



# Financial Crises and the Future of Global and Asian Banking

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# The Role of Global Banks in Macroeconomic Stability

- Contributed to the severity and pervasiveness of 2007-2009 recession
- Many have improved capital ratios and improved liquidity since the crisis
- Can play an important positive role
  - Transmit improved management, technology, risk management
  - Facilitate global trade

# Talk Outline

- Economic outlook with a focus on recent trends in U.S.
- Examine the interconnectedness of global banks
- Explore implications of these increasingly linked banks on transmission of financial shocks

# Global Economic Outlook

- Global economy has slowed in the first half of this year
- China and U.S. data consistent with positive but weaker growth in the first half of this year
- Europe likely in a recession with some countries experiencing sharply slower growth

# Figure 1

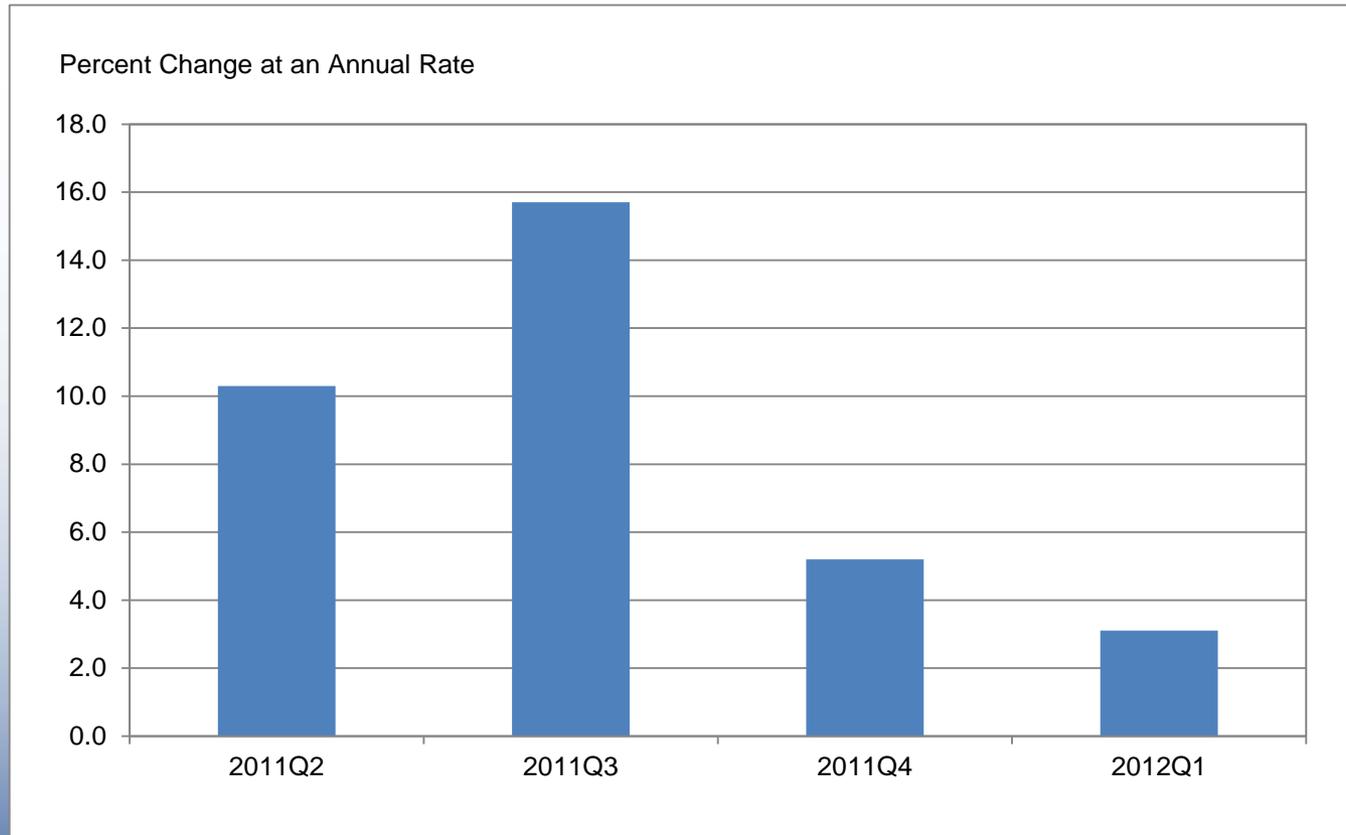
## Economic Projections of FOMC Participants

<b>Variable</b>	<b>APRIL FOMC Central Tendency (Percent)</b>	<b>JUNE FOMC Central Tendency (Percent)</b>
Unemployment Rate (2012:Q4)	7.8 to 8.0	8.0 to 8.2
Real GDP Growth (2011:Q4 - 2012:Q4)	2.4 to 2.9	1.9 to 2.4
PCE Inflation (2011:Q4 - 2012:Q4)	1.9 to 2.0	1.2 to 1.7
Core PCE Inflation (2011:Q4 - 2012:Q4)	1.8 to 2.0	1.7 to 2.0

Note: The central tendency excludes the three highest and three lowest projections for each variable.  
Source: Federal Reserve Board

## Figure 2

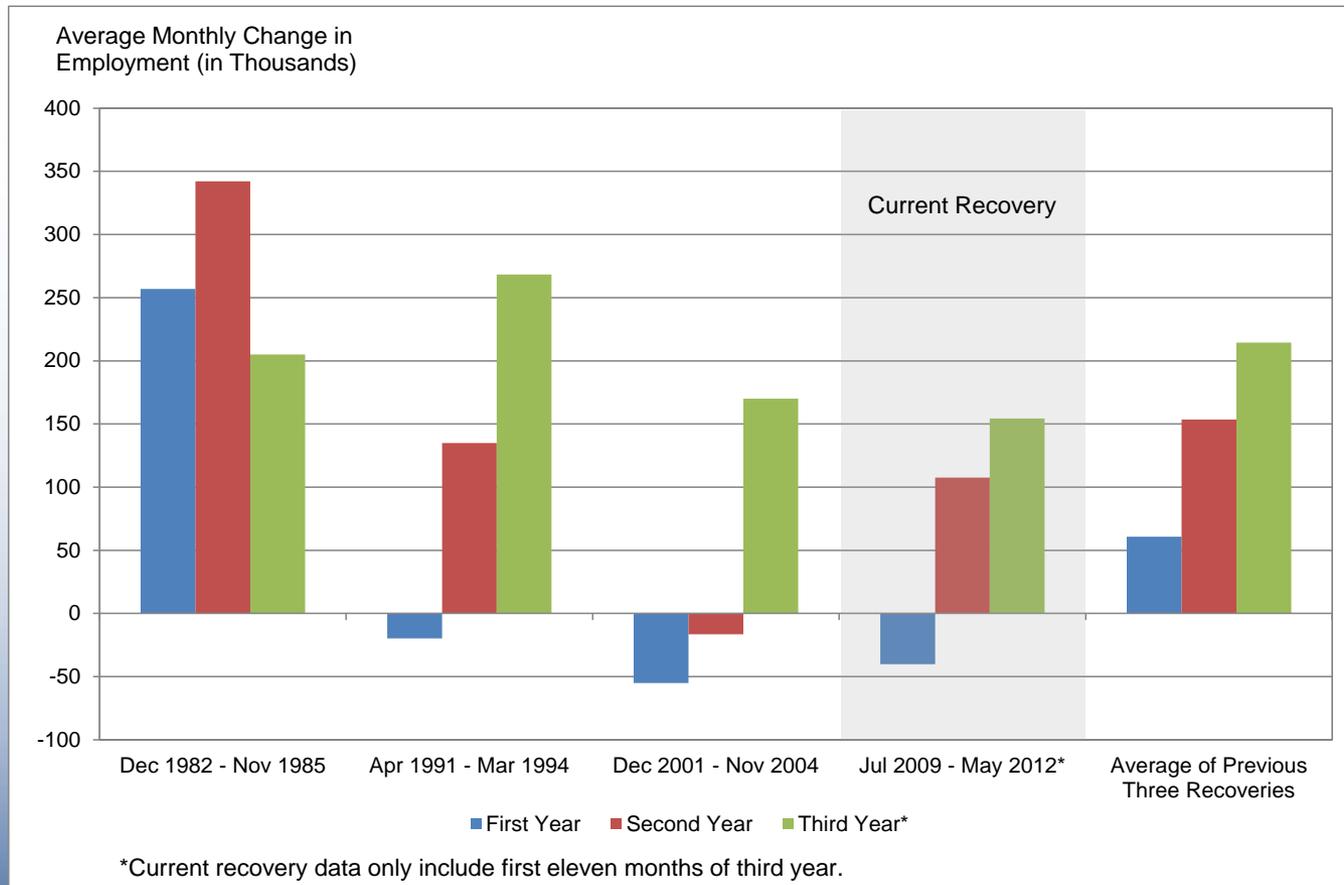
# Real Business Fixed Investment Growth in the U.S. During the Most Recent Four Quarters



Source: Bureau of Economic Analysis / Haver Analytics

# Figure 3

## Average Monthly Change in U.S. Employment in the Current and Previous Three Recoveries



Source: Bureau of Labor Statistics / Haver Analytics

# Interconnectedness of Global Banking

- New England – an example of interconnected banking – three of five largest banks foreign – U.K., Spain, Canada
- U.S. and Europe global banks highly interconnected

# Figure 4

## Assets of the Ten Largest Foreign Banking Operations in the U.S.

As of December 31, 2011

Banking Organization	Home Country	Total U.S. Banking Assets		Branches and Agencies		Banking Subsidiaries	
		Number	Assets	Number	Assets	Number	Assets
			Millions of Dollars		Millions of Dollars		Millions of Dollars
The Toronto-Dominion Bank	Canada	4	250,131	2	47,698	2	202,433
Deutsche Bank AG	Germany	5	233,605	1	181,679	4	51,926
HSBC Holdings PLC	United Kingdom	4	215,207	1	5,815	3	209,391
Mitsubishi UFJ Financial Group, Inc	Japan	11	206,546	8	116,345	3	90,201
The Royal Bank of Scotland Group	United Kingdom	6	206,261	4	67,004	2	139,258
Bank of Montreal	Canada	6	163,515	2	66,013	4	97,502
The Bank of Nova Scotia	Canada	5	162,224	4	155,483	1	6,740
BNP Paribas	France	8	158,401	6	80,163	2	78,239
Banco Santander, S.A.	Spain	7	112,403	5	27,669	2	84,734
The Norinchukin Bank	Japan	1	94,791	1	94,791		
Total		57	1,803,084	34	842,659	23	960,425

Source: Quarterly Call Reports

# Figure 5

## Assets of the Ten Largest U.S. Broker-Dealers Owned by Foreign Banking Organizations

As of December 31, 2011

Broker-Dealer	Home Country	Assets
		Millions of Dollars
Credit Suisse Securities (USA) LLC and Subsidiaries	Switzerland	309,495
Barclays Capital Inc. and Subsidiary	United Kingdom	306,476
UBS Securities LLC	Switzerland	251,048
Deutsche Bank Securities Inc.	Germany	244,079
RBS Securities Inc.	United Kingdom	133,366
BNP Paribas Securities Corp.	France	105,928
HSBC Securities (USA) Inc.	United Kingdom	55,704
Mizuho Securities USA Inc.	Japan	54,165 **
RBC Capital Markets, LLC & Subsidiaries	Canada	43,080 ***
Newedge USA, LLC*	France	40,443
Total		1,543,784

\*Wholly owned by Newedge Group SA, a joint venture between Societe Generale and Credit Agricole CIB

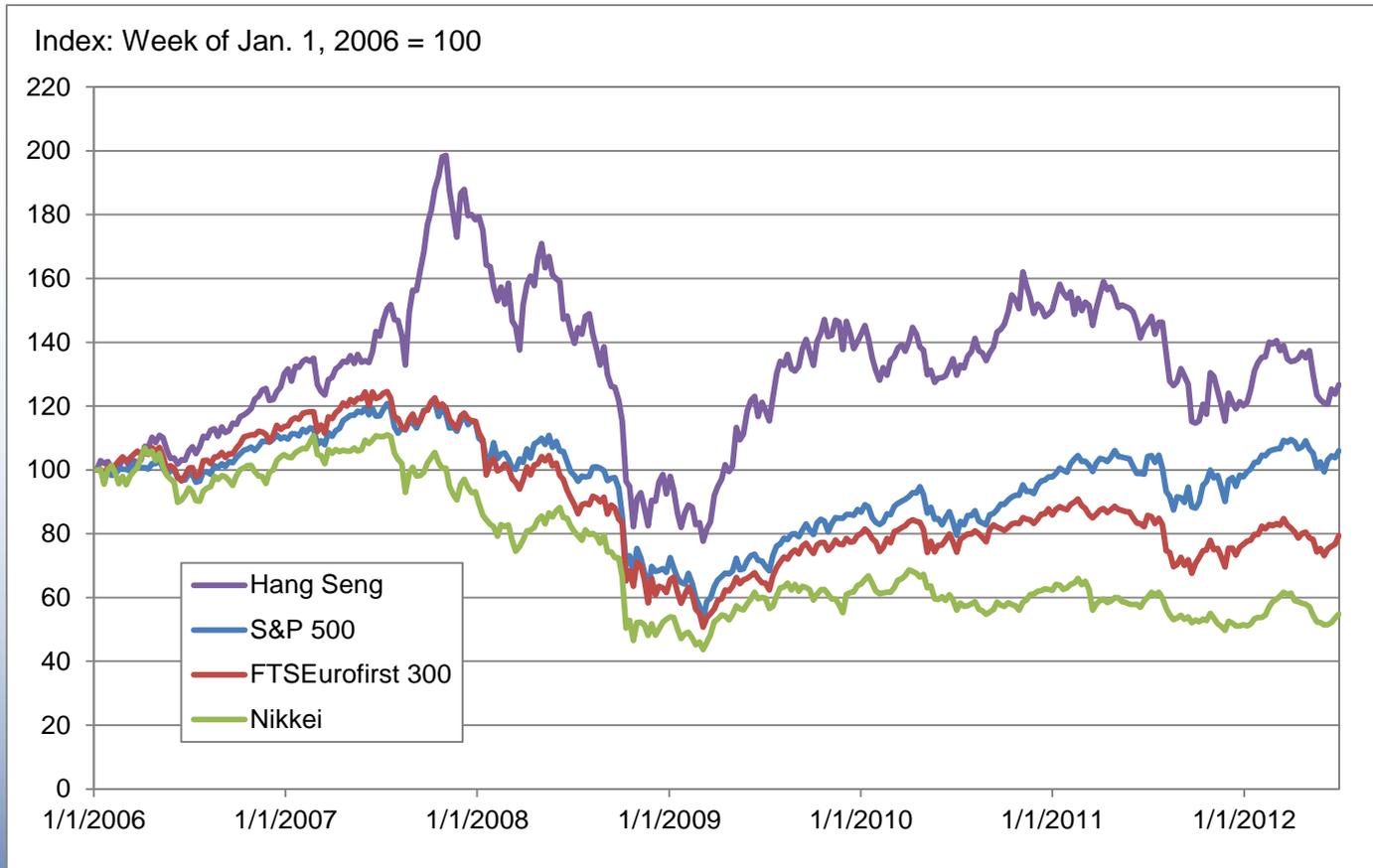
\*\*As of March 31, 2012    \*\*\*As of October 31, 2011

Source: SEC Focus Report Form X-17A-5

# Figure 6

## Regional Stock Market Indices

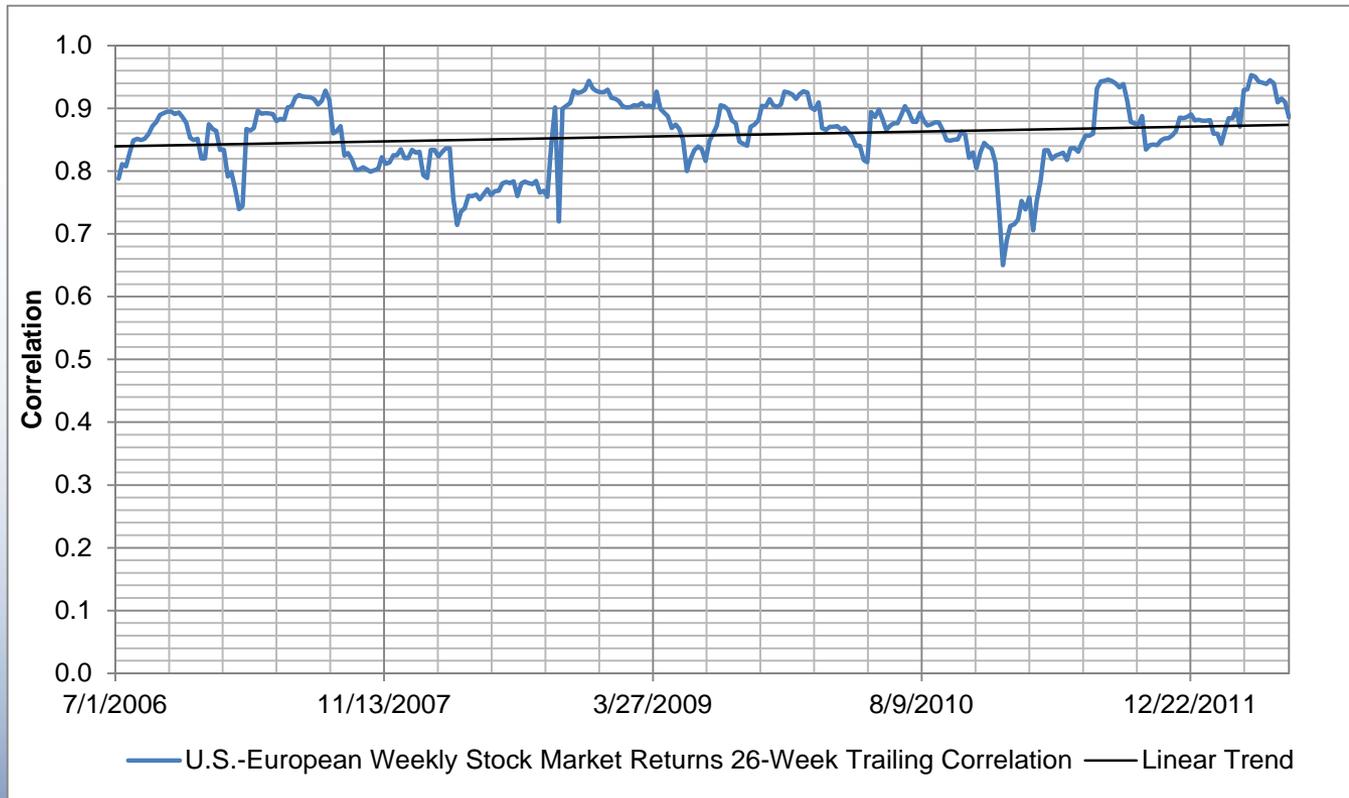
End of Week Quotes; January 1, 2006 - June 29, 2012



Source: Bloomberg

# Figure 7

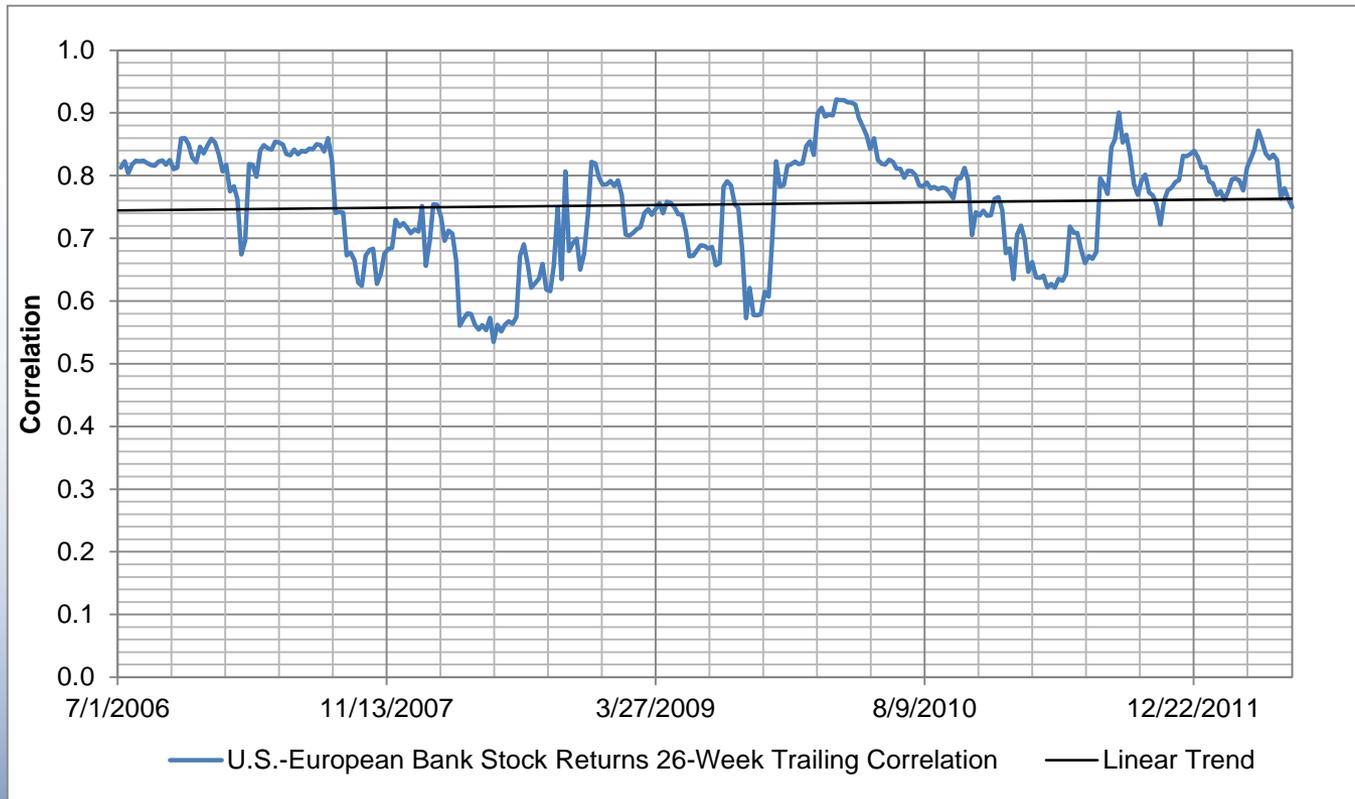
## U.S.-European Weekly Stock Market Returns 26-Week Trailing Correlation



Note: Correlations constructed from weekly stock returns (using end of week quotes) of the S&P 500 and FTSEurofirst 300.  
Source: Bloomberg

# Figure 8

## U.S.-European Weekly Bank Stock Returns 26-Week Trailing Correlation

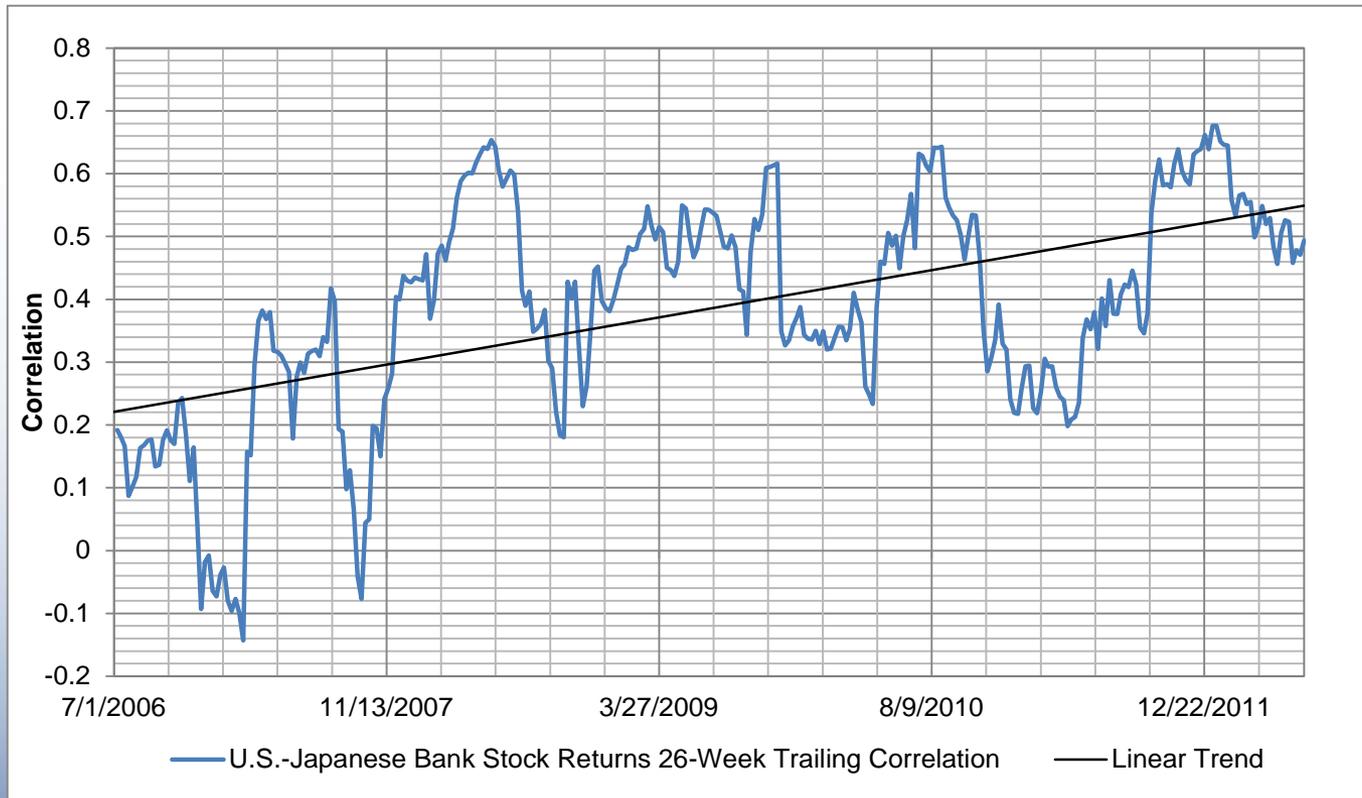


Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg

# Figure 9

## U.S.-Japanese Weekly Bank Stock Returns 26-Week Trailing Correlation

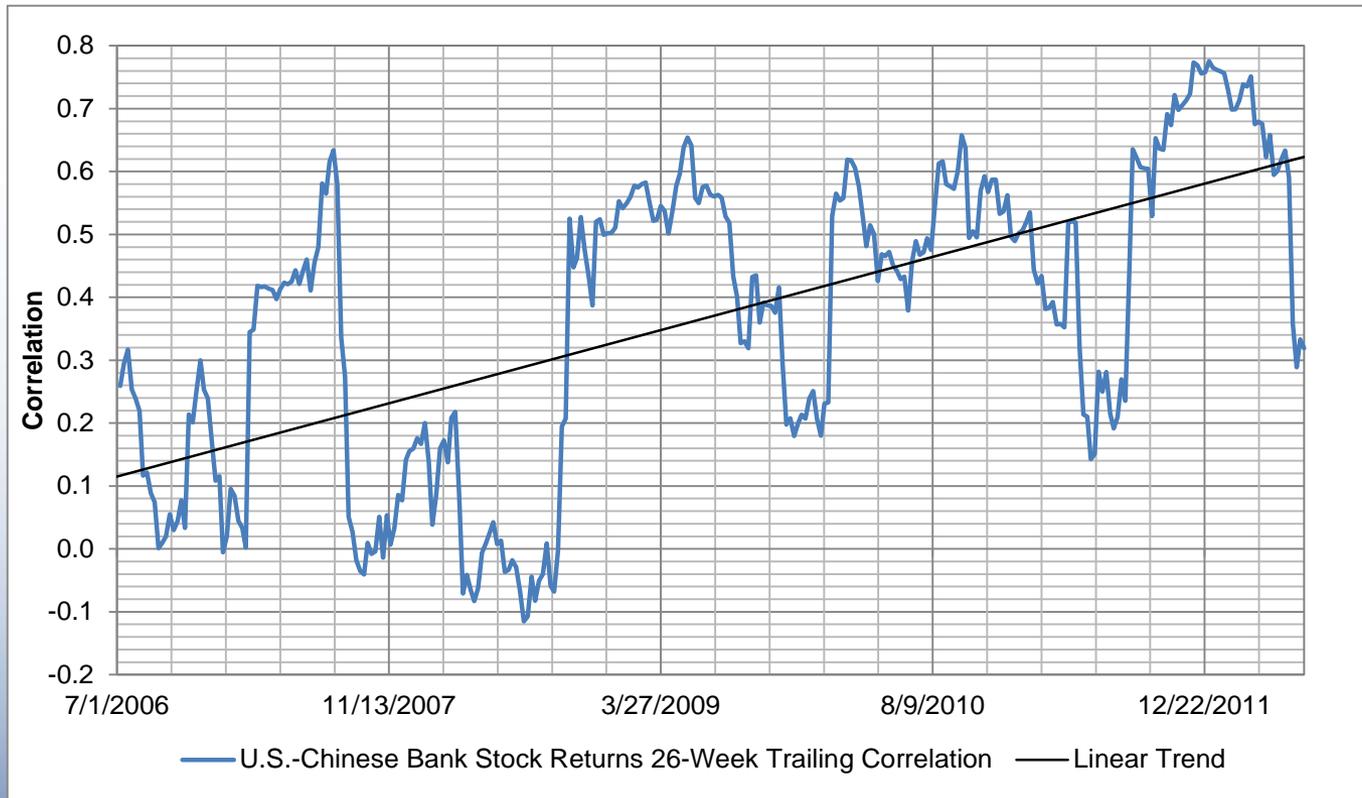


Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg

# Figure 10

## U.S.-Chinese Weekly Bank Stock Returns 26-Week Trailing Correlation

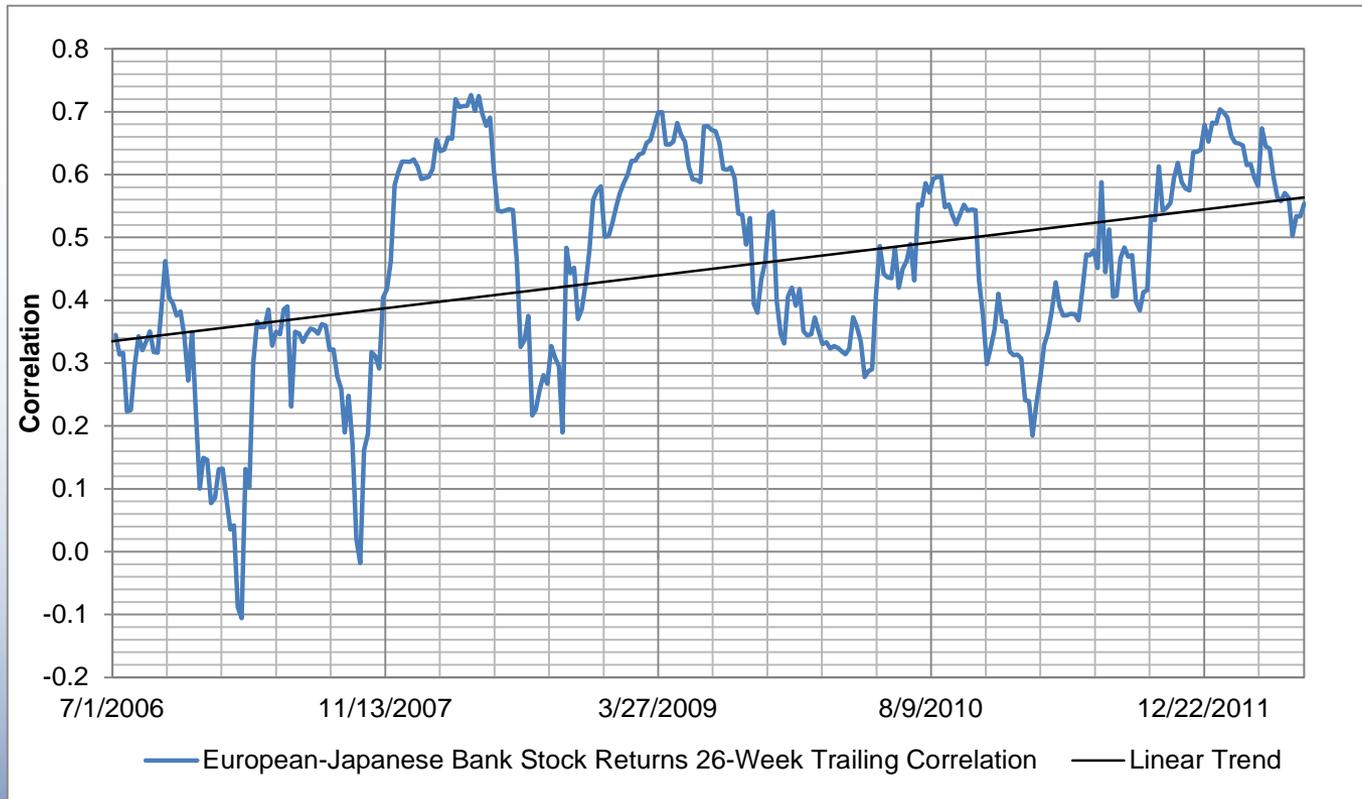


Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg

# Figure 11

## European-Japanese Weekly Bank Stock Returns 26-Week Trailing Correlation

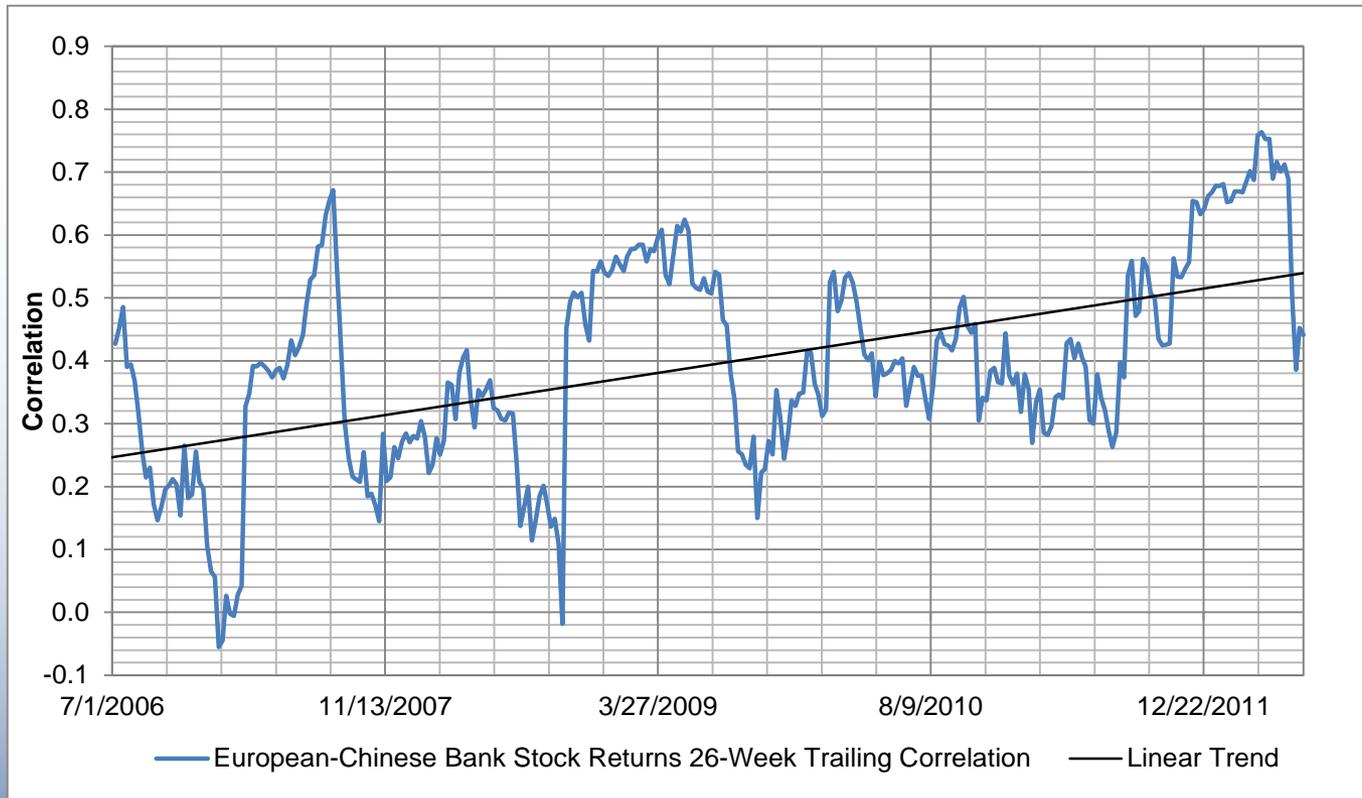


Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg

# Figure 12

## European-Chinese Weekly Bank Stock Returns 26-Week Trailing Correlation



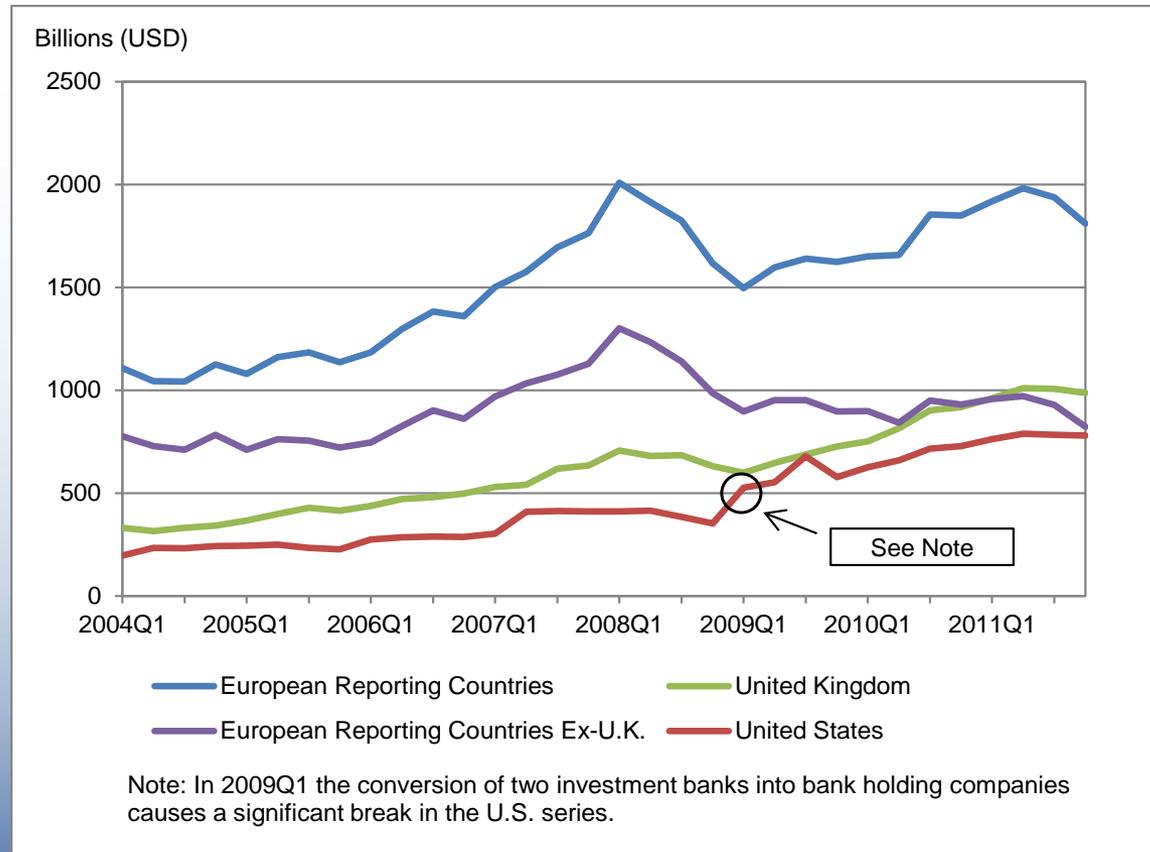
Note: Correlations constructed from weekly stock returns (using end of week quotes) of the largest banks (by assets) in the regions indicated for which data were available.

Source: Bloomberg

# Figure 13

## Foreign Claims of Domestically-Owned Reporting Banks on Asia

*Consolidated, Immediate Borrower Basis*

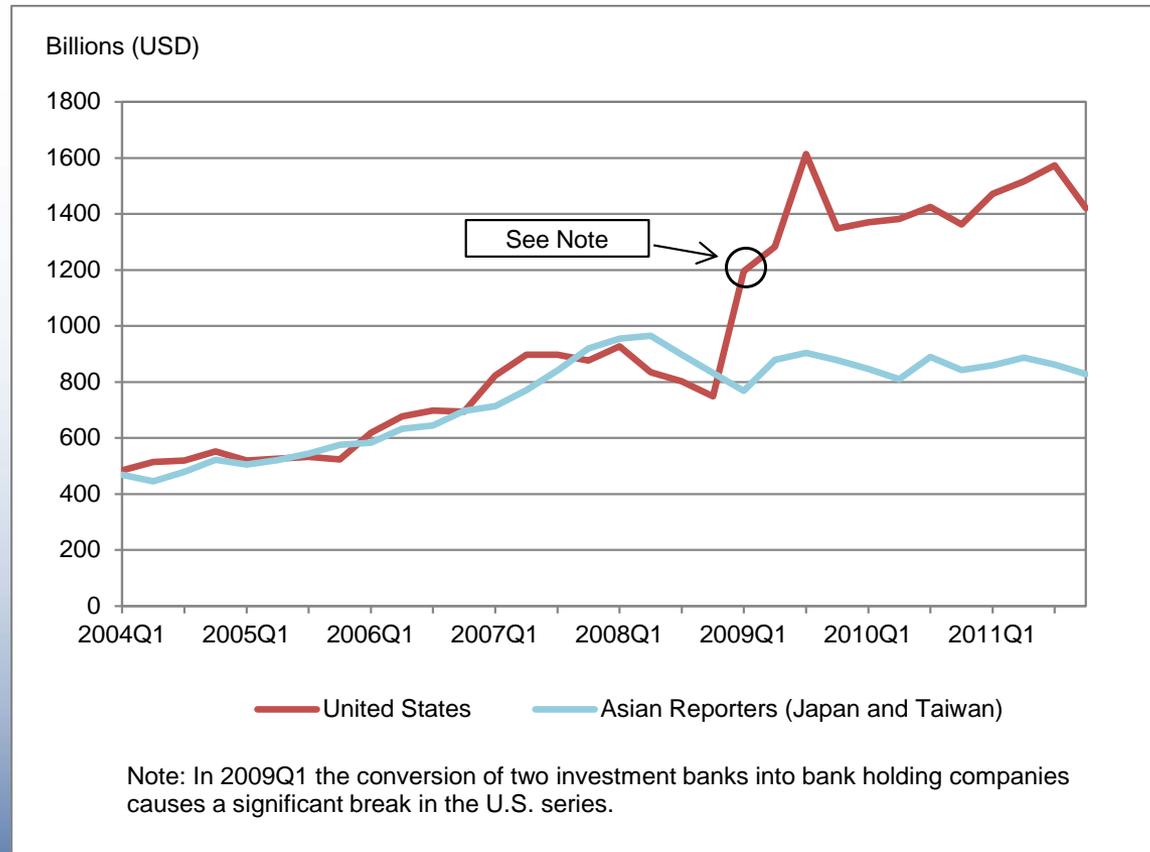


Source: Bank for International Settlements (BIS)

# Figure 14

## Foreign Claims of Domestically-Owned Reporting Banks on Europe

*Consolidated, Immediate Borrower Basis*



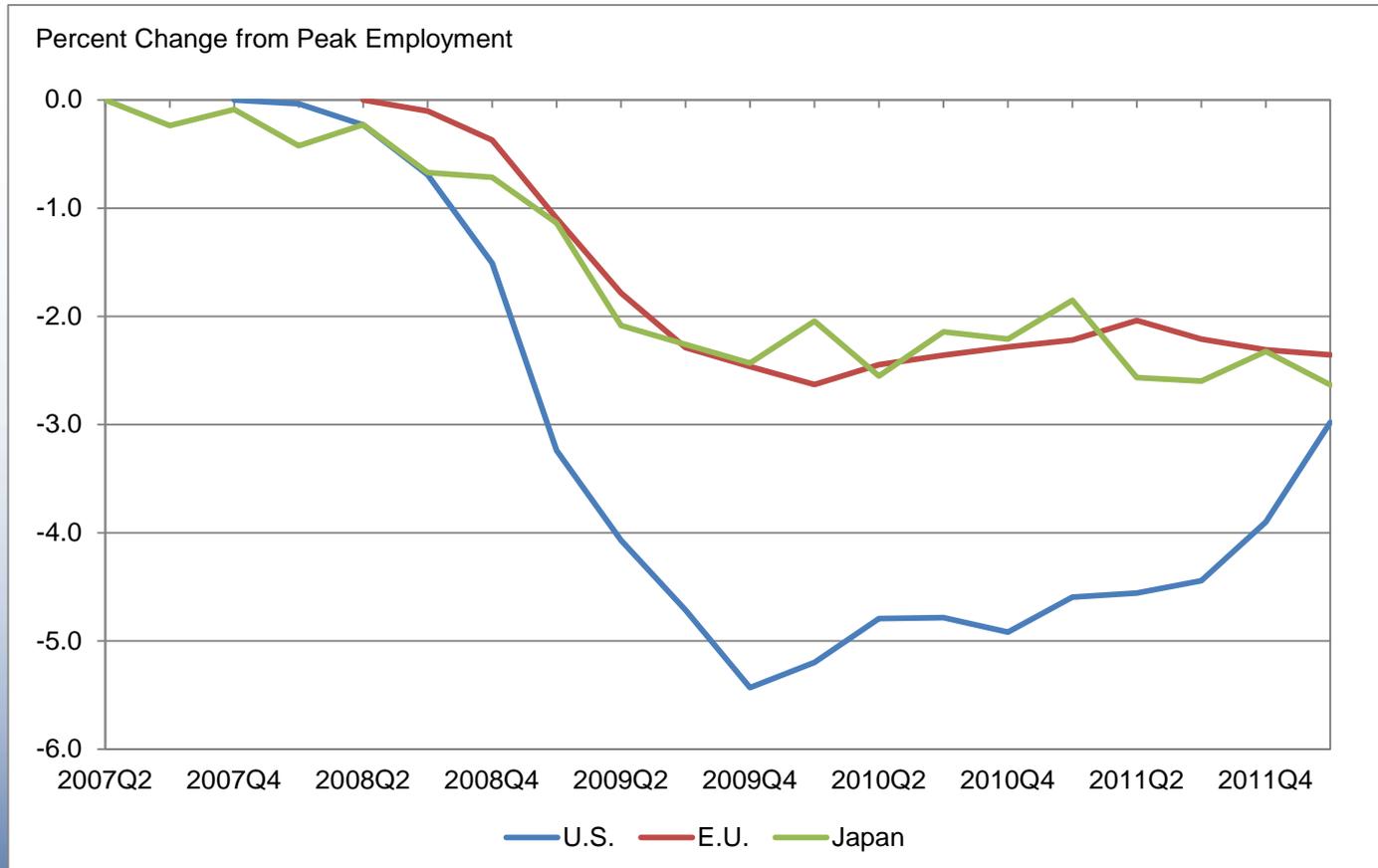
Source: Bank for International Settlements (BIS)

# Conclusion

- Slowdown in global economic activity driven in part by a concern that global trade will slow if there is a financial shock
- No region can be insulated from a significant financial shock
  - Europe and U.S. highly correlated bank stock returns
  - Europe and the U.S. less correlated with Asia but on the rise

# Figure 15

## Employment Change from Pre-Recession Peak



Source: Bureau of Labor Statistics; Eurostat; Ministry of Health, Labor & Welfare / Haver Analytics

# Final Comments

- Given global employment and fiscal challenges the world economy remains vulnerable to a financial shock
- Particularly important at this time to reduce the probability, and mitigate the severity, of any potential financial shock