



EUROPEAN CENTRAL BANK

EUROSYSTEM

“Do we still need banks?” Introductory presentation

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The views expressed in this presentation do not necessarily reflect the views of the European Central Bank, SSM or the Eurosystem.



1. Introduction

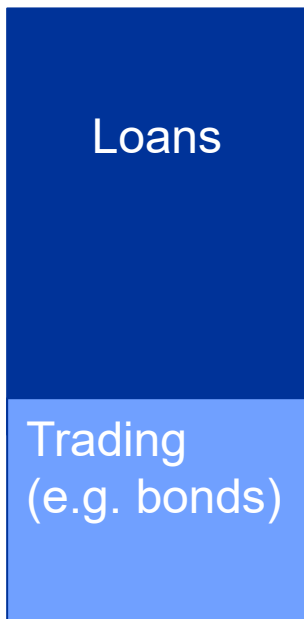
- Banking sector continues to be highly systemic in US and European economies
- But despite extensive reforms in the aftermath of GFC, banks also still quite vulnerable to macro stress
- Latest evidence: Bail-outs and rescue packages in US and Switzerland in March 2023
- Over last decade significant changes in financial system challenging core role of banks

This presentation: Overview of main issues

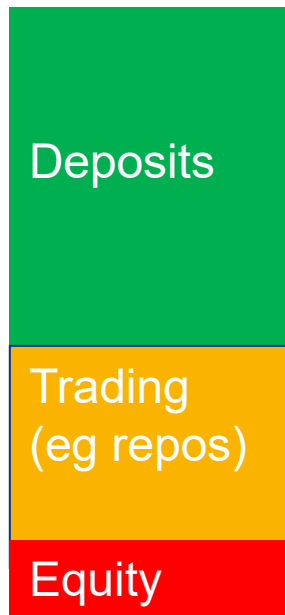
- **What is changing in the banking sector?**
- **What are the main themes for our panel today?**

2. Banking in a nutshell: **Four** main components

Assets



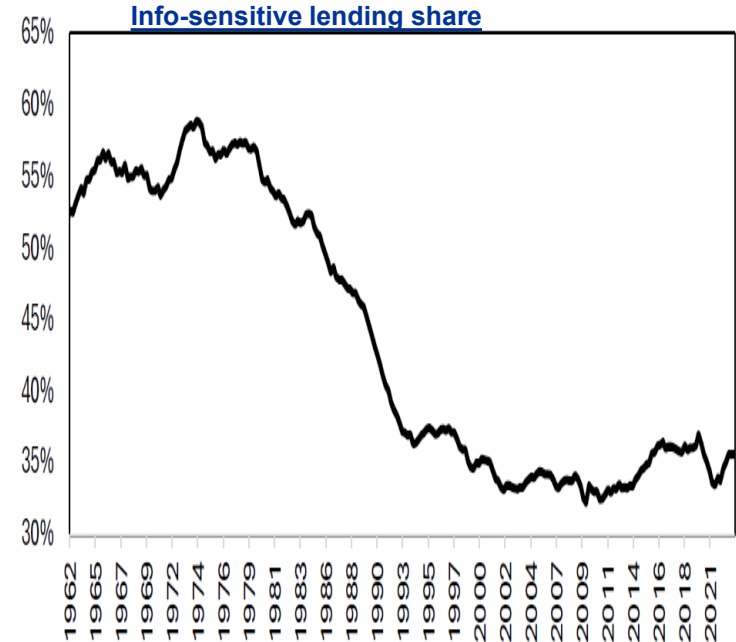
Liabilities



- Key ingredient of “*banks are special*”: **Public safety net**
 - Deposit insurance
 - Central bank as Lender of last Resort
- Provides backstop for **maturity and liquidity transformation** conducted by banks

3. Zooming in on loans

- Key element of banking franchise
- **CHANGE:** Lending to real economy via Non-Bank Financial Institutions steadily growing
- Recent illustration: Credit funds
- Global size of NBFIs already close to banking sector (FSB)
- US banks cutting back on corporate lending



Source: Buchak et al, 2024

4. Zooming in on bond and repo trading

- Bond = safe asset, repo = funding
- **CHANGE**: Rising dislocation risk
 1. Rising importance of bond intermediation due to higher issuance & Quantitative Tightening
 2. Changing structure of intermediation: Banks move from market-making to match-making; **Non-bank Dealers** grow strongly
 3. Declining robustness of intermediation: During last decade increased stress (US, UK)

Deteriorating market liquidity of US Treasuries

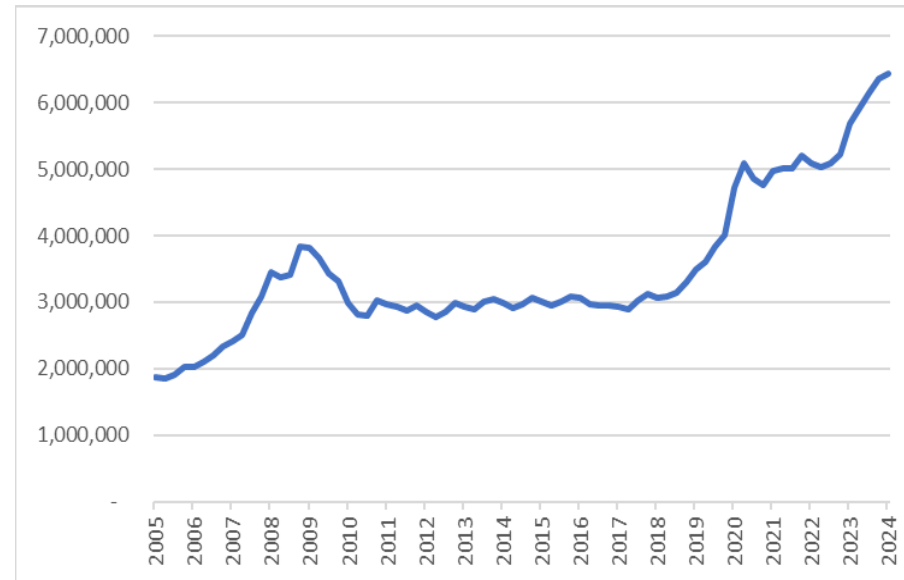


Source: Bloomberg

5. Zooming in on deposits

- Deposits are core funding source
- **CHANGE:** Deposit competition from **Money Market Funds** also in EU
- Major impact of QT (“deposit beta”)
- Case study: US / CH **bank runs** in March 2023 (partly driven by digitisation)
- Perhaps soon also competition from **Central Bank Digital Currencies?**

Money Market Funds: Total Financial Assets (mn US\$)

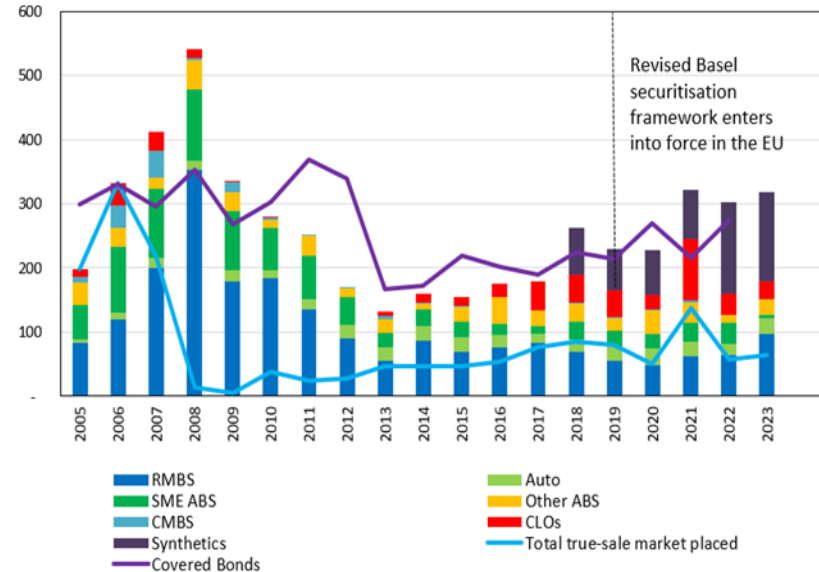


Source: Fed St Louis

6. Zooming in on bank equity

- Solid position of EU banks = strong increase in capital & liquidity since GFC
 - CET1 ~ 16% and record Return on Equity
 - But continuing discount vs. US banks
- **CHANGE: Creating equity via Synthetic Risk Transfer**
 - Loans stay on bank's balance sheet, ie no funding benefit
 - Protection for losses to be covered for capital requirement bought e.g. from an asset manager

Securitisation trends



Source: ECB

7. Overview of key **themes** for today's panel

- 1. Banking sector, real economy and “Finance for growth”**
- 2. Banking stress in March 2023 and US vs EU trends**
- 3. The role of regulation and the implementation of Basel 3 in the EU and US**
- 4. Banking Union & Capital Markets Union (CMU)**