EU IN GLOBAL BANKING: CURRENT POSITION AND CHALLENGES

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Abstract: *The place of the global banking in international financial markets is considered in the article and the dynamics of global bank assets are evaluated. The trends of bank assets redistribution among regions of the world and different social and economic groups of countries are defined. Indicators of the EU bank assets are analyzed. The impact of the financial crisis on EU bank assets, the financial results of European banks and their position in the ratings of the most reliable banks of the world are determined. The EU countries which banking sectors experience the greatest difficulties are pointed out. Factors of decrease in equity prices of European banks and challenges for the EU banking development are found out.*

The banking system is an integral part of the mechanism of financial resources redistribution in national and global economies, and the banks are key intermediaries in financial markets. The place that banking system occupies in the global financial markets is characterized primarily by the indicator of the size of bank assets. In the early twentieth century bank assets accounted for over 50% of total global financial assets. However, changes in priority sources of economies funding, increasing interest in financing through the instruments of stock market and the corresponding transformation of the structure of the global financial market that have been observed recently, led to the decline in the share of bank assets in global financial assets.

In 2002-2007 the share of bank assets in global financial assets was in the range of 32-38%, reaching to 45% at the beginning of the global crisis. During the crisis years of 2008-2010 transnational banks sold significant part of their foreign assets in order to cover losses. Simultaneously there was a collapse of credit operations both on the domestic markets and also in the Euromarkets, which was also a factor of bank assets reducing. The amount of bank assets is declined from 97 trillion of US dollars in 2008 to 93 trillion of US dollars in 2009. In 2011-2013 a gradual recovery of the global banking system was observed, which was shown in increase in the bank assets share in global financial assets up to 45%.

Under the influence of the global crisis and other factors redistribution of bank assets between different social and economic groups of countries and regions takes place. In last 12 years the share of bank assets of the developed countries fell from about 90% to 75%, against the background of increase in the share of bank assets of developing countries.

A distinctive feature of the global crisis impact on global banking is the intensification of the processes of bank assets regional redistribution to Asian and BRICS countries. Alongside it a decrease in the presence of European Union, US and Japanese banks among the largest banks in the world is observed. Moreover, the share of European banks in the financial institutions global profits reduced and was less than 2% in 2013-2014.

The worsening of the European Union position in global banking is also evident in terms of the share of EU bank assets in global bank assets, which has been steadily declining from the global financial crisis beginning (Table 1).

To some extent banks from EU countries lose their role as reliable intermediaries in global financial markets as a result of financial stability decrease and bank assets liquidity crisis. Redistribution of positions in the ratings of world's largest banks, which is manifested in improving the position of banks from developing countries, was caused by two main factors. First, the global financial crisis has caused imbalance of the financial sectors in almost all major developed economies, including the EU countries. Second, some banks from developing countries were objectively less prone to the negative impact of the crisis due to insufficient integration into the global financial market.

Table 1

Indicators of the EU bank assets in 2005-2013

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
Global bank assets, billions of U.S. dollars	55673	70861	84785	104712	103755	100127	113735	121947	126744
EU bank assets, billions of U.S. dollars	27290	36642	43146	51044	46438	41678	43465	47856	48716
The EU share in global bank assets, %	49	52	51	49	45	42	38	39	38
The ratio of the EU bank assets to GDP, %	213	269	275	298	302	275	265	308	292

Note. Compiled by the author based on Global Financial Stability Report [1]

The global crisis has significantly affected the financial results of the banks in the EU. In 2005 banking sector in the UK was the most profitable (the return on equity of British banks was over 26%). 294 banks from EU countries were responsible for about 40% of the total profits of 1000 largest banks included in The Banker rating. In 2013 more than half of the financial institutions global profits was accounted for by Asian banks and the share of European banks dropped to 1,6%.

The Global Finance formed a rating of the world’s fifty most reliable commercial banks in 2014. In the top ten positions there was just one bank from the European Union (Dutch Rabobank which ran fifth). In total, ranking included 14 banks from the UK, Germany, France, the Netherlands and Finland. [2]

Despite some post-crisis recovery the EU and particularly the Eurozone banking sector still experience difficulties. In 2015 and in early 2016 equity prices of European banks declined along with global bank equities. The most complicated situation is observed in the banking systems of Greece and Italy and to a lesser extent in Portugal, as well as in some German banks. The main problems and challenges that led to this are the following: structural problems of excess bank capacity; high levels of non-performing loans; poorly adapted business models.

European banks face structural demands for more capital as a result of current regulatory actions, but some of them can have difficulties meeting these requirements. Under the requirements of Basel III, banks will have to meet simple leverage ratio starting 2018. Many European banks will also need to raise bail-in-able liabilities for higher regulatory requirements to meet total loss-absorbing capacity and minimum requirements for own funds and eligible liabilities. European investment banks have higher leverage and more compressed risk weightings on assets than US banks. [3]

Low rate of euro area banks profitability increases the difficulty of dealing with non-performing loans by reducing banks’ capacity to build capital buffers through retained earnings. The problem of high non-performing loans comprises a major structural weakness of many European banking systems. Banking systems with higher rate of non-performing loans, especially in Greece and Italy, generally have a greater decline in equity prices. Another challenge for European banks is connected with

[1] Global Financial Stability Report: Market Developments and Issues. – Washington: IMF. [Electronic source]. – Access mode: http://www.imf.org/External/Pubs/FT/GFSR

[2] Global Finance назвав 50 найнадійніших комерційних банків світу за 2014 рік. [Електронний ресурс]. – Режим доступу: http://www.relinvestmentsgroup.com/ua/novosti/global-finance-nazval--50-samyh-nadezhnyh-kommercheskih-bankov-mira-za-2014-god.htm

[3] Global Financial Stability Report: Potent Policies for a Successful Normalization. – Washington: IMF. – 2016. – April. [Electronic source]. – Access mode: http://www.imf.org/External/Pubs/FT/GFSR/2016/01/index.htm.

difficulties in business model transitions and legal costs which resulted in extraordinarily weak earnings results at several large European banks.

Thus, the results of the study indicate deterioration in the competitive positions of the EU banks in the global banking. The reasons for this are not only the impact of the global financial crisis on liquidity and the financial stability of banks, but also the negative consequences of the European debt crisis. The ability of European banks to lend especially to non-resident borrowers significantly reduced, due to more rigid financial markets regulation. In addition, a strong trend towards the credit securitization that is observed in developed countries including the EU caused the shift from bank lending to debt securities markets. All mentioned above leads to slower growth in bank assets in European countries.

The position of banks in Greece, Italy and Portugal are the most assailable. Many banks in the EU are facing at least one of such challenges as structural problems of excess bank capacity, high levels of non-performing loans, poorly adapted business models or their combination. Profitability rate reduction and unresolved legacy challenges increase the risk that external capital and funding becomes more expensive, especially for weaker banks with low equity valuations, pointing to weak future prospects of the EU banks functioning within the global banking.