

Frank Elderson: Boosting prosperity through deeper integration

Keynote speech by Mr Frank Elderson, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, at the conference "Financing Europe: a new era of strategic investment", Brussels, 12 May 2026.

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Thank you for inviting me to speak today.

Precisely 85 years ago, Altiero Spinelli and Ernesto Rossi wrote what would later become one of the intellectual cornerstones of European integration: the Ventotene manifesto.

While confined under fascism on the small island of Ventotene during the Second World War, they made a radical diagnosis of the underlying causes of Europe's malaise at the time: fragmentation, division and nationalism were preventing Europe from achieving peace, stability and prosperity.

Today, Europe faces a set of interrelated challenges: growth remains too weak. We are still too dependent on external parties for energy, technology and security. The geopolitical environment has become harsher. And the climate and nature crises are accelerating.

Moments like these force us to look beyond the symptoms and reflect on the underlying root causes as Spinelli and Rossi did 85 years ago.

Their diagnosis at the time remains strikingly relevant today.

Whether one examines innovation, growth, energy systems or capital and banking markets, one central issue is impeding our potential, creating disadvantages relative to global counterparts, and undermining our ability to reclaim control over our own future. This issue is fragmentation – a divergence of objectives, accompanied by an emphasis on national priorities.

For a central bank with a price and financial stability mandate this matters because fragmentation impedes the effectiveness of our monetary policy, the efficiency of banking markets and overall competitiveness of the European economy. Fragmentation prevents European businesses from scaling up, allocating resources more efficiently and growing across borders.

In my remarks today I will therefore argue that, looking at the kaleidoscope of challenges the most powerful way to turn the tide across several interconnected fronts is through more Europe. And more Europe means: advancing the savings and investments union, deepening the Single Market, and enhancing integration so that we can unleash our full potential.

We should not ask how much Europe we can live with. We should ask how much Europe we need to thrive.

Role of banks in supporting a competitive real economy

Europe having a bank-based economy means that a well-functioning banking market is essential for spurring innovation, channelling savings into productive investment and preserving trust in times of stress.

Europe's real economy doesn't need a short-term investment boom, but rather steady, persistent, through-the-cycle support. This requires a resilient banking sector, one that takes risks responsibly and manages them prudently,

In this light, the ECB's recent response to the Commission's consultation on banking sector competitiveness¹ highlights that sound regulation and effective supervision have made European banks stronger.

Today's banks are better capitalised, more liquid and have better risk management. Banks have better governance and improved operational resilience, for example against cyberattacks - for which continuous improvements remain critical.

Euro area banks are considerably more profitable than they were a decade ago, and the profitability and valuation gaps relative to international peers have narrowed significantly.

Importantly, this strength enabled banks to act as an anchor of stability in challenging times. Rather than amplifying shocks, banks kept the flow of finance to businesses and households even in the direst circumstances – a once-in-a-generation pandemic, the worst energy crisis in 50 years, the most sweeping tariff increases since the 1930s.

Resilience has therefore not held Europe back. On the contrary, it has been one of the preconditions for sustainable growth, enabling Europe to invest and remain competitive.

At a time of heightened uncertainty and mounting risks – ranging from operational disruptions, the climate and nature crises, and banks' links to non-bank finance, including private credit – preserving resilience is crucial. Hence the last thing we should do is lower our guard on resilience.

At the same time as the world is becoming increasingly fragmented with the need for European strategic autonomy increasing almost by the week, we face a broader question: do we have a financial system capable of supporting growth, investment and strategic autonomy at the scale required?

Europe's banking problem is fragmentation, not regulation

The truth is that Europe still lacks truly integrated banking markets. Around 80% of bank lending is granted to households and firms in banks' home countries, fewer than 2% of deposits are held across borders, and cross-border merger activity has fallen sharply compared with pre-crisis levels.

In practice, the European banking market remains largely national rather than truly European.

This lack of cross-border banking is not accidental. It reflects a broader and more fundamental problem: Europe's Single Market is far from single – particularly in services. Banks operate across a patchwork of legal frameworks, consumer-protection rules and insolvency regimes. Instead of operating in one integrated market, they have to deal with up to 27 national variations of EU rules that fragment activity and inhibit cross-border integration and increases the cost for banks of operating outside their home market.

This fragmentation comes at a significant price. When banks are confined to national markets, they cannot fully diversify risks across countries, realise economies of scale, or deploy capital efficiently at European level. As a result, they are less able to finance large, cross-border projects and to support investment where it is needed most.

These constraints matter, particularly at a time when Europe faces unprecedented investment needs – in defence, the energy transition and digital infrastructure. Consider that the green transition alone requires €1.2 trillion of financing – not in total but every single year until 2030.² Financing of this scale requires banks that can operate seamlessly across borders, pool risks and mobilise capital beyond national boundaries. Put simply: fragmentation prevents the banking sector from fulfilling this role effectively.

Any serious competitiveness agenda must therefore begin with a time-bound roadmap to complete the Single Market. We need One Market, so that doing business between Riga and Rome is the same as doing business between Hamburg and Hannover. Removing internal barriers within Europe is a precondition for allowing market forces to work at scale.

At the same time, the ability of euro area banks to build pan-European business models and scale up their activity is constrained by the fact that the banking union is incomplete.

Thus, an important step towards completing the Single Market in banking is to treat the banking union as a single jurisdiction. Cross-border banking should be as seamless as domestic banking. Capital and liquidity should be able to flow freely within cross-border banking groups.

This, in turn, requires further harmonisation of rules in areas where national legal differences continue to impede integration. Today, significant parts of what is not yet a truly single rulebook – including bank governance and licensing – still take the form of directives. These must be transposed into national law, leading to divergence, and sometimes gold-plating. Shifting from directives to directly applicable regulations would support a genuinely single market and help prevent national gold-plating.

To break the current deadlock in banking sector integration, synchronized progress on key banking union components is more important than ever.

First this requires taking concrete steps towards the finalisation of a European Deposit Insurance Scheme (EDIS), with a clear timetable for implementation. This will ensure that deposit safety is perceived the same across the Union, from Tallinn to Toulouse and Trieste. It will improve diversification of risk, weaken the bank-sovereign nexus and remove obstacles for banks to operate across borders – subject to the same preconditions as apply for domestic groups.

Second, considering that deposit insurance and crisis management are closely intertwined, a strong EU framework for liquidity in resolution is pivotal. Currently, national central banks can offer Emergency Liquidity Assistance (ELA) to solvent financial institutions that are facing temporary liquidity problems but no such functionality exists at euro area level, implying a de facto fallback onto national solutions. This means that all costs and risks associated with ELA are borne by the national central bank in question, with the national government as the ultimate fiscal backstop. Bridging this gap through liquidity in resolution is critical for ensuring good crisis management.

Banks are only one part of the answer, which brings me to the third important point where progress is needed: capital market integration by progressing on the savings and investment union

Currently the EU lacks deep capital markets, hindering the ability of EU companies to finance innovation through risk capital. This is why tangible progress on capital markets integration to boost the availability of equity financing is more important than ever. Capital markets connect European savings with productive investment is more important than ever. Integrated capital markets give households better opportunities to build wealth, while helping firms finance innovation, expansion and scaling up. In other words, if Europe wants more growth, it must become better at turning savings into investment and investment into productivity. This matters both for large companies and financial centres as well as for citizens, households and smaller businesses across Europe.

Last but not least, banks and capital markets don't operate in a vacuum – their competitiveness is also shaped by the strength of the economies they serve. If growth is weak, banks can't be expected to outperform it. And that's why Europe's benign growth outlook isn't something we can fix through banking policy alone. An ambitious competitiveness agenda must be aligned with policies to boost the productive capacity of our economies – such as fostering innovation and structural reforms.

The importance of Europe's diverse banking system

At the same time, deepening the Single Market does not mean moving to a one-size-fits-all banking system. Europe's diverse banking landscape is one of its strengths. In Europe we have a wide spectrum of banks, serving different financing needs, ranging from smaller cooperative, savings and retail banks that support local economies and relationship lending, to universal banks, to larger banks offering capital markets and investment banking services.

In addition, new entrants such as innovative European fintechs can play a key role in diversifying product offering and serving a broader set of clients.

As European supervisor, we have no preference for any specific business model, as long as banks' business model is sustainable, banks are well governed, and risks are well managed so that Europe has an ecosystem in which banks of different types can thrive and operate seamlessly across borders.

Proportionality matters in that model, because a stronger European market should remain open and diverse. Proportionality is already an integral part of the European regulatory framework and the ECB's supervisory approach – the intensity of supervisory interventions is commensurate with the different sizes and business models of individual banks, and differences in their underlying risks.

Even if proportionality is already embedded in the European regulatory and supervisory approach, we see room for further embracing proportionality. To do so the small and non-complex institutions (SNCI) regime, is the natural starting point, while maintaining the Single Rulebook, which ensures the risk-based nature of the prudential framework is retained for all banks. One could consider, for example, increasing the scope of eligible small banks through an increase of the €5 billion threshold of the SNCI regime as well as extending the scope of the simplified rules. Any simpler regime for smaller banks also needs to be accompanied by a credible, flexible and efficient crisis management framework for these institutions.

The role of simplification in the competitiveness agenda

Before closing, let me add that supervisory simplification also has an integral place in the competitiveness agenda. Against this backdrop, the ECB's High-Level Task Force on Simplification has outlined recommendations to the European Commission to simplify the prudential regulatory, supervisory and reporting framework.

Take capital as an example. The risk-based capital stack in the EU is admittedly complex. With up to nine different layers of requirements and buffers, each serving a specific purpose that needs to be met with going and gone-concern funding instruments, the system can be difficult to navigate and, at times, create unintended interactions.

That's why we think that while maintaining resilience, there is room for simplification for example by merging the five existing macroprudential buffers into two. In short, we want simpler requirements, not lower requirements; a framework that is easier to navigate, yet just as steadfast in safeguarding resilience.

Reporting is another important area that offers scope for simplification. We aim to reduce reporting costs by establishing an integrated reporting framework that is accessible to statistical, prudential and resolution authorities.

Undue complexities, duplicated reporting and administrative burden absorb resources that banks could devote to risk management, innovation and better services. This is why ECB banking supervision is implementing a four-pronged agenda to increase the efficiency, effectiveness and risk-based focus of European banking supervision. This agenda includes the ongoing reform of the Supervisory Review and Evaluation Process, several operational initiatives to achieve gains in supervisory effectiveness and efficiency as part of the "next-level supervision" project, promoting a unified supervisory culture across European banking supervision, and assessing supervisory effectiveness.

And our ambitious simplification agenda is already delivering tangible results.

As part of our "next-level supervision" project, we are streamlining processes such as capital-related decisions, internal model approvals, fit and proper assessments, and onsite inspections. In a nutshell, this allows cases that do not significantly affect banks' resilience to be approved more quickly, so we can focus on complex, higher-risk cases.

Take fast-tracking simple capital-related decisions as an example. In the first quarter of 2026, 80% of such decisions were approved within one week on average, where previously they would have taken months.

Or take our new fast-track process for simple securitisations, which in 2026 cut approval times from three months to less than ten working days.

Another streamlining initiative, is our review of the fairly large body of supervisory guides that have accumulated over more than a decade of European banking supervision. In essence, we want to make supervisory guides easier to access and understand. We want to remove outdated or duplicated ones. And we want to make even clearer that they're not legally binding. In the coming months we will identify which documents can be discontinued, update a limited number of those that remain relevant and improve the overall accessibility of supervisory publications.

As an example, we will clarify our views on the management buffer in the ICAAP guide, making it clear that the management buffer is the institution's view on the capital it needs to sustainably follow its business model and does not constitute any supervisory requirement.

Conclusion

Let me conclude.

Europe stands at an important turning point.

In this new world of intensifying geopolitical rifts and shifts, we must act decisively to ensure that our fate is not determined elsewhere. We need to come together and strengthen our strategic autonomy so that we remain masters of our own destiny.

Let me be clear: in this increasingly fractured world, Europe cannot solve every problem alone. But there are important steps we can take ourselves, barriers we can remove ourselves, and strengths we can mobilise ourselves. And for those we have no excuse for delay, no justification for paralysis, no reason for inaction.

So let us move forward and make swift, tangible and time-bound progress on the savings and investments union, a European Deposit Insurance Scheme and the Single Market.

Let us make sure Europe is once again a place where innovators, creators and doers seek opportunity in the world's second largest market.

And let us revitalise growth by getting the fundamentals right so that market forces may solve some of the problems naturally.

To conclude, let me come back once again to one of our European founding fathers, Altiero Spinelli: "The time has come to act decisively and without delay".

Thank you for your attention.

¹ ECB (2026), [Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector](#), April.

² European Commission (2024), "[Securing our future – Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society](#)", *Commission Staff Working Document*, 6 February.