THE CONTINUING NEED FOR STATE INTERVENTION AMONG EUROPE'S BANKS

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The State Aid available to Europe's banking sector during the crisis was always intended to be a

temporary measure but sadly remains in place, says Joaquín Almunia

La ayuda estatal para el sector bancario europeo estaba pensada como una medida temporal, pero lamentablemente está durando más de lo previsto, afirma Joaquín Almunia, Vicepresidente de la Comisión Europea y Comisario responsable de la Política de Competencia. Desde 2008, los ciudadanos de la UE han tenido que aceptar un enorme rescate del sector financiero y soportar las medidas de austeridad necesarias para mantener las cuentas públicas bajo control. La magnitud de ambas medidas requiere actuar con la mayor transparencia y rapidez.

Since 2008, the citizens of the European Union (EU) have been asked to accept a huge bailout of the financial sector and to endure the austerity measures required to bring public finances under control. The scale of such plans demands that we be as transparent as possible in their implementation.

When it comes to the financial sector, the Commission (EC) has the duty to analyse any support and to clear it only if banks are viable in the medium-to-long term, and that any assistance will not unduly jeopardise competition.

Unfortunately, in spite of the many decisions already taken, we are not yet out of the woods. The enduring sovereign-debt crisis is putting the whole euro zone under stress; the debt crisis, in turn, interacts with the banking sector, where liquidity tensions have appeared leading some to call for further recapitalisations.

Of course, State Aid is not the only means of overcoming the financial crisis. The Commission is in the process of changing the regulatory landscape for the financial industry but since October 2008 we have taken restructuring decisions on 25 banks and overseen the orderly liquidation of 11 more. The only negative decision involved a small Portuguese bank. At present, we are working on restructuring plans for another 21 banks and cannot exclude that this number may grow.

In line with the need for transparency, all our decisions must follow the same set of principles. We demand that banks remunerate and eventually repay any support; they take measures to address distortions of competition; they restructure in order to return to long-term viability; and, that shareholders and bond holders bear a share of the burden.

It is too early to draw definitive conclusions on the impact of our decisions but a recent study by DG Competition on the measures taken between 2008 and 2010 found that the aid granted has helped to stabilise financial markets and maintain credit flows, even at the height of the crisis.

The aid effectively granted by Member States during this period amounted to €1,240bn. Most of this – €757bn – was in the form of guarantees. But it does not cover other forms of liabilities guaranteed on a case-by-case basis through capital injections (€303bn), impaired asset relief measures (€104bn), and liquidity measures (€77bn).

At the national level, the UK, Germany and France received 60 percent of the total aid granted. The ten largest beneficiaries received more than half of the total; the next 20 received one quarter; and the remainder – about 190 banks – shared the rest.

There is no doubt that this had the potential to make a significant detrimental effect on the competitive structure of the markets. However, Europe's banks have not retrenched behind national borders and the restructuring has not accelerated the concentration trend observed since 2001.

The dialogue that we've maintained with Member States is also helping to prepare the sector for the post-crisis financial environment. The vast majority of banks that have restructured are generating profits and – in many cases – repaying the support they received. My view is that a bank that does not face up to its responsibilities becomes a threat to financial stability and a hurdle on the path to recovery.

I am also aware that in the long run State Aid cannot replace a proper regulatory framework for crisis management. But it has been the only instrument available and, over the past three years, played the role of a de facto resolution mechanism

This emergency package is temporary by definition. Only a few months ago, we had hoped for a return to normality at the end of this year. But market conditions have again deteriorated.

Let's hope that in the next year we will be able to return to a more normal regime. That the markets calm down; banks resume lending to the real economy; that growth takes a sustainable path; new jobs are created; and that the taxpayers will recover the resources they have been obliged to put on the table to prevent an even worse crisis.

Joaquín Almunia is Vice President of the European Commission and Commissioner responsible for Competition Policy. An extended version of this article is available at www.iberianlawyer.com.