Banking Union – "In Varietate Concordia"

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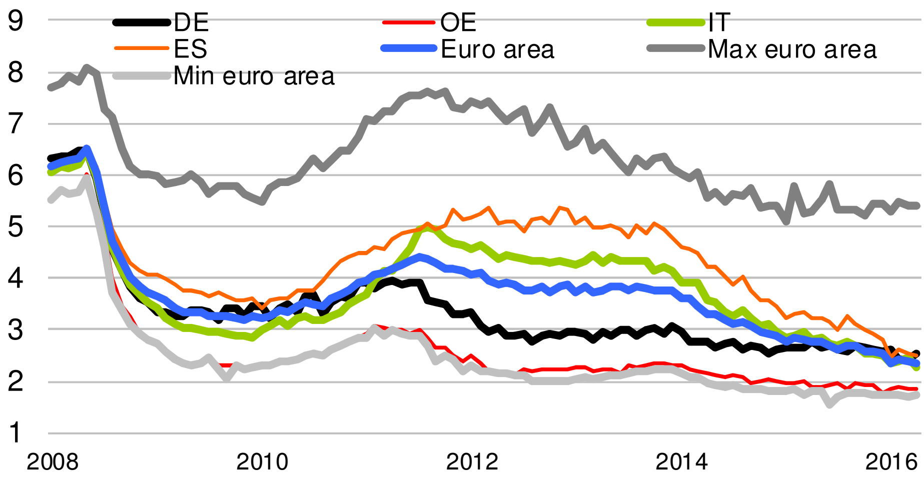
1. Divergence in funding costs remains

The extreme trend in the divergence of funding costs for companies and private households in the period 2010 to 2014 is one of the most visible signs that full financial union in the euro area is not yet in place. While the interest rate differential for corporate loans (up to one million euros) between most euro area countries was not quite 100 basis points in 2008, this widened to 200 to 300 basis points in 2012.

Chart 1: Interest rates for small corporates

(up to EUR 1 m, interest binding up to 1 year, new business)



Source: ECB, UniCredit Bank Austria

The interest rate differential subsequently narrowed again significantly following the implementation of numerous measures, primarily the banking union and the interventions by the ECB. Nevertheless, the differential remains at an unsatisfactorily high level for a region enjoying monetary union. The interest rate differential is much more pronounced in the area of small loans (see Chart 2) as small businesses, unlike large companies, cannot refinance themselves in other countries. This is why interest rates are well below the euro area average in countries such as Belgium, France and Austria, but significantly above the average figure in many small euro area periphery countries. The considerable interest rate differential, even if it is partly explained by differences in risk assessment, in the mix of industries and in factors which are specific to the respective countries, also reflects an inadequate degree of integration.

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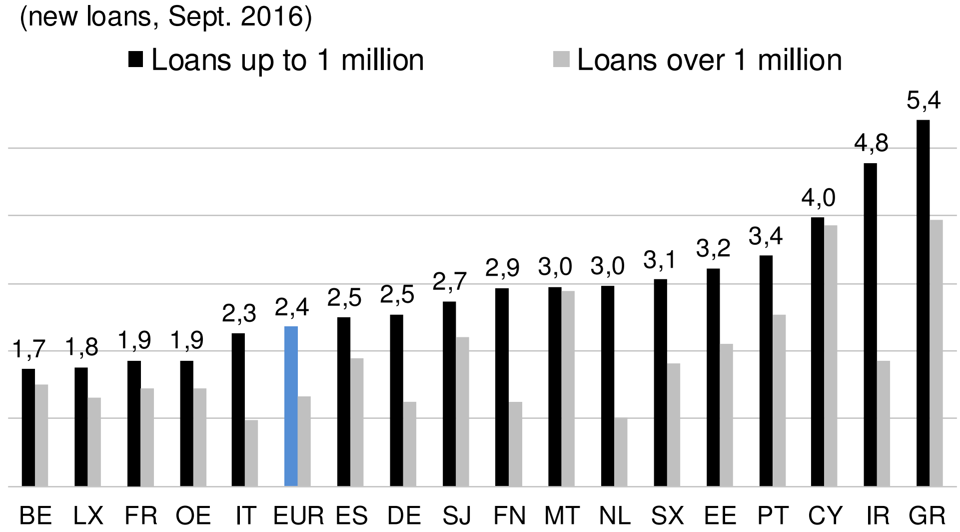
Chart 2: Comparison of interest rates for corporate loans



Source: ECB, UniCredit Bank Austria

2. Challenges

Almost 5,200 banks, of which 1/3 are in Germany, 13% in Austria and 9% in France, account for the banking sector in the euro area. In this context the proportion of the top 5 banks fluctuates between 66% in Belgium and 36% in Austria, 60% in Spain and 31% in Germany. On this basis, the banking sector is very heterogeneous for a number of reasons:

- The behaviour of private households in regard to housing (owner-occupied compared with rented premises, 44% owner-occupied in Germany, 90% in Slovakia), retirement planning (the proportion of private retirement planning as a percentage of monetary wealth fluctuates between 49% in the Netherlands, 39% in France, 27% in Germany and 9% in Italy and Austria).
- The behaviour of companies in regard to using alternative funding solutions such as the capital market.
- Behaviour of the state regarding support for specific banking models, e.g. savings banks in Germany or Spain.

Although the banking union has reached an advanced stage, the convergence of interest rates in the euro area is mainly due to monetary intervention by the ECB. The Single Supervisory Mechanism continues to be characterised by numerous national exceptions, and governments also seem to be at odds over the question of overregulation.

However, the second and third pillars, i.e. the Single Resolution Mechanism and the harmonised Deposit Guarantee Scheme, will be essential for the further integration of the banking sector in the euro area. The banking union and the integration of the banking sector in the euro area will remain incomplete as long as bank rescue efforts or solidarity in regard to the Deposit Guarantee Scheme are pursued exclusively along national budget lines.

An integration of the second, but primarily the third pillar of the banking union will first require stronger fiscal integration in the euro area, something which is only possible through stronger political integration. Although this still seems to be a distant prospect for the euro area, there is little doubt that this is a key requirement for the future of the euro. Greater fiscal and political integration are essential if the euro is to remain a permanent currency.

References

ECB (2016) Structural Indicators for the EU Banking Sector
https://sdw.ecb.europa.eu/servlet/desis?node=1000002869