Banking (de)globalisation and Europe

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The views expressed are those of the authors and do not necessarily reflect those of the BIS.
Deglobalisation mainly in banking

- External assets and liabilities point to financial deglobalisation
- Lane & Milesi-Ferretti (2017): XB/GDP came to halt post-crisis
- Is it a global phenomenon? And is it a trend??

Graph from Lane and Milesi-Ferretti (2017)
Focus on Europe: Deglobalisation with a regional origin

Cross-border positions fell – where, and whose?

Cross-border fell much more than local positions abroad

Nationality split reveals collapse in positions of European banks (everywhere)
“Who”

- European banks (+CH –ES) contracted in the wake of crises
- Other nationalities continued on path of international integration
- Empirical work shows a strong nationality effect in asset shedding
“Why”

- Unsustainable expansion led to risk-laden balance sheets
- Post-crisis pressure to deleverage... with asset-shedding...
- Other post-crisis trends reinforce this CGFS (2017)

“How”

- Foreign assets (abroad) to protect domestic market
- Home bias as foreign claims grow at slower pace or shrink
- Nationalisation, Rescues, Risk-aversion
And now?

Maybe deglobalisation was not really global, nor necessarily a trend.

- Due to European banks’ deleveraging foreign operations
- If EU banks were overstretched, will they come back?

Yet other developments are probably permanent:

- Post-crisis regulatory framework
  - Basel III completed: size & quality of capital buffers, RWR
  - G-SIB framework & surcharges, TLAC, resolution regimes
  - Europe (broad) has 13 G-SIBs: CET1↑ PD↓ also SI↓
- Lower profitability / overcapacity reflected in price-to-book ratios
- Financial innovation & competition from big tech firms
- And the EU faces major challenges: e.g. Brexit & financial services
London is the largest global banking hub

Global cross-border bank credit
By currency, in USD trillion

Reflects UK financial services
London as a global financial center

€ credit from UK
The UK as a global financial center – foreign exchange turnover

Source: BIS Triennial Survey
April 2019 average daily turnover in USD billions, all instruments, net-gross basis
OTC interest rate derivatives

...mostly cleared (LCH)

Source: BIS Triennial Survey
April 2019 average daily turnover in USD billions, all instruments, net-gross basis
Cleared repo: Brexit-related shifts

Within LCH (LSE Group) – more disruptive for other services

Source: LCH.com, follows ICMA survey methodology. EU €8tr in Repo+RR, about ⅓ cleared mainly LCH
Brexit-related uncertainty affects EU27

- After Brexit, coverage by EU regulatory and supervisory agreements?
- Under EU law, EU-based clearing members and trading venues may only access clearing services from UK CCPs recognized as qualifying CCPs by ESMA (after Brexit).

- Uncertainty over transitional arrangements... close-out / transfer

- Goes well beyond banking and clearing: e.g. funds industry (FT):
  - >10,000 funds available to UK investors (often managed in UK)
  - Yet 7,200 are domiciled elsewhere in the EU
  - Investment Association calls for regulatory cooperation.