European bank competitiveness

Enabling banks to play a greater role financing European growth

OLIVER WYMAN
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EBF
European Banking Federation

Why read this report?

The debate on European competitiveness has entered a decisive phase. With the European Commission advancing its competitiveness agenda, simplification programme, and Savings and Investments Union, policymakers have a unique opportunity to strengthen Europe's capacity to finance growth. Yet Europe still faces an estimated €1.4 trillion annual investment gap and a financing system that struggles to channel savings towards productive investment.

Competitive, resilient banks will need to play a larger role in closing the gap. Banks remain the dominant source of financing for the real economy and are uniquely positioned to connect savings with productive investment. However, successive layers of regulation, increasing supervisory burden, and persistent market fragmentation have reduced banks' capacity and incentives to support the investments most critical to Europe's growth.

Drawing on analysis of Europe's financing system and input from the European Banking Federation and its members, this report examines why Europe's current framework is constraining investment, challenges common misconceptions surrounding bank competitiveness, and sets out seven recommendations to enable banks to play a greater role financing European growth.

Exhibit 1: 7 recommendations to enable banks to play a greater role in financing European growth
Europe must enable banks to play a greater role financing European growth

Europe's strategic challenges	→	Enabling banks to play a greater role	→	Recommendations to improve EU bank competitiveness
Low economic growth		**Enable greater financing capacity and durable growth**		1 Rationalise and recalibrate European capital add-ons 2 Embed durable growth and competitiveness in regulatory and supervisory objectives 3 Modernise the rulemaking framework
Geopolitical re-alignment				
Massive investment needs across digital, energy, defence		**Unlock a savings and investment financing continuum**		4 Unlock the full potential of the Savings and Investment Union across public and private markets 5 Unclog securitization pipes to free up lending capacity and support European infrastructure build outs 6 Review targeted prudential rules that constrain EU activity
Regulatory complexity and risk aversion				
Overly complex and overlapping rules		**Foster scale and integration**		7 Remove fragmentation and barriers to integration

Source: Oliver Wyman analysis

Authors: **Elie Farah, Huw van Steenis, Magnus Burk, Elisa Haining, Ryan Lancaster.**

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Foreword

Financing Europe's digital transformation, energy infrastructure, and security is one of the defining challenges of our era. At a moment of geopolitical fragmentation, technological disruption, and global competition, Europe's ability to mobilise investment at scale will be decisive for its economic future, strategic autonomy, and resilience.

The scale of the challenge is immense. Europe has an estimated €1.4 trillion additional annual financing needs.

This paper offers a timely exploration of how a more competitive European banking sector can help close that gap and become a stronger engine for growth, innovation, and competitiveness.

The authors rightly recognise that Europe's challenge is not fundamentally a shortage of capital; rather, it stems from the inefficient allocation of capital, combined with fragmentation, complexity, and insufficient integration — barriers that prevent capital from flowing effectively towards Europe's strategic priorities.

Greater competitiveness of European banks is therefore central to Europe's capacity to finance its economy. While banks are uniquely positioned to help bridge the investment gap and support higher-risk investment, excessive complexity and conservatism constrain their ability to do so.

As this paper makes clear, solutions need to work in the real world. If regulation and supervision are the medicine safeguarding the financial system, then determining the right dosage is essential. Frameworks must preserve resilience while enabling banks to support innovation, scale, and investment.

The ambitious ideas in this paper challenge us to rethink outdated policy calibrations. They invite us to move beyond incrementalism towards a coherent vision of a more integrated European financial market.

In particular, the paper identifies three critical levers for Europe's future competitiveness: expanding financing capacity, deepening capital markets, and fostering scale and integration. These priorities are mutually reinforcing and must advance together. With targeted and proportionate adjustments, European banks could deepen and expand their role in financing growth at the centre of the financing continuum. This shift would materially strengthen Europe's financing capacity and help European banks remain globally competitive.

The case for urgency is compelling. Europe can no longer sustain the national fragmentation that impedes European champions, discourages cross-border investment, and increases the cost of capital relative to other major economies.

A genuine savings and investments union must become more than an aspiration. It requires political ambition, credible implementation, and simplification where necessary. Europe has demonstrated before — notably with the euro - that binding timelines and shared purpose make ambitious integration possible. With the right regulatory and supervisory adjustments, European banks could significantly increase their contribution. In the current global environment, Europe cannot afford delay.

What this paper ultimately calls for is boldness — not only in ambition, but in execution. Europe must be willing to experiment, simplify and integrate in ways that match today's economic challenges. The objective is not deregulation, but rather a more efficient and coherent framework aligned with Europe's strategic priorities.

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Introduction

Europe faces two defining economic challenges: reversing a prolonged period of weak growth and declining competitiveness while financing an unprecedented investment agenda that will determine its economic resilience, strategic autonomy, and global relevance over the next decade.

The scale of the challenge is substantial. Our analysis estimates Europe needs an additional annual investment of approximately €1.4 trillion, or around 7% of GDP. This is significantly above the €800 billion originally estimated in the 2024 Draghi report, reflecting higher defence needs amid rising geopolitical risk, and broader recognition of social and environmental priorities. By comparison, Marshall Plan investment between 1948 to 1951 amounted to around 1-2% of annual GDP in receiving countries.[1]

But the challenge is not only the scale of financing required. It is also the nature of the investment. Much of Europe's future investment demand is concentrated in long-duration, capital-intensive, and higher-risk assets, often with uncertain or delayed returns. Financing these investments requires a financial system capable of mobilising capital across the full risk and maturity spectrum and allocating it efficiently to productive investment.

Europe's future prosperity therefore depends not only on how much capital it can mobilise, but on whether its financing continuum can channel savings towards the investments that matter most. As Mario Draghi and Enrico Letta have highlighted, Europe's competitiveness, innovation capacity, and economic sovereignty increasingly depend on its ability to deepen integration, strengthen its financial architecture, and improve the allocation of capital.

Today, that financing continuum is not functioning effectively.

Europe remains heavily reliant on banks to finance its economy, yet banks are increasingly constrained in their ability to expand lending capacity and support long-term productive investment. At the same time, alternative financing channels — including public equity markets, private capital markets, venture capital, and institutional investment ecosystems — remain underdeveloped and fragmented relative to other major economies.

This is compounded by persistent fragmentation across the European financial system. An incomplete Banking Union and constraints on the efficient movement of capital and liquidity across borders continue to reduce Europe's ability to compete globally and mobilise savings at scale.

European policymakers increasingly recognise the urgency of addressing these issues. The Savings and Investment Union, when implemented, will be an important step towards deeper and more integrated capital markets, but its impact will take time to materialise. Europe's investment needs, however, are immediate.

Europe's financing ecosystem should be viewed as an integrated continuum rather than a set of distinct funding channels. Achieving this vision requires both an expanded role for banks and the continued development of deeper, more interconnected capital markets.

Following the global financial crisis, regulators introduced major reforms that successfully strengthened the resilience of the banking sector. These reforms were necessary and successful in restoring stability and confidence in the financial system. However, the cumulative effect of these measures has also constrained banks' balance-sheet capacity and altered incentives, encouraging a shift

1 Draghi report on EU Competitiveness, 2024.

towards lower-risk and shorter-duration assets. As a result, banks are less able to provide the long-term financing needed to support Europe's growth, innovation, and economic transformation.

Banks remain central to Europe's financing model and to the development of a stronger financing continuum. They play a critical role not only in originating and distributing credit, but also in connecting savings to investment opportunities, supporting capital markets development, and enabling prudent long-term risk-taking across the economy.

Major jurisdictions, including the United States and the United Kingdom, are actively recalibrating and modernising their regulatory frameworks to support growth, investment, and competitiveness. Europe must ensure that its own framework remains appropriately balanced: preserving financial resilience while reducing unnecessary complexity and constraints that limit productive investment and economic dynamism.

The question Europe must now confront is whether its current financing and regulatory framework is adequately aligned with the scale and nature of the investment challenge ahead.

The decisions taken over the coming years will shape Europe's capacity to finance growth, innovation, and strategic priorities for the next decade. Based on our analysis and input from the European Banking Federation (EBF) and its members, this report sets out the case for a more effective financing continuum and provides 7 recommendations to enable banks to play a greater role in supporting Europe's competitiveness, investment, and long-term economic resilience.

Exhibit 2: 7 recommendations to enable banks to play a greater role in financing European growth
Europe must enable banks to play a greater role financing European growth

Europe's strategic challenges	→	Enabling banks to play a greater role	→	Recommendations to improve EU bank competitiveness
Low economic growth		**Enable greater financing capacity and durable growth**		1 Rationalise and recalibrate European capital add-ons 2 Embed durable growth and competitiveness in regulatory and supervisory objectives 3 Modernise the rulemaking framework
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Regulatory complexity and risk aversion				
Overly complex and overlapping rules		**Foster scale and integration**		7 Remove fragmentation and barriers to integration

Source: Oliver Wyman analysis

Framing the case for change

Europe's investment gap cannot be closed by today's financing system alone. Mobilising capital at the required scale demands a fully functioning financing continuum that connects savings to productive investment, prices risk effectively and allocates capital efficiently. Competitive European banks with the capability and capacity to finance economic priorities are central to this.

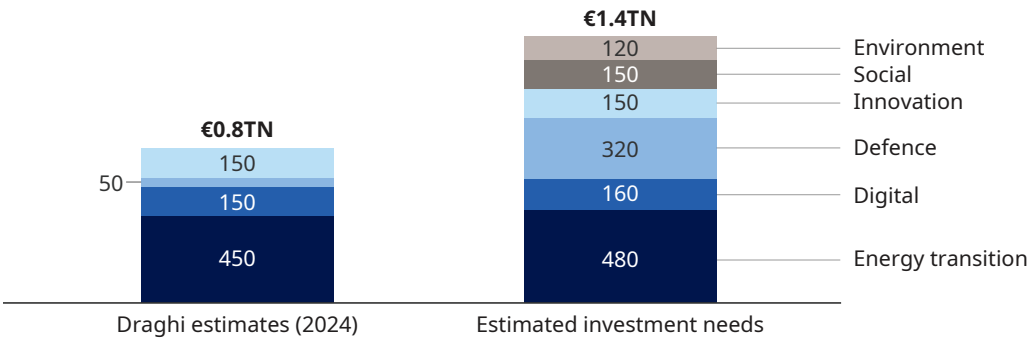
Europe's investment needs are rising and stand at €1.4 trillion annually

Europe faces an unprecedented investment challenge. To deliver on its strategic ambitions, remain globally competitive, and reverse a prolonged period of sub-par growth, Europe must mobilise capital at a scale far beyond historical norms. In 2024, the Draghi report estimated Europe would need around €800 billion of additional annual investment between 2025 and 2030 to meet its objectives across the energy transition, defence, digital infrastructure, and innovation. This need is rising. In 2025, an ECB staff paper estimated the annual requirement at €1.2 trillion.[2]

Our analysis suggests Europe's additional annual investment needs could now amount to €1.4 trillion, greater than the annual GDP of the Netherlands. This figure reflects increasing defence needs from rising geopolitical instability and additional environmental and social priorities. Even this estimate is likely to be conservative as demand accelerates for the adoption of Artificial Intelligence (AI), data centres, and the supporting energy infrastructure. Europe's financing challenge is not static, it's expanding.

Exhibit 3: EU annual additional investment needs

€BN per year until 2030-2031



Source: Draghi report on EU competitiveness (2024); World Economic Forum, Europe has the capital to compete — it just needs to fix its financial plumbing (2026); EIB Investment gaps to achieve sustainable targets in the bioeconomy (2025); ECB Green Investment Needs in the EU and their funding (2025); ECB Time to be strategic: how public money could power Europe's green, digital and defence transitions (2025); European Commission Boosting Investment in Social Infrastructure in Europe (2018); EPRS Benefits of EU strategic investment in high-tech digital innovation (2025); Oliver Wyman analysis

2 ECB, Time to be strategic: how public money could power Europe's green, digital and defence transitions (2025).

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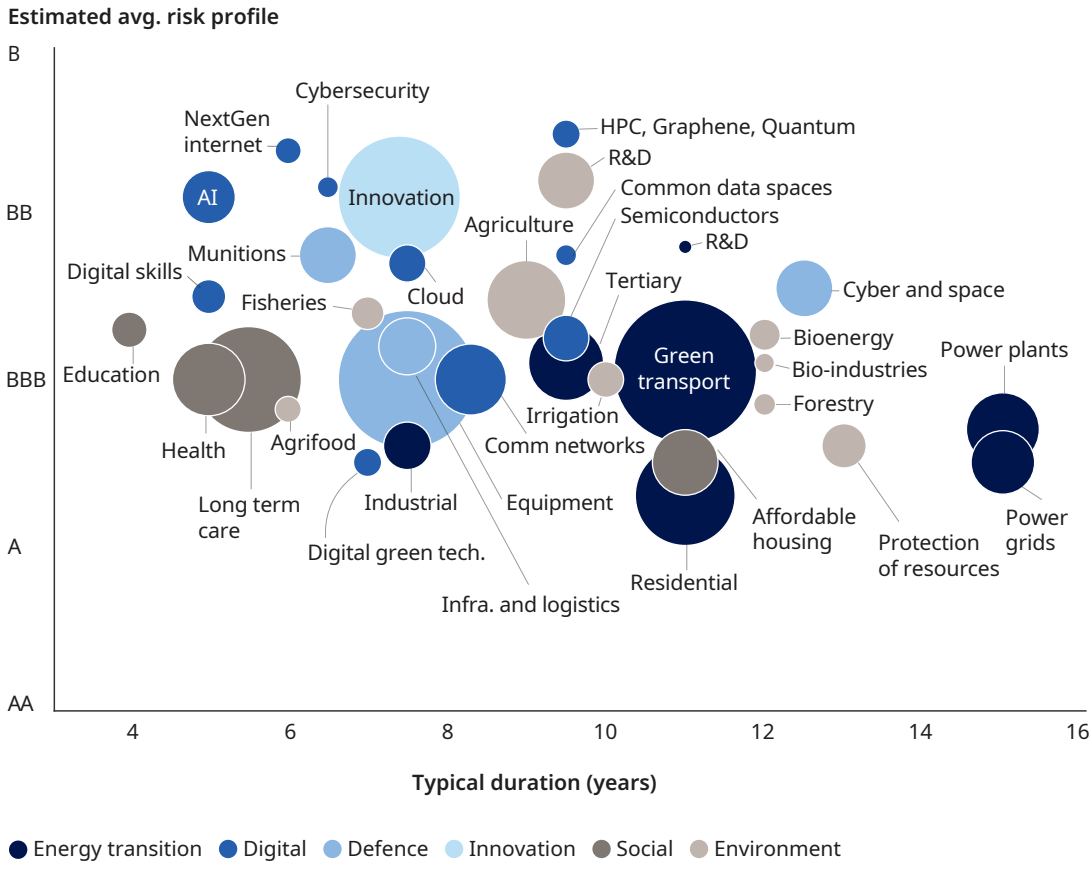
The issue is not simply one of scale, but of composition. Europe's investment needs span a wide range of risk, maturity and return profiles, each requiring different financing channels. These needs are broadly concentrated across three categories.

First, long-duration infrastructure, such as energy grids and renewables, which requires patient, stable capital over extended time horizons. Second, higher-risk growth sectors, including AI and semiconductors, where returns can be substantial, but uncertainty is high and speed of deployment is critical. Third, strategic assets — such as defence and social infrastructure — where near-term returns may be modest or difficult to quantity, yet the investments are essential to Europe's resilience and long-term autonomy.

No single financing channel can address all these investment needs simultaneously. Closing the investment gap will require different forms of capital to be deployed effectively across the full risk and maturity spectrum.

Exhibit 4: Estimated financing need by risk and duration profile



Note: Bubble size indicates estimated investment need, positioning is directional and intended for comparative illustration only.
Source: EDA, European Commission, EIB, ECB, Oliver Wyman analysis

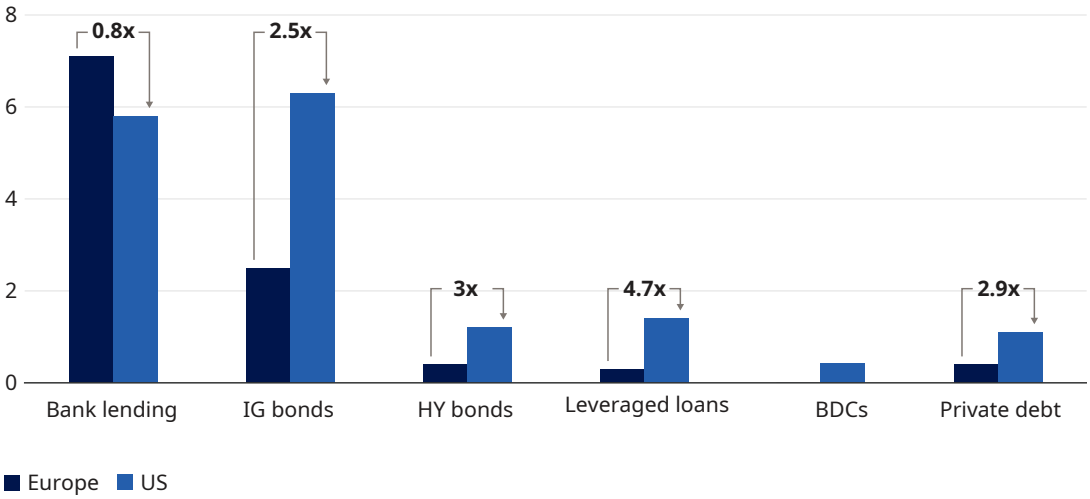
Europe's financing continuum is not yet capable of meeting these needs

Europe needs a financing system that can match the scale and complexity of its ambitions. This requires a fully functioning financing continuum — one that connects savings with productive investment, prices projects appropriately to their risk profiles, and allocates risk to those best placed to bear it. Today, that continuum is not functioning effectively. The transmission mechanisms between capital supply and investment demand remain too weak and inefficient to support Europe's strategic objectives. The structural limitations are individually well documented, but their combined effect is consistently underappreciated.

Banks remain Europe's dominant source of debt financing. As illustrated below, **banks account for approximately 65% of financing provided to the non-financial sector**. Bank lending is relatively cheap for those who can get it, yet increasing regulatory requirements disincentivise banks from financing the long-dated, balance-sheet intensive exposures critical to Europe's strategic ambitions.

Exhibit 5: Debt to non-financial sector in EU and US

$TN, 2024



Source: EBA, FRED, Preqin Ltd, Pitchbook, Oliver Wyman analysis

Alternatives to bank lending remain underdeveloped or inaccessible to large parts of the economy. Listed debt markets serve primarily large, investment-grade corporates with the scale and credit history to meet market entry requirements. Private debt markets have grown considerably in recent years but remain relatively nascent in Europe, lacking the breadth to serve as a reliable channel for economy-wide investment.

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Private equity, while an important source of risk capital for high-growth firms, is relatively small and highly selective by design. Public equity markets, meanwhile, remain fragmented along national lines, deterring cross-border capital flows that an integrated market would generate.

The consequence is a financing system that works considerably better for some companies than others. Large, established corporates with strong credit profiles can typically access a range of financing options across the continuum, while smaller businesses and early-stage companies are far more constrained. This is not a marginal inefficiency; it creates a structural barrier to Europe's competitiveness.

If bank lending remains constrained and alternative financing channels are insufficiently developed, projects may struggle to secure funding. In such an environment, credit activity is likely to migrate to less regulated and more opaque parts of the financial system.

Exhibit 6: Europe's financing continuum — corporate view

		Listed debt				
Channel	**Bank lending**	**Investment grade**	**High yield**	**Private credit**	**PE/VC**	**Equity**
Risk allocation	Low-medium	Low-medium	Medium	Medium-high	High	High
Avg. cost for corporates	Bench rate + 100-150 bps	Bench rate + 200-450 bps		Bench rate + 450+ bps	Bench rate + 700+ bps	
2024 Assets observations	~€18TN loans (~€6.5TN non-financials)	~€9TN (~€2,5TN non-financials) Still Inaccessible to smaller corporates in EU		~€0,5TN AUM Nascent	~€1,5TN AUM Selective	~€14TN Fragmented
Asset owners (Investors)	Banks	Insurers Pension funds Asset managers		Private credit funds Insurers (partnerships)	PE/VC funds Pension funds Family offices	Pension funds Asset managers Households
Bank Implications	Remains core, but profitability increasingly constrained by regulation	A large opportunity if the SIU delivers, expanding fee pools across primary issuance, secondary trading and securitization fees		Banks are increasingly financing private credit firms, while private credit is intermediating banks and insurers	Scaling and dominated by US players, but limited role for banks	Highly fragmented, ECM revenues muted relative to the US

Source: ECB; Preqin Ltd; Pitchbook; World Economic Forum, Europe has the capital to compete — it just needs to fix its financial plumbing (2026); Oliver Wyman analysis

Banks can help bridge the gap — but current constraints limit their ability to finance Europe's investment needs

Banks are central to support both Europe's short-term financing needs and long-term development of deeper capital markets, an effective Savings and Investment Union (SIU), and stronger financing continuum. Banks originate assets, assess and price risk, provide liquidity and connect borrowers with a broader pool of institutional investors (e.g., insurers, pension funds, and private capital general partners with the appetite for longer-duration, higher-risk assets). A strong banking sector is the foundation for deeper capital markets.

However, European banks are currently constrained in their ability to finance Europe's investment needs. Since the financial crisis, incremental regulatory reforms have made the sector significantly more resilient. Higher capital requirements, stronger liquidity buffers, and improved risk management have strengthened the sector's ability to withstand financial stress. This is a major achievement and should not be understated. It has restored confidence in a sector where credibility had been severely damaged.

But increased resilience has come at a price. The cumulative weight of capital, liquidity, and operational requirements has narrowed the economic role banks are able to play in financing the economy.

Bank lending economics

Regulatory requirements shape the economics of bank lending in ways that can discourage the investments Europe needs to support growth and competitiveness. Regulation affects both the availability and pricing of corporate credit by driving the amount of capital, liquidity and other financial resources banks must hold to support lending activities.

Banks typically evaluate lending opportunities through a risk-adjusted return framework. Rather than focusing solely on expected credit losses, they assess whether loan revenues are sufficient to compensate for the full economic cost of the financial resources consumed, including funding, liquidity, capital, and operational costs. All else equal, as regulatory requirements increase, so does the minimum price required to incentivise banks to lend. Banks generally seek to invest where the risk-adjusted return meets or exceeds the target return on capital.

Stylised Risk-Adjusted Return On Capital (RAROC) calculation

$$\text{RAROC} = \frac{\text{Revenue} - \text{Funding cost} - \text{Liquidity cost} - \text{Expected credit loss} - \text{Operating cost}}{\text{Allocated capital}}$$

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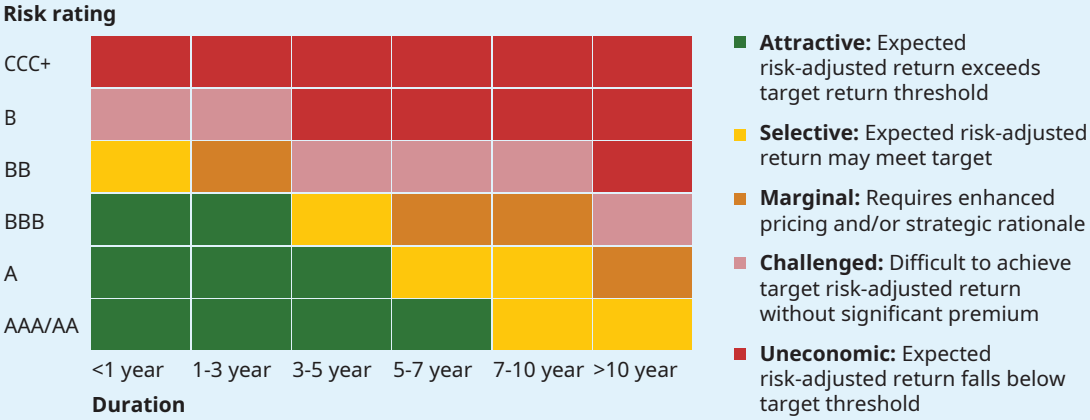
As borrower credit quality deteriorates, Risk-Weighted Assets (RWA) and expected credit losses typically increase, leading to higher capital consumption and lower risk-adjusted returns. Meanwhile, longer-dated lending generally requires more stable funding, can attract higher liquidity costs, and exposes banks to greater interest rate and refinancing risks. These factors can lead to a disproportionate increase in the return required for lending to remain economically attractive as both credit risk and maturity increase.

Exhibit 7: Illustrative lending economics matrix



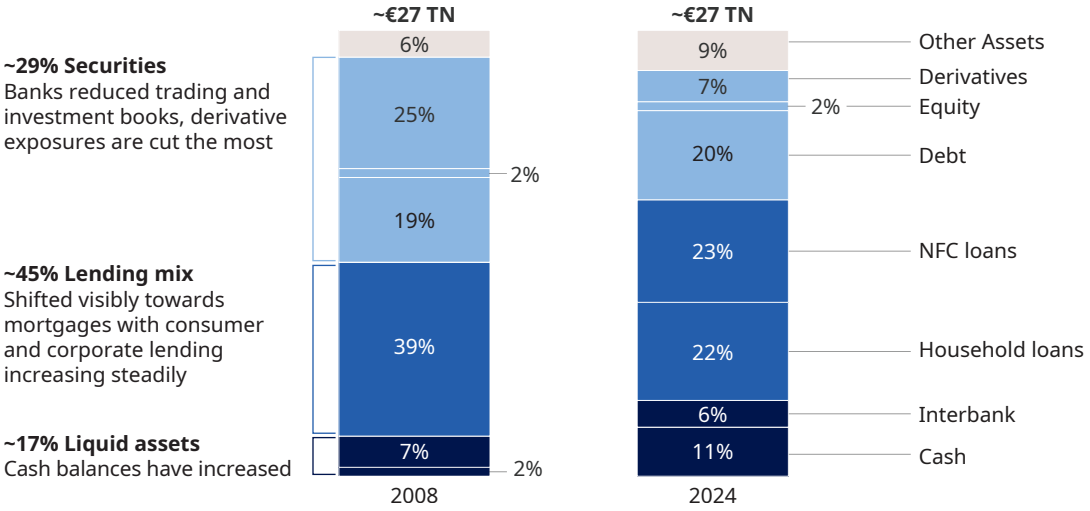
Note: Illustrative only. Lending attractiveness reflects a stylised assessment of risk-adjusted returns after considering expected losses, capital requirements, funding and liquidity costs. Actual outcomes vary by bank, borrower, structure, collateral and prevailing market conditions.

Source: Oliver Wyman analysis

Regulatory incentives have been one factor shaping banks' portfolio decisions. In response to capital and liquidity requirements, banks have increased holding of liquid assets and expanded exposures to asset classes that are less capital intensive, such as residential mortgages.

Exhibit 8: Evolution of EU bank balance sheets since the GFC

Total Assets — flat since the GFC (despite growth and M&A)

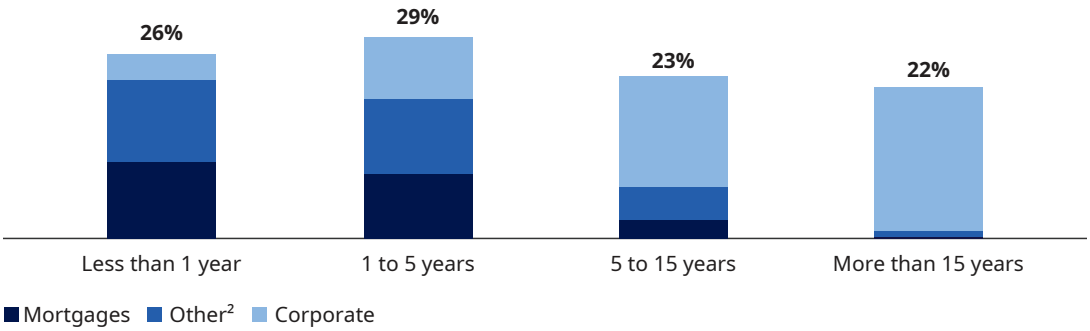


Source: ECB; SNL; Oliver Wyman analysis

The impact of these requirements is visible in current lending patterns. Across a sample of EU banks, lending is concentrated in investment-grade borrowers, with limited lending allocated to longer-term maturities.

Exhibit 9: Loans and advances by maturity bucket[1]

%, 2024

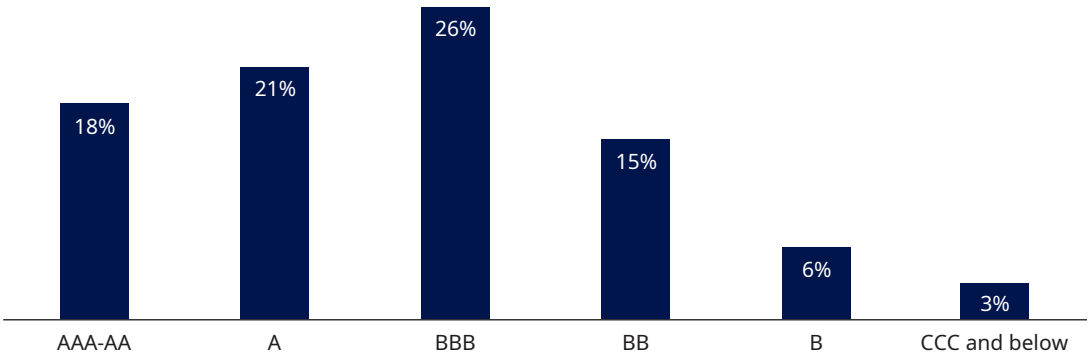


1. Sample of 5 large EU banks.
2. Other includes loans to credit institutions, public authorities, and other household lending.

Source: SEC 10-K, bank data, Oliver Wyman analysis

Exhibit 10: Banks loans and advances by credit rating[1]

%, 2024



1. Sample of 5 large EU banks.

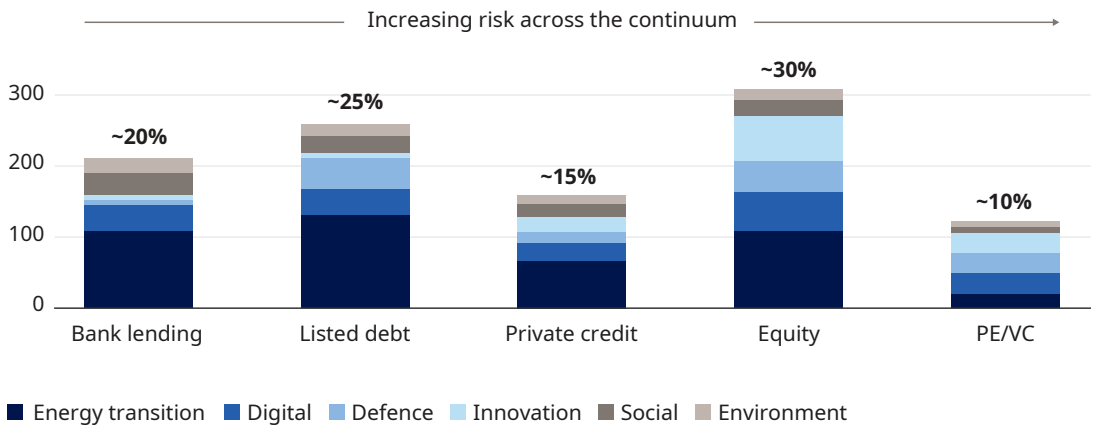
Source: EBF member input, annual reports, Oliver Wyman analysis

Banks have optimised within the constraints set for them and are now more profitable (return on equity of the largest 10 EU banks increased from ~5% in 2015 to ~10% in 2025). However, their role in financing the economy is diminishing.

As the Draghi report on EU competitiveness noted, around 80% of productive investment in Europe has historically come from the private sector. Assuming the private sector continues to finance 80% of Europe's investment needs, our estimates suggest the private sector needs to increase annual financing by ~€1.1 trillion. **Based on the risk and duration profiles of the investment needs, we estimate that, with sufficient resources, banks could target around 20% of Europe's additional annual private sector financing needs under the current framework.**

Exhibit 11: Annual additional investment needs by financing channel[1]

€BN based on current risk/duration appetite



Note: Indicative; estimated annual investment needs broken down by sub-sector and mapped to financing channels based on estimated duration, debt:equity ratios, credit ratings and listings. Share of public financing (assumed to be 20% in total) varies across funding types (e.g., a higher proportion for public funding in defence).

Source: Draghi report on EU competitiveness (2024); EIB; ECB; European Commission; EPRS; Oliver Wyman analysis

Europe's alternative financing channels are not yet sufficiently developed to absorb the scale of investment required. In the short term, banks remain the only viable channel to fill the financing gap, or part of it — but only if the regulatory framework enables them to do so.

Getting the dosage right: preserving resilience while supporting growth

If regulation is to the financial system what medicine is to the human body, it is essential in the right amount, but harmful in excess. Europe's post-crisis regulatory framework was the necessary treatment for a genuine systemic failure, but one could argue that the accumulated dose has gone beyond what financial stability requires.

Driven by regulation, EU banks have increased capital, even as they de-risked, with capital ratios at record highs. Large EU banks' Common Equity Tier 1 (CET1) ratio was 16.2% at the end of 2025, up 124bps from 2019.[3]

Under current constraints, banks would need €150 billion CET1 capital to fund 20% of Europe's additional private investment needs. In the absence of a fully functioning financing continuum, banks would need €540 billion CET1 capital to fund 60% of additional private investment needs.

To put this in context, targeted measures that together released a 1ppt reduction in CET1 capital requirements, reversing the last 5 years of increases, would release €95 billion CET1 capital.

3 ECB.

Proposals to mobilise household savings, deepen capital markets and improve access to long-term risk capital will be critical to Europe's future competitiveness, but structural market changes take time, and Europe's needs are immediate. Europe needs to recalibrate and modernise its approach to bank regulation and supervision to enable competitive European banks to play a greater role in financing Europe's investment needs.

The case for recalibration is reinforced by what is happening across other leading financial centres. The US and UK are actively modernising their approach to regulation and supervision to support sustainable growth.[4] Europe cannot afford to stand still while its international peers move forward. This does not mean compromising resilience. It means ensuring requirements are proportionate to risk and removing unnecessary complexity.

Exhibit 12: European banks require an additional ~€150BN of available capital to finance just 20% of the eu's annual private investment gap

EU investment gap[1]

~€1,400BN	x	~80%	=	~€1,120BN	x	5 years	=	~€5,600BN
Total EU investment gap		Expected private sector share		Investment gap to be closed by the private sector		Time horizon		Cumulative investment gap (5 years)

High-level estimate of additional bank lending and CET1 capital requirements
Cumulative 5-year view

Scenario	Lower bound	Mid-point	Upper bound
Target share of bank lending (% of private sector lending)	~20%	~40%	~60%
Additional lending capacity required ("bank lending gap")	~€1,120BN	~€2,240BN	~€3,360BN
Additional CET1 capital required (implied, at current ratio)	~€150BN	~€330BN	~€540BN
Δ CET1 capital vs. today	**+10%**	**+21%**	**+36%**

Simplifying assumptions

Average incremental risk-weight of lending activity increases as banks' share increases:
- 80% (lower bound)
- 90% (mid-point)
- ~100% upper-bound

CET1 capital and ratio based on EU significant institutions

Current CET1 ratio of ~16.2% (i.e., requirements + management buffer) held constant

1. Investment needs of non-financial corporates.

Source: ECB, EIB, European Commission, EPRS, Oliver Wyman analysis

4 Note, sustainable in this context means durable or able to continue for a period of time, not related to the environment.

Addressing common misconceptions

Common misconceptions about the European banking system often distort the debate on the case for change and delay action. This section provides the counterpoint to these misconceptions to ensure they do not distract from progress needed to support growth and competitiveness.

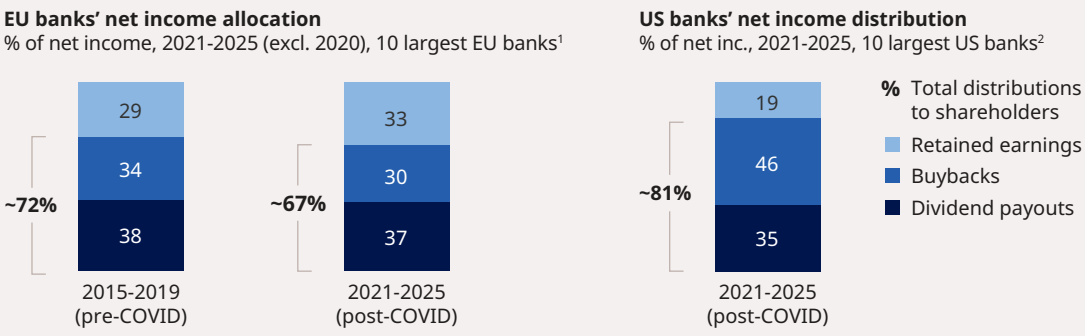
Misconception 1: "Banks are not constrained in granting credit"

A common argument is that the improvement in European bank profitability means banks could increase investment simply by reducing dividends and share buybacks. However, bank profitability does not automatically translate into credit supply.

Most European banks are publicly listed institutions with a fiduciary duty to allocate capital efficiently and generate appropriate returns for shareholders. Optimising shareholder returns also ensures banks remain attractive investment opportunities for investors, further increasing their ability to finance growth. Banks will expand lending where it offers attractive risk-adjusted returns. Additionally, when compared to US peers, European banks return less capital to shareholders (67% versus 81% between 2021 and 2025).

Furthermore, increasing capital requirements absorb a growing share of banks' earnings, limiting their capacity to expand lending. An EBF study of 15 European banks found that **increasing capital requirements absorbed more than 90% of retained earnings between 2021 and 2024, leaving less than 10% available to support lending. This increase is equivalent to reducing lending capacity by approximately €1-1.5 trillion.**[5]

Exhibit 13: EU banks are distributing less capital to shareholders than US peers



1. By total assets (excl. one bank due to data availability); 2. By total assets.

Source: Capital IQ, Oliver Wyman analysis

5 EBF, Supplemental Report on Capital Add-ons (2025).

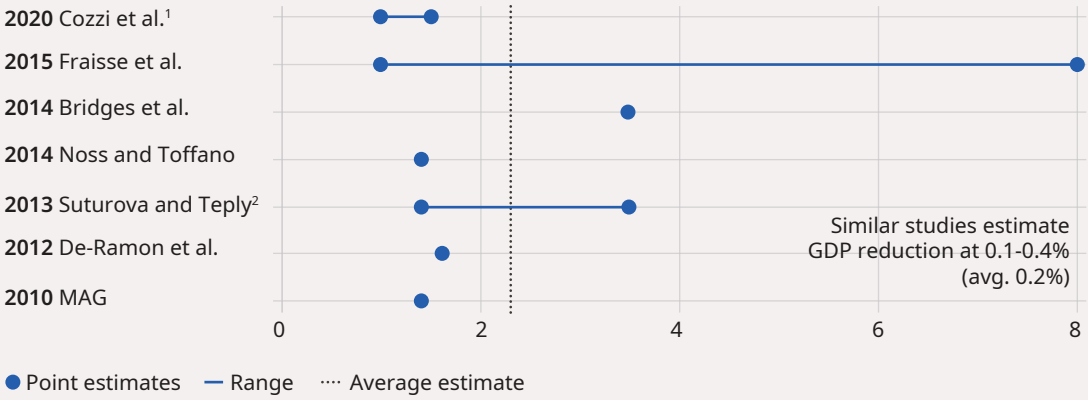
Misconception 2: “Higher capital requirements are not a problem for lending”

This argument rests on a valid premise: stronger capital requirements are essential to financial stability, supporting growth. But capital comes at a cost: higher capital requirements increase the cost of, and constrain capacity for, lending.

Academic research shows increasing capital requirements beyond what is required for resilience constrains lending and growth. Employing different methodologies across multiple countries and time periods, studies consistently find **a one percentage point increase in capital requirements is associated with a reduction in lending of between 1.0% and 3.5%, and a decline in GDP of between 0.1% and 0.4%.**

The question of what the optimum level of capital is has been recently addressed by UK policymakers. In December 2025, the Bank of England’s Financial Policy Committee concluded the appropriate UK system wide capital level is equivalent to a CET1 ratio of around 11%.[6] This is broadly consistent with a study by the Bank for International Settlements, placing the optimal range between 10% to 14%, materially below the 16.2% held by EU banks at the end of 2025.[7]

Exhibit 14: Estimated impact of increasing capital ratio by 1ppt
% reduction in lending



1. Euro Area; 2. Europe.

Source: ECB working paper series no. 2376 (Feb 2020)

Misconception 3: “Surveys show no evidence of a credit squeeze”

Bank lending surveys are valuable, but they cannot be read as conclusive evidence on credit constraints. Surveys lack the foresight and granularity required to determine whether the long-term and higher-risk financing required to fund Europe’s investment needs over the next 5 years is available.

6 FPC Financial Stability Report (2025).

7 BIS, Working Papers No 591 (2016).

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The ECB Bank Lending Survey asks banks about credit standards, terms and demand. It segments corporate lending only by firm size and a binary maturity split, in which 'long-term' means any loan with an original maturity above one year: grouping a 13-month facility together with a 20-year infrastructure loan. It contains no segmentation by borrower credit quality, so it cannot show whether lending to higher-risk or more cyclical firms is being squeezed.

The firm-side Survey on the Access to Finance of Enterprises survey measures discouraged borrowers but only among existing surveyed firms. It cannot observe the firms and projects that never materialise because pricing or conditions are unattractive, which generate no application or survey response.

Misconception 4: "Calls to simplify the prudential framework are effectively calls for deregulation and weaker resilience"

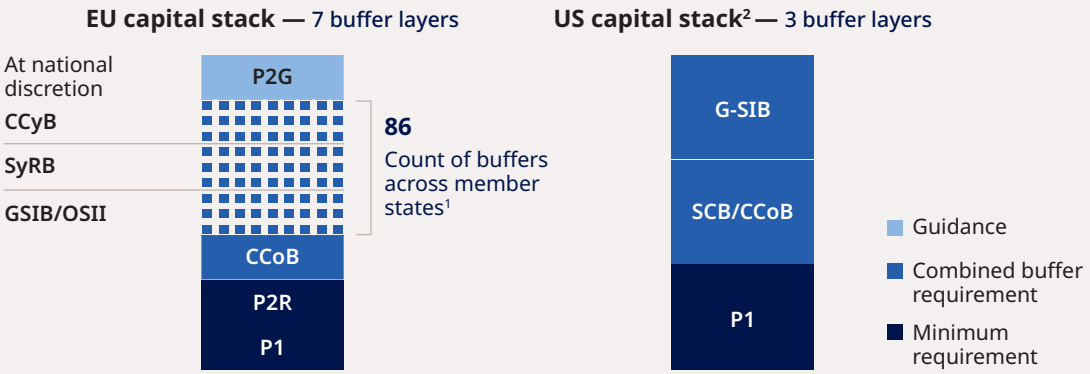
Simplification does not imply deregulation or lower capital requirements. It reduces unnecessary complexity, eliminates duplication and addresses unintended incentives that have arisen through the cumulative layering of regulations over time.

EU banks face a stack of seven capital layers, but national discretion means there are as many as 86 distinct capital requirements across the EU. By contrast, the US bank capital stack has just three layers. An ECB and ESRB report finds that overlapping risk-based and leverage-based requirements reduce effective buffer usability to around 45%.[8] This means capital held for stress absorption may not be fully deployable when needed.

Simplification should therefore be understood as creating stronger, more efficient and coherent regulation.

Exhibit 15: The EU capital stack is highly complex, with 86 buffer requirements across member states

Illustrative



1. P1, P2R, CCoB, P2G, 27 CCyB, 27 SyRB, 27 OSII + GSIB; 2. GSIB buffer; 3. Advanced capital requirements = P1 + Capital Conservation Buffer (CCoB) + G-SIB buffer; Standardised capital requirements = P1 + Stress Capital Buffer (SCB) + G-SIB buffer (large banks are required to calculate both standardised and advanced capital requirements and satisfy the higher of the two).

Source: AFME; Federal Reserve; Oliver Wyman analysis

8 ECB-ESRB, Report of the ECB-ESRB workstream on buffer usability (2026).

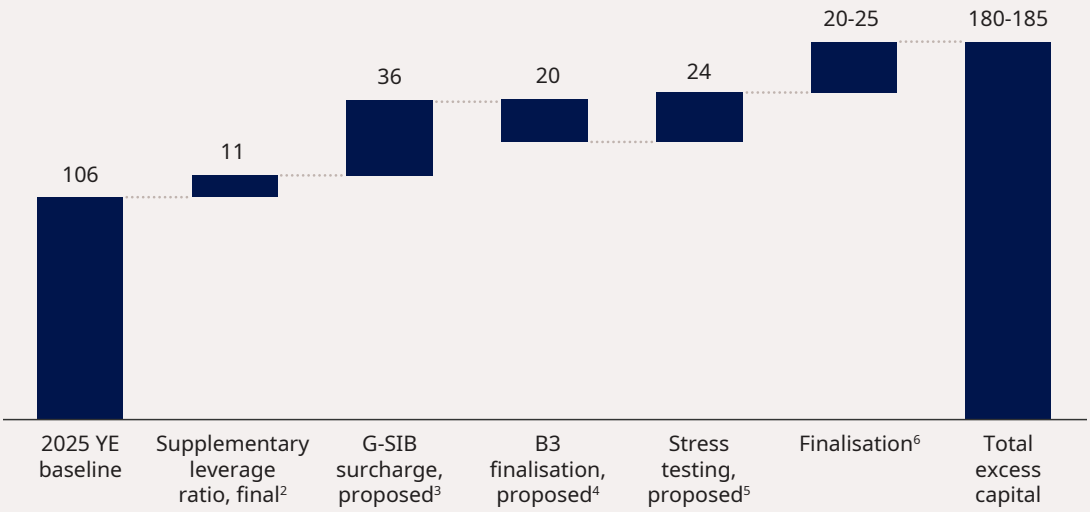
Misconception 5: "EU banks would face higher capital requirements under US rules"

An ECB Occasional Paper recently concluded EU banks' capital requirements would be "somewhat higher" under US rules.[9] However, 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. Additionally, EU banks are required to partially deduct software assets from CET1, 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 CET1 capital requirements would fall by 8-10% once all relevant rules are finalised, effectively releasing $70-80 billion capital (as shown in the chart below).**

Exhibit 16: Estimated change in US G-SIBs' excess capital following recent US capital proposals[1]

$BN



1. Excess capital defined based on the binding constraint of each institution (CET1, T1, TC, Lev, SLR); 2. Final Rule to Modify the Enhanced Supplementary Leverage Ratio (November 2025); 3. Proposal to amend Risk-Based Capital Surcharges for GSIBs (March 2026); Proposals to modernise the capital requirements applicable to Cat I & II banks and organizations with significant trading activity and modify Regulatory Capital and Standardized Approach for Risk-weighted Assets (March 2026); 5. Proposals to enhance the transparency and public accountability of the supervisory stress test models and scenarios (October 2025); 6. Expected changes between proposed and finalised versions of the rules and revisions ultimately made in the stress test.

Source: FR Y-9C, FR Y-15 reports, Federal Reserve, Oliver Wyman analysis

9 ECB, Occasional Paper Series No. 387 (2026).

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Recommendations to enable banks to play a greater role financing European growth

Europe's investment ambitions require a financing system capable of mobilising capital at scale and directing it towards productive investment. Banks remain at the heart of Europe's financing model and will be critical to closing the investment gap and strengthening competitiveness. The following seven recommendations seek to ensure that regulation, supervision and market structures continue to preserve resilience while enabling banks to play their full role in financing growth, innovation and strategic investment.

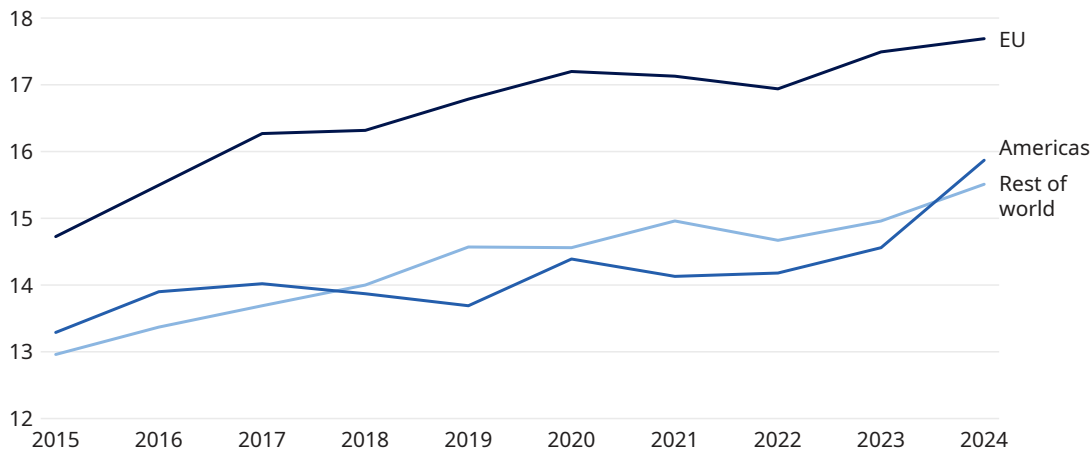
Enable greater financing capacity and durable growth

1. Rationalise and recalibrate European capital add-ons

European competitiveness is being suppressed by the proliferation of overlapping, duplicative, and overly conservative level 2 and 3 requirements as well as supervisory expectations that de facto add to capital requirements. European banking regulations have become peculiarly complex with layers of regulatory capital and discretionary supervisory add-ons imposed at multiple levels, contributing to capital levels that are, on average, higher than those observed in many other major banking jurisdictions. Adopting a more balanced and predictable approach to capital requirements, eliminating overlaps, and improving clarity on the application of supervisory expectations would ensure the framework remains robust and proportionate, while helping banks finance growth.

Exhibit 17: Tier 1 ratio by region

%, 2015-2024



Source: BIS, EBA, Oliver Wyman analysis

The EU should conduct a targeted review of the full capital stack to rationalise overlaps and ensure requirements are appropriately calibrated to risk. Attention should be given to areas where national discretion has resulted in materially different capital outcomes for institutions with similar risk profiles.

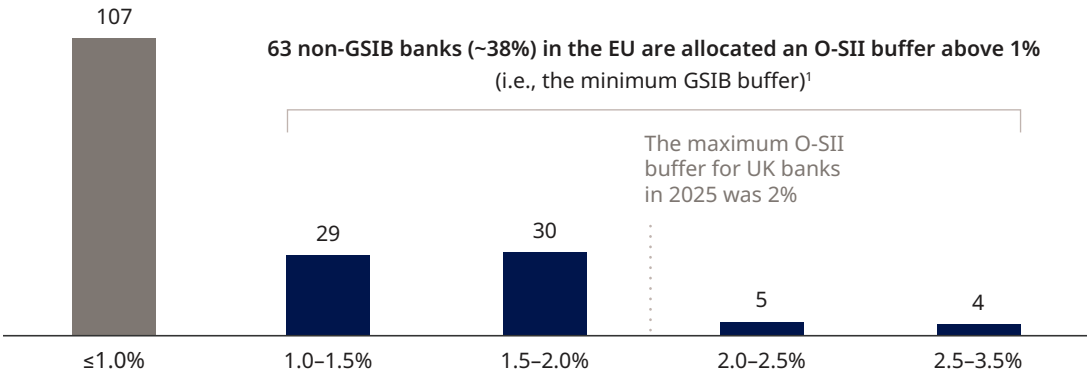
A notable example is the calibration of Other Systemically Important Institution (O-SII) buffers. Calibration varies significantly across member states, resulting in materially different capital outcomes for institutions with comparable systemic profiles. As of 2025, 62 non G-SIBs in the EU are allocated a O-SII buffer greater than 1%, the minimum threshold applied to GSIBs.

Reviewing the O-SII calibration could reduce one of the most visible sources of unwarranted variation in the capital stack while preserving the role of macroprudential safeguards.

One option for consideration would be to cap the O-SII buffer at 1%, the minimum G-SIB buffer, which could release approximately €50 billion CET1 capital and support an estimated €300 to €400 billion of additional lending.[10]

Exhibit 18: EU banks' O-SII buffers

Number of banks by bucket, 2025



1. Of the 68 O-SII banks with an O-SII buffer above 1%, 63 are not G-SIBs and 5 are G-SIBs.

Source: FSB, EBA, Oliver Wyman analysis

The review should also reassess elements of the EU prudential framework that that go beyond international Basel standards, including the Systemic Risk Buffer (SyRB), Capital Requirements Regulation (CRR) Article 458 and the non-performing loan (NPL) backstop.

The SyRB is an EU-specific macroprudential tool that is applied unevenly across member states, which retain significant discretion over its application and calibration. In practice, the SyRB cans overlap with other capital requirements adding complexity to the capital framework and increasing uncertainty in capital planning.

10 Based on June 2025 EBA transparency exercise and average CET1 ratio of 16.2% used for EU banks, range based on 80-100% incremental risk weight.

Removing the SyRB could release approximately €19 to €29 billion of capital and support an estimated €120 to €230 billion of additional lending. A more proportionate approach could help preserve financial resilience, and improve consistency across the Single Market.[11]

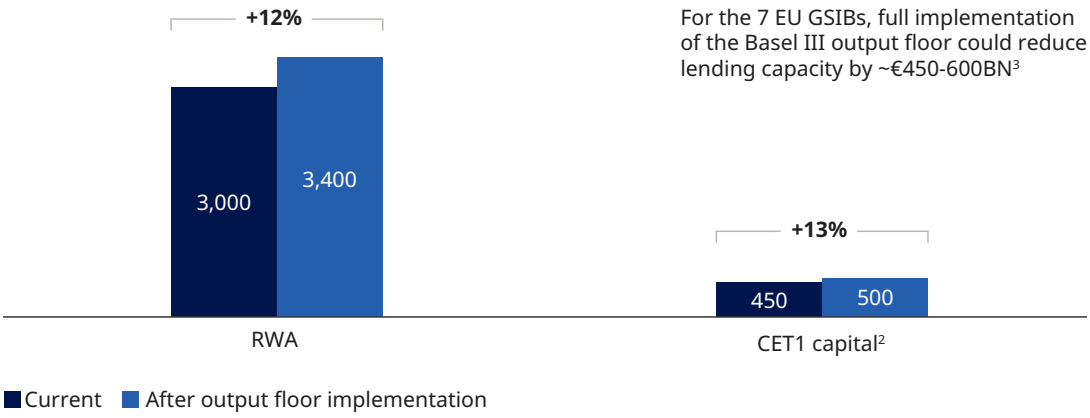
Finally, the EU implementation of the Basel III output floor presents a significant structural headwind for European banks. While the EU has demonstrated a willingness to adapt Basel III implementation timelines where international alignment is at risk — as evidenced with the postponement of the Fundamental Review of the Trading Book — this pragmatism has not been applied consistently across the wider Basel framework.

Following an extensive review of internal risk models, ECB supervisors concluded in 2021 that banks could use internal models to calculate capital requirements.[12] As Basel III implementation progresses, policymakers should assess whether the calibration and transitional arrangements of the output floor remain consistent with the original objective of reducing unwarranted variability in RWA while preserving the benefits of robust internal models.

Our estimates suggest full implementation of the output floor due by 2030 could increase EU G-SIBs' RWA by approximately 12%, potentially reducing lending capacity by €450-600 billion.

Exhibit 19: Estimated impact of fully loaded Basel III output floor on EU G-SIBs' RWA and CET1 capital[1]

€BN, 2025



1. Santander, BNP Paribas, Credit Agricole, Deutsche Bank, ING, Societe Generale, BPCE; 2. Assuming banks maintain a constant CET1 ratio; 3. Assuming a risk weight of 80-100%.

Source: Pillar 3 disclosures; Oliver Wyman analysis

11 Based on June 2025 EBA risk assessment report stating SyRB % of RWA at 0.29%, ECB calculations of a €18.5bn CET1 impact and average CET1 ratio of 16.2%, range based on 80-100% incremental risk weight.

12 ECB Targeted Review of Internal Models Project report, April 2021.

2. Embed durable growth and competitiveness in regulatory and supervisory objectives

Europe needs a secondary durable growth and competitiveness mandate added to financial and bank regulation and resulting supervision.

Europe should consider following other major jurisdictions to strike a better balance between financial regulation, resulting supervision, and economic growth. The UK added a secondary growth and competitiveness objective for the Prudential Regulation Authority and Financial Conduct Authority in 2023. In 2025, the US Financial Stability Oversight Committee officially expanded the definition of financial stability to include sustainable long-term economic growth and economic security alongside traditional systemic risk. Europe's regulatory philosophy looks increasingly out of step with other major financial centres, with the cumulative impact of regulation and supervision on growth and competitiveness receiving less systematic consideration.

Exhibit 20: Regulatory authorities with growth and competitiveness mandates/objectives

European Union	United Kingdom	United States	Australia	Canada	Singapore	Hong Kong
ECB/SSM	PRA	FSOC	APRA	OSFI	MAS	HKMA
EBA	FCA	FED				
ESMA		FDIC				
EIOPA						
ESRB						

Explicit statutory growth, competitiveness or economic development objectives
No explicit statutory growth, competitiveness or economic development objectives

Source: Oliver Wyman analysis

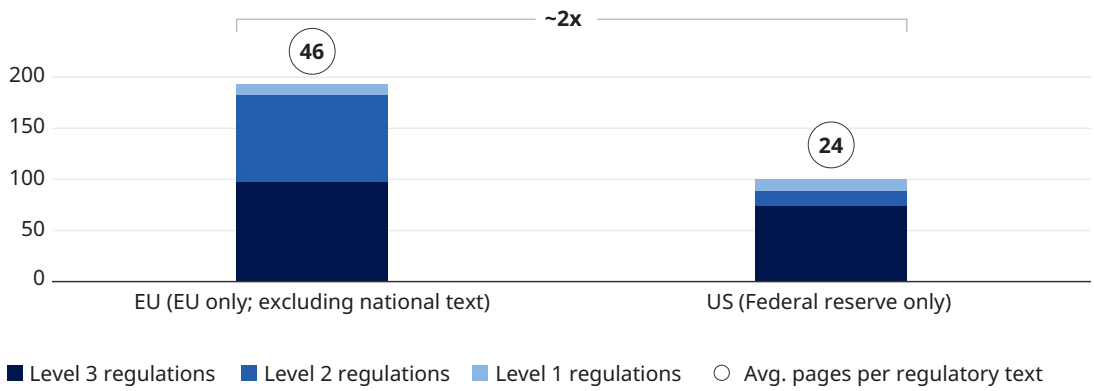
3. Modernise the rulemaking framework

The cumulative impact of regulation and supervision on EU banks has increased materially over time. The EU framework comprises a significantly greater number of regulatory instruments than the US framework, increasing both cost and complexity for banks operating in Europe. Additionally, based on a sample of EBF members, EU significant institutions on average had 430 meetings with the ECB and were subject to an average of 7 on-site inspections and internal model investigations in 2025, reporting approximately 220 open supervisory findings at year-end, each absorbing significant time and resources. A more rationalised approach to rulemaking could help ensure that new requirements and supervisory expectations remain proportionate, evidence-based, and aligned with their intended objectives.

Independent cost-benefit analysis, periodic reviews, and phased implementation of new rules would allow policymakers to identify overlapping or outdated requirements and preserve resilience without adding avoidable complexity to the banking framework. A greater reliance on principles-based regulation and supervision, where appropriate, could enable firms and supervisors to focus more effectively on material risks, freeing up resources to support Europe's growth.

Exhibit 21: Number of applicable banking regulatory texts

2025



Note: Only EU regulation is considered; national laws and regulations are excluded conservatively. For EU regulatory instruments, Level 1 is applicable to binding regulations with broad topics issued by the Parliament and the Council; Level 2 is for regulatory technical instruments and guidelines drafted by the EBA as a result of a mandate or an entitlement in a Level 1 instrument; and Level 3 is for non-binding guidelines and policies. For the US, only Federal Reserve regulation is included.

Source: EBA, SSM, Federal Reserve

Unlock a savings and investment financing continuum

4. Unlock the full potential of the Savings and Investment Union across public and private markets

Europe has no shortage of capital, but it struggles to channel it towards productive investment. **EU households held approximately €37 trillion in financial assets in 2023, yet only 17% was invested in financial securities, compared to 43% in the US.**[13,14] EU capital markets account for just approximately 14% of global activity compared with to more than 40% in the US.[15]

Deepening both public and private markets is key to converting idle savings into growth essential to mobilising household savings more effectively towards productive investment. This requires ambitious reforms to ensure harmonised, high-quality regulation for capital markets and financial instruments, as well as efficient and proportionate supervision. Improvements should aim to reduce fragmentation across EU capital markets, harmonise treatment of financial instruments, products and services, and improve interoperability of market infrastructure.

However, SIU developments risk being slowed by lengthy EU decision-makingthe complexity of the EU legislative processes and the time required for and national implementation timelines. Accelerating execution is will therefore be critical to move translatefrom strategic ambition to into tangible market impact.

13 Draghi report, 2024.

14 Federal Reserve; ECB.

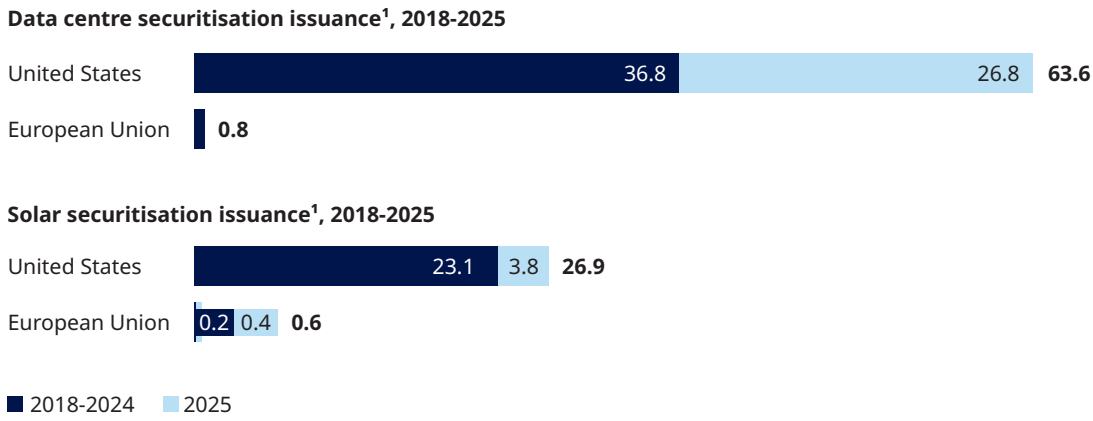
15 Eurofi — Competitiveness of the EU banking sector (2025).

5. Unclog securitisation pipes to free up lending capacity and support European infrastructure build outs

Europe's securitisation pipes are badly clogged. Too much capital remains trapped on bank balance sheets, while too little of Europe's institutional capital is channelled into strategic assets. Securitisation is one of the few mechanisms that can address both constraints at once, allowing banks to recycle capital into new lending and investors to take exposures that match their risk appetite and investment horizon.

This is not the case in the US. Since 2018, securitisation of US data centre debt has totalled $63.6 billion, according to JP Morgan. The EU has managed just $800 million.

Exhibit 22: Europe's pipes are clogged — even for data center and solar assets
US $ billion



1. Inclusive of ABS and CMBS.
Source: JP Morgan, with thanks to Meghan Kelleher. As of 1 December 2025

This gap matters well beyond data centres and solar. Larger and deeper securitisation markets, as seen in the US, are critical to help Europe fund its strategic ambitions. The opportunity is material.

In April 2026, the European Capital Markets Institute (ECMI) estimated that **a stronger EU securitisation market could support an additional annual €130 to €320 billion of lending.**[16]

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.

16 ECMI, more credit, better risk sharing: why Europe needs securitisation.

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.

Closing Europe's financing gap will require more than banks' balance sheets. Insurers and pension funds can act as long-term investors, specifically for longer duration and lower rated assets, given their long-term investment horizon and risk-management expertise. The framework must make securitisation a competitive and investable asset class for these investors. Recent Solvency II work is a welcome step, but demand will not deepen if institutional investors face disproportionate prudential treatment, duplicative due-diligence burdens, or reporting requirements that are materially heavier than for comparable fixed-income assets.

Europe should continue 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.

6. Review targeted prudential rules that constrain EU activity

Alongside headline reforms, a range of narrower provisions continue to weigh on EU bank competitiveness and discourage the type of lending Europe needs. These include the treatment of software assets, unrated corporates, specialised financing, operational risk definitions, and real estate financing. These provisions often interact with other elements of the regulatory framework producing unintended negative consequences. They should all be reviewed through a durable growth, competitiveness and proportionality lens to remove avoidable frictions that suppress lending and investment without weakening financial stability.

Software deductions

Under the original CRR framework EU banks were required to deduct the full value of software assets from CET1 capital. This was a rule rooted in the assumption that intangibles carry no realisable value in a wind-down. The 2020 CRR Quick Fix partially addressed this, replacing the full deduction with an amortisation-based approach. However, a capital drag on software investment remains, and the underlying competitive distortion has not been fully resolved.

The US applies no equivalent deduction; European banks therefore face a higher capital cost associated with software investment. This difference influences banks' incentives to invest in technology and digital capabilities: in 2024, the largest six US banks invested almost four times as much in technology as the six largest EU banks, according to JP Morgan estimates.[1] This is particularly important today as investment in AI and digital capability is critical for Europe to remain competitive. Further review of the prudential treatment of software assets that reflects their growing economic value could help to level the playing field, decreasing the cost for European banks to invest in software assets and increasing capital available to support lending.

Based on a sample of EBF members, removing the software deduction could release approximately €18 to €35 billion of CET1 capital, and support around €140 to €220 billion of additional lending.[2]

1. AFME consultation response: Targeted Consultation on the Competitiveness of the EU Banking Sector
2. Based on an assumption of 80 to 100% incremental risk weight

Unrated corporates

Approximately 75% of European corporates carry no external credit rating.[1] The absence of an external rating does not necessarily imply higher credit risk: the cost, complexity and disclosure burden required to obtain a rating, are often disproportionate for privately held businesses.

The European Commission estimates an initial assessment cost between €40,000 to €50,000, followed by an annual maintenance cost of €30,000 to €35,000. For many privately held companies, these costs are difficult to justify.

Under CRR3, unrated corporate exposures are generally assigned a 100% risk weight under the standardised approach. The EU currently has a transitional arrangement applying a reduced 65% risk weight for unrated corporates assessed as investment grade equivalent. From 2032, the full 100% weight applies regardless of actual creditworthiness. As a result, capital treatment may become less sensitive to underlying credit quality for certain unrated exposures.

The impact on financing conditions could be significant. **Under current conditions, increasing the risk weight of a loan to an investment-grade-equivalent unrated corporate from 65% to 100% would increase the CET1 capital required for the loan by ~55%.**

Higher risk weights can increase the cost of financing for companies that rely primarily on bank lending, including many firms key to helping Europe meet its strategic ambitions. A more risk-sensitive treatment that better reflects underlying credit quality rather than the presence or absence of a formal rating could improve financing conditions while preserving resilience.

For example, Canada's OSFI has proposed that banks may continue to assign this 65% risk weight to unrated corporate exposures that qualify as investment grade under banks' own internal credit grading systems.

1. EBA, policy advice on the Basel III reforms: credit risk (2019)

Foster scale and integration

7. Remove fragmentation and barriers to integration

The EU banking sector remains structurally over-fragmented compared to the US, with too many sub-scale national champions unable to invest at the scale required for Europe's investment ambitions. Larger and more diversified banking groups can benefit from broader funding sources and greater geographic diversification, improving resilience and enhancing capacity to absorb shocks. They are better positioned to support large-scale investments (e.g., in digital infrastructure and AI), and connect issuers and investors more efficiently across Europe.

The incomplete Banking Union remains a significant impediment to deeper market integration and the efficient deployment of capital and liquidity across the EU. The requirement to maintain capital and liquidity at subsidiary level in each jurisdiction and the variation in regulation and supervision across member states can deter the consolidation needed to produce globally competitive institutions. Capital Requirements Directive and CRR provisions provide member states with substantial discretion in the calibration and application of O-SII, SyRB, and other macroprudential measures. This can result in significant variation across jurisdictions, with combined buffer requirements exceeding 10% of RWA in the highest cases.

This fragmentation has direct consequences on financing European growth. **AFME estimates more than €225 billion of capital and €250 billion of liquidity is trapped in subsidiaries because cross-border waivers are not fully available.**[17]

Advancing the Banking Union and reducing barriers to cross-border integration would strengthen the efficiency of the European banking sector, improve the allocation of capital across the single market and enhance banks' ability to support investment and growth

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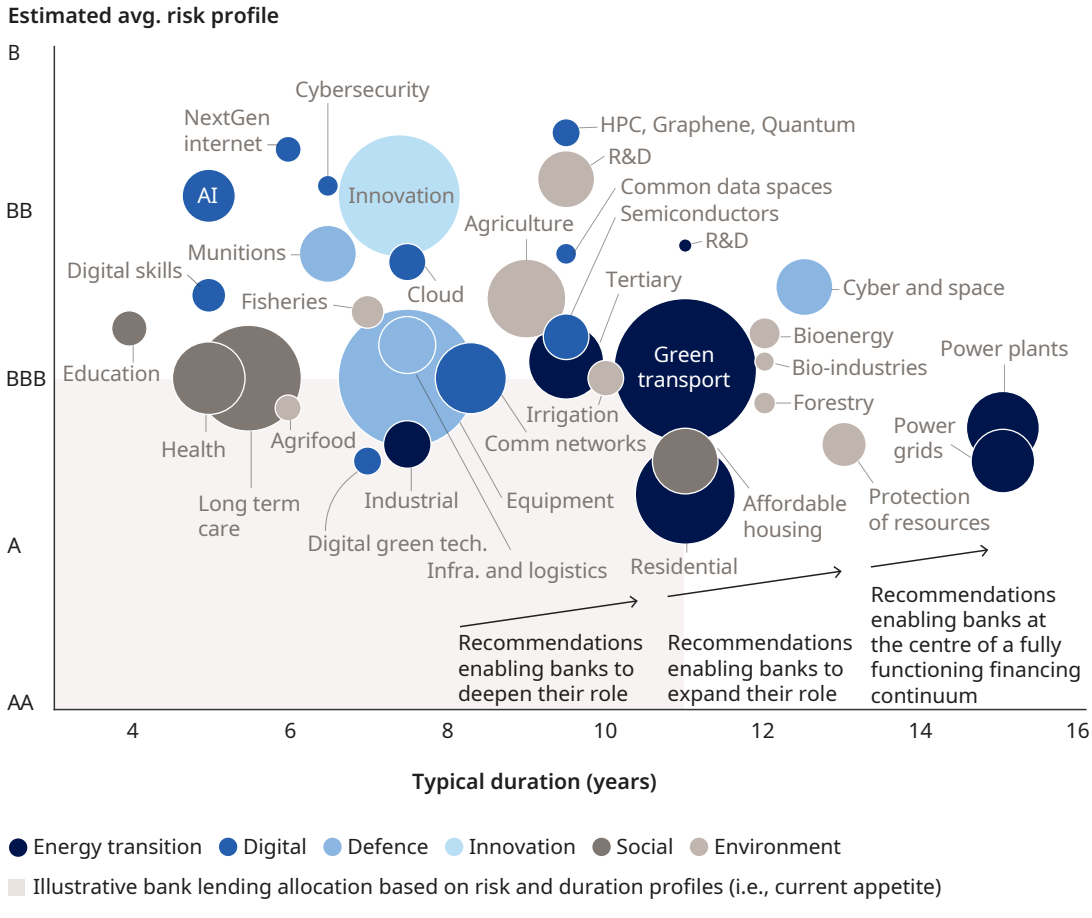
Together, these recommendations enable banks to deepen and expand their role in financing Europe's investment needs at the centre of a fully functioning financing continuum.

Enabling banks to deepen their role in financing Europe's investment needs: these recommendations will release capacity for lending and could reduce the hurdle rate for longer duration and higher risk investments	• Rationalise and recalibrate European capital add-ons • Modernise the rulemaking framework • Remove fragmentation and barriers to integration
Enabling banks to expand their role in financing Europe's investment needs: these recommendations could expand banks' appetite for higher risk and longer duration investments	• Embed durable growth and competitiveness in regulatory and supervisory objectives • Review targeted prudential rules that constrain EU activity
Enabling banks at the centre of a fully functioning financing continuum: these recommendations would allow banks to originate and distribute a wider range of investments	• Unlock the full potential of the SIU across public and private markets • Unclog securitisation pipes to free up lending capacity and support European infrastructure build outs

17 AFME, Banking Union: measuring progress and identifying implementation gaps (2025).

Exhibit 23: Estimated financing need by risk and duration profile



Note: Bubble size indicates financing need, positioning is directional and intended for comparative illustration only. Bank lending allocation is what banks would currently have appetite for based on risk and duration profiles (not necessarily what they have capacity for) and includes other sub-sectors as the chart is based on estimated avg. risk profile.

Source: Draghi report on EU competitiveness (2024), European Defence Agency, European Commission, EIB, ECB, Oliver Wyman analysis

Conclusion: The cost of inaction

Europe's investment needs are not theoretical projections. They are immediate and growing. Failure to mobilise sufficient capital to meet these needs risks constraining growth, weakening competitiveness and widening Europe's gap with other major economies in strategically important sectors.

The consequence of inaction extends beyond the financial sector. Without a fully functioning financing continuum, Europe will struggle to finance innovation, renew infrastructure and boost productivity. This impacts businesses, workers, and households across Europe. Europe needs a fully functioning financing continuum to finance its investment needs. This will also be key to addressing long-term demographic pressures and supporting adequate retirement outcomes for European citizens.

Banks remain central to closing the investment gap and solving these challenges. They can support the development of deeper capital markets, a stronger financing continuum, and a more effective SIU. This report highlights the need for policymakers, regulators, supervisors and market participants to adopt a more holistic view of Europe's financing continuum and its role in supporting broader strategic objectives.

As the economy evolves, regulation must evolve with it to ensure capital can flow efficiently. Europe possesses deep pools of savings, world-class banks, and a strong capacity for innovation. What it lacks is a system to effectively connect these strengths.

The recommendations in this report call for intelligent recalibration of essential post-crisis reforms to address unintended constraints on financing capacity while preserving resilience. Europe has an opportunity to modernise its regulatory framework in line with the needs of a more digital, capital-intensive economy, while ensuring its financial institutions remain resilient, globally relevant and capable of supporting long-term growth.

There has rarely been greater momentum behind strengthening Europe's competitiveness. Europe must seize this momentum. 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.

This is no longer just a technical discussion about banking regulation or capital markets. It is a strategic imperative central to Europe's future growth, resilience, competitiveness, and prosperity. Europe has the savings, institutions and innovative capacity required to succeed. The challenge now is ensuring that these strengths are connected through a financing system capable of supporting the scale of investment required.

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EBF priorities for simpler, more efficient and competitive regulation

Simplifying the European capital stack, by eliminating duplications between Pillar 1 and Pillar 2, freezing the output floor and reviewing transitional provisions

Simplifying the Macroprudential Framework for Banks

Neutralising the EU Prudent Valuation Adjustment

Aligning the Fundamental Review of the Trading Book (FRTB)

Recalibrating MREL requirements against international TLAC requirements

Enhancing the support to EU economic activities

- Trade finance
- Specialised financing
- Operational risk
- Real estate
- Software
- Support to SME
- Repeal the NPL backstop
- Treatment of public debt issued in the currency of another Member State

Simplifying and aligning EU Digital Regulation

Removing fragmentation and barriers to integration

Source: "The urgency to simplify" EBF letter to European Commission, 19 January 2026

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