

Bank Pulse: Eurozone funding diversification progresses slowly

European countries traditionally rely heavily on domestic banks to fund their economies. Over the past two decades, this bank dependence has slowly diminished. Yet the gap with more market-financed economies such as the UK and US remains large.



Diversification of European business funding

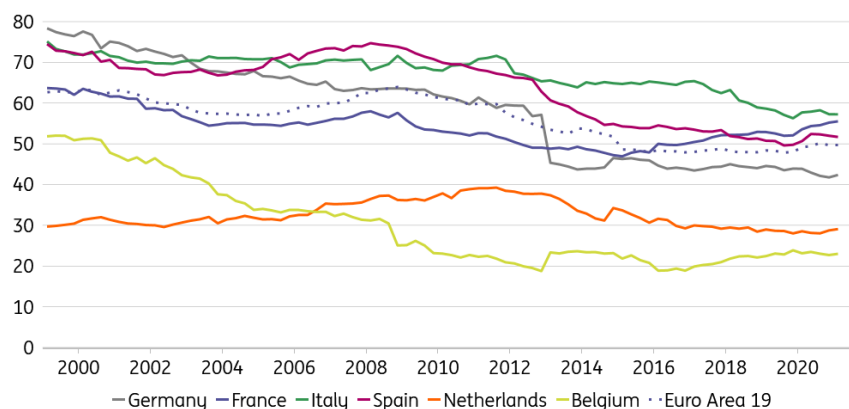
After the 2008 financial crisis and its aftermath in Europe, policymakers concluded (among other things) that European businesses should diversify their funding, reducing their reliance on bank finance. The Capital Markets Union (CMU) was conceived to support this process, aiming to integrate Europe's fragmented financial markets.

The CMU has proven to be a tough goal to realise, though the European Commission remains committed. But how is Europe in the meantime doing on bank dependence? For households, we can be brief. When the euro was created in 1999, 88.1% of household borrowing came from banks. After some minor fluctuations over the past two decades, that figure stands at 86.5% today.

It is more interesting to look at non-financial business funding. Taking together loans and bonds (but excluding trade and intercompany credit), 63% of business funding was supplied by banks in

1999. Typically the market share of domestic banks was higher in large countries than in smaller ones. In 1999, domestic banks provided over 75% of financing in Germany, Italy and Spain. For Belgium, the domestic share was 52%, and for Finland and the Netherlands even below 40%.

Bank share in non-financial businesses debt outstanding (%)



Source: Macrobond, ING-calculations

Figures have converged since 1999

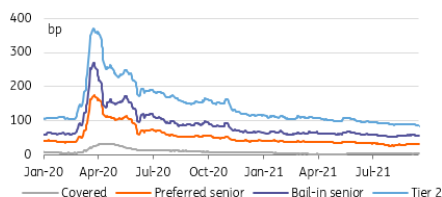
These figures have converged somewhat since 1999. The Eurozone-wide bank share in non-financial business funding peaked at 64% at year-end 2008, and started a gradual decline that lasted six years. By 2015, the share of banks stabilised around 48%.

As the pandemic engulfed Europe in 2020, the crisis response in several countries relied heavily on bank lending. Indeed the Eurozone-wide bank share increased again to 50%, driven mainly by strong bank lending growth in France, Spain and Italy.

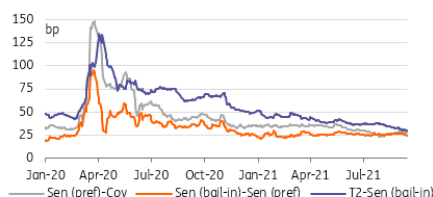
How successful has the mission to diversify non-financial business funding been?

So looking at this data spanning over two decades, has the mission to diversify non-financial business funding succeeded? Let us say it is work in progress. Between 2008 and 2015, when banks were licking their wounds and recovering from the credit crisis, non-bank lenders increased their market share. Yet the CMU was not put formally on the European Commission agenda until 2014, and developments nonetheless stagnated from 2015 onwards. Today, dependence on domestic banks remains highest in Italy, followed by France and Spain. The 50% Eurozone average stands in sharp contrast to the UK, where the comparable percentage is 37% (down from 41% in 1999), and the US, where it is just 27% (29% in 1999). There is more work to do.

Bank bond index performance

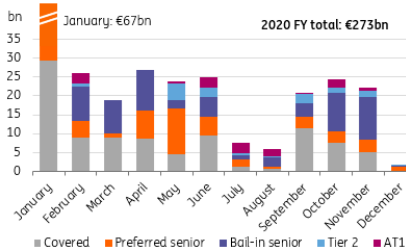
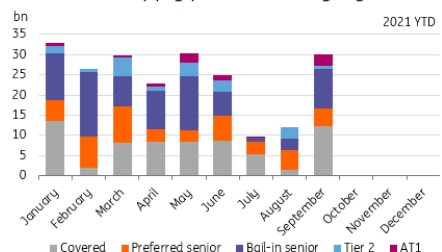


Relative performance of the indices



Source: Markit iBoxx, ING

Bank bond supply per debt category, 2021 YTD versus 2020 (€bn)*



*only includes public deals.Source: IGM, ING

*only includes public deals.Source: IGM, ING

Authors

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.