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BNP Gets as Little Love as SocGen With Election Prompting Banker Bashing

By Fabio Benedetti-Valentini - Feb 10, 2012

BNP Paribas SA (BNP), Societe Generale SA and Credit Agricole SA, France's biggest banks, are getting no love from the nation's politicians as elections loom.

Coming off a year when their shares had the steepest declines since 2008, banks are being blamed for at least a part of Europe's economic crisis by leading contenders in the French presidential race to be held on April 22 and May 6. Socialist candidate Francois Hollande and President Nicolas Sarkozy have pledged to rein in banks with taxes and controls, playing to the electorate's anti-finance sentiment.

"The temptation is to see finance as a foreign, hard-to- control black box, making banks the ideal bogeyman," said Nicolas Veron, a senior fellow at Bruegel, a Brussels-based economics research group. "Financial topics carry a strong emotional dimension for French voters."

Regardless of who wins, French banks can expect to face transaction taxes -- even on their high-frequency trades -- greater controls on stock options and manager compensation and caps on dividends. Mirroring the backlash against financial firms in the "Occupy Wall Street" movement, the French candidates are racing to show who's tougher on banks.

"My enemy is finance," frontrunner Hollande said last month, calling it a "rival without a name, without a face." He said if elected he would force banks to split retail and "speculative" investment operations, pledged a tax on all transactions, a 15 percent increase in levies on profits and a ban on awarding stock options to executives.

Crisis Talk

"If finance is 'without a face,' condemning its excesses is becoming more visible by the day!" Didier Le Menestrel, chairman of Paris-based Financiere de l'Echiquier, wrote in a Feb. 3 newsletter to clients. At the end of 2011, the fund managed 4.2 billion euros ($5.6 billion) for 4,500 clients.

For his part, Sarkozy, who has yet to declare his candidacy, plans to unilaterally impose a 0.1 percent tax on financial transactions starting in August. The tax will apply to share purchases, including high-frequency trading, and credit- default swaps.

"There's no reason why deregulated finance, which brought us to the current situation, can't participate in the restoration of our accounts," Sarkozy said on Jan. 29.

French banks have been embroiled in Europe's crisis because of their $620 billion-euro holdings of private and public debt in the region's troubled countries of Greece, Portugal, Ireland, Italy and Spain, according to end-September figures from the Bank for International Settlements.

Hamstrung

BNP Paribas, Societe Generale and Credit Agricole (ACA) are retreating, shrinking assets by about 300 billion euros and cutting at least 5,600 jobs to comply with international capital rules as they book Greek losses.

The three banks, together with Groupe BPCE, France's fourth-largest lender, had taken 5.4 billion euros in writedowns on Greek sovereign holdings as of end-September. Societe Generale and Credit Agricole both operate unprofitable Athens- based consumer-banking networks.

The French government, which came to the aid of the country's banks after Lehman Brothers Holdings Inc. (LEH)'s 2008 collapse, hasn't helped them in the current crisis.

It's hamstrung by its own debt, which at 1.69 trillion euros is 85 percent of gross domestic product. Standard & Poor's last month stripped France of its AAA credit rating for the first time.

Helping Governments

Sarkozy has instead advocated that banks, which won a respite on their funding woes when the European Central Bank provided them with 1 percent three-year loans, help governments by using some of the money to buy euro-area sovereign debt.

"Why do big European banks keep lending unremittingly at ridiculously low rates to states that don't stop blaming them?" l'Echiquier's Le Menestrel asked in his newsletter.

France's four largest banks may see their 2013 earnings dented by about 10 percent as a potential impact from Socialist Party candidate Hollande's economic program, according to estimates by Jean-Pierre Lambert, a London-based analyst at Keefe Bruyette & Woods Ltd.

BNP Paribas, Societe Generale, Credit Agricole and Natixis, a unit of BPCE, may get a combined 1.7 billion-euro net-income hit from his proposals, including about 700 million euros from the transaction tax, the KBW estimates show.

Credit Agricole spokeswoman Anne-Sophie Gentil declined to comment as did Societe Generale spokeswoman Nathalie Boschat and BNP Paribas spokeswoman Julia Boyce.

High-Frequency Trades

BNP Paribas and Societe Generale this year may generate combined trading revenue of 13.1 billion euros, according to Jan. 6 estimates from JPMorgan Cazenove.

High-frequency trading, using fast computers and programs designed by mathematicians, makes up 38 percent of European trading and more than half of all U.S. stock transactions, according to estimates from Westborough, Massachusetts-based researcher TABB Group.

French banks don’t break down high-frequency trading details. Such trades drew regulator attention after the Standard & Poor’s 500 Index declined 6.2 percent in less than 20 minutes on May 6, 2010.

Unlike ordinary stock trades, for which Sarkozy’s levy would be a fraction of brokers’ fees, taxing high-frequency trades by 0.1 percent might make such transactions unattractive, said Christophe Nijdam, an analyst at AlphaValue in Paris.

Sarkozy’s planned tax spares banks’ bond trading and more complex structured product trades, which make up the bulk of French banks’ trading revenue.

Blame Game

For the most part, the transaction tax will have “an immaterial impact” on banks’ earnings and will probably cost less than 150 million euros each for France’s four largest listed banks, estimated Matthew Czepliewicz, a London-based analyst at Collins Stewart Hawkpoint Plc.

“The negative impact on investor sentiment could however be much greater,” he said.

Banks have opposed the unilateral application of the tax in France, saying it will hurt Paris’s competitiveness. Also, they point out that the current crisis stems from the excesses of governments, not of banks.

“Blaming banks for the current crisis has limits,” Societe Generale Chief Executive Officer Frederic Oudea, who’s also chairman of the French Banking Federation, said this month. “This crisis is about public debt.”

Over the past 12 months concern about banks’ sovereign holdings, new regulations and potential taxes have weighed on their shares. BNP Paribas has tumbled 37 percent, Societe Generale (GLE) 48 percent and Credit Agricole 52 percent.

Bank Bashing

BNP Paribas's fourth-quarter net income probably fell 67 percent, while Societe Generale's profit in the period may have declined 53 percent, according to analysts estimates compiled by Bloomberg News.

Credit Agricole warned Dec. 15 it will report an annual loss for 2011, its first since it went public in 2001, and scrap its dividend as it books about 2.5 billion euros in fourth- quarter writedowns on investments and struggles to contain losses at its Athens-based unit, Emporiki Bank of Greece SA.

With trouble at banks, customers will bear the brunt, said Rebecca Healey, a senior analyst at TABB Group in London.

"Bashing banks has become politicians' favorite sport, but it's the man on the street who'll pay the cost of any new financial tax," she said. "Banks will pass on the costs."

To contact the reporter on this story: Fabio Benedetti-Valentini in Paris at fabiobv@bloomberg.net

To contact the editors responsible for this story: Frank Connelly at fconnelly@bloomberg.net;