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Ottobre 2017

Quali regole per la finanza? In attesa di Basilea 4

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THE EA BANKING SECTOR , BEYOND BASEL

- **A summary of the major reforms**
 - Basel 3 and global governance of the banking sector
 - More specific to EA: Banking Union settlement

- **What implications for the EA banking sector?**
 - Major strengthening of banks' balance sheet
 - Together with the low interest context, profitability has suffered

- **Issues that remain**
 - Legacy issues
 - Regulatory and political agenda

- **Evolution of the structure of the EA banking sector**
 - Competition from US investment banks
 - Toward less bank-financing

THE THREE PILIARS OF BASEL 3

Capital

- Improving the quality of capital (greater focus on common equity)
- Higher RWA requirements to better capture risks related to trading, securitizations, off-balance sheet and counterparty credit exposures
- Raising the minimum capital requirement ratios
- Addressing procyclicality
 - capital conservation buffer
 - countercyclical buffer
- Addressing the risks of 'systemically important banks'
 - capital surcharges, contingent capital, bail-in debt

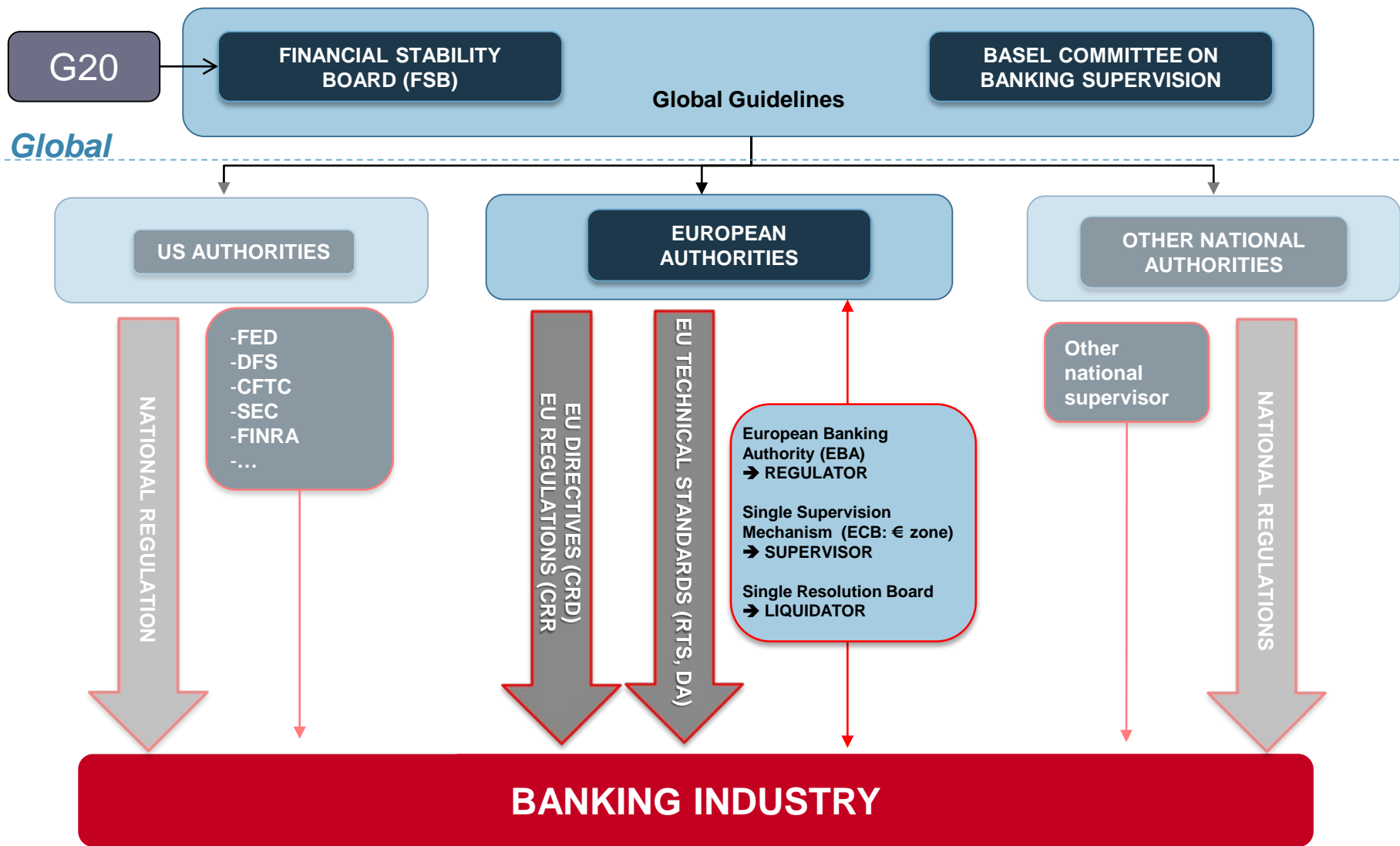
Liquidity

- Introduction of global minimum liquidity standards:
 - 30-day liquidity coverage ratio (LCR),
 - longer-term structural liquidity ratio (Net Stable Funding Ratio - NSFR)

Balance sheet

- Introduction of a 'non risk-based' leverage ratio, capturing both on- and off-balance sheet exposures and derivatives

REGULATORY GOVERNANCE HAS EVOLVED



SPECIFIC TO EA: BANKING UNION



New rules to make banks better capitalized and risks better controlled

ECB directly supervises +/-130 important banks. National supervisors work closely together within an integrated system

EDIS provides a stronger and a more uniform degree of insurance cover for all retail depositors in the banking Union.

If all else fails, as last resort the Single Resolution Board can decide to resolve a failing bank, backed by a fund that banks themselves pay in to

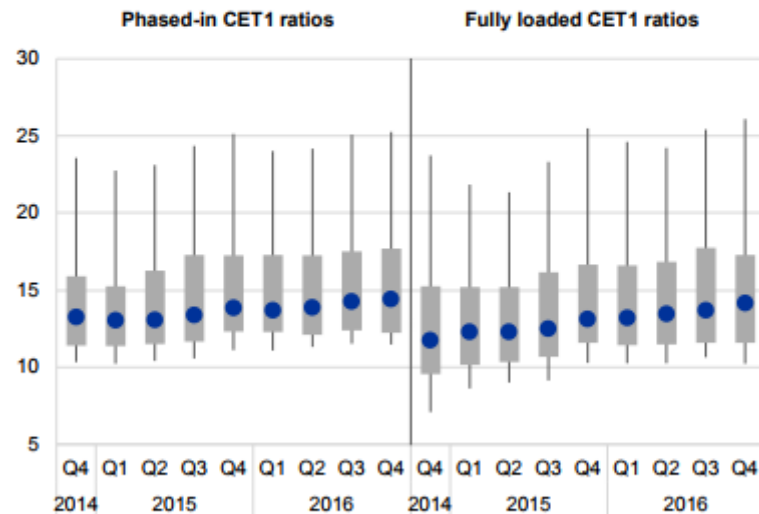
Source: EC

BANKS HAVE STRENGTHENED THEIR BALANCE SHEETS

Solvency ratios

Phased-in and fully loaded CET1 ratios of significant institutions in the euro area

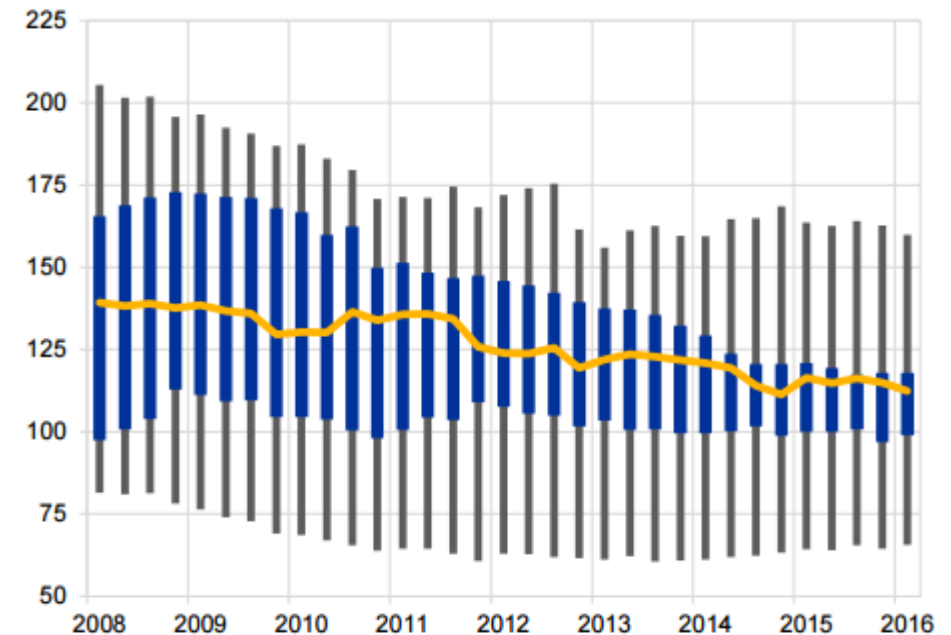
(Q4 2014 – Q4 2016; percentages; median, interquartile range and 10th-90th percentile range)



Source: ECB supervisory data.

Loan-to-deposit ratios

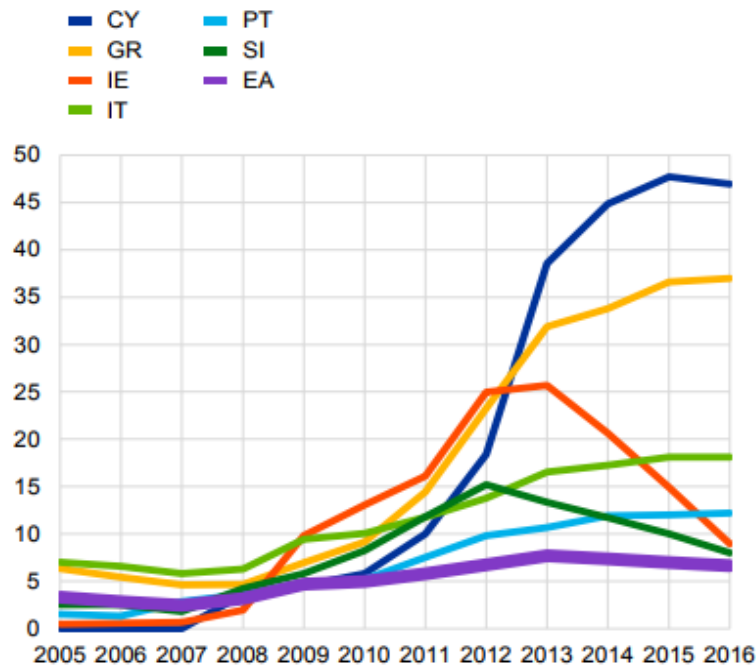
(all banks; percentages; maximum, minimum, interquartile range and median across national banking sectors; quarterly data)



Source: ECB (MFI statistics) and ECB calculations.

SOME LEGACY PROBLEMS CONTINUE TO WEIGH

NPL ratios in Europe have slowly fallen from the 2013 peak



Source: World Bank, IMF Financial Soundness Indicators, ECB.

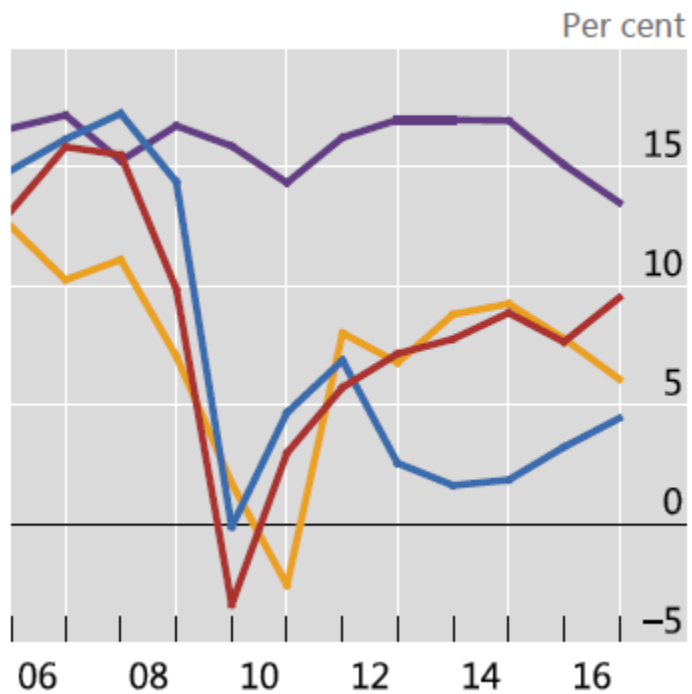
Note: Country samples and methodological differences related to NPL definitions or the consolidation scope can explain differences in ratios with respect to supervisory statistics.

IMF data	Average NPL ratio (2007)	Average NPL ratio (2016)
6 EA countries	4.8	22.8
EA	2.4	6.6
UK	0.9	1.0
US	1.4	1.5

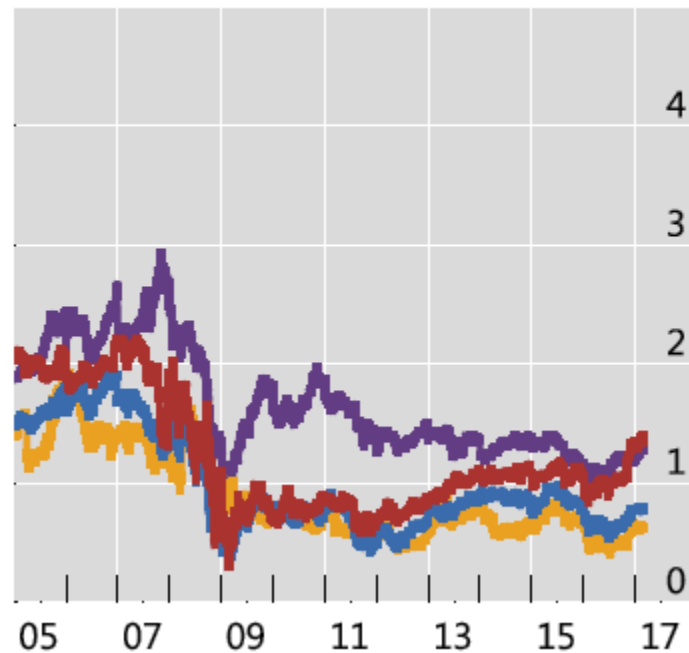
- **NPL stock: a legacy from the crisis**
- **Peak NPL level in the euro area reached in 2013**
- **NPL resolution is slower in many countries facing high NPL levels**

PROFITABILITY REMAINS MODERATE

Bank return on equity



Bank price-to-book ratios



— United States

— Europe¹

— Japan

— EMEs

¹ Excluding emerging Europe.

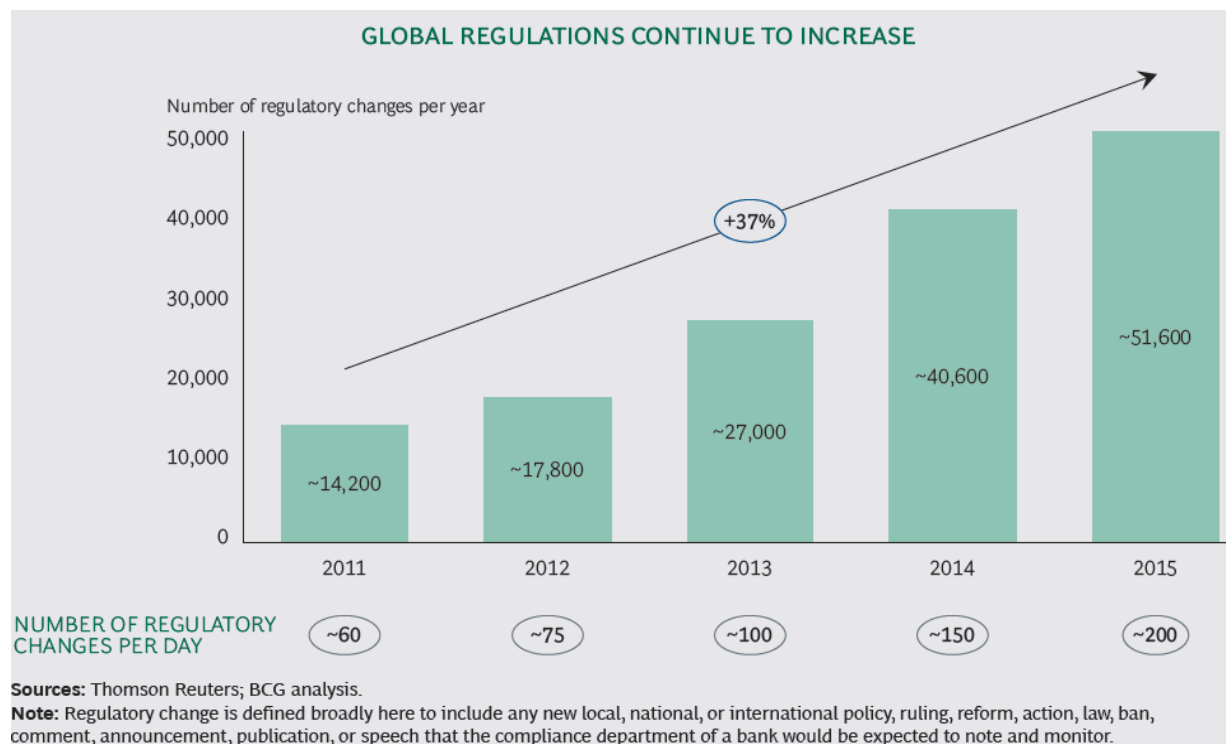
Source: Datastream.

Source: BIS

POLITICAL AND REGULATORY UNCERTAINTIES

Regulatory issues that remain open

- Basel 4
- Banking union : proportionality; EDIS/Derisking
- Macroprudential

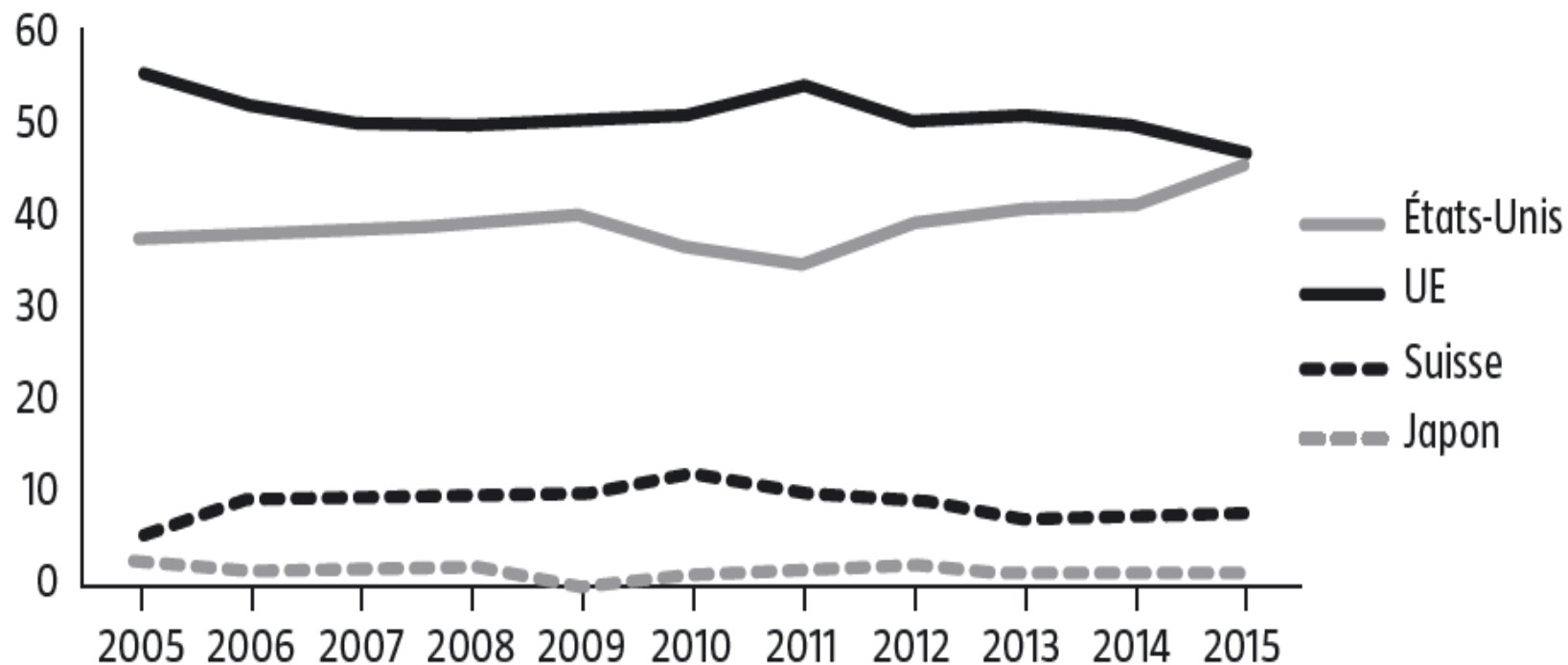


The agenda may evolve according to US policy decision and Brexit implementation.

STRUCTURAL EVOLUTION OF THE EA FINANCING SYSTEM

Competition from US peers

Market shares of Investment Banks
in the region: Eurozone, Middle East and Africa

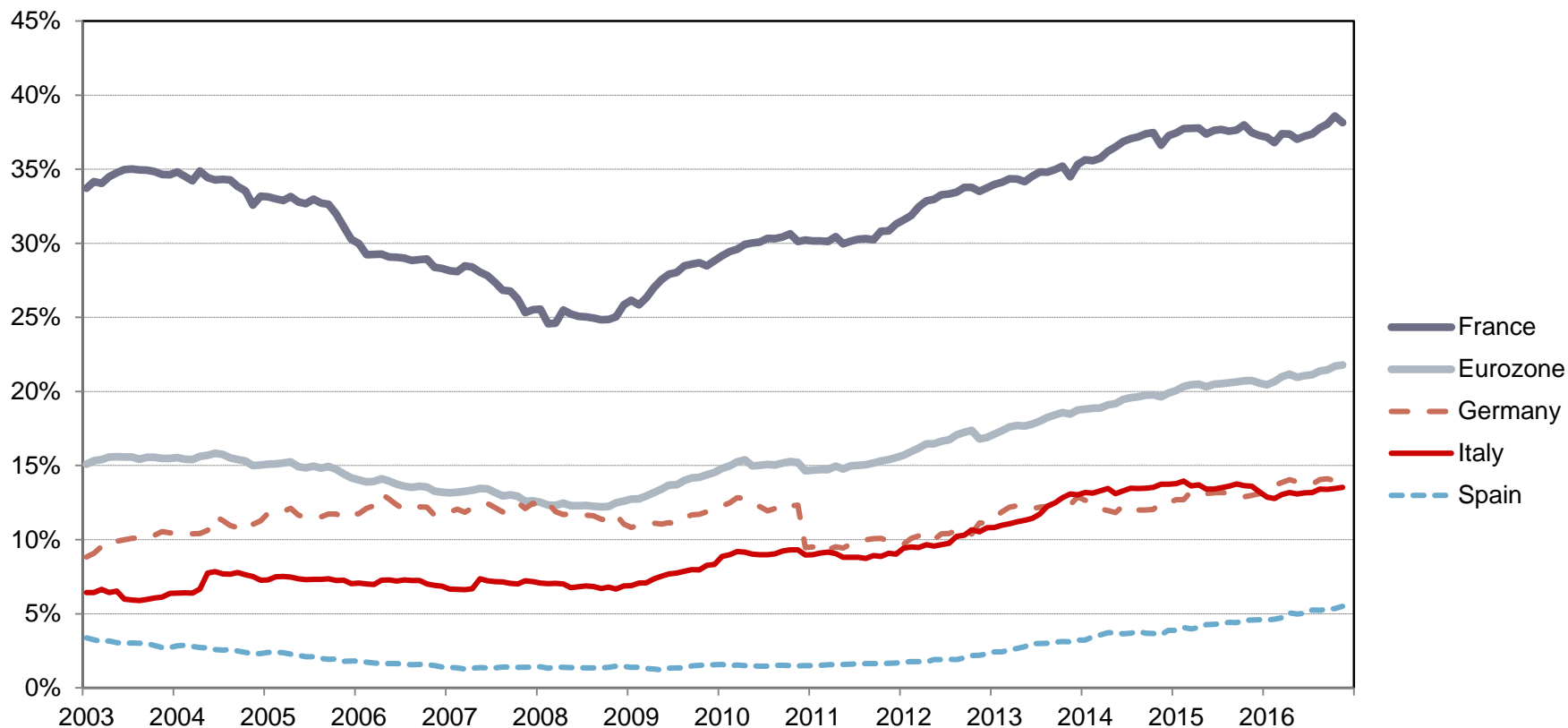


Source : Bruegel, "The United States dominates global investment banking: Does it matter for Europe?",
Bruegel Policy Contribution n° 2016/06, mars 2016.

STRUCTURAL EVOLUTION OF THE EA FINANCING SYSTEM

Towards less banking-financing and more market-based

NON FINANCIAL CORPORATE SECTOR: SHARE OF MARKET FINANCING IN TOTAL DEBT
(BANK CREDIT+ MARKET FINANCING)



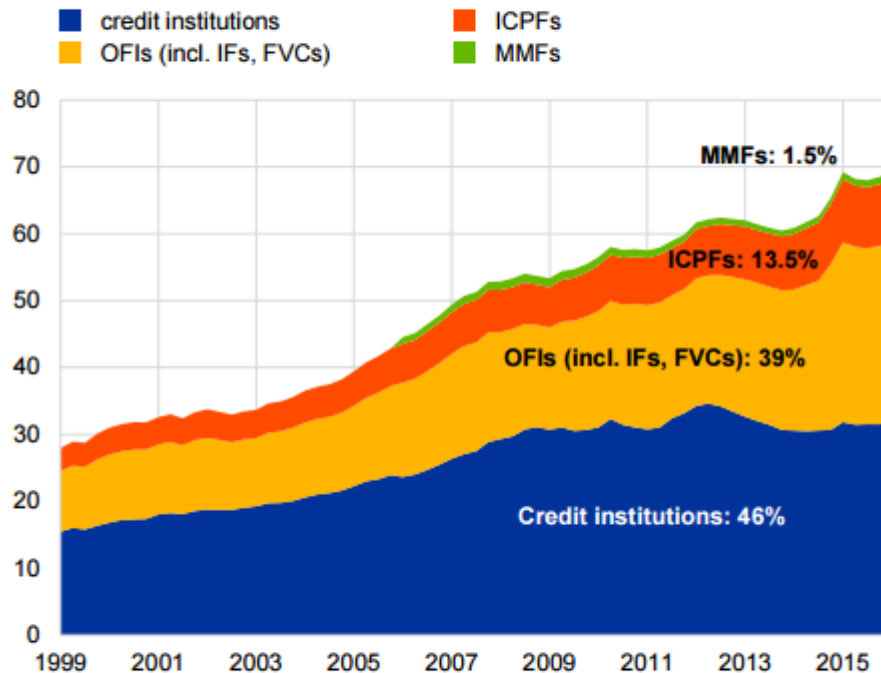
Source : ECB

STRUCTURAL EVOLUTION OF THE EA FINANCING SYSTEM

Banking sector size is stabilizing, with less banks

Total assets of the euro area financial sectors

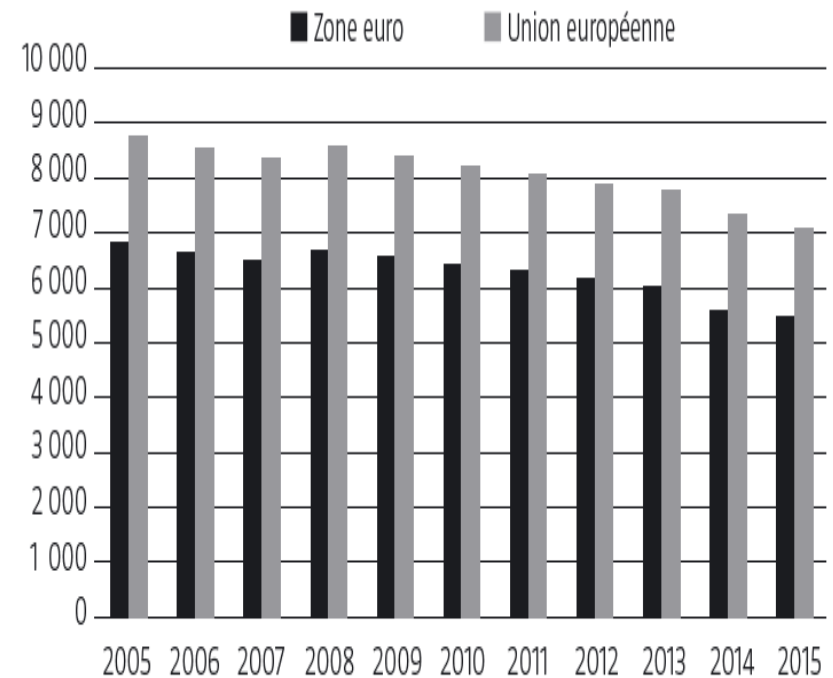
(Mar. 1999 – Mar. 2016; EUR trillions)



Source: ECB (EAA) and ECB calculations.

Notes: OFIs refer to non-monetary financial corporations excluding ICPFs. Non-money market investment funds and financial vehicle corporations are included in the OFI sector.

Number of credit institutions

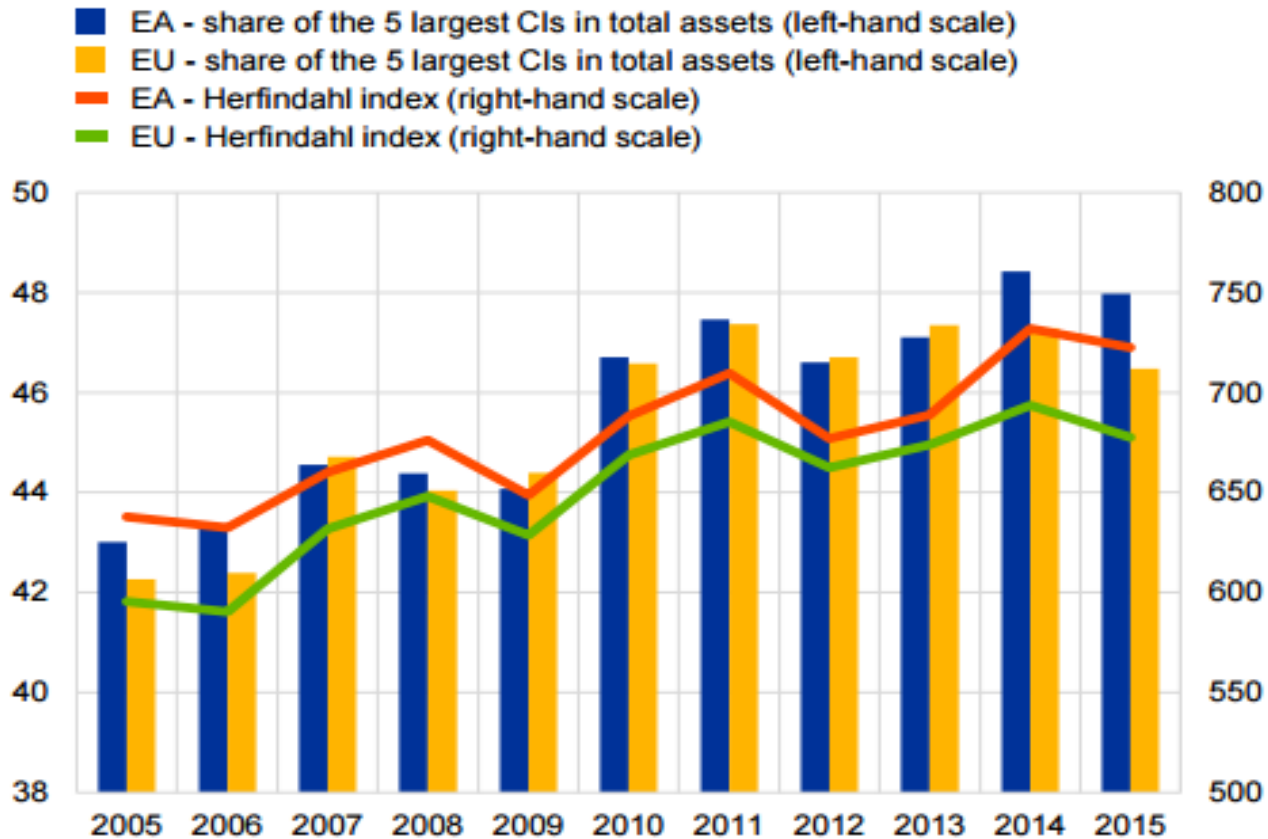


Source : Banque centrale européenne, *Report on financial structures*, octobre 2016.

STRUCTURAL EVOLUTION OF THE EA FINANCING SYSTEM

Towards genuine European banks?

Market concentration



Source: ECB (SSI and MFI BSI statistics) and ECB calculations.