CHART OF THE WEEK

09 March 2022

CONTRASTING LCR TRENDS IN EUROPE AND NORTH AMERICA

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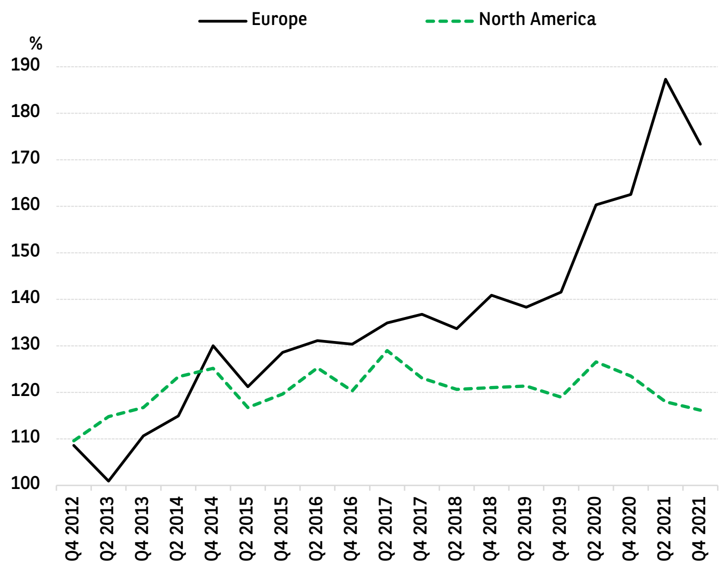
Liquidity coverage ratios (LCR) of G-SIBs



Source: BCBS, BNP Paribas Q4 2021 estimates

The latest monitoring report by the Basel Committee on Banking Supervision (BCBS)[1] shows that despite very accommodating monetary policies, the immediately available liquidity position of the big American banks did not improve between Q4 2019 and Q2 2021, unlike that of the big European banks[2]. According to the first published data, the average short-term liquidity ratio, the Liquidity Coverage Ratio (LCR)[3] was 116% for the American G-SIBs in Q4 2021, compared to 119% in Q4 2019, while that of the European G-SIBs was about 173% and 141%, respectively. In both cases, the average ratios were still significantly higher than the minimum prudential requirement of 100%.

The difference between the US and the eurozone is explained, at least in part, by the repo policy of the Federal Reserve (Fed). As in the eurozone, it's quantitative easing policy (QE) led to the swelling of US bank reserves with the Fed – defined as the most liquid assets for the purposes of the LCR – as well as customer deposits – which, when considered stable, benefit from special treatment as part of the LCR (low theoretical outflow rates). In the United States, however, the unprecedented scope of QE was detrimental to the LCR. Exceptional money supply growth, including bank deposits, sharply increased the theoretical volume of net cash outflows (the LCR denominator)[4]. Yet to eliminate the downward pressure on short-term market rates arising from the abundance of central bank liquidity, the Fed destroyed part of them through repo agreements, thereby limiting the increase in the stock of liquid assets (the LCR numerator).

1 Press release: *Banks' risk-based capital ratios remained stable and liquidity ratios improved in H1 2021* (**bis.org**)

2 The sample of Global Systemically Important Banks (G-SIBs) in the BCBS Monitoring Report comprises 8 of the 13 banking institutions identified as G-SIBs by the Financial Stability Board in "Europe" (8 in the eurozone, 3 in the UK and 2 in Switzerland). The American sample comprises 8 of the 10 banks identified as G-SIBs in the "Americas" (8 in the United States and 2 in Canada).

3 Under this standard, banks are required to hold sufficient unencumbered high-quality liquid assets to cover the net cash outflows triggered by a serious 30-day liquidity crisis.

4 The average probability that debt would not be rolled over (run on deposits, non-renewal of other short-term resources) remains unchanged

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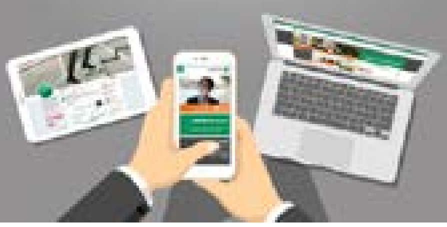

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