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POLICY INSIGHT

Towards Greater Competitiveness: The Start of a Longer Journey

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Introduction

Not only is the debate on enhancing the competitiveness of the EU's banking sector of great relevant for the CEE region, but it also finds itself in a pivotal position, as it is among the key enablers of whether several critical building blocks of this agenda will ultimately succeed or fail.

CEE perspective

The topic of competitiveness is not new, but it has gained renewed momentum in the current European legislative cycle (2024-2029). Enhancing global competitiveness has become a key strategic objective for European industry as a whole and, by extension, also for the EU banking sector. Numerous policy debates have taken place in recent months, and a similar number of position papers have probably been produced.

Nevertheless, I would argue that we are still only at the beginning of a longer journey right now: the European Commission has only recently published its Communication on the Competitiveness of the Banking Sector and the Single Market in Banking (as well as a Staff Working Document accompanying it), in which it analyses the key challenges the sector has been facing and in which it outlines - albeit sometimes a bit vaguely - possible policy measures aimed at strengthening the competitiveness of European banks. Legislative proposals, as a follow-up to the Communication, are expected in the first quarter of 2027, and everyone with experience of the EU legislative processes knows that major legislative packages can easily take two to three years to negotiate and adopt. Hence, much remains to be done, and the most significant part of the journey still lies ahead.

For the CEE region, this debate and the subsequent legislative initiatives are very important, and the region has the potential to play a decisive role in shaping the eventual outcomes.

Let me elaborate.

First, capital markets in other parts of the EU are often deeper and more developed than those in the CEE region. As a result, businesses in CEE are more likely to turn to banks for financing than to access capital markets directly. Consequently, the current policy debate specifically focused on the banking sector, rather than the broader financial services ecosystem, is of particular relevance to CEE, where banks will likely also in the foreseeable future remain the primary channel for financing local businesses and supporting economic growth.

Second, the CEE region is likely to be at the centre of the debate on whether the time has finally come to put in place mechanisms that would allow cross-border banking groups to allocate capital and liquidity in a more efficient way across the Single Market. At present, and for very understandable reasons, many EU Member States that host a relatively larger number of banking subsidiaries, compared with parent institutions, remain reluctant to rely on resources held in other jurisdictions. In my view, this hesitation can still be traced back to the Great Financial Crisis, which severely undermined trust. As a result, national authorities often prefer to ring-fence capital and liquidity within their own borders and keep them under their full control. The Association for Financial Markets in Europe (AFME) estimates that over EUR 225 bn of capital and EUR 250 bn of liquidity are trapped in subsidiaries of EU banking groups. Efforts are most likely going to be made to advance banking integration and enable a more efficient use of resources within cross-border banking groups. The voice of the CEE region will carry considerable weight in this discussion.

Third, should decision-makers decide to take further steps towards enabling banking groups to allocate capital and liquidity more efficiently across borders (for example through targeted waivers in the large exposures ruleset), funding costs would be lowered and, ultimately, also the pricing of assets. Such measures, however, shall be accompanied by safeguards, including mechanisms that ensure the timely transfer of capital and liquidity to subsidiaries when needed. Defining and designing these safeguards and the broader balance of rights and obligations could be very critical. If CEE Member States are ready to support deeper banking integration, they could even turn the scale and be the enabler to move forward the intention of creating a European deposit insurance system, which many see as a key safeguard. In the past 11 years, the discussions have been an insuperable impasse and would need a new, forceful momentum, which CEE Member States, jointly, could initiate.

In conclusion, while the debate on banking competitiveness rightly encompasses a wide range of issues, including the inconsistent national implementation of EU legislation, the streamlining of reporting requirements, and the need for targeted refinements in the application of the latest Basel standards, some of its most central questions can neither be addressed nor concluded without the active involvement of the CEE region.

Key takeaways

- The delivery phase of strengthening the competitiveness of Europe’s banking sector has only just begun.
- This policy initiative resembles a big puzzle, composed of many small but interconnected pieces. For some very central ones, the CEE region can be a key enabler of progress.
- Further steps towards greater integration of Europe’s single market in banking are not only urgently needed but also achievable, as the political momentum has been increasingly taking shape.

ABOUT THE AUTHOR

Sebastian Stodulka heads the EU Liaison Office of Erste Group Bank AG, the leading banking group in Central and Eastern Europe (CEE). Previously, he worked at the World Savings and Retail Banking Institute (WSBI) and European Savings and Retail Banking Group (ESBG), as Head of Regulatory Affairs. His work has covered banking supervision, resolution, deposit insurance, capital markets, sustainable finance, anti-money laundering, consumer and investor protection, FinTech, affordable housing, financial education and corporate governance. Sebastian is familiar with the European Banking Institute (EBI), European Banking Industry Committee (EBIC) and Financial Data Exchange (FinDatEx), where he served for several years as a Board/Plenary/Alternate Steering Group member. He holds a law degree from Karl-Franzens Universität Graz and a postgraduate LLM in EU law from Europa-Institut Saarbrücken, and also studied in Spain. He is Austrian, a native German speaker and fluent in English, French and Spanish.

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