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Financial regulation and competitiveness:
the importance of the European banking union

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Views expressed are my own and do not necessarily represent those of the BIS

INTRODUCTION

- The post-GFC regulatory reform was based on an ample consensus on:
  - The relevance of financial stability as a prioritary public policy objective
  - The absence of conflict between financial and sustainable economic stability
- Some aspects of that consensus might now be questioned: drive towards deregulation in the US, impact of regulation on EU competitiveness (Letta, Draghi …).
- The case for a generalised loosening of prudential regulation is far from evident.
- … but the current debate provides a good opportunity to discuss possible improvements.

OUTLINE

i. The impact of the regulatory reform

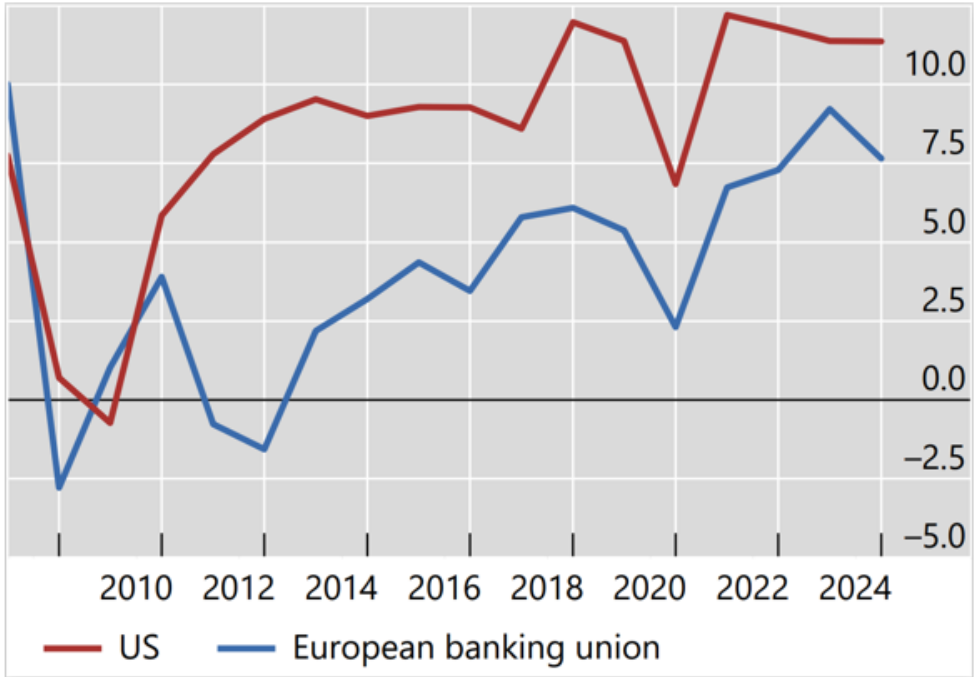
ii. Possible improvements

iii. Policy priorities in the EU

iv. Concluding remarks

THE EVIDENCE (1): Banks' performance

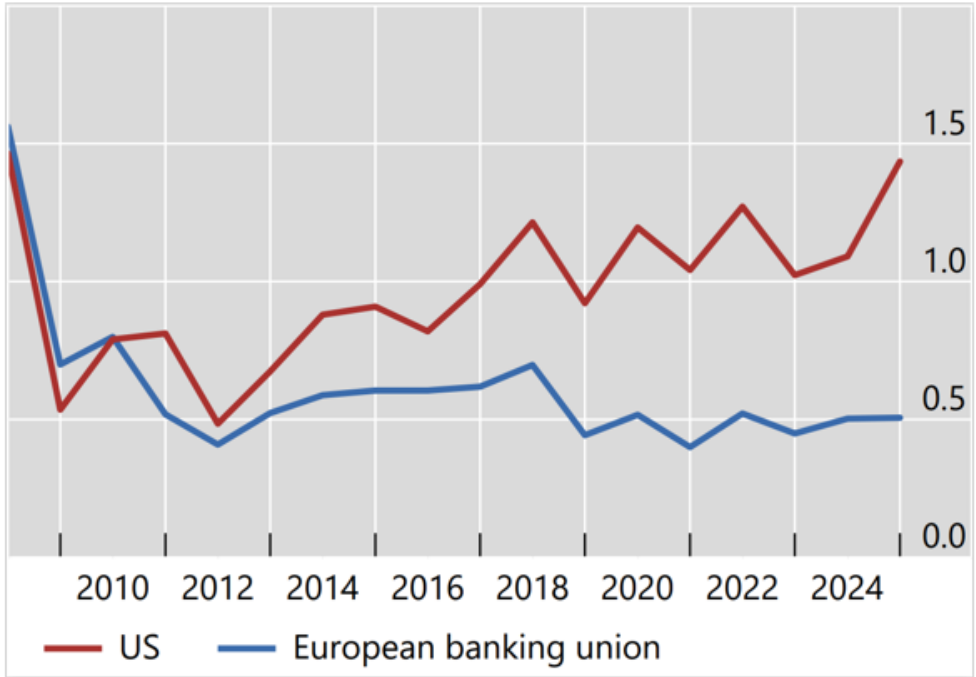
Banks profitability[1] Graph 1



[1] Sector-wide return on equity data from each region.

Sources: FDIC (2025); ECB (2025).

Bank market valuation[1] Graph 2

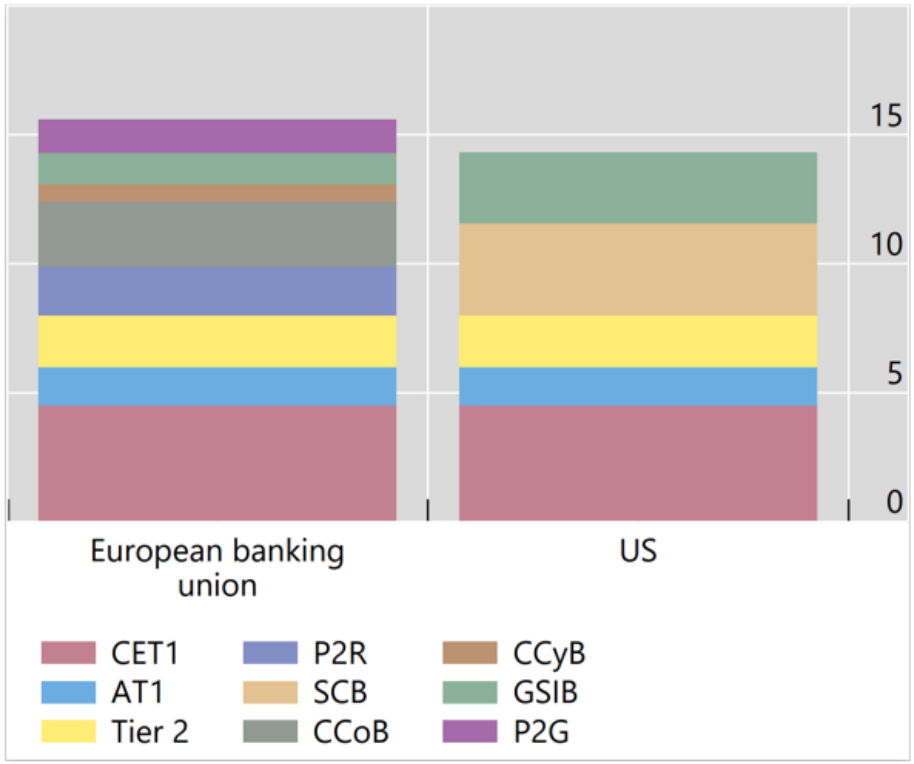


[1] Weighted average price-to-book ratio of six globally systemically important banks (G-SIBs) each from the US and the European banking union. Only four European G-SIBs for 2007 and 2008 due to lack of data.

Source: CompaniesMarketCap (2025).

THE EVIDENCE (2): Is European regulation more stringent?

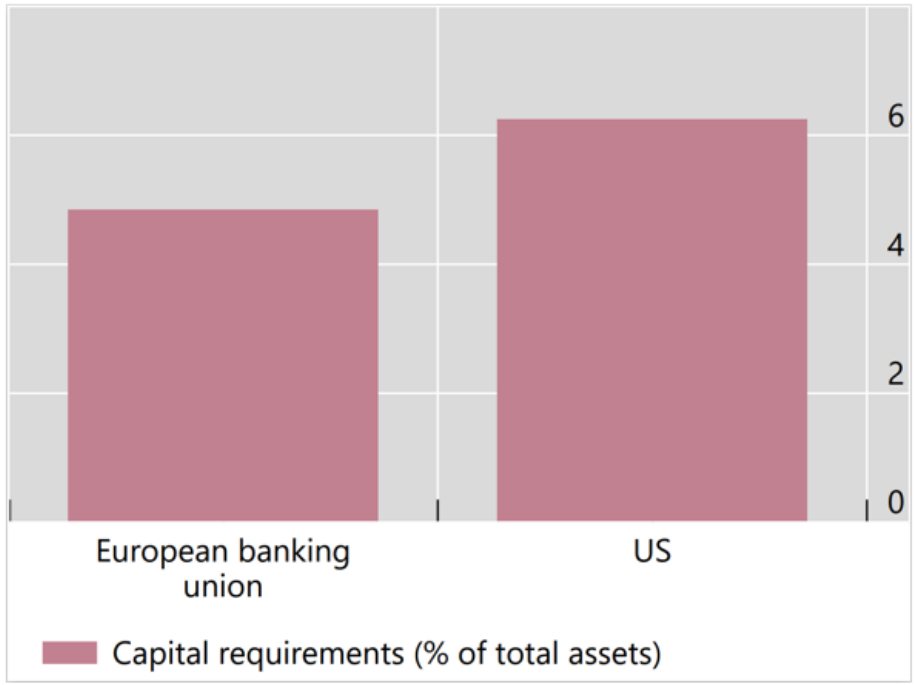
Capital requirements (% of RWA)[1] Graph 3



[1] Capital requirements and buffers for all GSIBs in the respective regions.

Sources: ECB (2025); Federal Reserve (2025); Bank of France (2023).

Capital requirements (% of total assets)[1] Graph 4



[1] Same figures as Graph 3, converted using average RWA density from the respective regions.

Sources: ECB (2025); Federal Reserve (2025); Bank of France (2023); BCBS (2025).

THE EVIDENCE (3): In sum

- The regulatory reform has made banks able to cope with highly adverse shocks (Covid, regional banks in US, Credit-Suisse, current market turbulence…).
- The poorer performance of European Banks unlikely to be associated to tougher regulation.
- Idiosincratic structural factors seem to predominate.
- Short-term costs on credit availability and growth are less significant than medium-term benefits associated to better prospects for financial stability (BCBS (2021)).
- … but all this does not mean that the current regulatory framework has achieved perfection.

WHAT CAN BE IMPROVED? (1)

- Complex determination of capital requirements (the capital stack)
  - Micropru and Macropru functions combined: some buffers are fixed, others are adjustable; within the former some are binding at all times, others are usable under stress.
  - Different buffers set by different authorities, often without effective coordination mechanisms (FSI (2024)).
  - In EBU: latent conflict between micropru (ECB/SSM) and macropru (national) authorities.

WHAT CAN BE IMPROVED? (2)?

- Regulatory and Supervisory frameworks excessively capital-centric
  - Capital is not the best tool to address issues relating to governance and business model sustainability (SREP report (2023)).
  - Need to improve the availability and the deployment of qualitative measures (FSI (2025)).
- Insufficient regulation of non-bank financial institutions
  - Need of specific entity-based regulation for *big techs* offering financial services (FSI/BIS).
  - … and for some NBFI.

POLICY PRIORITIES IN THE EU (1): Simplification

- Insufficient evidence on excessive regulatory stringency that needs to be corrected.
- … but there could be scope to reduce and simplify rules issued by European agencies (under study):
  - … although this might trigger some higher policy heterogenity across Member States …
  - … which would be less relevant in the prudential domain thanks to the banking union.
- Scope to simplify rules in the area of securitisation
  - Useful to enlarge the ability by banks to originate loans.
  - Favours cross-border diversification of credit risk.
  - … possibility that current *due diligence* and transparency obligations could be excessively costly.

POLICY PRIORITIES IN THE EU (2): Integration

- Insufficient appropriation of the opportunities offered by the single market (Letta, Draghi).
- Limited pan-europeisation of the banking industry:
  - Cross-border lending and deposit activity has barely increased.
  - Hardly any relevant cross-boder corporate operation.
- Mostly explained by structural factors:
  - Overcapacity of the banking industry in several jurisdictions.
  - Relevant role of entitities with limited exposure to market discipline.

POLICY PRIORITIES IN THE EU (3): Deepening the banking union

- Regulation is also playing its role to prevent further integration: *ring-fencing*.
- … and this is mostly associated to the limited *europeisation* of banks' risks.
- Need to complete and strengthen the banking union:
  - Common European deposit guarantee scheme.
  - Larger scope of action for the SRM with adequate tools and funds. CMDI might help.

CONCLUSIONS (1)

- Industry to address difficult competitive and technological challenges.
- The reduction of systemic risks is not the absolute objective for regulators: can and should also support the adaptation efforts by the industry.
- … but, at least so far, there is no sufficient evidence that the regulatory reform has impeded the ability by the banking industry to perform its intemediation function in the new environment.

CONCLUSIONS (2)

- … although scope to revise some specific elements of the current framework:
  - Simplification of the capital stack.
  - Better balance between regulation and supervisión.
  - Better balance between quantitative and qualitative supervisory measures.
  - Better regulation of non-banks active in finance.
- In Europe:
  - Simplification of technical standards and guidelines (particularly in the banking domain).
  - Simplification of regulatory controls for securitisation.
- … but above all: COMPLETE AND STRENGTHEN THE BANKING UNION.