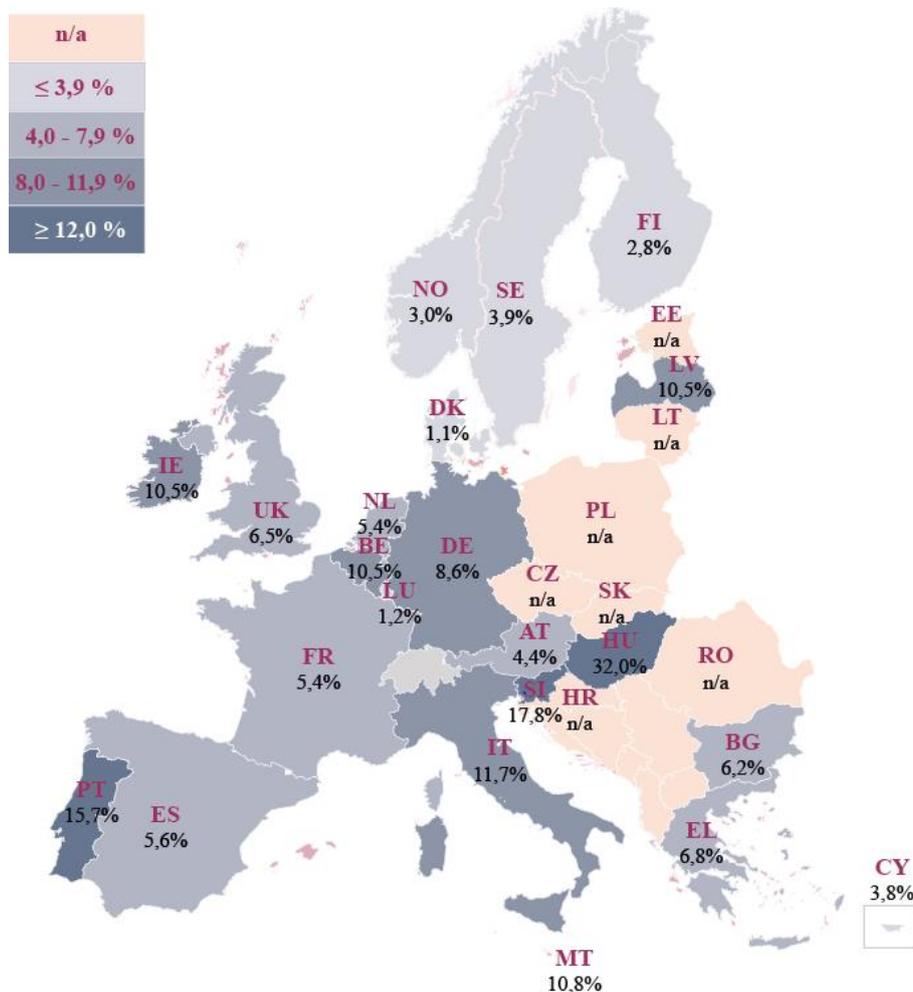


## Banks' exposures to Home sovereign bonds

The financial crisis drew attention to the problem of the **'sovereign-bank' nexus**, namely the degree to which the financial standing of banks and Member States was interdependent: Costly rescue operations for banks resulted in significant increases of public debt, while the banks' investment in sovereign bonds made them vulnerable to rating downgrades. That interdependency is considered problematic from a systemic stability point of view, in particular if banks have strongly invested in sovereign bonds of their Home country.

**Graph 1:** Banks' exposure to Home sovereign bonds (percentage of total assets, as at 30/6/2017)



Source: EGOV calculations based on [EBA data](#)

In general, sovereign bonds are considered the **highest quality bonds** in the market exactly because they are backed by national governments, and regulators therefore give them a **preferential treatment**. For banks, sovereign bonds are not only attractive because of their regulatory treatment but also because they are liquid and can easily be bought and sold on functioning markets.

### Status Quo

On 24 November 2017, the European Banking Authority (EBA) published the [results](#) of its 2017 **EU-wide transparency exercise** that inter alia looked into the banks' holdings of domestic and non-domestic sovereign debt, analysing a sample of 132 banks from 25 countries<sup>1</sup> of the European Union and the European Economic Area.

Table 1 summarises the data surveyed by EBA, basically showing at an aggregate level how much of the banks' balance sheets is invested in **Sovereign Bonds issued by their Home country**. Our year-on-year comparison indicates that the banks' exposure to Home Sovereign Bonds has decreased in most countries (on average by minus 0.81%, down from 7.58% by 30/6/2016 to 6.78% by 30/6/2017), and has in that period notably increased (by 2.92%) only in Portugal. Table 1 furthermore shows that the amount of Sovereign Bonds held is often significant if compared to - and in some cases even exceeds - the banks' capital basis (measured as Common Equity Tier 1).

**Table 1: Average exposure to Home Sovereign Bonds (ratio in relation to total exposures) as at 30/06/2017, on country level**

Country	AT	BE	BG	CY	DE	DK	ES	FI
<b>Home Sovereign Bonds ratio</b>	<b>4,4%</b>	<b>10,5%</b>	<b>6,2%</b>	<b>3,8%</b>	<b>8,6%</b>	<b>1,1%</b>	<b>5,6%</b>	<b>2,8%</b>
Trend Home Sovereign Bonds (30/6/2017 vs 30/6/2016)	-0,2%	-2,7%	-0,1%	1,0%	-0,3%	-0,3%	0,2%	0,3%
CET1 ratio, fully loaded	13,3%	14,2%	13,1%	13,5%	14,7%	17,3%	10,6%	20,2%
Home Sovereign Bonds vs CET1 ratio	33,1%	74,2%	47,6%	27,9%	58,6%	6,6%	53,0%	14,0%
EBA sample size	8	6	1	4	19	4	13	2
Country	FR	GR	HU	IE	IT	LU	LV	MT
<b>Home Sovereign Bonds ratio</b>	<b>5,4%</b>	<b>6,8%</b>	<b>32,0%</b>	<b>10,5%</b>	<b>11,7%</b>	<b>1,2%</b>	<b>10,5%</b>	<b>10,8%</b>
Trend Home Sovereign Bonds (30/6/2017 vs 30/6/2016)	-0,8%	0,1%	0,2%	-1,8%	-2,0%	-0,7%	-2,2%	-1,6%
CET1 ratio, fully loaded	13,9%	16,2%	14,1%	15,8%	11,5%	22,8%	15,4%	16,3%
Home Sovereign Bonds vs CET1 ratio	38,5%	42,0%	226,4%	66,5%	102,3%	5,5%	68,1%	65,9%
EBA sample size	11	4	1	5	11	5	1	3
Country	NL	NO	PT	SE	SI	UK		
<b>Home Sovereign Bonds ratio</b>	<b>5,4%</b>	<b>3,0%</b>	<b>15,7%</b>	<b>3,9%</b>	<b>17,8%</b>	<b>6,5%</b>		
Trend Home Sovereign Bonds (30/6/2017 vs 30/6/2016)	-0,9%	-0,9%	2,9%	0,1%	-2,8%	-0,8%		
CET1 ratio, fully loaded	15,8%	15,3%	11,5%	21,1%	18,3%	14,4%		
Home Sovereign Bonds vs CET1 ratio	33,9%	19,3%	136,5%	18,3%	97,6%	45,6%		
EBA sample size	6	3	5	7	3	6		

Source: EGOV calculations based on [EBA data](#). Home sovereign bonds = debt securities issued by the Home sovereign; CET1 = Common Equity Tier 1 ratio (fully loaded)

<sup>1</sup> Due to the very small sample size in case of Poland (two banks) and Romania (one bank), the amount of Home debt securities held by those banks was not disclosed.

### Disclaimer and Copyright

The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2018. Contact: [egov@ep.europa.eu](mailto:egov@ep.europa.eu)  
 This document is available on the Internet at: [www.europarl.europa.eu/supporting-analyses](http://www.europarl.europa.eu/supporting-analyses)