- ✓ Take a holistic view on overall level of capital
- ✓ Complete savings and investments union and banking union



Supervision

- ✓ Strengthen and complete the EU Single Rulebook
- ✓ Increase the risk focus of supervision



Reporting

- ✓ Request once: step up coordination and data sharing among key stakeholders
- ✓ Report once: establish an integrated reporting system applicable across domains
- ✓ Resubmit less: reduce the number of data resubmissions required from banks
- ✓ More transparency: regular and structured publication of reporting initiatives
- ✓ Review regularly: a coordinated, periodic review of reporting requirements
- ✓ Reform public disclosure

European banking supervision is implementing comprehensive reforms to enhance efficiency, effectiveness and risk focus.



Reforming the Supervisory Review and Evaluation Process

- Risk tolerance framework
- Better integration of supervisory activities
- Using the full supervisory toolkit
- Improving communication
- More stable methodologies
- Better use of IT and analytics

 *Multi-year initiative to be completed in 2026*



Next-level supervision

- Speeding up decision-making
- Faster approvals of internal models
- Streamlining stress testing
- Fast-tracking straightforward capital-related decisions
- Simplifying supervisory reporting
- More targeted on-site investigations

 *Launched in 2025, implementation in 2026 and subsequent years*



Supervisory culture

- Risk-based, outcome-focused and integrated
- Shared behaviours
- Consistent, high-quality supervision

 *Implementation since February 2025 after 2024 design phase*



Measuring effectiveness

- Structured evaluations
- Measurable impact
- Strong accountability and transparency

 *Ongoing initiative*

5

Summing up

The ECB response to the consultation sets out a clear course of action.



Promoting integration and the Single Market can enhance the competitiveness of banks and improve cross-border risk sharing.



Safeguarding resilience and financial stability is a prerequisite for economic growth and competitiveness.



Simplification of regulation and supervision can be achieved without undermining resilience.

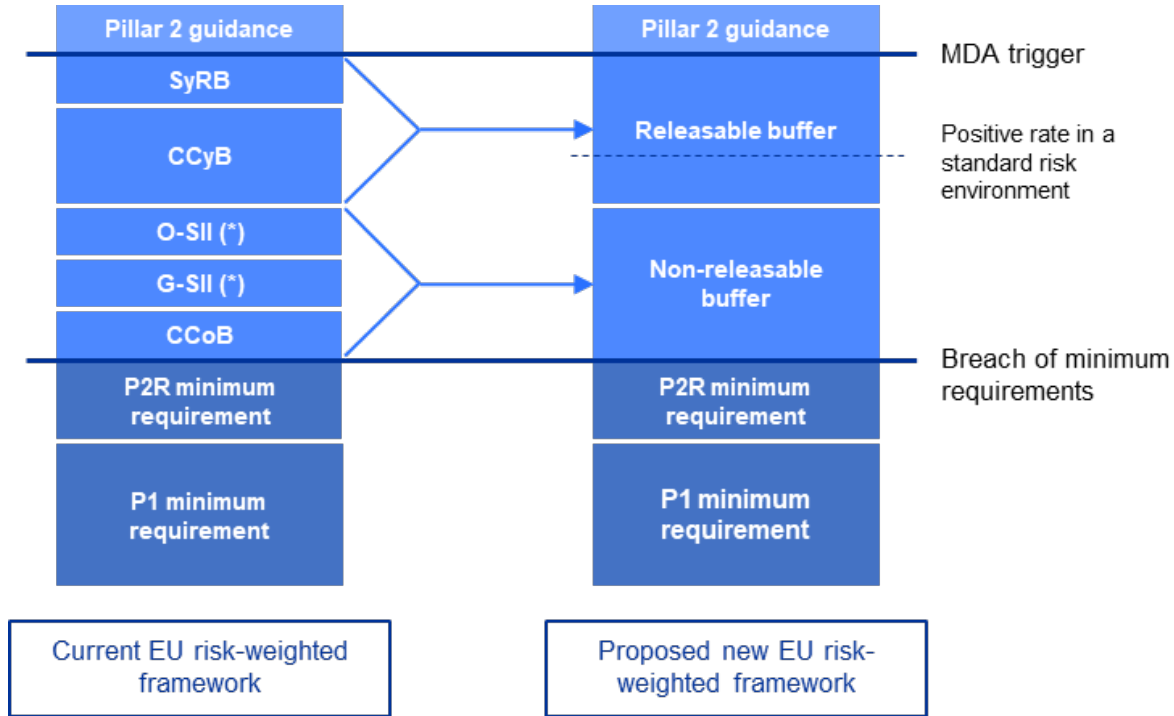
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Annex

Further reading

- [Eurosystem response to the EU Commission's targeted consultation](#) (04/2026)
- High-Level Task Force report on [Simplification](#) (12/2025)
- ECB Banking Supervision report on [Streamlining supervision, safeguarding resilience](#) (12/2025)
- ECB Occasional Paper [Understanding the banking sector capital framework in the EU](#) (04/2026)

The existing five macroprudential buffers can be merged into two buffers, a non-releasable buffer and a releasable buffer



Notes: (*) The higher of the O-SII and G-SII buffer applies. This is a stylised representation of the capital stack but does not represent any particular calibration.