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BANOR SIM’s analysis

All eyes on the banks: mergers in Spain and Germany to be monitored

Angelo Meda, of Banor SIM

In Italy, we are going through a phase in which the markets are paying for the expectations of global economic recovery and the narrowing of the spread following the regional elections. “The sky is clear, but there are a few clouds on the horizon,” explains Angelo Meda, Head of Equity at Banor SIM. “The Italian stock exchange has already gained 15% since the beginning of the year and that trend is unlikely to continue for long”.

According to Meda, at the moment banking is the most controversial sector and also the one that has suffered most owing to the spread, to the ECB’s decision to keep interest rates negative, and to the economic slowdown in Europe and Italy. So any good news on those three fronts could trigger significant gains. “As far as bank mergers go, the picture in Europe is very different from the one we see in the US,” says Meda. “In Europe we need larger banks in order to withstand macroeconomic turmoil. In the US the sector has become highly concentrated over the last 50 years, while on this side of the Atlantic we’re still struggling to encourage mergers within individual countries in order to create so-called ‘national champions’.”

He believes it will be interesting to monitor the potential merging of Deutsche Bank and Commerzbank in Germany and the smaller merger, though with similar dynamics, between Liberbank and Unicaja in Spain. It will also be interesting to see how the ECB and the European Commission react to these operations. In the past, Italy tried to help the banking system but its efforts were foiled. So we will see whether the arguments upheld by the EU and the competition regulators a while ago regarding the Italian banking system, which is deemed to be problematic, are now applied to Germany and Spain.

As for the possibility of a resumption of public works following the recent decree on building projects, the market has responded favourably. Italy's economy needs to be stimulated, given the slowdown observed in recent quarters compared with more than a year ago. Anything that will boost consumption and investment is welcome, although it's not a good idea to raise the bar too high with the EU Commission, given what happened a few months ago with the Stability Law. "We can't expect an infrastructure plan worth hundreds of billions of euros, but at least a start needs to made on projects that have already been financed and for which the capital is available, if Italy is to enjoy a little growth," concludes Meda.