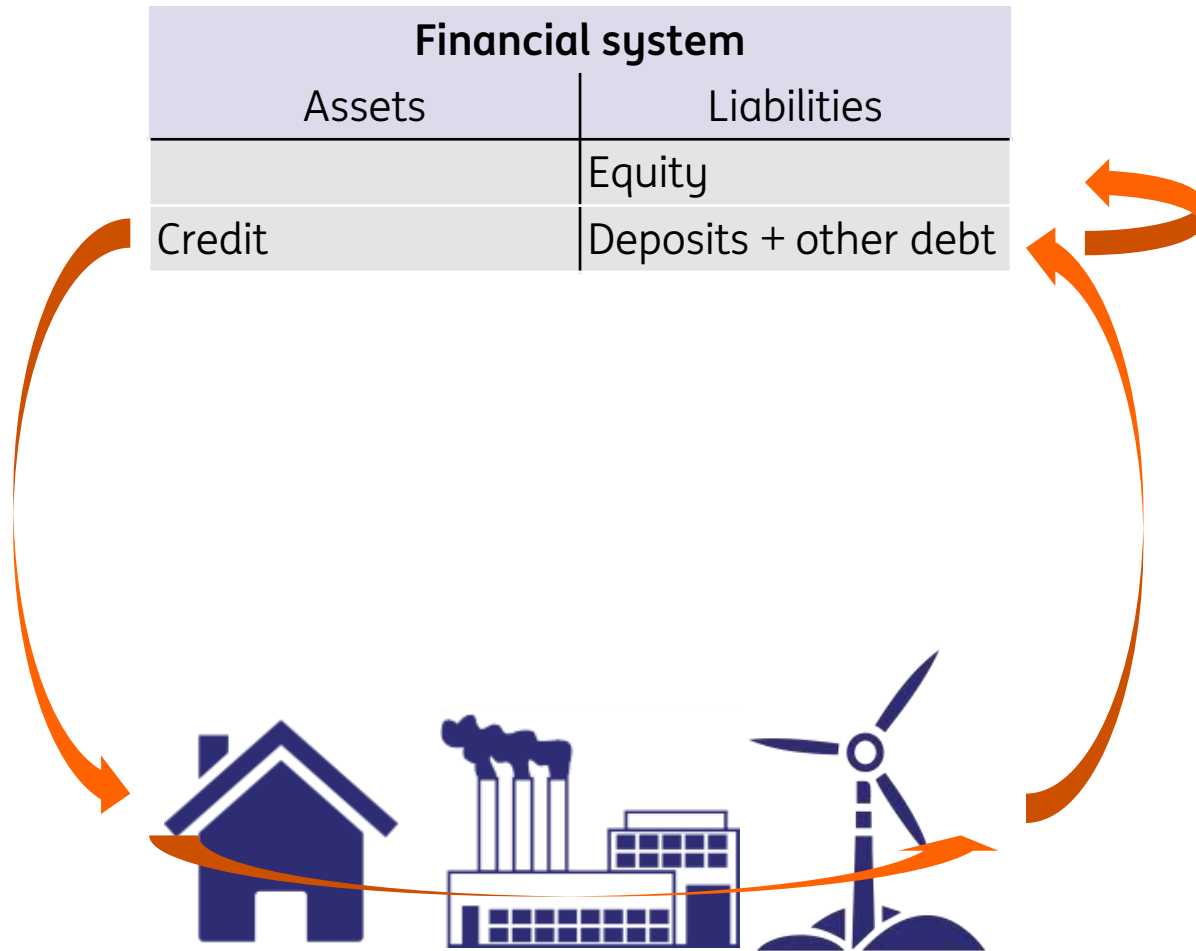


Banken, krediet en eigen vermogen

Teunis Brosens

Nederlandse Economendag ▪ 4 November 2016

The self-inflatable system of credit & money



- By lending, banks create money...
- ...so banking system creates its own deposits
- Similarly, non-bank credit creates its own non-bank liabilities
- Credit may support economic growth...
- ...but also inflation of asset prices
- Even equity requirements do not break this closed circuit

So... let's use this system some more to stimulate the economy?!

Positive effects of negative rates (1/2)

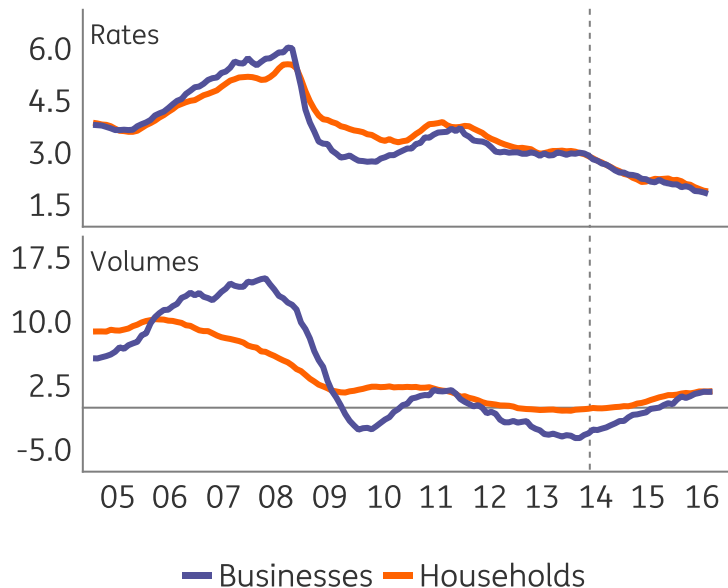
Diagnosis of Eurozone economy is: too much savings, too little investment

- Policy aimed to lower rates tries to help close this gap

Bank lending rates have come down

- And lending volumes are growing again

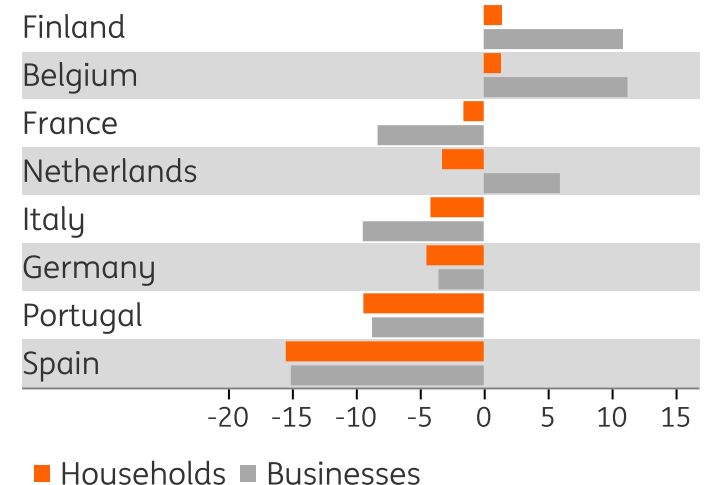
Bank lending rates and growth (%)



Debt servicing becomes cheaper

- This helps overburdened consumers, businesses and governments

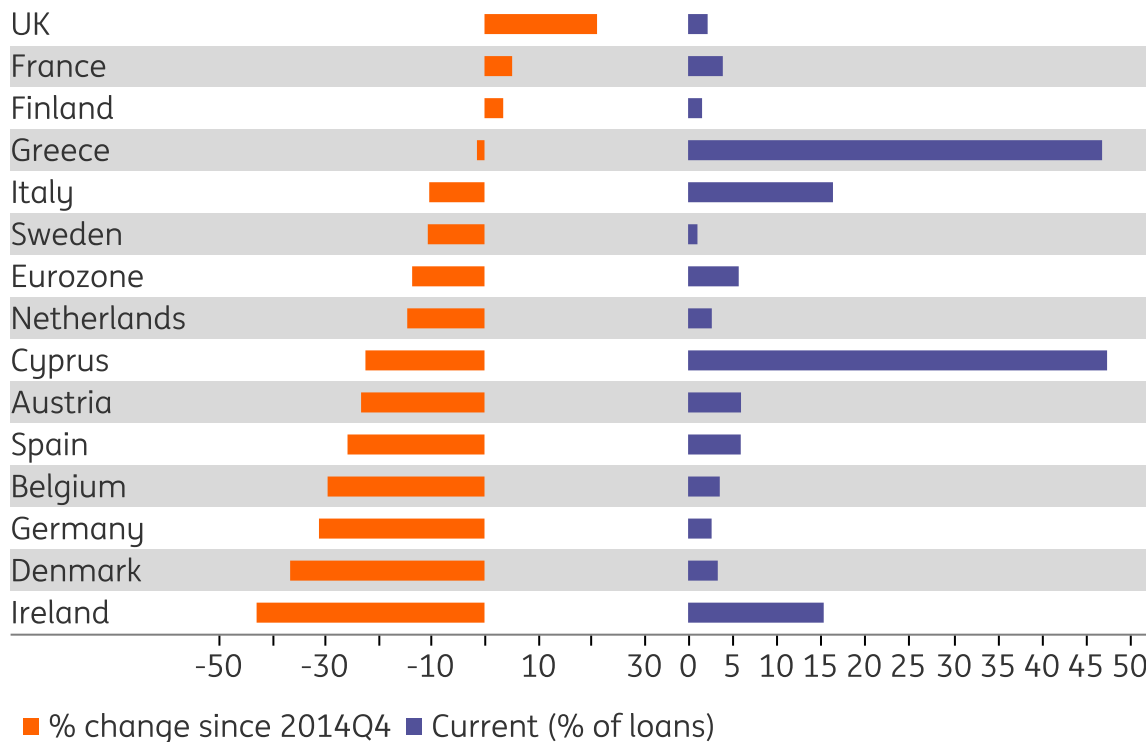
Debt servicing costs
Change since Q2 2014 (%)



- ...although it may also reduce incentives to address overreliance on debt

Positive effects of negative rates (2/2)

Development of NPLs



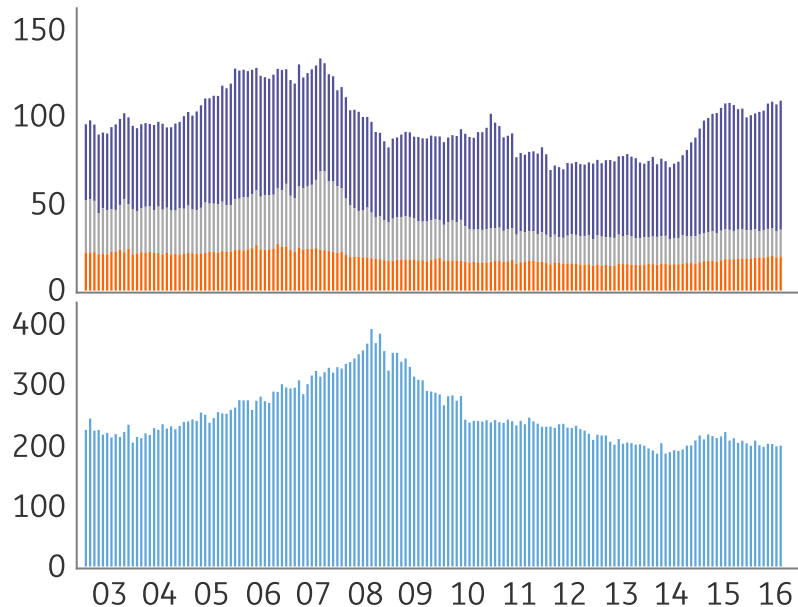
For banks, cheaper debt servicing affects NPLs

- Reduces number of NPLs
 - Reduces carry cost of remaining NPLs
 - Size of NPLs in some countries means a substantial benefit of low rate policy for the banks concerned (see chart)
 - ...but also reduces urgency of addressing pool of NPLs
- Flanking ECB policies (notably TLTRO) further support banks that need it.

Is revival of bank lending helping the economy?

Gross monthly new bank lending

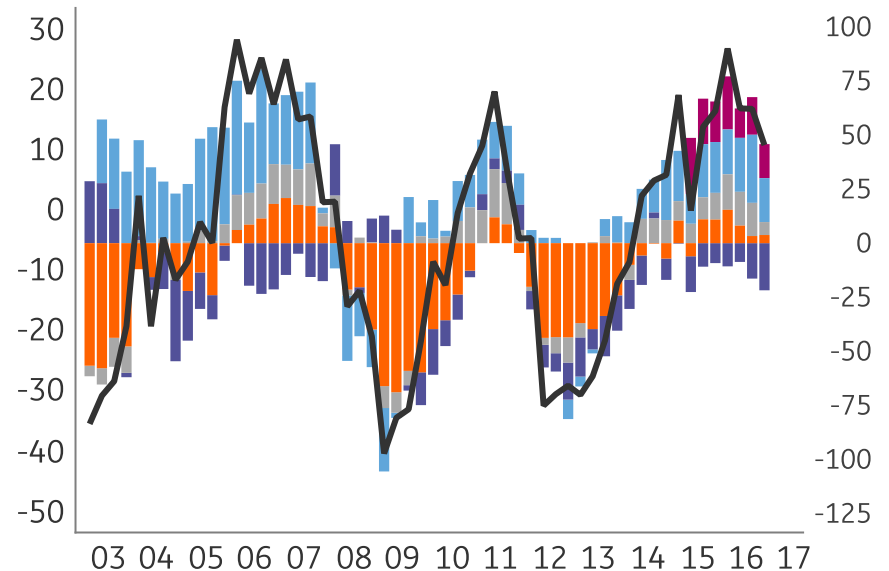
Eurozone, €bn, seasonally adjusted



■ Household mortgages ■ Consumer credit
■ Household other ■ Business

Demand for business loans

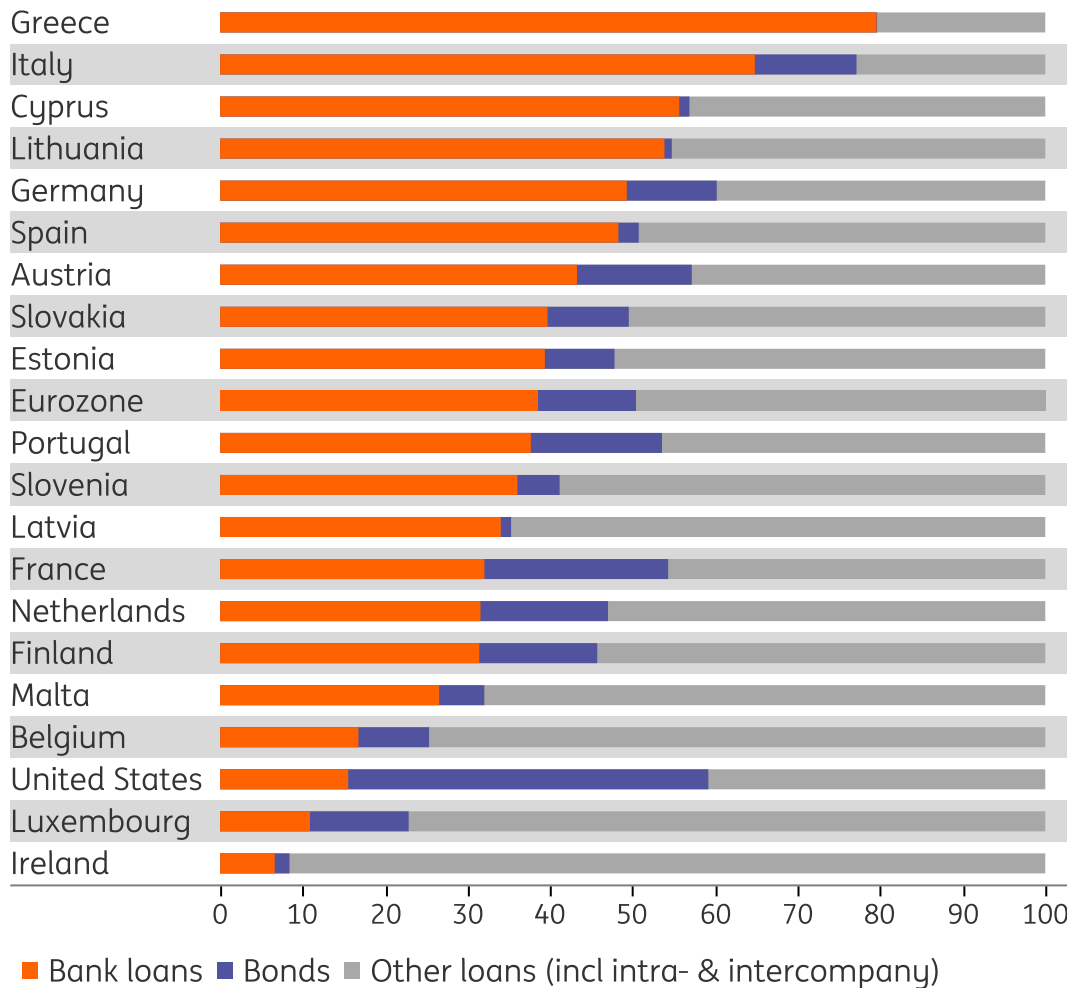
Net percentage of banks reporting increase (+) or decrease (-), and reasons (rhs)



— Total (lhs) ■ M&A & restructuring (rhs) ■ Inventories (rhs)
■ Rate(rhs) ■ Alternative financing (rhs) ■ Investment (rhs)

Is “more *bank debt*” part of the answer?

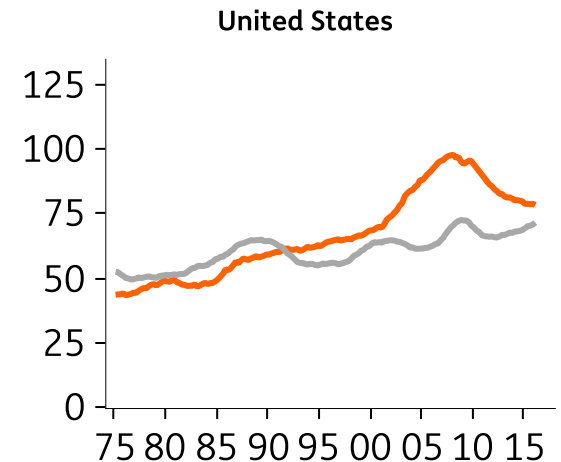
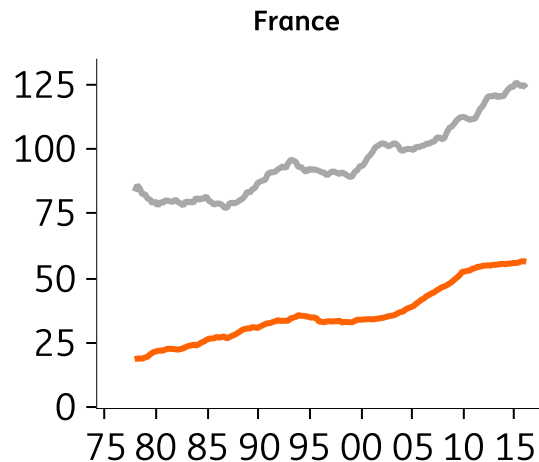
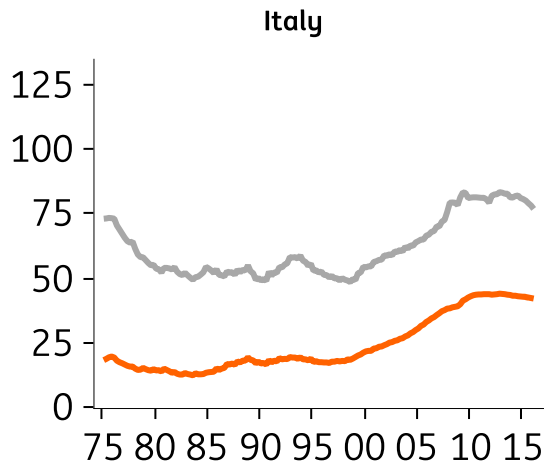
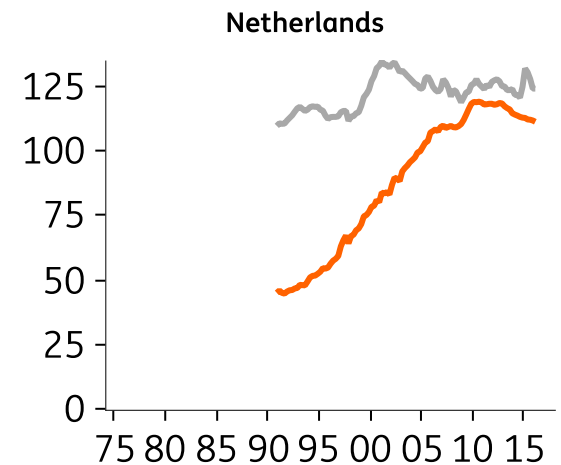
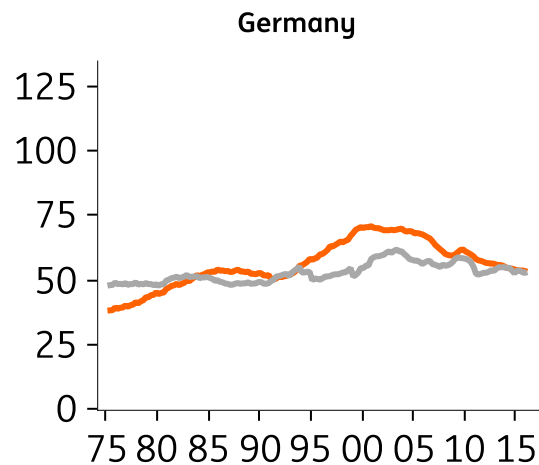
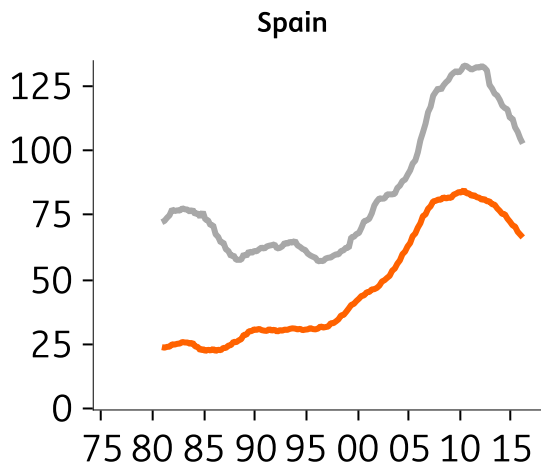
Shares in non-financial business debt financing



- In the US, banks provide 15% of debt financing (\$2100bn). Bond market provides 44% (\$5800bn)
- In the Eurozone, banks provide 39% of debt financing (€4300bn). Bond markets provide 12% (€1300bn)
- In relative terms, US bond market is about *three times as large* as the Eurozone market

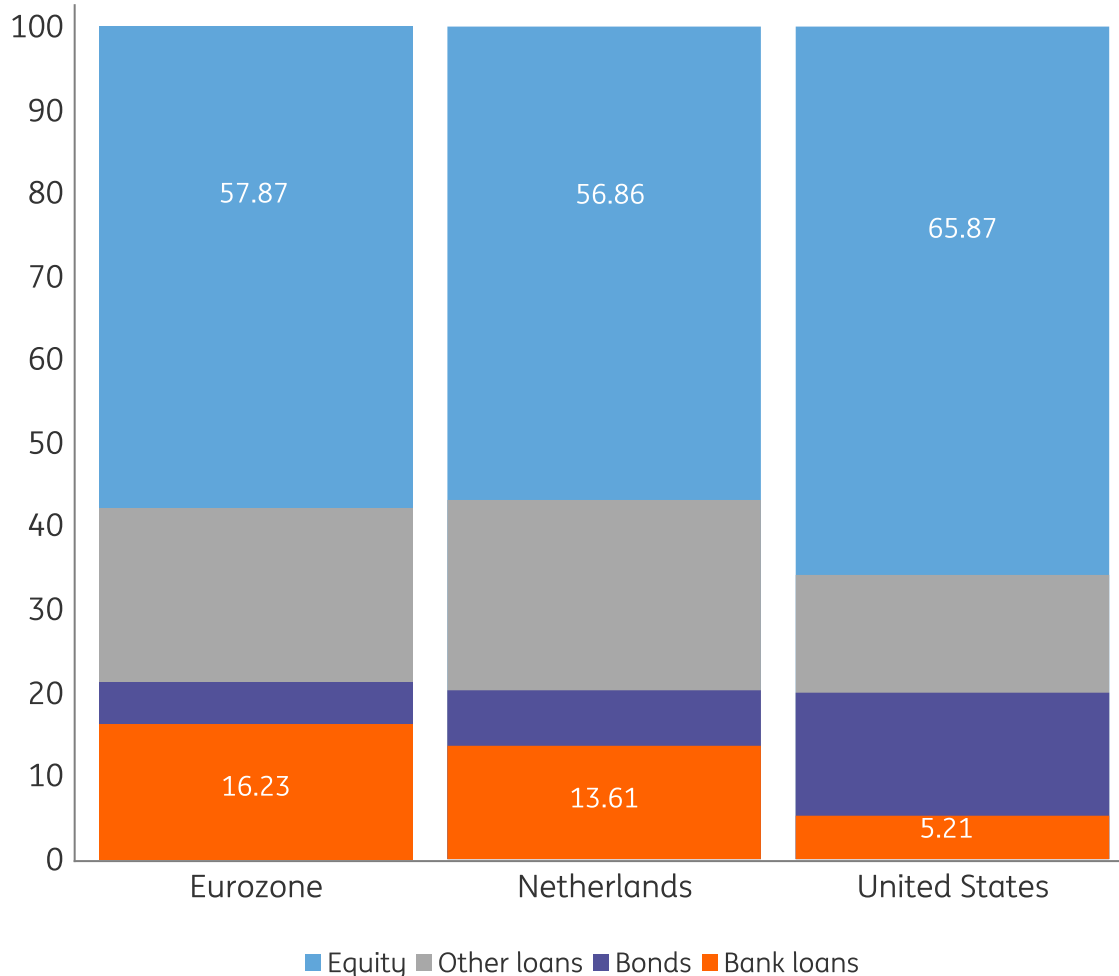
Is “more debt” really the answer?

Household & non-financial business debt, % of GDP



Or is there a lack of risk-bearing capital?

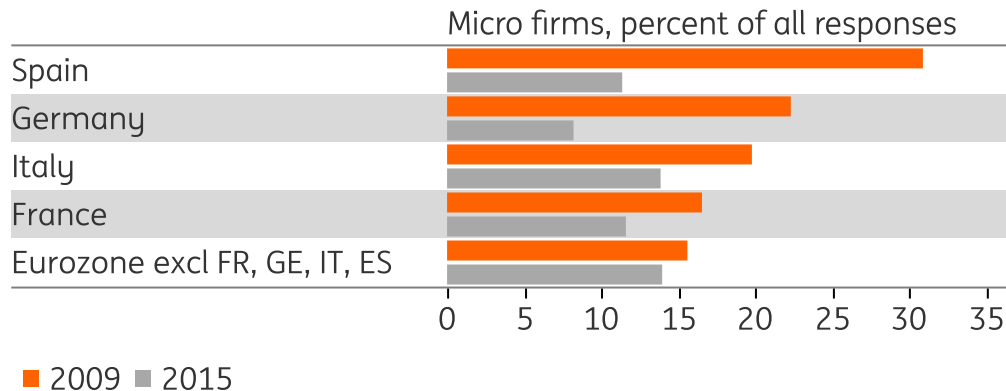
Financing of non-financial businesses (% of total)



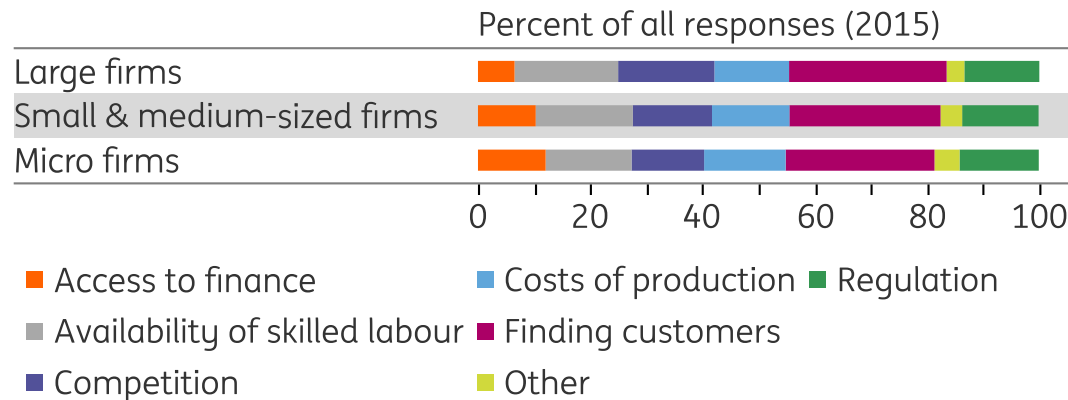
- In US, 66% of non-financial business sector financed by equity.
- In Eurozone, this is 58%.
- Difference only 8%-pt! We're so close!
- But to get Eurozone equity to 66%, equity injection of €2100bn needed (an increase of non-financial business listed market cap of 45%)!

Is availability of finance still a problem anyway?

"Access to finance" most pressing problem?



My most pressing problem is...



- Access to finance was a major issue in the early crisis years, and especially for smaller firms.
- Today, entrepreneurs face more difficult problems:
 1. Getting product sold
 2. Find skilled employees
 3. Cost containment
 4. Regulation
 5. CompetitionAnd only then...
 6. Availability of finance

Hoe bevorderen we de groei in de Eurozone?

“

**Kijk niet naar de banken,
Kijk naar andere financieringsvormen!
Focus op *risicodragend* vermogen:
achtergestelde schuld en aandelen.**

”

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Data from Macrobond and Bloomberg, unless otherwise noted.

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