Competition policy in banking in the EU

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Competition has been perceived with suspicion, and even suppressed for extended periods, in European banking. Competition has a bearing on all the perceived failures associated with banking and the financial system: excessive risk taking, credit overexpansion and exuberant growth, and bank misconduct (e.g. the Libor cartel). I examine the evolution of competition policy practice and its interaction with regulatory developments in the EU.

Competition policy in the banking sector has evolved through different phases. In the EU, the European Commission did not apply the two main competition articles of the Rome Treaty (85 and 86) to banking until the early 1980s (with the Züchner case). There was a process of removal of banking exceptions to competition policy at the national level. The “normalization” of competition policy in its treatment of banking and finance was truncated by the deep financial crisis that began with the crisis in 2007–2009. The crisis overrode concerns about competition policy (with massive state aid and mergers allowed without concern for market power).

The aftermath of the 2007–2009 crisis has revived old issues and posed a host of new questions on the relationship between competition and financial stability, as well as between competition policy and regulation in banking. Indeed, the crisis has called into question both regulation and competition policy in banking, as well as their relationship, and regulatory failure has been pervasive. The state aid programs altered competition and created an uneven playing field in terms of the cost of capital for entities deemed too-big-to-fail (TBTF). The mergers and restructuring that followed have added to the trend of increased consolidation in the EU. Among the open issues stands to design the appropriate architecture for regulatory and competition agencies in the financial sector in the EU.

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