

## Why competitiveness shouldn't be a secondary mandate for supervisors

Apostolos Thomadakis

Europe needs a more competitive financial system. Yet assigning supervisors a secondary competitiveness objective is the wrong path for getting there. Competitiveness should be advanced through stronger lawmaking, clearer and more proportionate rules, deeper market integration and better institutional design, rather than by muddying what supervision is meant to do.

The danger isn't just conceptual. It's that supervisors get pulled into political and industry pressures precisely where clarity, independence and discipline matter most.

### Europe does have a competitiveness problem – but this is the wrong answer

Europe faces a competitiveness gap. Growth is sluggish, innovation is elusive, capital markets remain thin and fragmented, and too much funding still relies on structures that aren't delivering for a continent that aims to invest, defend, decarbonise and compete. This diagnosis is broadly accepted – the real dispute begins with what should follow.

A popular idea now gaining traction is to give financial supervisors a secondary objective tied to competitiveness. At first glance, it sounds sensible. If finance is supposed to support the economy, and Europe needs stronger financial systems to back investment and growth, then why not ask supervisors to factor in competitiveness?

The answer is simple – because that isn't their role.



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The European Capital Markets Institute (ECMI) is an independent, non-profit research institute that conducts in-depth research aimed at informing the public debate and policymaking process on a broad range of issues related to capital markets. ECMI's operations and staff are managed by the Centre for European Policy Studies (CEPS).

Competitiveness is a valid public goal. It belongs to economic policy, market structure, legislation and institutional reform. It doesn't fit as a supervisory mandate. Turning it into one wouldn't fix Europe's core issues. Instead, it would blur accountability, dilute purpose and expose supervisors to the very pressures they're meant to withstand.

## **Supervision only works if the mandate is clear**

Supervision functions only when its purpose is well defined. A supervisor's job is to ensure rules are applied credibly, risks are spotted early, standards are enforced consistently and regulated firms don't drift into practices that threaten stability, market integrity or consumer trust. Such a role already demands judgement, independence and a willingness to make decisions that may be inconvenient, unpopular or costly for the industry in the near term. It's not an arm of industrial policy. Nor is it a body for market promotion. And it certainly isn't a PR office for finance.

Introduce competitiveness, even as a secondary goal, and the logic shifts. The supervisor is no longer just asking, 'Is this safe, lawful and consistent?' Now it must also consider, 'What does this mean for growth, market appeal or international standing?' That might seem harmless. It isn't. It injects ambiguity exactly where ambiguity is most risky: in supervisory judgement.

The issue isn't only practical. It's conceptual. Competitiveness is a flexible term. Who do we mean when we're talking about? Large incumbents or new entrants? Banks or markets? National champions or the EU as a whole? Short-term profits or long-term capacity to fund the real economy?

The term sounds precise because it plays well politically. In practice, it can stretch to mean almost anything. And when a public objective can mean almost anything, it invites lobbying, reinterpretation and selective use.

That's why this debate isn't as harmless as it looks. Once competitiveness becomes part of the mandate, every supervisory decision can be challenged on broader policy grounds. A tougher stance on governance, risk controls, reporting gaps or capital planning can suddenly be framed as anti-growth. A stricter reading of the rules can be cast as weakening Europe's competitiveness. Formal independence may remain, but the terms of debate begin to shift. The institution is gradually pulled into a different role. It's no longer just assessing risk and enforcing standards; it's increasingly drawn into arguments about economic strategy.

That wouldn't be just a small tweak. It would be a category error.

## **The UK experiment is real, but it's not a template for the EU**

The UK has already taken a step that some are now proposing for the EU. Under the 2023 Financial Services and Markets Act, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) were given a secondary objective to support the UK's international competitiveness (especially in financial services) and alongside medium- to long-term growth. But the UK approach is narrower than is often portrayed. The objective is tied to regulators'

general functions, rather than to firm-specific supervisory decisions. It's also explicitly tied to international standards and backed by reporting requirements that show how it is being applied in practice.

This distinction matters. The UK model is often cited as proof that adding competitiveness as a secondary mandate is straightforward. In reality, it shows the opposite.

Even within a relatively unified national system, the objective had to be tightly defined, carefully implemented and clearly explained. It required legal safeguards, process adjustments, metrics and accountability tools to avoid confusion with core regulatory goals. The takeaway isn't that competitiveness can be easily added. It's that once added, it must be continually contained.

The key difference is not that the EU would apply such an objective across multiple financial sectors. The UK already does this through the combined scope of the FCA and PRA across banking, insurance and broader market activity. The more important difference is that, in the EU, the debate would extend beyond supervision in the narrow sense. In the case of the European Supervisory Authorities (ESAs), a competitiveness objective could also shape technical standards, guidance, interpretations and convergence tools.

The real distinction lies in institutional structure. The UK operates with two regulators under a single sovereign accountability chain. The EU would have to align such an objective across the ECB's supervisory arm, the EBA, EIOPA and ESMA – each with distinct legal bases, mandates and supervisory cultures – alongside national authorities. In such a setting, a competitiveness mandate would be harder to interpret consistently and even harder to contain.

So, the UK example is not a ready-made model for the EU. It's better read as a cautionary tale on institutional design. If a relatively centralised system already needs so many safeguards to prevent overlap with supervisory functions, the risks to the EU would be even greater.

## **The EU's real problem is structural, not supervisory**

Still, the UK case doesn't change the core diagnosis. The EU's competitiveness challenge doesn't primarily arise from supervisors lacking a growth mindset. It stems from deeper structural weaknesses. Markets remain fragmented. Cross-border activity is more difficult than it should be. Rules overlap excessively. Reporting requirements often duplicate one another. National discretions distort the single market. Layers of legislation have created a framework that's hard to navigate, costly to implement and often misaligned with real economic outcomes. None of this is really about supervisory attitude. It's about political and institutional design.

For the EU, the issue is also broader than supervision in the narrow sense. For the ESAs, the real influence often lies not only in oversight but in rule-shaping: technical standards, guidelines, opinions, interpretations and supervisory convergence tools. A secondary competitiveness objective introduced wouldn't merely affect supervisory tone. It could shape the content and calibration of the framework itself. That makes the question even more delicate. The risk is no longer that supervisors become more hesitant in firm-level judgement,

but that rulemaking and interpretation become exposed to an elastic and politically loaded objective.

That distinction matters. A secondary competitiveness mandate for supervisors risks becoming a shortcut that avoids harder reforms. It lets policymakers appear pro-growth without tackling the real causes of the EU's underperformance. It's far easier to tell supervisors to support competitiveness than to complete market integration, cut fragmentation, simplify rules, remove national barriers, improve legislative discipline and accept the political trade-offs these steps entail. In this sense, the proposal isn't just misguided. It would likely also distract from what actually needs fixing.

Worse, it could create the wrong incentives. Good supervision is rarely glamorous. It's methodical, intrusive, sceptical and often resistant to prevailing sentiment. It raises difficult questions before problems surface. It slows things down when markets push for speed. It demands controls where firms want flexibility. It's meant to counter complacency. A secondary competitiveness mandate would shift that environment. Even without explicit pressure to relax standards, it makes delay easier to justify, intervention harder to defend and industry arguments more politically persuasive.

Supporters of such a mandate will say that all this is overstated. They will say competitiveness would remain secondary, tightly framed and fully subordinate to primary goals. But if that's the case, the obvious question follows: what does it actually add?

If it changes nothing in practice, it's unnecessary. If it's meant to change outcomes, then the concerns are real. Either it is symbolic, in which case it is poor institutional design, or it is substantive, in which case the risks are larger than its advocates admit.

## **Competitiveness belongs upstream, not in supervision**

None of this suggests competitiveness should be ignored. Quite the opposite. It should be taken more seriously than it often is today. But it needs to be addressed in the right place.

Competitiveness belongs upstream, not downstream. It should shape how laws are written, how burdens are assessed, how proportionality is applied, how overlaps are reduced and how trade-offs between ambition and feasibility are managed. It should inform reviews of whether rules deliver benefits that justify their costs. It should guide efforts to deepen capital markets, remove internal barriers, simplify reporting, strengthen supervisory consistency and improve financing conditions for firms and households. These are areas where the EU has real work to do. This is where competitiveness belongs: in better policymaking, stronger institutional design and a more coherent single market.

The supervisory stage comes later in the chain. By the time an issue reaches supervisors, the central question is no longer about the EU's growth strategy. It's about whether existing rules are applied credibly and whether risks are contained before they spread. That requires focus, not expanded mandates that would only blur lined further.

Europe does need a more competitive financial system. It needs one that is deeper, more integrated, less burdensome and better equipped to fund innovation and long-term investment. But it won't achieve this by asking supervisors to carry the weight of an economic objective that belongs elsewhere. The simpler principle is the right one: supervisors should supervise. Legislators should write better laws. Policymakers should be brave and daring enough to remove the structural barriers holding Europe back.

Competitiveness matters too much to be reduced to a vague add-on in supervisory mandates. If Europe wants stronger growth, it should stop chasing symbolic fixes and start doing the harder institutional work. The last thing it needs is to blur supervision in the name of making finance more competitive.