

COMPETITIVE BANKS FOR A SOVEREIGN EUROPE

Energy transition, reindustrialisation, digital transition, innovation, defence: these strategic priorities require annual funding flows far greater than those historically seen in the European Union (EU). The consultation conducted by the European Commission on the competitiveness of the banking sector, which concluded on 19 April, highlights the need for a banking system that can finance these ambitions.

As banks provide nearly three-quarters of financing in the EU, their competitiveness is a key determinant of European sovereignty. Without a robust banking sector capable of increasing its financing supply and competing with major international players within its own market, the EU would be exposed to increased reliance on non-European financing. In various segments of investment banking, non-European institutions — particularly American ones — have strengthened their presence. Nevertheless, these challenges call for a broader understanding of banking competitiveness than the microeconomic focus on profitability or market share: it is essential to consider the banking sector's ability to respond effectively to the unprecedented rise in financing needs.¹

Significant progress has already been made: banking profitability has recovered strongly since 2022, and the prudential framework has been considerably strengthened over the past decade or so. However, several areas still require improvement, particularly in adapting prudential requirements to new challenges and increasing the integration of capital markets, as highlighted in the Letta and Draghi reports.

THE RECOVERY IN BANK PROFITABILITY: A NECESSARY YET INSUFFICIENT CONDITION

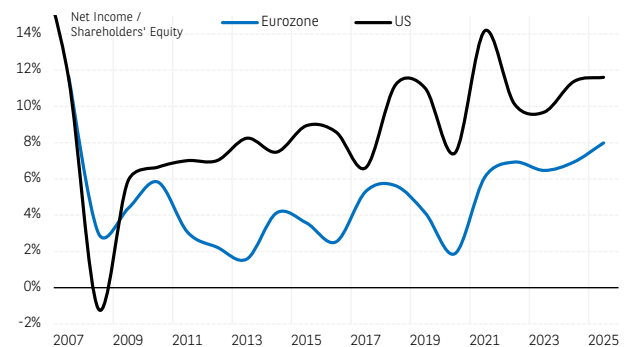
Following an extended period characterised by low or negative interest rates, the normalisation of rates since 2022 has bolstered the profitability of major European banks (see Chart 1). However, the disparity with their US counterparts remains. This is mainly due to structural factors. In a US financial system that is more reliant on markets, financing generates more commission income for banks while consuming minimal capital, a combination conducive to higher profitability.

This disparity is not neutral: by generating more equity organically, US banks have a greater ability to absorb an increase in their risk-weighted assets (RWAs). Consequently, they can more readily expand their lending and invest in new activities, further strengthening their competitive advantage.

In light of improved financial profitability, the average price-to-book ratio (P/B) of major European banks has recovered and, for the first time since 2010, exceeded the 1 threshold in 2025, suggesting that expected returns now cover the cost of capital required by investors (see Chart 2). However, US banks continue to benefit from more favourable valuations. These enable them to finance their acquisitions through share issuances or exchanges, including within the new technology sector. European banks, on the other hand, are more reliant on cash, which is inherently more constrained.

¹ The European Commission estimates that the additional funding required for the energy and digital transitions alone will amount to EUR 600 billion per year until 2030, representing a 74% increase compared with the EUR 810 billion allocated annually to these sectors between 2011 and 2020 (see ECB (2024), 'Massive investment needs to meet EU green and digital targets', published as part of 'Financial Integration and Structure in the Euro Area 2024'). Additionally, the initiative to boost defence spending has recently been revised upwards to EUR 1,200 billion per year, see [Speech by Prof. Dr Mario Draghi at the Charlemagne Prize ceremony in Aachen, Germany, 14 May 2026](#). See also Derrien G., Quignon L. (2025), "[EU: Rearmament, energy and digital transitions, the scale of the effort](#)", Chart of the week, BNP PARIBAS, 10 April.

COMPARATIVE PROFITABILITY OF MAJOR EUROPEAN BANKS AND U.S. BANKS*

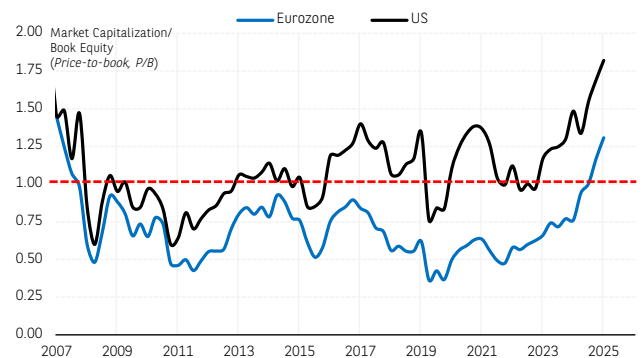


* Top 10 Banking Groups by Tier One Capital (The Banker Ranking, July 2025). Consolidated Group Data, Shareholders' Equity-Weighted Average.

CHART 1

SOURCE: BNP PARIBAS CALCULATIONS FROM S&P CAPITAL IQ DATA

COMPARATIVE EQUITY VALUATIONS OF MAJOR EUROPEAN AND U.S. BANKS*



* Publicly Listed Entities of the Top 10 Banking Groups by the Tier One Capital (The Banker Ranking, July 2025). Shareholders' Equity-weighted average.

CHART 2

SOURCE: BNP PARIBAS CALCULATIONS FROM DATASTREAM



In its broadest sense, banking competitiveness refers to the banking system's ability to support economic activities, to operate effectively within an integrated market and contend with its international competitors². Moreover, it is significantly shaped by the prudential environment and the structure of the market.

PRUDENTIAL FRAMEWORK: RECOGNISING THE PROGRESS MADE AND STRIKING THE RIGHT BALANCE

Since the financial crisis, the EU has significantly strengthened its prudential framework: transposition of Basel III, standardisation of internal models (TRIM, EBA guidelines), followed by the adoption of the final Basel III package (CRR3/CRD VI), with the output floor³ (applicable from 2025) being the most prominent feature. Although European banks are among the best-capitalised and most closely supervised institutions, the gradual incorporation of climate risks could further increase capital requirements in the coming years.

While the objective is commendable, the issue of optimal calibration arises. The BIS's work indicates that, beyond current levels, the gains in financial stability associated with a further increase in capital requirements are modest, whereas the costs in terms of financing capacity remain considerable⁴. Striking the right balance is now crucial to maintain the soundness of the European banking system without hampering potential growth or the sector's ability to support the transformation of the economy.

REDUCING FRAGMENTATION AND SIMPLIFYING THE FRAMEWORK: STRATEGIES TO BOOST COMPETITIVENESS

European banking competitiveness continues to be hampered by the incomplete status of the Banking Union. While the European Deposit Insurance Scheme (EDIS) faces political hurdles, the real missing link is a European liquidity framework for resolution — an essential tool for effectively managing banking challenges. This gap must not lead to inaction: alternative strategies are available to reduce fragmentation and facilitate the flow of capital.

The absence of a genuinely integrated market limits economies of scale, increases the cost of funding, hinders cross-border consolidation and restricts the optimal flow of capital and liquidity within European banking groups. This fragmentation results in differences in financing conditions between countries and, in times of stress, can accentuate discrepancies in the transmission of monetary policy. Ultimately, it impacts the cost of corporate financing and, by extension, affects investment and productivity. The Draghi and Letta reports have highlighted the importance of a more integrated internal market and a financial sector that can effectively support European investment.

Greater integration of capital markets would also allow for increased risk-sharing between countries, thereby improving the ability to absorb asymmetric shocks and bolster financial stability.

The resurgence of securitisation, launched in 2025, is a key driver of this. By enabling banks to transfer part of the credit risk to the markets, more effective securitisation would free up equity capital and increase their capacity to finance new loans. While the intention to simplify due diligence requirements for investors is welcome, the proposed introduction of disproportionate financial penalties risks limiting its scope.

The second constraint that could be eased slightly relates to the complexity of the regulatory framework. The aim is not so much to relax it as to make it more consistent: reducing national options, improving coordination of macroprudential buffers, and providing greater clarity. A more predictable framework would reduce regulatory uncertainty and the implicit market demand for capital that exceeds prudential requirements.

STRENGTHENING THE POSITION OF EUROPEAN BANKS IN INVESTMENT BANKING

The financing of the European economy will increasingly depend on banking intermediation rather than capital markets. However, greater integration of the latter — central to the savings and investments union initiative — would boost the availability of finance by improving the allocation of savings within the EU.

In this regard, it is crucial to uphold the competitiveness of the market activities of major European banks. However, data from the European Banking Authority show a decline in their market share across various segments of investment and market banking. Consequently, institutions from non-EU countries represent the majority of commissions on commodities (65% in 2024) and nearly half in fiduciary transactions (48%). Their influence is also notable in services to collective investment undertakings (30%), corporate finance (29%), securities custody (24%) and foreign exchange transactions (19%). In certain fund-related services, over half of the assets are now managed by three groups whose parent companies are based in the US.

The rise of banking groups headquartered outside the EU illustrates, if proof were needed, the fierce international competition that major European banks face on their own turf. By postponing, in June 2025, the implementation of the FRTB to 1st January 2027, the European Commission has, however, taken care not to introduce a competitive disadvantage, as this overhaul of capital requirements relating to the trading book is not yet enforced by either the United States or the United Kingdom.

CONCLUSION: STRENGTHENING BANKING COMPETITIVENESS FOR EUROPEAN SOVEREIGNTY

Completing the Banking Union, advancing capital market integration, and ensuring a balanced prudential framework: this is the EU's strategy for creating a resilient and competitive banking system, capable of sustainably financing the growing needs of the European economy while safeguarding its sovereignty. In an economy where financing relies heavily on banks, maintaining the banking sector's competitiveness is vital to ensure sufficient profitability, support the investments needed for the green, digital and industrial transitions, and strengthen the European Union's ability to influence international economic dynamics.

Laurent Quignon

laurent.quignon@bnpparibas.com

² European Commission, [Targeted consultation on the competitiveness of the EU banking sector](#), 11 February 2026.

³ The output floor serves as a regulatory minimum, requiring that a bank's total risk-weighted assets (RWA) – whether derived from internal models or the standardised approach – must not fall below a specific percentage (50% in 2025 and increasing to 72.5% by 2030) of the RWA calculated using the standardised approach alone. See Humblot T. (2026), '[Credit in the Eurozone: towards a tightening of lending criteria targeted at households but limited in scope](#)', Chart of the Week, BNP PARIBAS, 25 February.

⁴ See Quignon L. (2016), "[The diminishing returns of prudential regulation](#)", Revue Banque No. 795.

