Deutsche Bank
Research

Aktueller Kommentar

Sisyphus lässt grüßen

Europas Banken sind wieder zurück auf Los

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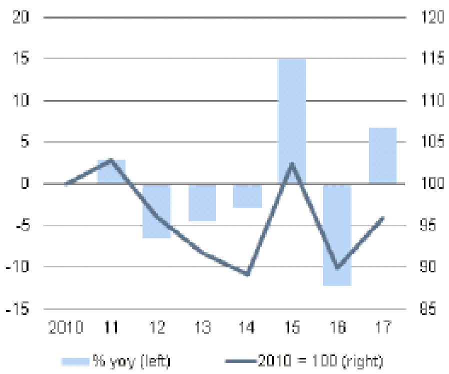
Die europäischen Banken haben einen guten Jahresauftakt verzeichnet. Die Erträge sind gestiegen, und zwar deutlich stärker als die Kosten. Die Kreditrisikovorsorge blieb niedrig. Unter dem Strich legte der Gewinn kräftig zu, um mehr als 40% verglichen mit dem Wert vor 12 Monaten. Die Zuwächse wurden allerdings gegenüber einem schwachen Vorjahreszeitraum erzielt – genaugenommen ist die Branche in vielerlei Hinsicht nur wieder dort, wo sie in Q1 2015 war. Mehr noch: Bei einer reinen Betrachtung der GuV hat sich seit dem Ausbruch der europäischen Schuldenkrise in Griechenland vor sieben Jahren ziemlich wenig verändert. Die Bankenbranche ist seitdem mehr oder weniger auf der Stelle getreten – eine frustrierende Erfahrung nach Jahrzehnten starken Wachstums und erheblichen Restrukturierungsanstrengungen in den letzten Jahren. Zumindest bei anderen Indikatoren sind deutliche Verbesserungen klar erkennbar, nicht zuletzt mit Blick auf den Risikoab- und Kapitalaufbau der Banken (nur in Englisch verfügbar).

European bank revenues in Q1
Top 20 institutions, excl. UK banks



Sources: Company reports, Deutsche Bank Research

How are you doing? The European banking industry's answer to this question depends on whether the enquirer is interested in a narrower or a wider angle. The first, short answer would be: quite well. An immediate comparison with 12 months ago shows the operating progress that the sector is currently achieving. Banks' results (proxied by the top 20 institutions) are clearly better than in Q1 2016. At the beginning of this year, revenues were up substantially by 7% yoy. However, this masks the fact that most of this increase was due to volatile trading income (+51%), whereas net interest income actually fell by another 1.5%. Fees and commissions rebounded by 10%. Encouragingly, administrative expenses only rose by 1.5%, i.e. much less than revenues, so that the cost-income ratio improved 3 pp to 61%. Also, loan loss provisions decreased by 6% from a level that was already low one year ago. Net income therefore jumped by more than 40%.

A closer look, however, reveals that performance is less rosy than these figures suggest. In fact, Q1 2016 makes for a flattering comparison due to significant dislocations in capital markets, which had a severe impact on European banks' operations. In many ways, the banks have only recovered (part of) the ground they lost back then. Compared with Q1 2015, the first quarter of this year seems much less spectacular: all revenue components are currently lower, although costs and loan losses have also fallen. Post-tax profit is a moderate 8% lower, and therefore broadly on par. Still, there is virtually no underlying growth across the sector, individual exceptions notwithstanding. Importantly, banks are not only struggling with shrinking net interest income due to extremely loose monetary policy – far from it, as there is also significant structural pressure on fees and commissions, as well as trading income.

Even more remarkable is the comparison with the last ("normal") quarter before the European debt crisis erupted in Greece exactly seven years ago (a comparison with pre-financial crisis figures would be much more devastating since the credit bubble had inflated most performance indicators at that time). In some ways, there has been no progress since 2010 at all, despite the industry's enormous restructuring efforts. But, of course, there has also been considerable headwind from much tighter regulation, higher compliance expenditures, zero interest rates and sluggish economic growth. Overall, major banks' revenues in Q1 2017 were slightly lower than in Q1 2010. Administrative expenses were almost 10% higher though, driving net income 13% below that level. This disheartening picture gets somewhat brighter once the strengthening of balance sheets is taken into account. The core capital ratio (transitional Core Tier 1 back then, now fully loaded Basel III Common Equity Tier 1) has surged from 9.1% to 12.9%, even with far tougher definitions. Much of that increase came from de-risking, but nominal equity has also climbed more than a quarter, despite huge losses from non-performing loans, restructuring costs and litigation.

What about the near-term outlook? There is a lot to suggest that there will be further incremental progress. The euro-area economy is forecast to grow by a solid 1.8% this year, much of banks' restructuring has been completed and interest rates may remain very low in the foreseeable future, providing momentum to the lending business, which finally appears to be picking up some speed. Loans to households from all banks in the EMU are currently expanding at 2.3% yoy, and loans to companies at 0.6%. Both growth rates might increase moderately in the coming quarters, provided there are no further shocks to the system. Private-sector deposit inflows have accelerated and outstanding volumes are up by a substantial 4.7% yoy, but this dynamic could slow given ever-lower deposit rates. Banks are flush with liquidity and may want to reduce excessive – and costly – liquidity buffers.

It helps that the industry has reached capital levels that may be close to a longer-term equilibrium. As a consequence, reducing exposures may not be as imperative as it was and banks can increasingly turn their focus towards new business commitments. In March 2017, the fully loaded CET1 ratio of the largest institutions in Europe was almost stable yoy at 12.7% on average, while the leverage ratio even declined by 15 bp to 4.5%, although this was mainly due to two basket cases rather than a general market phenomenon.

More information: Large or small? How to measure bank size