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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

National Champions are Hurting the Banking Union

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Jan Pieter Krahen: Financial institutions doing business in Europe would be better for the banking union and financial stability than nationally oriented banks



In politics, there are voices calling for national champions in the banking industry. Is that a reasonable idea?

Nationally oriented banks are on the rise. The idea that a country needs strong national banks is not new, but comes back from time to time. Basically, politics is saying goodbye to a level playing field, which is a competition with equal conditions for all participants. The hope behind this is that nationally oriented, strong banks particularly support the domestic economy. Politicians therefore expect benefits in international competition. Growing competitive pressure makes politicians feel that national banks need special protection. All this, however, contradicts the premises of the European internal market.

What would such a development mean for the Banking Union?

First, it would result in a stronger identification of countries with "their" banks. That would mean such credit institutions must not sink. The market would most likely interpret this as meaning that such a bank would receive government backing in critical situations. This is against a regulatory orientation directed towards competition. This implies that banks must be able to exit the market. It would also mean that banks have different competitive opportunities, because this state backing would be different as well. Ultimately, this would mean a protectionist policy that withdraws banks from market discipline - but this precisely is the DNA of the Banking Union. This would also have implications for financial stability.

In what way?

Not every bank would receive state backing in the same way as also not all states are completely stable. Further, we would also link the solvency of banks with that of states. But one lesson from the financial and sovereign debt crisis is that we want to overcome exactly such a connection. National champions in the banking industry would strengthen this nexus.

In your opinion, what would be the alternative to national champions?

Better would be banks that are actually active across Europe, so that they are subject to the common regulatory framework of the banking union and can also exit the market. There would be no close connection to individual states and thus no dependence on public finances. So far, there is hardly any such bank. Politicians are called upon to do this because there are still different legal frameworks in the euro area, such as insolvency law. In the end, the different laws protect national players in the banking industry. National regulators are also a factor that strengthens national banks. In the crisis, for example, there was the requirement of national authorities to concentrate liquidity in their home market. Banks active across Europe would also ensure diversification: the risk concentration would be reduced. In addition, investment conditions would improve across borders in Europe, which would favor the further integration of the economy.

The Chairman of Deutsche Bank has spoken of an increasingly national orientation of German economic policy. How do you assess that?

That is certainly the case for the banking sector. Overall, however, I would not speak of an increasing nationalization of economic policy. For Germany, I consider this unlikely, because the economy is heavily export-oriented. In other countries, however, this position could gain strength and thus try to make up for competitive disadvantages. Strong national banks are part of this strategy. This is not a good development.

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