

### Box 2.3. European Bank Deleveraging: An Update

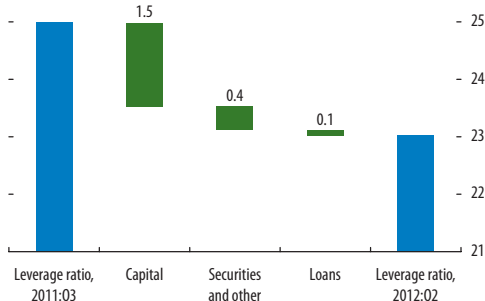
The April 2012 GFSR estimated that a sample of 58 large EU banks would reduce assets (excluding intangibles and derivatives) by \$2.2 trillion to \$3.8 trillion over the period from 2011:Q3 to 2013:Q4. Assets of these sample banks have fallen by about \$600 billion in the period from 2011:Q3 to 2012:Q2, with much of the decline occurring in 2011:Q4. Since then, following efforts by the European Central Bank (ECB) to relieve funding pressures on euro area banks, the pace of deleveraging has slowed.

Much of the deleveraging is attributable to what was identified in the April 2012 GFSR as being a key driver of asset reductions: banks with plans to scale back the size of their balance sheets by \$2.1 trillion overall. U.K. banks have made progress through continued divesting and by cutting back noncore activities. French banks reduced U.S. dollar-denominated assets, including structured products and trading portfolios. Dutch banks sold subsidiaries in the United States and Latin America and remain committed to separating banking from insurance. One medium-sized Austrian bank sold eastern European subsidiaries in early 2012.

To date, the decline in bank leverage has been mainly due to capital measures and asset disposals; cutbacks in bank loans have played a smaller role (Figure 2.3.1). This deleveraging pattern is

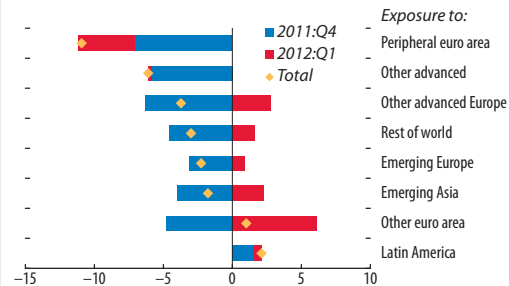
Note: Prepared by Sergei Antoshin, Eugenio Cerutti, Anna Ilyina, William Kerry, and Nada Oulidi.

**Figure 2.3.1. Contributions to Change in Leverage at European Banks**  
(Ratio of adjusted tangible assets to core Tier 1 capital)



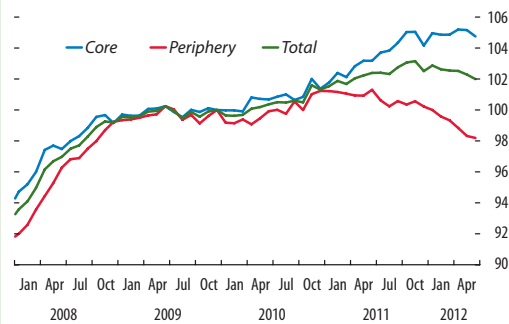
Sources: SNL Financial; and IMF staff estimates.  
Note: Leverage is a ratio of tangible assets less derivatives to core Tier 1 capital. Based on a sample of 58 large EU banks.

**Figure 2.3.2. Change in Foreign Claims of European Banks**  
(In percent)



Sources: Bank for International Settlements (BIS); and IMF staff estimates.  
Note: Figure shows consolidated exposures of BIS reporting banks in the EU. The data have been adjusted for exchange rate changes and for selected breaks in series.

**Figure 2.3.3. Euro Area Bank Credit to the Nonbank Private Sector**  
(Index, December 2009 = 100)



Sources: IMF, International Financial Statistics database; and IMF staff estimates.  
Note: Core = Austria, Belgium, Finland, France, Germany, and the Netherlands; periphery = Greece, Ireland, Italy, Portugal, and Spain.

broadly similar to that estimated in the April 2012 GFSR. Within loans, banks' foreign claims on most borrowers have declined in the two quarters to March 2012 (Figure 2.3.2). Although the impact on emerging Europe seems to have been more muted than expected, there has been a significant impact in the euro area periphery. There is now a clear divergence within the euro area, with bank credit in the core continuing to rise, while lending in the periphery is falling back sharply (Figure 2.3.3).