Banking in the Eurozone: Still a national affair

[The Banking Market Fact Sheet]

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Banking in Europe: Still a national affair

- In recent years, banking markets in the Eurozone have seen major changes linking them closer together. The Banking Union has brought, among other things, a new Single Supervisor and steps towards a Single Rulebook.
- These changes were driven by a desire to strengthen financial stability and bank resolvability, reducing risks for taxpayers.
- But closer integration of banking markets can also lead to fiercer competition, delivering Europeans better services at lower prices.
- In this report, we assess the degree of integration across the Eurozone's banking markets in a number of fact sheets. We find that banking remains strongly compartmentalised along national borders. The next page lists some key findings.
- While acknowledging the very important steps that have already been taken, we conclude that the Eurozone's banking markets remain highly fragmented.
- This means that from a financial stability and a competition perspective, Europe is missing out on opportunities. Households and businesses stand to gain from further integration of the Eurozone's banking markets.

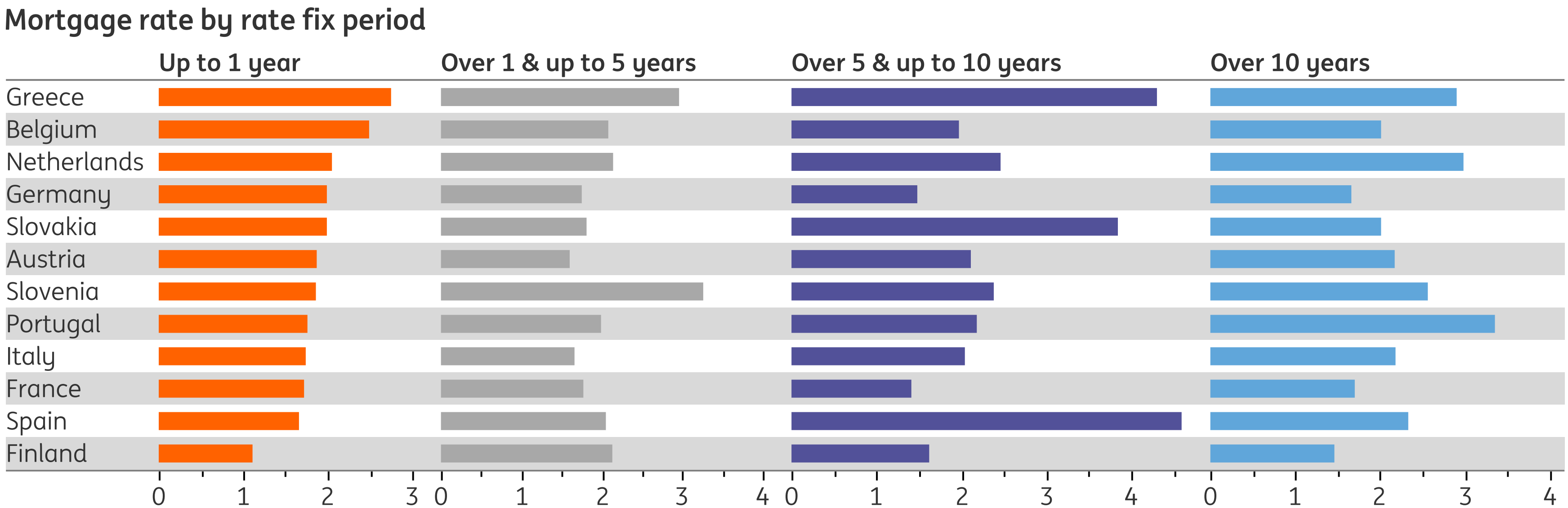
Key findings in this collection of fact sheets

This report presents a diverse number of facts about Europe's banking markets. We do not attempt to explain the many observed differences between countries. Yet, a few findings stand out and prompt thinking about how to realise a single market for banking services:

- Pricing (lending and deposit rates) retains important national elements (see for households and for businesses);
- Cross-border trade in banking services takes place overwhelmingly through banks establishing subsidiaries and branches abroad. Clients themselves hardly shop abroad; less than 1% of households and less than 10% of businesses borrow or deposit with a bank in another country. Institutional and legal differences and language, probably, stand in the way;
- Market structures are very different, with less than 1 banking group per 1 million nationals in France compared with 70 banking groups per million in Austria;
- Moreover, banks look very different in various Eurozone countries, ranging from typically small in Germany to large consolidated groups in France and Belgium.

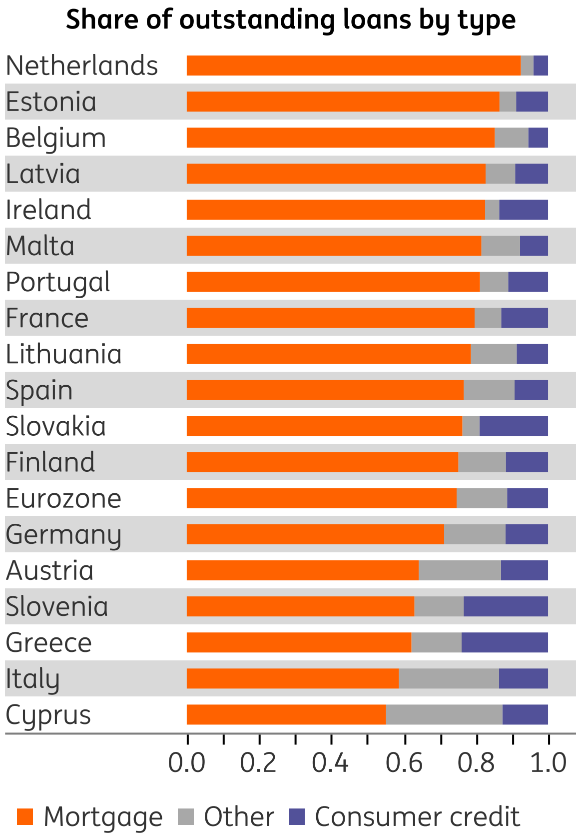
Rates

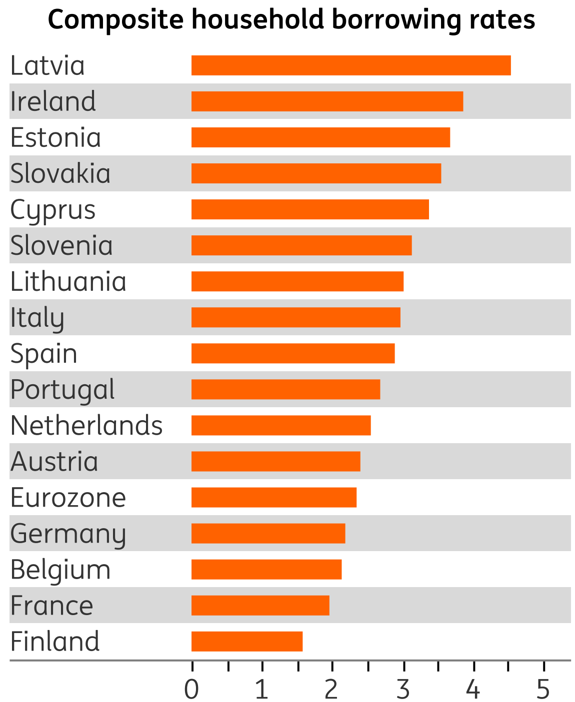
Residential mortgage rates vary significantly



- Residential mortgage rates have been falling throughout the Eurozone in recent years, but still vary substantially between countries. For example, a variable rate mortgage can be obtained at a rate of 1.1% in Finland but costs 2.5% in Belgium. Those wanting to fix their mortgage rate for at least ten years can do so in Finland (again) at 1.5%, while the rate would be 3.3% in Portugal.
- Country dispersion is not attributable only to a lack of cross-border competition.
- Rates reflect different national practices and preferences in terms of, for example, loan to value, rate fix periods and repayment schedules.
- In addition, institutional differences, such as bankruptcy legislation, influence lender risk and, thus, rates offered.

Household borrowing mix adds to differences



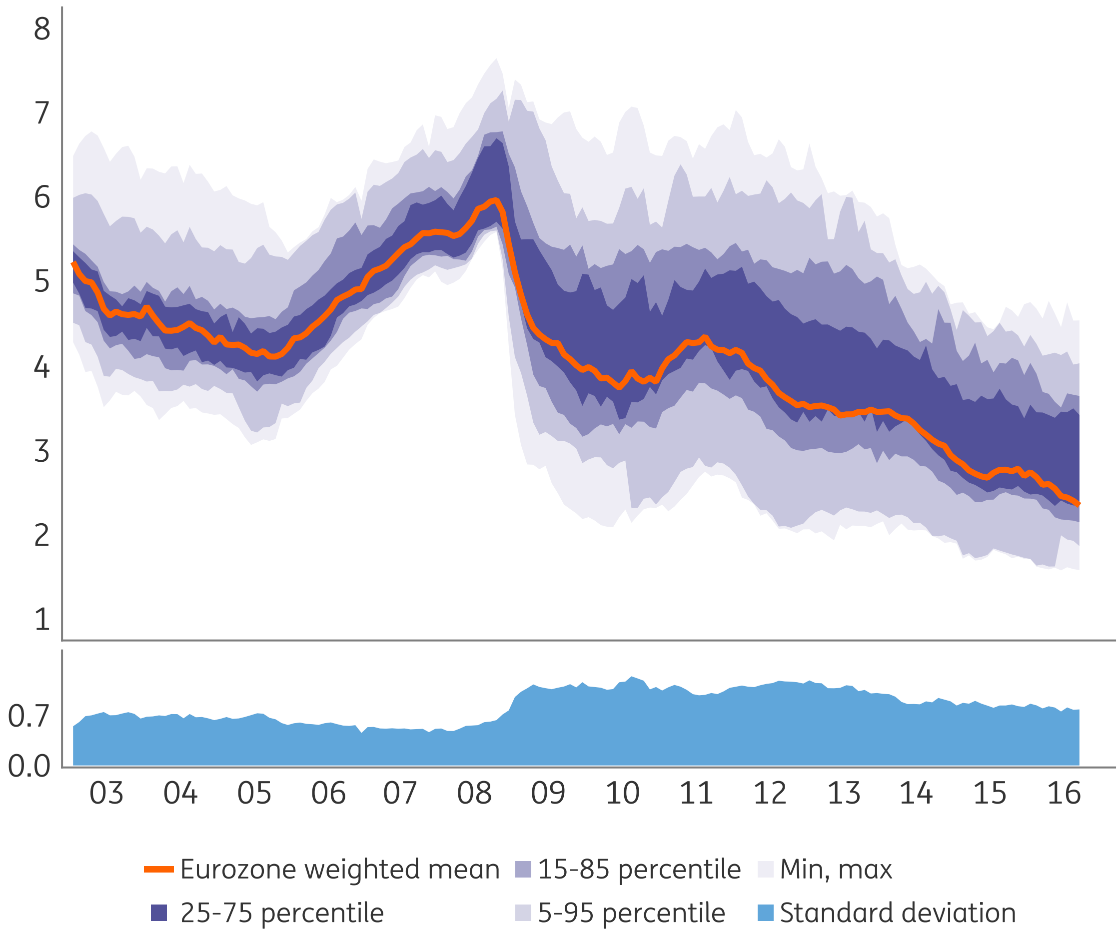


- Effective household borrowing rates are determined not only by mortgage rates but also by the share of other loan types.
- In the Netherlands, 92% of household loans are mortgages. In Italy, however, only 58% are. Other loan types, such as consumer credit, typically carry higher rates.
- Taking into account this credit mix, households in 'core' Eurozone countries typically pay the lowest rates.

Effective household rates diverging since 2008

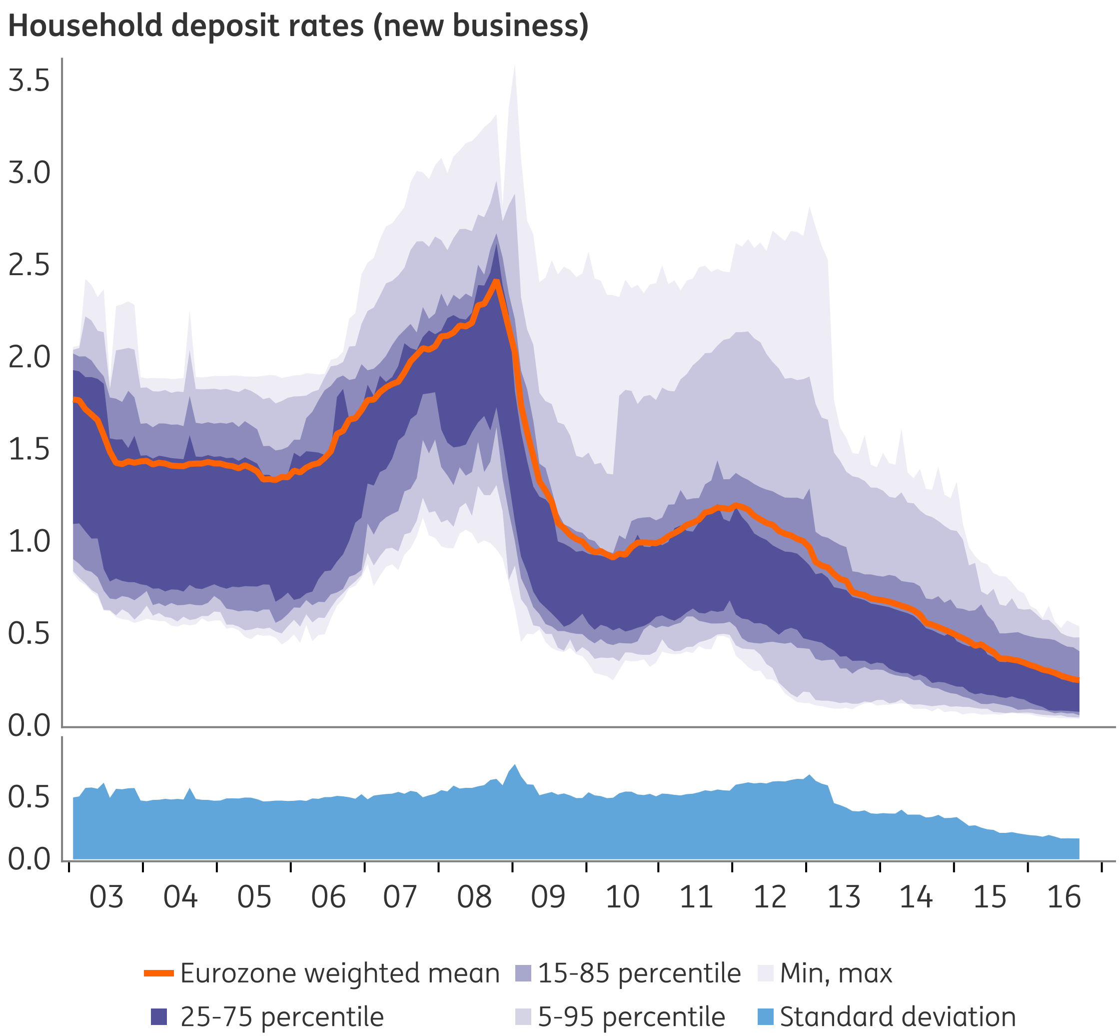
Composite household borrowing rates

Weighted interest rate across mortgages, consumer credit and other loans



- Effective household borrowing rates (based on weighted averages of mortgages, consumer credit and other loans) have diverged since 2008.
- Cross-country dispersion, as measured by the standard deviation, was especially small in 2005-08, but shot up in late 2008.
- The outliers, however, have been converging. The difference between the highest and lowest rates has declined from well over 4% in 2009-12 to c.3% since 2014.

Household deposit rates converging

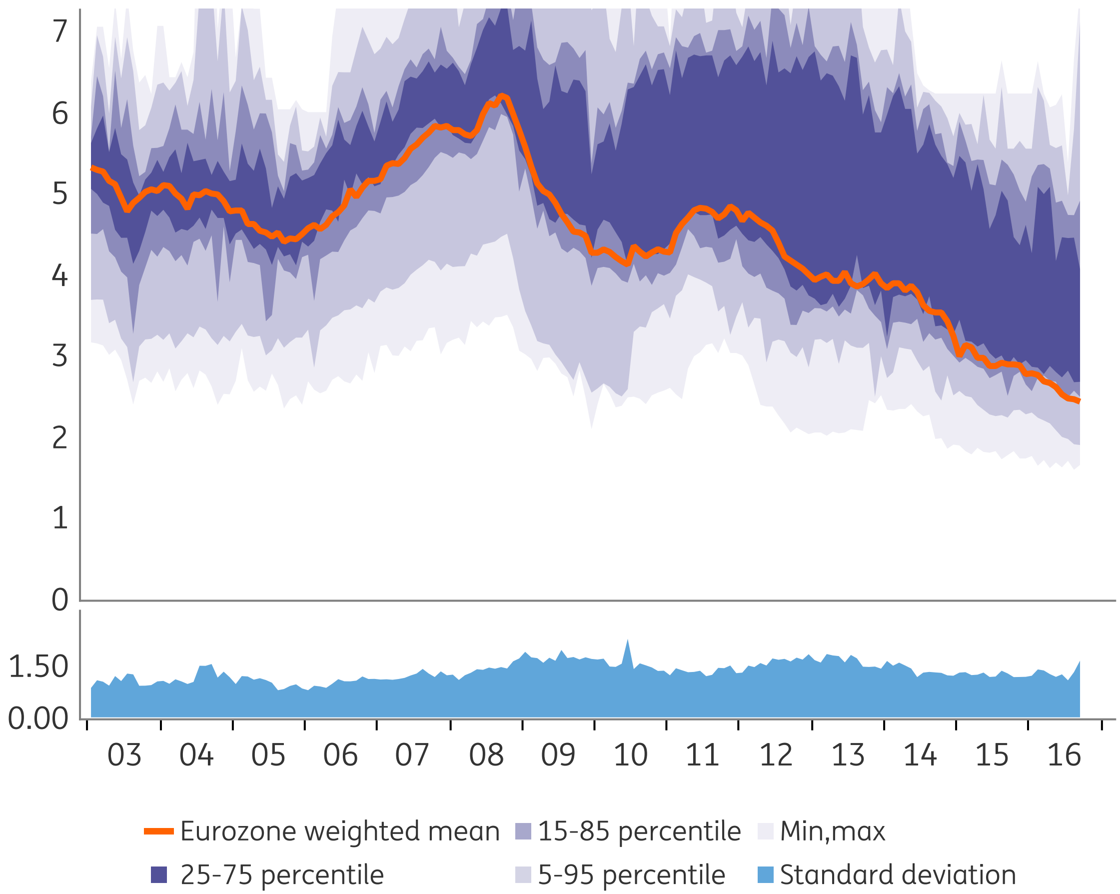


- Differences in household deposit rates are diminishing, as rates are slowly converging across the Eurozone.
- The difference between the highest and lowest rates was c.2% in 2009-12, but has been decreasing since 2013. The minimum and maximum deposit rates are only 50bp apart today.
- Average rates are still above 0.4% in France and the Netherlands, but below 0.1% in, eg, Spain, Belgium, Ireland and Portugal.

SME borrowing costs lower in core countries

Borrowing costs for SMEs

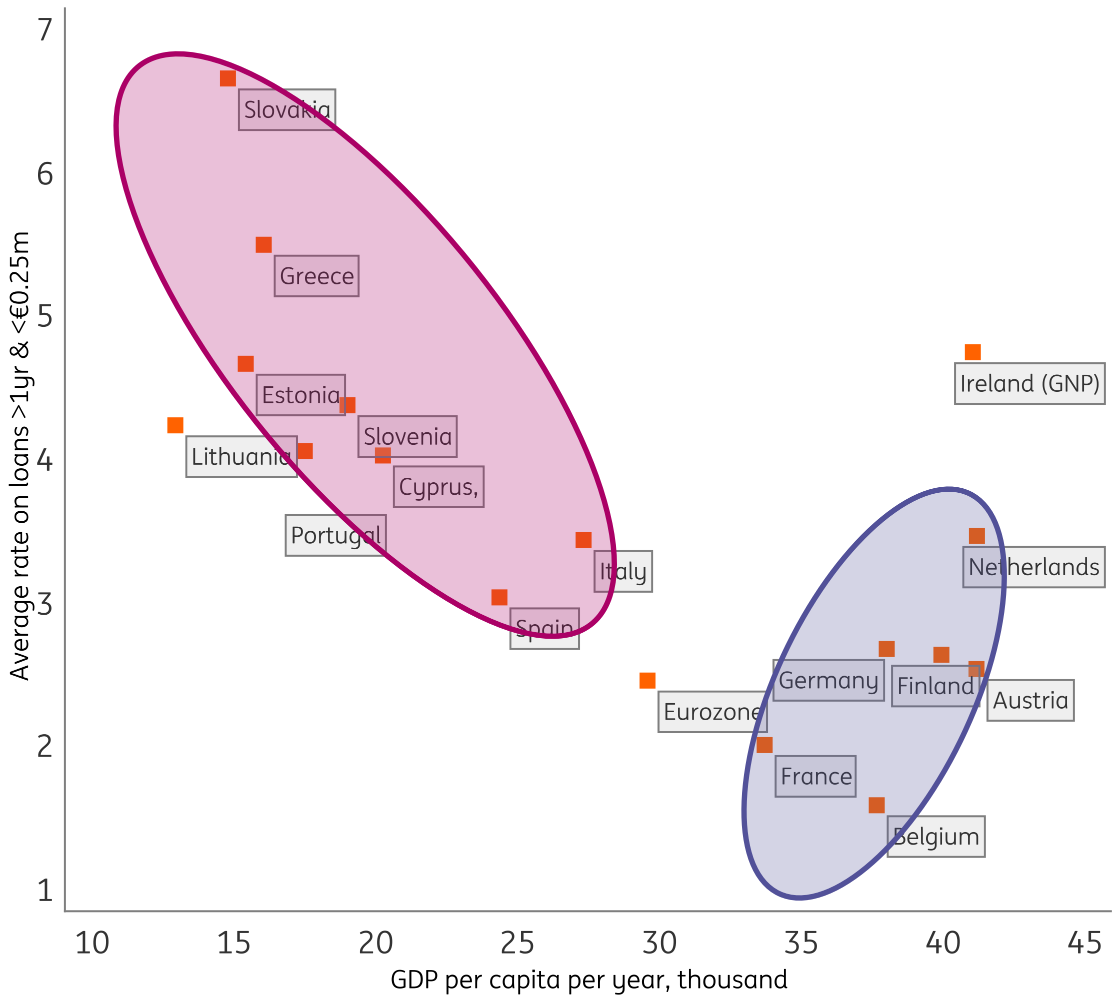
Eurozone average and country dispersion. Bank loan rates over 1 year, up to €0.25m where data available, otherwise up to €1m.



- While SME borrowing costs have been falling, the country dispersion is large and has increased since 2008. Rates currently vary from below 2% to almost 5%.
- Since 2006, the Eurozone weighted mean SME borrowing rate has been at the lower end of the country distribution. This indicates that rates are lower in the bigger (mostly core) economies that have a higher weighting in the mean.

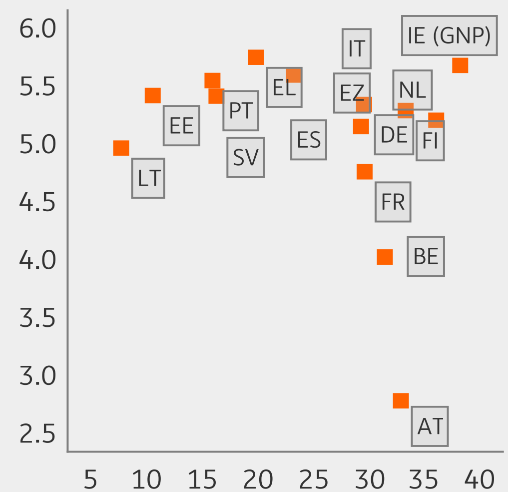
SME borrowing costs have diverged after 2008

SME lending rate, GDP per capita



- Generally speaking, SME rates are lower in richer (core) economies, and higher in poorer Eurozone members.
- Prior to 2008, rates were higher, but more closely aligned across the Eurozone (with the exception of Austria):

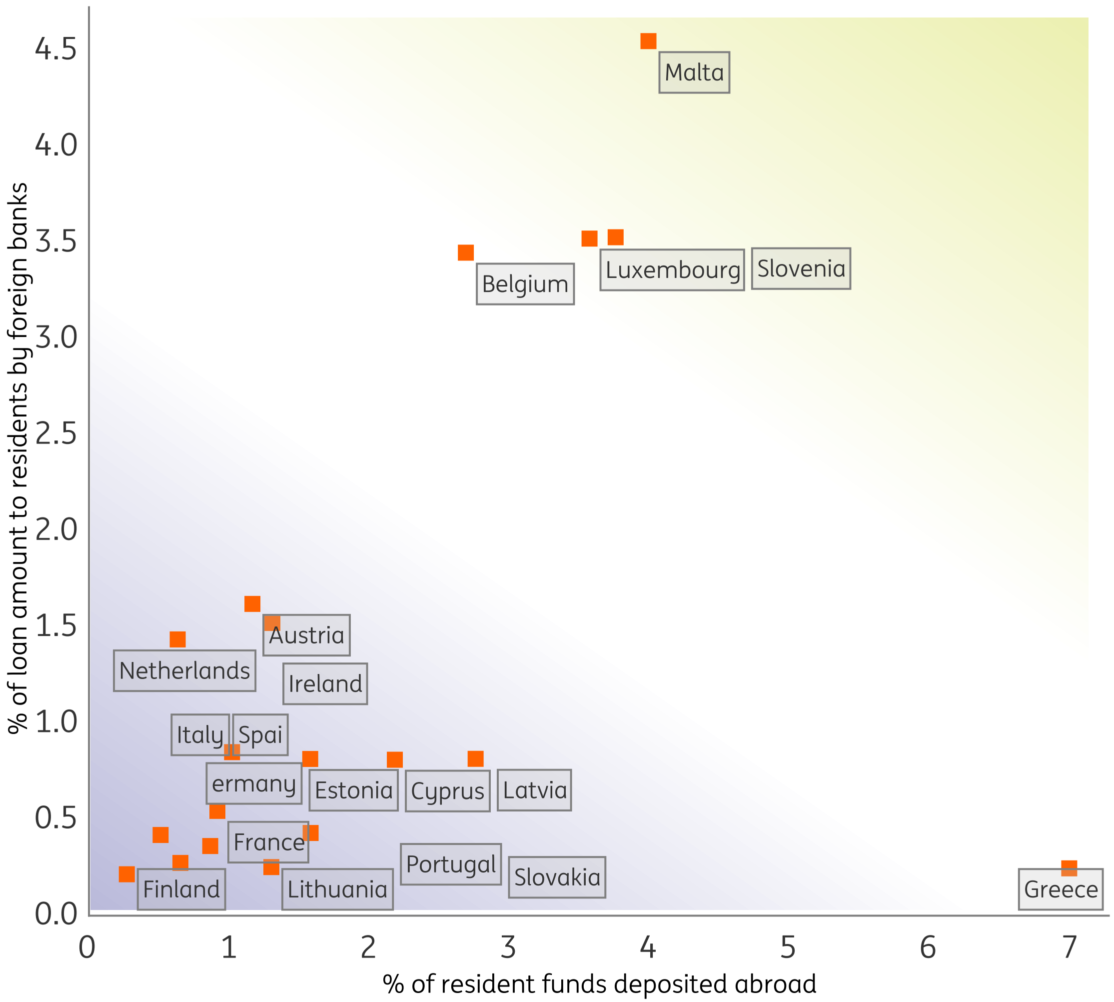
Ultimo 2006



Market structure

Cross-border retail shopping very limited

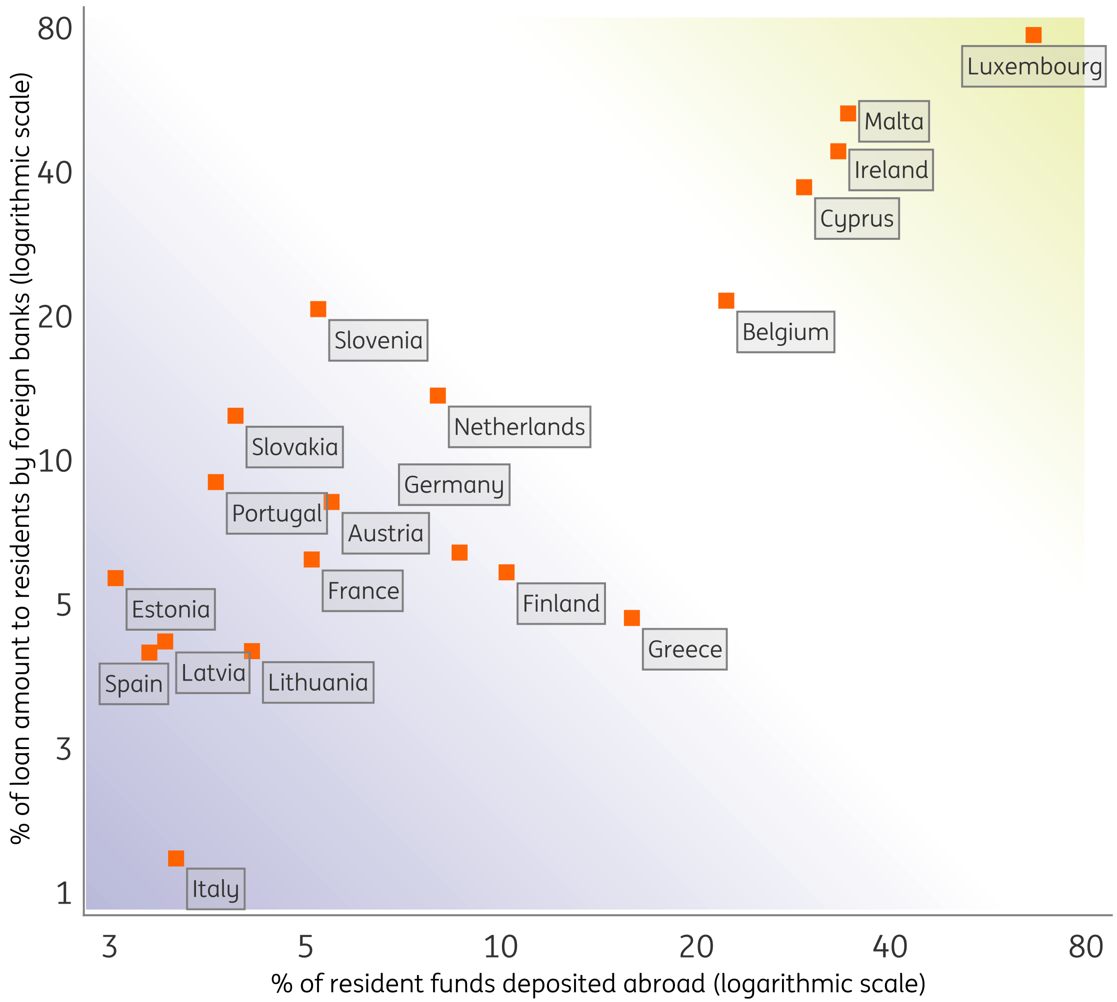
Cross-border retail shopping for deposits and loans



- Households conduct their banking predominantly with domestic banks. In most countries, less than 3% of household funds are deposited abroad, while less than 2% of loans is borrowed abroad.
- Greece is the most striking outlier, with 7% of funds deposited abroad.
- Limited cross-border shopping points to limited cross-border competition.
- This, in turn, may be explained by legal and other institutional impediments. Banks wanting to enter a foreign market prefer to set up a branch or subsidiary.

Business shopping is more international

Cross-border business shopping for deposits and loans

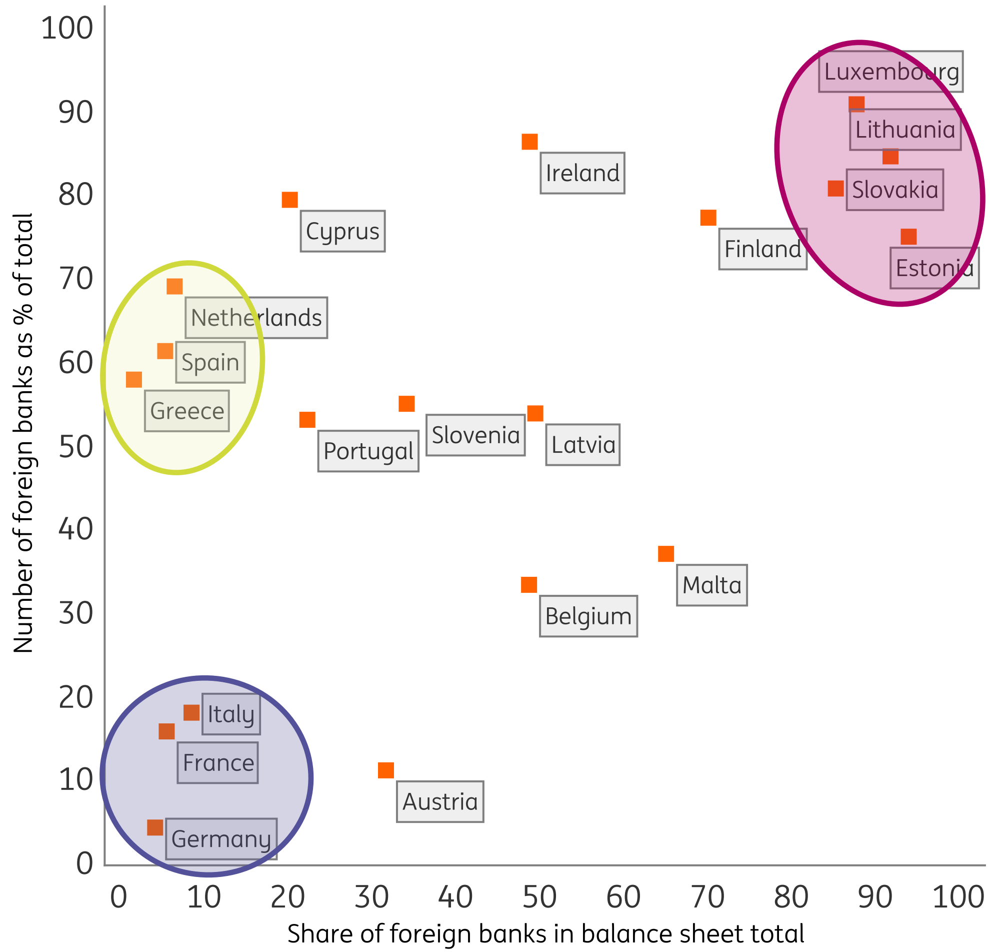


- Businesses are more willing and able to shop abroad for banking services than households*.
- Still, in most Eurozone countries, less than 10% of non-financial business funds are deposited abroad, while less than 20% of loans are borrowed abroad.
- The small and internationally-minded economies of Luxembourg, Malta, Ireland and Cyprus are outliers. Belgian companies too engage in a fair amount of cross-border shopping.

*It is likely that this is more the case for bigger businesses. However, data does not enable us to differentiate between business sizes.

Main markets dominated by domestic banks

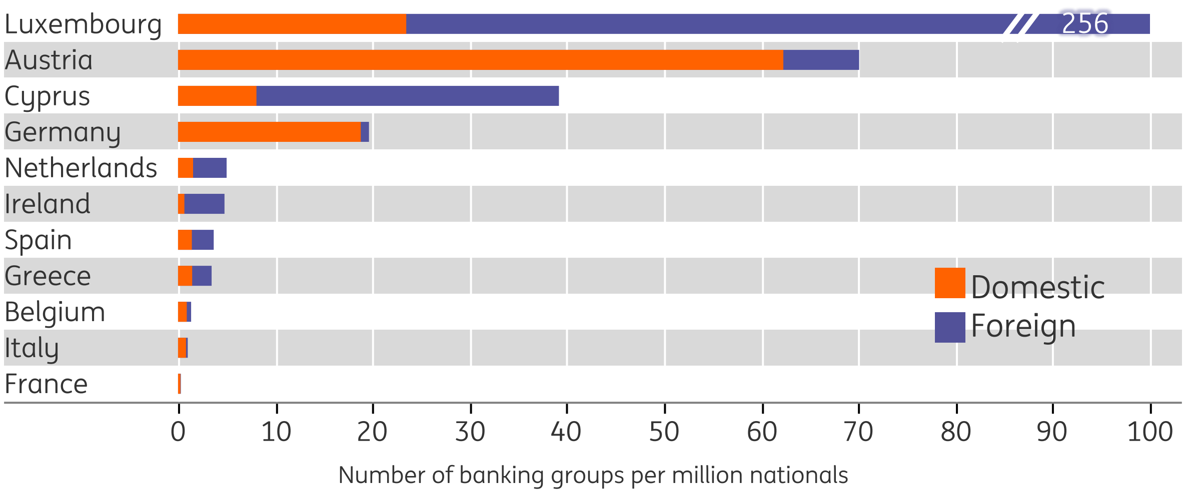
Share of foreign banks in terms of size (€) and count (#)



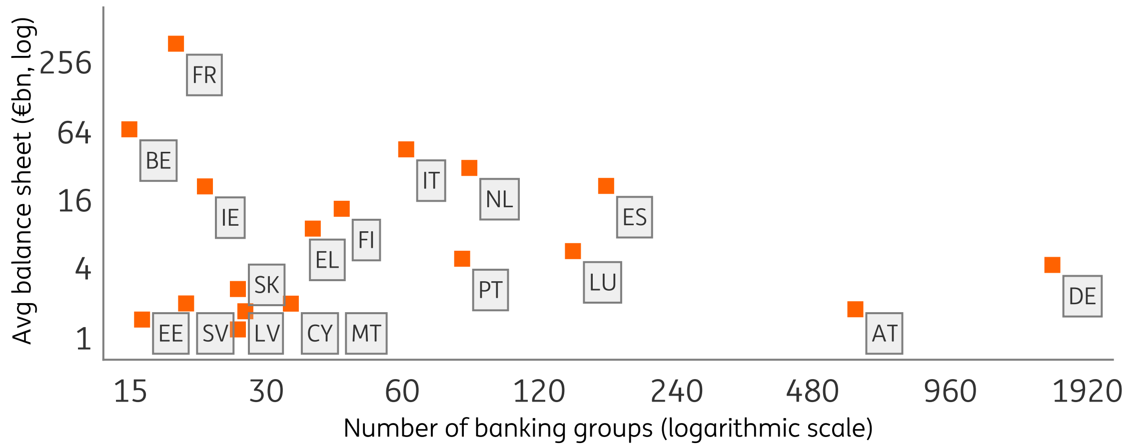
- Banking markets in Italy, France and Germany are dominated by domestically-owned banking groups. Foreign-owned banks (branches and subsidiaries) play only a small role in these countries.
- In Luxembourg, Lithuania, Slovakia and Estonia, on the other hand, foreign-owned banks outnumber domestically-owned ones and represent 85% or more of banking assets.
- In the Netherlands, Spain and Greece, foreign-owned banks outnumber domestic banks, but they are small, owning 7% or less of banking assets.

Markets: Strong national characteristics (1 of 2)

# of banks per million inhabitants

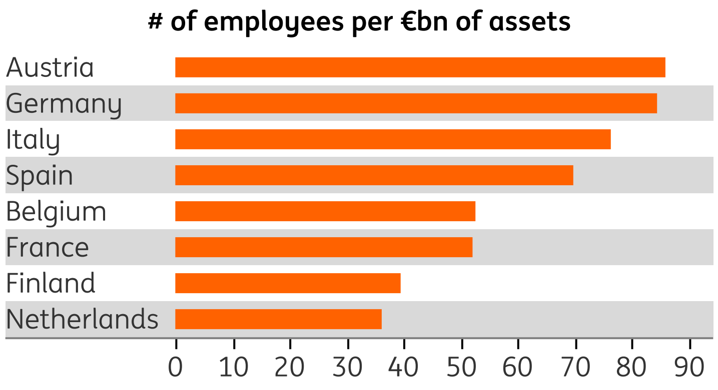


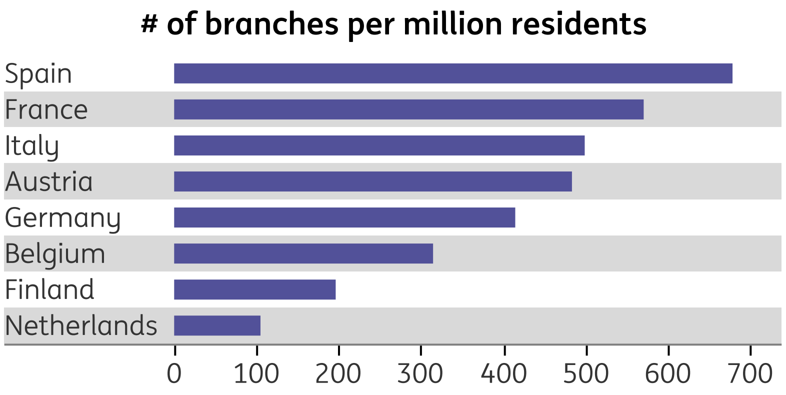
# of banking groups (domestic+foreign) & average balance sheet

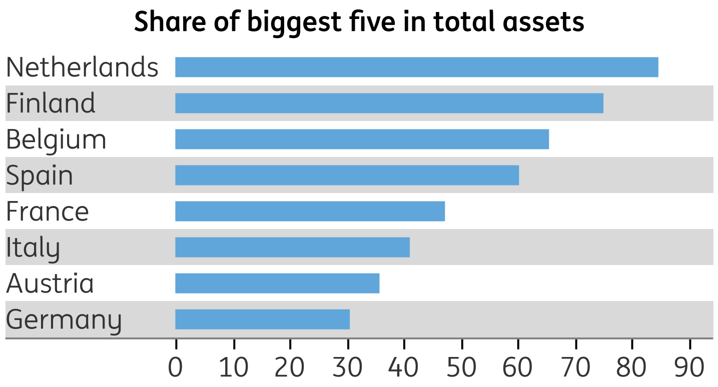


- The Eurozone has an average of 9.2 banks per million inhabitants.
- Financial centres Luxembourg and Cyprus harbour many predominantly foreign banks.
- Austria and Germany, to this day, have many small 'Sparkassen' and 'Landesbanken'.
- In France, on the other hand, smaller banks have consolidated into just 19 big banking groups nationwide.
- Italy's 621 banks too have consolidated into 61 banking groups.

Markets: Strong national characteristics (2 of 2)







- The varying number of employees compared to assets shows the varying labour intensity of banks' balance sheets across countries.
- The extent of national branch networks implies very different ways in which banks interact with their clients in each country.
- Market concentrations differ substantially, but are related to the number of banks, as per the previous slide.

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