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Profitable banks are good for Frankfurt

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Ten years after the outbreak of the financial crisis and the German economy is powering full steam ahead. Do you still remember the collapse of the US mortgage market that started in the spring of 2007? Could you have imagined a global economic crisis back then? Even the international equity markets did not immediately anticipate this and lurched from one high to another until as late as the summer. The DAX achieved its then all-time high on 16 July 2007, of 8,106 points, before a midcap business bank, which was previously considered to be sound, had to be bailed out. More were to follow. With the collapse of Lehman Brothers in autumn 2008, the world slid into a downward spiral. The banking and financial crisis turned into a global economic crisis and the leading German index had fallen to 3,666 points by spring 2009.

Since then, equity markets have experienced an overall stellar, if volatile, upswing. In Europe, moves towards a banking union were initiated, in order to increase the stability of financial markets and to prevent taxpayer's money from ever having to be used to bail out banks again. While these principles were applied to the winding up of banks in Spain this year, the Italians evidently had different priorities.

Generally speaking, the banking sector in Europe has become more stable. In part prompted by regulations, European financial institutions have adjusted their business models, reduced their risk positions and shrunk their balance sheets. Some banks have even disappeared altogether. Since the end of 2006, for instance, the consolidation process in the United Kingdom has led to a reduction in the number of banks of around 10 %, in France of 45 % and in Germany of approximately 20 %. In absolute terms, this equated to a fall of almost 400 to 1,714 monetary financial institutions.

However, in comparison to the two banking centres of London and Paris, the development in Frankfurt has been relatively modest. While the financial sector accounted for around 13 percent of all employees subject to statutory insurance contributions at the beginning of 2007, with a current workforce of 62,500 this share is still an impressive 11 %.

Nevertheless, the financial crisis also left its mark on the Hessian economy. The state's GDP did not return to pre-crisis levels until 2014, with banks and corporate services, whose gross value added is still currently 5 percentage points lower than before the crisis, acting as a drag on growth. In contrast, total German output had exceeded its previous 2008 peak as early as 2011.

The banking sector in Frankfurt is once again making a significant contribution to the city's business tax revenues. In the course of the economic and financial crisis, receipts collapsed in the recessionary year of 2009. As the Hessian economy grew, however, pre-crisis levels had been surpassed by 2014. In the middle of 2017, 34.4 % of these tax revenues were generated by the banking sector. This clearly illustrates the fact that profitable banks are good for Frankfurt.

But the challenges for banks are high. In addition to the on-going phase of low interest rates and technological changes, the regulatory framework is weighing on their earnings position. Therefore, regulatory hurdles should not be set too high so that Frankfurt's banks are able to contribute strongly to the city's business tax revenues in the future, too. ■