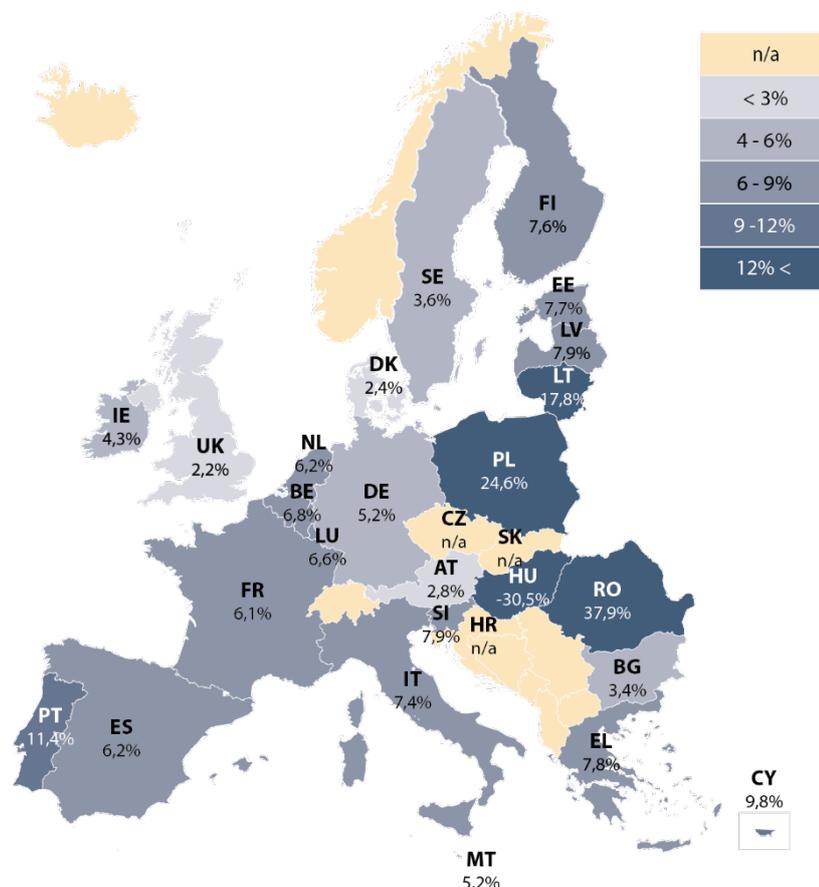


Banks' exposures to Home sovereign bonds

The financial crisis of 2008 drew attention to the '**sovereign-bank**' **nexus**, namely the degree to which the financial standing of banks and Member States is interdependent. Costly rescue operations for banks led to significant increases of public debt, while the investment in sovereign bonds made banks vulnerable to sovereigns' rating downgrades.

As it was often not clear how many and which sovereign bonds banks actually held in their portfolio, the European Banking Authority (EBA) started in 2011 a so-called "transparency exercise" that provided more clarity on that matter. To foster transparency and market discipline in the EU financial markets, that exercise was since carried out on a yearly basis. The most recent results were published on 8 June 2020 ([Spring 2020 EU-wide transparency](#)); its results refer to a sample of 127 large banks from 27 countries of the European Union and the European Economic Area.

Graph 1: Share of "Home sovereign bonds in banks' total assets", as at 30/12/2019)



Source: EGOV calculations based on [EBA data](#) (in the map, the category n/a means either not available or not displayed)



Status Quo

Table 1 below summarises the data surveyed by EBA, and puts it into relation (as percentage of total assets, or portfolio of sovereign bonds held). The first column shows, at country level, how much of the banks' balance sheets is overall invested in **Sovereign Bonds**, in relation to total assets, and the second how much is actually invested only in **Home Sovereign Bonds**. The third column shows to what extent the banks' portfolio of sovereign bonds is **concentrated** in those issued by the home sovereigns, shown as average at country level, while the fourth and fifth show the **minimum and maximum concentration** (the range) that the sampled banks on that country hold in home sovereign bonds. The table illustrates well that intra-country differences are way larger than inter-country differences, i.e. in most countries there are banks that have very small, and others that have very large portfolios of home sovereign bonds. Exposures are hence more bank- than country-specific.

Table 1: Summary of EBA results (percentages of total assets, or portfolio)

	Sovereign bonds / assets	Home Sovereign bonds / assets	Average concentration	Minimum concentration	Maximum concentration	Sample size
AT	11.4%	2.8%	24.4%	0.0%	98.5%	6
BE	24.1%	6.8%	28.2%	0.7%	84.8%	6
BG	6.6%	3.4%	51.4%	51.4%	51.4%	1
CY	11.3%	9.8%	86.9%	0.0%	98.4%	3
DK	4.9%	2.4%	49.1%	29.5%	100.0%	4
EE	9.8%	7.7%	78.5%	21.7%	95.8%	2
FI	16.2%	7.6%	46.8%	0.0%	92.8%	4
FR	11.3%	6.1%	53.8%	0.0%	89.6%	10
DE	10.8%	5.2%	48.1%	6.0%	97.3%	17
GR	11.3%	7.8%	69.3%	62.7%	76.6%	4
HU	0.3%	0.1%	27.3%	27.3%	27.3%	1
IE	8.7%	4.3%	49.1%	0.0%	63.9%	3
IT	13.9%	7.4%	53.2%	0.0%	100.0%	11
LV	18.5%	7.9%	42.5%	42.5%	42.5%	1
LT	23.3%	17.8%	76.2%	76.2%	76.2%	1
LU	26.8%	6.6%	24.7%	0.0%	50.7%	5
MT	14.0%	5.2%	37.3%	0.0%	46.6%	3
NL	11.5%	6.2%	54.0%	12.9%	98.1%	6
PL	25.3%	24.6%	97.0%	92.4%	99.5%	2
PT	21.6%	11.4%	52.9%	43.2%	69.4%	5
RO	40.4%	37.9%	93.9%	93.9%	93.9%	1
SI	21.9%	7.9%	36.0%	36.0%	36.0%	1
ES	12.9%	6.2%	47.9%	26.2%	93.4%	12
SE	4.8%	3.6%	74.4%	32.1%	98.6%	6
UK	10.7%	2.2%	20.6%	0.9%	83.6%	6

Source: EGOV calculations based on [EBA data](#). For simplification purposes, the item actually recorded in the EBA results, namely the "on balance sheet total carrying amount of non-derivative financial assets (net of short positions)" are in this briefing equated with the term "sovereign bonds".

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