GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

GSIBs REMAINED RESILIENT AMID BANK STRESSES IN 1Q23

THURSDAY, JULY 6, 2023

GSIBS REMAINED RESILIENT DESPITE THE MARCH BANKING STRESS AND UNCERTAINTY ABOUT THE ECONOMIC OUTLOOK

In the first quarter, GSIBs capital levels remained strong and built more liquidity (Table 1). A crisis of confidence in US regional banks and CS in Switzerland appear to have had limited impact on the stock prices of most GSIBs. Actions taken by authorities to provide liquidity support helped limit broader contagion in the US banking system. Most GSIBs provided more information to investors in the first quarter by disclosing more details on their deposit and funding mix, available liquidity, and commercial real estate exposures compared to previous quarters.

EQUITY PRICES REBOUNDED AND THE EURO AT1 MARKET SHOWS SIGNS OF RECOVERY

GSIB equity prices rebounded in April and May, after having declined during the March banking turmoil (Chart 1.1 to Chart 1.3). In Europe, Additional Tier 1 (AT1) bonds, a key component of European banks' capital based, gyrated after CS's AT1 bonds were wiped out; primary issuance disappeared. Since then, the EUR AT1 market has showed signs of recovery with EUR issuance having resumed since mid-June. By contrast, USD AT1 bond prices have yet to recover, suggesting investors prefer AT1s denominated in euros rather than in dollars (Chart 3.5 and 3.6). In the US, regional banks remained under pressure since the failure of Silicon Valley Bank, Signature Bank and First Republic Bank. Pressure continued for a specific set of regional banks that had large deposit outflows, high share of uninsured deposits, increased borrowing at FHLB, sizable estimated unrealized losses to capital and high concentrations of CRE lending. As of June 25, the US regional bank index is down 24% while the US Bank index is flat year-to-date.

PROFITABILITY EXCEEDED INVESTOR EXPECTATIONS, SUPPORTED BY HIGHER NET INTEREST MARGINS AND A REBOUND IN TRADING REVENUE

GSIB profitability in the first quarter was higher than investor expectations, driven by higher net interest income, and a rebound in trading income (Chart 2.1 to Chart 2.3). Aggregate net income was $139 bn (+39% qoq and +32% yoy, Table 1) and the average ROA increased to 0.96% (+30bps yoy), supported by higher net income at European, Japanese and US GSIBs, while net income of Canadian and Chinese GSIBs declined. Most GSIBs benefited from higher net interest income as deposit costs rose at a slower pace than expected, higher trading income, higher income from fees and commissions, and lower non-interest expenses.[1] Profit growth was moderated by lower investment banking revenue and higher credit costs as firms increased loan loss reserves in a slowing economy; that said, investment banking income rebounded in the quarter for some US and European GSIBs due to the recovery of the primary credit markets (Chart 2.7). Trading revenue was supported by fixed income and currency activities during the quarter by as much as 82% yoy for some North American US GSIBs and by as much as 98% yoy for some European GSIBs (Chart 2.8).

Net interest margin increased across most GSIBs driven by rising interest rates. Aggregate annualized net interest margin (NIM) was 1.53% compared to 1.44% a year ago. There are two exceptions: NIM for Chinese GSIBs declined due to the impact from low interest rates and increasing share of time deposits, and French GSIBs did not benefit as much from the rising rates due to the fixed-rate nature of their loan portfolio and rising deposit costs, in part due to increases in the regulated savings rate mandated by the French government (Chart 2.4).

GSIBS AGGREGATE TOTAL ASSETS WAS STABLE AT 61% OF GLOBAL GDP IN 1Q23 AS CASH AND SECURITIES GAVE WAY TO LOAN GROWTH

Aggregate total assets were $69 trn and remained flat from a year ago (Table 1).[2] Total asset trends were mixed as total assets grew for GSIBs in China driven by loan growth, while total assets of North American, European, and Japanese GSIBs contracted some, driven by lower interbank balances of Italian, Swiss and US GSIBs, lower cash, and cash equivalents and smaller securities portfolios for a few French, Japanese, Swiss and US GSIBs, and lower loan balances at a Japanese GSIB.[3] In aggregate, cash and cash equivalents declined by 6% as GSIBs deployed cash to meet deposit outflows and to finance loan growth. Securities portfolios also shrunk driven by a US GSIB and a few French and Japanese GSIBs. Meanwhile, loan growth continued among GSIBs compared to year ago.

This Monitor was prepared by Silvia L. Ramirez, and Yiran Li.

LOAN GROWTH CONTINUED WHILE BANKS PREPARE FOR HIGHER CREDIT RISKS

Aggregate 12-month loan growth rate was 4.3% driven by growth in Chinese, Europeans, and North American GSIBs. US GSIBs reported the strongest 12-month loan growth (+10.7% yoy) while loan balances contracted for Japanese GSIBs during the same period. Quarter-on-quarter, loan growth decelerated for North American, European, and Japanese GSIBs (Chart 4.5). Average nonperforming loan (NPL) ratio rose for Europe GSIBs compared to a year ago, but in aggregate remained below 1% (Chart 4.4). Provision expenses to average loans increased across most GSIBs in Europe and North America as banks accounted for a less favorable economic outlook and rising risks in the commercial real estate sector. GSIBs have been monitoring their office CRE portfolios more closely as the level of credit risk in office exposures has increased due to changes in work options in key metropolitan cities around the globe; and disclosed more information on their CRE exposures in their earnings releases (Chart 4.6). The reserve coverage ratio, measured by the ratio of loan loss reserves to NPLs, remained above 100% for GSIBs in North America (279%) and China (229%) and remained low for European (66%) and Japanese GSIBs (66%) (Chart 4.3).

DEPOSITS CONTINUED TO DECLINE POST-COVID

Deposits declined across most GSIBs except in China. Aggregate total deposits declined $462 bn or 1.1% yoy driven by GSIBs in North America, Europe, and Japan (Chart 2.5). CS reported the largest deposit decline (-58% yoy). In contrast, deposits increased 6.5% yoy for all GSIBs in China, and GSIBs in the Netherlands and Spain. The Netherlands GSIB noted deposit growth in Belgium, Germany, Poland, and Spain. In the US, outflows of noninterest bearing deposits continued to drive deposit declines while inflows of interest-bearing deposits continue to drive deposit increases in China. Quarter-over-quarter aggregate deposits increased by 2.1% driven by higher interest-bearing deposit balances in China. US GSIBs, in aggregate, reported deposit outflows in the quarter, however, two US GSIBs reported deposit inflows as U.S. regional bank deposits moved to US GSIBs during the March bank stress. One GSIB in the UK experienced temporary deposit outflows after acquiring SVB UK Limited in March.

LIQUIDITY APPEAR AMPLE

Fifty-seven percent of GSIBs reported higher liquidity coverage (LCR) ratios driven by higher levels of high-quality liquid assets (HQLAs) compared to a year ago, based on LCR disclosures. In North America, most GSIBs reported higher HQLAs and higher net cash outflow assumptions suggesting these institutions opted to become more liquid compared to a year ago. LCR trends were mixed for GSIBs in China, Europe and Japan, and only half of these GSIBs reported higher HQLAs and higher net cash outflow assumptions during the same period. LCRs ranged from 108% for a US GSIB to 169% for a French GSIB (Table 1).

GSIBS HAVE STRONG CAPITAL POSITIONS TO PROTECT AGAINST UNEXPECTED LOSSES

Capital positions were higher than a year ago. CET1 capital levels increased by $90 bn in the quarter as capital generation from retained earnings and bond issuance outpaced dividend payments and share buybacks. A few GSIBs in the US, Switzerland and Italy were exceptions as they reduced CET1 capital. RWA increased by $1.1 trn from the previous quarter driven loan growth in China and the US and remained $4.6 trn higher compared to a year ago. As a result, aggregate CET1 capital ratio for GSIBs declined to 12.5% from 12.8% in the previous quarter. Over the past year, aggregate CET1 ratio has declined by almost 2 percentage points as loans grew and as GSIBs account for lower valuation in their CET1 portfolios. Nonetheless, CET1 capital ratios were at or above internal targets and all-in minimum regulatory requirements (Chart 3.1 to 3.4).

LOOKING AHEAD, PROFITABILITY WILL COME UNDER PRESSURE FROM RISING FUNDING AND CREDIT COSTS

Profitability may decline in the second quarter as some GSIBs opted to increase liquidity at potentially higher costs during the banking turmoil in March through May (Chart 2.6). GSIBs in the US, Japan and China expect NIM compression in 2023 (Chart 2.9 to 2.12), although due to different drivers: in Japan and China, NIMs are restrained by low interest rates, while in the US, NIMs are expected to be dragged down by higher funding costs. In addition, a few US GSIBs had already signaled a weak second quarter for their trading business, and others expect modest consumer and commercial loan growth. By contrast, a few GSIBs in Italy, France and the United Kingdom expect NIM to increase driven by rising rates.

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[1] One US GSIB booked a one-time post gain from the purchase of a failed US regional bank. A European GSIBs posted a reversal of an impairment related to the sale of retail banking operations and a provisional gain from the acquisition of Silicon Valley Bank UK. A Japanese GSIB posted extraordinary gains due to a gain on the sale of shares of its US operations.

[2] US totals adjusted to common IFRS standards and are higher than the total assets amounts listed on Table 1.

[3] Interbanking assets are calculated as the sum of securities purchased with resell agreements plus interbank assets; and interbank assets are defined as short-term interest earning loans to banks, according to Bloomberg LP. In Canada, interbank assets do not include securities purchased under agreements to resell, and in Japan, consolidated reports may not include deposits at foreign branch banks and deposits to other institutions.

Share Price Performance and Valuations

Chart 1.1 Stock Prices (1/1/2019 = 100)

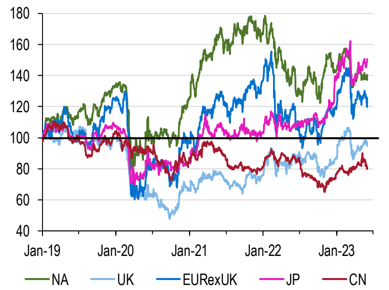


Chart 1.2. Price to Book Ratio

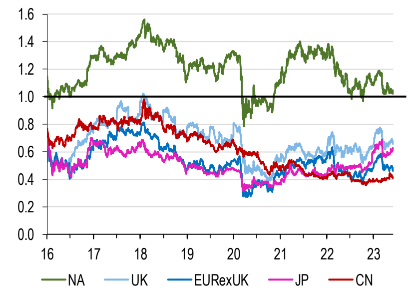


Chart 1.3. Price to Book vs ROE

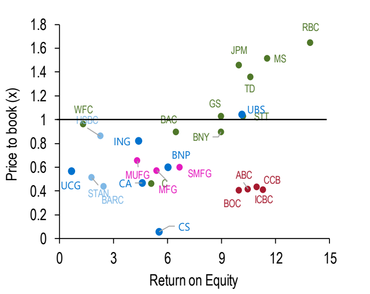


Table 1. Selected Financial Data

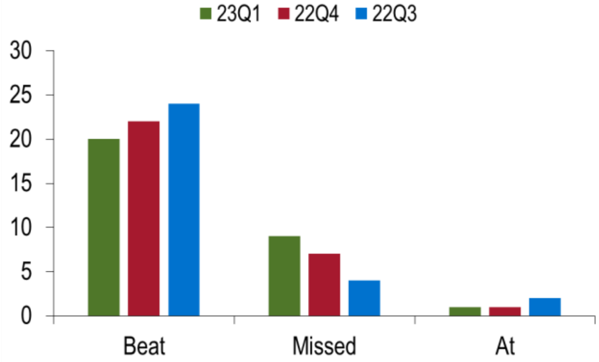
Ticker	Bank Name	GSIB Score Dec-2022 Data	Market Cap (USD Bn) 6/26/23	Price to Book 5/31/23	% Price Change (YTD) 6/26/23	CDS 6/26/23	2yr Default Prob (%)	Implied Cost of Debt (%)	Implied Cost of Equity (%)	Dividend Yield (%)	CET1 Ratio (%)	Liquidity Coverage Ratio (%)	Net Income (USD Bn)	Total Asset (USD Bn)	S&P Rating
BAC	Bank of America	331	224	0.9	-15.2	94	0.5	5.4	10.5	3.0	11.40	117	8.2	3,073	A-
BNY	Bank of New York Mellon	156	34	0.9	-5.5	64	1.3	4.4	10.0	3.3	11.40	118	1.0	428	A
C	Citigroup	367	90	0.5	2.2	81	0.4	4.8	9.8	4.4	13.44	120	4.6	2,381	BBB+
GS	Goldman Sachs	266	108	1.0	-9.0	86	0.3	5.0	10.7	3.1	14.80	125	3.2	1,556	BBB+
JPM	JPMorgan Chase	447	407	1.5	3.8	65	0.2	4.6	10.2	2.8	13.80	114	12.6	3,774	A-
MS	Morgan Stanley	206	140	1.5	-1.7	76	0.3	4.5	10.2	3.6	15.10	135	3.0	1,160	A-
STT	State Street	146	24	1.0	-8.6	48	1.0	4.2	11.8	3.4	12.10	108	0.5	304	A
WFC	Wells Fargo	172	152	1.0	-1.7	91	0.4	5.0	10.3	2.8	10.81	122	5.0	1,878	BBB+
TD	Toronto Dominion	137	111	1.4	-9.6	53	0.1	4.7	10.0	4.6	15.30	144	2.5	1,437	AA-
RBC	Royal Bank of Canada	172	131	1.6	-2.9	64	0.1	4.2	10.0	4.3	13.70	135	2.7	1,438	AA-
North America		240	1,420	1.1	-4.8	72	0.5	4.7	10.3	3.5	13.19	124	43.3	17,428	
BARC	Barclays	281	29	0.4	-8.6	132	0.1	6.1	14.6	4.8	13.60	163	2.5	1,922	BBB+
HSBC	HSBC Group	371	153	0.9	17.1	79	0.2	6.2	13.4	8.8	14.70	132	10.7	2,992	A-
STAN	Standard Chartered	142	23	0.5	5.7	86	0.3	4.3	13.8	2.2	13.70	161	1.3	864	BBB+
United Kingdom		265	205	0.6	4.8	99	0.2	5.5	13.9	5.3	14.0	152	14.6	5778	
BNP	BNP Paribas	345	74	0.6	3.7	66	0.2	2.8	11.5	6.8	13.60	139	4.8	2,946	A+
CA	Credit Agricole	223	34	0.5	6.3	60	0.3	0.0	11.2	9.8	11.60	147	1.2	2,212	A+
CS	Credit Suisse	168	4	0.1	-69.2	103	10.7	0.8	10.5	0.0	20.30	178	13.4	712	NR
DB	Deutsche Bank	258	20	0.3	-13.5	122	0.3	3.8	15.2	3.2	13.60	143	1.4	1,467	A-
	GROUP BPCE	138					0.0	3.0	10.2		15.01	153	0.6	1,519	
ING	ING Group	149	47	0.8	4.7	76	0.2	2.6	13.2	4.5	14.80	134	1.6	1,037	A-
SAN	Banco Santander	174	55	0.6	10.0	69	0.3	2.0	15.8	3.5	12.30	152	2.8	1,778	A+
SG	Societe Generale	201	20	0.3	-3.0	78	0.5	2.6	12.9	7.1	13.50	169	0.9	1,560	A
UBS	UBS Group	198	71	1.0	3.4	103	0.7	1.1	11.9	2.7	13.90	162	1.0	1,112	A-
UCG	Unicredit Group	123	43	0.6	52.9	103	0.2	4.8	15.6	4.6	16.36	163	2.2	923	BBB
Europe		198	370	0.5	-0.5	87	1.3	2.4	12.8	4.7	14.50	154	29.9	15,265	
MUFG	Mitsubishi UFJ Financial Group	269	89	0.7	13.2	51	0.2	0.4	8.6	3.7	10.76	152	5.8	3,180	A-
MFG	Mizuho Financial Group	181	38	0.6	14.8	52	0.2	0.3	8.0	4.2	11.80	131	0.1	1,960	A-
SMFG	Sumitomo Mitsui Financial Group	180	55	0.6	11.9	48	0.2	0.4	8.3	3.9	14.02	131	0.3	2,179	A-
Japan		210	182	0.6	13.3	50	0.2	0.3	8.3	3.9	12.19	138	6.2	7,319	
ABC	Agricultural Bank of China	203	165	0.4	12.7	82	0.1	2.3	8.2	8.0	10.70	125	10.5	4,754	A
BOC	Bank of China	293	143	0.4	9.5	76	0.1	1.8	7.9	8.1	11.63	135	8.4	4,025	A
CCB	China Construction Bank	224	162	0.4	2.2	75	0.1	2.0	7.9	8.4	13.19	142	13.0	4,820	A
ICBC	Industrial & Comm Bank of China	293	223	0.4	2.2	76	0.1	2.0	7.3	8.0	13.70	113	13.2	5,558	A
China		253	693	0.4	6.7	77	0.1	2.0	7.8	8.1	12.31	129	45.0	19,157	
Total		233	2,870	0.7	3.9	77	0.5	3.0	10.6	5.1	13.24	139	139.0	64,946	
Red Highlights				*< 1.0*	*< 0.0*	*Highest*	*Highest*	*Highest*	*Highest*	*Lowest*	*Lowest*	*Lowest*	*Lowest*		
Green Highlights				*Highest*	*> 0.0*	*Lowest*	*Lowest*	*Lowest*	*Lowest*	*Highest*	*Highest*	*Highest*	*Highest*		

Note: As of 1Q23, unless otherwise noted. Market pricing is as of June 26, 2023. Regional averages are asset-weighted. Throughout this note, “EUR” includes all European banks. “NA” includes US and Canadian banks, “JP” = Japanese and “CN” = Chinese banks. “TOT” is the total across all G-SIBs.
Source: Bloomberg and IMF Staff Analysis.

Earnings Overview

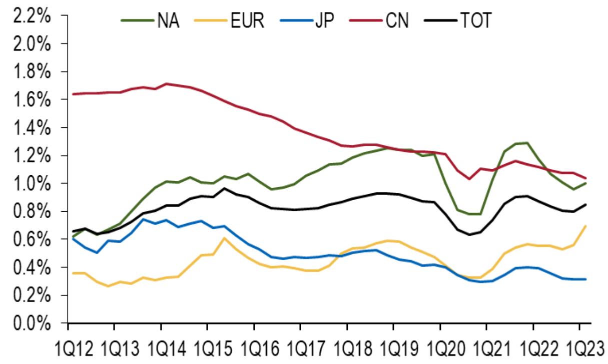
Most G-SIBs outperformed earnings in the quarter

Chart 2.1. Adjusted Earnings per Share vs. Consensus Estimates
(Number of institutions)



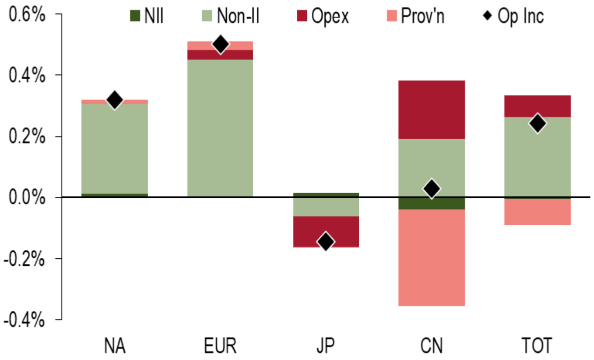
… and profitability improved across most GSIBs

Chart 2.2. Change in Operating ROA
(Percentage points, ex conduct charges)



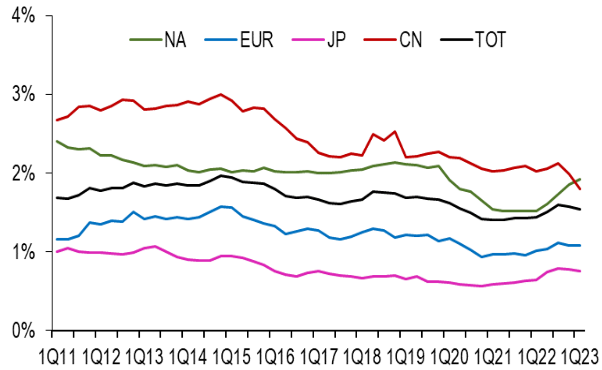
Non-interest income rebounded in the quarter

Chart 2.3. Decomposition of Change in Operating ROA, 2022:Q4 vs. 2023:Q1
(Percentage points)



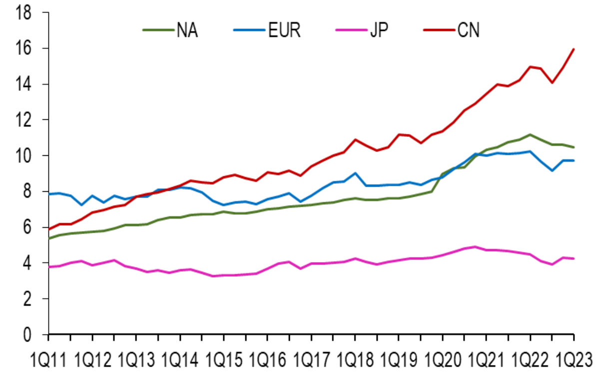
..and most GSIBs continue to benefit from rising rates

Chart 2.4. Annualized Net Interest Margin
(Percent)



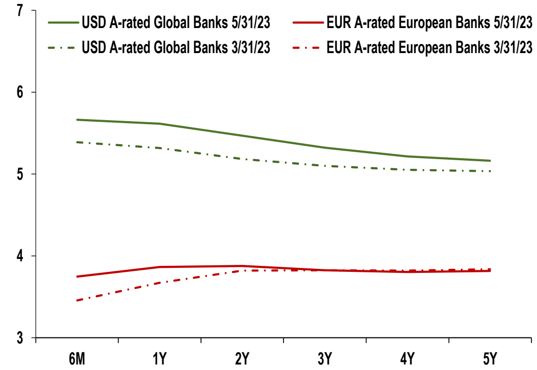
Deposits trends differed across regions

Chart 2.5. Customer Deposits
(In trillions of U.S. dollars)



…and short-term borrowing costs continued to rise

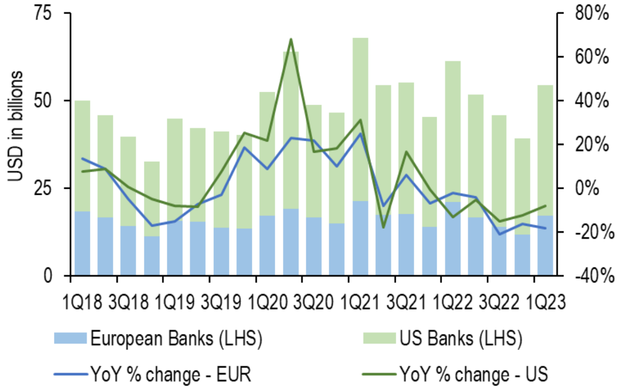
Chart 2.6. Bank Yield Curves for A-rated Debt
(Percent)



Profitability and NIM Outlook

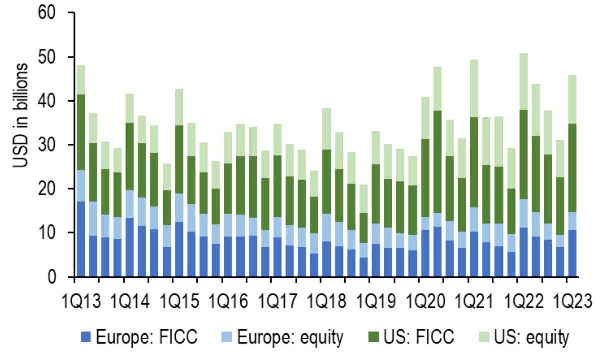
Investment banking revenue rebounded

Chart 2.7. Investment Banking and Trading Revenues
(USD in billions; Percent yoy)



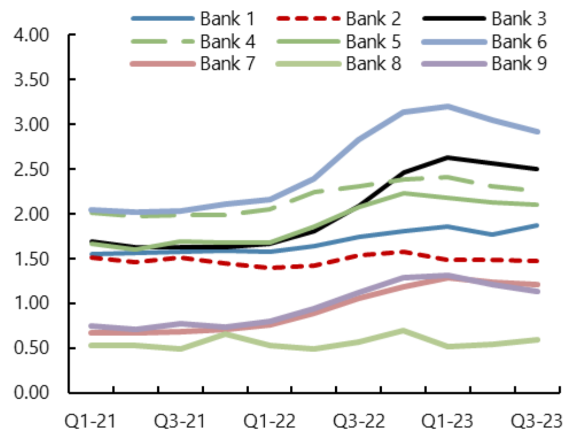
..while FICC posted a strong quarter

Chart 2.8. Trading Revenues, by FICC and Equities
(USD in billions)



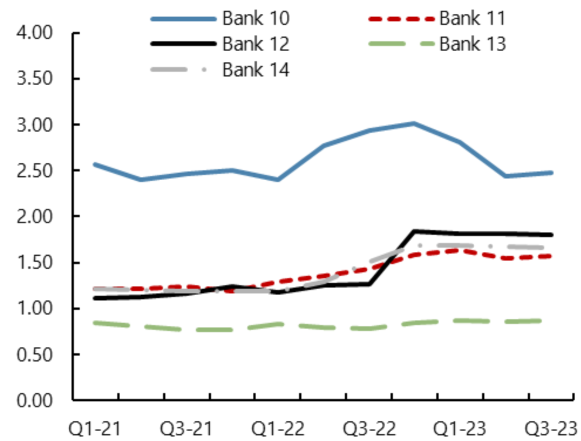
NIM compression is expected in North America

Chart 2.9. Net Interest Margin
(Percent)



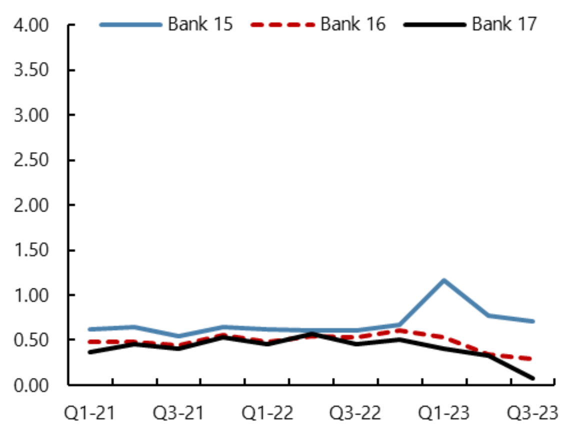
…and to a lesser extent in Europe in 2023

Chart 2.10. Net Interest Margin
(Percent)



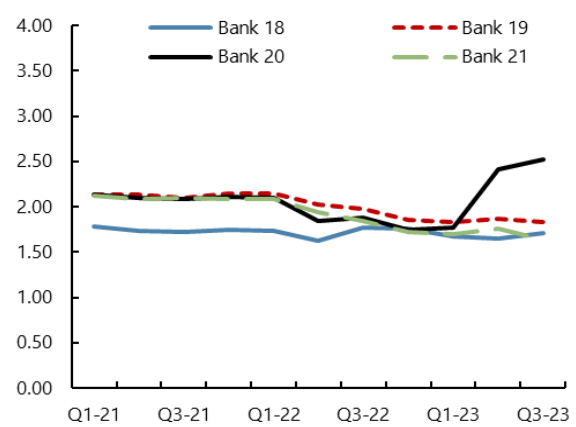
NIM compression is also expected in Japan

Chart 2.11. Net Interest Margin
(Percent)



…while NIM trends will be mixed in China

Chart 2.12. Net Interest Margin
(Percent)



Sources: Bank financial statements, SNL, Bloomberg LP, Vsible Alpha, and IMF Staff.
Note: Panel 1 is based on consensus expectations for 1Q23. Panel 2 shows ‘underlying’ operating performance which excludes tax, non-operating items and misconduct charges. In panel 3, NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov’n = Provision for loan losses; Op Inc = Operating income before taxes and extraordinary items.

Capital

G-SIBs capital ratios remained strong in the quarter

Chart 3.1. CET1 Progression: US
(Percent of risk-weighted assets)

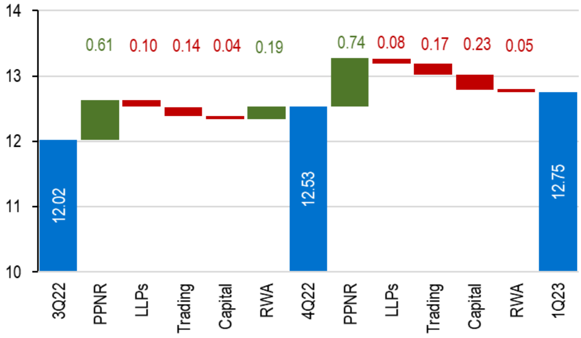


Chart 3.2. CET1 Progression: Europe and UK
(Percent of risk-weighted assets)

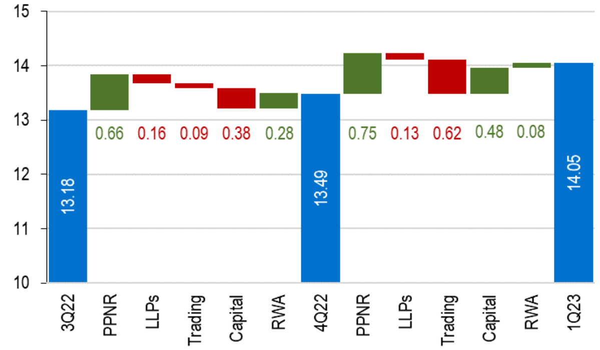


Chart 3.3. CET1 Progression: Japan
(Percent of risk-weighted assets)

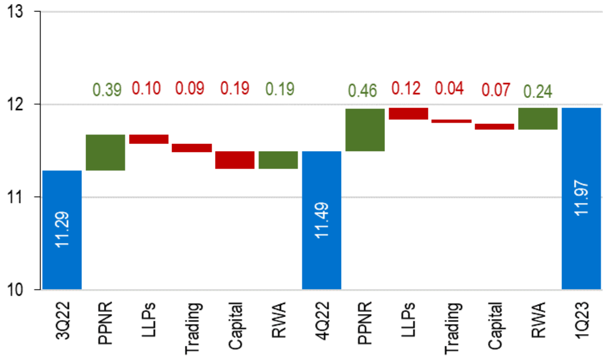
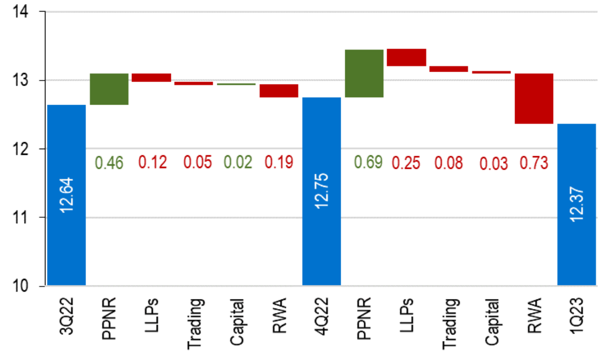
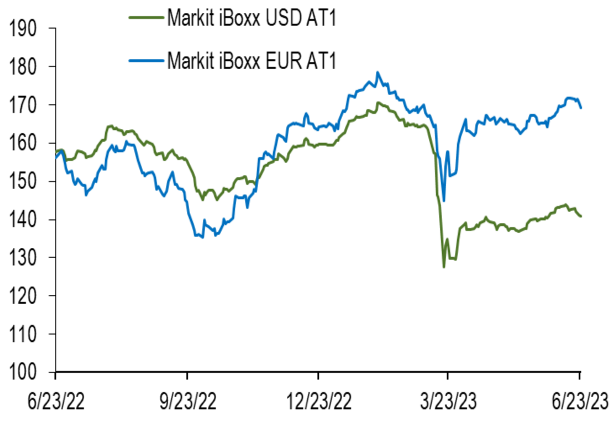


Chart 3.4. CET1 Progression: China
(Percent of risk-weighted assets)



EUR AT1 bonds shows signs of recovery

Chart 3.5. Markit iBoxx USD and EUR AT1 Indexes



…while USD AT1 bonds underperform

Chart 3.6. Selected AT1 Bonds
(Percent and U.S. dollar)

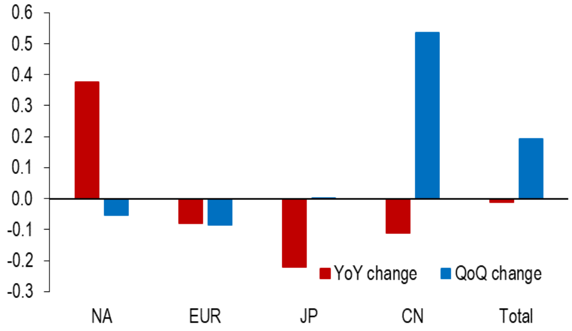
Country	Currency	Bank	Price change (ppt of face value)			Price
			Daily change	*YTD (6/26/23)*	*Since March 6*	*Latest*
Switzerland	USD	UBS	-0.6	-7.8	-8.7	79.0
Germany	EUR	DB	-0.2	-1.9	-9.9	68.4
Italy	EUR	UCG	0.0	-3.8	0.2	100.1
France	USD	SG	-0.1	-0.4	-2.4	97.5
	USD	BNP	-0.3	-2.1	-5.4	96.1
	USD	CA	0.0	-2.6	-1.4	98.6
Spain	EUR	SAN	-0.1	-0.7	-4.5	85.7
UK	USD	HSBC	-0.2	-1.2	-3.6	94.7
	USD	BARC	-0.2	-1.4	-3.0	96.7
	USD	STAN	-0.2	0.5	-2.3	98.0
Netherlands	USD	ING	-0.4	0.7	-5.1	88.0
Japan	JPY	MUFG	0.0	0.3	0.0	102.2
	JPY	MFG	0.0	0.6	-2.1	99.6
	JPY	SMFG	0.0	0.2	-0.5	98.8
China	CNY	BOC	0.1	0.3	0.3	101.9
	CNY	CCB	0.0	0.5	0.5	102.0
	CNY	ICBC	(0.0)	(1.0)	0.2	101.8
	CNY	ABC	0.1	(0.9)	0.3	101.9

Sources: Bank financial statements, SNL, Bloomberg, Basel Committee, national supervisors, and IMF Staff.
Note: CET1= common equity tier 1 ratio; RWA = risk-weighted assets PPNR = pre-provision net revenue; LLPs = loan-loss provisions; Trading = gains on trading and investment; Capital = capital management (dividends, buybacks, other comprehensive income)

Asset Quality

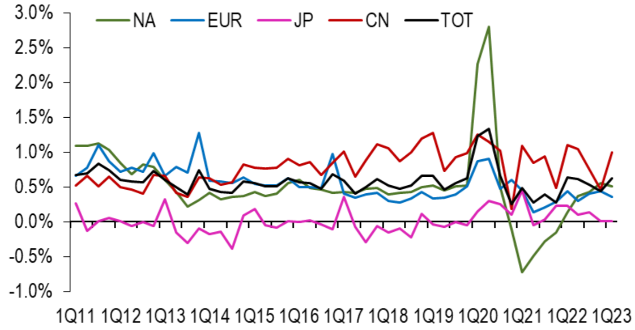
Provision expenses increased in North America

Chart 4.1. Change in Provision Expense / Loans
(Percent)



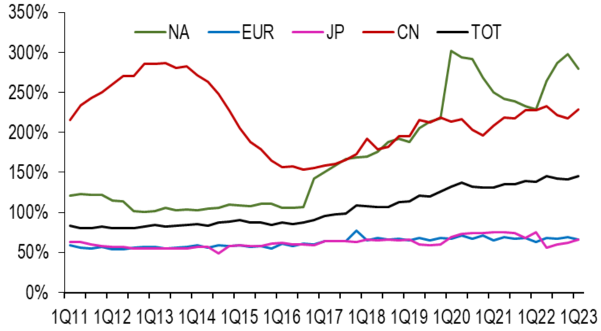
… and China

Chart 4.2. Provision Expense / Average Loans (Annualized)
(Percent)



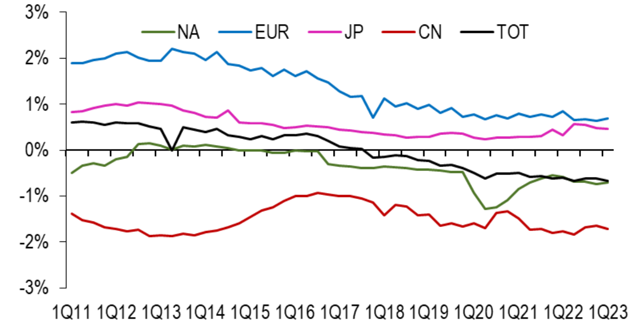
Reserve coverage ratios remained high for North America and China

Chart 4.3. Loan-Loss Reserves / NPLs
(Percent)



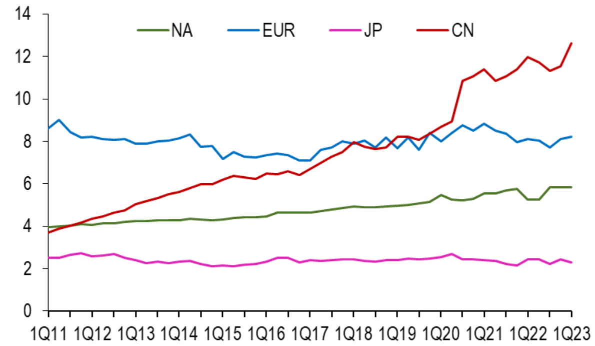
…while NPL ratios remained low

Chart 4.4. Average Net NPL Ratio, 2011:Q1 to 2023:Q1
(Percent)



China and the US posted strong loan growth

Chart 4.5. Loan Growth
(Percent)



A few GSIBs disclosed CRE exposures

Chart 4.6 CRE Exposures as Reported
(in billions of U.S. dollars)