Deloitte.

The relationship government - financial sector: From stability to competitiveness

Why the financial sector should be looked at differently in addition to the defence sector.

July 2025

Why the financial sector should be looked at differently in addition to the defence sector

The next 3 to 4 years will determine the relationship between the government and the financial sector at the Belgian and European level. Crucial decisions will be taken that will profoundly affect the economic future of Belgium and Europe.

These decisions are about shareholder ownership, regulatory framework, and taxes, but most importantly they focus on the mindset regarding the financial sector. That mindset must change if we want to create a globally competitive financial sector.

A. The government and the financial sector: Symbiotic dependence with serious caveats

The government and the financial sector are highly dependent on each other. This dependence has only increased in recent years, at least in Belgium, contrary to what is thought.

1. The government is a shareholder in the financial sector

The Belgian governments (defined in the broad sense) currently hold an "investment portfolio" of well over EUR 18 billion in the financial sector. These participations include interests in Ageas, Belfius, BNP Paribas, Euroclear, Euronext, Dexia and Ethias. The dividend yield on (some of) these participations is substantial: Belfius will pay a special dividend in 2025 and 2026. Belgium remains (relatively) non-interventionist in its role as a shareholder today.

In other European member states, governments are systematically reducing their stakes in banks[1] of which they had become shareholders during the financial crisis (e.g. ABN Amro in the Netherlands, Allied Irish Bank in Ireland, Commerzbank in Germany). The Swiss government has not yet announced that it will sell or reduce its stake in UBS, but the sheer size of UBS's balance sheet (roughly 2x Switzerland's gross domestic product) alone represents a risk to the government.

2. The financial sector finances government debt

Belgian banks and insurers own a significant volume of Belgian government bonds, estimated to exceed €200 billion by the end of 2023. This makes them, together with foreign institutional investors, crucial financiers of federal and regional government debt. The creditworthiness of Belgium and the federated entities therefore has a direct impact on the financial performance and balance sheet value of these institutions. The increasing national debt — which, according to the Federal Planning Bureau, is heading towards 115% of GDP — raises the risk of credit rating revisions. In June 2025, Fitch downgraded Belgium's rating from AA- to A+ and Flanders' rating from AA to AA-. Also in June, Standard & Poor's downgraded Brussels' rating from A+ to A. These downgrades increase the pressure on government debt costs and indirectly negatively impact the performance of financial institutions.

3. The government bears (most of) the risk of failure of the financial sector

Despite the rules on bank resolution and the existence of the *Bank Resolution and Recovery Directive*, the government still bears the de facto largest share of the risk of failure of the financial sector. The current schemes of the Belgian and European deposit guarantee system have important limitations.

This risk is also the government's justification for the additional taxes and taxes imposed on the banking sector. Belgium established a Deposit Guarantee Fund with a target size of 1.8% of the guaranteed deposit volume. To finance this fund, banks pay an annual contribution based on the volume of their guaranteed deposits and their risk profile. European regulations stipulate that the target size of a deposit guarantee fund must be at least 0.8% of the guaranteed deposit volume. In Belgium, the contribution goes directly to the budget in Belgium (and not to a separate fund, as in some other countries), which partially weakens this argument.

Here we can see that an instrument (i.e. the deposit guarantee system) to reduce the interdependence between the government and the financial sector has only incompletely led to a reduction of dependence in Belgium.

4. The government is the regulator and supervisor of the financial sector

As for the entire economy, the international and Belgian governments also determine the rules of the game for the financial sector, for example in the fields of consumer protection or home loans. In addition, the ECB and the NBB impose the capital and liquidity requirements of banks, the suitability of the directors, etc.

In addition, there is an extensive system of supervision of European (e.g. EBA, ESMA, the future AMLA for financial crime) and at the Belgian level (e.g. NBB and FSMA).

Keeping the policies and approaches of all these institutions consistent has proven to be quite a challenge. Additionally, there remains a risk of conflicts of interest in situations where the government itself is the (full) shareholder.

5. The financial sector is an active instrument in the implementation of public policy

The government has entrusted a diverse range of tasks to the financial sector with a view to implementing public policy — in many cases more far-reaching than is the case for other sectors. Financial institutions increasingly function as actors to support public objectives. For example, they are responsible for conducting investigations into their customers and monitoring financial transactions in the context of the fight against money laundering and terrorist financing (AML/CFT). In addition, banks play a gatekeeper role in tax control through reporting obligations such as the Common Reporting Standard (CRS) and FATCA (for US taxpayers).

In recent years, this mandate has been expanded to include areas such as sustainability and climate. Financial institutions must apply ESG criteria when lending and when investing and reporting under European regulations (e.g. SFDR, CSRD).

Insurers are also an important extension of government policy, especially as a shock absorber for climate risks and as an actor in the pension sector. Insurance companies in Belgium are held accountable for their role in absorbing climate damage, and this within a legally imposed framework. Since 2007, they have been

1 We will not explore the role of government investment banks (such as KfW in Germany, CDC in France, Instituto de Crédito Oficial (ICO) in Spain) any further here.

required by law to cover disaster risks up to a certain ceiling. In the event of force majeure, the Disaster Fund can finance the remaining damage. However, the reality turns out to be more complex: during the dramatic floods in Wallonia in July 2021, the costs for the sector amounted to more than €2.1 billion, while the legal ceiling was considerably lower. As a result, the insurers had to contribute much more than legally provided, without compensation or revision of the system.

At the same time, insurers are confronted with restrictions on their pricing policy. For example, in 2023, the federal government decided that drought damage should not automatically give rise to higher home insurance premiums, despite the fact that this loss item is systematically increasing in Flanders. This undermines the principle of risk-based premiums and, in the long term, threatens the solidity of the model. In practice, these political decisions compel insurers to internalise climate risks without a pricing mechanism, creating a fundamental tension between their commercial logic, risk management, and societal expectations. The result is a latent risk of market failure: insurers can withdraw from certain regions or risks, unless the government itself structurally assists.

In addition, insurers are also actors in the pension domain. On the basis of agreements within the framework of the Group of Ten, employers and employees are actively working on the development of the second pillar.

It cannot be ruled out that in the future the government could also assign the financial sector some form of supporting role in cybersecurity. The financial sector is at the forefront of this domain and has built up strong expertise, while the government does not have sufficient resources to tackle it. Whether this is desirable is a completely different question.

It is clear that the relationship between the government and the financial sector is symbiotic in many areas. The intensive policy interweaving creates a strong social impact. The financial sector plays a facilitating role in *all* areas of the economy, so it is logical that it is involved in the change agenda.

But at the same time, the question arises as to the limits of the market model: to what extent do financial institutions remain autonomous economic actors, and when do they become executive agencies of the state? That is a fine line that must be guarded. As the government is tighter than cash, it is tempting to increasingly involve the financial sector in the (financing of) policy implementation. In the short term, the effects of this are only visible or felt to a limited extent. In the medium term, however, this means that we are missing the boat at European level, where a new balance is emerging, with more emphasis on competitiveness.

	Trend
Government as shareholder	↘
Financial sector as financier	↗
Government as risk carrier	∼
Government as regulator and supervisor	↗
Financial sector as executor	↗

B. From focus on stability to a new balance between stability and competitiveness

In the period 2008 (financial crisis) to 2022 (war in Ukraine), the focus in the relationship between the government and the financial sector at the European level was on the *stability of the financial sector*, in particular on protecting consumers (and the governments themselves). Have seen the light of day: nationalisations, new capital and liquidity rules, European banking supervision, changes to the deposit guarantee system, etc. These reforms have led to a more solid financial sector in Europe, probably world-class.

Today, there is an urgent need for a new balance in thinking about the financial sector. In addition to a continued emphasis on stability, the competitiveness of the financial sector itself must be given greater prominence and priority.

Why? At the European political level, it is starting to grow that the three objectives of the EU Transformation Agenda (defence, sustainability and productivity/innovation of the economy) can only be achieved through a strong financial sector that can withstand comparison with global competitors. It is now certain (cf. Draghi report) that trillions of investments will be needed in the next ten to twenty years to improve our defence capabilities, protect the climate and improve the competitiveness and innovative strength of our economy. We must thoroughly reform the financial sector in Europe and Belgium to be able to undertake this task, without undermining the long-standing and carefully built achievements in terms of stability.

Today, however, the competitiveness of the European financial sector is utterly unsatisfactory, while the EU has ~450 million inhabitants compared to ~350 million in the U.S. Just a few facts:

- In June 2025, the market capitalisation of JPMorgan Chase was approximately EUR 715 billion, compared to around EUR 85 billion for BNP Paribas—the largest European player. Even when combining the ten largest European banks, they do not come close to their American counterparts. U.S. banks are, on average, more profitable as measured by ROE (return on equity), have a more efficient cost structure, and operate within a less regulated framework. These scale advantages make them more attractive to investors and more innovative in their services, including AI-driven risk management and digital platform strategies. Consequently, the valuations of European banks on the stock market lag significantly behind those of U.S. banks.
- The capital and investment markets in Europe are currently dominated by American players such as Goldman Sachs, BlackRock, and Morgan Stanley. Most major European initial public offerings (IPOs) are (co-)managed by American investment banks. Additionally, American asset managers like BlackRock and Vanguard manage a disproportionately large share of European assets. The absence of European counterparts with similar scale leads to a structural outflow of capital and hampers the development of strategic European financial autonomy.
- American institutions dominate payment systems and payment schemes, despite the presence of some strong local players such as Bancontact.
- European banks are more dependent on interest income and their business model requires relatively more capital.
- We do not currently have European retail banks that have significant retail banking activities in (almost) all countries in Europe.

C. A new banking landscape for Europe

To redefine Europe's role in the world, a new banking landscape is needed. The European backlog in the financial sector is less visible to the population than the backlog in the technology sector, where the tech giants are household names. But it is just as real and impactful.

So what banking landscape do we need in Europe? A future landscape can consist of three types of players (each with a more or less digital service model):

1. **Pan-European players**
2. **Networks of local champions**
3. **Local niche players**

Especially the first type of players is missing today. We need a handful of **Pan-European players** who can compete globally. These players must be successful in the following areas:

- Retail activities in (almost) all European countries. This allows them to mobilize savings and investment money on a scale that we do not know today. They will be able to play a leading role in the roll-out of European payment instruments. Today, the number of banking groups active in more than 10 European countries is limited (we are not even talking about 27 countries...). These include BNP Paribas, ING, Santander and Raiffeisen Bank. The comparison with the US is not (fully) valid, but in the US 3 banks (Chase, Wells Fargo and Bank of America) have retail branches in almost all states.
- Globally developed activities in the capital markets and the corporate and investment banking markets. They have the scale to deliver on the huge needs and objectives of the EU's transformation agenda. These are not only banks, but also European Private Equity players at scale.

When these players emerge, we must ensure that we simultaneously implement the appropriate mechanisms for resolution and settlement (see below Banking Union).

In addition to these Pan-European players, **networks of local champions** will play an important role. These are players who are in the top 4 - 5 in the country in a number of countries. They are universal banks, with a combination of retail activities and corporate (and investment) banking, but do not play a role in the global market.

Many recent consolidation movements can be placed in this context (e.g. KBC CSOB and 365.bank in Slovakia, BBVA and Banco de Sabadell, UniCredit and Banco BPM,...).

In Belgium, the recent transactions have not contributed to strengthening the existing players but to French players (e.g. Degroof Petercam by Crédit Agricole, Nagelmackers by Caisse d'Epargne Hauts de France).

For the diversity of the landscape, it is crucial that sufficient **niche banks** can continue to operate. These are banks that focus on certain customer segments (e.g. SMEs), on certain activities (e.g. agriculture) or based on a certain approach (e.g. ethical or sustainable banks).

What benefits can citizens and businesses expect as we move into this banking landscape?

- Interest rates: There will be arbitrage between countries in terms of interest rates, which will cause savings and borrowing rates to converge more closely between different countries. However, tariffs are also driven by local supply and demand mechanisms, so a significant effect is not expected for most countries. In addition, internationally active citizens and businesses will be able to expect more consistent services. In general, the benefits will not be most evident in the area of savings and credit.
- Corporate finance: The development of the capital markets will significantly improve the financing options and conditions for (especially large) companies.
- Payment system: It is expected that Pan-European players and networks of local champions will be able to throw their weight behind the accelerated roll-out of a European system of payment transactions (cf. for example Wero).

However, the main benefit will lie in a more efficient mobilisation and allocation of capital for the investments needed for the EU transformation agenda. For example, an increase in scale of European banks allows for a much larger investment in digital infrastructure. These are macroeconomic benefits for the economy in the medium term rather than microeconomic benefits for citizens and businesses in the short term.

This is not a plea to move to a banking model like in the U.S. We must maintain the balanced European approach with a higher focus on consumer protection and the stability and sustainability of the financial sector, but a rapid evolution of the landscape is necessary.

D. Do what it takes

This new banking landscape is not going to happen by itself. There is no need to use "do whatever it takes". "Do what it takes" is already a big step. After all, today it is not or too little worthwhile for banking groups to strive for a Pan-European or European scale. The synergies cannot be realized due to regulatory, tax and supervisory obstacles. In addition, the national reflex of governments also prevents international merger movements.

In order to make the new banking landscape possible at all, progress must be made in the following areas (cf. also *Savings and Investment Union*):

1. Completion of the Banking Union
The Banking Union is the foundation for an integrated European banking sector, but it is still incomplete. The SSM (Single Supervisory Mechanism) and SRM (Single Resolution Mechanism) have been completed, but the EDIS (European Deposit Insurance Scheme), the common deposit insurance scheme, has been waiting for years to be completed. However, this is crucial to:

- Providing the same protection for savers across the euro area
- Break the "doom loop" where national governments remain responsible for rescuing their banks
- Market fragmentation. Today, there are still too many elements in the field of supervision that do not promote integration across different countries.

Without EDIS, banks remain nationally anchored and vulnerable in times of crisis and we can never build Pan-European groups.

2. Harmonisation of banking supervision
Although the ECB is the supervisor for the large banks, national supervisors continue to play a role in smaller institutions, in interpreting EU rules and in defining additional national rules. We need a more uniform interpretation of EU regulations by national authorities and, above all, more coordination between European institutions such as the ECB, the EBA (European Banking Authority), ESMA (for financial markets) and in the future AMLA (financial crime). They can be achieved by more efficient supervision of cross-border banking activities, so that (multi-national) banks can operate more easily in several countries without double supervision.

3. Tax reforms
A true capital markets union requires fiscal convergence and neutrality for cross-border financial products, which also demands greater political integration. Today, for example, each country has its own rules for savings rates, dividends, investment profits and corporate income tax. Nevertheless, this remains the most difficult dossier, because taxation is a national competence and there are great political sensitivities. The plight of the budgets in many Member States means that this aspect can only be tackled if a common political ambition can be created. The current crisis situation around Ukraine and the U.S. are hopefully sufficient conditions for this.

4. A new mindset about the financial sector
Even more important than the above measures, we need a new mindset in thinking about the financial sector. We need a turnaround as we know it for the defence sector today. The tolerance policy must make way for an active incentive to make the financial sector world leaders. As the financial sector is so crucial to the EU's transformation agenda and the economy at large, we need to actively create opportunities for the existing European financial groups to create Pan-European players and to build networks of local champions.

The good news is that we do not need billions for this, as we would for the development of a European defense or tech sector. Europe has a robust financial sector that we can build upon.

E. Implications for Belgium

In contrast to most other European countries, the relationship between the government and the financial sector is further intertwined in Belgium. This is not the result of a general policy, but rather the result of individual decisions in specific policy areas and also driven by the budgetary situation of our country.

It is advisable to establish a framework for the policy embedding of the financial sector; For which tasks is it desirable to delegate to the sector, and under what conditions (e.g. transparency, cost sharing with other sectors, empowerment, etc.).

In addition, Belgium has important participations in the financial sector. The decisions on these participations should not be seen in isolation from the expected evolutions at the European level.

It is logical that the government strives for returns with its shareholding, but it can also play a strategic role in the creation of European players. To do this, the Belgian government must dare to bet on its 'own champions'. The more they have a strong local starting base, the more opportunities they will be able to create tomorrow to play a decisive role at European level. Belgium can also be a driving force in the debates on the *Savings and Investment Union*. To think about this, it is best to organise a broad discussion about how we want our financial players to evolve by 2040, including aspects such as sustainability, inclusion and autonomy. In this way, Belgium can play an inspirational role in the new evolution of the financial sector.

Contacts

Author

Kasper Peters
Financial Services Industry Leader
kapeters@deloitte.com

Sector Leaders

Roeland Baeten
Banking & Capital Markets Sector Leader
rbaeten@deloitte.com

Cédric Deleuze
Insurance Sector Leader
cdeleuze@deloitte.com