

Analysis

Can banks finance the EU's strategic priorities?

July 2026

DeNederlandscheBank

EUROSYSTEEM

Can banks finance the EU's strategic priorities?

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Thanks to our colleagues at DNB, in particular Jack Bekooij, Marijn de Jong, Nils Brouwers, Eric Cuijpers, Christiaan Vos, Thomas Zaaijer, Dion Reijnders and Robert van Geffen. Any errors that remain are our sole responsibility.

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Executive summary

The EU faces a large strategic financing challenge, and banks will remain an important part of the solution. The green transition, digitalisation and higher defence spending imply annual investment needs of around €1.2 trillion in the coming years. Given Europe's bank-based financing structure, banks are likely to play a significant role in mobilising private finance. At the same time, not all strategic investments are equally suited to bank financing. The appropriateness of bank financing depends on the risk profile, maturity, collateral, cash flow predictability and legal structure of the investment.

Banks are well-placed to finance projects with manageable risks and fairly predictable cash flows. The nature of the required investments varies in terms of risk profile, maturity and legal and contractual structure. Hence, the appropriate types of bank financing differ as well. Investments with a regular risk profile can be financed through traditional corporate lending. Another, substantial share of the strategic investment is, by contrast, characterised by long maturities, higher risks and capital intensity, as well as more uncertain cash flows or limited collateral. These types of investments are less naturally suited to traditional bank lending and require different structures, such as project finance, syndicated loans or securitisation, or other types of (market-based) finance.

Prudential regulation has strengthened bank resilience and is justified by market failures and inherent vulnerabilities in banking. Banks' capital and liquidity positions have markedly improved compared to the period before the Global Financial Crisis. Also, the probability of systemic crises has decreased significantly, at seemingly low cost. Higher (quality) capital ratios lower banks' funding cost and have only marginally pushed up lending rates, while they do not materially impact banks' competitiveness. Moreover, banks with sufficient capital buffers are less likely to squeeze lending during times of stress, which reduces procyclicality in the system.

Prudential requirements mainly steer the allocation and pricing of bank finance rather than blocking it. Higher capital requirements imposed since the financial crisis have, on average, had no significant impact on long-term levels of bank financing, and only a limited effect in the short run, particularly for less capitalised banks. They do seem to have contributed to a shift towards lower-risk lending, as riskier exposures are subject to higher capital requirements. In addition, expected losses, banks' internal risk management and commercial considerations may also make riskier loans more costly. As a result, relatively safe and less complex projects can be financed on relatively attractive terms. In contrast, higher-risk exposures, such as lending to unrated corporates or project finance structures, tend to be reflected in higher pricing and lower portfolio allocation choices.

Banks' lending decisions are shaped by a broad set of factors, which are at least as important as prudential requirements. Pricing also reflects expected losses, liquidity costs, internal risk appetite, and commercial return targets. In practice, a key question is whether a bank's desired return is compatible with the economics of the investment case. In addition, available expertise, policy (un)certainity, and fragmentation across European markets affect whether projects are deemed bankable. For some investments, larger banks have the scale to step in, while non-bank finance is more appropriate in other cases.

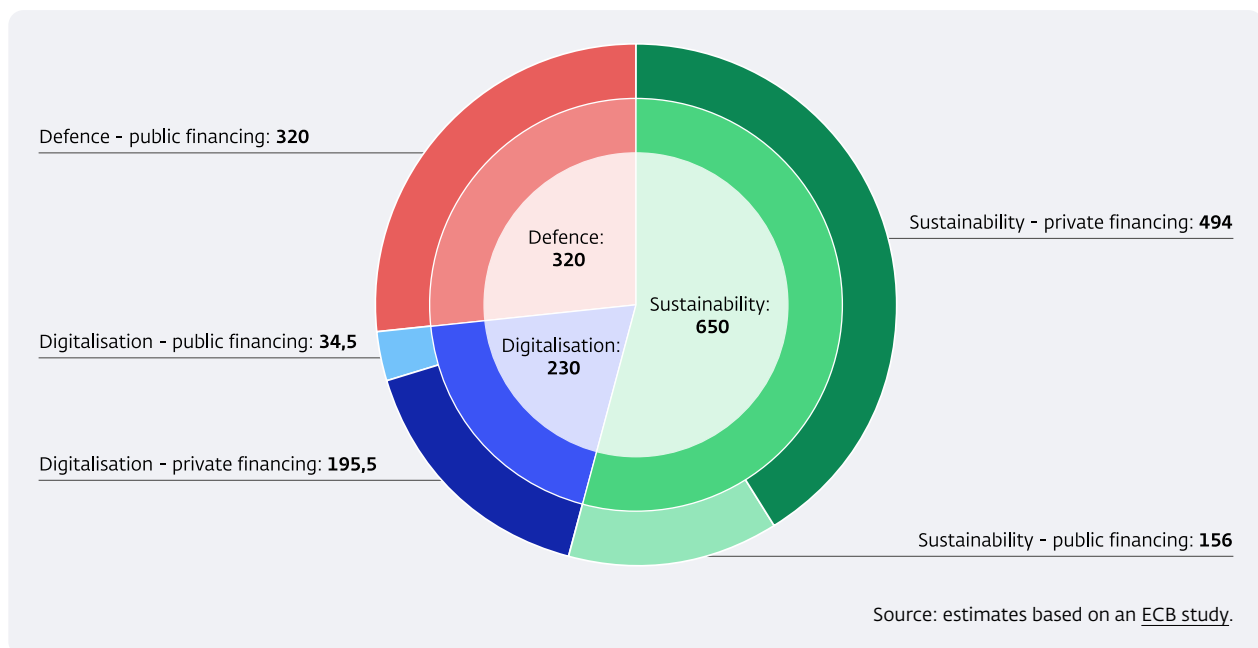
Unlocking more private finance requires better risk-sharing and deeper capital markets, not easing of prudential rules. Lowering capital or liquidity requirements would generate only limited additional lending, while weakening the resilience of the banking sector. More effective measures include completing the Banking Union and the Savings and Investments Union, reducing market fragmentation, strengthening securitisation where risks remain transparent and well-aligned, and using public guarantees, first-loss instruments or European Investment Bank participation where market failures occur. The policy objective should be to enhance the diversity and allocation of capital, while preserving a strong and resilient banking system.

1 Background and context

The European Union (EU) faces strategic challenges that could entail annual financing needs of around €1,200 billion for the period 2025–2031, with banks expected to play a major role.¹

These European challenges include the transition to a sustainable economy, accelerating the digital transformation and strengthening defence capabilities. In total, these financing needs account for approximately 7.5% of the EU's GDP. This will require substantial contributions from both the public and private sector (see Figure 1). Based on ECB estimates, public financing needs (including from existing EU funds) amount to €510 billion and private financing needs to €690 billion per year. These estimates serve as the starting point for this analysis.² These figures represent additional investment compared with historical investment levels. Particularly in the private sector, it is expected that banks will serve as major providers of financing, partly given their existing role in corporate lending.³ Although the demand for private financing, at €690 billion, is substantial, the current stock of outstanding bank loans to European firms totals well over €5,500 billion.⁴

Figure 1 EU annual strategic financing needs (in billions of euros), 2025–2031



¹ We base our analysis on ECB estimates which include, among other things, the EU's Green Deal plans and digitalisation ambitions, as well as the stricter NATO standards; see Bouabdallah et al. (2025), *Time to be strategic*.

² Private financing is provided by private firms and investors.

³ The *ECB Financial Stability Review (2023)* shows that European firms are comparatively heavily reliant on bank financing. Incidentally, banks also play a role in meeting public finance requirements, for example through the provision of credit (by national development banks) to governments or through public investment that feeds into private investment requirements. This could create a second-order role for banks in public investment.

⁴ Based on [ECB estimates](#).

The European financing structure for firms and projects relies heavily on banks, in contrast to the United States, where capital markets play a more dominant role and more risk-bearing (venture) capital is available.⁵ In Europe, banks play a comparatively large role in financing the real economy⁶, while risk-bearing capital is in more limited supply.⁷ European banks have advantages over non-bank financiers, such as existing customer relationships, experience with credit ratings and a central role in channelling savings into investment. Initiatives such as the Savings and Investments Union (SIU) are essential for strengthening the vital role of capital market financing, but will only have an impact in the longer term.⁸ In the coming years, banks will therefore make a significant contribution to meeting the financing needs.

At the same time, there is debate about the impact of (prudential) capital requirements on banks' ability to provide the necessary financing.⁹ Following the 2008 financial crisis, capital requirements were raised worldwide to make banks more resilient and prevent future crises. And not without success: capital ratios have risen and banks have proved resilient to various shocks. Nevertheless, the question is increasingly being raised as to whether the European implementation of prudential regulations is constraining banks' ability to finance economically viable investments and putting them at a competitive disadvantage compared with US banks and non-bank entities, such as institutional investors. The EU is therefore focusing on simplifying and further harmonising legislation.¹⁰ In doing so, policymakers are seeking to strike a balance between ensuring resilient banks and financial stability on the one hand, and maintaining sufficient flexibility to support economic development and strategic investment on the other.

The analysis in this publication shows to what extent these concerns are justified by looking at the impact of prudential regulation on the role of banks as private financiers of the strategic investment challenge. While we acknowledge that non-bank entities should also play an important financing role – one that is both complementary and competitive – this analysis focuses on bank financing due to its dominant role in Europe. Drawing on existing research and economic theory, we examine whether prudential requirements act as a barrier to bank financing or, on the contrary, contribute to a resilient sector capable of supporting the EU's strategic ambitions. In doing so, we focus on capital requirements, supplemented by regulations relating to liquidity, concentration risks and securitisation. In the second chapter, we outline the forms of bank financing that may play a role, and in the third chapter we discuss the prudential framework. Chapter four presents our conclusions.

⁵ See ECB (2023) [Financial Stability Review](#) for a comparison of corporate lending in Europe and the United States.

⁶ See, for example, the [OECD venture capital investment statistics](#) and [World Bank figures on market capitalisation in Europe and the US](#).

⁷ In an IMF publication, Balakrishnan and Pradhan (2025) emphasise that Europe has a relatively large amount of savings, which is only converted to a limited extent into productive investment and risk-bearing capital.

⁸ The further development of European capital markets can help to increase the availability of risk capital and broaden the financing mix; this can be supported by governments through consistent policies and, where necessary, risk-sharing (for example, through guarantees).

⁹ A report by Oliver Wyman (2026), commissioned by the European Banking Federation (EBF), argues that while the stricter prudential requirements have indeed enhanced resilience, they have also limited banks' capacity to finance the real economy. On the other hand, Arnal and Lannoo (2026) state in a report by European think tank CEPS that there is no evidence that the stricter capital requirements have limited the financing capacity of banks in the euro area.

¹⁰ See, for example, European Commission (2026), [Targeted consultation on the competitiveness of the EU banking sector](#).

2 Bank financing

Europe faces major strategic challenges. Bank financing – as the dominant form of financing in Europe – can contribute to these strategic investments in various ways. The most suitable financing structure depends, among other things, on the investment's risk profile as well as its legal, contractual and commercial arrangements.

For strategic investments with a limited risk profile, 'traditional' bank-based corporate lending is usually sufficient. Risks of these investments can be assessed effectively and repayment can be made from the firm's existing cash flows. Under this form of lending, banks provide loans directly to firms, with repayment based on the borrower's balance sheet and cash flows. These loans are usually shown on the lending bank's balance sheet. This type of financing is particularly suited to investment in digitalisation or sustainability within existing business operations (and client relationships), where the risks are limited and predictable, and sufficient collateral is available.

Where investment amounts are large or loan maturities exceed the risk-bearing capacity of a single bank, syndicated loans can spread the risks and balance sheet exposure across multiple banks. Some of the strategic investments are too large or too long-term for any single bank to finance on its own. This applies, for example, to large-scale infrastructure, energy or defence projects. In such cases, multiple banks may jointly provide a single loan, with each bank taking only a portion of the exposure onto its own balance sheet. In this way, risks, capital requirements and financing volumes can be spread across several parties, making it possible to finance larger and longer-term projects. Scale and expertise are key prerequisites in this regard: larger banks generally have greater capacity to arrange complex transactions, absorb risks and develop expertise to assess and manage this type of investments. Banking consolidation within Europe could therefore help to finance major strategic projects.¹¹

For projects involving high initial investment and uncertain cash flows, project finance can help mitigate risks and make financing for such projects viable.¹² This is the case, for example, with projects where revenue is only generated in the longer run. In project finance, banks provide credit to a separate project-specific special purpose vehicle (SPV), with repayment being made from the project's own cash flows rather than those of the project sponsor. These are often unique projects with a heightened risk profile, which are less suited to traditional bank-based corporate lending. Examples include the planning and construction stages of infrastructure, renewable energy and defence-related projects where cash flows are still uncertain or non-existent. Risks are largely isolated within the project, meaning that the sponsor's direct liability remains outside the project. The flip side is that financiers face a higher project-specific risk, which they offset through higher interest rates and fees, and which in practice is often (partly) mitigated by public guarantees or equity participation, for example through national schemes or via the European Investment Bank.¹³ This improves the risk-return profile for private investors, for whom setting up this type of financing is more complex than traditional bank-based corporate lending.

¹¹ See, for example, the DNB publication [DNB's role in mergers and acquisitions involving Dutch banks](#) (available in Dutch), which highlights potential economies of scale, better risk diversification and improved access to finance at larger banks.

¹² See, for example, the [World Bank's](#) description of project finance.

¹³ See, for example, EBA (2026), [Risk Assessment Report](#).

If banks are able to make strategic investments but do not wish to retain risks on their balance sheets, they can use securitisations to transfer those risks and create new financing capacity.

This is particularly relevant in the case of investment that is relatively high-risk at an early stage, but where banks, by virtue of their expertise or customer relationships, can play an important role in initial financing. Banks may then act as originators or arrangers and subsequently reduce part of their exposure by transferring (credit) risks to other investors.¹⁴ This can be achieved through securitisation, loan sales or refinancing, all of which are subject to strict conditions. This gives a bank scope for new lending.¹⁵ Banks thus act as a bridge between bank lending and the capital markets: they can finance projects at an early stage and subsequently attract long-term investors, while retaining a sufficient degree of risk to maintain incentives for careful credit assessment.

Some investments are more complex and carry greater risk, for which risk-bearing capital is often a more obvious choice than bank lending. These projects require, among other things, investment in technologies that are still under development or business models that have yet to prove themselves (including R&D and innovations). Such investments can also be capital intensive, with a long payback period and considerable uncertainty regarding future cash flows.¹⁶ Moreover, it can be difficult to assess risks and returns, as the availability of relevant data regarding opportunities and risks, the investor's reputation or (tangible) collateral is limited. This uncertainty may also be linked to technological developments, changing market conditions or dependence on public policy frameworks. Moreover, public policy frameworks differ considerably within Europe, which results in uncertainty about the feasibility of projects and greater caution among market participants. Given that the return on a loan is contractually capped, while losses can be substantial, such investments are less well aligned with the traditional banking model. Equity participation, venture capital and other forms of risk-bearing finance (possibly complemented by public financing) are better suited to absorbing and mitigating these risks. The relatively limited availability of risk-bearing capital in Europe therefore presents a significant challenge within the broader strategic investment challenge. While banks can also play a role here, they are usually not involved by financing but by arranging the investment transaction.

The key question is therefore not whether banks can finance strategic investments, but which financing structure best suits the characteristics of the underlying risks and financing needs. The role of banks may range from that of a structural financier and participant in syndicated loans to that of an arranger, originator or provider of project finance. Decisions such as these are also influenced by the prudential framework within which banks operate, which, through capital, liquidity and concentration requirements, affects the form and cost of bank financing. In the next chapter, we will discuss how these factors impact the allocation and pricing of bank financing.

¹⁴ A more limited form is synthetic securitisation, under which loans remain on the balance sheet and only the credit risk is transferred, thereby reducing the bank's risk-weighted assets. Other parties assume (part of) the risk, for which the bank pays a fee.

¹⁵ See, for example, Loutskina and Strahan (2009).

¹⁶ These are generally projects involving substantial physical assets and high operational expenditure, such as large-scale renewable energy projects.

3 Prudential regulation and allocation of bank financing

Reforms to the prudential framework have demonstrably made the European banking sector more resilient. At the same time, the framework influences the relative attractiveness of different types of bank financing for the strategic investments, affecting the allocation and pricing. Other factors, such as internal risk assessment, commercial return targets and the expertise required, play a role that is at least as important in the decision to provide finance to strategic projects.

3.1 Prudential reforms and banking resilience

Prudential regulation and supervision are aimed at preventing market failure and mitigating vulnerabilities. Banks play a central role in the economy, but their interconnectedness and business model – due, amongst other things, to their leverage and short-term funding – mean they have inherent vulnerabilities. By setting minimum requirements for capital, liquidity and risk management, the social costs of these risks are internalised. This bolsters the resilience of individual institutions while strengthening the financial system as a whole. Supervisory authorities support this prudential framework by intervening when risks are not adequately managed. In this way, the framework contributes to financial stability and to confidence in the continuity of financial services. Box 1 provides an overview of the main types of market failure and banking vulnerabilities, and how prudential regulation addresses them.

Following the 2008 financial crisis, the prudential framework was tightened in order to address market failure and vulnerabilities in the banking system more effectively and reduce the likelihood of systemic crises. Under the Basel III agreements, banks are required to hold more capital of a higher quality than before, and new rules on capital distributions have been introduced. At the same time, macroprudential policy has been further developed with the introduction of additional buffers. These buffers are intended, on the one hand, to curb the build-up of risks and, on the other, to give banks the scope to continue granting credit under adverse conditions. Minimum standards for liquidity have also been set for the first time, and rules have been drawn up to limit concentration risks. In addition, resolution frameworks have been developed to wind up troubled banks in an orderly manner without causing significant damage to the financial system, and deposit guarantee schemes protect citizens' savings. Finally, regulations have also been introduced to facilitate simple and transparent securitisations.

Box 1 Market failure, banking vulnerabilities and prudential regulation

Banks operate in an environment characterised by market failure and inherent vulnerabilities. Prudential regulation and supervision are intended to mitigate the social costs of such risks and to safeguard the stability of the financial system. In addition, banks are covered by safety-net arrangements, such as the deposit guarantee scheme and the central bank's liquidity facilities. The table below provides a brief overview of the main vulnerabilities and the corresponding prudential response.

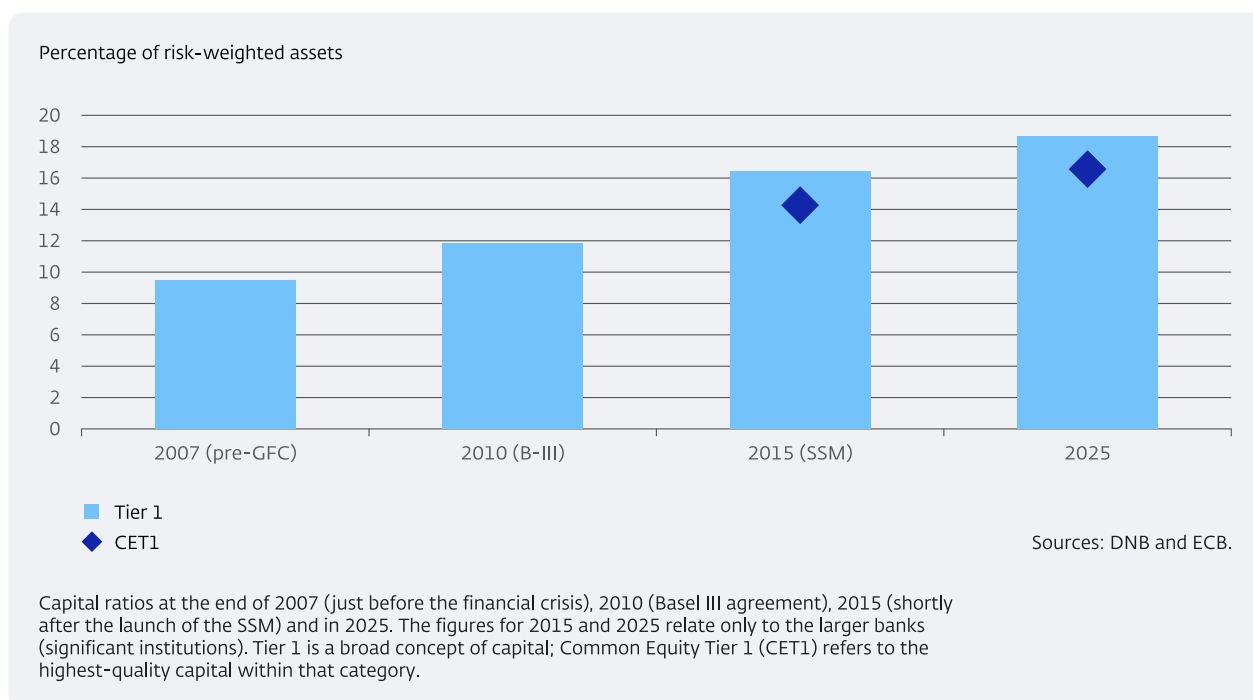
Vulnerability	Why prudential regulation and supervision are needed
Negative externalities of bank failure	A bank failure can affect households, firms and the real economy. Capital requirements and macroprudential buffers ensure that banks can absorb shocks. Supervision helps to ensure that banks manage risks effectively.
Liquidity risk and bank runs	Short-term financing of long-term assets leaves banks vulnerable to an outflow of funds. Liquidity requirements ¹⁷ mitigate this risk. The deposit guarantee scheme gives citizens confidence that their money is safe.
Systemic risk and contagion	Due to the interconnectedness of financial institutions, difficulties at one bank can spread to other banks. Capital requirements, macroprudential buffers and concentration limits mitigate this risk.
Moral hazard arising from expectations of government support	Expectations of government support, particularly for banks considered too-big-to-fail, may result in banks taking on excessive risk. To counteract this, buffers for systemically important banks and resolution requirements ensure that losses are borne primarily by the private sector.
Problematic information position and risk transfer	In securitisation structures, banks know more about loan quality than investors. Transparency requirements and risk retention help to ensure that banks' incentives are aligned with those of investors.

These reforms have clearly strengthened the resilience of banks, both in terms of capital and liquidity. For example, the risk-weighted capital ratios of Dutch banks are now well above pre-crisis levels (Figure 2), and the leverage ratio of the banking sector has doubled from around 3% in 2007 to approximately 6% in 2025.¹⁸ Furthermore, the liquidity positions of European banks have improved significantly since the introduction of these new requirements. Lastly, there are indications that some types of market failure, such as moral hazard, have decreased following the reforms undertaken in the wake of the financial crisis.¹⁹

¹⁷ Liquidity requirements include the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

¹⁸ A bank's leverage ratio is the ratio between its capital and its total exposure. The ratio is used as one of the indicators for assessing a bank's resilience to shocks.

¹⁹ See, for example, FSB (2021), *Evaluation of the Effects of Too-Big-To-Fail Reforms: Final Report*.

Figure 2 Dutch banking sector capital ratios

Empirical studies show that higher levels of capital have contributed to a more stable financial system. Better-capitalised banks reduce the risk of banking stress and systemic crises.²⁰ For example, studies show that such banks were more likely to weather crises and retain market share, while banks with weaker pre-crisis capital and liquidity positions are significantly more likely to fail.²¹ Furthermore, higher buffers help to ensure more stable lending during difficult times. Several studies show that banks with relatively little capital headroom restrict their lending more sharply during periods of stress than banks with larger buffers.²²

Furthermore, the economic benefits of preventing systemic crises are considerable, while the costs of higher capital buffers are limited. The increased resilience of banks is a positive development, given the significant economic costs of systemic crises. For example, a BCBS literature review shows that the present value of income losses resulting from a systemic crisis can range from around 40% to as much as 180% of GDP.²³ At the same time, the costs to the real economy of higher capital requirements are limited. It appears that higher capital requirements have only a limited impact on lending rates in the

²⁰ See, for example, Barrell et al. (2010), Behn et al. (2013) and BCBS (2022).

²¹ See Berger and Bouwman (2013) and Vazquez and Federico (2015), with the latter study finding that a 3.5 percentage point increase in pre-crisis capital buffers of international banks would have resulted in an approximately 48 percentage point lower likelihood of failure.

²² See, for example, Berrospide et al. (2021), Jiménez et al. (2017), Oliveira & Serra (2023), Couaillier et al. (2021) and Couaillier et al. (2022).

²³ See BCBS (2019) and the earlier study BCBS (2010).

longer term.²⁴ Furthermore, other studies show that higher capital ratios are associated with lower funding costs for banks, due to lower risk perceptions amongst investors and creditors.²⁵ Nor is there any unambiguous negative correlation between capital requirements and the efficiency and market value of banks.²⁶

These results show that the prudential framework has succeeded in substantially increasing the resilience of the banking system at a relatively low economic cost. However, that does not mean that prudential requirements are neutral with regard to lending. As risks are translated into capital, liquidity and other prudential requirements, they also impact the relative attractiveness of different types of financing. The following section discusses how these mechanisms affect the allocation and pricing of bank financing for strategic investments.

3.2 Prudential requirements and their impact on financing

The prudential framework enhances banks' resilience by translating risks into prudential requirements, but in doing so also influences the relative attractiveness, pricing and allocation of credit. When assessing the risks inherent in a loan, a lender examines the legal and economic structure of an exposure, such as the type of counterparty, the collateral and the predictability of cash flows. These risk characteristics are subsequently expressed in terms of risk-weighted assets (RWA) and largely determine how much capital a bank must hold. The basic principle is that a bank must hold more capital against higher-risk exposures. This is because such loans carry a greater potential for loss and therefore place a heavier strain on the bank's resilience. To this, banks add their own risk assessment and estimate of expected credit losses. All of this is reflected in the lending conditions: the higher the risk of the loan, the greater the expected losses and capital requirement, and the higher the required margin.

In terms of the EU's strategic financing challenge, relatively safe and straightforward loans can be financed. For relatively safe loans backed by sufficient collateral, fairly stable cash flows or public guarantees, the risk weights are generally low and the prudential framework does not constitute an obstacle. Furthermore, these loans generally match the traditional banking model well and can be offered on relatively favourable terms. Consider, for example, a second mortgage for sustainability improvements to residential houses (with a low loan-to-value ratios), loans to local authorities or public utility companies, or loans backed by a central-government guarantee. Under the European implementation of the Basel Standardised Approach (SA), this type of loan has a risk weight of approximately 0% to 20%.²⁷

²⁴ See Miles et al. (2013) and BCBS (2019).

²⁵ See Schmitz et al. (2017) and Couaillier et al. (2023)

²⁶ For example, Behn & Reghezza (2025) find no empirical link for European banks between capital requirements and profit efficiency, defined as the extent to which banks can generate income from the cost of capital and other sources. Cuijpers (2026) shows that the market valuation of European banks increases on average as a result of announced increases in macroprudential buffers.

²⁷ The risk weighting of these exposures is generally lower if banks – subject to supervisory approval – use internal models. For the sake of simplicity and to clarify the underlying mechanism, this analysis primarily discusses SA risk weights. This is also because SA risk weights play a more significant role since the introduction of the Basel output floor.

Granting more complex or higher-risk loans requires banks to weigh up the options more carefully and is less straightforward. Part of the strategic financing needs relates to loans granted by banks to firms (traditional bank loans and syndicated loans) or provided as project finance (specialised lending), for example to an SPV. Depending on the counterparty's creditworthiness, such loans may involve a higher level of risk and are therefore assigned a higher risk weight.²⁸ The following may serve to illustrate this. In the European framework, corporate loans to larger firms such as Shell (with credit rating AA), SAP (A) or Rheinmetall (BBB) are assigned risk weights of 20%, 50% and 75%, respectively, while (smaller) firms without a credit rating are often assigned a risk weight of 100%.²⁹ The risk weight for project finance provided to an unrated SPV (e.g. a wind farm) is often around 100%, but it can be as high as 130% at the early (pre-operational) stage. To achieve a return comparable to that of a residential mortgage, an interest rate premium of around 1 to 2 percentage points is required under conventional assumptions (see Annex 1). In addition, other factors such as internal risk assessments or expected credit losses result in the addition of further interest rate premiums. The higher risks thus feed through to the pricing and the terms of lending both through prudential and non-prudential factors, making the granting of such loans less straightforward.

For very high-risk investment, equity financing is often more suitable, but this type of financing is less compatible with the banking model and is subject to high risk weights. For investments in innovative firms, start-ups or scale-ups with as yet unproven technologies and a highly uncertain cash flow profile, bank financing is a less obvious choice. After all, with investment of this kind, there is a real risk of losing the entire amount invested, which means that there must be sufficient potential for a high return. The latter is more suited to equity financing than to loans, for which the return is capped at the contractual interest rate. Equity financing is regarded as comparatively high-risk under the prudential framework and, hence, is generally subject to a high risk weight of 250%. The relatively high capital requirements, combined with the limited availability of data and expertise to banks regarding future returns, may complicate bank financing for such projects. For this part of the strategic financing challenge, it would seem obvious, therefore, that non-bank entities, public funding institutions and instruments or capital markets have an important role to play.

Empirical research suggests that higher capital requirements and differences in risk weights influence the way in which banks allocate their lending across different segments. The higher capital requirements under Basel III have, *on average*, had no significant impact on the long-term level of bank lending, despite a limited temporary effect during the phasing-in period, particularly among under-capitalised banks.³⁰ At the same time, there are indications that, in response to higher capital requirements, banks have shifted their exposures towards low-risk segments, and that these requirements have also (temporarily) been reflected in their pricing.³¹ For the EU's financing challenge,

²⁸ The European Capital Requirements Regulation (CRR) includes an infrastructure supporting factor (ISF) and an SME supporting factor (SME SF) which, subject to certain conditions, can reduce the RWA for these sectors by approximately 15-25%.

²⁹ Under the CRR3, during the transition period, a lower risk weight (approximately 65%) may be applied to certain unrated firms, subject to certain conditions.

³⁰ See, for example, Birn et al. (2020) and the BCBS (2019, 2022) for a large group of countries worldwide; Budnik et al. (2021) and Bun & Cuijpers (2026) for European banks, and D'Amario et al. (2026) for UK banks.

³¹ See, for example, Cappelletti et al. (2024), Barbiero en Dimou (2024) and Bun & Cuijpers (2026) for European banks; Raja (2022) for UK banks; Juelsrud & Wold (2020) for Norwegian banks, and Bichsel et al. (2022) for Swiss bank.

this implies that allocating balance sheet capacity to higher-risk – and therefore capital intensive – forms of lending is comparatively less attractive to banks.³² Banks take a selective approach to the deployment of capital, weighing up whether capital should be used for lending with an appropriate risk-return profile, distributed to shareholders, or retained as a buffer to maintain flexibility going forward. The fact that, in practice, European banks typically hold more capital than is required and distribute profits to shareholders gives an indication of their internal assessment of the most efficient use of that capital, and suggests that allocating capital to additional loans is less attractive than capital retention or dividend pay-outs.

Additional requirements, such as liquidity rules and concentration limits, have a particular impact on the structure and maturity of financing. In terms of the strategic financing challenge, this is particularly relevant to long-term projects and credit facilities. For example, the minimum net stable funding ratio (NSFR) requires that such loans are funded with sufficiently stable (and therefore more expensive) funds.³³ In addition, the required liquidity coverage ratio (LCR) may be relevant when granting credit facilities to financing vehicles such as SPVs, given the high probability that these will be drawn down. To limit concentration risk, the prudential framework imposes an explicit upper limit on individual exposures.³⁴ Furthermore, banks apply internal limits to restrict concentrations in their portfolios. These requirements are reflected in the terms and the structure of financing arrangements, meaning that not only credit risk but also the maturity, liquidity profile and size of an exposure are relevant to banks.

An effective securitisation framework can help strategic investments by giving banks greater scope to extend new loans. By transferring some or all of the credit risks to other investors, banks can reduce their risk-weighted assets and free up balance sheet capacity for new lending. This may be particularly relevant in the case of large-scale investment projects where banks play a role in the transition from project finance to broader capital market financing. At the same time, securitisation requires adequate safeguards to prevent banks from passing on risks without retaining sufficient incentives to lend prudently and monitor loans carefully. That is why, in the wake of the financial crisis, stricter requirements were introduced to prevent excessive risk-taking and misaligned incentives. For example, banks must be more transparent about what they are selling and are obliged to absorb initial losses (e.g. by retaining the junior tranche). The European securitisation framework is currently being revised to further promote the use of securitisations, including through a more risk-sensitive capital treatment and a simplification of the framework.³⁵ This will allow securitisation to contribute more effectively to the financing of strategic challenges, provided that risk transfer continues to be accompanied by prudent risk management.

³² Oliver Wyman (2026) also argues that banks are facing restrictions due to tighter financial regulations and have therefore shifted their activities towards less capital-intensive segments.

³³ There is some evidence that the NSFR has no discernible impact on the total volume of lending, but is associated with a relative shift from long-term to short-term lending; see Casu et al. (2026). Research by Agnese et al. (2025) finds that, over time, the NSFR is associated with an increase in borrowing, which suggests that stable financing supports an expansion in lending.

³⁴ In principle, this limit amounts to 25% of Tier 1 capital. For example, the largest Dutch banks have Tier 1 capital in the region of €50 billion, which implies that their maximum exposure to a single counterparty or a group of connected customers amounts to roughly €12 billion.

³⁵ See [Commission proposes measures to revive the EU securitisation framework - Finance](#).

3.3 Implications for the strategic financing challenge

While the prudential framework plays a role in bank lending, it does not constitute a major obstacle to strategic investments. The regulations primarily influence the relative attractiveness of the various forms of financing, the role of banks (as structural financiers, originators, arrangers or participants in syndicated loans) and how these are reflected in pricing through margins and interest rates. At the same time, the framework reduces social costs by internalising market failures, which increases the investment attractiveness for the economy as a whole. Although the strategic projects relevant to Europe cannot be identified precisely in banks' regular reports, available studies also suggest that financing for infrastructure projects, for example, has not declined significantly as a result of stricter prudential regulations.³⁶ Banks have recently even expanded their lending to sectors relevant to strategic investment.³⁷

However, not all strategic investments are well suited to bank financing, which means that non-bank financing and initiatives such as the SIU remain important. In practice, investments involving high risk, long maturities or more uncertain cash flows do not match the banking model well due to prudential regulations, the expertise required, internal risk assessment, liquidity costs, commercial considerations and other factors. In such cases, banks may be reluctant to put such risks on their balance sheets, or may only be willing to finance them at high risk premiums. As a result, financing costs may rise to levels that undermine the economic viability of projects, which may then fail to get off the ground. Although the further development of the European Banking Union and the consolidation of the sector create more scope, it is clear that some of the strategic investments could be more effectively funded by other (non-bank) entities.

The solution therefore lies in improved risk-sharing, market integration and the mobilisation of non-bank financing instead of relaxing capital and liquidity requirements. While banks appear to be well-positioned to meet part of the strategic financing challenge, their role in other, higher-risk investments is less clear-cut. High-risk, innovative firms are particularly in need of risk-bearing capital. Banks are less naturally suited to providing finance in this area; venture capital, private equity, institutional investors, public (finance) institutions and instruments, and wider and deeper capital markets play a more significant role. This emphasises the importance of the further development of the SIU, and the reduction of fragmentation in the single market. In addition, policy certainty, public guarantees, first-loss instruments, subsidies and the involvement of public sector bodies such as the European Investment Bank (EIB) can also help to mobilise private financing. These measures are generally more effective than relaxing capital and liquidity requirements, although a comprehensive assessment of financing effectiveness and efficiency considerations remains essential.

³⁶ See FSB (2018), *Evaluation of the effects of financial regulatory reforms on infrastructure finance*.

³⁷ See EBA (2025), *Risk Assessment Report for the European Banking Authority*.

4 Conclusion

Banks play an important role in financing Europe's major strategic challenges. Over the coming years, annual investment of approximately €1,200 billion will be required for, amongst other things, greening and digitalising our society, as well as strengthening our defence capabilities. This requires significant investments from both public and private parties. Given the dominant role played by banks in private financing in the EU, they have an important role to play. The nature of their involvement will depend, among other things, on the risk profile, maturity, collateral and predictability of cash flows, as well as the legal structure of the investments.

'Traditional' bank financing is well suited to low-risk investment, but less so for projects with a high-risk profile. For investment involving higher risks, longer terms, more uncertain cash flows or limited collateral, bank financing is less of a given. Innovative firms, start-ups, scale-ups and technologies with a high risk of failure but also the potential for high returns are particularly in need of risk-bearing capital, meaning non-bank entities and public (finance) institutions are a more obvious choice as capital providers. Banks can still play a role in these projects. For example, they can act as an originator or arranger, after which part of the risk is transferred to other parties, or as a participant in syndicated loans.

Prudential regulations have strengthened the sector's resilience, while having only a limited and primarily directional effect on bank lending. Reforms to the prudential framework have made the banking system more resilient and mitigated market failures, with only limited effects on credit volumes and prices. Furthermore, any negative effects of the prudential framework appear to be minor and temporary in nature, and mainly affect less well-capitalised banks. Regulations are designed to address market failure and ensure that risks are priced correctly. Consequently, they also influence capital allocation, as banks are required to hold more capital when financing investment with a higher risk profile and, therefore, a greater potential for losses. This may put pressure on the balance sheet and profitability, and may be reflected in pricing through higher margins and interest rates.

Bank lending is influenced by various factors that are at least as important as prudential requirements. For example, banks' internal risk assessments – which are partly linked to their leverage and liabilities, as well as expected credit losses – liquidity costs, available expertise, commercial return targets and demand from businesses and private individuals all play a role in the allocation and pricing of credit. Given that many European banks hold significant amounts of capital in excess of the capital requirements and distribute dividends, it is unlikely that capital requirements will lead to a shortage of available financing capacity. In addition, external factors such as policy uncertainty and fragmentation within the EU also play a role in bank lending.

Better risk-sharing and deepened financial integration are more effective than relaxing prudential regulations when it comes to freeing up more private financing to meet the strategic financing needs. Lowering capital and liquidity requirements will do little to boost lending. If anything, it will weaken the resilience of the banking sector. In contrast, removing barriers in the single market and completing the Banking Union could strengthen the role of banks. Where banks are not the appropriate source of financing, other private sector players will need to step in to finance the strategic priorities.

The broadening and deepening of the European capital markets is essential in this regard to increase the volume and diversity of available private financing. Government guarantees, subsidies and the involvement of public investment banks can also improve the risk-return profile for private sector parties, including banks. Such government interventions may be justified in the event of market failure and as long as other sources of financing are still being developed. Accordingly, improved financing of Europe's strategic priorities can be achieved not by relaxing capital and other prudential requirements but by taking measures that enhance the diversity and allocation of capital. That also ensures that the banking sector's resilience and financial stability are maintained. A stronger European economy requires both sufficient investment and a resilient financial system.

Annex 1 Interest rate premium per loan

From a bank's perspective, credit decisions are determined not only by the risk-free interest rate, but also by the cost of the required capital and subordinated debt. Exposures with higher risk weights place greater demands on own funds and must therefore generate higher margins to cover a bank's cost of capital. By way of illustration, this annex compares a residential mortgage loan with a 10% risk weight to business loans and project finance with higher risk weights. For corporate loans, risk weights ranging from 50% to 100% are applied; for pre-operational project finance, a risk weight of 130% is applied. The calculation is carried out on the basis of a capital structure for a hypothetical significant institution that has a resolution strategy in place. It is assumed that this bank holds 14% in CET1 (including the management buffer), 2% in AT1, 2.5% in T2 and 12% in MREL instruments in order to meet prudential and resolution requirements. Furthermore, in line with recent pricing in financial markets, it is assumed that the equity risk premium is 8%, with spreads of 3% for AT1, 1.5% for T2 and 1% for MREL.

Under these assumptions, for each type of loan, the minimum interest rate required to offset the additional cost of capital arising from the higher RWA figures can be calculated. In this example, for pre-operational project financing with a risk weight of 130%, the minimum break-even interest rate is approximately 1.6 percentage points higher than for a residential mortgage loan. For business loans, the difference is smaller and – depending on the risk weighting – is in the region of approximately 0.5 to 1.2 percentage points. The calculation is for illustrative purposes only and shows only the interest rate premium attributable to the higher cost of capital. Expected credit losses, operating costs, liquidity premiums and commercial margins have not been taken into account.

Table 1 Illustrative interest rate premium caused by differences in capital requirements

Loan type	Risk weight	Break-even interest rate	Premium over mortgage interest rate
IRB residential mortgage	10%	3,3%	0,0%
IRB corporate loan	50%	3,9%	0,5%
SA corporate loan - unrated/BB	100%	4,5%	1,2%
SA pre-operational project finance	130%	4,9%	1,6%

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