European Banking Federation

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New Bank Regulation Threat to Jobs and Growth

Banks are keen to be at the heart of changes to regulation and to ensure the financial system is more robust; however, jobs and economic growth could be under threat across the Euro area if the proposed changes to banking regulation are adopted, declares the European Banking Federation (EBF).

The Institute of International Finance (IIF) publishes today its *preliminary* study on the cumulative impact assessment of new regulatory requirements for banks, in which the EBF has contributed the *Euro area chapter**. The main preliminary findings on the Euro area show that, if the proposed regulatory package is implemented by 2012, the cost of lending to households and businesses will be 97 basis points higher on average over the coming decade. Concretely, this means that annual bank credit growth will be only 2% over the decade, as opposed to 3.3% under the base line scenario. This would in turn **amount to losing over 4% of cumulative GDP** growth over ten years and would affect employment creation by almost **5 million jobs** in the Euro area. Banks will continue their effort to absorb the costs of the proposed regulatory package. This will however affect their profitability with a return on equity dropping to an average of below 6% throughout the decade, and thus make it more difficult to attract fresh capital.

Moreover, the regulatory reform could weaken bank lending flows to emerging Europe, which could then backfire by weakening the Euro area growth through lower exports.

“Banks across Europe are working with governments to ensure the Euro area is better able to withstand economic upheaval in the future. But change has to be considered and brought in carefully if we are to avoid putting European jobs and economic growth at risk, said Guido Ravoet, Secretary General of the EBF. The figures are undoubtedly impressive, but I would like to stress that they have not taken into account some parts of the Basel proposals, such as the impact of a leverage ratio, and the adjustments to counterparty credit risk. The results would be even worse if we take full account of the bank taxes or levies which are being discussed at political level”.

He added: “We have not tried at this stage, to quantify the positive effects of the package on financial stability. This means that the impact figures are of course not entirely definitive. It is nevertheless crucial to raise the awareness of policy makers and to consider the cumulative impact of these measures.”

“Clearly, and irrespective of the precision of the estimates, the proposed changes will hit the Euro area harder than the US, explained Ravoet. Bank lending in the Euro area plays a leading part in the economy, with about 75% of total private sector credit held in banks’ balance sheets, while in the US this proportion is of about 25%.” Indeed, compared to the more than 4% GDP gap in the Euro Area, the study estimates the impact on the US GPD growth to be around 2.5%.

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Note to the Editor

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The Euro Area banking system is the largest in the world, with on-balance sheet assets totalling € 31.1 trillion at the end of 2009. Euro area banks have recently improved their capital positions, with a total regulatory capital ratio rising from 10.5% of risk weighted assets in December 2007 to 12.5% in December 2009.

You can access the IIF Study at: http://www.ebf-fbe.eu

** Note for the Editors:*

The study analyses the difference between two scenarios:
1) the base line scenario, where no change is implemented, and
2) the regulatory change scenario, where the proposals are put in place as outlined by 2012. It aims to measure the gap between both scenarios rather than provide exact forecasts on the economic growth. The study bases its analysis on publicly available data on the banking sector and key macroeconomic variables.

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