



BANK FOR INTERNATIONAL SETTLEMENTS

Banking (de)globalisation and Europe

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SUERF and Belgium Finance Forum Conference

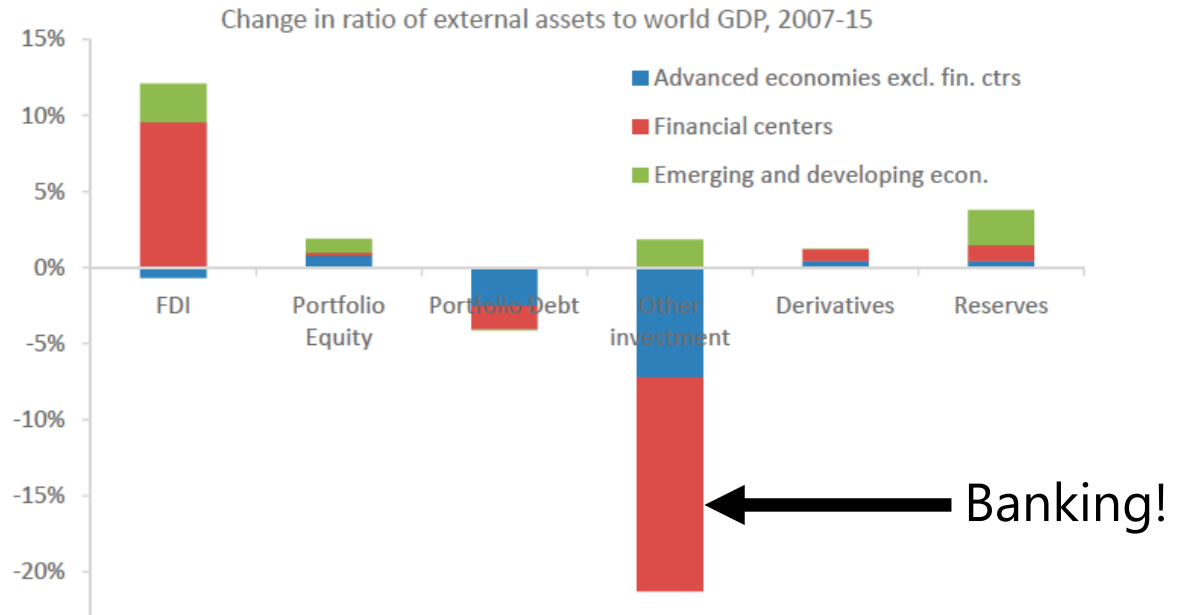
Brussels, 15 November 2019

The views expressed are those of the authors and do not necessarily reflect those of the BIS.



Deglobalisation mainly in banking

Figure 4. Changes in External Assets and Liabilities, 2007-2015
(percent of world GDP)



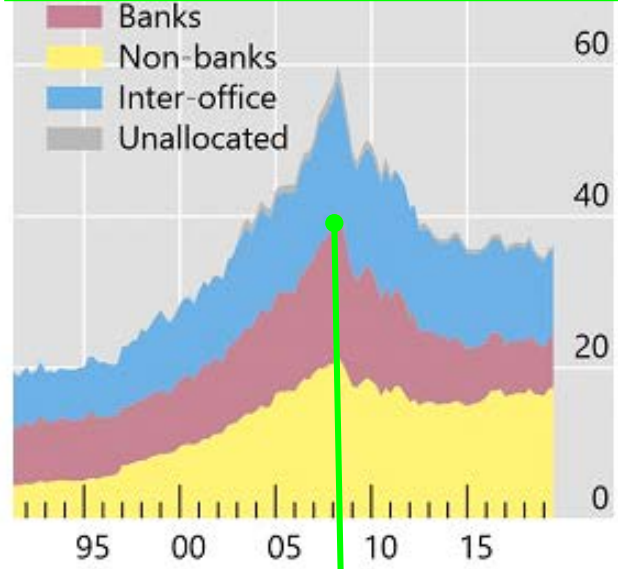
Graph from Lane and Milesi-Ferretti (2017)

- 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??



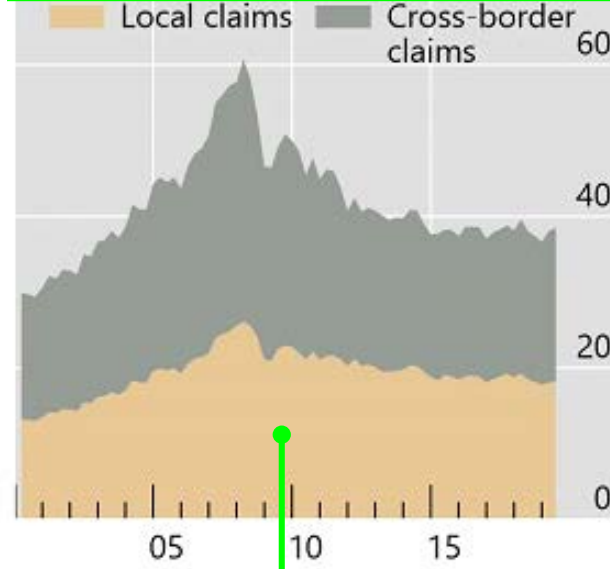
Focus on Europe: Deglobalisation with a regional origin

Locational cross-border bank claims¹



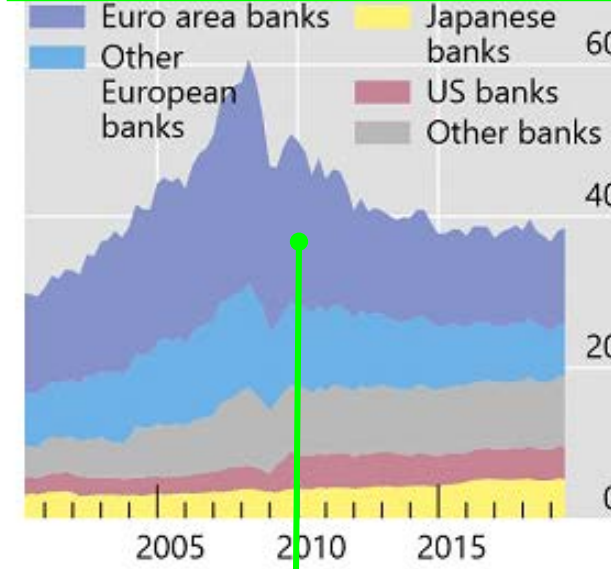
Cross-border positions fell – where, and whose?

Consolidated foreign bank claims²



Cross-border fell much more than local positions abroad

Foreign claims, by banking system²



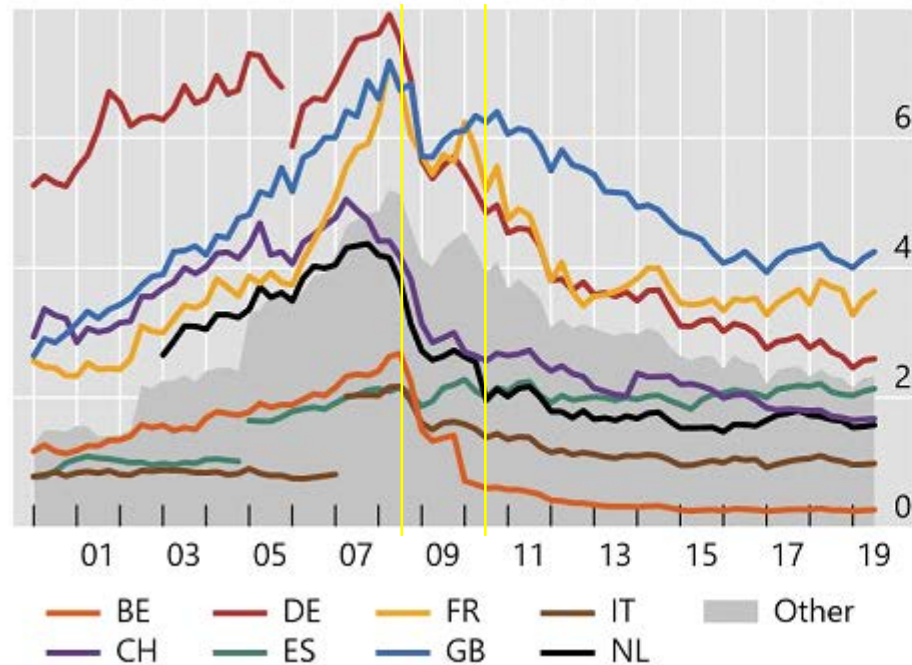
Nationality split reveals collapse in positions of European banks (everywhere)



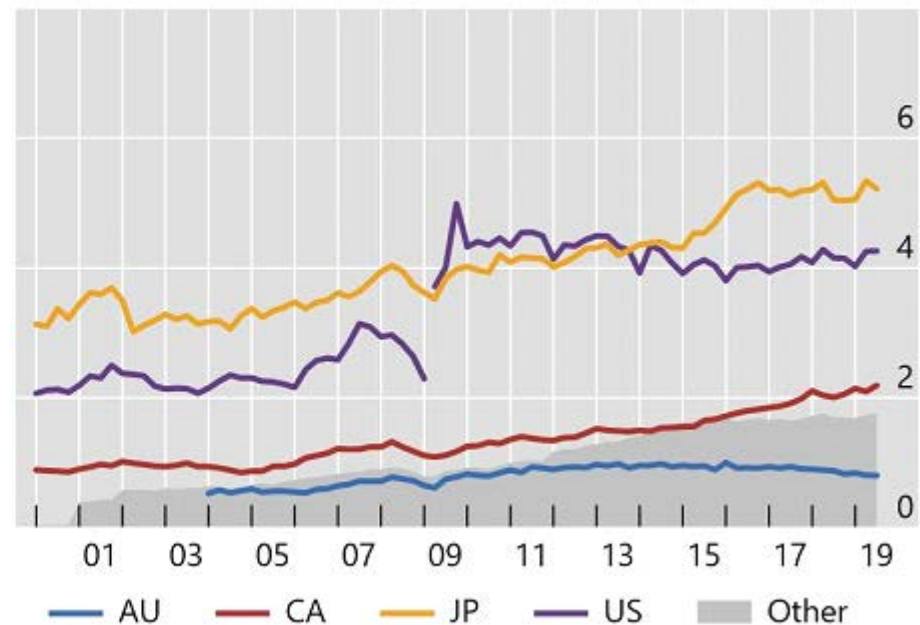
“Who”

- 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

European banks



Non-European banks²



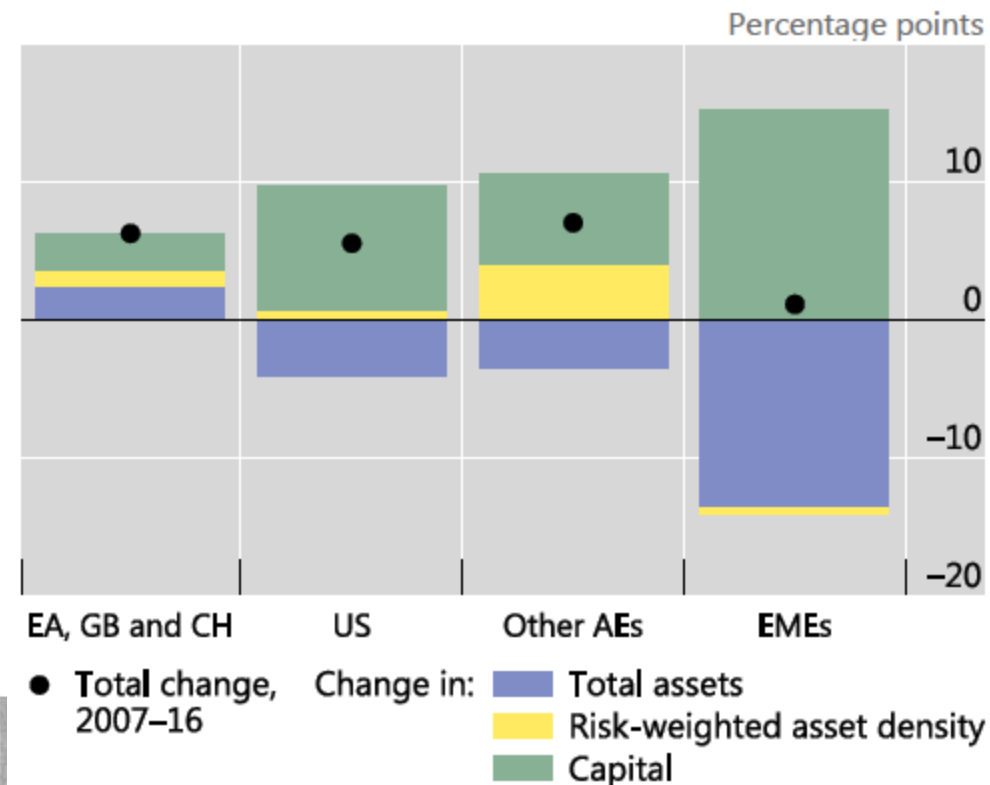
“Why”

- 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

Capital to risk-weighted asset change, 2007–16¹



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?
- For more on this issue: McCauley, Bénétrix, McGuire and von Peter (2019) Financial Deglobalisation in Banking? [*Journal of International Money and Finance* 94](#)

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

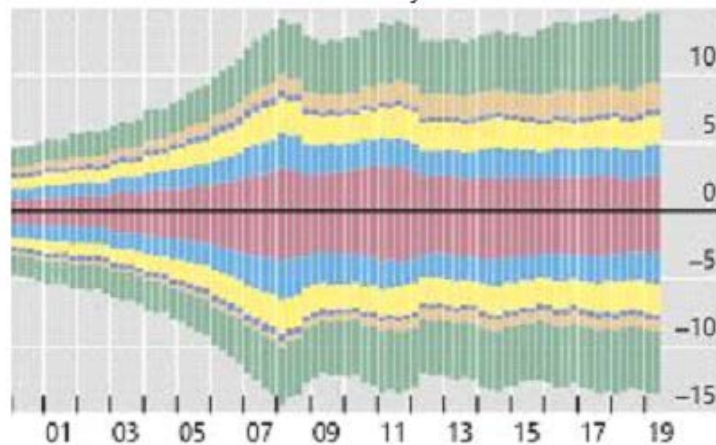


London is the largest global banking hub

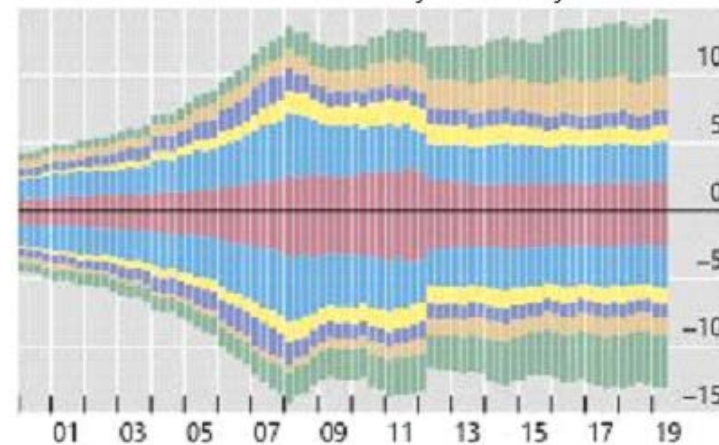
Global cross-border bank credit

By currency, in USD trillion

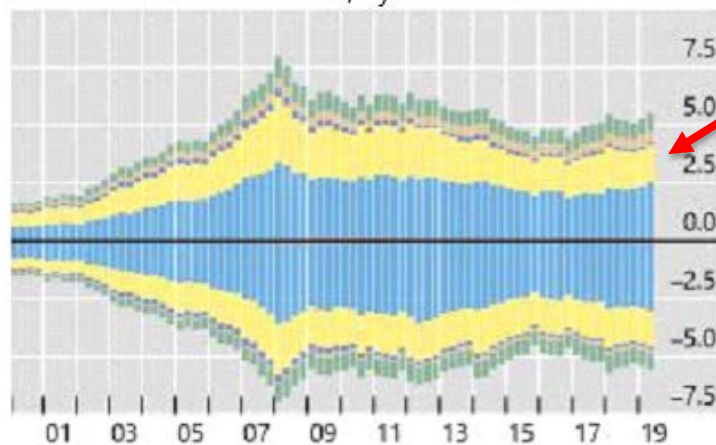
US dollar-denominated credit, by residence



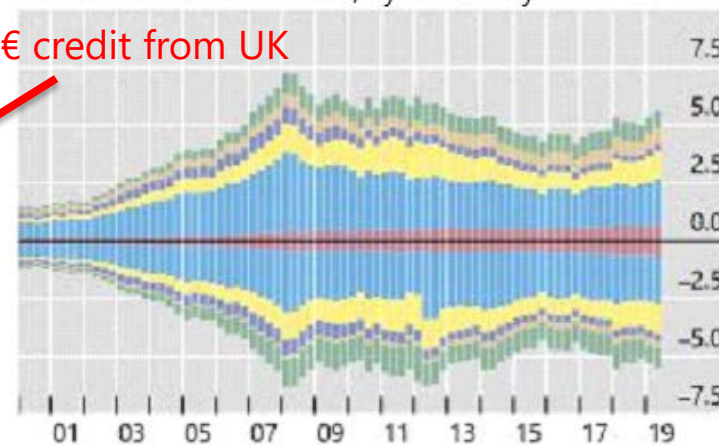
US dollar-denominated credit, by nationality¹



Euro-denominated credit^{2,3}, by residence



Euro-denominated credit^{2,4}, by nationality¹



€ credit from UK



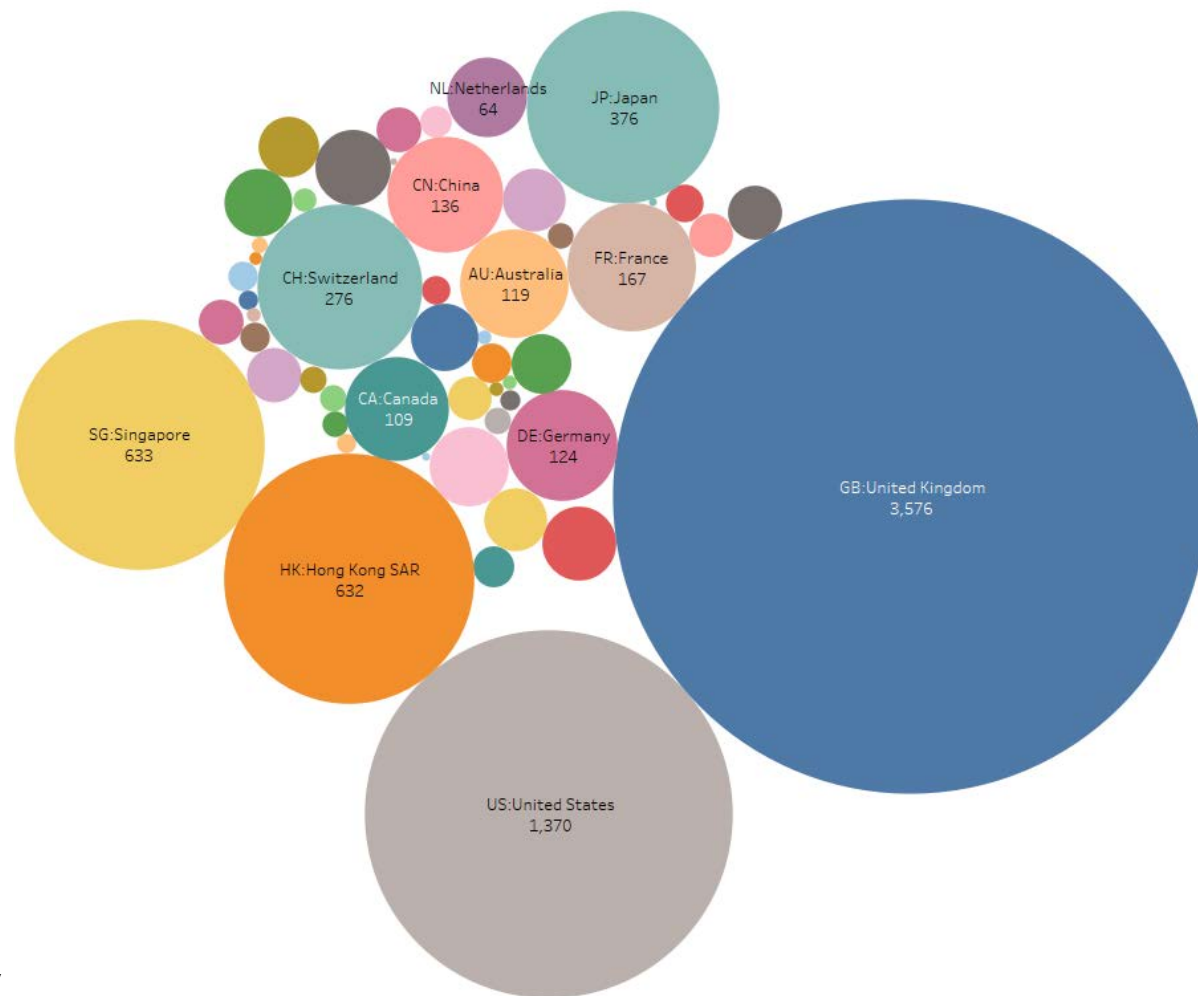
Assets (+) and liabilities (-) of: United States
Euro area

United Kingdom
Switzerland
Japan
Other

Reflects UK financial services
London as a global financial center



The UK as a global financial center – foreign exchange turnover



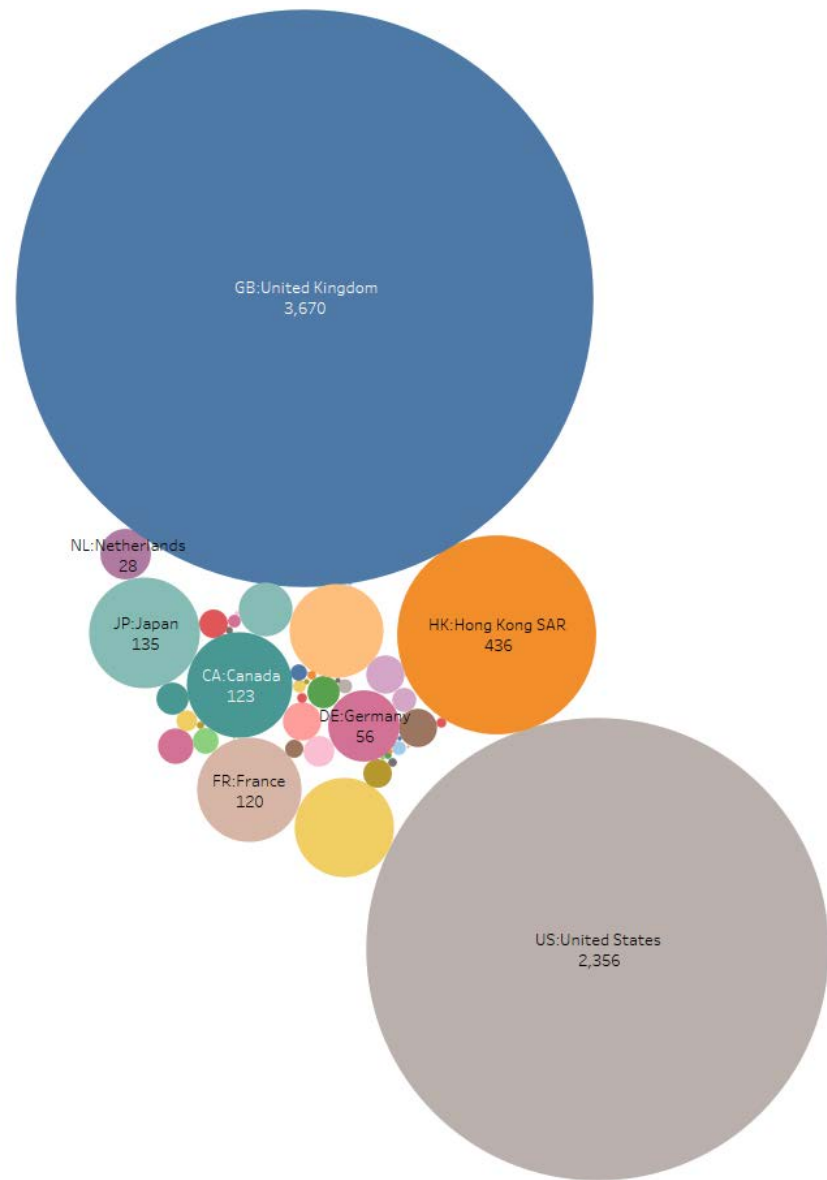
Source: BIS Triennial Survey

April 2019 average daily turnover in USD billions, all instruments, net-gross basis



OTC interest rate derivatives

...mostly cleared (LCH)



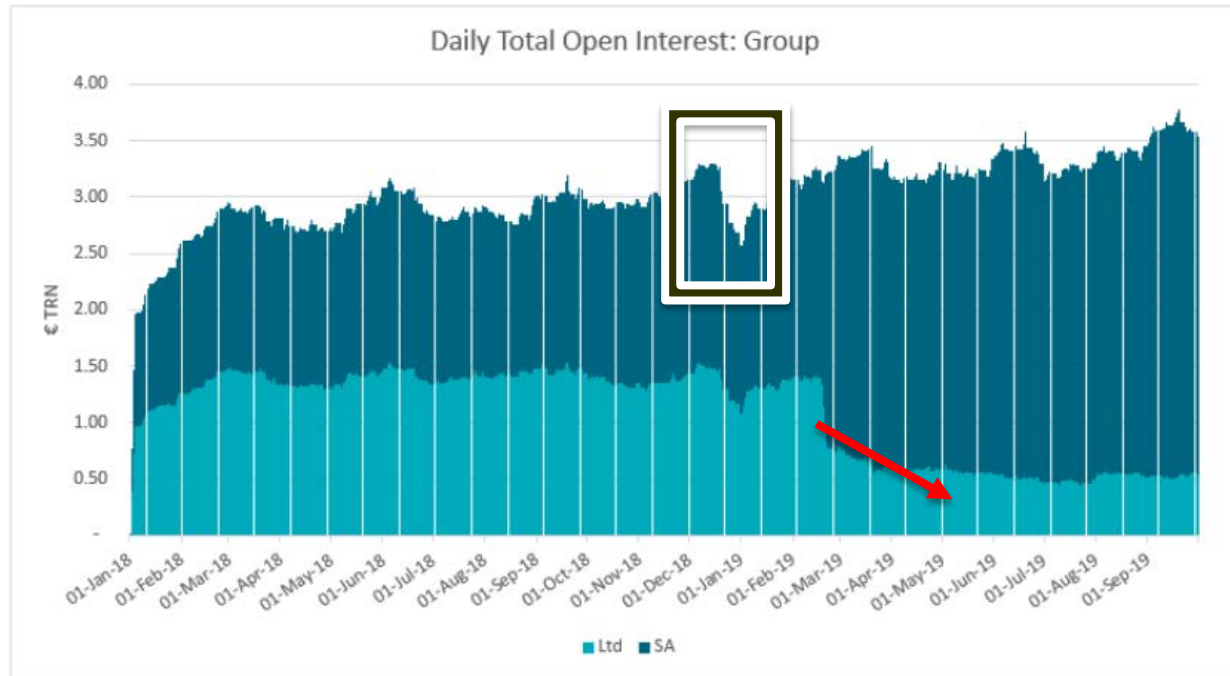
Source: BIS Triennial Survey

April 2019 average daily turnover in USD billions, all instruments, net-gross basis



Cleared repo: Brexit-related shifts

RepoClear Total Gross Outstanding (in €trn)



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

Source: [LCH.com](https://www.lch.com), follows ICMA survey methodology. EU €8tr in Repo+RR, about 1/3 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.

