

3. Have European banks become more retail on the wake of the crisis?

Depending on the relative importance of retail and trading activities the business models of banks are usually classified from the extreme of pure commercial banking to the extreme of pure investment banking with a spectrum of different degrees of universal banking in between.

Commercial banking activities are regarded as particularly important for the real economy because they encompass functions such as maturity and liquidity transformation, risk assessment, asset allocation and support of the payment system. Commercial banking activities need the support of a series of “wholesale” activities (e.g. liquidity management). Moreover, banks also provide services to other parts of the economy (e.g. pension funds).

In the euro area, the bulk of banks’ balance sheets (about 70%) comprises non-retail loans and non-retail deposits (e.g. interbank loans and deposits, loans and deposits from insurance corporations and pension funds and loans and deposits from non-residents) and other wholesale and investment activities (e.g. holdings of securities, hedging services, issuance of bonds) (Table 1).

Table 1 Breakdown of loans and deposits, euro zone banks

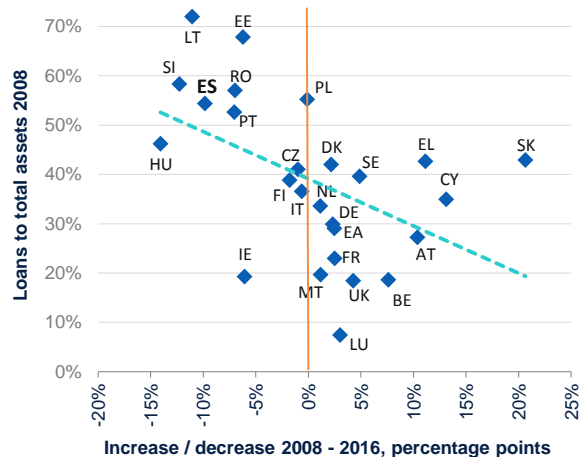
€ billion	Total loans / deposits			Retail loans / deposits			Other loans / deposits		
	2008	2012	2016	2008	2012	2016	2008	2012	2016
Loans	18,100	18,000	17,600	9,200	9,600	9,800	8,900	8,400	7,800
Deposits	16,700	17,200	17,000	6,900	7,900	9,100	9,800	9,300	7,900
% of total assets	Total loans / deposits			Retail loans / deposits			Other loans / deposits		
	2008	2012	2016	2008	2012	2016	2008	2012	2016
Loans	56.9%	55.1%	56.8%	28.9%	29.4%	31.6%	28.0%	25.7%	25.2%
Deposits	52.5%	52.7%	54.9%	21.7%	24.2%	29.4%	30.8%	28.5%	25.5%

Notes: Analysis based on domestic, non-consolidated assets.

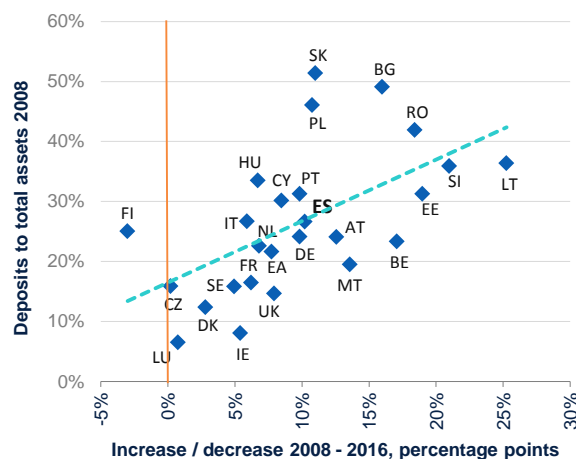
Source: ECB and BBVA Research

At country level, a clear divide remains between emerging European countries, where retail loans and deposits represent more than 50% of total assets, and Western European countries, where retail loans and deposits represent less than 30% of total assets.

The outbreak of an unprecedented financial crisis and the heavy burden imposed on taxpayers, revealed that, over time, many large universal banks shifted too many resources to trading books, supported by cheap funding. Market forces and some regulatory reforms entailed a reassessment of risks and encouraged a shift towards more retail activities, mainly from the funding side.

Figure 1 Retail loans in 2008 and evolution up to 2016


Note: Analysis based on domestic assets (non-consolidated). Retail loans include all loans to households and non-financial corporations
Source: ECB and BBVA Research

Figure 2 Retail deposits in 2008 and evolution up to 2016


Note: Analysis based on domestic assets (non-consolidated). Retail loans include all loans to households and non-financial corporations
Source: ECB and BBVA Research

Indeed, the squeeze in interbank lending and other wholesale sources of funding, new regulation requiring liquidity buffers and changes in investors' preferences pushed banks to increase retail deposits as a source of funding for their activities. Retail deposits increased in virtually all countries, with the banking system with an already important retail orientation becoming even more retail (Figure 2). This increase in retail deposits implies a substantial shift in the sources of funding used by banks and, to a certain extent, in the own nature of EU banks.

The evolution of retail loans was more mixed. A slowdown in economic activity and the pressure on banks, households and non-financial corporations to deleverage limited the demand for new loans. Such pressure to deleverage was stronger in countries with a larger proportion of retail loans and, therefore, loans declined over the crisis. In the banking systems with the smallest proportion of retail loans, retail loans tended to expand over the crisis (Figure 1).

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

Este informe ha sido elaborado por la unidad de Sistemas Financieros

Economista Jefe de Sistemas Financieros y Regulación

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Con la colaboración de:

Ana Rubio
arubiog@bbva.com

Jaime Zurita
jaime.zurita@bbva.com

Cristina Deblas
cristina.deblas@bbva.com

Macarena Ruesta
esperanza.ruesta@bbva.com

Cristina Plata
cristinateresa.plata@bbva.com

José Félix Izquierdo
jfelix.izquierdo@bbva.com

Javier Villar
javier.villar@bbva.com

BBVA Research

Economista Jefe Grupo BBVA

Jorge Sicilia Serrano

Análisis Macroeconómico

Rafael Doménech
r.domenech@bbva.com

Escenarios Económicos Globales

Miguel Jiménez
mjimenezg@bbva.com

Mercados Financieros Globales

Sonsoles Castillo
s.castillo@bbva.com

Modelización y Análisis de Largo

Plazo Global
Julián Cubero
juan.cubero@bbva.com

Innovación y Procesos

Oscar de las Peñas
oscar.delaspenas@bbva.com

Sistemas Financieros y Regulación

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Coordinación entre Países

Olga Cerqueira
olga.gouveia@bbva.com

Regulación Digital

Álvaro Martín
alvaro.martin@bbva.com

Regulación

María Abascal
maria.abascal@bbva.com

Sistemas Financieros

Ana Rubio
arubiog@bbva.com

Inclusión Financiera

David Tuesta
david.tuesta@bbva.com

España y Portugal

Miguel Cardoso
miguel.cardoso@bbva.com

Estados Unidos

Nathaniel Karp
Nathaniel.Karp@bbva.com

México

Carlos Serrano
carlos.serrano@bbva.com

Oriente Medio, Asia y Geopolítica

Álvaro Ortiz
alvaro.ortiz@bbva.com

Turquía

Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

América del Sur

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Perú

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

INTERESADOS DIRIGIRSE A: BBVA Research: Calle Azul, 4. Edificio de la Vela - 4ª y 5ª plantas. 28050 Madrid (España). Tel.: +34 91 374 60 00 y +34 91 537 70 00 / Fax: +34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com