

# **The crisis in Europe, the impact on banks and the authorities' response**

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***Lectio Magistralis***

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In the autumn 2011 the European banking and financial system was on the brink of collapse and the long term viability of the currency union was under serious threat: the bank funding markets were shut down, especially on longer maturities, foreshadowing a major credit crunch with significant impact on economic growth and employment; the consensus amongst market analysts attributed a high probability to the breakdown of the euro area.

In these first weeks of 2013 the situation has much improved: following a period of unprecedented support by central banks, banks are moving back to normal funding on private markets; and, trust in the resilience of the euro area has been restored, with a reversal of the capital flight of foreign investors. This is the result of bold policy responses at the European level and serious actions taken by national governments in countries under stress, which took off the table catastrophic risk. But we should avoid complacency, as there are still weaknesses which need to be addressed by regulators and policymakers.

First, lending to the real economy is still perceived to be insufficient for triggering economic recovery and growth. At the same time, there is still a need for EU banks to restructure, deleverage and reduce their exposures to risks. My main argument is that completing the action of balance sheet repair in the banking sector, far from hampering growth is instead a precondition for kick start lending into the real economy.

Second, the crisis has jeopardised the Single Market and the trend towards geographic fragmentation within the EU continues, both in interbank transactions and in bank lending. This is having an impact on the organisation of business within cross-border groups. If these trends were to crystallise, the benefits of financial market integration would be largely dissipated, preventing the savings of European citizens from freely flowing to the best investment opportunities in the whole EU. Important decisions have been taken in recent months and it is now key that they are timely implemented and complemented with additional coordinated policy actions.

I would like to focus on these two issues today.

## **1. The crisis in the euro area: drivers and policy response**

There is broad agreement on the reasons that brought to the outburst of the financial crisis: complex financial products and easy availability of cheap funding contributed to building a major bubble, with large financial institutions taking up excessive leverage and fragile liquidity positions. Poor governance, wrong incentives for bank management and lax supervision were essential ingredients, which allowed a wide range of misbehaviour which we are still grappling with after more than five years since the start of the crisis. This agreement on the drivers of the crisis led to a globally coordinated action to tighten regulation by the G20: tougher rules on banks' capital; leverage; liquidity and managers' compensation; coupled with measures to bring under closer controls the risks involved in derivatives business.

The second wave of the crisis, started in 2009 and centred on the euro area, has been the subject of conflicting national narratives: some have blamed the profligate fiscal policies pursued by some Member States, while according to others lack of solidarity was a key factor leading the euro area close to the point of meltdown.

I would like to take the perspective of the banking sector, to argue that the main problem lied with a fault in the institutional underpinning of the single currency. With the introduction of the euro, banks were encouraged to look at the currency area, and at the Single Market, as their "domestic" market. The wave of bank mergers that characterised the early 2000s was a signal that banks were adapting the size and composition of their balance-sheet to the new reality of the market. Cross-border banking groups came to account for more than two thirds of the assets of the European banking sector. But they have continued to be supervised by national authorities and, in case of crisis, would have been relying on the safety net provided by their home country.

The ECB, in particular Tommaso Padoa-Schioppa, expressed repeatedly its discomfort with this situation, stressing that such unbalanced institutional framework could work only if in time of need national authorities were able to act as one, closely

coordinating their actions and sharing the burden in supporting ailing banks in front of systemic crises. But when the first wave of the crisis hit European markets, this is not what happened. National authorities pursued “*chacun pour soi*” policies, as Jacques de Larosière pointed out. The decision, back in 2008, to leave the bail outs of banks exclusively to national authorities was an act of hubris that, as in any Greek tragedy, could only give rise to dreadful consequences.

A Chart recently published in the report of the High Level Expert Group on Bank Structural Reforms chaired by Erkki Liikanen clearly shows that large European banks had grown too big with respect to the fiscal capacity of their home Member State. At the same time, their national origin was still visible in the composition of their sovereign portfolio, significantly biased towards paper issued by their home government. As a result, following the first wave of bail-outs by national governments, banks started to be assessed by market participants on the basis of the credit standing of the sovereign providing them with the safety net and of the amount and quality of their sovereign exposures.

### ***Chart 1 and 2 and Table 1***

This generated an inextricable link between the banks and their sovereign, creating a harmful negative circularity: (a) large (or less large, but numerous) financially-stressed banks burdened sovereigns which were expected to bail them out (the case of Ireland or Spain), while (b) financially-stressed sovereigns impacted their banks’ market presence and credit fundamentals (the case of Greece, Portugal, and Italy).

A functioning area-wide money market disappeared and funding pressures started to mount, especially on banks in countries under stress. Towards the end of 2011 European banks, especially in countries under stress, were staring into the abyss: they were still dependent to a significant extent on wholesale funding, but no investor was willing to finance the sector; a wall of redemptions – more than EUR 800 bn – were coming due in the first months of 2012 and if banks were unable to fund themselves a major credit crunch would have developed, with harsh consequences for

the real economy. The volatility of deposits also started to increase, with the wholesale and corporate funds often moving out of the most fragile countries. All of a sudden, the single currency was not single anymore. Benoît Cœuré, the member of the Executive Board of the ECB responsible for monetary policy operations, explained very well in a recent speech that monetary aggregates are composed to a large extent by the commercial money created by the banks, i.e. the banks liabilities. At the time one euro deposited at a Greek bank was not considered to carry the same value as one euro deposited at a German bank. This also brought about an increased volatility in deposits, with slow but steady outflows from banks in stressed countries into what was perceived as the safe haven of banks in core euro area countries. The single currency was broken, and policy repair was urgent.

The EBA proposed already in August 2011 steps to address this threatening situation, by de-linking banks and sovereigns. First, we called for a significant effort to recapitalise European banks, supported by an EU-wide backstop provided by the European Financial Stability Facility (EFSF). The European Council had agreed to use EFSF resources to recapitalise banks, but insisted that the financing should have been directed to Member States, which would have maintained responsibility for supporting the banks, a decision that reinforced the circularity instead of breaking it down. Second, the EBA requested the provisions of an EU-wide guarantee on banks' liabilities, which would have de-linked individual banks funding conditions from the standing of their sovereign. The third element of the package was a commitment of the EFSF to directly intervene in the secondary markets for sovereign debt, with a view to stabilise them.

With respect to bank recapitalisation, the part of the policy response that was directly under our control, the EBA issued a recommendation asking banks to raise their capital levels in order to reassure market participants on their ability to withstand adverse shocks.

Through the EBA recapitalisation exercise, EU banks managed to boost their capital positions on aggregate by over EUR 160 bn. The cumulative impact on capital levels of the measures put in place by banks in 2011 and 2012 in relation to the EBA

initiatives is about EUR 250 bn. I would add that overall, the recapitalisation process contributed to market confidence as it also brought more transparency to banks' disclosure on risk exposures, for the first time including sovereign debt.

The recapitalisation exercise has been criticised by the banks, which argued it would have had a procyclical effect, restricting lending into the real economy. Our recommendation, though, severely limited the possibility to achieve the target ratio through reduced lending. With hindsight, and in light of recent episodes, also the requirement to set aside capital to reflect prudent valuations of sovereign exposures was thoroughly justified.

### ***Chart 3 and Table 2***

As for the other initiatives, in the absence of EU-wide guarantees to bank funding the ECB stepped in with the launch of the 3 year lending programmes (Long Term Refinancing Operations, LTROs), which has allowed euro area banks, especially those in countries with financially-stressed sovereigns, to rely on an affordable and stable source of funding and avoid an abrupt contracting in lending activities.

With reference to the stabilisation of sovereign debt markets, the ECB's Outright Monetary Transactions (OMT) announcement has represented a real circuit breaker and played a pivotal role in calming the markets. It is worth mentioning that it is the announcement itself that had the calming effect and that the ECB in fact has not yet engaged in any actual purchases.

The deployment of European policies to overcome the stress in banking markets led also to the decision to repair the institutional malfunctioning that was at the origin of the sovereign-bank circularity, the national dimension of banking supervision. The announcement of the Banking Union, with the Single Supervisory Mechanism (SSM) as the first component, represents a crucial achievement. The arrangements will be in place as of March 2014 with the ECB as the single supervisor for significant euro area banks.

The forthcoming role of the European Stability Mechanism (ESM) in directly recapitalising stressed banks across the euro area– subject to conditionality – would also represent a step forward towards the breach of the bank-sovereign link.

As at the origin of the euro area crisis was a loophole in the institutional set up for the single currency, which left to national supervision and safety net arrangements the responsibility of controlling and supporting banks that were European in dimension and scope, it was essential that the policy response delivered a new institutional set up for supervision and financial stability in the euro area.

It is important to stress that while a euro area-wide safety net is being built, very serious reforms are being finalised to avoid that taxpayers' money need to be deployed again in the future to bail-out banks. The draft Directive on Bank Recovery and Resolution bringing more clarity on the bank resolution process, including the subject of debt bail-ins, which should allow imposing losses to specific categories of creditors, with a clear sequence, and ensure a smooth exit from the market also for large financial institutions.

## **2. The current state of EU banking**

Since last August market sentiment has shifted visibly with respect to banks in the EU, especially in the euro area for which it had been at the most negative during the preceding months. I will just give a few examples: senior credit default swaps spreads – which proxy market sentiment on banks' probability of default – dropped by about 60%, from 350 to 140 basis points (bp) between December 2011 (just before the ECB' availability to provide long-term funding to banks) and mid-January this year. Cash spreads – meaning the cost for banks to issue senior bonds – collapsed even more dramatically, by about 70%, from 285 to 85 bp. The trend is equally telling for subordinated debt issued by banks, which is currently in high demand in the markets. On the equity side the shift has been slightly less sharp, but nevertheless symptomatic, with EU bank share prices moving up 40%-50% since last August. After

trading for some time relatively deep below book values, equity prices on average are now approaching par.

#### ***Chart 4***

As a consequence of improved market sentiment, EU banks are now able to issue more debt, including unsecured and in several instances subordinated as well (in the form of the so-called Tier 2). This holds true not only for banks domiciled in stronger economies but also for some of those operating in markets with financially stressed sovereigns. It is true that spreads are wider for the latter than for the former, but it is a positive development that the credit markets are now wide open for more and more banks. In recent weeks we have seen second-tier banks (i.e., those immediately below the very largest) coming to market and successfully so. And demand is coming not only from European investors but also from regions – Asia-Pacific and North America – which during the height of the crisis have been pulling out from the EU banking sector.

There are several positive consequences of these developments in financial markets. Banks have been traditionally funding their balance sheets mainly from two sources: deposits, from both the household and corporate sectors, and wholesale funds, raised mostly in the market – via bonds, notes, or other instruments. On average EU banks, especially the largest ones, display a relatively large reliance on wholesale funds.

#### ***Chart 5***

With the freeze in euro area funding markets the 3 year lending programmes (LTRO) of the ECB filled the refinancing gap which was forcing banks to reduce the size of their balance sheets, thus preventing a sharp and disorderly deleverage could aggravate economic recession. This was particularly important in countries like Italy where the role of banks in financing the business sector – particularly small and medium enterprises – is still predominant. The resumption of market funding, even if

partial and still uncertain as it is now, may be able to reduce the risk of credit crunch, or at least to prevent a steeper one going forward.

The return of banks to market funding entails lower needs for them to resort central bank borrowing and state guarantees. So a second major positive consequence would be a relative easing on the public sector to share the funding burden for the banks. Access to private funding is already driving various banks to repay early their LTRO borrowings.

A third positive consequence is that more EU banks can now resume their medium-term strategic planning by including reliance on market funding and managing maturities and durations. It was pointed out in the past that a large and diversified bank cannot formulate a longer-term strategy for growth by relying on substantial funding from the central bank and not on market funding. Severe funding problems can create heightened strategic uncertainty, potentially chasing away investors, counterparts or customers. That anomaly may be less threatening now.

### **3. Remaining challenges**

The fading away of major systemic risks – such as any breakups of the euro area or sovereign defaults –has led market participants to change their risk appetite. Faced with low yields in a low-rate environment, many institutional investors have moved from “risk-off” to “risk-on” strategies and part of this move has been the renewed interest in bank debt.

As investors are moving up the risk curve to chase higher yields, European banks face a growing market confidence. This new market environment could induce a relaxation in the banks’ efforts to repair their balance sheets and change business models. This would be a mistake. Until the restructuring process is completed there is a danger of a setback in sentiment, which could hurt again banks’ capacity to raise debt and capital in the markets. In several segments of the Single Market the

awareness of this risk is also affecting the willingness of banks to resume the lending to the real economy.

I have already mentioned that, compared to the pre-crisis years, EU banks are now displaying materially higher levels of capital and are facing a tighter regulatory landscape and a more hands-on supervisory environment. They have also improved their liquidity buffers – both the level and the mix. New regulations being set in place related to capital liquidity, funding, risks, scope of activities, and conduct vis-à-vis both consumers and markets are creating a banking landscape embedding more safety, predictability and lower risk tolerance. In turn, the expectation is that as banks adjust their strategies and business models to the new regulatory architecture they will also adopt significant changes in their risk culture and market behaviour.

But at the same time we should remember that banks today are not in a materially different financial shape than they were six months ago, particularly as far as de-risking, restructuring and changes in business models are concerned. And this should make us all cautious especially when we consider the sustainability of current trends.

This leads me to the thorny issue of deleveraging. In the public debate there is a growing concern on the possible scale of the deleveraging process, fuelled also by the banks' argument that the regulatory reforms are too harsh and would drive to a significant restriction in banks' balance sheet, and therefore to a lower availability of finance for households and corporate. However, the downsizing of banks' balance sheets has to take place, in order to unravel some of the excesses that have triggered the financial crisis. This is necessary to bring banks back to sounder and more stable business models. There is evidence that EU banks started the deleverage process primarily via increasing capital. Some asset reduction has been taking place recently, especially cross-border wholesale exposures affected by the drying-up of short term USD funding - on aggregate euro area banks' global finance exposures (trade finance, aircraft finance, international leasing, commodities finance, etc.) has decreased by more than one third. But de-risking and restructuring are proceeding at a slower pace than in other parts of the world.

Loan forbearance has been a normal practice carried out by banks to stave off large credit losses, by easing repayment conditions for borrowers on a temporary basis so that they are able to resume normal debt servicing later on. In that respect, forbearance represents a countercyclical measure which is often encouraged by banks regulators around the world.

But forbearance can lead to negative developments if carried out on a larger scale, or simply to postpone loss recognition. Loan losses would have to be eventually recognised when all avenues to loan repayment were exhausted and the bank engaging recklessly in large-scale forbearance found itself trapped in a critical position with respect to earnings, credit expenses and capital levels.

Excessive forbearance, or more generally reluctance to recognise losses on legacy assets, generates uncertainty on the valuation of banks' balance sheets. Banks end up dissipating capital to support "old" assets rather than using it to engage in fresh lending. There is a good deal of evidence that after systemic crises the recovery takes place earlier in those countries where the banks' balance sheets are cleaned up quickly, through aggressive write downs of asset values, significant disposal of portfolios at deep discount, and robust injections of fresh capital. These steps reduce the excess capacity generated in the build up of the credit bubble, support the repair of balance sheets of corporate and households, and opens up the possibility of fresh lending to new initiatives.

The capital strengthening of European banks triggered by the EBA's recommendation has moved a long way in the right direction. But areas of uncertainty on asset quality and valuations in the balance sheets of European banks remain. ESMA recently noticed the limited amount of impairments on goodwills, which seems out of tune with the destruction of values generated by the crisis. The sudden emergence of significant losses in commercial real estate exposures and derivatives positions on sovereigns at some banks is another sign that there is still some way to go in recognising the losses produced by the crisis. I firmly believe that progress along this path can be made only through comprehensive asset quality reviews, helping the

identification of remaining problems and completing the cleaning of banks' balance sheets.

### ***Chart 6***

A second challenge is represented by the increasing evidence of segmentation of the Single Market. The sovereign debt crisis, and the adverse feedback loop between banks and sovereigns, have indeed led to major step backwards in financial market integration. Large cross-border banking groups have slowed down lending in foreign EU markets in which they have branches or subsidiaries – for example in some central and eastern European markets or in countries experiencing economic and sovereign stress. Similarly, cross-border interbank activities, which were a significant source of short-term unsecured funding before the crisis, have decelerated to a near halt during the 2010-12 sovereign crisis. This was a reflection of large EU banks' fear of risk contagion and the heightened uncertainties regarding the future of the euro area. By and large excess liquidity, including from the LTRO proceeds, has been deposited with the ECB/Eurosystem, yielding only marginal or no remuneration.

### ***Chart 7 and 8***

While the cross-border interbank market is now slowly picking up again, relatively healthy banks in financially-stressed markets continue to experience some difficulties in obtaining unsecured interbank finance in the EU and globally with acceptable terms and conditions. These are clear signals of significant inefficiencies across the EU Single Market. For instance, the increased cross-country dispersion of lending rates has weakened the allocation of capital. Consequently, firms face increasingly different credit supply conditions across countries irrespective of their own profitability and risk. There is no doubt that a non-efficient allocation of capital is a much more important factor to prevent lending and economic growth, rather than tougher rules on capital and liquidity as some banks claim. One of the greatest achievements of the Single Market has been the free movement of bank credit throughout EU-borders in order to finance the best counterparts and support investment opportunities irrespective of the

nationality of the counterpart. In retail banking business, this has been achieved thanks to the increasing role played by cross-border banking groups.

Lack of proper coordination among national supervisors may determine – and indeed has determined – a proliferation of national regulatory ring-fencing measures. Often national authorities have discouraged their banks from lending via subsidiaries or branches in EU countries with stressed economies. In some cases this was also true the other way around, namely to restrict up-streaming of funding and capital from subsidiaries to parent banks in EU countries with stressed economies. Such restrictions and hurdles, although to some extent justifiable on grounds of heightened risks, have inherently led to growing market segmentation within the EU, which we view as a harmful development going against the natural evolution towards the strengthening of the Single Market.

An immediate consequence of deleverage and market segmentation has been a shortage of new credits to SMEs – which in many countries are the main engine for economic growth. Needless to say that we find this situation unacceptable and solutions need to be found and implemented as quickly as possible.

The EBA is deploying all its experience and tools to restore trust amongst home and host authorities and ensure proper cooperation in the difficult management of the deleveraging process and restructuring of banking groups. EBA's full engagement in colleges of supervisors is critical to ensure that supervisory measures are properly discussed and coordinated and that colleges take potential unintended consequences into full account in their joint assessment and decisions on institution-specific prudential requirements.

In addition, the Single Supervisory Mechanism (SSM) is also essential and should be implemented without delay. It could be a major step to promote the unity and integrity of the EU Single Market, especially if it is coupled with truly uniform rules in key areas (the Single Rulebook) and effective convergence in supervisory practices in the EU as a whole, encompassing also Member States that will not join the SSM. In this respect, it is worth noting that there are some contradictory attitudes, as the

negotiation of the text of key regulatory reforms in the EU is accompanied by a pressure to maintain a wide degree of national discretions. Without a much greater degree of consistency in rules and supervisory practices the unity and integrity of the Single Market risks being compromised.

Restoring the functioning of the Single Market should rank high amongst the policy priorities for the coming months. If bank capital and liquidity is trapped in each single country because national authorities fear that in case of the crisis they would fly to other jurisdictions leaving the national taxpayers to foot the bill all the benefits of the Single Market would be lost. It is a “prisoner’s dilemma” situation: if everybody believe that in a crisis all different stakeholders, in each Member State, will be subject to an equitable treatment and the crisis management will be a joint responsibility, a cooperative outcome could prevail; banks could operate as European entities, as they would be resolved as European entities; but if there is a fear that in a crisis “*chacun pour soi*” policies would prevail again, then by backward inductions also in normal times authorities and market players (banks as well as investors) will act on the presumption that non-cooperative attitudes would prevail; ring-fencing and the segmentation of markets into national compartments will crystallise.

Which arrangements could ensure that the cooperative approach is followed? By now it should be clear that non-legally binding Memoranda of Understanding (MoU) do not have sufficient force to ensure that everybody would follow a cooperative approach in a crisis. Stronger institutional underpinnings are required to ensure that cross-border groups could be resolved in an integrated fashion, through a single point of entry. The political agreement on the Banking Union already envisages that a European resolution authority should be established, and an integrated deposit guarantee scheme should also be set up at a later stage. This should provide to all players the certainty *ex ante* that strict coordination would take place *ex post*. If we want to effectively repair the Single Market, we should consider giving this authority an EU-wide mandate and supporting its operation with new legislation on cross-border groups, a true European legal regime that would allow for binding coordination in dealing with all the entities of the group, while ensuring an equitable treatment of all stakeholders, in any Member State.

#### **4. Final remarks**

Let me now turn to what I consider to be the necessary steps to be further taken so that there is no turning back to the period of heightened uncertainty and general fear.

In the field of bank regulation all the initiatives approved by the G20 already in 2009 need to be promptly finalised, as many still remain work-in-progress. Uncertainty with respect to the details and timing of regulatory measures, as well-intentioned as they may be, alleviates the pressure for changes in banks' business model and delays the adjustment process. In the EU, this provides a unique opportunity to truly move to a Single Rulebook, i.e. rules that really deliver consistent supervisory outcomes with respect to equivalent situations. The natural instinct to call for national discretions and preserve the advantages granted to this or that class of intermediaries should be resisted, as the use of the regulatory lever to protect the competitive position of national players has always adversely affected the resilience of the banking sector. The forthcoming implementation of the SSM makes the need to promote the objectives of the Single Market even more pressing.

On the financial supervisory side, we have to complete the work to restore confidence in banks' balance sheets, through comprehensive asset quality reviews and analyses to better understand the differences in the computation of risk-weighted assets.

All these regulatory and policy initiatives need to be supplemented by an appropriate strategy of prompt and transparent dialogue with market participants to avoid misunderstandings leading to unwarranted fears or false expectations, which can corrode sustainable market confidence. Needed also, in my view, is a better effort across the bank regulatory community in the EU to ensure that all banks are abiding by and buying into the new rules and regulations and are changing their risk cultures to enable them to regain the confidence of society at large and to move again towards sustainable growth.

But in the end the key point is repairing the institutional framework for the Single Market. During the crisis, European decision making has often been portrayed as a fight between Member States at the table of the Council, with winners and losers. Often a common position has been found only when there was no alternative, when national and European interests were aligned by the immediate risk of a catastrophe. A weak coordination of national policies is not enough in a crisis, when national interests may well be conflicting. We do need strong European institutions, able to take decisions in the interests of European citizens and subject to effective mechanisms of democratic accountability. Moreover, appropriate European resources have to be made available to support European public policies, as without clear common backstops no financial stability arrangements can be trusted. The Single Supervisory Mechanism is a major step forward. We now need to complete the Banking Union with strong institutions for crisis management and resolution. This is a very delicate point, as in response to a crisis the authorities must have the possibility to take difficult decisions, also overriding individual property rights for the pursuit of the general interest and deploying taxpayers' money to prevent contagion. It is a delicate political point, which requires a deeper and stronger underpinning for the European Union.

An improvement in the market conditions, even a prolonged one, could always be reversed. We will be able to see the end of the crisis only when we will have fully restored the confidence of European citizens in the effective functioning of our European institutions.

Thank you very much for your attention.

## **Annex**

Chart 1

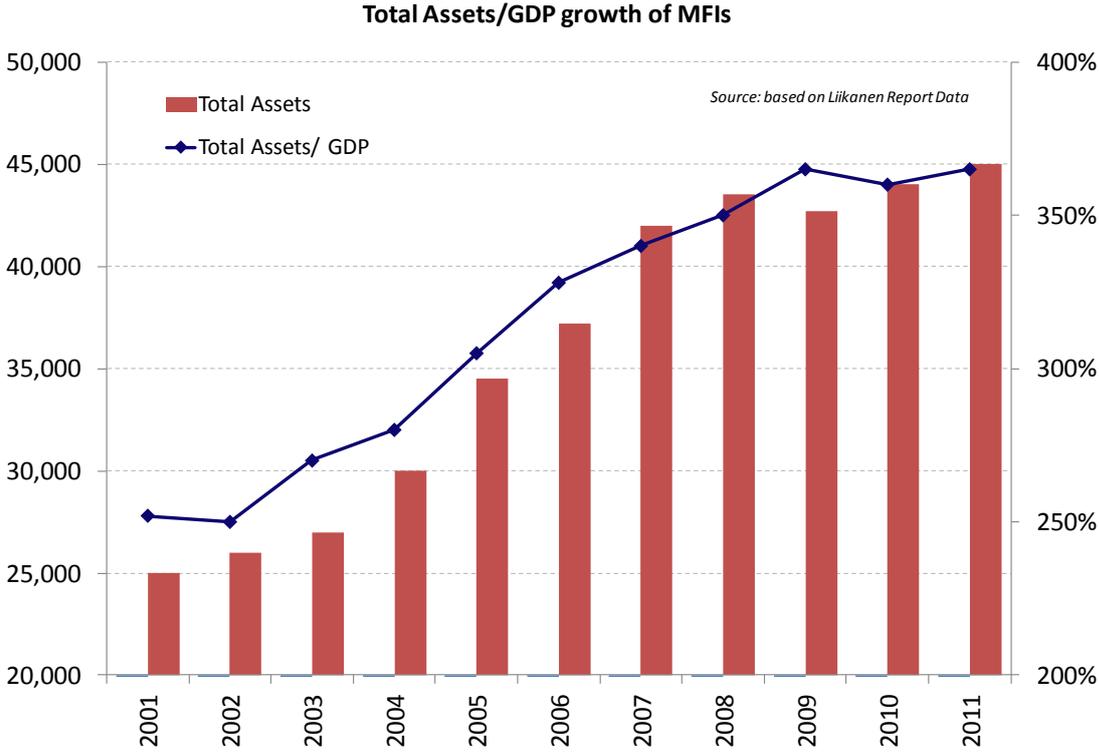
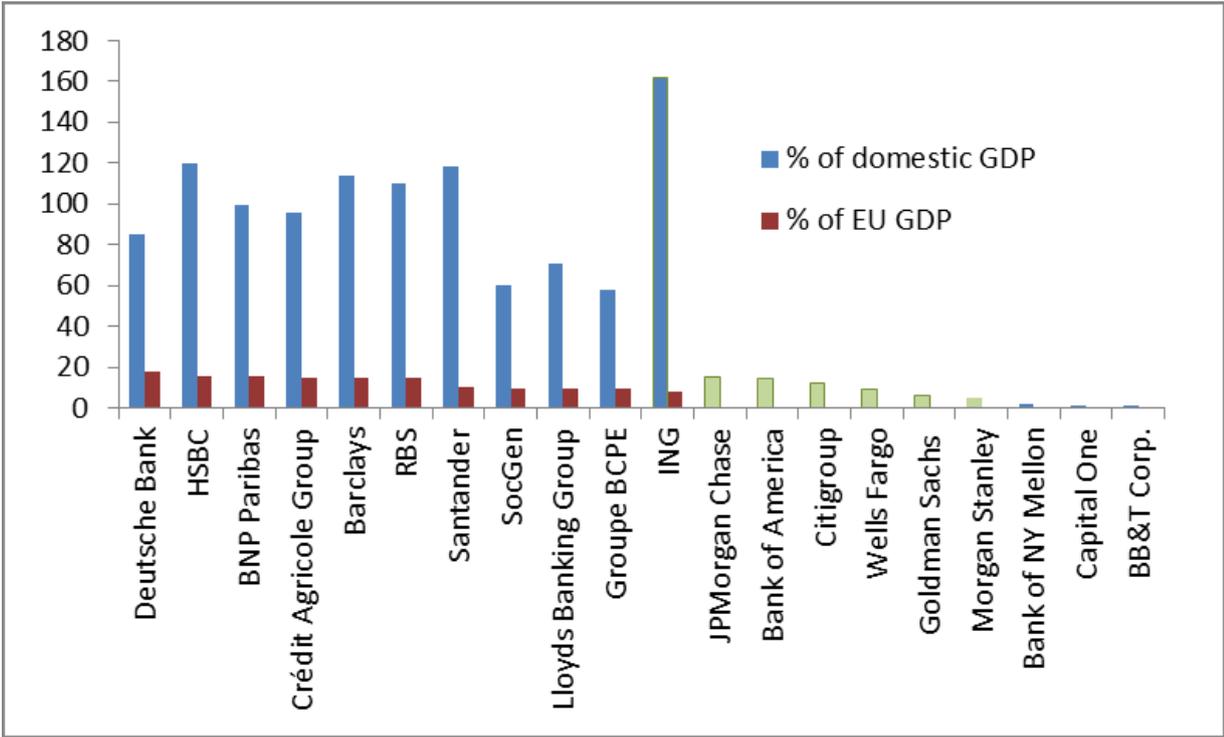


Chart 2

**Total assets of the largest EU and US banking groups (2011, in % of GDP)**



*Source: based on Liikanen Report data*

Table 1

<b>Total Assets growth by Area</b>			
	<b>EU</b>	<b>USA</b>	<b>Japan</b>
<b>Total bank sector assets/GDP (€ trillion)</b>	42.9	8.6	7.1
<b>Total bank sector assets (€ trillion)</b>	349%	78%	174%
<b>Top 10 bank assets (€ trillion)</b>	15	4.80%	3.7
<b>Top 10 bank assets / GDP(€ trillion)</b>	122%	44%	91%
Note: Top 6 banks for Japan	Source: based on Liikanen Report Data		

Chart 3

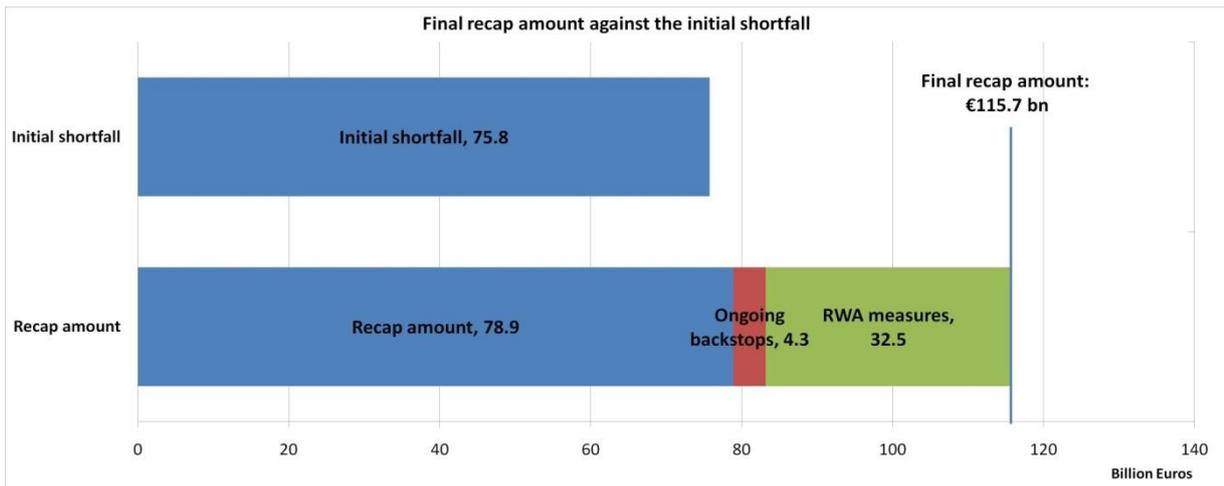
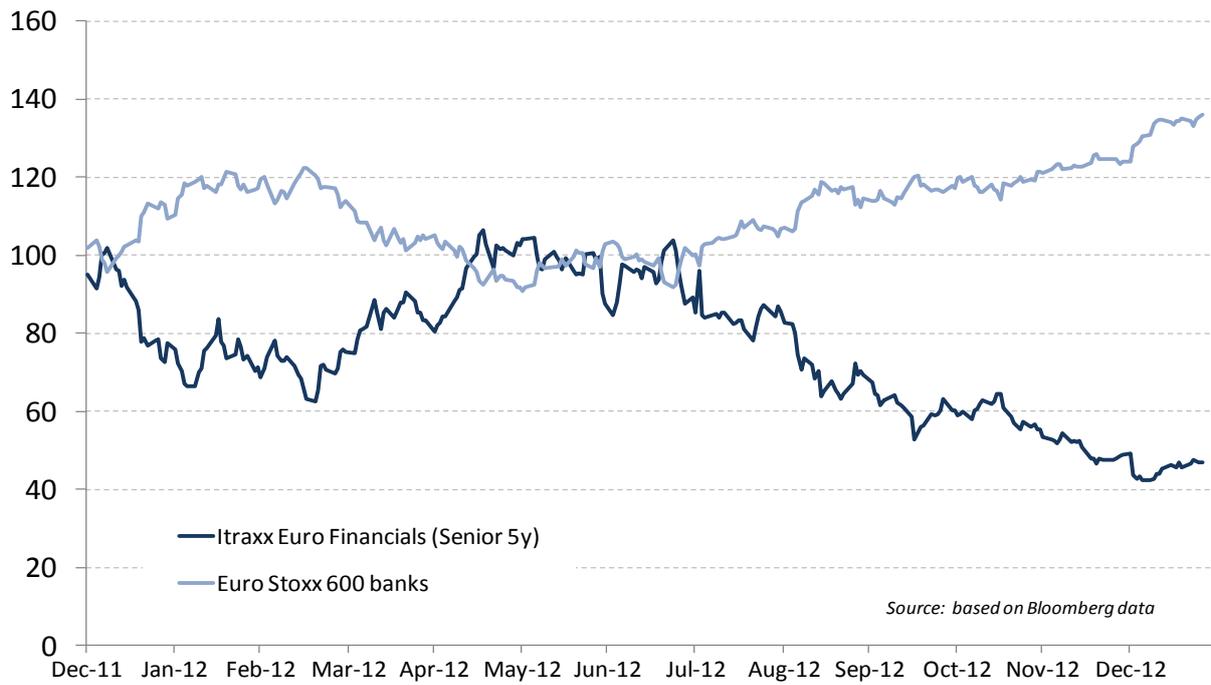


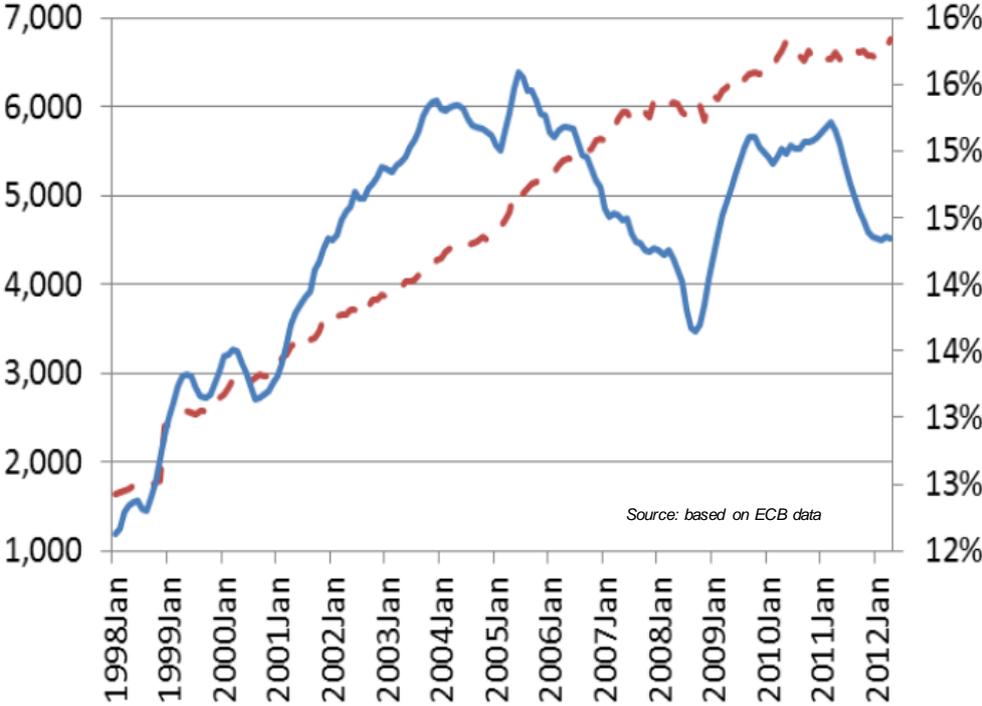
Table 2

<b>Strengthening of the EU Banking system capital position following EBA initiatives (bn Eur)</b>	<b>Done</b>
Boost of capital prompted by the EBA July 2011 Stress test exercise.	52.5
<b>EBA 2011 Capital Exercise - 27 banks strengthen their capital position after the implementation of capital plans</b>	115.7
<b>EBA 2011 Capital Exercise - Banks with no initial shortfall also strengthened their capital position</b>	47
<b>Restructuring process of 6 Greek banks</b>	18
<b>Support committed by the EFSF in the case of Bankia</b>	24
<b>Total</b>	<b>257.2</b>

**CDS and Stock Indexes**  
(Average Dec 2011=100)

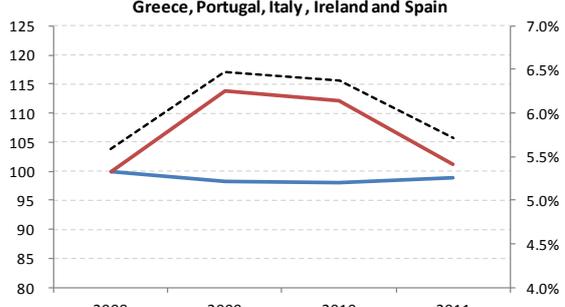
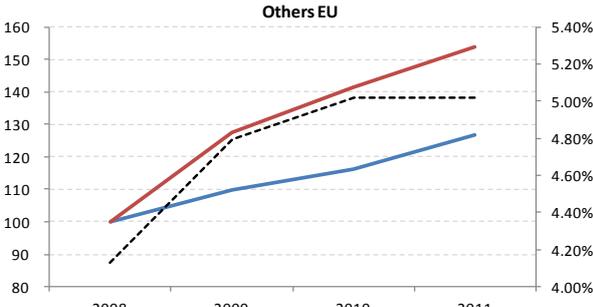
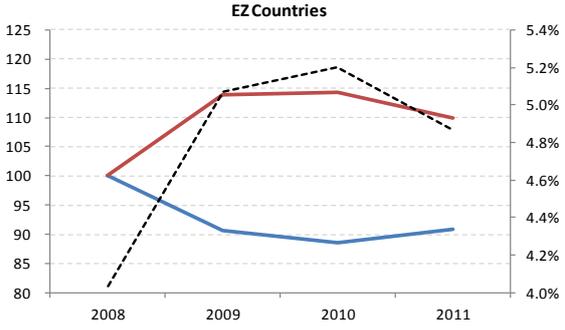
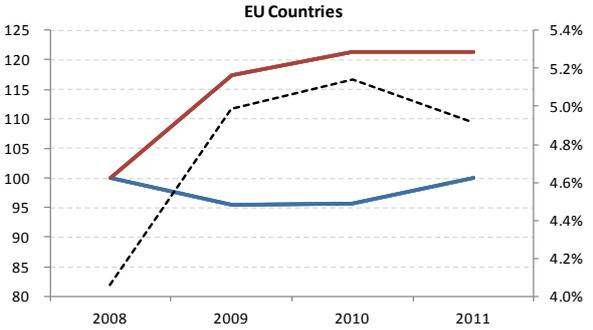


**Short-Term wholesale funding of EA, UK, SE and DK MFIs 1998-2012 (in % of Total Assets and in € billion)**



Note: Short-Term wholesale funding is defined as overnight deposits, repo funding and money market fund shares. The full line (RHS) expresses it in % of Total Assets. The dotted line (LHS) expresses it in € billion.

Equity and Total Assets

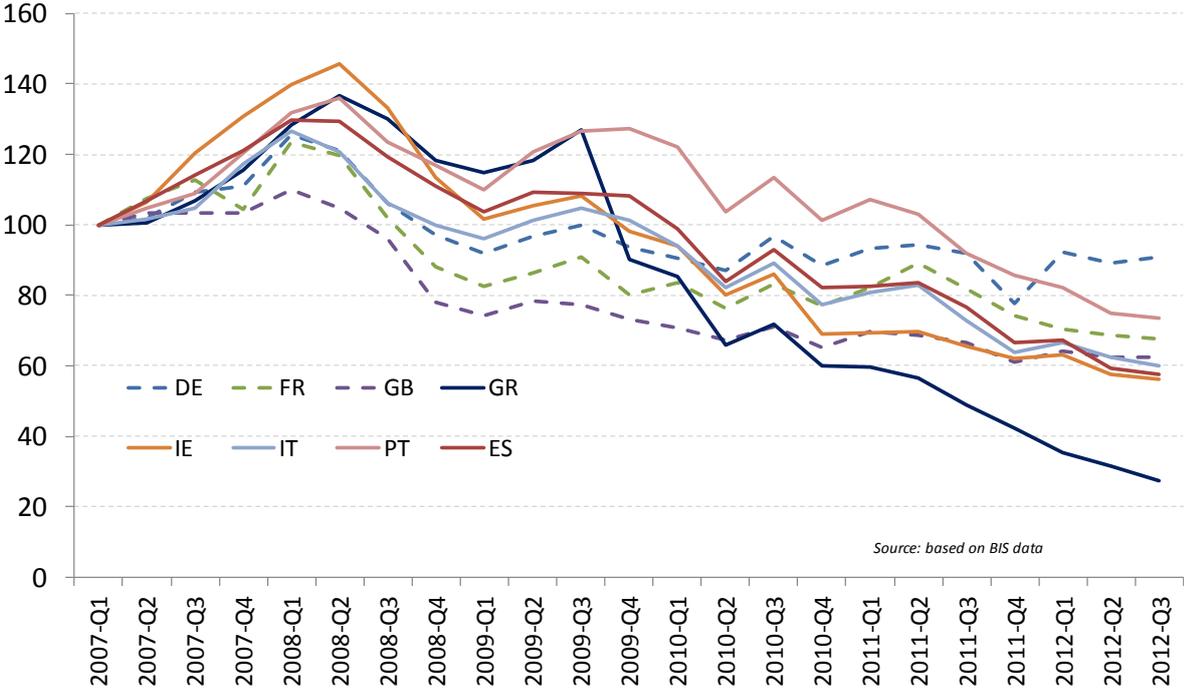


— TA — EQ - - - - Ratio (RHS)

Source: ECB, Consolidated Banking Data

Chart 7

Consolidated foreign claims (ultimate risk basis) of reporting european banks vis-à-vis selected countries (2007 Q1=100)



Consolidated Total foreign claims (ultim. risk basis) of reporting european banks vis-à-vis selected countries (2010 Q4=100)

