

Euro area banks have transformed from underdogs to contenders



Rolf Strauch, ESM Chief Economist

“Euro area banks have transformed from underdogs to contenders”

Op-ed in *The Banker*, 3 September 2025

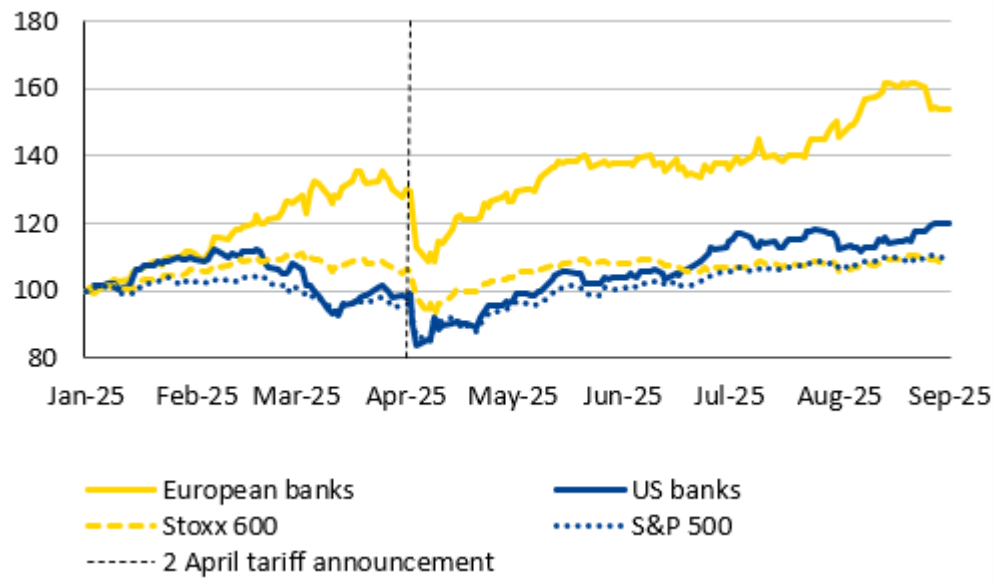
For years, euro area banks have been seen as the laggards of global finance, overshadowed by their American peers and weighed down by low profitability and sluggish market performance.

But 2025 has marked a noticeable turnaround. With a remarkable 54 per cent gain this year, euro area banks are the best-performing sector of the broader Stoxx 600

index, which itself rose by just 9 per cent, and surpassed by far the 20 per cent increase in US bank shares.

Figure 1: European Banks: The best performing sector this year

Stock price indices normalised to 100 on 1 January 2025



Source: ESM calculations based on Bloomberg data. Indices show only the return of constituent bank stocks.

For over a decade, European banks traded below their tangible book value, a clear sign of investor scepticism. Today they stand at 1.2 times book value, closing the gap with US banks at 1.6. This gap has historically narrowed during periods of heightened global uncertainty — such as the current environment marked by trade and geopolitical tensions — yet widened again as uncertainty fades.

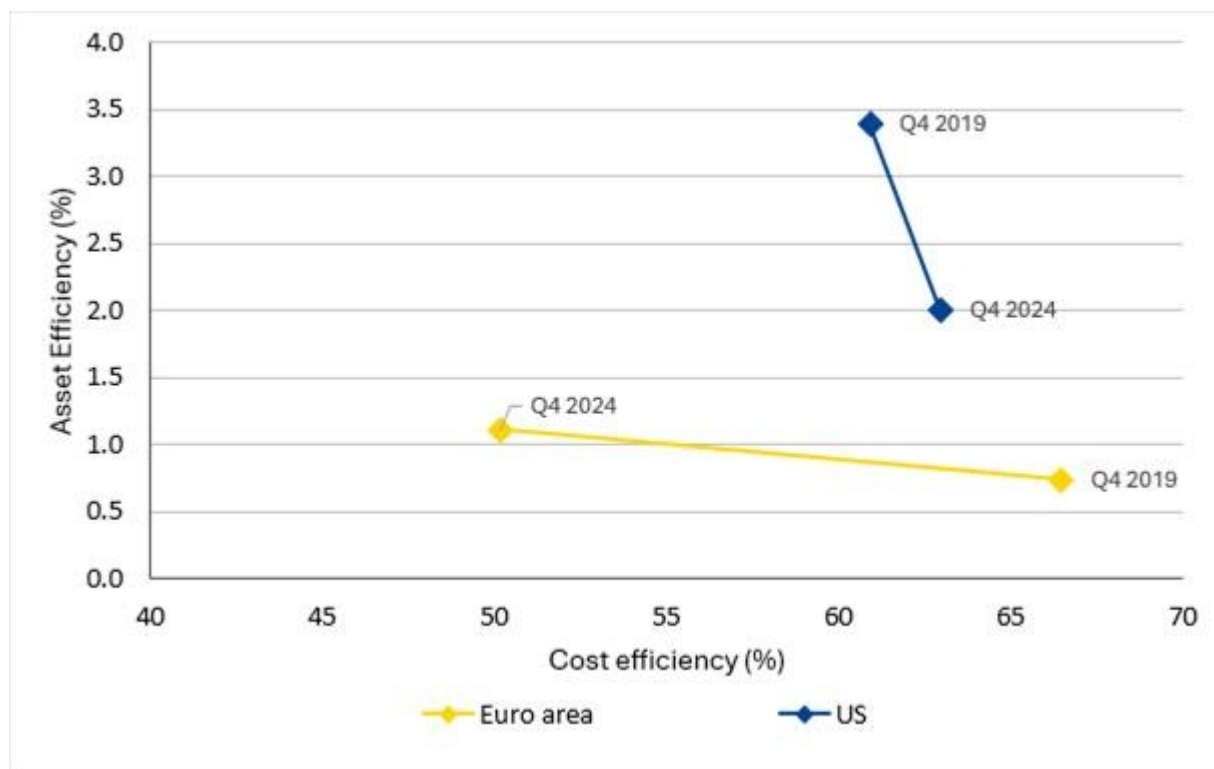
But this time the shift is more than a reaction to global uncertainty; it signals a realignment driven by improved fundamentals and a normalised interest rate environment.

Behind this resurgence lies a decade of steady progress.

Credit quality has improved dramatically. Greek banks, once burdened by a non-performing loan ratio nearing 50 per cent, now sit at 3.6 per cent, close to the euro area average of 2.3 per cent. Capital buffers have grown thanks to stronger regulation and on the back of rising profitability, itself supported by declining cost-to-income ratios, and a rising asset efficiency.

Figure 2: European banks increase cost efficiency but lag in asset efficiency

Asset efficiency and cost efficiency (%) from Q4 2019 to Q4 2024



Source: ESM calculations based on Fitch and S&P data. Asset efficiency is the ratio of income and total assets. Cost efficiency shows the cost-to-income ratio.

While European banks still trail the US in how much income they can generate from their assets, due to structural differences, the gap is narrowing.

Crucially, banks are diversifying their revenue streams. By increasing income from fees and commissions, they are reducing reliance on interest income and improving capital efficiency. The rise in the share of overnight deposits in total deposits has

also helped lower funding costs, further strengthening euro area banks' position.

European regulation, often criticised for being overly stringent, has proven its worth. During the March 2023 banking crisis for instance, it helped shield the euro area from the turmoil that engulfed banks in the US and Switzerland. Besides insulating banks against shocks, strong capital positions have also boosted investor confidence, as earnings are increasingly seen as feeding into capital distributions.

Most striking is the turnaround in southern European banks. Once at the epicentre of the sovereign debt crisis, countries like Greece and Spain now boast some of the sector's top performers. Financial assistance programmes and the accompanying structural reforms of their economies and banking sectors have paid off, restoring fiscal stability and reducing funding costs for both governments and banks.

Even countries that did not receive financial assistance, such as Italy, show notably strong banking sector performance. A combination of supervisory pressure and market discipline has driven consolidation and the exit of the weakest banks.

Despite these gains, challenges remain. Europe's banking landscape is still fragmented, limiting economies of scale. The savings and investments union offers a strategic path forward — combining banking and capital markets to create a more integrated financial system. Completing the banking union, with a European deposit insurance scheme and stronger resolution tools, will not be a silver bullet, but would enhance investor confidence and make scaling across borders a more viable and attractive strategy for banks.

Cross-border bank mergers creating financial and economic value deserve the support of national governments. The capital markets union, the other leg of the savings and investments union, could unlock new revenue streams through standardised investment products and measures to increase retail participation.

Reviving securitisation is another key step. The European Commission's proposal to streamline the framework could help banks transfer risk, free up capital, and boost lending — especially to smaller businesses — without inflating banks' balance sheets.

Euro area banks have shed their underdog status. They are now contenders — more resilient, more profitable, and more strategically positioned than they have been in years. Now is the time to seize this momentum to complete the savings and

investment union, to strengthen Europe's financial sector, and turn it into a driver of economic growth.

Author



[Rolf Strauch](#)

Chief Economist and Management Board Member

Contacts

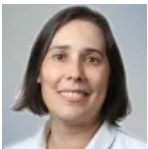


[Cédric Crelo](#)

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu



[Anabela Reis](#)

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



[Juliana Dahl](#)

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu