



BANCA D'ITALIA
EUROSISTEMA

European Banks Funding: recent trends and issues

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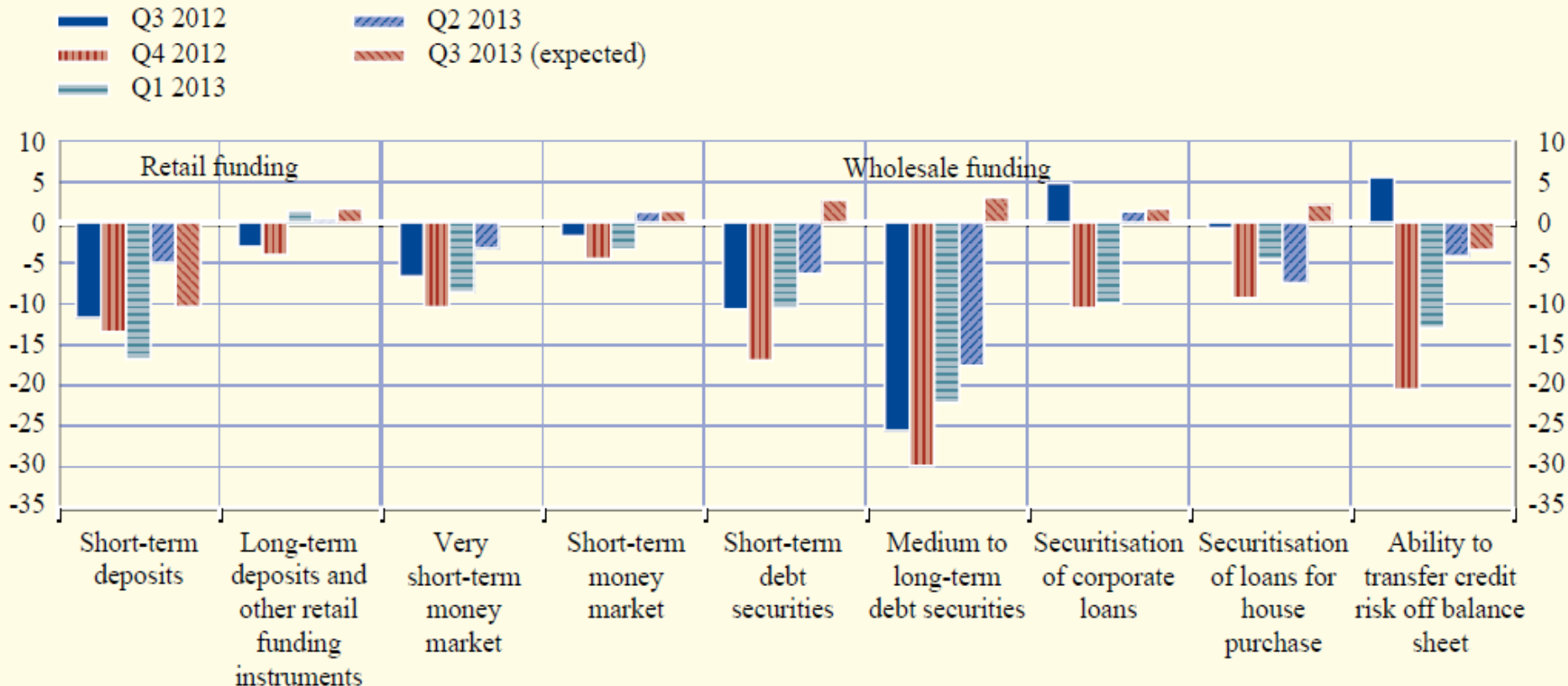
New York, 27 September 2013

The views expressed in this presentation do not necessarily reflect those of the Bank of Italy

Recent developments: easing of tensions

Chart G Changes in access to funding over the past three months

(net percentages of banks reporting deteriorated market access)

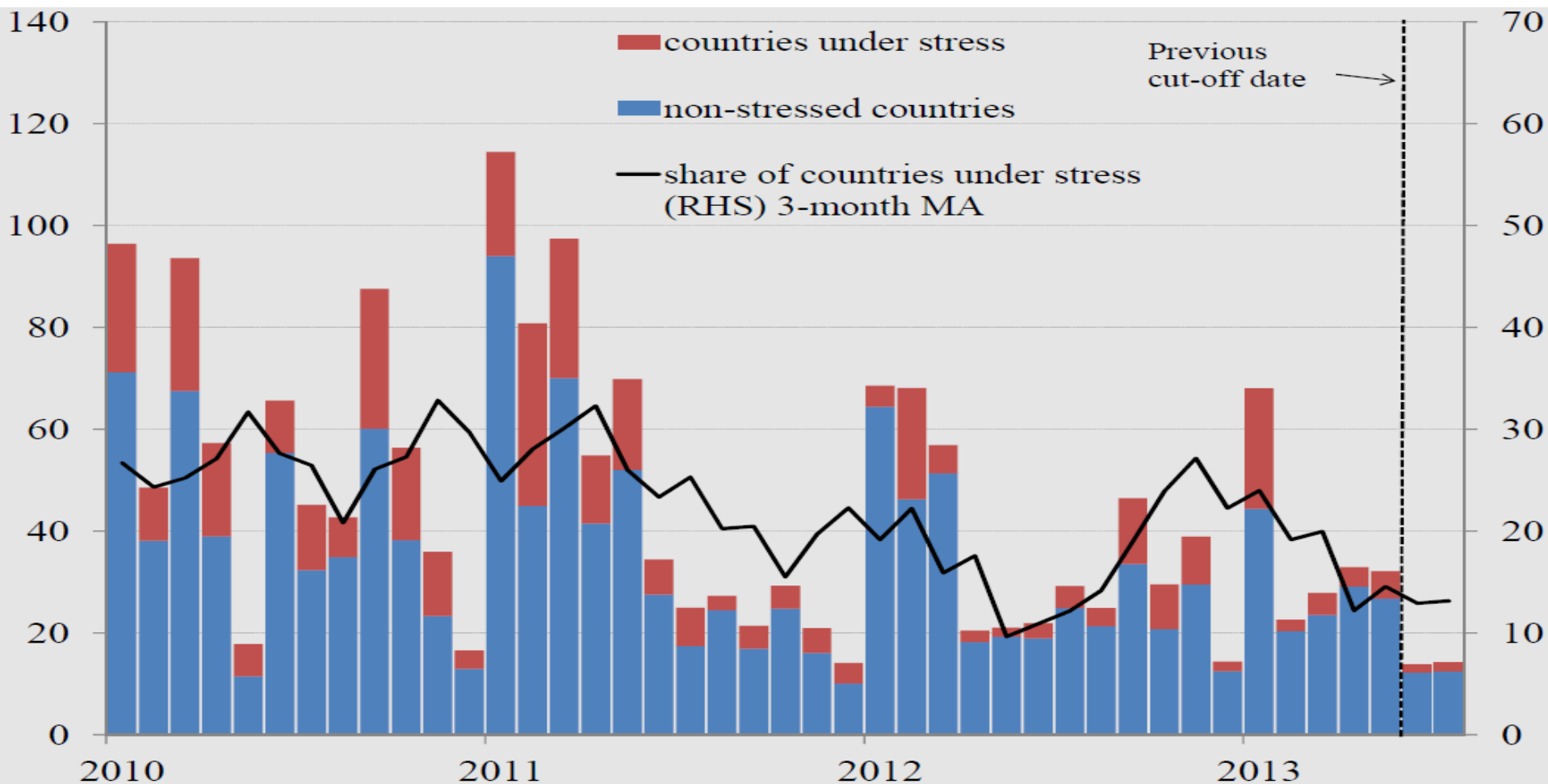


Note: The net percentages are defined as the difference between the sum of the percentages for “deteriorated considerably” and “deteriorated somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”.

Gross bank bond issuance on euromarket still subdued

Gross monthly issuance of bonds by EU banks

(€bn and percentages)

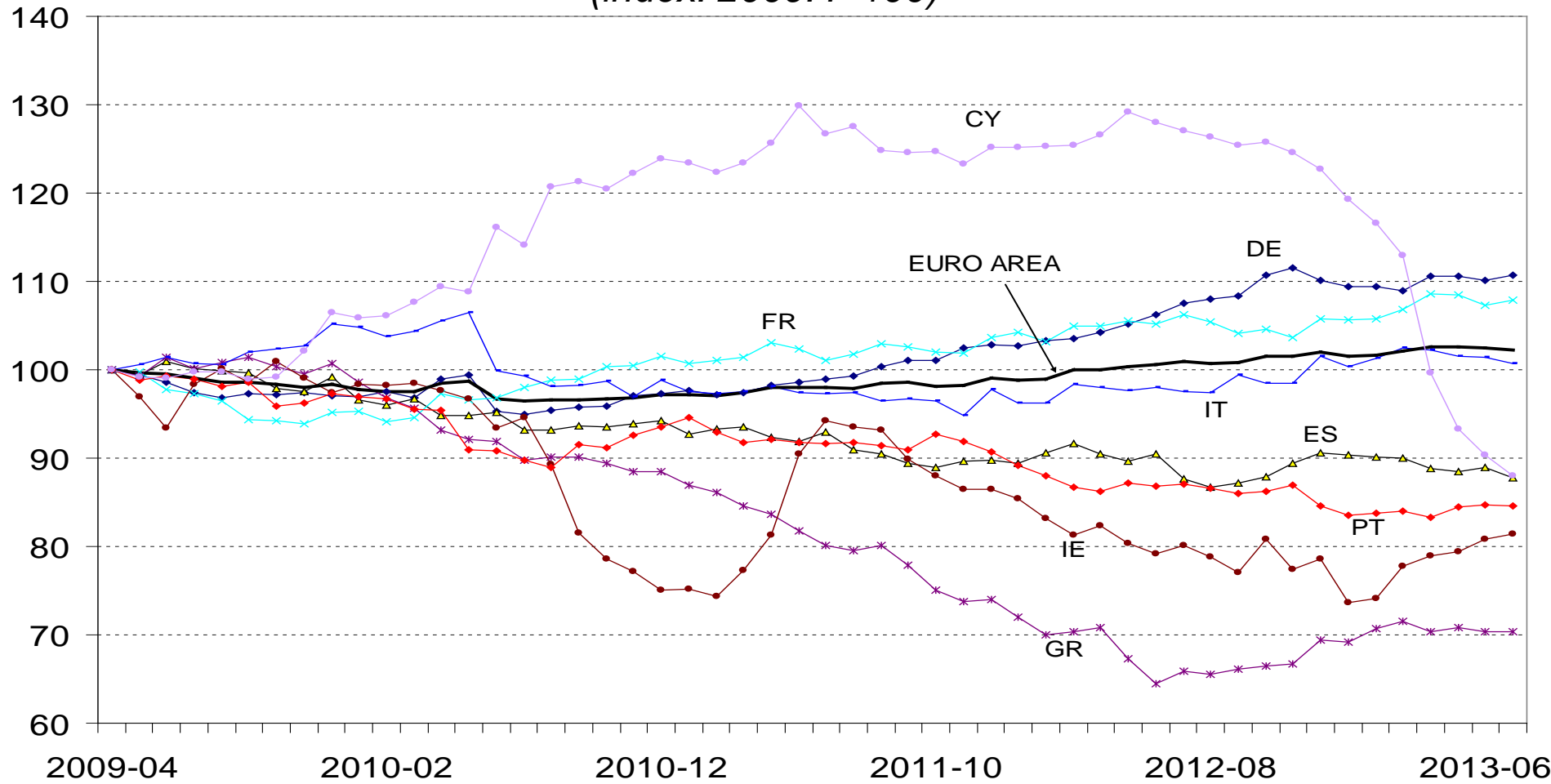


Source: Dealogic

Retail deposits growth has resumed in most countries

M3 money supply in selected euro area countries

(index: 2009.4=100)

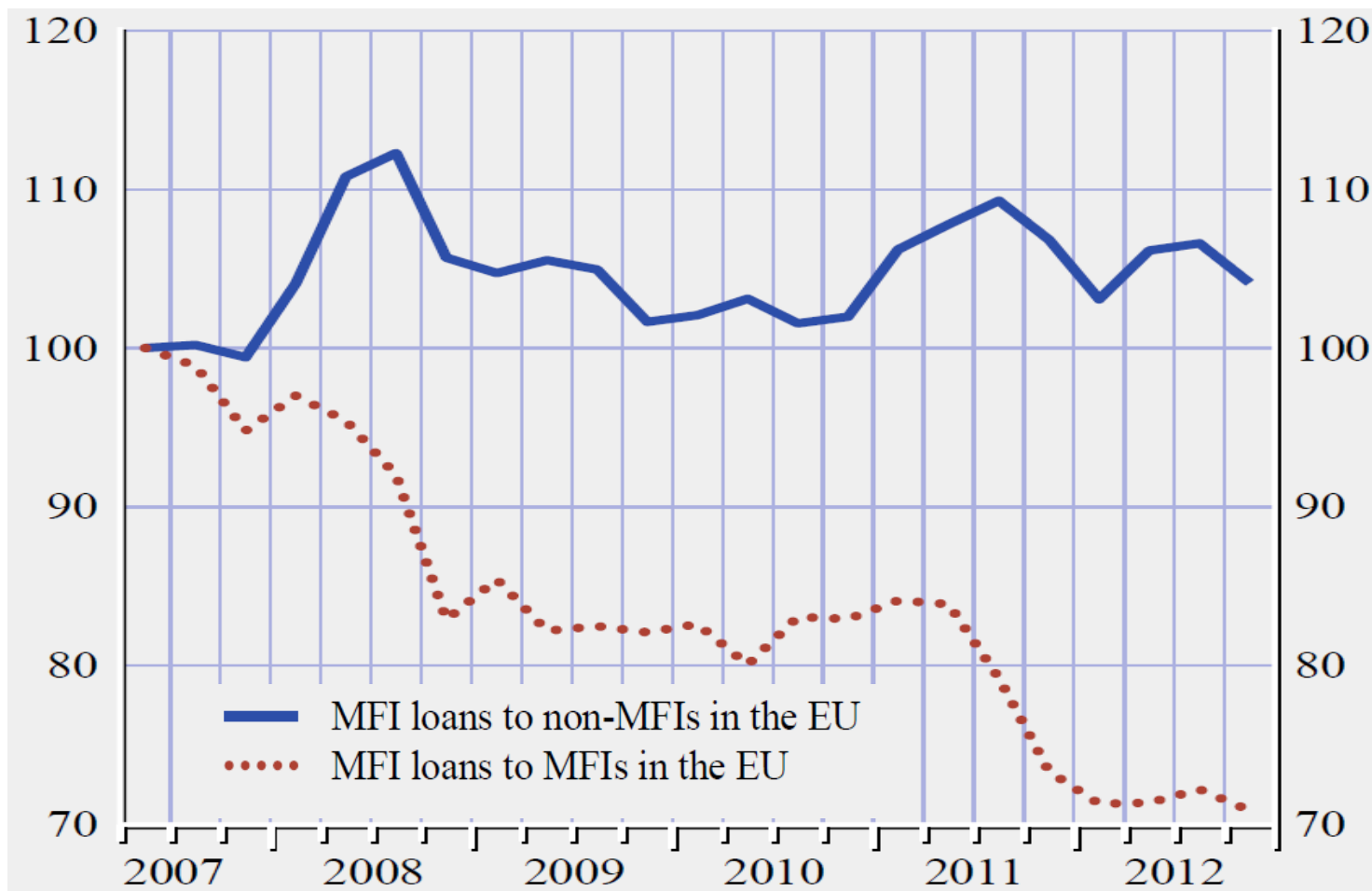


Source: ECB

Cross-border interbank flows have fallen heavily ...

Cross-border MFI loans to MFIs and non-MFIs in the EU

(index: Q2 2007=100)



... not only away from countries under stress ...

Gross claims of the reporting countries' banks on foreign bank counterparties

(June 2011 - June 2012; changes in billions of euros and percent)

Claims of banks resident in	Germany	Italy	Spain	France	Programme	Other euro	Total Euro	Total non euro	Total
Germany	0,0	-13,0 -38%	-20,0 -41%	-5,8 -7%	-9,6 -38%	-7,6 -6%	-56,1 -18%	-6,4 -2%	-62,5 -9%
Italy	-5,6 -14%	0,0	-1,2 -25%	-4,2 -20%	-2,7 -59%	-3,7 -18%	-17,4 -19%	-1,8 -4%	-19,2 -14%
Spain	0,3 9%	-0,6 -21%	0,0	2,1 27%	-1,4 -33%	-1,7 -29%	-1,4 -6%	-17,5 -23%	-18,9 -19%
France	-34,4 -47%	-7,1 -22%	-10,2 -37%	0,0	-5,0 -40%	5,1 7%	-51,5 -24%	-99,3 -31%	-150,9 -28%
US, Japan, UK and CH	-12,1 -9%	-15,6 -57%	-12,3 -29%	-53,7 -23%	-6,4 -19%	-25,8 -21%	-125,9 -22%	25,3 2%	-100,6 -6%

... but outflows have come to a halt or reversed

Gross claims of the reporting countries' banks on foreign bank counterparties
(June 2012 - March 2013; changes in billions of euros and percent)

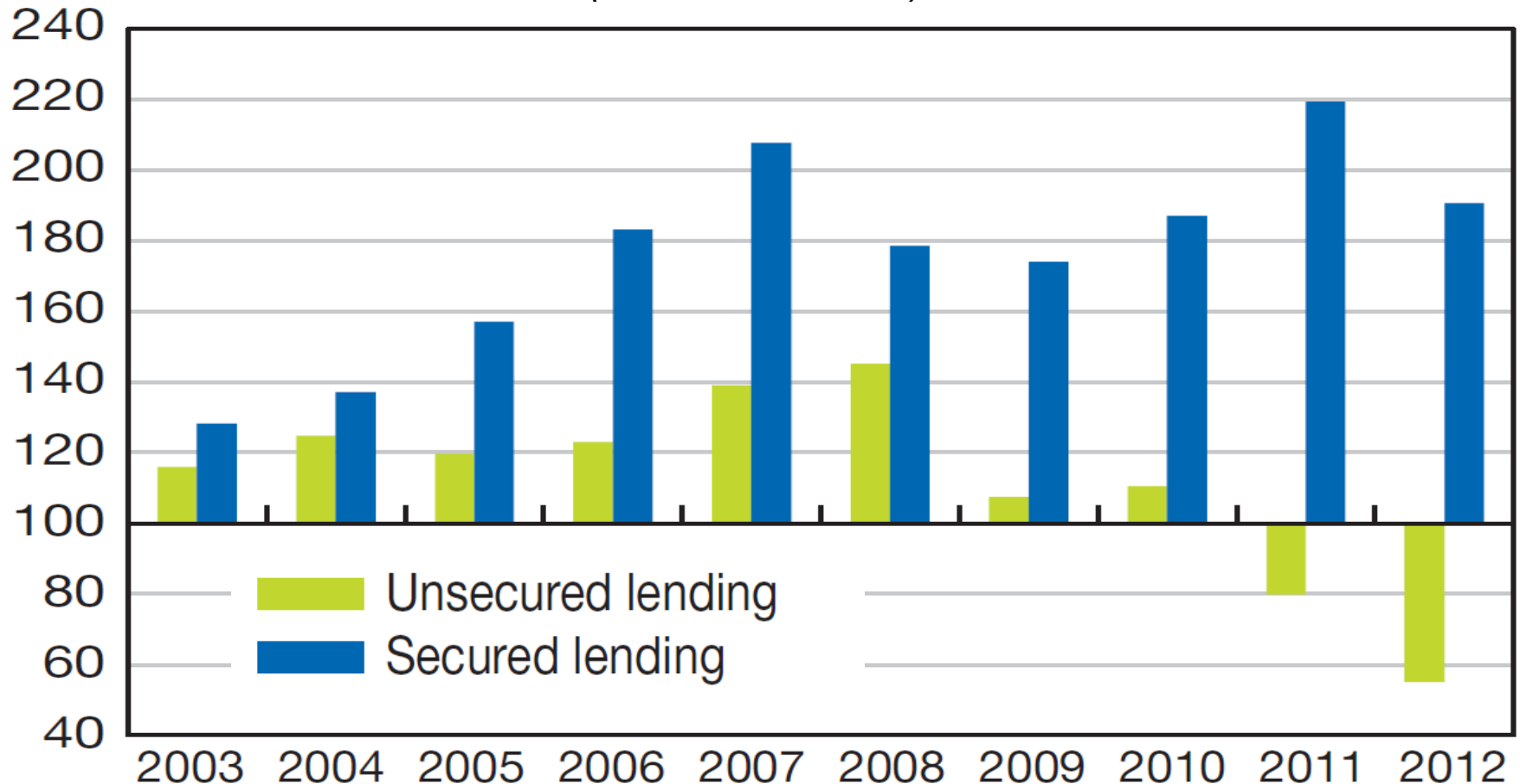
Claims of banks resident in	Germany	Italy	Spain	France	Programe	Other euro	Total Euro	Total non euro	Total
Germany	0,0	0,0 0%	3,9 14%	1,7 2%	-1,7 -11%	-2,8 -2%	1,2 0%	14,4 4%	15,6 2%
Italy	-4,0 -11%	0,0	0,9 26%	2,8 16%	0,2 12%	-0,1 -1%	-0,2 0%	-2,2 -5%	-2,4 -2%
Spain	-1,3 -35%	-0,5 -21%	0,0	2,1 22%	1,3 44%	0,9 23%	2,7 12%	16,2 28%	18,9 23%
France	1,0 3%	3,1 12%	-2,5 -15%	0,0	8,6 115%	18,5 25%	28,6 18%	23,4 11%	52,1 14%
US, Japan, UK and CH	-1,8 -1%	1,9 16%	5,5 18%	30,6 17%	4,2 16%	-4,0 -4%	36,4 8%	-44,5 -4%	-8,1 0%

Source: elaborations on BIS data

Money markets: secured funding holds, unsecured falls

Average daily turnovers in secured and unsecured cash lending

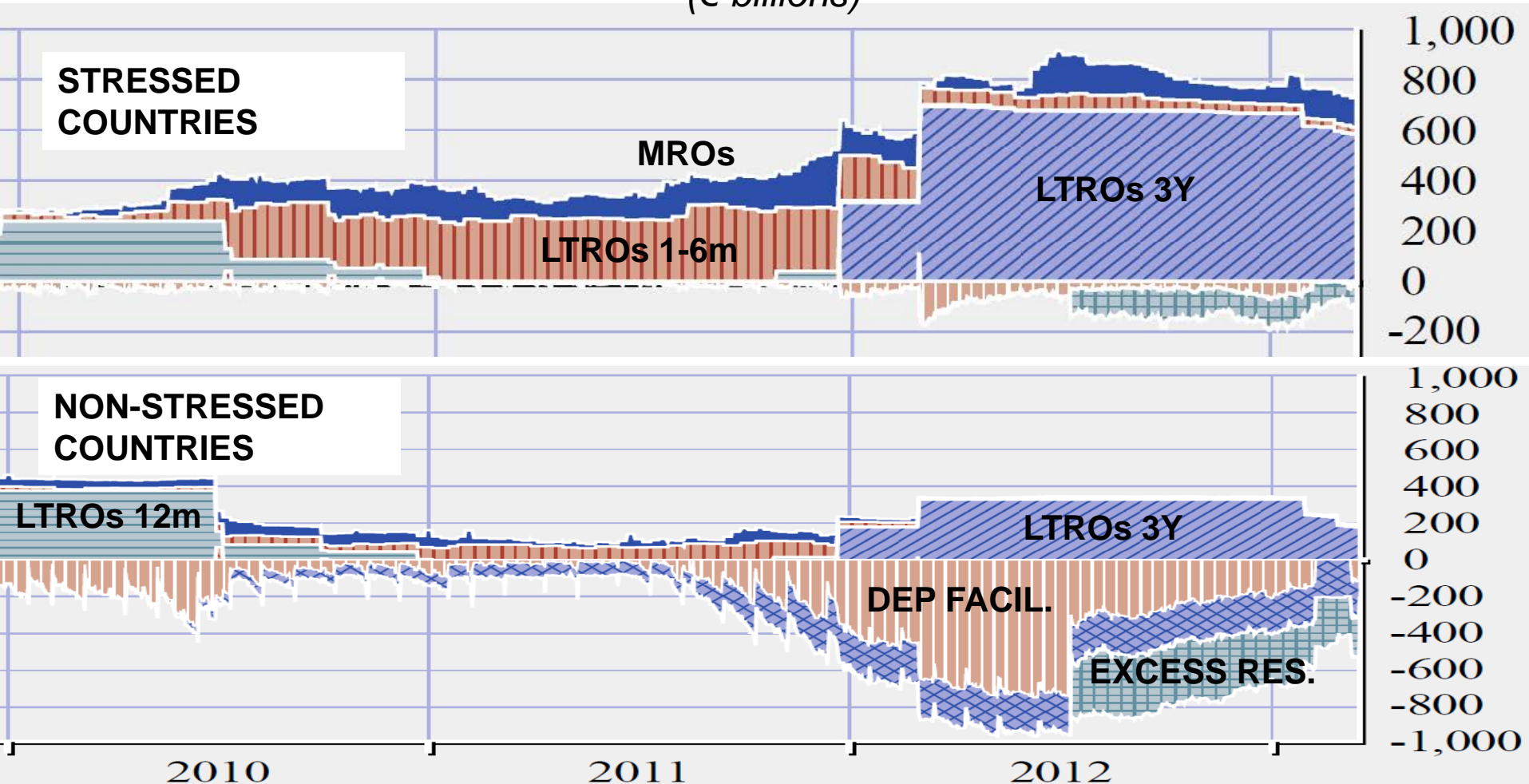
(index: 2002=100)



ECB funding makes up for dry-up of long-term markets

Recourse to ECB's market operations and standing facilities

(€ billions)



Encumbrance levels have risen ...

Chart 18 Increase in encumbrance levels between 2007 and 2011 for groups of banks with different credit ratings [percentage points]¹⁹

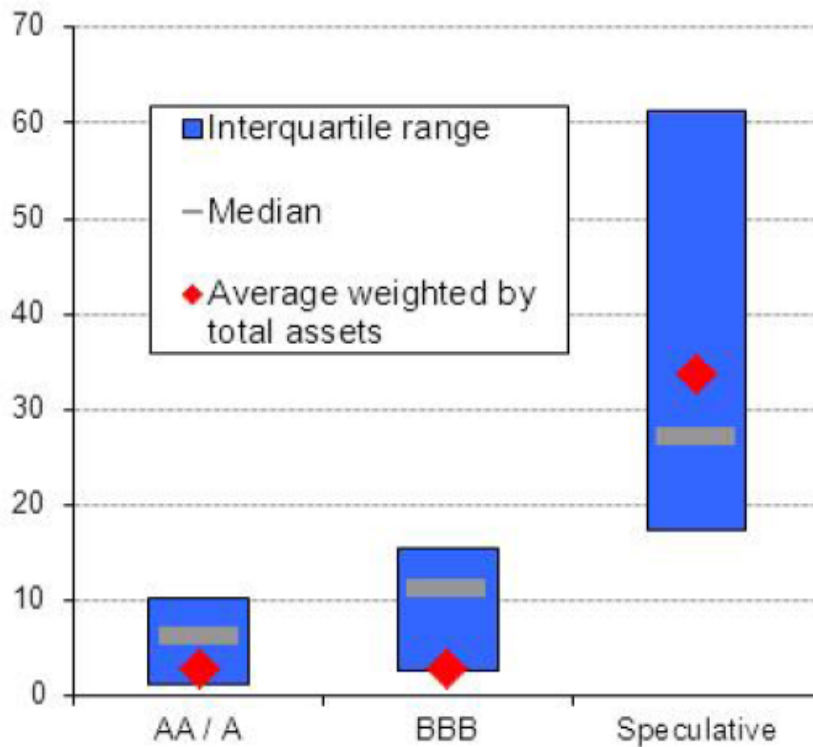
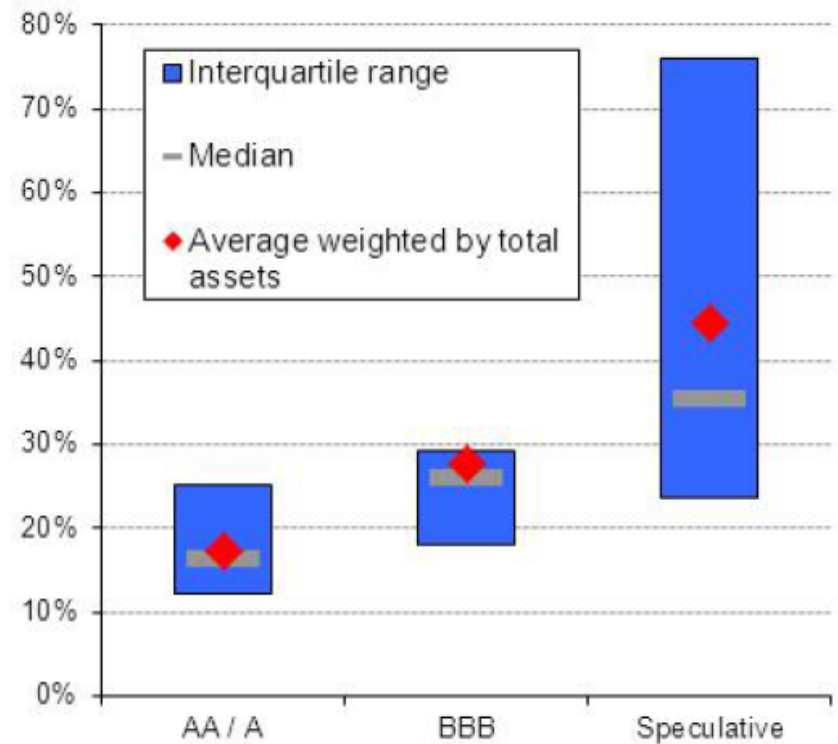
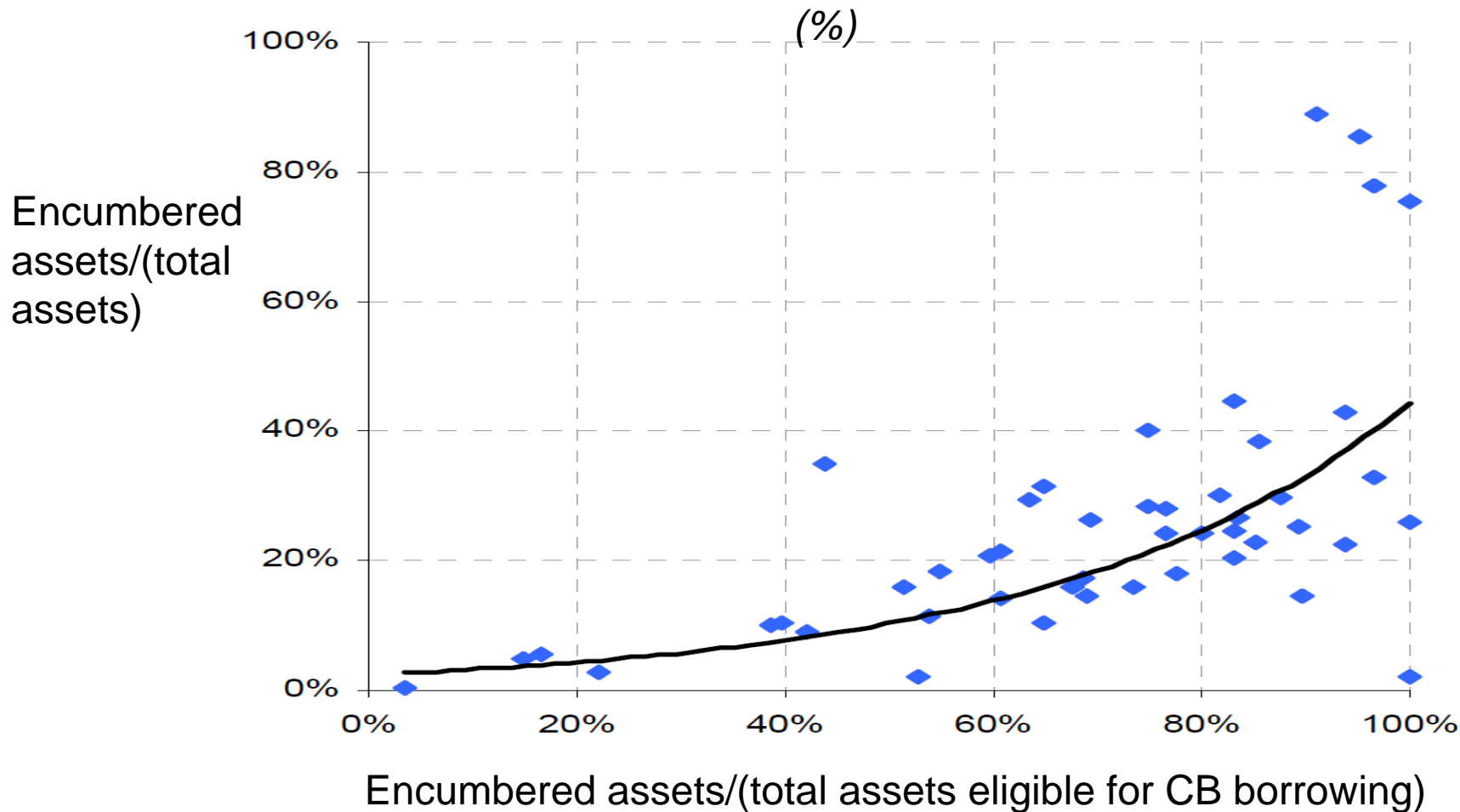


Chart 19 Distributions of encumbrance levels for groups of banks with different credit ratings [percentages], end-2011



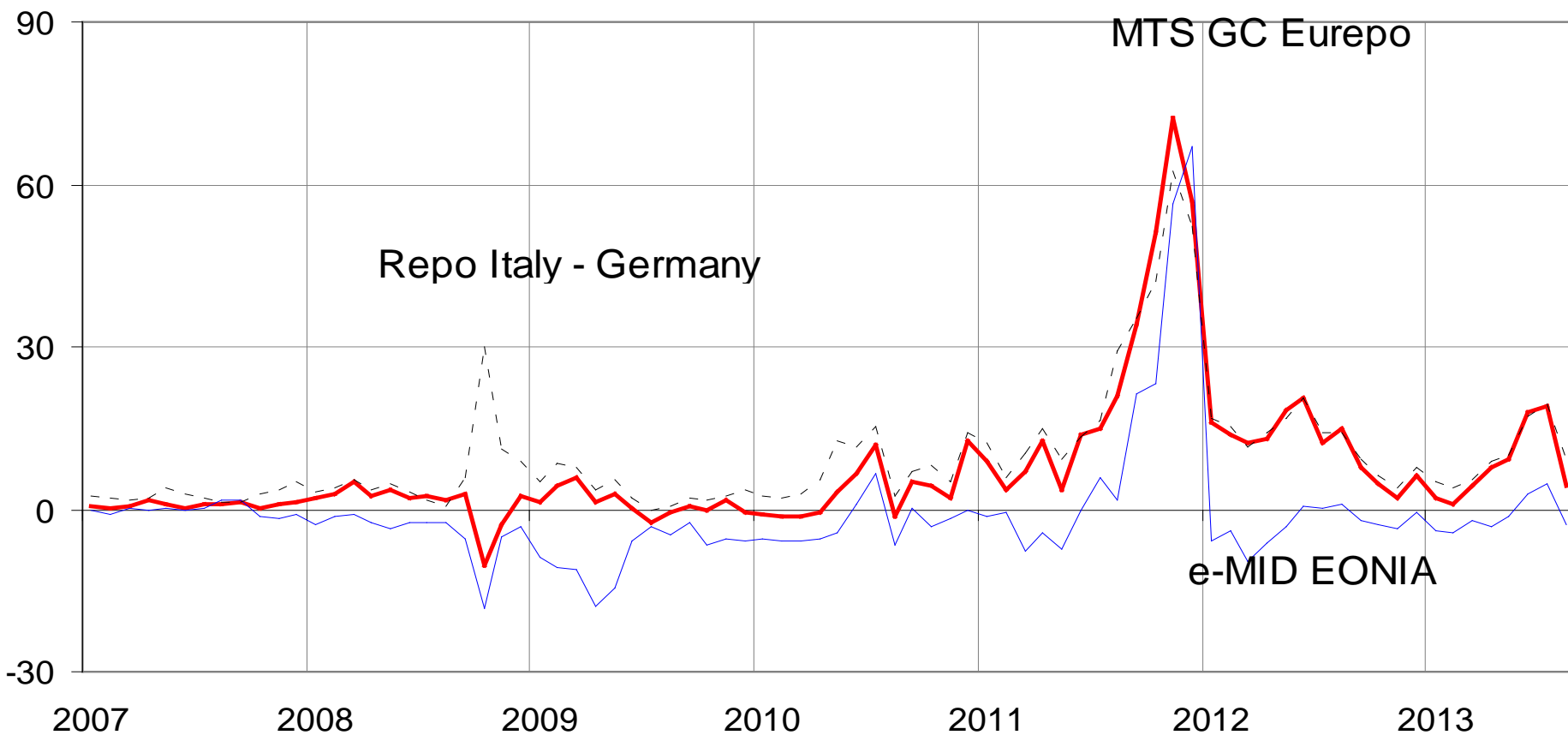
... especially if gauged against encumberable assets

Unencumbered eligible assets and encumbrance levels



Cost of wholesale funds: almost back to normal at short end ...

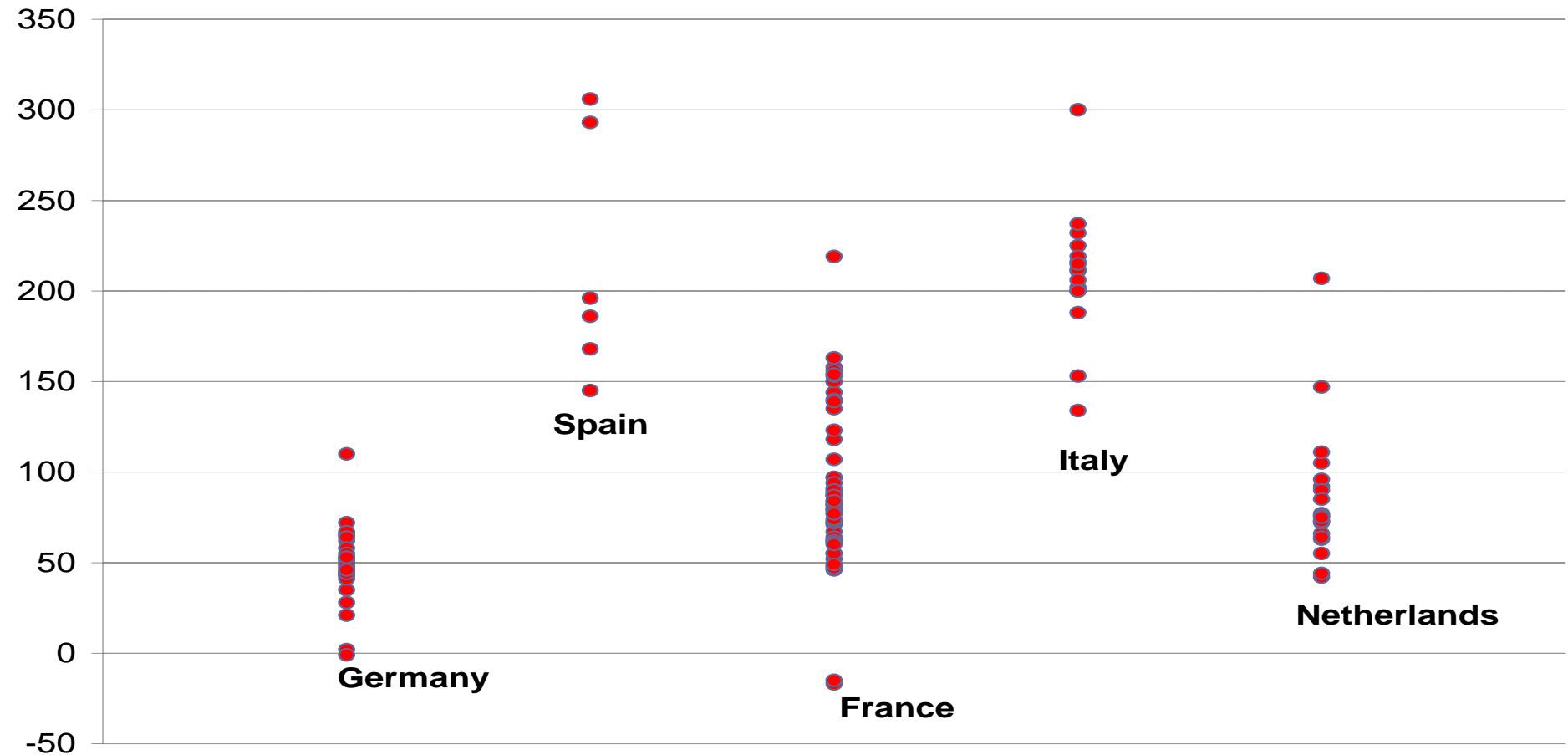
Money market rates spreads
(monthly averages of daily data; basis points)



... but tensions remain at medium-long end ...

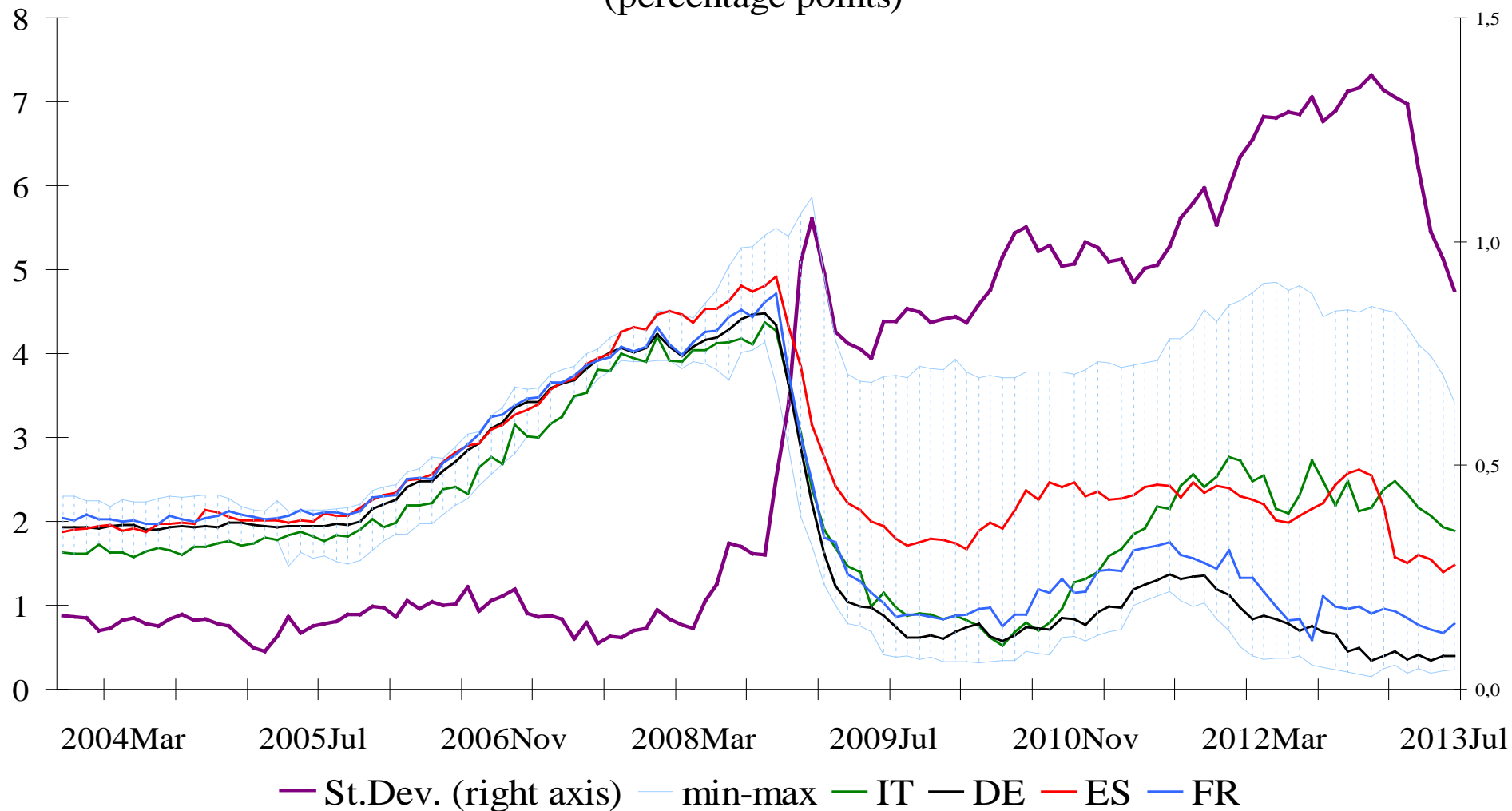
Yield spreads for investment grade unsecured bank bonds

(residual maturity >4 years; basis points; 19 September 2013)



... and on retail market rates, in spite of recent improvement

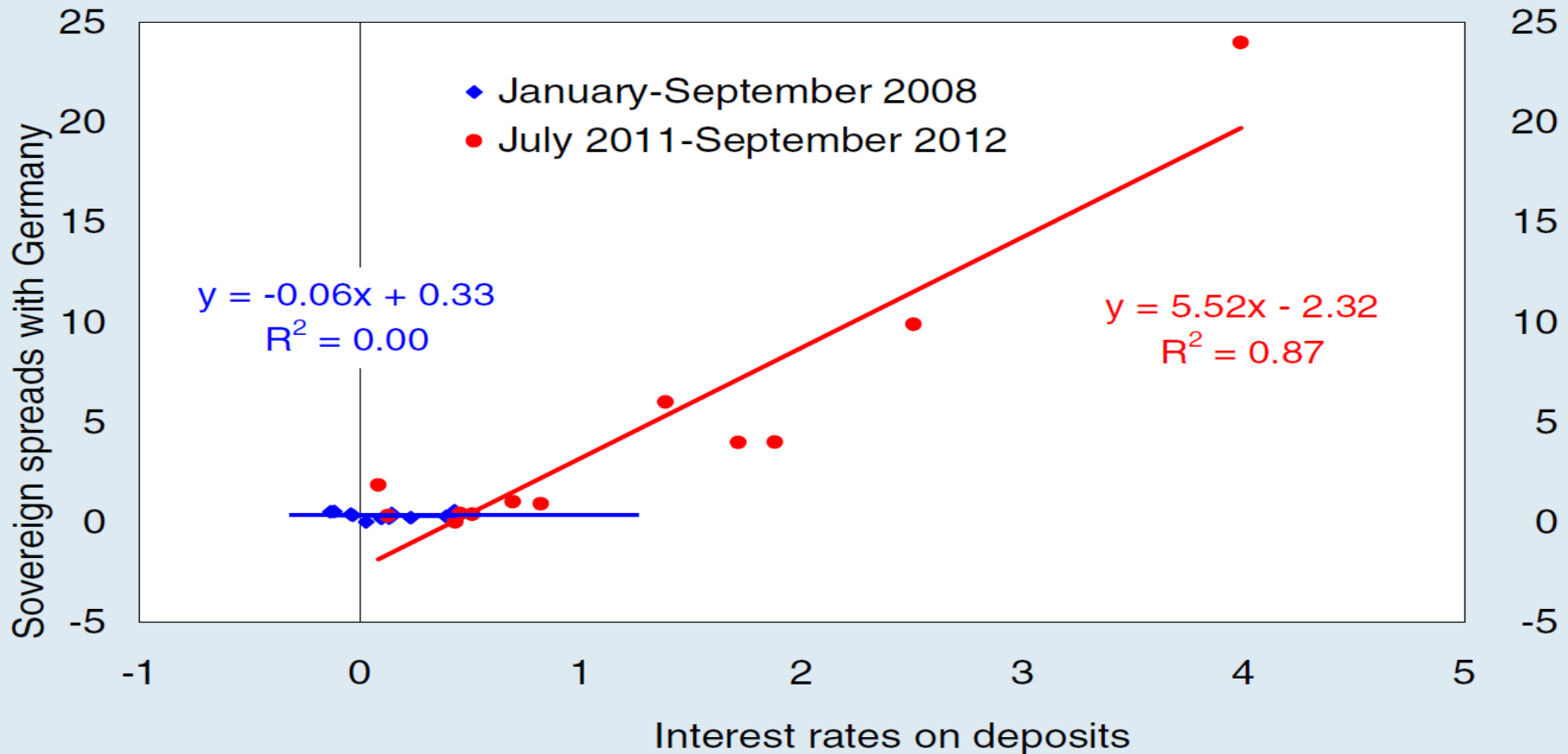
Euro area deposit rates: levels and dispersion (percentage points)



Source: Elaborations on ECB data

Funding costs heavily influenced by sovereign condition

Interest rates on retail deposits and sovereign spreads in the euro area countries (% points)



Outlook and risks

- European bank funding markets show signs of improvement, reflecting loss of momentum of loop involving fragile banks – weak sovereign – deteriorating macro outlook
- Risks remain sizeable. Fragmentation due to “redenomination risk” still present, mixed with genuine credit risk. Further sovereign and bank downgrades may also damage funding for weak banks
- Banking Union project is a key piece of the solution; forthcoming SSM “Comprehensive assessment” will be an important watershed. Other key factors of stability:
 - Signs of cyclical upturn
 - Continuing national efforts at reform and consolidation of public finances
 - ECB action

Outlook and risks (contd.)

- Crisis and reaction to crisis are deeply affecting funding patterns. Difficult to distinguish between transitory and permanent changes; to assess effects of regulatory changes – desired as well as unintended
- Example. Some new regulation pushes towards higher prices & lower volumes in unsecured markets, higher volumes in secured markets
 - Bail-in regulation (latest draft BRRD)
 - Recent EU Commission communication on state aid
 - Liquidity Coverage Ratio
- But other regulatory changes might offset this drive:
 - Leverage ratio may have negative effect on repo markets, boosting issuance of high risk liabilities
 - Introduction of a minimum % of bail-in-able liabilities

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