bankenverband

Strengthening Europe as a business location: increase bank financing capacity now

The window of opportunity is open – the framework must follow

- **The interest is there.** A recent Deutsche Bank survey of 1,200 executives and decision-makers across 13 non-European markets paints a remarkably positive picture of Europe as an investment location. More than one-third of respondents rate Europe as the world's most attractive economic region, and 81% now attach greater importance to Europe in their investment decisions than they did three years ago. Respondents see Europe's greatest strengths in its growth opportunities, innovative capacity, and economic and political stability.
- **The message:** To translate interest into real investment, business locations and value creation in Europe and Germany, the right political signals and framework conditions are needed now. A two-stack approach is the right way forward: the clearly defined relief measures should be adopted separately and in advance, while the package of structural reforms is negotiated in parallel.

Focus on future financing needs

- With low demand, credit is flowing today, but Europe faces significant investment needs in energy, defence, infrastructure and digitalisation. We should therefore not look at the "lending status quo". The relevant question is rather whether European banks will have sufficient capacity to finance that transition over the coming years.
- Our analysis estimates that EU banks would require an additional €64–141bn of CET1 by 2030, at a stable 14% CET1 ratio, to accommodate expected credit growth. That financing requirement comes as the Europe will increase its capital requirements which will lead to financing constraints for European banks. Europe needs European banks with more financing capacity, not less.
- Bank financing capacity is being added – but not by European banks.
    - Whether you agree or not with the U.S. approach, the five U.S. peers increased their balance sheets in H1 2026 by $1.6 trillion - equal to a large European bank own balance sheet.
    - We now also have data from UK banks. The major UK banks expect to absorb the impact of Basel 3.1 without the need for capital build-up, as the impact itself is either a net positive, or coincides with meaningful reductions to supervisory add-ons (Pillar 2) by the PRA. Some banks, like HSBC, are even seeing a capital benefit.
- We therefore need faster solutions now in Europe. This is about fine-tuning, not lowering capital requirements or deregulation,

Act now to invest in future funding capacity – Banking package comes at right moment in time

- The Commission aims to produce one single package covering a wide variety of topics, including EDIS, treatment of sovereign risk and home-host waivers. We are supportive of making progress on these as fragmentation of the European banking landscape acts as informal and internal tariff.

- However, such an approach takes time to negotiate. And Europe does not have the time to conduct long-dated negotiations. Several temporary relief measures are expiring around 2030-32, while other requirements are being phased in. Loans granted today with maturities of more than 4 years (average maturity of 10-15y) will become subject to this regime already now.
- Banks must factor this already in at this moment. They can only respond by increasing the cost of lending or scaling back their business. This makes robust lending growth when demand picks up again significantly more difficult.
- Immediate relief from future capital increases should not be held back by these negotiations. Measure that relate to this are clearly defined and can be adopted in advance, while the broader structural issues are negotiated in parallel. **The Banking package from the Commission should therefore focus on two-packages.**

Four levers that can have an immediate impact

- **1. Freeze the output floor**
  - The output floor limits the extent to which banks may use internal risk models to reduce their capital requirements. It is being phased in fully by 2030.
  - Without changes, large EU banks would face around 12% more risk-weighted assets and **EUR 450-600 billion less lending capacity** (Oliver Wyman 2026).
- **2. Make the relief for unrated companies permanent**
  - Around 75% of European companies do not have an external rating, including many financially sound small and medium-sized enterprises. Their loans currently benefit from a reduced risk weight of 65%; from 2032, it will rise to 100%.
  - From 2032, such a loan will therefore require around 55% more Common Equity Tier 1 capital (Oliver Wyman 2026).
- **3. Stop deducting software from Common Equity Tier 1 capital**
  - EU banks must deduct some software investments from Common Equity Tier 1 capital; US banks do not.
  - Removing this deduction would create **EUR 140-220 billion in additional lending capacity** and strengthen banks' ability to innovate. Large US banks invest almost four times as much in technology as EU banks (Oliver Wyman 2026).
- **4. Simplify (not harmonise) capital buffers**
  - There are currently seven overlapping buffer layers and, depending on the country, as many as 86 different requirements across the EU; the United States has only three layers.
  - A 1% cap on the buffer for other systemically important institutions alone would enable **EUR 300-400 billion in additional lending** (Oliver Wyman 2026).