Box 3
New insights from sectoral developments in international loans

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This box provides insight into the international use of the euro as a financing currency across economic sectors and the related trends. It uses BIS international locational banking statistics

[47] The definition of international deposits is equivalent to the definition of international loans. International deposits are defined as deposits with banks outside the currency area made by creditors from outside the currency area. For instance, international deposits in euro correspond to all euro-denominated deposits with banks outside the euro area made by creditors from outside the euro area.

[48] See "The international role of the euro", European Central Bank, Frankfurt am Main, June 2021. See also Aldasoro, I., Eren, E. and Huang, W. (2021), "Dollar funding of non-US banks through Covid-19", *BIS Quarterly Review,* Bank for International Settlements, Basel, March; Acharya, V. and Steffen, S. (2020), "The risk of being a fallen angel and the corporate dash for cash in the midst of COVID", *The Review of Corporate Finance Studies*, Volume 9, Issue 3, November.

[49] Other research has suggested that the introduction of international dollar liquidity facilities by the US Federal Reserve following the dash for cash, while effective in the short run, left patterns of cross-border liquidity and capital flows broadly unchanged over longer time horizons. See Goldberg, L.S. and Ravazzolo, F. (2021), "The Fed's International Dollar Liquidity Facilities: New Evidence on Effects", *Staff Reports*, No 997, Federal Reserve Bank of New York, December.

[50] The views expressed here do not reflect those of the Bank for International Settlements.

(LBSs), which include information on international loans.[51] The LBS statistics have been enhanced since the fourth quarter of 2013 to provide additional sectoral granularity and shed light on developments in financial linkages through internationally active banks. The box shows that euro-denominated international loans to non-bank financial institutions (NBFIs) have expanded in recent years and that the euro is an important financing currency in this segment of the international loan market.[52]

Chart A(a) combines data on euro-denominated international loans with information on the euro legacy currencies. It shows the remarkable growth in amounts outstanding of euro-denominated loans in the past four decades. This expansion was largely driven by loans to banks until the mid-2000s. However, loans to banks declined substantially during the global financial crisis and the European sovereign debt crisis. By contrast, loans to non-banks have remained relatively resilient and continued to rise in recent years. These developments have led to a marked increase in the share of non-banks, which now account for about one-half of total euro-denominated international loans.[53]

Chart A(b) shows the newly enhanced disaggregated data, which have been available since the fourth quarter of 2013. The data provide a breakdown of total euro-denominated international loans to non-banks into four sub-sectors, namely: NBFIs, corporates, government and households.[54] Most of the recent rise in euro-denominated international loans is attributable to NBFIs. Data on breakdowns by counterparty and country (not shown in the chart) reveal that this is primarily due to loans to NBFIs located in the United States and the United Kingdom.

[51] Cross-border loans outside the respective currency area are referred to here as the narrow measure of international loans, consistent with annex **Tables A6 and A7**. Thus, euro-denominated loans by resident banks to local residents outside the euro area are excluded (e.g. euro loans to UK residents by banks in the UK). The stock of such euro-denominated local loans outside the euro area stood at about USD 720 billion as at the fourth quarter of 2021.

[52] NBFIs comprise insurance companies and pension funds, finance companies, broker-dealers, special purpose vehicles, money market funds, hedge funds, other investment funds and central counterparties.

[53] See "Non-bank financial intermediation in the euro area: implications for monetary policy transmission and key vulnerabilities", *Occasional Paper Series*, No 270, European Central Bank, Frankfurt am Main, Revised December 2021.

[54] The charts show observations from the fourth quarter of 2014 given that the number of countries reporting the data was limited prior to this. The gap between the height of the area and the top blue line is due to claims that remain unallocated by non-bank subsectors. In the fourth quarter of 2021, around 21% of euro-denominated international loans to non-banks were not allocated to a sub-sector, while the equivalent figure for international loans in all currencies was 46%. Note that unallocated values more likely reflect claims on the non-financial corporations, government and household sectors, for which reporting is only on an encouraged basis, in contrast to claims on the NBFI sector, for which reporting is mandatory.

Chart A

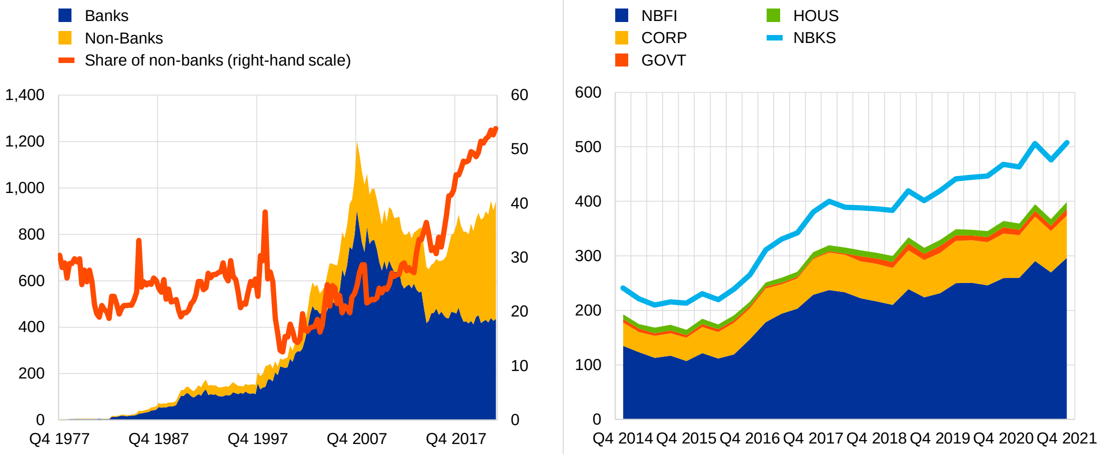
Growth in euro-denominated international bank loans driven by loans to non-bank financial institutions

a) Amounts outstanding of euro-denominated international loans to banks and non-banks

(USD billions on the left-hand scale; percentage of total on the right-hand scale)

b) Amounts outstanding of euro-denominated international loans to non-bank sub-sectors

(USD billions)



Sources: BIS LBSs; BIS and ECB calculations.
Notes: Pre-1999 data based on euro legacy currencies. The number of reporting countries varies across quarters. In the right panel, the gap between the height of the area and the blue line represents the value of non-bank loans that are unallocated by sub-sector. The latest observation is for the fourth quarter of 2021. NBFI stands for non-bank financial institutions, CORP for non-financial corporates, GOVT for governments, HOUS for households and NBKS for non-banks.

Chart B(a) shows a currency breakdown of total international loans across different non-bank sub-sectors. For loans denominated in euro, the share is highest for NBFIs, standing at around 33%, while the shares of loans to other sub-sectors are 12% for households, 15% for corporates and 23% for general government. By contrast, the US dollar's importance is strongest for loans to corporates.

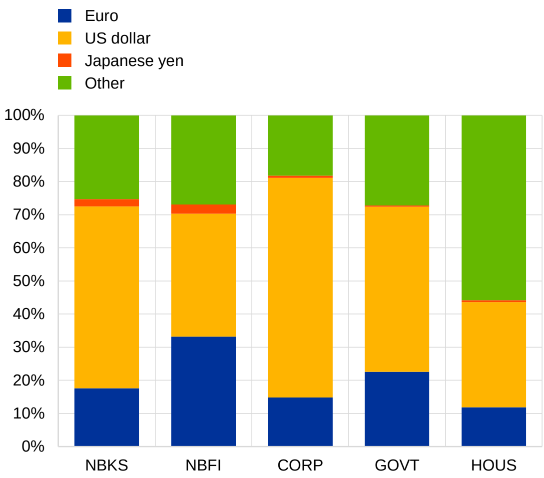
Chart B(b) shows the persistent growth in the total volume of international loans to NBFIs in all currencies (see the light-blue line), while the share of the euro has remained relatively stable (see the dark-blue area). The share of loans to NBFIs (in all currencies) in total loans to non-banks has increased from just over 43% in 2014 to almost 57% in 2021. The relatively rapid growth of loans to NBFIs may have therefore supported the international role of the euro through composition effects.

Chart B

The large share of the euro in loans to non-bank financial institutions has supported its role in international loan markets through composition effects

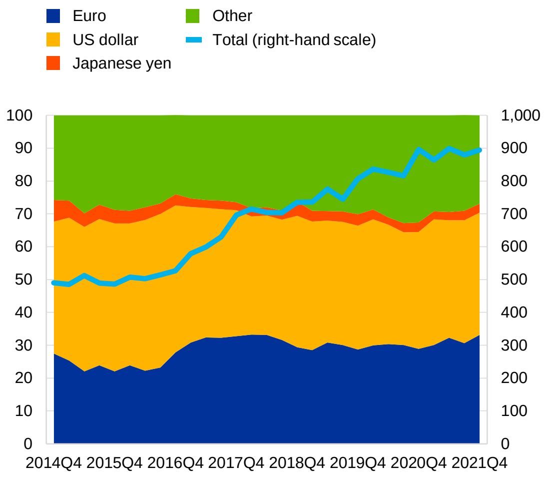
a) Currency breakdown of international loans by sub-sector

(percentage of total as at the fourth quarter of 2021)



b) Currency breakdown of international NBFI loans

(percentage of total on the left-hand scale; USD billions on the right-hand scale)



Sources: BIS LBSs; BIS and ECB calculations.
Note: The number of reporting countries varies across the respective quarters. The latest observation is for the fourth quarter of 2021. NBKS stands for non-banks, NBFI for non-bank financial institutions, CORP for non-financial corporates, GOVT for governments and HOUS for households.

Overall, the importance of euro-denominated loans in total bank claims to NBFIs has implications for policy. From a global financial stability perspective, exposures of NBFIs located outside the euro area to euro-denominated-loans is a potential channel of spillovers from developments in euro area liquidity to global financial markets and vice versa. Moreover, given that NBFIs are expected to play an increasingly important role in the global financial system, further development of the NBFI sector may support the global appeal of the euro as a financing currency going forward.[55]