In collaboration with **Deloitte.**

EMBEDDING FINANCIAL COMPETITIVENESS AS A REGULATORY OBJECTIVE TO BOOST EUROPE'S PRODUCTIVITY

Judith Arnal, Pablo Zalba and César Gurrea

CEPS IN-DEPTH ANALYSIS

October, 2025-11

SUMMARY

Competitiveness has become the defining challenge for the European economy, but the EU's financial system is still constrained by a regulatory framework focusing on stability and consumer protection. Resilience is indispensable but insufficient capital towards innovation, digitalisation and green investment weakens growth and stability. The EU needs a more competitive financial system to narrow its productivity gap, specifically when compared to the US.

The financial sector's competitiveness can be framed at the systemic and institutional level to support productivity and growth. Systemic competitiveness is the financial system's capacity to mobilise and allocate savings efficiently, share risk and finance innovation. Institutional competitiveness concerns the efficiency, governance and incentives of individual institutions and market infrastructures, such as profitability, authorisation and market access, and cost-income.

This CEPS In-Depth Analysis report, drafted by Judith Arnal in collaboration with Deloitte, focuses on systemic competitiveness, as it affects productivity across the whole economy. The EU financial sector suffers from profound structural shortcomings that require the systemic integration of competitiveness into regulatory mandates, supervisory practices and accountability mechanisms.

The main conclusion is that competitiveness must be introduced as a secondary adjective in EU financial regulation. To achieve this, the authors propose a four-dimensional framework that includes (i) financing capacity, (ii) profitability and value creation, (iii) resilience, and (iv) market participation and digital transformation.

Judith Arnal is an Associate Senior Research Fellow in the Financial Markets and Insitutions unit at CEPS and ECRI. Pablo Zalba is Managing Director EU Policy Centre, Partner Deloitte Spain. César Gurrea is Banking Regulation Leader, Partner Deloitte Spain.

In line with CEPS's commitment to institutional independence, this In-Depth Analysis was prepared to contribute to and advance the debate on competitiveness and regulatory objectives in financial supervision. The analyses, interpretations, and conclusions expressed are solely those of the authors and do not necessarily reflect those of CEPS or any affiliated institution.

CEPS • Place du Congrès 1 • B-1000 Brussels • Tel: (32.2) 229.39.11

CONTENTS

FIGURES & TABLE

EXECUTIVE SUMMARY

Competitiveness has become the defining challenge for the European economy, yet its financial system remains constrained by a regulatory framework designed almost exclusively around stability and consumer protection. While resilience is indispensable, a financial system that does not channel sufficient capital into innovation, digital transformation or green investment ultimately weakens both growth and stability. A more competitive financial system would also help narrow the EU's productivity gap vis-à-vis the US: stronger banks can deliver more affordable credit to households and established firms, while greater access to equity-like, alternative finance allows innovative businesses without collateral to scale.

Financial sector competitiveness can be framed at two levels: systemic and institutional. *Systemic* competitiveness concerns the financial system's aggregate ability to mobilise and allocate savings efficiently, share risk and finance innovation across the economy, thereby supporting productivity and growth. *Institutional* competitiveness refers to the efficiency, governance and incentives of individual institutions and market infrastructures (e.g. profitability, cost-to-income, authorisation and market access).

This CEPS In-Depth Analysis report focuses on the systemic dimension because it is the one that affects economy-wide productivity. It argues that competitiveness must be introduced as a secondary objective in European financial regulation, complementing prudential soundness and consumer protection rather than undermining them.

To make this ambition operational, we propose a comprehensive framework structured around four dimensions: (i) financing capacity, (ii) profitability and value creation, (iii) resilience, and (iv) market participation and digital transformation. These are translated into 28 measurable indicators.

The empirical analysis reveals profound structural gaps. There is a ten-fold deficit in venture capital investment compared with the US, along with persistently high cost-to-income ratios for banks and shallow corporate bond markets. Moreover, digital adoption is uneven across Member States.

Bridging these gaps requires more than political declarations. It calls for systematic integration of competitiveness into regulatory mandates, supervisory practices and accountability mechanisms. Targeted interventions are needed to deepen capital markets, enhance banking efficiency, mobilise long-term savings, and accelerate digital transformation. Competitiveness, stability and consumer protection are not competing objectives but mutually reinforcing conditions for a financial system that supports sustainable growth.

1. INTRODUCTION

In recent years, competitiveness has risen to the forefront of European policy debates. The *Report on the Future of European Competitiveness* prepared by Mario Draghi in 2024 crystallised concerns that the EU may fail to realise its full economic potential unless it takes decisive action. The report explicitly questioned whether the current prudential framework, particularly in light of the upcoming implementation of Basel III, is compatible with the need for a strong and internationally competitive banking system in the EU[1].

Competitiveness has also become a central theme for the second von der Leyen Commission, explicitly mentioned in the mission letters to Commissioners-designate, including in financial services[2]. National authorities have echoed this call: finance ministries in France, Germany and Italy jointly urged the European Commission to place stronger emphasis on the competitiveness of the financial sector, particularly banking. They highlighted the need to ensure a level playing field with other major jurisdictions in terms of both regulatory substance and operational burden[3].

In addition, in February 2025, the governors of the largest central banks in the euro area wrote to the European Commission calling for a holistic review of regulatory complexity. They warned that the cumulative layers of regulation risk undermining Europe's financial competitiveness[4].

Responding to these pressures, the European Commission announced that a comprehensive report on the EU banking sector, initially foreseen for 2028, will be brought forward and published in 2026[5].

This renewed attention reflects the strategic role of finance in Europe's growth model. The financial sector is not a peripheral actor but a foundational enabler of transformation, determining whether capital is efficiently mobilised and channelled into productive investment. Yet while industrial policy, digitalisation and the green transition dominate much of the competitiveness agenda, the competitive strength of Europe's financial system remains underexplored. Calls to place competitiveness at the heart of financial

[1] Draghi, M. (2024), *Report on the future of European competitiveness*. European Commission.

[2] Von der Leyen, U. (2024). *Mission letter - Albuquerque: Commissioner-designate for Financial Services and the Savings and Investments Union*, European Commission.

[3] Bloomberg Law. (2024), Push to ease bank rules gets support of biggest EU economies. *Bloomberg Law*.

[4] Banco de España; Deutsche Bundesbank; Banca d'Italia; Banque de France. (2025). *Letter to Commissioner Maria Luís Albuquerque regarding regulatory simplification and competitiveness*.

[5] CEPR. (2025), In the new geopolitical context, Europe's banking discussions need to go beyond competitiveness. *VoxEU*.

regulation are therefore gaining traction, both from policymakers and from industry stakeholders.

In the European context, strengthening the competitiveness of the financial sector is also instrumental to closing the GDP-per-capita gap between the EU and the US, which largely reflects Europe's lower productivity growth. A more competitive and efficient financial system can foster stronger banks that are able to provide more affordable credit to households and established firms. At the same time, it can enable innovative businesses that lack collateral to access alternative sources of finance. In this way, financial competitiveness can boost productivity and long-term economic convergence[6].

Other jurisdictions have already moved in this direction. In the UK, the *Financial Services and Markets Act 2023* introduced a secondary objective for regulators to support the international competitiveness of the UK financial sector and its contribution to long-term growth[7]. A recent House of Lords report, however, underscores the challenges of making this objective operational. It identifies a risk-averse regulatory culture, high compliance costs and inefficiencies in authorisation processes as key barriers. It calls for the use of outcome-based metrics and systematic benchmarking against international peers[8].

Elsewhere, Chile's Financial Market Commission (*Comisión para el Mercado Financiero,* CMF) has similarly established market development as a central objective alongside financial stability and consumer protection. The CMF explicitly states that its mandate is to 'safeguard the proper functioning, development and stability of the financial market'. It has developed an institutional strategy focused on promoting financial market development, featuring financial inclusion initiatives and regional market integration via the Funds Passport programme of the Pacific Alliance[9].

The Monetary Authority of Singapore combines financial stability with a clear mission 'to promote sustained non-inflationary economic growth, and a sound and progressive financial centre'. This reflects a dual mandate that integrates competitiveness considerations into its core regulatory framework[10].

---

[6] Arnal, J. & Feás, E. (2024). *Competitiveness: The Widening Gap Between the EU and the US*. Real Instituto Elcano.

[7] HM Treasury. (2023). Financial Services and Markets Act 2023. London: HM Treasury.

[8] House of Lords. (2024). House of Lords Financial Services Regulation Committee. (2025, June 13). *Growing pains: Clarity and culture change required. An examination of the secondary international competitiveness and growth objective* (2nd Report of Session 2024–25; HL Paper 133). House of Lords.London: House of Lords.

[9] Comisión para el Mercado Financiero. (2021). *CMF releases its Institutional Financial Inclusion Strategy*.

[10] Monetary Authority of Singapore. (2024). *Objectives and principles of financial sector oversight in Singapore*.

The Securities and Exchange Board of India includes market development as one of its primary functions alongside investor protection. It mandates the regulator to 'develop the securities market' and promote innovation, digitisation and inclusivity to grow and modernise India's financial ecosystem[11].

These experiences provide valuable precedents for the EU: for competitiveness to become a meaningful regulatory objective, it must be defined, tracked and assessed through robust indicators.

The purpose of this report is threefold. First, it argues that competitiveness should be introduced as a secondary objective in European financial regulation. Competitiveness is not an alternative to prudential soundness or consumer protection, but rather a complement to them. A financial system that lacks resilience cannot be competitive; equally, a system that fails to provide sufficient financing to the real economy will ultimately undermine its own stability. Competitiveness, prudential soundness and consumer protection are therefore interdependent dimensions of the same objective – ensuring that finance supports sustainable growth while safeguarding market integrity and financial stability.

Second, the paper develops a comprehensive measurement framework to make this objective operational. Competitiveness cannot remain a rhetorical aspiration – it requires measurable outcomes. We propose a four-dimensional framework, comprising financing capacity, profitability and value creation, resilience, and market participation and digital transformation. This framework is operationalised through 28 key performance indicators (KPIs) that capture the ability of Europe's financial sector to allocate capital efficiently, support innovation, and compete internationally on equal terms. The empirical analysis reveals significant competitive gaps – including a ten-fold venture capital deficit compared with the US and persistent constraints in banking efficiency. It also documents substantial heterogeneity within Europe.

Third, the paper provides concrete policy recommendations for integrating competitiveness into regulatory frameworks. These recommendations prioritise institutional reforms that embed competitiveness considerations into regulatory impact assessment, supervisory processes and accountability mechanisms. They are followed by targeted interventions informed by the empirical evidence. The analysis demonstrates that addressing Europe's competitive weaknesses requires both enhanced regulatory frameworks and specific policy responses to gaps in innovation financing, capital market development, banking efficiency and digital transformation.

[11] Securities and Exchange Board of India. (2024). *The role of regulatory bodies in India's financial sector: What investors should know*. Invest India.

2. FINANCIAL COMPETITIVENESS AS A REGULATORY OBJECTIVE

2.1. WHY COMPETITIVENESS AS A REGULATORY OBJECTIVE

The case for introducing competitiveness as a secondary regulatory objective extends well beyond the current political momentum surrounding European economic performance. It rests on three fundamental pillars: (1) the strategic role of finance in economic transformation, (2) the limitations of existing regulatory frameworks, and (3) the changing nature of financial competition in a globalised economy.

The strategic role of finance in economic transformation

Financial systems are not neutral intermediaries but active shapers of economic development trajectories[12]. The allocation of capital determines which sectors expand, which technologies are developed, and which business models prove viable[13]. In this context, a financial system's competitive strength directly translates into the economy's capacity for innovation, adaptation, and growth.

The EU faces unprecedented economic challenges that place exceptional demands on its financial system. The twin transitions – digital and green – and the need to substantially increase defence spending require massive capital reallocation and long-term financing on a scale not seen since post-war reconstruction[14]. Simultaneously, geopolitical fragmentation is reshaping global supply chains and trade relationships, demanding greater financial system agility and resilience[15]. These challenges cannot be met by a financial system that is merely stable; they require one that is dynamically competitive.

Limitations of existing regulatory frameworks

Traditional financial regulation has evolved around binary objectives: ensuring stability and protecting consumers. These remain essential, but they are insufficient for the current economic context. Stability-focused regulation tends towards risk minimisation, while consumer protection emphasises disclosure and fair treatment[16]. Neither

[12] King, R. G., & Levine, R. (1993). Finance and growth: Schumpeter might be right. *The Quarterly Journal of Economics*, 108(3), 717-737.

[13] Rajan, R. G., & Zingales, L. (1998). Financial dependence and growth. *American Economic Review*, 88(3), 559-586.

[14] Arnal, J. (2023). *Ten guiding principles to help cover the EU's investment needs*. Elcano Royal Institute.

[15] International Monetary Fund. (2023). *Global financial stability report: Safeguarding financial stability amid high inflation and geopolitical risks*. IMF Publications.

[16] Acharya, V. V., & Richardson, M. (2009). *Restoring financial stability: How to repair a failed system*. John Wiley & Sons.

framework explicitly considers whether the financial system is fulfilling its growth-enabling function or competing effectively in global markets.

This omission has practical consequences. Regulatory impact assessments typically weigh costs against stability benefits or consumer protection gains but rarely assess competitive implications[17]. The result can be a regulatory accumulation that, while individually justified, collectively undermines the system's dynamism and international position. The recent concerns raised by central bank governors about regulatory complexity reflect this pattern.

Moreover, financial regulation increasingly operates in a global context where jurisdictions compete for financial activity and capital allocation. The UK's introduction of competitiveness as a secondary objective, followed by similar moves in other major financial centres, creates competitive pressures that cannot be ignored. European reluctance to explicitly consider competitiveness risks creating a systematic disadvantage in this environment.

The changing nature of financial competition

Financial competition has fundamentally changed over the past two decades. Traditional banking competition focused on branch networks and deposit-gathering within national markets[18]. Today's competition encompasses cross-border capital flows, platform-based financial services, and competition between different financial systems for hosting innovative activities[19]. A genuine European credit union is still missing, with most lending and deposit-taking activity in the EU still nationally segmented.

Digitalisation, however, is starting to enable financial institutions to operate and reach customers across Member States through digital channels, reducing physical and geographical barriers to entry. Yet this development should be seen as a complement rather than a substitute for structural consolidation and cross-border mergers, which remain essential to achieving a truly integrated banking market.

This evolution means that competitiveness can no longer be treated as an automatic by-product of market forces. Network effects, regulatory arbitrage, and first-mover advantages in digital finance create winner-takes-all dynamics that can permanently shift competitive positions[20]. In such an environment, regulatory neutrality becomes a

[17] European Commission. (2025). *Impact assessment guidelines*. Better Regulation Portal.

[18] Allen, F., & Gale, D. (2000). *Comparing financial systems*. MIT Press.

[19] Cassis, Y. (2010). *Capitals of capital: The rise and fall of international financial centres 1780-2009*. Cambridge University Press.

[20] Gennaioli, N., Shleifer, A., & Vishny, R. W. (2012). Neglected risks, financial innovation, and financial fragility. *American Economic Review*, 102(3), 454-459.

competitive stance in itself – one that may disadvantage European financial institutions and markets.

The Covid-19 pandemic and subsequent geopolitical tensions have further highlighted the strategic importance of financial system competitiveness. Jurisdictions with deeper, more liquid capital markets proved better able to channel emergency funding and support economic recovery[21]. Similarly, financial systems with stronger international connectivity provide better risk-sharing and diversification opportunities[22].

Towards regulatory balance

Introducing competitiveness as a secondary regulatory objective does not imply subordinating stability or consumer protection. Rather, it acknowledges that these objectives are interdependent over the long term. On the one hand, a financial system that fails to support economic growth will ultimately face stability challenges as economic stagnation erodes credit quality and market confidence[23]. On the other hand, a system that prioritises short-term competitive gains over prudential soundness will face costly crisis resolution that damages long-term competitiveness[24].

The challenge is to design regulatory frameworks that optimise across all three dimensions rather than treating them as independent constraints. This requires explicit recognition of competitiveness in regulatory mandates, systematic assessment of competitive implications in policy development, and accountability mechanisms that ensure balanced consideration of all objectives.

The following sections develop a conceptual framework for financial competitiveness that enables such balanced assessment while providing practical guidance for policy implementation.

---

[21] Financial Stability Board. (2023). *Global monitoring report on non-bank financial intermediation*. FSB Publications.

[22] Demirgüç-Kunt, A., & Levine, R. (2001). *Financial structure and economic growth: A cross-country comparison of banks, markets, and development*. MIT Press.

[23] Reinhart, C. M., & Rogoff, K. S. (2009). *This time is different: Eight centuries of financial folly*. Princeton University Press.

[24] Bernanke, B. S. (1995). The macroeconomics of the Great Depression: A comparative approach. *Journal of Money, Credit and Banking*, 27(1), 1-28.

2.2. DEFINING SYSTEMIC FINANCIAL COMPETITIVENESS

Financial competitiveness requires conceptual precision to avoid the measurement pitfalls that have plagued broader debates on economic competitiveness[25]. This report defines financial competitiveness as a system-level property reflecting the capacity of the financial system to support long-term economic performance while maintaining resilience and consumer trust. This definition deliberately emphasises systemic outcomes over individual institutional performance, recognising that competitive financial systems may contain institutions with varying individual performance levels.

2.2.1. The systemic versus institutional distinction

The distinction between systemic and institutional competitiveness is crucial for regulatory policy. Institutional competitiveness focuses on individual bank profitability, market share, and operational efficiency metrics. Systemic competitiveness, by contrast, examines the financial system's aggregate contribution to economic growth, innovation financing, and international integration.

This distinction has profound policy implications. Measures that enhance individual bank returns – such as reducing competitive intensity or allowing greater risk concentration – may actually diminish systemic competitiveness by reducing allocative efficiency or increasing systemic risk. Conversely, policies that enhance systemic function, such as improving payment system efficiency or deepening capital markets, may temporarily pressure individual institution margins while strengthening overall competitiveness.

European evidence illustrates this tension clearly. Policies that protected individual bank profitability – such as geographical market segmentation, restrictions on cross-border mergers, and regulatory forbearance during the sovereign debt crisis – may have enhanced short-term institutional stability. Yet, they weakened systemic competitiveness by limiting competitive pressure and delaying necessary restructuring.

By contrast, the consolidation and competitive intensification in Nordic banking markets during the 1990s initially pressured individual bank margins but ultimately created more efficient, internationally competitive institutions capable of supporting broader economic growth[26]. This disconnect underscores why regulatory frameworks must prioritise systemic over institutional metrics when assessing competitiveness.

[25] Krugman, P. (1994). Competitiveness: A dangerous obsession. *Foreign Affairs*, 73(2), 28-44.

[26] Allen, F., & Gale, D. (2000). *Comparing financial systems*. MIT Press.

2.2.2. Four dimensions of systemic competitiveness

Systemic financial competitiveness operates across four mutually reinforcing dimensions that capture the financial system's core economic functions. Each dimension contributes essential elements to the system's overall capacity to support economic performance while maintaining stability and trust. These four dimensions derive from the established theoretical literature on financial systems' economic functions and competitive dynamics.

The first dimension – financing capacity – directly corresponds to Levine's[27] capital allocation and savings mobilisation functions, reflecting the system's core intermediation role. The second dimension – profitability and value creation – draws from the industrial organisation literature[28] on competition in banking, recognising that sustainable competitive advantage requires efficient operations and sufficient returns above cost of capital. The third dimension – resilience – incorporates insights from the literature on financial stability[29], acknowledging that competitive strength without prudential soundness is ultimately self-defeating. The fourth dimension – market participation and innovation – reflects Schumpeter's creative destruction theory[30] as applied to finance, capturing the system's capacity for adaptation and technological advancement that drives long-term competitiveness.

This multidimensional approach avoids the reductionism of single-metric assessments while ensuring comprehensive coverage of the factors that determine whether financial systems can effectively support economic growth in a competitive global environment.

Financing capacity of the real economy

The first dimension captures the financial system's fundamental intermediation function: mobilising savings and channelling them towards productive investment across sectors and borders[31]. This encompasses both the depth of financial intermediation – the volume of credit, capital market activity, and other financial services relative to economic activity – and its breadth in terms of sectoral coverage, firm size accessibility, and cross-border integration.

---

[27] Levine, R. (2005). Finance and growth: Theory and evidence. In P. Aghion & S. N. Durlauf (eds), *Handbook of Economic Growth* (Vol. 1, pp. 865-934). Elsevier.

[28] Claessens, S., & Laeven, L. (2004). What drives bank competition? Some international evidence. *Journal of Money, Credit and Banking*, 36(3), 563-583.

[29] Mishkin, F. S. (1999). Global financial instability: Framework, events, issues. *Journal of Economic Perspectives*, 13(4), 3-20.

[30] Schumpeter, J. A. (1942). *Capitalism, socialism and democracy*. Harper & Brothers.

[31] Levine, R. (2005). Finance and growth: Theory and evidence. In P. Aghion & S. N. Durlauf (eds), *Handbook of economic growth* (Vol. 1, pp. 865-934). Elsevier.

Effective funding provision requires more than aggregate credit growth. It demands allocative efficiency in directing capital towards its most productive uses, pricing that reflects underlying economic fundamentals rather than regulatory distortions, and enough diversity in funding sources to avoid over-dependence on particular intermediaries or markets. This includes ensuring broad-based access across different firm sizes, sectors, and household segments. It involves traditional bank lending, capital market financing through equity and bond issuance, securitisation activities that enhance credit supply, and long-term savings vehicles such as pension funds and investment funds that direct household savings towards productive investment.

Cross-border integration represents a critical component of funding provision in an interconnected global economy. Financial systems that facilitate international capital flows enable domestic firms to access global funding sources while allowing domestic savings to seek optimal returns internationally[32]. This integration enhances both the supply of capital available to domestic firms and the risk-sharing opportunities available to domestic savers.

Profitability and value creation

The second dimension examines whether financial intermediaries and market infrastructures generate sufficient risk-adjusted returns above their cost of capital, enabling them to invest in innovation, technology, and competitive capacity over time[33]. This covers both operational efficiency – measured through cost-to-income ratios and other productivity metrics – and the ability to generate sustainable profitability that supports long-term competitiveness.

Value creation in financial services differs from other sectors due to the central role of risk management and the network effects inherent in financial infrastructure[34]. Efficient financial institutions must balance risk-adjusted returns with the stability requirements necessary for maintaining customer and counterparty confidence. This balance becomes particularly complex in activities with significant externalities, such as payment systems or market-making, where individual institution returns may not fully capture social value creation.

---

[32] Obstfeld, M., & Taylor, A. M. (2004). *Global capital markets: Integration, crisis, and growth*. Cambridge University Press.

[33] Demirgüç-Kunt, A., & Levine, R. (2001). *Financial structure and economic growth: A cross-country comparison of banks, markets, and development*. MIT Press.

[34] Gennaioli, N., Shleifer, A., & Vishny, R. W. (2012). Neglected risks, financial innovation, and financial fragility. *American Economic Review*, 102(3), 454-459.

Sustainable profitability also requires appropriate investment in operational capabilities, infrastructure modernisation, and human capital development that enables institutions to maintain competitive positioning over time while adapting to changing market conditions and regulatory requirements.

Resilience and systemic stability

The third dimension integrates prudential soundness and loss-absorbing capacity as fundamental components of competitive strength rather than constraints upon it[35]. This perspective recognises that sustainable competitive advantage in finance requires the capacity to perform core functions consistently through economic cycles and stress events.

Resilience incorporates multiple layers, from the capital buffers of individual institutions to systemic mechanisms for managing interconnectedness and procyclicality. At the institutional level, adequate capitalisation, liquidity management, and operational resilience provide the foundation for consistent service provision and risk-taking capacity[36]. At the systemic level, effective resolution frameworks, macroprudential tools, and crisis management arrangements ensure that individual institution difficulties do not cascade into system-wide disruption.

The competitive importance of resilience becomes apparent during stress periods. Jurisdictions with well-capitalised, properly supervised financial systems were able to maintain credit supply and economic financing during the global financial crisis and Covid-19 pandemic, while those with weaker prudential frameworks experienced prolonged intermediation disruption. This pattern demonstrates that resilience is not merely a regulatory constraint but a source of competitive advantage in maintaining market access and customer confidence during challenging periods.

Importantly, resilience must be calibrated appropriately to avoid excessive conservatism, which can stifle legitimate risk-taking and innovation. The optimal level of resilience balances the benefits of stability against the costs of constraining beneficial financial intermediation and innovation[37].

---

[35] Acharya, V. V., & Richardson, M. (2009). *Restoring financial stability: How to repair a failed system*. John Wiley & Sons.

[36] Basel Committee on Banking Supervision. (2019). *Basel III: Finalising post-crisis reforms*. Bank for International Settlements.

[37] Admati, A., & Hellwig, M. (2013). *The bankers' new clothes: What's wrong with banking and what to do about it*. Princeton University Press.

Market participation and digital transformation

The fourth dimension examines whether market structures and competitive conditions encourage innovation, efficiency, and consumer choice. This takes in the contestability of financial markets – the ease with which new entrants can challenge incumbents – and the extent to which competitive pressure drives continual improvement in service quality and innovation.

Market contestability requires addressing regulatory barriers to entry, market concentration levels, and the competitive dynamics that determine whether consumers and businesses benefit from choice and innovation[38]. Markets with appropriate competitive discipline typically deliver better outcomes through pressure for efficiency improvements and customer-focused innovation.

Digital transformation represents an increasingly central component of this dimension. The extent of digital adoption by both financial institutions and end-users provides a key indicator of the system's modernisation and competitive dynamism[39].

Digital technologies enable new entrants to challenge traditional business models, while helping incumbents to modernise their operations, deploy digital infrastructure at scale, and expand their reach across markets. In many cases, such infrastructure, from cloud systems to open banking interfaces, creates positive spillovers that lower entry barriers and allow new players to build on the digital foundations established by incumbents. This mutual reinforcement between incumbents and new entrants is reshaping the competitive landscape, and forcing all actors to innovate and improve efficiency. However, digital transformation also creates new competitive dynamics, including network effects and data advantages that require careful monitoring to ensure continued contestability.

The dimension also encompasses regulatory frameworks that both enable innovation and maintain appropriate safeguards. Regulatory sandboxes, proportionate authorisation requirements, and technology-neutral regulatory approaches can facilitate beneficial innovation while ensuring consumer protection and systemic stability.

[38] Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2007). The law and economics of self-dealing. *Journal of Financial Economics*, 88(3), 430-465.

[39] International Monetary Fund. (2023). *Global financial stability report: Safeguarding financial stability amid high inflation and geopolitical risks*. IMF Publications.

2.2.3. Interactions and trade-offs between dimensions

These four dimensions interact in complex ways that shape overall systemic competitiveness. Strong performance on funding provision, for instance, requires enough resilience to maintain market confidence. At the same time, efficiency gains from technological adoption can enhance both funding capacity and market participation.

Still, tensions can arise between dimensions, particularly in the short term. Increasing resilience requirements may temporarily constrain lending capacity, while rapid digital transformation may create operational risks that threaten stability. Effective regulatory frameworks must manage these trade-offs while recognising that the dimensions are ultimately complementary over longer time horizons.

The framework's strength lies in its multidimensional approach, which avoids the oversimplification inherent in single-metric assessments of financial competitiveness. By examining performance across all four dimensions, policymakers can identify specific strengths and weaknesses within their financial systems yet avoid policies that optimise individual components at the expense of overall system performance.

2.2.4. Sectoral adaptation of the framework

While the four dimensions of systemic competitiveness provide a universal conceptual framework, their concrete manifestation and measurement necessarily vary across the three main pillars of financial intermediation: banking, capital markets, and long-term savings and insurance. Each pillar exhibits distinct business models, risk profiles, and economic functions that shape how competitiveness dimensions materialise in practice.

Banking competitiveness centres on credit intermediation efficiency, operational profitability, regulatory capital strength, and digital service delivery. Capital market competitiveness emphasises market depth and liquidity, price discovery efficiency, infrastructure resilience, and accessibility for issuers and investors. The competitiveness of long-term savings and insurance focuses on the efficient channelling of household savings into productive investment, solvency and portfolio diversification, and digital engagement with savers and beneficiaries.

The regulatory framework for competitiveness must therefore consider not only how each sector performs individually across the four dimensions, but also how sectoral policies affect cross-sector interactions and the system's overall capacity to support economic growth. The specific indicators for measuring these dimensions across sectors are developed in the operational framework presented in subsequent sections.

3. MEASURING THE FOUR PILLARS: KPI FRAMEWORK AND DESCRIPTIVE DIAGNOSTICS

3.1. CONCEPTUAL FRAMEWORK FOR MEASUREMENT

For financial competitiveness to transcend political rhetoric and become an operational regulatory objective, it is essential to develop a robust system of KPIs. These must be able to measure, compare, and evaluate the performance of the European financial system. This measurement framework must be comprehensive, internationally comparable, and sufficiently granular to identify specific strengths and bottlenecks in systemic competitiveness.

The proposed framework translates the four conceptual dimensions of systemic competitiveness developed in the previous section into concrete, measurable indicators. Each dimension is operationalised through a set of KPIs that capture both absolute performance and the relative position of the European financial system in the global context. The indicators have been selected based on three fundamental criteria: (i) availability of comparable and temporally consistent data, (ii) demonstrated theoretical and empirical relevance in the literature, and (iii) capacity to inform regulatory policy decisions.

This section presents the complete KPI framework organised according to the four dimensions of competitiveness, followed by descriptive analysis of available data that reveal significant patterns in the evolution of European financial competitiveness.

As shown in Table 1, the framework comprises 28 core indicators distributed equally across the four dimensions, ensuring balanced coverage while maintaining analytical tractability. Each dimension contains seven indicators that follow a logical progression from foundational elements to more sophisticated measures of competitive performance. This structure facilitates both comprehensive assessment and targeted diagnostic analysis of specific competitiveness components.

The framework is designed to be extensible, allowing for the incorporation of additional KPIs as data availability improves and regulatory priorities unfold. Future iterations may include sector-specific indicators, emerging technology metrics, or sustainability-related measures that complement the core competitiveness dimensions without compromising the framework's analytical coherence.

A particular focus of this measurement system is its ability to capture the substantial heterogeneity within the EU. Significant disparities exist across Member States in financial system development, market structure, and competitive positioning. The framework

therefore serves a dual diagnostic purpose: enabling the benchmarking of European financial systems against global peers while simultaneously identifying convergence patterns and persistent divergences within the EU. This intra-European perspective is essential for designing targeted policy interventions that address specific national or regional competitive weaknesses while leveraging areas of relative strength.

Table 1. KPI framework for measuring systemic financial competitiveness

Financing capacity	Profitability & value creation	Resilience	Market participation & digital
Gross household savings rate	Cost-to-income ratio (banks)	CET1 ratio (banks)	Number of listed companies
Total assets of pension funds (% of GDP)	ROE (banks)	Leverage ratio (banks)	Herfindahl–Hirschman Index
Domestic market capitalisation (% of GDP)	Price-to-book ratios (banks)	Total capital ratio	C5 market concentration
Corporate bond issuance (% of GDP)	Investment returns of occupational pension funds	NPL ratio	Internet banking usage (% of users)
Securitised assets (% of total banking assets)	AUM per capita	MREL coverage ratio	Individuals using the internet for buying goods/services (%)
Venture capital investments (% of GDP)	Average size of investment funds	Solvency II ratio	Cross-border digital payment infrastructure and scheme reliance
Private equity investments (% of GDP)	Average cost of investment funds	Combined ratio	Integration of account-to-account (A2A) systems

3.2. DESCRIPTIVE ANALYSIS BY COMPETITIVENESS DIMENSION

The following analysis examines available data across the four dimensions of financial competitiveness for the period 2007–2023, revealing significant patterns in the development of the European financial system and highlighting areas where policy intervention may be warranted. The analysis draws upon data from the European Central Bank, European Insurance and Occupational Pensions Authority, European Fund and Asset Management Association, Eurostat, and other authoritative sources to provide a comprehensive diagnostic of current competitive positioning[40].

3.2.1. Financing capacity of the real economy

The financing capacity dimension captures the financial system's fundamental role in mobilising savings and directing them towards productive investment. This dimension follows the complete intermediation chain, from initial savings generation through institutional channelling to final allocation across different asset classes and risk profiles. The seven indicators are sequenced to reflect this logical progression while capturing the diversity of financing mechanisms that characterise modern financial systems.

Indicator selection

The progression from household savings to sophisticated financing instruments reflects both the savings-investment identity at the macroeconomic level and the institutional evolution of financial systems towards greater specialisation and risk distribution.

Household savings rates provide the foundation for domestic capital formation, determining the resources available for investment without recourse to external financing. Pension fund assets represent the institutionalisation of these savings, creating long-term investment pools that can support patient capital provision. Market capitalisation and corporate bond issuance capture the development of capital markets as alternatives to bank intermediation, while securitisation represents innovation in risk transfer and balance sheet optimisation. Finally, venture capital and private equity investments measure the system's capacity to finance innovation and growth companies that typically cannot access conventional funding sources.

[40] For ease of reading, specific source references for the extensive financial and statistical data are not given at each instance but are available upon request.

Descriptive analysis

Gross household savings rate

Household savings rates demonstrate persistent structural differences across European economies. According to Eurostat, Germany maintains consistently high rates (16–19%, peaking at 23.2% in 2020), while Spain shows the lowest baseline but highest volatility (6.1–17.6%). France and Italy occupy intermediate positions. The 2020 pandemic caused universal increases of 5–9 percentage points, with 2023 levels remaining above pre-pandemic baselines across all countries – Spain showing the largest structural increase (+3.5 percentage points compared with 2019). These persistent differences create fundamental disparities in domestic capital availability across Member States.

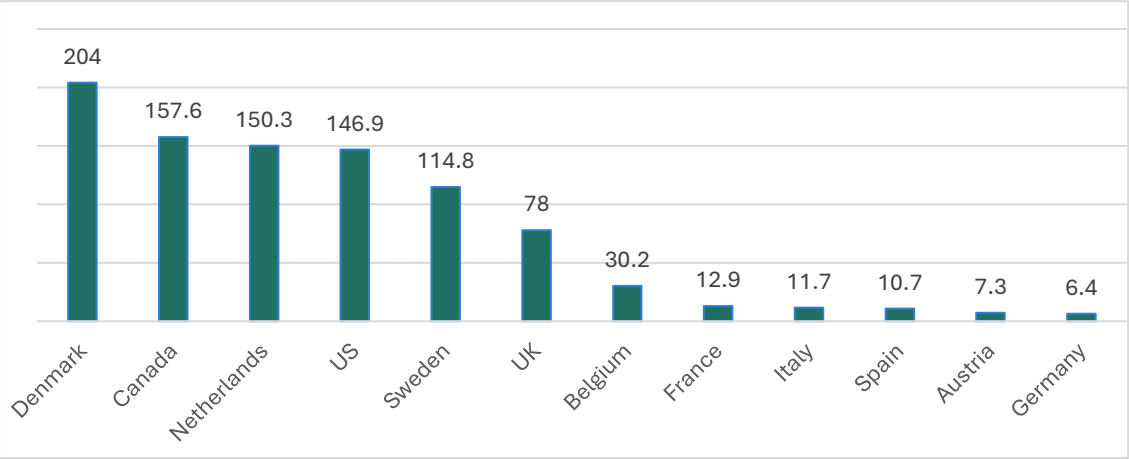
Total assets of pension funds (% of GDP)

Pension fund development reveals the most dramatic heterogeneity within the European financial system, reflecting fundamental differences in pension system architecture that create profound implications for institutional investor development and long-term capital formation. The 2024 ECMI data demonstrate extraordinary variations, with pension fund assets ranging from 6.4% of GDP in Germany to 204.0% in Denmark – a 32-fold difference that represents the starkest institutional divergence within the EU.

Three distinct models emerge from the European data. The Nordic-Dutch model achieves exceptional development, with Denmark (204.0%), the Netherlands (150.3%), and Sweden (114.8%) all exceeding 100% of GDP through mandatory funded systems with long investment horizons. The Continental European model shows minimal development, with Germany (6.4%), Austria (7.3%), Spain (10.7%), Italy (11.7%), and France (12.9%) all under 15% of GDP, reflecting predominant reliance on pay-as-you-go public systems. An intermediate model is represented by Belgium (30.2%), with mixed public-private architecture.

International comparisons reveal the competitive implications of these differences, as shown in Figure 1. The US (146.9%) and Canada (157.6%) align closely with the Nordic-Dutch model, while the UK (78.0%) occupies an intermediate position. This pattern suggests that European economies with developed pension fund systems achieve institutional investor scales comparable to leading global financial systems, while those with pay-as-you-go systems operate with significantly constrained pools of long-term capital.

Figure 1. Pension fund assets as a share of GDP: international comparison, 2024



Source: authors based on the ECMI statistical package.

Domestic market capitalisation and corporate bond issuance

On average, EU capital markets remain comparatively shallow, though there is considerable heterogeneity across Member States. Looking jointly at stock-market capitalisation and corporate bond issuance underscores the persistent dominance of bank-based finance despite years of Capital Markets Union initiatives.

In 2024, equity market depth varied widely, as per data published by the European Commission. The Nordic model was exceptional: Sweden (≈171% of GDP) and Denmark (≈156%) approached the US (≈213%), and the Netherlands (≈135%) was also highly developed. By contrast, the largest EU economies were much shallower: Germany (≈50%), Spain (≈49%), France (≈103%) and Italy (≈37%) all sat under the euro area average (≈63.9%) and the EU27 average (≈64.4%), and far behind the US.

Corporate bond markets are more uniformly weak across Europe. Using 2021 issuance data, Sweden leads at ≈7.4% of GDP – above the US (≈5.05%). Meanwhile, most EU economies cluster at between 2–4%: Germany (≈2.62%), France (≈3.43%), Italy (≈2.74%) and Spain (≈2.30%). By contrast, the US corporate bond market is deep and liquid.

The equity-to-debt development ratio highlights within-country imbalances. France is around 30:1 (equity markedly outpacing corporate bonds), while Italy is nearer 14:1, indicating generally shallow markets across both pillars. Overall, Europe's challenge goes beyond regulatory harmonisation to structural factors – corporate financing preferences, constraints on institutional investor development and the enduring advantages of bank intermediation – that limit the growth of both equity and debt markets.

Securitised assets (% of total banking assets)

Securitisation markets demonstrate profound underdevelopment across the largest European economies, with 2024 data from AFME, the ECB, and own calculations revealing uniformly reduced activity that limits banks' risk transfer capabilities and balance sheet flexibility. The major eurozone economies show remarkably consistently low levels of securitisation activities.

Italy shows the highest levels among major eurozone economies with 0.30% of banking assets in securitised form, followed by Germany (0.18%), France (0.07%), and Spain (0.02%). These levels represent reduced adoption of securitisation techniques despite their potential for enhancing credit supply and risk management. The temporal evolution from 2019–2024 shows little progress, with most economies experiencing stagnation or marginal changes that suggest persistent structural barriers rather than temporary market conditions.

This underdevelopment contrasts sharply with other developed financial systems where securitisation plays a significant role in banking sector efficiency and credit allocation. These patterns suggest structural, rather than cyclical, constraints on securitisation, limiting banks' scope for risk transfer and balance sheet flexibility in the euro area's largest systems.

In response to this persistent underdevelopment, on 17 June 2025 the European Commission proposed a reform of the EU securitisation framework aimed at revitalising simple, transparent and standardised (STS) securitisations[41]. The initiative seeks to enhance banks' risk-transfer capacity and credit supply. It does so by simplifying investor due-diligence obligations, streamlining transparency and reporting requirements, and adjusting capital and liquidity calibrations under the CRR and LCR. The Commission has also indicated that further adjustments to the Solvency II framework could follow, to improve the treatment of securitisation exposures and encourage greater institutional participation. Overall, these measures aim to restore market confidence, strengthen credit transmission and improve the competitiveness of EU financial markets while maintaining prudential safeguards.

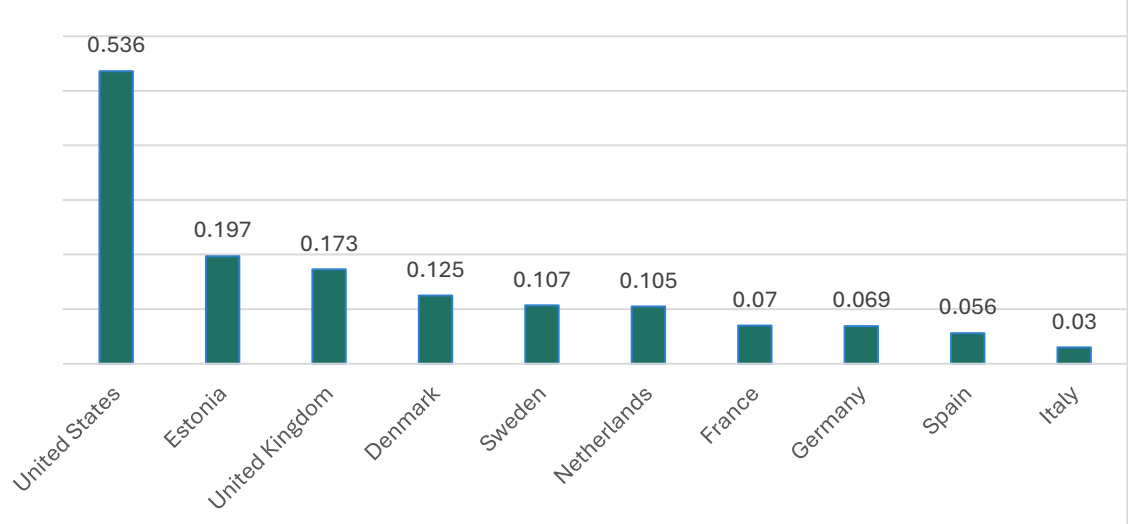
[41] European Commission. (2025). *Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2017/2402 to revive the EU securitisation market*, 17 June 2025.

Venture capital and private equity investments (% of GDP)

Risk capital provision reveals Europe's most significant competitive disadvantage in financing innovation and growth companies, with 2024 OECD and Statista data demonstrating systematic underinvestment relative to leading economies.

Venture capital markets highlight Europe's deficit in innovation financing most starkly. The US achieves 0.536% of GDP in venture capital investment, nearly ten times the average of the four largest European economies (0.056%), as shown in Figure 2. Among European countries, performance varies significantly: Nordic economies Denmark (0.125%), Sweden (0.107%), and Finland (0.093%) achieve relatively stronger positions, while the largest European economies show minimal activity – Germany (0.069%), France (0.070%), Spain (0.056%), and Italy (0.030%) all cluster well under 0.1% of GDP.

Figure 2. Venture capital investment as a share of GDP, 2024



Source: authors based on OECD data.

Private equity markets demonstrate similar but less extreme patterns of European underperformance. The UK leads European activity at 1.63% of GDP, followed by Sweden (1.15%) and France (1.00%). However, the major Continental European economies again show constrained development: Germany (0.22%), Italy (0.21%), and Spain (0.26%) have levels approximately four times less than UK performance. This pattern suggests systematic obstacles to risk capital development beyond regulatory hindrances.

The Nordic advantage emerges across both of the risk capital segments, with Denmark, Sweden, and Finland consistently outperforming larger European economies in both venture capital (0.108% average) and private equity (0.60% average) relative to GDP. This pattern likely reflects supportive entrepreneurial ecosystems, institutional investor sophistication, and regulatory frameworks that encourage risk-taking.

These deficits have profound implications for European competitiveness in knowledge-intensive sectors and technological innovation. The limited availability of venture capital restricts start-up development and early-stage innovation, while constrained private equity markets curtail growth capital for scaling successful enterprises.

This evidence underscores the need to rebalance Europe's corporate financing structure, where roughly two thirds of external funding still comes from bank credit and only one third from capital markets. Reversing this ratio is critical to unlocking more equity-based financing for start-ups and scale-ups, which are the main engines of innovation and long-term productivity growth. Expanding risk capital availability, in parallel with efforts to deepen bond and equity markets, would therefore represent a structural shift towards a more innovative and resilient European economy.

3.2.2. Profitability and value creation

The profitability and value creation dimension examines whether financial intermediaries and market infrastructures generate sufficient risk-adjusted returns above their cost of capital, enabling them to invest in innovation, technology, and competitive capacity over time. This dimension follows a logical progression from core operational efficiency in banking to measures of value generation for investors in savings and investment vehicles.

Indicator selection

The sequence of indicators reflects both the institutional centrality of banks in European financial intermediation and the growing role of institutional investors in channelling household savings. Banking profitability is captured through cost-efficiency, return on equity (ROE), and market-based valuations, which together reveal whether institutions can sustain competitive advantage under regulatory and market pressures. Beyond banking, indicators for pension funds and investment funds capture whether long-term savings institutions deliver value for investors and operate at scales and cost structures that enable international competitiveness.

Descriptive analysis

- Cost-to-income ratio (banks)

The cost-to-income ratio (CIR) provides a standard measure of banking efficiency, with lower ratios indicating greater ability to convert revenues into profits. Across the EU, CIR levels have historically been higher than in the US, where the ratio has remained relatively stable around 58–62% over the past two decades. This structural gap reflects the enduring challenges of European banking systems in reducing costs and improving operating efficiency.

Within the EU, cross-country heterogeneity is striking. Germany has consistently reported some of the highest CIRs in the bloc, frequently exceeding 80% in the 2010s and only recently falling below 60% in 2023–2024. France has also maintained elevated CIRs, often above 70%, illustrating persistent structural inefficiencies despite the scale of its universal banks. Italy displays similarly high ratios, typically in the mid-60s to low-70s range, confirming the burden of legacy costs and limited efficiency gains.

By contrast, several smaller and more concentrated systems demonstrate markedly lower CIRs. Finland and Ireland achieved ratios well below 50% in several years, while Estonia and other Baltic countries recorded some of the lowest CIRs in Europe, in some cases under 30% in the early 2010s. These outliers highlight how scale is not the only determinant of efficiency; streamlined market structures and lower legacy costs can deliver substantially leaner cost bases.

Spain sits closer to the European average, with CIRs in the 50–65% range, reflecting significant restructuring following the financial crisis but also the challenges of maintaining efficiency in a fragmented retail market. The Netherlands, after peaking above 80% in 2008, progressively reduced its CIR to around 52% in 2024, converging closer to US levels. Portugal also made visible efficiency gains, though from a higher starting point.

Taken together, the European landscape is characterised by persistently higher CIRs than the US, substantial intra-European divergence, and only gradual convergence in recent years. The persistence of elevated CIRs in large core banking systems such as Germany, France, and Italy underscores a fundamental weakness: European banks, unlike their US counterparts, have struggled to reap the full benefits of consolidation, technology adoption, and scale economies, constraining their global competitiveness.

- Return on equity and price-to-book ratios (banks)

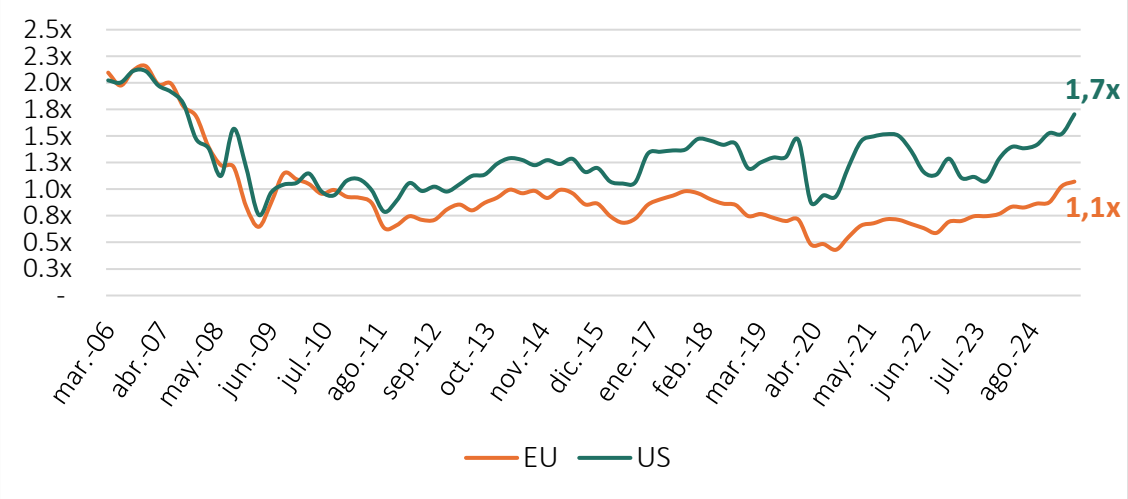
Bank profitability and market valuation are closely intertwined: sustained profitability enables banks to generate capital internally and attract new equity, while market valuations determine their ability to raise capital externally in competitive conditions. Together, ROE and price-to-book (P/B) ratios provide a comprehensive picture of banks' capacity to create value for shareholders and support financial intermediation.

In the US, bank ROEs have typically fluctuated between 10% and 12% since the global financial crisis, comfortably above estimated costs of equity. This profitability has consistently been mirrored in market valuations, with US banks trading at or above book value in most years. In 2023, for instance, the average P/B ratio stood at 1.1, signalling investor confidence in the sector's ability to generate sustainable returns.

By contrast, euro area banks have struggled to deliver comparable profitability. Aggregate ROEs remained persistently below US levels throughout the 2010s, often failing to cover the cost of equity. Even in the recovery of the early 2020s, euro area ROEs of 6–8% remained significantly weaker than their US peers. This structural underperformance has been reflected in market valuations: since the sovereign debt crisis, euro area banks have traded consistently below book value, with P/B ratios hovering around 0.6–0.7 in 2021–2023, as shown in Figure 3.

The divergence is particularly striking in large banking systems. German and French banks have exhibited chronically low ROEs (4–7% in most years), dragging down the euro area average and exacerbating subdued market valuations. Italian banks also remain in the low single-digit range, although restructuring efforts have brought some improvement. Spanish banks stand out as a relative bright spot, however, with double-digit ROEs (around 12–14% in 2021–2024), closer to US peers. This stronger profitability has recently translated into P/B ratios above unity, though well below US peers, as can be seen in Figure 3.

Figure 3. Price-to-book ratios in the euro area and the US, March 2006-June 2025



Source: authors based on a representative sample of listed banks in the US and EU.

Investment returns of occupational pension funds

Investment returns of occupational pension funds provide a complementary perspective on value creation in European financial systems. Unlike banks or investment funds, pension funds are long-term investors whose performance depends heavily on portfolio structure, regulatory frameworks, and demographic context. According to data by EIOPA, returns across the EU have displayed marked volatility, reflecting global financial cycles. The financial crisis of 2008 led to double-digit losses in many countries (–19% in Belgium, –13% in Italy, –12% in Austria), while the recovery years of 2009 and 2019 generated exceptionally positive results, often above 10%. The 2018 downturn again produced

widespread negative returns, underscoring the exposure of funded pension systems to market shocks.

Structural differences between countries are also evident. Systems with higher equity exposure – such as Ireland, Denmark, and the Netherlands – record both higher peaks and deeper troughs, consistent with more market-oriented investment strategies. By contrast, countries such as Germany, Austria, and Italy show more stable but structurally lower returns, rarely exceeding 5% in normal years, reflecting conservative asset allocations. This heterogeneity highlights the absence of a convergent European model of pension fund investment, with performance depending primarily on national portfolio choices and risk appetites.

From a competitiveness perspective, the challenge lies not only in achieving high returns but also in ensuring that these are stable and sufficient to cover long-term liabilities. The dispersion of results across Europe contrasts with the scale and consistency of returns observed in more mature pension systems outside the EU. It highlights the need to deepen capital markets and diversify investment opportunities if European occupational pensions are to generate sustainable value for their beneficiaries.

Investment fund efficiency and cost competitiveness

The structure and cost of investment funds are central to the attractiveness and competitiveness of European capital markets. A first striking feature is the average size of funds: US mutual funds are almost seven times larger than their EU counterparts, with an average of EUR 2.7 billion in assets under management compared with just EUR 0.4 billion for EU27 UCITS. European fragmentation implies that funds operate with smaller economies of scale, limiting their ability to spread fixed costs across a wider investor base. Smaller average fund size also hampers liquidity and reduces their potential appeal to international investors.

This problem of fragmentation is further illustrated by the geographical distribution of assets under management (AUM) across Europe. At the end of 2023, France alone accounted for EUR 4.8 trillion in AUM (16% of the European total), while Germany (EUR 3.0 trillion, 10%) and the Netherlands (EUR 2.0 trillion, 6.6%) followed. Together with Italy and Spain, these five countries make up more than 40% of the EU27 market. By contrast, most other jurisdictions hold negligible shares, under 2%. This dual reality – dispersal across many small national markets combined with concentration in a handful of large hubs – limits the emergence of pan-European economies of scale and underscores the challenge of building a truly integrated asset management industry.

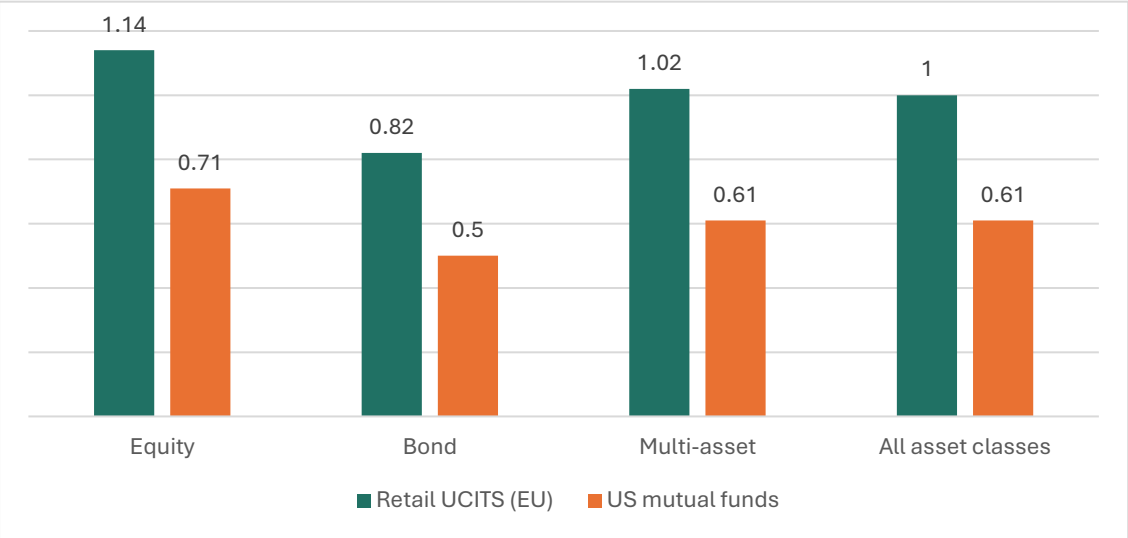
This fragmentation in the investment fund industry is closely linked to the that of the European banking sector. In the EU, investment funds are predominantly distributed

through banks, which remain largely domestic in scope. As a result, the limited cross-border integration of banking networks constrains the ability of asset managers to access a wider retail investor base across the single market. A more integrated Banking Union, with cross-border mergers leading to pan-European banking groups, would therefore not only strengthen financial stability, but also create the distribution channels necessary to foster larger, more scalable investment funds comparable with those in the US.

The cost side brings this picture into focus. Retail UCITS in the EU remain significantly more expensive than US mutual funds across all asset classes. As shown in Figure 4, in 2023, average equity fund costs stood at 1.14% in the EU against 0.71% in the US; bond funds at 0.82% vs 0.50%; and multi-asset funds at 1.02% vs 0.61%. When aggregated across asset classes, EU funds charged an average 1.00% compared with 0.61% in the US. This cost gap is not marginal: compounded over time, higher fees translate into materially lower net returns for European investors, directly undermining the competitiveness of European asset management.

The combination of smaller fund size and higher average costs illustrates the structural disadvantage of EU investment funds vis-à-vis their US peers. This situation raises questions about scalability, regulatory fragmentation, and the limited development of truly pan-European products.

Figure 4. Cost of investment funds in %, EU vs the US



Source: authors' elaboration based on the Noyer report[42].

[42] Noyer, C. (Chair). (2024, April 25). *Developing European capital markets to finance the future*. Committee of Experts

3.2.3. Resilience

A competitive financial system must also be resilient. The ability to absorb shocks, preserve stability, and sustain confidence in times of stress is as essential to competitiveness as efficiency or depth. In the EU, the global financial crisis, the sovereign debt crisis and most recently the pandemic have underscored the central role of prudential frameworks in strengthening resilience. In the US, the crisis of 2007–2008 similarly prompted sweeping reforms. Yet important transatlantic differences remain in the levels and composition of capital buffers, in asset quality, and in the regulatory treatment of banks and insurers. This section examines the comparative resilience of the European and US financial systems through a set of prudential and balance sheet indicators that capture both the banking and insurance sectors.

Indicator selection

The choice of indicators reflects the multidimensional nature of resilience. For banks, the Common Equity Tier 1 (CET1) ratio serves as the primary measure of solvency, complemented by the leverage ratio, which constrains overall balance sheet size regardless of risk weights. The total capital ratio extends the analysis to include additional instruments such as Additional Tier 1 and Tier 2 capital. Asset quality is captured by the non-performing loans (NPL) ratio, while loss-absorbing capacity in resolution is assessed through the minimum requirement for own funds and eligible liabilities (MREL) coverage ratio.

For the insurance sector, resilience is measured through the Solvency II ratio, which reflects available capital relative to regulatory requirements, and the combined ratio, which indicates the underwriting profitability and operational sustainability of insurers. Together, these indicators provide a comprehensive view of prudential strength, highlighting how capital, asset quality, and regulatory frameworks shape the robustness of Europe's and America's financial systems.

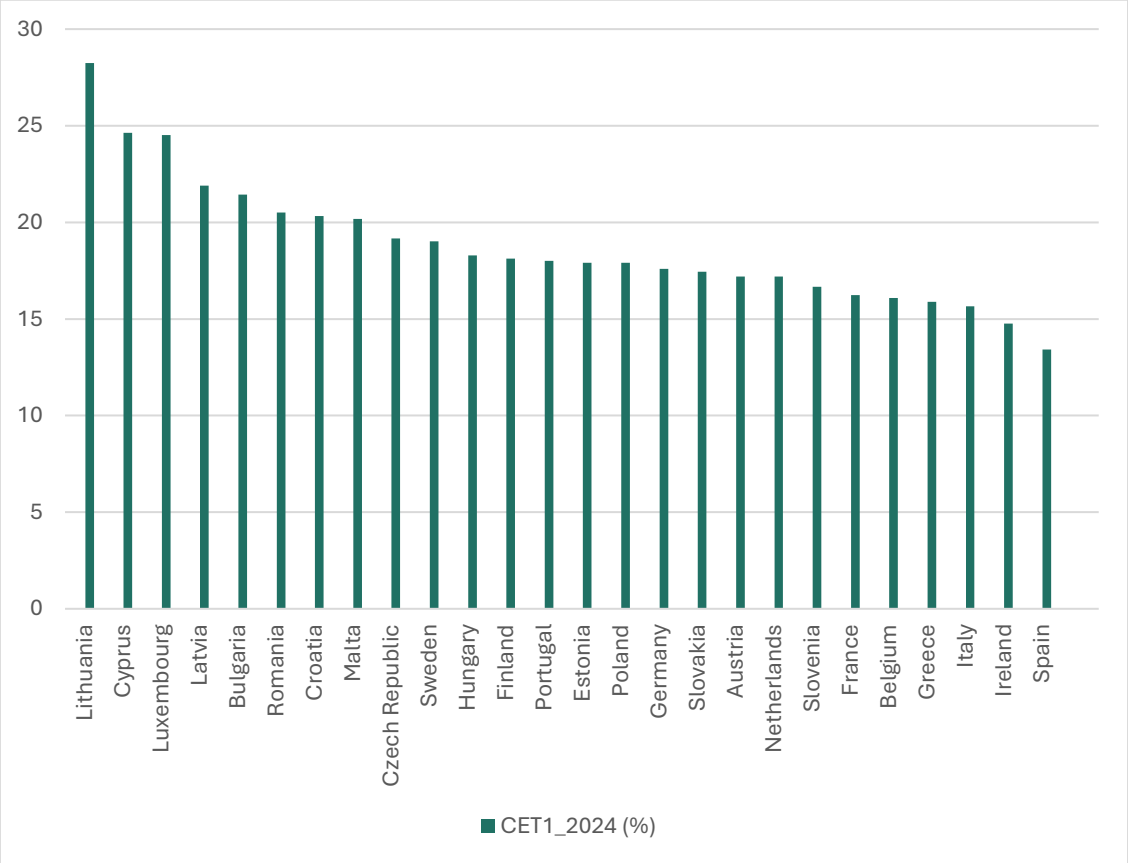
Descriptive analysis

- Capital adequacy: CET1, leverage and total capital ratios

The resilience of the banking system rests primarily on the strength of its capital base. In the EU, the implementation of Basel III and the supervisory framework of the Banking Union have led to a marked improvement in solvency since the global financial crisis. **CET1 ratios** have risen steadily from around 12–14% in 2014 to levels close to 17–18% in 2024, with several jurisdictions such as Cyprus, Lithuania and Luxembourg exceeding 20% (Figure 5). Large economies show more moderate but still robust levels: France and Germany stand at around 16–17%, while Italy and Spain remain closer to 15%. The US, by

contrast, reports CET1 ratios of roughly 12–13%. This apparent gap largely reflects differences in risk-weighted asset (RWA) methodologies, as European banks tend to apply higher average risk weights, which mechanically inflate CET1 ratios relative to US banks.

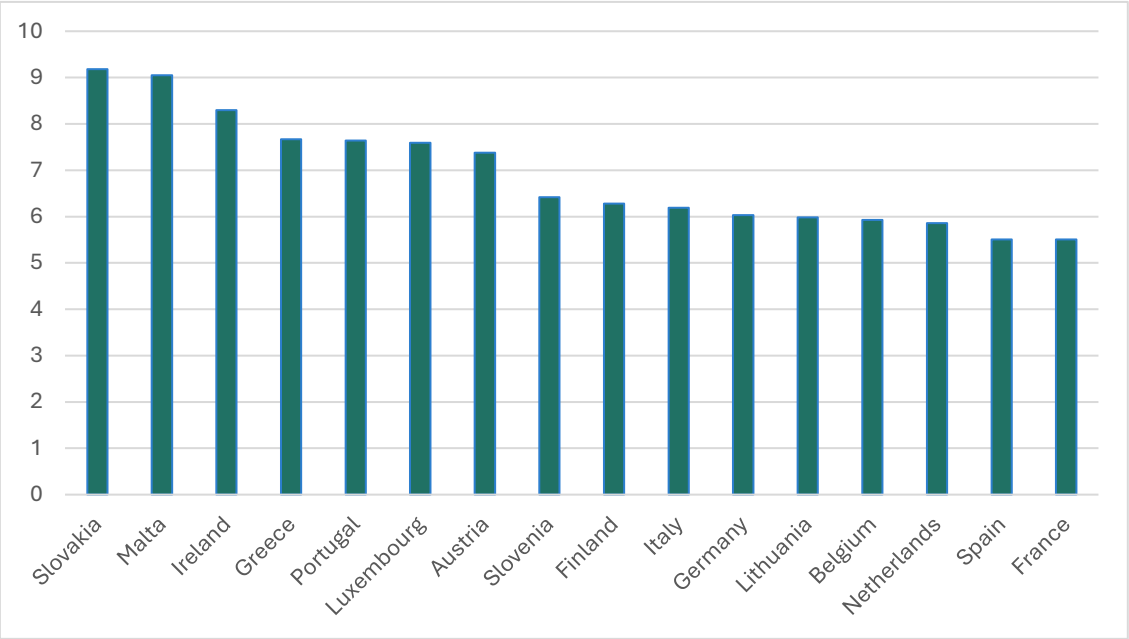
Figure 5. CET1 ratio, 2024



Source: authors based on EBA data.

A more comparable perspective emerges from the leverage ratio, which measures Tier 1 capital against total (non-risk-weighted) assets. Here the transatlantic pattern is reversed: US banks report leverage ratios of 8–9%, significantly above the European average of around 6% (Figure 6). Within Europe, Spain provides a telling case. While its CET1 ratio appears among the lowest in the EU, its leverage ratio is much closer to the EU mean, reflecting the predominance of low-risk mortgage exposures that depress risk-weighted metrics but leave balance sheet size largely unaffected.

Figure 6. Leverage ratio, 2024



Source: authors based on EBA data.

Finally, the total capital ratio, which adds Tier 2 and Additional Tier 1 instruments to CET1, adds to this picture of stronger buffers. Across the EU, total capital ratios consistently exceed 18–20%, above regulatory minima and in line with global peers. Together, these complementary indicators underscore both the progress achieved in European bank capitalisation and the persistent methodological divergences that complicate transatlantic comparisons. For countries such as Spain, they highlight how solvency assessments may vary substantially depending on whether risk-weighted or non-risk-weighted approaches are applied. The introduction of the Basel III output floor is therefore particularly relevant, as it reduces the scope for national models to generate very low risk weights, ensuring greater comparability of capital ratios across jurisdiction.

The European banking system has also demonstrated robust resilience in recent stress episodes, such as the 2023 Silicon Valley Bank collapse, which triggered global market turbulence without destabilising euro area institutions[43]. This stability reflects both the substantial strengthening of prudential frameworks under the Banking Union and the cumulative impact of supervisory capital buffers introduced over the past decade. According to the 2025 GBI–EBF *Cumulative Capital Demand Benchmarking Study*[44],

[43] Thomadakis, A., & Arnal, J. (2024). Ten Years of the Single Supervisory Mechanism: Looking into the Past, Navigating into the Future. *Journal of Financial Regulation*, 10(2), 253-258.

[44] GBI & European Banking Federation. (2025). *Cumulative Capital Demand Benchmarking Study (2021–2024): Assessing the impact of prudential requirements on European banks' lending capacity.* Brussels: European Banking Federation.

minimum CET1 requirements for a sample of 15 major European banks increased from EUR 244 billion to EUR 679 billion between 2021 and 2024 (nearly +180%), while total capital rose from EUR 434 billion to EUR 912 billion. These increases were driven primarily by pillar 2 requirements, RWA add-ons, and macroprudential buffers such as Other Systemically Important Institution (O-SII) and Countercyclical Capital Buffer (CCyB).

The policy priority going forward is to ensure that prudential requirements remain predictable, proportionate and streamlined, allowing banks to plan their capital trajectories more efficiently while maintaining high resilience and suitable financing capacity for the real economy.

Non-performing loan ratio

The trajectory of non-performing loans has been one of Europe's main vulnerabilities since the sovereign debt crisis. NPL ratios in the euro area exceeded 8% in 2014 but have since fallen below 2%, converging towards US levels. This progress reflects both cyclical recovery and targeted supervisory pressure under the Single Supervisory Mechanism, which forced banks to provision and restructure problematic exposures. However, cross-country asymmetries remain: while most northern and western European systems report very low NPL stocks, several southern economies continue to carry legacies of impaired assets, leaving them more exposed in a downturn.

MREL coverage ratio

The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) was introduced in the EU as a cornerstone of the Bank Recovery and Resolution Directive, aimed at ensuring that losses are absorbed by investors rather than taxpayers. Average coverage ratios have steadily increased, approaching or surpassing regulatory targets in most jurisdictions. Compared with the US framework on total loss-absorbing capacity, the European approach has faced greater complexity, reflecting both the multiplicity of banking models and the challenge of fostering a single market for bail-inable instruments. Differences in the depth and liquidity of subordinated debt markets across Member States continue to weigh on the efficiency of MREL implementation.

Solvency II ratio (insurance sector)

The Solvency II ratio extends the resilience assessment to the insurance sector, capturing the capacity of insurers to absorb shocks relative to regulatory capital requirements. European insurers consistently report ratios well above the 100% minimum, typically in the 200–250% range, signalling a comfortable aggregate position. In contrast, US insurers operate under a different regulatory regime, making direct comparisons imperfect. Nonetheless, European insurers' strong capitalisation is a competitive advantage in terms

of policyholder confidence and systemic stability, though dispersion across firms remains notable.

Combined ratio (insurance sector)

The combined ratio, measuring the relationship between claims and expenses relative to premiums, offers a profitability-linked perspective on resilience. A ratio under 100% indicates that underwriting activities are profitable before investment income. European non-life insurers have generally reported combined ratios between 90–95%, broadly comparable with US peers. Yet exposure to climate-related events and inflationary pressures in claims costs has increased volatility, with recent years showing a deterioration towards the 100% threshold in some markets. This highlights the growing importance of integrating climate risks and catastrophe modelling into resilience assessments.

3.2.4. Market participation and digital transformation

The fourth dimension of systemic financial competitiveness captures the extent to which financial markets are contestable, open to participation, and technologically dynamic. A competitive financial system is not solely defined by its ability to mobilise savings, generate returns, or withstand shocks; it must also ensure that firms and investors can access markets under fair conditions, that incumbents face pressure to innovate and improve efficiency, and that digital transformation enhances both the quality and reach of intermediation.

Indicator selection

The progression from market structure to digital adoption and payment infrastructure reflects both the institutional foundations of financial competition and the transformative impact of technology on intermediation. The number of listed companies relative to population size provides a first approximation of market breadth, signalling whether firms and investors enjoy sufficient access and choice in equity markets. Market concentration measures, including the Herfindahl–Hirschman Index and C5 ratios, capture the degree of contestability in banking markets, which remain the core channel of financial intermediation in Europe. High concentration levels may constrain innovation and efficiency, while more open structures can stimulate competitive dynamics. Although these indicators are primarily bank-focused, they provide a useful proxy for competitive conditions across financial services more broadly.

Building on these structural measures, indicators of digital adoption by households and firms reveal the extent to which financial services are modernised and embraced by users. Internet banking usage captures the penetration of digital channels in core financial

services, while the share of individuals engaging in e-commerce provides a complementary proxy for digital readiness, reflecting broader consumer behaviour that conditions the scalability of digital financial services.

The set is completed by indicators that capture the competitive and strategic dimension of Europe's payment infrastructures, which increasingly constitute the backbone of digital financial intermediation.

Descriptive analysis

Number of listed companies

The number of companies listed on regulated markets at year-end provides a measure of the structural depth of equity markets. It reflects the cumulative effect of both new listings and delistings over time, rather than the annual flow of initial public offerings (IPOs). Reported figures generally cover domestic and foreign firms across main and alternative market segments, offering a broad picture of market breadth.

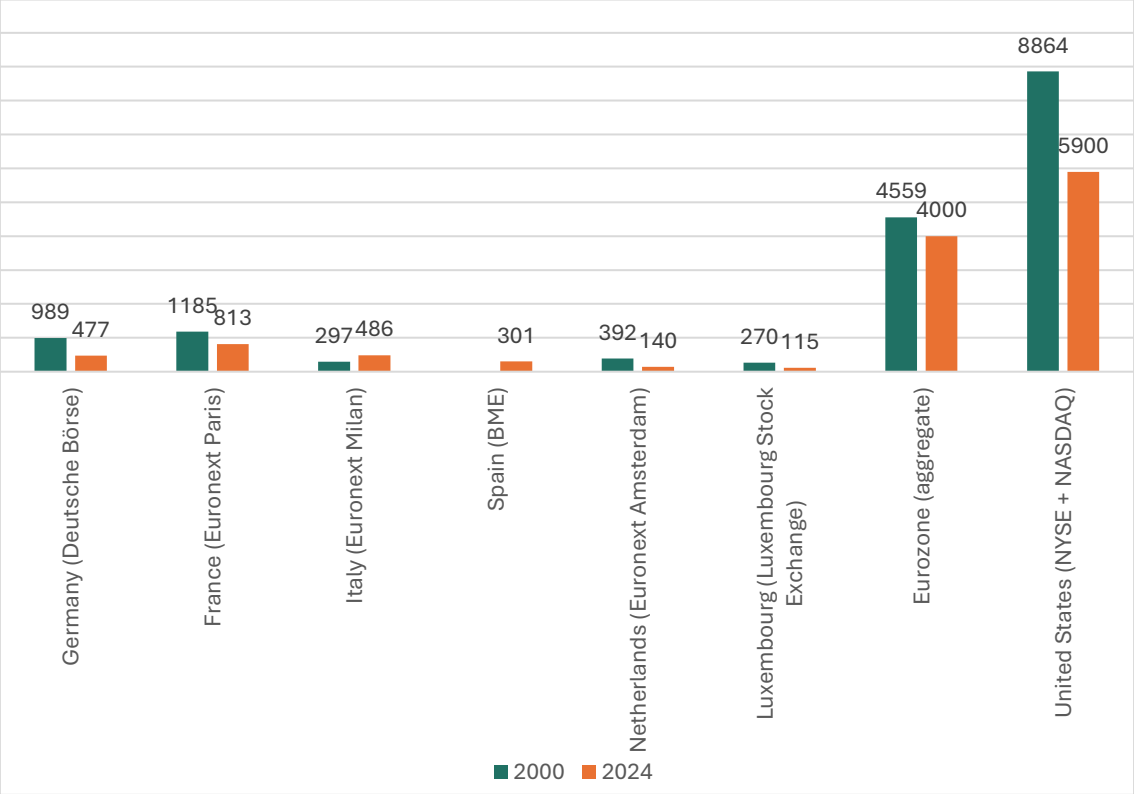
As shown in Figure 7, the euro area has experienced a moderate decline in the overall number of listed firms, falling from 4 559 in 2000 to around 4 000 in 2024. This aggregate trend, however, masks significant divergences across Member States. Germany shows one of the sharpest contractions, with Deutsche Börse listings dropping from 989 to 477 over the period. France has also declined, from 1 185 to 813. The Netherlands and Luxembourg reveal similar patterns, shrinking from 392 to 140 and from 270 to 115, respectively. By contrast, Italy and Spain have proven more resilient: Euronext Milan increased from 297 to 486 listings, while BME maintained relative stability with 301 in 2024.

The US also records a notable reduction, with the combined number of companies listed on the NYSE and NASDAQ falling from 8 864 in 2000 to 5 900 in 2024. Yet even after this decline, US equity markets remain substantially deeper than their European counterparts, hosting almost 50% more listed firms than the entire euro area.

While the decline in IPO activity has been broad-based across advanced economies, the persistent gap between the US and the EU reflects deep structural asymmetries. In the EU, fragmented listing frameworks, heavier administrative requirements, and limited analyst coverage of smaller issuers reduce the incentives for companies to go public. By contrast, the US capital market ecosystem benefits from more uniform disclosure standards, deeper investor bases, and stronger links between venture capital and public equity. Addressing these differences, by streamlining listing procedures and reducing unnecessary bureaucracy, while safeguarding investor protection, would help restore

market depth and make European exchanges more attractive venues for innovative, high-growth firms.

Figure 7. Number of listed companies in selected exchanges, 2000 and 2024



Source: authors based on the ECMI statistical package.

- Market concentration (HHI and C5 ratio)

Market concentration indicators provide complementary perspectives on the degree of contestability in banking systems, which remain the backbone of financial intermediation in Europe. The Herfindahl–Hirschman Index (HHI) captures the overall distribution of market shares across all institutions, while the C5 ratio measures the share of total assets held by the five largest banks. Taken together, they offer insight into whether banking systems are characterised by competitive fragmentation or by the dominance of a few institutions.

ECB data reveal a striking contrast between large and small Member States. For 2024, Germany records an HHI of barely 0.0126, corresponding to a highly fragmented system with no single actor commanding excessive market power. France and Italy also show relatively low HHIs, consistent with diversified banking structures and the presence of multiple large institutions competing for market share. Spain presents a different picture: its HHI of 0.11 reflects substantial consolidation, a consequence of the restructuring that

followed the sovereign debt crisis and the concentration of assets in a handful of large banks.

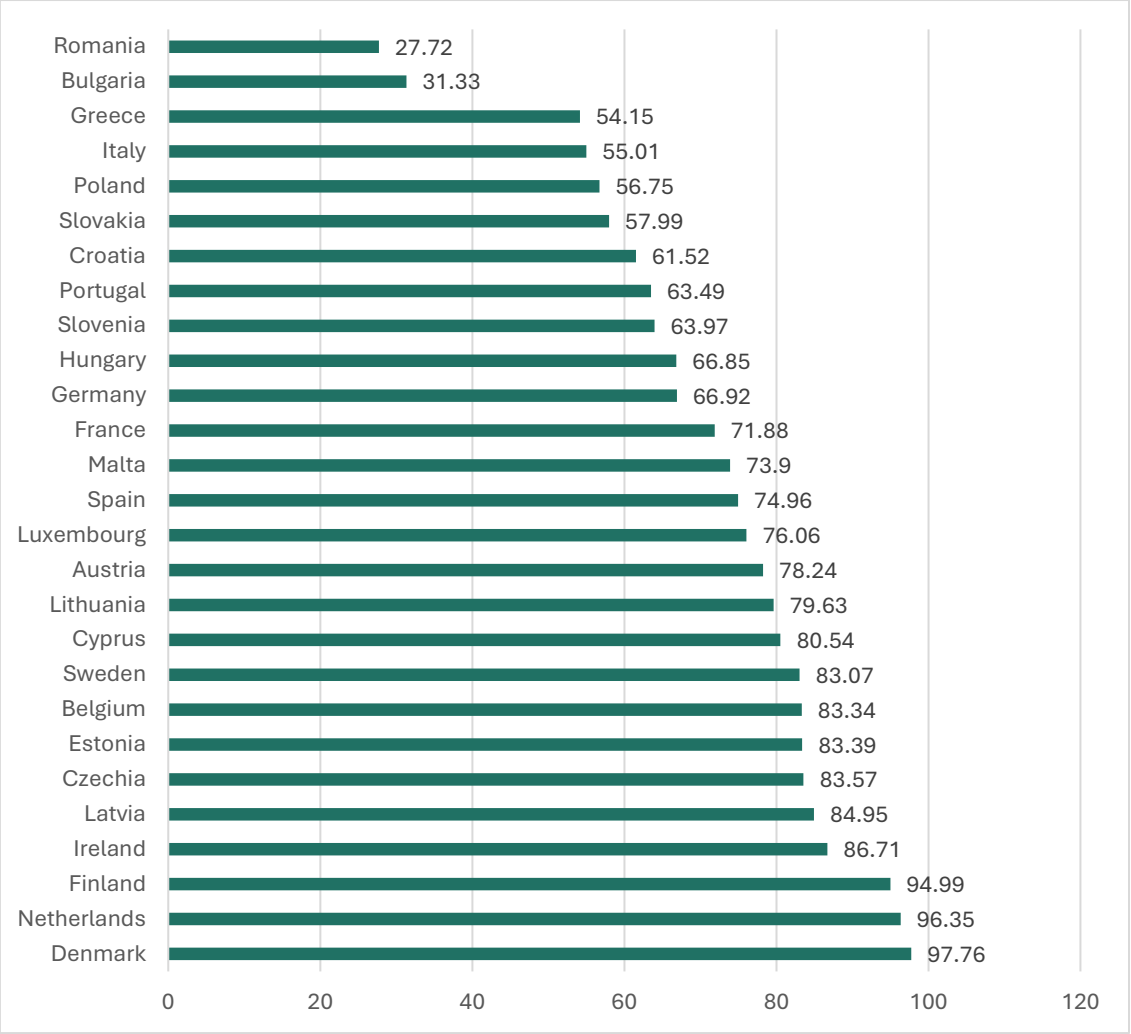
Among smaller economies, concentration is considerably higher. Cyprus stands out with an HHI above 0.31, suggesting an oligopolistic market where a few players dominate credit provision. Similar patterns are visible in the Baltic states and Malta, where small domestic markets naturally constrain the number of active institutions. The C5 ratios confirm these asymmetries: in concentrated systems, the top five banks account for more than three quarters of total assets, whereas in Germany the figure is closer to 30–40%, reflecting the coexistence of commercial banks, savings banks, and cooperative networks.

These divergences have significant implications for competitiveness. Highly concentrated systems may generate efficiency gains and financial stability through scale, but they can also reduce pressure for innovation and limit consumer choice. Fragmented systems, by contrast, encourage contestability and local presence, but may struggle to achieve the economies of scale required to compete globally. The EU thus faces the dual challenge of promoting cross-border integration to overcome fragmentation in large markets, while ensuring that concentrated smaller systems remain sufficiently contestable.

- Digital usage: internet banking and e-commerce

The data reveal profound asymmetries in digital adoption across the EU. As shown in Figure 8, Nordic economies such as Denmark, the Netherlands and Finland record near-universal usage of internet banking, with penetration rates of 95–98%. At the other end of the spectrum, Romania and Bulgaria remain at under 35%, highlighting the persistence of a digital divide that is not only north–south but also strongly east–west. Large southern economies such as Italy and Greece also underperform, with adoption rates of barely 55%, while Spain performs somewhat better at around 75%. Germany and France occupy an intermediate position, at roughly 67% and 72% respectively, far behind the leading benchmarks despite their institutional and market depth.

Figure 8. Share of internet banking usage, 2024



Source: authors based on Eurostat data.

Patterns in e-commerce adoption mirror those in internet banking. Nordic countries again lead with usage rates above 90% of individuals purchasing goods and services online, followed closely by the UK and the US, both of which outperform the EU's larger continental economies. The rates in Germany and France are around 75–80%, while in Italy, Spain and several Central and Eastern European Member States they remain significantly lower. The consistency of these divergences across both financial and non-financial channels confirms that digital adoption depends critically on national ecosystems: where infrastructure, digital skills and consumer trust are strong, retail finance benefits from positive spillovers from the broader digital economy; where these conditions are absent, under-digitalisation limits both consumer welfare and the competitiveness of domestic financial institutions.

Cross-border digital payment infrastructure and A2A integration

Cross-border retail payments are central not only to efficiency but also to ensuring that consumers and firms can operate without friction within the European single market. At present, many cross-border transactions continue to rely on international card schemes for e-commerce and point-of-sale payments. Such reliance could pose challenges in terms of cost structures, interoperability, and the ability of European providers to compete on a level playing field with well-established global actors.

Against this backdrop, European initiatives such as Wero (developed under the European Payments Initiative, EPI) and the European Payments Alliance (EuroPA) have started to advance cross-border interoperability. Wero, launched in 2024 in Germany, France and Belgium, aims to offer a unified digital wallet that supports both account-to-account and card-based payments, with planned expansion across the euro area. EuroPA brings together national mobile payment schemes such as Bizum (Spain), Bancomat Pay (Italy) and SIBS/MB Way (Portugal), and has announced collaboration with EPI to explore joint solutions for pan-European payment interoperability.

Account-to-account (A2A) systems, supported by the Instant Payments Regulation, hold particular promise as low-cost and efficient alternatives to card-based payments. Domestic infrastructures are already operational in most Member States, yet cross-border interoperability remains incomplete, limiting network effects and scale economies. The EuroPA initiative explicitly seeks to bridge these gaps by connecting national A2A solutions, while Wero's architecture is similarly grounded in instant payments, offering a pathway towards more integrated and competitive digital infrastructures.

The potential introduction of a digital euro adds a further layer of strategic relevance. A retail version would provide households and firms with a European means of payment integrated into digital wallets, enhancing trust and cohesion across jurisdictions. A wholesale version, by contrast, would improve settlement efficiency among financial institutions and market infrastructures, complementing private schemes rather than displacing them.

Together, these initiatives illustrate that the European challenge is less about replacing non-European providers than about ensuring that domestic solutions achieve critical scale, interoperability and resilience. Cross-border payment integration is therefore both a competitiveness and a strategic priority, determining whether digital transformation strengthens or fragments Europe's financial architecture.

4. POLICY RECOMMENDATIONS FOR ENHANCING EUROPEAN FINANCIAL COMPETITIVENESS

The transition from measuring financial competitiveness to operationalising it as a regulatory objective requires systematic integration into existing regulatory, supervisory, and enforcement frameworks. This section outlines how competitiveness considerations can be embedded within current institutional structures before identifying specific policy interventions informed by the empirical analysis.

4.1. INTEGRATING COMPETITIVENESS INTO REGULATORY FRAMEWORKS

4.1.1. Establishing a secondary competitiveness objective

European financial regulators should adopt competitiveness as a formal secondary objective, following the precedent established by the UK's *Financial Services and Markets Act 2023*. This would require amending the mandates of the European Central Bank's supervisory arm, the European Banking Authority, European Securities and Markets Authority, and European Insurance and Occupational Pensions Authority to include explicit competitiveness responsibilities.

The hierarchy of objectives must remain clear: competitiveness considerations apply when primary prudential and consumer protection objectives are satisfied, or when choosing between regulatory approaches that achieve equivalent safety and consumer protection outcomes. This formulation ensures that competitiveness enhances rather than undermines financial stability while creating systematic pressure to consider competitive implications in regulatory decision-making.

4.1.2. Enhanced regulatory impact assessment

Current EU regulatory impact assessments inadequately address competitive effects, focusing primarily on aggregate costs and benefits rather than distributional implications across different market participants. Enhanced impact assessment should systematically evaluate how regulatory proposals affect the four dimensions of competitiveness using the KPI framework developed in Section 3.

This requires standardised methodologies for assessing how regulatory changes affect financing capacity, profitability and value creation, resilience, and market participation. Impact assessments should explicitly consider effects on market entry barriers, innovation incentives, cross-border competitive positioning, and the relative performance of European institutions compared with international peers. Regular benchmarking against other major jurisdictions should inform these assessments.

4.1.3. Supervisory integration

Individual institution supervision presents the most complex challenges for competitiveness integration, as supervisors must balance individual institution safety with broader market structure considerations. The principle of proportionate supervision provides the foundation for this integration: supervisory intensity should reflect not only individual risk profiles but also institutions' contributions to market contestability and competitive dynamics.

For systemically important institutions, supervision might explicitly consider the competitive implications of supervisory decisions, particularly when discretionary measures could affect market structure. For smaller, specialised institutions that contribute to market diversity, proportionate supervision should emphasise approaches that preserve competitive dynamics while ensuring adequate prudential standards.

Supervisory guidance should help supervisors identify situations where competitive considerations are relevant and establish procedures for balancing them against prudential concerns. This includes developing escalation procedures for supervisory decisions with significant competitive implications and establishing consultation mechanisms with competition authorities where appropriate.

4.1.4. Enforcement and remedial measures

Even in enforcement contexts, the design of remedial measures can significantly affect competitive dynamics while achieving equivalent risk reduction. Competitiveness-informed enforcement should consider whether alternative remedial approaches achieve similar risk mitigation with reduced competitive distortion.

When addressing governance failures, supervisors might give preference to measures that strengthen internal systems over blanket business restrictions that disproportionately affect competitive positioning. Penalty structures should consider competitive implications, particularly for institutions operating in concentrated markets where fines might create barriers to entry or reduce competitive intensity.

4.2. MONITORING AND ACCOUNTABILITY MECHANISMS

4.2.1. Performance measurement framework

The KPI framework presented in Section 3 should form the basis for systematic competitiveness monitoring, with annual reporting to the European Parliament, European Council, and national legislatures. This monitoring should track both absolute performance and relative positioning against major international jurisdictions, identifying areas where European financial systems are gaining or losing competitive ground.

Regular benchmarking exercises should compare European performance across the 28 indicators (and possibly others to be considered) with peer jurisdictions, particularly the US, UK, Canada, and leading Asian financial centres. These comparisons should inform regulatory priority-setting and identify areas where policy intervention may be warranted.

4.2.2. Independent review and adaptation

Independent reviews every three years should assess whether regulatory approaches achieve appropriate balance across all objectives and recommend adjustments to both institutional arrangements and policy priorities. These reviews should examine not only outcomes but also processes, evaluating whether regulators have developed appropriate capabilities for incorporating competitiveness considerations.

Crucially, the monitoring framework must remain adaptive. As financial markets evolve and new competitive challenges emerge, additional indicators should be incorporated to capture changing dynamics. Areas such as sustainable finance, digital assets, and fintech development may require new metrics that complement the core competitiveness dimensions while preserving analytical coherence.

4.3. EVIDENCE-BASED POLICY PRIORITIES

The empirical analysis reveals specific competitive gaps that should inform regulatory and policy priorities within the enhanced framework. These interventions should be guided by continual monitoring of the KPI indicators, with policy emphasis shifting as competitive positioning evolves.

4.3.1. Innovation financing infrastructure

The ten-fold deficit in venture capital compared with the US (0.056% vs 0.536% of GDP) represents the most severe competitive gap requiring immediate attention. Policy interventions should focus on enabling institutional investor participation in venture capital, enhancing tax incentives for risk capital provision, and developing pan-European venture capital platforms that achieve greater scale and specialisation.

The stark variation in pension fund development – from 6.4% of GDP in Germany to 204% in Denmark – simultaneously represents a constraint and opportunity. Regulatory frameworks should enable enhanced alternative investment allocations for existing funds while encouraging pension system reforms that create new institutional capital pools.

4.3.2. Capital market deepening

European corporate bond markets remain underdeveloped across Member States, with even leading performers achieving limited depth compared with international peers.

Priority should be given to harmonising insolvency regimes, strengthening creditor protection, and developing retail investor participation through tax-advantaged investment vehicles.

An important complementary policy lever is the creation of a tax-advantaged framework for savings and investment accounts, as recommended by the European Commission[45]. Such accounts can encourage households to allocate a greater share of their savings to capital markets instead of keeping them in low-yield deposits. However, to prevent distortions such as a reinforcement of equity bias, the scheme must be carefully designed: tax incentives should apply irrespective of the origin of the asset[46] and the qualifying amounts should remain reasonable to ensure both broad accessibility and fiscal sustainability. Together, these measures would help broaden the investor base and channel a larger pool of domestic savings into productive investment.

Building on a stronger retail and institutional investor base, the next priority is to improve the efficiency of European market infrastructure. The fragmentation of European market infrastructure continues to increase costs and constrain liquidity. Accelerating consolidation of clearing and settlement systems, enhanced TARGET2-Securities adoption, and improved cross-border access to markets should be prioritised to achieve the scale economies necessary for global competitiveness.

4.3.3. Banking sector efficiency

Persistent disadvantages in the cost-to-income ratio compared with US peers hamper European banking competitiveness and limit credit provision capacity. Regulatory approaches should enable greater cross-border consolidation within Europe while streamlining compliance requirements through enhanced use of supervisory technology and automated reporting systems.

Additionally, European banks operate with capital structures that may exceed optimal resilience requirements, restraining lending capacity without proportionate stability benefits. Regulatory authorities should review the capital stack to identify components that provide limited risk absorption while imposing significant opportunity costs on credit provision. This includes reassessing the calibration of conservation buffers, pillar 2 requirements, and certain macroprudential measures where international benchmarking suggests European standards may exceed the levels necessary for systemic resilience.

---

[45] European Commission. (2025). Commission Recommendation on savings and investment accounts (in support of the savings and investment union). COM(2025) ___.

[46] Arnal, J. (2025). *El espejismo de Finance Europe: por qué etiquetar el ahorro no resuelve los desequilibrios estructurales europeos* (Apuntes FEDEA 2025/26). FEDEA.

The ongoing sovereign-bank linkages in several Member States continue to distort competitive dynamics and funding costs. Completing the Banking Union through common deposit insurance arrangements should be prioritised to enable more efficient allocation of banking activity across Member States.

Beyond its financial stability benefits, a genuine Banking Union would also enhance the depth and efficiency of European capital markets. Because investment funds in the EU are primarily distributed through banks, the current fragmentation of the banking sector limits the cross-border reach and scalability of these funds. More integrated, pan-European banking groups would provide broader distribution channels, support the emergence of larger investment funds, and ultimately strengthen Europe's institutional investor base. Advancing the Banking Union is therefore essential not only for stability and efficiency in the banking system, but also for fostering more competitive and integrated capital markets.

4.3.4. Digital transformation acceleration

Significant variations in digital adoption across Member States create both competitive disparities and integration challenges. Policy priorities should focus on developing interoperable cross-border payment systems, enabling greater fintech market access, and ensuring that digital transformation enhances rather than fragments European financial integration.

Particular attention should be given to supporting the interoperability of national account-to-account payment systems, building upon initiatives such as EuroPA's efforts to connect domestic schemes like Bizum, Bancomat Pay, and MB Way. Additionally, both wholesale and retail digital euro projects should be accelerated as strategic infrastructure for European financial integration, providing the foundation for reduced reliance on non-European payment schemes while enhancing cross-border transaction efficiency.

4.4. IMPLEMENTATION AND EVOLUTION

These recommendations should be implemented through a phased approach that builds institutional capacity while delivering measurable improvements in competitive performance. Immediate priorities should focus on establishing competitiveness objectives and enhanced procedures for impact assessment, which can be implemented within existing institutional frameworks.

Medium-term implementation involves developing supervisory guidance for integrating competitiveness and establishing systematic monitoring using the KPI framework. This phase should demonstrate measurable improvements in specific indicators while building political support for more substantial reforms.

Longer-term transformation requires the substantive policy interventions identified through indicator monitoring, with priorities shifting as European competitive positioning evolves. The framework's adaptability ensures that new challenges and opportunities can be incorporated as they emerge, maintaining the relevance and effectiveness of integrating competitiveness over time.

Success requires sustained political commitment to viewing competitiveness as complementary to, rather than competitive with, traditional regulatory objectives. The evidence suggests that jurisdictions achieving strong performance across competitiveness indicators also tend to exhibit robust financial stability – signifying that these objectives are ultimately mutually reinforcing when appropriately balanced.

5. CONCLUSIONS

Stability alone is no longer sufficient. For the EU to meet the demands of innovation, the twin transitions and heightened geopolitical pressures, it must cultivate a financial system that is not only resilient but also internationally competitive. Other jurisdictions have already moved in this direction, embedding competitiveness into their regulatory frameworks. The EU cannot afford to fall behind.

The framework developed in this report demonstrates clearly where the European financial system lags: in venture capital, in banking efficiency and in the digital transformation of markets. These structural gaps weaken the EU's ability to channel savings into productive investment and to sustain long-term growth.

Ultimately, advancing financial competitiveness should be understood not merely as a micro-prudential or regulatory refinement, but as a macroeconomic lever to enhance Europe's productivity performance. A financial system capable of delivering affordable credit, fostering innovation and allocating capital efficiently can narrow the long-standing GDP-per-capita gap between the EU and the US, translating regulatory reform into tangible welfare and growth gains.

Embedding competitiveness as a secondary regulatory objective is not a concession to prudential stability but the only way to boost it over time. A system that fails to support growth will ultimately undermine its own resilience, while one that sacrifices soundness for short-term advantage will destroy competitiveness in the long run.

The EU must therefore move decisively from measurement to action, integrating competitiveness into its regulatory and supervisory frameworks and creating the conditions for a financial system that is resilient, innovative and efficient. Only by doing so can finance fulfil its true role as a driver of Europe's economic transformation in a changing world.

CEPS
PLACE DU CONGRES 1
B-1000 BRUSSELS