EU banks' funding plans indicate increased appetite for market-based funding in the coming years

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**The European Banking Authority (EBA) published today its annual update on EU banks' funding plans and asset encumbrance, which helps EU supervisors assess the sustainability of banks' main sources of funding. The results of the funding plans assessment show that banks plan to increase debt issuances over the next 3 years, in particular unsecured debt instruments. The asset encumbrance report shows a stability of the overall weighted average asset encumbrance ratio in 2018, which is positive for the funding structure of the banking sector.**

160 banks submitted their plans for funding over a forecast period of three years (2019 to 2021). According to the plans, total assets are projected to grow, on average, by 6.1% by 2021. The main drivers for asset growth are loans to households and to non-financial corporates.

Over the forecast period, banks plan to increase client deposits and to issue more debt instruments. In particular, unsecured debt issuances are expected to increase significantly over the 3-year forecast period. The projected data shows a concentration of debt issuances in 2020 and 2021. Most likely, these issuances are driven by the conjunction of the maturities of central bank funding and the recently endorsed revised Bank Recovery and Resolution Directive (BRRD 2), which requires greater levels of subordination.

Data also shows that the spread between interest rates for client deposits and for loans to clients declined in 2018. For the year 2019, however, most banks expect the spread decline to be less severe or to increase slightly. As regards market-based funding, banks assume that the cost of issuing debt securities will increase in 2019, reversing a downward trend observed over the last three years.

**Asset encumbrance remains stable in 2018**

The asset encumbrance report shows that in December 2018 the overall weighted average asset encumbrance ratio stood at 27.9%, unchanged compared to December 2017. The stability of asset encumbrance is a positive sign for the funding structure of the banking sector. Nevertheless, the report shows a wide dispersion in the ratio, across both institutions and countries.

Repo financing remains the most important source of asset encumbrance in the EU, increasing its share to 30% from 27% in December 2017. The share of covered bonds (17%) and central bank funding (10%) as sources of asset encumbrance slightly decreased compared to last year.

**Notes to editors**

The two reports issued today are based on banks' data submissions in accordance with the EBA's guidelines on funding plans and technical standards on asset encumbrance. The EBA intends to provide yearly updates of the two reports.