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Competition for funding & the role of capital markets

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Euro area deposit and loan flows: Divergent trends

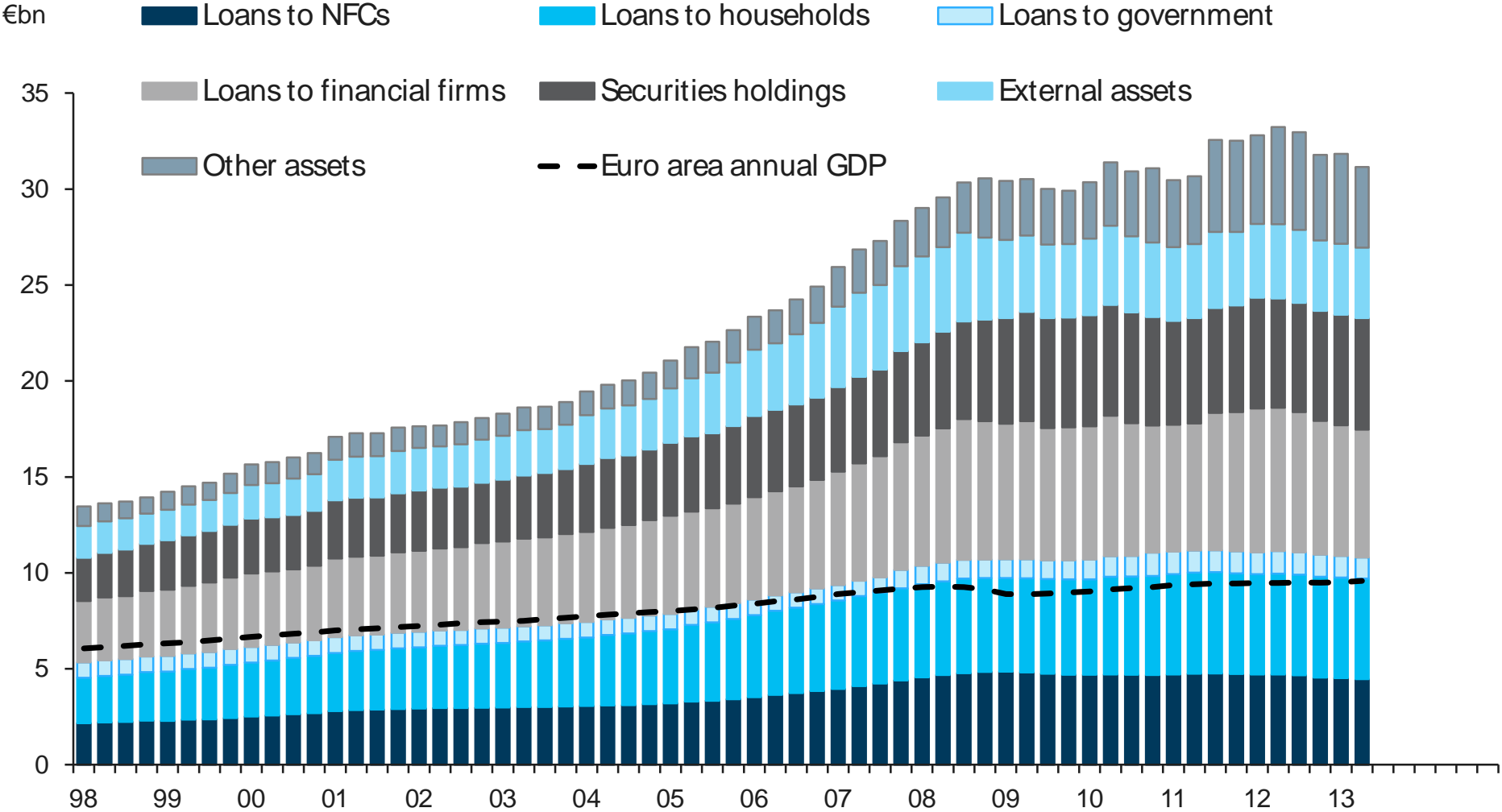
Deposit & loan growth at a national level (MFI data)

% y/ y	France	Germ.	Greece	Irel.	Italy	NL	Port.	Spain	Cyp.	€A
1.1 Deposit growth (excluding from other MFIs and of central government)										
Jan-13	1.3	1.9	-3.9	1.6	6.1	6.7	-10.2	-6.9	-3.1	1.2
Feb-13	1.1	1.7	0.4	1.4	5.5	6.7	-10.2	-6.5	-5.8	1.3
Mar-13	2.2	1.7	0.5	7.2	8.4	6.1	-8.3	-5.6	-9.8	2.0
Apr-13	3.3	1.3	-0.9	5.5	8.1	5.1	-8.5	-5.1	-13.8	2.0
May-13	3.8	0.9	5.3	5.3	8.9	4.4	-7.0	-4.6	-16.0	2.2
Jun-13	3.8	1.2	9.2	7.2	7.0	4.8	-3.7	-3.2	-17.0	2.4
Jul-13	3.8	0.1	7.2	5.9	6.0	3.7	-3.0	-0.7	-18.1	2.2
Aug-13	4.2	-0.2	7.5	5.5	6.8	2.8	-2.7	1.3	-18.4	2.5
1.2 Loans to non-financial corporations (adjusted for sales and securitisations)										
Jan-13	0.8	0.6	-5.3	-3.8	-3.2	4.7	-4.2	-7.9	5.7	-1.5
Feb-13	0.9	0.5	-4.8	-4.1	-2.9	5.0	-4.3	-8.0	4.0	-1.4
Mar-13	1.4	0.5	-2.9	-4.5	-3.0	5.0	-3.6	-8.2	2.9	-1.3
Apr-13	1.1	0.3	-3.2	-5.3	-4.0	3.1	-3.6	-8.9	1.7	-1.9
May-13	1.2	0.0	-3.8	-5.6	-4.1	2.9	-3.3	-9.6	-2.6	-2.2
Jun-13	0.7	-0.3	-3.8	-5.2	-4.5	3.4	-2.7	-9.6	-3.2	-2.3
Jul-13	-0.1	-1.0	-3.7	-5.5	-4.4	1.4	-2.7	-10.0	-3.8	-2.8
Aug-13	0.0	-1.3	-3.6	-5.0	-4.9	0.2	-2.3	-9.8	-4.8	-2.9
1.3 Loans to households (adjusted for sales and securitisations)										
Jan-13	2.7	1.3	-4.1	-4.3	-1.2	1.4	-4.2	-3.8	1.3	0.4
Feb-13	2.7	1.3	-4.3	-4.6	-1.2	1.2	-4.2	-3.9	0.9	0.4
Mar-13	2.6	1.2	-4.2	-4.5	-1.3	1.2	-4.2	-3.9	0.4	0.3
Apr-13	2.7	1.2	-4.2	-4.5	-1.3	1.1	-4.3	-4.1	-0.9	0.3
May-13	2.8	1.2	-4.0	-4.8	-1.5	0.9	-4.3	-4.0	-1.7	0.3
Jun-13	2.8	1.2	-4.0	-4.6	-1.4	0.5	-4.3	-3.9	-2.2	0.3
Jul-13	3.0	1.2	-3.7	-4.6	-1.1	0.3	-4.3	-3.6	-2.9	0.4
Aug-13	3.0	1.4	-3.2	-4.5	-1.1	0.2	-4.2	-3.5	-3.6	0.4

source: ECB, Barclays Research

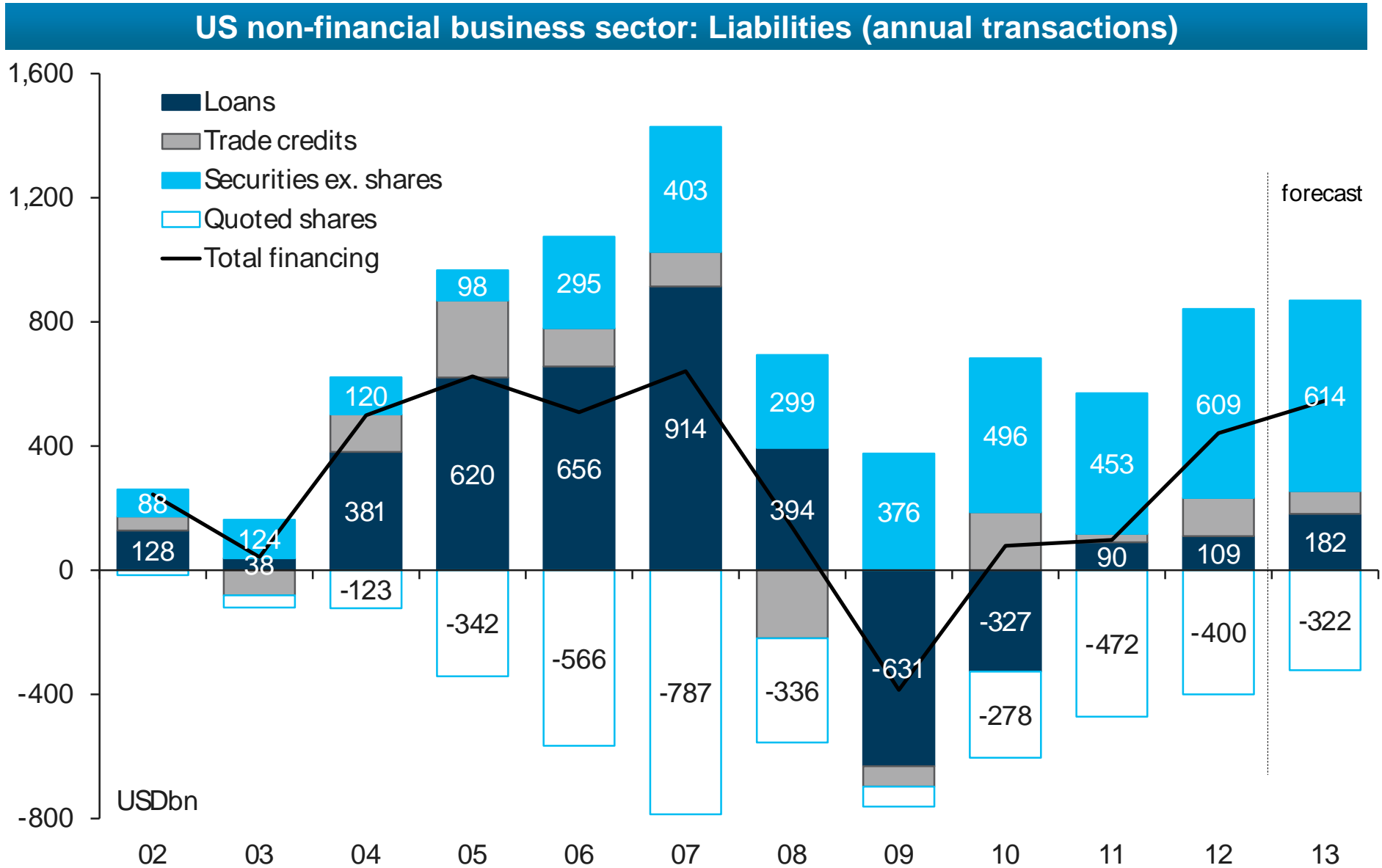
Euro area credit institutions' balance sheet

Assets held by euro area credit institutions



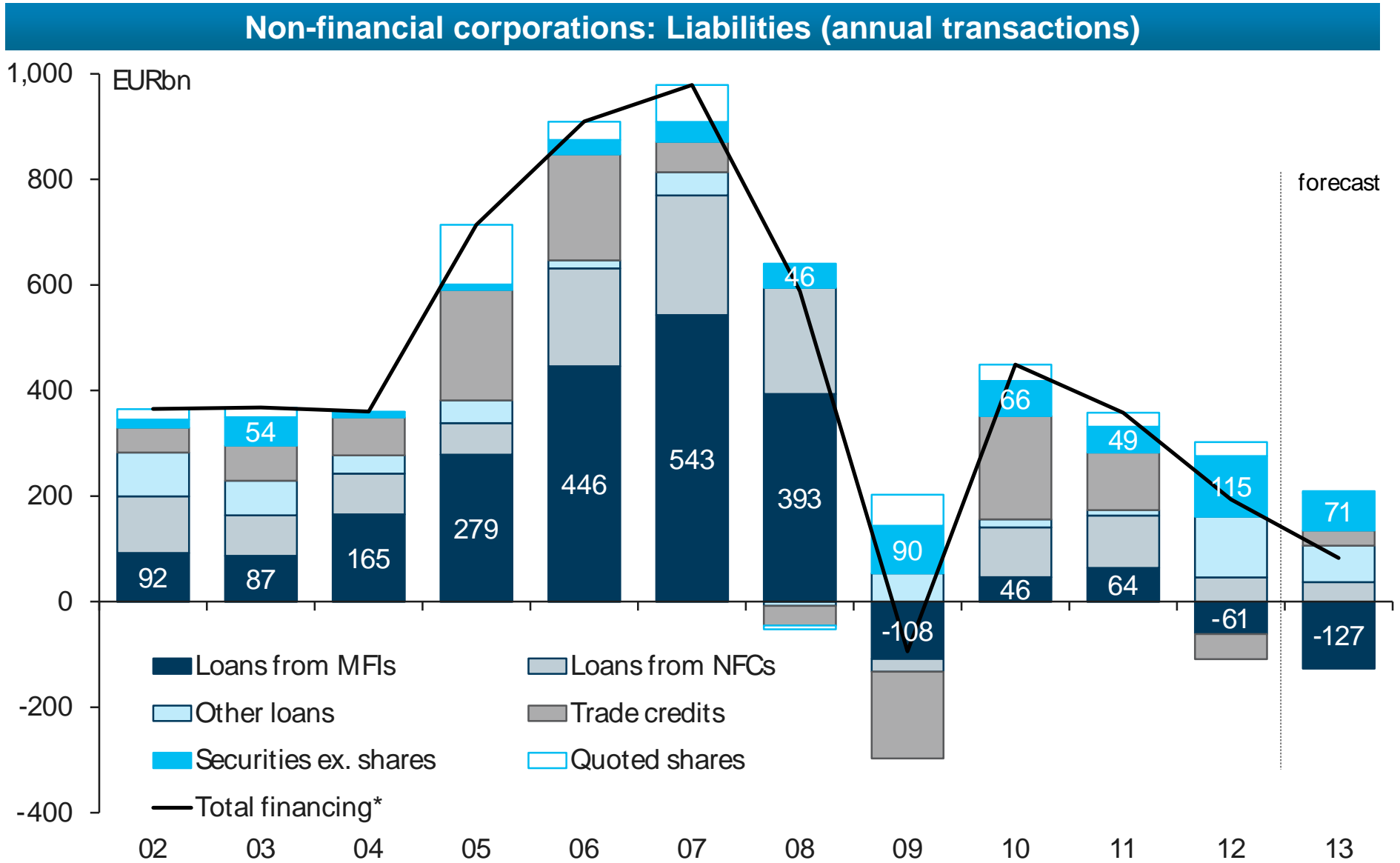
Source: Barclays Research, using ECB data from Haver Analytics

US non-financial business sector: strong use of bonds



Source: Barclays Research (including 2013 forecast), using Federal Reserve Board statistics

Euro area NFCs: securities offset weakness in MFI loans

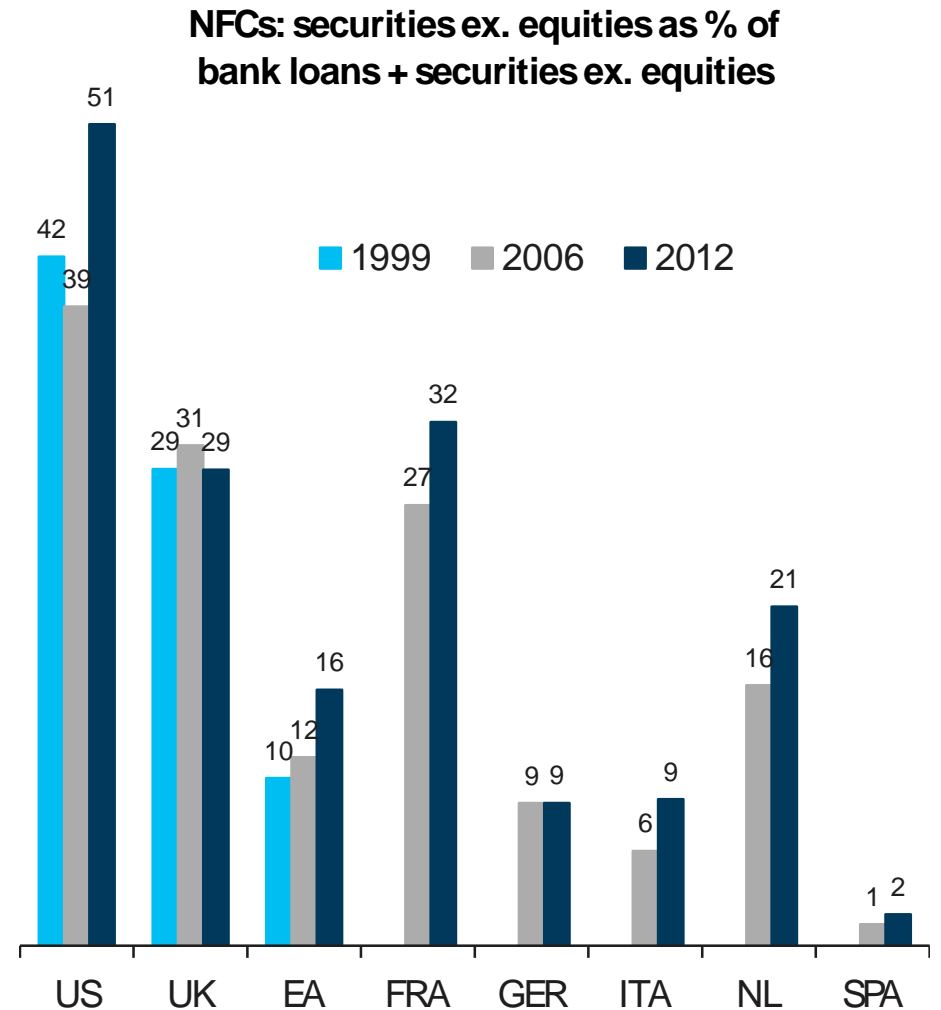
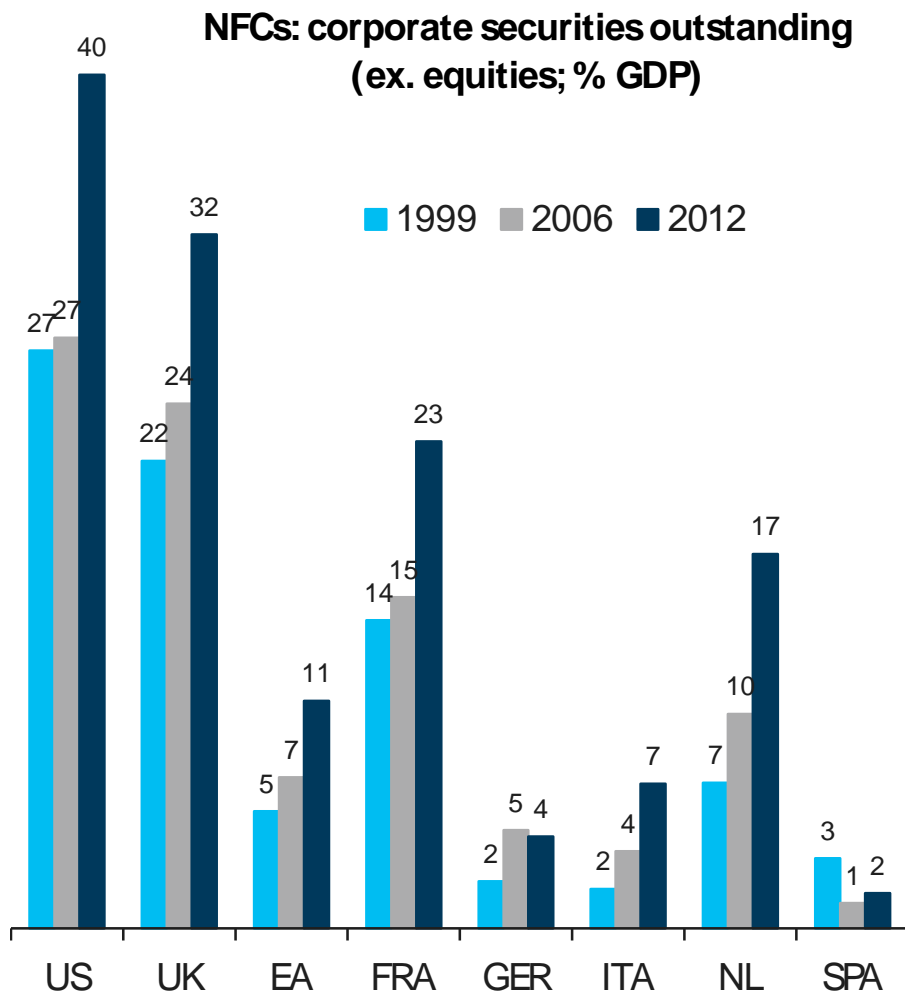


Source: Barclays Research (including 2013 forecast), using ECB data * excludes unlisted companies and insurance technical reserves

Trends by country in non-financial firms' interest liabilities

Corporate bonds rise since the crisis

Rising share of debt in financing



Source: Barclays Research, Haver Analytics

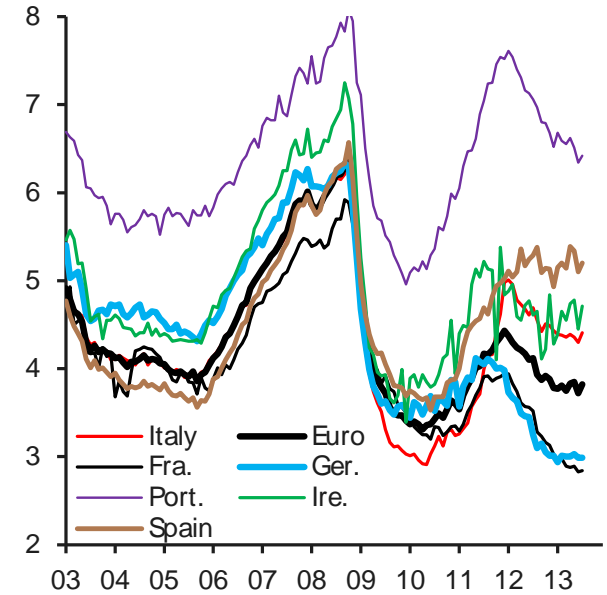
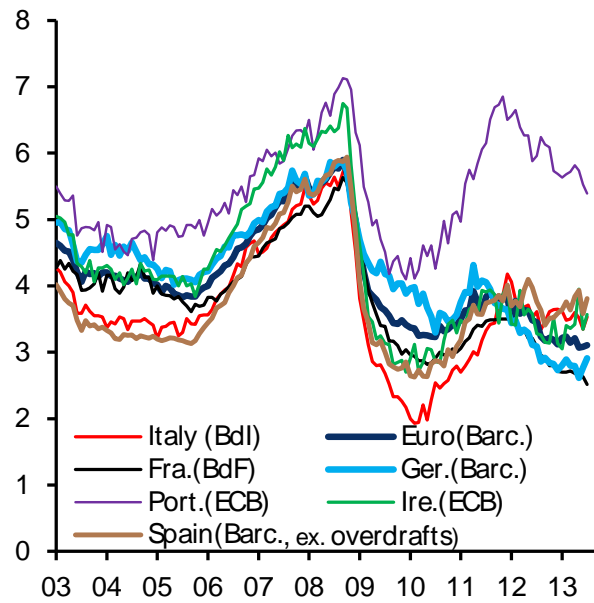
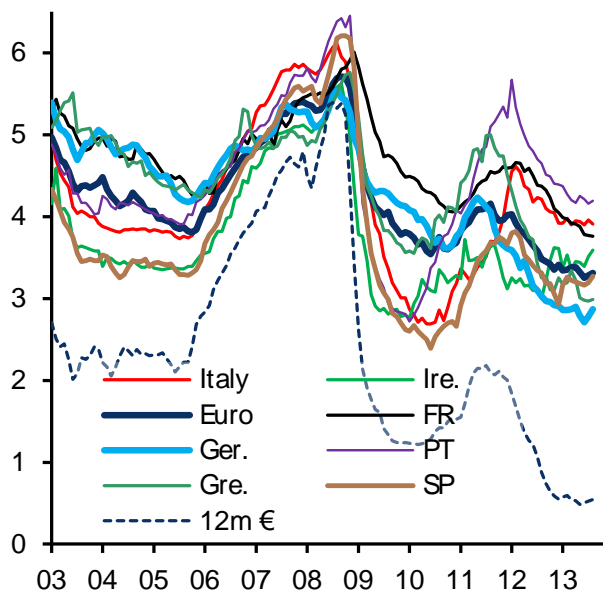
Evidence of asymmetric monetary transmission (1)

Typical bank lending rates for new loans

(a) for house purchase (APRC)

(b) For NFCs

(c) for NFCs, of <€1mn initial size

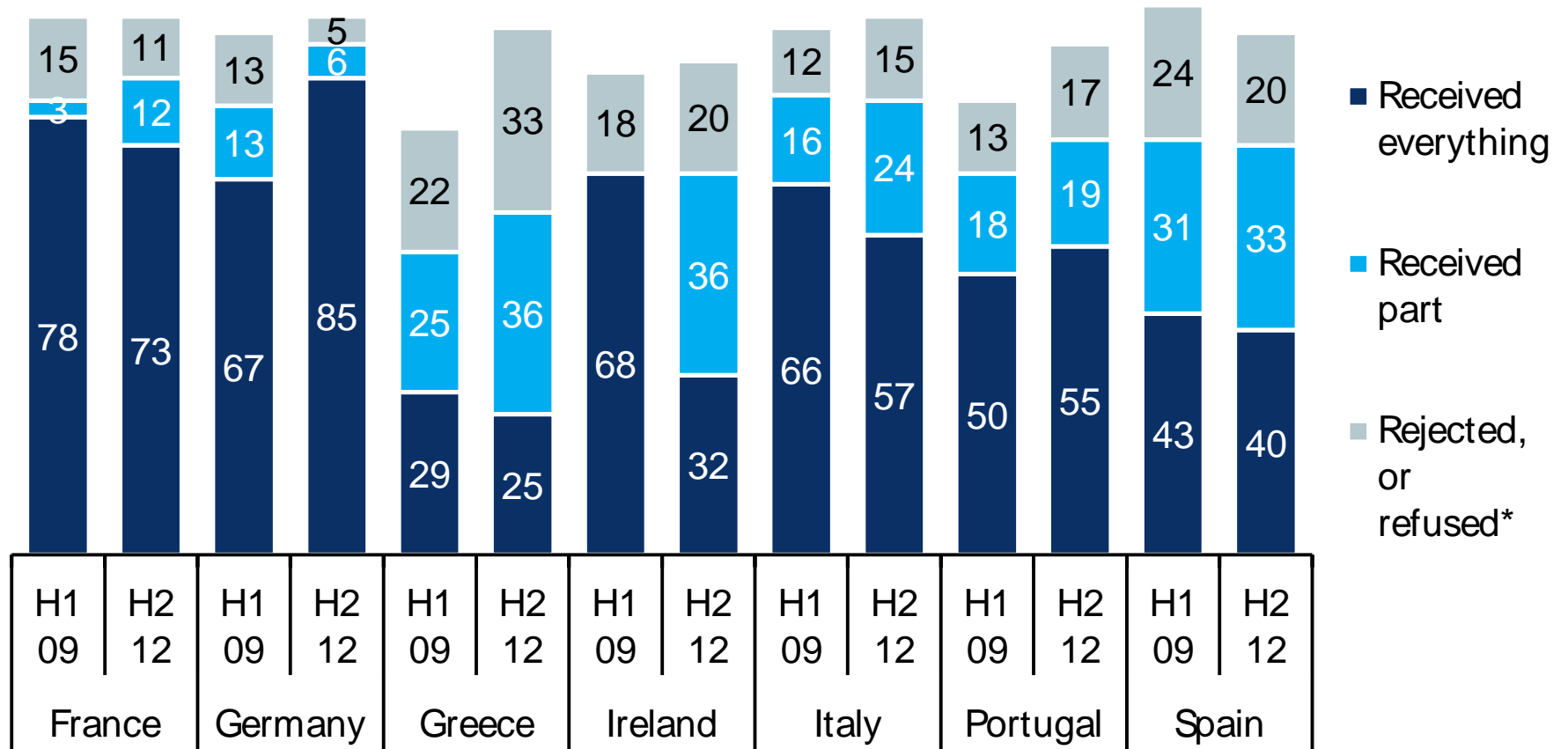


Source: Haver Analytics, Barclays Research
Last updated: 02 October 2013

Evidence of asymmetric monetary transmission (2)

Eurosystem survey of SMEs:

Response of those who applied for new/renewed bank loan (ex. overdraft, credit line), past 6 months (%)



Note: *Refused by the SME because cost too high. Source: Barclays Research, ECB

Policies to diversify credit options for SMEs (IMF WEO)

1. Advance the securitisation agenda

- ***Develop the primary and secondary markets for securitisation of SME loans***
 - Of the €1trn €A securitised bond market, only €140bn for SME loans, cf. bank loans to SMEs are c.€1.5trn
- ***Address asymmetric treatment of securitised assets vis-à-vis other assets with similar risk characteristics***
 - The haircut imposed by ECB on ABS is 16%, much more than on other assets of similar risk, such as covered bonds with a similar rating
- ***Introduce government guarantees for SME securitisation***
 - Guarantees could encourage private investment by offsetting some information asymmetries and SME credit risk, particularly for investors who can buy securities only with certain ratings
- ***Include SME loans in the collateral pool for covered bonds***
 - Currently only mortgage, municipal, ship and aircraft loans are eligible
- ***Improve risk evaluation for SME securities by regulating and standardising information disclosure***

2. Encourage development of factoring of SME receivables

3. Encourage companies to lend to each other

4. Develop market-based credit guarantee programmes

5. Tax incentives for banks that expand credit to SMEs

6. Facilitate establishment of direct lending funds which target SMEs, such as private equity

Conclusions

- Pressure on euro area banks to de-leverage is likely to continue
 - Weakness in demand playing a role, but in parts of the euro area there appear to be issues related to lending supply
- Significant growth in the use of corporate debt to finance the non-financial corporate sector in the US and Europe (since the crisis)
 - Compared with the US and UK, the euro area corporate bond market is still relatively small as a share of GDP, suggesting significant further potential for development
- Important to improve the supply of lending to SMEs especially in southern Europe
 - Measures should be focused upon boosting securitisation

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