FÉDÉRATION BANCAIRE FRANÇAISE

Marie-Anne Barbat-Layani : «The French government needs to protect its banking industry»

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> The author believes there are real risks relating to the regulatory inequality in Europe faced by European banks. "Technical standards may hide daunting competitive challenges" and the void left when French players are forced to pull out will quickly be filled by other firms, primarily from the United States., which ironically emerged from the 2008 crisis with even more flexibility
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The competitiveness and attractiveness of the banking industry are key issues for a country's economic sovereignty. A strong economy is impossible without sound banks. French banks provide all the services required by economic agents (loans and deposits, insurance, savings and asset management, corporate and investment banking, specialised services, etc.). They take high levels of household deposits (14.5% in 2015.1). They extend credit to the economy: outstanding credit to the economy granted by French credit institutions increased by 4.1% year on year at the end of October 2016 to €2,150 billion. This growth far exceeds that of France's GDP, and is the highest in the Eurozone for corporate financing.2 Banks also act as intermediaries between the economic agents that have lending capacity and those that need funding due to their extensive knowledge of their customers, and reduce the information asymmetry between borrowers and lenders.

Banking — a strategic industry for the French economy — represents 2.7% of GDP and 2.3% of French direct private sector employment.3 Four of the nine largest Eurozone banks are in France. French corporate and investment banks have the critical mass and expertise to support the business plans of large corporations, including internationally where they have an exceptional network. The momentum and good quality of financing made possible by the banks has been underlined by the OECD, which listed this as one of the six main strengths of our country's economy.4

But banks are now suffering the effects of excessive taxes. The average tax rate in the banking sector over the last four years hit 53%, all taxes combined. French banks also make industry-specific contributions to the federal budget which have risen sharply in the last two years. These include payroll taxes, the systemic risk tax for banks, and financing of the supervisory authorities.

The French banking sector's contribution to the European resolution fund, created to deal with troubled banks, will represent more than €15 billion over nine years, and will have a comparable impact on bank profits, bearing in mind that this contribution is not tax deductible. These taxes and charges proportionately decrease the funds available to finance the economy and force French banks to work even harder to adapt as quickly as possible to the new prudential standards.

Business lending, a matter of European sovereignty

Implementation of Basel IV could lead to an increase in the substantial capital requirements for European and French banks and significantly reduce their ability to finance the economy.

Banking activities related to real estate and to "specialised" financing (infrastructure, ships, aircraft, etc.) would be at a particular disadvantage.

European banks have already significantly improved their capital ratios in recent years. For example, the capital adequacy ratio of French banks doubled from 6% in 2007 to 12% in 2015.5 Reaching this level represents a remarkable achievement. The Basel Committee's proposals should not give an edge to US banks which could, at the same time, benefit from significantly lower requirements. As is often the case, technical standards may hide daunting competitive challenges!

It is already unfortunate that European corporate and investment banks (CIBs) have lost significant market share in their own backyard to their US rivals.

A recent paper by European think tank Bruegel shows that, in the space of ten years, European CIBs lost close to ten points of market share to stand at 46% of their domestic market at the end of 2015. Substantially all of this loss was absorbed by their US counterparts, whose market share rose from 37% to 45% over the same period.6

As a result of banking regulations, CIBs will play a more meaningful role in financing the economy in the future. The financing mix increasingly favours the market: the share of bank loans compared with market financing is currently 61%/39% for French companies, compared with 70%/30% at end-2009.7

Although the financial crisis was triggered in the United States with the collapse of Lehman Brothers in 2008, the giant American CIBs, which have become even larger through bank mergers, have substantial funds to take Europe by storm and thus score some points.

The new banking regulations continue to favour the large US banks which can offload whole sections of their business from their balance sheets through securitisation, which is mainly supported by US public authorities through the Freddie Mac and Fannie Mae agencies, which have no European equivalent.

The great project of the Capital Markets Union cannot succeed without European players!

Capital financing, a matter of French sovereignty

As illustrated by the figures from the Banque de France and the European Central Bank, French companies suffer from a lack of capital and an insufficient number of shareholders capable of supporting them. This weakness affects their ability to easily obtain bank loans in France.

Against this backdrop, large companies are able to attract foreign investors. The capital resilience of SMEs that weathered the crisis has allowed them, on the whole, to maintain a sound financial position, although companies' positions are growing increasingly disparate. But France is one of the countries that is having the most difficulty funding its innovation. The innovation economy, however, needs a financing structure that is much more focused on capital. The challenges of an innovation or disruption economy are to seek capital, very quickly, and sometimes in large amounts.

While France has one of the highest savings rates in Europe, these savings are, however, mostly allocated to short-term investments and real estate, and not directed primarily to companies and the economy.

There is an urgent need to revise the taxation of savings in order to encourage risk-taking and to transform the French, who are great savers, into great investors.

This will involve a review of the return on regulated savings. These tax-exempt demand deposits guaranteed by the government currently enjoy unusually high rates of return, which are completely out of step with other European countries.

Other decisions also need to be made. The taxation of savings should be reconsidered. Over the last 25 years, the French tax on capital invested in shares has increased significantly to bring total taxes to an excessively high level, far above those of our European partners. The double penalty on French shares should be reduced as it discourages French investors due to the cumulative taxes on both companies and shareholders. The stability of the taxation of capital invested in shares should also be monitored.

The attractiveness of the Paris marketplace should also be enhanced to appeal to new investors, and the conditions need to be in place to allow business financing channels to function correctly. In the context of Brexit, this requirement takes on even greater importance. To enhance the attractiveness of the Paris financial marketplace, it is necessary to have a favourable, stable and competitive fiscal and social framework.

Lastly, it is necessary to promote the creation of long-term savings, such as a French-style pension fund: this type of reform would shift several billions of euros into equity investments.